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Age is not the perfect gauge in DIY super

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The dramatic rise of self-managed super funds brings into focus our capacity to make complex decisions as we age.

Superannuation is underpinned by significant tax advantages. Should there be more monitoring of SMSF trustees to ensure they remain competent to make decisions which ultimately relate to community subsidies? A comparable issue is capacity to drive a car. Over a certain age, we rely on a combination of medical judgment and simple tests to inform decisions about whether we should be allowed behind the wheel. It would be difficult to take the same approach to someone managing a SMSF. So should we simply use age as a basis for deciding that anyone over 80 (say) should not remain an SMSF trustee?

More than ever, age is an imperfect yardstick. Our capabilities vary widely as we age. So it was interesting to see the Australian Law Reform Commission reviewing age barriers for older people seeking to remain in productive work. Submissions pointed out the unreliability of age as a metric and suggested there are better ways of assessing personal capabilities.

When individual superannuation accounts are in managed funds there was some formal protection against inappropriate management. In SMSF there is potentially more capability risk.

Situations where SMSF trustees may become dysfunctional will grow significantly as community longevity increases. What can be done? Fortunately, work to throw some light on this is already under way at the University of NSW.

Dr Joanne Earl initiated a study which explores the relationship over time between financial literacy, financial decision-making and cognitive functioning. Questions needing answers include:

■ What happens to financial literacy over time?

■ What is the relationship of financial literacy to other cognitive skills? For example, if you start to forget things, does it affect your financial decision-making or is there a "wisdom well" of financial knowledge?

■ What happens if you think there's a decline in your cognitive skills - but there isn't really? Does it affect your confidence?Do you avoid making decisions?

For many individuals, having a SMSF reflects a need for control and autonomy. Effective self-management requires a reasonable level of financial literacy.

Studies such as Dr Earl's are a vital step to understanding the impact of potential cognitive decline on what is - because of the superannuation subsidy - a substantial community asset. More SMSF owners (ideally over the age of 50) are needed to contribute to this important study and can email finlitstudy@unsw.edu.au for more information. By contributing they will also find out more about themselves as a payback

Whether SMSF are on a slippery slope or not depends on how well we can inform ourselves about this specific longevity issue.

By understanding what is going on, we will be in better shape to devise personal solutions and perhaps not have to put up with the imposition of one-size-fits-all legislation.

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