

challenger 

Balance for a confident retirement

India Smitham
Challenger



Agenda

- 1 Balance in retirement

- 2 Risks in retirement

- 3 Spending in retirement

- 4 Safe and unsafe spending

- 5 Meeting the challenges of retirement

Learning outcomes

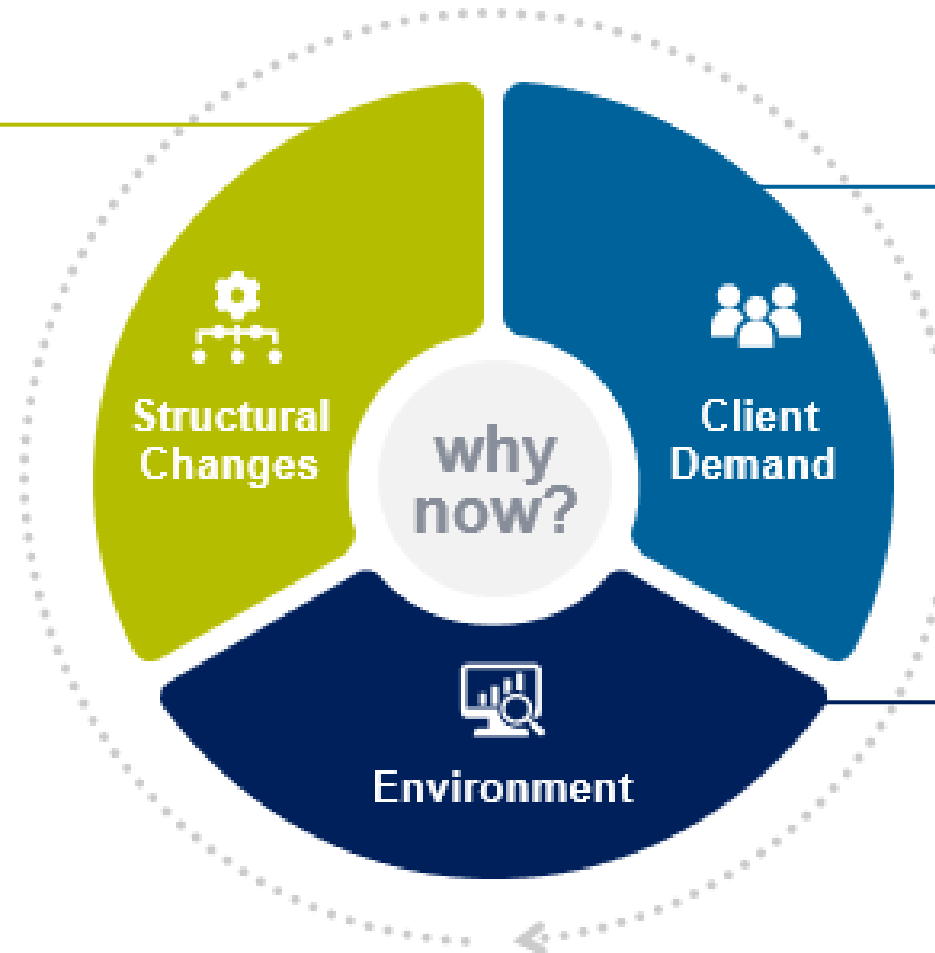
- 1 Understanding the trade-offs to deliver clients in retirement a balance of income maximisation, risk management and portfolio and estate outcomes
- 2 A practical understanding of the concept of “safe spending”
- 3 Understanding of the complementary roles that different types of income streams play in solving for client objectives

1

Balance in retirement

Balance in retirement: Drivers for lifetime income in retirement portfolios

- Ageing population
- Increasing longevity
- Response to Retirement Income Covenant
- Licensee retirement frameworks
- Increased awareness that retirement is different



- Looking for income certainty
- Not confident to spend in retirement
- Worried they will outlive their savings
- Client preference for CPI indexed income

- Inflationary pressures
- Fixed Income volatility
- Risks in retirement – SMILE

Balance in retirement

Adviser discussion

What is the question that prompts most clients to seek advice at retirement?

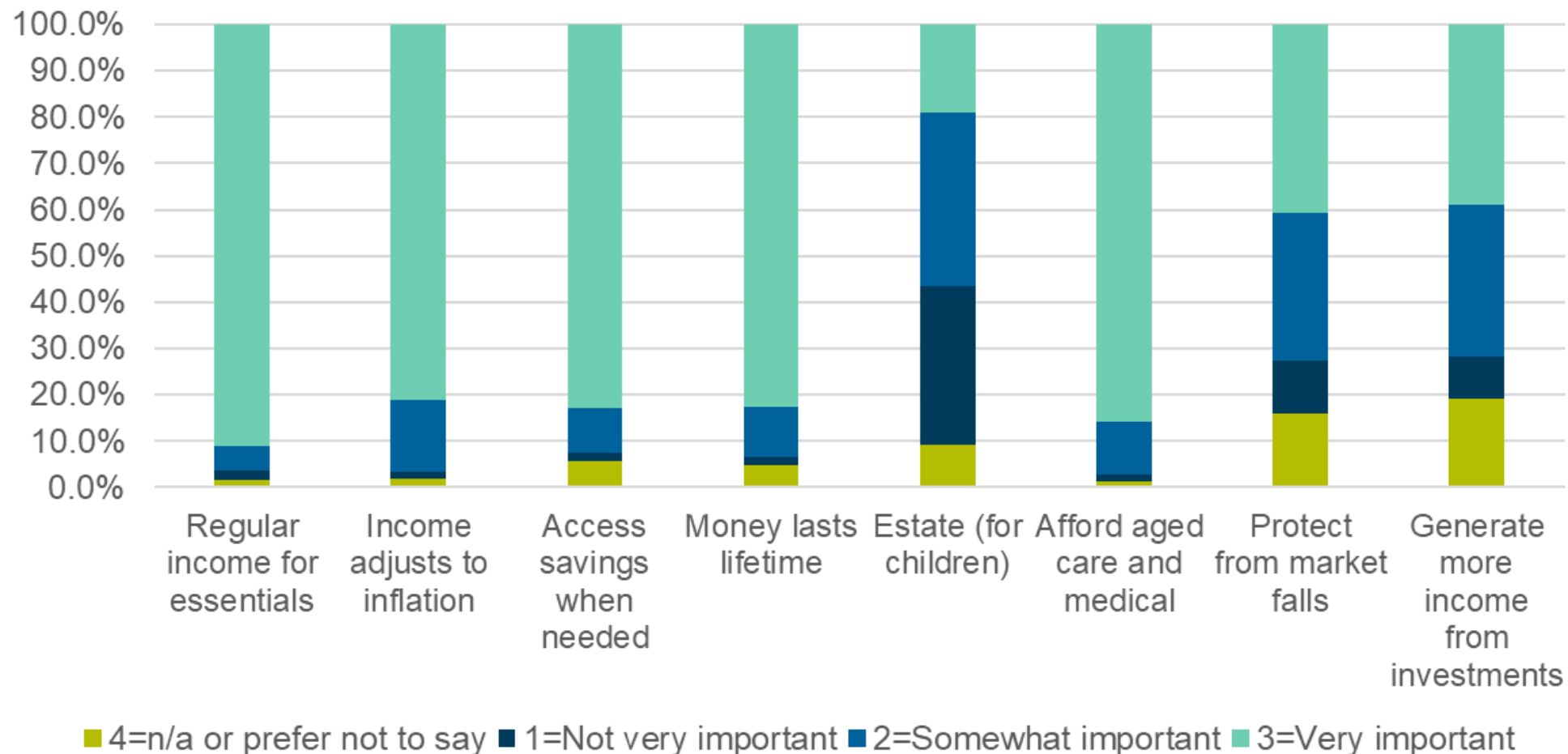
Considerations when building retirement portfolios

Balancing client preferences



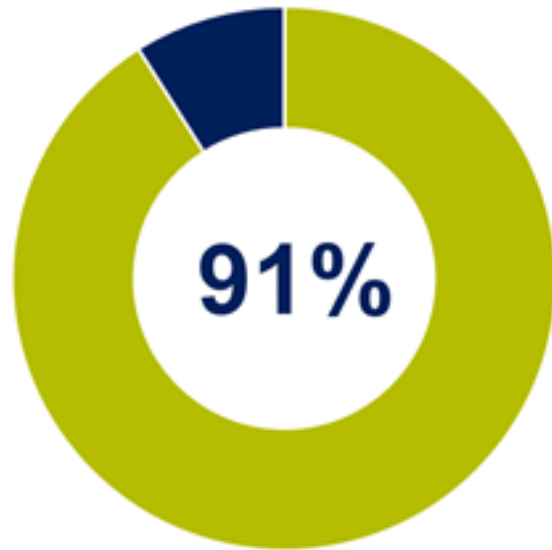
Considerations when building retirement portfolios

Balancing client preferences

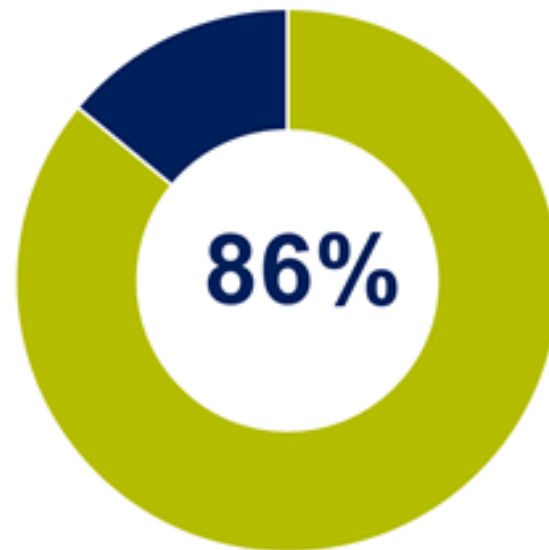


Considerations when building retirement portfolios

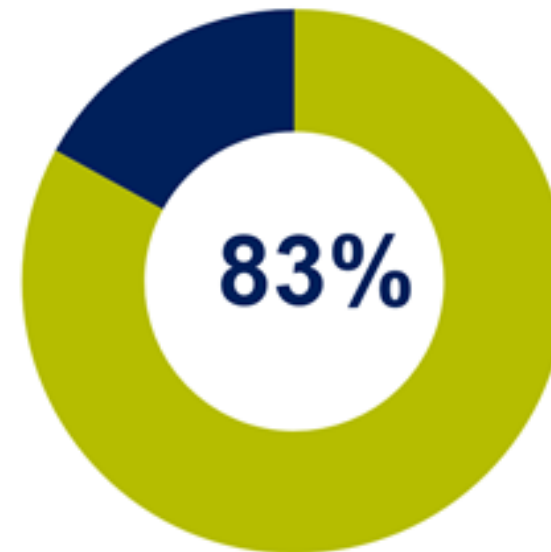
Balancing client preferences



Regular income for essentials



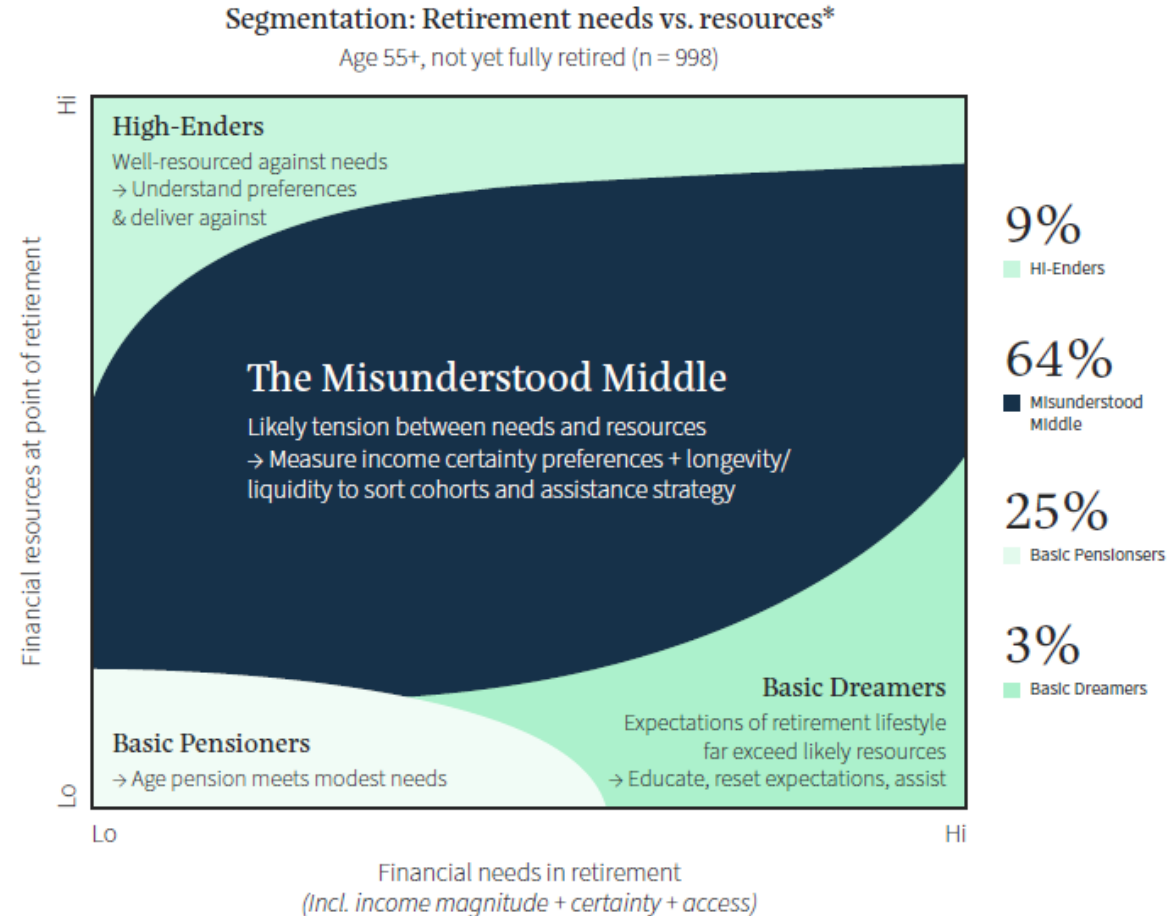
Affording care and medical costs



Money that lasts for life

Balancing client preferences

Capital Preferences: Revealing member income preferences



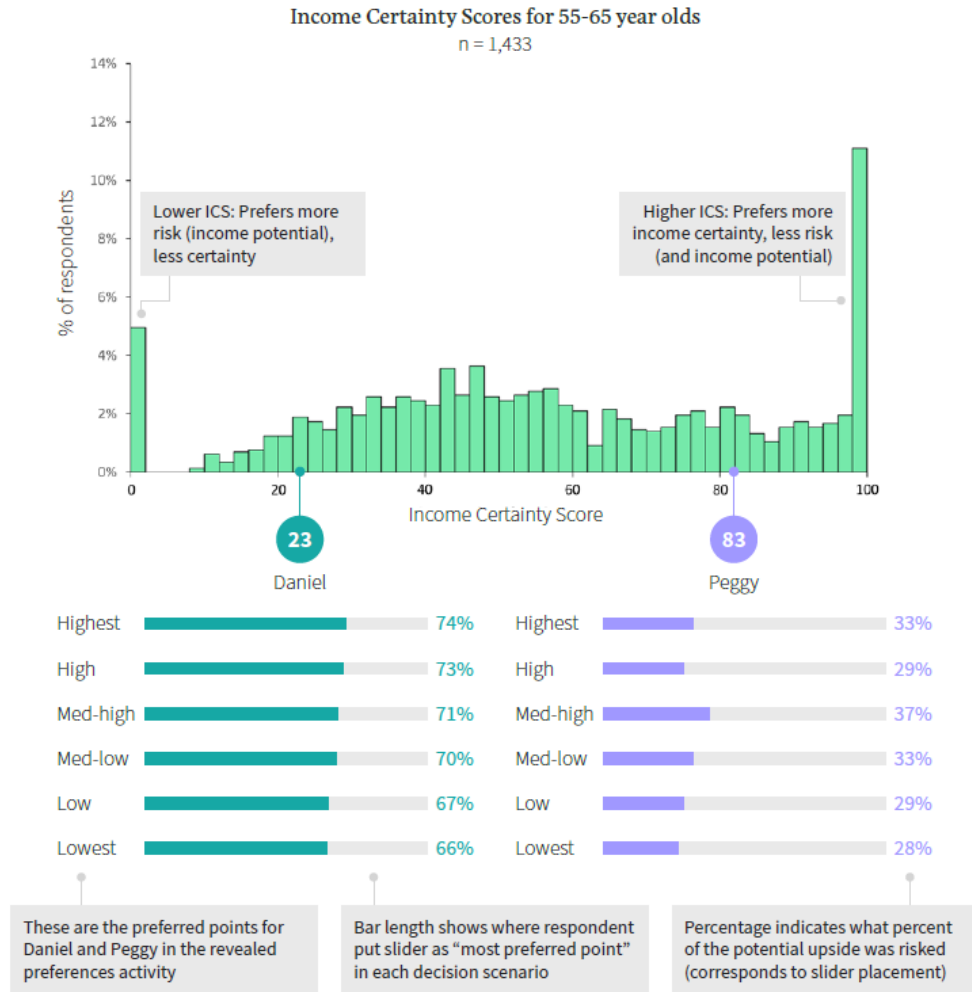
Balancing client preferences

Capital Preferences: Revealing member income preferences



Balancing client preferences

Capital Preferences: Revealing member income preferences



2

Risks in retirement

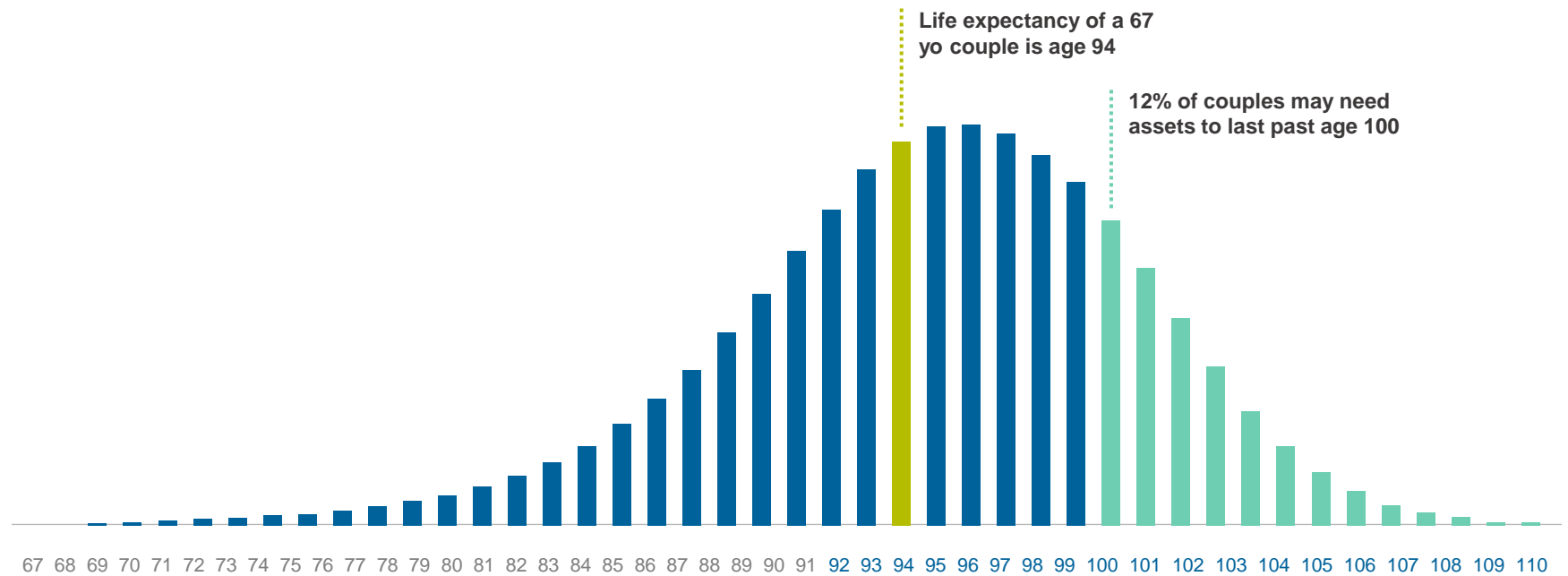
Risks in retirement



Risks in retirement

Longevity risk – retirement could be a long time

Likelihood of last person in couple passing away at each future age*

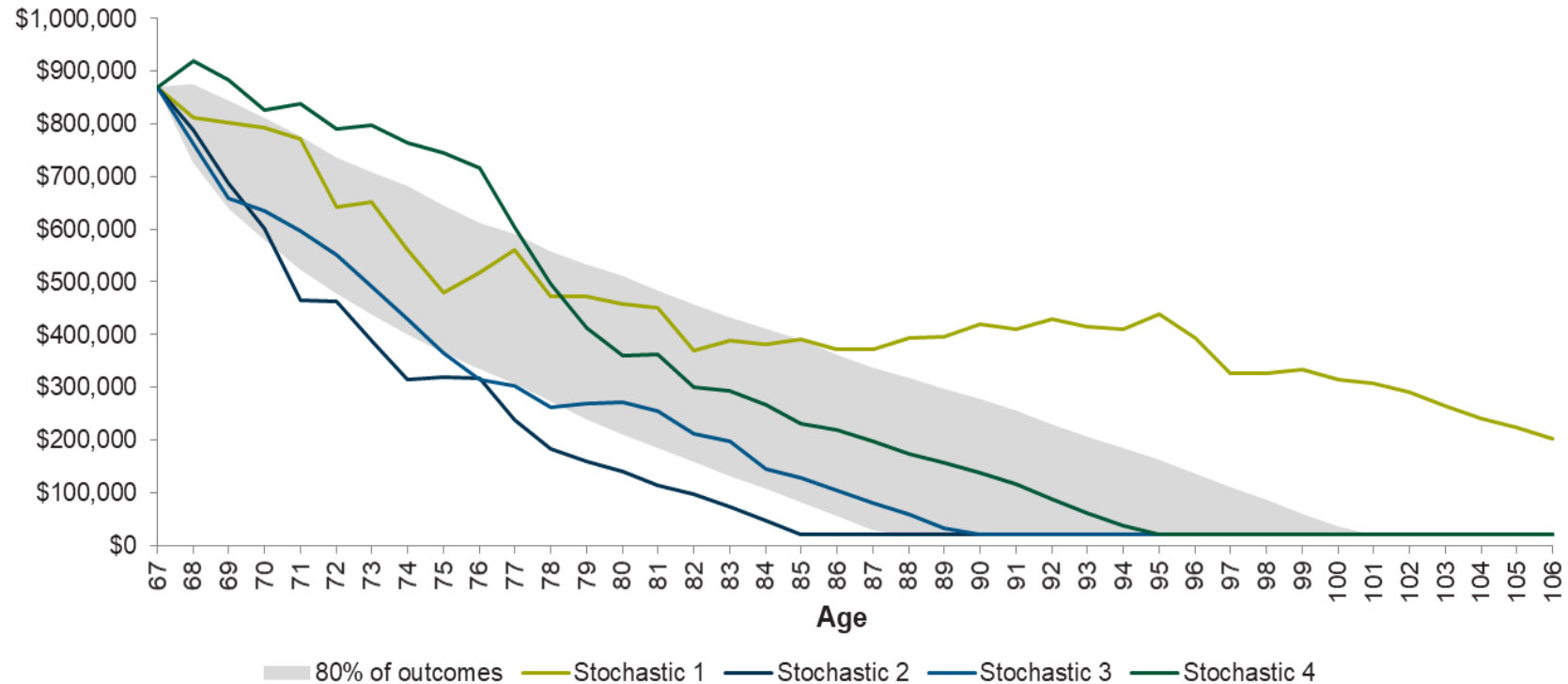


62% chance will need income to last past age 92
which is life expectancy without allowing for future improvements

Risks in retirement

Marketing and sequencing risk

Illustration of an Account Based Pension strategy over retirement based on different market scenarios



Source: Challenger Retirement Illustrator model using Social Security rates and thresholds effective 20 March 2022. 2,000 simulations of market returns and inflation provided by Moody's Analytics. \$64,771 p.a. desired income increasing annually with price inflation. Amounts shown are in today's dollars. See Challenger Retirement Illustrator for default fee assumptions and methodology guide.

3

Spending in retirement

Spending in retirement

Is the Age Pension enough?

Maximum Age Pension rates¹

	Single	Couple
Maximum	\$28,514 p.a.	\$42,988 p.a.











ASFA Retirement Standard²

	Single	Couple
Modest	\$32,417 p.a.	\$46,620 p.a.
Comfortable	\$50,981 p.a.	\$71,724 p.a.

1. Age Pension payment valid 1 January 2024
2. ASFA Retirement Standard September Quarter 2023

Spending in retirement

Is the Age Pension enough?

	Comfortable lifestyle	Modest lifestyle	Age Pension
	Top level private health insurance, doctor/specialist visits, pharmacy needs	Basic private health insurance, limited gap payments	No private health insurance
	Fast Reliable internet/telco subscription, computer/android mobile /streaming services	Basic mobile, modest internet data allowance	Very basic mobile and limited internet connectivity
	Own a reasonable car, car insurance and maintenance/upkeep	Owning a cheaper, older, more basic car	Limited budget to own, maintain or repair a car
	Regular leisure activities including club membership, cinema visits, exhibitions, dance/yoga classes	Infrequent leisure activities, occasional trip to the cinema	Rare trips to the cinema
	Home repairs, updates and maintenance to kitchen and bathroom appliances over 20 years	Limited budget for home repairs, household appliances	Struggle to pay for repairs, such as leaky roofs or major plumbing problem
	Regular professional haircuts	Budget haircuts	Less frequent haircuts, or self-haircuts
	Confidence to use air conditioning in the home, afford all utilities	Need to keep a close watch on all utility costs and make sacrifices	Limited budget for home heating in winter
	Occasional restaurant meals, home-delivery meals, take-away coffee	Limited meals out at inexpensive restaurants, infrequent home-delivery or take-away	Only local club special meals or inexpensive take-away
	Replace worn-out clothing and footwear items, modest wardrobe updates	Limited budget to replace or update worn items	Very basic clothing and footwear budget
	Annual domestic trip to visit family, one overseas trip every seven years	Annual domestic trip or a few short breaks	Occasional short break or day trip in your own city

4

Safe and unsafe spending

Safe and unsafe spending

Adviser discussion

A 67-year-old client couple
(homeowners) have \$1,000,000 in super.
How much can this couple afford to
spend in year 1 (indexed by CPI every
year thereafter)?

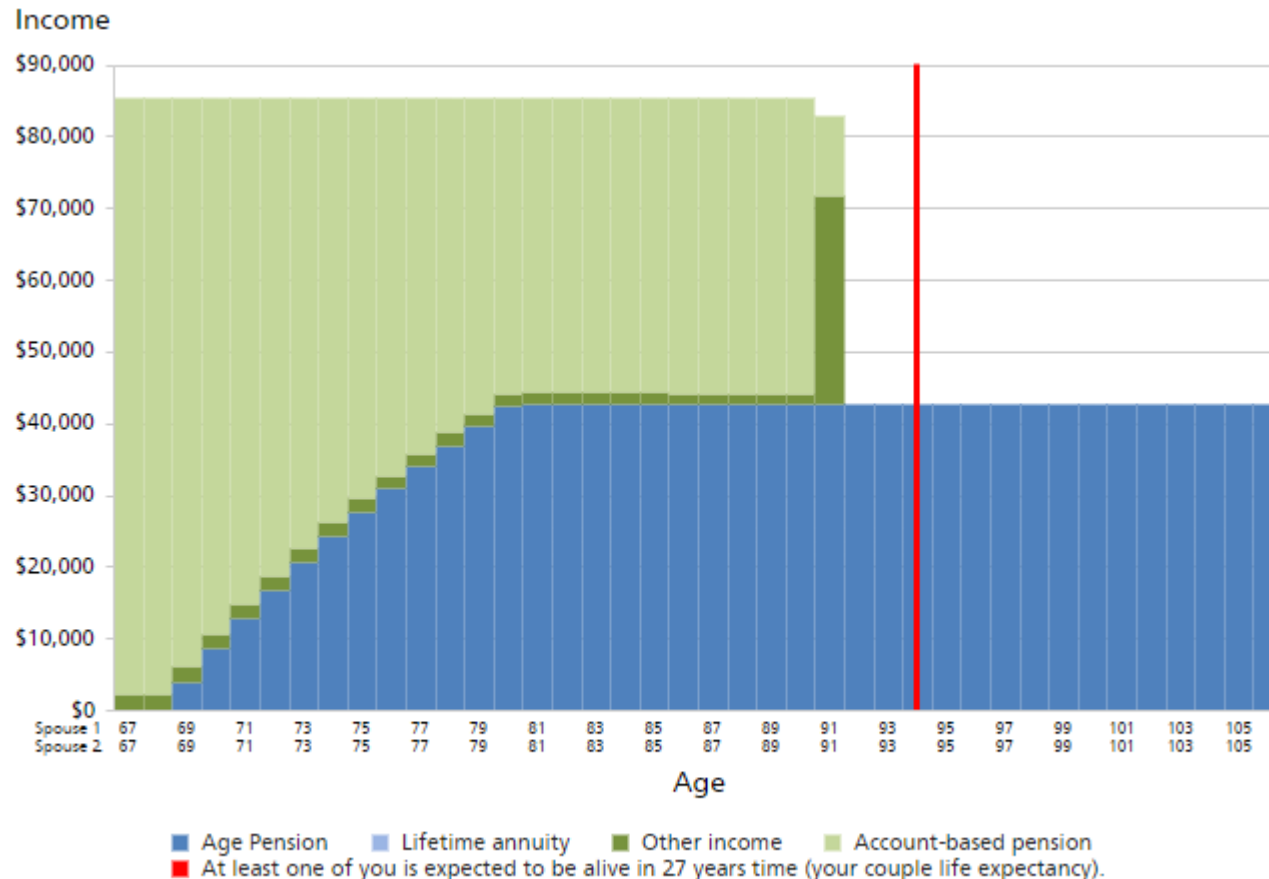
Safe and unsafe spending in retirement

Calculating a “safe spending” level

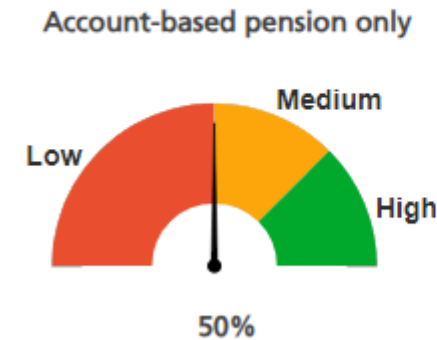
- Annie and Anthony
- Couple, both aged 67, homeowners
- \$500,000 each in super
- 50/50 growth/defensive investors
- \$20,000 non-financial assets
- \$50,000 cash/term deposits
- How much can Annie and Anthony spend with a certain level of confidence?

Safe and unsafe spending in retirement

Calculating a “safe spending” level: 50% confidence



Chance of \$85,400 'needs' and 'wants' income being met

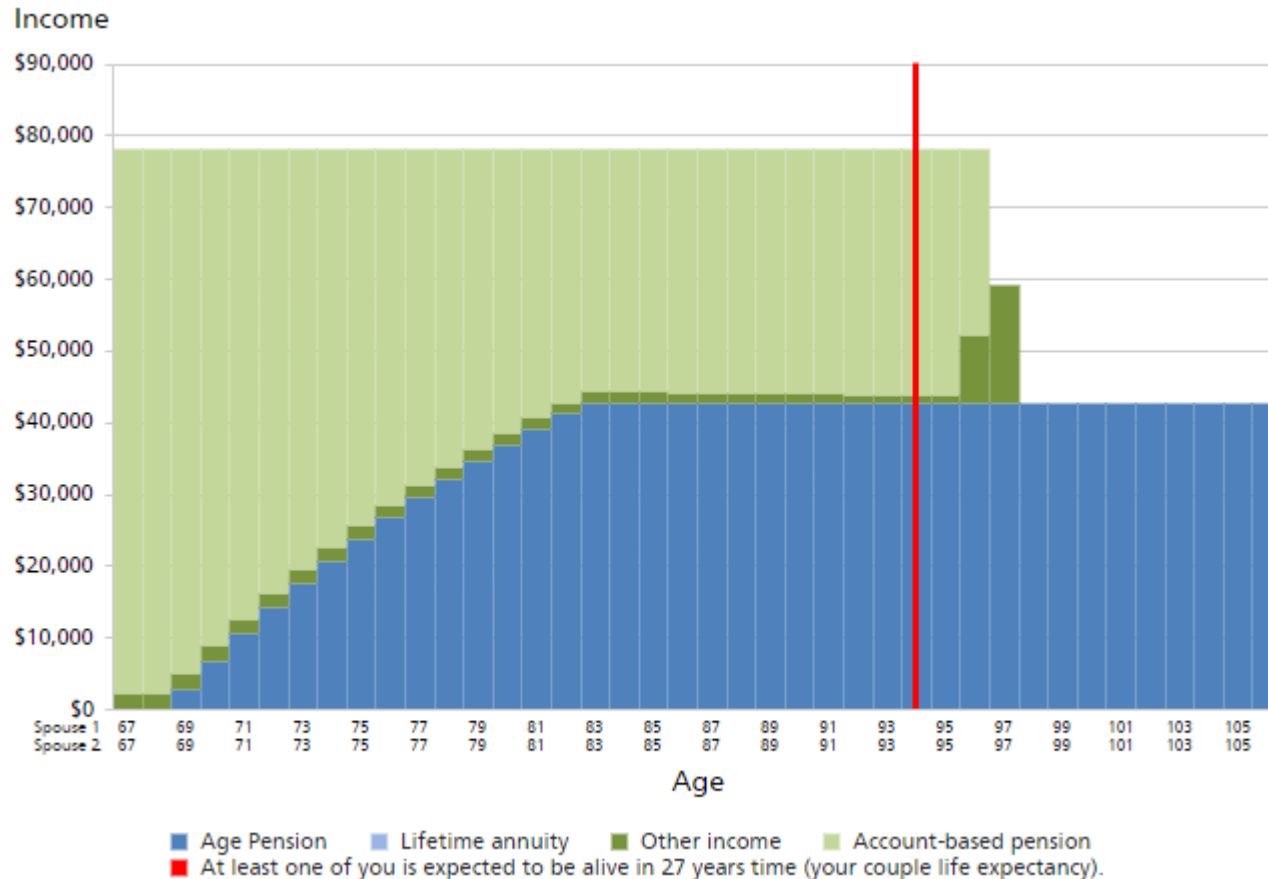


All values are shown in today's dollars

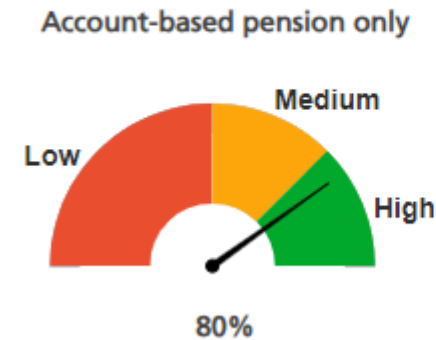
Source: Challenger Retirement Illustrator (05/02/2024) using Social Security rates and thresholds effective 1 Jan 2024. Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Reference number: RIC240205000684.

Safe and unsafe spending in retirement

Calculating a “safe spending” level: 80% confidence



Chance of \$78,200 'needs' and 'wants' income being met

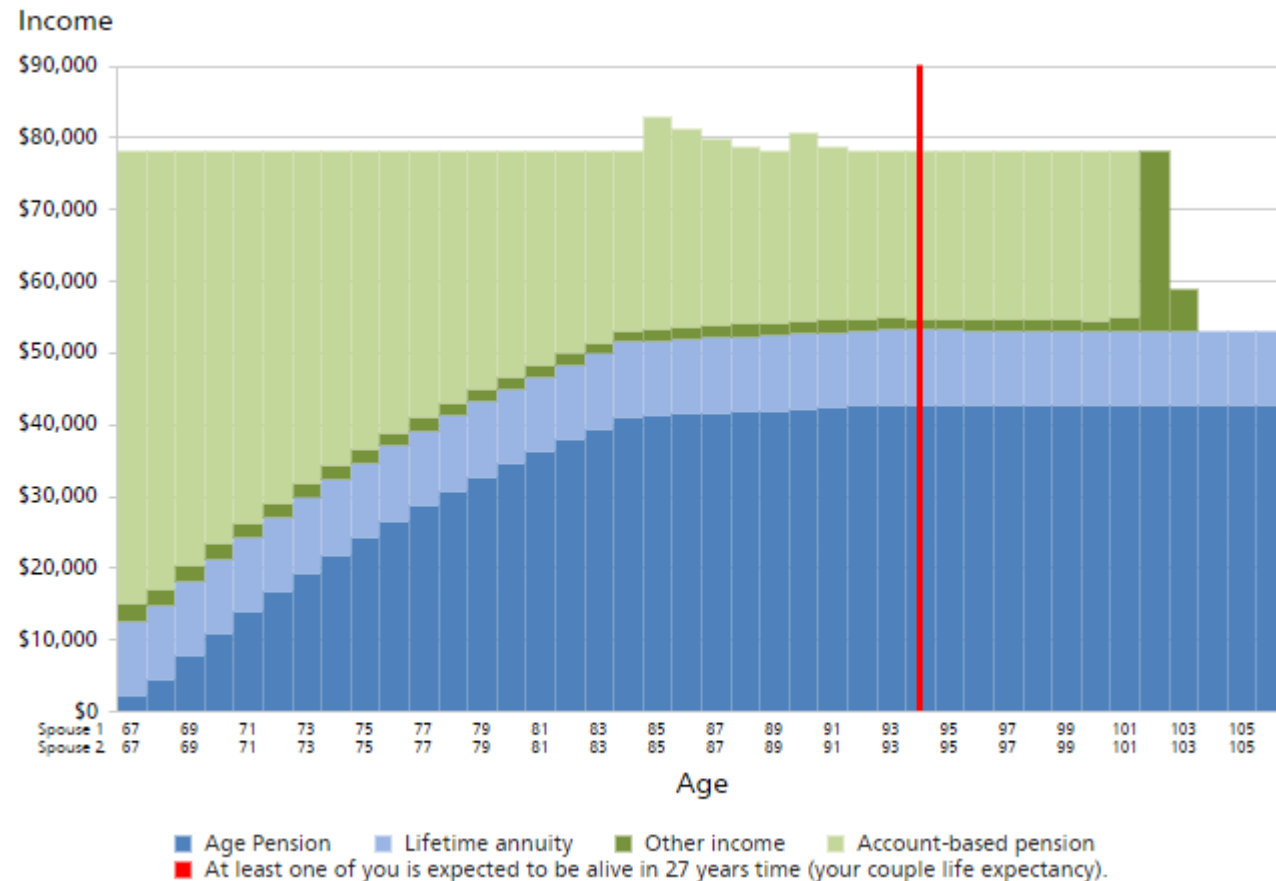


All values are shown in today's dollars

Source: Challenger Retirement Illustrator (05/02/2024) using Social Security rates and thresholds effective 1 Jan 2024. Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Reference number: RIC240205000684.

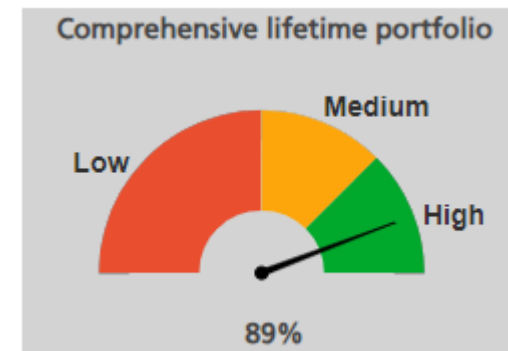
Safe and unsafe spending in retirement

Calculating a “safe spending” level: More confidence with 20% lifetime annuity



All values are shown in today's dollars

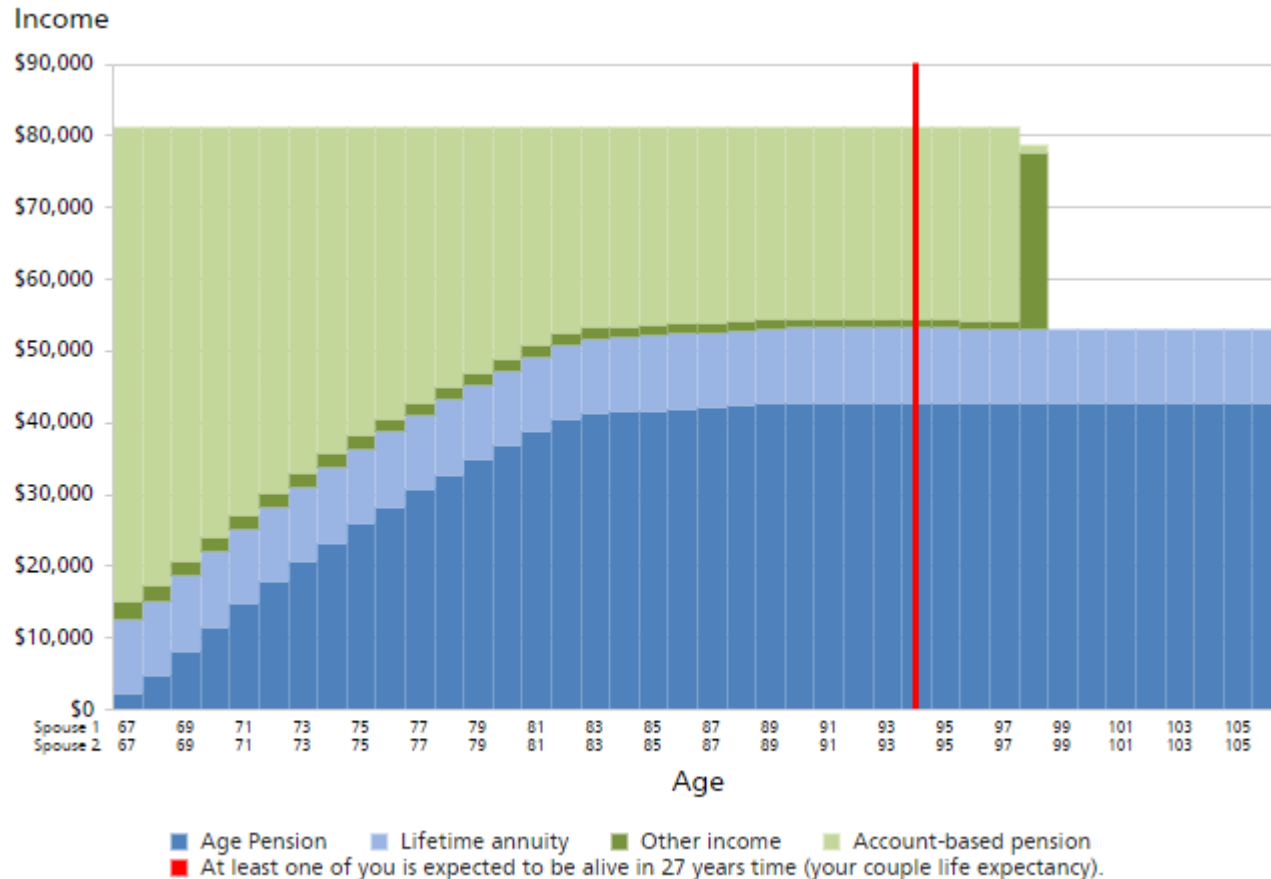
Chance of \$78,200 'needs' and 'wants' income being met



Annie and Anthony get to spend \$78,200 with a higher level of confidence (89% v 80%) with a 20% allocation to lifetime income

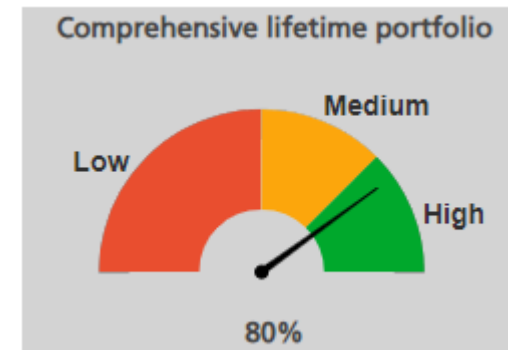
Safe and unsafe spending in retirement

Calculating a “safe spending” level: More income with 20% lifetime annuity



All values are shown in today's dollars

Chance of \$81,100 'needs' and 'wants' income being met



Annie and Anthony get to spend an extra \$2,900p.a. (from day 1) with the same (80%) level of confidence with a 20% allocation to lifetime income

5

Meeting the challenges of retirement

Meeting the challenges of retirement

Including the challenges of the Retirement Income Covenant

- Super funds must have a retirement income strategy that must address how the trustee will assist members to achieve and balance the following objectives:
 - To maximise expected retirement income over the period of retirement
 - Trustees must determine the meaning of “period of retirement” for the purposes of the strategy
 - To manage expected risks to the sustainability and stability of retirement income over the period of retirement of the following kinds:
 - Longevity risks
 - Investment risks
 - Inflation risks
 - Any other risks to the sustainability and stability of the retirement income
 - To have flexible access to expected funds over the period of retirement

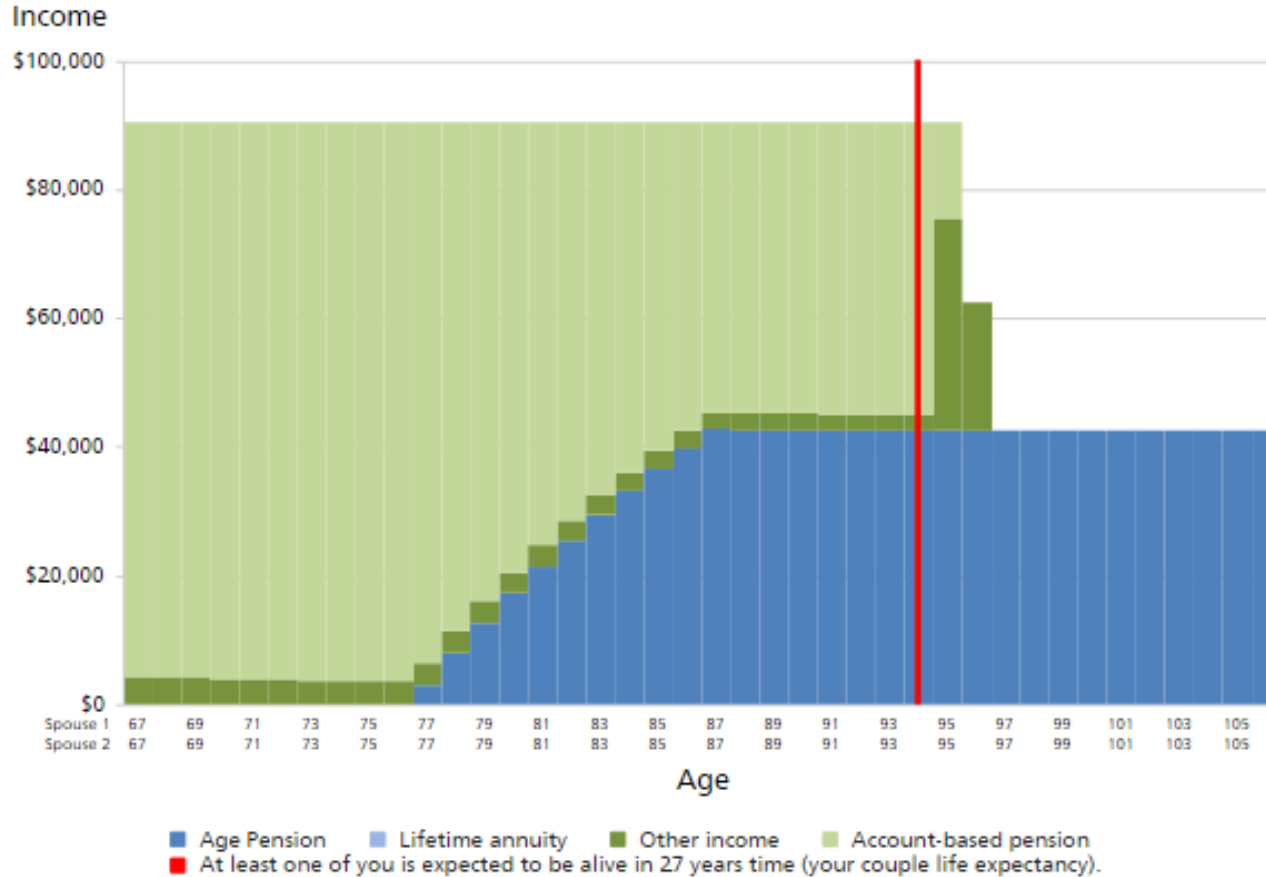
Meeting the challenges of retirement

Reintroducing Jun and Juri



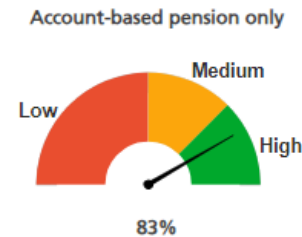
Meeting the challenges of retirement

Total income of \$90,500 p.a. But can we do better?

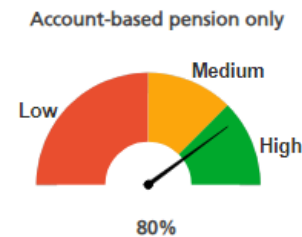


All values are shown in today's dollars

Chance of \$52,000 'needs' income being met



Chance of \$90,500 'needs' and 'wants' income being met

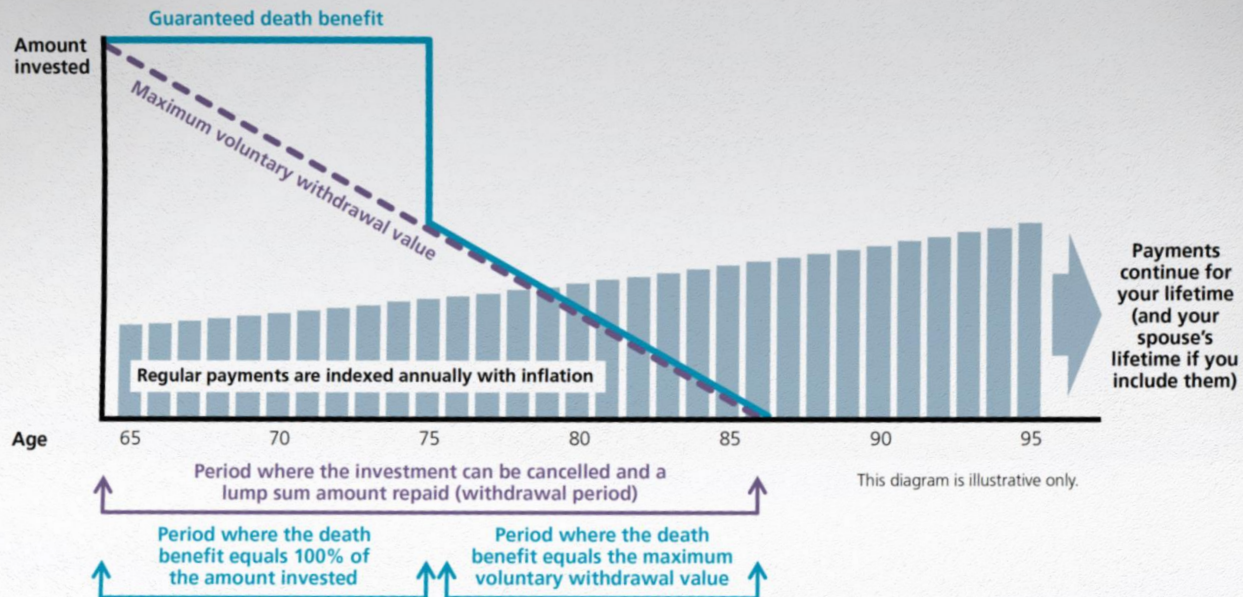


CPI-linked lifetime income

**Guaranteed payments for life:
Irrespective of market performance
or how long a client lives**

Flexible Income
(immediate payments)

An annuity that starts paying you lifelong income immediately. It has a withdrawal value and a guaranteed death benefit for a period based on your life expectancy.



65-year-old female. Challenger Liquid Lifetime annuity, monthly payments, CPI indexation.



Total portfolio outcomes

Lifetime annuities can provide:



Attractive level of cash flow, which can be CPI linked



Income for life



No product fees



Age pension boost (if applicable)



Flexible adviser remuneration alternatives



Estate planning certainty

And when used in conjunction with other retirement assets, can help enhance total portfolio outcomes:



Increase income



Increase confidence levels



Preserve more assets

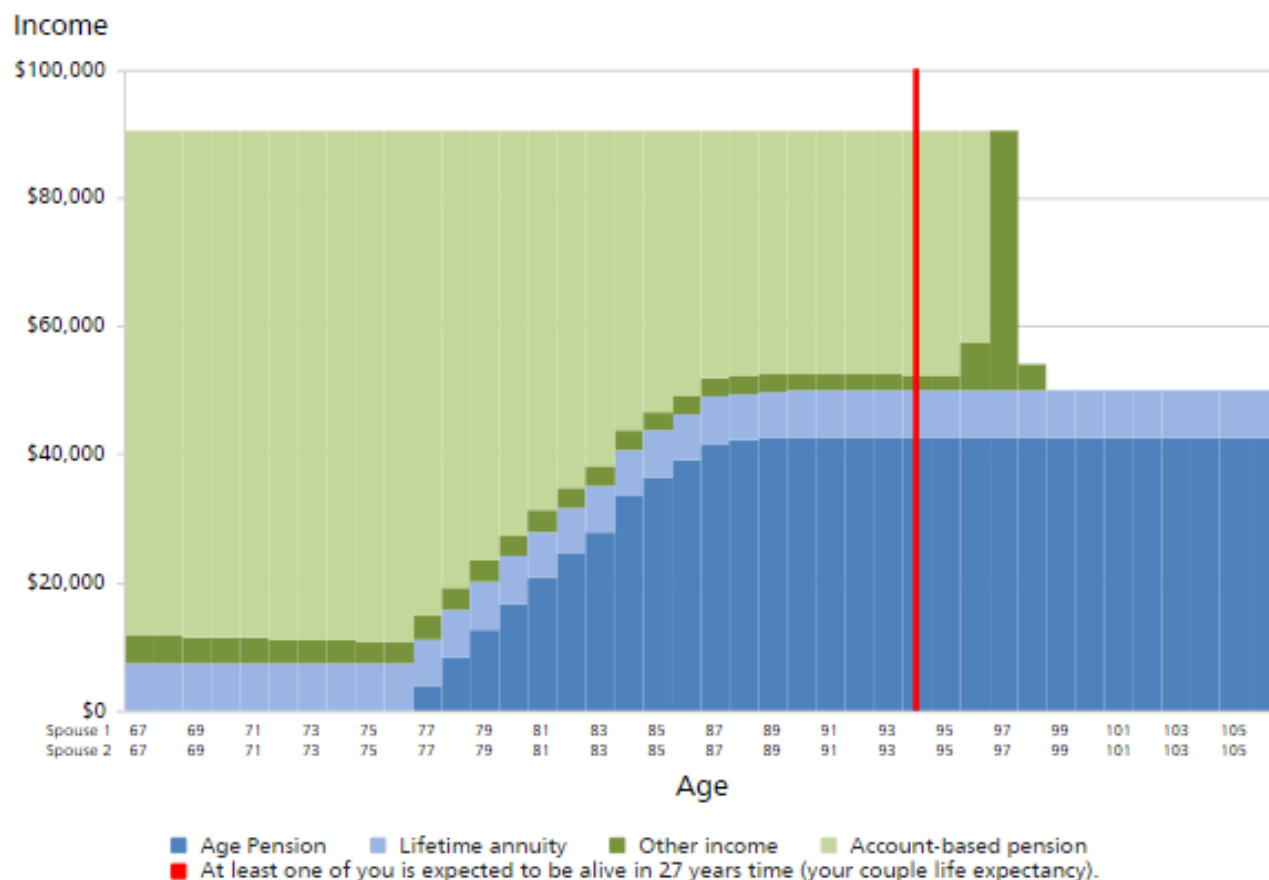
Meeting the challenges of retirement

Adviser discussion

Is there an “ideal” balance between account-based and lifetime income streams to solve for the challenges of retirement?

Meeting the challenges of retirement

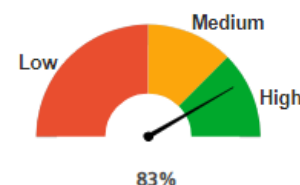
Can we do better? 10% allocation to guaranteed lifetime income



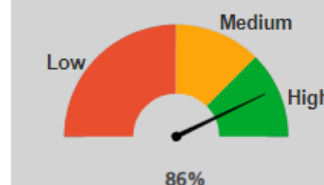
All values are shown in today's dollars

Chance of \$52,000 'needs' income being met

Account-based pension only

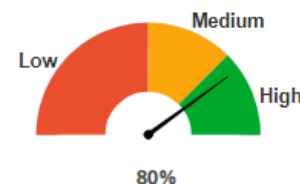


Comprehensive lifetime portfolio

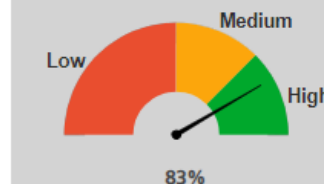


Chance of \$90,500 'needs' and 'wants' income being met

Account-based pension only

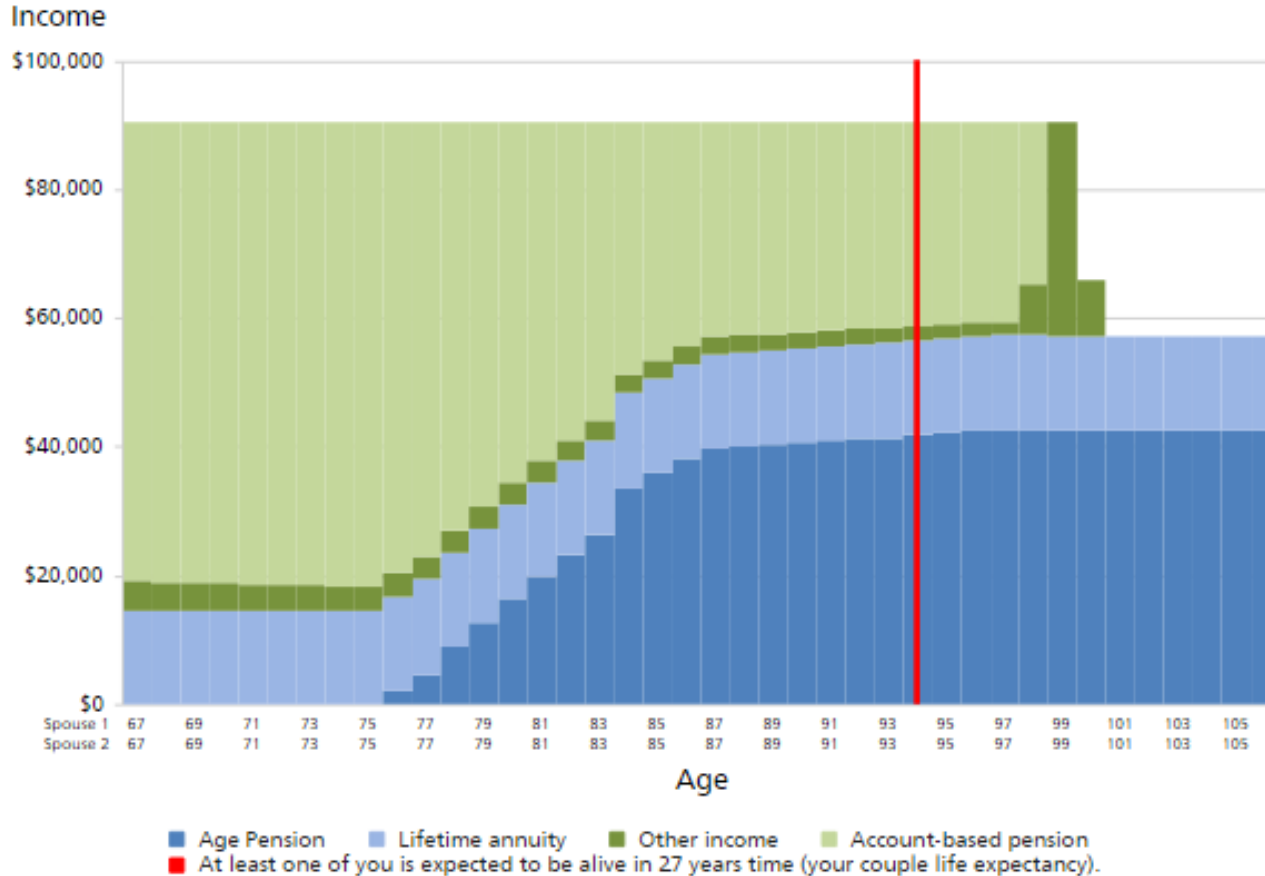


Comprehensive lifetime portfolio



Meeting the challenges of retirement

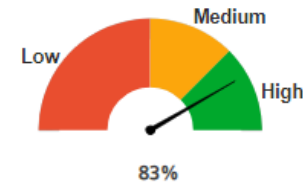
Can we do better? 20% allocation to guaranteed lifetime income



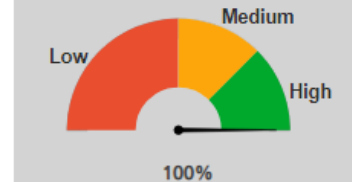
All values are shown in today's dollars

Chance of \$52,000 'needs' income being met

Account-based pension only

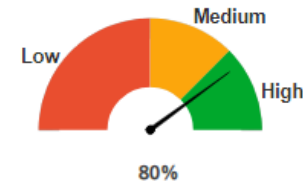


Comprehensive lifetime portfolio

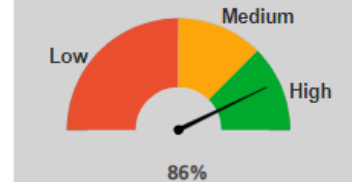


Chance of \$90,500 'needs' and 'wants' income being met

Account-based pension only



Comprehensive lifetime portfolio

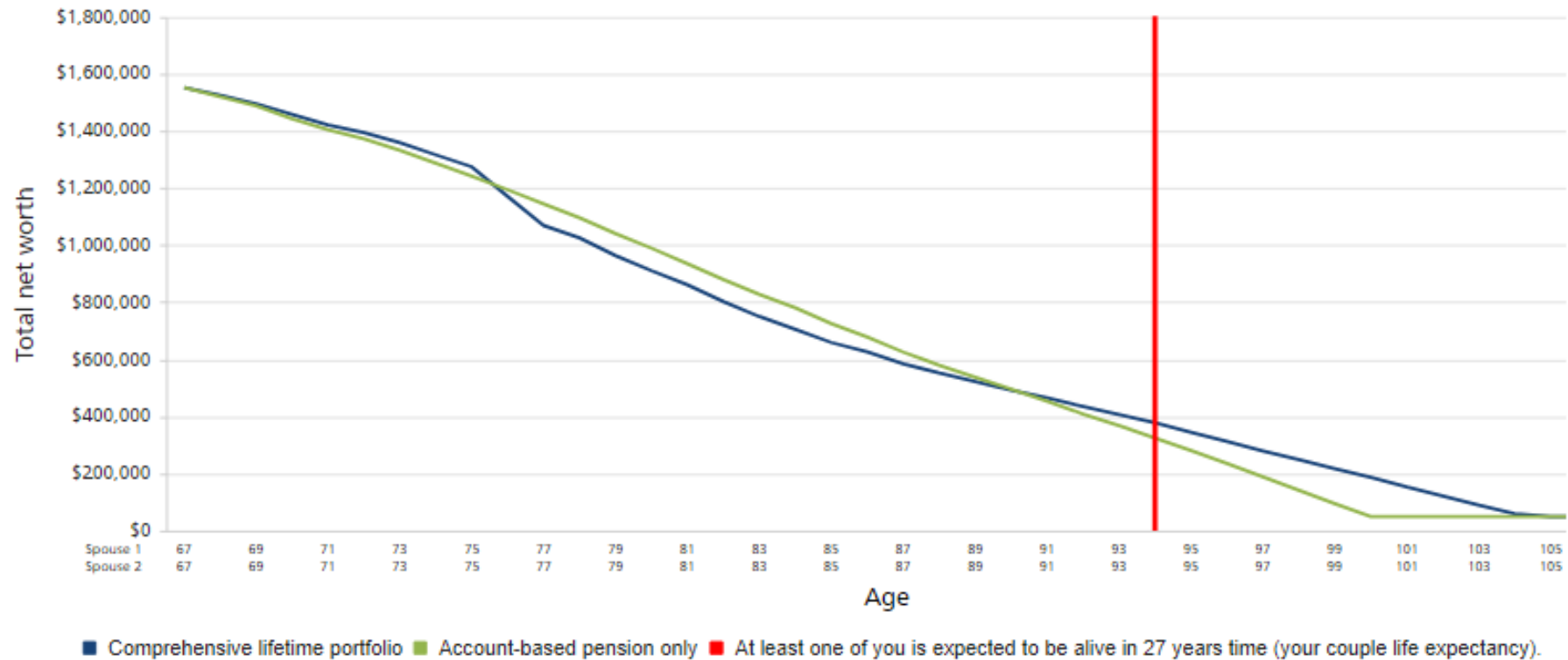


Meeting the challenges of retirement

Can we do better? 20% allocation to guaranteed lifetime income. Estate outcomes

Estate (bequest) value comparison

The chart below compares the median estate (bequest) value based on the 2000 market scenarios



Source: Challenger Retirement Illustrator (05/02/2024) using Social Security rates and thresholds effective 1 January 2024. 67 year old male/female client couple. \$800,000 in his and \$600,000 in her super income streams. Assumes returns of 4.5% p.a. for defensive assets and 8.0% p.a. for growth assets before fees. \$100,000 cash/TDs earning 4.5% p.a. interest. Non-financial assets of \$50,000. \$90,500 p.a. desired income including \$52,000 p.a. essential income. Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Reference number: RIC240205000800.

Meeting the challenges of retirement

Can we do better? 20% allocation to guaranteed lifetime income



A 20%
allocation to
CPI-linked
lifetime



Lifetime income for as long you live in addition to any Age Pension you may receive. The lifetime income amount **in the first year is \$14,695.**



Estate value **increased by \$80,874** (in today's dollars) at couple life expectancy.



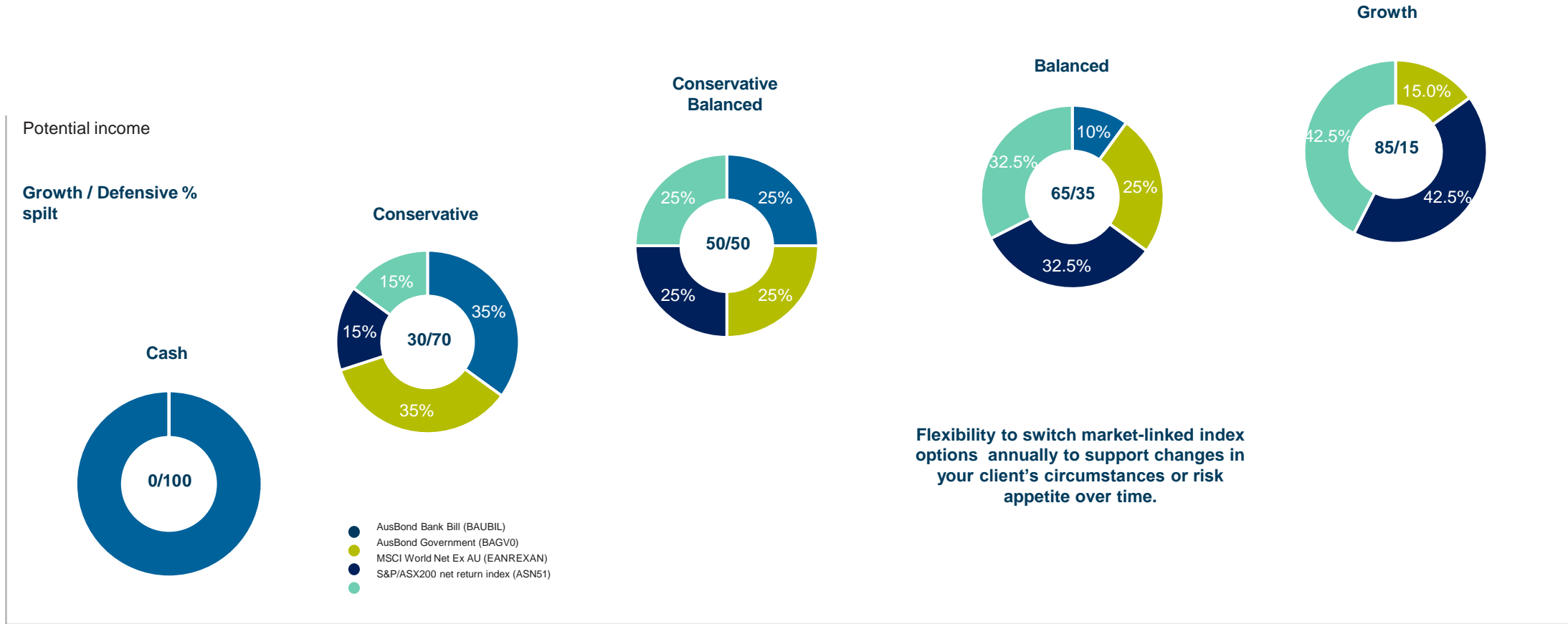
An 86% chance of meeting desired 'needs and wants' (an **increase of 6%** over the non-lifetime portfolio).



A 100% chance of meeting income 'needs' (an **increase of 17%** over the non-lifetime portfolio).

Market-linked lifetime income

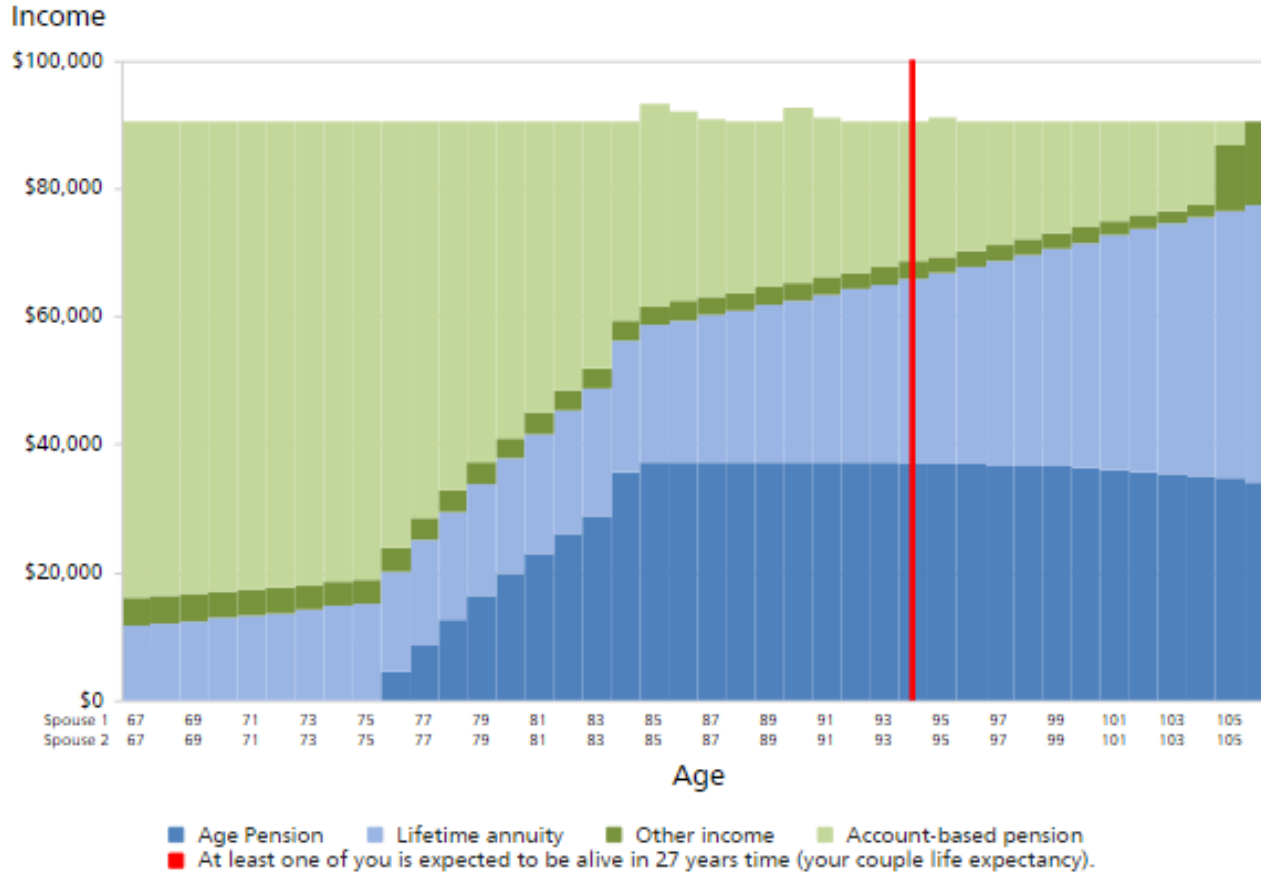
Potential for growth, in line with market ups and downs



Income variability

Meeting the challenges of retirement

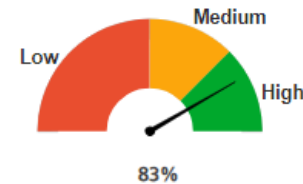
Can we do better? 20% allocation to market-linked lifetime income



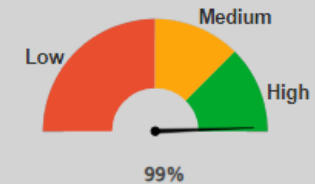
All values are shown in today's dollars

Chance of \$52,000 'needs' income being met

Account-based pension only

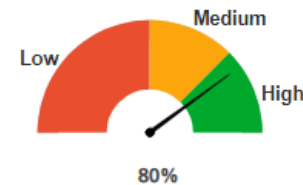


Comprehensive lifetime portfolio

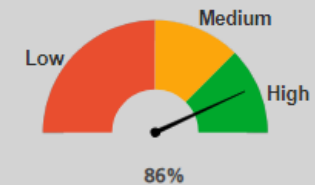


Chance of \$90,500 'needs' and 'wants' income being met

Account-based pension only



Comprehensive lifetime portfolio



3

A tactical Age Pension application of lifetime income



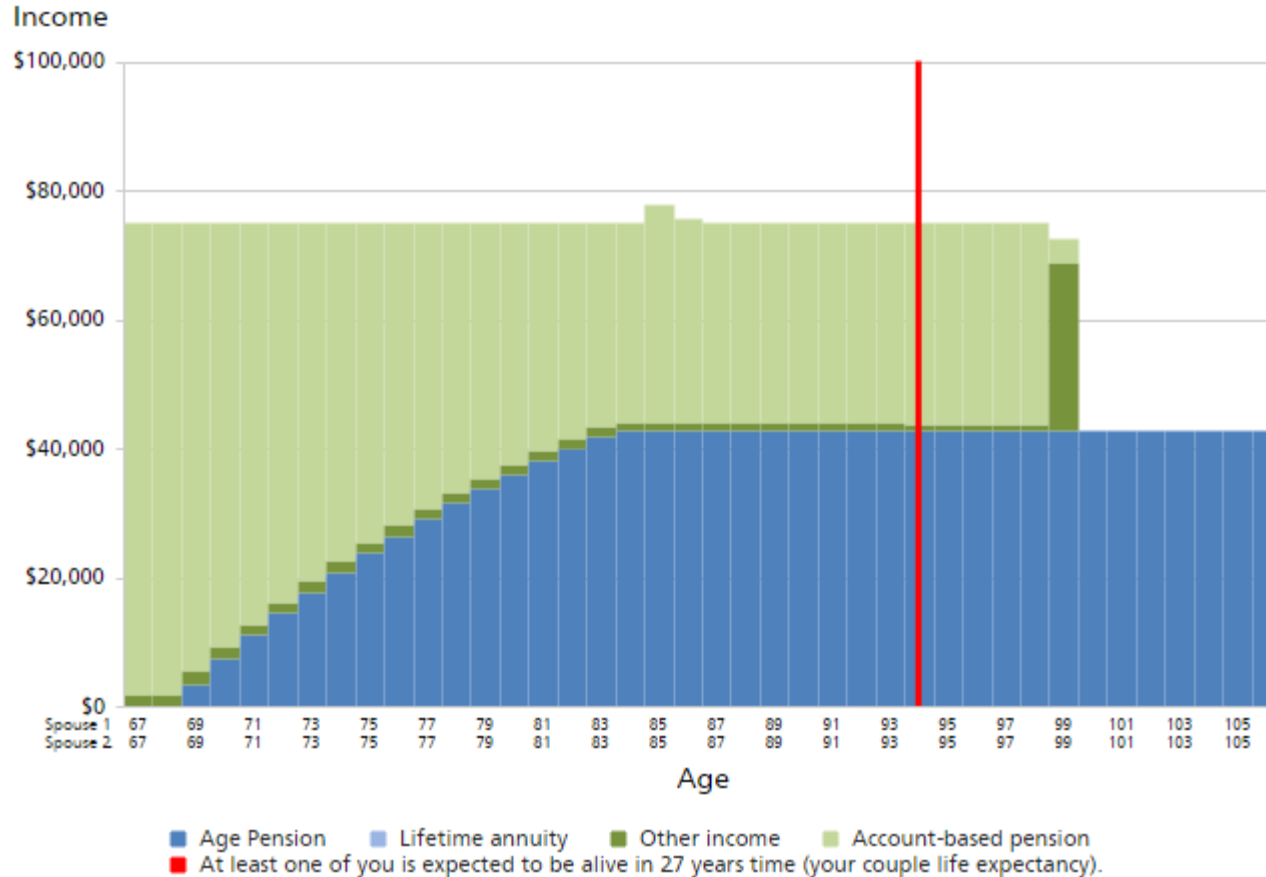
Improving Age Pension outcomes with lifetime income

Introducing Jonty and Jen



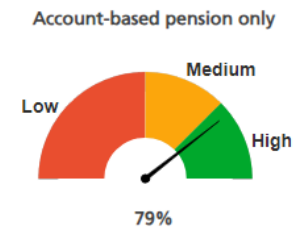
Improving Age Pension outcomes with lifetime income

Jonty and Jen: Account-based pensions only

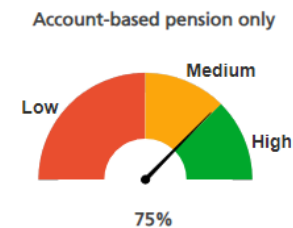


All values are shown in today's dollars

Chance of \$46,620 'needs' income being met

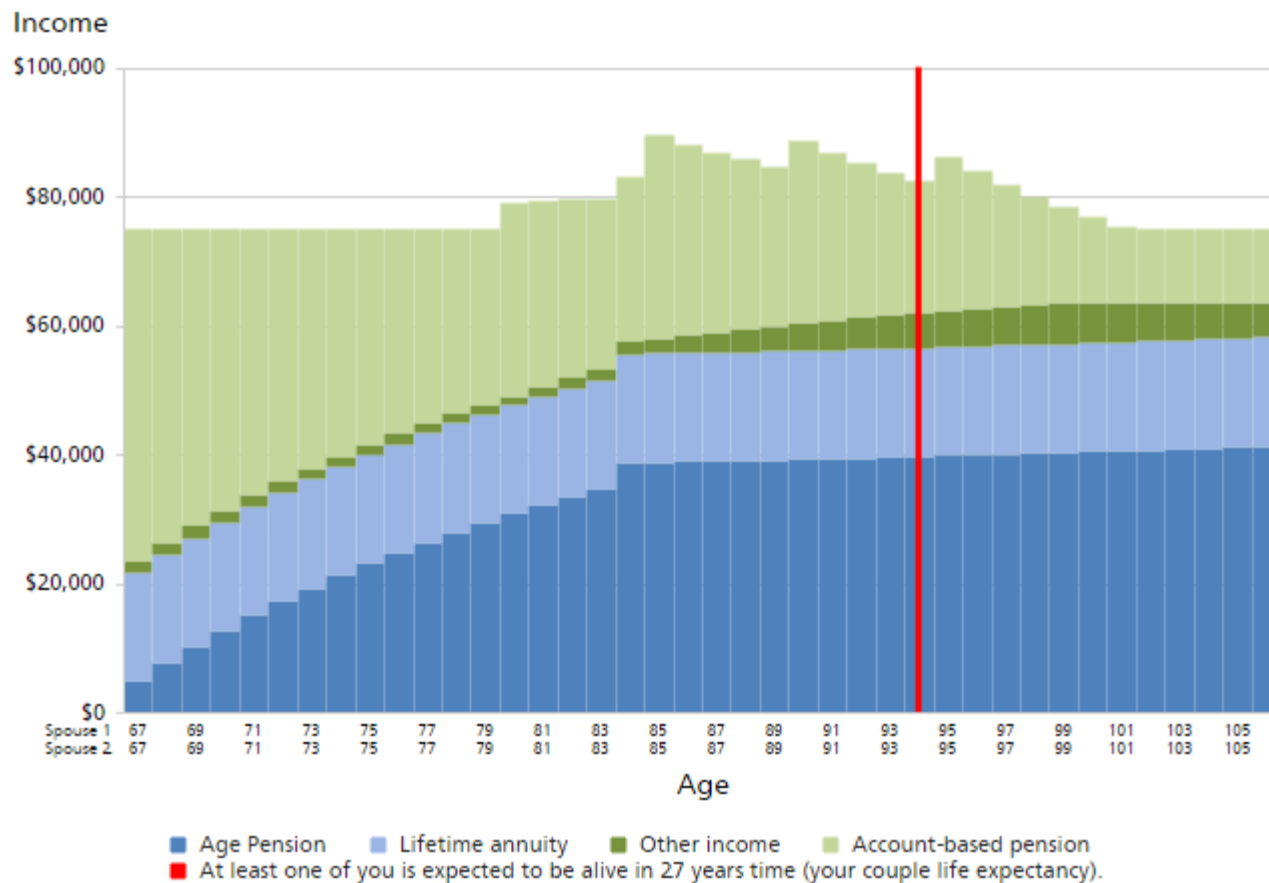


Chance of \$75,000 'needs' and 'wants' income being met



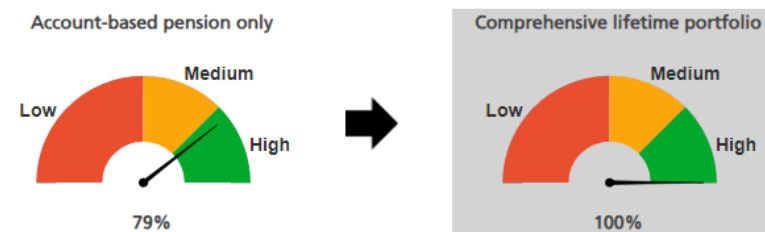
Improving Age Pension outcomes with lifetime income

Jonty and Jen: A tactical 30% allocation to guaranteed lifetime income



All values are shown in today's dollars

Chance of \$46,620 'needs' income being met



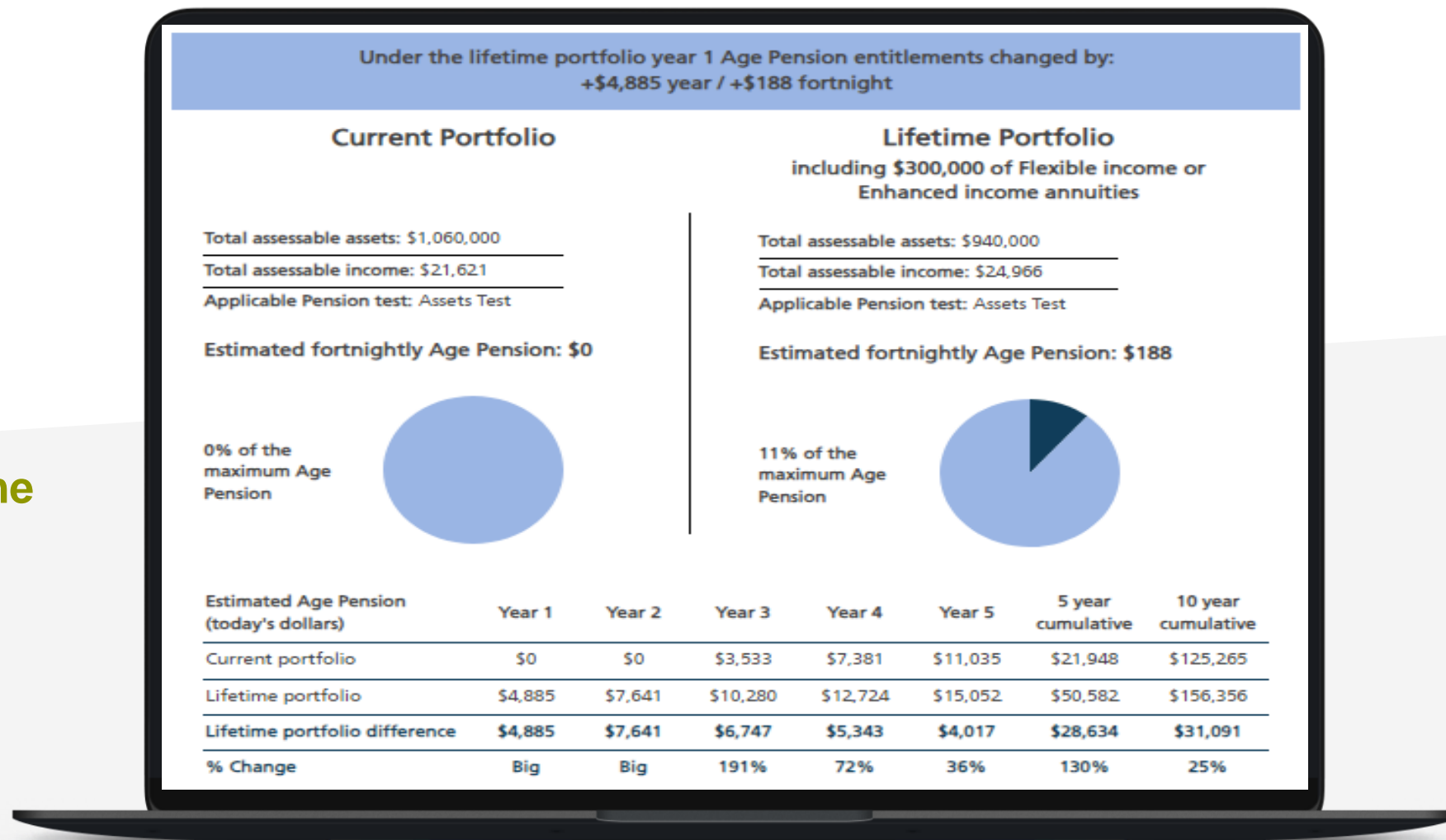
Chance of \$75,000 'needs' and 'wants' income being met



Jonty and Jen



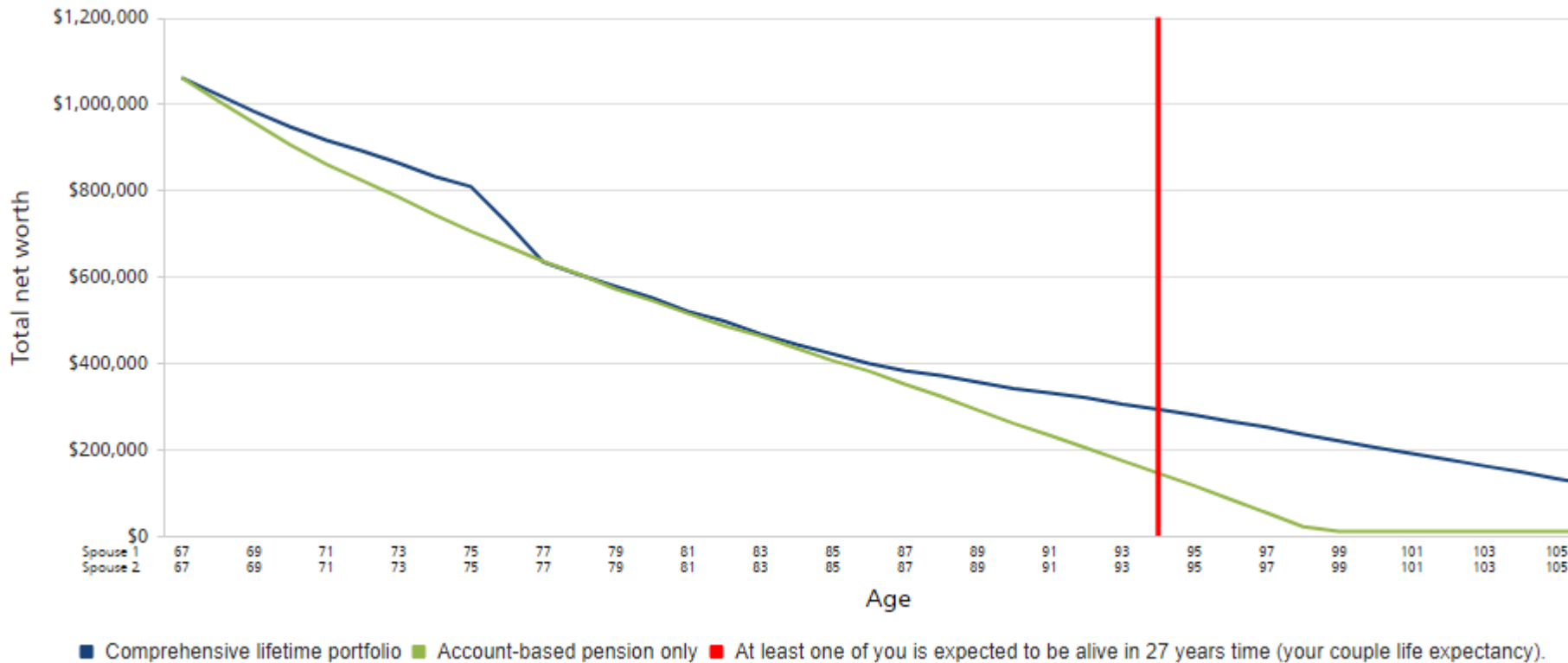
Improving Age Pension outcomes with a tactical 30% allocation to guaranteed lifetime income



Source: Challenger Retirement Illustrator (03/12/2023) using Social Security rates and thresholds effective 20 September 2023. 67 year old male/female client couple. \$1,000,000 combined in account-based pensions. Assumes returns of 4.0% p.a. for defensive assets and 8.0% p.a. for growth assets before fees. \$50,000 cash/TDs earning 4% p.a. interest. Non-financial assets of \$10,000. \$75,000 p.a. desired income including \$46,620 p.a. essential income. Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Reference number: RIC231203000064

Improving Age Pension outcomes with lifetime income

Jonty and Jen: Estate outcomes



←

Estate (bequest) value comparison

The chart on the left compares the median estate (bequest) value based on the 2,000 market scenarios.

45 Source: Challenger Retirement Illustrator (03/12/2023) using Social Security rates and thresholds effective 20 September 2023. 67 year old male/female client couple. \$1,000,000 combined in account-based pensions. Assumes returns of 4.0% p.a. for defensive assets and 8.0% p.a. for growth assets before fees. \$50,000 cash/TDs earning 4% p.a. interest. Non-financial assets of \$10,000. \$75,000 p.a. desired income including \$46,620 p.a. essential income. Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Reference number: RIC231203000064

Improving Age Pension outcomes with lifetime income

Improved retirement outcomes for Jonty and Jen

	Income for life	Income needs met	Age Pension increase	Higher Income	Higher estate value
30% tactical allocation to CPI-linked lifetime income	<ul style="list-style-type: none">Lifetime income for as long you live in addition to any Age Pension you may receive. The lifetime income amount in the first year is \$16,826.	<ul style="list-style-type: none">A 100% chance of meeting income 'needs' (an increase of 21% over the non-lifetime portfolio).A 94% chance of meeting desired 'needs and wants' (an increase of 19% over the non-lifetime portfolio).	<ul style="list-style-type: none">An Age Pension increase in year 1 of \$4,855 (a big increase over the non-lifetime portfolio).	<ul style="list-style-type: none">Total retirement income paid over 27 years increased by \$127,312 (in today's dollars).	<ul style="list-style-type: none">The Estate value at the end of 27 years increased by \$143,037 (in today's dollars).

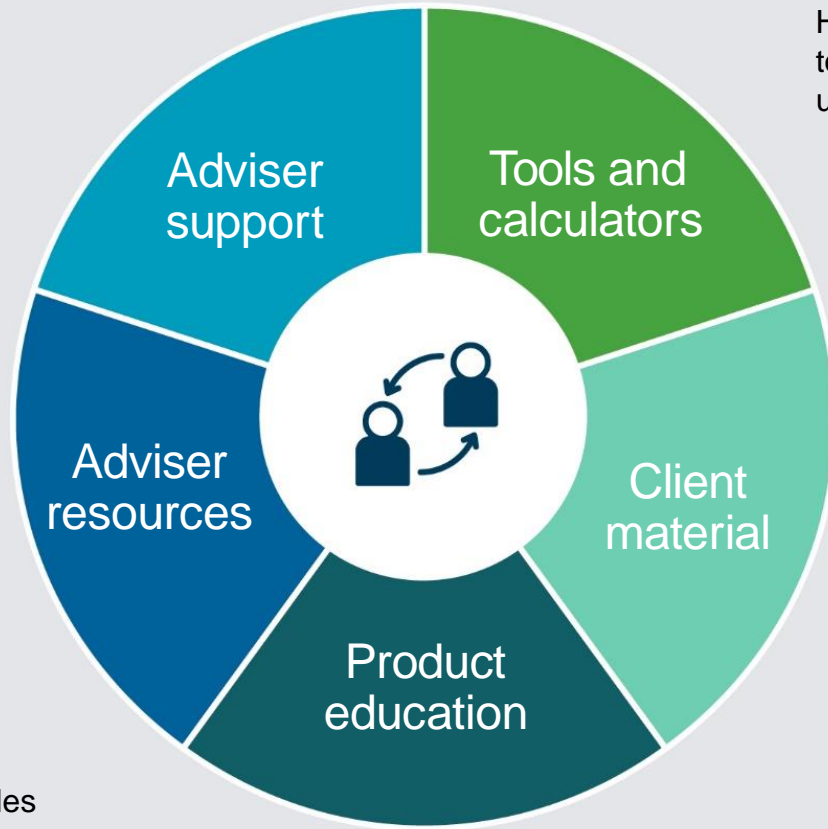
Challenger support for advisers

Retirement income specialists

Leverage the expertise of our BDMs or Challenger's award-winning Tech Team



Sharpen your knowledge with our CPD accredited learning modules, webinars and thought leadership articles



Help cut down the time it takes to construct quality advice by utilising our online tools and templates



Build your clients' knowledge – and your brand with client engagement tools and materials

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