Making the retirement opportunity a reality: A guide for advisers

Discover insights on how to engage new and existing retiree clients, explore retirement income strategies and other advice considerations

challenger | netwealth

What’s covered in this guide

In this guide, you’ll get to know more about what’s important to clients in retirement. Whether you’re an adviser who already has retiree clients, or looking to build your retiree client base, this guide is designed for you. We unpack insights from the latest research, explore income in retirement, engagement strategies and look at other advice considerations. The guide will help you:

- learn more about the trends driving a growing demand for quality financial advice in retirement;
- gain insights into the needs of retirees, both emotional and financial;
- discover ways of segmenting retirees and understand their decision-making styles;
- gain insights on how to position your services to demonstrate value and engage with this audience on things that matter to them; and
- learn from case studies that demonstrate retirement income strategies and other advice considerations such as estate planning and intergenerational advice.

Contents

The growing opportunity in retirement advice

Retirees need support now more than ever

The number of Australians 85 and over is expected to grow 35% by 2029[1]. In fact, an Australian who is 65 today, has a good chance of living well into their 90s[2]. Whilst it's clear this means addressing the financial needs of Australian retirees to fund their retirements for longer, advisers also play a key role in supporting retirees to manage complex decisions at a time when they are potentially more risk averse and less confident[3].

By 2030, our super savings mountain is expected to double in size from $2.6 trillion to around $5 trillion[4]. Over that period, something in the order of $1,200bn of super savings will move into the retirement phase.[5]

1 Department of Health – 2018/19 Report on the operation of the Aged Care Act 1997
2 https://www.challenger.com.au/personal/retirement-income/retirement-risks/living-longer
3 Core data – Challenger customer and prospect quantitative research presentation, June 2018
4 Rice Warner Superannuation Market Projections Report 2017 from Challenger Position Paper: Retirement really is different, April 2018
5 Rice Warner Superannuation Market Projections Report 2017, sum of flows June 2020 to June 2030 (in 2017 dollars). See Challenger Position Paper: Retirement really is different, April 2018

The challenges of a longer retirement

With longer lifespans and less certainty in domestic and global markets, most retirees can't afford to stay on autopilot when it comes to their retirement planning. Australia has one of the best pension systems in the world[6]. However, it was not designed to meet the ongoing financial needs of people living well into their 80s[7]. The growing number of retirees concerned about running out of money goes to show that their longer life expectancy is creating complexity when it comes to navigating the financial and emotional realities of retirement.

For financial advisers, this presents a clear opportunity to provide clients in retirement with the peace of mind that comes with greater financial security. As their focus moves from growing wealth, to using that wealth to create a retirement plan to support them regardless of how long they live or how markets perform, clients need financial advice more than ever.

It's about more than just money

The peace of mind advisers can provide is often priceless to retirees. Advisers can play an essential role in helping clients understand how their assumptions or behavioural biases can get in the way of making the best decisions about their money. Throughout this guide we highlight some of the non-monetary factors that can play an important role in how retirees approach their finances.

Understanding more about the 'why' of retiree behaviour

Good retirement income advice should involve understanding and pre-empting certain inherent behavioural biases which can get in the way of retirees making the best decision about their money. These may include:

- **lump sum bias** – the tendency to overvalue a capital sum as opposed to its actuarially fair income value;
- **hyperbolic discounting** – the tendency to undervalue future income in favour of immediate income; and
- **loss aversion** – retirees' aversion to loss is greatly increased compared to the accumulation phase as they are no longer working[8].

Often understanding the 'why' behind what we do, or don't do, can help advisers take the action they need to give their clients the right support.

6 2019 Melbourne Mercer Global Pensions Index
7 PJ Keating, Opening address at the 50th Anniversary ASFA Conference in Sydney on 28 November 2012
8 Challenger Position Paper: Retirement really is different, April 2018
9 ASIC Report, Financial Advice: What consumers really think, August 2019
10 ASIC Report, Financial Advice: What consumers really think, August 2019

Retirement really is different: understanding the needs of retirees

When it comes to retirement, what are the dominant hopes and fears for retirees? What's most important to older Australians when it comes to their finances? Do retirees approach their decision-making in a different way? In this section, we'll explore how Australians are experiencing retirement and take a closer look at what makes retirees different.

What key retirement outcomes are older Australians looking for?

A 2017 survey by National Seniors Australia found that a regular income and making sure money lasts a lifetime are a priority. The results tell us 71% want to be able to afford aged care and medical costs and 49% are making it a priority to leave their family home and/or other assets and investments to their children or estate. About 59% of those surveyed rely on advisers to help them achieve their retirement outcomes.

About the National Seniors Australia survey

A TOTAL OF 5,770 SENIOR AUSTRALIANS SURVEYED

AVERAGE AGE 68

55% FEMALE

Key retirement priorities[11]

84% WANT REGULAR INCOME

77% WANT SAVINGS TO LAST A LIFETIME

71% WANT TO BE ABLE TO AFFORD AGED CARE AND MEDICAL COSTS

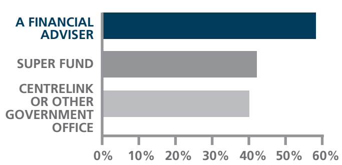
1/3 WILL ACCEPT LESS GROWTH IF INCOME IS RELIABLE

Retirement ready?

MEDIAN SUPER BALANCES OF HOUSEHOLDS JUST OVER $300,000

BELOW THE $640,000 INDUSTRY STANDARD OF WHAT IS NEEDED FOR A COMFORTABLE RETIREMENT[12]

A role for advisers



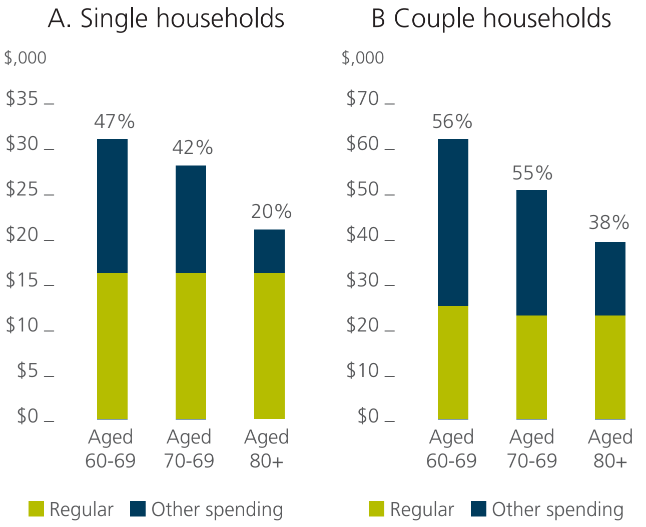
59% RELY ON ADVISERS

ADVISERS NUMBER ONE SOURCE OF INFORMATION

11 National Seniors Australia, 'Seniors more savvy about retirement income', September 2017
12 Association of Superannuation Funds of Australia (ASFA) Retirement Standard, June quarter 2017

The changing spending patterns of retirees

Figure 1: Regular and other household spending, by age and household 2015–16



Source: Minney A. (2018) "Household Spending Patterns in Retirement" The Australian Journal of Applied Finance Iss 1 (2018) pp 18-27.

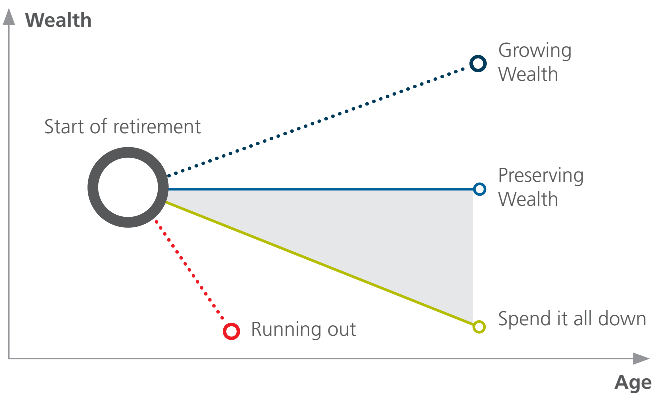
By putting together data available from the Household, Income and Labour Dynamics in Australia (HILDA) survey and Australian Bureau of Statistics Survey (ABS) of Income and Housing, we can see that regular spending on 'needs' (adjusted for inflation) stays fairly constant throughout retirement.

Other spending on 'wants', on the other hand, tends to reduce as retirees grow older, so that spending overall falls over time. So younger retirees can generally be expected to be spending more than those aged 70 and over. Research like this can help advisers understand the broader behaviour of retirees. Of course, actual spending habits and outcomes can vary significantly depending on the lifestyle, goals and expectations of each individual. According to a recent Challenger position paper, when it comes to spending behaviours, retirees can fall into four broad segments[13]:

- Continue to grow their wealth throughout retirement
- Spend all their wealth over their lifetime
- Maintain or preserve their wealth
- Run out of savings and become dependent on the Age Pension

Understanding the 'big picture' spending goals of individual clients is a key step for advisers in developing a comprehensive retirement plan.

Figure 2: Retiree spending paths – highlighting the emerging mass-market need



"I have quite a few clients who become wealthier in retirement than when they were working. Then there are those who are spending at a rate that will shrink their pool of capital over time. For this group of clients, some will need a strategy to keep that equilibrium between income from their assets and their Age Pension entitlement. For others, it's about stretching out those assets for longer so they can avoid running out of money altogether"

Ray Page, Financial Adviser, Banksia Partners

13 Challenger Position Paper: Retirement really is different, April 2018

Retirees and their evolving goals: a shift from wealth accumulation

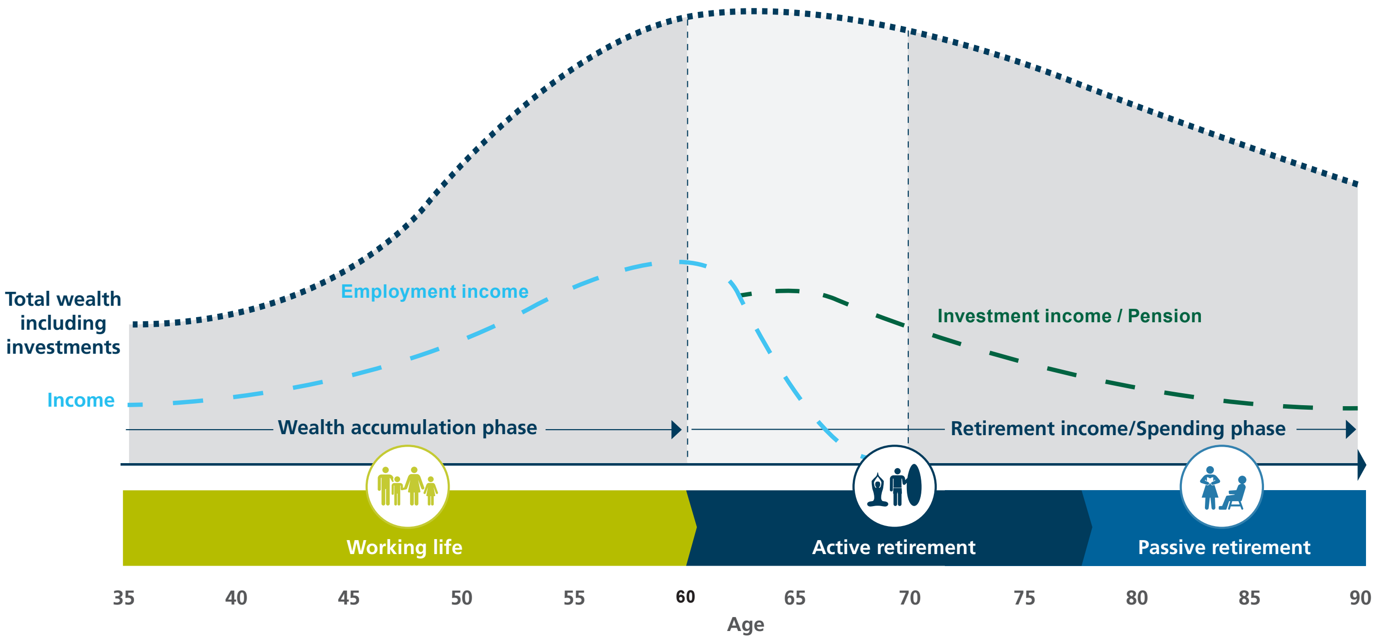
Clients will have different goals in retirement, than at other stages of their life. In the accumulation phase many people are looking to develop a career, start a family, pay school fees, pay off debt such as a mortgage and build enough super for when they retire.

Retirees too will have a range of goals which often differ from accumulators. Without the income from a regular salary, retiree goals may be focused on:

- funding for spending on travel and 'big ticket' items;
- access to capital for emergency spending;
- supporting their grandchildren through school;
- supporting charities and other philanthropic activities;
- living arrangements, medical expenses and aged-care;
- managing the impact of inflation on their savings; and
- ensuring they have enough money to last their lifetime (or to leave to their family).

These goals create a very different dimension compared to the accumulation phase[14]. As retirees move through retirement from their working life to an active retirement phase, there needs to be a bigger focus on income stability and wealth protection.

Figure 3: Goals during different investment phases



Growing their career and income
Starting a family
Supporting their children through school
Paying off the house
Saving for retirement

Cash flow to support their everyday needs
Making their income last for their lifetime
Protecting their wealth against market fluctuations
Consider potential need for aged care
Supporting their grandchildren through school
Philanthropic activities

"It can be distressing for people to make that change from having guaranteed income from their salary every month and then have to rely on the right mechanism to switch on a repeatable packaged income from their assets that will meet their needs for the rest of their life. When I work with clients, there's an initial six-month period when they feel very uncertain about whether enough income can come from their savings. Once they see it working, it really makes a difference to how secure they feel."

Ray Page, Financial Adviser, Banksia Partners

14 See Challenger Position Paper: Retirement really is different, April 2018

Managing money in retirement: key challenges for retirees

Understanding retirement risk factors

It's well understood that financial challenges in retirement are different from those in the wealth accumulation phase. Providing retirees with deeper insights into why they need to manage their money differently in retirement can help build confidence and drive action.

The longevity disconnect: people are living longer than they expect

Studies[15] show that as humans, we tend to have a blind spot when it comes to planning ahead. We tend to treat our future selves like strangers. This may be one explanation for our blind spot when it comes to life expectancy. Research shows the average 65-year old underestimates their life expectancy by almost five years[16]. And, while people often underestimate how long they will live in retirement[17], they still have a high level of concern about running out of money.

Advances in medicine and healthcare are pushing life expectancies higher than the stats may show. A true understanding of life expectancies is critical in assessing the sustainability of a retirement portfolio and a safe spending rate. Life expectancy rates published by ABS take into account the chances of survival until a certain age, but they don't account for mortality improvements that are enabling each generation to live longer than the one before. With this trend factored in, a more realistic life expectancy of 88 for males and 90 for females emerges as shown in the table below[18].

Average life expectancy	From birth	From age 65	From age 65 with mortality improvements
Males	80	85	88
Females	85	87	90

Market volatility can be harder for retirees to tolerate

The global economy has been impacted by COVID-19 and the first quarter of 2020 has seen significant falls in both domestic and global share markets. While recent volatility in markets may be challenging and confronting for many retirees, for many advisers this represents an opportunity to add significant value to retirees, ensuring that they get they get the right support and, if advised, ensuring that their retirement plans remain appropriate during uncertain times. These ideas are from advisers who, over time, have been happy to share how they address clients' concerns in times of volatility, or, a plan for addressing clients' volatility concerns.

1. **Remind clients that you are there, that you are aware and that you care** – research shows that clients who have received advice in the past 12-months worry less about outliving their savings and investments than those who haven't received advice[19]. When communicating with clients or prospects, make it about them. Yes, you're aware of volatility, but, much more importantly, you're aware of what volatility means to retirees and their retirement plans.

15 https://www.newscientist.com/article/2127901-your-true-self-the-future-is-a-foreign-person/#ixzz69dJNu2Zl
16 National Seniors and Challenger (2015) Outlook for Australian Seniors' retirement plans: Mostly sunny, with possible late rain" National Seniors Australia August 2015
17 National Seniors and Challenger (2015) Outlook for Australian Seniors' retirement plans: Mostly sunny, with possible late rain" National Seniors Australia August 2015
18 Challenger Retirement Income Research: Understanding life expectancies – a big financial literacy gap for retirees, September 2019
19 National Seniors Australia and Challenger, Retirement Income Worry: Who worries and why?, January 2020

2. **Reconfirm client risk tolerance** – it is perhaps reasonable to expect that, even considering the robustness of many risk profiling techniques used by advisers, some clients will have a different tolerance to risk when determined during a period of strong market returns compared to when this tolerance is determined at a time of significant volatility or after significant market falls.
3. **Test the sustainability of clients' retirement income strategies for uncertain markets** – having reconfirmed clients' risk tolerance it may also be appropriate to re-test, in the current environment, just how sustainable clients' retirement income strategies just might be. With current levels of retirement savings (and this could be more, the same or less than clients' started retirement with), asset allocation (previous or revised based on risk tolerance), current and projected income drawdowns and a range of future possible market conditions, just how sustainable is a client's retirement income strategy? Has recent volatility impacted clients' retirement outcomes? Do existing retirement income strategies continue to be appropriate or are revisions required?
4. **Present alternative retirement income strategies (where appropriate)** – some clients won't need to make any changes but for others it may be necessary to consider strategic alternatives. One alternative that may be worth modelling for consideration is adjustments to total income drawdowns, either immediately or stepping down later or over time, to reflect a preparedness to prioritise sustaining retirement savings over spending. Reducing drawings from savings, even by a modest amount, can significantly enhance the sustainability of a retirement income strategy. Clients may also be prepared to see the value of estate benefits reduce from the estimates of their original plan in light of market changes and a desire to maintain retirement spending. These lower projected estate benefits will be reflected in revised modelling.
5. **Consider the option of a lifetime income stream (where appropriate)** – recent research[20] shows that the majority of clients with a defined benefit income stream or lifetime annuity are unconcerned about outliving their savings. This is probably not a surprising finding – having a source of income that will last for life will be a key factor behind this lack of worry. But, this does present an opportunity – if clients are concerned by current market volatility, a level of guaranteed lifetime income could ease that concern. A partial allocation of assets from the defensive component of a client's retirement savings to a lifetime annuity could ensure clients a guaranteed level of income for life, irrespective of how long they live or how investment markets perform. This guaranteed income, complementing income from the Age Pension (if applicable), could help clients meet essential expenses through retirement.

Inflation can have a greater impact for retirees

Inflation takes on a new dimension because retirees' savings are disconnected from wage rises. According to the ABS, the average inflation rate over the last 25 years has been 2.4% per year. That means a dollar today is worth about half of what it was 25 years ago[21]. Managing inflation risk for retirees often means looking for solutions and investments that explicitly link income payments to inflation.

The changing nature of decision making for retirees

As we age it can become more difficult to make decisions about situations we don't have experience with. Fluid intelligence (which peaks at around age 40) is a term used by psychologists to describe our capacity to learn new things. Crystallised intelligence (which can continue into our 60s and 70s) refers to knowledge and skills that accumulate from prior learning and experience[22]. As advisers it can be helpful to remember this distinction, particularly when talking to retirees about new strategies or products they haven't used before. Helping clients effectively manage change can create confidence and give them peace of mind.

20 National Seniors Australia and Challenger, Retirement Income Worry: Who worries and why?, January 2020
21 https://www.challenger.com.au/personal/retirement-income/retirement-risks/impact-of-inflation
22 https://www.anz.com.au/content/dam/anzcomau/documents/pdf/aboutus/wcmmigration/financial-wellbeing-older-aus-2018.pdf

Reaching out to retirees: connecting with your audience

Not all retirees are the same: segmenting your audience

Around 51% of national wealth is owned by the 45-64-year-old age group and around 700 Australians are retiring every day[23]. With investment advice, retirement income planning and aged care as three of the top five topics[24] for Australians seeking financial advice, this generation represents one of the fastest growing market segments with significant financial advice needs.

In this section, you'll gain insights into aligning your value proposition and marketing activities to best address the goals and priorities of retirees. Using a client segmentation model to better understand the type of retirees you will be working with can bring the following benefits:

1. More effectively align your value and services to the needs of your audience.
2. Personalise marketing and communications to create stronger connections.
3. Create content and experiences that really hit the mark for your clients and prospects.
4. Show the audience that you know and understand them.

Discover ways to potentially segment your clients

The following customer segments are example segments based on Challenger research. They can provide you with a starting point to create your own segmentation models as they show just how different decision making can be among different retirees.

Engaging with retirees: decision-making attributes of each segment

Segment one

- With less money to invest they are generally less engaged with their finances.
- More likely to get one-off advice or be self-reliant decision makers.
- When they get advice they tend to rely on it more heavily and expect their adviser to provide strong guidance around their options.
- Seeking set and forget solutions, but risk averse.

Segment two

- Have more money to invest and therefore have more engagement in financial matters.
- Lack strong confidence in aspects of financial decision making, but are more likely to be engaged and open to building their knowledge.
- Take responsibility for decision making and feel they need to rely on themselves.
- When entitled to a pension they tend to see it as important safety net.

23 Challenger Position Paper: Retirement really is different, April 2018
24 ASIC Report Financial advice: what consumers really think, August 2019

Segment three

- Engaged with finances and less risk averse.
- Tend to value longer term adviser relationships and are often triggered to plan for retirement from professional advice to do so.
- Want to ensure they can maintain their desired standard of living.

Segment four

- Less engaged with their finances, but also seeking more self-sufficiency to secure their financial security.
- Highly likely to turn to friends, peers and family to help validate decisions.
- Focus more on how much they can afford to spend now with some peace of mind rather than future.
- Triggered into planning for retirement by uncertainty generated by personal event or professional advice to do so.
- Less likely to be able to articulate value of financial services. When advised, strongly rely on adviser to provide suitable options.
- Tend to have more transactional advice relationships.

Know your value: developing your retiree value proposition

The financial planning industry has changed drastically in the last few years. A value proposition that talked to technical skills and professionalism used to suffice. Today's clients are often looking for more from their advisers – they're focused on 'life' outcomes as well as financial outcomes. A good example, is the value advisers can add to retirees in helping them find or retain a sense of purpose in retirement. As advisers increasingly use goals-based planning strategies, the connection of finances to a clients' life goals becomes more important.

Don't' be afraid to get emotional

Scientists have uncovered that humans feel first and think second. When confronted with sensory information, the emotional section of the brain can process the information in one-fifth of the time the cognitive section requires[25]. Tapping into your audiences' emotions can be as simple as using compelling imagery in your content or adding colour to your communications to increase the visual appeal. Writing in the first person can feel more personal and using email subject lines that relate to how people feel is a great way to capture people's attention.

"What used to be considered a value add to clients is now simply a ticket to play. Advisers that can pivot from a value proposition based on services and products to a proposition that reflects the 'why' of what they do, and how their values align with their clients will be able to cut through in an increasingly competitive market."

Matt Heine, Joint Managing Director, Netwealth

25 https://www.forbes.com/sites/forbesagencycouncil/2018/02/26/lets-get-emotional-the-future-of-online-marketing/#42407ddb4d0c

Kick starter questions to help you develop a winning value proposition

Put simply, a value proposition is a core statement of who you are and the value you deliver to your clients or prospects based on the services you offer. It is generally short and succinct and should articulate your point of difference and what you stand for. The questions below can help you develop a value proposition that better reflects your 'why' rather than focusing on the 'what or 'how'.

- Why did you become a financial adviser? What were your goals when you first started out? What has kept you going through the years?
- What feedback do you get from your clients? What is the most common thing you hear from them about yourself and your team?
- What is the most important thing to protect in your life? Is it your family, your career or something else? What do your clients want to protect?
- What would you like to be known for? What would an ideal testimonial from a client look like? Write it down – that could be your value proposition right there.

Make digital marketing more than an afterthought

We're all online in the modern world and that includes retirees. A 2019 survey showed 70% of National Seniors Australia members use an internet search engine daily[26] and 40% of National Seniors Australia members use Facebook daily[27]. We've put together some practical tips to help you get the most from your current online channels – and yes, that includes email!

Five practical tips for putting your best foot forward online

1. **Your website and social channels are your showroom**

   It's critical that you look professional online. If you have a presence on channels such as Facebook, Twitter or LinkedIn make sure they're up-to-date and look professional, particularly photos and images. Your 'contact us' should be working hard for you – make it as easy as possible for people to find you. Wherever you are online give accurate details about how to contact you over the phone, by email and how to get to you at your physical location. Spending an hour auditing your own online channels is time well spent. Or, even better get friends, family or colleagues to take a look and let you know what's working (and of course what's not).

2. **Improve online accessibility for retirees**

   For older audiences, it's important to make sure content is accessible. Choose easy-to-read fonts for written content and avoid white text on a coloured background. Using sub-headings to break-up longer chunks of copy can also make content easier to follow and including a call-to-action on every page can encourage people to explore your website more or get in touch. It's also essential to optimise your website for mobile phones. According to National Seniors Australia, mobile phones are the most popular way for their members to access the internet[28].

26 National Seniors Australia Senior Surfers Survey, 2019
27 National Seniors Australia Senior Surfers Survey, 2019
28 National Seniors Australia, Senior Surfers: Diverse levels of digital literacy among older Australians, August 2019

3. **Social proof can help build trust**

   When people follow the actions of others in making decisions, it is often described as 'social proofing'. It's essentially a shortcut used to navigate the increasing number of choices that an online, globalised world provides us. And, at a time when trust is low across many industries and institutions, it makes sense that people are looking for ways to measure the trustworthiness of a brand or service. Sharing client testimonials, google reviews and customer satisfaction results is a good way to provide social proof to new and existing clients.

4. **Be clear about what you do and who for**

   A list of the services you offer is a must-have for your website. It should be prominent and easy to find. Consider including a section with the title "Talk to us today if.." followed by examples of why clients come to you for advice is a useful way of demonstrating the value you provide in a personal and relevant format. Your 'About Us' or team page is a great place to communicate your value proposition – maybe add a video of your team.

5. **Understanding your clients better**

   Sending a short survey to clients about their retirement needs is a great way to make the connection in their mind between your service and their goals for retirement. Websites such as Survey Monkey make it quick and easy to do and it's free when you use a basic package.

6. **Don't forget about email as an online marketing channel**

   We can all have our heads turned by the 'quick fix' of social media. After all, marketing can take up a significant chunk of your time and resources. Email marketing is one of the longest running forms of digital marketing and it remains a cost-effective way of reaching your audience. A well timed, personalised and engaging e-newsletter or communication can act as a great engagement touchpoint to keep you top of mind with your clients and remind them of the value you provide.

Over three quarters (77.6%) of practices have a mobile compatible website or blog to allow more convenient access for clients. Seven in 10 (69.4%) practices modify website or blog content at least once a year. With the majority (54.3%) doing at least once per quarter, and many (36.8%) doing it at least monthly.

2020 Netwealth AdviceTech report

---

29 Care Connect, The Connectivity Report, April 2018

Content marketing can be a cost effective marketing tool

Email and social media channels are a great way to reach out to clients and prospects but you'll need to develop content to keep them engaged once you have their attention. Here are some ideas for content you can share via email newsletters or social media to inform your audience:

- **Leverage content from trusted sources** – many financial services companies offer a range of white-label content on retirement that you can use in your own marketing campaigns and activities, including articles, infographics, case studies and flyers. This type of content is unbranded so you can easily add your own contact details and logo to include it in your marketing materials.
- **Use interactive content to drive engagement** – taking part in quizzes, online polls and Q&As can generate greater engagement from your audience than reading information. There are many cost-effective off-the-shelf options you can use or it can be as simple as setting up an email address for a Q&A.
- **Offer video or webinars as alternatives to written content** – video can be faster way to provide easy access to tips, insights and information about your services. Platforms like Wistia, YouTube or Vimeo offer a range of video hosting services and tools suited to financial advice professionals.

Developing a marketing mindset

Digital content is by no means the only tool you can use to engage your audience. It's important to consider and explore how effective other marketing tactics can be for your business and target audience. Here are some other approaches to keep in mind as you come up with a marketing strategy to grow your business through content, community and referrals, as well as digital channels.

Be prepared to experiment: the power of storytelling

Sharing stories from your clients or co-workers is a quick and efficient way to create emotionally engaging and relevant content. Your current clients will often have complementary expertise or insights relevant to other retirees. And, it's a great way of highlighting the benefits of intergenerational advice by getting more than one member of a family to share their experience. The trend towards 'authentic and genuine' means customers are happy to see a video filmed on a smart phone as long as the sound is good and the content is professional and appropriate. Or you can develop a written interview or case study.

Strengthen relationships through community building

Building communities either online – through channels such as a Facebook group, or in person – through networking circles or social groups is fast becoming a key component of forward-looking retention strategies. Community building can help build trust in your brand, provide a valuable resource for your clients and drives retention through stronger relationships. From a business point of view a community can provide you with key insights into your audience, for example through questions or comments submitted to an online forum and is often the place where brand ambassadors are born.

Events provide a great opportunity to raise your profile

Hosting, or taking part in events can be a great way to make new connections with potential clients or businesses that could refer your services. While face-to-face events have been suspended due to COVID-19 and social distancing restrictions, there may still be webinar activities you can take part in to make new connections and build your community of engaged prospects and referrers.

Research shows that people are more likely to remember a story than a statistic. In a program at Stanford University, students were asked to give one-minute speeches that contained three statistics and one story. Only 5% of the listeners remembered a single statistic, while 63% remembered the stories[30].

30 https://apps.prsa.org/StrategiesTactics/Articles/view/12169/1154/Primary_Source_The_Power_of_Storytelling_in_Busine#.XmHKmpMzbBI

The benefits of bringing clients together

Every year financial adviser Craig Thwaites of SecurInvest invites clients to bring their family and friends along to a movie night hosted by the practice. When it comes to pulling the social capital lever, this type of event can be very effective. Clients feel a sense of belonging in the Securinvest 'family', making them more aware of the potential benefits of sharing their experience as an advised client with friends and family.

Ramp up your referrals

A referral program, whether formal or informal, often forms the backbone of marketing activities for advisers. After all a 'word of mouth' referral is a lead that has already been warmed up. We've included a quick refresh on getting the most from your referrals.

- Relationships with aligned businesses such as accountants or legal professionals may already be one of your main sources of qualified referrals. But there may be other, less obvious, businesses that could create referral opportunities. Creating a 'health and wealth' partnership with your local gym or yoga studio, for example, can raise awareness of your services among active retirees.
- As you discuss estate planning needs with existing clients, it can be a good time to introduce their children, as beneficiaries of their estate, to the benefits of financial advice. Although this intergenerational transfer of wealth may be years away, offering services to adult children now can help them establish goals and behaviours to make the most of all their income and wealth, including their future inheritance.
- When talking to existing clients about referring friends and family, put greater focus on how a friend or family member could benefit from advice – greater peace of mind about their future. As social capital is a client's main motive to refer, any rewards you offer should come second to this in a referral conversation.
- Secure repeat referrals by letting your referring client know about positive outcomes for the friend or family member they have referred. This reinforces the social and emotional reward they expect from a referral, reminding them that each time they recommend you as an adviser it's a win-win, both for them and their friends or family.

Advice strategies for retirees: building a comprehensive retirement income plan

We have discussed the unique and important needs of retirees and how to communicate your value in addressing these needs. In this next section, you'll gain insights into how you can support clients to meet their need for secure and reliable income that lasts however long they live and regardless of share market performance.

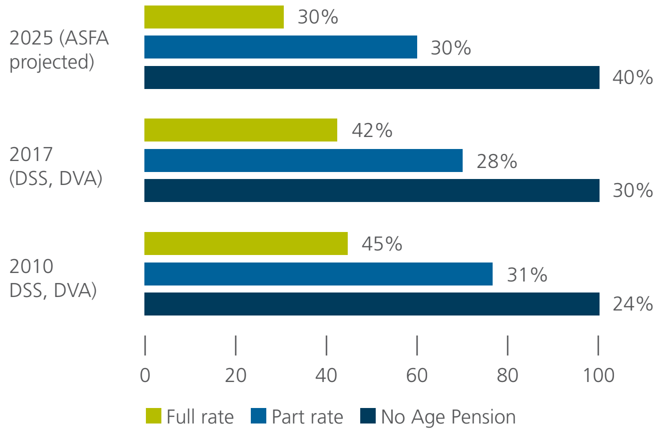
Super is moving from supplementing the Age Pension to replacing it for a growing proportion of retirees

Only 42% of the over-65 age group get a full pension, with a further 28% on a part Age Pension[31]. Put another way, more than half of today's retirees (58%) have sufficient means to reduce, or eliminate, their entitlement to Government income support. Growing super balances will be playing a material part in this story. In addition, the eligibility age goes up from the current 66 by six months every two years until it reaches 67 in 2023. ASFA projections suggest that by 2025, around 20% of people aged 67 will still be working, with a further 40% or so ineligible for the Age Pension[32].

31 Includes age-based veterans' pensions. Age of eligibility for the age pension increased to 65.5 from 1 July 2017. See Challenger Position Paper: Retirement really is different, April 2018

32 ASFA Pre-Budget Submission for the 2018-19 Budget, February 2018.

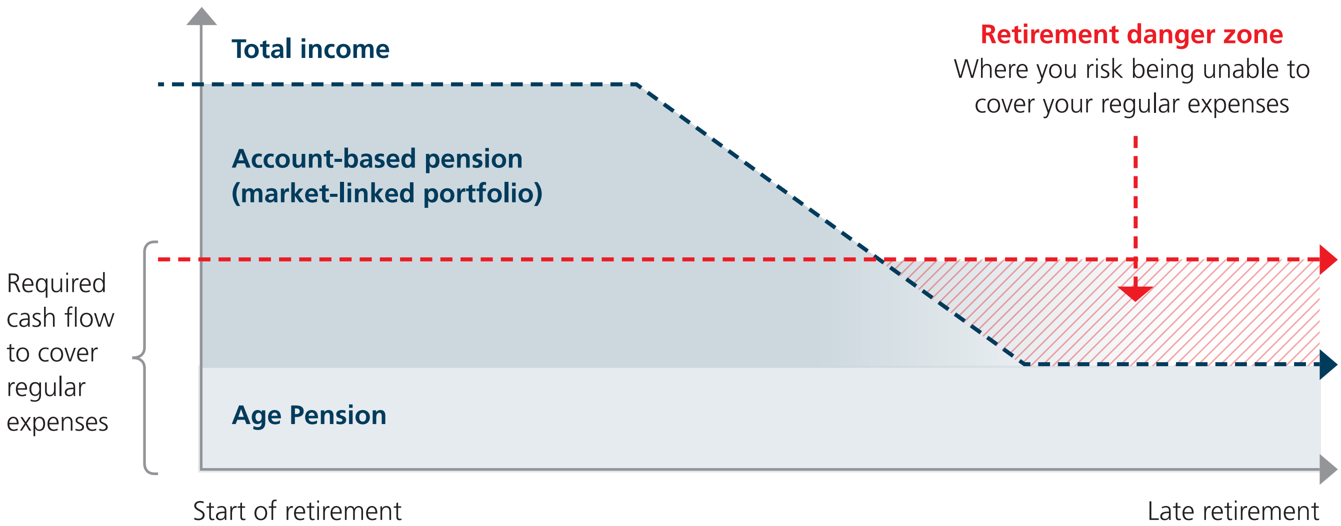
Figure 4: Trend of decreasing reliance on Age Pension 2010-2015



Retirees move closer to the ‘retirement danger zone’

Many retirees see the Age Pension as the ultimate safety net, but even the full Age Pension entitlement may not be enough to cover the cost of living of a modest retirement. The number of Australians eligible for a full or part Age Pension is decreasing and longer life spans mean a focus on sustainable, secure income is critical to avoid retirees ending up in‘the retirement danger zone’ – a period in later retirement where they may be unable to cover their regular expenses.

Figure 5: An income layering approach



Using income layering as a retirement income strategy

An income layering strategy can help to ensure retirees don’t hit the ‘retirement danger zone’. A retirement income strategy that includes a lifetime income stream, such as a lifetime annuity, alongside super and the Age Pension, provides an additional layer of protection in retirement and creates a stronger safety net. Income payments from a lifetime annuity are guaranteed, they won’t be affected by market performance, and importantly will continue until death. Specialised retirement income products and targeted financial advice can help retirees enjoy their current lifestyle and plan for their future with far greater peace of mind.

If you already have retiree clients, it is important to remember that a retirement income strategy isn’t a static document and should continue to evolve over time, adjusting not only with changes in markets but changes in the lives of clients. With this in mind, it might be timely to remind clients of the ongoing benefits your continuing advice provides. This ongoing advice can be an additional element assisting to ease client concern in these uncertain times.

Maree: closing the gap between the Age Pension and living expenses

Age: 67

Assets: Homeowner – $450,000 in superannuation, $20,000 personal assets and $50,000 cash

Goals: A comfortable retirement lifestyle[33] and income security for her later years.

At age 67, Maree has spent her life working hard and looking after others. Her children are now financially independent, she is debt-free and hopes her savings, combined with the Age Pension (she is currently receiving $4,242 p.a.), will pay her way in retirement. She expects to spend $30,000 each year to cover basic expenses in retirement. But to enjoy things like holidays, meals out and entertainment, she estimates her annual income will need to be closer to $45,000.

Based on life expectancy figures, Maree can expect to be retired for over 23 years[34]. At the moment, Maree is enjoying good health and she's worried she will outlive her savings. She is worried that the Age Pension alone won't cover her basic expenses. An extra source of secure, regular income would give Maree peace of mind that she won't be left with a gap between her income and cost of living. She has thought about investments but has concerns about losing money to a volatile share market.

Her financial adviser's recommendations

After talking things through with her financial adviser, Maree converts her super into a combination of income streams. This solution gives her the income and peace of mind she's looking for and the flexibility to access money if she needs it.

Income stream 1

Maree allocates 30% (or $135,000) of her super to a lifetime annuity. This is a secure investment providing Maree with guaranteed payments for the rest of her life. The payments will top-up her Age Pension income and help her cover basic living expenses.

Also, as only part of the amount invested into a lifetime annuity is counted under the assets test, Maree may see an increase in her Age Pension entitlement.

Income stream 2

With the remaining 70% (or $315,000) of her super, Maree invests in an account-based pension. Maree can choose from a range of investments for her account-based pension, and change the amount she withdraws, subject to the Government's minimum requirements.

Living life to the full

Thanks to recommendations from her financial adviser, Maree has enough income to meet basic expenses and enjoy more of the things she's looking forward to in retirement.

After restructuring her super, Maree's income for her first year of retirement looks like this:

- $5,864 income from her lifetime annuity
- $28,682 from her account-based pension
- $8,454 from the Age Pension
- $2,000 interest on money in the bank

Maree's income streams, combined with the interest she earns on money in the bank, provide the $45,000 budget she has planned for during her first year of retirement. Payments from her account-based pension will allow Maree to spend on extras from time to time, until that money runs out. Together with the Age Pension, a lifetime annuity gives Maree a guaranteed level of income for the rest of her life.

33 According to ASFA standards a comfortable retirement lifestyle enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel. https://www.superannuation.asn.au/resources/retirement-standard-

34 Estimate calculated using Australian Life Tables 2010-2012 with 25-year mortality improvements as provided by the Australian Government Actuary.

Fiona and Frank: securing a comfortable retirement lifestyle

Age: Both 67

Assets: Homeowners – $250,000 each in superannuation, $20,000 combined personal assets and $50,000 cash

Goals: Paying bills, continuity of income in retirement, an overseas holiday every two or three years to see their grandchildren.

Cafe owners Fiona and Frank have recently retired. To help fund their retirement, they decided to sell their cafe and contribute the net proceeds from the sale to top-up their superannuation.

Fiona and Frank are looking for a comfortable retirement and have estimated they would need an income of about $60,000 p.a. to help fund it. They're sure they can't get by on the Age Pension alone (they are currently receiving $22,893 p.a.) and think they'll need at least $42,000 p.a. to meet their basic living expenses.

Knowing that their life expectancies are 23 years for Fiona and 21 years for Frank (the average for their current age[35]), they're worried there's a possibility they might outlive their savings.

So, to avoid having to potentially live on the Age Pension alone, Fiona and Frank want to find a source of income to help them meet their basic expenses in retirement. They're also concerned about share market volatility and would prefer to have only a moderate exposure to market-linked investments.

Their financial adviser's recommendations

Fiona and Frank's financial adviser recommends that they convert their superannuation into a combination of income streams. This strategy is designed to give Fiona and Frank not only their preferred level of income, but also the flexibility and certainty that they desire.

Income stream 1

The first income stream Fiona and Frank's financial adviser recommends are two lifetime annuities. Their financial adviser recommends that they each invest 25% of their superannuation (or $62,500 each) to provide guaranteed income for life, regardless of how long Fiona and Frank live or how investment markets perform.

Also, as only part of the amount invested into a lifetime annuity is counted under the assets test, Fiona and Frank may see an increase in her Age Pension entitlement.

Income stream 2

Their adviser also recommends that they each set up an account-based pension with their remaining superannuation balance of $187,500 each. With an account-based pension they can choose from a range of investments and select the income they draw, subject to the Government's minimum payment requirements. The account-based pension is designed to provide them with an income stream that helps give them the lifestyle they desire until it runs out.

Achieving their desired lifestyle whilst covering their basic living expenses

With the adviser's recommendations, Fiona and Frank will have income from various sources to meet different expenses.

Fiona and Frank's income for their first year of retirement is:

- $5,615 combined from their lifetime annuities
- $25,592 from their account-based pensions
- $26,793 from their Age Pensions
- $2,000 interest on money in the bank

These income streams, combined with the interest they earn on money in the bank, provide the $60,000 budget they were hoping for during their first year of retirement.

Payments from the account-based pension allow Fiona and Frank to achieve their desired lifestyle until the capital runs out. The secure income from the Age Pension and the lifetime annuity provides them with guaranteed income which can help pay for their basic living expenses during their lifetime.

35 Estimates calculated using Australian Life Tables, with 25-year mortality improvements as provided by the Australian Government Actuary.

Other advice considerations for retirees: estate planning and intergenerational advice

Many retirees are conscious of the need to maintain a certain level of assets (such as the family home) to eventually pass on to the next generation. Financial advisers have a role to play in supporting them through this estate planning process.

As AssetMark's Matt Matrisian suggests, "clients are not only concerned about establishing an inheritance plan – they also want to make sure their heirs receive the resources to effectively manage the estate." The opportunities for advisers to assist clients in securing their family legacy have never been greater.

Lipman Burgon's Paul Burgon notes that the orderly transfer of wealth appears to be an increasing priority for many clients. "We certainly do a lot of work around asset protection, wealth transfer, and intergenerational wealth planning," Mr Burgon says. "Among most clients' biggest concerns is the issue of how to effectively pass wealth to future generations, making sure the values are maintained in terms of how that wealth has been created and cared for."

CoreData's Andrew Inwood suggests research supports the emergence of immense opportunities for advisers in this area. "The youngest of the baby boomers are now 55. They're just entering into that decade in which they're going to retire," Mr Inwood says. "So, the greatest transfer of wealth that has ever been seen in Australia is now at work. And the advice and assistance required for that is just extraordinary. The market opportunity is significant. How we approach it, how we view it, is something that has yet to be tested by the providers. "I'm optimistic, because the wealth transfer is going to need people who know what they are doing. You're going to need some real skills to make the best of this. "People's biggest fears with the wealth transfer is the unintended distribution of money – that the money ends up with someone they didn't like, or that they pay too much tax."

In long-standing firm-client relationships, intergenerational wealth transfer may even involve a transition of advisers as well, as ShineWing Australia's Daniel Minihan reveals. "I'm now looking after a number of clients where I was transitioned in as a new, younger adviser," Mr Minihan says. "As the older adviser and the family patriarch both went into the background and their children came in, I came in at the same time as well. It's a collaborative approach that we undertake with some families, depending on demographics, suitability, and the fit with the new advisers and the children."

These insights from the Netwealth whitepaper *How to attract and retain high net worth clients* suggest that the adviser role in estate planning isn't limited to advising older clients on distributing their wealth. Advising adult children or other beneficiaries on their own opportunities for wealth preservation and creation can be an equally important estate planning service, as well as an opportunity for advisers to grow their client base.

Making the retirement opportunity a reality

With longer lifespans and less certainty in world markets, retirees need access to quality financial advice, now more than ever. We hope you can use this guide to help you understand:

- the growing opportunity in retirement advice;
- some of the unique needs of retirees and their behavioural biases;
- how to connect and engage with retirees; and
- strategies available to build a comprehensive retirement income plan.

Put your client's retirement plans in motion

Together, Netwealth and Challenger provide you and your clients greater access to retirement solutions. Put your clients' retirement plans in motion with Challenger annuities on Netwealth's award-winning (*) and feature-rich investment and super platform. Some of the integrated features you can expect include:

- Challenger annuities available for all clients, with or without a Netwealth super or investment account;
- online annuity policy management via Netwealth's adviser portal;
- fully integrated portfolio reporting, including annuities; and
- comprehensive tools, calculators and research.

Adviser support from Challenger

Challenger has a range of tools to help you and your clients plan for their retirement. To access them or find out more:

- Login or register for AdviserOnline at **adviseronlineportal.com.au**
- Speak to your **Challenger BDM**
- Call Adviser Services on **1800 621 009**
- Visit **challenger.com.au**

Adviser support from Netwealth

Netwealth provides a suite of Investment, Super and Managed Account solutions designed to drive better financial outcomes for you, and importantly, your clients. Contact Netwealth to discover why they are Australia's #1 platform (*) and how they can assist you now, and in the future.

- Speak to your Netwealth BDM on **1800 888 223**
- Email Netwealth on **contact@netwealth.com.au**
- Visit **netwealth.com.au**

challenger | netwealth

41062/0620