ODYSSEY FINANCIAL

Self Managed Superannuation Funds

Providing our clients
"Complete Financial Security"

You have as much choice and control over an investment property using your superannuation funds as you would by investing personally

Self Managed Superannuation Funds

A self managed superannuation fund (SMSF) is a trust where money and investments including shares, properties, managed funds are held on behalf of the members. The fund's purpose is to provide benefits to members during retirement. Superannuation can provide substantial benefits to the members in relation to tax deductible contributions, reduced or no capital gains tax and reduced or no tax on withdrawals when the fund pays a regular pension or annuity in retirement. Certain personal insurances can also be paid out of superannuation.

Fund types

There are 4 types of superannuation funds, all having the same purpose of providing benefits to the members. There are retail funds like; AMP, Onepath and MLC, industry funds like CBUS and Hesta, then there are employer funds like Qantas and lastly Self Managed Super Funds which are the most flexible. Anyone who has a "choice of funds" is allowed to roll or transfer their current superannuation into a SMSF, however depending on the size of the current fund/s it may not be a viable option. A review with one of our planners will decide on the most appropriate course of action.

Australians have been changing to SMSF's for many reasons. SMSF's give people control over their super; they provide greater investment flexibility and are a perfect vehicle to implement tax-planning strategies that take advantage of tax concessions afforded to superannuation savings in Australia. Importantly, the costs of running an SMSF are often lower than the fees charged under other superannuation solutions.

The growth in SMSF's over the past decade has been phenomenal. In 1998 12% of superannuation was held in SMSF's, in 2010 of the $1.23 trillion invested in super $390.8 billion or 32% was in SMSF's. SMSF's are now representing the largest slice of the super industry and it's estimated that by 2015 there will be more dollars invested within SMSF's than retail and industry funds combined.

Self Managed Super Funds

Over the last 15 years there have been significant changes in relation to superannuation which has caused great uncertainty and as such we have decided to specialise in this area so that our clients have a real chance to build wealth and achieve financial independence to provide for a comfortable retirement.

Borrowing within an SMSF

During 2007 superannuation rules and legislation changed to allow SMSF's to borrow funds to invest in property. Buying a property through a self managed super fund is totally different to securing one in your own name outside of super. When buying a property personally an investor will generally need to top up the cash flow for 5 years or so until the property is cash flow positive. Whereas with a property purchased through superannuation the property will be cash flow positive from day one due to the super contributions (SGC) being received by the fund as well as rental income, interest and dividends.

Our complete solution

Our planners provide a complete solution for anyone considering a SMSF, starting off with a review meeting, and then based upon the members current situation a recommendation and statement of advice will be provided. Upon approval by the member to move forward we will then manage everything that is needed including; setting up of the trust, establishing bank accounts, rolling over of current funds, rolling over insurances, establishing a loan for a property, property recommendation and acquisition, property management, annual accounting and auditing, ongoing support and advice including investment recommendations and strategies.

The initial review and recommendation process is very easy. Your current fund is reviewed, and an assessment will be made in relation to the feasibility of establishing a SMSF. As a guide you and your partner will need approximately $100,000 to consider establishing a SMSF.
If your balance is not sufficient we may suggest that you roll your current superannuation into a lower fee retail fund or a fund with a more appropriate investment mix. By reducing fees or improving your return can dramatically shorten the time needed for your fund to reach an amount suitable for the establishment of a SMSF. So irrespective of the size of your current superannuation a meeting with one of our planners is recommended.

Our services

Our Financial Advisors provide advice which reflects your unique situation. We consider your income, current assets and liabilities, cash flows, tax, salary package options and superannuation to help you achieve your individual financial goals. It all starts with a financial review with one of our advisors which will take approximately one hour. There are details in this document of what you should bring along for your review meeting.

Our range of services are either provided internally or through strategic alliance partners. The range of services that we provide and co-ordinate centrally include; financial planning, superannuation advice, mortgage broking, real estate investment advice, property management, SMSF management, personal insurances, accountancy and audits of SMSF.

It is also essential to have a regular review with our advisors to ensure that you remain on track for your financial goals.

Benefits of a SMSF

More control and greater flexibility over investments

SMSF members can choose where their retirement savings are invested, with options including listed shares, term deposits, cash management accounts, bonds, listed investment companies , exchange traded funds and direct property. This flexibility in investment options allows SMSF members to actively manage their investments themselves or have our investment advisors manage it on their behalf, with full access to view returns and performance. With a SMSF you can very quickly adjust your portfolio or investment mix as markets change as opposed to a large retail or industry fund where any change may take weeks.

Lower fees and better performance

A Commonwealth Government report titled A Statistical Summary of Self-Managed Superannuation Funds, based on ATO and APRA data, found SMSF members generally pay lower fees and that, on average, SMSF investments performed better than all other super funds over 2006, 2007, 2008, 2009, 2010 and 2011.

Ability of a SMSF to borrow to invest in property

Using a SMSF as a vehicle to invest in property can be a very attractive and beneficial option. With the ability to borrow or gear when investing in property you are able to increase your assets within your superannuation fund which can provide a greater asset value at retirement.

For example if you have $200,000 in a traditional superannuation fund then that is the total asset which is growing in value. Whereas if the same fund were to borrow $300,000 to acquire a property then the asset size has been increased to $500,000.

Other benefits of an SMSF

- **Tailored tax management** on investment income and capital gains
- **Control over your total investment portfolio**, with the ability to take account of the risk profile of all your assets, including those held outside superannuation
- The ability to **pool your resources with up to 4 fund members** with similar financial objectives, such as family members
- Maximum **flexibility in establishing and managing pensions**, including account based, transition to retirement and term allocated pensions
- Greater **flexibility for accessing Centrelink benefits** such as the age pension
- The ability to **transfer personally owned listed shares, business real property and managed funds** directly into your superannuation fund
- The ability to **own business real property** in your superannuation fund, to assist your business cash flow.

Benefits of using your SMSF to buy property

There are a number of potential benefits of investing in property through a SMSF. It's important to note however that everyone has different circumstances and needs to be assessed personally.

Increase your retirement savings

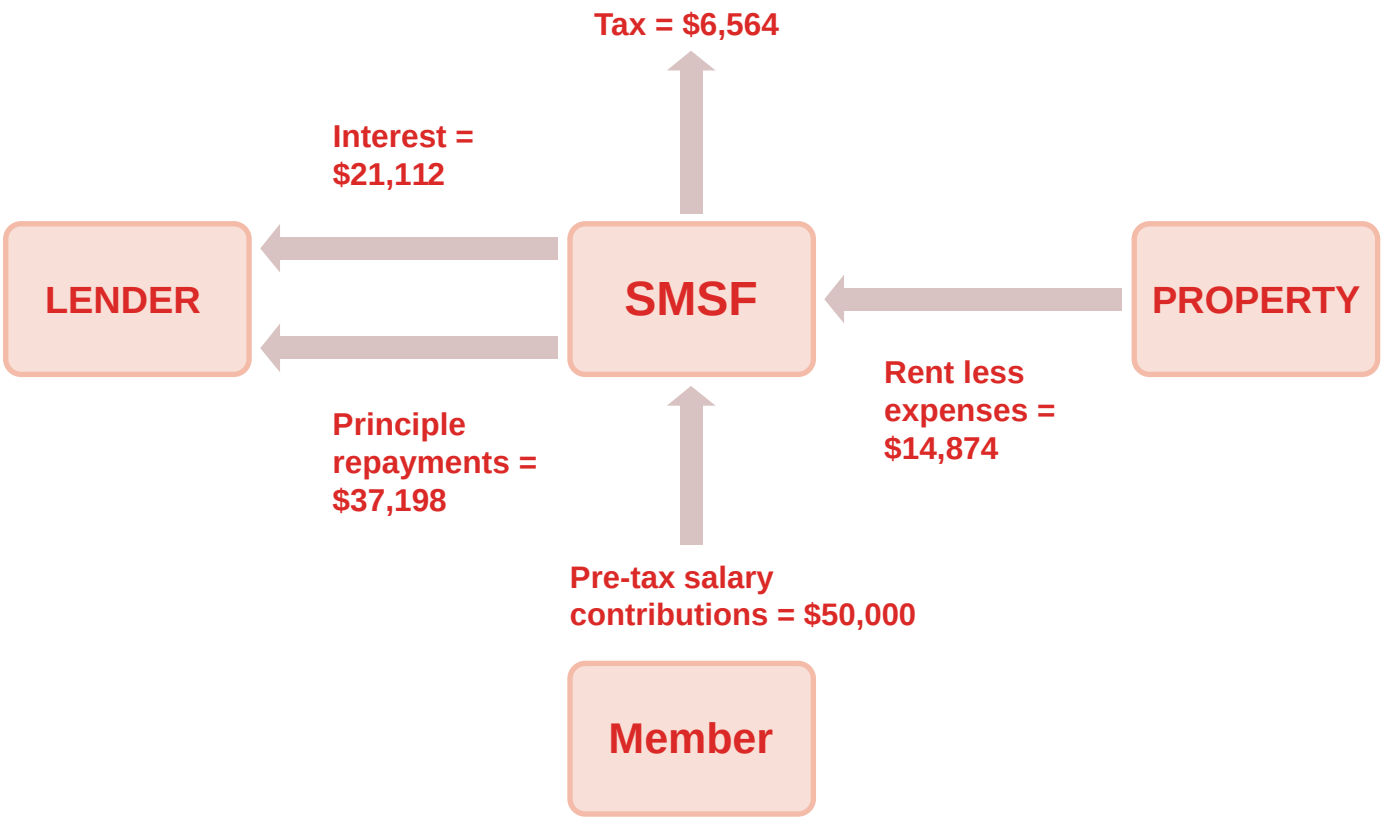
Borrowing through a SMSF to invest in property boosts the actual size of the fund that is growing. E.g.; A fund of $200,000 that can't borrow might grow by 50% increasing its value to $300,000. Whereas a fund of $200,000 with a property loan of $300,000, brings the gross value up to $500,000. If this grows by 50% then the increased value will be $750,000 less the loan coming to a net value of $450,000. Resulting in an improvement of $150,000 or 50% more than the fund that does not borrow.

Depending on your superannuation amount we will put together a personal recommendation plan that includes a property acquisition. The price of the property and the loan amount will be tailored to suit superannuation contributions, fund size, other investments and personal risk profile.

How quickly can you pay off the property?

Based on a couple contributing $25,000 p.a. each to super, you can purchase a $400,000 property and pay it off in as little as 7 years… and potentially save up to $7,875 p.a. each personally in tax each year.

Assuming your SMSF purchases a $425,000 property (including costs) and borrows $280,000 your cash flows in the first year would look like



Note: Based on as SMSF tax rate of 15% net rental yield of 3.7% and an interest rate of 7.54%. These return and interest rate assumptions are indicative only and are only shown to illustrate the mechanics of purchasive property with your SMSF.

What are the other benefits?

- Once you start receiving a pension through your SMSF rental income from the property will be tax free.
- Properties that are held inside your SMSF and sold after your retirement are exempt from Capital Gains Tax.
- The property investment will be cash flow positive from day one, meaning you won't need to top up any negative cash flow.
- The costs incurred in purchasing and managing the property (interest, depreciation, rates etc.) could very well produce a 'negative' income that you can offset against other income to reduce the funds tax even further.

Can you occupy the property?

- Not if it is residential. If fund members or related persons occupy the property then the "in house asset rule" would have been breached. However in retirement the property can be withdrawn from the fund and occupied.
- Commercial properties can be occupied as long as the business occupying it is renting the property under a commercial lease

How can super funds borrow?

Until amendments to the Superannuation Industry Supervision ACT (SIS ACT) 1993 were made in September 2007 borrowing within a SMSF was prohibited. Under the new section 67 (4A) of the SIS ACT, SMSF's can borrow providing the following conditions are satisfied:

- The borrowed funds are used to purchase an asset (eg: property)
- The asset is held by another entity (Property Trustee) in Trust for the SMSF
- The SMSF must have the right to acquire legal ownership of the asset by way of making payment
- The Lender's recourse against the SMSF must be limited to the underlying asset - the property.
- The lender should not have recourse against other assets of the SMSF.

What restrictions apply?

- The SMSF must comply with all the regulations relating to the superannuation fund. (SIS ACT)
- SMSF's must ensure that the level of investment in the property complies with the investment strategy outlined to the SMSF, including diversification of assets, liquidity and the maximization of member returns of the fund
- The government has also made it clear that superannuation funds investing in this type of investment must have appropriate risk management measures in place and must understand the level of risk of the investment

Who pays what?

As the beneficial owner of the property and the borrower of the loan, the SMSF is responsible for all associated investment property outgoings and loan payments, as would be the case if the property was purchased outside of the superannuation fund. For example, the SMSF would need to pay:

- Council and water rates
- Body Corporate fees
- Loan repayments
- Property Management fees
- Repairs/Maintenance (if necessary)

And of course as the beneficial owner of the property the SMSF receives the rental income from the property.

SMSF lending and loans

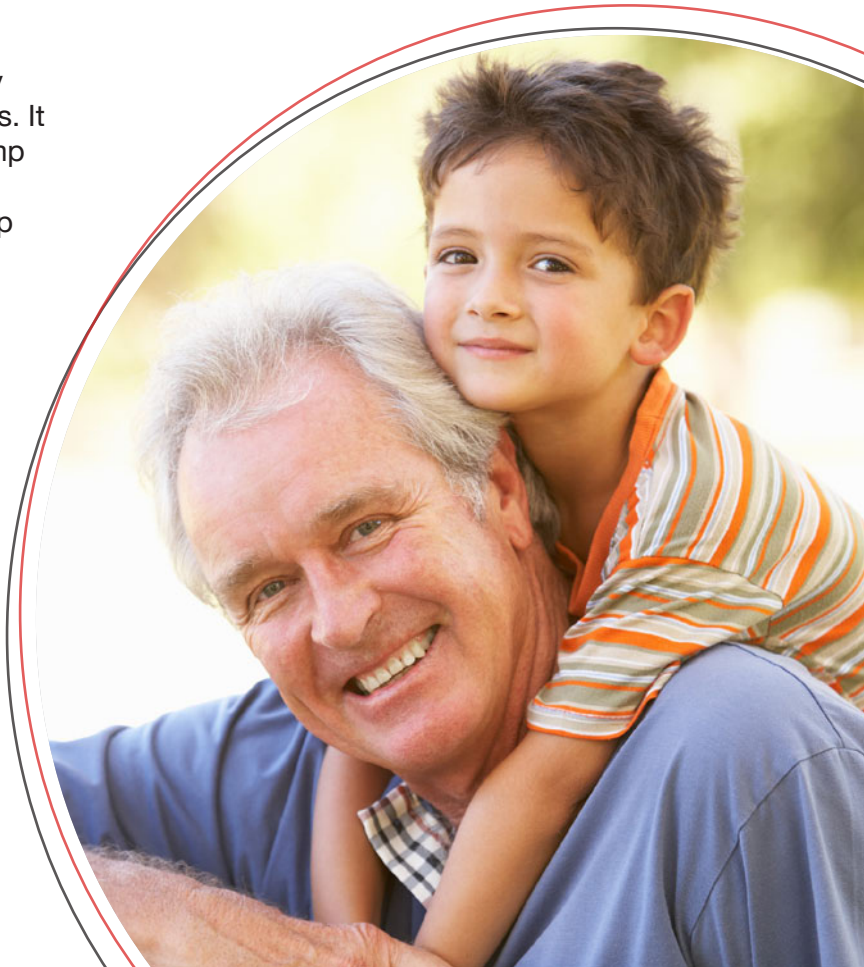
Odyssey has accreditations with a number of lenders who specialise in SMSF loans. This is a specialised area of lending and not all banks are able to provide loans for SMSF. As a licensed mortgage broker Odyssey will assist with lender recommendation, repayment options, property valuation, document collation, loan approval, trust deed reviewing, signing of the loan agreement and settlement of the loan. It is imperative to use a finance professional due to the complex nature of borrowing with SMSF.

Loan features of a SMSF

- The loan is structured to mirror traditional mortgage products
- The property is valued by the banks independent valuer
- Loans can be up to 80% for residential securities, depending on lenders policy
- Loan can be up to 65% for commercial securities, depending on lenders policy
- Loan Terms are generally up to 30 years for residential and up to 25 years for commercial
- Once purchased the loan cannot be varied or increased
- Repayments can be interest only for the initial term of the loan

Setting up a fund and acquiring a property

1. A financial review meeting is conducted including a fact find and a needs analysis of your situation. Assessment of the implications of rolling over current fund balances is provided. Sometimes a small balance is needed to be retained in an existing fund to retain employee benefits.
2. A statement of advice is produced which includes the investment strategy, fees and insurances. This is signed off and approved by the members.
3. A Trustee company and a super fund are established.
4. Current funds are rolled into the new SMSF and employer contributions are changed to be paid into the new SMSF.
5. Funds are invested as per recommendation and clients risk profile, usually the funds are rolled initially into a Cash Management Trust account.
6. Odyssey property division will present suitable investment properties including a full feasibility and due diligence overview. The property will suit the SMSF's borrowing ability and cash balance. Lender policy and servicability will have been assessed and a pre approved will have been issued.
7. The recommended property will be generally "Off The Plan" due to the stamp duty savings. It is very difficult to justify a SMSF paying stamp duties on an established property and thus spending say 10% of the fund value in stamp duty.
8. A specific property will be agreed upon by the members of the fund for the SMSF to purchase.
9. Reservation fee of $2,000 is paid to the vendors solicitor from the SMSF.
10. The Contract of Sale is completed in the name of the super fund and/or nominee and the balance of 10% deposit is paid from the SMSF. This is less the $2000 that has been previously paid.
11. A property deed is established.
12. A solicitor or conveyancer acts as per a usual property transaction on behalf of the SMSF.
13. A loan is applied for the balance of the purchase price, usually 70%-80%. Settlement is booked in and the balance of the purchase price is paid from the SMSF cash account.
14. The SMSF pays all normal purchase costs associated with the property such as the deposit, legal costs, stamp duty and loan costs.
15. The fund receives rent from the property and also the normal super contributions.



The process at a glance

Advice provided for new SMSF

Establish SMSF and related account

Roll over current Superannuation and direct contributions to new fund

Decide on property and sign contracts

Establish property trustee deed

Obtain loan approval to 80% of property

Loan documents issued and signed

Property settlement

SMSF property case study

The following case study outlines an example of how you can use your superannuation fund to purchase a property.

Geoff and Sally are both in their 40'S and are keen investors of property. They have one residential investment property as well as their home. They would like to buy another property but they do not have available equity at the moment and they believe their bank won't lend them any more money.

They wish to purchase as they feel there will be some good opportunities to buy and are confident that over time property prices will continue to grow.

Their adviser suggests that they consider a SMSF and acquire a property with their superannuation funds. They have existing superannuation funds of approx $250,000 which they decide to roll over into their new SMSF.

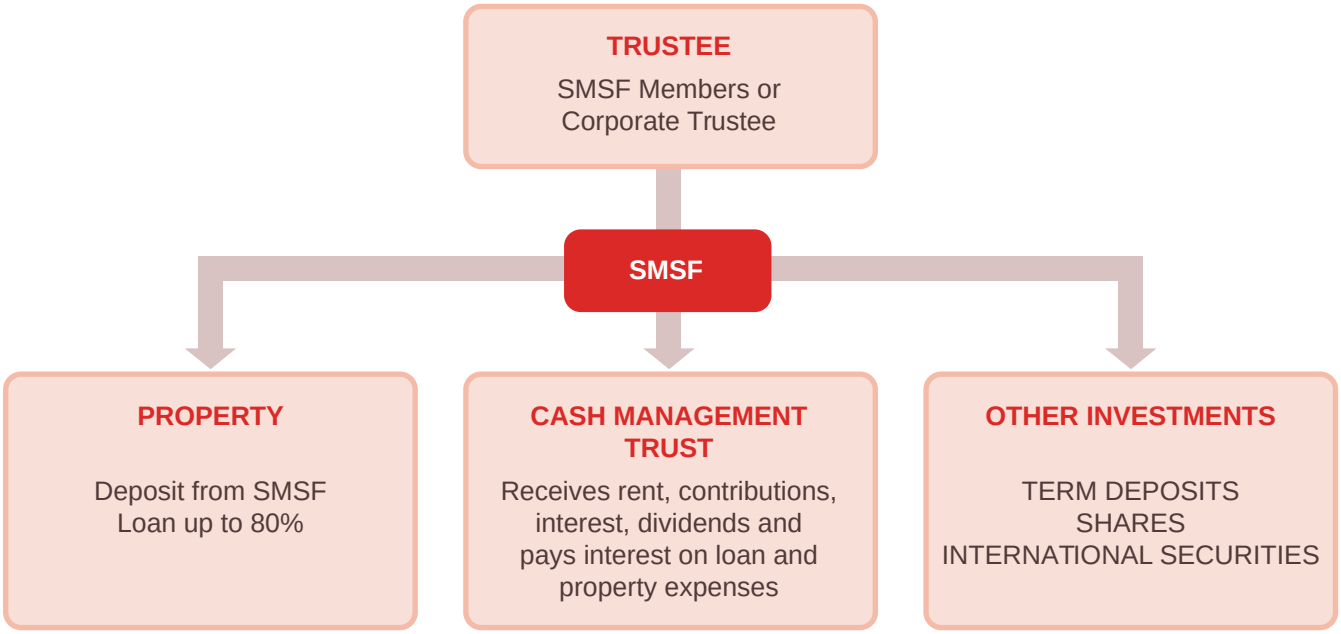
They are employed and their super contributions are directed into the new fund. Of the total investments in the SMSF $100,000 is in blue chip shares which pay dividends with franking credits, which then leaves $150,000 to put towards a property along with a loan for up to 80% of the value of the property.

Geoff and Sally are excited and find a property to buy for $450,000 which they can easily afford through their SMSF. They borrow $350,000 and contribute $125,000 from the cash in their super fund. The rent from the property and other income in the fund covers the loan payments. Geoff and Sally have added to their property portfolio without having to use equity in their existing portfolio or contribute any cash from outside the super.

How it all works out

Current superannuation funds are rolled into the new SMSF. Part of the funds are used as the property deposit and a loan is established within the fund for the balance.

The fund pays the loan repayments, property expenses and personal insurance premiums. The fund receives contribution from employers (SGC), salary sacrifice contributions (if applicable), rental from the property, dividends, interest and any other incomes.



Geoff and Sally's SMSF property purchase

Purchase Price	=	$ 450,000
Stamp Duty	=	$ 20,000
Other purchase costs	=	$ 5,000
Total Investment		**$ 475,000**

$125,000 from SMSF and $350,000 from lender

Property Cash Flow

Income

Rental Income @ 4.5%		=	$ 22,250
Depreciation of building, fixtures & fittings	@15%	=	$ 3,000
Tax deduction for rates & insurances	@15%	=	$ 450
Tax deduction for loan interest	@15%	=	$ 3,300
Total income inc tax benefits			**$ 29,000**

Expenses

Interest on loan @ 7%	=	$ 24,500
Property expenses	=	$ 3,000
Total cost		**$ 27,500**

Net Result **cash flow positive by $ 2,500 p.a.**

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Documents required for your superannuation review

- Recent superannuation statement for all funds
- Current tax return
- Current pay slips
- Any current personal insurance policies including life, income protection, trauma and TPD
- Recent loan statements for any loans
- Rates notice for your home and any investment properties
- Rental statements for any current investment properties

Book a review with one of our planners

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0412 352 099
Or email: info@odysseyfinancial.com.au

General Advice
This and any other document that Odyssey or any of its related entities gives you has been prepared for general information purposes only and not as specific advice to any particular person. Any advice contained in these documents is general advice and does not take into account any person's particular investment objectives, financial situation and particular needs.. During our discussions property estimates, growth figures and expected returns are all based on generally available information that can be obtained through daily publications or various property websites. Other quotes statistics have been sourced through census information and ABS findings. If a PIA report is provided the figures used are purely estimates and must not be used for making a decision. Before making an investment decision based on this general advice you should consider, with or without the assistance of a securities adviser, whether it is appropriate to your particular investment needs, objectives and financial circumstances. Any property purchase or investment decision is wholly the undersigned personal decision. Odyssey Financial, its employees, its affiliates, contractors are not tax accountants, financial advisors, investment advisors or any other specific advisor. All discussions are based on historic figures and information. This information was provided to the undersigned verbally and in writing prior to any discussions in relation to finance, investment or property. If our actions result in loss or hardship we cannot make a claim on Odyssey or anyone connected to Odyssey.

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