Your questions answered

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Benefits in pooling SMSFs but beware property for pensions

Q: My de facto partner and I have separate single-member self-managed superannuation funds (SMSFs) but are considering combining them. This should reduce administration costs and provide a greater fund balance to purchase residential property. I'm 58 with super of $850,000 invested 60:40 in Australian shares and cash and plan to retire in three to five years. To this fund will be added my 54-year-old partner's $550,000 balance, also invested 60:40 in ASX shares and cash. She does not expect to retire until she is 70. Can you provide some thoughts on combining the SMSFs and any pitfalls – especially how the difference in our retirement ages can complicate this?
– Kevin

A: As far as thoughts on combining your partner's SMSF into your fund are concerned, there are several considerations you will both need to bear in mind. One is the wind-up costs her fund will have to bear before combining with your fund, says Joshua Williams, chief operating officer with Adelaide self-managed super administrator SuperGuardian.

Another is a review of what might happen to your super if either of you were to die. Ideally you should discuss this before consolidating your super accounts to ensure there are no potential legal challenges from other parties, such as adult children from past relationships. It is important to have a plan in place that will deal with any possible complications.

With regard to fund expenses, the main ones will be accounting fees, investment transaction costs and possibly tax. Her share investments will need to either be sold and the proceeds rolled into an account in your fund for her benefit or the shares may be transferred *in specie* into your fund, again for her benefit.

Transferring an investment *in specie* means to shift the ownership of the shares from her fund to yours without converting them into cash. Shares can move from one fund to the other via an off-market transfer where, rather than being sold on the stockmarket, they are processed through the share registry which records the change of ownership. While there is a fee charged for this, it is significantly less than brokerage on stockmarket sales.

Whether the shares are sold or transferred, because this will happen in an accumulation fund this could result in capital gains or losses in your partner's fund which must be paid when the fund is wound up. A consolation is that any net capital gains will be taxed at 10 per cent.

Other costs to your partner's fund should be minimal assuming your fund has a corporate trustee, which is likely given it is a single-member fund.

However it will still be necessary to prepare and execute paperwork such as membership application forms and trustee declarations. If you don't have a corporate trustee, there may be significant costs to update your fund's trust deed and investment holdings.

Your partner's fund will have to be formally closed. This will include completing and lodging a final annual return and having it audited.

A consolidation of funds should cut your fund administration costs, says Williams. Further, once you have started a pension, having a joint fund opens up opportunities to equalise member balances through a withdrawal and recontributing strategy, whereby you can withdraw money tax-free in your pension, and your spouse can recontribute these as after-tax contributions.

With regard to the difference in retirement ages, this should be a key point of discussion before you combine your funds, especially given your proposal to invest in property.

Having a significant proportion of your joint super tied up in property gives you a large exposure to the real estate market and its associated risks.

If this is still the case in three to five years when you propose to retire, you will need to be aware that your joint investment strategy must acknowledge your need for pension payments.

Once a fund has an obligation to pay pensions to a member, it needs a strategy that addresses this. That's when a review of its investment strategy may justify separate strategies for each member.

This review should acknowledge the difference in liquidity requirements when a member has moved to pension phase by laying out a proposed strategy to address this, such as using contributions from another member to fund pension payments or ensuring a fund has cash reserves that are sufficient to cover 12 months of fund costs, including any pensions.

In relation to the difference in retirement time frames, this may give rise to the need to obtain an actuarial certificate each year when the annual tax return is being prepared.

Looking ahead, when your partner expects to retire, you will be 74 with a requirement to withdraw 6 per cent of your account balance from when you turn 75, increasing to 7 per cent from when you turn 80. Her obligation when she retires will be 5 per cent of her balance rising to 6 per cent at 75.

That said, when you retire your fund's liquidity needs to pay your pension may be assisted by your partner's expected contributions. How much your partner will need to contribute in tax-concessional contributions or even after-tax contributions may need to be factored into your planning.

When choosing to invest in a substantial asset like a property, it is always advisable to assess how it will coexist with pension payments, and contributions.

In addition, where a fund had started paying a pension, having share investments and a member who continues to make tax-concessional contributions over the longer term may be a useful way of utilising franking credits if Labor is elected in next month's federal election and enacts its proposed policy of banning the refund of excess credits. SI

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