

Gen Y and X seek the control and stability of SMSF invested in property

Written by Troy Gunasekera



Sydney 22 May 2013. Gen-Y and Gen-X, the new fastest-growing segments of the self-managed super fund sector (SMSF) are increasingly turning to residential property as a secure growth asset that enables them to take back control of their financial futures and their lifestyle goals in retirement.

The Australian Tax Office reports that SMSFs are growing at an average rate of 3,000 new funds per month, making them the fastest growing sector of superannuation. Of all new SMSF members, 71 per cent are Gen-Y and Gen-X².

SMSF expert and Financial Advisor to the Property Club (www.propertyclub.net.au), Jill Orr, said that each day she sees more and more people under the age of 45 seeking an active role in the management of their retirement funds, with increasing numbers turning to residential property given the sectors consistent growth of 8 per cent per annum - 1.9 per cent more than Australian shares, and trumping any other asset class².

"The SMSF sector has typically been dominated by baby boomers with high-worth assets, but increasingly it's a younger generation that are looking to SMSFs. Some have come to the realisation that their current retirement strategies may not meet their lifestyle preferences. Others are dismayed with their superfunds performance or the past losses of the share market during the GFC.

For many, a SMSF offers a way to take a more active role to manage their most important life asset."

David Kirschner, a 43 year old police officer and family man, said, "I set up a SMSF to take back control of the funds in my super accounts. I wanted the security of a tangible asset to grow my retirement."

"Investing in property with a SMSF gives you all the typical benefits of property as an asset class; you have borrowed funds working for you to build long-term wealth and your rewards aren't subject to capital gains tax, as long as you're prepared to wait until retirement at 60 years-of-age," continued David.

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"Gen-Y and Gen-X have the benefit of time with SMSFs; the earlier they begin, the better the potential return could be. But with reward, comes effort. A SMSF might not be the right strategy for everybody," said Jill.

So how do you know if investing in property with a SMSF is right for you?

Ask yourself the following seven essential questions to evaluate the risks and rewards of SMSF:

Can you move your super, if so, why would you? Some employees particularly those in the government sector and teachers don't have this option. Most will however, and there are no financial barriers from regular industry and private funds to moving your money in an SMSF. However, before you move your money assess what other benefits you might be receiving through your current super fund, such as life insurance.

Do you have enough money to invest in property with an SMSF? Ensuring you have enough funds to invest, is about finding the balance between the capital required to secure a property loan and servicing the loan using your compulsory super contributions and rental income. As a guide a super balance of at least \$150k is often needed with a combined income of \$150K per annum, to purchase a property valued at approximately \$400K.

When is it best to start? While it is never too late to become a SMSF member, ideally if you want purchase property you need to do so at least seven to 10 years in advance of retirement. "It's no coincidence that the age of investors setting up SMSFs are increasingly becoming younger," said Jill.

How much will it cost? SMSF have fixed fees, meaning the bigger your super balance the better the value a SMSF will be. Expect to pay between \$1500-\$2000 minimum, plus normal property holding costs in addition to tax costs and ASIC fees each year. Set up fees cost a minimum of \$3300, but can be substantially more. "The good news is that the average operating expenses for SMSFs have decreased significantly since 2008. But even with the option to choose the service providers that manage your fund, and new lower costs, you need to be aware that the fixed fees of SMSF could be more expensive than your currently paying," said Jill.

How much control do you really want over your money? While SMSFs offer you a more active role in financial planning for your retirement, some people may find managing their own fund time consuming and laborious given the complexity of taxation rulings. One solution is to find a one-stop-shop service provider like the Property Club with both property and financial planning expertise who can offer you bundled services to save time and money.

Will a property in a SMSF be right for your life plan? Property in a SMSF works best for those with job security and stability in their personal and working lives. While your fund is likely to operate with a positively geared investment property, that is, with the loan being paid by your compulsory super and rent, consistent super contributions and tenants are required to maintain your investment. Living overseas for more than two years may also affect your right to hold a property with a SMSF.

What else do I need to know? Super really is your most important life asset. If you set up a SMSF with a partner or others, you will need a very clear exit strategy to ensure the dissolving the partnership is managed fairly. "I always recommend some diversification in your super assets. Property really can't be divided easily, so having some more liquid assets in your SMSF can assist in this situation," said Jill.

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For more information on setting up SMSF or investing in residential property, visit the Property Club: www.propertyclub.net.au

References:

1. Australian Taxation Office: Quarterly Statistical Report, December 2012
2. Australian Stock Exchange and Russell Investments: Long-term Investing Report, June 2012.

About Property Club

Property Club helps investors on average incomes and above build property investment portfolios across Australia and New Zealand. Established in 1994, Property Club has researched, sourced and sold nearly 17,000 properties to more than 10,000 investors. More than 3,300 of these investors today hold property portfolios worth more than \$1m in value. Property Club offers many services free to its investors, including sourcing tenants, research and building inspections. It also holds regular property education workshops and conferences throughout Australia. To find an event near you, visit www.tic.com.au/events