

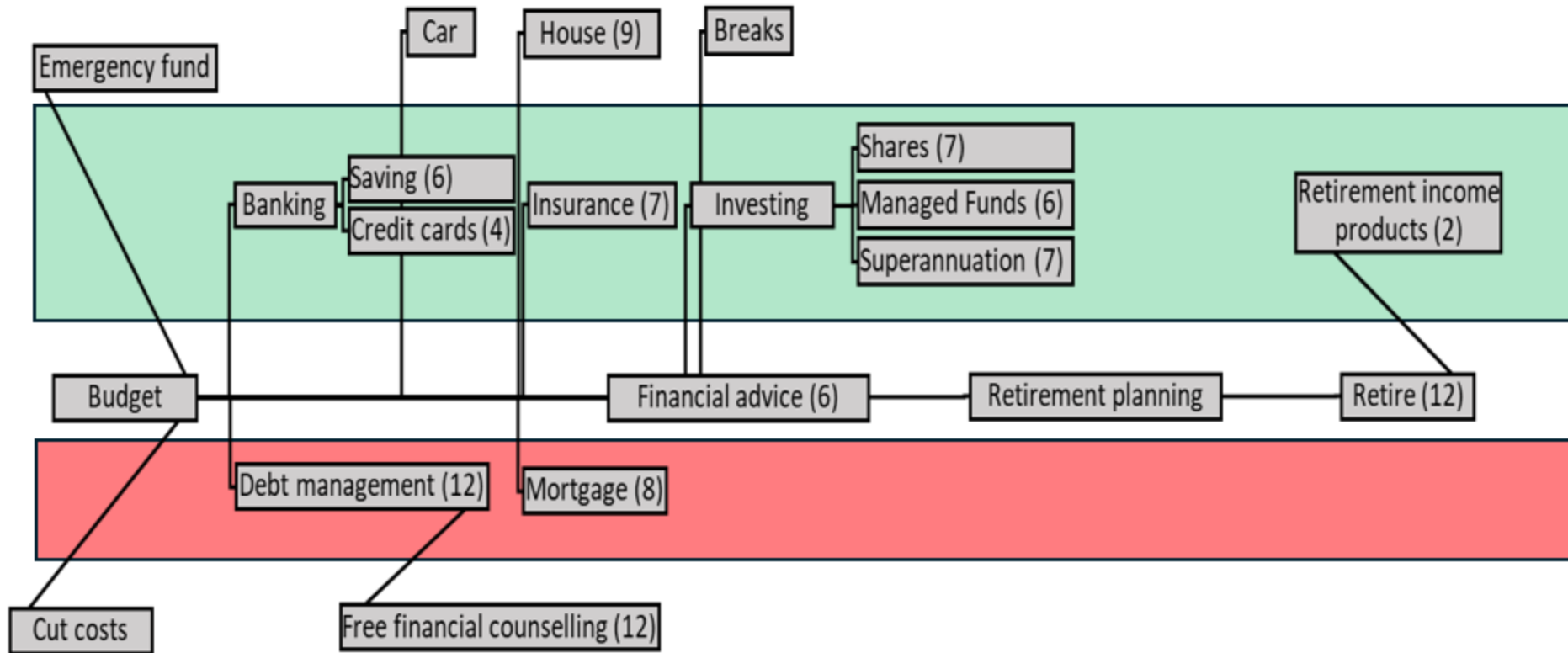
Toys or plans: a control system for the financial lifecycle

Anthony Asher
27 November 2024

Agenda

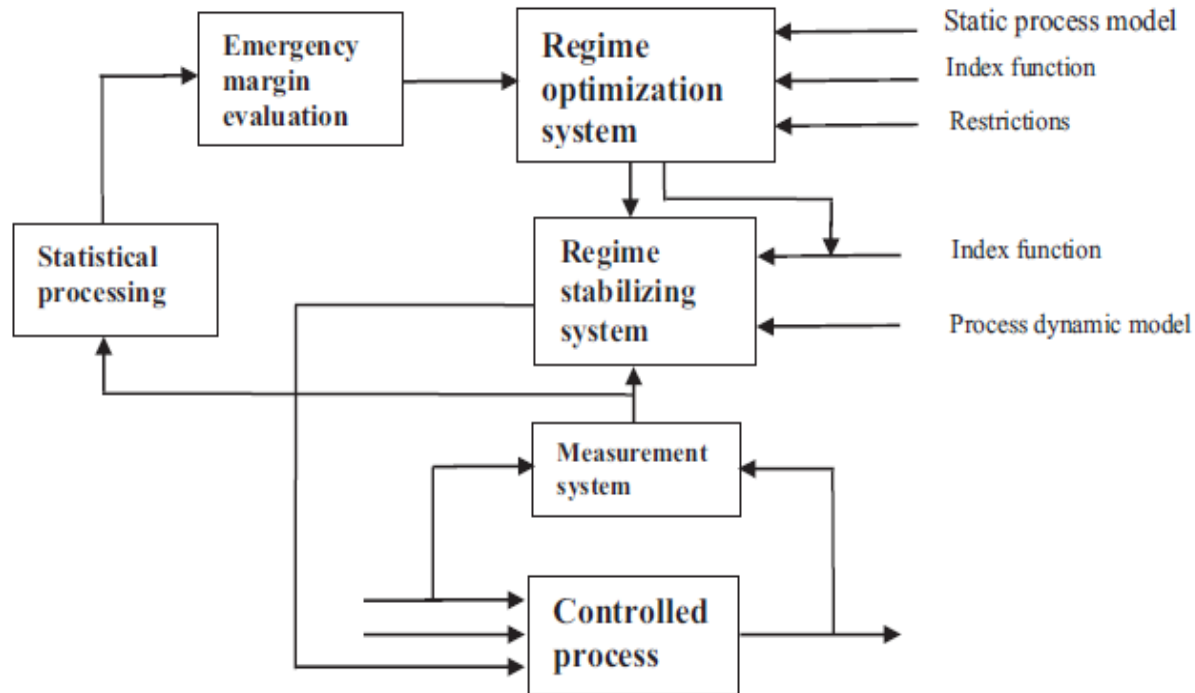
- The financial lifecycle illustrated by Moneysmart
- Seeing it as a control system
- Sequencing
 - Budgets
 - Retirement planning
- Stabilization
- Simplification
 - Unnecessary rituals of comfort
- Politics of financialization
 - Ideas, interests and institutions

Financial Lifecycle from Moneysmart



Moneysmart advice screens cover each of these

Financial lifecycle control system

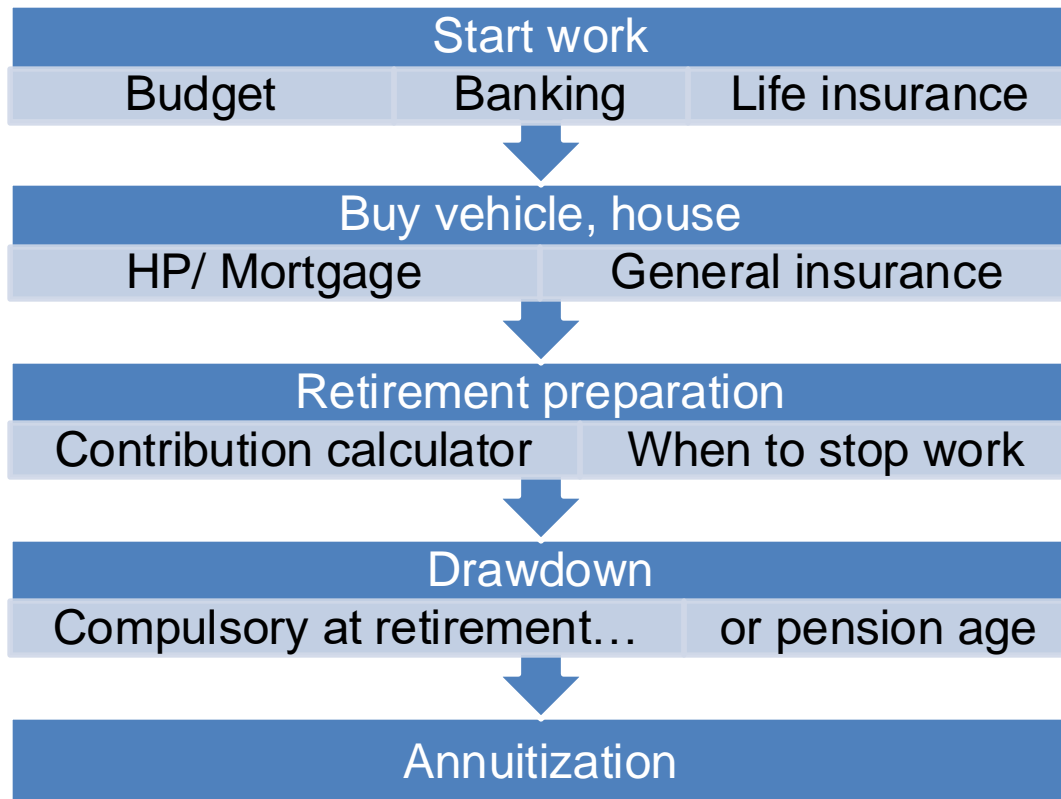


The scheme of two-level control system architecture (Figure 11 from Yakovis and Chechurin , 2015)

Control system principles

- Optimization then stabilization
- Stabilization system requires:
 - Measurement
 - Model of variability – stochastic perhaps
 - Margins
- To the extent possible, decisions should be
 - Sequential
 - Heuristic
- Must store it for revisiting and adaptation

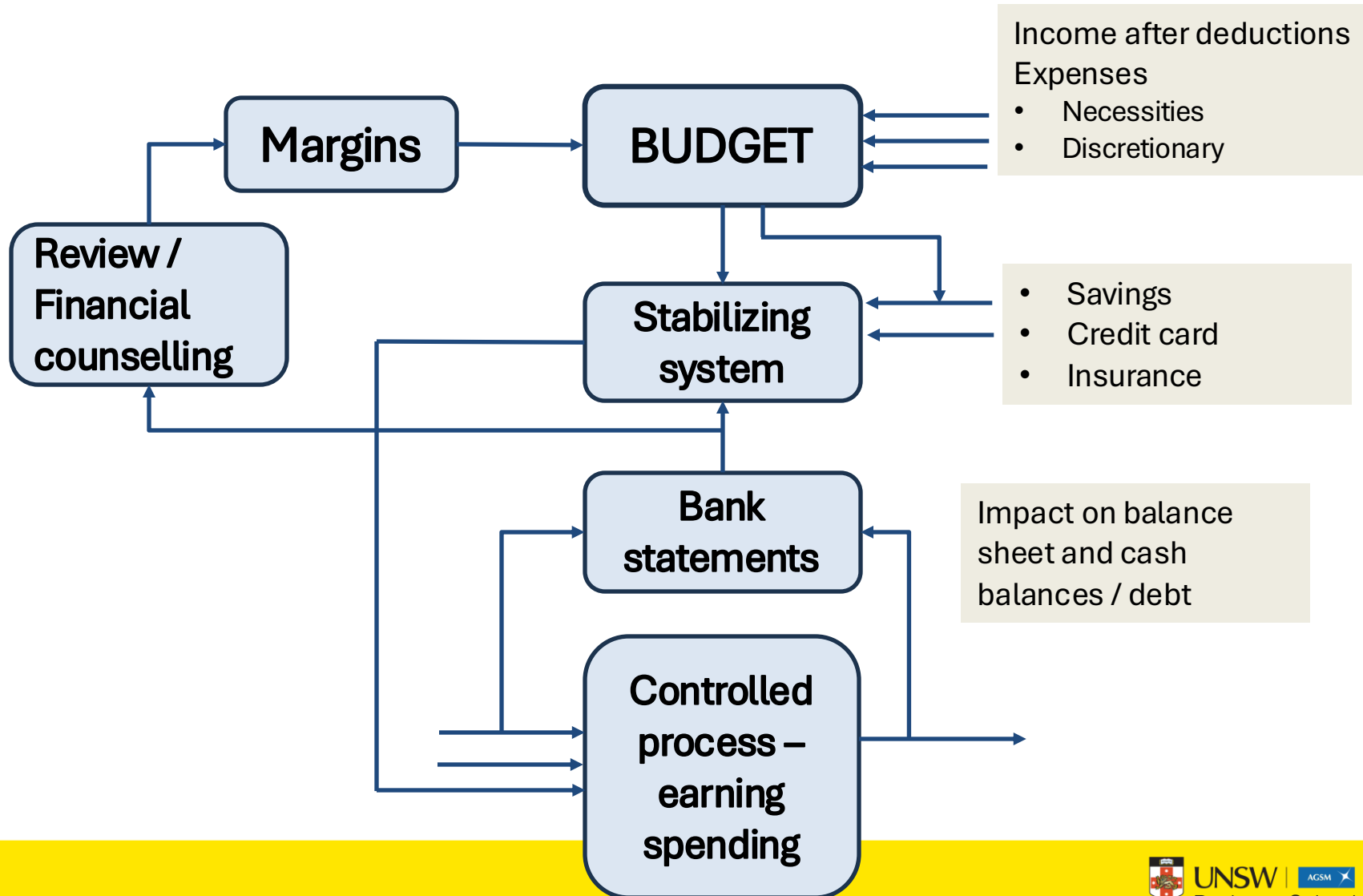
Financial lifecycle sequence



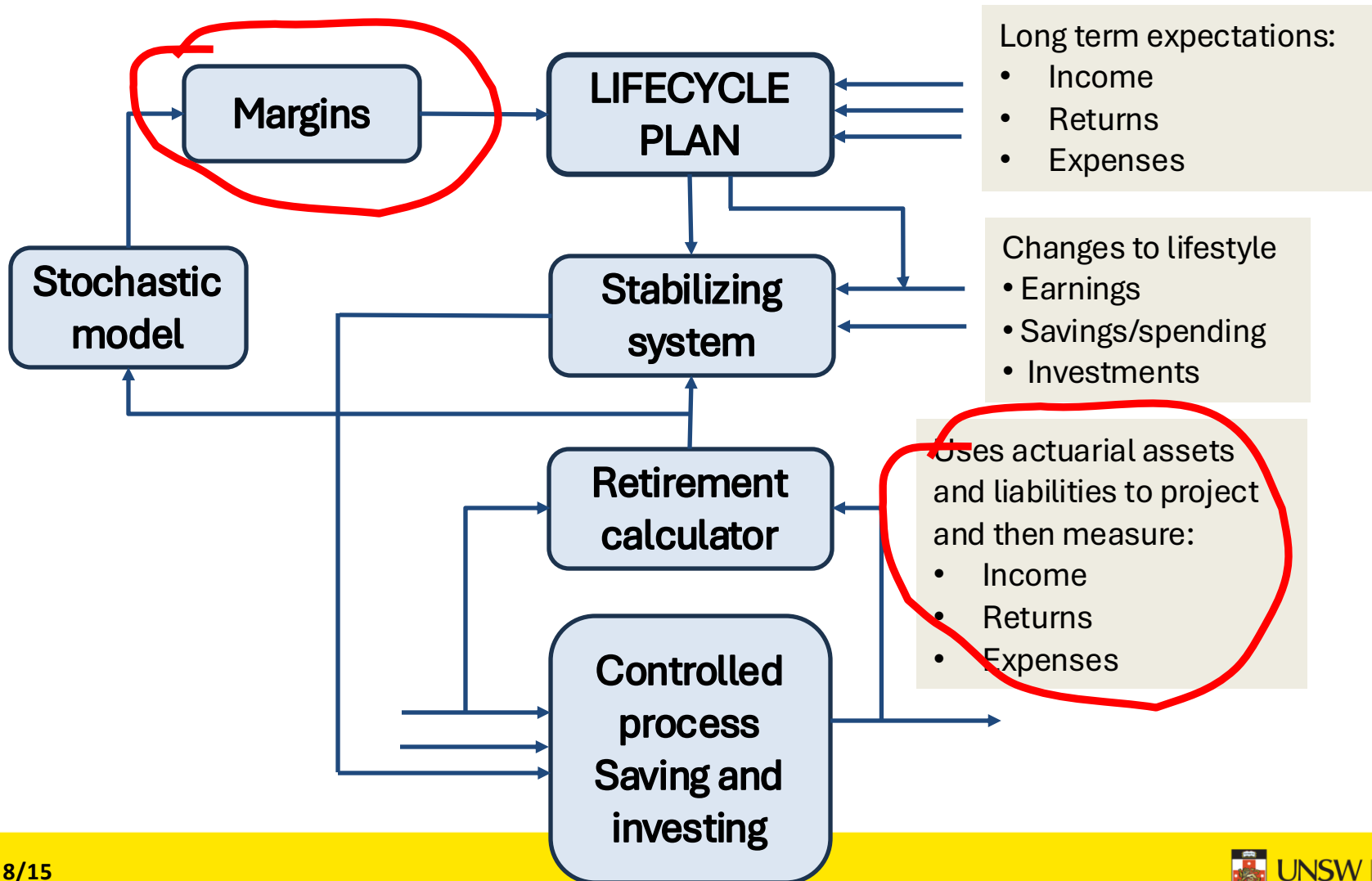
Heuristics

- Compulsory super & default life insurance
- Three month cash buffer
- Lifecycle investments?
- Lenders require GI
- Could also require lifecycle calculator?
- Calculator provided by superfund or MyGov?
- Make compulsory at 65 to start drawing down?
- Annual illustration of benefit of annuitization?

Short term budget and control



Long term lifecycle balance sheet

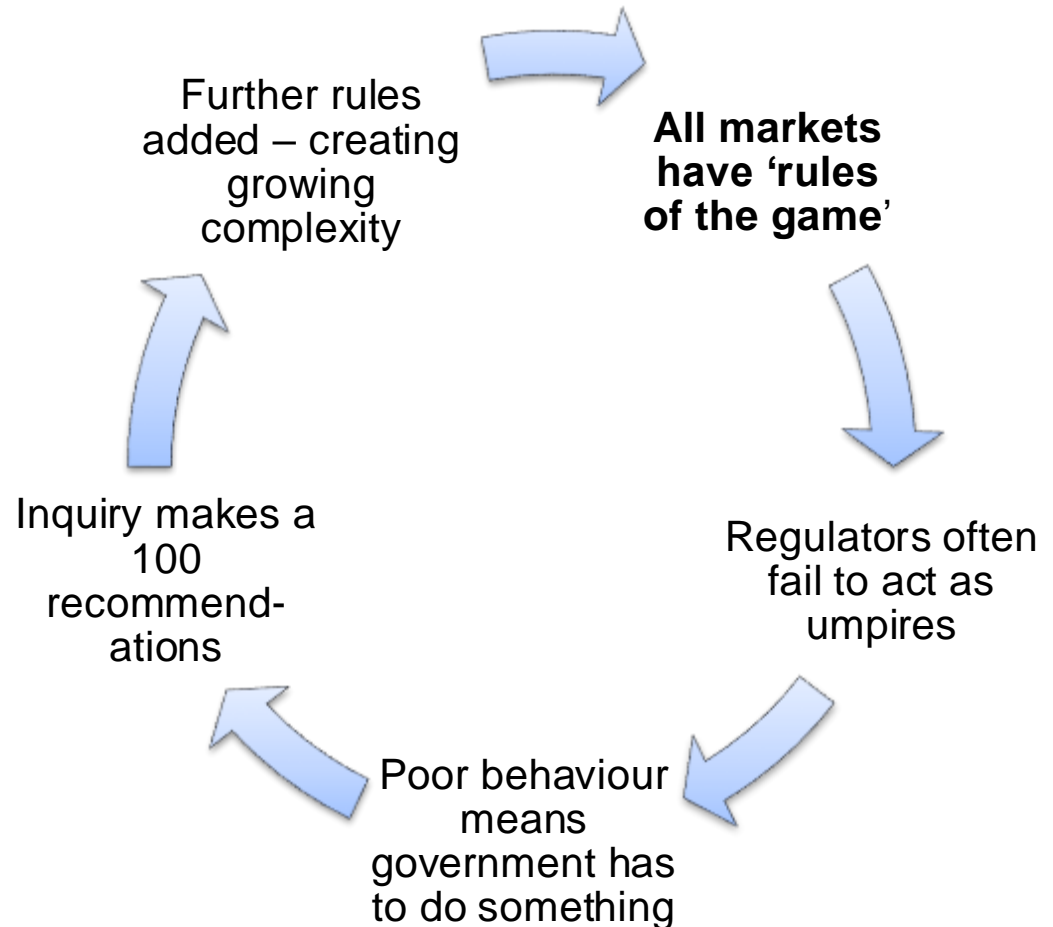


Financial stabilization system

- Appropriate Insurance
- Measurement system for investment, wage growth and inflation
- Model of variability
 - stochastic perhaps to determine margins
- Margins
 - Can alter income and expenses
 - Short term “emergency” fund
 - Buffer to absorb investment fluctuations in retirement

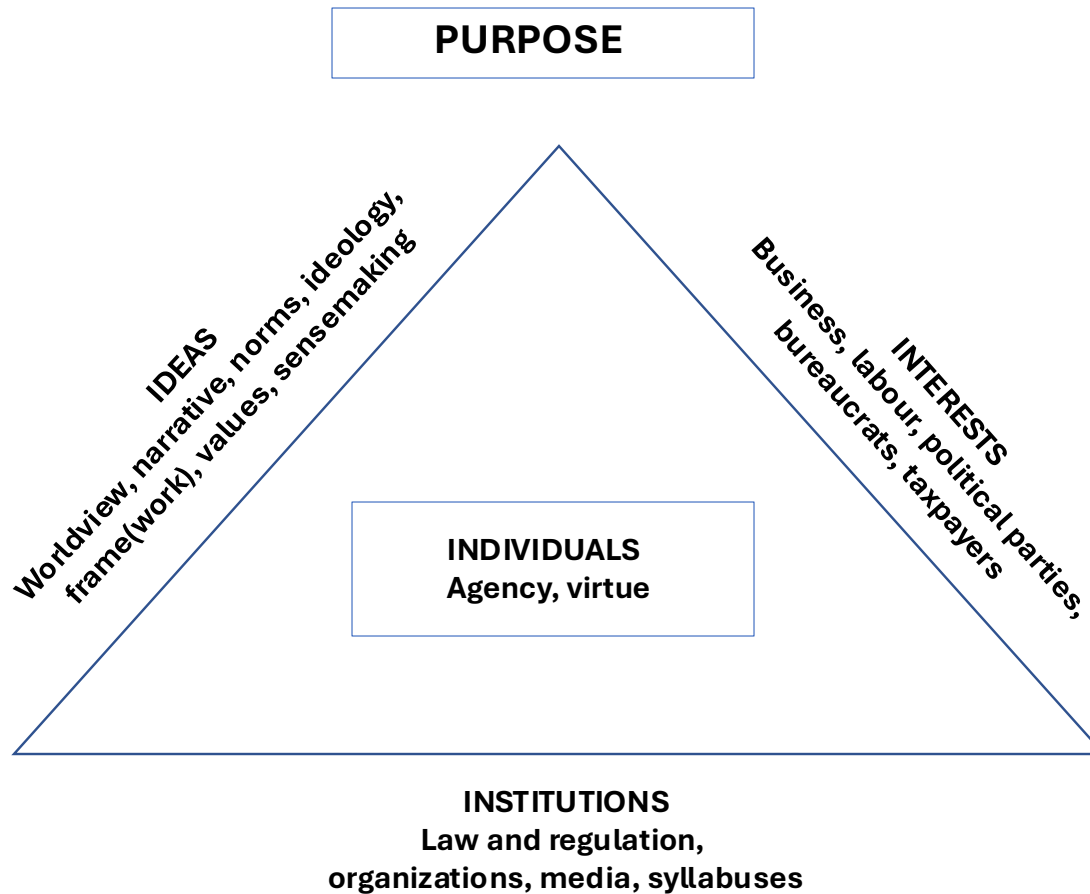
Simplification: rituals of comfort

The financialization narrative has led to privatized markets but has inadequate theories of market design, competition and regulation. We live in an 'audit society' under 'regulatory capitalism'



For some possibilities – see appendix

Politics

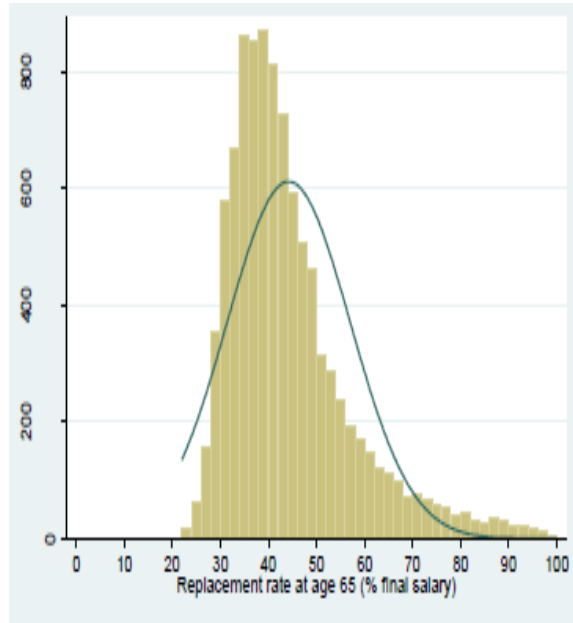


Financialization: Ideas

- DC Superannuation a prime example
- Financial markets drive growth
 - No longer true – excess economic rents
 - Unrealistic return expectations
- Only incentives count
 - Drives buybacks, increased margins
 - Some rubbish innovation: Crypto, BNPL ...
- Fallacy of financial literacy
 - People cannot manage the risks
 - And they accept the system and feel it is their fault

Milton Freidman (1977): “the greatest enemies of free enterprise are, on the one hand, my intellectual colleagues and, on the other hand, the big businessmen.”

Managing investment risk



Note: Replacement rates for people joining the labour market at age 25, contributing 10% of wages and working continuously for 40 years.

Example of a distribution of replacement rates – Figure 3 from Antolin et al. (2009)

System changes required

- Reduce volatility
 - Lifecycle investing
 - Longer term assets
 - Potential smoothing guarantees
- Reduce saliency
 - Stop pretending that investment is an amateur pastime
 - Show income and ALM matching
 - Lagged reporting / Smoothing

Financialization: Interests

- Rivers of gold for industry
 - Compulsion
 - Choice
- Shareholder democracy – “common ownership”
 - Lower interest rates (Greenspan put)
 - Inflated share and land prices
 - Lower competition
 - Buybacks not investment
 - Lower productivity
- Courage and maturity

Eggertsson, G.B., Robbins, J.A. and Wold, E.G., 2021. Kaldor and Piketty’s facts: The rise of monopoly power in the United States. *Journal of Monetary Economics*, 124, S19-S38.

Financialization: Institutions

- Path dependent
 - Compulsion
 - Massive tax concessions
 - Choice of investment
 - Lump sum in retirement
 - SMSF's fragment market
 - Overcomplicated advice market
 - Excessive regulation and floundering regulators

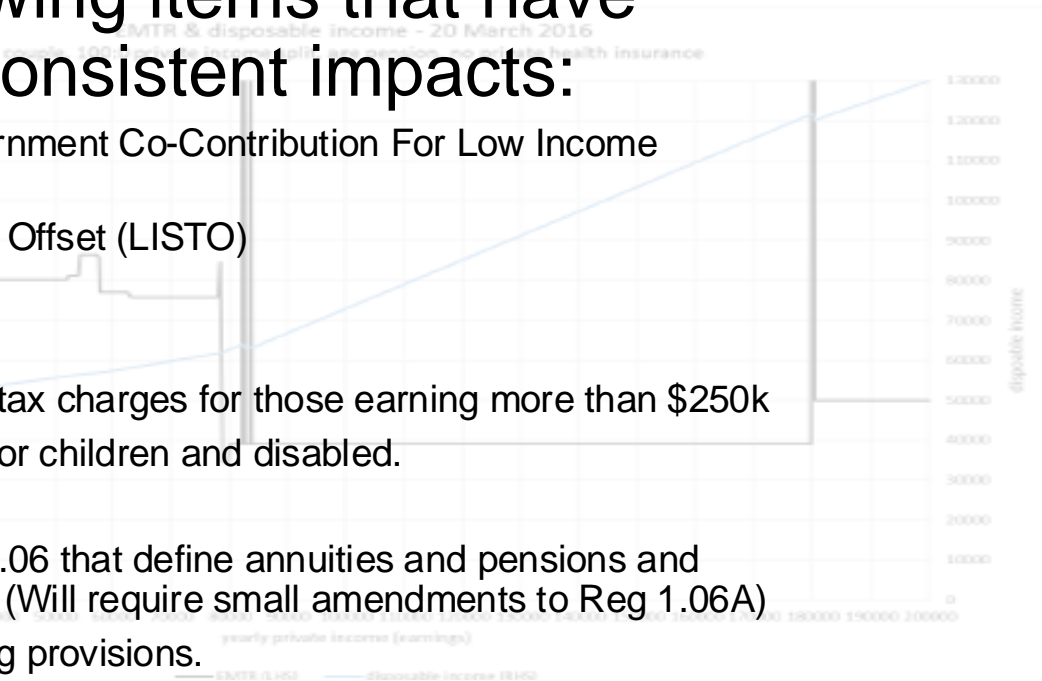
- We can redesign markets

APPENDIX

Abolish tax excesses

Abolish the following items that have immaterial or inconsistent impacts:

1. The Superannuation (Government Co-Contribution For Low Income Earners) Act
2. The Low-Income Super Tax Offset (LISTO)
3. The spouse contribution.
4. The bring-forward rule.
5. The division 293 additional tax charges for those earning more than \$250k
6. Special tax cap provisions for children and disabled.
7. RSAs.
8. SIS Regulations 1.05 and 1.06 that define annuities and pensions and abolish any grandfathering. (Will require small amendments to Reg 1.06A)
9. The pre-1983 grandfathering provisions.
10. The Seniors and Pensioners Tax Offset



Abolish welfare excesses

Abolish the following items that have immaterial or inconsistent impacts:

1. Special allowances such as energy supplements and the “Pensioner Education Supplement”
2. Options for quarterly payments
3. The lower deeming rate
4. The asset test (Annuitise and combine with the income test)
5. Requirement to notify Centrelink of a change in assets or income every 14 days (To twice yearly for assets)
6. Personal and household assets with a value of less than \$100k
7. Restrictions on the senior health card
8. Abolish Retirement Accommodation Deposits (RADs)
9. Abolish distinction between care, accommodation and living costs
10. Abolish the distinction between Age Pension and aged care means tests

