Retirement: The now and the then

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About this report

All the information in this report is evidence-based. Grounded in established behavioural finance and psychological models, it leverages a large quantitative research study undertaken for Fidelity International by independent research firm MYMAVINS.

The research involved an online survey of 1,514 Australians over the age of 50, with fieldwork undertaken in September 2021. Respondents included pre-retirees (n = 510), semi-retirees (n = 200), early retirees (n = 400) and late retirees (n = 404).

Retirement is a state of mind, so for the purpose of this study, respondents self-categorised as pre-retirees, semi-retirees or retirees. However, one group was categorised by the researchers. Respondents over the age of 65, working less than full-time, are classified as semi-retired.

Early retirees have all retired within the past 10 years (regardless of age), and late retirees have more than 10 years of experience living in retirement.

Retirement is a recent phenomenon in Australian society. When the age pension was launched in 1909, retirement was short. Life expectancies at birth were around 56 years for men and 60 years for women.[1] Since that time, advancements in medicine and health care have seen life expectancy increase significantly and, as a result, concerns about the sustainability of the social security system.

A release valve came in the shape of the superannuation guarantee. Its introduction in the early 1990s was a paradigm shift, democratising private pension benefits to reach beyond a chosen few.

But the design of the super guarantee was, and still is today, a product of how we lived and worked in the 1980s, an era when men dominated the workforce, working full-time and usually for the one employer. Australians dreamed of early retirement, moving to the coast and enjoying their leisure time on the beach or playing golf.

Fast forward three decades to today and it has become clear the retirement system has become dislocated from how we live as a society. The super guarantee does not serve Australians with broken careers, low-income workers or those working in the gig economy.

In November 2020, Commonwealth Treasury published its *Retirement Income Review* report. The conclusion was that the retirement income system is effective, sound and broadly sustainable – but there are areas where the system could be improved.

One area identified for improvement was the more efficient use of retirees' super to provide income during their retirement.

To encourage retirees to optimise their retirement income and spend their super, Treasury advanced the concept of the retirement income covenant so super funds can guide their members into effective retirement strategies.

Super fund trustees must have a formal plan for their retirement income covenants in place by 1 July 2022. As they make their preparations, most of the industry debate has been from the perspective of the super fund trustee's compliance obligations and actuarial stipulations on product design.

In this report, we flip the perspective and see things from the retiree's point of view. We explore what a good life looks like to pre-retirees and retirees and what can be done to improve their life satisfaction. We study the role of the financial planner and the implications for their service offers, advice processes and portfolio construction decisions.

1 https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy

Foreword

Australians who have an active relationship with a professional financial planner are better off. We know that clients of financial planners make better-informed decisions today, which reduces their risks and benefits their future financial position.

But it's about more than money. Financial planners take the time to understand their clients' circumstances and aspirations and set them on a path to achieving them.

Advice provided by a professional financial planner instils a sense of security and peace of mind that improves financial wellbeing in a real and tangible way.

As the Australian financial services industry grapples with the recommendations of Treasury's Retirement Income Review, we mustn't lose sight of the retiree's perspective, and the crucial role of the professional financial planner.

Financial wellbeing is important for individuals, families, communities, society, business and the economy. Financial wellbeing is at the fulcrum of mental wellbeing, emotional wellbeing and physical wellbeing.

When people feel like their finances are getting on top of them, often their quality of sleep suffers as they ruminate, which negatively impacts on their mental health. As their mental health deteriorates, they feel more financially stressed. Left unaddressed, it can become a vicious cycle. All this can have marked negative impacts on their relationships at home and at work.

That's why Fidelity International's 'Retirement: The now and the then' research is important.

The study unpacks financial wellbeing and what life satisfaction looks like from the perspective of a retiree. In the process it redefines the characteristics of a good financial decision and uncovers the real value of advice to retirees.

As you will see, pre-retirees and retirees with an active relationship with a financial planner suffer less financial stress, feel more confident and resilient, are better informed about money matters, have a greater sense of control, are more optimistic about the future and are generally happier than the unadvised.

This will be of no surprise to financial planners, many being FPA members, who see the positive impact of their advice every day. But it's important that we all keep developing professionally. In this report, Fidelity International identifies best practice principles for enhancing clients' financial wellbeing and retirement satisfaction.

I commend the insights to you and encourage you to investigate how they may be embedded into your professional practices.

Dante De Gori CFP®
Chief Executive Officer
Financial Planning Association of Australia

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

Introduction

When we stop and really listen to pre-retirees and retirees, we can learn a lot from them. We learn that no two retirements are the same, and that retirement is usually long with lots of challenges along the way. As needs change, financial strategies need to adapt.

We also learn that most of us want to work longer, but too few of us get the chance. And we learn that there are certain things we can all do to improve our lives as we prepare for and experience retirement.

We are entering an exciting phase of innovation in the retirement sector of the Australian financial services market. In the coming months, super funds will need to articulate their plans for solutions to the retirement income covenant.

This research gives clues to what solutions will resonate with retirees. It is clear that retirees are heterogeneous and their retirement needs are ever-changing, so there is unlikely to be a place for one-size-fits-all, silver-bullet solutions.

But we will see more fit-for-purpose retirement solutions designed explicitly for pre-retirees and retirees. We expect the best solutions will be flexible enough to allow tailoring for personal circumstances and adaptation over time as needs change.

And the best solutions will be simple; an antidote to the overwhelming complexity of the decisions retirees face.

Above all, the retirement solutions of the future will support the delivery of life-changing financial advice.

This research study shows the essential role of the financial planner in the retirement system. Pre-retirees and retirees need help navigating the complexity and uncertainties of a stage of life they have no experience with.

Financial planners improve their clients' financial wellbeing by helping them to visualise their futures and by providing them with confidence that their plans can be achieved.

In the context of active advice relationships, they help their clients recover a sense of control when unexpected life events throw them off course.

Most financial planners are already tailoring their recommendations for their retiree clients. They differentiate between accumulators and retirees because they know that retirement is different. They know that retiree needs are different, the risks they face are different and the investment challenge is different.

Just imagine what they can achieve for their clients with the next-generation retirement products in the market.

Richard Dinham
Head of Client Solutions and Retirement
Fidelity International

Key insights

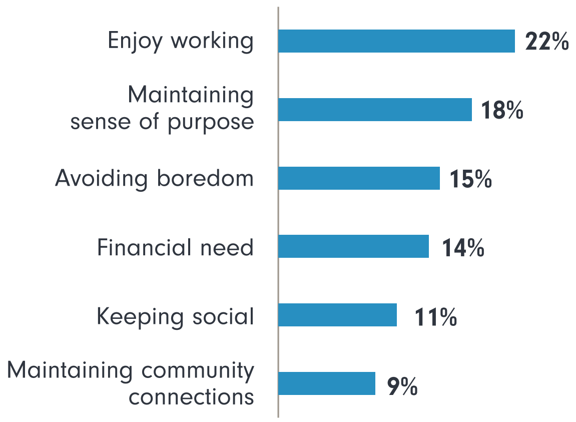
A journey, not a destination

It seems Australians have moved on from their 1980s dreams of early retirement. We no longer want to retire from full-time work, sell the house in the city, move to the coast and play golf all day.

Instead, we intend on working longer, and half of us want to continue working past our 67th birthday. And that's not necessarily because of financial need. People want to work longer because work makes them happy and that's how they want to spend their time.

The top three reasons respondents give for continuing to work are: they enjoy working, it helps them maintain a sense of purpose and it allays boredom.

Reasons pre-retirees want to work past 67 years



Not only are we looking to work longer, we are also changing our approach to retirement. Retirement is becoming a journey rather than a destination, with only a small minority of respondents targeting a hard retirement date.

Today, almost all of us are looking to transition into retirement and progressively reduce our working commitments. Close to nine in 10 respondents find the idea of transitioning into retirement over time appealing. Around three in five find the idea very or extremely appealing.

And older Australians are not just dreaming of transitioning; they are taking action. Around two in five report they are actively planning their transition. Half of these are already making active career decisions toward more flexibility and working part-time in the future.

The financial services industry's broad assumption that Australians typically retire from full-time work at age 65 is a gross oversimplification. In the real world, no two retirements are the same. And that makes planning for retirement a bespoke endeavour that needs to be tailored to the individual and household circumstances.

The apprehension of pre-retirees

The research revealed a range of issues for pre-retirees. This cohort experiences less wellbeing and life satisfaction than semi-retirees and people already living in retirement, mainly because they lack confidence in their finances and suffer from financial stress.

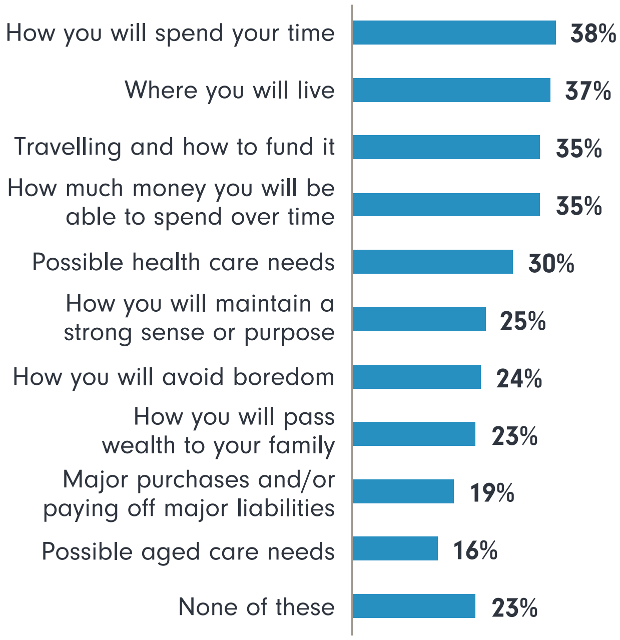
Pre-retirees worry about money. Around one in three worry about money at least weekly, and one in two admit that financial stress has adversely affected their physical or mental health. Financial stress also negatively impacts their family, social relationships and work life.

It is no surprise then that over half of pre-retirees are not particularly looking forward to retirement and that two in five don't feel they are on the right track to be financially prepared.

Over three in five pre-retirees have no more than vague financial plans, if any, for their retirement. Only one in 10 claims to have documented retirement plans.

But when they do turn their minds to planning, they are thinking about more than money. In fact, they think more about how they will spend their time than how they will spend their money. They are grappling with big issues like where they will live, how much they can spend, future health-care needs and how they will pass their wealth on to their family.

What pre-retirees plan for in retirement



From the pre-retiree's perspective, planning for retirement is an exceedingly difficult thing to do. It is almost impossible for a pre-retiree to make an informed decision about their future retirement.

There's just so much uncertainty, and they have no experience with the lifestyle. Around three in four pre-retirees agree that the retirement system rules are too complex, and three in five say they want to take more control of their financial future but are not sure what to do.

The latent demand for advice from pre-retirees represents a significant opportunity for planners. While two in three pre-retirees would like more support through the planning and transition to retirement process, only one in 20 currently report receiving it.

Retirement is long

Most of us will be retired for longer than we expect and don't know what challenges we will face along the way.

Experienced retirees can help us here. The study asks respondents with at least 10 years of lived experience in retirement what challenges they didn't anticipate.

The most common responses are that they underestimated the emotional impact of retirement and experienced a loss of purpose and personal identity.

They also didn't anticipate losing a partner, health and mobility issues or dealing with home-care and aged-care needs.

As a result of these unexpected life events, retirement plans went off track, so experienced retirees had to adapt and change their plans during retirement. They learned to spend money more confidently and structure how and when to spend time. They downsized their homes and returned to work to be able to do more in retirement.

Plans often go awry

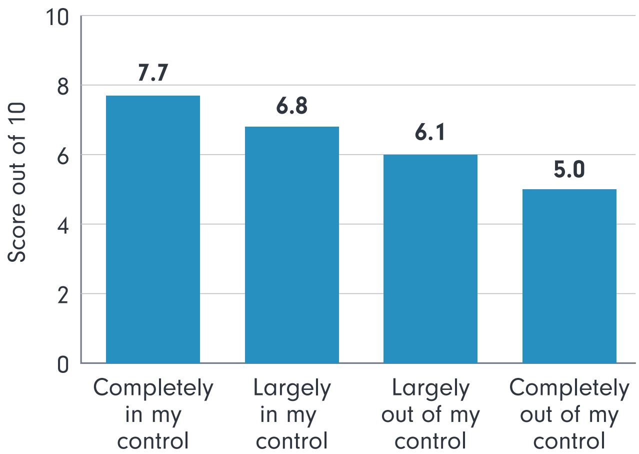
Despite our intentions of working longer and transitioning into retirement over time, the circumstances of our retirement are often out of our control. The common reasons for unexpected early retirement are redundancy, personal health issues, or being required to care for a loved one.

Whether or not we feel in control of our retirement has a significant impact on our wellbeing and life satisfaction.

On a scale of 0 to 10, with 0 being the poorest possible life satisfaction and 10 being the highest possible life satisfaction, the average life satisfaction score for respondents who were in control of their retirement was 7.7.

For those respondents whose retirement was entirely out of their control, their life satisfaction score was just 5.

Life satisfaction x control over retirement



Have a plan B

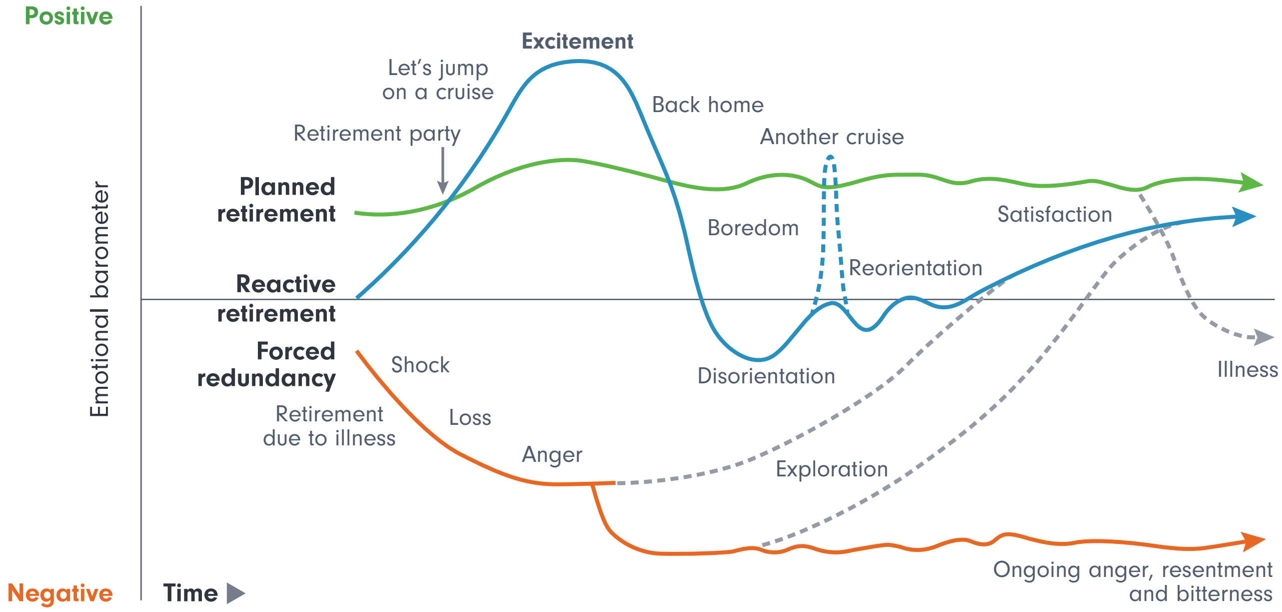
The emotional experience of retirement generally follows one of three pathways that depend on the circumstances surrounding retirement and how well we have prepared.

In the circumstances of a planned retirement, the emotional journey is positive and pretty consistent over the course. When we plan our retirement and things go accordingly, we enjoy high levels of wellbeing and life satisfaction.

Retirement is far more challenging for unwilling retirees who are forced into retirement. They can experience a real sense of loss – loss of community, loss of purpose and identity, and a loss of future income. If the unwilling retiree can't wrestle back a sense of control, restore spending confidence and find purpose and community beyond work, they can spiral into ongoing negative emotions.

But if the unwilling retiree has already identified a backup plan, or plan B in case of losing a job, the emotional journey is more positive. Naturally, the range of emotions is still intense, but if the reactive retiree understands the financial consequences of early retirement on their spending, has found a sense of purpose and community beyond work, they will feel more resilient and recover their wellbeing in retirement.

The emotional journey



Adapted from RC Atchley, *The Sociology of Retirement* (1976).

Life gets better

When we compare the life satisfaction of respondents in the various stages of retirement, it appears we all have something to look forward to – life satisfaction generally gets better as we progress through retirement.

Although our satisfaction with our health reduces as we age, experienced retirees have the highest satisfaction concerning several other life aspects, specifically: connection with community and family, a sense of control, a high level of confidence and positive emotional experiences day to day.

Only the semi-retirees are happier than the experienced retirees. They enjoy the highest overall life satisfaction, being generally highly satisfied with all life aspects except their wealth. They are particularly satisfied with their health and their sense of purpose.

Pre-retirees have the worst life satisfaction. Despite being quite satisfied with their health, they endure the least satisfaction across all other life aspects.

A bigger picture than wealth and health

There are some widely held misconceptions about what makes us happy in life. When we ask ourselves what makes us happy, we usually anchor on wealth and health. While it's true that a lack of wealth can make us miserable, past a certain point, the relationship between increasing wealth and happiness reduces, and increasing wealth can even make us unhappier.

In the same way, there is an undeniable relationship between health and happiness. Poor health makes life harder and respondents with bad health have significantly lower life satisfaction than people who enjoy good health. But not everyone has the same experience or response to health challenges. And despite inevitably diminishing health with age, life satisfaction and happiness tend to increase.

There are clearly other things at play; factors that can make a big difference to our big-picture, quality-of-life assessments.

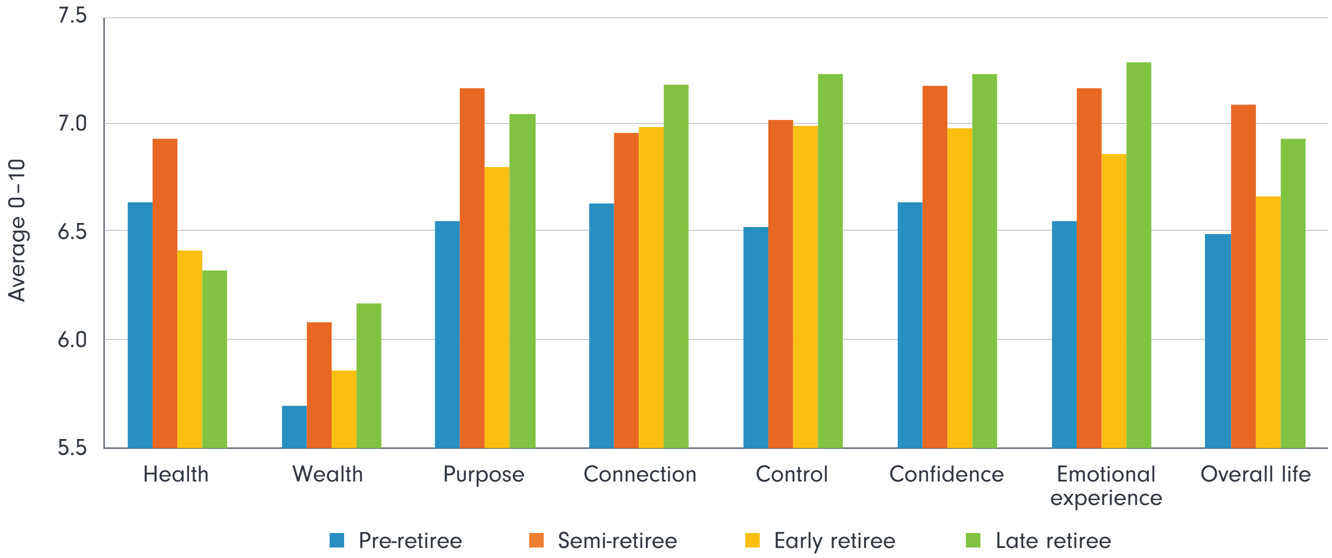
Advanced statistical analysis can help us derive the true drivers of life satisfaction for older Australians. A regression analysis identifies seven factors that drive life satisfaction and the strength of each factor's influence on life satisfaction.[2]

Wealth and health are both recognised drivers of life satisfaction, but they are ranked sixth and seventh respectively on the impact on life satisfaction.

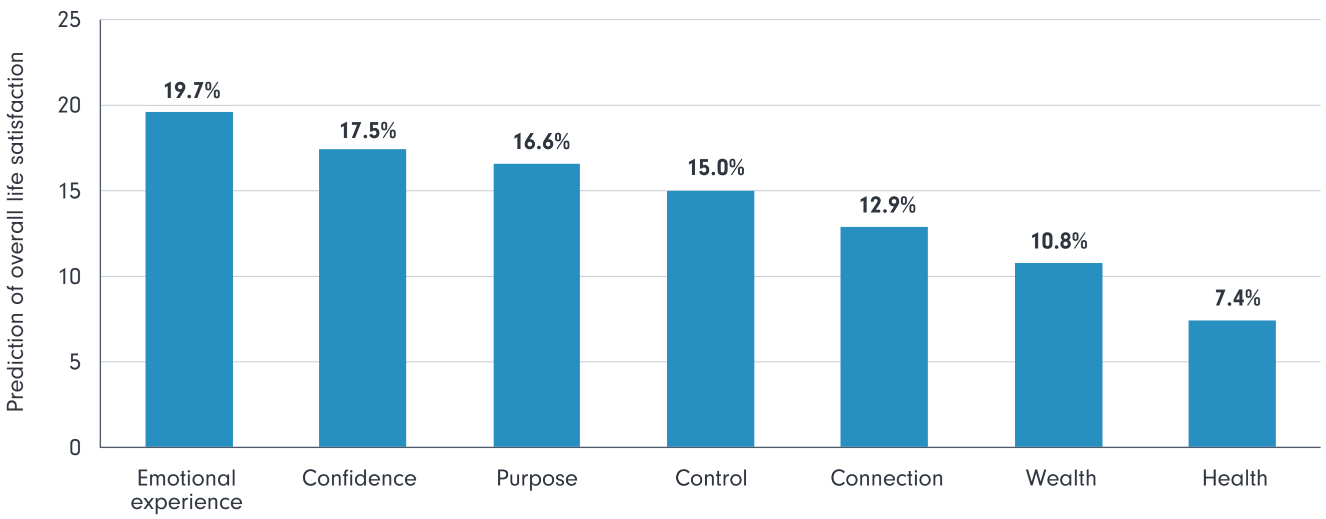
There are five more important factors influencing life satisfaction and happiness. Emotional experience is the strongest driver of wellbeing and therefore the single best predictor of overall life satisfaction. This reflects the importance of having an optimistic and positive mindset.

The other important drivers of life satisfaction are feeling confident and resilient, having purpose and meaning, a sense of control and connection with family and the community.

Satisfaction with various life aspects



Derived drivers of life satisfaction



2 Shapley regression, model adjusted R^2 = 87%.

The wisdom of experience

We have already seen that many pre-retirees suffer from financial stress and feel out of control regarding their approach to retirement. It can be helpful to listen to those who have lived through your experience and learn what they would do differently if given the chance.

The most important piece of advice experienced retirees give to others facing retirement is to have a positive and optimistic outlook. They also recommend investing in your health and being flexible and adaptable.

Other important tips are to find purpose beyond work and to take control early by always having a plan B.

A new perspective on the value of advice

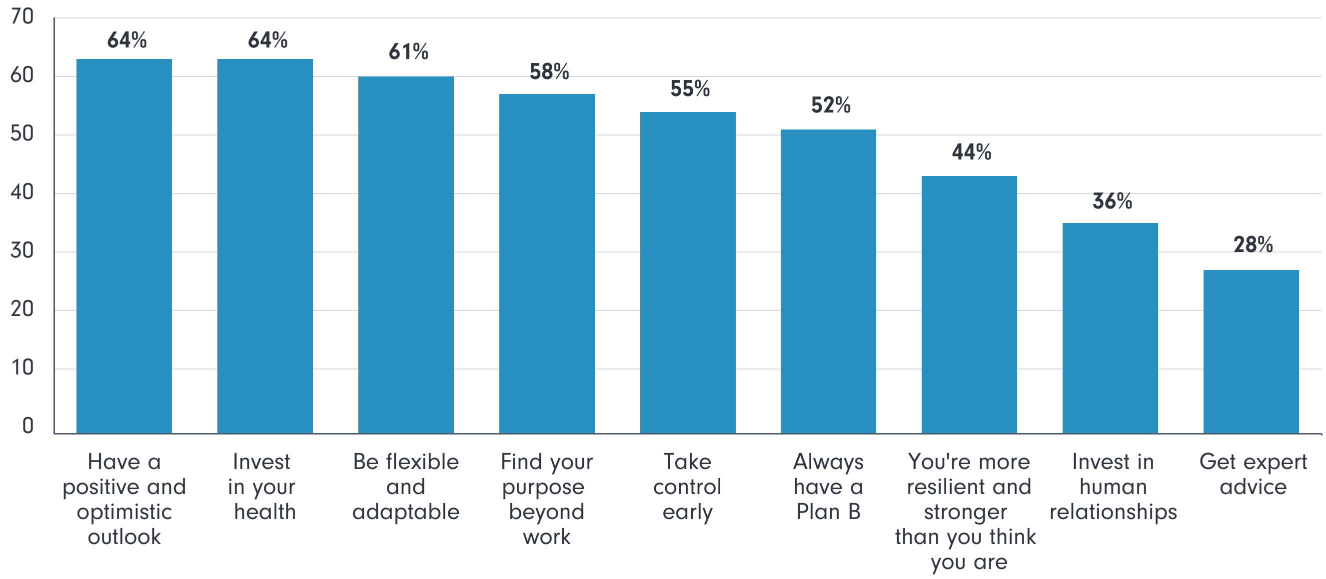
The long-term benefits of financial advice are well established. Quality financial advice improves clients' decisions today and delivers tangible benefits in the future. Clients with an active relationship with a financial planner are wealthier, spend more and expose themselves to less risk.

But this study shows there are immediate benefits to advice as well, regardless of wealth or age. For pre-retirees, semi-retirees, early retirees and late retirees, advice brings present value.

Those with an active relationship with a financial planner suffer from less financial stress, are more competent when dealing with financial matters, feel more confident about the future and are more financially resilient. They are more excited by the future, feel more in control and are happier in their lives overall.

We know these are all important drivers of wellbeing. And that's why older Australians with an active relationship with a financial planner are more satisfied with their lives and have greater wellbeing.

Top advice of experienced retirees for others facing retirement



Implications for financial planners

We can clearly see there's more to life than money, but finances are still at the fulcrum of our broader wellbeing. That's why so many financial planners are already having a transformative impact on their retiree clients' happiness and life satisfaction.

Consideration of a client's financial wellbeing, broader emotional wellbeing and what constitutes happiness and life satisfaction are critical to the core, day-to-day role of a financial planner.

The Australian Securities and Investments Commission (ASIC) has identified that quality advice refines and clarifies a client's objectives and helps the client, as much as possible, to achieve those objectives.

To do this well requires a financial planner to consider the drivers of financial wellbeing and broader life satisfaction. We should also keep in mind that under the Financial Adviser Standards and Ethics Authority (FASEA) Code, planners have an ethical responsibility to provide their services with competence and diligence.

Further, consideration of behavioural economics and cognitive factors are foundational to serving clients effectively. When we know why our advice is having an impact, we can systemically enhance our advice practices and portfolio construction frameworks to bring about better wellbeing outcomes for clients.

No one size fits all

Every individual's retirement experience is unique. From the timing and circumstances of retirement, to the nature of the transition and sometimes returning to work, and then adapting to the many challenges we face in retirement, everyone has a different pathway.

The implication is that retirees require more than a product solution. They need advice for their particular circumstances. And there is no place for setting and forgetting. In the age of super fund retirement income covenants, product solutions alone won't cut it. Pre-retirees and retirees require advice specific to their circumstances, incorporating their broader household finances.

As they settle into retirement and gain a better understanding of their lifestyle, retirees require further financial advice to reflect their more informed needs. And then, when unexpected events in life happen, throwing them off course, they will require the help of their trusted planner to wrestle back a sense of control and steer them back on track.

The importance of a long runway

Since we don't know when retirement will start or how long we will live in retirement, there is no magic age to start planning for retirement. However, it is clear from this study of Australians over 50 that the sooner we start planning, the better.

Pre-retirees suffer the most financial stress, feel overwhelmed by complexity and are apprehensive about the future. We know from this study that most want assistance with transitioning into retirement, but only one in 20 are currently advised.

Granted, it can be difficult to engage people in a retirement discussion when they are middle-aged. Usually in the peak of their careers and with teenage children at home, a mortgage and school fees to pay, they are time-poor and out of headspace.

However, financial planners can be confident in the transformational impact they can have on younger pre-retirees. Start by engaging them in a broad conversation about their future and give them something to look forward to by bringing it to life in a tangible way.

Planning for the unexpected

While most of us want to transition to retirement over time and keep working in some way until we're 67, that's not the experience of many retirees. In this study, experienced retirees recommended those facing retirement have contingency plans.

When we have a plan B, we feel more in control and look to the future with more confidence and resilience. If plan A works out, that's obviously better, but if it doesn't, people are much better placed to recover their sense of control and overall wellbeing.

Embedding behaviour change

The traditional six-step financial planning process may need to evolve to support financial decisions that bring about better wellbeing outcomes.

When we use the drivers of retirement life satisfaction as a framework to help shape advice processes, the experience of advice changes. It becomes more iterative and client-inclusive.

Competence is an essential building block to several identified satisfaction drivers – a sense of control, confidence in the future and a positive emotional experience.

Adults generally learn by experience and doing rather than receiving information. So, to build client capability, financial planners could make their strategy development more transparent and include the client in their deliberations.

When the client co-creates their financial plan in this way, they feel more empowered because they better understand the considerations and trade-offs.

Similarly, the implementation of the strategy could be staged over time to embed behaviour change. It takes time, focus and effort to change a habit. But when we change our behaviour and see the benefits, we feel successful, which builds our confidence and improves our emotional experience.

Conversely, when we present a list of recommendations and implement them on behalf of the client, it can be overwhelming and create a dynamic of learned helplessness, which makes financial stress worse, not better.

Instilling spending confidence

Concerns about future health costs, expenses for home care and aged care, and the fear of running out of money all boil down to one question: how much can I spend today?

A helpful framework for contingency planning is to anchor on clients' consumption needs rather than their savings balance or investment capital. Cash flow from an investment portfolio is less volatile than investment capital.

When we plan for the unexpected, like losing our jobs or a market correction, our day-to-day cash flow is usually not impacted as much as our investment capital. Cash flow can be quite resilient.

And even if it's not, retirees are adaptable. They are willing to cut back on discretionary expenditure if it means staying on track for what's really important.

Ultimately, pre-retirees and retirees are seeking confidence to spend. If they're comfortable that they can spend today and still be responsible for the future, they're happier.

Revisiting the navigator styles

In 2020, Fidelity International released a research report on the value of advice. The study uncovered four clusters of clients with like characteristics. Each cluster, or segment, perceived value differently and, accordingly, had different service preferences.

This segmentation model is useful when we overlay these retirement insights. Each segment was labelled a navigation style, which provides a framework for applying these insights to your client base and advice.

The navigation styles are Celestial navigators, GPS navigators, Radio navigators and Compass navigators. Each style has preferences when it comes to applying wellbeing and happiness concepts to their advice.

The four navigator styles

Celestial navigators see the bigger picture and welcome your assistance; they value your advice because you appreciate the complexity of their affairs and respect their financial capabilities.

GPS navigators need and value your advice but want to see evidence of the benefits you're providing; they worry about the future and don't feel adequately prepared.

Radio navigators are relationship driven and want a close personal connection with their financial planner; they suffer financial stress so badly they go to great pains to avoid thinking about their money.

Compass navigators don't appreciate the value of traditional advice and prefer to consume advice transactionally, being engaged in a low-cost/low-service manner.

Celestial navigators

Celestial navigators are usually financially strong. They tend to enjoy high levels of wellbeing because they have confidence, an internal sense of control and experience positive emotions from day to day.

They can see the bigger picture and look forward to the future with optimism, and value your advice because you appreciate the complexity of their affairs and respect their financial capabilities.

Since they mostly value your technical expertise, be careful to frame your behavioural and emotional considerations in the context of their financial strategies.

Characteristics of Celestial navigators

GPS navigators

There is usually an opportunity to add significant value to GPS navigators from a wellbeing perspective. This segment needs your advice and values your advice, but they want to see evidence of the benefits you're providing. They are typically wealthy, educated and financially literate. But they worry about the future and don't feel adequately prepared; they're concerned they won't have enough money for retirement.

Financial planners should reach out to GPS navigators as early as possible in their retirement journey to help them envisage the future. Stress-test their retirement plans in various scenarios to give them spending confidence and peace of mind that they're still being responsible for the future.

GPS navigators want to see evidence of the value you're adding over time. This can be achieved by repurposing your client surveys. Don't just ask about their satisfaction with your services – check in with how they're feeling about various life aspects such as their current emotional experience, their sense of control and how confident they feel about the future.

In this way, you can track their wellbeing over time and prove your value beyond pure numbers.

Characteristics of GPS navigators

Radio navigators

Relationship-driven, Radio navigators want a close personal connection with their financial planner. Once trust is established, they rely heavily on your advice, preferring to keep things high-level and not getting into the details.

Radio navigators can suffer financial stress so badly that it negatively impacts their physical health and the quality of their relationships.

The trust they have in you and their willingness to take your advice provides an opportunity to apply behavioural finance and cognitive frameworks within your advice to enhance their wellbeing significantly.

Start helping Radio navigators to envisage the future, showing them what is achievable. Try to include them in the formulation of your advice, helping them understand the trade-offs of their decisions. Adults generally learn best by doing, so co-create the advice together using your modelling software.

This will build their competence, which will in turn increase their financial confidence and sense of control. This will improve their life satisfaction in a real and enduring way.

Characteristics of Radio navigators

Compass navigators

Typically highly educated and younger, Compass navigators prefer to consume advice transactionally. They don't generally perceive value in professional advice, so they're not willing to pay much for it.

Compass navigators may be the children of your existing clients, so there may be benefits to your practice by tailoring your service offers for them.

The key to engaging Compass navigators is to keep fees low. Perhaps you could incorporate low-cost/low-service digital advice offerings into your practice for this segment.

With digital advice and targeted content, there is an opportunity to build their competence over time and improve their financial wellbeing.

Characteristics of Compass navigators

Frameworks for portfolio construction

The vast majority of financial planners in Australia differentiate between the advice they provide to accumulators and the advice they provide to retirees.

Fidelity International's 'Building Better Retirement Futures' report compared common frameworks for building retirement portfolios. Approaches ranged from simply investing more conservatively to more sophisticated arrangements.

When we consider the drivers of retirement satisfaction, two approaches stand out as particularly useful frameworks for constructing portfolios to optimise client wellbeing: complex bucketing and income layering.

Complex bucketing

Complex bucketing is a further development of the commonly used simple bucketing approach. Simple bucketing consists of two elements: a cash buffer holding just one or two years' worth of short-term cash flow needs, with the remainder of the savings invested in growth assets.

Complex bucketing develops this general approach and compartmentalises the retiree's savings into different pools, each serving a different purpose. Based on asset-liability matching, money is invested in each pool according to when it will be required to be consumed. Short-term requirements are invested more conservatively than the money set aside to fund long-term requirements.

This approach gives the client agency to decide when to replenish cash and sell down growth assets, It provides a greater sense of control, as well as spending confidence, because the client has the peace of mind that their short-term needs will be met and they're managing their long-term risks as well.

Income layering

Income layering also divides the retiree's savings into different components but does so based on income streams rather than assets. The layers of this strategy can be tailored to suit when the client expects to spend money.

For example, if the client seeks more income during the early years of retirement, income can be set higher to meet discretionary expenses. And if the client is concerned about having income in very old age to meet health-care costs, home-care costs and aged-care costs, this can be planned for with deferred annuities, for example.

The main benefit of income layering is the focus on consumption in retirement rather than capital. This can be more relatable for the individual, enabling them to plan and control spending in retirement, and instil spending confidence with the associated wellbeing benefits.

Investments in retirement

Financial planners can also improve the outcomes for their clients in retirement by selecting the right kinds of investments.

Investments suited to retirees' needs are called fit-for-purpose, meaning they deliver outcomes such as income and above-inflation returns. They can also help manage the investment risks that are usually encountered in investing.

Building blocks composed of fit-for-purpose investments make a lot of sense for the financial advice process. By using building blocks, planners can blend suitable proportions of each to suit the differing needs of their clients.

As these building blocks have purpose-built characteristics for retirement, planners can be more confident in the outcomes they will deliver over time.

A great example of a fit-for-purpose building block is equity, but what kind of equity exposure makes sense in retirement?

As retired clients are drawing an income, the impact of negative markets is much more significant than it is for those saving a regular amount for retirement.

When saving for retirement, volatile equity markets can actually benefit regular savers from the effect of dollar-cost averaging. However, after retirement, dollar-cost averaging can be very harmful to retirees as any capital drawn upon during volatile markets can mean a permanent loss of capital.

So, the right kind of equity exposure in retirement limits the extent of the downside normally expected with equity markets. This can be achieved with low-volatility equity or other, similar kinds of equity strategies.

These kinds of equity exposure mean a client can have a higher exposure to equity than would be possible with more conventional equity strategies, and help deliver a smoother ride for the client over time.

This also helps with client confidence and their satisfaction with the delivery of expected outcomes.

Conclusion

In this study, we have unpacked the drivers of retirement wellbeing.

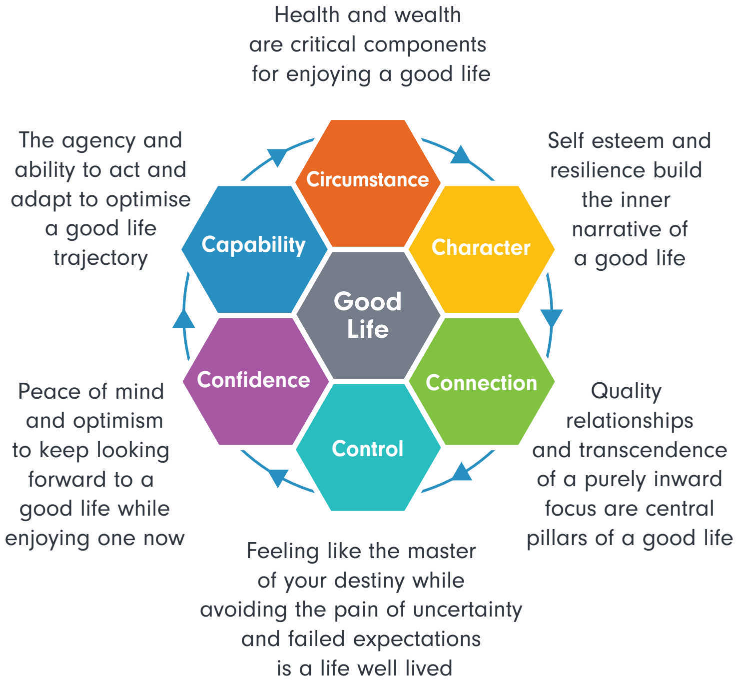
A good life in retirement can largely be predicted by a formula that can be summarised as the six Cs: **circumstances, character, connection, control, confidence** and **capability**. All of these elements are important in the formula; they are not independent of each other.

When all six Cs are present in retirement, life just blooms – and the positive impact of these elements becomes bigger than the sum of its parts. When life circumstances inevitably throw us some curve balls, it is the strength of our complementary Cs that determines our capacity to cope and make the best of our lives.

Financial planners intuitively know they have a positive, transformative impact on the lives of their clients – advised clients worry less about money, have higher financial literacy, are more confident, feel more in control and are happier.

When financial planners understand the drivers of life satisfaction and wellbeing, they can systemically enhance service offers, advice practices and portfolio construction frameworks to bring about better outcomes for their clients.

The formula for retirement wellbeing – The six Cs for promoting a good life in retirement



About Fidelity International

Fidelity International offers investment solutions and services and retirement expertise to more than 2.52 million customers globally. As a privately held, purpose-driven company with a 50-year heritage, we think generationally and invest for the long term. Operating in more than 25 locations, we invest AU$602.7 billion globally on behalf of clients in the Asia-Pacific, UK, Europe, South Africa, the Middle East and South America. We are responsible for A$231.1 billion in assets under administration.*

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If you require any assistance please contact us on **1800 044 922** (Client Services) or **1800 119 270** (Adviser Services).

*Data as at 30 September 2021. Read more at fidelity.com.au

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