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Editorial

My inbox has been flooded with messages from public relations spokespeople representing the investment industry. The outbreak of war means dusting off the well-worn crisis checklist.

Step one: say something - *anything!* - as fast as possible.

Step two: wait and see what happens.

Given the Pavlovian nature of the response and the emphasis on speed over substance we've all heard the same things repeatedly. Little qualifies as pearls of wisdom.

I've learned there may be volatility and oil prices may rise. I got my semiannual reminder about the Strait of Hormuz. I've heard about how every conflict from the First World War to the Emu War has impacted markets.

Traders must be busy. Each twist and turn of the market is an opportunity to profit. If you are a long-term investor it is best to do nothing while the war plays out.

When events are dramatic and unpredictable many people reflexively turn to short-termism. Take the media fixation on rising oil prices. This obscures the most likely scenario that an accommodation or regime change will lead to more oil supply over the long-term. Especially given what has happened in Venezuela.

Focus on the potential for the conflict to accelerate or slow the emerging trends shaping markets. These include the impact of AI, the dismantling of the globalization era, and structurally higher inflation and interest rates.

It is the second order effects that will matter. Those are the ones that are far harder to predict.

Think about the headlines that will appear the day after the war ends when the market goes back to worrying about something else. Pay attention to the things that slip under the radar as the front page is dominated by Iran.

Most of all, remember the key is always you. Controlling your own emotions will lead to success.

You will be faced with the same investment challenges when this war is over. Figuring out the best strategy for your unique situation is far more important than any forecast.

As Ben Graham said,

"The investor can scarcely take seriously the innumerable predictions which appear almost daily and are his for the asking. Yet in many cases he pays attention to them and even acts upon them. Why? Because he has been persuaded that it is important for him to form some opinion of the future course of the stock market, and because he feels that the brokerage or service forecast is at least more dependable than his own."

You won't find this edition of Firstlinks filled with news on Iran. Instead, the focus continues to be on providing unique insights to help you achieve your long-term goals.

We have a retirement heavy edition tackling the triple threat of aging, super inheritance, borrowing in your SMSF and the perennially hated annuities. We also get an overview of results season, a look at financial advice and a little fun to coincide with the start of the AFL season.

Mark Lamonica

In this week's edition...

The age of retirement is upon us, declares **Aaron Minney**. An ageing population is putting new demands on super and aged care and how this disruption plays out will impact the lives of older Australians.

A strong ASX reporting season was widely expected and Australian companies delivered. **Jun Bei Liu** outlines what companies delivered dividends and capital returns and what risks investors are facing going forward.

Tobias Barkley outlines a crucial step to take if you want your loved ones to inherit your super.

Did you know there were 16 steps to get a mortgage on an investment property in a SMSF? If not, read the approach that **Peter Townsend** recommends for anyone considering property.

The goal of finance advice is to improve outcomes. **Joachim Klement** takes a look at two studies that show good advisers can create enormous value for clients…but average advisers don't.

When the new AFL season kicks off a wild-card will be added to the finals. **Tony Dillon** breaks down the change and provides an analytical assessment of the new format.

Academics love annuities. Almost everybody else hates them. **Don Ezra** explores how you can get your 'money's worth' and the emotional aspect of exchanging a lump sum for a stream of future income.

This week's white paper from Schroders' QEP Investment Team explores the anatomy of asset bubbles that aren't quite there yet.

Curated by Mark Lamonica and Leisa Bell

Super is catching up, but ageing is a triple-threat

Aaron Minney

The need for a reliable source of retirement income is a demographic shift 70 years in the making. Yet, it is only one of three megatrends currently disrupting the retirement sector.

An ageing population is placing pressure on Australia's superannuation and retirement system, while driving a sharp rise in demand for better aged care. Underlying these trends is an equally significant issue that demands both preparation and attention: how to navigate the largest intergenerational wealth transfer in history.

While these trends might seem distinct, they are, in fact, interconnected and represent three stages of the same demographic reality – the age of retirement is here.

Retirement income: the first test

Australia is in the middle of a seismic demographic shift. More than 250,000 Australians will retire in the next year alone, with a further 2.5 million to follow over the next decade. This generation of retirees are wealthier than any before it, having benefited from three decades of the Superannuation Guarantee and sustained economic growth.

The challenge is not how much has been saved, but how those savings are being utilised. Moving from accumulation to spending is complex, both financially and emotionally. We know from the Challenger Happiness Index that activities, hobbies, and having a purpose are what keep us happy in retirement. Financially, having enough money to do the things we love, without the fear of running out, is the most important priority.

Knowing how much is 'enough' is highly personal and a difficult question to answer. Getting it wrong can have significant consequences. Risks from rising inflation, volatile markets, generating cash flows, and financing a long life are challenges retirees have to navigate when securing an income for the long-term. Addressing these challenges requires a shift in mindset, a stronger focus on cash-flow certainty, and most likely, professional financial advice.

Today, the superannuation system is playing catch-up.

While retirement is a priority, many superannuation funds are still to deliver the full spectrum of support that a growing number of members need to navigate this sea change. There is both a product and an advice gap that will take time to resolve.

The recent APRA-ASIC 2025 Retirement Income Covenant (RIC) Pulse Check report made clear that the gap was widening between those funds that are actively promoting better retirement outcomes for their members and those that are not.

APRA and ASIC have called on Superannuation trustees to heighten their focus on member retirement outcomes. A call that Challenger echoes. To do so, funds and members will need to embrace new ways of thinking and new approaches that help Australians retire better – from digitally enabled advice to income-focused retirement products.

Innovation needs to be across the entire member experience from accumulation through to retirement. How can members be engaged earlier for retirement? How are solutions scaled to broad member cohorts? How can everyone get access to the advice and guidance they need? Innovation must span products, technology, advice, and engagement. It requires a whole of member approach to deliver the right outcomes.

Aged care: the next pressure point

Behind the surge in retirement sits a second, rapidly approaching challenge in aged care.

Australia's population is ageing, and our people are living longer. Demand for aged care services is rising accordingly, and the system is already under strain. Over 3000 aged care patients are stuck in the public hospital system while they wait for a residential aged care bed to become available.

For families, aged care decisions are often made under significant emotional and financial stress.

Aged care changes introduced from 1 November have increased the means-tested co-payments, making accessing aged care more expensive for many Australians. Funding the up front and ongoing costs can involve major life decisions, like selling the family home. Deferring these decisions can have adverse impacts for the family involved as well as the broader economy.

Here, too, innovation and professional advice are critical. Families need support to structure their finances effectively, utilise social security entitlements, manage aged-care fees, and maintain sustainable cash flow.

Product innovation has a role to play too. For example, our Challenger CarePlus solution helps families manage the ongoing costs of aged care while at the same time providing an estate-planning solution. Thinking more holistically about the needs of the consumer is paramount to delivering solutions that work both practically and financially.

Wealth transfer: the final stage

The third challenge follows inevitably. In Australia, it is estimated that up to $5.4 trillion will transition between generations over the next two decades, reshaping the financial landscape.

However, structures to best manage this transition are still in their infancy. Insurers are well placed to innovate in this space and more products will come to market to support estate-planning and wealth-transition needs.

Australia is moving from a system designed primarily around accumulation to one that must now support spending, caring, and the transfer of wealth, simultaneously. That shift has significant implications for how super funds, and the broader industry, design products, deliver advice at scale, and engage with members across later life.

Retirement may be the most immediate challenge, but aged care and the intergenerational wealth transfer are close behind. Each presents distinct challenges, but together they form a triple threat that the superannuation system can no longer address in isolation.

By embracing new ideas, new products, and new approaches to financial guidance and member engagement, super funds have an opportunity to better support members through the lifecycle of retirement – from income to aged care and leaving a legacy – helping deliver greater confidence, security, and dignity through every stage of later life.

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Corporate earnings show resilience against volatility but risks remain

Jun Bei Liu

Australia's February reporting season should not have been much of a surprise. By the time companies started to report results, evidence for a strong reporting season had been piling up for months. Economic growth through the second half of 2025 was consistently firm, financial conditions remained supportive and business indicators were improving. Offshore, global growth tailwinds were strengthening with corporate credit conditions extremely favourable.

Corporate Australia did not stumble into reporting season hoping for luck. It arrived well prepared. Price increases pushed through earlier in the cycle were still flowing through revenues (banks, insurance companies, retailers, healthcare). Cost-out programs embedded across FY24 and FY25 were finally showing up in margins (banks, Telstra (ASX:TLS), Downer (ASX:DOW), AGL (ASX:AGL), James Hardie (ASX:JHX)). Capital expenditure had been deliberately restrained with balance sheets fortified and cash flows picking up.

Even the sell-side was embracing an improving earnings backdrop. After a prolonged period of downgrades through much of FY24, consensus expectations began to stabilise in mid-2025 and then accelerated meaningfully higher through the second half of the year. The upgrade cycle was initially driven by resources and banks, but it broadened as industrial companies began to demonstrate margin recovery from price increases and cost-out programs. By the time reporting season arrived, consensus ASX200 earnings growth expectations for FY26 had moved meaningfully higher to sit at around 10% for the entire market.

In other words, reporting season was not the catalyst for an upgrade cycle - it validated one that was already underway with earnings beats, guidance upgrades and capital returns confirming what revisions data had been signalling for months. The bad news is that trying to position for the reporting season was more difficult than normal. To start, beats have on average outperformed (+2.1% according to Morgan Stanley) and misses have on average underperformed (-6.3% according to Morgan Stanley) which means the direction of performance was inline with expectations. But the variation was huge and for certain stocks it was carnage regardless of the company's size.

This is a break from history. Traditionally large cap stocks have been the ballast (low beta plays) for the market throughout reporting season with small and mid-cap stocks the high beta plays. This time around we have seen some of the largest stocks in the market – banks, diversified miners and healthcare – making huge one day moves off the back of results. CBA (ASX:CBA), the largest stock listed on the Australian share market, has seen its share price rally over 13% in one day, and as much as now up 20% for the month. BHP (ASX:BHP), the second largest stock, also had a strong result with good cash flow. It rallied 8% on the day and almost 16% for the month. On top of this, we have seen extreme price volatility in other parts of the market such as tech and/or growth stocks with most more than 30% since the beginning of the year. It is all part and parcel of the reporting season and it does appear that price action has settled down the deeper we go into the season. But there are three important observations to keep in mind as we look forward in the equity market.

First, the earnings backdrop is solid, and strength is broadening out as contributions come from both better-than-expected revenue lines as well as gains from strong pricing decisions and cost-out programs implemented in FY24–FY25 were still flowing through. Banks reported stable margins and strong capital positions rather than the feared collapse in profitability. Industrials such as Brambles (ASX:BXB), Aurizon (ASX:AZJ) and James Hardie demonstrated margin expansion driven by productivity gains and easing input costs. Supermarkets and utilities showed that earlier price resets were still underpinning revenue growth even as volumes normalised.

Second, there was cautious but improving guidance, with management teams more confident about margins and cash flow - Ansell (ASX:ANN), James Hardie (ASX:JHX), Breville (ASX:BRG), Brambles (ASX:BXB). Many companies upgraded or reaffirmed earnings expectations, but language around FY26 remained deliberately conservative. What stood out was the divergence between businesses with contractual pricing, inflation linkages or strong market positions, which leaned into confidence versus those with cyclical exposure which were more guarded citing consumer fatigue and policy uncertainty. In addition, capital expenditure stayed tightly controlled, reinforcing the idea that corporates are prioritising returns over expansion.

Third, the talk of AI was everywhere even if the benefits are back-end loaded. AI featured prominently across reporting season commentary, but the tone was notably more measured than promotional. Management teams were clear that AI is becoming a strategic necessity, not a discretionary growth lever — and that distinction matters for earnings. In the near term, AI showed up far more on the cost line than the revenue line. Companies across banks, telcos, professional services and technology-enabled industrials pointed to rising investment in data infrastructure, cloud migration, cyber security and talent.

These costs are being absorbed, now often framed as 'investment for efficiency', but with limited immediate earnings uplift. Where benefits were discussed, they were largely incremental and internal: productivity gains, automation of back-office functions, improved customer engagement and decision support. Very few companies pointed to material, monetisable AI-driven revenue streams today. Importantly, management teams consistently emphasised that AI benefits accrue over time, while execution risk remains high.

Striping out some crazy price action, Australian corporates have delivered a great set of earnings results. For the most part, it signals a solid earnings backdrop and one where management teams have set a baseline that should allow upside operational leverage if cyclical conditions improve. In addition, there was a lot for shareholders with dividends and capital returns a big feature (BHP, Dexus (ASX:DXS), Bluescope (ASX:BSL), Suth32 (ASX:S32), Telstra (ASX:TLS)). But at the same time, there are numerous cross currents which require navigating at both a corporate and investor level.

Domestic policy uncertainty is rising as the RBA has another attempt at bringing inflation down. Tariff uncertainty is on the rise again and there are concerns about conflict in the mid-east. This is before the *“elephant in the room”* is addressed - the rolling train wreck that AI is causing for many traditional industries (insurance brokers, wealth management, logistics and freight brokers, real estate and payment processors to name a few in recent months). This comes on top of enterprise software which is ground zero for disruption and disintermediation.

When we balance this all up, we are confident that earnings are on a much firmer footing with reporting season confirming that corporate Australia can defend margins through pricing discipline, cost control and balance-sheet strength, even if demand softens. That resilience provides a buffer against volatility, but it does not eliminate risk. With inflation proving sticky and the RBA still signalling a willingness to lean into higher rates, investors are being asked to navigate a very uncertain backdrop.

In this environment, broad-based multiple expansion looks unlikely, but investors should be focus on where fundamentals are likely to be in 12-18 months and not where they are today. On this basis, we think the reporting season has thrown up plenty of opportunities like Dominos (ASX:DMP), A2 Milk (ASX:A2M), Flight Centre (ASX: FLT), Cochlear (ASX:COH). But even with these names it's unlikely to be a one way journey, and remember only patient investors will be rewarded.

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Want your loved ones to inherit your super? You can't afford to skip this one step

Tobias Barkley

What happens to our super when we die? Most Australians have superannuation accounts but about one in five of us die before we can retire and actually enjoy that money.

If we do die early our money is paid out as super "death benefits". They can be substantial. Even people who die young can have $200,000–$300,000 of death benefits through super life insurance.

Death benefits have recently been in the news for all the wrong reasons. Last week the Treasurer Jim Chalmers expressed concern about delays paying out death benefits.

The Law Council is concerned people do not have enough control over how death benefits are distributed. Others are devastated about death benefits being paid to alleged violent partners.

How can you decide who gets your unspent super?

Our first thought might be writing it in our will. However, super is not covered by our will as it does not become part of our deceased estate.

Instead, death benefits are distributed by the trustee of your superannuation fund. Under the law, there are two main mechanisms controlling distribution: binding nominations and the trustee's discretion.

Every super member has the option to create a binding nomination. It's like a will for your super that the super trustee is obliged to follow. It also needs two witnesses to execute it. However, there are actually more ways for a binding nomination to fail than for a will to fail.

The law only allows you to nominate certain people: your "dependants" or your estate. If you nominate anyone else your entire nomination stops being binding. Plus, unlike wills, there is no way to fix execution errors. Also, many binding nominations expire after three years.

If you don't have a binding nomination, then the trustee can choose who your death benefit goes to. There are two main mechanisms controlling how the trustee chooses who gets your death benefit.

First, legislation requires the trustee to give the death benefit to your dependants or deceased estate before anyone else. This means that your parents, for example, will only receive something if you have no children, partner or other dependants.

Second, decisions made by trustees can be disputed by complaining to the Australian Financial Complaints Authority (AFCA). The authority has a rigid approach to who should get death benefits and trustees usually follow this course of action.

Research I've done with Xia Li of La Trobe University reveals what AFCA does in practice.

Most crucially, people's wishes expressed in non-binding nominations were essentially ignored. Our research found there was no statistically significant association between being nominated in a non-binding nomination and receiving any of the death benefit. This was true even for recent nominations.

Other factors the complaints authority ignores are family violence and financial need. In one case, five daughters provided evidence, including a police report, that their deceased mother was a victim of violence perpetrated by her new partner. In keeping with the Federal Court, AFCA gave the alleged perpetrator everything because he alone would have benefited from the deceased's finances if she had lived.

In another case, the deceased's adult son received nothing despite living with disability and "doing it tough". He had refused financial help so was not financially dependent. AFCA gave everything to the partner.

AFCA ignores these factors because of one key issue. It places "great weight" on whether beneficiaries are financially dependent on the deceased.

This means when choosing between a financial dependent – such as a new partner who shares home expenses with the deceased, and non-financial dependants, such as most adult children – AFCA will almost always give everything to the spouse.

Relying on financial dependence can be arbitrary. Unlike in family law, a de facto partner does not need to be living with you for two years before becoming entitled. For example, in one case AFCA gave a partner of possibly only seven months (and 41 years younger than the deceased) everything and the deceased's three children aged 27–33 nothing.

Also, AFCA treats any regular payment that supports daily living as financial dependence. For example, a son paying A$100 a week board to parents means both parents are financially dependent on the son. In another case, payments from the deceased to his brother of $5,000, $7,000 and $5,000 made over a year was not financial dependence because they were irregular.

The whole process is slow. The average time it takes to resolve a death benefit case that goes to AFCA is nearly three years and the longest case I've seen took over six.

The only thing that you can do that will make a difference is execute a binding nomination; non-binding nominations are worthless.

But take care to execute your binding nomination correctly (get legal advice) and leave reminders for yourself to review it every three years.

The Conversation

Tobias Barkley, Lecturer, La Trobe University. This article is republished from The Conversation under a Creative Commons license. Read the original article.

Sixteen steps in a typical SMSF borrowing

Peter Townsend

SMSF borrowing requires timing and precision that would be unexpected for someone buying an investment property. The investment property in a DIY structure is not held in the borrower's name but by the trust that administers the super fund.

Before engaging in a limited recourse borrowing, the superannuation trust deed may need to be amended before the borrowing can take place. Also, investment and gearing strategies may need to be reviewed.

There are a number of names used to describe a loan made to an SMSF, including holding trust deed, custodial deed and bare trust. The most common name used now is limited recourse borrowing arrangement or LRBA. This term describes the working of the loan because if the loan defaults, the lender's rights are limited to the asset held in the separate trust, meaning there is no recourse to the other assets held in the SMSF.

A typical borrowing by an SMSF has the following steps and the order of these steps is important to minimise any difficulties in completing the transaction:

1. Determine (often with the help of the fund's accountant or financial planner) that borrowing would be an appropriate strategy to leverage investment
2. Check the SMSF trust deed to ensure trustees have power to borrow, grant security & allow assets to be held by custodians/nominees for the trustee (if not, amend the trust deed)
3. Check the SMSF investment strategy to ensure it allows for the acquisition of the investment asset and permits borrowing for that purpose (if not, amend the investment strategy)
4. Source the asset for purchase, negotiate the price and reach an agreement with the vendor

5. Finalise borrowing arrangements with the lender including in-principal loan approval
6. Determine who is to be the custodian – if a new company, purchase the new company
7. Custodian resolves in writing to act as custodian for the super fund trustee in the purchase of the asset
8. SMSF trustee resolves in writing to purchase the asset and to appoint the custodian to act for the super fund trustee as bare trustee of the bare trust
9. Sign the bare trust deed (Qld, SA, NT)
10. Signing of the purchase contract by the custodian (note: not SMSF trustee)
11. SMSF trustee provides all the deposit money for the purchase (should come directly from the super fund's account. If the deposit initially comes from the pocket of the SMSF trustee, then this deposit amount should be paid into the SMSF as a superannuation contribution within several weeks and notation made to that effect in the SMSF's records
12. Custodian and SMSF trustee sign the bare trust deed (NSW, ACT, VIC, TAS, WA)
13. SMSF trustee signs all loan documents with the lender (note: SMSF trustee is the borrower)
14. Purchase of the asset is completed using only money coming from the SMSF's account or from the loan by the lender
15. The bare trust deed is submitted to the NSW Office of State Revenue for payment of stamp duty.
16. When the loan is eventually repaid the asset can be transferred from the custodian to the super fund trustee for nominal stamp duty provided the bare trust deed has been stamped already.

This style of lending will be new to many trustees and caution should be taken to ensure the gearing of property inside a DIY fund is in the interests of all fund members.

After the loan is repaid – unwinding the LRBA – things to consider:

Unwinding an LRBA involves repaying the borrowing by which the Acquired Property was acquired and then transferring the Acquired Property to the SMSF.

Unwinding an LRBA therefore raises issues as to whether the transfer of the Acquired Property is a CGT Event or a taxable supply and whether the transfer is entitled to concessional transfer duty treatment.

Additionally, unwinding the LRBA involves the registration of the transfer form and the payment of various land titles office registration fees.

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Please note that these comments are for your consideration only and are provided to assist you in deciding whether to proceed to obtain a formal opinion on the issue. These comments cannot be relied upon by either you or any of your clients until and unless we issue that formal opinion.

Do HNWI get better advice?

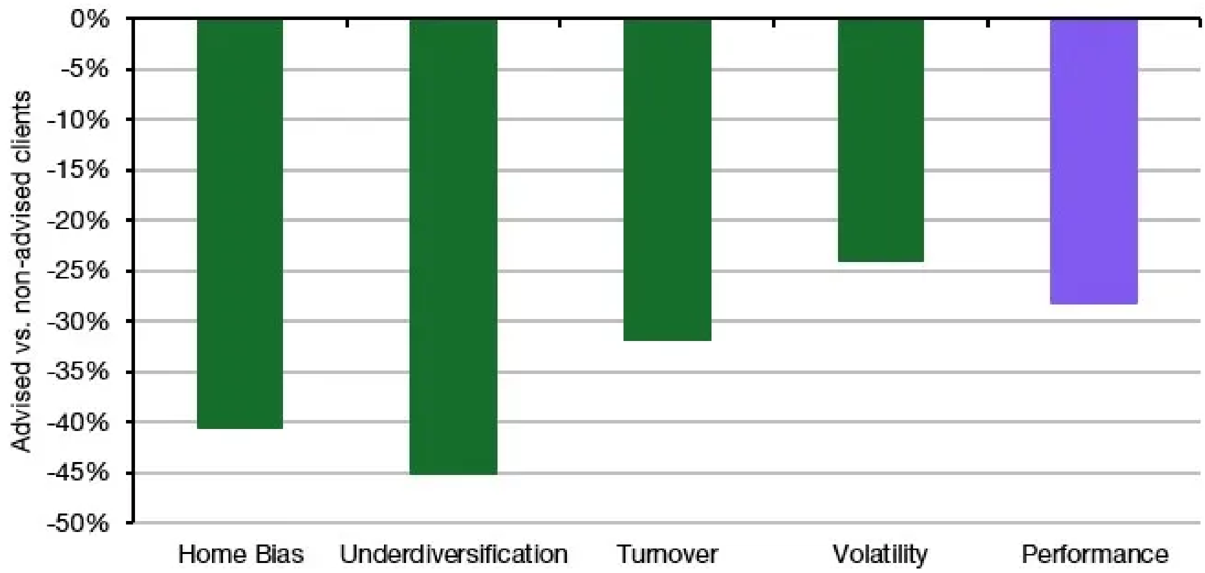
Joachim Klement

There are several studies that show that retail clients who get advice from brokers do not end up with better portfolios or improved performance. Here is a classic study from Canada that shows that while good advisers can create enormous value for clients, the average adviser does not. What made me perk up, though, was when I came across a study of clients in the rarefied world of German and Swiss private banking that shows a result to the contrary.

Maria Maas and her colleagues managed to convince a German private bank with offices in Germany, Switzerland, and Luxembourg to hand over 969 client portfolios. Of these, about 800 portfolios were self-managed by the clients, while about 160 were managed with the help of an adviser from the bank. Note that the differences between the advised and non-advised clients in this case are tiny. 92% of the clients are German, all of them have substantial financial assets (otherwise they wouldn't be clients of the bank), and they all have very similar levels of income, age, risk profile, and financial literacy. The only real difference was the use of an adviser or the lack thereof.

Below is a chart that summarises the key differences in terms of portfolio risks and behavioural biases between advised and non-advised clients. A negative number means that clients using an adviser have better (read: less risky) portfolios.

Difference between advised and non-advised clients' portfolios



Source: Maas et al. (2025)

As you can see, the chart shows that clients who use an adviser have, on average, less of a home bias and more diversified portfolios. This directly contradicts the results of the Canadian study I linked to above. Clients who use an adviser also have portfolios with lower volatility and generally have lower turnover in their portfolios – something that has long been established as a key driver of underperformance.

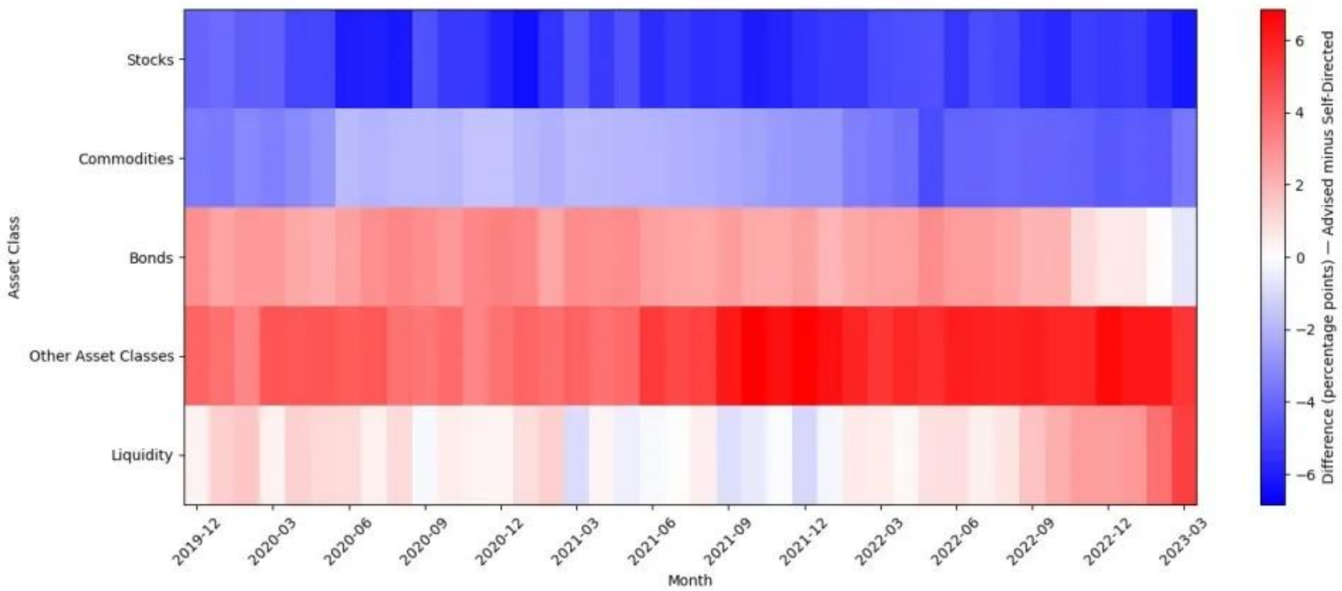
But also note that despite these more diversified portfolios and the reduced turnover, the average return of the advised clients' portfolios is lower than the return of the non-advised clients.

The authors of the study claim that advisers in this private bank are giving good advice because they reduce risks and behavioural biases in client portfolios. But one chart in the paper caught my attention. And I think that gives a hint at the true story.

Forgive my cynicism. As someone who has worked in Swiss private banking for almost 20 years, I don't think private bank advisers are any better than retail advisers in Canada or anywhere else, for that matter. And the overwhelming evidence in previous studies points to advisers not adding any benefit to clients, on average (again, a good adviser can make a big difference, but you first have to find a good adviser).

Below is that chart from the paper. It shows the average difference in portfolio allocation between advised and non-advised clients over time. Blue shades indicate that non-advised clients have a higher allocation, red shades indicate advised clients have a higher allocation.

Average difference in allocation



Source: Maas et al. (2025)

The chart shows that non-advised clients have more equities and fewer alternatives and bonds in their portfolio. Indeed, every private bank adviser will tell you that the incentive structure for them is such that they are trying to sell funds and preferably funds with high fees to the client.

Compared to non-advised clients who predominantly think about single stocks, this means that diversification is almost certainly higher in advised portfolios, while home bias and portfolio turnover are lower. That alone reduces volatility considerably.

But over the last twenty years, the trend has also been towards recommending alternative asset funds (hedge funds, private equity, infrastructure, etc) to clients because they promise additional diversification to the client and higher fees to the bank advising the client. Unfortunately, these alternative asset classes often end up with higher fees but lower returns than a simple stock/bond portfolio.

The result is that clients who use an adviser end up with more diversified and lower risk portfolios, but also with lower returns and almost always higher fees. I can't prove that this is what is going on in this study, but I think my explanation is a bit more likely than assuming that private bank advisers are somehow better than their peers who work at brokerage firms or advise retail clients.

Joachim Klement is an investment strategist based in London. This article contains the opinion of the author. As such, it should not be construed as investment advice, nor do the opinions expressed necessarily reflect the views of the author's employer. Republished with permission from [Klement on Investing](#).

AFL Final Ten with wildcard edit 'unlevels' the field

Tony Dillon

The AFL has announced a move this season to a Final Ten by adding a 'wildcard' round to its existing Final Eight format. But has it got the formula right?

First, a recap of the Final Eight system that has been in place since 2000, according to final ladder positions.

Week 1	• Game One: 1 v 4 • Game Two: 2 v 3 • Game Three: 5 v 8 • Game Four: 6 v 7
Week 2	• Game Five: loser One v winner Three • Game Six: loser Two v winner Four
Week 3	• Game Seven: winner One v winner Six • Game Eight: winner Two v winner Five
Week 4	• Grand Final: winner Seven v winner Eight

We also assess the fairness of this finals format by determining the premiership chances for each team implied solely by the finals structure. This is done by assuming that each final is a 50:50 contest. Such an approach strips out external influences like home ground advantage, form, injuries, and so on, leaving the finals system itself as the sole determinant of premiership prospects.

Possible paths to premiership for teams 1 to 4, and premiership winning probabilities:

- **Path 1:** win week1 - win week 3 - win week 4.
  Assuming a 50% probability of winning per final, probability of a premiership via this path = 0.5 x 0.5 x 0.5 = 12.5%. That is, in shorthand notation: W-W-W = 0.5 x 0.5 x 0.5 = 12.5%.
- **Path 2:** lose week 1 - win week 2 - win week 3 - win week 4.
  That is, L-W-W-W = 0.5 x 0.5 x 0.5 x 0.5 = 6.25%.

Therefore, total probability of winning the premiership, teams 1 to 4 = 12.5% + 6.25% = 18.75%.

Path to premiership for teams 5 to 8, and premiership winning probabilities (there is only one path possible): W-W-W-W = 0.5 x 0.5 x 0.5 x 0.5 = 6.25%.

(Check: teams 1 to 8 probabilities sum to 100%)

Now many AFL diehards would remember the old Page-McIntyre Final Four system that was in place in the VFL from 1931 to 1971. It worked as follows:

Week 1	• Game One: 1 v 2 • Game Two: 3 v 4
Week 2	• Game Three: loser One v winner Two
Week 3	• Grand Final: winner One v winner Three

In the same vein as above, the premiership winning probabilities are (again assuming 50% win probability per final):

- **Teams 1 & 2:** W-W or L-W-W = (0.5 x 0.5) + (0.5 x 0.5 x 0.5) = 37.5%
- **Teams 3 & 4:** W-W-W = 0.5 x 0.5 x 0.5 = 12.5%

But why consider the old Final Four premiership winning probabilities?

Because teams 1 and 2 probabilities (Final Four) at 37.5% = twice that of teams 1 to 4 (Final Eight) at 18.75%. And teams 3 and 4 (Final Four) at 12.5% = twice that of teams 5 to 8 (Final Eight) at 6.25%.

And this is because the Final Eight system is basically two Final Four conferences: teams 1, 4, 5, and 8, and teams 2, 3, 6, and 7 (with conference crossover in week 3). The winners of each Final Four, play off in the grand final.

Hence Final Eight premiership probabilities = 0.5 x Final Four probabilities. The 0.5 factor reflecting the extra win required. In summary:

Table 1

Premiership winning probabilities		
Teams	**Final four**	**Final eight**
1	37.50%	18.75%
2	37.50%	18.75%
3	12.50%	18.75%
4	12.50%	18.75%
5		6.25%
6		6.25%
7		6.25%
8		6.25%

Given all that, wouldn't the natural progression from a Final Eight to a Final Ten, be two Final Five conferences (with crossover)? Rather than a 'wildcard-fed' Final Eight?

Consider the McIntyre Final Five system from 1975 to 1990. That finals format progressed as follows:

Week 1	• Game One: 2 v 3 • Game Two: 4 v 5
Week 2	• Game Three: 1 v winner One • Game Four: loser One v winner Two
Week 3	• Game Five: loser Three v winner Four
Week 4	• Grand Final: winner Three v winner Five

And the premiership winning probabilities are:

- **Team 1:** 37.50%
- **Teams 2 & 3:** 25.00%
- **Teams 4 & 5:** 6.25%

(See Footnote for Final Five probabilities detail).

It follows then that a 'two-conference' Final Ten will have probabilities: 0.5 x Final Five probabilities, yielding:

Table 2

Premiership winning probabilities		
Teams	**Final five**	**Final ten**
1	37.50%	18.75%
2	25.00%	18.75%
3	25.00%	12.50%
4	6.25%	12.50%
5	6.25%	12.50%
6		12.50%
7		3.125%
8		3.125%
9		3.125%
10		3.125%

In order to compare the 'two-conference' Final Ten, with the 'wildcard' Final Ten, we also need the premiership winning probabilities under the wildcard system.

The 'wildcard' Final Ten has teams 7 v 10, and 8 v 9 in the first week of the finals, to determine positions 7 and 8 for the Final Eight format commencing in week 2.

These four teams will therefore now need to win five games to take out the premiership. The probability being: 0.5 x 0.5 x 0.5 x 0.5 x 0.5 = 3.125%.

Premiership winning chances for teams 1 to 6 remain unchanged from Table 1. We have then:

Table 3

Premiership winning probabilities		
	Final five	**Final ten**
Teams	**(2 x final five conferences)**	**(final eight + wildcard)**
1	18.75%	18.75%
2	18.75%	18.75%
3	12.50%	18.75%
4	12.50%	18.75%
5	12.50%	6.25%
6	12.50%	6.25%
7	3.125%	3.125%
8	3.125%	3.125%
9	3.125%	3.125%
10	3.125%	3.125%

Observations:

- The commercial logic from an AFL point of view in moving to a 'wildcard' Final Ten, is two extra finals, with more teams 'alive' deeper into the season, and less 'dead' rubbers. But the motivation might seem to be more commercial than competitive.
- Teams 7 and 8 are the big losers in going from a Final Eight to a Final Eight 'plus wildcard' format, with their probabilities halving from 6.25% to 3.125%. They have gone from having some semblance of a chance of winning the premiership (à la the Western Bulldogs in 2016 when they won from 7th) to realistically just now making up the numbers.
- However, the same small probabilities for teams 7 and 8 also emerge in the Final Ten conference model. A consequence perhaps of any Final Ten, that the bottom rung teams have little chance. Unless a format was devised over more than five weeks, but that's one for another day.
- The 'two-conference' Final Ten version, genuinely rewards the top team in each conference, with the winning probabilities of those two teams superior to teams following. Better teams should have higher chances, and the conference model achieves that.
- Table 3 shows probabilities invariant for teams 1 and 2, and teams 7 to 10, with all redistribution occurring between teams 3 to 6. But that redistribution is key to competitive balance.
- The two-conference format smooths out probabilities for the mid-rung teams, with teams 3 to 6 enjoying the same reasonable winning chance of 12.5%. And probabilities progress in a smoother fashion from top to mid, unlike the wildcard version, where there is a 'cliff effect', with winning chances plummeting from team 4 to team 5 (18.75% to 6.25%).
- Under the two-conference system, there would be two more finals than the wildcard version, 13 finals versus 11, both played over five weeks. And so would be even more of a commercial win for

the AFL. If the objective is additional content, the 'two-conference' Final Ten dominates the wildcard model commercially.

Overall, a Final Ten conference format offers a smoother and more coherent finals structure. Premiership chances are more graduated, and it genuinely rewards the top two teams over the rest, while utilising arguably the best finals format the VFL/AFL has ever implemented, in the McIntyre Final Five system.

The 'add-on' of a wildcard round, however, gatecrashes a proven Final Eight format rather than integrating with it. A wildcard approach appears to be a rushed decision that comes at the expense of competitive balance, without exploring alternatives that are fairer, more logical, and better aligned with ladder outcomes.

Tony Dillon is a freelance writer and former actuary. This article is general information and does not consider the circumstances of any investor.

Footnote

McIntyre Final Five premiership paths and probabilities:

- **Team 1:** win week 2 – win week 4 or lose week 2 – win week 3 – win week 4:
  W-W, or L-W-W = (0.5 x 0.5) + (0.5 x 0.5 x 0.5) = 37.50%
- **Teams 2 & 3:** win week 1 – win week 3 – win week 4 or lose week 1 – win week 2 – win week 3 – win week 4 or win week 1 – lose week 2 – win week 3 – win week 4:
  W-W-W, or L-W-W-W, or W-L-W-W = (0.5 x 0.5 x 0.5) + 2 x (0.5 x 0.5 x 0.5 x 0.5) = 25.00%
- **Teams 4 & 5:** win week 1 – win week 2 – win week 3 – win week 4:
  W-W-W-W = (0.5 x 0.5 x 0.5 x 0.5) = 6.25%

Love them or hate them, it's worth understanding annuities

Don Ezra

I've written many articles on aspects of annuities. [For example, one on annuities, longevity risk and investment risk; another on the role of deferred annuities.] It occurs to me that there are psychological angles that are worth reviewing, some of which are financially relevant and others of which affect our thinking even if they're not logical.

Let's start with the definition. An insured lifetime income annuity is a contract under which you pay a lump sum to an insurance company, and in exchange it guarantees to pay you a specific income for the rest of your life, no matter how long that may be.

Why would such a contract be attractive to you? Because you're afraid you may live so long that you outlive your money.

So, if you can't be sure, how is it that the insurance company can guarantee it? By pooling you with numerous others who have the same fear. Obviously your length of life is uncertain (and therefore a financial risk to you); but as far as the insurance company is concerned, it puts you into a financial pool with numerous others, and it is much more certain about the average length of life of the members of the pool: having some live longer than average is compensated for, in the aggregate, by others living for less than the average lifetime. So, for you as an individual, longevity may be a big risk; but for the insurance company the aggregate is reasonably predictable.

Just to be on the safe side, the insurance company adjusts its pricing by adding in two safety margins. One recognizes that, if you're already in below average health, longevity isn't a big fear for you and you won't buy an annuity; so the projected longevity for the group of likely buyers is longer than average. The other recognizes that longevity is itself increasing, so there's another margin built in to compensate for that. (More on this aspect later.)

There are other aspects that make an insured annuity attractive.

One is that it provides a predictable income, free from equity market volatility. But of course, that's also a disadvantage, because in exchange for avoiding volatility you accept an average amount of income that's probably lower than if you invested in equities. It's really a trade-off between hope and uncertainty, rather than a financial advantage or a disadvantage, but we tend to put our psychological preferences in play here.

Another is that you can structure the payouts to take a second life into account. For example, you can contract to receive level payments while either or both of you and your spouse are alive; or you can elect higher payments while you're both alive, falling to (let's say) two-thirds after the first death, to recognize that the survivor won't have all the expenses that the couple encounters.

(Mind you, I'm assuming in all of this that the solvency of the life insurance company is not in question, or that the country in which the contract is purchased has safeguards that protect the annuity purchaser in the unlikely event of the insurance company's default.)

Remember that I mentioned that the insurance company builds in margins? That means that you're paying more than is probably strictly necessary to cover the pure longevity risk. And there's another factor that points further in the same direction: the insurance company incurs expenses in creating, selling, administering and holding financial reserves for its annuities, and those expenses are also built into the purchase price. So it's inevitable that you're paying more than the pure longevity risk requires.

How much more? And is it worthwhile for you to pay the extra amount, in order to be able to pool your personal longevity risk? Let's take a look at both of those aspects.

Getting your 'money's worth'

First, how much more are you paying? There's a concept called 'money's worth', which is simply the ratio of the value of the pure risk to the amount you pay. For example, suppose that ratio is 90%. That means that, for every $100 of your purchase price, $90 is the fair price to get you into the pool, and the additional $10 goes to the insurance company to pay for its expenses and profit margin.

So, what is the money's worth, in practice? It's awfully difficult to tell, obviously, because nobody knows what the actual longevity of any group will turn out to be. I rely on academics to write papers about this, knowing they have no axe to grind. And two sets of results come to mind.

One is an October 2025 (so, very recent) update of a paper first published in 2021, relating to the US market. It estimates the money's worth as 87% if your longevity aligns with the US population; if your longevity is greater, aligning with that of the typical annuity purchaser, your money's worth is an astonishing 100%. (How so? Possibly because longevity improvements are fading; or, I'm guessing, because the insurance company is buying very slightly risky bonds and passing on some of the higher yield to the purchaser.) For deferred annuities purchased at age 65, with the payout not starting until age 75, the authors estimate the money's worth at 73% and close to 100% , for the two estimates (population and annuitants) of the purchaser's longevity.

The other calculation of money's worth relates to the UK market and comes from a book that reviews many aspects of that market. The authors' estimates vary between 85% and 100%. I remember a much earlier set of UK money's worth estimates by the same authors, coming in at 77% and 88%. But I also remember a caveat: these relate to level lifetime annuity payments only. If you want your payments to increase every year to match inflation (so, to preserve the initial purchasing power), the money's worth fell (this was in 2007) to between 70% and 80%. To say it another way, if you're looking for inflation-indexed annuities, your money's worth is (was) likely to be noticeably lower. No doubt this arises (arose) because the range and volume of inflation-indexed bonds offered by the government are much lower than that of nominal bonds, making the guaranteed payments more difficult to match.

Why would you want to preserve the purchasing power of your annuity payments? For the obvious reason that, as inflation puts prices up, it would be nice and convenient to have annuity payments made to you that match the average price increase. Indeed, one might ask: why would you accept nominally constant payments, which would obviously represent decreasing purchasing power if inflation continues? And there really is a rational answer to that question. It's that, over time, our amounts spent on our lifestyles tend to decline as we age. Dr David Blanchett describes this as our "retirement spending smile," in that our purchasing tends to decline roughly 1% a year, before increasing at the end if long-term care is involved, the overall shape looking like a smiling mouth. Another way to put it is that we tend to cope naturally with the first 1% a year of inflation.

Insured annuity versus self-insurance

By now you've probably forgotten that I posed two questions. The first one (what is the money's worth?) we've dealt with. The second was: is it worth paying the extra amount, as compared with the cost of self-insuring (rather than pooling) your personal longevity risk?

Well, the simplest way to look at this second question is to frame it slightly differently: how much would it cost you to self-insure your personal longevity risk?

That depends on how much certainty you want, as you self-insure. For example, if you want total certainty, you can calculate how much income you could withdraw (assuming investment in government-guaranteed bonds, meaning no investment risk) if you lived all the way to the end of the longevity table, which these days is age 120.

I did a quick calculation. Let's consider a male aged 65, for example. On the day I did this calculation, US 10-year government bonds yielded roughly 4.1%. The cost of a (monthly-income) annuity that continues to age 120 (that is, 55 years) is then 22.16, so that every $100,000 of capital buys you an annual income of $4,513.

Compare that with a reputable insurance company's annuity contract that guarantees you $7,180 a year for as long as you live. Your self-insured income is only 63% of that amount. You're giving up 37% of your insured income by not pooling your longevity. When you look at that enormous cost of self-insuring, who cares if your money's worth is in the 90%-100% range? In effect, your money's worth is only 63% when you take into account the cost of self-insurance.

OK, agreed, that's an extreme example. Suppose you don't want 100% certainty, when self-insuring. Suppose you only wany 95% certainty. That would take your estimated age at death, not to 120, but to 96, according to Social Security's 2022 longevity tables. In turn, that would take your annual income up to $5,641. That's still only 79% of your insured income. And that 79% is still far below your insured income's money's worth.

What all this means is that, if you're in reasonable health, your financial risk arising from the possibility of above-average longevity is much cheaper to insure via an insurance company than to self-insure.

That's a reason to buy an insured lifetime income annuity. And to customize its payout terms to suit you and your spouse.

The emotional aspect

I mentioned that we are often subject to behavioral idiosyncrasies. They complicate the subject. What I mean is that people have emotional reactions to many aspects of the different approaches. Some of these reactions are valid emotions, even if they seem to push us into worse expected outcomes than purely rational thinking would lead us into. Other reactions are just plain wrong. For example …

- Most people underestimate their longevity. They may only remember what life expectancy at birth was, when they were born; or perhaps they've updated that number to current life expectancy at birth. But that's just plain wrong (at any rate, for those in at least average health) because the expected age at death increases as one ages, since aging makes one a member of a more elite group of survivors.
- Although an immediate lifetime income annuity has been shown to be the optimal approach for a retiree with no bequest motive, most people prefer to retain some flexibility to adapt to changing economic conditions and changing life circumstances. The desire for flexibility is a natural and reasonable emotional goal that isn't taken into account in the standard "financial utility function" (which is a technical term used by nerds to tell you what to do). So it's reasonable not to use one's entire capital to purchase an annuity, in order to preserve flexibility.
- Less rationally, people often think of an annuity purchase purely as a gamble: "To buy lifetime protection, I'm taking a gamble, and I could lose all my money if I die early." Not so. First, don't buy an annuity unless you're in better than average health: that alone shifts the odds into favoring you. Second, this may be the reason why many purchasers insist that their contract includes a guarantee, such as a refund of the balance of the purchase price if, at subsequent death, not all of the purchase price has been repaid as income; or perhaps some minimum period of payment, such as 10 years, if death occurs before that period expires. It's true that such additional guarantees are more satisfying emotionally; but they don't make financial sense (because they decrease the annual lifetime income you buy, so there's a cost to your lifestyle) unless you also have a bequest motive, and want the possibility of leaving something from the purchased annuity to your heirs if you die before the average age that your health suggests is reasonable.

- Most people have a negative reaction to the word 'annuity' but a much more positive one to the expression 'guaranteed income for as long as you live'. This suggests that it isn't just financial notions that the average person (for example, a new retiree in a 'defined contribution' (or DC) pension plan) will need to think about, it's also the ways in which those notions are expressed. So, for example, default options in a DC plan should refer to lifetime income rather than annuities.

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There's a lot of meat there! Many ideas to process. You're not alone if, by now, you think: let me set this aside for a while and try to absorb it in more detail later.

That's because, as I remember, there are three stages in the evolution of ideas. First there's the leading-edge stage, in which there are a few pioneers, and lots of innovation and testing. Then some variants of those ideas survive and become mainstream, and there are many practitioners involved. Eventually the idea becomes a commodity: it's accepted wisdom, and everybody uses a common form. I mention this because today pretty much all angles regarding guaranteed lifetime income payments as a form of decumulation are, I think, still in the first, or leading-edge, stage. It'll be a long time before they're commoditized.

Takeaway

For people in reasonable or above average health, an insured guaranteed lifetime income can make a lot of sense. So can customized variations on that theme. People generally, however, have emotional reactions to purchasing such a contract from an insurance company, some of which are rational and some of which are not.

Don Ezra, now retired, is the former Co-Chairman of global consulting for Russell Investments worldwide, and the author of "Life Two: how to get to and enjoy what used to be called retirement". This article is general information and does not consider the circumstances of any investor.