Financial **Focus**

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Welcome to Financial Focus. I hope you enjoy the articles and find them interesting and informative. If you have any feedback, questions, or would like to review your financial plan, please feel free to contact me.

To fly in retirement, plan your own path

When US air force pilots were struggling to control their planes in the late 1940s, officials were mystified. With 17 crashes recorded in a single day, it was happening too often to be pilot error but engineers frequently found no technical or mechanical defects. Attention finally turned to the physical design of cockpits back in the mid-1920s and whether the size of pilots had changed.

Using data from more than 4000 pilots, a researcher set out to determine how many pilots were average size. Using the 10 most relevant physical dimensions — including chest circumference, height and sleeve length — he plotted the size of this "average" pilot.

When he posted his findings, the laboratory was stunned to find that not one single pilot fit the average on all of the dimensions. It turned out designing a cockpit to fit everybody resulted in designing it to fit nobody.

Trying to play the law of averages with retirement planning is also a fool's errand. Many of the 3.6 million Australians who have already retired are living longer, staying healthier and contributing to their communities well into their 70s and beyond.

This might mean some combination of working for longer, supporting a local cause, seeing the world and spending lots of quality time with the grandkids.

It's time we said "hooroo" to the average older Australian because, like the average fighter jet pilot, the richness and diversity of life past the age of retirement means this person doesn't exist. Where older Australians were once lumped together as an homogenous grouping, this stereotype has long since passed.

That's why financial planning for your retirement must be grounded firmly in your own realities. The amount of money you'll need to fund your lifestyle depends on a range of factors including where you live, the state of your health, whether you're in a relationship and desired levels of discretionary spending.

Citing research from various Australian universities, Milliman's Retirement Expectations and Spending Profiles 2019 indicate that how you live is partly determined by where you live.

People in Canberra, for example, spend more than 15 per cent above the national average, while those in Hobart are more than eight per cent below it. Living in the city really is more expensive than living in the country with an almost 11 per cent difference by the later years of retirement.

The location factor is not just relevant for city versus country living. Assessing expenditure in individual suburbs also paints a different picture of retiree behaviour, with Milliman research showing double the spend in Sydney's Mosman than in Auburn.

For most older Australians, average spending on discretionary categories like leisure and travel are higher in the early years of retirement but decrease as health issues arise. So, it should come as no surprise that healthcare spending is the one spending category that bucks the trend and increases on average throughout the retirement years. Medicare helps but there are still out of pocket expenses for specialist appointments and pharmaceuticals that need to be factored in.

Older Australians have a tendency to cut their cloth according to their means. Beyond essential spending on food, shelter and clothing, they allocate discretionary spending to the things in life they enjoy most.

Whatever your means, Milliman's research shows that the split between essential and discretionary spending doesn't change much throughout retirement. For those between the ages of 65 and 69 years, discretionary accounts for 52 per cent of spending. This declines slowly over time to account for 46 per cent of spending beyond the age of 85.

It's never too late to take action but there's no substitute for professional advice when it comes to navigating complexity and minimising uncertainty in your financial future. There's no average Australian but there are millions of individual stories to be written. What's yours going to be?

By Jason Marler, Head of Actuarial at MLC. Article originally published in *The Australian*.

An expert on the best time to look at your superannuation strategy

It's something that can sneak up on you but for thousands of us, retirement isn't too far off. You've put in the hard yards, and now the finish line is in view. Or maybe retirement is still some ways away, and your career is either just getting started or in full swing, but no matter what stage of the game you find yourself in, it's always a good idea to evaluate your super strategy.

A lot of life gets lived between the time you start working and the time you retire; houses are bought, vows are made and babies are born - these major life events impact our finances significantly and force us to re-evaluate our plans for the future.

Start taking your super seriously

"Super, for most of us, will be one of the most, if not the most significant building block when it comes to retirement savings. It's also likely to be the longest held investment that we have in our lifetime," says Keiran McIlwain, Head of Advice and Professionalism at MLC.

However, MLC recently polled over 2000 Australians and uncovered that most Australians - around 58% - don't believe they'll have enough wealth to live their desired standards of living in retirement. But, even knowing this, the majority are not being proactive in trying to improve their financial situation.

The Wealth and Retirement Behaviours Survey provides unique insights into the relationships between household wealth, retirement anxiety, and life satisfaction. The survey is run on a quarterly basis and explores concerns about our wealth and desired lifestyle in retirement and the actions we take to achieve our wealth objectives.

The most recent study showed that 40 per cent of Australians have never reviewed their super fund strategy to ensure it's right for them. Moreover, 73 per cent of Australians do not know the right risk profile for their age but 66 per cent would change their asset allocation if they knew they were missing out on tens of thousands in retirement savings.

For many of us who opened a super account when we started our first job, our retirement savings will end up being invested for half a century. Let's just say that a lot can change in fifty years, which means the super strategy that fifteen-year-old you implemented probably isn't going to cut it for sixty-year-old you. Also, the rules around super often change, which can also open up brand new opportunities for your investments and can help to maximise your savings. These 'rule-based triggers' are often complex and not as easy to identify and understand.

"Sometimes there will be a 'trigger event' that will flag a need to review your super investment to ensure you're making the most of your available funds. This may be a change in employment or salary or an increase in your surplus cash flow as you pay off debt", McIlwain explains.

Obviously, the closer you are to retirement, the clearer your financial picture will be. But that clarity also brings with it its own set of 'triggers' as you come to realise your retirement expectations and lifestyle desires. "For example, how often do you want to travel, and how exotic are your plans? Where do you reasonably expect your spending to decrease (no more train and bus tickets or bought lunches), and where might you expect it to increase?" he says.

What's your plan, stan?

While it can be overwhelming, it's important to know that you don't have to go it alone. Talking through your super strategy with a financial adviser could make all the difference. The MLC research uncovered that our overall well-being is negatively affected by our ability to fund our retirement and conversely, positively influenced by our ability to maintain our standards of living throughout different life stages.

So, too, is carving out the finer details of your retirement and your vision for the future. "For instance, what age do you want to retire? If you have a partner, do you want to retire at the same time? How often would you like to be able to eat out, see a movie, or travel? Are you going to downsize?", McIlwain asks. "Having some thoughts on paper and a clearer picture of what your 'target' is will be really helpful when you speak with a financial planner, and together you'll be able to set some real goals and implement strategies to make sure you're on the right track."

Ultimately, when you have this conversation depends on how close to retirement you are. "If you're in your 30s or even your early 40s, it's probably reasonable to say that it might be difficult for you to accurately estimate what annual income you're going to need once you hang up the work boots." That can mean setting a solid financial target might be unrealistic at this stage. But that doesn't mean you can't open the dialogue around your super strategy, it just means you need to be asking different questions.

"The conversation may instead be focused on your current circumstances and responsibilities, and what capacity you have to make even small contributions to your retirement savings today."

When to book your next check-up

Kieren says, "optimally, we should all be reviewing our super strategy at least on an annual basis."

The MLC research also found that the majority of Aussies, about 66% – myself absolutely included, would be compelled into action if they knew they were missing on tens of thousands of dollars in their retirement, which they very possibly could be.

The closer you get to retirement, the more important it will be to check in at least once a year to make sure you're still on track to reach your retirement goals. If you have a change in circumstances, you're likely going to need to check in more often. Your financial planner can work with you to prioritise reviews as needed during this stage.

Knowing you don't have to be solely responsible for such an important investment makes monitoring your super less overwhelming. Just like we're meant to monitor our physical health and check in with a professional when we notice changes, it's important to keep track of financial wellness and engage with an expert financial adviser to manage our financial wellbeing.

From the moment we make our very first super contribution, each and every one of us become pet owners, continuing to care for a retirement kitty that never loses its appetite. Throughout our lives, there'll be times we can feed it well, and times it might go a little hungry.

Even as you get closer to retirement, working through current circumstances and evaluating your financial capacity to divert any surplus cash flow to your retirement kitty is still important.

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The right place to put your super

Sinking global financial markets and worries about the US-China trade war are prompting some Australians to wonder whether their superannuation sits in the right investment option. Share markets in the US, Asia and Europe have dropped up to 8 per cent in a month. Aussie shares have climbed since the election but several analysts say our stocks now look overvalued.

Much of Australians' super is invested in high-growth assets such as shares and property, but there is no definitive right answer about the best investment mix for you. It will depend on your age, your financial aims and whether you can handle short-term volatility in return for long-term gains, super specialists say. The CEO of the Association of Superannuation Funds of Australia, Martin Fahy, said asset mixes varied between funds, but as a general guide:

- Conservative investment options had about 30 per cent in shares and property, with the majority in fixed interest and cash.
- Balanced options invested about 70 per cent in shares and property.
- Growth options put around 85 per cent into shares or property, aiming for higher long-term returns.

"The right super fund option to be in right now should be the one you are comfortable to be in over the medium or long term," Dr Fahy said. "Even investment professionals cannot pick when there will be a market downturn or upturn."

Many super fund members panicked during the 2008-09 global financial crisis and sold out of higher-growth investments, only to miss the rebound over the past decade. Dr Fahy said people should first find out how their money was invested now.

"If you have not chosen, you are likely to have been defaulted into a balanced option," he said. "However, some funds have a life cycle profile for default members, meaning the older you are, the more conservative the investment mix."

MLC portfolio specialist John Owen said people in their 20s and 30s could afford to consider higher-growth assets because they had time on their side to recover from downturns. "They can exploit a market decline by increasing their super contributions via salary sacrifice which enables them to buy more units in their super fund at lower prices," he said.

"For someone in their late 50s or early 60s who are approaching retirement, falling markets are a bigger issue as the value of their portfolio could decline as a result."

Mr Owen said super fund performance surveys showing average annual returns provided useful information but should not be relied upon completely. "This is because past performance says very little if anything about what will occur in the future," he said.

Super savers should work out what they need to retire. Online calculators at moneysmart.gov.au let you enter your current super balances and investment options and project how it should grow.

"Superannuation is complicated, as is tax and insurance, so making an informed choice could be challenging," Mr Owen said. "It may be useful to access the services of a qualified financial adviser who can help you choose."

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