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New Kids on the SMSF Block: Millenials & Gen Y Shaping their Futures

Individuals may be looking to opt for an SMSF because these provide entire control over where the money is invested. While this may have traditionally been the domain of middle-aged, experienced investors with higher fund balances, a new breed of investors is arising.

Millennials and Gen Y represent the fastest-growing segment of newly created SMSF account holders, with this group accounting for 10 per cent of all those opened in the past two years – double the rates seen in 2016-2019.

Thanks to technology and a wealth of complex financial information and advice now available online, this new breed of investors is making decisions about share markets traditionally reserved for institutional investors.

While this sounds enticing, the downside is that an SMSF involves a lot more time and effort as all investment is managed by the members/trustees.

Firstly, SMSFs require a lot of on-going investment of time:

- **Aside from the initial set-up, members need to continually research potential investments.**
- **It is important to create and follow an investment strategy that will help manage the SMSF - but this will need to be updated regularly depending on the performance of the SMSF.**
- **The accounting, record keeping and arranging of audits throughout the year and every year also need to be conducted up to par.**

Data shows that SMSF trustees spend an average of 8 hours per month managing their SMSFs. This adds up to more than 100 hours annually and demonstrates that running an SMSF is much more time-occupying than other superannuation methods.

Secondly, there are set-up and maintenance costs of SMSFs such as tax advice, financial advice, legal advice and hiring an accredited auditor. These costs are difficult to avoid if you want the best out of your SMSF. A statistical review has shown that on average, the operating cost of an SMSF is $6,152. This data is inclusive of deductible and non-deductible expenses such as auditor fees, management and administration expenses etc., but not inclusive of costs such as investment and insurance expenses.

Thirdly, investing into SMSF requires financial and legal knowledge and skill. Trustees should understand the investment market to build and manage a diversified portfolio. Further, when creating an investment strategy, it is important to assess the risk and plan for retirement, which can be difficult if one is not equipped with the necessary knowledge. In terms of legal knowledge, complying with tax, super, and other relevant regulations requires a basic level of understanding at the very least.

Finally, insurance for fund members also needs to be organised, which can be difficult without additional knowledge. Although SMSFs have the advantage of autonomy when investing, this comes at a price. Members/trustees need to invest time and money into managing the fund and on top of this, are required to have some financial and legal knowledge to successfully manage the fund.

Before deciding to invest your time and money into establishing an SMSF, consider your long-term financial goals and determine if an SMSF is right for you. Consult with a professional regarding your options for further information.