HUB24

An intergenerational advice solution

There was once a time when really sophisticated financial advice strategies could involve super being transferred from one generation to the next and SMSFs really were positioned as the 'never ending family super fund'.

Tax and super rules are tougher now – to the point where almost every member's super will have to leave their fund once they and their spouse have both died. Nonetheless, SMSFs still present some unique advice opportunities to help clients maximise their legacy and advisers build their engagement with future generations.

There are two key reasons for this.

The first is that the SMSF structure is all about collaborating to invest as a family. While 'family' in this context usually just means a couple, more and more wealthy parents are now looking to include their children in their SMSF. Sometimes this is just in the early stages before the children have their own families but in other cases, it's for the long term.

Sometimes the short-term driver comes from a simple desire to save costs. Almost every parent of a 20-something has firsthand experience of their child's shock at seeing how much of their tiny super balance goes in fees. Belonging to their parents' SMSF almost immediately means their share of the costs becomes virtually insignificant.

Families who share an SMSF often engage in some degree of joint, collaborative family planning, presenting a unique opportunity for advisers to add value to both generations. Simple strategies like Government co-contributions and understanding how the First Home Super Savers Scheme works can be transformative when it comes to a young person's appreciation of their super and the value of adding to it voluntarily. A shared SMSF can provide the platform to meet some of their advice needs cost effectively in a way that would never be possible for them as an individual.

It also means the next generation understands the value of good advice early rather than having to be convinced later in life. They already have a trusted adviser on hand when they reach the point in their life where it makes sense to take up a more comprehensive advice offer themselves.

The trend towards saving and planning together is only likely to accelerate as the current crop of Gen X parents progress through to retirement. Super is already the centerpiece of their own retirement savings strategy. They foresee much tougher conditions facing their children (high interest rates, house prices and costs generally) and know themselves that super takes a long time to build up. Just as it has become more common for parents to proactively support their children in buying homes, it seems entirely feasible that extending this to making super contributions will become more mainstream in time.

> “The SMSF structure is all about collaborating to invest as a family.”

The second key driver for multi-generational SMSFs is perhaps more niche but definitely longer term.

Even if a member’s own balance needs to exit the super system (both they and their spouse have died), the SMSF itself can remain in place. That means in some circumstances it’s possible to hand an asset down through the generations without ever leaving the SMSF. Farming families with generational assets have done this for years but even families with investment properties are starting to do the same.

The strategy is simple. A property is bought by the SMSF – generally funded largely with the parents’ super (possibly even including a limited recourse borrowing arrangement). Over time, the children contribute to build up their own balances. The cash for the contributions might even come from withdrawals from the parents’ super – effectively a multi-generational re-contribution strategy. If the parents die, the aim is that the growth in the children’s balances means the other assets of the fund are substantial enough to finance the parents' death benefits, and ultimately avoid a forced sale of the property.

There are many benefits here:

- The property can remain in super (with all the concessional tax breaks) for an extended period.
- There is no need to realise capital gains in order to move it outside super on the death of the parents.
- If the parents’ balances are wound down over time to support the children’s contributions, taxes on the parents' death benefit are reduced.

Of course there are important challenges to consider when sharing an SMSF and it's critical to go into this structure with clear goals, an understanding of the risks and a shared view of how it will end. For example:

- What happens if / when the children have their own partners and families and want to split off into their own SMSF?
- What happens if one of the children gets divorced?
- Will it be essential for the children's balances to remain roughly equal (so they share equally in the growth in value of the property)? If so, children who want to add more to their super will need to also participate in another fund
- Unlike a conventional inheritance, this won't provide cash flow to the children on the parents' death which might be more desirable.
- How will decision making be handled? In the early days, the parents may have much larger balances and yet can't make decisions with only their own interests in mind. What if not all the children are engaged with their super?

There are some protections that can be put in place and there is definitely an important role for an SMSF specialist adviser. But the fact that an SMSF can simply continue for as long as it has members does present some unique opportunities for clients and their advisers.

Meg Heffron
Managing Director, Heffron SMSF Solutions

Heffron Managing Director Meg Heffron has been working exclusively in SMSFs since 1998. She is one of the few actuaries to work in all areas of SMSF practice. Her passion is turning technical knowledge about SMSFs into practical solutions that accountants and advisers can use to help their clients and grow their businesses.

Want to know more?

Call our team on **1300 854 994** or visit **HUB24.com.au/smsf**

HUB24

DISCLAIMER – IMPORTANT INFORMATION

This document has been prepared by HUB24 Custodial Services Ltd ABN 94 073 633 664, AFSL 239 122 (HUB24) for release in August 2023. It is only for use by Australian financial services license (AFSL) holders and their authorised financial advisers. It is not for use by retail clients. The information presented is intended to be general information only and not financial product advice. It has been prepared without taking account of or considering any person's objectives, financial situation or needs. Accordingly, before acting on any of this information, the viewer should consider the appropriateness of the information having regard to their or their clients' objectives, financial situation and needs. Disclosure documents are available at www.hub24.com.au or by calling 1300 854 994. It is important to consider these documents before making any decision to acquire or hold HUB24 Invest, HUB24 Super or any managed portfolio available through either of these products. HUB24 is the operator of HUB24 Invest. The trustee and issuer of interests in HUB24 Super is HTFS Nominees Pty Limited, ABN 78 000 880 553, AFSL. 232500, RSE. L0003216. Past performance is not indicative of future performance. This document must not be copied or reproduced without the prior written consent of HUB24. Unless a contributor is presented as a representative of HUB24, their views and opinions are their own, and do not necessarily reflect the policy or position of HUB24 or its related entities. © HUB24