Super is meant to be shared

Many things change when we find our life partner. We get used to sharing a house, dividing up household chores, putting up with our partner's irritating habits (or family, pets) and often sharing finances, at least to some degree.

Even couples not quite ready to think about planning for retirement often save together – a joint mortgage, shared investments, joint bank accounts and more.

So, it makes perfect sense to think of super exactly the same way – something couples can choose to plan together, contribute together and invest together. Isn't it odd, then, that we can't have joint super accounts?

Some of this is just a function of how our tax and super rules work. Just like everyone still lodges a personal income tax return as an individual, everyone has their own unique super account regardless of their family situation.

But when it comes to how this plays out in practice, there is a big difference between large public super funds and SMSFs.

SMSFs empowering transparency and visibility

If your super is with a public fund, your super account is kept entirely separate from your spouse's even if they belong to the same fund. In fact, couples often don't even have visibility over each other's super.

But an SMSF is completely different and gets one very important step closer to sharing the job of retirement planning. Specifically, SMSFs let couples manage the investments made with their super money together. Behind the scenes, the SMSF's accountant will still keep a running tally of how much of the fund "belongs" to each member but the investments are shared.

And this isn't just a sweet Hallmark moment, it's got a lot of practical benefits. I'll use the example of Kurt and Sue to explain some of these.

For a start, it means every time the fund makes an investment, it usually gets shared between all the different member accounts. This can be incredibly handy when it comes to making significant changes to investments.

For example, what if Kurt and Sue decided to invest a lot of their super in something new – I'll call it shares in NewCo Ltd. At the time, only Kurt is making super contributions.

In a public super fund, to get the mix right for both of them, they (or their adviser) would have to look at each member account separately. It's quite likely some of the existing investments held by Sue's super account would need to be sold to free up cash to invest in NewCo.

> “SMSFs let couples manage the investments made with their super money together.”

But if they’re both in the same SMSF, they can just direct the new money coming in from Kurt’s contributions to NewCo because all of the investments are generally shared in an SMSF. That doesn’t mean Kurt is giving some of his super to Sue – behind the scenes their accountant will continue to track how much of the fund “belongs” to each one of them.

An SMSF can also be handy for investments that require a minimum initial deposit because you are able to combine your and your spouse’s super to meet that need rather than having to meet it separately.

Have you ever belonged to an APRA regulated super fund where there’s a minimum amount you have to keep in cash? If you have an SMSF, you’re sharing that cash between the two of you rather than being forced to each have a minimum cash amount. That can mean less money overall in cash and more invested for your retirement.

Contribution Splitting

Under certain circumstances it’s possible to give some of your super to your spouse. It’s called “contribution splitting”. While there are rules about the amounts, timing and who can do it, it’s something that many couples do if one of them has more super than the other – it helps even things up. But in a large fund, this means actually moving money between super accounts. It can even mean selling investments in (say) Kurt’s super account and buying new ones in Sue’s.

But couples that have an SMSF use an entirely different process. For them, it’s just paperwork, no need to sell any investments, buy new ones or even move cash around. The money is already in the fund, the accountant just needs to take the split into account when working out how much of the fund belongs to each member.

Supporting the transition into Pension

This sharing of investments becomes even more valuable when someone (let's say Sue) starts a pension. The SMSF's bank account will receive contributions from Kurt and can use this cash to make pension payments for Sue, avoiding any need to sell investments unnecessarily.

In contrast, if they belonged to an APRA regulated super fund, Sue's pension would depend on the cash flow from the investments in her pension account alone. It's entirely possible that her account would be selling investments to fund her pension payments while Kurt's account would be buying investments with his new contributions. That sounds more complicated, time consuming and costly.

In fact, the advantages get even more obvious for couples where each person has multiple super accounts. The most common example is those who have started pensions but still have some super that is in an "accumulation" account (essentially a super account that hasn't yet been turned into a pension). This is fairly common, particularly in the early years of retirement.

Again, the SMSF's bank account and investments can be shared across all these accounts while a public fund would require multiple separate accounts. In a public fund, Kurt and Sue (or their adviser) would need to constantly check that each account had enough cash to pay the pensions and couldn't use the cash going into their accumulation accounts (from investments or contributions).

For couples, an SMSF could make it far easier to share the process of saving for, and then enjoying, retirement.

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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?

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