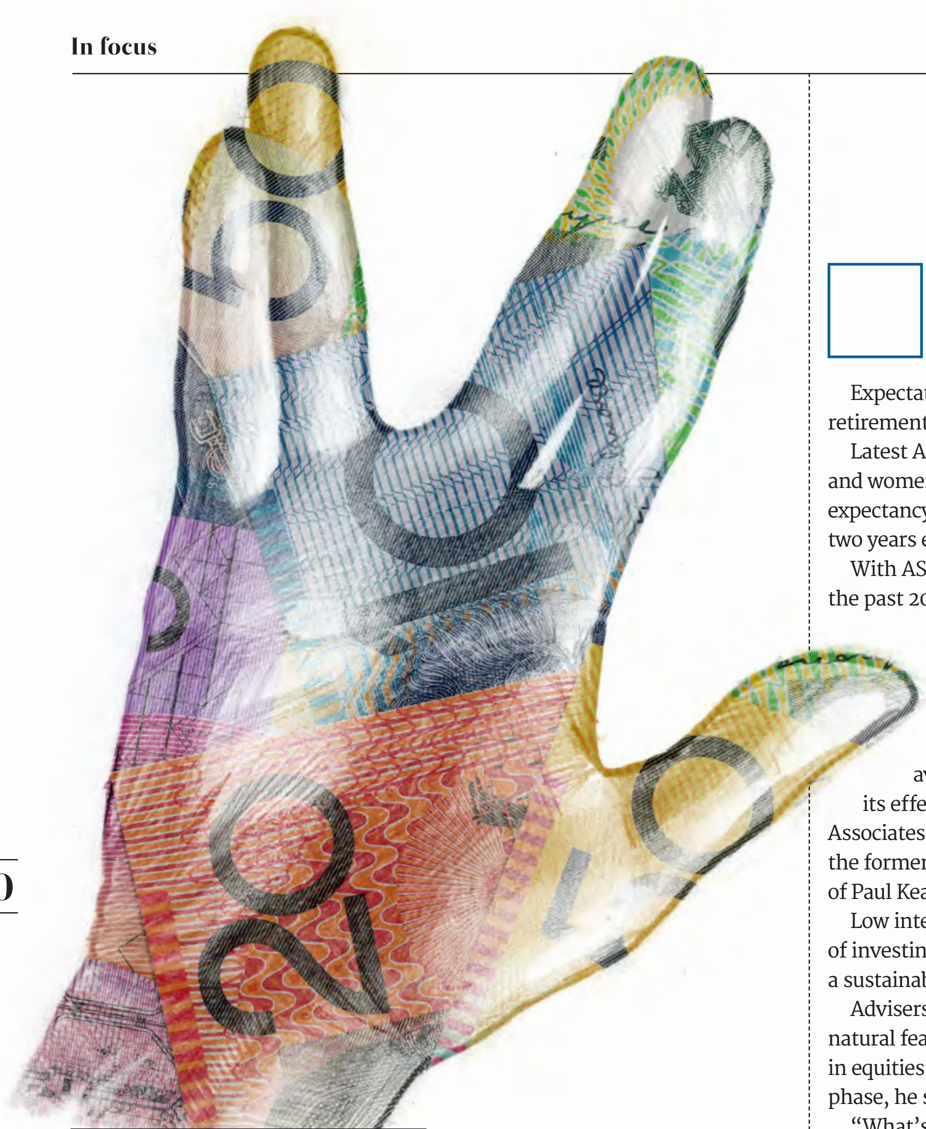

INVESTING TO

LIVE LONG AND PROSPER

WITH AUSTRALIANS NOW LIVING ON AVERAGE 84 YEARS FOR WOMEN AND 80 YEARS FOR MEN, BETTER INVESTMENT STRATEGIES ARE REQUIRED, AS LOW-RISK INVESTING WON'T DELIVER A SUSTAINABLE RETIREMENT INCOME FOR THE LONG TERM.

WORDS MEREDITH BOOTH

The era of low interest growth has sharpened the fears of Australians transitioning to retirement and hoping to maximise their income to live long and prosper.

Expectations are they will enjoy about 25 years of retirement, so their pool of savings has to stretch.

Latest ABS statistics show men will live to 80.3 years and women to 84.4 years, the seventh highest life expectancy in the world, with the trend growing by two years every decade.

With ASX200 equities growth above 9 per cent for the past 20 years, the main strategy for fund managers and advisers has been to encourage their clients to remain substantially invested in these growth assets, to reap the benefits of capital growth when they retire.

But this goes against retirees' natural aversion to share market volatility and its effects on their finite funds, says Sherry & Associates International chief executive Nick Sherry, the former Labor superannuation minister at the start of Paul Keating's compulsory super policy.

Low interest rates now show how a low-risk strategy of investing in bonds and cash is not the answer for a sustainable retirement income, says Sherry.

Advisers need to convince retirees to face their natural fear of market risk and continue to invest in equities and high growth assets in the drawdown phase, he says.

"What's missing in the market is a long-term dividend product solution where there's some underlying guarantee against that risk,'' he says.

"A defined contributions system puts the risk on the individual. That's an area which I think needs much more strong attention.''

NO RISK, NO GAIN

Sherry suggests more products will become available in Australia offering retirees a cost-effective guarantee on their funds, such as no negative returns.

Milliman Australia practice leader Wade Matterson agrees that too much risk has been placed with investors particularly those nervous transitioners at retirement.

They're desiring a more tailored advice than the "cookie cutter" balanced, growth or high growth products being offered by fund managers.

Matterson's actuarial consultancy has shared its risk management expertise with global insurance giants to successfully manage their exposure, saving $40 billion for customers in the wake of the GFC.

He says fund managers can learn from insurers' strategies to offer new retirement income products to protect income in the long-term from market fluctuations, government tinkering and inflation.

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"You've got funds that have essentially built products, but the investor takes all the risk, and you've got insurance companies that manage all the risk but have limited flexibility. By merging them together you have fund managers now coming up with risk management 'in-built'," he says.

"We're now in an environment where that no-risk position which is cash and term deposit investments is literally giving out nothing. People are frustrated, it's like jumping out of a plane without a parachute, you need a cushion."

'CUSHIONED' RETIREMENT PRODUCT

Managing risk more intelligently can place an insulation or buffer against corrections, he says.

Milliman collaborated in the 2015 alliance between Colonial First State and South African financial services group Sanlam to deliver "cushioned" income products to retirees, with the aim of reducing losses in major market downturns, in tandem with cost-effective exposure to Australian equities, and maintaining the potential for equity market returns.

The strategy allows investors to gain access to franking credits from the underlying equity index fund, even though equity exposure may be hedged, via derivatives and other investments, during volatile times.

Colonial First State's three new funds in Australian shares, global shares and multi-index funds were launched in June 2015.

But Matterson warns there will be work ahead for fund managers like Colonial First State to educate the market to popularise these types of products.

Part of that will be taking a different view when advising clients on their retirement needs, he says.

"Instead of asking how much income retirees should have for their whole retirement, they should be asking what lifestyle they'd like to lead," says Matterson.

"Take my 68-year-old father, what he wants in retirement is a lifestyle, to play golf three times a week and take an overseas trip twice a year. It's about having a lifestyle and an experience and it's up to us to help him do that."

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> THIS ARGUMENT CASTS DOUBT ON THE TRADITIONAL VIEW THAT A TRUE PROFESSION (AS DISTINCT FROM A COMMERCIAL OCCUPATION), HAVING UNDERTAKEN TO ACT IN THE PUBLIC INTEREST AND CONSEQUENTLY

While there's been a range of products put up in the past 10 years aimed for retiree income, the vast majority have had limited take up, he says.

"The majority still have the bog standard allocated pension," Matterson says.

"It's not the products' fault, the reason these things have struggled to gain traction is an advice problem and education of members, on what they might need to achieve," he says.

COMPLEX 'TRILEMMA'

It's also a reason why people have not invested in annuities, as a safety net to cover essential retirement costs, he says.

"There's a huge behavioural barrier where people are short-term focused and can't place a value on something today that doesn't exist yet," Matterson says.

The complex trilemma of balancing investment risk, inflation risk and longevity risk is causing investors to seek strong guidance from financial advisers over their lifetime.

"The world's kind of changing these days and consumers are really looking for tight partnerships with the organisations that want to provide to them," Matterson says.

"What they want is highly tailored personalised relationships. Super funds are struggling with it and large institutions are struggling with it."

"The challenge with advice, including robo-advice, is I don't see it as advice at all, I see it as a product," he says.

"(Robo-advice) is a risk profile questionnaire which feeds the client into balance, growth or high growth. Nowhere in that process do I learn the questions and the goals of the customer."

"If we establish the goals upfront, the risk is in the ability to fix these goals in a poor market environment.

DIFFERENT COSTS

Colonial First State head of investment sales, George Walker, says not all retirement has the same demand on income.

Spending patterns will change over 25 years with the recently retired tending to have larger ad hoc costs as they travel, while older retirees heading into aged care face higher health costs.

He thinks the research, until now, has gone on product offerings for the accumulation side of super, but with 250,000 Australians retiring each year, demand is growing for income products.

Changes to tax treatments in the 2000s changed the favourability of annuities, but Walker believes deferred annuities, not yet available in Australia, will soon be regulated for.

His company's collaboration with Milliman will be another part of the tool kit to increase retirees' confidence to stay invested in equities to sustaining a good income throughout retirement.

But he recommends people talk at least half yearly to their adviser, making sure they're achieving their goals and making any other decisions based on their priorities.

He also suggests they seek out products from fund managers who are active and "long-term stewards" of portfolios, investing in listed companies that take a long-term view and are highly regarded for their transparency and governance, both in Australia and internationally.

"Just because you're a big brand name doesn't mean you're a good investment. That's the power of active management," Walker says. ■