

North, managing the risks in retirement /



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Preparing for Change

Financial Planning for Retirees

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Agenda

- A force for change
- What will they need?
- Opportunity & challenges

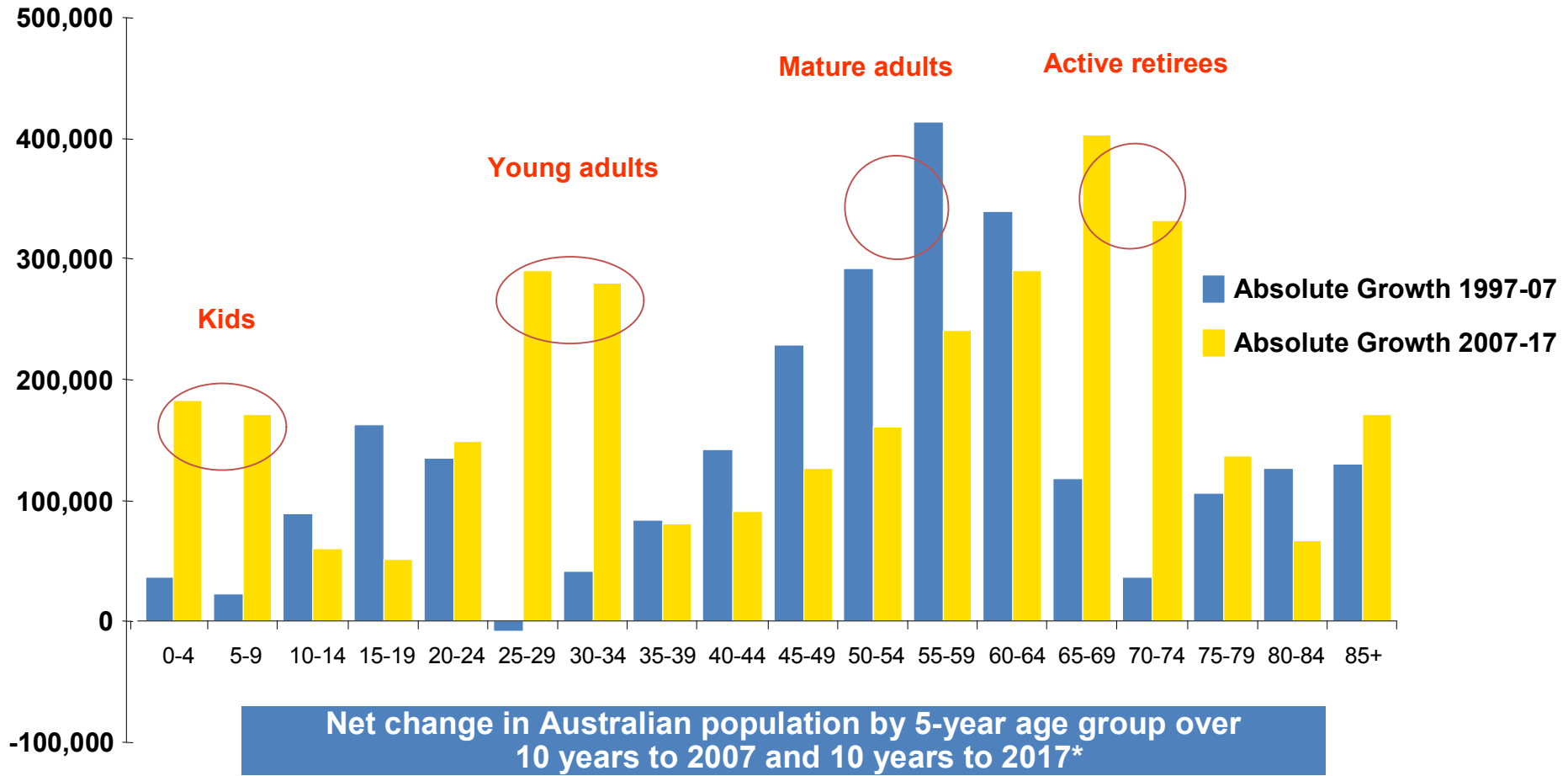
Baby boomers:

A force for change 

- Adults over 50 will represent the majority of Australian adults by 2047 (ABS)
- 59% of Australians aged 45 to 64 expect to enjoy a better lifestyle than their parents in retirement
- The “Me” Generation*
 - Retirement has transitioned from a rest before death to a reward for hard work
 - Most want an active, busy retirement lifestyle
 - 85% plan to travel within Australia or overseas
 - 73% plan to take up or spend more time on a hobby or activity
 - 43% will use superannuation as the main source of income in retirement

* Hill & Knowlton (2006), ABS

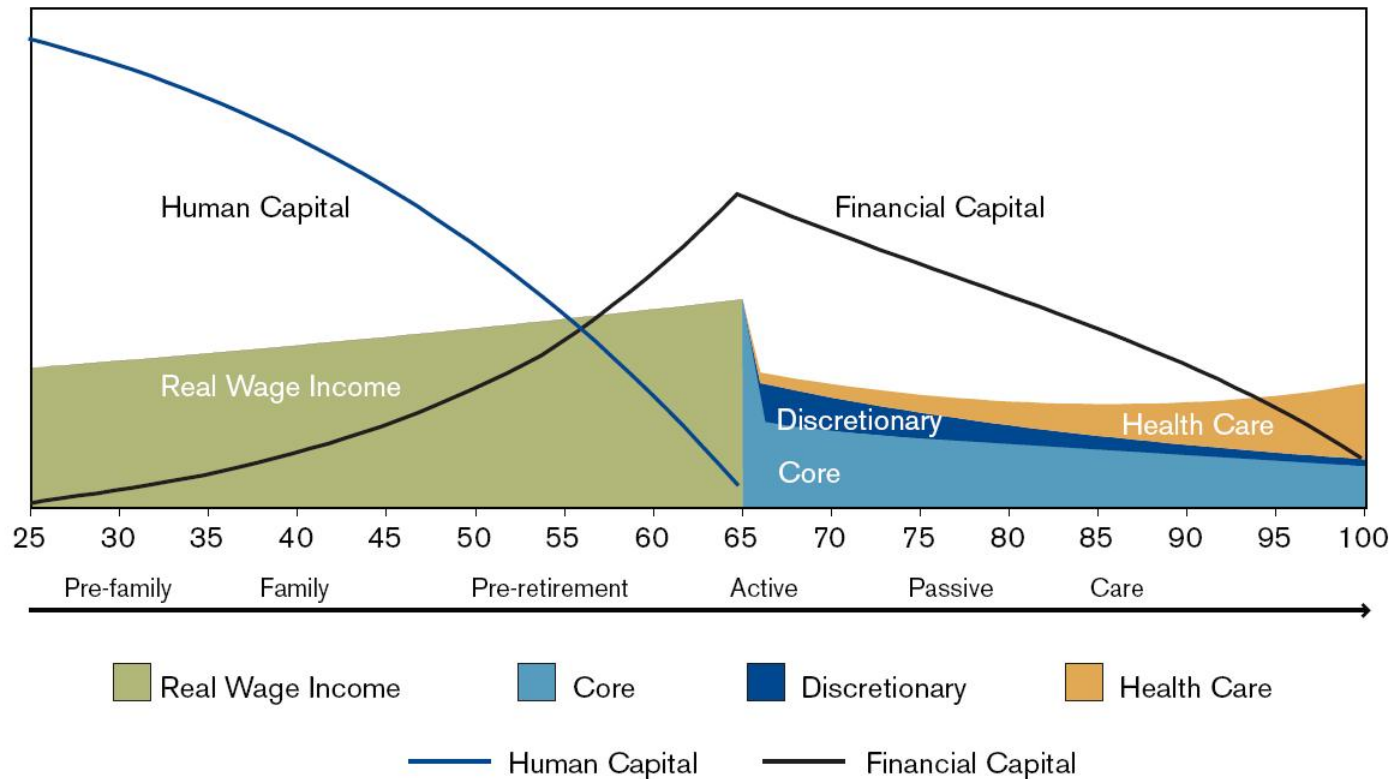
Baby boomers: Planning for retirement



* Source: ABS

The financial lifecycle

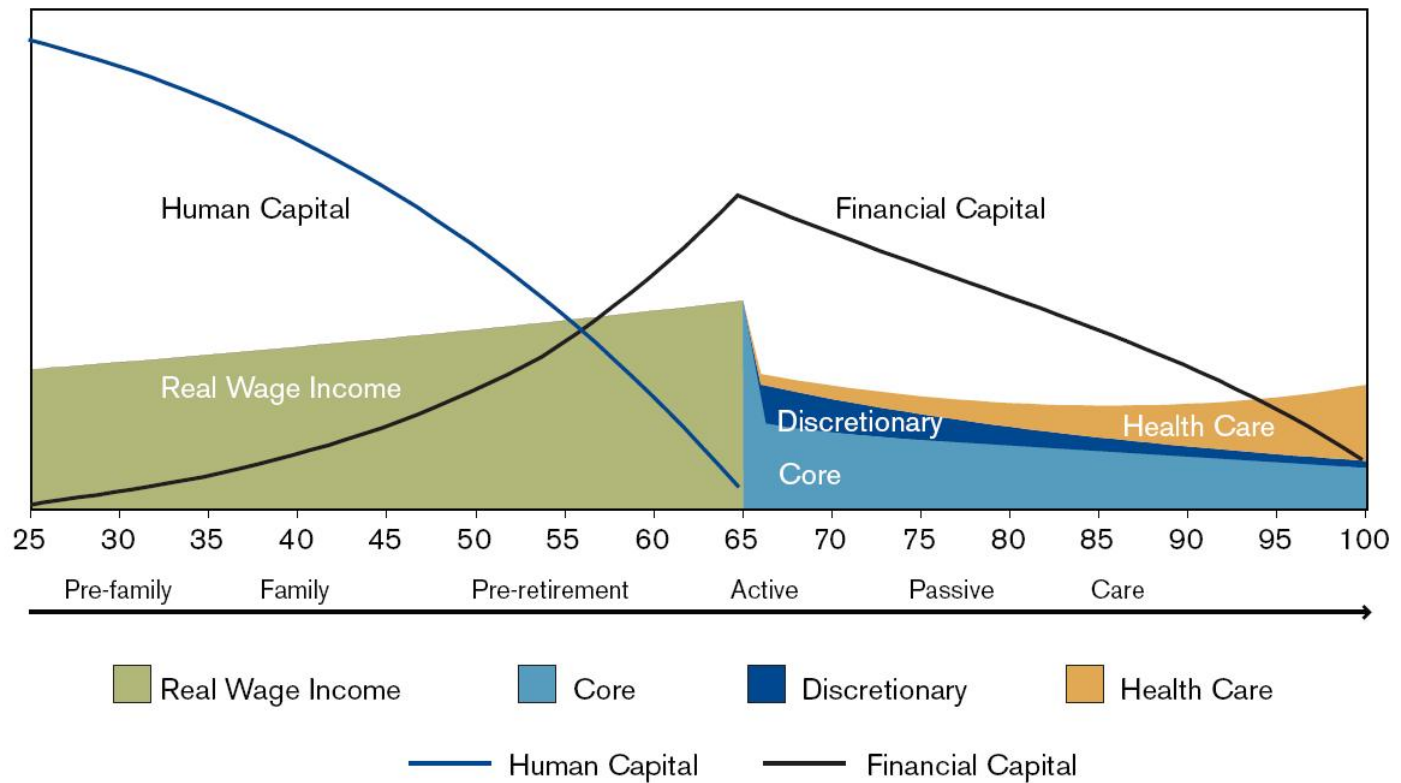
The central feature is the transition of human capital into financial capital and thus into future income to meet consumption needs



The financial lifecycle

Kids

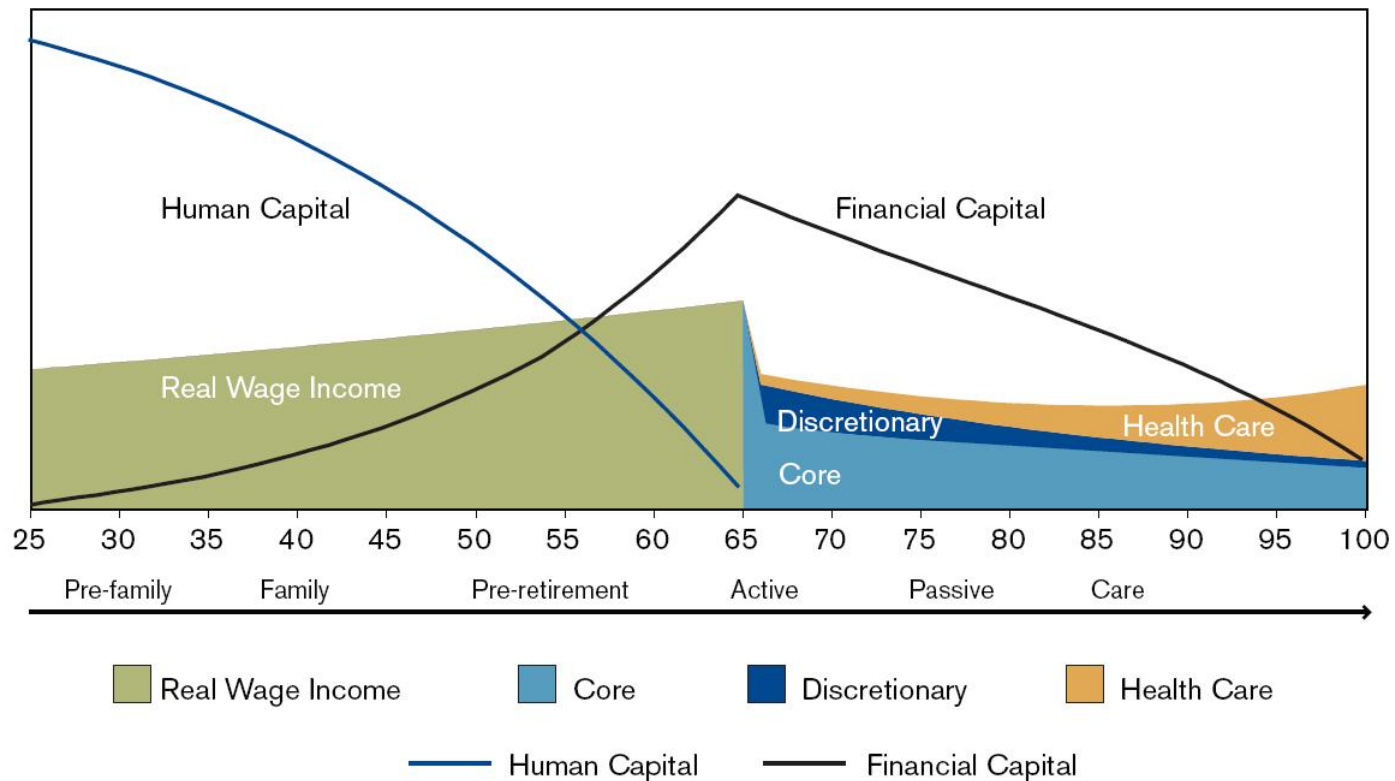
- Education focus



The financial lifecycle

Young adults

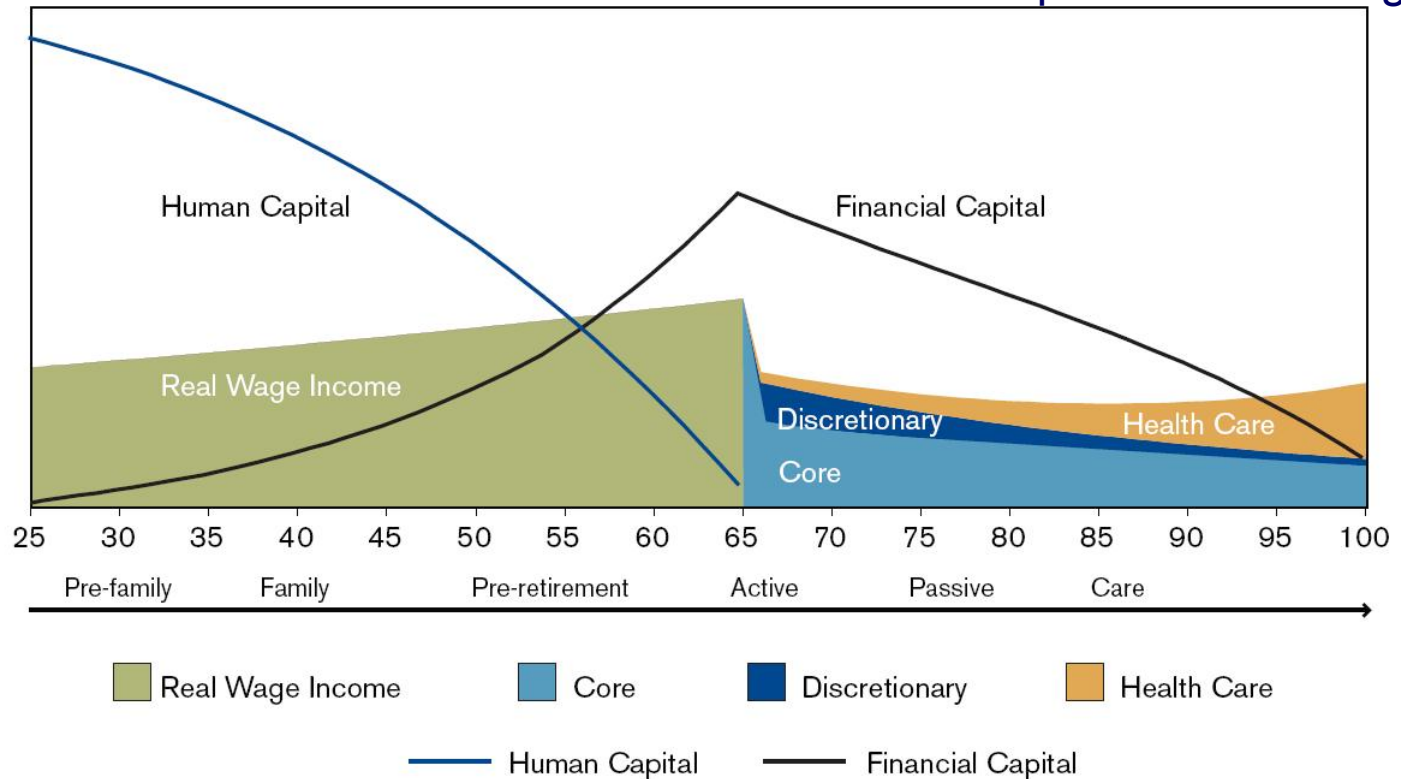
- Balance between present & future consumption
- Insurance for those with dependents



The financial lifecycle

Mature adults

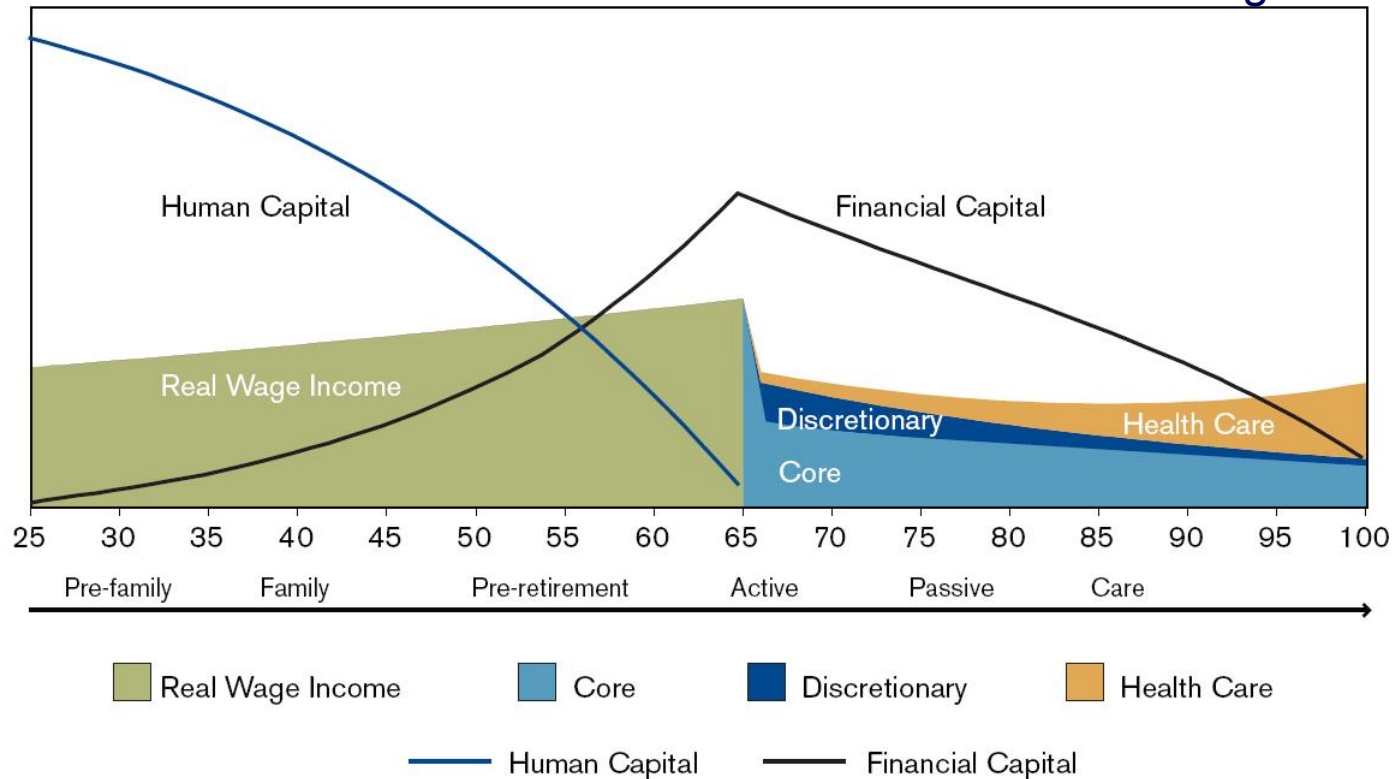
- Financial capital overtaking human capital
- Focus on accumulation & protection strategies



The financial lifecycle

Active retirees

- Human capital minimal
- Income & asset management



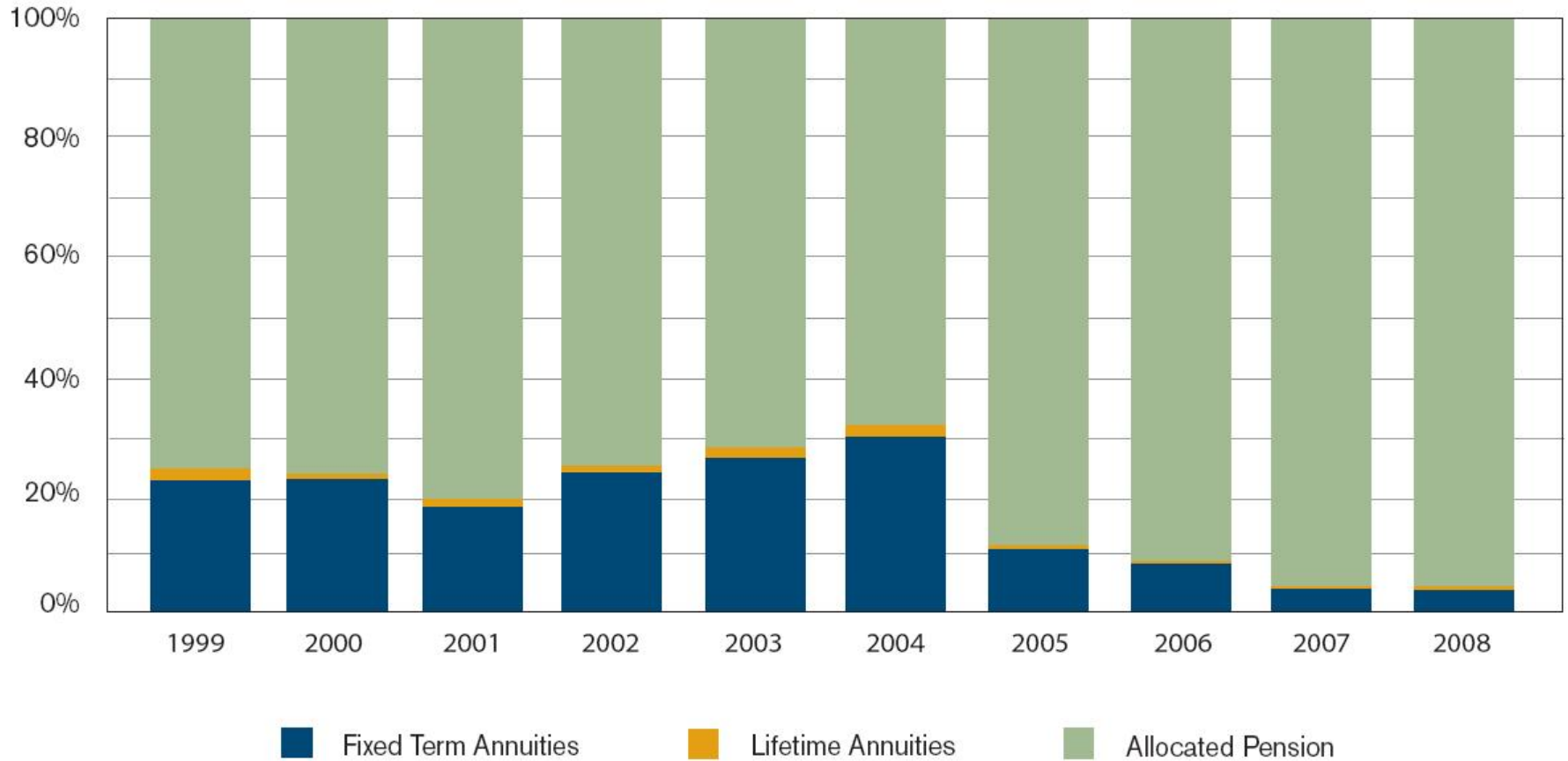
Features of successful strategies /

- Flexible
- Security & comfort
- Growth potential

Flexible solutions fit the 'Boomer' mindset

- Boomers want to be able to change tack
- More active for longer
- Freedom & control

Reflected in the take-up of existing products



Here for a good time AND a long time /

- The first pay as you go pension scheme was established in 1881
- Retirement age was initially set to 70
- Life expectancy at the time was ... 45!!



* Source: Australian Life Tables

** Source: Herald Sun

Here for a good time AND a long time

		Proportion that live to age*		
Results for a 60 yr old	Expectancy	90	95	100
Male	84	1 in 4	1 in 12	1 in 50
Female	88	1 in 3	1 in 6	1 in 25
Couple	90	1 in 2	1 in 5	1 in 20

Having your car stolen this year... 1 in 159**

* Source: Australian Life Tables

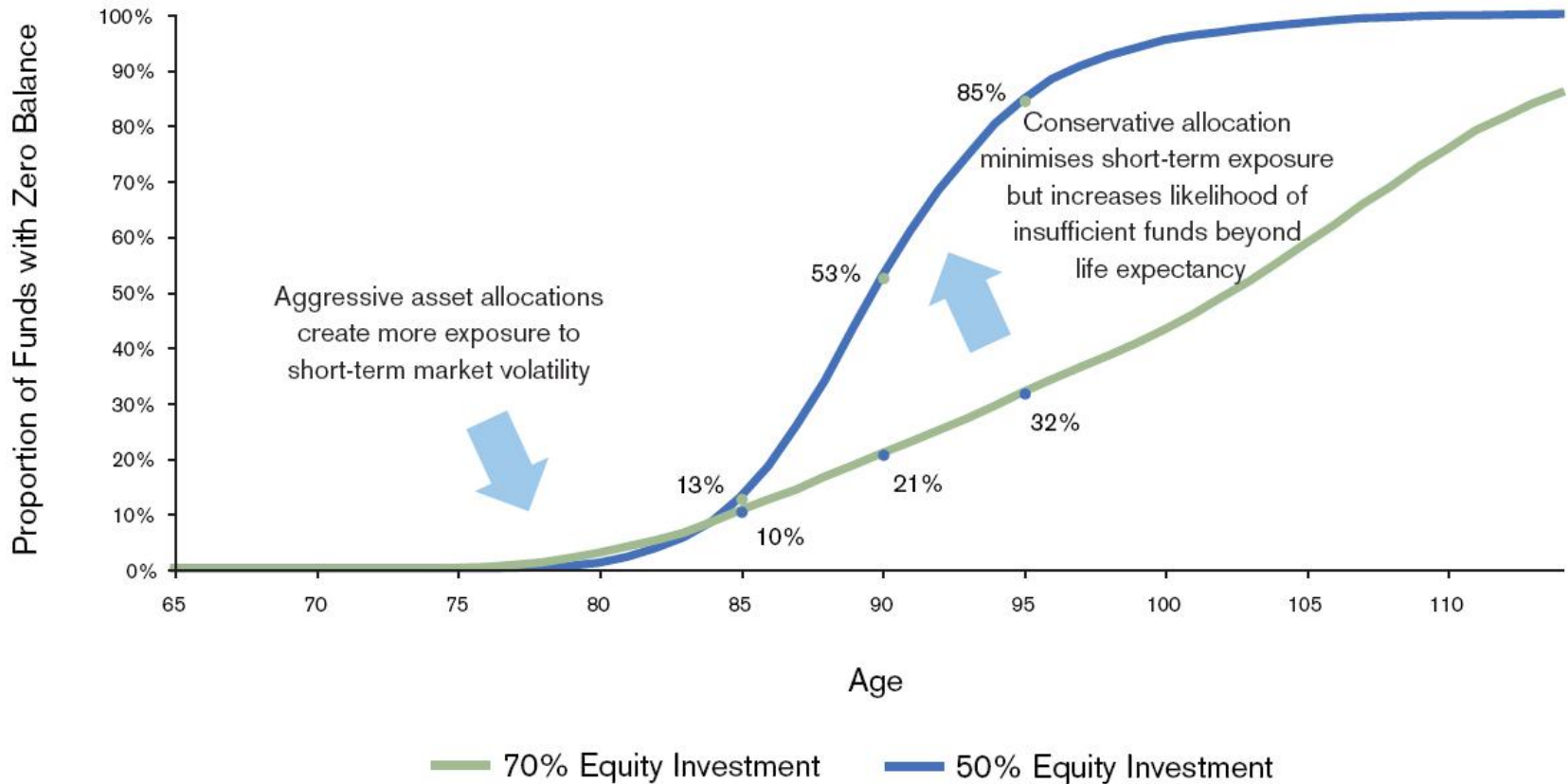
** Source: Herald Sun

The need for growth assets /

- Retirement time horizon is uncertain
- Keep pace with inflation
- The 10 / 30 / 60 rule

The need for growth assets

Funds Run Out Faster With More Conservative Asset Allocations Due to Loss of 'Market Upside'

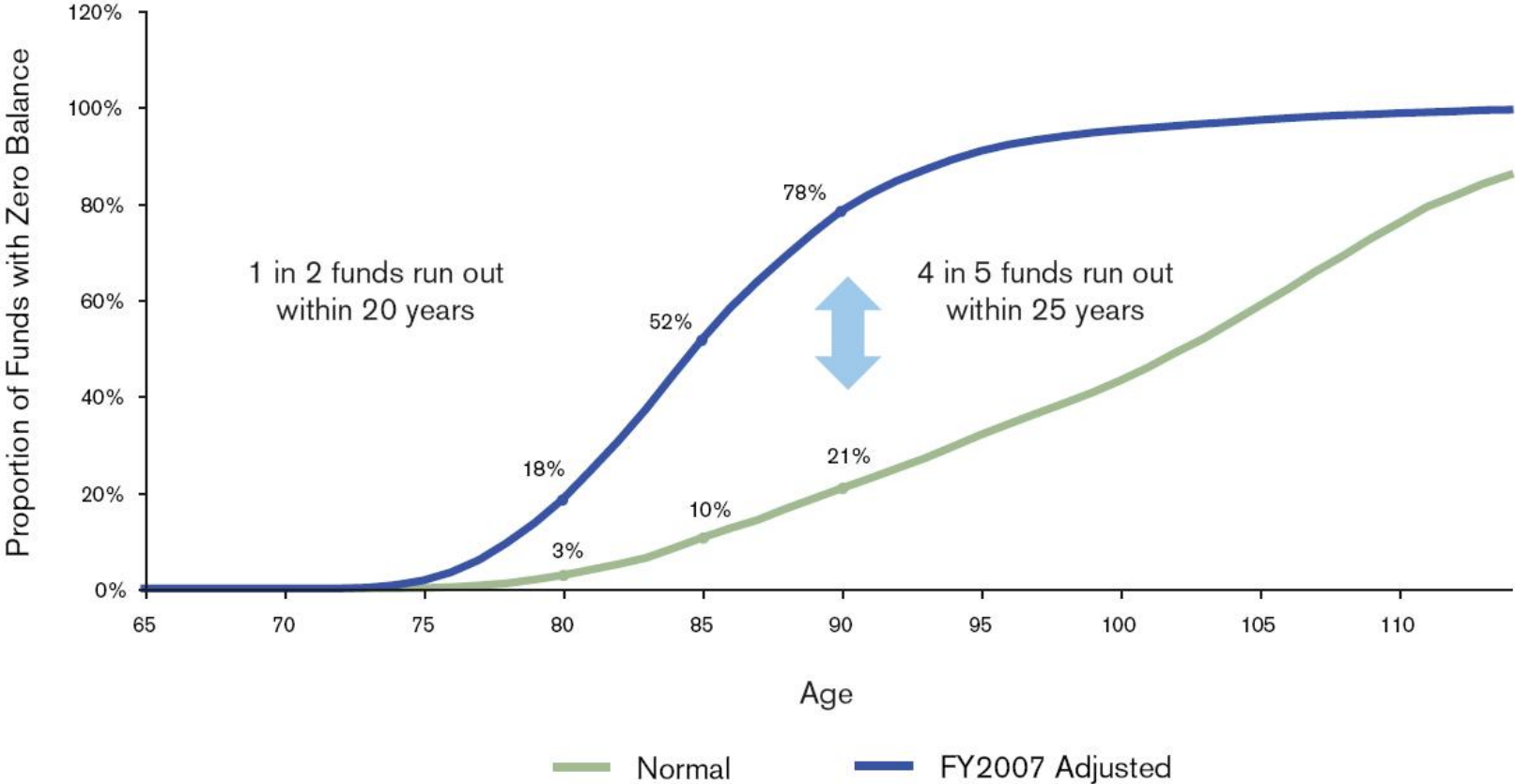


The price for growth: Volatility /

- Switching to cash
- Regret risk
- Products & advice can help alleviate

The price for growth: Volatility

Market Returns Experienced in the First Year of the Financial Crisis Increased the Likelihood That Funds Will Run Out of Money for Those in the Retirement 'Critical Zone'



Sequence of returns matters

Initial investment	100,000	100,000
Historical Returns	-10%	18%
	-7%	15%
	-3%	10%
	-1%	6%
	5%	8%
	8%	5%
	6%	-1%
	10%	-3%
	15%	-7%
	18%	-10%

Who will have accumulated the most after 10 years?

Sequence of returns matters

Result is independent of return sequence in accumulation

Historical Returns

-10%

18%

-7%

15%

-3%

10%

-1%

6%

5%

8%

8%

5%

6%

-1%

10%

-3%

15%

-7%

18%

-10%

144,219

144,219

Sequence of returns matters

Now assume 5,000 is withdrawn each year		
Historical Returns	-10%	18%
	-7%	15%
	-3%	10%
	-1%	6%
	5%	8%
	8%	5%
	6%	-1%
	10%	-3%
	15%	-7%
	18%	-10%
		73,135

Drivers for change

- Demographic pressure
- Focus on income
- New products and strategies
- Sophisticated planning tools

Challenging the current framework /

- Does not illustrate volatility
- Limited ability to compare strategies
- Focus is on cost

Adapting frameworks to the problem

Superannuation Assets	Annual Income	100% Unprotected Allocated Pension	50% Allocated Pension, 50% North PR	100% North PR
50,000	29,000	94%	95%	99%
100,000	31,500	82%	85%	88%
150,000	33,500	75%	82%	88%
300,000	39,000	64%	72%	100%
500,000	45,252	67%	76%	100%

Summary /

- Change is here!
- Innovation & investor education is underway
- There is significant opportunity
- A new way of thinking is required