RVNEWS

Retirement Victoria

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Retirement savings and longevity risk

Written and accurate as at: Oct 10, 2017

This retirement phase requires careful planning and management, especially regarding the risks you may face in retirement. Probably one of the greatest risks is the potential to run out of money in your retirement savings by living longer than you had anticipated; this is commonly referred to as longevity risk.

In terms of life expectancies in Australia, based on 2013-15 statistics*, a 65 year old male could expect to live for an average of 19.5 years (to age 84.5 years) and a female 22.3 years (to age 87.3 years); however, there are many factors, such as your existing lifestyle choices and health status, that could see you live beyond these average life expectancies. As such, to fund your desired lifestyle, you may find that your retirement savings need to last longer than your life expectancy.

In this article, we discuss several interrelated considerations for retirees in terms of retirement savings and longevity risk.

Be mindful of the transition from employment to retirement and spend accordingly.

Retirement often involves a shift from employment income to income derived from a combination of your retirement savings (investments inside and/or outside of superannuation) and potentially the Age Pension. In most cases, this requires a reduction of your lifestyle expenses to accommodate a drop in your total household income.

Initially it may be difficult making this adjustment, especially if you have become accustomed to a higher standard of living that your employment income allowed. Consequently, you may find that there is the temptation to keep your pre-retirement lifestyle afloat with larger than planned drawdowns from your retirement savings; however, it's important to realise that, your retirement savings are a finite resource, that is, at some point they may run out. As such, the drawdowns you make to fund your retirement lifestyle need to be sustainable for the long-term.

Understand the impact of pension payment drawdown.

When you commence an account-based pension to fund your retirement lifestyle, you will find that there is a minimum annual pension payment amount that you must receive. Due to this minimum percentage drawdown, as well as other factors such as lump sum withdrawals and fees, your account-based pension's account balance will eventually reduce. The rate at which it reduces can be accelerated by your decision to draw more than the minimum annual pension payment amount.

The three-bucket approach to retirement investing.

Being too conservative with your underlying assets and not appropriately considering your specific cash flow requirements over time are two things that can also affect the life of your retirement savings. The three-bucket approach involves dividing the underlying assets into different short, medium, and long-term buckets to leverage the relationship between risk versus return whilst still applying the principle of diversification and risk profiling. An example of the three-bucket approach, which could be applied to your account-based pension, with cash investments to fund your short-term retirement lifestyle (regular pension payments and expected lump sum withdrawals) over the next one to two years;

1. A 'stable bucket' with other income generating investments (e.g. fixed interest) to help account for an additional one to two years of retirement income; and
2. A 'growth bucket' with the remaining balance held with more risk-associated investments (e.g. property and shares) for longer-term growth.
3. The cash and stable buckets are then replenished periodically, with enough funds to cover the next two to four years of regular pension payments and expected lump sum withdrawals.

Moving forward

Given our increasing life expectancies, it's no surprise that longevity risk is one of the major concerns for retirees; however, with careful planning and management, appropriately considered strategies can be put in place to help mitigate this and other potential risks you may face in retirement.

If you have any questions about the considerations discussed in this article, please contact us.

*Australian Government, Australian Bureau of Statistics. Life Tables, States, Territories and Australia.

Christmas Message

On behalf of the advisers, staff and management at Retirement Victoria, I would like to take this opportunity to wish all of our clients, together with their families a safe and happy time during the end of year festive season. We hope you stay safe, enjoy good health, happiness and success in the year ahead.

Nick Brinkworth
Managing Director

Aged care services: Home care packages

Written and accurate as at: May 15, 2017

As you progress further through your senior years, you may find that you need an increased level of assistance in your daily life. This assistance may come in the form of higher-level aged care services at home or in a residential aged care facility.

The choice of aged care service may be dependent upon the level of care you require as well as your personal preferences, for example, to receive assistance whilst residing at home or within a residential aged care facility.

If you require higher-level aged care services, but would still like to stay at home, then a Home Care Package may be an option for you. There are several things you need to consider before seeking help at home with a Home Care Package. For example, the type of service and eligibility, how to organise the services and the cost.

There are no minimum age requirements to be eligible for the Home Care Package. However, you will need to undergo a home support assessment by the Aged Care Assessment Team (ACAT) or the Aged Care Assessment Service (ACAS) if you reside in Victoria.

ACAT (or ACAS) assess your eligibility and determine a specific level of care that you require. There are four specific levels of care:

- Level 1, support for individuals with basic-level care needs
- Level 2, support for individuals with low-level care needs
- Level 3, support for individuals with intermediate-level care needs
- Level 4, support for individuals with higher-level care needs.

Types of Support

On top of the services provided under a Commonwealth Home Support Programme, a Home Care Package also includes additional higher-level aged care services. For example, depending on the level of care required:

- Mobility and dexterity aids (and, assistance with their use) such as walking sticks, walking frames, bed rails, slide sheets, as well as mechanical devices for lifting.
- Continence management such as disposable pads and bedpans, as well as a catheter and urinary drainage appliances.
- And, more complex care with regards to nursing, allied health and other clinical services.

Organising services

On receiving the outcome of your ACAT (or ACAS) assessment, and being eligible for a Home Care Package, you are then placed in a national priority queue. Your position in the queue is based on the level of care you require, your current circumstances and the time you have spent waiting for care.

When you reach the top of the queue, you will receive a letter from My Aged Care with details of your Home Care Package. You'll have 56 days in which to take this up and enter into an agreement with a service provider of your choosing. In some circumstances, this may be extended by a further 28 days if you're having difficulty choosing your service providers.

Costs (1 July 2014 onwards)

The Government pays a subsidy for the Home Care Package to your service provider, which contributes to the total for the cost of your aged care services and the delivery of care. The amount paid to your service provider will depend on the level of care you require, however, your contribution will be limited to the following:

- A basic daily care fee, which is 17.5% of the single person rate of the Age Pension. This fee applies to each individual receiving a Home Care Package, regardless of whether you are a member of a couple.
- An income-tested care fee. This is an additional fee payable, dependent upon your income. There are annual and lifetime limits, indexed each year, on the amount of income-tested care fee you may be asked to pay; the Australian Government will pay your relevant income-tested care fee upon reaching these caps. The income-tested fee may not apply if you are considered to be facing financial hardship.
- Fees for additional care or services not covered by your Home Care Package.

You may wish to arrange a formal income assessment by the Department of Human Services after you have been assessed by an ACAT, so you know your income-tested care fee. A formal income assessment is not required if you are already receiving social security income support payments, as the Department of Human Services will already have your financial information. If you are not receiving income support payments and you choose not to have an income assessment, you may be asked to pay the maximum fee.

Moving forward

The purpose of the Home Care Package is to provide you with additional higher-level aged care services. It's important to remember that aged care, like wealth accumulation and retirement, requires careful consideration and appropriate planning. If you or a loved one are considering aged care services, then book a time to talk to your financial adviser about the options available and how they may affect your financial situation.

Diversification fundamentals in portfolio construction

Written and accurate as at: Jun 10, 2017

Diversification, or spreading your risk, is a key risk management strategy used when constructing a portfolio whether inside or outside of superannuation.

It's the strategy commonly referred to as "not putting all your eggs in one basket".

The premise behind diversification is that no one asset or type of asset provides the best performance over all time periods – they tend to rise and fall at different times depending on economic, political and market factors.

Methods of diversification

Diversification may often be achieved by:

1. Spreading your funds across a variety of asset classes. Cash, fixed interest, property and shares all have particular risk and return characteristics and typically tend to perform differently under certain market conditions. By investing across asset classes, you may be able to reduce the volatility of your overall portfolio returns.
2. Spreading your funds within each asset class across a wide range of industries and geographical regions. By doing this, you are making sure that your portfolio is not concentrated heavily in one place, which may help reduce the impact of a downturn in a particular market or region.
3. Spreading your funds across a range of fund managers who have different, but complementary investment 'styles'. For example, some managers look for large, 'household name' companies with proven track records, whereas others might look for smaller, less well-known companies who are targeting niche markets and who have a higher level of growth potential. Some managers just 'buy and hold' assets whereas others trade during the ups and downs in markets to try and maximise returns.

It's important to note that diversification will not insure against loss within your portfolio, it's about managing the risk/reward trade off by selecting a mix of **quality** investments to help you achieve more consistent returns over time.

Investment Mix

The overall exposure that you have to different asset classes, markets and regions, as well as how diversification will be applied, will depend on numerous factors, such as your risk tolerance, financial situation, and financial goals and objectives.

One possible way to look at your investment mix is the timeframe in which you would like to be invested and what you would like to achieve from your portfolio in that given period of time. For example, if you have a:

- Long-term timeframe and wish to accumulate wealth – your investment mix may have a larger allocation towards growth assets, such as property and shares. These asset classes typically experience more volatility in the short to medium-term; however, they have a greater potential for capital growth in the long-term when compared to other asset classes, such as cash and fixed interest.
- Short-term timeframe and/or desire to generate income – your investment mix may have a larger allocation towards cash and fixed interest. These asset classes generally experience less volatility and are more focused on capital preservation (rather than capital growth), and income generation when compared to other asset classes, such as property and shares.

An investment mix is not 'set and forget'. Different types of assets may have differing returns from year to year. Over time, if left unchecked, this may result in the investment mix moving away from the original allocation set. Consequently, regular reviews of your portfolio are important – in some instances, rebalancing your investment mix may be necessary to make sure your portfolio continues to meet your risk tolerance, financial situation, and financial goals and objectives.

Moving forward

If you would like to know more about diversification and how it relates to your portfolios, please don't hesitate to get in contact with us.

MESSAGE FROM OUR MD

In October, the Managing Director of Retirement Victoria Hugh Dickson and fellow Director Stuart Dickson, each made the decision to 'practice what RV preaches' and start what I am sure will be long, healthy and happy retirements. Both Directors live interstate and for the past 8 years have been travelling to Melbourne to steer the RV Ship on a frequent and regular basis. After an extensive search, Hugh made the decision to sell his shares to the Fitzpatrick's Group, a national non-bank financial services firm that specialises in delivering high quality, goals-based financial advice. The Fitzpatrick's Group and RV share a common set of values when it comes to retirement advice and exceptional client service and the transition of ownership has been very smooth, with no disruption to the team or to our services to clients.

As the new Managing Director and on behalf of the whole RV team, I want to sincerely thank Hugh and Stuart for their dedication, boundless energy and enormous commitment to building and enhancing the experience of the RV clientele. On a personal note, I am honoured and delighted to be passed the reins from Hugh and look forward to working with and nurturing the RV team, continuing to build on the current success and exceeding our client's expectations in the future.

Wishing you a safe and happy festive season.

Nick Brinkworth CFP MAF

CLIENT PROFILE Kevin Carlin

Client of Ed Paterson, Kevin Carlin is a producer, director and writer of film and television in Australia. He's directed some of our favourite programs, including ***Packed to the Rafters, Blue Heelers, Full Frontal, Fast Forward* and more recently, the highly acclaimed miniseries, *Molly***. In multiple years, he's been named in *The Sydney Morning Herald* and *The Melbourne Age* newspapers as being among the 50 most influential people in Australian television.

From starting as a stagehand at Channel 7, Carlin has worked in the television industry his whole life. After working for many years with Channel 7, he established his own successful freelance career as a director. At age 61, he's still hard at it.

"As well as delivering a good product, because of the cost of making television, networks and producers love it if you can finish on time and on budget. When it comes to that, experience is an irreplaceable asset and fortunately I have a bit of that. Maybe that's why the phone's still ringing."

Carlin has worked as a director and writer with some of the biggest acting names in Australian television. He co-produced and directed the series *Big Girl's Blouse* with Magda Szubanski, Jane Turner and Gina Reilly, the creators of the iconic *Kath & Kim* and *Something Stupid*. He also co-produced, directed and co-wrote the series *Eric*, a sketch comedy starring Eric Bana.

Carlin directed and co-wrote the feature film *The Extra*, starring stand-up comedian Jimeoin and also directed the telemovie, *Little Oberon* for the Nine Network which received an AFI nomination for Best Telemovie. In 2006 he directed the very successful feature film *BoyTown*, starring Glenn Robbins, Sally Phillips and Mick Molloy.

"I have four daughters so I was always working and I took every job that came before me. Now that my daughters have grown up don't need to work that hard any longer."

Last year Carlin filmed the mini-series, *Hoges*, a story based on the life of Paul Hogan starring Josh Lawson. Other directing credits include, *All Saints* and *Stingers*. He's won an AWGIE award for his writing on *Fast Forward* and an AWGIE nomination for co-writing an episode of *Introducing Garry Petty*.

Carlin was the start up director for *Canal Road* for the Nine Network starring Paul Leyden. He then went on to produce and direct the acclaimed political satire series *Newstopia*, starring Shaun Micallef, and the critically acclaimed *Killing Time*, starring David Wenham, followed with the six- part series *Outland* for the ABC.

Carlin has just finished filming series 6 of the worldwide hit prison drama, Wentworth, a show that he kicked off five years ago.

With such a hectic schedule, it's no wonder he's taking a break. "Time to smell the roses," says Carlin. But he adds that he has no plans to retire yet.

Kevin with Wentworth actress Kate Atkinson

SMALL CHANGE

KYIT:

As we go to print on this edition, our annual client seminar, "Keeping You In Touch" is taking place in Melbourne. Those attending will be well informed by:

Tony Edwards, Senior Portfolio Manager, Atrium Investment Management Tony is a leading expert with over 15 years' experience in financial markets focusing on international and domestic listed equities. Tony provided his current outlook for global investment markets and how to successfully navigate through the financial market uncertainty.

James Tomkins, three times Olympic gold medallist James is Australia's most awarded oarsman, having made appearances at six Olympic Games and is an Australian member of the International Olympic Committee. James is an inspiration to many and through his plentiful accolades is a driving force of performance

Make an appointment:

To arrange and appointment with your RV adviser please phone 03 9820 8088

Office Closure over the Festive Season:

RV will close at 12 noon on Friday 22nd December and reopen at 8.15am on Monday 8th January.

RV News via Email:

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