

# Lifecycle Design – To and Through Retirement

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# AGENDA

BACKGROUND

INVESTMENT HORIZON

INVESTMENT DEFAULT DESIGN

IMPLICATIONS



# Background

# Why do we **care**?

## Members

- 80% of people are in their funds' default investment option.
- Earnings are the largest driver of superannuation savings.

## Regulation

- SIS Act requires that trustees formulate and review regularly the investment strategies for their options.
- Focus of the regulator (APRA MySuper Product Heatmap).

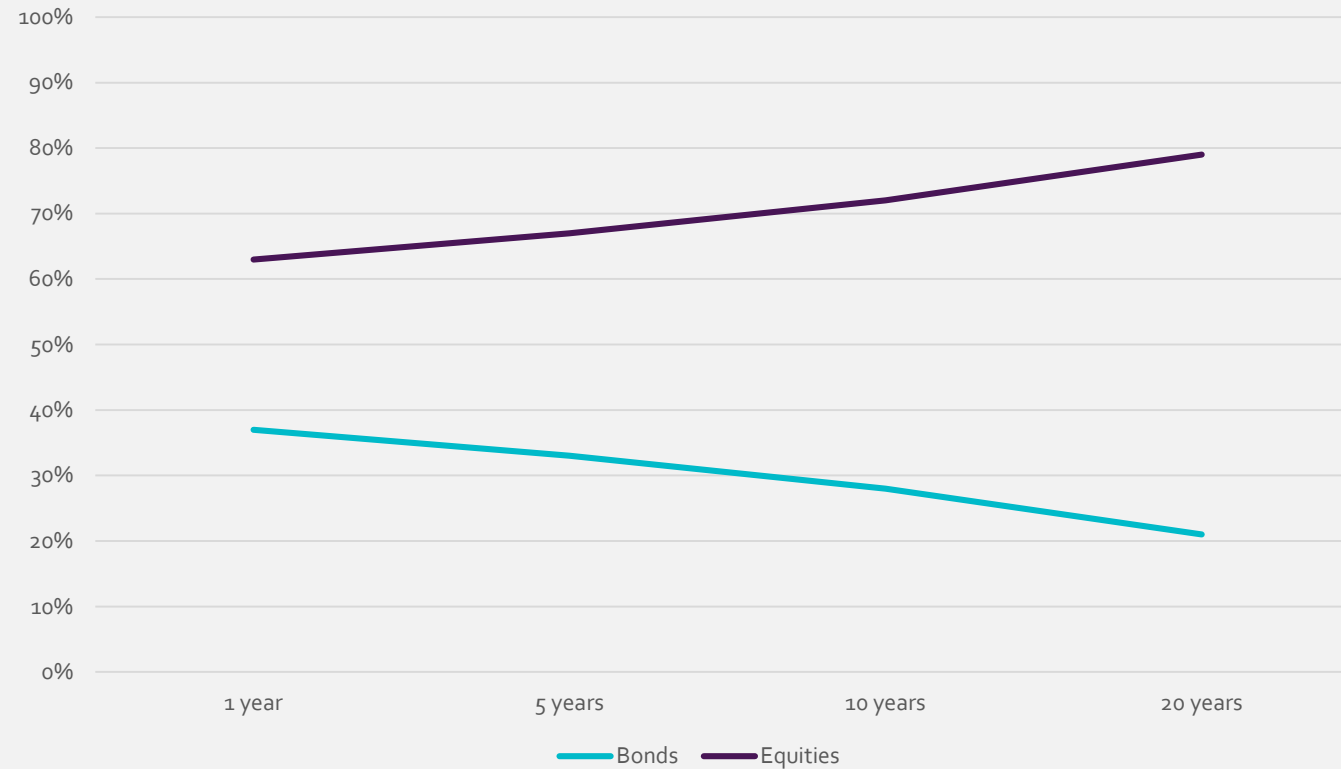


Fortunately current designs are usually good – though they could be **optimised**



# Investment Horizon

# Investment horizon and asset allocation



# Superannuation investment horizon



**Pre-retirement**

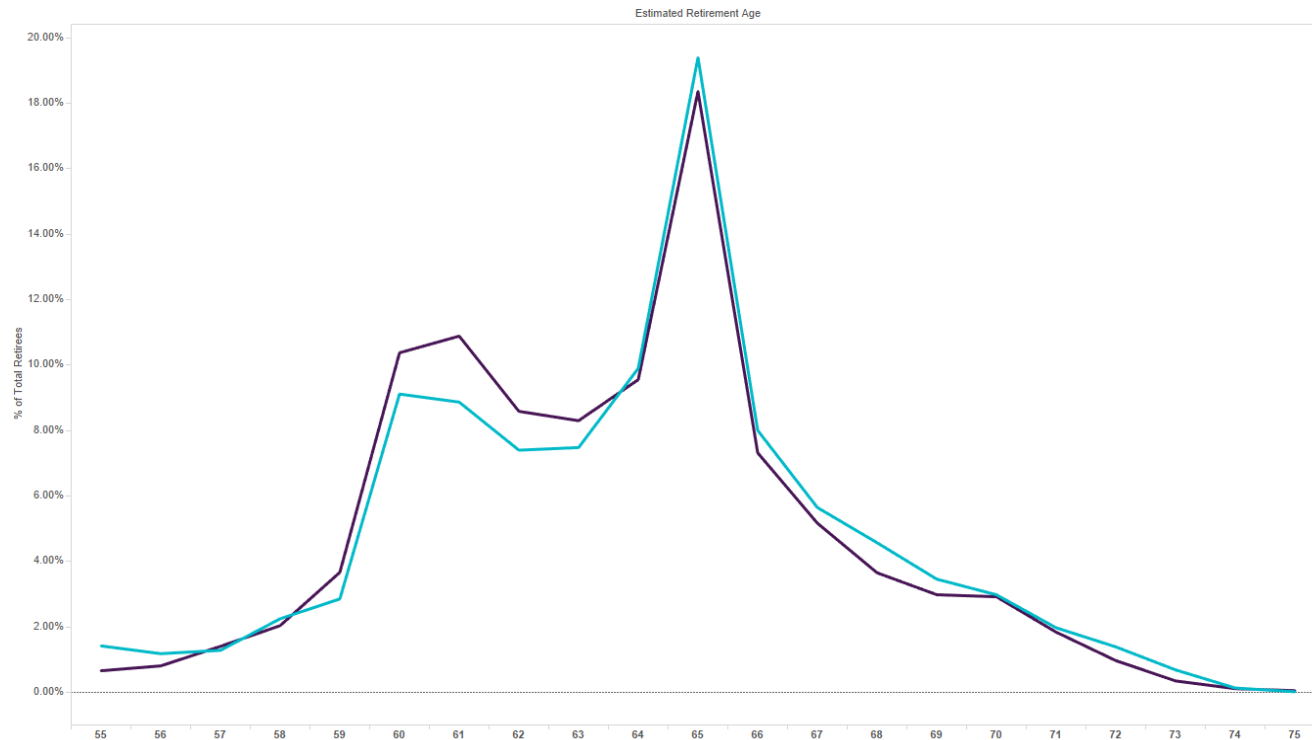
- From the current point until the point the member makes an election to retire



**Retirement**

- From the point of retirement until the last of the members balance is expended

# Pre-retirement

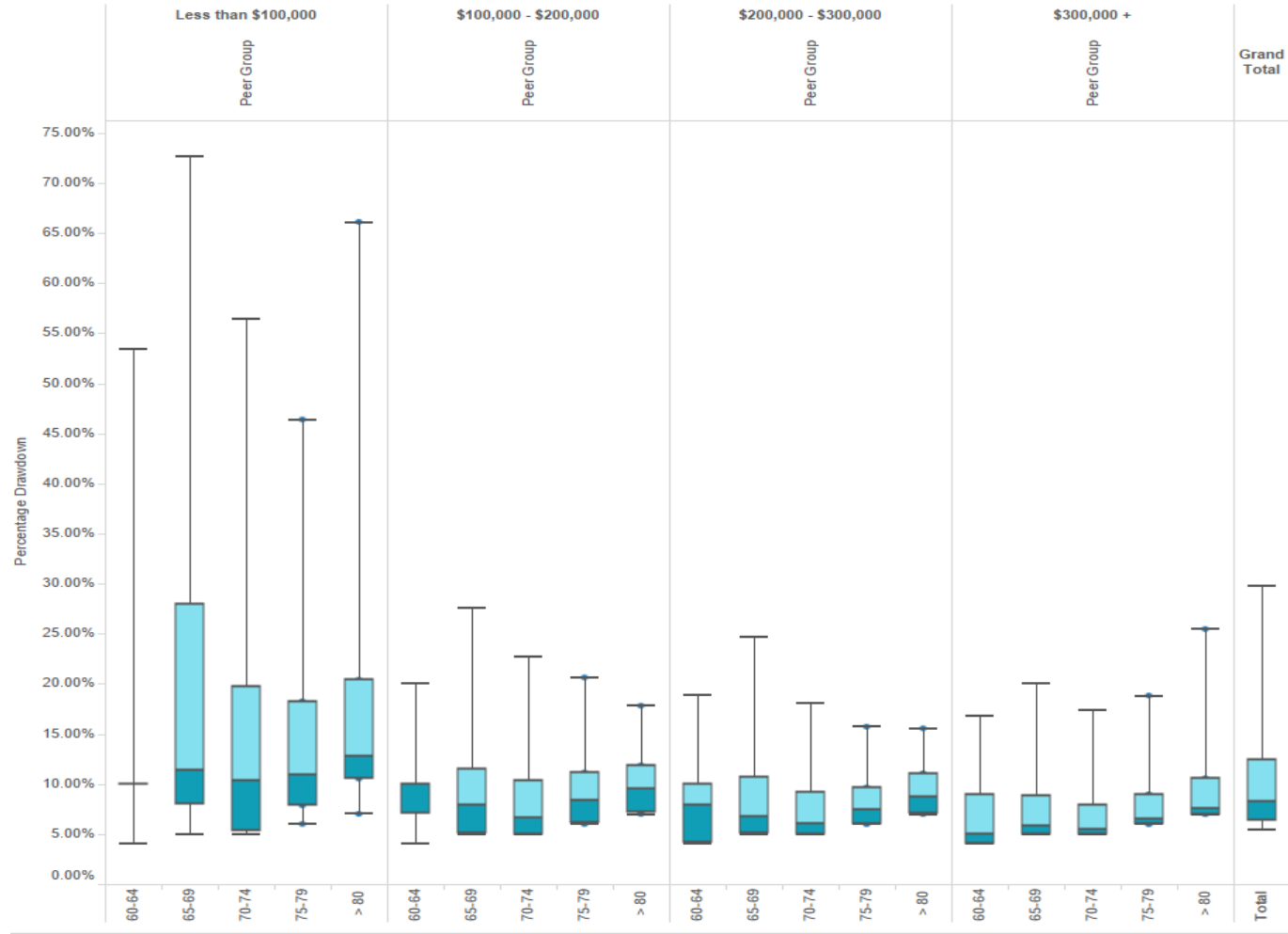


Individuals typically retire between age 55 and age 70.

Wealthy individuals retire earlier than those who are poor.



# Retirement



Balances under \$100,000 more likely to draw down high amounts.

Drawdowns typically increase with age.

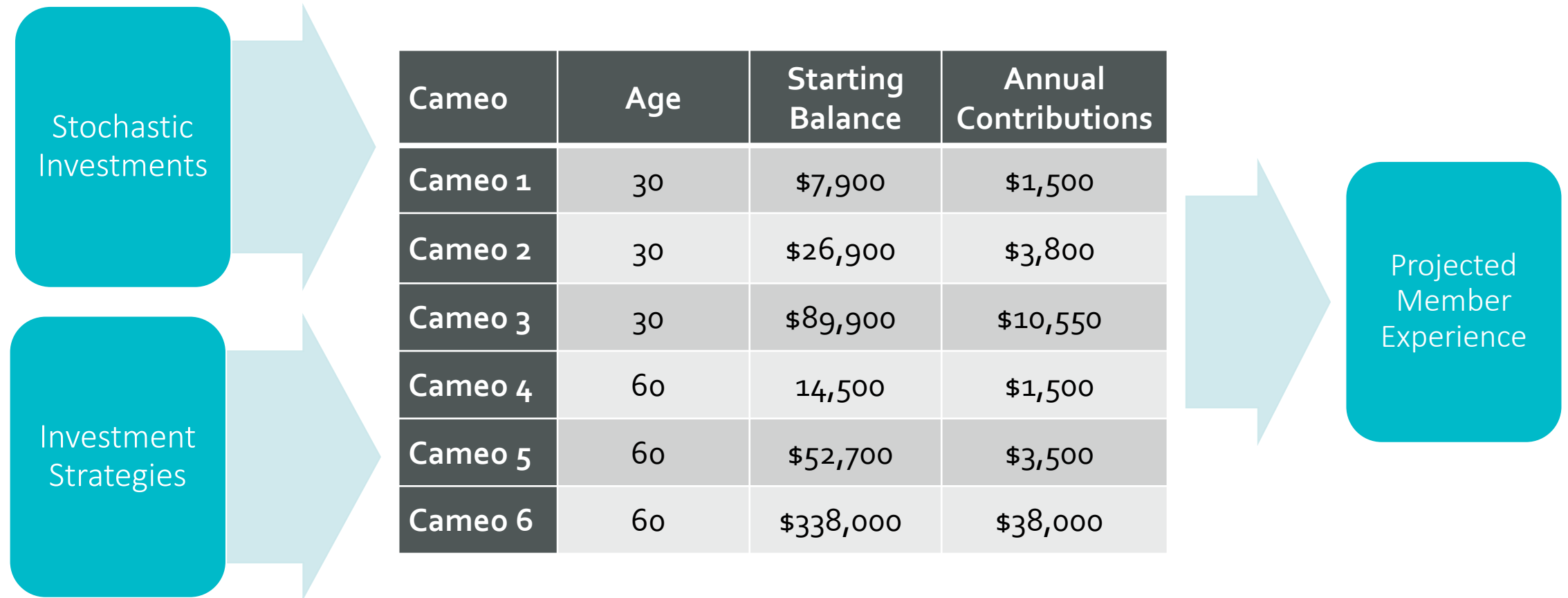
# Implications

Member investment horizon is not just to retirement. Members are **likely to spend a substantial period** in the retirement phase unless their balance is low.

Investment strategies which adjust to a member's changing investment horizon may deliver **better outcomes for members** – both to and through retirement.

# Investment Default Design

# Approach



# Investment Strategies considered

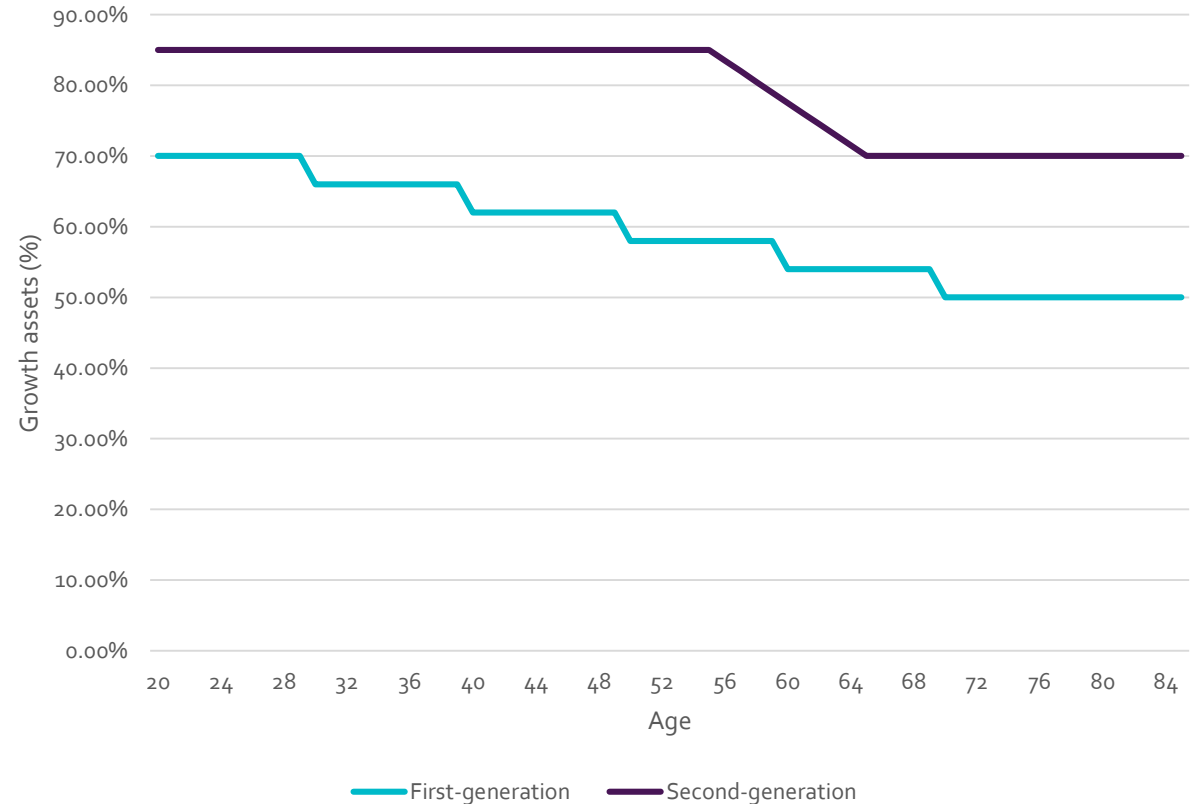
Balanced Strategy  
(70% Growth)

High Growth  
Strategy  
(85% Growth)

First-generation  
Lifecycle Strategy  
(Defensive and  
early de-risking)

Second-generation  
Lifecycle Strategy  
(Aggressive and  
late de-risking)

Two-dimensional  
Lifecycle strategies



# Income in **retirement** – age 30 and balance \$26,900

	Single Strategy (70/30)	Single Strategy (85/15)	Lifecycle 1 (Age)	Lifecycle 2 (Age)	Lifecycle (Age and Balance)
	(\$)				
Low (10 <sup>th</sup> Percentile)	\$610,500	\$611,600	\$610,700	\$612,900	\$612,700
Median	\$664,200	\$681,300	\$652,200	\$679,200	\$682,500
High (90 <sup>th</sup> Percentile)	\$772,700	\$851,400	\$717,400	\$829,300	\$870,100

# Percentage change – age 30

Age 30, Low Balance	Single Strategy (85/15)	Lifecycle 1 (Age)	Lifecycle 2 (Age)	Lifecycle (Age and Balance)
	(%)			
Low (10 <sup>th</sup> Percentile)	0.1	0.0	0.1	0.2
Median	1.2	-0.8	0.9	1.1
High (90 <sup>th</sup> Percentile)	3.3	-2.2	2.9	3.5

Age 30, Moderate Balance	Single Strategy (85/15)	Lifecycle 1 (Age)	Lifecycle 2 (Age)	Lifecycle (Age and Balance)
	(%)			
Low (10 <sup>th</sup> Percentile)	0.2	0.0	0.4	0.4
Median	2.6	-1.8	2.3	2.8
High (90 <sup>th</sup> Percentile)	10.2	-7.2	7.3	12.6

Age 30, High Balance	Single Strategy (85/15)	Lifecycle 1 (Age)	Lifecycle 2 (Age)	Lifecycle (Age and Balance)
	(%)			
Low (10 <sup>th</sup> Percentile)	1.1	-1.3	0.9	1.0
Median	9.1	-6.8	4.5	13.1
High (90 <sup>th</sup> Percentile)	24.1	-22.3	11.9	35.1

# Comparative performance – age 30 and balance of \$26,900

High Growth (including Two-dimensional Lifecycle) strategies typically outperform Balanced strategies

First-generation Lifecycle strategies typically underperform.

High Growth single-sector strategies will typically beat Second-generation Lifecycle.

Age 30 / Balance 26.9k	Balanced Strategy (70/30)	Single Strategy (85/15)	Lifecycle 1 (Age)	Lifecycle 2 (Age)	Lifecycle (Age and Balance)
Balanced Strategy (70/30)	-	8.4%	86.2%	7.4%	8.2%
Single Strategy (85/15)	91.6%	-	89.6%	72.6%	26.8%
Lifecycle 1 (Age)	13.8%	10.4%	-	8.8%	8.8%
Lifecycle 2 (Age)	92.6%	27.4%	91.2%	-	15.4%
Lifecycle (Age and Balance)	91.8%	73.2%	91.2%	84.6%	-



# Percentage change – age 60

Age 60, Low Balance	Single Strategy (85/15)	Lifecycle 1 (Age)	Lifecycle 2 (Age)	Lifecycle (Age and Balance)
	(%)			
Low (10 <sup>th</sup> Percentile)	-0.1	0.1	0.0	0.0
Median	0.0	-0.1	0.0	0.0
High (90 <sup>th</sup> Percentile)	0.2	-0.2	0.1	0.1

Age 60, Moderate Balance	Single Strategy (85/15)	Lifecycle 1 (Age)	Lifecycle 2 (Age)	Lifecycle (Age and Balance)
	(%)			
Low (10 <sup>th</sup> Percentile)	-0.3	0.3	-0.1	-0.1
Median	0.2	-0.2	0.1	0.1
High (90 <sup>th</sup> Percentile)	0.8	-0.9	0.2	0.2

Age 60, High Balance	Single Strategy (85/15)	Lifecycle 1 (Age)	Lifecycle 2 (Age)	Lifecycle (Age and Balance)
	(%)			
Low (10 <sup>th</sup> Percentile)	-1.0	1.0	0.1	-1.8
Median	2.2	-3.6	0.1	2.3
High (90 <sup>th</sup> Percentile)	3.4	-5.8	0.3	4.4

# Comparative performance – age 60 and balance of \$52,700

High Growth strategies will typically outperform lower growth strategies

Second-generation Lifecycle will usually outperform First-generation and Balanced

Two-dimensional Lifecycle will typically beat Second-generation.

	Balanced Strategy (70/30)	Single Strategy (85/15)	Lifecycle 1 (Age)	Lifecycle 2 (Age)	Lifecycle (Age and Balance)
Balanced Strategy (70/30)	-	29.2%	71.0%	27.6%	27.6%
Single Strategy (85/15)	70.8%	-	71.2%	69.6%	69.6%
Lifecycle 1 (Age)	29.0%	28.8%	-	28.2%	28.0%
Lifecycle 2 (Age)	72.4%	30.4%	71.8%	-	28.9%
Lifecycle (Age and Balance)	72.4%	30.4%	72.0%	71.1%	-

# Inference

High allocations to growth assets is **not inherently a poor strategy**, even at advanced ages.

Defensive Lifecycle investments will **typically underperform** unless investment returns are poor and the members are approaching or actively retired.

Two-dimensional Lifecycle strategies can **provide excess return** while still being able to control risk.

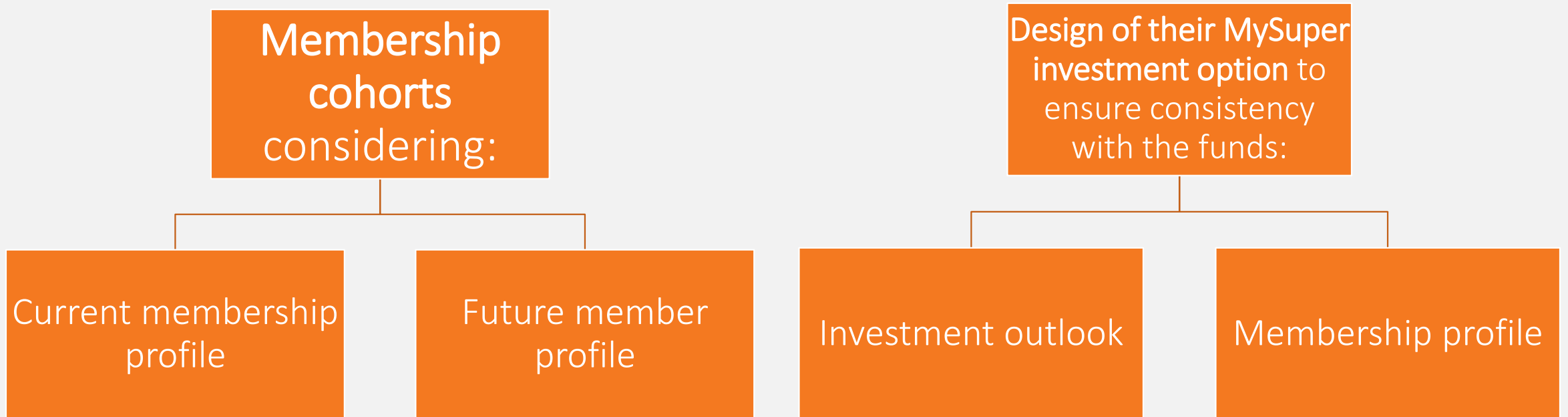
IMPORTANTLY – IT IS UNLIKELY THAT THERE IS A SINGLE SOLUTION THAT MEETS THE NEEDS OF ALL FUNDS FOR ALL MEMBER COHORTS.

A grayscale photograph of a modern office interior with large windows. Several business professionals are silhouetted against the bright light coming from the windows. They are standing and talking, some holding briefcases or tablets. The word "Implications" is overlaid in a large, bold, black font in the center of the image.

# Implications

# Next steps

We consider that it is in **members' best interest** that funds review the:



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# Appendix A – Two-dimensional Lifecycle

Age	Account Balance (\$)																							
	50,000 and under	52,500	55,000	57,500	60,000	62,500	65,000	67,500	70,000	80,000	90,000	100,000	110,000	120,000	130,000	140,000	150,000	160,000	170,000	180,000	190,000	200,000	210,000	220,000 and over
	Growth (%)																							
40 and under	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
41	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
42	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
43	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
44	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
45	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
46	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
47	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
48	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
49	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
50	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
51	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
52	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	89.5	90.0
53	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	89.0	90.0
54	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	86.5	87.0	88.0	89.0	90.0
55	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	85.0	86.0	87.0	88.0	89.0	90.0
56	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	83.5	84.0	85.0	86.0	87.0	88.0	89.0	90.0
57	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
58	80.5	80.5	80.5	80.5	80.5	80.5	80.5	80.5	80.5	80.5	80.5	80.5	80.5	80.5	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
59	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
60	77.5	77.5	77.5	77.5	77.5	77.5	77.5	77.5	77.5	77.5	77.5	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
61	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
62	74.5	74.5	74.5	74.5	74.5	74.5	74.5	74.5	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
63	73.0	73.0	73.0	73.0	73.0	73.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
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66	70.0	70.0	70.0	70.0	70.0	70.0	70.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
67	70.0	70.0	70.0	70.0	70.0	70.0	70.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
68	70.0	70.0	70.0	70.0	70.0	70.0	70.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
69	70.0	70.0	70.0	70.0	70.0	70.0	70.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0
and over	70.0	70.0	70.0	70.0	70.0	70.0	70.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0