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The significance of certainty

No ifs, ands or buts, Australia's population is ageing.

At the moment there is about 7.4 million retirees in Australia. That's about 25% of the entire population.

By 2041, it's predicted this number will have grown to 10 million. At that point the nation's population is expected to reach more than 31 million, meaning about one-third will be over 67 years of age.

According to the Australian Institute of Health and Welfare, men aged 65 in 2018-2020 could expect to live another 20.3 years or until 85.3 years of age, while women could expect to live another 23 years, or to age 88. As of 2021, Australians had the sixth highest life expectancy among the top 10 OECD nations.

We already have the fourth largest pension market in the world and it's only going to get bigger. At the moment, it amounts to about $0.9 trillion of retirement assets; by 2041 it will be $2.1 trillion. By that same year, the annual transfer of retirement assets is predicted to top $206 billion, compared to today's $55 billion.

It's in anticipation of this enormous demographic shift that the federal government is paying increasing attention to retirees, demonstrated by recent legislative initiatives like the Retirement Income Covenant and draft proposals from the Quality of Advice Review, including that superannuation funds be allowed to provide personal financial advice to members, including those transitioning to or already in retirement.

It's interesting that all these changes should come as Australia celebrates 30 years of compulsory superannuation, but that's exactly the point: governments and the super and investments industry alike have so far focused much of their attention on the accumulation of wealth, with little focus on the needs of those who are no longer or soon won't be accumulating any.

But that's not the case when it comes to the financial advice sector. In fact, a recent survey by Natixis Investment Managers found that about 90% of Australia's financial advisers are focused on servicing individuals between 50 and 60 years of age, or pre-retirees. For comparison, just 82% of advisers globally said the same.

Despite this already being the case, the demographic shift we're about to witness presents a significant opportunity for advisers, but the fact that the industry has paid so little attention may be a challenge, according to Allianz Retire+ national sales manager Evan Gilhome[01].

"As people approach retirement, they need to continue growing their capital to give themselves the best chance of securing a strong retirement income to fund their lifestyle over many years. But equally, they can't afford to be overexposed to risk assets and the potential for a material drawdown – also known as sequencing risk," he says.

However, if they put the brakes on their capital growth by piling into defensive assets with low growth potential, there's a good chance they'll prematurely exhaust their savings and income.

"Additionally, retirees tend to exhibit a much higher aversion to potential losses. The stress and anxiety of risking hard-earned savings can be significant among retirees. In response, many will reduce spending or take an overly-conservative approach to investing – impacting quality of life and savings longevity," Gilhome explains.

All of this means advisers must focus more on protection and, unfortunately, there are very few traditional products or retirement strategies that adequately address all these risks, he says.

"There has been very little if any innovation from product providers, offering solutions that advisers can use with their clients to draw a safe and reliable income well into late retirement," he says.

"Advisers have done an amazing job managing the unique retirement risks with limited tools at their disposal."

However, Gilhome says the rules of investing have changed; "They've changed dramatically, and they've changed forever."

Gone are the days of holding highly defensive assets and living off the income, he says, adding that retirees now need to spend less, draw on more capital or take on more risk.

This is also partly due to the fact that the cost of living is rising. The most recent figures from the Association of Superannuation Funds of Australia show that, as at June 2022, couples aged around 65 need to spend $66,725 a year to live a comfortable retirement. Meanwhile, singles need to spend $47,383 for the same lifestyle. This is 6.2% higher than in June 2021 and it's going to continue going up, at least in the short to medium term.

"This means new approaches and new strategies that help advisers build robust retirement portfolios for their clients must be considered," he adds.

Allianz Retire+ aims to bridge this gap with Future Safe, a purpose-built solution enabling investors to access market-linked returns with protection from downside risk.

"It overcomes the challenge of how do you continue to benefit from potential market growth but with protection? Or to put it another way, how do you enjoy the benefits of capital protection without putting the brakes on your ability to accumulate retirement savings?" Gilhome says.

Depending on the client's risk profile and strategy, a floor of between 0% and -10% can be selected, with each floor offering a corresponding maximum return known as a cap.

"Put simply, Future Safe is a solution that offers returns of the share market within a guaranteed range. Clients can never do worse than the floor they've chosen and can potentially participate in positive returns up to an associated cap," Gilhome says.

"With a focus on increasing certainty and minimising the impact of volatility, Future Safe offers a level of confidence and stability that investors crave as they approach and enter retirement."

In terms of how advisers actually use these protection features, Gilhome says they're being used for a range of clients, including those in or approaching retirement, conservative and risk-averse clients, and those who have come into money, like a redundancy, downsizing or an inheritance.

"The common trait for these clients is they want to continue growing their wealth, but also want the certainty of protection against market losses," he explains.

"From a portfolio construction perspective, we often see advisers use the protection features of Future Safe to replace or bolster the defensive part of clients' portfolios."

Typically, they're seeking returns greater than those of cash or term deposits but also wanting to limit their downside risk to a known amount. It can also be used to protect growth portfolios, Gilhome adds.

"If you have clients that are calling because they're anxious about markets, they're worried about their retirement savings, or even calling because they want to know the best time to buy in, Future Safe can help provide greater certainty," Gilhome says. **FS**

The quote

The stress and anxiety of risking hard-earned savings can be significant among retirees.

Watch the video on www.fsitv.com