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Revolutionising retirement

How AMP is fixing the 'two-legged stool' Australian retirees have traditionally relied upon

A 2022 study from AMP revealed a concerning trend in Australians' retirement confidence, finding we typically expect to have saved less for our life after work and therefore assume we will experience financial difficulty and not live the enjoyable retirement we hope to. Just 38% of us expect to live a comfortable retirement.

Anecdotally, we know that Australians are struggling financially, and it's only exacerbating the challenges already faced in retirement; challenges that are even more difficult for financial advisers to navigate when many product solutions aren't fit for purpose.

For years now, a typical retirement planning strategy has involved combining income from an account-based pension with Age Pension entitlements, or what AMP's general manager, retirement Ben Hillier calls the 'two-legged stool'.

"That's what retirees have been sitting on in recent years, and it's not a very stable platform to have a confident and comfortable retirement," he says.

"What we've seen is retirees are under-spending to self-insure their own longevity, overcoming the fear of running out by simply not spending and not enjoying the standard of living they could."

While account-based pensions offer plenty of flexibility and control for financial advisers, they don't guarantee lifetime income. Equally, once that runs out, the Age Pension cannot sustain a comfortable lifestyle; it is also intended to play a lesser role for retirees in future as superannuation balances grow.

With MyNorth Lifetime, AMP is shoring up that rickety old stool, adding a third leg in the form of another income stream alongside the Age Pension that will never run out.

MyNorth Lifetime takes all the positive traits of an account-based pension and combines them with those of an annuity, which provides a lifetime income stream but typically cuts the financial adviser out over time and doesn't allow for settings to change as circumstances change.

"Our suite of solutions on the North platform give that power back to advisers when constructing income streams for their clients," Hillier says.

"It's still account-based, allowing advisers to stay in control with full investment choice on the North platform, however there's the ability to construct a lifetime income stream that will simply never run out, plus the added advantage of Centrelink benefits on top."

Additionally, a MyNorth Lifetime Super account can be opened at any time prior to retirement, which can further maximise tax, Centrelink and, ultimately, retirement income outcomes for clients, he explains. Currently, the youngest client with a Lifetime Super account is 18 while the oldest is 64.

And, while it operates almost exactly the same as any other superannuation account, MyNorth Lifetime has several design features that make it more efficient.

The first such feature is that it's designed to transition to a lifetime income stream once an individual meets a condition of release. However, unlike other solutions, current Centrelink rules mean that the entire account balance is not assessed.

"Instead, the Lifetime Super account asset test treatment is calculated on the purchase amount, so all the contributions made into the account. So, it ignores all the earnings and uses the deeming rate, currently 2.25%, to deem the earnings over time," Hillier explains.

"Effectively we have an account balance growing with investment earnings over time, but the purchase amount which is assessed is actually expected to grow at a much lower deemed rate."

Further, once the individual hits retirement, that purchase amount is discounted 40% for the ultimate asset test. This jumps to 70% at age 84.

"The way advisers are commonly using it, they're probably going to have an asset test exempt income stream when they hit retirement, provided they start it about 10 or 15 years beforehand," he says.

"We're seeing members start an account around the age of 50, so about a decade or so before retirement, which, as models show, can set up clients for a much-improved retirement outcome, topped up by some potentially significant Centrelink benefits."

What makes MyNorth Lifetime different to other retirement products in the market is that it's not a 'set and forget' product that you purchase in exchange for a benefit, Hillier adds. It's simply an account held on the North platform, giving advisers full visibility of balances and transactions, as well as full investment choice across the North super and pension investment menu.

Importantly, it's also low-cost – a fee of just 0.1% applies, which is capped at only \$500. It also provides security for spouses, with a 100% reversion rate.

"It's also the only set of solutions that allows you to maximise the Centrelink advantages. There's six different strategies that can be employed, these can be used interchangeably throughout accumulation and retirement, which can, depending on an individual's circumstances, create a 0% asset or income test as the client needs it to change," Hillier notes.

"It keeps the adviser in control and allows them to do the best work they can to add value throughout that whole period of their clients' lives."

Speaking to how Aussies are already benefiting, Hillier says those in the decumulation phase are spending as much as 50% more now that they have a MyNorth Lifetime Income account, and this is because there is more income there to be spent as the product is effectively converting all capital accumulated into income and the Age Pension entitlements are greater.

"Surprisingly but pleasingly, advisers are helping clients spend more from the account-based pension component," he says.

"On average, we're seeing clients put about 50/50 into a lifetime income account and account-based pension, and they've increased the amount they're spending from that pension because they have the confidence it's never going to run out, they'll always have an income stream for life, and they have permission to spend their own money now."

And advisers can have confidence in the solution, too. Demonstrating this, Hyland Financial Planning financial adviser Sue Morris says MyNorth Lifetime is an exciting solution.

"Clients have been happy with the outcomes we've been able to achieve," she says. **FS**



The quote

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Watch the video
on www.fsitv.com

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