Financial **Focus**

Summer 2019

Welcome to the Summer 2019 edition of Financial Focus. In this edition we consider the effects of historically low interest rates on investment assets and when is the right time to start planning for your retirement. If you have any feedback, questions, or would like to review your financial plan, please feel free to contact me.

Getting the right investment balance in retirement

Interest rates in Australia have reached historic lows, with the Reserve Bank of Australia lowering the cash rate to an unprecedented low of one per cent in July this year.

This has flow-on effects to assets that are traditionally considered safe, such as term deposits, which pre-retirees and retirees have traditionally used to generate income.

While in past years older Australians were able to earn a return of up to seven per cent from defensive assets such as term deposits, that's now near impossible. As a result, many are searching for assets that can produce sufficient income to support them after they leave work in addition to relying on their superannuation to fund their lifestyle.

"Investing in term deposits may be a safe way to preserve your retirement savings. But in the current climate they won't help you to grow your capital. Term deposits currently earn interest rates of about 1.8 per cent. It can be very difficult for retirees to sustain their lifestyle if all their funds are invested in defensive assets like term deposits," says John Owen, a portfolio specialist with MLC.

Benefits of investing in Australian company shares

At the moment, according to Owen, investors generate a better return investing in the shares of Australian companies than term deposits. These assets pay a healthy dividend yield, and also offer franking credits, which term deposits do not.

"Investment-grade or government bonds are also defensive assets that can be considered as safe investments. But again, yields are very low," he explains.

Investing in governments bonds

Australian government bonds with a 10-year maturity are generating yields of about 0.95 per cent at the moment, while US government bonds with the same maturity profile are generating a return of about 1.56 per cent.

Says Owen: "These assets are typically safe if you hold them to maturity. But the running yield at the moment is low, just like term deposits."

Ensure your investment strategy is appropriate for your stage of life

In this environment, diversified managed funds may offer investors the opportunity to generate capital growth and also income. But, says Owen, it's important to seek advice to ensure your investment strategy is appropriate for your stage of life and aspirations in retirement.

"There are many ways to structure investments so they produce income and also ensure the funds will last as long as possible," he says.

This is important given life expectancy is rising. According to the Australian Institute of Health and Welfare, a boy born between 2015 and 2017 can expect to live to 80.5 years and a girl could be expected to live to 84.6 years. In contrast, those born between 1881 and 1890 would have lived some 30 years less.

"People are leading longer, healthier lives. So, our money has to last a lot longer than in the past," says Owen.

Investing in growth assets after 55

This is another reason why it can make sense to invest in growth assets, even as we age. Growth assets such as shares typically generate a higher return over time compared to defensive assets such as term deposits and bonds. Nevertheless, the allocation to growth assets typically reduces as we age, to reduce risk.

Most Australians in the workforce typically have their superannuation invested in what is called a 'default' super fund chosen by their employer. "The default investment strategy for people who are aged 55 and under is usually a growth strategy. This means up to 80-90 per cent of the assets in the portfolio are invested in higher risk growth assets like shares and property and only 15 per cent are invested in assets with more defensive characteristics."

"The reason why that's appropriate is because they have time on their side. Younger investors can ride out the peaks and troughs in the market cycle because they've got a long time before they will access their superannuation. So, a higher risk strategy is probably appropriate for those sorts of investors," he explains.

It's usual to reduce investment risk for members in the default portfolio who are older than 55 and approaching retirement. Their default super fund may allocate more of their funds to lower risk assets.

"By the time they reach retirement age of 65, with progressive de-risking, they may end up with a portfolio that has around 70 per cent allocation to growth assets and a 30 per cent allocation to defensive assets. Having a lower exposure to growth assets at that stage of life is appropriate because they are more vulnerable to market corrections the closer they get to retirement," says Owen.

Managed funds have different approaches to risk

It's important to recognise, however, different managed funds have different approaches to risk. So remember to check how your fund changes its approach to risk as members age.

This will help ensure you get the balance right between defensive and growth assets, so that your assets are generating some income as you age, but you're not exposed to too much risk.

That's one of the best ways to ensure you can live the life you want in retirement and at the same time ensure you have enough money to live on until the end of your life.

By Alexandra Cain. Article originally published in the *Sydney Morning Herald*.

The question we all need to ask ourselves

When you played sport you had a game plan. When you started your first job you had a career plan. (OK, so that plan didn't work out as intended, but you had a plan.) When you met your life partner you had a life plan: engagement, wedding, house, kids. When you started your own business you had a business plan.

So, why not a game plan, a life plan, a business plan all rolled into one for retirement?

I mean, any sort of plan has got to be better than just wafting across the retirement line and wondering, what's next?

However there seems to be a hesitation to developing a retirement plan and partly because such plans end up at the same destination: the great abyss.

Planning could deliver a better quality of living

I think many people would simply prefer not to even consider, much less plan for, their own mortality. Well, I say, get over it. Life's journey is more efficient, carries more meaning and delivers a better quality of living when there is a plan.

Here's where I think you need to start planning for retirement.

Planning for retirement starts, for most, in their 50s

There is a remarkable transformation that takes place when Australians pass into their 50s. In their 40s, social chat focuses on the achievements of kids — your kids, your friends' kids (but mostly your kids) — as well as on renovations and careers.

After 50, the term superannuation suddenly enters the lexicon in a profound but curious way. People will talk about "the need for super" but no one will discuss how much super is enough super. And of course there is no right or wrong answer to this question. Some super is better than no super, and no amount of super is enough super.

It's quite a philosophical question when you think about it.

Hoping for the best rather than dealing with the issue

Planning for retirement sounds like a logical thing to do but it isn't popular. And the reason is that, not only does it lead to the great abyss, but it exposes human failings along the way.

Far better, for some, to pretend there is no issue to address, to place faith in "the universe" to provide (including the saviour option of winning Lotto or of partnering up with someone who has provisioned for retirement), to develop a soothing narrative that explains why life's been cruel to you and to you alone, or — and I must say I like this one — the "you could be dead tomorrow" logic which obviates the need to plan years in advance.

Developing good saving skills early pays off

The best thing you can do to deliver a better retirement isn't signing up to a whiz-bang super fund in your 20s, although that does help. The best thing you can do is to develop good saving skills in your teen years and to carry this discipline throughout life.

This is the "out there" idea of taking responsibility for your own circumstances and not being tempted by the seductive option of rationalising that "life's been hard for you" so why bother?

Yes, it is true you could be dead tomorrow. Yes, life has been harder for you than for others. Yes, you have had rotten luck in relationships, in the housing market, in your career (and, yes, it probably was because you were never sufficiently ruthless).

Women likely to live for another 25 years in retirement

The fact, however, is that if you have passed the 60-mark there is every likelihood you will live for another 25 years, or longer if you are female.

So, let's get down to tin tacks.

Let's assume life beyond 80 is constrained by limited mobility and health issues. Some of these years will be spent alone. Very few "partnerships" survive beyond 80. In this world there are 20 good years of active retirement living to be fitted into the post-60 stage in the life cycle. And, indeed, many more years if health and finances hold out beyond 80.

In the first of these two active decades of retirement you'll be fitter (and richer) than in the second. Here's how to manage these years. In your 50s sock as much into superannuation as you possibly can. The kids should be off your hands. The house should be paid off in this decade.

Continue to work and plan for a working life beyond your current role. It might be in the same organisation but in a contractor role. Forget about being a director; you're not in that league.

Build good relationships and talk about the way you think you can make a contribution going forward. If there's someone five to 10 years older doing something like what you want to do, then cite that example.

Scale back work in your 60s

In your 60s, scale back work from five days to four and then to three and two after the age of 65.

The idea is to remain connected into the commercial world and to ramp up the retirement and lifestyle component.

Find a hobby, join a "Save the Wetlands" group, travel with your life partner. Or, and this is one of retirement's greatest revelations, sometimes "being retired" exposes both parties to the fact they don't get along. Sometimes, happiness in retirement involves detoxifying your life of relationships that aren't working.

Dividend stage of the life cycle

Independent travel during the 60s is one of life's joys. Finally, you can do what your millennial kids were doing throughout their 20s.

Travel the world. Learn how to use Instagram. Make your 60-something friends jealous. Make your 30-something children by now immersed in mortgage, work and kids, jealous (actually they'll be pleased for you).

I call this the dividend stage of the life cycle and it very much suits the baby boomer logic.

All good things come to those who wait, and especially to those who have made sacrifices over a lifetime.

The second decade of the active retirement stage in the life cycle involves slowing down.

Slow down but keep active

Perhaps choose the cruise option rather than independent travel. Health issues and reduced mobility might constrain physical activity. Throughout these years there needs to be constant — meaning daily — investment in physical exercise.

Former PM John Howard was often ridiculed for his daily power walks when he was in office. I admired his self-discipline, and I am sure that this investment has delivered him better mobility at age 80. Left to its own devices the human body will atrophy; you need to get it out there and run it (or walk it) around the block every day to ensure that everything keeps working.

Invest in relationships

The 70s should be the peak "grandchildren enjoyment" stage. By this age, your own kids will be in their 40s with primary school or teenage children. Now is the time to create and to leave an impression on the next generation.

Do you want your grandkids to remember you as old and crotchety or as active, fun, funny and warm? Invest in good relationships with your kids, with your kid's divorced partners, with your grandchildren. Let bygones be bygone and seize these precious years and make them count.

It's the 80s and beyond that are difficult. Or that can be difficult. Partners and friends die off. Even relationships with kids, now in their 50s, can become strained because of life matters. Perhaps their life hasn't turned out the way they thought it should. Perhaps they are resentful of your happiness? Of how "easy" you had it? Or, perhaps it's the other way around.

Remain connected to your community

The most difficult thing beyond 80 is to remain connected to others in the community.

Make sure you are positioned near to your family. There's no point being 80 in the Outback if your kids and grandkids are living on the coast.

Build relationships and connections beyond your immediate family and dwindling circle of lifelong friends. Join a choir. Go to church. Become an elder. Even if you have doubts about God, the process of interacting with a community can be rewarding.

Have your affairs in order

Make sure you have prepared a will, that it is current, that it is in a place where others can find it.

You need to have all your affairs in order. Leave a legacy of a parent and community member who cared, who worked, who sacrificed, who was a role model and who was rock solid.

And along the way make sure you take the dividend of an enjoyable, rewarding life that had meaning to you and to others.

By Bernard Salt, this article originally appeared in *The Australian – Special Report*.

Rethinking the future

"Finite players play within boundaries; infinite players play with boundaries," wrote James Carse in his extraordinary 1986 book, Finite and Infinite Games – his "games" being a metaphor for any human engagement that has a competitive or cooperative element. The first group of players observes boundaries to determine who's lost or won, he argues; the second alters them in response to changing circumstances and, in so doing, creates a perpetually evolving game – and, ultimately, a more elegant existence.

Carse might have been describing retirement as it will look in the middle years of the 21st century. "Retirement is a boundary, a definition, a line," says futurist and bestselling author Ross Dawson. "We're moving towards a world where this boundary is blurring more and more, bringing benefits to organisations and the individual."

Thirteen countries will have 'super aged' populations in retirement phase

By next year, 13 countries in the world (including the US, the UK, Japan, Germany and France) will have "super-aged" populations in which more than one in five is 65 or older, a consequence of falling birth rates coinciding with rising life expectancy: we're adding, on average, 1.5 years to our lives for every decade that we survive.

Retirees obsessive desire to live, if not forever

Experts agree that second-wave Baby Boomers (born between 1956 and 1964) are manifesting an almost obsessive desire to live, if not forever, then for as long as humanly possible. "It's not enough to not be ill," says Michele Levine, CEO of market research company Roy Morgan. "We want to be fabulous, to be able to leap tall buildings in a single bound! There's an increasing expectation that whatever illness or disease we get can and will be cured."

By 2040 we'll be working long past the traditional age of retirement – partly to ensure we don't run out of money during a post-work life that has every chance of lasting 30-odd years, but also to satisfy a desire to remain physically and mentally alert, as well as socially relevant, for as long as possible.

Attitude towards ageing workforce will change

Dawson says organisations' attitudes towards this ageing workforce will change. "There will be a demand – and new respect – for its knowledge and experience," he says.

He cites the example of the Indianapolis-headquartered initiative YourEncore, developed by Procter & Gamble and pharmaceutical giant Eli Lilly, which connects retirees with corporations that need their skills. Grey-haired alumni return to the workplace as part-time consultants supporting the contributions of less seasoned staff in a sort of intellectual passing of the baton. Elsewhere, the Massachusetts Institute of Technology's AgeLab is working with government and businesses to develop solutions around harnessing the power of a mature workforce.

Technological innovation provides independent living for retirees

Technology will enable us to live independently for longer. "We will absolutely have domestic robots, ones capable of performing quite complex tasks – making the bed, for example, or stacking and unloading the dishwasher," Dawson says. "Our home environment will be monitoring us constantly. We'll cease losing our reading glasses because our house will be able to tell us exactly where we last put them down. We'll sit down in chairs that are able to record an incredible amount of data about our physical state and, if need be, send alerts to medical staff."

Prepare also, he says, for the rise of the robotic pet, with research already demonstrating that the elderly person who pats and strokes a responsive mechanical canine derives the same health benefits as the retiree who shares her home with a live, sentient and more demanding animal.

Technology's early-diagnosis capabilities, in conjunction with our heightened vigilance around wellbeing, will likely reduce the costs of frontline healthcare even as our longevity, particularly through our most advanced years – 80 to 100, say – contributes to an overall climbing cost.

More innovative care for seniors

We can expect to see more creative, soul-enriching innovation around the care of our infirm seniors. Earlier this year, Paris-based Accenture Interactive prototyped a voice-assistant app called Memory Lane for an energy company in Stockholm, a city recently dubbed the world's loneliest because of its high number of singleton dwellers.

The app is able to conduct a realistic conversation with its user, asking "intelligent" follow-up questions in response to information it receives. Gradually, it's able to piece together a biography of its user's life that it then saves, either as an audio recording or as a printed book, to be shared with family and friends. Accenture plans to release Memory Lane as a free app for Google Home and Amazon Alexa.

Interspace travel and driverless cars

The difficulty of getting from A to B will dissolve with the widespread adoption of driverless cars, while the long-haul jetliner may be superseded by the reusable, 100-person spacecraft. Sydney to London in just a couple of hours? "The timeline for this is uncertain as yet," Dawson says, "but interspace travel is something investment bank UBS has already earmarked as a possibly significant market."

Forecasters predict that as the ranks of older citizens grow, so too will their demands for political representation. For Levine, distrust of political process will continue to be a critical issue. "When it comes to fundamental life domains there will need to be much greater transparency between the people implementing change and those whose lives are going to be impacted by it," she says. "We will demand consultation."

By Sharon Bradley. Article originally published in the *Sydney Morning Herald's Good Weekend*.