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This Week's Top Articles

Searching for the post retirement silver bullet

Nicolette Rubinsztein

I confess to being a non-believer in silver bullets in the context of post retirement products. The silver bullet is probably not a product, but good financial advice. However, I also admit that my view on the product silver bullet has changed over the last two years, and I am now more of a believer than I was.

What does our post retirement look like?

Contrary to some commentary this year, our post retirement system is in reasonable shape. According to Rice Warner, 85% of client assets are invested in income streams. Those taking lump sums generally have small balances and appear to be doing sensible things with them, like paying off debt. We have a reasonable array of post retirement products in the retail market (account based pensions, annuities, variable annuities) and the recent Melbourne Mercer Global Pension Index 2014 ranked Australia second in the world.

However, there's a bit that's not great. There are mounting longevity challenges. Mercer's data shows there's a 35% chance that a white collar fund member retiring now will live to 91 if they are a man and 93 if they are a woman.

With 93% of retail money in account based pensions, it's clear that most members have little longevity protection (apart from the age pension). Our exposure to annuities is significantly lower than many other major countries, some of which have more than 50% of their retirement assets in annuities.

Burnt by the GFC, many investors remain risk averse with lower exposure to growth assets, with comments like this being the norm: "More than anything, I want to ensure that my husband and I have financial security and safety for our money … nothing too risky." This thinking is showing through in spades in both quantitative and qualitative research at Colonial First State.

Even though our system ranked well in the Mercer study, the Global Age Watch Index 2014 ranked Australia behind France, Canada, UK and the US for income security. This measure took into account pension coverage, levels of poverty in retirement (defined as half average earnings) and income replacement for the population over age 65.

It's not surprising that the Financial System Inquiry Interim Report commented, "the retirement phase of superannuation is underdeveloped and does not meet the risk management needs of many retirees".

For a while, many believed variable annuities were the silver bullet. In some ways they can seem to offer the upside of equity markets with the downside protection of a lifetime annuity. With around $2 trillion of assets invested in them, they have certainly been popular in the US. However, their success has come under a cloud since the GFC, with a number of providers exiting the market due to problems with hedging their exposures. In addition, it is apparent that the factors that have driven their growth in the US are not translatable to the Australian market. Commissions of around 7% are reportedly common and there are tax advantages that are specific to the US. With about $2.6 billion invested in variable annuities in Australia, there has been some interest, but it's clear they are probably not the silver bullet.

Global changes provide pointers

Three global changes might provide an idea about the worldwide view on the silver bullet.

In 2012, the OECD Working Party on Private Pensions developed a series of 10 recommendations for the "good design of defined contribution pension plans". The seventh recommendation was "for the payout phase, encourage annuitisation as a protection against longevity risk … A combination of programmed withdrawals with a deferred life annuity (e.g. starting payments at the age of 85) that offers protection against inflation could be seen as an appropriate default".

In addition, the US Government recently made changes to allow 401(k) savings to be invested in deferred annuities, whereas the UK Government removed the compulsory annuitisation. And there are changes happening locally. The Government is looking at deferred annuities, with Treasury having released a detailed discussion paper.

There are also changes in sentiment by financial advisers. Inflows into lifetime annuities increased 35% last year according to Plan for Life, and Zenith recently created a model portfolio for retirement which includes an allocation to annuities. Furthermore, a recent Investment Trends survey showed that 37% of advisers said they would like to use some sort of annuity in the following 12 months (Investment Trends Retirement Income Report 2013).

Using scenario modelling

Our approach to trying to find the silver bullet was to commission Ernst & Young to do some scenario modelling. Their quest was to find what product combination delivered the best outcomes for customers in retirement. They built a stochastic model of the different products that are available in the market – lifetime annuities, deferred annuities, term annuities, variable annuities and account based pensions. There were two key conclusions.

Firstly, the variable annuities didn't model well, mainly because of the high fees and the lack of flexibility in the product design.

Secondly, the 'hybrid' options, where an annuity (lifetime or deferred lifetime) is combined with an account based pension often delivered superior outcomes for members.

Much as I would like to think our modelling delivered unique insights, similar conclusions have been derived elsewhere.

In particular, there is academic work showing that a small allocation to an annuity (say 10-20%) can deliver better outcomes for customers. Indeed, David Bell wrote an article in Cuffelinks entitled 'Why academics like lifetime annuities' where he commented, "financial models suggest life annuities are beneficial to rational decision-making individuals, yet in Australia the number of life policies purchased remains small." There is also work by Mercer on behalf of Challenger which has similar findings. Given the OECD roadmap and the US changes, it appears they might have also reached similar conclusions.

Closer to the silver bullet?

It would have been great if I could say that I have discovered a new, sexy, amazing, innovative, silver bullet. Instead, I'm afraid the answer is rather dull. 'Partial annuitisation' with a small allocation might be as close as we can come to the product silver bullet.

If combining an annuity and an account based pension is the answer, we need to make it easy for advisers to construct, report on and maintain such portfolios on behalf of their clients.

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The financial risks of fossil fuel investments

Hope Evans

The recent decision by the Australian National University (ANU) to sell its investments in fossil fuel industries, including seven Australian resource companies, created an immediate storm of both support and criticism. While the Prime Minister, Tony Abbott, used a visit to a coal mine to offer his reassurance for the industry, academics from other universities signed open letters calling on their universities to follow ANU's lead.

As the rest of the world's governments move towards clean and cheaper renewable energy, here in Australia we believe we are safe from the changes global warming is causing in our investment landscape. The recent removal of the 'carbon tax' by the Federal Government and approval of some large coal projects confirms our stance. Australia is not moving with the changes in the market, domestically or internationally. Some investments will fair significantly worse than others with consequences for our investment and superannuation systems.

Climate change is no longer only about the environment or ethical investment preferences, it is now of economic concern. The dangers of fossil fuel investment are increasingly associated with investment returns rather than the need to mitigate global warming. This phenomenon has been referred to as the 'next GFC', the 'carbon bubble', 'global energy deflation' or 'stranded assets'. The way government policy is unfolding globally, the lack of preparation domestically could see greater economic fallout in Australia than other countries.

Potential for stranded assets

A stranded asset is when an asset becomes significantly devalued or obsolete. Australian investors are particularly at risk of holding stranded assets because our government policy is not pricing in a tax on carbon. We are therefore lagging in our transition to renewable energy. The movement of investment into the renewable energy sector worldwide and the subsequent decrease in cost, legislative changes and changing social values are affecting our investment landscape. For example, in Germany, the top two utility companies have experienced a loss in value of over 50% in the last four years. This trend is also evident in other parts of Europe and the United States.

The Australian share market and the S&P/ASX200 are highly correlated and dependent upon fossil fuels, mining exploration, and the extraction and sale of materials. With the majority of the indices comprising Materials, Energy and Financials (financials meaning, financial institutions which lend to stranded asset projects and companies), Australian market capitalisation is dominated by companies with strong links to fossil fuel extraction (see carbontracker.org for more on this subject).

In Australia we export 87% of extracted black coal and use the remaining 13% for domestic consumption. Australia's two biggest coal export markets China and India are setting aggressive new clean energy targets and investing heavily in renewables. China's wind power alone is expected to provide for more than 20% of the nation's energy needs by 2020, while India plans to double capacity for renewable energy by 2017. As this trend continues, demand for coal and other fossil fuels will continue to fall, placing further pressure on Australia's investment market.

According to Towers Watson's *Global Pension Asset Study 2014*, Australia has the fourth largest superannuation market in the world. The estimate by the Asset Owners Disclosure Project (a global organisation established to protect superannuation savings from the risks imposed by climate change) is that currently 55% of the world's investments are in fossil fuel or climate-exposed investments. The Project points out that climate change impacts are especially difficult to quantify due to the long-term risks and uncertain timing of likely impacts.

Mitigating loss is the responsibility of research analysts, institutional fund managers, superannuation trustees, financial advisers, stock exchanges and stock brokers. If these threats do crystallise, the organisations and individuals that move first to mitigate losses will have first mover advantage and be able to shape the changes in the market. Generally, the first major movers will also fair better as the remaining investors will be left holding the devalued assets.

Lack of options available

As the world changes, we must look to new investments and new markets to safeguard our assets. Presently, the market does not offer many safe choices. The options available in the ESG (Environmental, Social & Corporate Governance) or ethical investment market do not provide consistency or certainty in their assessment of fossil fuel investments. This is true in the fixed interest, cash and equities sectors. Advisers are also confined to their Approved Product Lists (APL) which are formulated by the opinions of an adviser's dealer group.

Fossil fuel free managed fund options include Hunter Hall, which became fossil fuel free as of 1 July 2014 and Australian Ethical, which is moving towards this target, with their funds approximately 90% fossil fuel free according to superswitch.org.au. Alternatively, investors can use the likes of CAER Research to assist in building a direct equity portfolio.

The three finalists for the Money Management Fund Manager of the Year, Responsible Investments Category – OnePath Sustainable Investments Australian Share Trust, Perpetual Ethical SRI Fund and Alphinity Socially Responsible Share Fund – all have different ESG screening. According to Lonsec, they all exclude industries such as Armaments, Tobacco, Gaming and Alcohol. Alphinity additionally excludes Animal Testing and Old Growth Logging. Perpetual additionally excludes Coal Seam Gas and Uranium. None of the three funds specifically mention climate change or fossil fuels in their screening process. Lonsec reports that Perpetual does not have a tolerance for big mining whereas Alphinity and OnePath do. According to Superswitch.org.au Perpetual has a known fossil fuel free component of 26%. However, funds do not have to report on their investment holdings and often only report on their top ten holdings. This is stated to be due to the high cost of disclosure, damaging a funds competitive advantage and 'trade secrets'. Determining how financially robust a fund is can be difficult. Even if it is ethical, the fund may not safeguard an investor's money from the potential carbon bubble.

UniSuper has recently excluded fossil fuel investments from its 'socially responsible' investment option. However, most industry super funds are similar to mainstream ethical funds on the market. Simply maintaining a client's investment in an ethical option in an industry super fund is not wholly safeguarding investments from climate-related losses.

There is not yet any risk premium attached to climate-exposed ASX-listed companies. Direct equity investments to watch for include the four big banks who are lending large amounts of money to new mega mine projects – projects which may become stranded assets. If the projects and companies are unable to sell the fossil fuels or are forced to sell at a significantly reduced price it may impact their ability to meet their financial commitments. Mining supply companies, the mining companies themselves or companies with significant investments in the mining companies will also be at risk as their services and materials will no longer be in demand.

Demand for fossil fuel free investments will increase

As clean energy becomes cheaper and more attractive to the consumer through economies of scale and electricity storage technology, the investment markets will change as they do with any new trend, innovation or discovery. Pre-empting the changes and mitigating losses will be a priority for advisers, institutions and investors. Current options for managed fund or APL restricted advisers are not promising nor always transparent. However demand for and performance of ethical and fossil fuel free investment is increasing and the market is changing to meet the demand. As a result, we are set to see some major developments in the investment landscape both domestically and internationally.

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Hey, what have you got against late 60s babies?

Alex Denham

I was born at the end of 1969. A proud Gen Xer who just last week danced in the lounge room with my old school buddies to every 80s song we could think of, belting out the lyrics without missing a beat.

I love that I'm a late 60s baby, even if only just. It was a time of The Beatles, revolutions, Woodstock, the moon landing, the call to give peace a chance, women's liberation, colour television, To Kill a Mockingbird. It was, in all, a very cool time to be born.

We are not the Baby Boomers, the rigid and hard-working, world-changing, now ageing generation that loves to spend their time judging and tsk-tsking the younger folk, mostly the Millenniums and Gen Ys for their narcissism, laziness and sense of entitlement.

We are not the Millenniums, who – like the Baby Boomers before them with whom they battle today – are intent on saving the world one online campaign (the Obama 'Facebook election') or viral meme (ALS ice bucket challenge) at a time. So what that they are too impatient to work up the ranks, they have other tools at their disposal, and they're not afraid to use them.

With half as many Gen Xers as there are both Baby Boomers and Millenniums, our generation is characterised by being pragmatic and independent, adaptable to change, the latchkey children of divorced and working parents. Gen X doesn't get involved in the 'you think you've got it bad' battle, we are too busy over-parenting our children to make up for our deprived and lonely childhoods (cue violins) and creating little companies like Google, Twitter and Amazon.

Why do we get hit with every adverse change?

And so it is with discomfort that I raise this ~~whinge-fest~~ observation. As pragmatic as my stereotype demands I be, I'm getting a niggling feeling that someone out there has it in for us late 60s babies. We just seem to keep getting hit by changing government policy, and not in a good way. Too old for this, too young for that.

First there was free university education. From 1974 to 1988, those sneaky Boomers (and the very early Gen Xers) enjoyed free university education for *the only period in Australian history*. That's right, as the Baby Boomers entered their university years, for the first and only time in history it became free.

Then, just when I was leaving school, in comes HECs and the cost of university education has increased sharply since. I don't disagree with HECs, it has its merits, however it was so perfectly timed to affect *me.* And many of us will have children at university when the federal government's contribution to degree costs will reduce, so if I want to pay for my 4 year old's degree, I'd best get saving now.

Then there's the *First Home Owner Grant* (FHOG) scheme introduced on 1 July 2000 to offset the effect of the GST on home ownership. When you're scraping your pennies together to afford a deposit, mortgage insurance and stamp duty, $7,000 helps (the equivalent of $10,000 today). I was almost 31 at the time, and like many of my friends in their late 20s, had bought my first teeny tiny flat the year before at age 29. No FHOG for me, I bought too early. Millenniums enjoy!

(Yes, yes I know house prices now make it impossible for Millenniums to ever get in the market, I get that, but right now this is my rant.)

Cheap housing for us? Hardly. The Housing Price Index started its upswing in the late 80s (as the late 60s kids entered the workforce) and continues today. No cheap housing in sight for us – that was the Baby Boomers boom.

I waited and waited for paid maternity leave until, at the ripe old age of 40, I caved and had my first and only child in 2010 (ok, I admit that wasn't what I was waiting for). Less than a year later, on 1 January 2011, in came Australia's first national Paid Parental Leave scheme. Missed out by a whisker again, all yours Millenniums!

And what's yet to come?

Now in our mid 40s (ugh), we slowly turn our minds to the possibility that retirement is somewhere on the distant horizon. Of course, I can't get to my superannuation benefits until age 60 where my Baby Boomer friends are accessing theirs at 55, and now my Age Pension age has gone up to 70, with the real value of future Age Pension payments set to reduce by the changing indexation.

It had to happen, but here are we late 60s kids once again taking one for the team. Good heavens, is this personal?! Am I just imagining this pattern of policy changes directly aimed at hitting us?

Ok, compulsory super came in reasonably early in our working lives, I'll acknowledge that, and it's been a good thing. There's no way I'd have had the discipline to put into it what I have now – home ownership, school fees and holidays are much more fun.

But Super Guarantee started in 1992 at a measly 3% of salary, and it wasn't at a 9% rate until 2002, by which time I'd already been working in some form or another for 15 years. It's the Millenniums (and later the Alphas) who will reap the full benefit of the Superannuation Guarantee system.

Australia's superannuation system is currently remarkably generous and flexible. Payments from super are tax-free for anyone over 60, and there's no restriction as to how it is taken. No compulsory pension, once it's released you can do whatever you like with it. There's always pressure on the government of the day to attack this.

"Tax haven for the wealthy!", "Middle class welfare!", "Inequitable and unsustainable!"

You can bet - knowing my luck - that as those pesky, over-populated Baby Boomers swamp the age pension system by blowing their tax-free super benefits on holidays and their huge houses they refuse to sell, in will come compulsory lifetime pensions or annuities, capital gains tax on assets backing super pensions, caps on tax concessional superannuation benefits, the end of dividend imputation, the return of death duties and who knows what else.

You watch, it will happen. And these new measures will come into effect somewhere around 2030 just as – you guessed it – we late 60s kids retire.

Just saying.

Alex Denham was Head of Technical Services at Challenger Financial Services and she is now Senior Adviser at Dartnall Advisers.

How do you change a two-member SMSF?

Monica Rule

According to the statistics recently published by the Australian Taxation Office (ATO), 69% of SMSFs in Australia consist of two members. I am often asked by people in two-member SMSFs what happens if one member dies or if the main decision-maker is diagnosed with a terminal illness or suffers a major health problem.

SMSF structure: Under the superannuation law, if an SMSF is established with two individual trustees and one dies, it becomes a single-member SMSF. The rule for a single-member SMSF is that if it is established under an individual trustees' structure, then it must have two individuals acting as trustees. If it is established under a corporate trustee structure, it does not matter that the surviving member continues to act as the sole director of the company acting as the corporate trustee.

So, if one of the members dies, in order for the superannuation fund to continue as an SMSF, the surviving member will need to consider either appointing someone else to act as the second individual trustee or restructure the SMSF from an individual trustees' structure to a corporate trustee structure.

If the member who acts as the main decision-maker is no longer able to perform trustee duties for their SMSF, then this person will need to step down as a trustee after appointing the other member, a family member or a friend, to be their legal personal representative and act as trustee. This can be achieved by giving them an enduring power of attorney. Another option is to consider winding up the SMSF by rolling its money into a public superannuation fund.

Assets of the SMSF: Under superannuation law, the only situation where an SMSF must pay out a superannuation benefit is when an SMSF member dies. The death benefit must be paid out as soon as practicable after the death. Unfortunately, the term 'as soon as practicable' is not defined in the legislation and the ATO has not published any guidelines. In my opinion, if the death benefit is paid promptly following the member's death, say within 6 months after liquidating assets, it would probably be acceptable to the ATO. If there are reasonable delays that can be explained, the ATO may accept the actions of the surviving member.

What happens if the SMSF has the majority of its assets in properties or assets that cannot be liquidated easily? The SMSF could consider making an in-specie payment, where an asset is transferred to the member in lieu of paying a cash benefit. An in-specie payment cannot be made where the payment relates to benefits under financial hardship grounds, compassionate grounds or a departing superannuation payment made to a non-resident member.

Winding up the SMSF: There are a number of things that must be considered before winding up an SMSF which includes rolling super entitlements of members to a public super fund. Some super funds will allow assets such as listed shares to be transferred to them whereas others will only allow cash - which means you would need to sell the assets of the SMSF and then rollover the cash proceeds. Of course by selling assets in your SMSF, if your SMSF is in an accumulation phase, it will trigger capital gains tax payable on the sale of the assets. If your SMSF is in a pension phase then it will not have to pay capital gains tax on any sale of assets supporting the pension.

Changing assets in an SMSF: If assets in an SMSF need to be changed to simplify the management of the SMSF, due to the death or incapacity of the main decision maker, then you must ensure that any new assets added to the SMSF are in line with the SMSF's existing investment strategy. If not, you should consider updating the investment strategy.

Do not be alarmed if you are left managing your SMSF on your own. There are SMSF professionals like myself who can assist with your decisions.

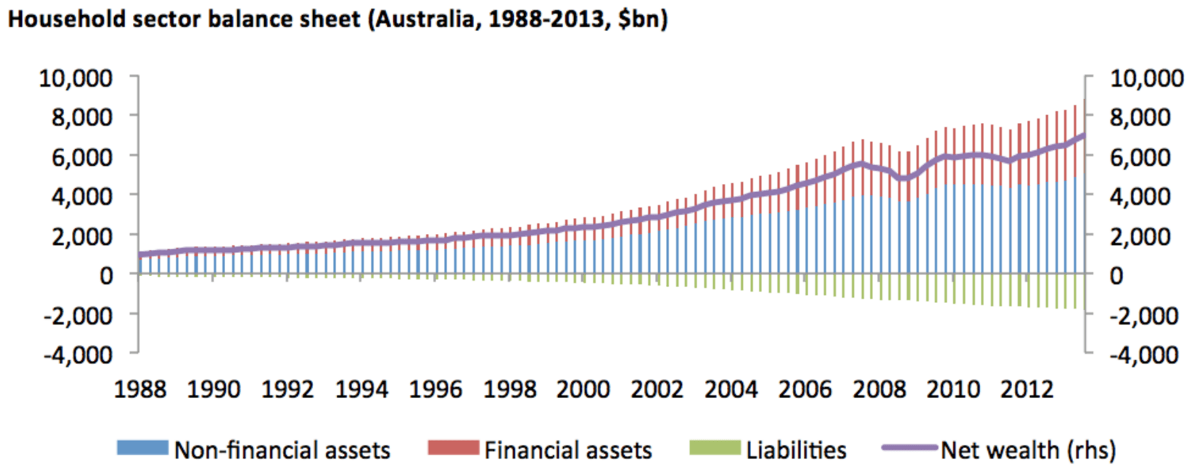
Monica Rule is an SMSF adviser and author of the book, "The Self-Managed Super Handbook". Monica is presenting "SMSF Success Secrets – securing your financial independence" in Sydney on 7 November 2014, where Noel Whittaker and Graham Hand will speak. See www.monicarule.com.au for more details.

[Millions of households are missing out on good financial planning]

Deborah Ralston

The wealth profile of Australian households has changed phenomenally over the past 25 years, according to a [recent paper] from the Australian Centre for Financial Studies. Thanks to increases in asset prices and the introduction of compulsory superannuation in 1992, most households are much wealthier than those of previous generations. Total household wealth in 2013 reached A$6,689 billion, six-and-a-half times the level of household wealth in 1988.

From an aggregate point of view, as RBA data shows below, the net wealth trend line has been positive and increasing with one noticeable blip – the global financial crisis in 2007-08.



As of the end of 2013, dwellings comprise more than half the value of household assets (54%); superannuation and life policies account for a further 25%; with consumer durables (such as motor vehicles and household furnishings) at 3%. This provides an interesting contrast with 1988, where again dwellings accounted for around half the value of household assets (51%); superannuation and life policies 17%; and consumer durables 10%.

While the value of assets has gone up, so too has household debt. In 2013, total household liabilities, mostly debt, stand at around half (49%) of the value of household financial assets, or around one-fifth (21%) of total assets. So, for every dollar in debt, households have, on average, about $2 in financial assets and around $5 in total assets.

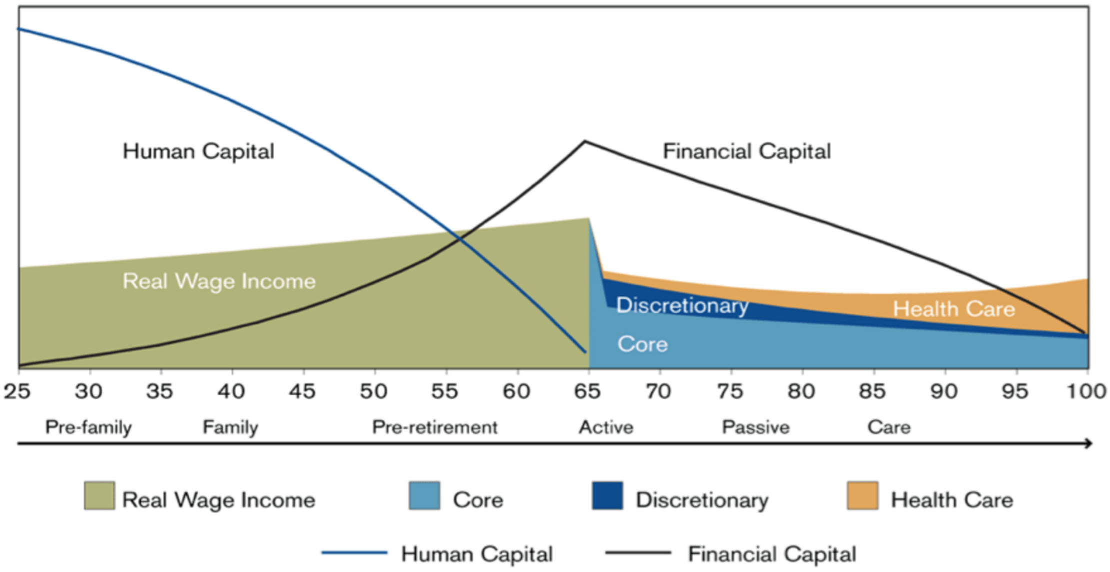
This compares to the situation in 1988, when total household liabilities stood at around one-third (33%) of the value of household financial assets, or around one-eighth (13%) of total assets. In 1988, for every dollar in debt, households had, on average, about $3 in financial assets and around $8 in total assets.

By age and income

While overall household wealth is increasing, there are some very marked variations when the data is segmented by age and income levels.

An examination of net wealth by age group reveals a lifecycle pattern to consumption. This is well expressed by the figure below, which provides an excellent stylised view of the use of financial assets as a means of smoothing consumption through the lifecycle.

Expected human capital and financial capital over a lifetime



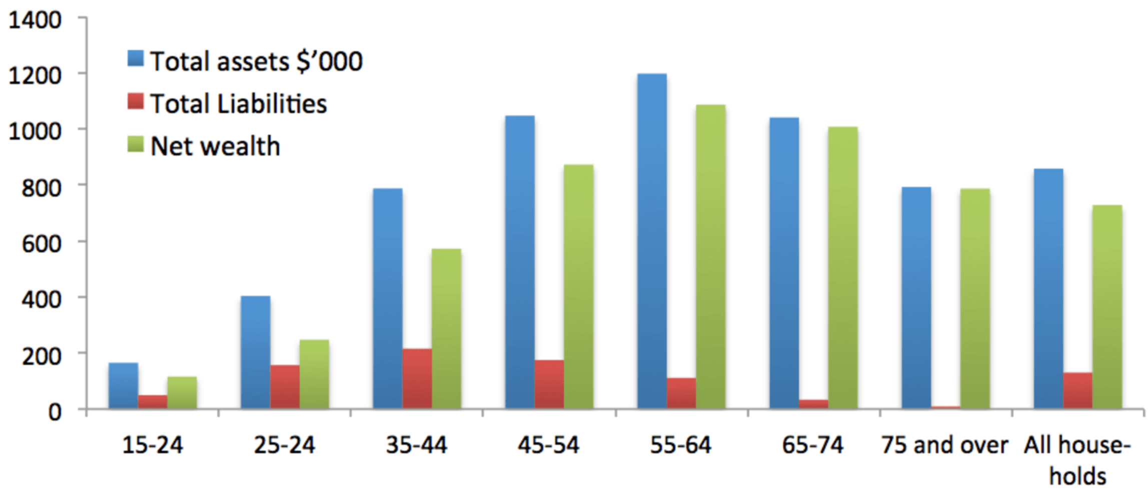
Source: Corrigan and Matterson (2009)

Assets are accumulated through the use of human capital from the beginning of a working life. Debt is used to supplement income to further finance assets, which is then paid down pre-retirement. Net wealth is then expended in retirement.

In retirement, the capacity for an individual to support oneself through human capital is much reduced. Therefore, households need to ensure sufficient financial resources have been accumulated for consumption for discretionary purposes – especially in the more active early retirement phase – and to cover the potential increase in health-care costs in the later stages of retirement.

Just as Australians have been consolidating their wealth, a second major trend has been the rise in longevity. Life expectancy for men has risen from around 65 in the early 1900s to around 85 today. While increased wealth bodes well for financial well-being in retirement, steps must be taken to preserve and protect retirement savings to last for what can be around 20 years on average, after the completion of working life.

Household net worth by age profile ($'000, mean value, Australia, 2011-12)



Household net worth by age profile ($'000, mean value, Australia, 2011-12). Reserve Bank of Australia, 2013.

A skewed distribution of net wealth

Within a defined contribution superannuation system, the need for both advice and products to assist consumers to manage investment and longevity risk to ensure a comfortable and self-reliant retirement is a priority.

However, for some households, managing wealth is not an issue. Australia, as in many OECD countries, has a skewed distribution of net wealth, with the bulk being held by a relatively small number of households. The wealthiest 20% of households hold around 61% of total household net worth, averaging $2.2 million per household.

On the other hand, the poorest 20% of households account for just 1% of total household net worth in Australia, with an average of about $31,000 per household. Mean household net worth in Australia for the period 2011-12 was around $728,000 (consisting of $858,000 assets and $130,000 of liabilities).

Table 10 Household net worth quintiles (mean value, Australia, 2011-12)

	Lowest	Second	Third	Fourth	Highest	All
Household net wealth	31,250	191,207	437,856	766,465	2,215,032	**728,139**

Source: ABS (2013).

So not everyone in Australia is getting wealthier. Many households face financial exclusion where *"Individuals lack access to appropriate and affordable financial services and products - the key services and products are a transaction account, general insurance and a moderate amount of credit."*

A 2013 Australian study found that 18% of the adult population were either fully excluded or severely excluded from financial services in 2012. Just over 1% of adults were fully excluded – they had no financial services products – and almost 17% of adults were severely excluded in that they only had one financial services product.

In all, this means more than three million Australians are either partly or fully financially excluded.

What do Australians need from financial services?

Despite the fact that Australians are getting wealthier, financial literacy is not increasing at the same rate. There is a gulf between what households actually do and what may be in their best interests to do. The complexity of the problem means that households need assistance in making these decisions.

The need for guidance is so critical that it must be available in multiple forms. In addition to traditional financial advice, embedded product and/or technology-based guidance may help nudge households toward better decisions.

Households are also exposed to a multitude of financial-related risks – market inflation, longevity, health, leverage and climate risks to name a few – which are simultaneously dynamic, complex and can manifest over different time horizons. In addition to improved guidance, households need a more complete menu of solutions to help manage these risks.

To make this guidance and risk management as effective as possible for households, they require a complete set of financial "building blocks". Without these, some household risks loom large: for example, longevity risk remains a real consideration for households, increasingly so as the population ages.

Furthermore, there is an implicit assumption that all Australians have equal access to, and benefit equally from, the financial system. This is not the case. Large segments of the population suffer from financial exclusion: they have either limited or incomplete engagement with critical channels of the system. Measures specifically targeted at closing these gaps should be a priority.

Finally, to facilitate the innovation required to meet these challenges, regulation must be flexible, responsive and oriented towards meeting the needs of households. One immediate reform would be to promote further innovation in the area of retirement income products.

Building a financial system that serves Australian households requires a range of approaches if we are to build an inclusive and more equitable society.

Deborah Ralston is Professor of Finance and Director at Australian Centre for Financial Studies. Deborah does not work for, consult to, own shares in or receive funding from any company or organisation that would benefit from this article, and has no relevant affiliations. This article originally appeared in [The Conversation](#).

THE CONVERSATION

Retirement is not for bludgers

Adele Horin

Life starts at 60. That's the topic I was asked to address in a recent talk. But I insisted on putting a question mark at the end. Does it? It's fashionable to think we'll be reborn in our sixties into a world of pleasure and leisure. But really, it's nonsense. By the time you reach 60 to a large extent you've made your life. Through good and bad luck, hard work and temperament you've got the structures in place – or you don't. You've arrived at your sixth decade single and happily independent, or with a partner you still like. You've got there with money or with debt, with a network of reliable friends, with a home; or you maybe none of these things. If through bad luck, bad decisions, or a bad marriage you've arrived at 60 lacking secure foundations, it's tough to build a new life. Ask men who've let friendships lapse about finding a network of buddies post-60; ask older women on the Newstart Allowance. "Life starts at 60" can sound pretty glib to the significant minority of older people who've fallen on hard times.

Fortunately most of us do have the basics in place. We've to a large extent made our life. Phew, we've got here. We're the advantaged ones. We've reached our 60s with options and opportunities. I'm among you, enormously privileged. I had great parents, good state education, good men who loved me. I've had a happy career in journalism. I was there in the golden era. So the question for us is how do we live our lives now? For those of us on secure foundations, who've bit by bit pieced a good life together, how do we continue to contribute? Retirement need not mark the point where our contribution is no longer expected or necessary. Retirement should not mark the start of the Me decades.

Australians' view of retirement has changed over the years. In the 1950s, retirement was a time of rest. Men broken by blue-collar jobs they'd started at 15 needed to recover. In the 1970s retirement was a reward: in return for years of labour and taxes society owed you the Age Pension and a few years of leisure before you died. By the 1990s retirement was seen as a right. It was a time of R&R – rest and recreation – cruises and grey nomading. The super industry cranked up expectations of retirement to include overseas holidays, air conditioning, restaurant meals, wine, and top rate private health insurance.

But just because we're retired and no longer paying taxes, doesn't mean society owes us 20 or 25 years of leisure. Just because we're retired doesn't mean we're tired, as the Boston writer Ellen Goodman has said. Most of us are not physically broken by our desk jobs. A new mindset is needed for these years. We're healthier, better educated than past generations of retirees. We don't think old age starts at 65 as our grandparents did. Here's a new R&R approach to retirement – it's about renewal and responsibility.

Retirement is definitely an opportunity for personal renewal. Freed of the pressure to strive and compete, we can finally tap the nicer person lurking within – the more relaxed, well-rested, unhurried one. Surveys show people in their mid-60s are happy – possibly the happiest we'll ever be. In our youth many of us were anxious and self-conscious. As we near the end of our lives, our sense of well-being dips again. But this is the sweet spot. If our retirement's been voluntary not forced, if we've got those foundations in place, this can be a golden time to try new things, to get into shape, to travel, to spend more time doing what we love. Some people do find 'encore' careers, and late-life divorcees do find 'encore' loves. As a UK survey showed, people at this age can feel more vital than at any time since their thirties.

But it's also a time to give back, to be responsible citizens. I think many people in their 60s and older have already adopted this new R&R approach to retirement. They're giving back or looking for opportunities to give back. Some care for grandchildren or elderly parents, or help out financially. In total older Australians give $22 billion a year to help their adult children. Many volunteer – though the main age bracket for volunteering is 45-54, not retirees. Some older people are concerned about the environment, climate change, housing affordability, the legacy being left to the next generations. They're involved in organisations that are trying to make Australia a fairer place. In the US they have a term, "selfish geezers," to describe well-off older people who get roused only when their own financial interests are threatened. But that's far from a representative picture.

So in this new retirement era, this period of personal renewal and social responsibility, some of us find it's all about balance again. Just as we tried in midlife to strike the right balance between work and family, so we're juggling again. This time the balance we seek is between nurturing our relationships, and contributing to the wider society. It's between being more relaxed, and being bored. It's between having leisure and having purpose. In 15 years it might be time to grab a Me Decade, a period to reflect on the life we've made. But right now we're busy living it.

What's your experience of retirement? What are your plans? Please comment.

Adele Horin was the social issues journalist with the Sydney Morning Herald for 18 years prior to her 'retirement'. This article was first published on Adele's Coming of Age blog (adelehorin.com.au), and is reproduced with her permission.

Making money while orchestrating great music

Penelope Loane

Imagine sitting in a darkened concert hall listening to a young virtuoso take her violin through its paces. The brilliant beauty of the violin's sound is carried right to the back of the room. Her violin is a Stradivarius and incredibly, you own it (or at least, part of it).

Three years ago, the Australian Chamber Orchestra launched the ACO Instrument Fund (the Fund). Thanks to the generosity of supporters like the Commonwealth Bank and Peter Weiss AO, the Orchestra already had access to rare and beautiful instruments. But there was a feeling within the ACO community that more could be done to secure fine instruments for its players.

Rather than turn to donors to subscribe to a new fund-raising campaign, the ACO began to explore options for the development of a fund structured as a unit trust backed by fine instruments. The ACO Instrument Fund is now recognised as an innovative impact investing opportunity which offers both a financial and a social return.

Existing investors range from hard-nosed financiers to committed philanthropists looking for opportunities to enhance the Australian cultural landscape. We are especially pleased to have created a financial product which increases the pool of opportunities for people interested in social impact investing.

Details of the Fund

The ACO Instrument Fund was launched in July 2011 as an unregistered Australian unit trust with its own Board of Directors chaired by veteran Macquarie Bank financier, Bill Best. JBWere Limited is the Fund's Australian Financial Services Licence holder.

The Fund's investment objective is to achieve long-term capital gains for investors through buying high-quality stringed instruments. These are loaned without charge to musicians from the Orchestra for use in concerts, recordings and rehearsals in Australia and on the ACO's international tours.

The Fund is available to wholesale investors only and requires a minimum investment of $50,000. Unlike other unit trusts, there are no ongoing fees and commissions, and the ACO meets the cost of all general and administrative expenses.

The Fund offers limited withdrawal opportunities every three years. The ACO is required to hold a minimum of $250,000 or 10% of the value of the Fund in its reserves, whichever is higher, up to a maximum of $500,000 to pay for redemptions.

The Fund will be terminated in 2021 on its tenth anniversary unless 51% of unit holders vote to continue it (the ACO is not permitted to vote its units).

Assets of the Fund

The Fund's first acquisition was a 1728/29 Stradivarius violin, believed to be Australia's only Stradivarius violin, bought by the Fund in 2011 for $1.79 million and revalued this year at $2.95 million. Its latest acquisition is a 1714 Joseph Guarneri filius Andreae violin, bought by the Fund in early 2014 for $1.65 million and revalued just a few months later at $1.71 million. Both these violins were made nearly 300 years ago in Cremona, a small town in northern Italy, where the Guarneri and Stradivari families competed to build the finest instruments.

The increase in value of each of the violins is in line with research carried out by the ACO prior to setting up the Fund. During this time, the ACO reviewed sales data from reference resources such as Tarisio/Cozio and examined academic studies. It also consulted widely with respected dealers including Simon Morris from J & A Beare and Peter Biddulph, a distinguished London- based expert. The ACO's research suggested annual returns of around 6-8% for public sales and 8-10% for private sales had been achieved in the past, with even higher returns achieved for violins from luthiers like Stradivarius and Guarneri del Gesu. As an asset class, fine instruments also typically show lower price volatility and display a low correlation with other financial assets (Graddy and Margolis, *Fiddling with Value: Violins as an Investment?*).

Financial and social returns

The ACO Instrument Fund was launched with a unit price of $1.00. In May 2014, the Board approved an increase to $1.20 following a revaluation of the underlying assets. The increase from $1.00 to $1.20 implies growth of almost 6.5% per annum for the Fund's founding investors.

The Fund's social return is equally significant. Satu Vänskä, Principal Violin and custodian of the Stradivarius says, "I will never forget the feeling when I was handed this instrument to play for the first time … a Stradivarius, the epitome of fine violins … it has a soul and personality of its own. For the violinist, this means that the violin seems to play the player." Not only do individual musicians benefit from having access to fine instruments, the Fund acts as a powerful recruiting tool which allows the ACO to attract and retain world-class musicians.

Audiences, both in Australia and internationally, in turn benefit from the opportunity to hear music played to an exceptionally high standard. These audiences range from the ACO's 10,000 subscribers to underprivileged children in the ACO's educational outreach programmes, to audiences on concert hall stages in London, Vienna and New York.

Finally, there are the social benefits accruing to the investors themselves. These include making a direct contribution to the wellbeing of society, and the deep sense of connection that comes with owning the rare and beautiful instruments they hear on the stage.

Pennie Loane is Investor Relations Manager for the Australian Chamber Orchestra's Instrument Fund. For more details, see www.aco.com.au. This article is for general education purposes only and is not personal financial advice nor an investment recommendation.