# Seasons of change

Australia's ageing population and increasing life expectancy signifies now, more than ever, the instrumental role the system plays in ensuring the best retirement outcomes for all Australians. But, in order to do this well, we must truly understand the retiree. AMY BRADDON reports.

Australia has one of the highest life expectancies in the world and many of us will spend more than a quarter of our life in retirement. Men are now living until an average age of 86 years and women until an average of 89 years. This is a significant increase from the 1960s, where life expectancy at birth was 67 years for males and 74 years for females, according to the ABS and the Australian Institute of Health and Welfare (AIHW). What's more, by 2050, Australia's life expectancy is predicted to rise to 91 for males and 93 for females.

Australians are not only living longer but the ageing population is increasing at a rapid rate. In 2014, the AIHW and the ABS reported 3.4 million Australians were aged 65 and over and 456,600 people were aged 85 and over – compared to 1964, where only 8 per cent of the population (948,100 people) were aged 65 and over and only 0.4 per cent of the population (50,100 people) were aged 85 and over.

Similarly, Australia's rapidly growing population of retirees is likely to challenge fiscal policy in the near future. According to Roy Morgan's *State of the Nation Report 25 – Spotlight on Financial Risk* report, over the next 12 months 415,000 Australians intend to retire—rising from 327,000 in 2008—and are likely to have inadequate savings and superannuation to be self-funded, increasing the need for government support.

Currently, there is a huge gap between the current average super balance around the time of retirement – $138,000 for women and $293,000 for men, versus ASFA's Retirement Standard of $545,000 for a single person or $640,000 for a couple to live a comfortable lifestyle in their retirement. For people currently aged more than 65 years, less than 20 per cent of single people and 30 per cent of couples are able to reach this standard of living.

According to ASFA, there is a shortfall of nearly $25,000 a year between the full Age Pension and what it costs for couples to have a comfortable lifestyle in retirement. For singles the shortfall is about $20,000. Superannuation in conjunction with the Age Pension are designed to provide a 'safety net' for those who do not have enough super or other financial resources to provide an adequate retirement income, but with an ageing population issue, achieving this may be even more difficult in future.

## GLOBAL AGEING

Richard Jackson, founder of the Global Aging Institute says the issue of ageing is affecting most parts of the world, with huge implications on fiscal policy, the economy and the younger generation.

"Ageing is a global issue – most parts of the world are ageing rapidly and it's not just the developed world, but the emerging world too," said Jackson.

"There are two forces behind global ageing. The first force is falling fertility – people are having fewer babies, and this decreases the relative number of young. The second is rising life expectancy – people are living longer, and this increases the relative number of old."

Jackson reveals a fundamental challenge for ageing societies is how to maintain a decent standard of living for the old without putting a crushing burden on the young, the society and the economy.

"Rising expenditure on pensions and health care will put relentless pressure on government budgets. Ageing may also depress savings, investment, rates of return to capital, labour productivity, and GDP and economic growth. It could also affect social mood, geopolitical stature and the global balance of power," said Jackson.

"The global ageing issue promises to transform every dimension of public and private life, but the good news is that we are by no means helpless in the face of global ageing.

"With good policymaking, most of the challenges can be overcome and most of the burdens can be removed.

"We can enact timely pension and health-care reform. We can adopt new pronatal and immigration policies that help to slow the pace of global ageing. We can boost economic growth by encouraging longer and healthier work lives. And we can prepare for the rapidly emerging shifts in geopolitical fault lines between rising and declining powers."

## WHO IS THE AGEING MEMBER?

According to Laura Demasi, social researcher and research director of Ipsos Mind & Mood Report, the very concept of ageing is being reinvented.

"What it means to 'age' and grow 'old' and be 'old' is being transformed. The 'ageing' member isn't really who you think it is anymore," said Demasi.

"As good health continues to be viewed as something that can be maintained 'indefinitely', physical age is becoming irrelevant; age is much more about mindset. Retirement from full time work isn't retirement from 'life' but the opposite, and rather, a 'second act' where growth, expansion, learning and goal setting are more important to life, not less.

"So, today's ageing member probably has more in common with the 20-something generation in that life is all about seeking new experiences, exploration, socialising and having fun. It's about the 'me' and 'what I want.' It's definitely not about 'winding down' or the beginning of the end. It's about the beginning of a new beginning."

It may be easier to simply label retirees as one group, but the interests, spending habits, health and aged care costs of someone in their 60s cannot be viewed with the same lens as someone in their 90s.

Jeff Sanders, partner of marketing consultancy Fifty Not Out, believes it's more important than ever to treat the ageing member not as one homogenous group, but rather as individuals who are constantly evolving through life stages.

"Even though it's good news that today's 'ageing member' feels like they are going to live forever – the bad news is that they just might and not be able to afford the life they want," said Sanders.

"But, for some reason, most companies who market and communicate with me, including my financial services providers, treat retirees exactly the same.

"Clearly, there is an opportunity to segment this market better and address the ageing member in more meaningful ways, relevant to where their head (and wallet) is at."

## AGEING AND ADVICE

It is important for the sector to remember the retiree journey, not just the destination. For those in early retirement and for retirees in their 70s, 80s, 90s and beyond, the level of financial, health and aged care support varies greatly and the retirement journey can be challenging.

Sanders believes retirees could benefit from a 'road map' on how to maintain a good lifestyle throughout their post-work years.

"Unlike when you have a baby (remember *What to Expect When You're Expecting?*), there is no definitive guide on how to navigate this new terrain – emotionally, intellectually or financially," said Sanders.

"For everyone who hits the retirement milestone, it's all new stuff. Retirement today is not the same as it was for your parents – play a little golf, sit on the porch with a drink, watch some telly, and hope the money holds up before you have to offload your kids' inheritance.

"Today, retirement can go for 30-plus years and of course, a person's needs and desires change over time. Evidently, a lot of spending is going on in early retirement, particularly on travel, but this is usually the early celebration of freedom, like the proverbial drunken sailor on shore leave. But like the drunken sailor, you eventually wake up with a massive hangover and have to get back on deck and start sailing to your next port of call – all with a little less money, but no less desire to do it all again.

"With two in three Australians 'slightly' or 'not at all prepared' for retirement, there is certainly an opportunity here. And the knowledge gained from working with an empathetic financial professional can make a real difference to staying on course."

When considering the 'older' retiree, Louise Biti from Aged Care Steps says funds need to look at how they are engaging with their members, particularly the provision of advice.

"The advice needs of members change when they transition from working to retirement and will change again when they approach their care years," said Biti.

"Increases in life expectancy and medical advancements mean we can expect to live longer and potentially have a long period in retirement, but this also leads to an increasing need to access aged care in the latter stages of retirement. In fact, on average we can expect around one-quarter of our retirement period to be care years.

"Older members may seek more strategic advice on what care options are available, what it will cost and how to fund the care, options for transferring wealth to the next generation and ensuring someone trusted can make decisions on their behalf.

"Consider how well your fund is positioned to help these members and the potential loss if members need to seek advice elsewhere."

Biti insists there are steps that may help funds build a service offering that adds value to members and their families.

"It is important to upskill financial planners so they can identify members in need of aged care advice and have the competency to provide advice that helps members to make informed decisions," says Biti.

"Funds also need to communicate aged care issues to members through seminars, newsletter articles, information brochures and website content. Providing members with access to support tools will build the efficiency of the financial planners.

"While older members are more likely to be users of aged care services, when building business solutions for aged care advice, don't just focus on the older members. Demand for aged care advice is high among members in the 45–65 age group who are increasingly worrying about how to care for older parents and are seeking advice to navigate through the aged care minefield."

## RETIREMENT SOLUTIONS

As funds face a seismic demographic shift of their members from the accumulation to pension phase, Raewyn Williams, director of research and after-tax solutions at Parametric insists the design of retirement solutions requires a different mindset.

"Funds must resist the temptation to simply tinker with or tweak their accumulation approach. Member needs are not just 'a little' different in retirement – they are starkly different in retirement," said Williams.

Williams believes the 2015 Financial System Inquiry (FSI) proposes an approach funds should consider.

"The FSI suggests a good retirement solution must include three key elements – 'high income', 'risk management' and 'flexibility'," said Williams.

"Firstly, the 'high income' element identifies the member's need for a salary or wage substitute. The implicit investment problem to solve is different to accumulation because the composition of the total portfolio return (yield versus capital growth) matters. Liquidity is also much more important. Franking credits are a more lucrative source of yield in pension portfolios.

"The second element is 'risk management' and identifying how the member worries about how 'safe' the income stream is and whether it will run out in their lifetime. Unlike accumulation, volatility really matters. The member's asymmetric risk preferences come to the fore, meaning they care much more about loss of capital and the damage that can be done in down markets than participating in up markets. Solutions must recognise the risks that really matter to members rather than focus on simple (symmetrical) benchmark-relative risk.

"And the third element—'flexibility' —addresses how members may need access to their capital if something unexpected happens, an option that does not exist in the accumulation phase. This makes the time horizon and drawdown pattern uncertain and, from a product design perspective, places a premium on solutions with liquidity, transparency and no exit penalties."

Williams believes funds should take note of the Productivity Commission's statement about the retirement solutions landscape being "sparsely populated".

"Our industry should see this as a license to innovate, minus the 'herding' mentality and peer risk sensitivities that can hamper innovation in the accumulation space," said Williams.

"Options include segregation of accumulation and pension assets, especially in equities. Segregation is not just for the big end of town either, as clever implementation solutions such as 'centralised portfolio management' offer a simple path to segregation without requiring scale.

"Equities must continue to do much of the heavy lifting in a pension portfolio to meet income objectives. Funds should recognise different 'flavours' of equities, and even consider a formal recognition of defensive or low volatility equities as a discrete asset allocation option.

"How our industry responds in the future will show us much about our ability to innovate and have 'the courage of our convictions." SF

## Hear more at the 2016 ASFA Conference

**Richard Jackson** will be presenting *The impacts of an ageing society: are we ready?* on Wednesday 9 November, discussing how global ageing will reshape the economic and social landscape of the 21st century.

**Jeff Sanders**, **Laura Demasi** and **Louise Biti** will be presenting *The age of agelessness* on Thursday 10 November, discussing the concept of age and new rules of member engagement.