It pays to have some awareness of superannuation milestones. Don't miss out on opportunities to save for your retirement just because you haven't paid attention to crucial milestone ages.

18 This is when you can become a trustee of a self-managed superannuation fund (SMSF). It doesn't mean that you cannot join before you are 18 — you can — but you would have to appoint a legal personal representative, a guardian or your parent to act as a trustee on your behalf.

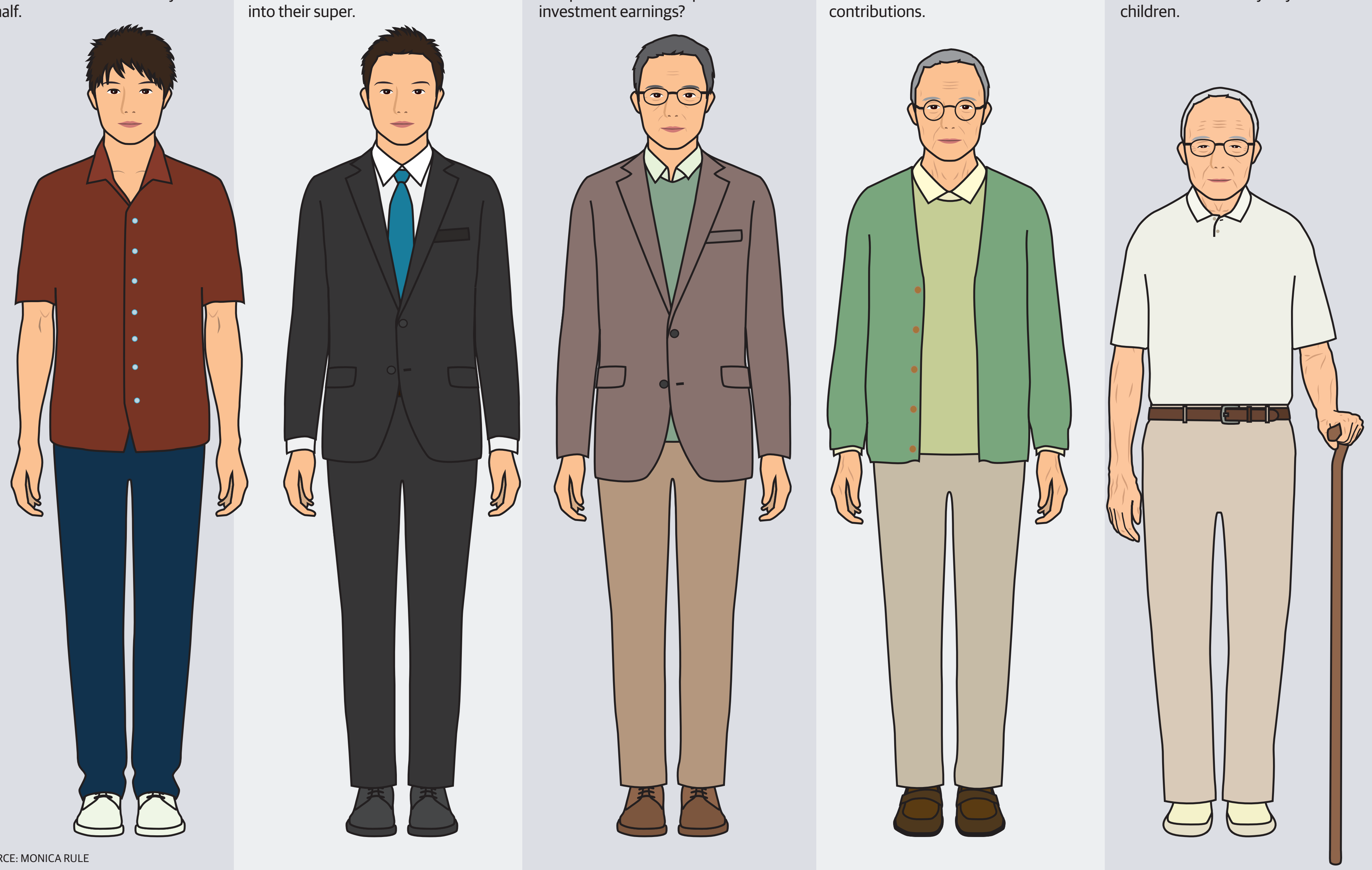
18 to 55 Most people aged 18 to 55 would be holding a job of some sort or even be self-employed. It is better to start super at a younger age so that you can take advantage of compound savings. The sooner you save for your retirement, the longer you will have to accumulate wealth. Some low-income earners may be able to take advantage of the Government's low-income super contribution tax offset of $500 and the super co-contribution of $500 that is available to them just by making concessional and non-concessional contributions into their super.

55 Once you reach your preservation age, usually 55 for anyone born before July 1, 1960, if you have a SMSF you can start a transition-to-retirement pension. This gives your SMSF a tax exemption from any earnings generated from investments that are supporting your pension. Where else can you get a 100 per cent tax exemption from investment earnings?

65 Once you are over the age of 65, you will need to be working at least 40 hours in a period of not more than 30 consecutive days to make contributions into a SMSF. Make sure you accumulate your wealth before this date, especially if you are not intending to work after you turn 65. You can also no longer take advantage of the two-year bring forward rule for non-concessional contributions.

70 You can no longer make contributions for your spouse, once your spouse is aged 70 or over.

75 Once you are aged 75 or over, you can no longer make personal contributions into your SMSF. You can also no longer take advantage of a re-contributions strategy to leave more tax-free money to your children.



SOURCE: MONICA RULE

Death, disaster and you

DIY super

Monica Rule

A question I am often asked by self-managed superannuation funds with only two members is what happens if one member dies?

Or, what if the main decision-maker is diagnosed with a terminal illness or suffers a major health problem?

This is a very relevant question because there are tens of thousands of fund members who could one day be faced with this scenario.

According to the Australian Taxation Office, 69 per cent of SMSFs in Australia consist of two members.

Because these issues are so complex, it is probably best to see how it affects a SMSF in the important areas of its structure, its assets, winding-up the fund and changing assets in a fund.

SMSF structure

Under the superannuation law, if a SMSF is established with two individual trustees and one dies, it becomes a single-member SMSF. The rule for a single member SMSF is that if it is established under an individual trustees' structure, it must have two individuals acting as trustees. If it is established under a corporate trustee structure, it does not matter if the surviving member continues as the sole director of the company acting as the corporate trustee.

If one of the members dies, for the fund to continue as a SMSF, the surviving member will need to either appoint someone else to act as the second individual trustee or restructure the SMSF from an individual trustee structure to a corporate trustee structure. That would allow them to act as the sole director of the company acting as the corporate trustee.

If the main decision-maker member is no longer able to perform trustee duties for the SMSF, they will need to consider appointing a trusted person, such as a family member or a friend, to be their legal personal representative. This can be achieved by giving them an enduring power of attorney. Another option is to consider winding up the SMSF by rolling money into a retail superannuation fund regulated by the Australian Prudential Regulation Authority.

SMSF assets

Under the superannuation law, the only situation where a SMSF must pay out a superannuation benefit is when a SMSF member dies. The death benefit must be paid out as soon as practicable after the member has died. The term "as soon as practicable" is not defined and the tax office has not published any guidelines on this. In my opinion, if the death benefit is paid promptly following the member's death (that is, within six to 12 months) after liquidating assets, it will be acceptable to the tax office. If there are reasonable delays that can be explained, the tax office may accept the actions of the surviving member.

If the SMSF has the majority of its assets in properties or assets that cannot be liquidated easily, the SMSF could consider making an in-specie payment. Superannuation benefits can be made in-specie. An in-specie benefit is where an asset is transferred to the member as a benefit instead of paying the benefit using cash. However, an in-specie payment cannot be made where the payment relates to benefits paid for financial hardship, made on compassionate grounds or where a departing superannuation payment is made to a non-resident member.

Winding up

There are a number of things that must be considered before winding up a SMSF. These include rolling super entitlements of members to an APRA-regulated super fund. Some super funds will allow assets such as listed shares to be transferred to them whereas others will only allow cash. That means you would need to sell the assets of the SMSF and roll over the cash proceeds. If your SMSF is an accumulation phase and you sell assets, you will have to pay capital gains tax on the sale of the assets. If your SMSF is in pension phase, it does not have to pay capital gains tax on any sale of assets supporting the pension.

Changing assets

If assets in a SMSF need to change to simplify the management of the SMSF, because of the death or incapacity of the main decision-maker, any new assets added to the SMSF must comply with the existing investment strategy. If not, consider updating the investment strategy. Do not be alarmed if you have to manage a SMSF on your own. There are professionals out there who can help you.

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