Denise and Brad Mitchell made the decision to downsize while still relatively young and in good health.

Downsizing early can have many advantages

HOW TO RETIRE

Jenne Brammer meets a couple who chose an apartment for their retirement

The Perth apartment market is proving an attractive option for downsizers Brad and Denise Mitchell.

According to the Productivity Commission, many retirees delay downsizing until poor health or property maintenance becomes an issue. But Perth expatriates Mr and Mrs Mitchell, aged 58 and 57, are planning to downsize while still young and in good health.

Originally from Perth, the couple have been living in Papua New Guinea since 2008, where Mr Mitchell works as the chief financial officer at Kumul Petroleum Holdings. Over that time they have kept their family home in Coogee, currently lived in and looked after by one of their adult children.

However, with an early retirement and moving back to Perth around the corner, they decided to downsize early to get the most out of their new lifestyle.

The Mitchells were looking forward to the lifestyle change with retirement, particularly as it comes with the freedom of not having to maintain a house, garden and pool.

They bought off-plan a two-bedroom, two-bathroom ground-floor apartment at the Marina Edge Apartments at Port Coogee, and expect to collect the keys in the next few months.

Mrs Mitchell said buying off-the-plan suited their time frame, and regular visits to Perth from PNG made it possible for them to check on the apartment's construction.

She said the waterfront complex appealed as boating and ocean activities were a big part of their lives.

They chose a ground floor apartment because it offered easy access to the waterfront and meant things such as carting diving equipment would be easy.

Mrs Mitchell said the second bedroom would be used as a study and have a bed that could be pulled down from the wall should grandchildren or friends want to sleep over.

"If there's two sets of friends here at the same time, then someone will obviously be sleeping in the lounge," she said.

Mrs Mitchell said their small dog would live with them and the front porch meant she could grow herbs in pots.

"It's a big apartment but there's obviously less space than in our family home. We've lived in apartments before and it's been fine," she said. "There is always the risk of getting a neighbour you would rather not have, but that could happen in a bigger home too.

"We have the ocean at our door step, so when the children come to play, as opposed to being in the pool, which is something we have to clean and maintain, we can walk out and go to the beach."

Know rules or pay price

DIY SUPER

Monica Rule

An SMSF is a small superannuation fund set up and run by people who are also its members. An SMSF can only have up to four members. An SMSF allows people to take control of their own retirement savings as members can choose what they want to invest in as well as control the fund's expenses.

However, having this control comes with significant responsibilities; whether a member is an individual trustee or a director of the SMSF's corporate trustee. SMSFs are regulated by the tax office.

Trustees must carry out their responsibilities diligently or risk Australian Taxation Office compliance action.

An SMSF trustee, first and foremost, must comply with the rules of their SMSF's trust deed, a document that sets out the rules which govern the effective functioning of the SMSF. If a trustee fails to act in accordance with their SMSF's trust deed, other members of the SMSF have every right to take legal action.

Trustees must also comply with taxation and superannuation laws. Failure to comply means risking their SMSF becoming a non-complying superannuation fund and losing its tax concessions. Trustees can also face individual penalties.

Depending on how serious the non-compliance is, trustees could be: disqualified, removed or suspended; subjected to civil and criminal prosecution; and have financial penalties imposed on them.

Superannuation law requires that an SMSF trustee must act honestly; exercise care, skill and diligence in managing their SMSF; act in the best interest of all SMSF beneficiaries; keep the money and assets of the SMSF separate from the assets they own personally; and retain control over the SMSF and allow members access to information about the SMSF.

The purpose of superannuation is to provide death or retirement benefits for the members or the members' dependents. This also applies to SMSFs.

Therefore, an SMSF trustee must develop, implement and regularly review an investment strategy (including life insurance offerings) for their SMSF; determine members' eligibility to make contributions into their SMSF; understand the rules in paying superannuation benefits; and ensure members do not access their superannuation savings if they are not legally entitled to do so.

Money belonging to an SMSF cannot be used for personal or business purposes under any circumstances and it cannot be treated as an "emergency fund" when members face financial difficulties. This is one of the biggest pitfalls of SMSFs — the temptation to access money when times are tough.

Managing an SMSF involves various administrative responsibilities and annual obligations. This includes keeping accurate tax and superannuation records; arranging an annual tax return for the SMSF; arranging valuations of its assets; and, notifying the tax office if there are any changes.

Trustees must organise annual audits of the SMSF by appointing an independent approved auditor prior to lodging the tax return.

As you can see, operating an SMSF involves quite a bit more work than just opening up a bank account. There can be consequences if you do not comply with the relevant laws. To maintain an SMSF successfully, you need to have a good understanding of the trustee role as well as have the time and skills to manage your SMSF.

Although a trustee can appoint other people, such as an accountant, fund administrator, or financial planner, to help manage the SMSF, the obligations ultimately fall on the trustee.

> **MONEY BELONGING TO AN SMSF CANNOT BE USED FOR PERSONAL OR BUSINESS PURPOSES UNDER ANY CIRCUMSTANCES.**

It is the trustee who has the responsibility and accountability for running the SMSF in a compliant, prudent, and honest manner.

To be an effective trustee, you need to be able to clearly make the distinction between yourself as a trustee of the SMSF, and as a member and beneficiary of the SMSF.

Sometimes these roles might conflict so you need to ensure you are wearing the "right hat" before taking any action.

If you do become a trustee of an SMSF, then within 21 days of your appointment, you must complete and sign a trustee declaration form obtained from the tax office website to show that you understand your duties and responsibilities as a trustee. Becoming a trustee or a director of the corporate trustee of an SMSF is not something to take lightly.

If you don't have the time, skill, patience, or a clear understanding of your obligations, then a retail or industry fund might be a better fit for you.

Monica Rule is an SMSF Specialist and author of The Self Managed Super Handbook - Superannuation Law for SMSFs in plain English. monicarule.com.au.