Firstlinks
Connecting investors with ideas

Edition 343, 5 February 2020

Contents

What kind of society do we want to become? *Hugh Mackay*

The 20 Commandments of Wealth for retirees *Noel Whittaker*

'OK Boomer' responses keep on coming *Leisa Bell*

Future Fund's latest asset changes as CEO moves on *Graham Hand*

What's the outlook for global small and mid-cap companies? *Ned Bell*

The fear of running out of money in retirement *Jeremy Cooper*

LIC/LIT stamping fees survey results *Leisa Bell*

What kind of society do we want to become?

Hugh Mackay

Like patriots everywhere, Australians like to brag about our achievements – and with some justification. It's true that we've created such a harmonious society out of our mongrel diversity that when outbreaks of racial prejudice or ethnic tension occur, they tend to make the news. We are rightly proud of our inventiveness – everything from the stump-jump plough to wi-fi. We like to say we punch above our weight when it comes to Nobel prizes, Olympic medals, Oscars and cricket.

We're not quite so keen to acknowledge that we also punch above our weight when it comes to carbon emissions, though we are, in fact, among the world's heaviest per-capita carbon polluters. Nor are we so keen to claim the title of 'world's most overweight nation', though we're heading there, too.

Why do we tolerate these shortcomings?

On reflection, many aspects of Australian society raise searching questions about the kind of society we are becoming. For example: how did we end up slithering so far down the OECD league table of school education outcomes? Could that have something to do with the fact that, every year, we pour $12 billion of public money into non-public schools, which means our once-proud public education system is struggling to maintain standards across all its schools? (Finland, the country we tend to look to for inspiration on the subject of schooling, simply doesn't have private schools.)

How does a society like ours tolerate such a persistent problem of homelessness, with more than 100,000 Australians having nowhere to call home *tonight*? (Again, Finland's example is instructive: they solved the problem by giving homeless people homes. *D'uh*.)

Have we given up on the egalitarian dream? In spite of our fabled 26 years of continuous economic growth, two million Australians are still either unemployed or underemployed. How did we become such an *increasingly* unequal society, with three million of us living in poverty and 16% of our dependent children lacking regular and reliable access to safe and nutritious food?

How, in a society that once prided itself on its 'mateship', have loneliness and social isolation joined the list of our most pressing social issues? In a recent study conducted by the Australian Psychological Society and Swinburne University, almost half the respondents felt they couldn't call on their neighbours for help, and 25% reported feeling lonely most of every week.

The factors driving social fragmentation are well known: shrinking households, high rate of relationship breakdown, excessive busyness, population mobility, increasing dependence on IT at the expense of face-to-face interaction ('connected but lonely' has become an accurate description of many members of the smartphone generation). But their impact is not inevitable. We have unwittingly promoted social fragmentation, isolation and loneliness by embracing a culture of individualism and materialism. In the Age of Me, deteriorating mental health is just one of the symptoms of the trouble we're in.

There are pinpoints of light

All over Australia, enlightened individuals are starting to galvanise local neighbourhoods and communities into rediscovering the joy of neighbourliness. Book clubs, community choirs, ukulele bands, street parties, Friday night drinks, sporting clubs, library-based community events, sausage sizzles, trivia nights … all good signs of pushback against influences that would otherwise divide and fragment us.

Another pinpoint of light – our generosity in a crisis – can be glimpsed through the pall of smoke from a bushfire season that, as predicted by climate scientists, is longer and more intense than ever. (We may say the 2019-2020 season is shocking in its ferocity; we can't say it was unexpected.)

Yes, we can be generous, kind and compassionate in response to a catastrophe, but what a tragedy it would be if we *needed* a catastrophe to make us generous, kind and compassionate. What a tragedy it would be if we lost sight of the fact that we belong to a species that depends for its survival on our willingness to co-operate rather than compete; that we are people for whom generosity, kindness and compassion come naturally when we are not being distracted by baubles, corrupted by wealth or power, or seduced by selfish dreams of personal gain.

The response to appeals for bushfire relief is a welcome sign that the nation's heart still beats, (though it's legitimate to ask why more money had not previously been spent on precautionary measures). But where is the sense of urgency about all the other challenges, including those related to climate change, that don't force themselves on us as obviously as smoke in our eyes and lungs?

Where, for instance, is the comparably generous response – whether from socially sensitive governments, a more enlightened tax system, public appeals or philanthropy – to the socially corrosive problems of homelessness, poverty, and the malnourishment of all those kids?

Taking matters into our own hands

When institutions – political and otherwise – fail us, we tend to take matters into our own hands. As successive governments harden their hearts against people seeking asylum, great generosity is being shown by local communities towards organisations who offer them practical support. In the absence of a coherent energy policy, millions of us are seeking our own ways of transitioning to the clean energy future the government seems unable to imagine. We're starting to look for smaller, more accountable alternatives to the discredited big banks. Some disenchanted ex-churchgoers are joining the growing 'house church' movement. New online media platforms (like this one) are usurping the role of traditional mass media.

In response to too much disappointment, too much anger, too much frustration, perhaps we're gradually learning how to reshape our society, piece by piece, street by street. That might be grounds for some muted celebration, after all.

Hugh Mackay AO is a social researcher and bestselling author of 19 books, including The Good Life, The Art of Belonging and his latest, Australia Reimagined (2018) published by Macmillan. Hugh has been elected a Fellow of the Australian Psychological Society and awarded honorary doctorates by Charles Sturt, Macquarie, NSW, Western Sydney and Wollongong universities. He is often described as 'the man who explains us to ourselves'.

The 20 Commandments of Wealth for retirees

Noel Whittaker

Noel Whittaker has been a great supporter of Firstlinks (previously as Cuffelinks) since the start, not only writing dozens of articles, but referring the thousands of people who subscribe to his own newsletter to us.

In this tribute on his 80th birthday, Noel has three children now aged 38, 36 and 34 and between them have produced 11 grandchildren. This is keeping him and Geraldine as busy and active as ever, combined with his always-hectic speaking and writing schedule.

We start with an article first published on 13 February 2011 but with a timeless message. It's especially relevant in these worrying market conditions.

Boom and bust

There are always people about who claim they forecast when the market was going to peak and cashed in all their shares just before the crash. I guess when pessimists are forecasting crashes a few will be right now and again. The reality is that nobody, to my knowledge, has yet mastered the skill of consistently and accurately forecasting market movements.

This week a reader took me to task about some comments I made in late 2007. Apparently he had asked my opinion on a book he had seen advertised on a website that had forecast the "coming great financial crisis of 2008". According to him I had responded that those kinds of books were always popping up, and I had learned never to take much notice of them.

He claimed he remained fully invested after reading my reply and, as a result, lost heavily when the global financial crisis hit. He now subscribes to a daily financial newsletter which is forecasting another severe crisis in 2011. The purpose of his latest email was to enquire if my views had changed and whether the dreaded double dip was finally on its way.

He was asking the wrong person

I have been an investor for too long to even attempt to forecast where the market is heading. I have been through the 1974 share crash that followed the nickel and property booms and suffered through 1987 when share prices doubled within 12 months and then halved in just one month. This was followed by the 1990-91 recession and then that terrible year of 1994 when every asset class except cash produced negative returns. How shocked we all were when the All Ordinaries index, which had started the year at 2174, plunged 11% to 1932.

Then there was the dotcom boom in 1999 and 2000 where Telstra shares hit a high of $8.35, followed by another bust. In November 2007 the market had its highest peak to date, which was followed by the famous crash of 2008.

What a fascinating history of ups and downs. And there has never been a year that a book or a newsletter or the latest guru does not predict that a great depression, or at least a share slump, is just around the corner.

Of course, they are correct every few years, because it is the nature of markets to rise and fall, and they loudly trumpet their success to the world at large. It may gain them an army of short-term disciples but whenever it happens I am reminded of the famous quote by Marie von Ebner-Eschenbach: "*Even a stopped clock is right twice a day*".

The optimists who stay invested

The world seems to be divided between those who think the glass is half full and those who think it is half empty. There are optimists like myself who stay invested in the belief that the market, even when it falls, will eventually recover and exceed its previous high. Then, there are the bears – the habitual pessimists who forecast bad times ahead year in, year out. The good news for them is that they are right occasionally – the bad news is that they usually end up broke because they never find the right time to invest.

All those bears worrying about the end of the world in late 2008 missed the huge recovery early in 2009.

After being an investor for more than 50 years, I am convinced that shares are the easiest investments to manage and will produce the best returns long term. However, like every investment, they have their disadvantages – the main one is volatility.

If we look at every decade since 1880, we find that shares have produced a negative return in up to four years out of ten. This means anyone who owns them can expect four negative years and six positive years. Those who think the glass is half empty will focus on the four negative years – those who think it is half full will rejoice in the knowledge that there are more good years than bad. Sadly, nobody knows which ones they will be.

The 20 Commandments of Wealth for Retirees

1. Ignore the prophets of doom – they are always with us and usually wrong.

2. Understand compounding, and appreciate that the rate of return your portfolio can achieve will be a major factor in how long your money will last.

3. Take advice before the deed is done – not afterwards. It's hard to rewrite history.

4. Always judge an investment on its merits – any tax benefits should be regarded as the cream on the cake.

5. If a person contacts you by phone with an offer of an investment, or even to help you pay your mortgage back faster, hang up.

6. Don't have all your eggs in the one basket – diversify across the major asset classes and certainly have some international exposure.

7. Involve your partner, if you have one, in all your financial decisions. This will make it easier if one of you passes away or becomes incapacitated.

8. Don't panic when the share market has a bad day – volatility is the price you pay for the unique benefits of shares.

9. Make sure your wills are up-to-date and include a testamentary trust if that is appropriate.

10. Give Enduring Powers of Attorney and an Advance Health Directive to trusted people. And make sure they have copies and can locate the originals when needed.

11. One of the most expensive evenings you can go to is a "free" investment seminar.

12. Be extremely wary of going guarantor for any of your children – especially if they are in business.

13. Understand the basics that never change, and take advice on the things that do.

14. Don't spend unnecessarily just to maximise your Centrelink benefits. Further cuts to benefits are possible.

15. Investigate if you should have a Binding Death Nomination in your super fund. Keep in mind that what is appropriate in one situation may not be appropriate in another.

16. Each year assess whether it is to your benefit to stay in super. In some cases you may be better off to withdraw the balance and invest outside the superannuation environment.

17. Don't follow the herd and back last year's winner – that's a recipe for disaster.

18. If you decide to take on a reverse mortgage involve family members in the process and have them pay the interest if possible. This will stop the debt increasing.

19. Make sure your children have adequate insurance. It's much more affordable than your funding their misfortune.

20. Finally – keep in mind that your potential worst enemies can be the media who focus on the negative, and well-meaning acquaintances who may give you information that may be half right.

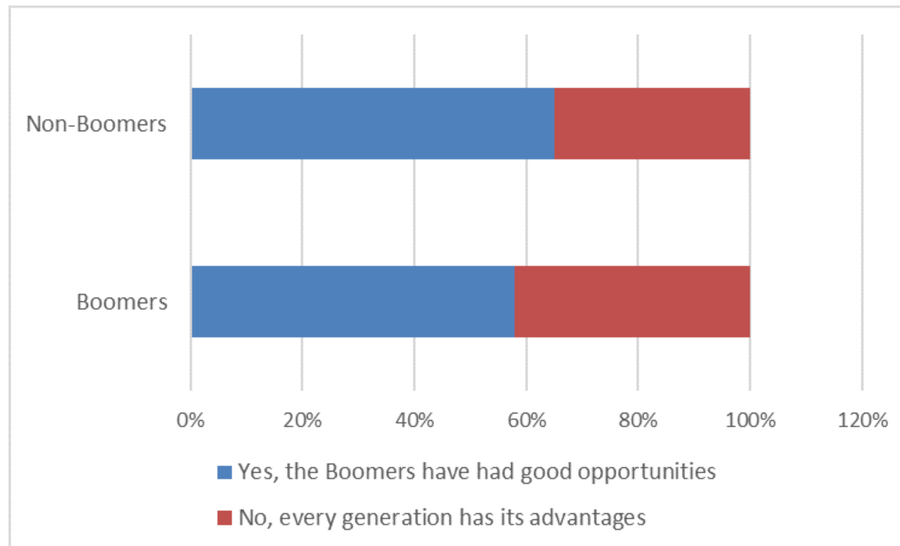
Noel Whittaker is one of Australia's foremost authorities on personal finance and a best-selling author of many books including Making Money Made Simple. See www.noelwhittaker.com.au to subscribe to Noel's free monthly newsletter. This article is general information and does not consider the circumstances of any investor.

'OK Boomer' responses keep on coming

Leisa Bell

In conjunction with Graham Hand's article, OK Boomer: fessing up that we've had it good, we asked both Boomers or Non-Boomers: *Do you agree the Baby Boomer generation has been favoured?*

We've now had over 2,300 people share their opinions and circumstances (up from 1,800 when the last update was posted). The overall percentages have remained similar: Boomers outweigh Non-Boomers among respondents (68% to 32%), and the responses on whether Boomers have 'had it good' show most people think it's a lucky generation.



Republishing comments in full

The original comments were heartfelt and passionate, including examples of personal struggles, as well as responses taking one side of the debate versus the other. The more recent comments are as enlightening. All results and comments can be accessed in this report.

Leisa Bell is Assistant Editor at Firstlinks.

Future Fund's latest asset changes as CEO moves on

Graham Hand

The Future Fund's asset allocation changes are worth watching as they reveal the investment decisions of a well-resourced team in a large sovereign wealth fund. It's a unique snapshot, as most professional managers do not break up their diversified asset allocations in such detail.

Even better, the Future Fund has a long-term capital preservation emphasis which mirrors the desires of many retirees and SMSF trustees who rightly plan for their money to last for decades, not years.

We explored how retail investors could go some way to replicating the Future Fund's investments in this article, but what adjustments have they made?

It's also a pointer to where industry funds may head as the CEO of the Future Fund, David Neal, this week announced he is moving to the industry fund-owned, IFM Investors. David Neal joined the Future Fund in 2007 and was promoted from Chief Investment Officer to CEO in 2014. His decision after 12 years signals ambitious plans by IFM to grow its business.

How has the asset allocation changed?

As the table below shows, the Future Fund made important changes to its risk and market exposure during calendar 2019.

The most notable was the move into public global equities, with an increased allocation from 23.6% to 29.2%, a material 5.6%. Australian equities was also up 1%, while every other asset class was down. David Neal said the switch from private to public markets gave greater flexibility and allowed the Fund to *"adjust the portfolio quickly to respond to emerging opportunities and risks".*

Changes in Future Fund asset allocation (%)

Asset class	31 December 2018	31 December 2019	% Change
Australian equities	5.8	6.8	+1.0%
Developed markets global equities	16.3	19.0	+2.7%
Emerging markets global equities	7.3	10.2	+2.9%
Private equity	15.8	14.9	-0.9%
Property	7.2	6.3	-0.9%
Infrastructure & timberland	8.5	7.0	-1.5%
Debt securities	10.1	8.6	-1.5%
Alternatives	14.6	13.4	-1.2%
Cash	14.5	13.7	-0.8%
TOTAL	**100%**	**100%**	

The Future Fund has always held a relatively high proportion of non-traditional assets, often in private markets, which makes a material contribution to its claims of lower volatility, as discussed later. Few other institutions, SMSFs or private portfolios would match their private equity and alternatives allocations, although down over the year from 30.4% to 28.3%. Perhaps this reflects the market consensus that private equity has become expensive as more money flowed into the sector in 2019.

The strong rally in bond, interest rate and credit markets may also have driven the lower allocations to cash, debt, infrastructure and property, although there are still gains to be made in the 'bond proxies' with interest rates so low. High cash allocations match the SMSF experience.

The Future Fund is a believer in paying up for active management, with around 120 fund managers represented in its portfolio. The Fund looks for managers who should produce uncorrelated returns less influenced by economic and macro factors than traditional equity managers. Hedge funds, private equity and infrastructure managers often charge the highest fees to pay for their capacity constraints. David Neal said:

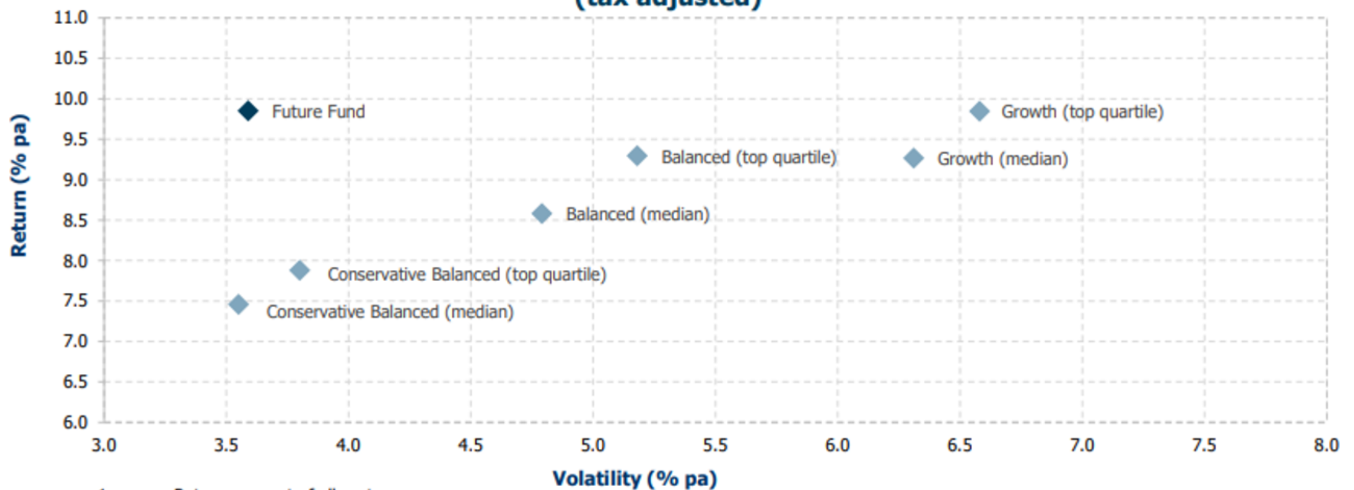
"We are also focused on identifying and taking advantage of our managers' skill so that we can add additional return or reduce risk. This includes our focus on strategies that have low correlation with risk assets."

Focus on risk as well as return

The media coverage of the latest results focussed on the strong returns generated. Most investors would sign up immediately for 9.9% per annum over a decade and 14.3% last year from a diversified portfolio. The Future Fund's result was at the top end of the best super fund performance, and well ahead of the target of CPI plus 4% to 5%.

However, what should matter most are risk-adjusted returns, and the Future Fund also does well on this score. Everybody should prefer returns of 10% per annum with 4% volatility rather than 8% volatility. Or put another way, 10% might be better than 12% if the latter came with a lot of extra risk.

The aim of investing should be maximising returns (that is, as far up the y-axis as possible) while minimising risk (that is, as far to the left of the x-axis as possible) in the chart below. The Future Fund's numbers in the top left are impressive. A stated volatility of half that of the top quartile growth fund with similar returns would help more people sleep at night, especially those who worry about loss of their capital to live off.



1. Returns are net of all costs.
Source: *SuperRatings data grossed up to address the Future Fund's tax position using an estimate derived by the Future Fund.*

What is this thing called volatility?

While volatility and risk mean different things to different people, the most common measurement of risk is the standard deviation or variance of results around a mean. This is the measurement in the x-axis above.

However, for investors who can ride out short-term volatility, it is a permanent loss which is more worrying. For example:

- Howard Marks said, "*The risk that matters most is the risk of* ***permanent loss***".
- Warren Buffett said, "*We will attempt to bring the risk of* ***permanent capital loss*** *(not short-term quotational loss) to an absolute minimum by obtaining a wide margin or safety in each commitment and a diversity of commitments."*
- John Maynard Keynes said that an **intrinsic loss of capital** was, *"in an altogether different category from fluctuating securities, since there is no particular reason to expect a subsequent recovery."*

Keynes, Marks and Buffett are correct if an investor can look beyond short-term losses. The reality is that people living on their savings are devastated by falls of 20% to 50% and often sell before there is a recovery. For most investors, volatility matters and they cannot be as dispassionate about their losses as these luminaries espouse.

Professional fund managers are judged quarter-by-quarter, and a year or two of poor performance can jeopordise their business. Try telling them that volatility of returns do not matter if there is no 'permanent loss of capital'. A National Seniors Survey in March 2019 found that 73% of retired investors keep some or all of their savings out of the sharemarket because they cannot tolerate losses. For them, volatility certainly matters.

The ASX offers a 'market sentiment indicator', A-VIX, which is a real-time volatility index to provide "*insights into investor sentiment and expected levels of market volatility."* A relatively high level of the A-VIX implies the market expects large changes in the S&P/ASX200 index.

The chart below shows the A-VIX for the last five years, with enough spikes to unsettle investors although the market has risen strongly overall in this period.

For example, the market falls at the end of 2018 were accompanied by a spike in volatility, with more-settled periods for most of 2018 and then most of 2019 after February. While there was no '**permanent loss of capital**', December 2018 spooked many investors.

Source: VIX index chart from Market Index, 4 February 2020.

The Future Fund's way to manage risk

Many non-professional investors manage their risk by making large allocations to cash and term deposits. This strategy may have been acceptable in the past, but it guarantees a lack of income and erosion in real capital when rates do not even match inflation.

The Future Fund points to other ways to manage risk while generating returns, including:

- Diversifying among many types of assets
- Finding managers who produce uncorrelated returns
- Investing in lower-volatility funds
- Buying infrastructure with inflation-protected assets
- Moving down the risk spectrum in debt securities

The intent is to hold a resilient portfolio that falls much less than the market in tough times.

A qualification on volatility

It should be acknowledged, however, that private assets are not necessarily less volatile than public assets simply because their value is not measured regularly. They are often the same assets (a listed versus unlisted airport does not change the nature of the asset or its long-term value).

The Future Fund's portfolio has a low measured volatility because it holds cash, property, private equity, alternatives, infrastructure, timberland and even debt securities which are revalued less frequently than the constant trading of listed equities.

Notwithstanding this qualification, there are useful lessons in defensive portfolio construction for all investors.

Graham Hand is Managing Editor of Firstlinks. This article is general information and does not consider the circumstances of any investor.

What's the outlook for global small and mid-cap companies?

Ned Bell

Local investors have a good appetite for Australian small- and medium-cap companies, but there's a huge universe of global companies in this category that are also worth considering.

We classify global small and mid-cap (SMID) companies as those with a market capitalisation from US$1 billion to US$28 billion (A$41 billion). They are vastly larger than the types of companies considered SMID in Australia. This approach to global SMID ensures an investible universe of diversified, liquid and highly profitable stocks. Some of the most interesting companies with the strongest franchises are found in the global SMID sector and include luxury car brand Ferrari; PoolCorp, the largest wholesale distributor of swimming pool supplies in the world; US beauty store chain Ulta Beauty; and Moncler, which sells down jackets and other clothes.

There are many differences when it comes to the Australian versus global SMID market. For instance, size is one of the advantages of the global universe versus its Australian counterpart. The global cohort is much larger, more liquid and companies tend to be of a higher quality.

Additionally, it's much easier to find companies with the potential to generate value among overseas businesses. Because of the larger universe of opportunities, allocating large amounts of capital to global SMID is also more straightforward than allocating funds to Australian small caps.

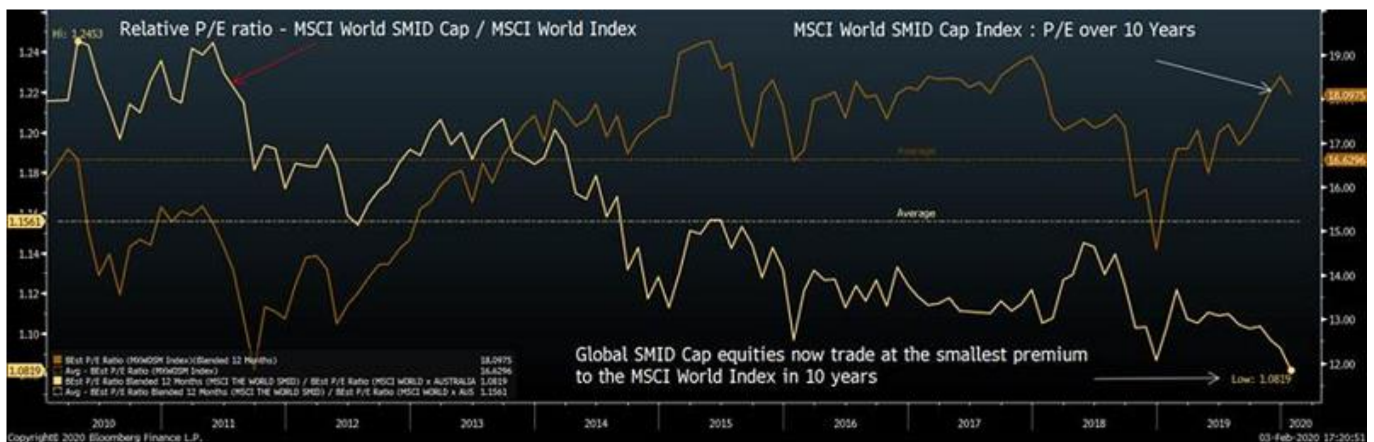
Another reason to consider global SMID is because global equities portfolios have changed in recent years. In the world of global equities, it's no secret that large-cap growth stocks, especially those with an emphasis on growth such as giant tech stocks, have accounted for much of the recent gains in equities. As such, many portfolios have become even more heavily skewed towards the larger cap end of the market. This is opening up opportunities to invest in the global SMID space as investors look to diversify away from large and mega caps and gain exposure to a big part of the global equity market that can provide growth.

Managing valuation risk

At a time when valuations in global large-cap stocks and are hitting new highs – the global SMID asset class looks increasingly attractive. When compared to the Australian small-cap market (the S&P/ASX Small Ordinaries Index), the global SMID cap index is actually less expensive – the MSCI World SMID Cap Index P/E at 18.6 vs the S&P/ASX Small Ordinaries Index P/E at 19.7x vs its five-year average of 16.4.

Furthermore, the global SMID universe simply has not participated in the valuation expansion that has been so prevalent with large-cap global growth and IT names. The MSCI World Global SMID Cap Index is now trading at its lowest P/E premium to the MSCI World Index in 10 years (+7.8% vs +15.6% 10-year average), which is in stark contrast to the global IT sector, which trades at a 33% premium to the rest of the market.

Absolute and relative P/E of the MSCI World SMID Index over 10 years.



Source: Bloomberg.

An allocation to global SMID also offers a much better value proposition than mega cap names that have driven markets in recent years i.e. Apple, Microsoft, Amazon, Facebook and Alphabet. The valuation risk in these

names has arguably grown quite a bit recently as their average P/E now sits at 29x and their average P/E premium to the market sits at 89%.

Taking all this into account, there is every reason for investors to consider apportioning funds to global SMID companies.

Three themes to watch

Three themes emerged during Bell Asset Management's recent global research visit investors can take into account when making decisions about allocating funds to small- and medium-cap companies.

The strength of the American labour market is the first. In 2019, more than 2.1 million extra people gained employment in the US. As the market tightens, a lack of skilled labour and labour availability is emerging as a challenge for US businesses. This bodes well for the US economy this year and the small to medium-cap companies in it.

Chinese growth is the second theme to watch. According to official Chinese data, economic growth is running at 6%. But anecdotal evidence suggests this figure could be much lower. This is a risk to watch in 2020, one that could have flow-on effects to European economies in particular.

The outbreak of the coronavirus in China represents yet another challenge for their economy. While the bulk of the near-term pain will clearly be felt domestically – the ramifications for global businesses with meaningful China exposure are quickly becoming apparent. Some of the larger global players in the luxury, restaurant, travel and tech industries have already flagged that earnings will suffer.

From an asset allocation perspective – the coronavirus has highlighted the inherent risks in two of the best known "growth sleeves" in global equities – large cap growth (valuation risk), and emerging markets (macro and earnings risk). In doing so, it also highlights two of the most compelling attributes of the Global SMID asset class – they come with meaningfully less valuation risk, and as companies domiciled in developed markets – they tend to be more domestically focused.

A related theme is the US/China trade war and global capex spending, which has been on hold since February 2019. Investors have been looking for some pent-up demand in capex spending to stimulate economic growth, especially in Europe. But Bell Asset Management's research suggests this is not yet happening. Capex plans are still on pause, although this may change as the US and China have recently come to some resolutions around the trade war.

Markets have recovered since reaching a nadir in January 2019. While there are concerns about how much further they could rise, Bell Asset Management's view is they still have some way to run. Brexit's resolution, which could prompt an uptick in economic growth, is one reason for this. The US job market's strength is another signal markets could outperform in 2020. Time will tell how these themes play out and how they will affect global small and mid-cap companies.

Ned Bell is Chief Investment Officer and Portfolio Manager at Bell Asset Management, a Channel Capital partner. Channel Capital is a sponsor of Firstlinks. This information should not be considered advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling particular assets and does not take into account your particular investment objectives, financial situation or needs.

For more articles and papers from Channel Capital and partners, click here.

The fear of running out of money in retirement

Jeremy Cooper

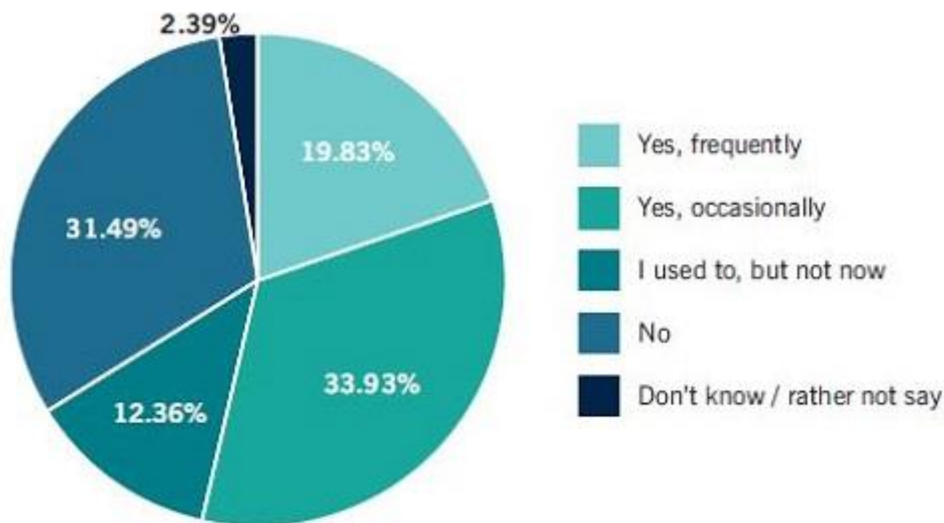
In the middle of yet another review on superannuation, this time looking at the retirement income system, it is important to capture the views of the people the system is meant to help. Challenger has partnered with National Seniors Australia since 2012 to form a better understanding of how Australian retirees (and older Australians not yet retired) feel about life and their finances in retirement.

Lack of confidence in retirement

The latest report, *Retirement Income Worry. Who worries and why?* indicates that the system has more work to do to provide retirees with more confidence in retirement. The report found that most older Australians (53%) are worried about outliving their savings, with women (59%) more worried than men (47%).

This high level of worry contrasts with global comparisons that rate Australia as one of the best retirement income systems in the world. This isn't simply a case of Australia being the best of a bad lot. The underlying issue is that despite the many strengths of Australia's super system, people worry whether they have enough, particularly approaching retirement.

Figure 1: *Do you worry that you might outlive your savings and investments?*



The report delves into the underlying factors leading to worry. Gender differences are significant. Women are more likely to worry about running out of money in retirement than men. And, by running out of money, people are talking about their super. While the age pension is a backstop for people who run out of super, respondents were worried that it might happen to them. Living solely on the age pension is viewed differently from having your own money to spend.

People with less than $500,000 were more likely to worry than those with more. There are more women with lower balances as a result of broken lifetime work patterns, part-time arrangements and the gender pay gap. Unsurprisingly, many of these worried more. The report also notes that women with higher balances were more likely to worry than men with the same balances.

Longevity differences not addressed

The difference in life expectancy could also impact the level of worry in women. On average, women live 2-3 years longer than men, and half the women who turn 66 in 2020 are likely to live into their 90s. The standard retirement income options in super don't deal with this longevity and this seems to cause many to worry about their money running out.

It follows that retirees with a guaranteed source of income for life (from either a defined benefit pension or a lifetime annuity) were the least worried.

The evidence points to the need to improve the super system to keep it world-leading. The current government focus on designing better retirement income products will help as would other tweaks that haven't got the same traction, such as removing the $450 threshold on compulsory super payments.

Better adjustment in retirement

On the positive side, once people retire, they report less worry. People tend to adjust to what they have and to actually being retired. While it does imply that some people are working only because they are worried about not having enough, it highlights the ability of people to adapt.

The survey also reinforces the idea that retirees know that super is for spending. Almost two-thirds of the respondents who had been retired for five years expect to spend most of their savings over the next 20 years. Super was created as a consumption-smoothing mechanism. Participants defer wages as a sacrifice during their working lives, so they are entitled to spend those unspent wages (compounded many times over) on themselves in retirement.

Summary of major results

The degree of worry about retirement income was:

1. 68% higher in those not already retired. Previous work has indicated that people adjust to their actual circumstances in retirement, whether they planned for them or not.

2. 65% higher in those who have less than $500,000 in savings. This is as expected, since they may not have the money to pay for a 'comfortable' retirement.

3. 53% higher in those who expect their main source of income in retirement to be the age pension. This is expected because it is a minimum basic income with accompanying worry about 'making do'.

4. 47% higher in women. This is after taking out the effects one or more of the previous three factors and may be associated, in part, with expecting greater involvement in caring roles and a real risk of outliving their partners.

Jeremy Cooper is Chairman, Retirement Income, at Challenger. The full report can be downloaded from the National Seniors website.

LIC/LIT stamping fees survey results

Leisa Bell

A summary of the survey on attitudes to stamping fees (commissions) paid to advisers on LICs and LITs is presented below.

The results will be shared with Treasury as part of the public consultation into selling fees.

Are you a financial adviser, and do you accept stamping fees?

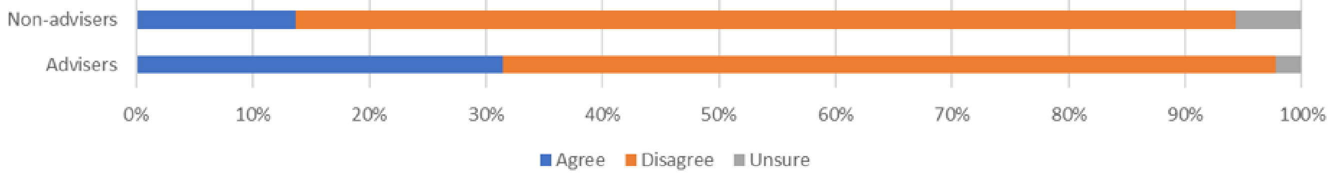
The survey split respondents into adviser or non-adviser groups, to compare the different sentiments between the two. Of the 670 takers so far, 16% are advisers.

The next question, given only to advisers, asked if they accept stamping fees. We had 17% saying yes, 74% saying no, and 9% saying it depends.

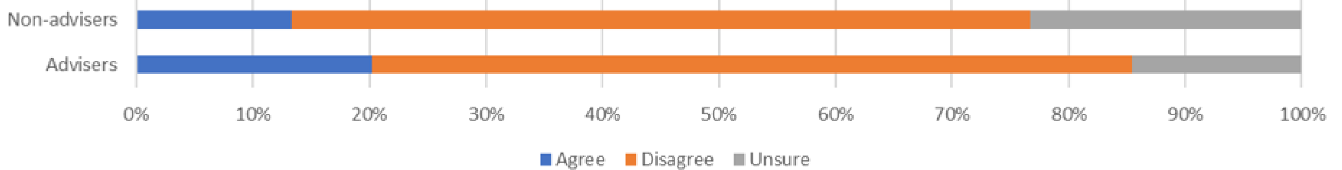
Reactions to different statements

The first five of the following statements were shown to both groups, the differences in their responses are shown together, in each chart. The remaining five statements were shown to just one group, as indicated.

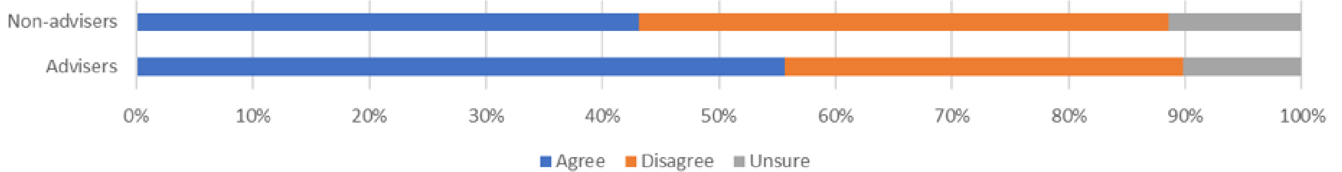
Advisers can accept these fees and still act in the best interests of their clients.



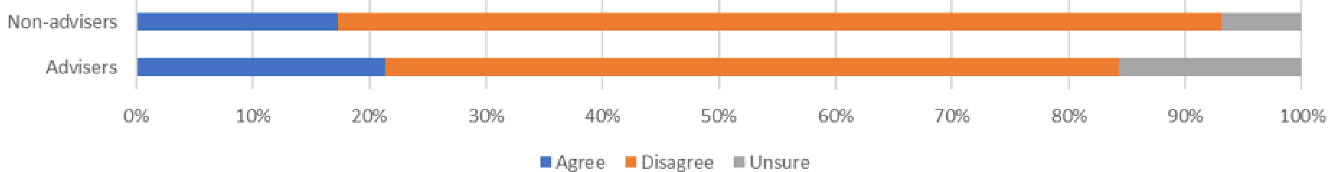
The carve out from FoFA obligations for listed entities is legitimate.



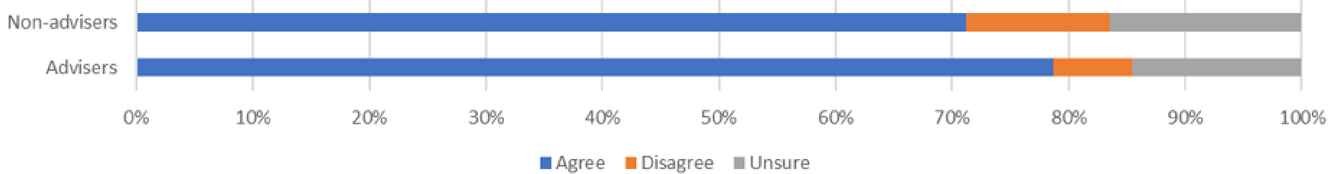
There is a lot of work involved and advisers should be paid for the effort.



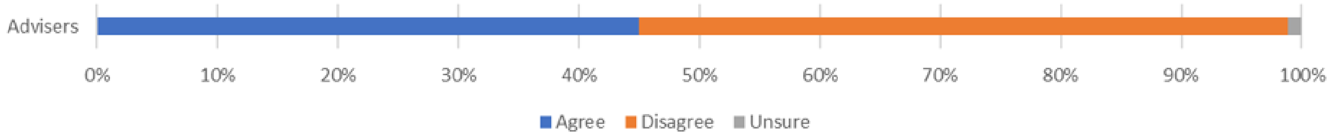
It is a matter between adviser and client, authorities should not become involved.

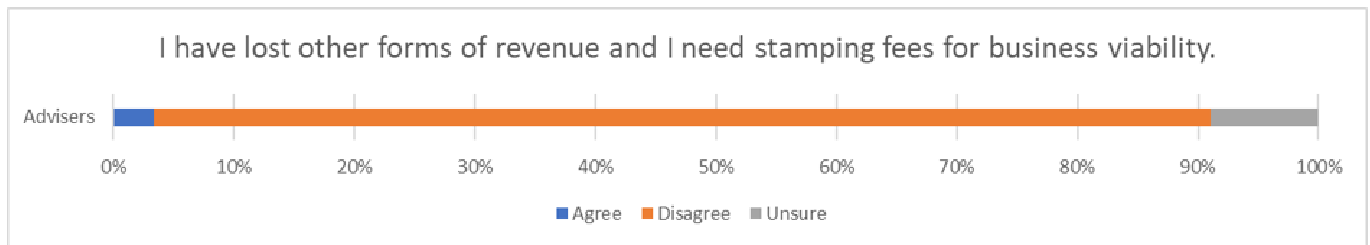


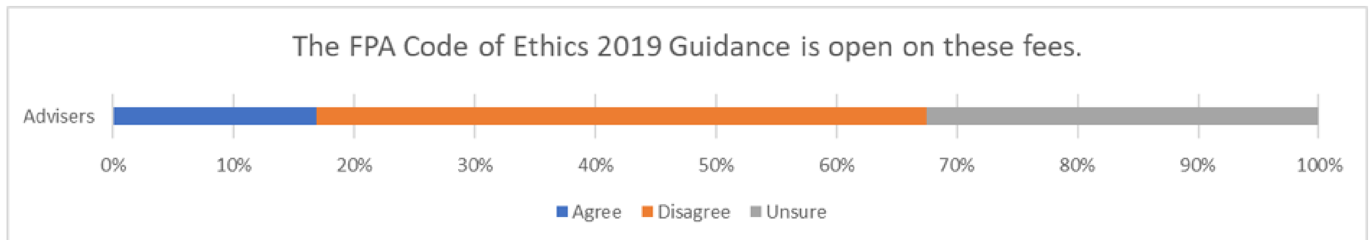
The issue is not only about LICs and LITs but other securities such as hybrids.

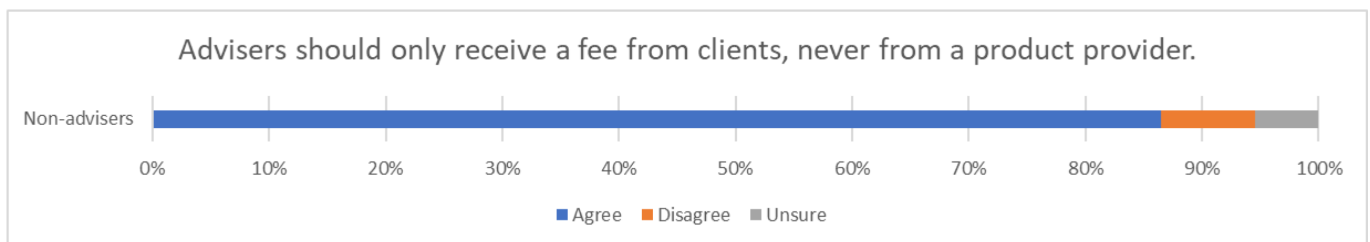


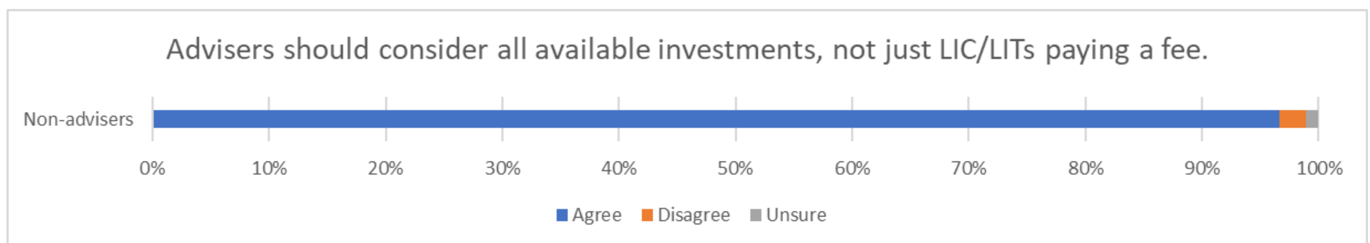
I have both annual fees for advice and transaction fees for specific investments.











Do you think the ban on receiving stamping fees should extend to stockbrokers?

The final question, asked of all respondents, showed us that over 70% believe stamping fees should be banned completely: Yes 71%, No 18%, Depends 11%.

To view a selection of comments from the survey, click here to view the website article.

Disclaimer

This Newsletter is based on generally available information and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider obtaining financial, tax or accounting advice on whether this information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

For complete details of this Disclaimer, see www.firstlinks.com.au/terms-and-conditions. All readers of this Newsletter are subject to these Terms and Conditions.