Firstlinks
By Cuffelinks

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Where did SMSFs come from, and where are they going?

PJ Keating

When we laid the foundations for the current superannuation system in the 1991 Budget, I never expected Self Managed Super Funds (SMSFs) to become the largest segment of super. They were almost an afterthought added to the legislation as a replacement for defined benefit schemes.

This is the second article which draws on my talk to ASFA in November 2012, and it examines why SMSFs have become so popular.

In 1992, my Government introduced the Superannuation Guarantee Charge (SGC), with major extensions in coverage for working Australians who previously had no easy access to super. It came from the sea change in the economy and society produced by the co-operative political model adopted in 1983, with a productivity basis for improvements in living standards, and superannuation as a form of distribution of those improved living standards. The co-operative model induced and produced a massive increment to real wealth.

Employer contributions to superannuation rose from 4% of salaries in 1992-93 to 9% by 2002-2003. I wanted to reduce the future reliance on the age pension, and over time, give ordinary people a better retirement. Back in the 1980s, only wealthy people were in the stock market, but I felt mums and dads should be able to share in the bounty of the wealth of the nation. Owning a home was fine but they needed more. And through superannuation funds, everyone is now in it, and it's been good for both investors and the nation. We have created a $1.5 trillion pool of capital, and many super members have accumulated significant balances which they want to manage themselves.

It was not generally so initially. In 1992, employers mainly made the decision about which fund an employee's super contributions would be invested in, usually a so-called default fund. This approach was intended to keep the system simple, affordable and understandable. Each year, the employee would see the contributions and the gradually-building balance, without the employee having to take any action. It also kept the accumulations out of the hands of government bureaucracy.

The wealth would address the growing economic problem of an ageing workforce, and realign the mix between capital and labour through labour contribution to real capital growth. Very few countries have developed an adequate retirement income system with no 'false promise' in such a universal way, leaving the age pension – an income and asset tested pension – as an anti-destitution payment, which ceases when the recipient dies.

So the SGC was not introduced as a welfare measure to supplement the incomes of the low paid. It was principally designed for Middle Australia, those earning $65,000 to $130,000 a year, or one to two times average weekly ordinary time earnings (AWOTE). This is not to say that those on 50% or 75% of AWOTE should not benefit equitably from the superannuation provisions. They should. But for Middle Australia, the SGC and salary sacrifice was and is the way forward.

At an SGC of 12% and tax arrangements as now, someone on one to two times AWOTE plus adequate salary sacrifice limits should be able to secure a replacement rate in retirement income of around 70% over a 35 year working life.

That was the basic design, and achieving those targets did not require a lot of risk-taking in the investments. If compound annual returns reflected nominal GDP plus say 1%, the system would be doing well. Indeed, the Treasury forecast of system assets growing from $1.4 trillion today to $8.6 trillion in 2040 represents a compound annual growth rate of around 6.7%.

I mention this to provide context commentary on the rapid growth of SMSFs. As a general statement, I believe people's expectations as to rates of fund returns are too high. The Australian superannuation system is both large in world terms and large in absolute terms. Not only is it forecast to grow to $8.6 trillion by 2040, but currently, the system stands at over 100% of GDP and will mature nearer to 200% of GDP. It is simply too large in aggregate to consistently return high single or double digit returns.

I am certain expectations as to returns and the search for yield have done two things:

- managers have adopted a higher risk profile in portfolios, and
- lower returns than expected have soured expectations, encouraging more people to take the initiative and manage their own assets, including taking on the trustee role when setting up an SMSF.

Returns on APRA-regulated funds averaged 3.8% over the 10 years to 2011, notwithstanding volatility from the unprecedented growth in equities and investment markets between 2002 and 2008, juxtaposed against the impact of the GFC. Over the same period the average cash rate was 5.2% and the average GDP growth 3.1%.

These results indicate that significant risk was taken by superannuation managers to secure returns in line with the relatively risk-free government cash rate. Importantly, these risks were taken on by managers who had limited direct exposure to losses – losses ultimately borne by superannuation beneficiaries. However, if the funds did return a significant amount, those same fund managers are often entitled to performance fees! And these fees are generally calibrated to annual returns rather than long term returns required to fund a retirement income.

I believe returns expectations are inflated and those expectations lead to incentives to drive higher fees for managers, but at much higher risks, as was the case between 2002 and 2011. We only have to look at asset allocations. At December 2011, total Australian super assets were weighted:

- 50% to equities
- 18% to fixed income
- 24% to cash and term deposits
- and the rest across other asset classes including property.

By contrast, the average weighting of OECD country pension assets was:

- 18% to equities
- 55% to fixed income
- 11% to cash and term deposits
- and the rest to other asset classes including property.

So, Australia is 2.5 times more heavily weighted into equities and relatively underweight in other asset classes. We are disproportionately weighted into the most volatile and unstable asset class.

The question is – how does this weighting work to deliver the key objective of the system? 60% of total superannuation assets are held by investors over the age of 50. A large proportion of these assets should be moving towards less risky, more stable asset classes, protecting capital ahead of the retirement phase. When we reach the point where outflows are increasingly matching inflows, the weighting to equities needs to be rectified. As the system matures, a real capital adequacy risk may start to develop, which will need to be seriously monitored by the government.

SMSFs currently represent almost 32% of system assets, a pool of $475 billion, and growing strongly. As I said earlier, generally this group has unrealistic expectations as to how much is a good return. Single digit returns sour their enthusiasm for managed funds. They think they can do better themselves. Some sophisticated investors probably can, but how many self managers have the required level of investment expertise? And by investment expertise, I do not mean falling prey to financial advisers. Notwithstanding the costs of setting up a SMSF, you need something like $600,000 of assets to make the decision to self manage a better relative fee proposition to management by larger managed funds.

But the main issue gets back to investment skills. How many SMSF investors are competent in matters of asset allocation and general investment savvy? This becomes a real problem for the SMSF system and its deliverability as it occupies an increasingly higher proportion of overall system assets.

For systemic prudential reasons, investment in stable asset classes, such as government bonds or higher rated corporate bonds, could be desirable for SMSFs. That is, perhaps some form of minimum investment will be required which is mandated to mitigate downside risks. As the system reaches the tipping point, where inflows are increasingly being matched by outflows, it will need to be monitored for capital adequacy risk.

Next week, the third article by Paul Keating examines tax and imputation.

Spending guidelines for retirees and endowments

Justin Wood

Most Australians become reasonably comfortable matching annual spending to annual income with some provision for saving throughout their working life. On retirement they face a very different and frightening problem; how to determine spending each year from a pool of savings that must last 20-30 years? The same issue faces endowment funds and charities.

Investment income is typically far more volatile than wage income and the market value of investments can fluctuate substantially. For example, in 2009 many retirees through a combination of spending and falling market prices ended the year with around 20% less savings than at the start of the year. Some decided to cut their spending significantly, while others kept spending at a similar rate in the hope that market values would recover.

One solution is to pass this risk onto someone else through the purchase of an annuity. A life annuity, a defined benefit pension and the taxpayer-funded age pension all offer retirees the opportunity to continue spending from a reasonably stable annual income. However, most retirees currently drawdown their super as an allocated pension or withdraw their super as a lump sum to manage their retirement spending privately in conjunction with the age pension. This article discusses a spending rule that might help those retirees who pursue these options.

Annual spending over the long-term

Not-for-profit entities with endowment savings face a similar problem. How should they determine annual spending over a long horizon when investment income and the market value of assets fluctuate substantially from year-to-year. The Yale University Endowment Fund has developed a spending policy that is a useful model for local endowment funds and also may be useful for retirees.

Under the Yale policy, the <u>target</u> long-term spending rate is 5.25% of the Endowment Fund's market value each year. So if the Fund is worth $20 billion, the annual target spend is just over $1 billion. However, in any given year, Endowment spending is determined by:

- 80% of the previous year's spending, plus
- 20% of the 5.25% long-term spending rate applied to the market value of the Endowment two years prior
- The calculated amount is then adjusted for inflation over the prior year
- A constraint is imposed of at least 4.5% and no more than 6.0% of the market value of the Endowment two years prior.

This combines some spending stability with some responsiveness to changing market conditions.

To quote directly from Yale:

> *"The Endowment spending policy, which allocates Endowment earnings to operations, balances the competing objectives of providing a stable flow of income to the Operating Budget and protecting the real value of the Endowment over time. The spending policy manages the trade-off between these two objectives by using a long-term target spending rate combined with a smoothing rule, which adjusts spending in any given year gradually in response to changes in Endowment market value." (Yale University Financial Report 2011).*

Some comments on the spending policy:

- The target long-term spending rate of 5.25 per cent reflects Yale's past 20-year real return from the fund (the return above inflation) and the fact that Yale University has an indefinite horizon. Retirees may want to deplete their capital over their expected lifetime, or they may want to leave capital as a legacy or retain a buffer for risk management reasons. Also, in the current investment climate, they may not have the same confidence that they can earn as high a long-run real return as Yale has done. These factors will change the target spending rate.
- The adjustment for inflation is designed to maintain the real value of spending and hence, for retirees, implies a similar standard of living in the absence of any adverse changes in the market value of savings.
- The weights of 80% applied to last year's spending and 20% applied to the value of the Endowment gives greater weight to spending stability over adjusting more quickly to financial conditions. Yale started with weights of 70% and 30% and a retiree could choose these weights or others to suit their own circumstances.

There is a big difference between the drawdown rate from a pension account and the retiree's actual spending in retirement. Retiree spending depends upon their total resources both within the superannuation system and those held privately. The drawdown rate from the pension account might be set using the ATO's minimum annual payments for super income streams. The spending policy might use the Yale model to identify spending guidelines.

Few retirees will spend just because a model indicates that this amount can be spent. In reality, the Yale policy is not so much a methodology for determining annual spending, but rather a warning flag when the unavoidable spending requirements of the day – food, survival, medicine etc. – force one beyond the guidelines into depleting one's capital faster than planned. It would be a signal to tighten one's belt.

Lessons for endowments, charities and governments

In Australia, the Benevolent Society Endowment uses a rule similar to Yale's in determining the annual distributions from their Endowment to support new Benevolent Society initiatives. The target real rate is the forecast long-term real rate that the Endowment expects to achieve, after investment management fees, and the weightings are 70/30. This provides a relatively stable annual cash flow to fund initiatives with the expectation of maintaining the real value of the Endowment for future generations. Real Endowment growth is achieved through attracting new capital donations, which will support real spending growth on initiatives.

The Yale model has useful elements for Australian entities with endowment funds, for Private Ancillary Funds (PAF) that are used by families, individuals or companies to establish grant-making foundations and also for self-funded retirees. A smoothed, constrained spending policy may even have some applications for governments balancing annual spending initiatives against a background of volatile tax revenues due to rapidly changing economic circumstances!

Justin Wood is a founding shareholder in Vinva Investment Management and member of the Benevolent Society Endowment Investment Advisory Committee.

We need to talk about risk

Chris Cuffe

After nearly 30 years in the investment management industry I can say without hesitation that the thing that irks me most is the use of the word 'risk' and what it actually is. In my view it is the most misused and 'glossed over' of all the plethora of investment jargon that exists.

The word 'risk' is a bit like the word 'love'. It has multiple meanings depending on who is using the word and in what context. You can *love* your dog; you can *love* your sister; you can *love* your child; you can *love* football; you can *love* your wife or husband. These uses of the word *love* all evoke different feelings and they each have a completely different connotation and context. And so it is with the word 'risk'.

One of the better definitions of risk I have seen comes from Elroy Dimson, Emeritus Professor of Finance at the London Business School:

"Risk means more things can happen than will happen."

In the superannuation investment industry people seem to talk about risk as though it means the same thing to all people. But it clearly does not. Risk is very different in the eyes of the client (the person with the superannuation account) versus the investment manager versus the regulator.

Let's look at each.

The person with the superannuation account

My 24-year-old son has a superannuation account with a major industry fund. When I talk to him about risk and what matters concerning his account his answer is straight forward:

- when he contributed to the fund he wanted to know the money arrived safely (aka no one ran off with it)
- whenever he receives a statement he wants to be confident the information shown is correct (aka there is integrity in the underlying data systems)
- when he wants to access his money in future years he knows it will be there (aka the institution is credible and reliable and not a 'fly by night')
- the money is being competently invested
- the fees are fair (aka he is not being ripped off)
- if provided, the insurance will kick in if a relevant event occurs to him.

I'd also add on his behalf, since he's unlikely to be focussing on this yet, will he have accumulated enough money at the end of his working life to live on?

In any case, there's not much here on the standard industry definition of risk, the volatility of returns.

The investment manager

When managing a fund that many others are invested in (that is, a managed investments scheme) the investment manager is trying to invest in one way to suit the needs of many. However, he or she does not know the attributes, attitudes, timeframes and needs of the 'many' and so by necessity must manage the investments with one eye shut.

The investment manager thinks of risk in terms of the following:

- volatility of the value of an individual asset
- volatility of the valuation of an asset sector (usually based on history)
- concentration risk (having too few securities in a portfolio)
- differentiation from competitors
- differentiation from the benchmark being used to measure the performance of the fund.

And most investment managers measure the above things over quite short time periods, often less than a year, and indeed are usually remunerated based on 'success' over one year periods.

The regulator

And then of course we have the regulator. Whilst I am sure the regulator thinks of risk very widely, it seems to me they want trustees to adhere to some of life's basic rules:

- be honest and fair
- take your role seriously, both in the way you act and your knowledge and skill
- try your hardest
- if you make a mistake say sorry and rectify it
- don't receive a personal benefit at the expense of your clients.

I have a short and simple book called *Life's Little Instruction Book,* by H. Jackson Brown, which records personal observations from a father to his son to help him in his life. I sometimes wish our law-makers would use it and save paper!

So where are we going wrong on risk?

With these multiple facets to the word 'risk', where does this leave us?

I believe there is a high misallocation of resources, energy and intellect across the superannuation industry (and investment industry more broadly) to address risk. The media use the word risk in quite a sensationalist manner, often without proper definition and logical timeframe for measurement. And I believe regulators have a thirst to micro manage risk and even attempt to eliminate risk, as though this unquestionably gives a better outcome, and without proper regard to the cost and benefit of what they are seeking to achieve.

And most talk about risk in investment circles in a one dimensional manner, being the volatility of the value of an asset, when this is often meaningless without appropriate context.

Analysts report as though risk can be measured or adjusted with pin point accuracy, using phrases such as 'too much risk' and 'risk-on, risk-off plays', when this is simply not the case.

The wisdom of Howard Marks on risk

The best overall summary I have read on risk is contained in Chapter 5 of Howard Marks' *The Most Important Thing, Uncommon Sense for the Thoughtful Investor*. Although many investors in Australia may not know of Marks, he is well known in the US investment industry and in my opinion he is up there in wisdom with Warren Buffet. Buffet himself said of this book, "This is that rarity, a useful book."

Marks makes the point that according to the academicians (his word, not mine!) who developed capital markets theory, risk equals volatility, because volatility indicates the unreliability of an investment. Marks takes great issue with this definition of risk, as he doesn't think volatility is the risk most investors care about. I agree. Like Marks, I think the possibility of permanent capital loss from owning an asset is at the heart of what investment risk is truly about, followed by the possibility of an unacceptably low return from holding a particular asset.

Marks believes much of risk is subjective, hidden and unquantifiable and is largely a matter of opinion. He makes the point that investment risk is largely invisible before the fact – except perhaps to people with unusual insight – and even after an investment has been exited. And in the following words he points out a profound paradox:

"Return alone – and especially return over short periods of time – says very little about the quality of investment decisions. Return has to be evaluated relative to the amount of risk taken to achieve it. And yet, risk cannot be measured. Certainly it cannot be gauged on the basis of what 'everybody' says at a moment in time. Risk can be judged only by sophisticated, experienced, second-level thinkers."

Marks makes the obvious observation that in dealing with risk there are three steps: understanding it, recognising when it is high, and controlling it. I believe we have a long way to go in understanding risk, particularly which risks matter the most, which surely must be those that impact the end investor the most (like my 24-year-old son). And I believe we must all have a far better framework of thinking to decide which risks we should allocate time, cost and resources to minimise or eliminate, versus those risks we should simply accept.

What does a better risk framework need?

What do we need in this risk framework? Risk is primarily about losing money and not meeting a realistic financial goal that you set out to achieve. Volatility or standard deviation of returns is at best a side issue. It's convenient because statistical calculations allow a number to be put on risk, but it's not really what matters.

Short termism has created an obsession with volatility. It would be preferable to prohibit the publication on performance numbers with less than 12 months of data.

I believe the really important things for investors are as follows, and if these matter for the clients, then they should also be the focus for trustees and regulators:

- prevention of fraud, such as the use of an independent custodian
- credibility and reliability of the institution investing the money
- experience, competence and integrity of the people doing the investing
- understanding by clients of investment markets and alternative choices (ie education)
- diversification of investments and avoidance of asset concentration

The regulator should focus on making the system honest and fair, and ensure both its own staff and those in the industry have appropriate skills to meet their obligations.

We can employ the best market experts, compliance officers by the dozen, regulators from every government department imaginable, and have committee signoffs, board approvals and obey every regulation in the land. And then something like the GFC can hit a portfolio, or there can be an environmental disaster, or an act of terrorism, and the best risk management in the world will not prevent a loss of capital. Spread sheets and management reports create an over confidence that we can recognise and understand risks in advance.

As Howard Marks says, and I wholeheartedly agree, the possibility of a permanent capital loss from owning an asset is at the heart of what investment risk is truly about. And ultimately, there's not much that can be done to wholly prevent these risks.

The 20 Commandments of Wealth for Retirees

Noel Whittaker

1. Ignore the prophets of doom – they are always with us and usually wrong.

2. Make sure your children have adequate insurance. It's much more affordable than your funding their misfortune.

3. Understand compounding, and appreciate that the rate of return your portfolio can achieve will be a major factor in how long your money will last.

4. Understand the basics that never change, and take advice on the things that do.

5. Take advice before the deed is done – not afterwards. It's hard to rewrite history.

6. Always judge an investment on its merits – any tax benefits should be regarded as the cream on the cake.

7. If a person contacts you by phone with an offer of an investment, or even to help you pay your mortgage back faster, hang up.

8. Don't have all your eggs in the one basket – diversify across the major asset classes and certainly have some international exposure.

9. Involve your partner, if you have one, in all your financial decisions. This will make it easier if one of you passes away or becomes incapacitated.

10. Don't panic when the share market has a bad day – volatility is the price you pay for the unique benefits of shares.

11. Make sure your wills are up-to-date and include a testamentary trust if that is appropriate.

12. Give Enduring Powers of Attorney and an Advance Health Directive to trusted people. And make sure they have copies and can locate the originals when needed.

13. One of the most expensive evenings you can go to is a “free” investment seminar.

14. Be extremely wary of going guarantor for any of your children – especially if they are in business.

15. Don't spend unnecessarily just to maximise your Centrelink benefits. Further cuts to benefits are possible.

16. Investigate if you should have a Binding Death Nomination in your super fund. Keep in mind that what is appropriate in one situation may not be appropriate in another.

17. Each year assess whether it is to your benefit to stay in super. In some cases you may be better off to withdraw the balance and invest outside the superannuation environment.

18. Don't follow the herd and back last year's winner – that's a recipe for disaster.

19. If you decide to take on a reverse mortgage involve family members in the process and have them pay the interest if possible. This will stop the debt increasing.

20. Finally – keep in mind that your potential worst enemies can be the media who focus on the negative, and well-meaning acquaintances who may give you information that may be half right.

Noel Whittaker is one of Australia's foremost authorities on personal finance and a best-selling author of many books including Making Money Made Simple. See www.noelwhittaker.com.au. A colour PDF version of this article is on his website.

The story of your life viewed through your SMSF

Jo Heighway

One of the most underestimated attractions of having your own SMSF is the power of a good story.

I love stories – whether it be reading a good book, sharing ideas with friends, or listening to a great story told by a successful entrepreneur, adventurer, close friend, or even a stranger. Stories are the best way to capture someone's attention, make them think, influence their mood, and maybe even make decisions that change their life.

One of the things I love about SMSFs is how passionate people are when telling their SMSF story. How they got one, why they did it, what they've invested in, what they love about it, what they hate about it, and what they wish they did differently.

Even when I think about the most memorable presentations I've seen from SMSF experts, what audiences love most is the stories about real people - the good, the bad, and the ugly of running your own fund.

Understanding that SMSFs deliver the power of a good story better than any other super fund structure can really change your perspective, whether you are:

- a trustee of your own SMSF, or thinking of establishing one
- in the business of competing with SMSFs in the superannuation industry
- an SMSF advisor looking to grow your SMSF business, or
- an auditor of SMSFs.

SMSFs made it cool to be interested in super

The popularity of SMSFs has grown so widespread some are calling this the 'golden age of the SMSF'. But how did that happen?

The answer is really simple – word of mouth!

Like many disruptive innovations, SMSFs delivered their members new stories worth sharing with friends at a BBQ. Just like many of the 'cool' start-ups today, their popularity didn't grow through large companies with massive advertising budgets urging viewers to 'compare the pair'. More often than not, the first time most people hear about SMSFs is from their friends. For Facebook users, it's the equivalent of 'like' and 'share'.

My life viewed through my SMSF

The journey of my SMSF has almost become like a biography of my life so far. Many of the major events in my life are mirrored in my SMSF in some way, and create stories in themselves.

I started my own SMSF when I was in my 20s. One of my first investments was to buy units in my employer's property trust when they were expanding, which I later realised was just their way of trying to tie me in without offering me s partnership (it didn't work!).

I learnt another valuable lesson when I got divorced. It turned out trying to save a few bucks by choosing individual trustees was a mistake, and I had to bite the bullet and buy a trustee company. It cost a fortune to change all my investments, but it was worth it so I never had to go through that again!

I'll never forget the first time I decided that I would contribute right up to my maximum contribution cap. I was young, self-employed and had a mortgage, yet I did it anyway SOLELY because I felt better knowing I held the fund's cheque book. Now it's one of my annual financial goals.

When I sold my share portfolio before the GFC, I gloated about the losses I'd avoided. And I was super proud to buy my first office premises and lease it back to my business, which I never could have done without my SMSF. I also invested in a software company I was passionate about.

Then there's the times I've helped my parents (members of my SMSF) use transition to retirement strategies to save tax and get cash when they need it, for a once-in-a-lifetime European holiday, or to fix their roof that blew away in a cyclone.

I tell how an industry fund stuffed my husband around for over six months when he joined our SMSF, giving every excuse not to pay his rollover. And I talk up how easy running my SMSF is now I have a great broker. I don't have time to research and trade with four children and a busy career, so I found someone I trust.

My SMSF reflects the story of my life, and that's not unusual. Marriage, divorce, business success and failure, ageing, death, good fortune, luck and loss – who said super is boring?!

Thinking differently to compete with SMSFs

If I were looking for a way to compete against the SMSF industry, I wouldn't bother with the traditional arguments. Focusing on fee comparisons, administration burden, historical investment performance, or how much you need to start your own fund comes across as defensive and, to be honest, makes for a pretty ho-hum story.

What if, instead, the focus was on creating unique experiences for super fund members that made them excited to become a member, stay and tell their friends? I'm talking about the type of innovation in customer service that could actually turn super fund members into raving fans.

If the only experience members of a super fund have is receiving an envelope in the mail every six months with a super fund logo printed on the front, which they throw in the bin without opening, then it's fair to say they won't be sharing stories of your fund any time soon with their friends at a BBQ!

Using stories to grow an SMSF business

I'm not suggesting that an SMSF is for everyone, and there are most definitely many important factors that need to be considered. But if someone is looking to grow an SMSF business, it pays to think about giving clients the experience they crave.

Does your service, your technology, your support and ongoing engagement with your client provide them with the opportunity to 'like and share' their story with their friends?

Most importantly, are you focusing your expertise on ensuring their SMSF story is a good one, and that your clients can access the right support at the times in their life when they really need it?

Auditors need to be able to 'see the story' behind the numbers

The key to being a good auditor is to always understand the big picture. When I plan an SMSF audit I recognise that SMSFs are run by real people, with real lives, making real decisions. Rather than seeing my audit as a 'tick and flick' exercise, I read the financial reports like they're telling me a story.

What story do the numbers tell me, and what do I know about the fund that will point me towards the risks most likely to need my attention this year? It makes my work much more interesting but also means I don't waste anyone's time trying a one-size-fits-all approach. I zero in on the real risks and eliminate what doesn't apply.

Jo Heighway is a Partner, SMSF Assurance & Advisory, at [Deloitte Touche Tohmatsu](). Cuffelinks does not favour one superannuation type over another and welcomes other opinions on the merits of alternative fund structures.

Lessons from my Dad, in and out of aged care

Alex Denham

It's been a difficult year for my 82-year-old widowed Dad. He had a strong heart, perfect blood pressure, complete mental capacity but a troublesome skeletal frame. In February this year, he collapsed out of bed and was unable to walk, even a little bit. He'd been wobbly for a while, then on a frame, then finally his legs just couldn't support him anymore.

The surgeon gave the prognosis: endure two *major* neck and back surgeries, followed by a year of hard work and physio, or end up in a wheelchair in a nursing home. Not much of a choice. He chose the surgeries, and a long and horrific few months followed.

By June it was clear that the hospital and rehab environment was not doing him good. He was despondent and his progress plateaued. Although still in a wheelchair, it was time to find alternative accommodation where he could be looked after and continue with the rehabilitation.

My sisters and I weren't in a position to take him in, nor did he want to live with us. He wanted to stay in Sydney near his friends and support network. An aged care facility (read: nursing home) was the only option available (we thought). Fortunately, he had the means to take his pick.

We found one that we thought would be ideal: Sydney harbour views, award-winning dining, luxury and style. Dad would love the company of others and a bit of nurturing that he hadn't had since Mum died a couple of years ago. They even have an in-house physio programme.

We did the negotiations, he was discharged from the hospital and he moved in. No doubt, it was a better environment for him than the rehab hospital, but for poor Dad, it was not a positive step. They *did* look after him well, I emphasise that, but a nursing home is a nursing home, no matter how fancy it is. It is not filled with 65-year-olds discussing world issues. He felt he was the youngest there by years, and found no one on his intellectual level. He was lonely, sad and frustrated.

That, and the monthly bills, were enough to light a fire in his belly to work hard on his physio to get out of there. Eventually he moved from the wheelchair to a walking frame, and now after a 119 day stay, he's headed home.

I've worked as a technical specialist and adviser in aged care matters for many years, and have written countless articles on the fees, charges, effect on age pension, and strategies. However, I now have a further - much more personal - insight into this process to share.

Lessons learnt from personal experiences

1. No matter how pleasant the facilities, or how many awards it has won, it's still a nursing home. In many (but not all) cases, the residents are there out of need, not desire. The food is never going to be as good as home-cooked. They are running a business and working within budgetary restraints. Scotch fillet made to order and fresh fruit are a thing of the past unless the resident goes out for it, or a family member brings it in.

2. Speaking of meals, dinner is at 5:30, then it's back to the room by 6:30. Makes for a long, boring night for a person who has full mental capacity and wants someone to chat to. In summer daylight savings, they are having dinner at what is close to afternoon tea time.

3. Read everything in the Resident Agreement, read it closely and understand it. If you don't understand it, get someone to read it who does. I do understand most of these things better than the average person, and was still taken by surprise by some of the charges that popped up on the monthly statement.

4. Residential aged care can be breathtakingly expensive, and every little extra thing is charged. It's that feeling when you've spent a week at an expensive resort, charging everything to your room, then it's time to

look at the bill. Only it goes on, month after month. The temptation is not to look at the statements, but please do. We found Dad had been overcharged a whopping 25 days due to an error in accounts.

5. Even for a high means person, it is worth completing the awful Combined Assets and Income Assessment form (SA457) from the Department of Human Services. We didn't for Dad, but in hindsight I wish we did, as I think we'd have had a clearer picture of where he stood.

6. The Means Tested Care fee is based on the actual daily cost of care as determined by the Government based on the ACAT assessment. However, it is subject to an annual cap of $26,566.54 or $72.78 per day. As Dad was assessed for a high level of care, the facility charged this daily capped amount on the assumption that he would be staying for the full year. However, when he gave notice that he was leaving 119 days later, we got a nice little surprise … his actual daily cost of care was $214. His Means Tested Care fee was back-dated to the day of entry, and he was hit with an extra $12,600, which kept him just below the $26,566 for the 3½ month stay. My training and experience failed to see that one coming, even though I probably should have. It's a trap for when a person exits the Residential Aged Care system.

7. Dad's mobility has improved, but still has a way to go. The reason he can go home is because there are some excellent home care service providers that provide home help, personal care, companionship, transport, and specialist care (24-hour, dementia, palliative or respite). They can also manage the overall care and tap into nursing services, specialist doctors, GPs, equipment suppliers etc. If you live in an area where these services exist, it is possible to stay at home and miss the whole residential aged care step altogether. BUT, and it's a big BUT, if you need to rely on a 'Home Care Package' to help fund it, there's a long wait. Following the ACAT assessment, you're put on the waiting list. No one really knows (or reveals) how long the waiting list is but it's months if not a year or two. Dad will have to pay for his home care services privately until the package comes through (which is also subject to a means test). You can get more information about home care here.

Summary

I've learnt that although aged care in Australia has vastly improved over the last few years, it's still not a happy time for some. It's expensive, impersonal and can be downright depressing, although to be fair there are many positive stories as well. Many years ago, my Grandpa - deep in dementia - loved it. He got his three square meals a day and familiar faces caring for him.

I think my Dad has learnt that he wants to be at home, he wants his independence, and he wants to stay connected with the world. Before all this, and since Mum died, he was feeling lonely and isolated at home, but this time around he will revel in being back in his own space. He's already in touch with friends and filling up his diary with social outings. More power to him.

This experience was a revelation to me as a long-term adviser in the aged care field. Even a person in a comfortable financial position who has the means to enter a facility with many extra services over and above the government-subsidised standards faces unexpected and disappointing experiences. In future when discussing aged care matters with my clients, I will urge them to investigate home care options as well as residential ones. It's horses for courses, and it's heartening to know that there are increasing options available for our ageing population.

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