

AHEAD OF THE CURVE

Income in Active Retirement

Jonathan Shead

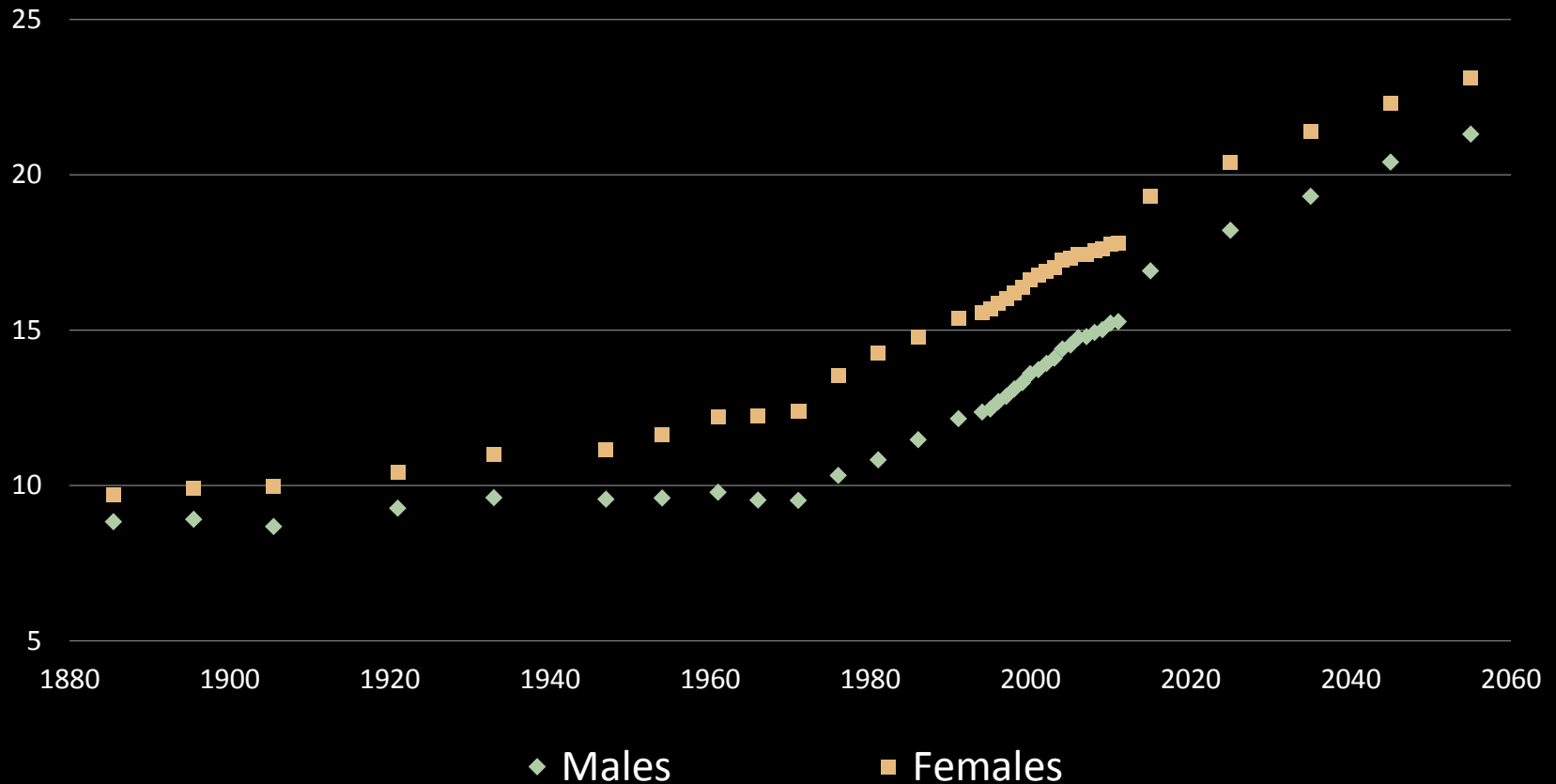
Head of Retirement Solutions, Australia
State Street Global Advisors

The “Active” part

What it means to live to 100

What job are you going to do after you “retire”?

Australian Life expectancy at age 70 (yrs)
Historic and Projected



Source: SSGA, Australian Bureau of Statistics, United Nations World Population Prospects, Treasury 2015 Intergenerational Report

The Economics of Longevity

**DEFINING A
NEW LIFE
STAGE**

**WORKING IN THE
“GIG” ECONOMY**

**CHANGING
ATTITUDES
TO EMPLOYMENT**

BECAUSE ...

“... many of those older people today are not in fact “old” in the sense of being worn out, sick and inactive. Today’s 65-year-olds are in much better shape than their grandparents were at the same age.”

WE CAN EXPECT ...

“... the longer, healthier lives that people now enjoy can be a boon, not just for the individuals concerned, but for the economies and societies they are a part of.”

**TECHNOLOGY
IN FRAIL
STAGES**

**“SILVER
DOLLAR”
CONSUMERS**

**FINANCIAL
SERVICES**

Source: The Economist, “Special Report: The Economics of Longevity”, July 8th – July 14th 2017

Two Types of Assets



TANGIBLE

SAVINGS

PROPERTY

PENSION



INTANGIBLE

PRODUCTIVITY

VITALITY

TRANSFORMATION

Source: "The 100 year life", Lynda Gratton & Andrew Scott, *Bloomsbury Publishing* 2016

Long Term Implications for Planners

MAJOR NEW RISKS

Longevity
Early incapacitation

CHANGING FAMILY STRUCTURES

Four generation households
80 year old divorces
Blended families, estate planning

FLEXIBILITY

Multi-stage life
Transitions
Retraining
2nd Careers
Part time work

Source: SSGA

The “Retirement” part

Global Retirement Survey: We’re not there yet

We are doing pretty well



US
4.1

Retirement Happiness Scores

Trust in Savings Systems
Ownership of Retirement Readiness
Preparedness of Retirement Saving and Spending Strategies



Australia
3.9



Sweden
3.9



Germany
2.8



Ireland
2.6



UK
2.4



Italy
2.2



Netherlands
2.1

Source: SSGA Global Retirement Reality Report 2018, The Happiness Formula ©

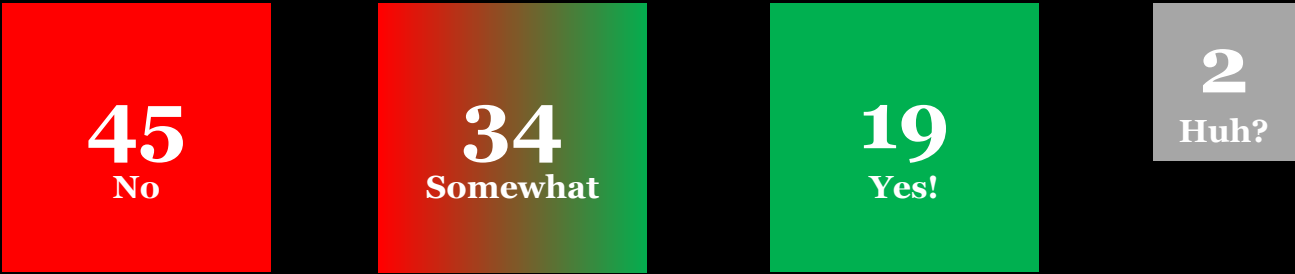
Responsibility: Clients own their future



Who is most responsible for making sure that you have adequate income in retirement? (%)

Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

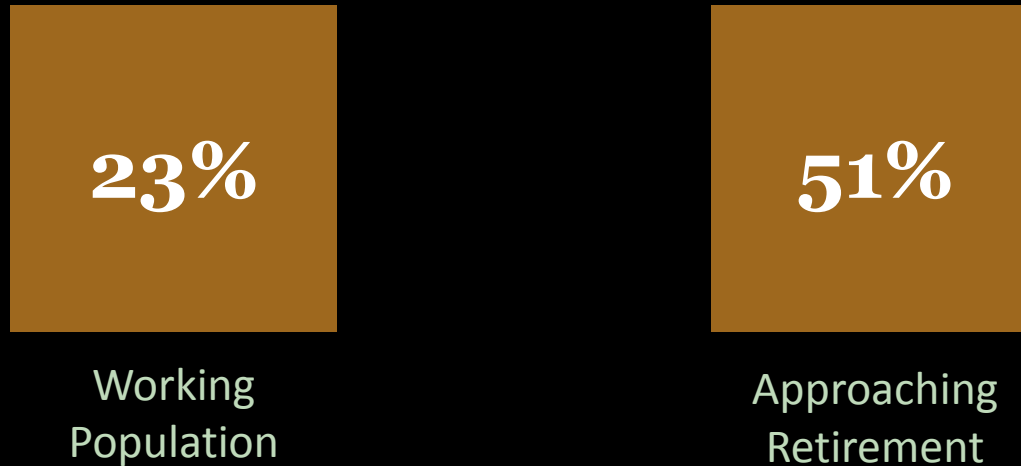
Confidence: Where is it?



*Are you optimistic about your financial situation in retirement?
% of Working Population*

Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

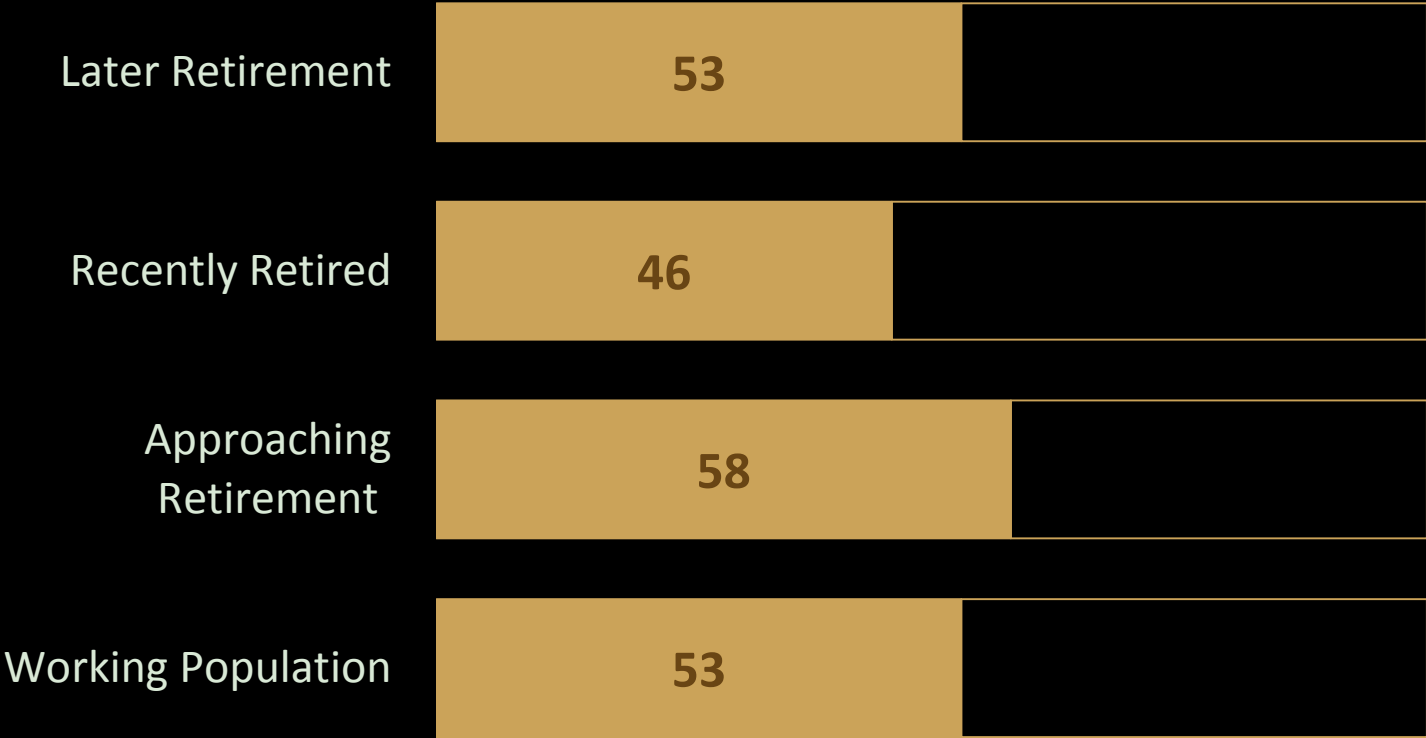
Action: Not enough are looking for help



Have you actively begun seeking help with what to do regarding your pension at retirement?

Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

Reality Check 1: Income Replacement



What level of income do you expect you will need / are you receiving in retirement? (%)

Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

Reality Check 2: Lump Sum at Retirement



How much money in total do you think you will need to have saved by the time you retire? (Average for Working Population)

\$414,000

How much money in total did you have saved by the time you retired? (Average for Later in Retirement)

\$534,000

Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

Reality Check 3: Later Retirement

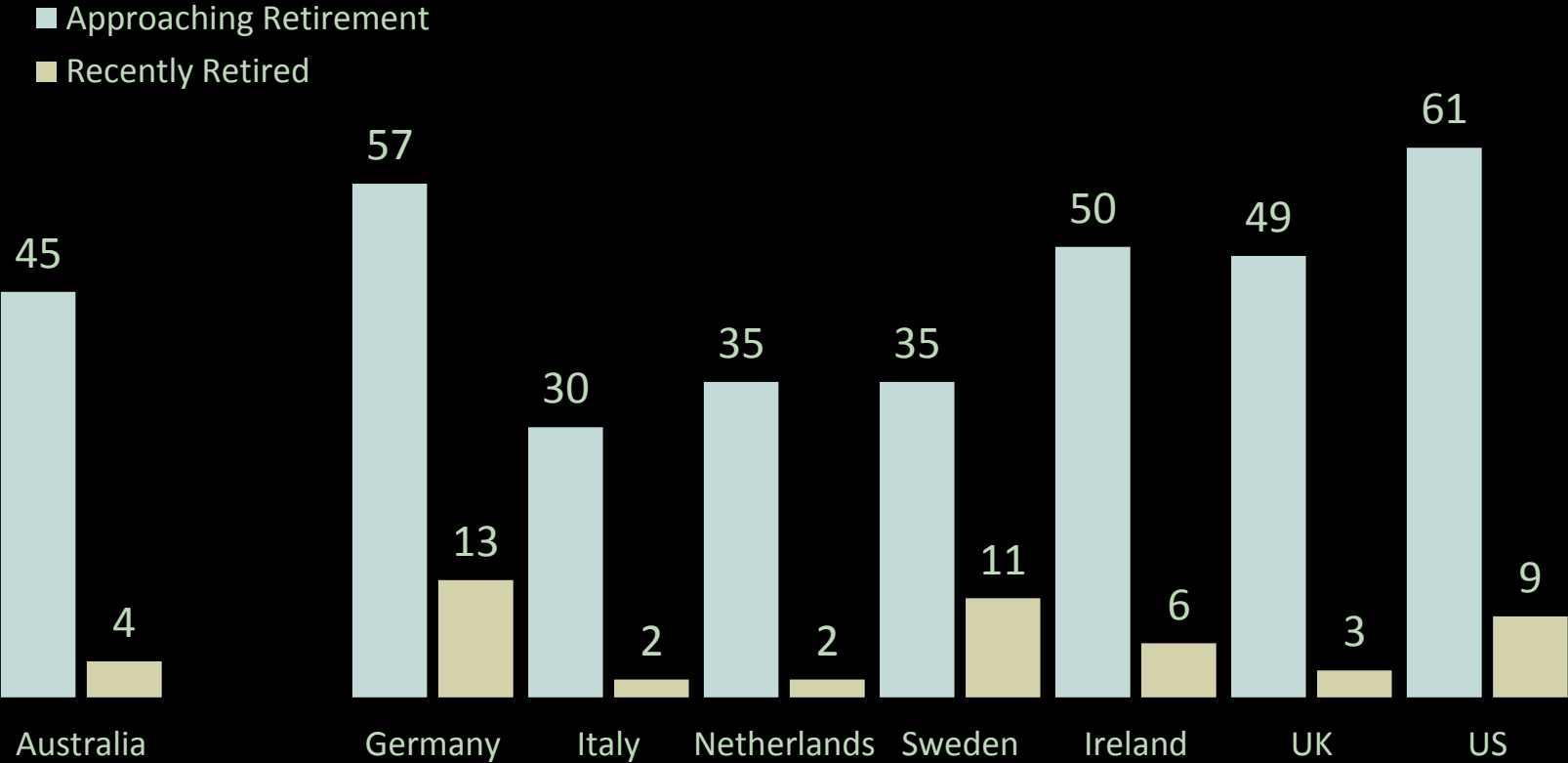
A large orange square containing the text "42%".

42%

*Working population who intend to retire later to make up shortfall
between retirement savings and expected spending (%)*

Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

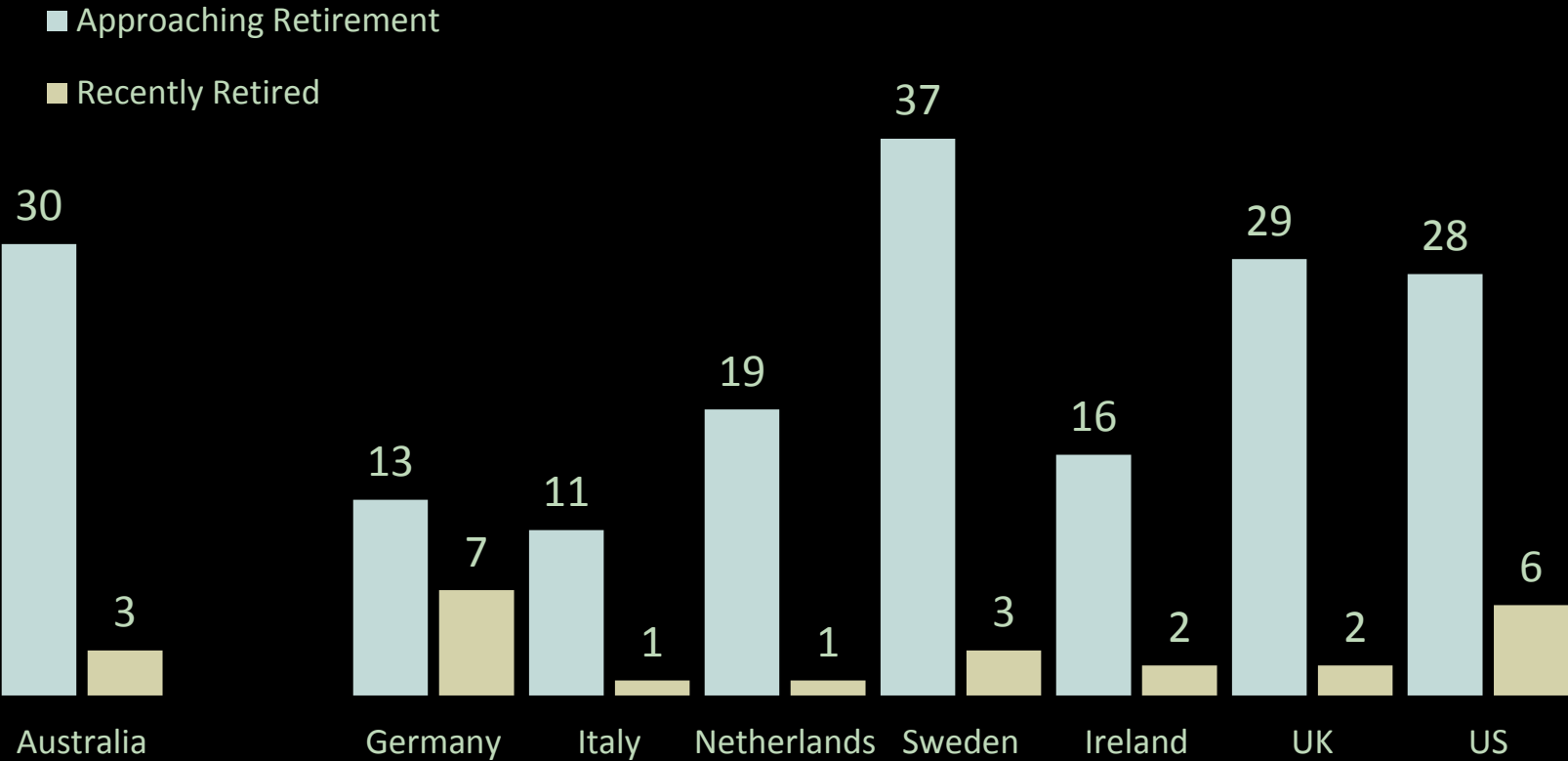
Reality Check 4: Part-time work in retirement



% Workers who intend to use part-time work to make up a retirement savings shortfall vs % Recent Retirees who are using part-time work as a source of income

Source: SSGA Global Retirement Reality Report 2018 Chapter One, 2018

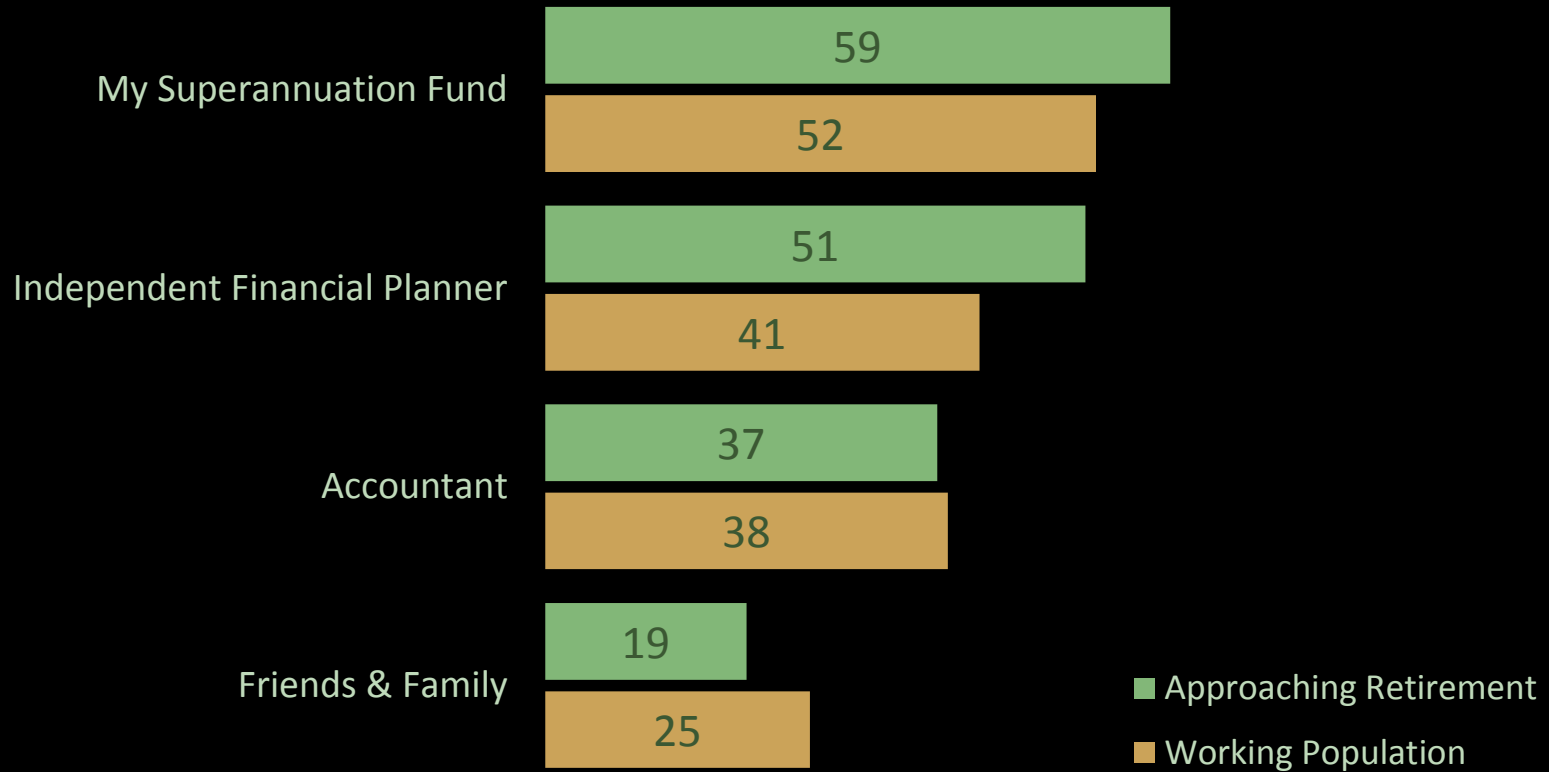
Reality Check 5: Using the family home



% Workers who intend to use down-sizing or equity release to make up a retirement savings shortfall vs % Recent Retirees who are using down-sizing or equity release

Source: SSGA Global Retirement Reality Report 2018 Chapter One, 2018

Your Role: Advice can be from IFA or a Superfund

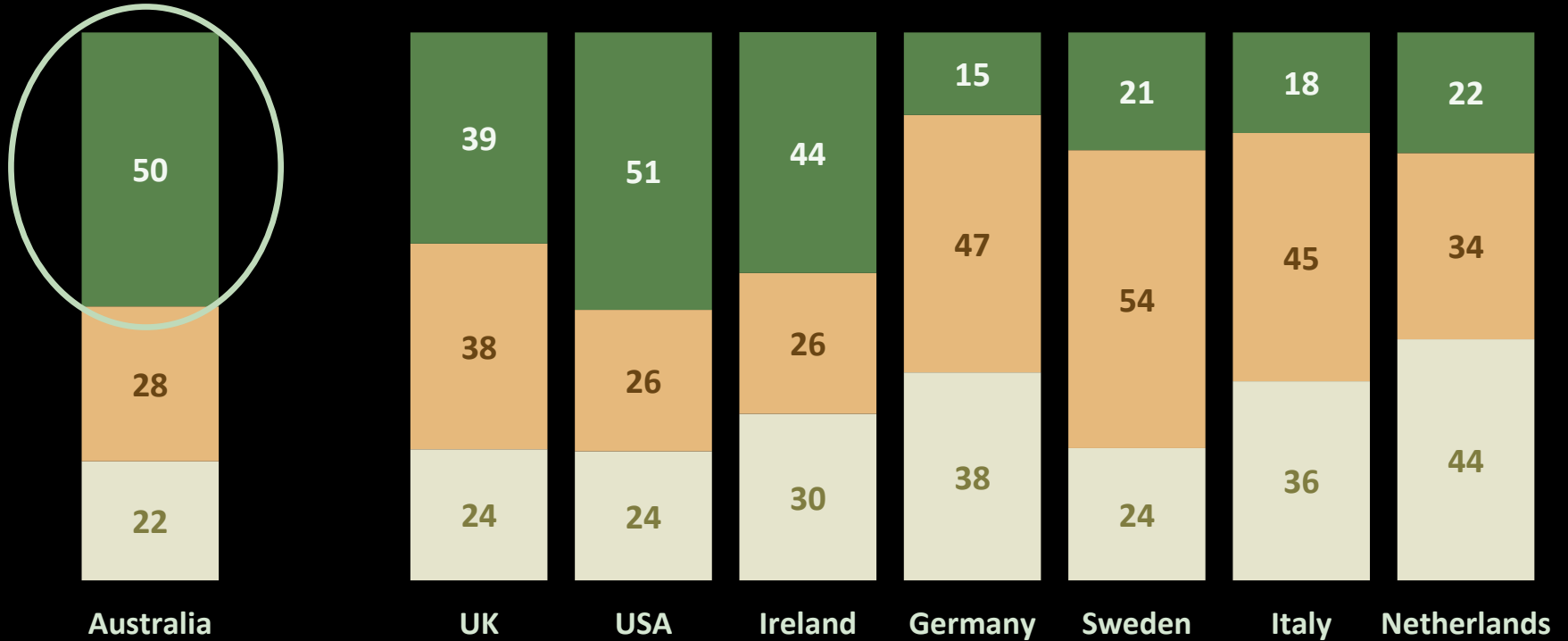


Where will you look for help in deciding what to do regarding your pension and retirement? (%)

Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

Willing to pay for financial advice

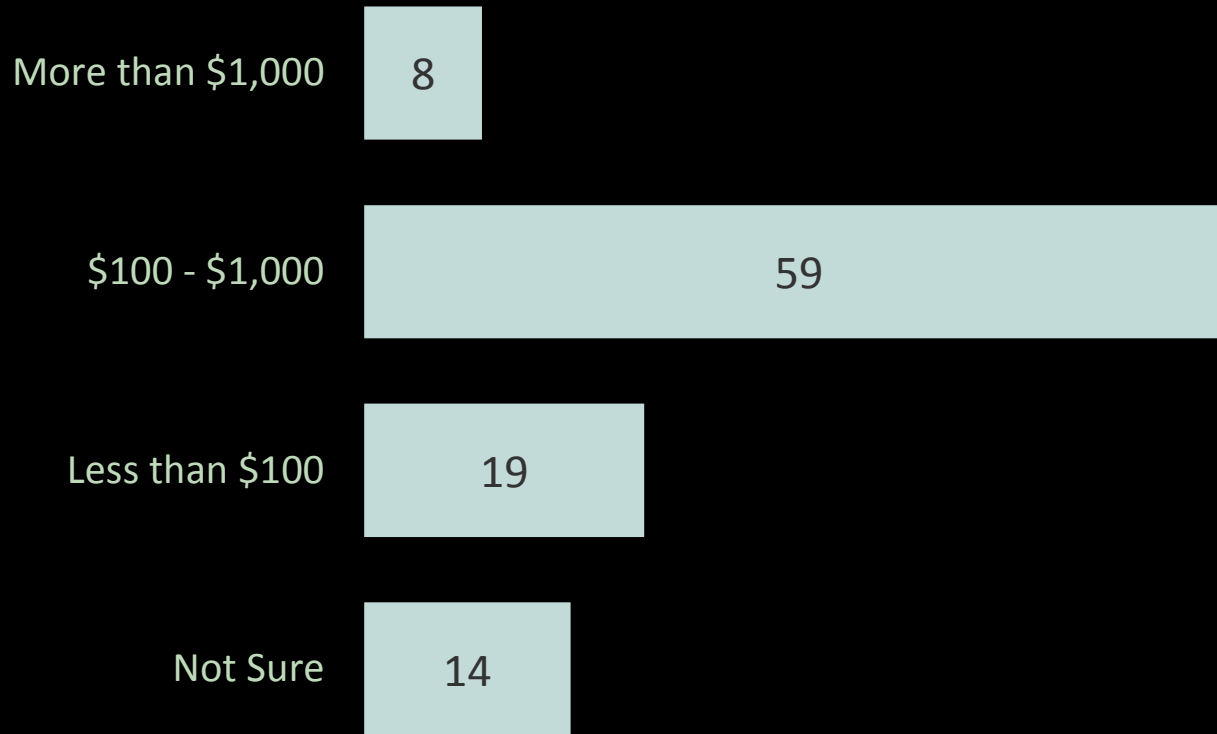
■ No, I expect to receive free financial advice
 ■ No, I am unwilling to pay for financial advice
 ■ Yes



Would you be willing to pay for advice from a financial advisor to help you make decisions regarding your savings at retirement?
% of Approaching Retirement

Source: SSGA Global Retirement Reality Report 2018 Chapter One, 2018

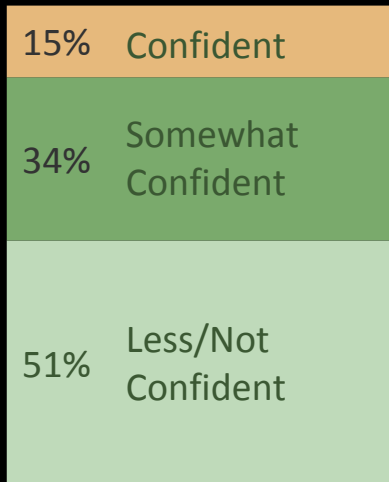
Amount willing to pay for financial advice



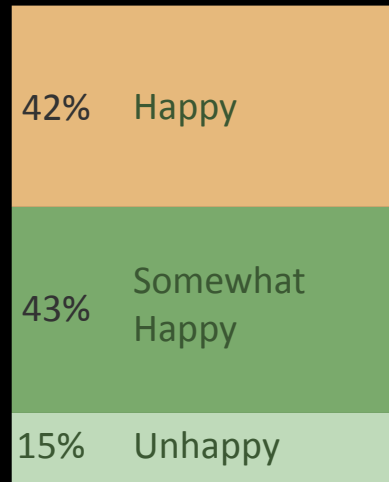
How much would you be willing to pay for financial advice?
% of Working Population

Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

Working Population
Confident in Affording
Lifestyle



Recent Retiree
happiness with affording
lifestyle



An Unexpected Outcome?

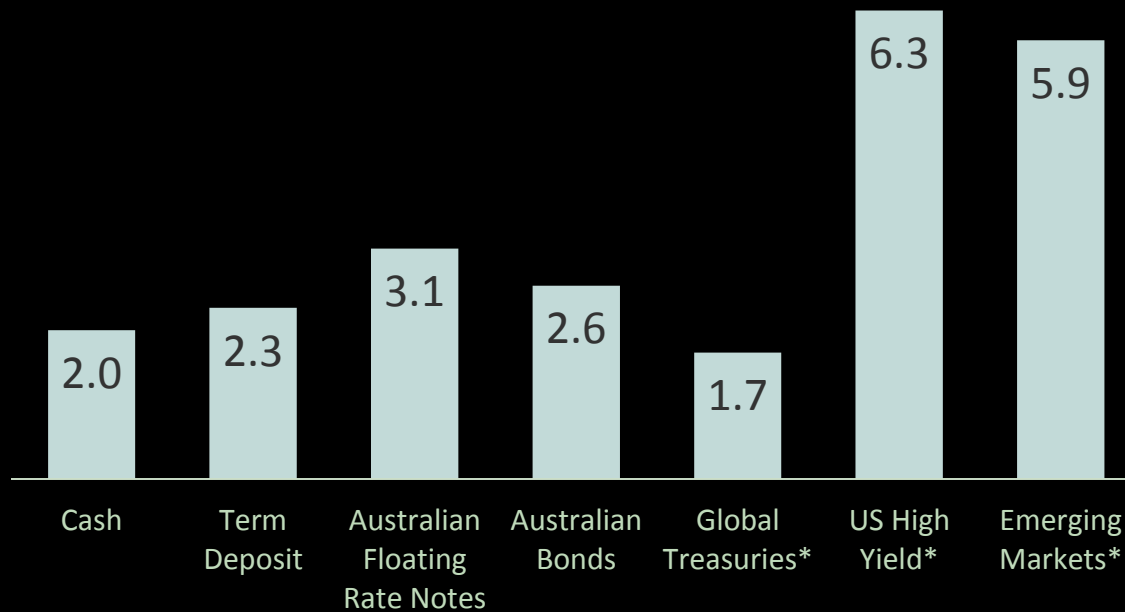
Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

The “Income” part

Where to find it and how to think about it

The opportunity set

Defensive Yields (% pa)



Asset Class	Source
Cash	CBA Bonus Saver Account As at 12 October 2018
Term deposit	CBA 12m TD (\$50k - \$2m) As at 12 October 2018
Australian FRNs	State Street Floating Rate Fund As at 31 August 2018
Australian Bonds	S&P/ASX Australian Fixed Interest Index As at 28 September 2018
Global Sovereigns	FTSE World Government Bond Index As at 28 September 2018
US High Yield	Bloomberg Barclays US Corporate High Yield As at 28 September 2018
Emerging Markets	Bloomberg Barclays EM Local Currency Govt. As at 28 September 2018

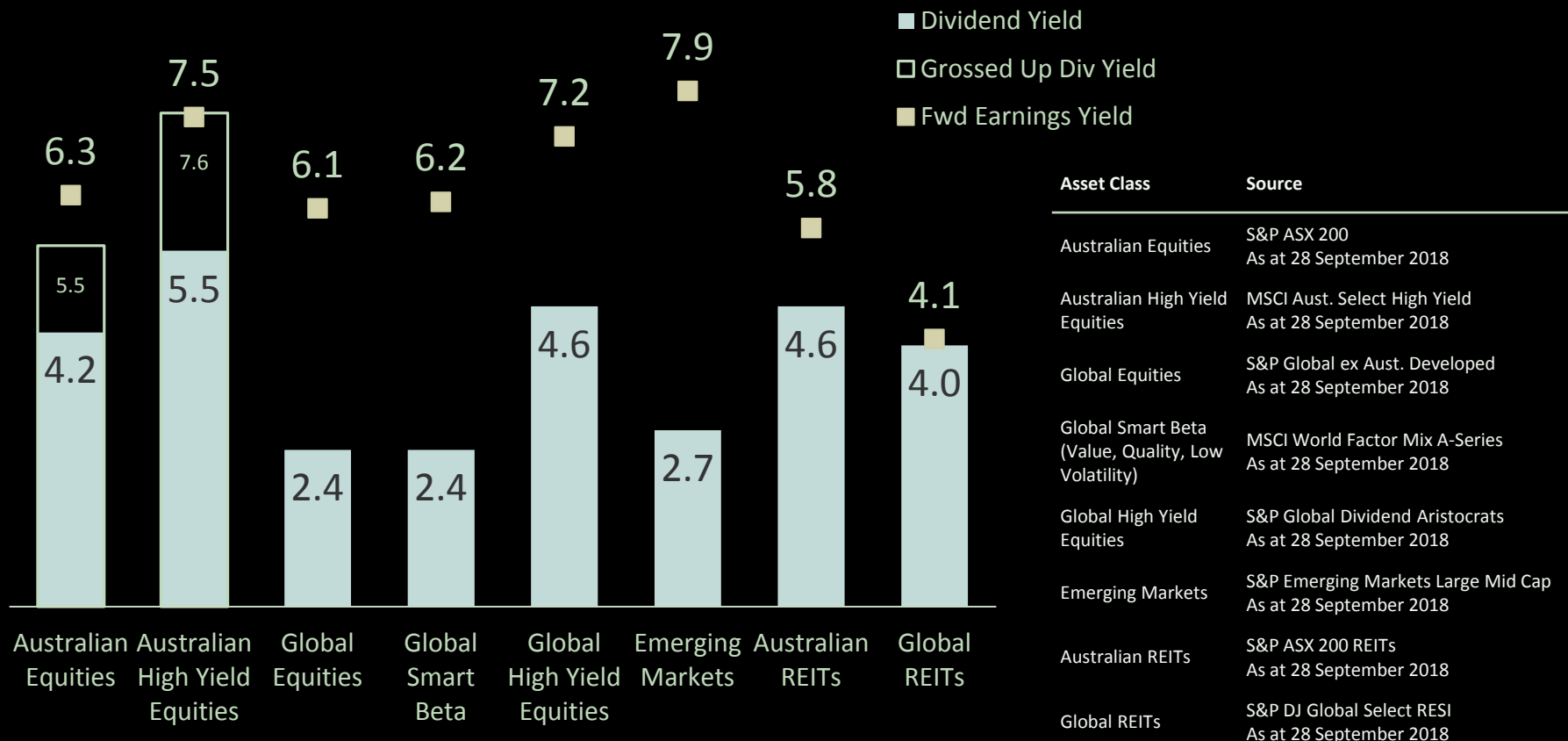
* Reflects unhedged yield; ie excludes interest carry on any currency hedge

Source: SSGA, S&P, Barclays, Commonwealth Bank, FTSE

Yields are as of the date indicated, subject to change, and should not be relied upon thereafter.

The opportunity set

Growth Yields (% pa)



Asset Class	Source
Australian Equities	S&P ASX 200 As at 28 September 2018
Australian High Yield Equities	MSCI Aust. Select High Yield As at 28 September 2018
Global Equities	S&P Global ex Aust. Developed As at 28 September 2018
Global Smart Beta (Value, Quality, Low Volatility)	MSCI World Factor Mix A-Series As at 28 September 2018
Global High Yield Equities	S&P Global Dividend Aristocrats As at 28 September 2018
Emerging Markets	S&P Emerging Markets Large Mid Cap As at 28 September 2018
Australian REITs	S&P ASX 200 REITs As at 28 September 2018
Global REITs	S&P DJ Global Select RESI As at 28 September 2018

Source: SSGA, MSCI, S&P

Past performance is not a reliable indicator of future performance.

Characteristics are as of the date indicated, subject to change, and should not be relied upon as current thereafter.

Defining the problem

Naïve 35 year simulation, 35 years to 30 June 2018

Initial allocation 50% Australian Equities, 50% Global Equities

MSCI Australia IMI

MSCI World ex Australia¹

No rebalancing

\$310,000 opening balance in June 1983

Adjusted for inflation (CPI) = \$1,000,000 in June 2018

Income = Dividends + 2% of remaining capital each year

No transaction costs

No active management

No management fees

Ignore franking credits

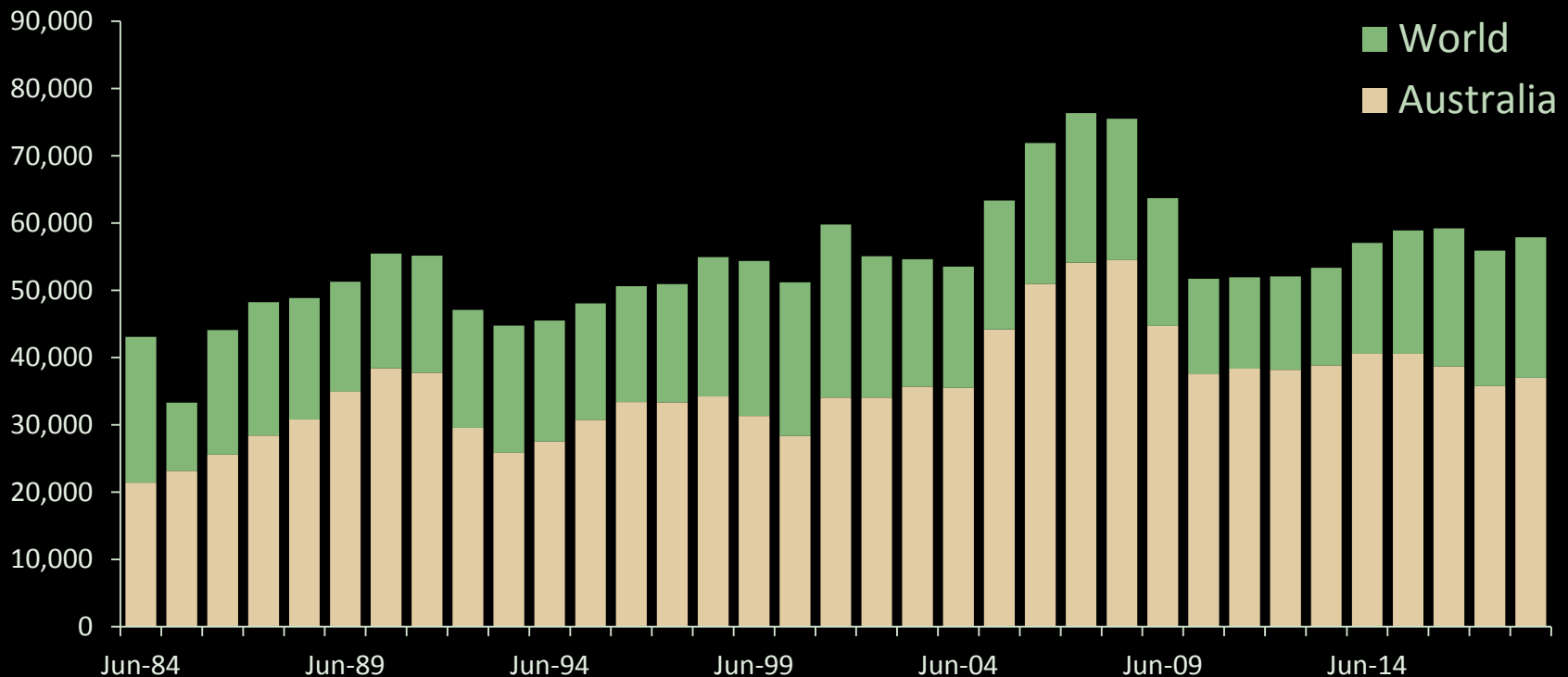
¹ Withholding tax assumed to lie midway between “Net” and “Gross” published indices to approximate Australian investor experience

The assumptions used in the blended performance do not reflect any investment strategy or model managed by SSGA. The blended performance in this presentation is provided for illustrative purposes only.

Defining the problem

The Payments = Income + 2% Remaining Capital each year

Annual Payments: Inflation Adjusted to 2018 Dollars



Source: SSGA. Returns do not represent those of a fund, but were achieved by mathematically combining the actual performance data of the MSCI World ex Australia Index and the MSCI Australia IMI Index. Previous slide describes how the performance data was combined. The performance assumes no transaction and rebalancing costs, so actual results will differ.

Defining the problem

The Remaining Balance

Remaining Balance: Inflation Adjusted to 2018 Dollars



Source: SSGA. Returns do not represent those of a fund, but were achieved by mathematically combining the actual performance data of the MSCI World ex Australia Index and the MSCI Australia IMI Index. Previous slide describes how the performance data was combined. The performance assumes no transaction and rebalancing costs, so actual results will differ.

What can I spend?

VS

How much do I have?

Bringing them together

The industry response

Australian Treasury Perspective: Background Jargon

CIPR = Comprehensive Income Product for Retirement (“Sip-ra”)

ABP = Account Based Pension

ILA = Immediate Life Annuity

DLA = Deferred Life Annuity

GSA = Group Self-Annuitisation



“Pooled Lifetime
Income Products”

Based on The Australian Government the Treasury data.
Source: Retirement Income Covenant Position Paper, May 2018

Australian Treasury Perspective*

A CIPR is a retirement income product which is designed to provide:

- efficient, broadly constant income, in expectation;
- longevity risk management (income for life); and
- some access to capital.

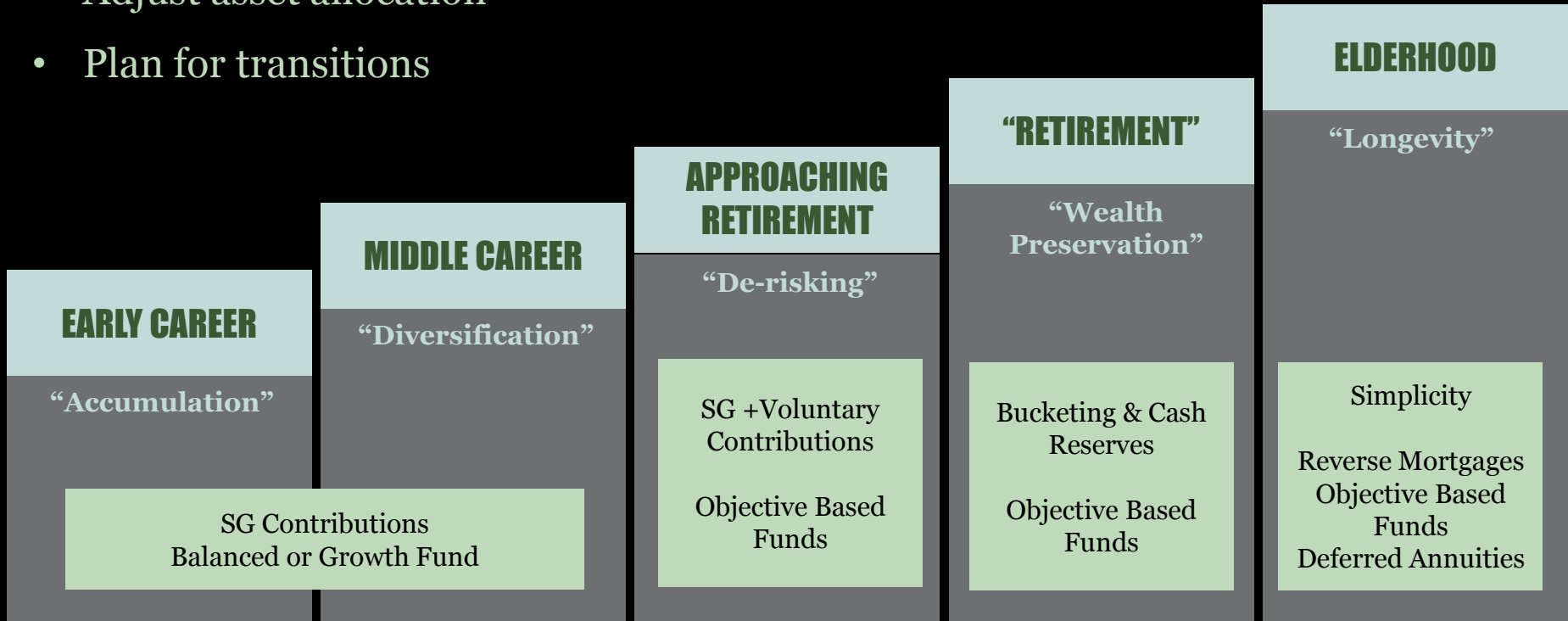
A 100 per cent allocation to an ABP alone would not meet the definition of a CIPR.

Based on The Australian Government the Treasury data.
Source: Retirement Income Covenant Position Paper, May 2018

*Does not apply to SMSFs

Our perspective

- Evolve your engagement
- Find inflection points
- Adjust asset allocation
- Plan for transitions






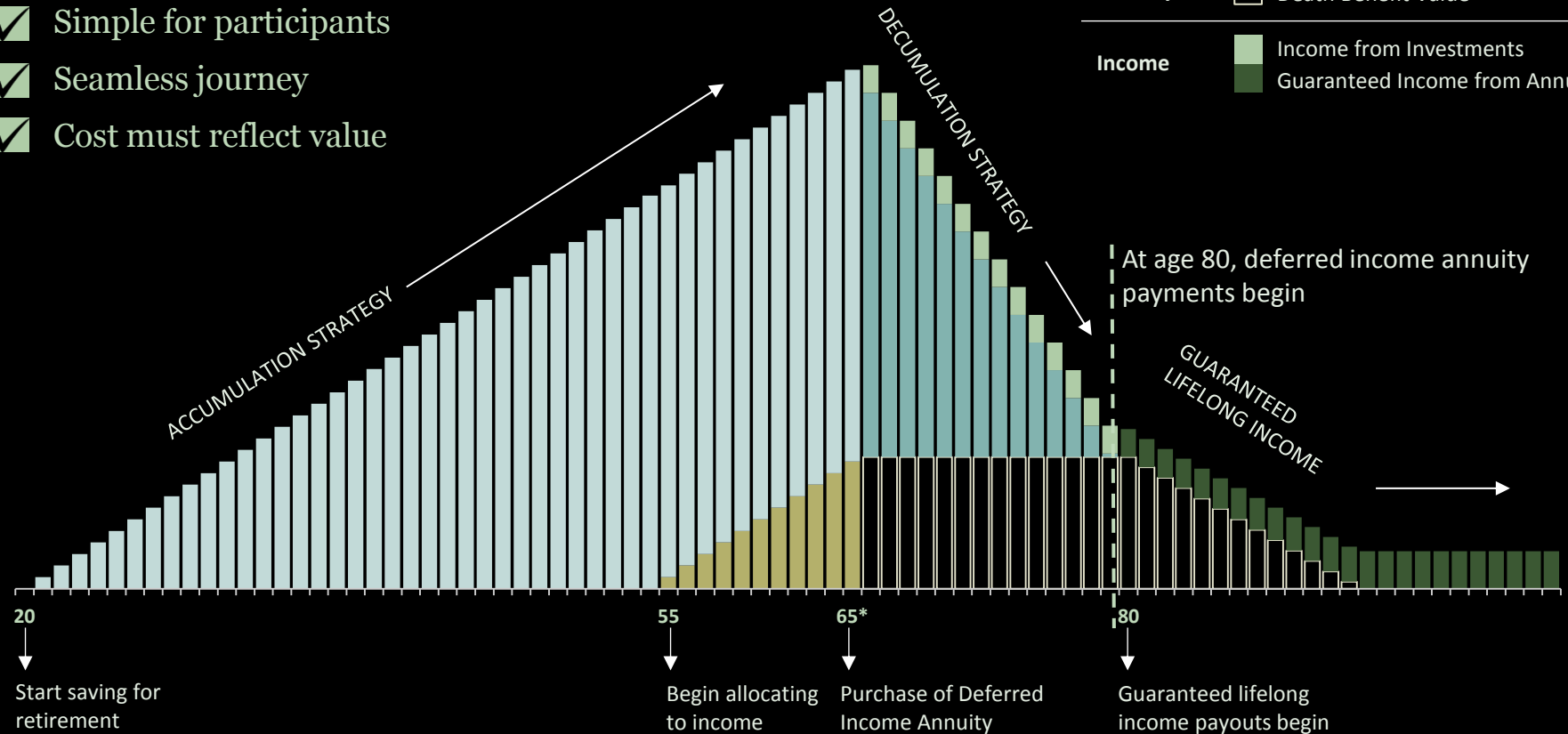
Source: SSGA. The information contained above is for illustrative purposes only. Diversification does not ensure a profit or guarantee against loss.

Sample US Design Framework

Key Principles for Design

- ✓ Longevity risk is the key risk
- ✓ Simple for participants
- ✓ Seamless journey
- ✓ Cost must reflect value

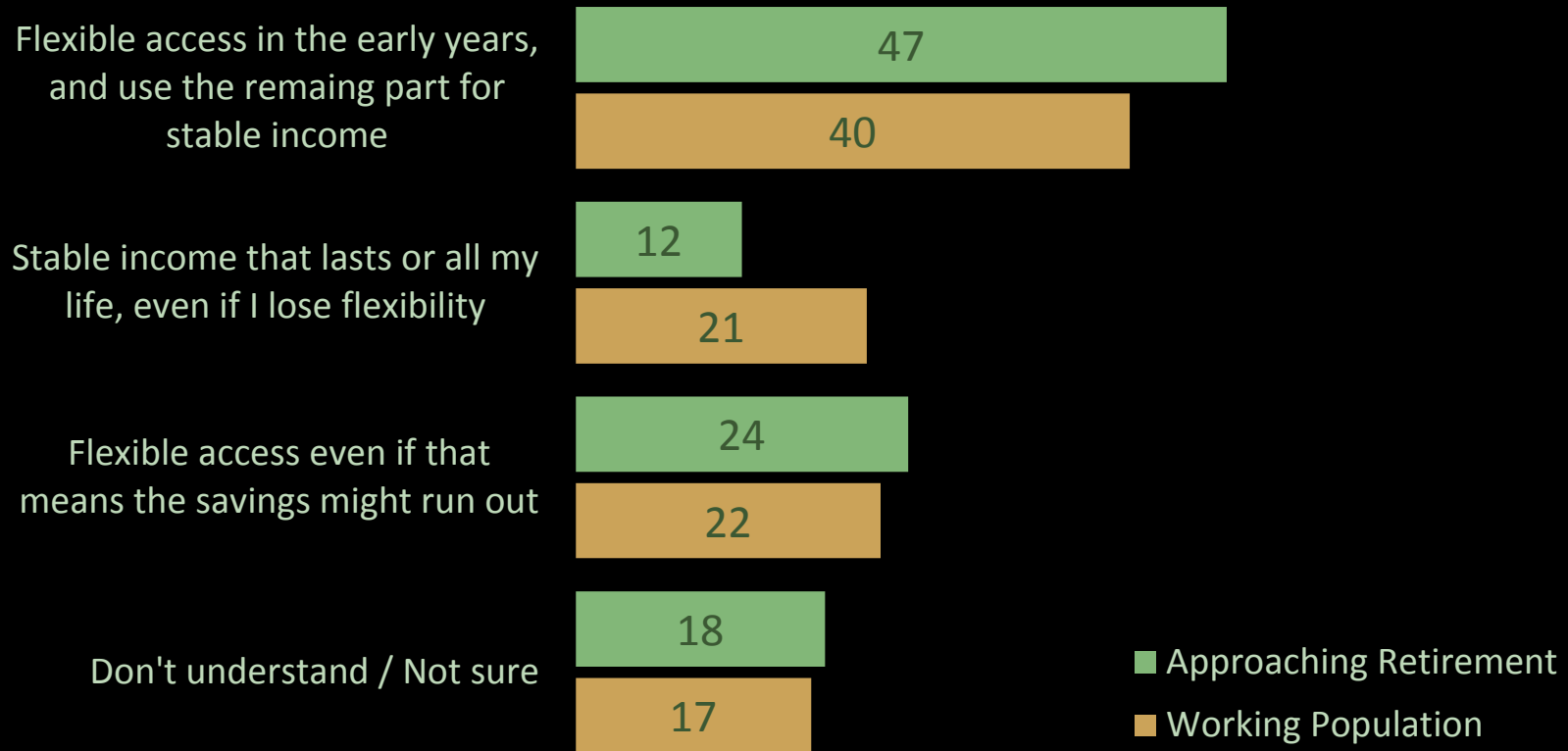
Investment	 Pre-Retirement Investments
	 Post-Retirement Investments
Annuity	 Annuity Pre-funding Allocation
	 Death Benefit Value
Income	 Income from Investments
	 Guaranteed Income from Annuities



Source: State Street Global Advisors Defined Contribution. For illustration purposes only.

*Assumed age at retirement. Ages and expected dates of retirement are approximate and may not accurately reflect the age or retirement date of each participant at each stage.

Your clients' perspective: Looks like a "CIPR"



From the following options on accessing your retirement savings, which would you choose? (%)

Source: SSGA Global Retirement Reality Report 2018 Australia Snapshot, 2018

Getting ahead of the curve ...

Learn how the retiring workforce is changing

Understand the lack of confidence

People have some things right and some things wrong

Recognise the industry is not structured around “income”

Investigate new products and solutions

Don't ignore the CIPR debate

There is a need for advice(!) and a willingness(?) to pay

Important Disclosures

Investment Professional Use Only — Not for Use with the Public

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates raise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

Issued by State Street Global Advisors, Australia Services Limited (AFSL Number 274900, ABN 16 108 671 441) ("SSGA, ASL"). Registered office: Level 17, 420 George Street, Sydney, NSW 2000, Australia · Telephone: 612 9240-7600 · Web: www.ssga.com.

All information is from SSGA Australia or YouGov unless otherwise noted. The views expressed in this material are the views of SSGA Australia through the period ended 18 June 2018 and are subject to change based on market and other conditions.

This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially ssga.com from those projected.

Investing involves risk including the risk of loss of principal.

Past performance is not a reliable indicator of future performance.

This material is general information only and does not take into account your individual objectives, financial situation or needs and you should consider whether it is appropriate for you.

There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

"SPDR" is a trademark of Standard & Poor's Financial Services LLC ("S&P") and has been licensed for use by State Street Corporation. No financial product offered by State Street Corporation or its affiliates is sponsored, endorsed, sold or promoted by S&P or its affiliates, and S&P and its affiliates make no representation, warranty or condition regarding the advisability of buying, selling or holding units/shares in such products.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA ASL's express written consent.

© 2018 State Street Corporation — All Rights Reserved.

Tracking Code: 2278356.1.1.ANZ.INST

Expiration Date: 31/10/2019

STATE STREET
GLOBAL ADVISORS[®]
SPDR[®]