Challenging choices

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Dementia is increasingly affecting more Australians, including the way they plan for and manage retirement.

With more Australians living longer, there is increased opportunity to enjoy a lengthy and enjoyable life post-retirement.

However, for some, this will not be the case as it is an unfortunate fact that with an ageing population comes an increasing likelihood of age-related diseases.

One such age-related disease that has been highlighted in the media and through research recently is dementia, which is the single greatest cause of disability in older Australians aged 65 years and over.

The Australian Financial Review, in a story headed 'Dementia to drain health coffers' (14–15 March), reported on PwC analysis which showed that about 10 per cent of Australians older than 65 have dementia.

"If that rate stays constant, the number of Australians living with the disease will increase nearly threefold, from 308 000 people in 2011 to 890 000 people in 2055," the AFR reported.

These findings are consistent with Alzheimer's Australia research which states that:

- there are currently more than 342 800 Australians living with dementia,
- this number is expected to increase to 400 000 in less than ten years; and that
- the number of people with dementia is expected to be almost 900 000 by 2050.

How Australia will manage the challenges of an ageing population in general was a key focus of the Federal Government's latest Intergenerational Report, released in March this year.

As has been widely reported in the media, one of the strongest messages contained in the report was that Australia's population is growing and ageing at a such a rate that governments will not be able to continue to pay for people to access general health services, age and service pensions and aged care funding to the same levels and in the same ways they currently do.

In this environment of an ageing population and increasing risks of health-related conditions such as dementia, it is timely to consider the benefits as well as challenges that may present themselves to those who have opted to save for retirement through avenues which require significant and ongoing personal involvement in, and ultimate responsibility for, financial decision-making.

One such option is self-managed super funds (SMSFs). For some, it may be attractive to manage one's own superannuation fund; and the most common reason why people do embark on SMSFs is the desire to exercise as much personal control as is possible over how they save for their retirement.

Latest ATO data shows that just over 1 million Australians were members of SMSFs as of 9 July 2014.

Interestingly, within the context of the current debate over an ageing Australia, the same data also reveals that 12.2 per cent of SMSF members were aged 64 years and over. Over time, the upper age profile of members of SMSFs will increase.

For some people, age will never become a barrier to their ability to competently discharge all the responsibilities involved in running a SMSF. Others though, may over time begin to find the requirements more onerous.

The ATO provides a range of excellent resources which outline the legal, taxation, compliance and administrative responsibilities involved in setting up, running, paying benefits from and winding up a SMSF.

Many members of SMSFs deal with these responsibilities by engaging professionals to undertake much of the work. As the ATO notes in 'Setting up a self-managed super fund' they may use:

- a tax agent to complete and lodge the fund's SMSF annual return and to keep them up-to-date with the latest changes in superannuation and taxation law;
- an accountant to prepare the fund's accounts and its annual financial position and operating statements;
- a fund administrator to manage day-to-day running of the fund and to assist in meeting annual reporting and administrative obligations;
- a legal practitioner to review and update the fund's trust deed and to provide advice on the legal implications of relationship breakdown, divorce, estate planning or disputes between trustees; and
- a financial adviser to help prepare the required official investment strategy and to offer ongoing financial and investment advice.

However, while the members of a SMSF may choose to outsource many of the operations of their fund, the ATO is at pains to reiterate that ultimate financial and legal responsibility for the fund lies with the Trustee(s) of the fund—not the professionals they may choose to engage to carry out various duties.

Therefore, in light of the potentially significant legal (including criminal), taxation and financial penalties that can follow as a result of incorrectly managing a SMSF, it is important to ensure such a fund meets all its requirements at all times.

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It is also advisable that the members of a SMSF constantly discuss and re-evaluate their own interest in and ability to continue to manage their fund correctly, both in terms of making the right ongoing investment decisions and meeting their legal obligations.

Similarly, it is also important that people who hold enduring power of attorney responsibilities that may encompass a SMSF ensure they are aware of their legal responsibilities and potential liabilities in this regard.

It may well be that a SMSF continues to be the appropriate vehicle to ensure you and those close to you enjoy a well-resourced life in retirement but for some, it may be time to reconsider your options.

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