The right reasons to set up an SMSF?

SMSFs

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Every year 60,000 Australians establish a self-managed superannuation fund (SMSF). With this phenomenal growth, SMSFs should really stand for "so many, so fast". While more than 1 million people have their own SMSF, others wonder whether they should have one while many know little about them.

If you're the latter, don't feel guilty. Irrespective of whether this is an SMSF refresher or an introduction, hopefully it informs your decision-making.

Understand they are not for everyone. They are complex with strict and extensive regulations you don't want to get wrong.

At weekend BBQs, I often hear: "People say I should have an SMSF." I'm not convinced fear of missing out is ever a good enough reason to set up an SMSF. Low-cost industry funds, employer funds and some retail funds can be great alternatives.

If you're disorganised with your paperwork, it may not be for you. Likewise, if you don't enjoy or lack the time to actively manage your finances.

Be clear about the purpose of your SMSF. A Rice Warner survey found that most SMSF members don't intend to leave their retirement savings to their children. Instead, the family home is the key estate planning asset. So it makes little sense to set up an SMSF and sit in cash. For retiree parents, actively manage your SMSF as you SKI (spend the kids' inheritance).

You may wonder whether SMSFs are just for the wealthy. Let's not kid ourselves – they are for the wealthy, but not just the wealthy. While the average fund balance is just over $1 million, more than 70 per cent of SMSF members have a taxable income of less than $100,000. So if you're wealthy or you're aspiring to build your wealth, an SMSF could be for you.

Australians love property and an SMSF can be an efficient way to invest in residential or commercial property, or your own business premises. You may want to include family members in your fund, or there may be estate planning reasons. However, my rule of thumb for how much you (or you and your partner) should have combined in super before considering an SMSF is $500,000.

There's no magical formula behind this. The cost break-even point is below $500,000, but for the work and effort involved, it shouldn't break even – there should be significant benefits from day one.

According to the Productivity Commission's recent report, smaller SMSFs with less than $1 million in assets perform significantly worse than institutional funds. So bear that in mind as well.

For couples who want to co-manage their superannuation or individuals taking control of their retirement savings, SMSFs can be a great option. Seventy per cent of SMSFs have two members while 23 per cent have only one member.

Ensure you have the right attitude and skill set to manage your SMSF. For instance, business owners have considerable experience running multiple structures including companies and family trusts. For them, an SMSF is not much of a leap.

If in the wake of the royal commission and other scandals you feel disappointed and let down by financial institutions, that's completely understandable. Just be mindful that if you set up an SMSF to flee the banks, then you'll likely still have to use them to invest and manage cash.

Also consider your physical and mental health. I'm constantly reminded and delighted that our older clients are remarkably young at heart. The Rice Warner survey found nearly all SMSF members (95 per cent) were in good health. This should not be surprising – those who don't feel comfortable about their health are far more likely to favour the relative ease of an industry or retail fund.

So long as you have the right attitude, reasons, skills, financial resources and health to manage it, an SMSF can be a profitable way to fund your family's dream retirement.

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