Who to include in your DIY retirement fund

SMSFs

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A self-managed superannuation fund (SMSF) can be the perfect vehicle to fund your dream retirement, but who should be members with you? If it's just you running your SMSF, you're among the 23 per cent of funds with a single member. If it's you and your partner, then you're among the majority (70 per cent) of SMSFs. Together, one- and two-member funds account for a whopping 93 per cent of SMSFs.

This makes intuitive sense as your SMSF should reflect your personal financial situation. If you make financial decisions on your own, then you'll likely have your own SMSF. If you jointly manage your personal finances (one of you may take a more active lead), then you'll likely have a two-member fund.

For most people, managing their retirement savings the same way they manage their personal finances is a key reason they established their SMSF. It keeps things manageable and conflict-free.

It gets more complex when you add more members to your fund.

Under current laws, your SMSF can have up to four members. Excitingly, Financial Services Minister Kelly O'Dwyer recently announced the government will raise this to six.

There are three main arguments for adding family members or business partners to your fund.

Many of the administrative costs of your SMSF are fixed, so as you add more people this lowers the average cost per member.

It can also benefit your kids. Involving them improves their financial literacy and engages them more with their super. It also helps manage the transition of family wealth to the next generation as you get older.

Lastly, pooling super funds of four people (or six under the new rules) allows you to invest in lumpy assets, such as business premises, without compromising your fund's diversification. It also enables your family to preserve such an asset in the fund beyond your lifetime. However, if two members is company, then three's a crowd. Let alone four, five or six.

Four-member funds represented only 4.2 per cent of total funds in 2013. By 2016, that had shrunk to 3.7 per cent and today there are only 22,000 funds with four members (out of a total 588,000 funds). So be mindful of the risks before expanding your SMSF.

Think of when you organise a family function with your children. Now add the complication of current or future spouses. Ponder how you will amicably and fairly split the bill (don't be tempted to pay it yourself). That should give you a taste of how hard it can be managing an SMSF with your children.

As much as you love them, they will all have their own views and agenda – plus that of whoever is whispering in their ear at the time.

If your children become members, you can give up privacy over your retirement savings. They will be privy to the size and type of your assets. What's more, as directors or trustees, they will have a say over how you manage your retirement savings and a right to question your decision-making. They could suggest crypto-currency this week and who knows what next week.

Do you really want to be accountable to your children for your retirement savings? How will you manage conflict from personality clashes or relationship breakdowns? Do you think it will be fun chasing up your least organised child to submit required fund paperwork, every single time?

Sadly money can change people and if significant sums are involved, it can lead to inheritance impatience. If your children (or their spouses) know how much they will inherit, they may wonder why can't they have some of it now.

A more advanced trust deed can address some of these problems but sometimes it's just easier to avoid the problems altogether.

Open and communicative families should think carefully before blending their retirement savings. In my opinion, unless you have compelling reasons to include your children, more is not necessarily better for your SMSF.

General advice only. ***Tim Mackay*** *is an independent financial advisor at* ***[Quantum Financial](#)***.