Firstlinks
Connecting investors with ideas

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Retire 'retirement': how brands misunderstand ageing

Rose Herceg

Australians over the age of 50 have the highest levels of wealth and disposable income of any age segment, they outspend millennials in entertainment, auto, health, travel and almost every other category, but are largely ignored by brands.

The *Secrets & Lies – Ageless and Booming Report* also reveals that 94% of the over 50s dislike the way organisations and marketers communicate with them. More than a quarter of all Australians are over 50 and yet it's almost impossible to find organisations and brands that understand this high-value audience. There is an unrivalled opportunity in the enormous purchasing power. This report is based on research involving 2,500 Australians aged 50 to 79 years which reveals this group is booming and growing.

The risk of treating as a homogenous group

The risk of using 'over 50' as segmentation shorthand is that we treat this vast and diverse population as a homogenous group. It's symptomatic of how little attention is paid to this audience that they're typically lumped together with their parents without due consideration for the different life stages. Many Australians in their 50s are still busy raising kids, building careers and paying off mortgages. They're a long way off 80, and not even close to traditional retirement, but this distinction is often overlooked.

They have a sense of self-assurance not felt in their 30s and 40s. That's why 71% of them say they're happier and more comfortable in their skin than they've ever been. Retirement becomes a big discussion topic once people hit their 60s, but the fact that the word 'retirement' hasn't been retired is an opportunity begging to be taken. Language and imagery matter. More over 50s have no intention of 'retiring' in the traditional sense. They might change the way they work, how they work, how much they work or even what they do for a living, but this 'ageless' sentiment lacks the new language needed to describe it.

Business needs to engage better with this wealthy segment

For hundreds of past generations, in cultures around the world, being an older member of the tribe, family or community was associated with wisdom. Valuable knowledge could be passed on to the next generation. This gathering and transferring of wisdom wasn't simply bestowed upon the elders as a polite or patronising mark of respect, but stemmed from a sensible and useful realisation. What better way to plan ahead than to speak to, and listen to, people more advanced in their years?

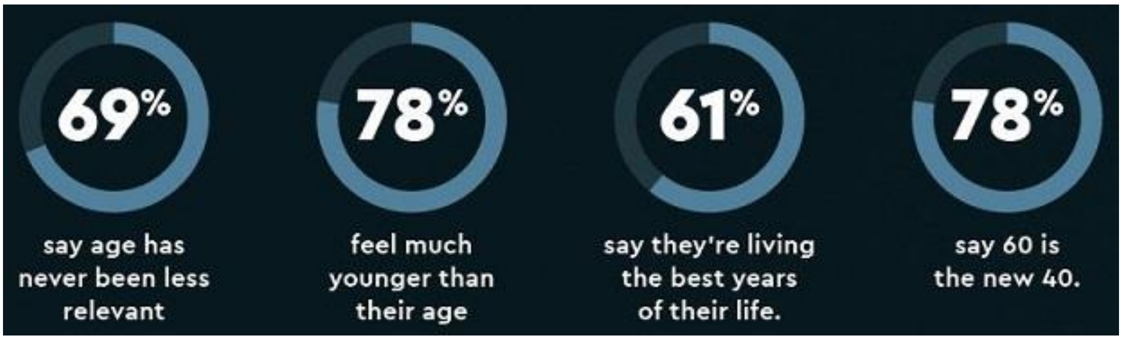
But have we become biased against ageing? What happens when a culture is evolving so quickly that the central knowledge base that traditionally provided such a steady hand on the tiller of effective decision making no longer fits in the context of a new world?

An important question for organisations to ask is whether they have an unconscious bias against older people. Apart from the obvious sectors such as retirement, aged care and health services, many organisations do not have a strategy to engage this rich and growing segment of society.

They have ambition, purpose and money

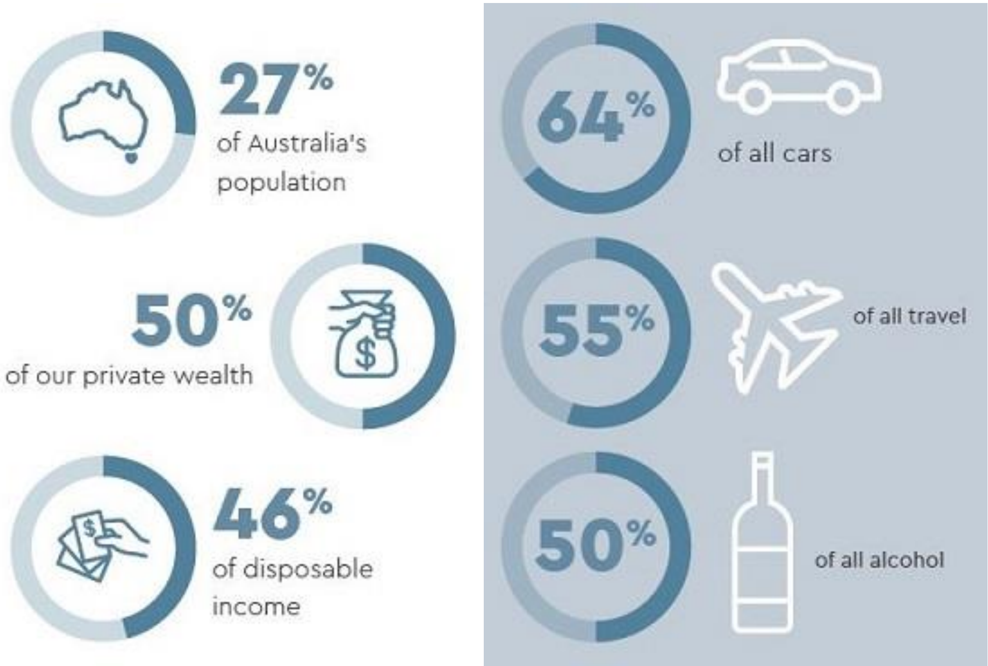
Ageing is a loaded word but it's a topic that gets lots of play. It's bursting at the seams with emotion and angst. Beauty companies, the fashion industry, the media and many others treat it as something to be avoided. And yet, Australians over the age of 50 are embracing life with ambition, purpose and money in their pockets. Ageing is poorly understood, particularly by business and marketers who largely ignore or misfire with this audience. The fallacy is that they can't do tech. They're not cool. They've retired from work and shut the door on meaningful life. They have no aspirations. They're boring, unattractive and irrelevant. None of this is true.

The majority of the over 50s audience don't think of themselves as old, and they have no time for brands and organisations that lazily shove them into that category. The clichés and misnomers surrounding ageing are as insulting as they are inaccurate. Marketing is littered with images of the over 50s slowing down, disconnecting, opting out and generally frittering away their time. Their 'secret' is that age is a state of mind.



The size of the prize

The Australian Bureau of Statistics (ABS) latest Household, Income and Wealth Report shows that over 50s make up 27% of Australia's population yet hold 50% of private wealth. Nielsen data shows this group buys most of the car and travel purchases.



Strong work ethic and plenty of money to spend

Baby boomers are the generation with the highest disregard for age. Those born between 1946 and 1964 experimented with drugs in the 60s, protested the Vietnam War, waged relentless campaigns for women's liberation and revolutionised music. Now into their 50s, 60s and 70s, they've spent a lifetime challenging the status quo to build a legacy of change and they're not about to become complacent or invisible now. When they weren't pushing against the establishment, they were working hard to build lives and families in a period of great economic uncertainty.

The over 50s segment is now being bolstered by Generation X, bringing even greater expectations of a full and active life in their later years. This is driven by a work ethic instilled by their parents.

Over 50s Australians outspend millennials in entertainment, auto, health, travel and almost every other category but 94% dislike the way brands, organisations and marketers communicate with them. Of all the marketing briefs received during the past 12 months, **we estimate that only 2% of them focus on targeting over 50s.** This demonstrates a stunning lack of understanding and respect for the audience. Not to mention an alarming lack of attention on those who have the most money to spend.

The over 50s audience is a new kind of mass consumer. It's a mature and diverse group of people enjoying the same things as the younger generations. They want to continue to be their best selves for as long as they can. And they want marketers to realise that they're just as interested in 'new' as everyone else. Australia's over 50s are in much better financial shape than the rest of the population. They have the highest levels of wealth and disposable income, with a tendency to make financial decisions a little more quickly than other audience groups. They want to enjoy life and they're ready to pay for experiences.

When it comes to buying consumer good online, the over 50s spend about $40 billion more than millennials and Generation X each year. They spend an average of 27 hours per week online, with 77% regularly researching and buying products.

Still breaking the rules

A classic misconception of this audience is that they're 'set in their ways'. Nothing could be further from the truth. They're revaluating and reinventing their lives in ways large and small.

The divorce rate among women over 55 saw double-digit growth from 2015-16 and many are remarried in their 50s. More than half of new clothing, household items and furnishings are purchased by people over 50. They're going back to university, starting new relationships and buying new homes. They're reshaping their lives and looking nothing like their peers of a generation ago. Plenty of others are embracing single life.

One-third of people over 55 have never married – a figure which has doubled during the past 15 years. More than half of women over 50 always expect to be sexually active. Imagine the opportunities here in fashion, gym memberships, cosmetics, hospitality and holidays. This group is also challenging traditional work patterns.

One-third of Australian start-ups are founded by over 55s. It's not the image the movie industry has perfected when marketing the entrepreneurial stereotype, where everyone is 20 years old and rides around the open-plan office on a scooter. They're also embracing the gig economy and people over 50 will account for most of the self-employed workforce by 2024.

And, despite what many assume, they're not blindly loyal to brands. Change is in their generational DNA and they'll happily move on from products or services that no longer meet their needs. They are happy to forge new relationships with brands and people.

Six-point action plan for marketers

To help brands forge these relationships and better connect with the over 50s, we have identified a six-point action plan for marketers:

1. Get forensic and make sure you understand the data around this powerful demographic; their consumer behaviour, purchasing habits and intentions. There's a significant new market to explore
2. Invent new ways, new models, new products and new brand positions to connect with this audience
3. Ensure you are reflecting the vibrancy and optimism of the over 50s; they're gearing up, not down

4. Recognise the change and evaluate what role your brand or organisation can play for an audience that's changing their lives
5. Differentiate between 50 and 80. The over 50s are not a homogenous group. Investigate their various sub-segments and target them accordingly
6. Model diversity and ensure your organisation values the skills, expertise and voices of the over 50s.

Those of us in the marketing industry have failed to fully appreciate and embrace this audience. We are urging a rethink across the industry. After all, those organisations and brands that accurately relate to, and connect with, this audience will win their attention and gain a bigger share of wallet.

Rose Herceg is Chief Strategy Officer at WWP AUNZ. Ageless & Booming is the third and latest research report in a series called Secrets & Lies, which analyses the difference between what Australians say and what they think or do.

Listed bond funds leap into market gap

Graham Hand

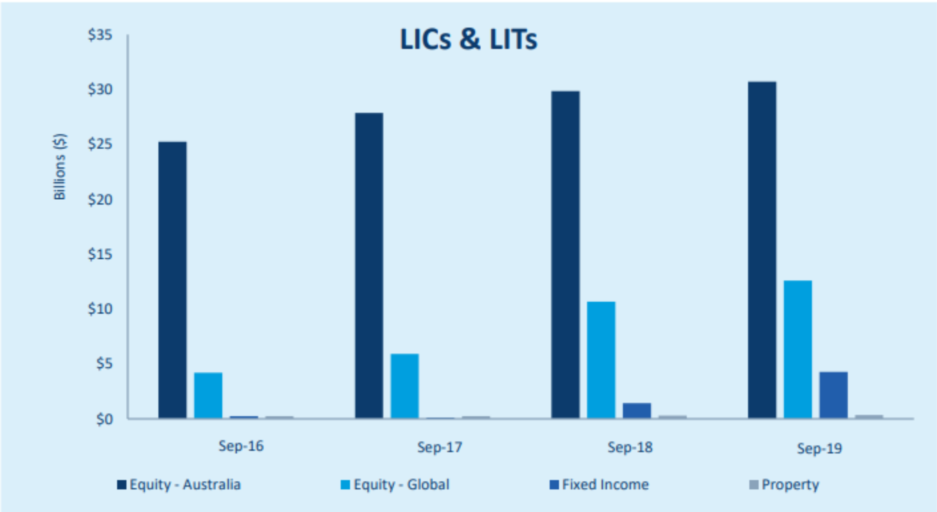
Let's start with a quick physics lesson. The phrase, 'nature abhors a vacuum', is based on Aristotle's observation that there are no real vacuums because nature will fill the space by creating an immediate force due to differences in pressure. 'Abhor' means 'regard with disgust'.

In contrast, fund managers love a market vacuum, especially when it creates an issuing opportunity. If there is demand for a type of investment, fund managers will supply 'an immediate force' to fill the gap. In fact, the risk is that as more issuers join the party, there may be an oversupply and the once-vacant space becomes crowded.

The new range of fixed income Listed Investment Trusts

The best example of meeting a new demand or market gap in the last two years is the range of listed fixed interest Listed Investment Trusts (LITs) now available on the ASX. It was not long ago that investors wanting bond exposure were restricted to the unlisted market, which required direct investment with the fund manager through a painful application procedure, or access via a platform with additional fees.

Many investors, and particularly SMSFs, prefer the easier access and administration of buying a fund in the same simple way as buying a share on the exchange. With no extra paperwork, fixed interest funds were suddenly a couple of clicks away, giving instant diversification and another asset class to consider. As the chart below shows, fixed income LITs barely registered in September 2017, and while equities still dominate, fixed income is a healthy $4 billion and soon $5 billion.



Source: ASX Investment Products Report, September 2019

Of course, the reason for the gap in the market was the miserable rates available on term deposits and cash, which once dominated the conservative allocation in a balanced portfolio. For example, SMSFs in pension mode are required to withdraw at least 4% a year, forcing a fund earning 1% to draw down capital. Enter listed fixed interest funds taking greater risk to deliver 4% to 5% or more. With these investments, the perceived security of bonds holds appeal for those who cannot bring themselves to put more into the higher-yielding equities which deliver even more risk.

In fact, in the Listed Investment Company (LIC) space, most equity funds are trading at significant discounts to their Net Tangible Assets (NTA), with many struggling to gain investor support. Meanwhile, the fixed interest LITs are holding their value and in some cases trading at small premiums. To date, the investment experience has been good.

Here is the range of fixed income LITs available on the ASX as at September 2019:

ASX Code	Fund name	Invests in	Targeted annual return	Fee	Performance fee	Mkt cap ($m)
Fixed Income - Global Dollar				**% pa**		**At Sept 2019**
NBI	NB Global Corporate Income Trust	High yield bonds of global companies	5.25%	0.85	Yes	926
PCI	Perpetual Credit Income Trust	Credit and fixed income assets in Australia and overseas	Cash rate + 3.25%	0.88	Yes	466
PGG	Partners Group Global Income Fund	Private credit in global compaines	Cash rate + 4%	1.54	No	563
Fixed Income - Australia Dollar						
GCI	Gryphon Capital Income Trust	Residential mortgage and asset backed securities	Cash rate + 3.5%	0.96	No	321
MOT	MCP Income Opportunities Trust	Private credit to local companies	8% to 10%	1.03	Yes	310
MXT	MCP Master Income Trust	Corporate loans	Cash rate + 3.25%	0.86	No	1319
QRI	Qualitas Real Estate Income Fund	Commercial real estate loans	8%	1.54	No	307

Source: ASX Investment Products Report, September 2019 plus trust reports.

Also listing soon is KKR Credit Income (ASX:KKC) with a global portfolio of company loans. The competitor exchange to the ASX, Chi-X, has launched its first actively-managed fixed income Quoted managed Funds (QMFs) with the ActiveX Kapstream Absolute Return Income (CXA:XKAP) targeting a return of RBA plus 2-3%, and other QMFs will follow.

The high market capitalisation of these funds shows that they have received strong support. Partners Group claims it received bids worth $1.2 billion and it closed early at $550 million, and KKR has raised over $800 million. Neuberger Berman, issuer of NBI, pushed the amount on issue close to $1 billion with a recent issue to existing shareholders.

What do these funds do and what are the risks?

The table above shows the wide range of bonds, debt instruments, loans and asset-backed securities managed by the LITs. However, most retail investors would not be familiar with the types of exposures taken, and it is difficult to assess the differences.

One fact for certain is that if a bank term deposit or government bond paying 1% is the risk-free rate, then a fund paying 3% to 7% more is taking a greater risk. The returns listed in the table are more like manager aspirations, and are certainly not guaranteed.

Although many of the LITs are managed by established global or Australian fixed interest teams, most retail investors have not heard of them, so there is a leap of faith in the long-term credentials. Every fund is different and it takes some serious effort to identify the nuances of the risks.

As a sign of the complexity, here are 10 quick questions to consider:

1. Does the fund manager have a long-term track record managing bond, loan and credit risk through different cycles?
2. What is the maximum exposure to any one investment?
3. Are the investments rated, and if not, what is the due diligence process before the fund manager lends to a company?
4. Where does the investment sit in the capital structure? For example, senior secured debt ranks higher than subordinated debt, and some of the funds can invest in mezzanine loans and even distressed debt.
5. What is the historical default level of the type of assets bought by the fund?
6. How is the performance fee calculated and is it easy to exceed the chosen benchmark and push up fees?
7. Is leverage possible by borrowing to lift returns, adding to both performance and risk?
8. How will the portfolio be valued, given that many of the assets are privately issued or unlisted, yet the LIT trades on the exchange each business day and issues regular estimates of its Net Tangible Assets.
9. Is there any currency exposure in the global LITs?
10. Is the LIT trading at a discount or premium to the value of its investments?

At the moment, the fixed interest funds are trading well post-IPO, but as with equity LICs, these are closed-end vehicles where liquidity for a seller comes from the market rather than the fund manager selling assets. This is appealing for preservation of permanent capital but also means the issues can drift into a discount if buyer demand evaporates in difficult market conditions.

This sector of the ASX is young and has not been tested over a full credit cycle. Overall, it is a useful addition to the investment options for a diversified portfolio. Investors should recognise the added risk and potential volatility and not treat these LITs as the same risk as a bank term deposit.

As a final note of caution, consider the words of legendary investor, Howard Marks of Oaktree Capital, in an interview with Bloomberg on 23 October 2019:

"The record amounts of debt and unusually high leverage ratios imply that eventually there will be a bunch of defaults and a bunch of bankruptcies, as there always have been in the three debt crises that I've lived through in the last 30 years."

For completeness, it's worth noting that a broad range of fixed income Exchange-Traded Funds (ETFs) is also listed on the ASX, attracting strong flows based on their lower fees, but without the potential to deliver the higher returns of most of the funds listed above.

Graham Hand is Managing Editor of Firstlinks. This article is general information and does not consider the circumstances of any investor, and there are no recommendations made here. Data is correct as at end of October 2019.

How Australia can achieve an A grade retirement system

David Knox

The 2019 Melbourne Mercer Global Pension Index gave the Australian retirement income system a B+ grade with a score of 75.3 and third place across the 37 different retirement systems that exist around the world.

From a global perspective this is a good result but clearly there is room for improvement as both the Netherlands and Denmark received an A grade with scores above 80.

Given that the Retirement Income Review is about to commence, it will be helpful to understand how the Australian system could achieve the coveted A-grade award.

The main ways to boost the rating

The **biggest** improvement in the Australian score requires a greater focus on income streams during retirement. Such a change, as recommended by the Financial System Inquiry, would not prevent the provision of lump sum benefits. Rather, the system needs to recognise and encourage both income products and the availability of lump sum benefits during retirement. This development was previously announced in the 2018 Federal Budget through the introduction of a retirement income covenant for trustees but we have seen no recent action.

The **next** improvement is to reduce the taper rate used in the age pension assets test from $3 per fortnight to $2.25 per fortnight. This change would increase the part pension payable to many retirees and thereby improve the adequacy of the total income received during retirement. Recently, the Government reduced the deeming rates used for the income test but made no change to the taper rate used for the assets test. The current taper rate is particularly severe in the current low interest rate environment.

The **third** improvement would be to raise the SG contribution rate from the current 9.5% to 12%. Naturally this would increase future superannuation benefits and improve the long-term sustainability of the Australian system. It's also worth noting that several countries have mandatory contribution rates in excess of the current Australian rate. For example, the contribution rates in the Netherlands and Denmark are 15% and 12% respectively. These two countries also have a universal pension. No wonder they are well ahead of Australia.

The **fourth** action is to introduce a requirement that benefit projections be included on all member statements provided by superannuation funds. Such a requirement, especially if it had an income focus, would improve members' awareness and understanding of their future retirement benefits and thereby allow better informed decisions.

These four changes would improve the Australian score by 3.7 to 79.0. Given the changes to the means tests for longevity products from July 2019, it is possible that Australia could reach 80, after taking into account the next round of OECD calculations as well as the above recommendations.

Some additional changes to go even further

The following four outcomes would also improve the Australian score by between 0.3 and 0.5 each.

The **first** is to raise the level of assets set aside for superannuation benefits from 137% to 150% of GDP. This increase is likely to occur in the next few years but would still place Australia behind the current level of assets in Canada, Denmark, the Netherlands and the USA.

Second, lifting the labour force participation rate for those aged 55-64 from 66.7% to 75% would improve the sustainability of our retirement income system as the period of retirement is shortened. During the last 10 years this participation rate has risen from 57% so further increases are feasible. However, even a rate of 75% would place us behind the current rates in New Zealand, Sweden and Switzerland.

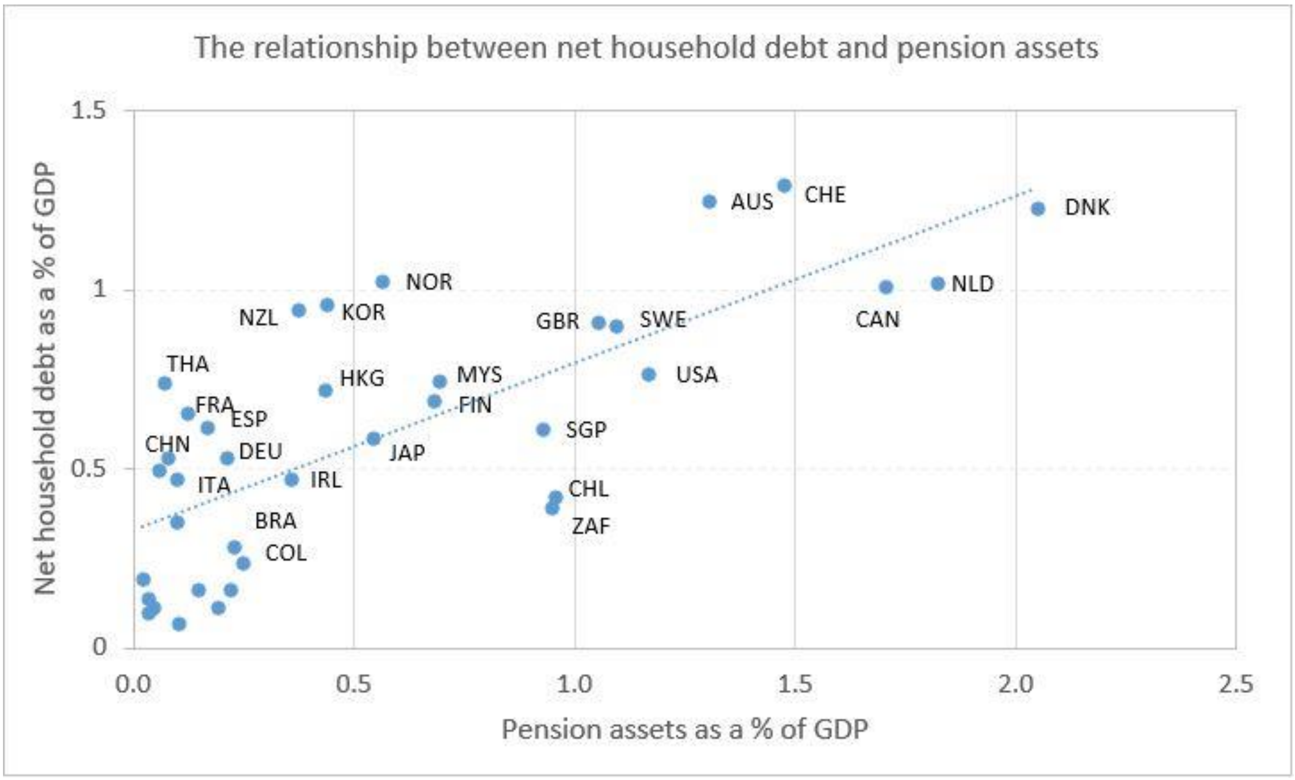
Third, increasing the household saving rate and reducing the level of household debt improves the net assets available for Australians in retirement, beyond their superannuation. Currently Australia has the second highest level of net household debt, expressed as a proportion of GDP, just after Switzerland. An increasing number of older Australians are now entering retirement with debt which naturally affects their future standard of living.

Fourth, Australia needs better integration between the age pension and superannuation. However, it's also important to ensure that the overall system provides adequate benefits in a sustainable manner over the decades to come.

Debt and assets relationship

The 2019 MMGPI Report highlighted for the first time the relationship between net household debt and pensions assets. The following graph shows the relationship between these two variables, both expressed as a percentage of GDP. The relationship is strong, with a correlation of 74.4%.

There are likely to be several causes of this strong relationship but the well-known 'wealth effect' is probably a major factor in many economies. That is, consumers feel more financially secure and confident as the wealth of their homes, investment portfolios or accrued pension benefits rise. In short, if your wealth increases, you are more willing to spend and/or enter into debt.



The trend line in the graph has a slope of 0.466 which suggests that for every extra dollar in pension assets, net household debt increases by less than half that amount, on average.

With the growth in assets held by pension or superannuation funds, households feel more financially secure enabling them to borrow additional funds prior to retirement. Such an outcome is not a bad thing. The assurance of future income from existing assets enables households to improve both their current and future living standards. This situation stands in contrast to those countries where there is a heavy reliance on pay-as-you-go social security benefits which can be adjusted by governments thereby reducing long term confidence in the system.

Dr David Knox is a Senior Partner at Mercer. See www.mercer.com.au. This article is general information and not investment advice.

Four reasons to engage a financial adviser

Daniel Reyes

As we count down to the end of 2019, most of us are probably taking stock of the year that was and reviewing how our investments have performed this year. This is also a particularly opportune time to determine if we need to adjust current plans or to rebalance portfolios. As the year winds down, it is also a good time to plan for the next year and determine if you need to do anything differently to achieve your financial goals.

And what a year it has been! With the uncertainty of the US/China trade war, the ongoing Brexit debacle, the Reserve Bank of Australia's (RBA) decision to cut rates to a record low of 0.75% and flagging consumer confidence levels, amid many other events, it is certainly a surprise to note that the Australian Stock Exchange is up 20% (at time of writing), since the first opening bell of 2019 rang.

It is particularly during these periods of market volatility and ongoing uncertainty where investors see the value of an adviser's alpha.

A term coined by Vanguard's US business in the early 2000s, the adviser's alpha is a wealth management framework that refers to the real value of financial advice and how it is understood to be more than a number on an investment statement that is higher than market benchmarks.

The framework highlights that the value of good financial advice is much broader than investment selection, and presents tangible strategies to help advisers strengthen their client relationships and define a unique value proposition.

It discourages advisers from basing their value proposition around market timing and their ability to pick the best performing securities and encourages the adviser to act as a wealth manager, financial planner and behavioral coach – providing discipline and reason to clients who might sometimes be undisciplined and emotional.

In times of market shocks an adviser's experience and stewardship can be particularly valuable to clients because left alone investors can make choices that impair their returns and put at risk their ability to achieve their long-term objectives.

So here are four reasons you should engage a financial adviser:

1. You are a normal human being, with emotions

Humans are governed by emotions and so it is not surprising that the process of investing can often evoke strong emotions. Abandoning a planned investment strategy can be costly. Equally, holding on to an asset (such as a first home) that was purchased during a particularly poignant time in your life, even though it makes more sense to sell it, could have a financial cost. A good adviser will be a behavioral coach of sorts, act as an emotional circuit breaker and help you stick to a disciplined approach to investing.

2. You keep a watchful eye on market commentary and think about how it impacts your individual investment or asset class on a daily basis

The convincing nature of daily market commentary can tempt even the most seasoned of investors into diverting off course, but the truth is – and the data often reflects it – performance-chasing behavior is often detrimental to overall returns. Time and again, it has been proven that the majority of the market consistently gets out and back into the market following periods of volatility too late to capture any meaningful benefit.

The reality is, investment success is more often driven by time in the market and not timing markets. A good adviser will help you tune out the market noise and support you in maintaining long-term perspective.

3. You don't have specific investment goals

For many of us, our biggest long-term financial goal is to save enough money to retire. But that is a broad goal and needs to be defined properly before we can set our investments to work to achieve that goal. A good financial adviser will assess your circumstances and constraints and work with you to define your unique short, medium- and long-term financial goals.

A responsible financial adviser will also set out the risks that your investments are subject to, and create a plan to mitigate them, whilst still achieving your goals.

The value of a good financial adviser often shines through during the process of portfolio construction – an important process that is often overlooked by investors on their own. The provision of a well-considered investment strategy and asset allocation that is balanced, diversified and meets a client's goals, is an important way in which advisers add value. Further, the knowledge that the specific asset allocation was a result of careful consideration and not happenstance often serves as an emotional anchor during the spikes of panic in the markets.

A good financial adviser worth their salt will also help you continually redefine your goals and rebalance your investment portfolio as your circumstances change.

4. You may not be sure of all your tax implications

The tax implications of the entirety of our investment portfolios are often an afterthought even for the most sophisticated of investors. Taxes, like costs, inevitably diminish a positive return. A tax-conscious financial adviser will understand the inter-play of the tax implications of each asset class and employ tax-efficient strategies in the construction of an entire investment portfolio.

For some investors, value of an advisor could be difficult to quantify. For others, the lack of confidence to handle their financial matters, time or willingness could mean that working with an adviser buys peace of mind.

But ultimately, it is up to the adviser to convince you that their value is real, and that their value represents more than a number on a client statement.

Daniel Reyes is Principal, Investment Management Group at Vanguard Australia, a sponsor of Firstlinks. This article is for general information purposes only and does not consider the circumstances of any individual.

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Five major drivers making Asia the world's growth engine

George Toubia

While there has been much talk in recent years about the Asian region and its growth, we believe its potential as an investment opportunity is still under-appreciated, Its fast-evolving structure gives it potential to rival the rest of the world over time.

The IMF has forecast that the Asian region will become the largest contributor to the world's economic momentum – not just by the rate but also by the size – within the next couple of years. We agree with the spirit of this comment, and when we expect that the US and Asia are increasingly the dominant drivers of world growth.

Furthermore, in a world defined by increased political tensions, the ASEAN group is likely to be more coordinated. Geopolitical issues such as Brexit and the US-China technology rivalry and trade tensions continue to affect many Western economies. However, various countries with the Asian region are well-positioned to navigate these issues and benefit from the ongoing turmoil, most notable of which is supply chain re-orientation towards the south.

Why Asia will become a major growth engine

The major drivers of structural opportunities for investors in Asia over the next few years include:

1. Financial inclusion

The ability for individuals and businesses to access affordable financial services is key for sustainable growth. There has been good progress across the region, although the level of inclusion remains low by developed world standards. In India, for example, the number of deposit accounts has grown from 35% of the adult population in 2011 to 80% in 2017, thanks to the government's financial inclusion and a 'banking for all' programme. Less encouragingly, many accounts are inactive or have zero balances.

More broadly, this is an opportunity to benefit from the earnings growth that will be experienced by companies that can offer a range of financial products and services over time, starting with basic functionality (deposits, loans, transfer services etc.) all the way to a more progressive proposition, which includes insurance.

2. Domestic consumption and service

The evolving domestic consumption and service trend in the Asian region has resulted in significant benefits for many businesses. On a selective basis, their risk-reward has improved thanks to lower equity valuation premiums (in the last two years) despite solid earnings growth, offering good opportunities for investors. This includes businesses in the technology, e-finance, logistics and consumer discretionary sectors. Other sectors that are likely to benefit include education, leisure and travel, and entertainment and digital such as gaming, videos, etc.

Given that Asia's economic growth will be increasingly driven by domestic factors rather than external trade, we are increasingly focused on companies that are serving a local customer.

3. R&D and manufacturing in Southeast Asia

Southeast Asia is well-positioned to be the prime beneficiary of the ongoing trade tensions and supply chain reconfiguration, and we are already seeing this manifest itself.

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Manufacturing and production is gradually moving inland and towards Southeast Asia, with Foreign Direct Investments (FDI) flowing into countries like Thailand, Indonesia, Malaysia, Philippines, Cambodia and Vietnam.

For example, German automakers are manufacturing various car models in Thailand, which is now an auto-industry hub (for many parts of Asia). Malaysia is becoming a highly credible IT manufacturing hub, and corporates such as Taiwanese power components supplier Delta Electronics is planning to turn its Thailand-based affiliate into a production subsidiary to diversify from its production bases in mainland China.

Vietnam in particular has an emerging manufacturing and exports sector that is yet to flourish at a larger scale. However it has a GDP per capita similar to China's 11 years ago, and is growing at 7% a year. The potential of such centres is one of the most exciting in Asia, as they offer new markets for rising consumption and stronger trade related opportunities for investors.

ASEAN's rise is also empowered by an emerging technology economy, which is seeing investments in areas such as research and development (R&D) activities and e-commerce including fintech. Apple has recently established its first Indonesian R&D facility; Dyson has opened a technology centre in Singapore; Nissan is starting an R&D facility in Thailand; and Samsung is building an R&D centre for mobile phones in Vietnam. Google is moving its Pixel smartphones production out of China to Vietnam to avoid higher manufacturing costs and build a cheaper supply chain in Southeast Asia.

These initiatives will be further boosted by China's 'Belt and Road' initiative which will boost infrastructure and connectivity across the region.

4. Infrastructure and agriculture

Infrastructure is a major consideration for the Asian region. It is estimated that the developing parts of Asia will need to invest $1.7 trillion a year until 2030 in infrastructure if it is to maintain its growth momentum sustainably. Currently, it is investing an estimated $880 billion a year, leaving an investment gap of around 2.5% of projected GDP for the next few years, based on United Nations and Asian Development Bank sources. Taking China – which has been investing in infrastructure for the last 20 years – out of this equation, the gap widens to 5%. This represents an investment opportunity at multiple levels, including airports, highways, ports, power systems, transit systems and telecommunications.

A key element will be a regulatory framework to make infrastructure more attractive to private investors and to generate a pipeline of projects for public-private partnerships.

5. Healthcare and ageing

As well as being home to some of the youngest populations, the Asia Pacific region is also the fastest-ageing region in the world, with some of the oldest societies.

It is currently home to around 550 million people aged 60 or above, just over half of the world's total senior population. This is expected to increase to around 1.3 billion people aged over 60 by 2050. While Japan is currently a significant proportion of this demographic (where 27% of the population is aged over 60), China is ageing rapidly. At the moment, 17% of the country's population is aged over 60 and by 2050, this will climb to 35%.

Markets will therefore move from a period where they have benefitted from the 'demographic dividend' to one where they face a 'demographic tax' burden. A direct outcome of this will be demand for elderly healthcare and a framework to support this. For investors, there are two complementary opportunities. Not only is per capita spend growing at a rate higher than economic growth in various parts of Asia (thus creating a large healthcare market) but in many countries, government investment in healthcare is inadequate to keep up with demand, thus creating attractive private sector investment opportunities.

What does the future hold?

Asia is an environment ripe for differentiation and targeted opportunity. We believe that Asian markets are reaching the end of their adjustment process, following a significant period of macro-led weakness in 2018 due to global and idiosyncratic issues in broader emerging markets (such as Turkey and Argentina).

The shift towards floating exchange rates, less reliance on offshore debt, developing central bank credibility, and inflation targeting regimes, creates a strong foundation for investment opportunities in Asia.

However, it requires the ability to embrace short-term macro setbacks and higher levels of volatility, but the opportunity created by these five major sub-themes and the far-reaching economic changes this brings, is significant.

George Toubia is Chief Investment Director at [Westpac Private Bank](). The information is current as 15 October 2019 unless specified otherwise. This article does not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it.

How to reach the company valuation you want

Damien Klassen

This is a message for aspiring investment bankers. One secret (of some) in selling a company is valuations are an advertising tool. If you can't manage valuations to reach the number you want, you are in the wrong game. The market is perplexed that US company WeWork was worth US$47 billion in an attempted Initial Public Offering (IPO) one week and then US$5 to US$10 billion the next.

For example, here are two valuations (not of WeWork) that use the 'same' assumptions:

	Valuation 1	Valuation 2
Discounted Cashflow Valuation ($)	38	16
Starting Cashflow ($)	1	1
Beta	0.9	0.9
Risk Free Rate	4%	4%
Risk Premium	5%	5%
3 Year Growth rate	7%	7%
Terminal Growth	4%	4%

Fancy doubling your valuation without (noticeably) changing your assumptions?

Source: Nucleus Wealth

As you can see in the second table, we have hidden as much as possible behind the decimal point:

The trick? Judicious rounding of assumptions can double or halve a discounted cashflow valuation.

	Valuation 1	Valuation 2	Valuation 1	Valuation 2
Discounted Cashflow Valuation ($)	38	16	38	16
Starting Cashflow ($)	1	1	1.049	0.950
Beta	0.9	0.9	0.850	0.949
Risk Free Rate	4%	4%	3.50%	4.49%
Risk Premium	5%	5%	4.50%	5.49%
3 Year Growth rate	7%	7%	7.49%	6.50%
Terminal Growth	4%	4%	4.49%	3.50%

Source: Nucleus Wealth

Which means other people's valuations are like other people's toothbrushes: Use in case of emergency but give it a thorough wash first.

This table shows how to more than double a valuation by using nothing more than creative rounding of assumptions.

By the end of this article, I expect you will be able to argue convincingly why a company like WeWork with a few serviced offices serving free beer and losing $2 billion a year is, in fact, a tech company worth US$47 billion.

Work backwards

First, choose your valuation. This will save you a lot of time. Ordinary investors put in the assumptions and use the valuation as an output of their model. They use valuations to compare between different companies, assessing which will generate the best returns.

But let's not beat around the bush. You want to be an investment banker. You aren't here to evaluate investments. You are here to sell an IPO. Start with that number and work backwards to the assumptions to get you there. Besides, your client already knows how much they want to sell the business for.

Comparative multiples

Comparative multiples are where you take several companies and compare them to the company that you want to list. It goes without saying that you want to find the most attractive comparisons.

Some investors don't like to compare companies with different business models, i.e. service companies versus manufacturers. Some investors note that large companies trade at a premium to small companies. Some investors note that different geographies have different regulatory, competitive or tax environments. Don't let that bother you. You are going to compare your company to whatever puts it in the best possible light.

Comparison profit measures

The first thing you need to do is to choose a valuation ratio. Only a rookie would want a price to 'reported' earnings ratio. The word 'reported' implies audits, signed off accounts and a paper trail. Far better off to go with a non-GAAP / non-IFRS number where you can adjust your way to the valuation you need.

An EBITDA multiple is usually your best option. EBITDA stands for… actually don't worry about what it stands for – you may need plausible deniability at some stage. Just know Charlie Munger says:

"I think that every time you see the word EBITDA, you should substitute the word 'bullshit' earnings."

EBITDA is a non-GAAP / non-IFRS number. Basically, to get to EBITDA, you start with profit and then take out whatever you like. Best way, make two piles: 1) positive things that added to profit and 2) negative things that detracted from profit. Don't worry about pile 1 – they are all staying in, regardless of whether they are repeatable or not. Your goal is to get rid of as many of the things in pile 2 as you can.

As an example, WeWork created a new term 'Community Adjusted' EBITDA – stripping out marketing costs, startup costs, legal costs, share-based expenses and depreciation. Because what company ever needed those?

Sales multiples are a last resort for the genuinely unprofitable companies. The problem with sales is that it is hard to fake.

Time is merely a social construct

The great philosopher Ford Prefect once said: 'Time is an illusion'. Use this illusion wisely.

WeWork goes for 'run rate revenue', or the most recent month times 12. You are only as good as your latest hit, right?

You can also mix and match time periods to suit. Most respected analysts compare time periods that match, re-adjusting balance dates in order to make a fair comparison. No reason that should apply to an investment banker's comparison.

Does your company have irregular costs and revenues? Think about changing your balance date. Maybe you can banish negatives into 'the year before last'. And who cares about what happened in such a distant past.

Pro forma accounts

Pro forma sounds way more technical than 'made up accounts'. But they are. Don't forget the woulda/shoulda/coulda adjustments. These aren't the actual profits, they are the profits that woulda/shoulda/coulda been if everything was always perfect and nothing ever went wrong.

Did the company shut down anything recently? Allocate any cost you possibly can to that closed-down division. Then remove it entirely from the accounts except for an obscure footnote.

Spin-offs and tax decisions

If you are spinning off or selling a subsidiary of a foreign company, you will need to get the accounts redone.

Start with the reports you presented to the local tax authorities and get all of the assumptions the company made to create the accounts.

Then, simply change every assumption to the exact opposite. Depreciating assets over three years for the purposes of tax? Better to spread that out over 10 years for the market. Charging interest rates of 9% back to your closest tax haven? Pretend it was 2%. Expensing R&D? Better to capitalise R&D before you list and let shareholders worry about the depreciation after you have sold the company.

In fact, capitalise anything you can get your hands on for prior years – interest expenses, software, customer databases, whatever you can. If you are really sneaky, you might be able to slip in a write-down of all of those things before listing. But if you can't, don't worry too much. Once you have sold the company, they will be someone else's problem.

Final adjustment to comparables

Now that you have a number to compare with the company's competitors, you can start finding the comparables.

Median, market cap weighted average, straight average. There are good reasons why real investors use one rather than the other. Calculate them all and take the maximum. Or minimum. Whichever. Getting closer to the number you want is what's important.

And remember pile 1 and pile 2? This is a great place to hide adjustments. The smarter investors will be busy checking all of the modifications you have made to the earnings of the company you are listing. But even intelligent investors will often forget to check the adjustments you make to comparable earnings. Don't let this opportunity pass you by.

Discounted cashflows

I have already shown you how to double a valuation using no more than the rounding of your assumptions.

Discounted cashflows are far more 'flexible' than comparative valuations. First, they are in the future, and so you can make up pretty much whatever you want.

They are based on free cash flow. A glorious term that has many competing definitions, and so use whatever you want. And best of all there are so many places like risk-free rates, risk premiums, beta, short-term growth rates, long-term growth rates that can all be used to tweak a valuation up or down.

Wholesale and accredited investors

Another great term. The marketing department deserves congratulations on creating these.

Basically, wholesale and accredited investors think they are getting 'special access' to deals that regular investors can't. What wholesale and accredited investors are really getting is access to a deal with far fewer legal protections around things like the truth and fair comparisons.

Final word

Make sure to use all of the tools at your disposal.

If you bury your integrity in one grave, it is too easy to discover and too disturbing when it is found. If you scatter the remains of your valuation's integrity far and wide, then you will have more chance of slipping through.

Damien Klassen is Head of Investments at Nucleus Wealth. This article is for general information purposes only and does not consider the circumstances of any individual. The examples do not reference any particular company.

Reader poll on the home in pension assets test

Leisa Bell

Last week's poll question asked:

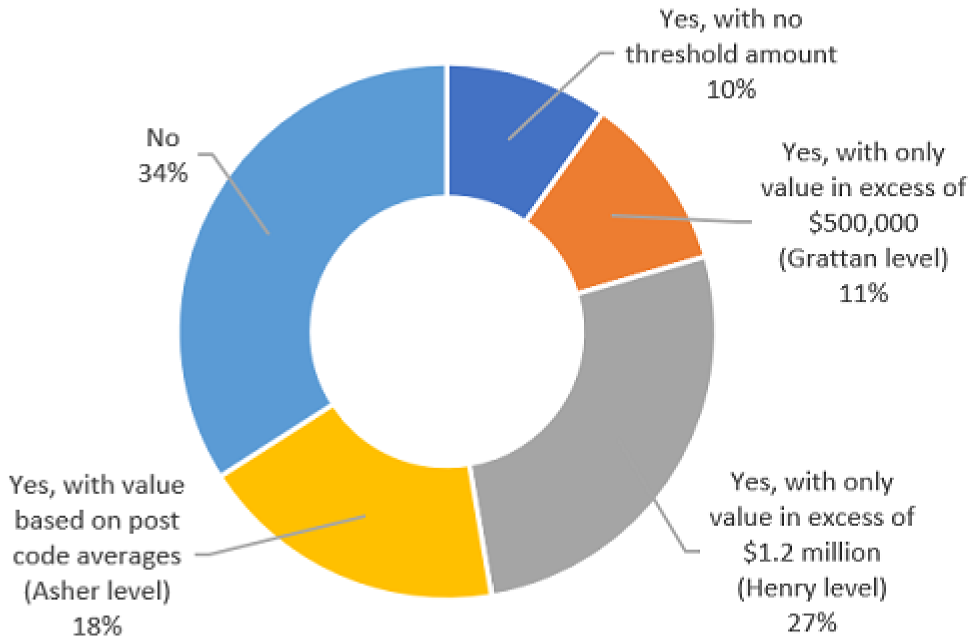
Do you believe the family home should be included in the age pension assets test?

From 700 participants, two-thirds or 65.4% believe the value of the family home should be included in some way. The most favoured threshold above which the value should be measured was that proposed by Ken Henry in his 2009 Tax Review, then at $1.2 million (which if indexed since 2009 would now be worth about $1.45 million).

This leaves 34.2% believing the assets test should continue to exclude the value of the family home.

There were also many additional comments, with a selection below.

Answer choices	Responses
Yes, with no threshold amount	9.8%
Yes, with only value in excess of $500,000 (Grattan level)	11.2%
Yes, with only value in excess of $1.2 million (Henry level)	26.1%
Yes, with value based on post code averages (Asher level)	18.3%
No	34.2%



Comments received

Yes it should be included but only with a Fed Gov operated reverse mortgage loan at the RBA cash rate.

It's not fair to non-homeowners and those who received an Inheritance. I HATE Centrelink, nice to people who have $1m property and not nice to those who don't. Just unfair.

Post Code averages would be totally useless. I am reminded that a person with one foot in a bucket of ice and the other in a bucket of boiling water is comfortable ON AVERAGE.

All assets should be counted. Current system encourages over investment in Capital Gains and Pension Test exempt assets

The home should be considered as an investment at retirement age, and therefore included in the overall assets test

It's unfair for the people who has paid the home with After Tax income. Why punish them? Announce a date or grandfather from certain date, so the people can plan for next 20 years - don't punish the people who didn't know 20 years before, who sacrificed many luxuries of life to pay with after tax income for dream home.

Any move to do this should have a 30-year transition - ie. the same period as required to accumulate retirement assets and the same period over which a person might pay off a *home. People like to live where their children and relatives love and where they enjoy the natural beauty of their local area. The pact that house prices rise due to excessive migration should not affect their financial expectations in retirement.*

All Age pension applicants should forfeit sole ownership of their residential property, by offering it as security for continuous future pension payments. When their circumstances change, the home would be sold and the aggregate pensions paid to date returned to the government. Any surplus would be added to the estate of the pensioner. The pensioner would benefit from the free accommodation and the public would benefit from the return of the pensions paid, or a (significant) proportion thereof. Any excess funds (if any) would be returned to the pensioner's estate for distribution to their beneficiaries. Currently, a significant proportion of pension $'s end up in the bank accounts of pensioner beneficiaries. These $'s should be returned to fund improvements in aged care and other worthwhile causes.

Threshold does not solve issue of sufficient income. Need a compulsory reverse mortgage or a repayment/age pension tax on death from the estate.

Standard age pension for everyone after say 15 years fulltime residency and cut back on tax free benefit of super fund pensions

Who is going to work out the values, unless you use the land values for rating, and how often with market fluctuations.

Non home owners need to better understand the sacrifices made to purchase a home.

It is a clean, reasonable figure that would enable a good argument. It would eliminate unintended consequence as could happen with the postcode argument..

I don't believe that people should be penalised for living in a postcode with higher average valuation. If there was no threshold, those people would be forced to sell and move to a new lower average valuation area where they have no friends or support in order to access the pension.

I do have reservations, as the methodology is not perfect and does not take account of wide disparities within postcodes.However it does not seem fair for people with highly valued homes to still receive a pension when others may not because their financial assets are too high. State governments do not assist, due to the punitive levels of stamp duty they charge. This discourages downsizing. Personally I am a self funded retiree and hope never to be eligible for a government pension.

The asset allowance of about $220,000 for non home owners is unfair, also the current exemption encourages people to do stupid things to get the pension. Unsure about the method that should be used.

We will never qualify for any age pension, and it grates that others can manipulate their assets to qualify, with the ridiculous situation of people of intentionally wasting money on cruises and renovations to keep themselves under an assets limbo stick.

The Asher level and only above a threshold with threshold indexed to CPI? or market values? - preferably the second

Cant trust politicians to keep it at the same levels indefinitely. Cant trust poloiticians to not rip it off

Such matters don't affect politicians as they MAKE the rules to suit themselves and in my view all people should be subject to the same laws/undertakings. Passing on wealth to family should be viewed positively as they will require less pension, will they not?

The late Labor Finance Minister Peter Walsh was right, the exclusion of the family home (principal residence) would lead to an unhealthy skewing of investment in Australia.

Until all retirees who have a nominated number of years in the Australian workforce (eg 20 years, need not be continuous) are able to receive a part pension irrespective of wealth then I say NO. Should a system be implemented where everyone gets a base and the remainder is asset tested then I am unlikely to change my mind.

My home is my castle. I worked hard to pay it off. It is part of my assets to allow a comfortable retirement without paying rent. Why should my home be "taxed". The next idea will be to tax your car because it is an "asset". At $1.2M (Henry Level) almost half of Sydney would miss out given the median is a touch over $1M. Thus a great proportion of Sydney dwellers who may need some pension funds to remain in their family homes which they lived and grew as a family, would be penalised. Similarly with Asher level. The postcode average may be $300K and the owner has a $400K value, thus excluded as being too wealthy in a low income suburb.

This is not a fair example, as it assumes that everyone would be happy to move to a regional area. Changing the goal post with regards to the home is extremely unfair. It may also lead to the government using that as an excuse to look at taxing the family home, eg. CGT

Those who decide to rent, at any time in their life, especially after down-sizing, need a measure of equity. The home must be tested.

If you are say enough to save and finally own your own home at retirement you should not be penalised for this accomplishment.

Only if the above were combined with a restructure of other tests. My mum is 63, Dad is 68. She works in Aged care receiving 43k p.a, they have about 100k in Super and a 350k house. he only receives $300 per fortnight because of her working (which she needs to do to help support the cashflow). He is an ex-miner and doesn't really have the option to work. This is a bad system

Not sure that a specific dollar value is the correct threshold to apply, but the pension system massively favours home owners anddiscriminates against renters. I believe that home ownership is likely the biggest single determinant to a reasonable lifestyle in retirement so perhaps the ability to 'll k super savings to home (Or investment property ownership) should be considered.

Basing the threshold against the houses in a specific postcode will be detrimental to pensioners in lower socioeconomic and/or rural and regional areas. It will also encourage people to move to more expensive areas to â€œit wealth. A flat level threshold would be fairer.

Don't tie it to a house value - increase the assets test threshold adequately and then index (e.g. to CPI or others)

Total net assets should be the amount considered with tiering thresholds. Public will never trust the government on this issue as it continually changes the rules to capture a greater share of an individuals long term savings plan.

I have ticked No because none of the other options correctly address the problem. If the value of the home is such that it prevents an income-poor person from pension eligibility and, then forces that person to sell their home, then that is unjust. Also, many older people consider that if they must go into institutionalised aged care, the home value will fund for a better standard of aged care. The majority of older people want to stay in their own home. Why should they be forced to sell if their income is inadequate. In this current low interest environment, the elderly are being shafted --Big Time! It is disgraceful.

Pay a universal pension, taxed at lowest tax rate.

Why should some assets be exempt, this is extremely unfair on those who must rent for one reason or another.

It is simply cruel to force people out of the home they may have lived in for years, because that's what any of the above proposals will do to a greater or lesser extent.

Has to be included but a fixed threshold too likely to force people to sell and relocate for no reason other than luck (good or bad).

Or death tax on wealth but that is difficult to execute appropriately with all the scammers

Another huge issue is the 10 year residency to access the pension. It should be 40 as in Canada

The Asher level is not fair. I live in Sydney, sell my 2 million dollar house, then move to a small rural town and buy a 400,000 dollar house. I do this after age 67. I now have 1.6 million excess funds that can no longer be invested in super as I am already at the upper limit. super

It makes sense to have the family home included in the assets test, because it is an asset. Having a threshold amount that allows for the excess value of your home, relative to where you live also makes sense because it represents the excess value pensioners hold by living in a family home alone, as opposed to downsizing. I would look to change the postcode average, and do it by region or whole city area average, that way making the policy more equitable.

By remaining in the family home, less stress is placed on an already strained aged care system in which many are poorly cared for.

the plight of increasing numbers of low income single women, as well as the traditional marginalised handicapped and unemployed will swell as the boomers age and the pension age increases (to 67) flow through.Rent assistance , more that increasing the basic pension should be a priority to shore up the quality of our society

Any change must examine the "unintended consequences". For example, by increasing the depreciation of the pension to 3$ per 1000$ of assets, cash spent on improvements to the asset free home effectively returns 7.8% on that money spent as increased pension. Fantastic in a sub 2% world.

Some people are living in homes worth 3 to 4 million dollars and struggling on the pension.The whole retirement system needs a complete overhaul. At the moment it's a bureaucratic nightmare.

too many pensioners living in multi million dollar houses!

You cannot derive a retirement income from this asset without deminishing its value. Some will still have a mortgage. You need an income stream to survive in retirement

All you be shame,may all of you get fat salaries and not care for the pensioners how to living.The most of countries of world not have income and assets test.Any Australia government should be asked the Pensioners how they living before making decision.

Postcodes may be too granular but some form of allowance for the wide disparity in house prices needs to be addressed. The bigger issue which I am astonished that has not been accepted yet is that no person entering the workforce today earning around the average wage should have any expectation of getting an aged pension. Once this proposition is accepted then changes such as including the family home in the assets test flow logically and fairly.

Pensions should be a loan paid back from a person's estate. SG should increase to 15% so fewer people require pension.

Some homes have been handed down generation to generation doesn't necessarily mean the person or persons living there have much money and old people need to live closer to the city due often to medical needs accessibility. I would hate to have to move from my home because unfair taxes made it to expensive for me to live here I have no family in Australia my brother married a Norwegian and moved over there, in Norway if you work for 10 years you are not means tested and at 65 you retire at the income level you earned while working no means test there bu if you didn't work for 10 years you don't get a pension which adds incentive to make sure you spend 10 years in the workforce at least, so no generation after generation of dole bludgers there.

Intention of super is to provide a replacement income in retirement. There needs to be a limit on what gets subsidised and the 1.6 mill per person indexed is reasonable as provides around 80 k per year before any capital draw down More needs to be done to grow balances over time. A STAGGERING anonomloy is where a couple have say accumulated 1.2 mill between them (about 60 K per year before capital draw down are actually worse off than a couole who have accumaulted a touch under the 800 K betwen them the transition needs to be addressed to given incemtive to have dollars in super to reduce demand on govt socail security

It is savings accumulated from earnings that had already been taxed at the highest marginal tax rates as savings come from additional earnings above what is necessary for living expenses. Family home is needed for aged care bond; if "taxed" again via imputed rent and therefore a reduction in aged pension based on income test, there is severe progressivity of tax on this form of savings. People would choose to rent for life and go on full aged pension and then *get subsidised aged care without needing to pay aged care bond. It's just too hard to do the right thing and save for a fully paid house and then see your lifestyle no better than someone who didn't bother ,,,*

Why ? As we have been working and saving the whole life to own a house and to not live in rental home so we should deserve it

Grandchildren can hardly afford a house even on a reasonable income whilst their grandparents receive full pension and live on a $1.2m house in South Perth.

No - as a matter of principle. I paid for my home when the mortgage interest rate was around 15 - 17%. I am not eligible for a pension but would greatly resent having my sacrifices in earlier life to counted against me in retirement. 2. If any amount were to be included, that portion will be inevitably increased over time to exclude any entitlement to a pension and to force retired homeowners to sell their homes.

I have work hard all my live so it can be from me is would me no the street

Re : the Asher level, what has the post code got to do with pensions?

The age pension should be paid in full to all residents with no income or asset test .the cost of this would be saved by more than halving the centre link employer numbers. New Zealand does this and its simple.

Because the home produces no income for a retiree. Selling the home involves significant expenses; relocation costs and loss of familiar surroundings and faces, which really matter to older people, like me. This is why staying in your own home matters to most of us. We worked hard to get our home and should not be forced out of it for financial reasons.

Yes, but only 50% of asset value.

By this stage in Life we have paid enough Taxes, and a lot of us do not wish to SELL or move and wood like to Die in our family Home if possable.

Aust pension is already bad due to assett test UK and others Re automatic at the retirement age

Family home concept needs to be a phased-in, graduated application only for workers who started working when super first came in. Many older people NEVER had super so they should be exempt.

Every other investment asset held is included at full value, not including the most valuable asset most people hold leads and has led to arbitraging the system and is dishonest to people who do not wish to tie up capital in a non income producing asset

Another rule change when people have made financial decision based on the rules

I live in a rural comunity and have a few acres of land around our house, the value of land in excessof 5 Ha. is included in my assets test. But if i lived in Toorak or the North Shore, as long as the block was less than 2 Ha. (I think) and worth Millions I'm not effected! Fair?

The Centrelink system seems to reward those who blow their disposable income on lifestyle things whilst punishing those who scrimp and save to fund their retirement in order to not be a burden on fellow taxpayers. I have recently seen several cases of people who have saved all their working life and are made unemployed a few years out from retirement. Centrelink's response is "sell your house and live off the proceeds", whereas had they not tried to be independent Centrelink would help them out. On the other hand I know of people arranging their affairs by buying the best house they can afford that leaves their assets in the range that "entitles" them to a aged pension.

There is no (economic) reason to prolong the distortions introduced by the very favourable and therefore inequitable treatment of one particular asset category.

Full value of home, adjust the index. Anyone who wants a pension but has too high a value home can get one under a help style loan, paid backwhen the house is sold or the owner moves out. Better than a reverse mortgage. Also, I don't think this will be such a problem in the future, with compulsory superannuation. A bigger problem will be the lack of retirees that own their own home. Maybe governments will have to start building public housing again.

We need to do away with all asset testing and provide a minimum age pension to all which could be taxed as appropriate at normal levels.

If introduced, the scheme would need to have some grading effect otherwise it would be tantamount to throwing people out of their homes in old age.

If the family home applied to the age pension a new tax source would then open to the Government to tax the home for other purposes which would then be said to be based on perceived equity vis a vis the age pension. e.g. super or land tax.

Post Codes can be scewed from within by considerable amounts. My immediate area,part of Coffs Harbour on the NSW North Coast has three distinct suburbs with land component values with similar houses on them varying by a factor of 3 to 4 times as you move closer to the Pacific Ocean. No one in quite simple homes in my precinct near to the sea would qualify for the pension if a post code wide average was used.

under no circumstances could any future politicians/ Government/treasurer/ be in any way entrusted to this change. look what they have done with super etc let alone give them financial control over family homes.

If the assets test was in place with a fixed amount, you could have the situation where old people have to move away from family and friends because of the value of their house they may have lived in for many years

It's only fair that some part of the family home be included in the pension assets test. But if that's not workable, how about a portion of the inheritance that kids receive from parents who were asset rich and cash poor, and went on a pension... be returned to govt. in other words, the pension is like a loan.

All the houses in this country are all way above the true value all over priced it wouldn't work

Every asset should be taxed

When the pensioners die, their home would regards as deceased asset and would subject to tax.

Yet another example of middle-class welfare and privilege which really should be abolished, freeing up more funds to help those who truly need help.

Include UCV of land that you own in Asset Test. This is set every 3 years by the Valuer General in Canberra regardlesss of what is constructed on the block.

At the conservative rateable value, with abrupt changes smoothed out.

Difficult to set a level given the huge disparity in house prices across the country. Also, many pension recipients have lived in the same property for many years. It's not their fault that property prices have gone up and it's unfair to force them to move.

The Grattan and Asher proposals are totally rediclious... will cause a massive added adminstrive nightmare... constantly monitoring... inflation... changing values and house transactions/altrerations.

We do NOT get a Govt Pension. However our earnings from working full-time were less than average,we went without and saved for our home and retirement rather than spending our money on Overseas trips and other extravagances. Why should only people that spend their money on a Home be penalized?

We work all our life to own a home just as we are about to retire. Leave it out of all pension calculations otherwise you are penalising those of us that have been thrifty all through our working life. Any changes should not affect those on a pension now. Grandfathering must apply otherwise it is a matter of changing the goal posts after we have planned for our retirement. We can't make any changes to our financial plans once we have retired so changes must have a lead in time so people can plan retirement based on the new rules. Leave pensioners alone and go after social security rorts if you are serious about funding pensions in the future.

My wife and worked very hard to pay our mortgage.

Normalising by postcode isn't that feasible. Some postcodes in Australia cover massive areas. I also don't think it's fair that an elderly couple, who never had the opportunity to save super, but have a house in what was once a working class suburb but is now a sought after location, should be forced to sell the house they may have lived in for a long time in order to access the age pension (which they never had the opportunity to avoid through superannuation in the first place). You can't just change the goal posts for people who retired long ago with a completely different set of goal posts. If any changes are to be made to this, then phase them in aka the current pension age extensions.

Don't keep changung the rules! Maybe for future retirees only!

There should be no assets test, only income test on financial assets. Pay for it by taxing pension mode super at 15%

For any aged pension entitlement you are talking peanuts

Your principal residence should be excluded if it provides no income to the owner/s.

raising the qualifying age and the frequent changes to income and assets tests [to exclude more people from qualifying for the pension) has devastated the retirement planning of many who planned their retirement under the old rules (and those who forced to retire due to poor health, accidents or retrenchment/offshoring). No more changes.

Many older people in their retirement depend quite a lot on the support group of local friends that they have established during their lifetime. Most did not initially choose to live and remain in a location because the value of their house would increases beyond their wildest dreams as has happened to some. If they have significant health problems as do my wife and I and have had a protracted period where neither of us had a driver's licence for a some months, our life in a small country town 3 hours drive from our capital city and 30 minutes from any substantial shopping centre, our existence would have been significantly difficult had it not been for the generosity of our many long time friends. Why should we be forced to downsize into a cheaper town or suburb where we would have few, if any, immediate friends that we could rely on, if need be. One cannot earn any income from an asset such as one's home to offset any part of a pension lost because they live in a house that has grown substantially in value through no fault of theirs.

I am 78, my family and I worked and saved all our lives. My family home is my castle and my SMSF and franking credits are my only income now. Why do you want to stifle initiative to work hard for a better future? Better education is the solution.

Definitely don't like the median by post code idea. Depending on house value someone could be popping in and out of age pension eligibility year by year - a nightmare to manage and budget. While I understand the equity arguments, remember that generally one's home does not generate income and it is no little thing to sell and leave a lifetime home, which has simply gone up in value without intention over years.

It would force some people to sell their core asset

Grattan level triggers a reduction in pension with sliding linear scale gradually reducing the pension to zero if home value is $2M or higher.

I think a portion of the family home (up to say 25% of its value) could be paid back to the government on the passing of an age pension recipient. Alternatively, the government could have a claim on an estate of say say 25% of age pension benefits paid out over the pensioners lifetime (from age pension age). For example, someone receiving $15,000 per annum over 20 years would receive $300K benefit. The government to have the right to claim $75K back from the estate secured by a RAD, PR or any gifts over 30K in the prior 5 years before death.

Why should someone in a ten million dollar mansion receive the Centrelink pension??

with an appropriate increase in the assets test threshold so an average home does not decrease the pension received

Income Test ONLY. Not Family Home. Old person living at home, that owns there own home outright, that lives in there *local community should NOT be forced to move house because their house passes the value from below the threshold to above the threshold and hence the person goes from receiving (possibly therer only form of income, the age pension, to no income) due to a rise in the asset value of their home. This would most affect those people that are in their latter years of life as their home increases in value, and their savings are depleted. I also beleive that the administration, and disagreeemnts between the 'values' of houses would be horific. The true value of a house is never realized until sold. Until then it's a guess. Even if every house was valued, it would be an 'estimate' and would be in disagreement.*

As it is, it's not fair that mega-millionaires can still draw the pension. I am a self funded retiree.

More importantly, there needs to be an actuarial approach which enables people to continue with a pension whilst living in their more expensive home, but having some of their pension receipts being repaid on their deaths and sale of the property.

I think there are a number of reasons not to include the family home. For elderly Australians on low pension incomes, the family home can be considered as a form of insurance for the time they may need high level care in old age, the costs of which are often horrendous. This will offset the costs to government at that time of life rather than through a potentially reduced pension income which creates hardship. Also the family home is not an asset which is income producing to offset any pension payments. Many elderly Australian pensioners have seen significant growth in their homes over many years, but not as an active investment strategy; rather the result of market forces beyond their control. Why should they be punished for that?

I am a great believer in Means tested welfare. I do not get any pension

If the family home is included in the pension assets test and a person starts drawing drawing down on the equity in the house at age 67 at say 5%, if that person then needs to enter assisted care say 15 years later will there be enough equity left in the value of the family home to enable that person to fund the cost of entering assisted care?

If you worked to pay off a house then you should not be punished for being fiscally responsible.

enough with the changes unless they only affect new ,younger persons entering the workforce with 40 plus years ahead,so as they know what to expect when they retire and can plan accordingly

Those that forego consumption today to prepare for the future, continue to be penalised, whilst those that consume today, knowing that most of their future requirements will be met by others, continue to be rewarded. People willing to save and prepare for the future, via whichever legal mechanism and method, should be encouraged and incentivesed to do so.

And on top of that Govt needs to stop retirees blowing lump sums and lining up for pensions. Not a simple issue but will need some policy around it which will save the country going broke in the future.

The only logical way to set a not counted threshold is to use the median or average rates valuation depending on postcode. Simplistically, otherwise all the people in capital cities will get nothing and all the coutry people will geta full pension.

Somewhere between Henry and Asher but if Henry it would need to be indexed. Either would need to be phased in and/or include grandfathering to avoid cruelly disrupting the aged

We should all get a pension to stop the ducking and diving that goes on as people near retirement.

State governments need to give duty relief for downsizing

You can't eat property no matter how valuable it may be.

Yes, with the threshold matching that of Aged Care MTCF

Am just above the income threshhold and have a 99 yr lease in a retirement village. Result = no Centrelink pension.illage

Yes - the Asher level is most appropriate of the lot above - but I would just say anything that is more than 25% above the average for each state (perhaps with a regional/city split) should be included..So if you are in Sydney and average price is $1m - you get hit if house worth more than $1.25m

People can downsize and free up cash if they are asset rich and cash poor. Makes no sense for tax payers to fund them

I like the idea of linking the exemption amount to local home values, but I think median is too low. 60th or 75th percentile would be less likely to cause problems to those whose wealth is almost entirely in their home.

I agree with the idea that any savings be re-directed to supporting renters

It would potentially disadvantage residents of Sydney & Melbourne v rest of country as their home value is so much higher but at the end of the day a 3 bedroom house is a 3 bedroom house whatever the location

Something has to be sacred in our country, and surely the family home shoudl be it. People shouldnt be allowed to spend all their super on retirement living it up and then end up on the full pension because the squandered what was meant to sustain them!

Family homes worth in the millions, say $2M+ definitely should be included so as to 'even the playing field', the sale and downsize by such owners can fund substantial lifestyles, compared to, say, those with low value properties (think Hackham West in southern Adelaide). Many inherit high value properties, and not 'work for it all their lives', as a lower socio eco person might. Those luckier folk should be adjusted accordingly.

We should adopt the BC Canada approach as well and essentially allow older people with low incomes living in big expensive houses to defer council rates until property is sold

a home is the last refuge from aged care

It's an asset that shows your wealth, like everything else.

Should use reverse mortgage if need the cash.