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What you should know about six member SMSFs

Since the SMSF member limits recently increased from four to six, larger families may be considering having one large superannuation fund for all family members.

Interestingly, recent ATO statistics tell us that the SMSF population comprises of 24% single-member funds and 69% two-member funds and the balance are three-member funds (3%) and four-member funds (4%). These statistics indicate that more than 93% of SMSFs have two members or less, so it is unlikely the increase in SMSF membership will affect many SMSFs.

However for some larger families, it does have the potential to make a difference, giving them additional flexibility and choice.

Although it may seem like the classic case of 'the more the merrier', there are many considerations for those thinking of bringing family members into their SMSF. Consider the following key pros and cons of having more members in an SMSF.

The pros

- Larger families are able to share a single superannuation fund.
- Reduced operating/running costs as costs are spread across more members.
- Ability to have different investment strategies for different members – this can benefit members with different risk profiles, investment goals and retirement timeframes.
- Larger pool of assets to invest and diversify – an SMSF with more members can enable more purchasing power and a broader range of investments, leading to greater investment diversification.
- Help with liquidity – introducing new members can inject funds and meet any liquidity issues of the SMSF, such as meeting minimum pension requirements and financing limited recourse borrowing arrangement repayments.
- Access to retail insurance policies – rather than having default insurance cover in an industry/retail superannuation fund where the default levels may not be enough and the cover may be basic (i.e., the insurance definitions are less comprehensive, the insurance cover has product limitations, etc), SMSF members could obtain a retail insurance policy in their SMSF from any insurer in the market. Retail policies can provide better quality cover and are tailored policies with better policy features and can also provide flexibility with estate planning strategies that can be utilised in the fund.
- More likely to qualify as an 'Australian superannuation fund' when one or more members travel overseas for an extended period of time.

The cons

- The SMSF trust deed may not allow for the increase in members and amendments may be required to increase the fund's membership level.
- Not possible for larger families that have five or more children (and both their parents) in one SMSF – this means larger families will need to have one SMSF or have two or more SMSFs where the parents may be in one fund and the children in another.
- Disputes may arise amongst SMSF members – we know disputes occur in two to four member SMSFs, so the likelihood of further disputes could increase as the number of fund members grows, especially when relationships break down or when a member loses capacity, becomes ill or passes away.
- Different risk profiles and investment strategies can add complexity and administration issues – e.g., the parents may want conservative investments while the children may want to take more risk, e.g., invest in cryptocurrency.
- Difficulty with decision-making ability – having more members means the strategic high-level decisions and general day-to-day operations of the fund may be harder to resolve amongst the trustees.

- Estate planning may need to change – your estate plan may be affected by the changes to your SMSF which means there may be a need to update or make changes to your estate planning documents including your Will, Enduring Power of Attorney, etc.
- Insurance costs may be higher in an SMSF – as group insurance is bought in bulk by larger superannuation funds, the premiums can be cheaper in industry/retail superannuation funds.

Final thoughts

If you're thinking about taking advantage of the recent law change by increasing the membership of your SMSF to six members, you're most likely going to need a corporate trustee structure for your fund. This is because the Trustee Acts of most Australian States and Territories still only allow a maximum of four individual trustees for SMSFs. This means you will need to have a corporate trustee (rather than individual trustees) in order to satisfy the trustee limit contained in the relevant legislation in your local State or Territory jurisdiction.

As you can see, there are several considerations for those thinking about having a larger family SMSF. So if you're considering commencing a fund with more members or if you are considering restructuring your existing fund(s) to take advantage of the increase in member numbers, then you should seek legal and financial advice to ensure the decision you make is the right one for you, fellow members and your SMSF.