

Self Managed Superannuation Fund (SMSF) Administration Service provided by Life Strategies Accounting Services

This refers to the process of completing financial year accounts, tax returns and audit and other compliance obligations for a Self Managed Superannuation Fund.

This is a service which is provided by Life Strategies Accounting Services and when combined with an investment administration service effectively outsources the paperwork and compliance side of having a SMSF.

Life Strategies Accounting Services offers a range of service levels to suit your requirements as Trustee and the amount of involvement you wish to have in the fund's administration.

The aim of this document is to make you aware of the various options available in SMSF administration, to highlight the key issues to consider, and to help you compare apples with apples and understand how Life Strategies services fits compares to other services you could choose.

We believe making an informed decision is always important and in the case of administration of your fund particularly important as the ATO as regulator of SMSF makes it very clear to Trustees that you can appoint other people to help you or provide services to your fund however the ultimate responsibility and accountability for running the fund in a sensible manner lies with you.

Choosing the SMSF administrator that is right for you will generally come down to these key issues:

- a) Do you prefer a personal accountant or an SMSF administration company?
- b) Do you want 'end of year' or 'daily' SMSF administration?
- c) What is the cost, and how do they charge? What is the best fit in terms of how you run your SMSF?
- d) The total range of services offered in the package. What do they do, and what don't they do.

Let's have a look at each of these issues in more detail.

A) Personal Accountant or SMSF Administrator?

There are predominantly two ways in which you, as trustee, can complete your annual SMSF administration (other than doing it yourself). Either:

- use your personal accountant / adviser (assuming they do SMSF Admin) or;
- use a SMSF administration company (usually found online)

The main difference between the two is that your personal accountant or adviser is someone you will have a personal relationship with, who may also be taking care of other aspects of your financial life, such as your business accounting etc. They are generally someone who knows you and your situation, and they can sit down with you and discuss your overall ownership structures & tax strategies, of which your SMSF is just one component.

An SMSF administration company on the other hand is generally one which provides just a SMSF admin service, and does not provide any advice or personal relationship style service (note this is a generalisation and there will be some exceptions). You send your paperwork to an address, the work gets done, your accounts come back to you for sign off, the returns get sent to the ATO, and the audit is arranged.

Note that some administrators exist primarily to service you the trustee, while others exist primarily to service accountants and advisers, so that those advisers can just focus on the advice and outsource the admin work.

Now, there's no right or wrong answer in terms of who you should use - it's horses for courses. For business owners who have a number of ownership structures, the personal accountant can be ideal where it is all part of the one overall integrated strategy and tax advice is a key component. For others however, just a simple end of year admin service at the lowest cost is sufficient.

Life Strategies has over been doing SMSF Admin since 1995 and this service is offered through our accounting firm. We offer two charging models – an hourly rate where the work is completed and then billed based on the time taken or a fixed fee which is competitive with

The actual cost of administration also needs to consider the investment administration (collecting and collating the investment income and transactions throughout the year) and this is offered as a separate service through our financial services firm.

Other contributing factors in this decision can include the issues we discuss below, such as the type of admin service preferred, the cost structure, and the actual services included in the price.

B) End of Year or Daily SMSF Administration ?

SMSF administration can now be broadly grouped into two quite separate service categories:

1. Year end administration

This would include the majority of accountants, and many of the SMSF administration companies. Basically, at the end of the financial year, the trustees (or if Life Strategies is providing Investment Admin services then Life Strategies) provide the administrator with all

their paperwork for the fund for the year i.e. cash statements, income / dividend statements, transaction statements etc, along with any explanations of other transactions, to which the administrator begins to process the information.

Queries may arise regarding particular transactions, or withdrawals with no documentation etc., which the administrator needs to follow up on. Once an audit file is prepared, this is passed on to an independent auditor to carry out the required audit of the fund. Once signed off, the administrator prepares member statements, lodges the income tax returns, and any other services included.

2. Daily administration

This is the administration process whereby the administrator is normally used as the mailing address of the fund, so that all the transactional data of the fund goes through the administrator and is input into their systems on a daily basis. The objectives of this system are to:

- Pick up compliance issues as they happen. For example, if a withdrawal is made from the fund with no supporting documentation and it does not appear to be allowed under the SIS act, the administrator can alert the trustees and try to rectify the situation during the year, rather than after year end.
- Some use an online administration system, whereby the members can see their super fund and its components in an online environment. This can lead to better decision making.
- Reduce the paperwork load of the trustees.
- Produce a more efficient administration system by spreading out the admin functions throughout the year, rather than jamming it all into a couple of months.

In effect this service is offered but with quarterly or as required reconciliations via Life Strategies Financial Services where clients take up our investment admin option.

C) What is the cost, and how do they charge?

This can be a significant factor in choosing an administrator. The problem is that there seems to be a lot of different ways in which they do it. We can generally classify them into the following groups:

1. Charge based on the number of transactions (or time involved):

This is the traditional way of doing it. They would have a base fee, based on a certain number of transactions (or time involved), with a surcharge for transactions (or time) over and above this.

Most accountants would charge in this manner, as it is related to the time taken to complete the manual entries of all the data. Logically, the more transactions, the longer it takes them to complete the work. If you are a trader with a significant turnover in your fund, this may not be the most cost effective solution for you. Of course, this depends on what other services are packaged with your administration.

One important point to note - the administration software used by most accountants or administrators these days can get data feeds of transactions from many of the service suppliers typically used by trustees (e.g. stockbrokers, cash accounts, bank accounts etc). This means that many (and in some cases most) of your transactions may not be manually entered at all anymore, but are just extracted via a data download.

2. Charge based on number of investments held:

Similar to the one above, but based on the different number of investments held. Usually, there is a base cost for a certain number of investments (say 15) and then a charge for every investment held over that number for the year. Interesting that you can hold say NAB, trade it 100 times in the year, and it is only counted as one. However, if you have a lot of different investments throughout the year, then this may be a costly option for you.

3. Charge based on level of funds in the SMSF

This is where the administrator will charge, usually on some sort of scale, either a flat dollar amount or a %, based on how much money is in the fund. For example, they might charge 1% for funds with up to \$200,000 in assets, and then 0.8% for those between \$200,000 & \$500,000 etc. The issue here is that you can have as many investments and transactions in the fund as you like. This way you pretty much know where you stand when it comes to fees and don't have to count transactions. For higher turnover funds this could be a good option, but this depends on the level of assets in the fund, and what the admin provider is charging. For funds with a lot of money, this could be a very costly option compared to the other alternatives.

4. Charge based on a flat fee only

These are not very common, but there are a few around. They charge you a flat fee regardless of how many investments, transactions, or level of assets in the fund. This type of setup is very attractive as there are no surprises, and you can transact as much as you want and have as much as you want in the fund, and the cost is still the same.

As mentioned in No.1 above, the ability for admin systems to take transactional data feeds from stockbrokers and bank accounts etc has drastically reduced the manual input that needs to be done, and makes this flat fee option more realistic for an administrator to charge.

This is how Life Strategies Accounting Services have structured their fees with a list of services that are not included which does provide an exit if there are a significantly large number of transactions or particularly complex corporate actions in any one year.

Whatever the fee structure is, it has to be justified by the level & number of services provided. Use the list below to ensure you understand what they provide, and what they do not provide.

D) What are the actual services offered?

It is important to marry this up with the cost of the service. For example, an admin service may be very cheap, but that may be because they run a limited service or place restrictions on who you can invest with or what you can invest in.

Generally, all of them will be able to provide the basic level of administration such as financial statements, ATO annual compliance /tax return, and organising the audit. If that's all you want, then go with the best deal.

The difference however will generally be in the added services or restrictions, so when comparing prices, look at these key issues:

1. Does the service complete reporting to the ATO when a member takes a benefit (i.e. withdraws a lump sum or starts a pension). Does it process Eligible Termination Payments (ETP's)?
2. Does the service include the provision of technical advice throughout the year i.e. if you want to ask if you are allowed to do a certain transaction? If not, where will you get this?
3. What about trust deed upgrades? When laws change, you may need to upgrade your trust deed. Who is going to do that? Who will inform you if it is needed? What will it cost? Is it part of the admin service?
4. Does the service come with an online facility to see the components of your fund (you may or may not want or need this)?
5. Do you want to reduce your paperwork and let the admin provider take care of all the mail for the fund, or do you want to collect it yourself?
6. Does the package include personal / general advice on superannuation and/or investments? Does it include retirement planning when needed?

If your admin provider does not do the above, then you need to organise them yourself in some other way at the appropriate time. Note that we are not saying that a good admin provider needs to do all of the above, we are simply pointing out that you need to be aware

of what is being offered so you can compare prices in an informed and rational manner (i.e. compare apples with apples).

So in summary, a process to find the right administrator for your fund is to:

1. Decide what type of service you want both for your investment paperwork and your SMSF Administration (i.e. year end admin or daily admin)
2. Decide who to do it through – we hope you will consider the services provided by Life Strategies to meet these needs but we can provide you with names of SMSF Administration services if you would like to compare these – we regularly review how our pricing and service compares with the SMSF Admin services to ensure we are offering a competitive package of services.
3. Decide what services you want included in the package (i.e. just admin, or admin plus ongoing strategic advice etc)

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You should refer to the Life Strategies Financial Services Financial Services Guide (FSG) in relation to any financial service provided to you. **Last Updated 11/12/2011**

