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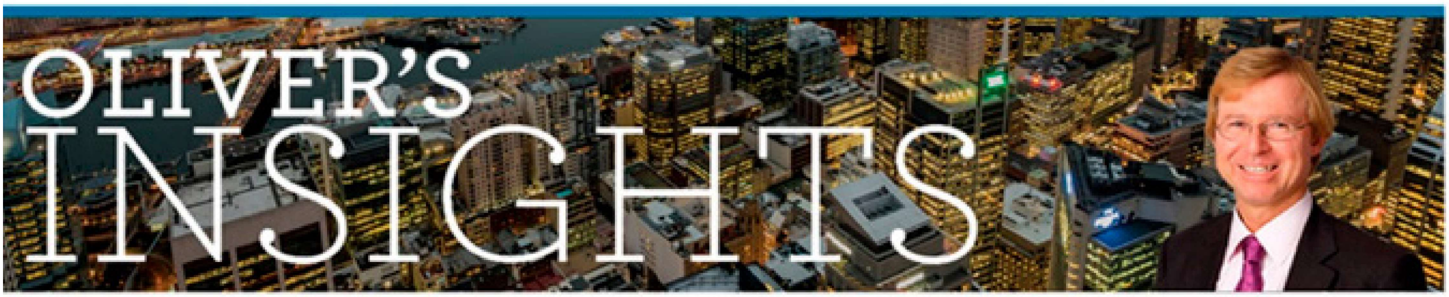


15 common sense tips to help manage your finance AI: The only thing certain is that nothing is certain

INSIDE

BY FINANCE NEWS NETWORK

Republished from sharecafe.com.au

Dr Shane Oliver, Head of Investment Strategy & Chief Economist at AMP, provides some commonsense tips.

Key points

Getting your personal finances right can be a challenge at times. Here are some common-sense tips that may be of use:

- Shop around when it comes to financial services.
- Don't take on too much debt.

"Debt is great, up to a point. It helps you have today what you would otherwise have to wait until tomorrow for. It enables you to spread the costs associated with long term assets like a home over the years you get the benefit of it, and it enables you to enhance your underlying investment returns. But as with everything you can have too much of a good thing – and that includes debt. Someone wise once said "it's not what you own that will send you bust but what you owe."

- Allow for interest rate to go up and down.
- Contact your bank if struggling with mortgage payments.
- Seek advice regarding fixed versus variable mortgage rates.
- Allow for rainy days.
- Credit cards are great, but they deserve respect.
- Use your mortgage for longer term debt.
- Start saving and investing early.
- Plan for asset prices to go through rough patches.
- See financial events in their longer-term context.
- Know your risk tolerance.
- Make the most of the bank of Mum and Dad.
- Be wary of the crowd.
- And… there is no free lunch.

Introduction

A few years ago, I put together a list of key common-sense points that may be useful in terms of borrowing to finance a home along with broader personal finance and investment decisions we make. Given the surge in interest rates lately, I thought it was worth an update so here they are. Many Australians may know these, but unfortunately financial literacy is still not taught in schools and so many don't. Otherwise, Australians would have far less trouble with their finances. I have deliberately kept it simple and in many cases this draws on personal experience. I won't tell you to have a budget though because that's like telling you to suck eggs!

1. Shop around

We often shop around to get the best deal when it comes to consumer items but the same should always apply to services we get. It's a highly competitive world out there and service companies want to get and keep your business. So when getting a new service – whether it be for a power contract, phone plan, insurance or mortgage, or who to manage your super etc it makes sense to look around to find the best deal. And when it comes time to renew a service – say your home and contents insurance – and you find that the annual charge has risen sharply, it makes sense to call your provider to ask what gives. I have often done this to then be offered a better deal on the grounds that I am a long-term loyal customer.

2. Don't take on too much debt

Debt is great, up to a point. It helps you have today what you would otherwise have to wait until tomorrow for. It enables you to spread the costs associated with long term assets like a home over the years you get the benefit of it, and it enables you to enhance your underlying investment returns. But as with everything you can have too much of a good thing – and that includes debt. Someone wise once said "it's not what you own that will send you bust but what you owe." So always make sure that you don't take on so much debt that it may force you to sell all your investments just at the time you should be adding to them or worse still potentially send you bust. Or to sell your house when it has fallen in value. A rough guide may be that when debt servicing costs exceed 30% of your income then maybe you have too much debt – but it depends on the level of your income and expenses. A higher income person could manage a higher debt servicing to income ratio simply because living expenses take up less of their income.

3. Allow that interest rates go up and down

Of course, we have been given a rather rude reminder that interest rates can go up over the last year. But when things are going one way for a long time as interest rates did when they fell from 2011 to 2020, it's easy to forget that the cycle could turn. So, when you take on debt the key is to make sure you can afford higher interest payments at some point. Fortunately, under guidance from the bank regulator, APRA, lenders these days have to allow that you can service your debt when interest rates are an extra 3% above the proposed borrowing rate. Of course, after 12 rate hikes in quick succession which has taken interest rates back to levels last seen in 2012 the odds are we are now getting close to the peak in interest rates so some relief may be on the way next year.

4. Contact your bank if struggling with a mortgage

After the biggest surge in interest rates since the late 1980s, it's understandable many may be worried about servicing their mortgage. A survey by AMP Bank found that nearly 70% of those with a mortgage are worried about meeting repayments if rates continue to rise with 31% worried right now, but that most of those with small safety buffers had not sought help from their lender. However, homeowners struggling with a mortgage should not be shy in seeking assistance either to get a lower interest rate or maybe to switch to a different mortgage repayment arrangement. The home mortgage market is highly competitive and it's not in banks' interest to see people default on their loans.

5. Seek advice regarding fixed versus variable rates

Australians have long struggled regarding how best to use fixed rates - often locking in at the top of the rate cycle & then staying variable at the bottom. Thankfully this recent cycle was different with a record 40% of mortgages locking in record low fixed rates around 2% in 2020-21. But still many didn't. Sure, the fixers were only protected for two or three years but still they would have done better than those who stayed variable. As a general principle locking in low fixed rates makes sense when the rate cycle has gone down but staying variable when rates have gone up. Of course, it's still hard to time it - eg, locking in fixed rates around 4% in 2016 after five years of rate falls would have been premature and there is always a case to maintain some flexibility by keeping a portion of the loan variable to allow for windfalls (like say an inheritance or a big bonus) that enable you to pay down your loan faster. The key is to seek advice.

6. Allow for rainy days

Because the future is uncertain it always makes sense to have a financial buffer to cover us if things unexpectedly go badly. The rainy day could come as a result of higher interest rates, job loss or an unexpected expense. This basically means not taking all the debt offered to you, trying to stay ahead of your payments and making sure that when you draw down your loan you can withstand at least a 3% rise in interest rates.

7. Credit cards are great, but they deserve respect

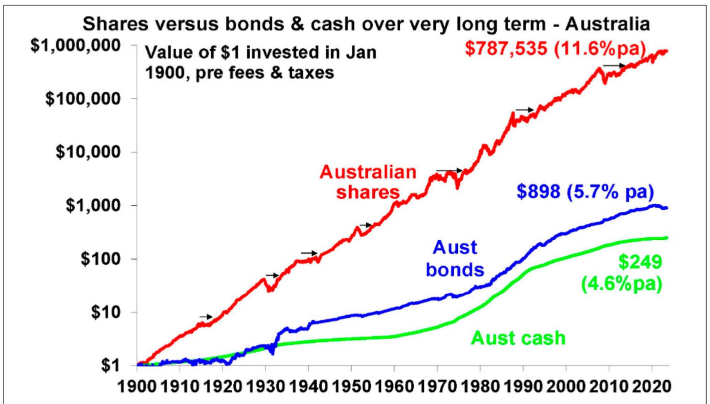
I love my credit cards. They provide free credit for up to around 6 weeks and they attract points that really mount up. So, it makes sense to put as much of my expenses as I can on them. But they charge usurious interest rates of around 20% if I get a cash advance or don't pay the full balance by the due date. So never get a cash advance unless it's an emergency and always pay by the due date. Sure the 20% rate sounds like a rip-off but don't forget that credit card debt is not secured by your house and at least the high rate provides that extra incentive to pay by the due date.

8. Use your mortgage for longer term debt

Credit cards are not for long term debt, but your mortgage is. And partly because it's secured by your house, mortgage rates are low compared to other borrowing rates. So, if you have any debt that may take longer than the due date on your credit card to pay off then it should be included as part of your mortgage if you have one.

9. Start saving and investing early

If you want to build your wealth to get a deposit for a house or save for retirement the best way to do that is to take advantage of compound interest - where returns build on returns. Obviously, this works best with assets that provide high returns on average over long periods. But to make the most of it you have to start as early as possible. Which is why those piggy banks that banks periodically hand out to children have such merit in getting us into the habit of saving early. This gives me another opportunity to show my favourite chart on investing which tracks the value of $1 invested in Australian shares, bonds and cash since 1900 with dividends and interest reinvested along the way. Cash is safe but has low returns and that $1 will have only grown to $249. Shares are volatile (and so have rough periods highlighted by arrows) but if you can look through that they will grow your wealth and that $1 will have grown to $787,535.



Source: ASX, Bloomberg, RBA, AMP

10. Plan for asset prices to go through rough patches

It's well known that the share market goes through rough patches. The volatility seen in the share market is the price we pay for higher returns than most other asset classes over the long term. And while property prices will always

> The Australian housing boom that started in the mid-1990s has left housing very unaffordable for many. This has contributed to a big wealth transfer from Millennials to Baby Boomers and Gen Xers.

be smoother than share prices because it's not traded daily and so not as subject to very short-term sentiment swings, history tells us that home prices do go down as well as up. Japanese property prices fell for almost two decades after the 1980s bubble years, US and some European countries' property values fell sharply in the GFC and the Australian residential property market has seen several episodes of falls over recent years. So, the key is to allow that asset prices don't always go up - even when the population and the economy are growing.

11. See big financial events in their long-term context

Hearing that $70bn was wiped off the share market in a day or two sounds scary - but it tells you little about how much the market actually fell and you have only lost something if you sell out after the fall. Scarier was the roughly 35% fall in share markets in February-March 2020 due to the pandemic and scarier still the GFC that saw 50% falls. But such events happen every so often - the 1987 crash saw a 50% fall in a few months and Australian shares fell 59% over 1973-74. And after each the market has gone back up and resumed its long-term rising trend. The trick is to allow for periodic sharp falls in your investments and when they happen remind yourself that we have seen it all before and the market will most likely find a base and resume its long-term rising trend.

12. Know your risk tolerance

When embarking on your investing journey, it's worth thinking about how you might respond if you found out that market movements had just wiped 20% off your investments. If your response is likely to be: "I don't like it, but this sometimes happens in markets and history tells me that if I stick to my strategy, I will see a recovery in time" then no problem. But if your response might be: "I can't sleep at night because of this, get me out of here" then maybe you should rethink your strategy as you will just end up selling at market bottoms and buying at tops. So, try and match your investment strategy to your risk tolerance.

13. Make the most of the Mum and Dad bank

The Australian housing boom that started in the mid-1990s has left housing very unaffordable for many. This has contributed to a big wealth transfer from Millennials to Baby Boomers and Gen Xers. For Millennials and Gen Z, if you can it makes sense to make the most of the "Mum and Dad bank". There are two ways to do this. First stay at home with Mum and Dad as long as you can and use the cheap rent to get a foothold in the property market via a property investment and then use the benefits of being able to deduct interest costs from your income to reduce your tax bill to pay down your debt as quickly as you can so that you may be able to ultimately buy something you really want. Second consider leaning on your parents for help with a deposit. Just don't tell my kids this!

14. Be wary of what you hear at parties

Back in 2021, Bitcoin was all the rage. But jumping in when it was near $US68,000 a coin at the point when everyone was talking about it back then would not have been wise - it's now around $US30,000 but had a fall to below $US16,000 on the way and its yet to prove its use value, beyond something to speculate in. Often when the crowd is dead set on some investment it's best to stay away, particularly if you don't understand it.

15. There is no free lunch

When it comes to borrowing and investing there is no free lunch - if something looks too good to be true (whether it's ultra-low fees or interest rates or investment products claiming ultra-high returns and low risk) then it probably is and it's best to stay away.

Concluding comment

I have focussed here mainly on personal finance and investing at a very high level, as opposed to drilling into things like diversification and taking a long-term view to your investments. An earlier note entitled "Nine keys to successful investing" focussed in more detail on investing.

Why Australia's roaring population growth won't last

BY EMMA DAVIDSON

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The older I get; the more accountability matters to me. Not that it didn't matter before - it did - but perhaps accountability feels rarer in today's fast-paced world?

In this article, I look to hold myself accountable by revisiting some of the topics I've written about over the last few years to see if what I said then still holds true today, or whether new information has come to light that's changed my perspective.

Baby bust: Australia's infertility problem

I first wrote about the worrying trends in global fertility rates in 2021. I'd recently read some of the amazing work that award-winning reproductive epidemiologist Dr Shanna Swan had published in this area, and it was frightening.

Swan's research found that global sperm counts had dropped by approximately 1% per year, every year, for the past four decades. In total, sperm counts had slumped 40% in the 50 years to 2017. We'd also seen a 1% annual fall in testosterone levels and a 1% annual rise in miscarriages and testicular cancers.

So, what's the situation today? Well, the total fertility rate in Australia dropped as low as 1.59 births per woman in 2020. It has since recovered to 1.7 births, according to the latest statistics. But this is still far below the 2.1 figure required to sustain the population.

Australia's population rose by 497,000 in calendar 2022, driven by a record net overseas migration of 387,000. As shown below, the Federal Budget forecasts Australia's population will grow by 2.2 million people to 28.2 million by 2026-27, mainly driven by migration. The impact on housing, rents and house prices in the short term could be profound.

Table A.2: Population by state, at 30 June

million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total(a)	Australia
2021-22	8.156	6.620	5.327	2.788	1.822	0.572	0.457	0.251	25.991	25.996
2022-23	8.300	6.780	5.441	2.847	1.849	0.578	0.466	0.254	26.516	26.520
2023-24	8.423	6.929	5.532	2.896	1.871	0.585	0.476	0.258	26.970	26.975
2024-25	8.528	7.057	5.616	2.941	1.890	0.592	0.485	0.262	27.371	27.376
2025-26	8.631	7.186	5.699	2.985	1.908	0.599	0.495	0.266	27.770	27.775
2026-27	8.734	7.314	5.782	3.030	1.927	0.607	0.505	0.270	28.168	28.172

a) 'Total' is the sum of the states and territories shown, and excludes Jervis Bay Territory, Christmas Island, the Cocos (Keeling) Islands and Norfolk Island.

Source: 2023 Federal Budget

Nevertheless, taking a longer-term perspective, the 2022 Centre for Population Statement predicts the nation's annual population growth rate will not have recovered to pre-pandemic numbers within the next decade. Instead, it's predicted to fall gradually until at least 2033, slipping from 1.4% growth per year to 1.2%. This will take the population to 30 million by 2032/33.

Many countries are now struggling to solve the problem of ageing populations. With fewer younger people to support older generations, we may see less innovation, poor economic growth, and a stagnation in living standards.

In other words, while Australia's total population is predicted to rise over the next 10 years, the rate at which it is growing continues to slow down.

Globally, it's a similar story. Since 2020, Dr Swan has been busy keeping her research up to date, and what she's found isn't comforting.

Not only did she discover that sperm counts are falling rapidly in Africa, South America and Asia - regions that weren't well covered in her previous studies - but the pace at which they are declining worldwide is speeding up.

Her analysis shows that between 1972 and 2000, sperm counts were dropping by roughly 1.1% a year. From 2000 onwards, however, that rate has increased to 2.6% every year. Far from plateauing, the problem is getting worse, faster.

As a mother who recently gave birth to another baby boy, the data is upsetting. I would hate for my children to grow up in a world where they may struggle to raise a family. I'm sure every parent feels the same.

In South Korea, women are already having less than one child (0.89) on average during their lifetime. Replicate that on a global scale and the results are potentially devastating.

Many countries are now struggling to solve the problem of ageing populations. With fewer younger people to support older generations, we may see less innovation, poor economic growth, and a stagnation in living standards.

When I first covered fertility rates and ageing nations, I said there were many reasons to remain optimistic. In Australia, we have an excellent pension system, and I was confident that we could continue to drive growth, the economy and innovation.

While I hope that's still true, frankly, I was taken aback at how much worse Dr Swan's new data is. From an accountability perspective, perhaps I was wrong to be so optimistic in 2021, but it has nevertheless reinforced my belief that this remains a key issue that needs more focus.

The good news is that we now know some of the causes of the problem, so I'm still hopeful that solutions can be found.

The generation blame game: then and now

Generational theory was a topic that has fascinated me for a long time. I first learned about it nearly 10 years ago and have written several articles on the subject since.

Most recently, I talked about how the headlines were full of stories of generational conflict. If the media and politicians were to be believed, older and younger generations were constantly at each other's throats.

I admitted I was sceptical of that narrative. Delving a little deeper, contemporary research showed the generations were actually closer than ever before - figuratively and literally. Not only were more Australians living with their parents for longer, but the Bank of Mum and Dad was the country's fifth most popular lender.

Far from being at war, the various generations were offering each other support during difficult times. For example, two-thirds of grandparents were providing childcare to ease the burden on struggling family members.

I welcomed the news that different demographics were working together, especially with a huge generational wealth transfer on the horizon. Over-65s in Australia were predicted to pass down or spend an estimated AU$3 trillion between 2020 and 2040.

That was then, but what about now? Firstly, I think generational 'theory' has become a bit passe. While I was once a big fan, it all feels a bit dated now.

More often than not, it has seemed to drive a wedge between different age groups, rather than offer meaningful, actionable insights into people's lives.

In fact, a year after my article was published, a major survey from the Australian Human Rights Commission (AHRC) found that people are rejecting the concept of 'generations' entirely.

The vast majority of Australians don't identify with labels such as 'boomer', 'millennial' or 'Gen Z'. They view people as individuals with unique experiences and perspectives rather than pigeonholing them based on age.

I checked Google searches for the words 'millennial' and 'boomer' in Australia and found they peaked in November 2019, and have since mostly petered out.

One possibility is that the Covid-19 pandemic helped remind us all how much we appreciate our loved ones, whatever their age? Or perhaps we've grown out of blaming other generations for the problems we collectively face as a society?

> **Ultimately, the lessons we learn from being accountable to ourselves arm us with the information we need to better navigate the world. Isn't that worth getting things wrong every now and then?**

Whatever the answer, I believe this is good news for the looming generational wealth transfer. The latest stats from the Productivity Commission echo my previous figures - around $3.5 trillion will change hands between the generations over the next two decades. By 2050, baby boomers will be handing down $224 billion a year in inheritance to millennials and Gen Z.

And parents are already helping their children today by contributing an average of $70,000 to their children's home deposits to help them get on the property ladder, with a third expecting to be never paid back.

Commenting on the AHRC report, Age Discrimination Commissioner Dr Kay Patterson said:

"Although antagonism between the generations is often seen as a given, I was struck by the warmth expressed by focus group participants towards members of age cohorts other than their own."

Final thoughts

Staying accountable is important. I believe there is tremendous value in revisiting our previous positions and examining them through a present-day lens.

Sometimes we're wrong, and it's crucial to own that. In hindsight, I think generational theory has had its day and I need to adjust my thinking there as the world has probably moved on. And the fertility crisis is perhaps even more serious than I originally gave it credit for.

Ultimately, the lessons we learn from being accountable to ourselves arm us with the information we need to better navigate the world. Isn't that worth getting things wrong every now and then?

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Risky business – Australia's retirement landscape

BY ALLIANZ RETIRE+

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As investors transition from accumulation to decumulation, their investment objectives change from amassing wealth to generating retirement income to meet their lifestyle goals. The risk-return landscape also transitions, from 'maximising returns for a given risk tolerance' to 'creating greater certainty of income'.

As such, the risk-return landscape becomes more complex; this greater focus on using accumulated wealth to sustain a level of income throughout retirement requires careful planning, a meticulous focus on asset allocation to both sustain capital and generate income, as well as risk management.

Consider the following:

- almost 10% of Australians have retired poor
- financial challenges for retirees are increasing along with average longer lifespans, and
- retirees find it extremely difficult to manage savings over an unknown period of time as factors such as sequencing risk, market volatility and inflation introduce extreme uncertainty into long term planning

An important part of retirement planning is to educate clients before they retire, to ensure they understand the risks each may face and the potential implications for their retirement income and lifestyle.

Know the risks

Some risks come with some degree of control for most people: the timing of retirement, the amount of retirement savings and, once retired, the rate of withdrawal. Each can be influenced by you or your client. However, unforeseen circumstances can often result in early retirement, while unexpected financial constraints may reduce the amount of funds allocated to retirement.

Other risks cannot be controlled. Such 'uncontrollable' risks are often interrelated and may have longer term ramifications for your client: in isolation or together, these risks could impact their investment risk tolerance, see them reduce spending or necessitate unwanted lifestyle adjustments.

Controllable risks

There are several retirement risks that are often described as 'controllable', although that might not always be the case. Unforeseen circumstances can derail the best of plans, although ideally, personal insurance will provide a safety net, particularly for those forced to retire due to ill health or an accident.

Take the timing of retirement. In an ideal world, your client will identify their preferred retirement age and as guided by you, commence the transition to retirement at the appropriate time. However, 43 percent of Australians surveyed in 2021 were unexpectedly forced into early retirement due to ill health, accidents, carer responsibilities, job loss or business failure.

An unexpected and unplanned transition into retirement can rob people of their sense of control and leave them feeling worried and anxious. An unexpected early retirement can also derail the best-laid financial plans. In addition to losing their regular salary, involuntary retirees are left at the mercy of financial markets. This highlights the importance of early retirement planning; unforeseen circumstances can bring a client's retirement date forward and see them less prepared to meet their longer-term needs.

A second controllable risk relates to the quantum of retirement savings and suggests that increasing contributions can mitigate the risk of insufficient savings. On the face of it, it's a sound strategy; however, it's not always possible for a client to increase contributions. There's an increasing number of retirees taking mortgage debt into retirement or drawing on their savings to be the 'bank of mum and dad'. The factors that can impact retirement timing can also limit the ability to make additional contributions; despite, this retirement planning should actively consider strategies to increase contributions to retirement savings as early as possible. Even a small increase in contribution can have positive long term impacts.

A third controllable risk is the rate of withdrawal. The higher the rate of capital drawdown, the faster retirement savings will be consumed. This will impact the client's ability to meet their basic and psychological needs, as well as their lifestyle and wellbeing. However, there are minimum drawdown requirements to be met and personal circumstances can change, both of which can impact retirement planning and the longevity of savings.

Uncontrollable risks

Given the uncertainty of life and death, it's impossible to work out precisely how much retirees can afford to draw down each year. Instead, many retirees face a tough decision: should they live more frugally, or risk running out of money?

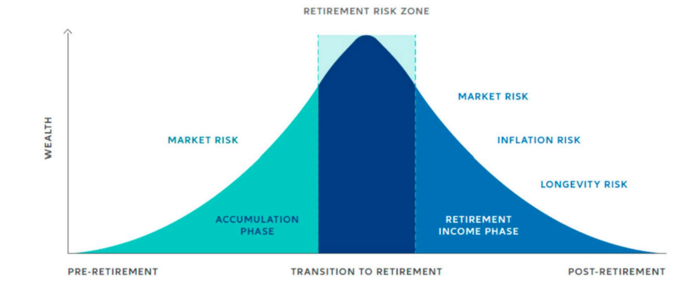
The additional uncertainty around future investment returns throws a further complication into the mix.

Australians cannot simply plan their retirement based on contemporary market movements as they need to account for unknowable future market returns. As highlighted by the Retirement Income Review, Australian retirees are dangerously exposed to longevity risk, which is in turn affected by several factors, namely:

Sequencing risk

The market conditions that prevail in the years just before and after a person retires can make an enormous

Figure one: Sequencing risk zone



Source: Allianz Retire+

difference to how long their funds last. Those crucial years are often called 'the retirement risk zone'; a period when retirees are most vulnerable to market volatility.

If someone is fortunate enough to retire in a period of upbeat markets, then their income drawdowns will be fully or partially offset by investment returns.

However, if the 'retirement risk zone' (see figure one) coincides with a period of negative returns, retirees may start eating into their savings at an accelerated rate, potentially emptying the nest egg. Market shocks during the vulnerable period will leave Australian retirees with less time to recover, while falling asset prices and drawdowns for income can magnify the scale of capital losses.

Ultimately, any losses will diminish the total value of the remaining assets.

Retirees have no control over the sequence of returns, that is, the order of years with positive or negative returns. In a perfect world, Australians would retire only during periods of reduced volatility when their investment outcomes can be planned for with a greater deal of certainty.

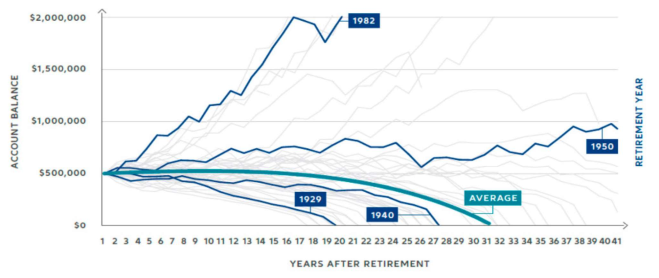
Market risk

The GFC, which saw the ASX 200 lose roughly 54 percent of its value between 2007 and 2009, scared many Australian retirees. Research by National Seniors Australia carried out a decade after the crisis found 72% of retirees were afraid they would face a similar crash in their lifetime.

More than half (59 percent) said they would not be able to tolerate a crash of that magnitude. In 2020, many came close to experiencing a GFC-like event. As the Covid-19 pandemic spread across the globe, markets reacted violently with the ASX 200 index losing 35% between 20 February and 23 March.

The timing, as well as the size, of a crash can have dramatic consequences. As modelled in figure two, the prevailing market conditions at the time of, and after, retirement can determine how long a retiree's capital could last when investing in a balanced portfolio. It was chance that dealt 1982's retirees buoyant markets, and chance that presented 1929's retirees with a crash and rapid capital depletion.

Figure two: Impact of retirement year on future returns



Source: Wealth benchmarks™

$500,000 invested in a diversified, multi-sector balanced portfolio — rebalanced annually. Income of 5% drawn in year one, then an annual amount adjusted by 3% p.a. for inflation.

Because retirees usually can't align their retirement date with ideal market conditions, the decision (forced or not) to leave work can be a big gamble, particularly without the right mix of strategies and products. Unfortunately, chance can have a much greater impact on retirement outcomes than good planning.

A significant capital loss requires a significant gain to get back to the same point. As illustrated in figure three, there is a nonlinear relationship between gains and losses; as the loss grows, the gain required to restore the loss escalates.

Figure three: The math of recovery from portfolio loss

Percentage loss	Gain needed to restore loss
10%	11.1%
20%	25.0%
30%	42.9%
50%	100%

Source: Craig Israelsen, Ph.D.

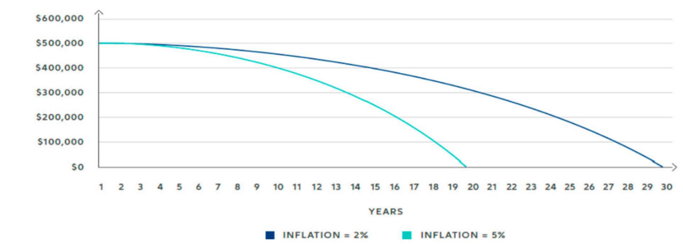
Clients in the accumulation phase generally have the advantage of time to recover losses, as well as the opportunity to invest more during market downturns, taking advantage of lower priced assets. Unfortunately, a retiree in decumulation phase does not usually have this opportunity.

Inflation risk

Inflation risk is once again top of mind as Australia's cost of living spirals. Higher inflation can reduce retirees' purchasing power and introduces the risk that spending needs in the future will be higher than originally planned. This, in turn, may exacerbate the fear of running out of money and increase loss aversion.

The compounding impact of inflation over time can erode retirement savings. Figure four uses the example of a retiree with $500,000. An annual inflation rate of 5% would result in their savings running out 10 years sooner than if inflation stayed at 2%. Concerns about inflation and rising costs are top of mind for many pre-retirees; for those already living on a fixed retirement income, the figure is likely to be much greater.

Figure four: The impact of inflation



Source: Allianz Retire+, March 2022.

For illustrative purposes only. Assumes a fixed rate of inflation applied to the withdrawal amount for the entire investment period. Fixed rate of investment return for the entire investment period. Not reflective of historical or expected capital market outcomes.

Behavioural Risk

Also referred to as 'loss aversion risk', behavioural risk can impact how a retiree invests, how much income they draw and can even impact their lifestyle. A range of behavioural studies have illustrated traits and biases that can impede your clients from making reasonable decisions about their retirement savings.

These biases might stem from others' experiences, the fear of outliving their savings or the fear of losing capital. Research from Investment Trends identified three retirement fears, pertinent in the current environment.

Expect to outlive their super	47%
Concerned about medical costs	43%
Concerned about inflation & rising costs	42%

While loss aversion is a major factor influencing investor behaviour, particularly in retirement when it's difficult to recoup losses, understanding other biases and fears that may negatively impact your clients' decision making is essential to retirement planning.

While many retirees may be willing to reduce the probability of negative returns at the expense of upside potential, they also need to understand the potential long-term ramifications of reducing exposure to growth assets.

Money anxiety is a health concern

Given the prevalence of these risks it's no surprise that funding post-work lifestyles is a cause of stress for Australians close to retirement. CoreData figures suggest two-thirds of pre-retirees are concerned they will not have enough savings to retire comfortably.

In the ABC 'Australia Talks' survey from 2021 of nearly 55,000 people of all ages, 55% of women and 42% of men

Retirement risks are interrelated. Volatile financial markets lead to market risk and sequencing risk, while inflation can be the catalyst for both. Inflation can increase longevity risk and impact retiree's behaviour, making them more loss averse or leading them to live more frugally.

said they were either not at all confident or not very confident that their savings would last.

Health authorities note that worries relating to money are a leading source of stress in Australia and can lead to depression and anxiety, compounding the health issues many retirees face as they age. So it's not just lack of money that's a concern for retirees, but the fear and uncertainty it results in.

Retirement risks are interrelated. Volatile financial markets lead to market risk and sequencing risk, while inflation can be the catalyst for both. Inflation can increase longevity risk and impact retiree's behaviour, making them more loss averse or leading them to live more frugally. While some of these risks can be managed by educating your clients, they can also be managed - wholly or in part - by careful portfolio construction.

Constructing a retirement portfolio can be complex - retirees need capital, income and flexibility as their circumstances change. One approach is to incorporate both capital protected and guaranteed income products. Capital protected products can help safeguard against market risk, preserve capital and often provide a reliable source of income. Guaranteed income products can also provide a steady income stream throughout retirement. By combining such products, you can create a diversified portfolio that balances risk and reward, helping to ensure a comfortable and secure retirement for your clients.

The financial services industry now has a clear opportunity to optimise retirement strategies in a development that would dramatically improve the quality-of-life, and emotional health, of countless Australians. Businesses offering retirees tailored products designed around the concepts of flexible guaranteed lifetime income with ongoing access to capital will lead the way.

Adviser Voice is a platform providing education and information to Australian financial advisers.

Q&A: Ask a Question

Question 1

What are the advantages to an inter vivos trust?

An inter vivos trust can be beneficial for a number of reasons with some key advantages listed below:

1. Avoids Probate: Assets held in the trust bypass the probate process, saving time, reducing costs, and maintaining privacy.
2. Flexibility and Control: You retain control over the trust assets during your lifetime, allowing you to modify or revoke the trust as needed.
3. Privacy: Trust administration remains private, unlike the public record of probate proceedings.
4. Potential Estate Tax Planning: Properly structured trusts may offer tax benefits and help reduce estate taxes.
5. Continuity of Asset Management: The trust facilitates the smooth transfer and ongoing management of assets to beneficiaries.

Remember that the effectiveness and applicability of an inter vivos trust depend on individual circumstances and legal considerations. Consult with your financial adviser to assess whether it aligns with your goals and needs.

Question 2

What investment strategies should I consider to grow my wealth?

There are various strategies which can be adopted to assist with the growth of your wealth, such as:

1. Diversification: Spread your investments across different asset classes and within each asset class to reduce risk and potentially enhance returns.
2. Long-term Investing: Adopt a long-term mindset and stay invested over extended periods to benefit from compounding returns and potentially weather short-term market fluctuations.
3. Dollar-Cost Averaging: Invest a fixed amount regularly, regardless of market conditions, to buy more shares when prices are lower and fewer shares when prices are higher.
4. Regular Portfolio Rebalancing: Adjust your investment portfolio periodically to maintain your
5. Assess Risk vs. Reward: Evaluate your risk tolerance and investment goals to find the right balance between risk and potential reward.

While investing involves risk, following these strategies can help you pursue long-term wealth growth. Further guidance can be sough through consulting with your financial adviser to receive personalized guidance tailored to your circumstances, risk tolerance, and goals.

Question 3

Should I have level or stepped premiums on my insurances?

The choice between level and stepped premiums depends on your personal circumstances, financial goals, and preferences.

1. Level Premiums: Level premiums remain consistent throughout the duration of the insurance policy. Initially, level premiums may be higher than stepped premiums, but they typically remain stable over time. This can provide predictability and affordability over the long term.
2. Stepped Premiums: Stepped premiums, start at a lower rate when you first purchase the insurance policy but increase as you age. Stepped premiums are recalculated periodically, usually on an annual basis, and are based on your current age. As you get older, the premiums progressively rise to reflect the increased risk associated with age.

Level premiums offer stability and can be beneficial if you want to maintain a consistent premium throughout the policy term. Stepped premiums may be initially lower and can be suitable if you have a limited budget at the outset but are comfortable with potential increases in the future.

When considering insurance options, it's advisable to discuss the pros and cons of both level and stepped premiums with your financial adviser.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**

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