

The Silver Tsunami

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An Analysis of Retirement Finance in Australia

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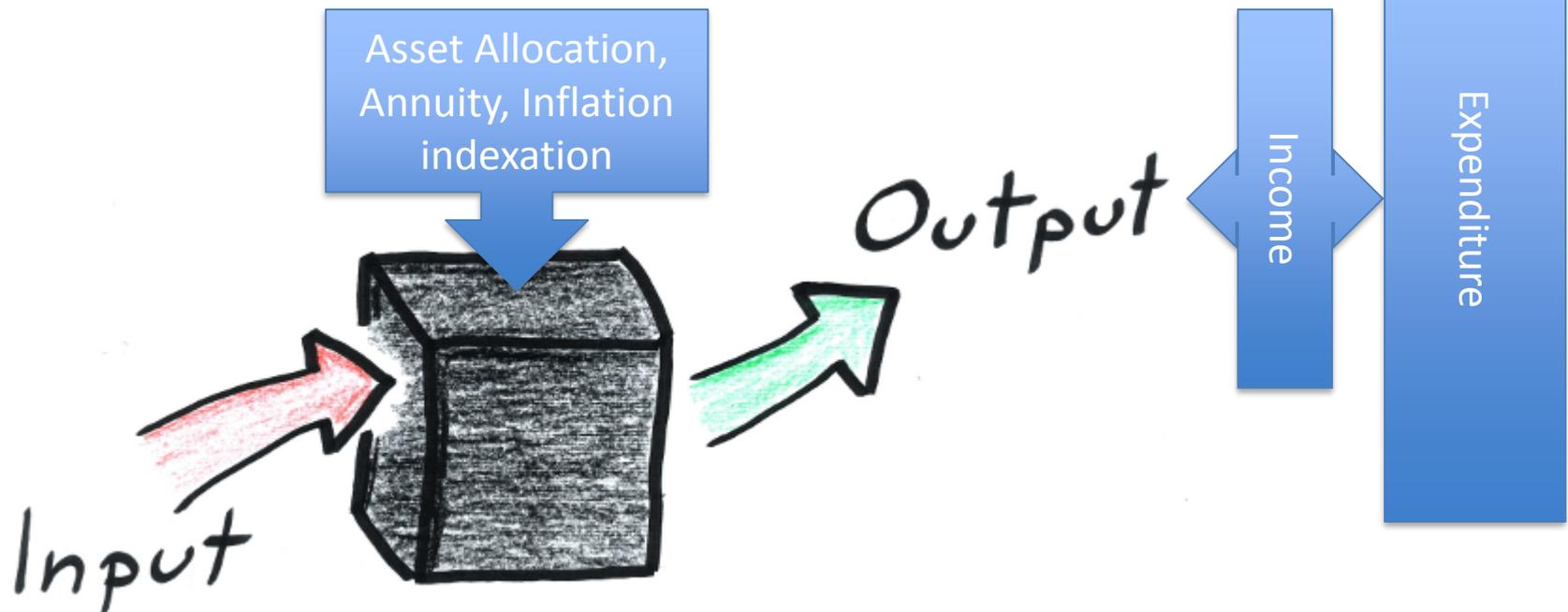




- CIPR framework consultation
 - 1/48 from individual retiree
 - 2/48 from seniors groups
- Lack of engagement in superannuation
 - Default products need to meet member needs

- Merton (2007, 2012)

- It is important to keep the focus on meaningful decisions



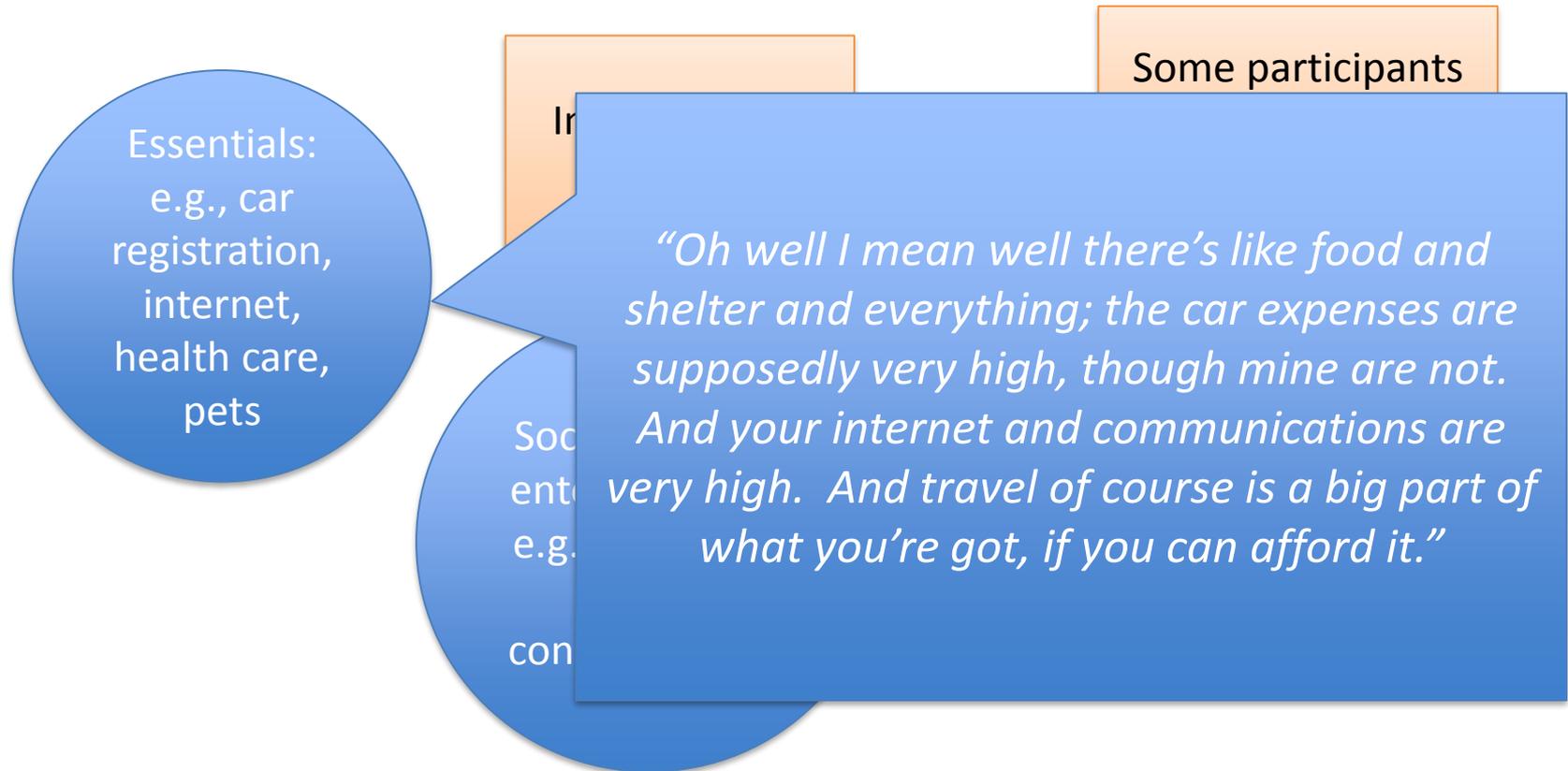
- Where do retirees spend their money?
- What are the income sources currently used?
- What are the desired features for retirement income products?

- Expert online survey

- July, Aug 2017
- 16 responses
 - super fund senior management
 - financial advisers

- Focus group

- Oct, Nov 2017
- Sydney and Melbourne
- 21 participants
 - 13 retired, 8 still working
 - 9 males, 12 females



- *“I mean we don’t go out to dinner nearly as much as we used to, we do, and if we do we go to cheap things like a barbeque at University House in Melbourne. And – so we don’t go to big expensive restaurants and things like that, I mean we do occasionally but not nearly as much as we used to. And I don’t want to for some reason, doesn’t interest [me]”*
- *“And also you’ve got grandchildren and that really takes up a lot of your entertaining time, you know what are you going to do – go out somewhere swish or are you going to spend an evening with your grandchildren and usually you’d say oh the grandchildren”*

- Healthy retirement vs Assisted living
 - Prevention is fundamental
 - Unwilling to discuss assisted living

- Planning for assisted living
 - Uncertainty makes it difficult to plan
 - Shift in expense mixture
 - Willing to seek assistance from the government
 - *“I wouldn’t be uncomfortable falling back on the state”*
 - Rather use home assistance than nursing home

- Opinion on financial expenditure on family is polarising
 - Some give generous gifts
 - Some do not feel necessary: *“We don’t think about leaving money to our children. I mean we just sort of assume that they’ll get a house in the end anyway, so we don’t have to make an active commitment to that”*
- Decisions are based on households
 - *“I do all the research and cull to possible things that we might invest or buy and then I discuss it with my wife”*
 - *“I think I've got to do it with my wife, it's a concerted decision, whether you make the suggestion, but you've got to include, because these are major impacts on your income and your monies. You can't do it individually, well not in our circumstance anyway”*

- Other parties

- Siblings, friends are sometimes consulted
- Children
 - Do need to know too much: *“what I find is the less they know the better”, “I don’t want them to be sitting there going when are you going to cark it and expecting something”*

- Other

- Records are well kept
- Contingency plans are in place

- *"I make the deal with my daughter if she wants to inherit the house. Then, if the house is sold, she gets the money when we have the proceeds. If she doesn't want it, she gets the money because we, I forgot to say, we we retire. She has her substantial assets. She can buy a property, like a one bedroom unit in Saint Leonards. So that, the deal is also that she has to be travelling, but she loves travelling and so she has to be travelling if she wants to inherit the house. If she doesn't well, she can't and go."*

Superannuation

Investment Property

Shares, term deposits

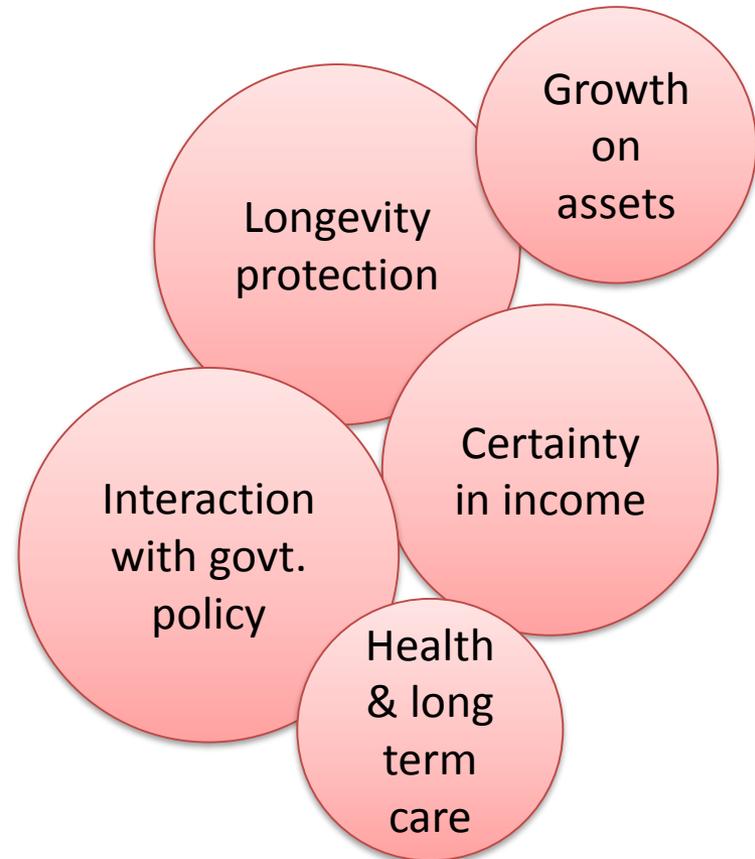
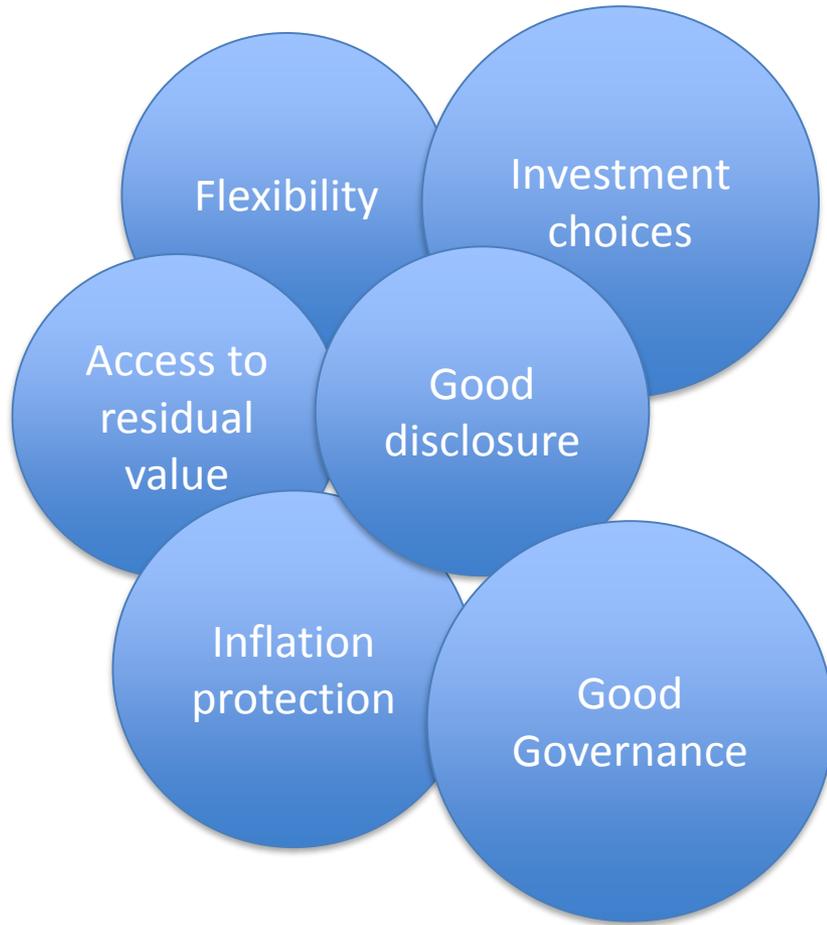
Age Pension

Family arrangements

- A good rate of return with least risk
- Rock solid product with a government guarantee
- Certainty on return and sustainable return over long term
- Flexibility – not locked in forever
- Enough money to last the distance
- Able to access residual value

- *“I'd be worried about longevity risk, I mean I wouldn't want a product which you put all your money into and then you fall off the perch the following week and the supplier keeps the balance. I'd want – if there's a nominal value left in the fund that has to go to your estate, or to your children, or whatever.”*
- *“So I don't want a product that's – that at the end of my life it leaves a balance of zero, in other words I want to be able to leave a legacy of the balance to my children, that's important to me so that's why I-”*

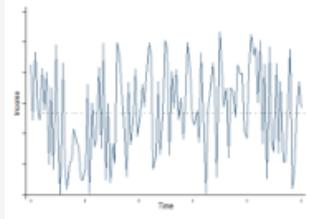
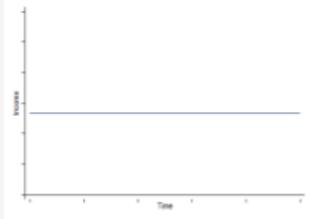
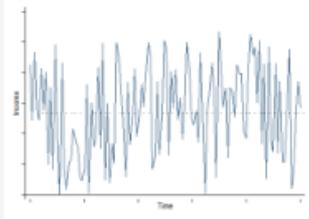
Can retirees get what they want?



- Value for money
- Complexity in product design and operation
- Legal barriers
- Operational risks
- Slow to react and legacy system

- *“And the thing is if you do put everything into one thing, what are you going to do if it turns bad? And the other thing is I’d like to be able to get out of it if I want to without losing the capital; I’m not talking about the investment income, you know what’s come from it, but without losing the capital and that’s obviously where a lot of people have gone into a lot of different schemes, have come totally unstuck.”*

- CIPR only suitable for a subset of retirees
 - Not for no or low saving retirees
 - Not for very risk retirees
- CIPR should be tailored to different groups
 - Superannuation balance
 - Marital status
 - Gender
 - Risk preference
 - Other needs based criteria
- Preference for CIPR are diverse:
 - Family composition
 - Past experience with finance
 - Family wealth
 - Financial literacy and risk tolerance

	Product A	Product B	Product C
Access to Retirement Funds	Access up to 90% of retirement funds	Access up to 60% of retirement funds	Access up to 5% of retirement funds
Income Stability	 <p>Significant Income Changes</p>	 <p>Stable Income</p>	 <p>Significant Income Changes</p>
Insurance for Healthcare and Long-term Care	No protection	Full protection	Full protection
Government Policy Protection	No protection	Full protection	No protection
Gifting and Leaving Money to Heirs/Beneficiaries	No, cannot be set aside	Yes, can be set aside	No, cannot be set aside
Longevity Protection	Not protected	Not protected	Protected
Average Annual Income from the product	\$40,000	\$50,000	\$30,000
Please choose your most preferred (best) product amongst all THREE products	✔	⊘	⊘
Please choose your least preferred (worst) product amongst all THREE products	⊘	✔	⊘

Q&A