GUIDE SERIES 20

FINANCIAL STANDARD GUIDE TO

Investing for retirement

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– James Clear

At North we're proud to champion advisers and recognise the value of advice. We understand that an adviser's role encompasses more than providing financial advice. In many cases you play the role of counsellor, teacher and dream maker for your clients. It's no mean feat and many of you do this while running advice practices of your own.

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North is a better way because of our advisers, who shape us, challenge us and hold us to account. A true partnership.

It would be our pleasure to partner with you.

Edwina Maloney

Edwina Maloney,
Group Executive, Platforms, AMP

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Contents

The retirement opportunity	3
Top considerations for advisers	8
Maximising retirement outcomes with SMAs	13
Case study: De-risking into retirement	18
Case study: Portfolio construction	21
Adviser case study: Embracing innovation in retirement	24
Adviser case study: The appeal of SMAs	26
Communication is key	29
Glossary	32

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The retirement opportunity

Australia is home to 4.2 million retirees[1]. And this number is set to swell.

Over 700,000 people intend to retire in the next five years. Close to 250,000 plan to retire in the next two years alone[1].

This is creating a ready market for advisers.

Moreover, a survey by ACOSS and UNSW Sydney[2] confirms that the average over-65 household is 25% wealthier (with $1.58 million) than the average middle-aged household (with $1.26 million) and almost four times as wealthy as the average under-35 household (with $410,000).

Put simply, Australians heading into retirement have the weight of numbers – and the wealth – to afford financial advice.

Professional support is definitely needed. Industry research[3] shows one in three (34%) pre-retirees feel financially unprepared. An AMP study found one in five (21%) working Australians are not confident they'll be able to achieve their desired standard of living in retirement – up from 17% in 2020 – and only 9% are very confident, down from 14%[4].

Of particular concern is the need for education. About 15% of Australian retirees have withdrawn all or most of their superannuation as a lump sum at the point of retirement; just 7% invested a portion of their super into a lifetime income product[3].

Capitalising on the grey tsunami

While only one in four (27%) pre-retirees have a clear idea of the retirement lifestyle they want, and the specific nest egg that will satisfy their income needs[5], for many Australians the real pain point lies in making the shift from accumulation to drawdown.

Ben Hillier, director, retirement at AMP, explains: "There is plenty of information available. But the sheer scale of information can be bewildering. People don't know what to expect so they don't tend to engage."

The retirement opportunity

Hillier points to the wealth of help available from advice through super, and the Financial Information Service provided by Services Australia, but observes: "The gold standard continues to be the advice and guidance offered by a financial adviser."

Helping Aussies think about retirement earlier

Over 9.5 million Australians are aged 50-plus[6]. It's a significant proportion of the population. The catch is that 4.2 million of these people are aged over 65[7], and this client cohort can rapidly reach the end of their advice life cycle.

This makes it essential for advisers to explore opportunities to get younger Australians thinking about retirement and seeking professional advice.

Attracting new, younger clients broadens and diversifies an adviser's client base, while also expanding opportunities for client referrals.

"Introduce yourselves to an older client's dependents at the outset of the relationship. This is likely to be when the client(s) are aged 40-60 and their dependents are in their 20s or 30s," says Brad Creighton, portfolio manager at AMP.

"Make the conversations interesting and relatable, and help people understand the long-term impacts of the financial decisions they make today. Show them the benefits of compounding."

Hillier agrees that demonstrating value to older clients can have a flow-on affect to their adult children.

Overcoming obstacles

As Australians approach retirement, they encounter a myriad of issues that can significantly impact their financial security, lifestyle choices, and overall wellbeing.

The retirement opportunity

Some of the key challenges facing pre-retirees include:

Housing and accommodation

Housing presents a significant challenge for many pre-retirees. The Australian Bureau of Statistics (ABS) notes that a rapidly growing number of Australians are retiring with mortgage debt[1].

AMP research[8] found four in five Australians aged 65-plus have strong connections to the family home and are not prepared to downsize to release funds to support their adult children.

Additionally, pre-retirees must consider whether their current residence is suitable for ageing in place or if they need to plan for alternative arrangements that accommodate potential health challenges.

Longevity and retirement duration

According to the Australian Institute of Health and Welfare, a man aged 45 in 1962 had a life expectancy of 72.4 years; today, it's 82.8 years. Similarly, a 45-year-old woman's life expectancy today is 86.2, some 8.8 years longer than in 1962[7].

Almost half of Australians believe they are likely to outlive their retirement savings.[9]

Pre-retirees need to plan for a retirement that could last 20 years or more, necessitating careful financial planning to ensure longevity risk is adequately managed.

Fear of running out

Increased longevity and retirement duration brings 'fear of running out' (FORO), something past generations have typically not had to deal with.

One of the foremost concerns for pre-retirees is ensuring they have enough savings and investments to sustain their desired lifestyle throughout retirement.

The retirement opportunity

Recent research from Natixis Investment Managers shows 48% of Generation X – the next in line to retire – have concerns about running out of money in retirement. Some 30% think they will never have enough money to retire.[10]

These factors are driving opportunities – and challenges – for financial advisers.

They're also driving the need for different investment approaches in the lead up to retirement and new solutions that pay income for life and optimise Age Pension entitlements with assets and income test discounts.

Top considerations for advisers

Planning for retirement income requires retirees to solve a risky, long-horizon, multi-dimensional problem. Clearly this is not something many retirees can be expected to solve on their own.

Yet many do. Treasury observes: “This could in part explain the high prevalence of members defaulting to account-based pensions, even when those settings might not adequately meet their needs.”[11]

Helping clients find a path to and through retirement is a critical role of financial advisers. Here are five top considerations for advisers when addressing client needs:

1. Help clients understand where they stand

Hillier says the first step on the retirement journey is for an adviser’s clients to become familiar with their assets. He cites the example of a couple he met who were convinced they would not have a comfortable retirement without realising they had combined super savings of around $1 million.

This is not unusual.

Top considerations for advisers

It is no secret that Australians generally have low levels of engagement with their super. Yet data from the Australian Bureau of Statistics confirms that super balances are playing an increasing role in household wealth.

As at March 2024, superannuation savings accounted for $3.8 trillion of the total net household wealth of $16.2 trillion[12]. And this will only continue to grow.

2. Navigate the path from accumulation to decumulation

Many years ago, US-based Russell Investments introduced a formula for asset allocation in retirement – the so-called 60:30:10 rule. It is based on the notion that of all money spent in retirement, around 10% should come from contributions during your working life, 30% should be derived from investment earnings on those contributions during your working life, and 60% should come from investment earnings in retirement. In other words, 60% should be money you didn't have at retirement.

Hillier believes this rule holds major implications for Australian retirees because the way they invest will play a key role in the returns that provide money to live on.

"The 60:30:10 rule makes it clear that about 60 cents in every dollar of retirement income should be derived from a client's investment earnings after they retire," says Hillier.

"We know that among today's retirees aged 50-80 years, one in five will have a spouse that is still alive at age 98. One in 10 will live to age 100.

"So, if a client is retiring at age 60, the adviser needs to be sure the client is investing through retirement, not to retirement."

3. Manage sequencing risk

Sequencing risk refers to the possibility that a client's investment returns are lower than expected because of a fall in asset markets, typically just before they retire at a time when the value of their nest egg reaches a peak.

These negative returns so close to retirement can be hard to recover from as the client dips into their money to fund living costs.

"Managing sequencing risk is all about avoiding the need to sell down assets during a downturn," says Hillier.

"This is where a 'bucket strategy' of holding two to three years' worth of income in low-risk assets such as cash can help. By having enough set aside in low-risk assets such as cash, client portfolios can recover from market falls in other asset classes before they need to withdraw income."

4. Help clients skip FORO (fear of running out)

Whatever the motivator, FORO is underpinning a longstanding trend for retirees with an account-based pension, to stay at or near minimum annual drawdowns[11].

Hillier says: "People underspend in retirement because of fear of exhausting their funds prematurely. It is the number one fear we see among retirees."

As he explains, while most people stick to the minimum annual drawdown, currently 5% for a 65 year old, the investment returns within an allocated pension can be 8-9% annually. Yet this frugal approach to retirement living isn't driven by an altruistic desire to leave money to adult children.

"The research we have done at AMP shows that retirees generally see superannuation as money for themselves. They are happy to leave other assets to their adult kids but super is very much seen as money to live on," Hillier says.

Breaking through the FORO mindset of retired clients isn't always easy, but the path to a more fulfilling retirement can be a lot easier with the use of retirement strategies that tackle FORO head-on.

Top considerations for advisers

5. Embrace innovative retirement income streams (IRIS)

In years gone by, the typical approach for clients has been to draw income from an account-based pension, supplemented by Age Pension entitlements, if any. For some, a third pillar would come in the form of an annuity or investment bond.

While this approach worked effectively for many for some time, the government developed IRIS and granted concessional assets test discounts to deliver the certainty of a higher income for life; the comfort that retirees would never run out of income; the confidence to spend more of their superannuation savings; and more flexibility than traditional lifetime income products.

This new breed of retirement products deliver a market-linked income stream for life while optimising Age Pension entitlements with assets and income test discounts. For instance, under the Age Pension assets test just 60% of the purchase amount is assessable until age 84, at which point it drops to 30%. And only 60% of a person's income from an IRIS counts towards the income test.

Some IRIS, like AMP's MyNorth Lifetime[13], enable retirees to access a full platform of investment options to tailor their portfolios to their needs and receive an insured annual bonus, effectively topping up their account. Some also provide spouse protection, allowing for a nominated reversionary spouse.

Importantly, IRIS enable advisers to develop new strategies, with many offering deferral options and the ability to adjust annual income according to circumstances and needs. Advisers can also give their clients the best of both worlds, using an IRIS in tandem with an account-based pension to maximise benefits.

Top considerations for advisers

Knowing that the income is guaranteed to last for life can be the catalyst that sees clients start to relax and enjoy their retirement rather than being unnecessarily frugal.

AMP's MyNorth Lifetime Income[13] account is one such example. It combines the flexibility of an account-based pension that provides a market-linked income stream, with the certainty of a lifetime annuity and can potentially enable a 40% or more discount on the Centrelink assets and income test.

"We are seeing MyNorth Lifetime Income account members spend 50% more than they used to – and this uplift is being driven by three separate factors. First, MyNorth Lifetime pays income rates that are significantly higher than account-based pension minimums. Second, the strategy enables increased access to the Age Pension. Thirdly, our Lifetime members have increased their drawdown from their remaining account-based pension," Hillier says.

For younger clients, Hillier points to the MyNorth Lifetime Super[13] account as a "powerful tool" that can be used at any time all the way up to age 65 and operates just like any other super account with contribution caps as per standard.

"Advisers can have a retirement conversation with clients much earlier, and with greater impact. This puts advisers in the driver's seat heading into, and all the way through retirement as clients transition to a MyNorth Lifetime Income account," he says.

"What MyNorth Lifetime Super offers is a strategy, and what we are seeing is that a bespoke strategy drives similar levels of engagement to those we see with self-managed super funds."

Maximising retirement outcomes with SMAs

As Julian Lefcovitch, senior product manager, managed portfolios at AMP, points out: "Separately managed accounts (SMAs) are a product that can take clients to – and through – retirement."

Clients who invest from an early age have greater opportunities to maximise wealth. The stumbling block can arise when clients transition to retirement.

SMAs can be useful during this period and beyond for three key reasons.

Firstly, managed portfolios can evolve to meet the needs of the client throughout their retirement journey.

Secondly, outsourcing professional investment management can help with sequencing risk during times of heightened market volatility.

And thirdly, managed portfolios can provide a more personalised investment solution delivered at scale, meaning advisers can customise a client's managed account to align with their goals. Further, Australians hold significant wealth off-platform. Where it makes sense to do so, clients can move loosely held assets into a professionally managed portfolio, helping to ensure the client's portfolio is managed to their risk appetite.

SMAs also have the potential to "transform" how an adviser does business.

The adviser can reassure clients their portfolio is being actively managed all the time, while also allowing the adviser to spend more time with the client, strengthening the relationship.

More than half of advisers (56%) in Australia now use managed accounts, according to Investment Trends' *2024 Managed Accounts Report*[14].

Maximising retirement outcomes with SMAs

Mind the performance gap

Volatile markets and fees can have a material impact on a person's retirement savings.

The ability to make investment decisions quickly and execute these changes via platforms can help manage sequencing risk in the lead up to retirement.

However, not all platforms are equal when it comes to execution. The ability to buy and sell assets simultaneously helps protect clients' balances during volatile markets. Most platforms will take listed security trades to market at the same time, but very few will do the same for managed funds.

With 60% of investment returns delivered in retirement - performance is just as important in retirement as it is in the lead up.

SMA fees are misperceived

With fees being front of mind for many, advisers might be surprised to learn that SMAs could be a cost-effective option for their client's financial situation.

Lefcovitch notes that in the past SMAs were often buckets of listed securities for high-net-worth clients. This has changed, and Lefcovitch says it is a "misconception" that today's SMAs are out of a client's price range.

Within an SMA the client could access discounted unit classes.

"The scheme can access wholesales rates that can provide a saving typically between five-50 basis points on underlying managed funds. Brokerage fees are also often sharper with no fixed dollar minimums," says Lefcovitch.

Harnessing in-specie transfers

SMAs possess one particularly important feature for accumulators: the ability to in-specie portfolio holdings. By harnessing the in-specie transfer benefits of SMAs, advisers can help their clients enjoy tremendous tax savings.

Maximising retirement outcomes with SMAs

An in-specie transfer occurs when investments are moved directly from one portfolio to another without being sold or converted into cash first. It is a unique feature of SMAs, and while these in-specie transfer benefits are well-known to many advisers, they are not always fully utilised.

Creighton explains: "A lot of the in-specie activity I come across in conversations with advisers relates to widely held positions in blue chip stocks."

"The adviser is able to in-specie these direct stock holdings within an SMA environment and avoid having to buy the stock again as part of a bundled solution like an exchange-traded fund. This allows the client to avoid incurring unnecessary capital gains tax (CGT) and transaction costs in the process."

That said, Creighton adds: "I think one of the biggest and most underutilised tax minimisation opportunities occurs when a client transitions from one risk-profile to another within an SMA range as their circumstances change. Implemented correctly, this can yield a substantial tax benefit to an accumulator client relative to those using managed funds or not fully exploiting the in-specie benefits of SMAs."

Evolving a client's portfolio

Investing is not a set and forget exercise. Inevitably, throughout the investment journey there will be life events or shifts in preferences that call for an adviser to help the client evolve their portfolio.

These events can include de-risking as part of a decumulation strategy, recalibrating a client's risk profile following divorce, increasing a client's risk profile to increase their return prospects or introducing or removing active management.

"Essentially, any time a client wishes to evolve their investment strategy, there is a good chance they will be better off doing it within an SMA environment than not," notes Creighton.

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Retirement looks different for everyone. And so does the road that gets them there.

Some start planning early, while others are a little later to the party.

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[1] Currently only offered on our Managed Portfolios.

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Case study: De-risking into retirement

One strategy advisers can use to de-risk a client's portfolio in the lead up to retirement – and help minimise CGT impacts – is to start building a cash buffer. The diversified portfolio will continue to grow while the cash buffer gradually creates a portfolio that is more defensive overall.

There are three problems with this approach. It can take years to build up a cash buffer commensurate with the client's desired risk profile. In the interim, the client can be exposed to greater portfolio volatility than they desire.

In addition, depending on the amount of contributions made by the client, it is possible that their cash balance does not reach the desired level of defensiveness by the time they retire.

Case study: De-risking into retirement

Let's look at a practical example of how the in-specie advantages of SMAs can help a client transition their portfolio towards retirement.

A key consideration for the adviser is the degree of overlap between the client's current SMA portfolio, and the one they are switching into. If, for example, the client is invested in a growth portfolio and wants to switch into a balanced portfolio, it is likely there will be a high degree of overlap between the two portfolios.

In the example that follows, the Diversified Index Growth portfolio may have an 84% overlap of underlying holdings with the Diversified Index Balanced portfolio, meaning only 16% of the client's holdings need to be sold down to transition to the Balanced portfolio. The other 84% is simply ported across in-specie, possibly saving the client tens of thousands of dollars in CGT.

To see the advantages in action, let's look at two hypothetical clients – A and B[15]:

- Both have $156,000 in super at age 40.
- They hold the same growth portfolio though Client A uses an SMA, Client B is invested in a managed fund.
- At age 62, both A and B have superannuation of $714,378. They both switch into a balanced option as part of a de-risking strategy.

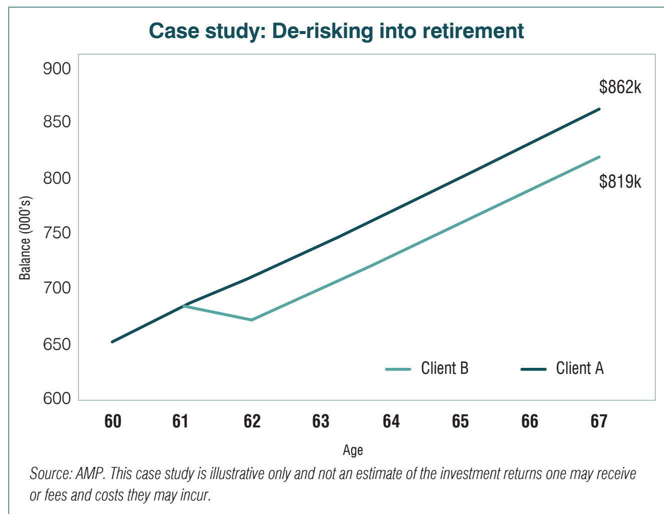
Client A incurs $7353 in CGT because they only need to sell down 16% of their holdings to make up the balanced SMA.

Client B, on the other hand, incurs $45,954 in CGT because they need to sell down 100% of their holdings and re-invest the proceeds in a balanced managed fund.

Case study: De-risking into retirement

The impact of this tax gap could be highly pronounced on retirement at age 67. At this point, Client A, who uses the SMA has amassed $862,000 in superannuation, compared to $819,000 for Client B – a difference of 5.2%.

This particular case study highlights just one instance of advice, however the scale of the benefits conferred to the SMA client are surprising. The materiality of the benefits also stacks up favourably when compared to other forms of value-add in an investment context, for example, lower fees, franking credits, and active management alpha.



Source: AMP. This case study is illustrative only and not an estimate of the investment returns one may receive or fees and costs they may incur.

Creighton adds: "By utilising SMAs throughout the investment journey, an adviser can better manage the inevitable changes to a client's portfolio in an optimal and tax-efficient manner."

Case study: Portfolio construction

Let's take a look at how distinctive features of portfolio construction can impact outcomes for a client as they head into and through retirement.

We'll assume a soon-to-be-retiree aged 65 has a superannuation balance of $600,000 and is planning to retire at age 67. Our hypothetical client has an income requirement equal to 65% of their final salary, and this rises with inflation.

The main variables considered are:

- Returns
- Volatility
- Inflation, and
- Drawdowns at age 65.

Simulations by AMP have been made using different combinations of return and risk, inflation and drawdowns at age 65 – based on a 7% return and 9% volatility level.

Observations from the analysis include:

- Average outcomes are heavily influenced by returns, regardless of volatility. Higher returns can even be slightly enhanced by higher volatility. Each 1% increase in return led to an approximate $70,000 to $90,000 improvement in expected savings by age 75.

- Increasing volatility did not skew average outcomes, however it consistently led to worse outcomes when considering the lower ends of the ranges. That is, at the same return expectation, rising risk led to higher risk of running out of money early. Each 3% increase in volatility led to an increased risk of running out of money by approximately one year (measures as worst 10% of outcomes).

Case study: Portfolio construction

- Increases in inflation drive higher spending needs, requiring faster drawdowns of savings. At a base setting of 7% return and 9% volatility, each 1% increase in inflation leads to an approximate $40,000 to $60,000 decrease in expected savings by age 75.
- Each drawdown at age 65, starting at 5% and increasing to 20%, leads to an average $60,000 to $70,000 decrease in expected savings at age 75. This highlights that whilst day to day volatility is manageable, larger downturns or shocks, or selling during a downturn, are damaging when there isn't sufficient recovery time.

The analysis highlights attractive investment features for supporting retirement income streams:

- Adequate target returns. The largest risk-free beneficiary for retirees is franking where an additional 40-50 bps is available from using a specialist multi-asset income fund over an equivalent risk 'traditional' diversified fund
- Diversification and lower volatility are preferable to higher
- Inflation linking or inflation correlated strategies (i.e. investment returns that benefit from rising inflation) are preferable to strategies that have no linkage. Typically, income centric strategies tend to perform relatively better in inflationary environments
- Consideration of the potential for drawdowns and how exposed the underlying strategies are to drawdowns is important. Income strategies are often more focused on defensive and quality assets, and are therefore less susceptible to drawdowns than more cyclical assets
- Longevity risk management still requires a combination of early planning, appropriate product features, low-cost transitions, and appropriate investment features.

Case study: Portfolio construction

Real world comparison of a specialist retirement income strategy versus a traditional moderate conservative diversified fund shows that a specialist income strategy is able to produce more in franking credits than an index fund. Franking is of full value to a retiree but is of no, or much less, value to a client in accumulation.

In addition, specialist income funds offer the opportunity to provide a more robust portfolio construction by focusing on higher quality credit, lower interest rate risk, and higher quality companies.

Lastly, active security selection is beneficial in delivering superior results for clients. Simply selecting the highest yielding stocks does not work. Consistent income and growth require a focus on quality and consistency in earnings, ability and willingness to pay dividends, and franking availability. Long story short, being active is necessary.

Adviser case study: Embracing innovation in retirement

A great building block

Justin Hyland, principal of Sydney-based Hyland Financial Planning, has been an early adopter of innovative retirement income streams. He explains why, and the upsides for both his firm and his clients.

Like many advice firms, we have been exploring ways to engage an ageing client base, who are coming to the end of their strategic advice cycle. At the same time, we recognise the need to grow clients across the 40–50-year-old demographic.

To meet this challenge, several years ago we polled our clients to understand what they really wanted from an advice service. Overwhelmingly, 68% said they valued investment advice above all else.

However, we also know that for retired clients, the ability to access the Age Pension not only matters to them psychologically, but it can also make a significant difference to the longevity of their funds.

We looked at several retirement income stream options and found MyNorth Lifetime was suitable for about 75% of our older clients. The stumbling block for many retirees can be the challenge of getting Centrelink to apply a discount to the asset value, rather than treating it as a standard retirement product. We approached the North team about this, and in response they created a flyer that explains to Centrelink how the product works. This made a tremendous difference in terms of Age Pension entitlements.

As with any business, our clients need to understand the value we are delivering. North has made this easy as clients can see the financial benefits.

Adviser case study: Embracing innovation in retirement

Among some clients, eligibility for the Age Pension is being significantly brought forward – often from their 80s to their 70s, and the compounded uplift in Age Pension payments can be worth over $100,000.

This optimisation of pension payments gets clients excited. Alternative solutions are being developed by other providers. The concept is compelling, but we believe North leads the way with a product that allows funds to be fully invested whilst providing favourable Centrelink valuations.

Many of our clients have some eligibility for Centrelink benefits but with every dollar over the asset test threshold reducing pension eligibility by $3 dollars, the opportunity to reduce assessable assets represents extraordinary value. Clients typically tell us, 'We should have set this up years ago'. And this is one of the best affirmations of good work.

North also helps to address the issue of growing a younger demographic of clients. We know older clients recommend us to their adult children. This can be the start of conversations with younger clients around preparing for retirement. Younger clients are rarely excited by future Centrelink entitlements but modelling the outcomes of early adoption of an innovative product can tell a powerful story, and we are seeing traction in our younger clientele which helps to build the longevity of our client base.

Many clients are continuing to work longer and find themselves outside Age Pension eligibility due to income. The MyNorth Deferred Lifetime Income[13] account has no deemed income earnings and has pushed clients into some eligibility for Age Pension and importantly, the concession card. Many clients previously felt a little cheated if, by continuing to work, they were effectively penalised with no Centrelink entitlement.

This adviser's practice is an authorised representative of Hillross Financial Services Limited ABN 77 003 323 055 and AMP Financial Planning Pty Limited ABN 89 051 208 327, which are both part of the AMP group, as at August 2024.

Adviser case study: The appeal of SMAs

Working for you around the clock

Simon Everett, founder of Perth-based Elysian Wealth Services, is a keen user of SMAs in his business. Here he discusses why SMAs are so attractive to clients of all ages.

We use SMAs through various platforms for many of our clients. They are an excellent investment structure providing significant benefits including:

- Allows for active management through regular rebalancing of portfolios.
- Offers access to significant investment expertise across all asset classes.
- A wide range of investment options for various asset allocations, providing appropriate diversification and management of risk.
- The ability to change asset allocations quickly and efficiently; and
- Time, cost savings and efficiencies in year-end and ongoing client reporting.

To understand the advantages of SMAs, it's worth thinking about why people reach out to a financial adviser in the first place. The starting point tends to be around a specific problem or issue they have. For example, a client may come to us asking, 'I am 65, do I need an account-based pension?'. While the answer may at first appear obvious, it may call for a deeper discussion of a broader strategy around retirement.

Adviser case study: The appeal of SMAs

Strategy and goal development is where advisers add most value and are so important in the lead up to retirement, and the use of an SMA allows time for these discussions to occur. They provide the investment expertise and solutions through the embedded teams of investment specialists in each SMA, and advisers can then focus on the key issues each client faces. The time saved allows development of bespoke strategies across a client's entire financial position as opposed to just investment advice.

SMAs also allow advisers to partner more deeply with the underlying portfolio and fund managers to understand investment themes and issues as they occur. Advisers can then be forward looking when it comes to the positioning of portfolios whilst having a deeper knowledge of the investments to be shared with each client. The flipside is they provide for investment risks to be identified and discussed, leading to more meaningful discussions around assets allocation and the rationale for holding certain investments.

A positive challenge that comes with using SMAs is to listen to and understand the views and themes of the various investment teams behind each portfolio. Advisers can leverage this knowledge in discussions with clients to challenge their own views, and bring current themes, ideas, and strategies into their client discussions. Again, this provides time for the consideration of alternative views and can help identify any investment bias held.

A final benefit of SMAs from an adviser perspective is the speed at which rebalancing occurs, and we don't necessarily need to complete a new Statement or Record of Advice each time the portfolio changes. This helps reduce compliance costs for the adviser's business and means we can spend more time with the client on the education piece and developing the relationship.

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Communication is key

As advisers will know, many Australians have limited knowledge of retirement products, and this lack of understanding makes it difficult for pre-retirees to make informed decisions. And retirement is one stage in life where poor decisions can be especially costly, which is why seeking advice is crucial.

It's important advisers take clients on the journey as communication is key to build trust, drive client retention and encourage referrals.

Here's some essential topics to cover to help clients navigate the retirement journey:

1. Attitude to risk

With a lifetime income solution taking care of longevity risk and guaranteeing adequacy, it's important to gauge whether the client can afford to take on more investment risk or whether a different approach to risk is needed in each bucket. Discussing this also provides the opportunity to discuss sequencing risk, explaining what it is and how the portfolio can be derisked over time.

2. Education

Take the time to explain how the Age Pension works and interplays with other income sources such as an account-based pension. This also gives you the opportunity to discuss IRIS, outlining the social security benefits on offer. Having conversations about income needs in retirement and outlining the different sources of income available can increase confidence.

Communication is key

3. Bequests

Lifetime income streams can improve bequests, but it's important to know when they'd like to make the bequest. While they may feel their children will benefit more from receiving funds earlier, they might actually stand to receive more if they wait due to the Centrelink efficiency offered by lifetime income streams. Conversely, if waiting is not an option, the client need not worry about running out of money because the income is guaranteed.

Any time spent educating clients is never wasted, Lefcovitch adds.

"Don't assume they are financial experts. Explain how their investment portfolio will work, who manages it, the objective and time horizon. Outline the importance of diversification and sequencing of returns," he says.

"Build a solid foundation. The time invested will help both you and them; you'll have less panicked phone calls during times of volatility."

Glossary

Deferred income product: A retirement income product that allows income to be deferred until a later date. Benefits can include lump-sum withdrawals, ongoing contribution, tax-free investment earnings when in retirement phase and discounts on the Age Pension assets and income tests.

FORO: 'Fear of running out' is essentially longevity risk, and according to Vanguard's 2024 *How Australia Retires* report it is a concern shared by vast numbers of retirees. One in two Australians don't know if their money will last in retirement, with the majority believing they'll likely outlive their retirement savings[10].

In-specie transfers: In-specie transfers involve moving investments without the need to first sell the assets, convert them to cash and re-purchase the same investments. As there is no change to beneficial ownership, there is no unnecessary realisation of capital gains. In this way, in-specie transfers can deliver extensive tax savings to advised clients.

Innovative retirement income stream (IRIS): A market-linked income stream delivering the certainty of income for life that will never run out and provides unique social security benefits. Some also allow access to a full platform of investment options.

Lifetime income product: A product that pays income for life. In years gone by this category only comprised annuities, however it now includes IRIS.

Managed portfolios: Also known as separately managed accounts, managed portfolios provide low-cost access to leading investment managers and portfolio construction, portfolio responsiveness to shifting markets and volatility, plus transparent reporting. Managed portfolios can be used as a standalone investment or a component of an individualised core-satellite investment solution.

Minimum drawdowns: While mandated minimum drawdowns start at 4.0% for under-65s[16], the majority (59%) of retirees who have an account-based pension with a superannuation fund withdraw the minimum amount required by the government. One in five say they stick to the minimum out of fear of running out of money[11].

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14. 2024 Managed Accounts Report, Investment Trends
15. Any tax information provided is not considered to be personal tax advice and cannot be relied on as such.
16. Australian Taxation Office, June 2024

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“North stays ahead of the curve and we use a range of their SMAs. They are always updating their investment menu which makes it easy for us to tailor strategies to our clients’ needs, preferences and time-of-life.”

– Bill Beimers, Founder and Managing Director, SEQ Advice

This represents the personal views and opinions of the adviser.

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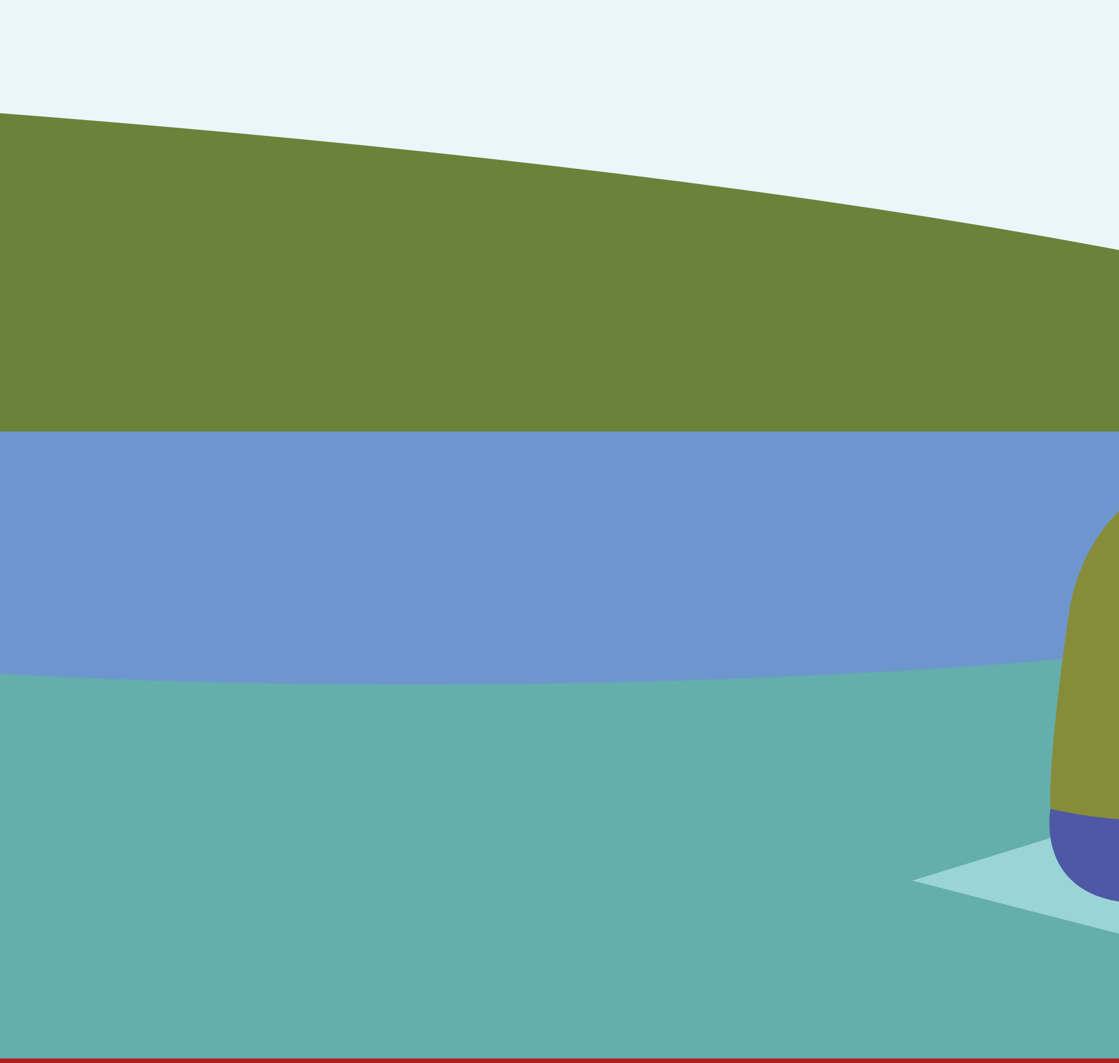

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