FINANCIAL REVIEW

Use your SMSF to teach your kids about finance

AFR
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Having your children involved in managing their finances and being responsible for decisions makes them more accountable for their saving and investment choices.

With self-managed superannuation funds (SMSFs) permitted to have up to four members, it may be a surprise to learn that about 70 per cent of SMSFs have only two members and about a further 23 per cent only have one. That means that only 7 per cent of funds have three or four members.

If you consider that most of the two-member SMSFs are likely to be "mum and dad" funds, and single-member funds often start when one of the original two members has passed away, it begs the question – "where have all the children gone?"

While it is always an important personal decision to set up and start your own SMSF, there are a couple of key elements in deciding whether to have your kids join your fund. Most of these would apply to your children who are at least 18, but there can be some aspects that are important for younger kids as well.

The first is the opportunity to teach your children more about finances and the importance of managing your money. One reason you're likely to be in an SMSF is because you want control, and with control comes responsibility. In fact, one of the most important facets of being in an SMSF and being a trustee of your own fund is that you are ultimately responsible for the operation of the fund. While you can, and probably should, outsource certain aspects to professional SMSF advisers, ultimately the decisions rest with you.

Having your children involved in managing their finances and being responsible for the decisions they may make (both legally and personally) is a great way to make them more accountable for their saving and investment choices. And if they can do that in the safety of an SMSF environment where they have you as co-trustees, hopefully the disciplines can also spread to their other financial decisions outside.

While having children under t18 as members of the SMSF is permissible, they can't be a trustee and usually the parents will assume this responsibility for them until they are of legal age. However, it doesn't mean you can't start to include them as part of the process so they learn.

The second aspect to consider is cost. For many younger people, superannuation isn't a huge consideration as they don't have much of it.

Generally their employer sends the compulsory super guarantee to a default fund, and in most cases the member hasn't really chosen how to invest their super or doesn't understand what costs are involved. It's an issue for later in life. But in a low-return environment, the costs of their current super environment could mean they could have less super working for them. And over the long term, that could make a difference.

But if they join your SMSF, is there the possibility that their costs will fall? While studies have said you may need somewhere between $200,000 and $500,000 in an SMSF to make it economically viable compared to a non-SMSF environment, don't forget this is for the total amount across all members, rather than per member. If you are already paying a set fee for the administration of your SMSF, will there be much of a change by adding a new member?

Third comes the opportunity for diversification. Members with low balances are often forced to use a default investment arrangement and share risk and return with thousands of other members, simply because they don't have enough to be able to build their own personalised investment portfolio.

Bespoke portfolio

In an SMSF, while they may not have enough for their own portfolio to begin with, there may be a greater level of control and understanding by pooling their super with yours to create a bespoke investment portfolio.

The last aspect to consider is around estate planning. If your children are of an age where you have appointed them as executor to your will, when you pass away your children will have the ability to step in (as your legal representative) to administer the distribution of your super savings held through the SMSF.

To help reduce the burden this can place on your loved ones at that time, introducing your children earlier to your SMSF can make a significant difference as they will have a better understanding of where your super is, how you want it dealt to, how the fund operates and the decisions that need to be made.

Running an SMSF is not easy, but neither is gaining an understanding of finance and the decisions that need to be made at different stages in life. If using your SMSF and the guidance of your professional adviser is an option to get your kids' financial future on track, isn't it worth considering?

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