Cuffelinks
Connecting investors with ideas

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## This Week's Top Articles


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# Mortality risk could be the death of you

## David Bell

Longevity risk is the risk that we will outlive our retirement savings. If this occurs, we would fall back on to the age pension and, while averting poverty, this would likely be below many people's desired standard of living. What makes longevity risk complex is that it is actually a combination of other risks, investment and mortality risk. Mortality risk is the chance we will live longer than expected. While investment risk is well documented, this article is Mortality Risk 101. Actuaries love this stuff, and I'll refrain from poking too much fun at them (I have friends and colleagues who are actuaries) especially since they're so useful if you've mislaid your calculator.

**Remaining life expectation at different ages**

The first lesson in mortality risk is 'conditional expectation'. There is a chance of death at all ages, and as you survive, your life expectancy extends. The table below, based on the Australian Life Tables 2005 – 2007 produced by the Australian Government Actuary (AGA - the source of all data in this article) illustrates this expectation.

| | Remaining Life Expectancy (Expected Age at Death) | | |
|---|---|---|---|
| | At Age 0 | At Age 30 | At Age 65 |
| Males | 79.0 | 50.2 (80.2) | 18.5 (83.5) |
| Females | 83.7 | 54.4 (84.4) | 21.6 (86.6) |

Table 1: Remaining life expectation at given ages

Table 1 illustrates that if we make it to retirement (assumed to be age 65) then our life expectancy has increased by three to four years since we were born.

There are two key components of mortality risk: idiosyncratic risk and systematic risk. Idiosyncratic mortality risk is the randomness of individual mortality outcomes, even if we exactly knew future mortality rates in general (which we don't). Systematic mortality risk is the risk that life expectancy of the general population changes (for example based on medical developments).

Before I illustrate these risks it is important to understand how life expectancy is calculated.

**Mortality rates (probability of dying at a particular age)**

Mortality tables are produced by the AGA and are based on observed mortality outcomes. The key data produced for mortality calculations is the mortality rate (actuaries label this '$q_x$') which represents the probability of a person dying at a particular age in their life. Chart 1 below illustrates male and female mortality rates (please note the altered, logarithmic scale of the vertical axis). For example, there is about a 10% chance that an Australian male will die at the age of 85.

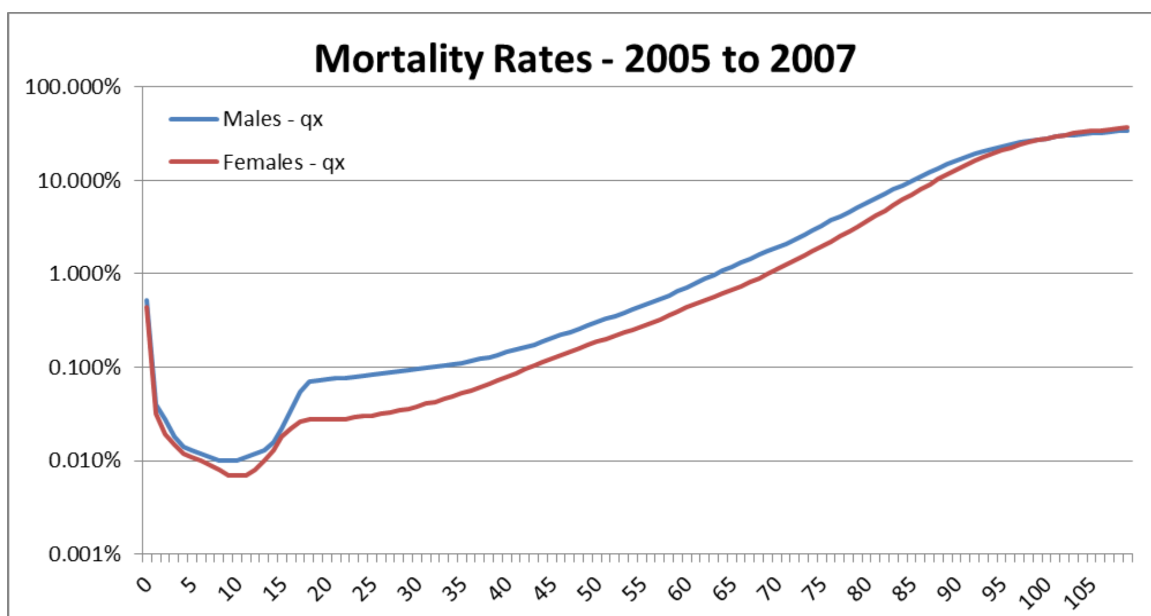

Chart 1: Australian mortality rates by age

An easy way to understand this chart is to note that your chances of dying in any year of your life do not rise above 1% until you are over 60 years old.

If we were sure these mortality rates would remain fixed into the future, meaning there was no trend to improve and no systematic mortality risk of deviating from the trend, then we are left with idiosyncratic mortality, or the randomness of age of death given known mortality rates.

We can get a handle on this risk through simulation. Chart 2 below summarises the results from 10,000 simulations, presenting the likelihood of dying at a particular age for a random male currently aged 65.

Chart 2 is most notable for the breadth of possible outcomes, and the shape of the distribution is not symmetrical and far more spread out than a normal distribution. Regardless of whether the average mortality rate improves (lengthens) or not, we are all exposed to idiosyncratic (or individual) mortality risk.

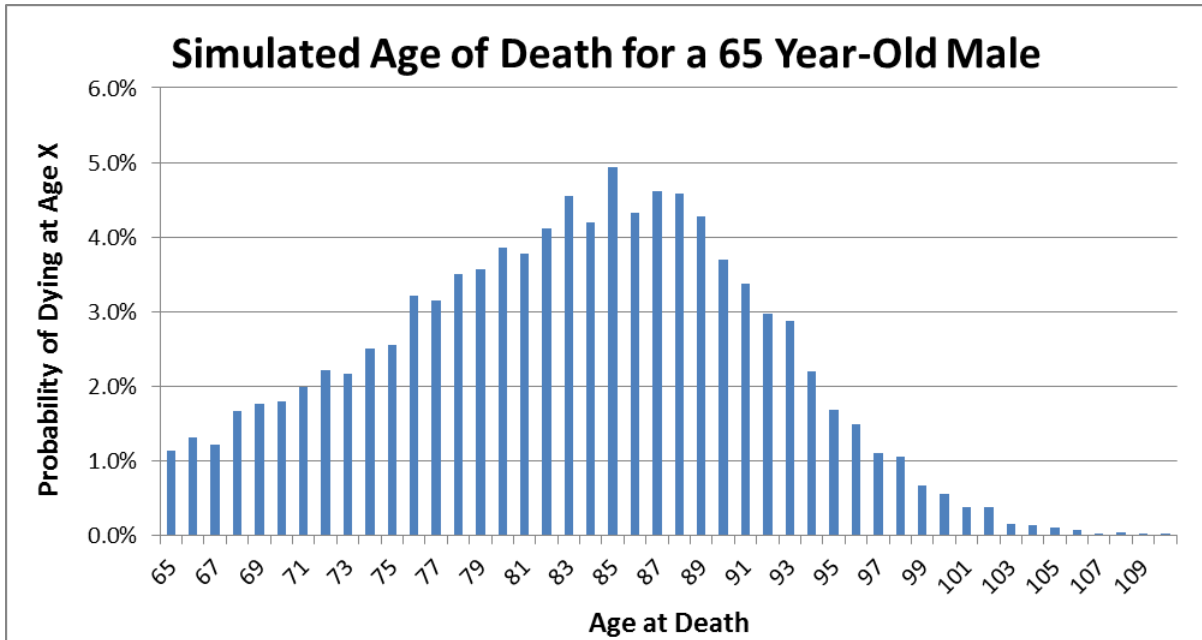


Chart 2: Summary of 10,000 simulations of the age of death for a male currently aged 65. This is based on existing mortality tables with no mortality improvement.

However, systematic mortality risk, excuse the pun, appears alive and well. Historically mortality rates have improved over the very long term (100 years) and over shorter timeframes (25 years). There is evidence suggesting that over very short timeframes (the last three years) there has been continued improvement in mortality rates, a trend highly likely to continue. An historical mortality improvement rate exists for each age and represents the annualised percentage change in the likelihood of dying at that particular age. Historical improvement factors are displayed in the chart below:

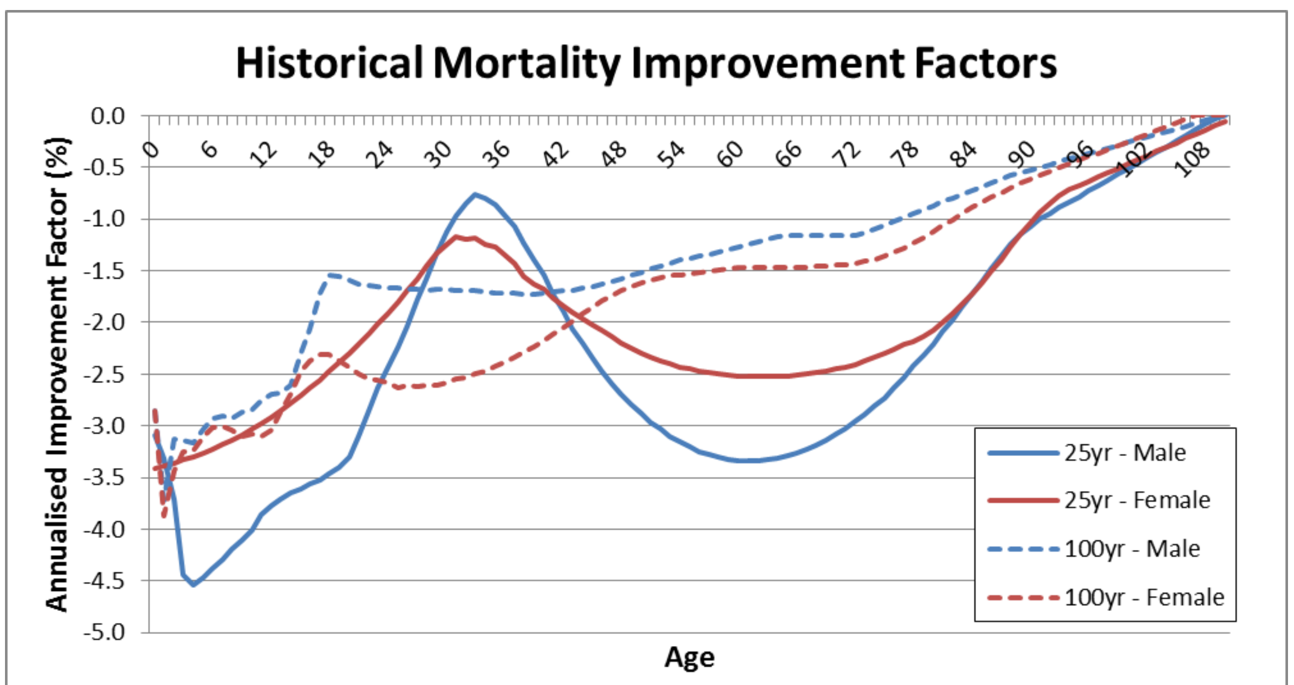


Chart 3: Historical mortality improvement factors.

A negative number represents mortality improvement (that is, a reduced chance of dying at a particular age). We see that the largest improvement in mortality rates has been for the very young. We also have large improvement factors for ages 55 – 75 over the last 25 years, largely due to medical improvements for diseases such as cancer. The way mortality improvement factors are applied is relatively straightforward. Say the mortality rate (the chance of dying) at a particular age is 5%. Any improvement factor will simply be applied to this rate. So an improvement factor of -1% would mean that the mortality rate in one year's time would be approximately 4.95% (5% x (100%-1%)) and this effect would compound through time. The upshot is that these negative improvement factors reduce our chances of dying at a specific age.

We don't know what mortality improvements there will be in the future, as they will be affected by factors such as medical developments, government spending on health and education, changes to standards of living, lifestyle (such as expanding obesity). This creates the systematic mortality risk. The AGA calculates average life expectancy given how different historical (25 year and 100 year) Improvement Factors (IF) continue into the future. Their results are:

| | Male | | Female | |
|---|---|---|---|---|
| | 25 year IF's | 100 year IF's | 25 year IF's | 100 year IF's |
| 2006 | 85.6 | 84.4 | 88.5 | 87.7 |
| 2010 | 86.3 | 84.7 | 89 | 88 |
| 2020 | 87.9 | 85.3 | 90.2 | 88.7 |
| 2030 | 89.4 | 86 | 91.4 | 89.4 |
| 2040 | 90.8 | 86.7 | 92.4 | 90 |
| 2050 | 92 | 87.3 | 93.3 | 90.7 |

Table 2: Life expectancy for a 65 year old if historical improvement factors (IF) continue.

**Life expectancy increases as mortality rates improve**

So here's the main issue we are facing. There are plausible scenarios where the life expectancy of those who make it to 65 in 2050 will be 92 for males and 93 for females. Males who turned 65 in 2010 can expect to live to 84.7 if improvements continue at the 100 year average or to 86.3 if they continue at the 25 year average. A male who is 65 in 2050 would need to expect to make their retirement savings last nearly 50% longer (27 years versus 18.5 years). You can clearly see why governments around the world are implementing policies to push back retirement age.

That is it for the introduction. If you were making study notes for Mortality 101, I would suggest:

- it is conditional expectation (how long we expect to live given we make it to 65) which really matters when we are thinking about longevity risk
- idiosyncratic mortality risk represents the individual's randomness of outcomes given an environment of known general mortality rates. The dispersion of individual outcomes across the population is very large
- systematic mortality risk arises from uncertainty about the average improvement in population life expectancy. If historical mortality rate improvement factors persevere into the future then retirees are facing a scenario of having to make their retirement savings last much longer. And let us not forget the pressures this would place on funding the age pension for longer.

I apologise for the complex jargon. They sometimes quip that actuaries missed the first six years of school when all the other kids were learning short words. While it is easy to poke fun at actuaries, the role they play in understanding, measuring and managing mortality risk is crucial.

It is unfortunate that most people in the industry (super funds and financial planners) spend much more time considering and modelling investment risk than they do mortality risk.

*David Bell would like to thank Associate Professor Anthony Asher from University of New South Wales for his assistance with this article.*

# Facing the daunting prospect of residential aged care

## Alex Denham

What a daunting prospect it must be for anyone for whom moving a loved one to residential aged care looms on the horizon.

I've watched clients go through it. There's the guilt: Are they ready? Am I being selfish? Should I, could I keep caring for him at home?

There's the logistics: Where should she go? When? What will we do with the house, the furniture, the dog?

And then there's the financial side. Anyone who has tried to research the fees and charges themselves would know how complex it is. I have been educating and advising on aged care costs for over 10 years, so I feel I've pretty much got a handle on it, although it took a while. It was years before I felt confident in my understanding of the system, and I still come across questions that I don't immediately know the answer to.

Back when I first started trying to understand the fees and charges and how they interact with the age pension, there was very little written about it, and certainly nothing user-friendly. There's now some good information available, and the Department of Health and Ageing's website is a good start at www.agedcareaustralia.gov.au.

The truth is there's no simple way to explain everything, so I'll summarise for the purposes of this article and hope it goes a little of the way to demystify it all.

**Paying for the accommodation**

The table below provides a good summary of the fees, borrowed from Challenger:

<table>
<tr><th colspan="2">Classification Level<br><br>(determined by Aged Care Assessment Team member)</th></tr>
<tr><td>LOW LEVEL CARE & EXTRA SERVICE FACILITY<br><br>(low or high level care)<br><br>Accommodation Bond</td><td>HIGH LEVEL CARE<br><br>(nursing home)<br><br>Accommodation Charge (around $33 per day)</td></tr>
<tr><td colspan="2">Basic daily fee (around $43 per day)<br><br>+<br><br>Income-tested fee (depends on your income)<br><br>+<br><br>Extra service fee (advised by facility)</td></tr>
</table>

As shown above, the main components to the cost of residential aged care are the up front accommodation bond, the ongoing accommodation charge and the daily care fees and expenses.

**Accommodation bond**

The accommodation bond or charge is the first thing you will have to deal with. This is an amount agreed up front to pay for costs relating to your accommodation in a facility, such as capital expenditure and infrastructure.

Once agreed, the bond or charge amount does not change during the resident's stay. In calculating a residual value for the bond in the event of death or leaving, the facility owner will deduct an 'annual retention amount' each year, currently about $4000 per annum for the first five years. The balance is refundable without interest.

The level of bond paid is set by the facility and depends on several factors such as where the facility is located and the level of the resident's assets. The facility must leave the resident with at least $41,500 in assets after paying the bond.

Assets are assessed by Centrelink (or Department of Veterans' Affairs (DVA) where relevant), who will advise if the resident is eligible to be a supported resident for accommodation costs. This advice will also include an itemised list of assets and an indication of how long this assessment will be current.

Here are some special tips relating to accommodation bonds:

1. It is not always necessary to have assets formally assessed. In fact, it can even be detrimental in some cases. Let's say assessable assets come to $1 million in total. That means the facility can charge up to $958,500 in bond. However, very few would charge that in reality – they would have a standard bond amount probably in the range of $200,000 to $500,000 depending on where the facility is located. I have heard of places that actually charge over their standard amount once they know the level of assets the resident has. Alternatively, let's say that a facility has a standard rate of $250,000 bond for those who can afford it. The person with assets of $291,500 or less might benefit from having their assets assessed as they might pay less.

2. Be careful with strategies to reduce assessable assets as they can backfire. In a place in demand where beds are scarce, the management will take the person who can pay the higher bond. Divesting yourself of assets could land you in an inferior place.

3. There are circumstances where it is beneficial to voluntarily pay more bond than the facility is asking. This is because the bond is not subject to Centrelink's income or asset test, so by paying more bond, you can end up getting more age pension and reducing your income-tested fees. You need to do the numbers though as there is an opportunity cost involved here in lost investment earnings. Check with your adviser on this one before signing anything.

**Accommodation charge**

If assets come to over $109,640, the maximum charge of $32.76 a day applies and the assets assessment is unnecessary. An asset assessment will be needed if assets are below this amount, as then the resident will be classified as 'supported' and pay a lesser amount.

**Living expenses and care fees**

Residents will also contribute towards the accommodation costs and living expenses such as meals, cleaning, laundry, heating and cooling. There are two types of care fees: the basic daily care fee and the income-tested fee.

With regard to the basic daily care fee, most residents will pay the standard rate of $43.22 per day which is 85% of the single rate age pension.

That is all full-pensioners pay, however part-pensioners and non-pensioners can also pay an income-tested fee. Each quarter, Centrelink (or DVA where applicable) assesses the resident's income and advise the aged care facility. The facility uses that to determine how much income-tested fee the resident should pay for the next quarter.

The maximum income-tested fee is currently set at $68.65 per day ($25,000 a year), and to be charged that a resident must have assessable income of around $83,000 per annum (single) or $165,000 per annum (couple combined). To put it in perspective, a single person would need around $1.85 million in financial investments to pay the maximum daily income tested fee and a couple around $3.69 million, based on the deemed earning rates used in the calculations. In other words, assets need to be considerable before this maximum of $25,000 a year is paid.

Here are some special tips on income-tested fees:

1. As assessment is quarterly, it is never too late to put strategies in place to reduce your income tested fees. This often goes hand in hand with an improvement in age pension benefits.

2. The income assessed is NOT taxable income, as Centrelink have their own, often more generous income test. Take deeming for instance. Financial investments are deemed to earn a maximum of 4%. A portfolio of high-yielding defensive Australian shares could be yielding far more than that.

   We have a client moving into a nursing home who has a portfolio of shares valued at $900,000. In five months, it has grown in value by 15% (36% annualised) and yielded dividends in excess of 5% (over 10% annualised) before franking credits. Let's say total annualised return is 40% (it's been an exceptional five months), Centrelink will deem it at 4% for her income-tested fee calculation.

3. Income streams such as annuities are also favourably treated for both Centrelink and taxation purposes. It is well worth looking into annuities with your financial adviser, and there have been some good product developments in this area in the last 12 months.

4. A strategy that gets bandied around amongst advisers in this field involves setting up a family trust, transferring cash into it and buying an insurance bond. As an insurance bond does not pay income, and therefore the family trust doesn't pay income, no income is assessed and the income-tested fees reduce. On a technical level this strategy has merit, but I've never actually put one in place. It is just too complicated to explain, and there are better or as good alternatives available in my opinion.

This article just scratches the surface of the financial side of moving into residential aged care. It seems to be an area where many people think they are on their own having to work it out, but there are advisers who know a lot about this stuff and can make a real difference. One small change in the strategy can make a massive financial difference.

*Alex Denham was Head of Technical Services at Challenger Financial Services and is now Senior Adviser at Dartnall Advisers.*

## Shareholder activism in Australia

## Gabriel Radzyminski

An old investing adage states, "more money has been lost through corporate mismanagement than at the point of a gun." By simply running their finger down a list of history's biggest (or smallest) corporate disasters and missteps, an investor can quickly spot several common themes emerging: flawed strategies, improper capital structure, capital misallocation, poor governance and so on. Curiously, (mis)management can be singled out as the common thread amongst *all* of these precursors to gloom.

The investor of yesteryear was therefore held captive largely by the capabilities possessed by the management of the company into which they had bought, as opposed to the dynamics of the underlying business itself. Buying into a bad business can at times turn out to be a good investment, whereas buying into a bad management almost certainly will not.

Whilst over the last few years management capabilities haven't dramatically improved for the most part, the emergence and prevalence of 'activist investing' has implied that shareholders can now retaliate against or influence almost all forms of corporate wrongdoings in a more effective, organised (and sometimes public) fashion. All the while, these activist investors have enjoyed lower risks and longer term outperformance that is largely uncorrelated to the broader market – not to mention gaining the ability to look at a broader range of opportunities, seeing as they are not reliant on previous 'bet-on-the-jockey-not-the-horse'-type investments.

**Shareholders and their relationship with companies**

The sharemarket presents a strange dichotomy: shareholders who, as providers of capital, own the underlying company they invest in never actually control how their capital is used once it is handed over to the business. Instead, shareholders entrust the oversight and management of their company to the board and the executives, respectively. Therefore, it is no surprise that poor governance is often at the top of an activist investor's watch list, as an activist strategy is often undertaken in the presence of a management or a board following (hopefully unintentional!) procedures that destroy shareholder wealth. The activist investor must therefore first think carefully about whether a company has the right board.

Stranger still is the fact that few investors (read 'owners of the company') have the opportunity to actually meet with the directors of a listed company. Observations or opinions about boards are usually third or fourth hand at best, or are formed from what shareholders see, hear and read in the media. We find that asking questions at an AGM is always a good opportunity to directly 'test' directors.

However, shareholder activism is not *just* about corporate governance. Governance is only a means to an end, not the end itself. An activist investor becomes a shareholder of a company initially because they believe there is some inherent value and that, by seeking change, they can create or enhance that value. Outsized investment returns and the unlocking of latent value are the ultimate destination and activism is a quicker path to get there. It is important to not lose sight of the main objective of increasing your future dollars above and beyond the risk you have taken in forgoing today's dollars.

**Activism techniques**

Luckily, Australian shareholders have, through the Corporations Act, one of the most shareholder-friendly legislative frameworks globally. Most parts of this law operate with minimum requirements where shareholders seeking to exercise these rights must either hold more than 5% of the shares on issue or there must be at least 100 shareholders making the request. Subject to these and some other requirements, activist shareholders can, amongst other things:

- Call for a general meeting

  There are two ways of doing this. The first is where those shareholders call on directors to call a meeting (section 249D). The second (rarer) method is where the shareholders call a meeting themselves, and then are responsible for the expenses of calling and holding the meeting (section 249F).

- Put forward shareholders' resolutions

  Shareholders who meet the minimum thresholds outlined above can give a company notice of their intention to put forward resolutions to be considered at a general meeting. The majority of resolutions can be passed by shareholders by a simple majority of votes cast, including the removal and nomination of directors.

- Require that a company distribute a shareholders' statement

  Shareholders who call for a resolution can also request the company distribute a statement to all shareholders, which would typically be used to make the case for the particular point of view those shareholders are espousing.

- Seek the removal of a director

  Shareholders can call for the removal of one or more directors of a public company (section 203D). Practically, this would occur by calling for a general meeting at which a resolution to remove one or more of the directors would be put to shareholders.

- Nominate directors

  Shareholders can also nominate directors. As above, shareholders would usually need to call for a general meeting at which one or more resolutions to appoint directors would be put to shareholders.

The points listed above are very much the public face of activism. However, the work of an activist often takes place behind closed doors. Lobbying privately for a particular course of action can be far more productive than taking a very public route.

It is important when formulating a strategy to ensure that other shareholders are likely to support it. If an alternative strategy cannot obtain support from other shareholders, then it is likely the strategy needs more work. Sometimes though, support can be difficult to garner because of investors' differing investment objectives. For example, sometimes retail and institutional investors may have different time horizons.

Shareholders should not abuse these rights by exercising them flippantly and frequently. Each time a meeting is called, it costs the shareholders money.

**Role of shareholder activism**

We believe shareholder activism is best applied to situations where shareholder value has been destroyed or where there is a persistent failure to deliver. Companies *have* to take risks and sometimes they do not pay off – that's just how business works. However, if a company *persistently* takes business risks that do not pay off, then one has to start asking some serious questions. This is where it all starts. Through their investment endeavours, activist investors keep companies and their boards in check.

There are few examples of activism at work in Australia, and that is not necessarily a negative. In the world of investing, the *less* the merrier, seeing as knowledgeable participants travelling along a less-crowded investment path are usually more handsomely rewarded for their insight.

Of the few examples, many have been driven by labour or environmental agendas, as opposed to compelling investment opportunities. When they have been investment-driven, we would characterise them more as being 'reactive' activism. Reactive activists are shareholders who have sought to take action because a company in which they are invested has failed to deliver or it proposed to undertake a course of action the investors did not support. In contrast, the dedicated activist (a 'thoroughbred' in investment-geek parlance) is the investor who actively seeks out companies with the intention of engaging directly with the board and management.

We see the role of the activist investor as important to the efficiency of the Australian capital markets and the protection and enhancement of shareholder wealth. There has been increased interest in this investment strategy, which we see as beneficial to all market participants.

*Gabriel Radzyminski is the Founder and Managing Director of Sandon Capital. Sandon Capital is an investment management and advisory firm and has been involved in a number of 'activist' engagements, advising both shareholders and companies.*

## Everyone needs a plan

## Rick Cosier

Many people don't spend too much time planning their financial life. Sure, most people try to save some money for holidays, a new car or a big ticket item that they've always wanted, but I'm talking about 'life planning'. In a previous *Cuffelinks* article ('The superannuation essentials'), I included a chart which illustrated how much longer and more complex our lives are compared to previous generations. Whereas our grandparents went to school, got a job, retired at 65 and on average only had six or seven years in retirement, we now look forward to college, gap years, later marriages and longer lives.

We are starting full-time work later, taking on much higher debts and facing the prospect of more than 20 years without employment income. We cannot afford to 'make things up as we go along'. We need a plan that addresses short, medium and long term goals, and we need to take action to address all those goals now, not later.

**Key steps in the process**

1. Define your goals
2. Work out the time frame for each goal
3. Develop strategies to achieve them
4. Assess what risks you are prepared (or need) to take
5. Plan for unexpected events
6. Obtain professional advice

### 1. Define your goals

Many people start off with great intentions, but somehow never seem to get around to actually making things happen. It's a certainty that unless you have the discipline to sit down and put together some numbers, you are unlikely to make any headway.

Setting clear goals with achievable targets is the first step in the planning process. Try not to be vague. Spell things out. For example, 'I want to retire at 60 with an after-tax income of $60,000 which will last at least 25 years.' Or, 'I want to accumulate $200,000 for a mortgage deposit in three years time.'

### 2. Work out the time frame for each goal

Most goals can be split into short term (18 months or less), medium term (three to five years) and long term (over five years). Firstly, it is likely that you will have a number of goals which need to be achieved over the course of your life. Secondly, at any one time some of these goals will have a higher priority.

### 3. Develop strategies to achieve your goals

Your objectives and time frame will often dictate what strategies and asset classes may be appropriate. Some accepted 'rules' are:

- for short term goals it's safer to invest your money in more conservative asset classes, such as cash and fixed interest
- for long term goals, it is imperative that your investments beat tax and inflation otherwise you are going backwards in real terms. Consequently, including growth-orientated asset classes such as shares and property in your investment strategy is almost imperative. Cash and fixed interest will simply not yield sufficient returns over long periods
- for medium term goals, such as saving for a home loan deposit, it is difficult to construct an investment strategy. If you are too conservative, you may not create sufficient money, but if you are too aggressive you run the risk that your investments are in a 'down period' when you need to cash them out.

It is highly likely that when you have written down all your objectives and matched them with your savings capability there will be a gap. In these situations, you need to prioritise by deciding whether you can afford to set aside some goals for a while. You may need to get some advice about this because you may be able to achieve more than you think by re-structuring some of your income and expenses.

### 4. Assess what risks you are prepared (or need) to take

One of the key influences on your investment strategy, and which products you select, is your 'risk profile'. Your risk profile will depend on a number of factors including your:

- stage of life
- performance expectations
- time frame
- familiarity with investment markets
- ability to deal with fluctuations in the value of your investments
- purpose for investing.

Most risk profile questionnaires are inadequate in this regard because they only cover your natural risk/return tendency. As I have previously mentioned, you need to consider whether some long term goals (super is the best example) deserve a higher risk profile than you would ordinarily feel comfortable with for the simple reason that you will run out of money if you are too conservative.

**5. Plan for unexpected events**

Death and disability are the most serious risks, but there are others you need to think about. For example, your investments deliver less than you expected, you get made redundant, or your children need extra tuition. All these possibilities need to be factored in and allowed for.

Once you have formulated your objectives and strategies, it's very likely that some sort of budgeting will be necessary to ensure you have the means to make them achievable. A previous *Cuffelinks* article ('The insurance essentials') may help you assess which risks are more important to cover.

**6. Obtain professional advice**

Financial planning is complex. There are many issues to think about, and if you're working eight hours a day it's unlikely you have the time, expertise or inclination to do all this yourself. It is important that you tap into other people's expertise.

Most people equate financial advice with investment advice, but this is short-changing many advisers who focus on 'strategy' and 'life planning'. An experienced financial adviser will have wide- ranging knowledge and useful information that can help you with many other financial decisions. They may not be expert in tax efficiency, estate planning and housing loans for example, but they know what to look for and where to get help. It may help to view them as a 'financial' GP whose ability to spot an opportunity could literally save your financial life. Or at least a severe illness.

## Putting the 'self' into self managed super

## Andrew Bloore

I am often asked, "Where should my SMSF invest?", and the answer is always the same … it depends on what you want it to do. An SMSF can hold any allowable (ie non personal use) asset in any currency anywhere in the world, giving significant investment flexibility to your fund.

I encourage people to focus on the investment strategy, and recent changes to the law require regular reviews of an SMSF's investment strategy. Another common question is, "Should I just set my strategy really wide so I don't have to worry about it?", and my answer is always NO. Investment strategies are not compliance documents, and 0 – 100% in every asset class is not an investment strategy, it's a waste of time. It's important to know when your fund is not performing the way you want it to, and a good investment strategy will assist you. You set the mandate and if you're outside that range, you should know about it. Then you can decide if you have to change your strategy or if you need to change your investments. Make your fund work for you by setting a meaningful strategy and then monitor it.

The Superannuation Industry (Supervision) Act is very helpful. It might not be the most exciting read but the Act helps you through the decisions. For example, it has the 'sole purpose section', Section 62, which is a broad direction to start you thinking about the purpose of your super.

The Act says that super is for:

- your retirement
- you before retirement if you are no longer able to work
- your family if you die.

So consider where to invest with these points in mind. First, your retirement. Work out when you want to retire and what that means to you. Then you can work backwards to determine what you need to do today to achieve it. Next, super is there if you are no longer able to work, so what if that happens tomorrow? If you don't have enough assets in the fund, insurance will help. Another of the recent changes to super is a requirement to determine if you (or any member) need insurance. Finally, in the event of your death, where do you want your assets to go? Your family. The Act is designed with your best interests in mind.

This leads to three basic questions before working out what to invest in. What do you need? When do you need it? Who do you want it to go to on your death? The outcome of this clarity of goals leads to your investment strategy and your estate planning.

I often see wills that force all the assets out of the fund into a testamentary trust and then pay them to family members from there. This can be really tax and financially detrimental. Why take something out of a nil tax entity and put it in the hands of a marginal tax payer unless you have no other choice? Show me in your will where it says you want the Tax Office to be a beneficiary under your estate. A little planning goes a long way here.

When you have set your goals, strategy and estate plan, you need to decide exactly what to invest in. This requires a combination of professional advice and making up your own mind. An investment adviser should get to know you and the level of risk you are comfortable with. This is not static and is different for each person. What I think is low risk you might think is very risky. The key is finding a comfort level. If you lie awake at night worrying about your investments then they are too risky for you. Good advisers will help you through this.

There are traps along the way as there are so many things that an SMSF can do. You can get carried away by trying to double your assets overnight but in the real world that is like betting on red or black at the casino. Not a smart way of strategically achieving the goals you set for yourself. Your fund can borrow and this may be a good way to build your retirement assets, but you are adding to the risk. The implications of getting it wrong are significant and you must follow the rules exactly.

Everyone is different so you need to make it your fund and design it just for yourself and your dependents. That's the importance of self in self managed super, since it's about you and your family's future. Get to know your fund a lot more intimately.

*Andrew Bloore is Chief Executive Officer of SuperIQ, a leading provider of administrative services for SMSFs.*