

# How to keep your SMSF kicking along, even when you're gone

## DIY super

Tim Mackay



While you won't live forever, your self-managed superannuation fund (SMSF) can.

Most Australian states limit the life of trusts to 80 years but the law specifically excludes super funds from the rules against perpetuities.

Assuming your SMSF trust deed doesn't specify a shorter term, your SMSF can live forever. Whether you want it to or not is another matter.

A reader raised this issue following an article on when it makes sense to say goodbye to your SMSF.

"My wife and I have a significantly larger-than-average SMSF. I am in my early 80s. My wife has no interest in or involvement with our fund. The fund's performance is good, but I am looking to the future. For a number of reasons I want (need) to keep the fund alive."

Sadly these important issues are often left until it's too late.

Many believe an SMSF is the best vehicle to manage family wealth for as long as

possible. The logic seems sound – if your SMSF has long contributed to your financial success, why give it up? Retaining it gives you continuity – in structure, investments and family wealth creation.

But just because an SMSF is right for you and your spouse now, it may not be right for those left behind picking up the pieces financially and emotionally.

What is most important is that your family's wealth is well-managed so family members don't need to worry. The form and structure should meet their needs when you are not around. And that may not be an SMSF.

Key-person risk is a significant problem. Often your skills and expertise are the key drivers of your fund's success. Either you have learnt to do it yourself or you manage a team of trusted professionals. Either way, you're at the centre with skills that are not easily transferable.

To determine whether your fund should live beyond you, start a transition period.

Encourage your partner (or other family member) to manage SMSF projects, such as the fund's cash and term deposits. If no



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interest is shown, question whether the SMSF should last beyond you.

You could introduce two of the next generation of your family as fund members now, or three upon your death (assuming your spouse remains a member, current rules allow up to four members).

If a family member shows interest in managing the fund, mentor them now.

This approach is not without its issues, however, especially "inheritance impatience" for larger-balance SMSFs.

You could allocate 20 per cent of your funds to an external investment manager now to run in parallel with you for a few years. Step back as if you were not there. Judge the service and how your spouse deals with it, if at all. That will tell you a lot.

If there is a specific fund asset (such as a property) your family needs to keep, then seek expert

SMSF advice.

You need to look for experts that your grieving family can trust when you are not around. That is crucial and, in a post-royal commission world, it's not an easy task.

Industry funds have come out relatively unscathed. It may sound unusual from a

financial advisor, but they can be a good option for your family.

To answer the question as to whether it can be kept on, yes – but only with difficulty and planning.

Consider Warren Buffett's instructions on how his estate should be invested in his 2013 letter to shareholders: "My advice to the

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trustee could not be more simple: put 10 per cent of the cash in short-term government bonds and 90 per cent in a very low-cost S&P 500 index fund."

Buffett keeps it simple – a large growth allocation and a small defensive allocation using low-cost passive investments.

Keeping it simple like Buffett and identifying trusted family members or professionals would be the best advice. **■**

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