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SUMMER 2025 EDITION

The $1.2 trillion migration

Every year around 60,000 Humpback Whales leave the food-rich waters of Antarctica and begin the world's longest mammal migration, a 5,000km three-month journey to the warm waters of northern Western Australia and Queensland.

One cohort of Australians who often witness this event are retirees, blessed with abundant free time and desire to tour our great country. Just like the whales, this group and their collective wealth is about to undertake its own massive migration, one from accumulation to retirement - its early phase forged by the first baby boomers who began hitting retirement age in the early 2010s.

Over the coming decade, around 3 million Australians will start drawing down their savings in retirement, migrating ~A$1.2 trillion with them – yes that's trillion with a 'T'.

This is a substantial amount of capital that could impact investment trends, healthcare and housing markets among others. Migrating from accumulating wealth to living off it also raises the importance of having sustainable withdrawal strategies, to ensure savings can adequately fund and effectively last throughout retirement.

The role of income

One of the key and often underappreciated strategies is for retirees to have an income stream as part of their savings.

The 2024 Mercer CFA Institute Global Pension Index report, which ranks how well countries help their retirees manage their savings and provide a secure income, showed Australia had slipped to sixth position globally and dropped out of the number one spot in the Asia Pacific.

Why the drop? Our system in Australia is great at making people save and invest via compulsory superannuation but when it comes to strategies to help retirees generate a steady income stream that lasts, we're less impressive.

While there are a variety of income -strategies available including Bonds, Annuities, REIT's and dividend paying stocks, retirees are not required to have any one type of income investment. There is also no real guidance on how investors should balance the 'retirement trilemma' which refers to the challenge of balancing three interlocking and competing objectives, namely

- Maximizing of retirement income
- Managing the risks (inflation, interest rates, volatility markets, the economic cycle,
- Having access to capital when you need it.

In the absence of policy that prescribes how retirees invest their superannuation, strategies that can balance the generation of income but also are liquid and less volatile can be crucial. This is where a Financial Adviser can add significant value.

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The volatility factor

Most people understand market prices can go up and down, but it's less apparent that once money is lost, it's much harder to get it back. A loss of 10 per cent requires a subsequent gain of 11 per cent just to break even; a 20 per cent fall will break even only after a 25 per cent rebound and so on.

Withdrawing capital during periods when losses occur involves "selling low", compounding the effect as the portfolio enters a market upswing with a lower balance, requiring even stronger returns to recover.

For retirees, this makes it critical to effectively reduce the sequence of return risk, by avoiding volatile returns. One option is to manage market volatility.

Equities, particularly value stocks, fit these criteria best because they are typically well-established companies with stable earnings. Reliable sources of portfolio income, such as dividends or interest-bearing investments, can also help mitigate market downturns by providing a steady cash flow. However, as we saw during the 2020 COVID downturn, many of the highest paying dividend stocks either cut or significantly reduced their dividends, just when people needed them most.

For the more financially literate, fully cash backed options can be used to reduce portfolio volatility while generating an additional source of income as investors in the fund are paid for taking market risk. The benefit for retirees is that the process is structural, consistent and repeatable.

As the great migration happens over the next 10 years, as more than a trillion dollars are moved into retirement, having a reliable source of income and a good adviser working with you, will be increasingly more important for retirees.

Prioritising positivity for wellbeing

Positive and negative events are just a part of life – sometimes we can control them, and other times they seem to appear randomly with no warning signs. The way we respond to these events can dramatically affect our mental and physical health.

Research[1] has shown that **reflecting** on a positive life experience can increase wellbeing [and therefore happiness] BUT overly **analysing** a positive life experience can have the opposite effect – keep this in mind!

The way we **intentionally** go about our daily lives can also significantly impact our overall wellbeing. By 'prioritising positivity' we can influence our happiness and wellbeing.

So, what do we mean by "prioritising positivity"?

Prioritising positivity refers to the extent to which individuals proactively structure their lives to have regular experiences of positivity. While the choices that each of us make can differ quite significantly, the common thread is the tendency to seek out positivity in daily life.

Research[2] shows that people high in prioritising positivity experienced more frequent positive emotions, fewer negative emotions, greater life satisfaction and more flourishing.

So why are positive emotions so important?

Well, positive emotions predict how well people's immune systems function, their job performance, and the strength of their social bonds, which are important factors for most, if not all, of us.

Research[3] clearly highlights the idea that we can influence our own wellbeing through prioritising positivity and intentional actions, so why not adopt these practices into your own life.

Putting it into Practice

Now, think about your own life.

Ask yourself and contemplate, when you recall positive life experiences that you've had, are you **reflecting** on them, or **analysing** these events?

A tip for you in the future when thinking about your positive life experiences, start training yourself to **reflect** rather than analyse and see what difference it makes - it may only be subtle, but over time it can make a substantial difference.

Our key takeaway for you in all this is, be **intentional** when going about daily life ensuring that you plan for positive actions each day and **reflect** on past experiences rather than trying to analyse them.

[1] Lyubomirsky, S., L. Sousa, and R. Dickerhoof, *The costs and benefits of writing, talking, and thinking about life's triumphs and defeats.*
[2] Littman-Ovadia, H. and P. Russo-Netzer, *Prioritizing positivity across the adult lifespan: initial evidence for differential associations with positive and negative emotions.*
[3] Catalino, L.I. and W. Tov, *Daily variation in prioritizing positivity and well-being.*

How the next generation of new and improved annuities are transforming life in retirement

Despite the increasing size of super balances, research shows that money worries remain the leading cause of anxiety for older Australians[1]. In fact, most retirees rate having income for life (or financial certainty) as their most important financial priority. That's because lack of financial certainty undermines financial confidence and, ultimately, the quality of life in retirement.

So how do we obtain financial certainty in retirement?

Until now, retirement products (such as account-based pensions) with their depleting balances and exposure to market volatility don't provide that much-desired certainty. On the other hand, income products (such as annuities) provide certainty but have come with tradeoffs.

There's an emergence of innovative retirement income products that are solving the problems associated with traditional annuities. Despite this, research shows that take up of annuities is low (with only around 6%[2] of pension-phase accounts invested in annuities) – usually because they are widely misunderstood.

Here, we bust some myths regarding annuities and explain how the next generation of annuities is transforming life in retirement.

MYTH

My money is locked away and difficult to access. X

One of the biggest myths about annuities is that money is locked away. And while in the past, investors had limited access to their money, new-era retirement income products are transforming retirement by providing a lifetime income with the ability to access capital whenever required to meet unforeseen expenses.

MYTH

My beneficiaries won't receive anything if I die early. X

This may have been the case with annuities in the past, but new-era retirement income products provide peace of mind by paying a death benefit to beneficiaries.

In addition, these innovative annuities may even continue to pay the investor's lifetime income to their spouse for the remainder of their life.

MYTH

Annuities have limited growth potential. X

With ever-increasing years spent in retirement, the ability to grow savings is crucial. Innovative, new-era lifetime income products combine the potential for growth with a protection mechanism to shield investors from market downturns.

MYTH

Annuities lack flexibility. X

When you think about traditional annuities, 'flexibility' is probably not the first word that comes to mind. Until now, they have been perceived as too rigid and light on choice. However, the new era of annuities are designed around flexibility:

- flexibility to start your annuity when ready
- flexibility to make withdrawals whenever required
- flexibility to choose how to invest your annuity and the ability to adjust your strategy along the way
- flexibility to receive either rising payments to keep pace with inflation, or fixed payments for life.

These new-era annuity products provide income certainty, flexibility and the ability to access capital whenever needed. They can pay a death benefit to beneficiaries, are designed to work alongside account-based pensions and even optimise eligibility for the Age Pension.

These innovative products can help retirees look forward with confidence and truly transform retirement for Australians.

[1] National Seniors Australia: 'The Cost of Living and Older Australians' Financial Wellbeing' September 2023
[2] Australian Government Retirement Income Review July 2020.

Simple steps to help protect yourself online

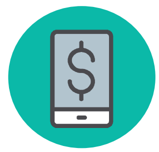
With a 12% increase in cybercrime reports to the Australian Cyber Security Centre in the 2023-24 financial year, many Australians continue to be impacted by cybercrime.

It's crucial for all of us to take steps to protect our data, systems and devices. Here are a few simple recommendations to help keep you cyber-safe:

Regularly updating your apps and software will help boost your devices defences

Check the sender address on all correspondence you receive, and never click on a link if you are unsure

Activate two-factor authentication and use a strong password or unique passphrase



Financial and government instituations will not ask you to perform financial transactions over the phone

Don't share your personal information or whereabouts on social media

Check trusted sources for contact information and current scam alerts if unsure

Never give out your personal information over the phone unless you have properly identified the caller

Report any suspicious activity to the institution and ScamWatch

Sources: www.cyber.gov.au/learn-basics and https://www.scamwatch.gov.au/report-a-scam

Thinking ahead? Let's talk about strategies for creating a positive financial future.