

# WHERE RETIREE BEHAVIOUR AND GOALS INTERSECT: RETHINKING POST-RETIREMENT INVESTMENT STRATEGIES

Ensuring that individuals have enough income throughout retirement is a crucial issue for governments, policy makers, superannuation trustees and the investment management industry in Australia and globally. Strategies for maximising retirement savings in the accumulation phase have dominated the attention of policy makers and the investment industry. However, today's retirees have a limited choice of investment strategies in the decumulation phase that are suitable in meeting their financial goals through retirement.

## CONTRIBUTING AUTHORS



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## KEY POINTS

- > Superannuation balances are still not high enough to provide adequate income in retirement.
- > The majority of retirees are not saving in retirement and 80% are spending at or below levels that are regarded as 'modest.'
- > Households do not decrease their expenditure through the course of retirement.
- > Most retirees prefer to drawdown their assets slowly and close to their minimum amount.
- > There is a need for a broader suite of post-retirement strategies that focus on meeting the goals of retirees.
- > Developing strategies that provide sustainable income for retirement is a key focus for many super trustees and fund managers including AMP Capital.

INSIGHTS  
IDEAS  
RESULTS

**“Retirement is no longer a point in time defined by age. It’s a transition, an evolving journey made of multiple modes that people experience over time.”**

— Jeff Rogers, CIO iPac and Head of Investment Solutions,  
AMP Capital

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Superannuation in Australia became compulsory in 1992, with a modest 3% contribution rate, and since this time aggregate assets have grown to \$2.5 trillion . Despite this growth, the Australian superannuation system is not yet fully mature. Individuals who entered the workforce when superannuation was introduced in 1992, at 18 years of age, are only 43 years old today, and are just over half way through their accumulation phase journey. Older Australians who were part way through their working lives at the beginning of the compulsory system have had less time to accumulate assets prior to retirement and so superannuation balances are mostly inadequate in providing sustainable income throughout the retirement phase for a retiree.

It is our expectation that interest rates and investment yields over coming years are likely to be lower than the 20 years preceding the global financial crisis (GFC). Inadequate superannuation balances, together with an investment environment of lower yields, lower returns and longer life expectancy are key challenges for retirees. Investment solutions that can generate sufficient income for retirees to meet their future obligations are increasingly required.

This paper examines the investing and spending behaviours of superannuation accumulators and retirees and explores possible investment solutions for the retirement phase.







# ACCUMULATION PHASE: BEHAVIOURAL BIASES AND DRAWDOWNS CAN CONTRIBUTE TO LOWER RETIREMENT SAVINGS

Despite compulsion, behavioural biases, well accepted by the academic community, may dissuade investors during the accumulation phase from saving enough for retirement.

In 1991, Richard Thaler, an economist and theorist in behavioural finance, conducted an experiment to prove his hypothesis that people overvalue immediate gains and devalue larger rewards in the future . In the experiment, students at the University of Oregon in the US were told they'd won the lottery and could take the money now or wait until later and get a bit more. The results showed that when given the choice between \$100 today or \$105 tomorrow, the majority of the test group preferred \$100 today.

This inability to exercise self-control is evident in superannuation decisions after market downturns when accumulators typically de-risk their portfolios. This was the case after the GFC when self-managed super fund (SMSF) and other superannuation investors dramatically increased their cash holdings.

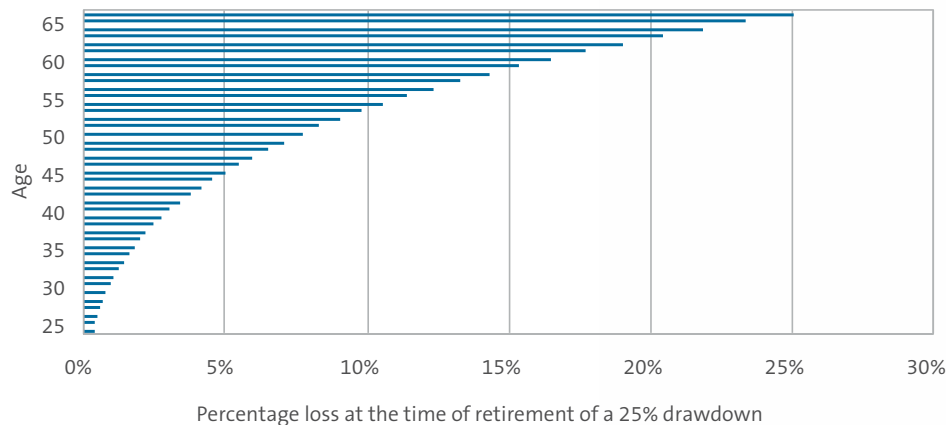
This behaviour compounds the problem of inadequacy. In Perspectives, vol. 02, Jeff Rogers, CIO iPac and Head of Investment Solutions, and Stephen Flegg, AMP Capital Portfolio Manager, considered this issue in the paper [‘Building a better retirement nest egg’](#). Their research showed that the amount an individual contributes to their savings and the rate of return on their

investment contributes equally to the size of their savings at retirement. However, there are several additional dynamics at play that can affect the absolute size of the retirement nest egg:

- > The sequencing of savings contributions.
- > The tax treatment of savings and returns.
- > The asset allocation of their investment strategy.
- > The sequence of investment returns.

AMP Capital’s analysis of the impact on retirement balance from a capital drawdown was investigated, based on an individual investor who works fulltime from age 20 and retires at 65. We assumed that the individual receives average earnings (growing at the historic wage growth rate of 3.5% per annum (p.a) and is invested in a traditional balanced fund. The analysis showed that an investor who suffers a 25% loss of capital at age 30 is expected to have a relatively small 0.8% reduction in their retirement balance. Even at age 50, a 25% drawdown is only expected to have a 7% impact on the super balance at retirement. At age 60, the impact has exponentially increased to 17%. Thus, careful consideration of investment strategy during the accumulation phase and the transition to retirement phase is now becoming industry norm through lifecycle MySuper products.

Figure 1: Percentage reduction of retirement balance due to a 25% drawdown at different ages





## RETIREMENT PHASE: TOUGH TRUTHS ABOUT EXPENDITURE PATTERNS

The Australian Federal Government has supported the Financial System Inquiry's recommendation that superannuation trustees pre-select a default comprehensive income product for retirement (CIPR) for their members. In December 2016, the government released a discussion paper seeking feedback on the key policy issues associated with developing a framework for CIPRs. The expectation is that by mid-2018 at the earliest, the CIPR framework will be legislated by parliament.

Superannuation trustees will look to provide CIPRs that provide a balance of features, which are in the interests of the majority of members. These are likely to include:

- > A minimum level of income with recognition of any guaranteed income where relevant.
- > A stream of broadly constant real income for life, managing longevity risk.
- > Flexibility to access a lump sum as required (for example account-based pensions) or leave a bequest.

To build suitable products, assumptions need to be made about the level of retirement income needed by members.

### Estimating income adequacy in retirement

The ASFA Retirement Income Standards (created in 2004 and updated regularly) are the most widely used estimate for retirement income adequacy in Australia. We acknowledge that they are not universally accepted as the higher 'comfortable' income standard is commonly criticised as overly generous. The standard is a bottom-up estimate of an individual's annual budget required to fund a comfortable or modest standard of living in retirement. The following table outlines the annual budget needed by Australians to fund either a modest or comfortable standard of living in the retirement years.

Figure 2: ASFA income standard for retirees, 30 September 2016

PORTFOLIO	MODEST SINGLE	COMFORTABLE SINGLE	MODEST COUPLE	COMFORTABLE COUPLE
65-84	\$23,996	\$43,372	\$34,560	\$59,619
85+	\$23,575	\$39,816	\$34,952	\$54,942

Source: ASFA 2014b

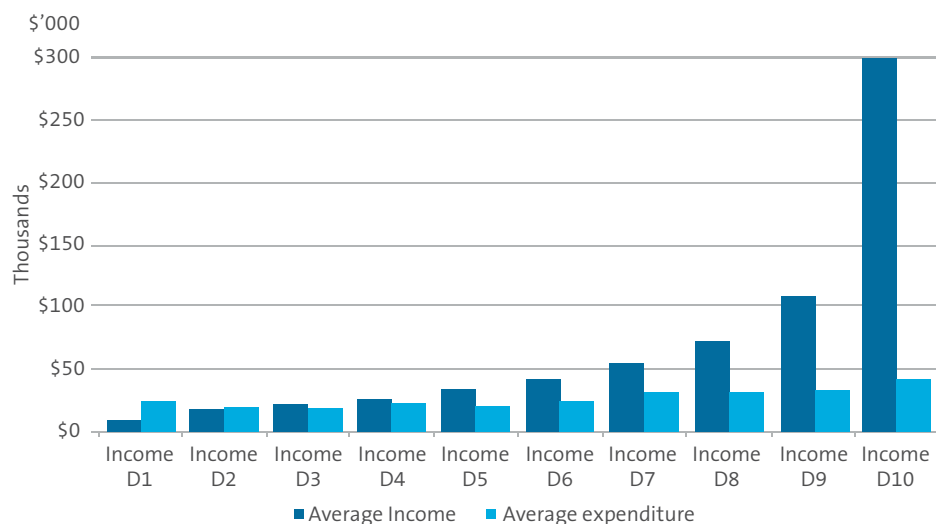
Internationally, adequacy is usually measured through income replacement ratios which are a top-down estimate of the annual income required to achieve a standard of living in retirement, equivalent of that achieved while in employment. The OECD suggests a target replacement rate for a median income earner is 70% of final earnings. These rates are less useful for low or high income earners.

### Surprising expenditure behaviours in retirement

A recent study by the Australian Institute of Superannuation Trustees (AIST) and the Australian Centre for Financial Studies (AFCS) in August 2016 reviewed retiree expenditure behaviours using Household Income and Labour Dynamics in Australia (HILDA)<sup>3</sup> data, and made some surprising observations. The key findings of this study include:

- > The majority of retiree households (approximately 80%) report expenditure levels that are at or below the ASFA 'modest' standard.
- > The majority of retirees are not saving in retirement. When categorised by income decile, the bottom 40% of retired households are spending at or above their current income level. Only the top 30% (incomes above \$70,000 p.a.) report expenditure 50% less than their reported income, as depicted in figure 3. This finding suggests that there are wide variations in standards of living across retirees.
- > Contrary to commonly cited findings, households do not decrease their expenditure through the course of retirement, as demonstrated in figure 4 and figure 5.
- > Today's retirees are spending more than earlier cohorts at a similar age.

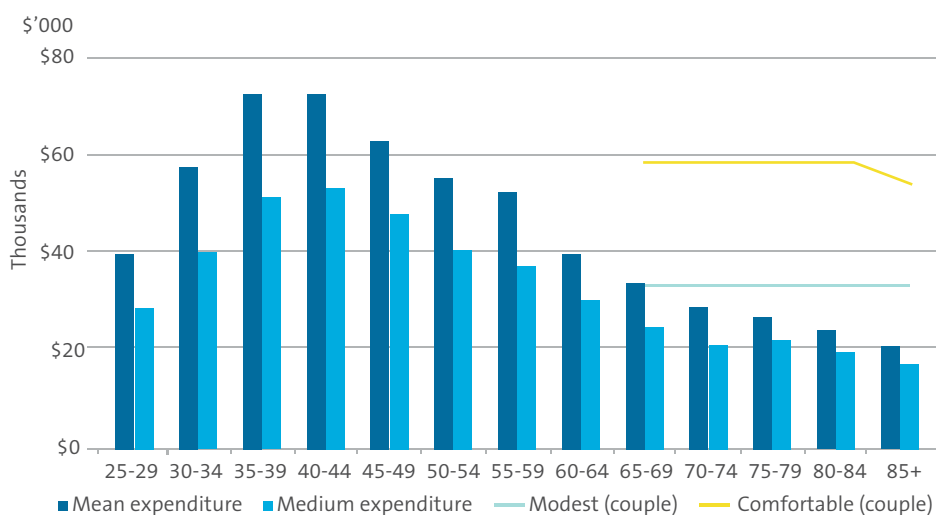
Figure 3: Average household expenditure by income decile, 2014



Source: 'Expenditure standards in retirement,' Australian Institute of Superannuation Trustees (AIST) and the Australian Centre for Financial Studies (ACFS), August 2016, citing ACFS analysis of Department of Social Services 2015

Expenditures for lower incomes fail to match or just meet expenditures and are not saving in retirement.

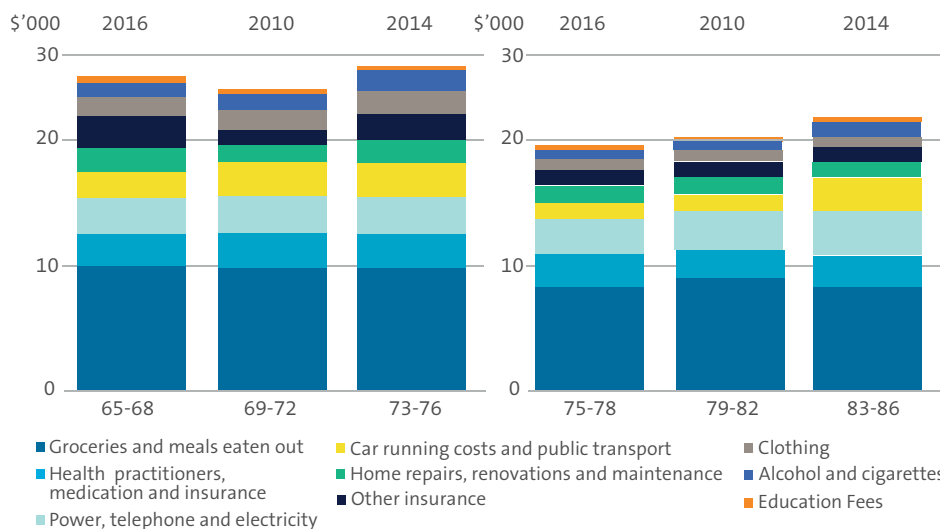
Figure 4: Average and median household expenditure by age, 2014



Source: 'Expenditure standards in retirement,' Australian Institute of Superannuation Trustees (AIST) and the Australian Centre for Financial Studies (ACFS), August 2016, citing ACFS analysis of Department of Social Services 2015.

The median household expenditure is relatively stable for retirees aged from 65-84 years.

Figure 5: Household expenditure does not decrease through retirement  
Spending in 2006, 2010 and 2014 (2014 dollars)



Source: 'Expenditure standards in retirement,' Australian Institute of Superannuation Trustees (AIST) and the Australian Centre for Financial Studies (ACFS), August 2016, citing ACFS analysis of Department of Social Services 2015

Expenditure does not decrease materially throughout retirement with groceries and meals, health and transport costs dominating expenditures.



## LOW ECONOMIC GROWTH AND LOWER RETURN ENVIRONMENT CREATES ADDITIONAL CHALLENGES FOR RETIREES

While lower investment returns and lower yields are a challenge for all investors, retirees have less flexibility to respond compared with workers who are in the accumulation phase. Matt Hopkins, Senior Portfolio Manager from our Multi-Asset Group, notes that the current headwinds to stronger global growth include:

- High debt levels, which require many economies to de-lever.
- Ageing population demographics suggest structurally lower potential growth.
- Poor productivity.
- Existing high profit share in the US, meaning workers and consumers have limited income gains.
- The exhaustion of monetary policy with interest rates low or negative in many countries.
- Debt and overcapacity in China.
- Rising income and wealth inequality.

## CAPITAL DRAWDOWN BEHAVIOUR THROUGH RETIREMENT

Income inadequacy during retirement implies that frugality is necessary for some retirees. In addition, there is the complex problem of managing longevity risk. For upper income deciles, there is a clear preference to leave a legacy. A recent study by the CSIRO-Monash Superannuation Research Cluster<sup>4</sup>, of which AMP Capital is an industry partner, found that on average superannuation balances continue to grow during retirement years. Jeff Brunton, AMP Capital Investment Director, notes that the study found:

- > Most retirees appear frugal with no evidence of widespread rapid drawdown of capital. Most retirees prefer to drawdown their assets slowly and close to their minimum amount. Retirees with smaller balances at the point of retirement typically take a lump sum payment. Retirees with smaller balances also drawdown faster.
- > Most balances grow in the 60s and 70s age cohorts, suggesting retirees are unable to access products or solutions that will help them manage longevity risk; thus they underspend and live frugally to reduce the risk of outliving their savings. Potentially, this might result in individuals worrying more than needed, causing a negative impact on health and wellbeing.
- > Decision making about drawdowns is challenging, perhaps impossibly complex, and the paper notes that longevity risk is very costly to manage individually. Perhaps there is another issue with the way the industry frames superannuation as the language and framing is about saving, not spending.

## A CALL FOR POST-RETIREMENT STRATEGIES ORIENTED AROUND RETIREE GOALS

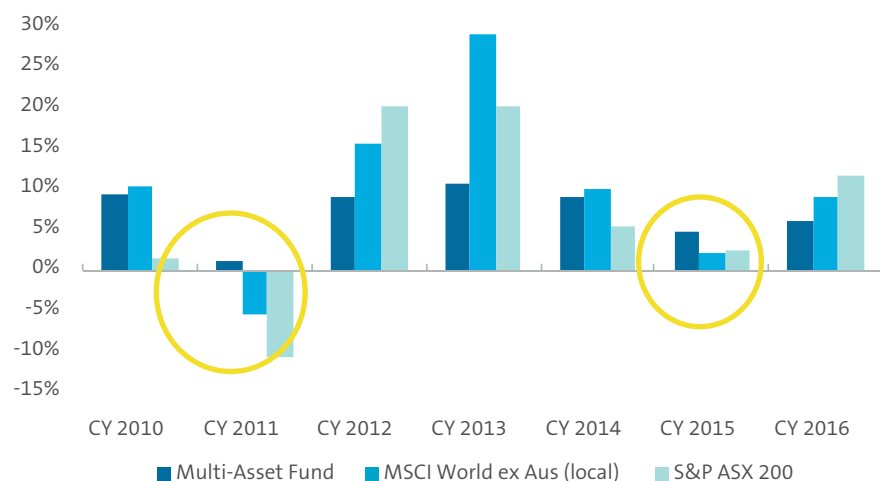
There is a clear need to deliver sustainable cash flow for retirees. It is important to note that for some retirees, cash flow may be purely investment income; but for many, cash flow will include income and the return of capital.

Importantly, retirement is no longer a point in time defined by age; it's a transition. Investment strategies need to align to this reality. Alex Harken-Yumru, Head of Omni Channel Foundations at AMP, explains that retiring right means different things to different people. AMP's research has revealed that customers have different views of when retirement should start, what an ideal lifestyle looks like and what financial resources they need to make it all possible. This means that customers will need a range of different solutions to solve for the myriad of circumstances they face.

Many effective solutions already exist but the extensive research revealed that some customer segments need new solutions to help them to 'retire right'. AMP Capital has been addressing this problem over recent years to create product offerings that are relevant to the goals of customers such as income, inflation protection, long-term capital growth and resilience (that is, portfolios that perform better in down markets). One such example is AMP Capital's Multi-Asset Fund, which is managed to an absolute return objective. It has been more resilient than both Australian and global share market during periods of weakness in 2011 and 2015, as illustrated in figure 6, reflecting the benefits of strong diversification, dynamic asset allocation and tail-risk hedging strategies. Typically, minimising capital drawdowns is of greater importance to a retiree in decumulation phase than to an investor in accumulation phase.



Figure 6: Building resilient portfolios: outperformance through periods of share market weakness



It's important to consider a retiree's assets and goals (liabilities) rather than focus solely on asset maximisation.

Source: AMP Capital, AMP Capital Multi-Asset Fund, Bloomberg as at 31 December 2016. Fund performance returns have been calculated net of fees. Past performance is not a reliable indicator of future performance.

Effective retirement solutions should cater to the different goals that a retiree may have and, importantly, should consider the size of the retiree's superannuation balance. Those who retire with higher account balances may not need to draw down as quickly on their wealth in retirement and may be able to largely or entirely live off the income generated. These retirees have more choices than those with low to modest balances as the latter may need to draw down on most or all of their capital over their retirement.

Darren Beesley, AMP Capital Senior Portfolio Manager, Multi-Asset Group, explains that retirees have two levers at retirement: investing and spending. Consideration of both levers by an individual or a household at retirement is similar to how a CFO might manage a balance sheet. It's important to consider a retiree's assets and goals (liabilities) rather than focus solely on asset maximisation.

AMP Capital's experience is that a goals-based approach to investing is beneficial because it starts with a deeper understanding of an individual's behaviour and the relative priority of their financial goals. Importantly, our proprietary research indicates that people like to be involved in decision making and that they naturally segment their assets into 'mental accounts' with different goals for each account or category. Consequently, a holistic portfolio approach is not behaviourally optimal. By contrast, an approach that allows the segmentation of goals provides visibility and the ability to track the success of individual goals.

For retirees, regular and sustainable cash flows that support their essential needs is an important goal.



The typical categories of goals considered by individual retirees can be described by needs, wants and legacy aspirations, as depicted in figure 7, which we refer to as the hierarchy of goals. This is based on Maslow's hierarchy of needs theory and how these needs influence human motivation. In the hierarchy of goals:

**NEEDS:** Refers to the funding of food, shelter and other essentials to live an adequate retirement. They represent the highest priority goal.

**WANTS:** Refers to the funding of discretionary spending linked to the enjoyment of a more active retirement (including higher quality of essentials or lumpy payments such as overseas holidays). They represent medium priority goals.

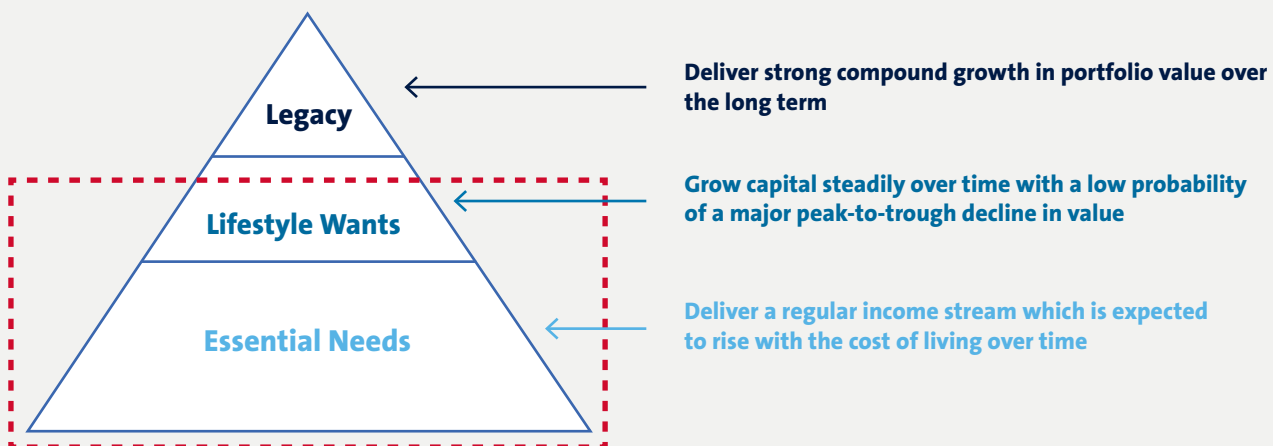
**LEGACY:** Refers to funding that has been set aside to create an endowment or to meet late-stage aged care and medical expenses. These are considered the lowest priority goals.

For the majority of AMP's customers retiring today, their financial assets may be sufficient to fund their essential needs – which may be partly funded by a government pension – but only part of their lifestyle wants. The shortfall reflects the relatively short period that Australia's universal superannuation savings system has been in place as well as the modest initial contribution rate of 3%. This is depicted in figure 7 by the red rectangle. Consequently, good advice that helps retirees prioritise their spending goals in retirement will be vital to improve wellbeing in retirement. As time progresses, we would expect the red box to increase in size.

Retirement balances are expected to grow due to higher contribution rates applying for an increasing proportion of working lives while more widely available advice will enable customers to better plan the funding of post-retirement cash flows.

Goals-based approach puts an investor and their goals at the centre of the investment experience.

Figure 7: The hierarchy of goals for retirees



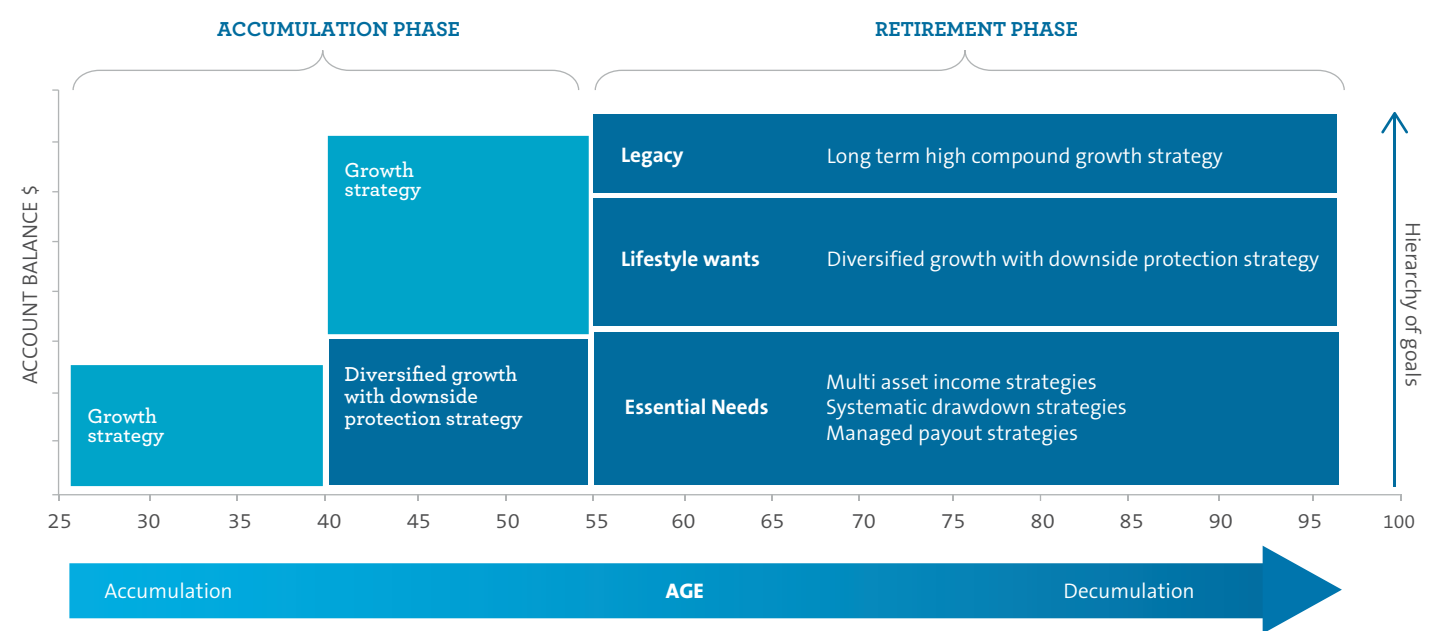
The approach aims to ensure that current assets will generate sufficient income to meet future obligations for retirees



We are aware that an important goal for retirees is regular and sustainable cash flows that support their essential needs. Retirees that have sufficient financial assets could potentially fund their essential needs solely from economic income, and a multi-asset income strategy could be suitable (see figure 8). Unfortunately, many retirees have insufficient capital at retirement to pursue this strategy. This has led us to develop the Future Cash Flow Funds series. These funds seek to fill a need for investors with moderate balances that are seeking a strictly budgeted cash flow program delivering a pre-set (inflation adjusted) cash flow stream incorporating both fund earnings and the return of some capital. The strategy seeks to dynamically manage the trade-off between lengthening the duration of the cash flow stream and ensuring it doesn't run out too early. In effect, these funds provide a systematic drawdown of capital.

For illustrative purposes, in figure 8 we depict how goals-based solutions might be used to meet customer goals through their working life and into retirement. Across the hierarchy of goals, there are goals-based investment strategies that are aligned to each category.

Figure 8: Portfolio solutions at various stages of the lifecycle

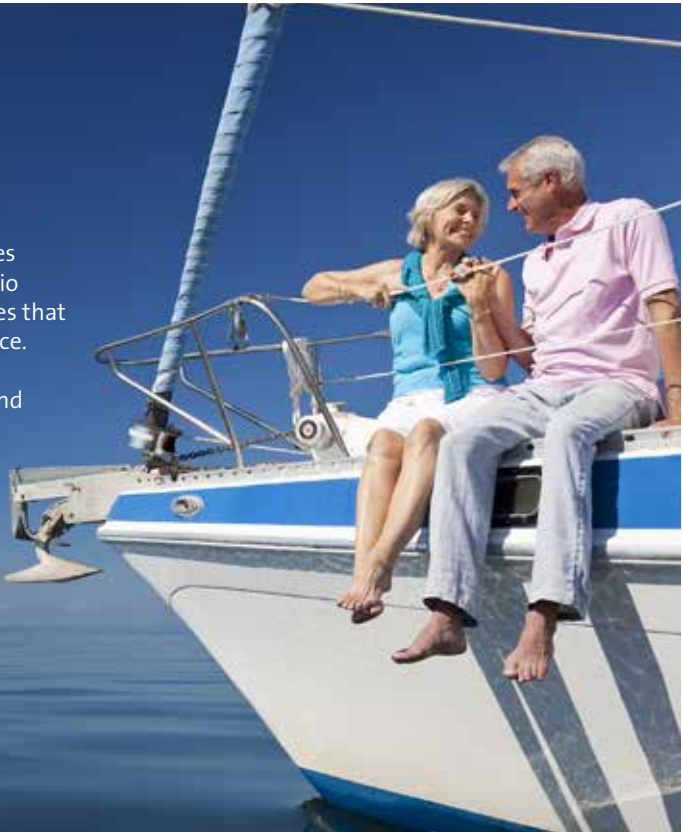


Source: AMP Capital

# BUILDING PORTFOLIOS THAT MEET RETIREE NEEDS

## Income and capital resilience

Developing investment strategies that better meet the goals of retirees requires some rethinking of traditional investment challenges. Portfolio management teams need to become increasingly focused on strategies that support retiree goals such as income or inflation protection or resilience. In the following section, we provide perspectives from members of AMP Capital's investment teams on strategies that focus on income and capital resilience.



# Global fixed income perspective



**STEVEN HUR**  
AMP Capital Senior  
Portfolio Manager,  
Global Fixed Income

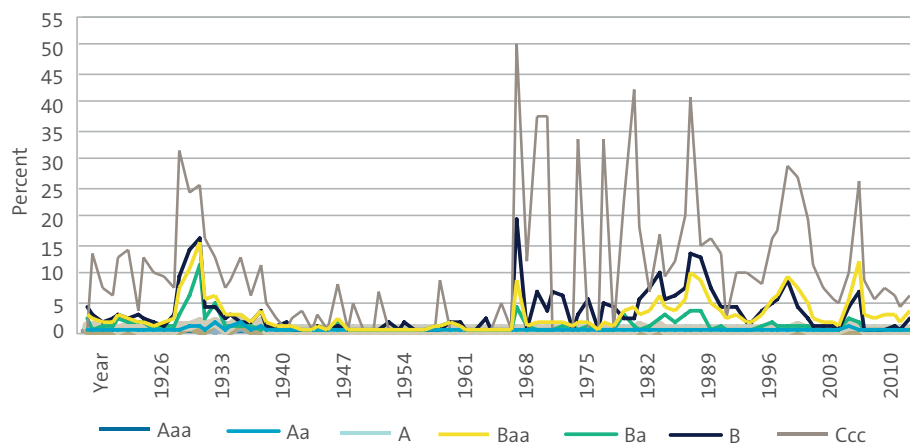
Steven Hur, AMP Capital Senior Portfolio Manager, Global Fixed Income, explains that the pursuit of income within a fixed income allocation should include an allocation to corporate bonds. The additional return that is on offer for accepting credit risk varies with time, due to the relative supply and demand of credit, and also varies with quality.

Credit ratings seek to be an objective assessment of a company's (borrower) ability to pay principal and interest when due on the bond or loan. This assessment essentially considers the amount of variability in free cash flow (defined as what is left from operating earnings after capital expenditure is paid) that the company will have to service their debts, and this variability in free cash flow is associated with the industry and financial risks the company has accepted in their business model.

Different industries can exhibit different levels of free cash flow variability due to their sensitivity with overall growth in the economy. Less economically sensitive sectors such as utilities and consumer staples have more predictable free cash flows and thus can enjoy higher credit ratings compared to more economically sensitive sectors such as capital goods industries or consumer discretionary industries for instance.

Further, companies can take on more or less financial risk through the gearing levels targeted on their balance sheet and these decisions will either amplify or counteract industry risk factors. The overall rating is a crucial piece of the puzzle to consider in constructing reliable retirement income. Figure 9 shows long-term default rates for different credit ratings, where defaults for investment grade-rated bonds (Aaa, Aa, A, Baa) are infrequent. The stability of investment grade-rated bonds infers that they are good candidates for building a reliable retirement income stream.

**Figure 9: Annual Corporate Default Rates, 1920 - 2015**



Source: : Moody's Investor Services, AMP Capital

By comparison, default rates for companies rated below investment grade (Ba, B, Caa, Ca, C) are much higher. The amount of industry and financial risk accepted by these companies creates a high degree of free cash flow variability such that when economic times turn poor these companies can struggle to meet their financial obligations. These companies are generally poor matches for creating sustainable retirement income. We note, however, that credit rating agencies are sometimes slow to respond to changing market conditions so investment teams that conduct forward-looking proprietary research on companies, including independent credit rating assessments, could uncover risks not yet captured by external agencies.

In addition, the risk of capital loss from rising interest rates could be better managed by having greater flexibility in duration management with wider duration bands. Similarly, periods of economic weakness are typically associated with falling interest rates or rising bond prices, particularly bonds with longer durations. By extending the duration of a bond portfolio, income can continue to be delivered to investors during poor economic times.

## STRATEGY IMPLICATIONS:

Focus on investment-grade credit securities and manage interest rate risk with wide duration bands.



# Australian equity perspective

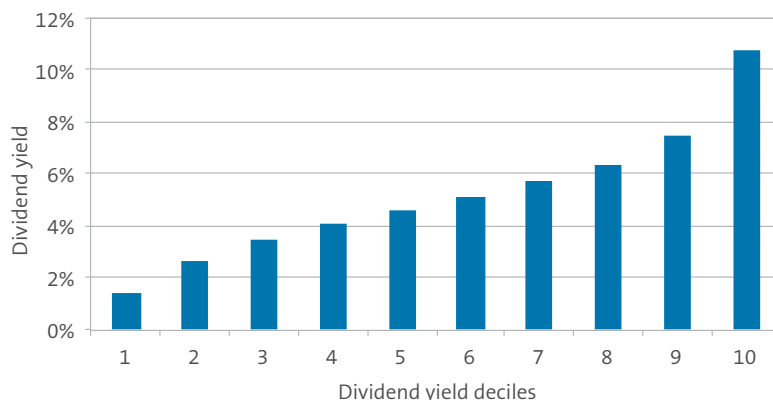


**MICHAEL PRICE**  
AMP Capital  
Head of Australian  
Equities

Michael Price, AMP Capital Head of Australian Equities, explains that delivering regular and reliable income from dividends means identifying companies that can both maintain and grow their dividends over time. Simply investing in securities that historically paid the highest dividends during the previous year can lead to disappointment. On average, companies with very high expected dividend yields tend to deliver negative earnings growth, negative dividend growth and underperform the market.

This means it is important to identify companies that can both maintain or grow their dividends over time. Figure 10 shows the average dividend yield (pre franking) by decile between 2004 and 2016 and confirms that the variability of dividend yields is wide, ranging from less than 2% to more than 10%.

Figure 10: Average dividend yield of each dividend yield decile\*

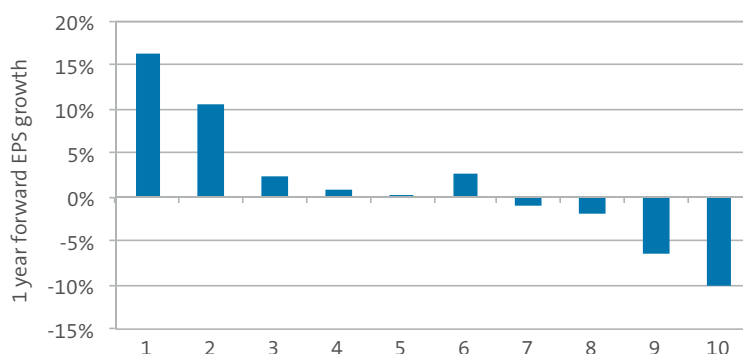


Source: AMP Capital, Factset, 31 December 2016.

\* Decile statistics are equal weighted not market cap weighted

It's important to consider the earnings base within each dividend decile as earnings growth and stability are the basis for future dividends. The following chart shows that the forward earnings growth for the higher dividend yield deciles is negative, possibly suggesting companies are paying out dividends rather than investing back into the company to create earnings growth. Similarly, in the very low dividend yield deciles, companies are experiencing faster earnings growth and therefore reinvesting more of their free cash flow into internal growth opportunities rather than distributing to shareholders.

Figure 11: 1 year forward EPS growth for each dividend yield decile



Source: AMP Capital, Factset, 31 December 2016

Simply investing in securities that historically paid the highest dividends during the previous year can lead to disappointment.

## STRATEGY IMPLICATIONS:

It's important to consider both earnings growth and stability when constructing an income strategy using equities, and particularly when building an income strategy for those heading into or already in retirement.



# Global listed real estate perspective

Chris Deves, AMP Capital Client Portfolio Manager, Global Listed Real Estate, observes that in Japan the demographic pulse of an ageing society is much more progressed than most other nations, as depicted in figure 12.



CHRIS DEVES  
AMP Capital Client  
Portfolio Manager, Global  
Listed Real Estate

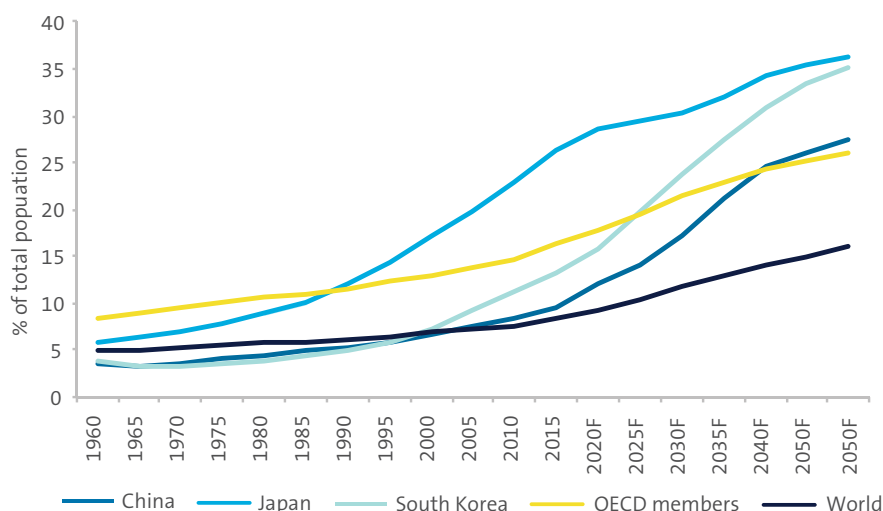
As a consequence of the need for stable retirement income in a market where bond yields have been extremely low for many decades, the Japanese have long used Real Estate Investment Trusts (REITs) as a source of stable yield as part of their retirement income strategy. REIT cash flow predictability is higher than that of general equities, largely because rent is an essential expenditure for most companies and individuals, such that sensitivity to economic conditions is lower than other industries.

Japan has a very well-established domestic REIT framework and is the largest market in Asia. During the last decade, senior living real estate assets have been among the holdings of some Japanese REITs such as Invincible Investment Corporation, Orix JREIT and Advance Residence Investment Corporation. In 2013, the Abe government began actively encouraging investment from the private sector in senior living real estate as a matter of economic policy, which paved the way for the first healthcare REITs with a focus on residences for the elderly. The market has subsequently seen the establishment and listing of Japan's first healthcare facility dedicated REITs.

This could be a future trend for other societies with large savings pools and an ageing population. There is an interesting symmetry between the need for greater investment in senior living facilities and the increase in demand for investments that deliver a stable retirement income. Retirees may be able to address both needs in the one investment through the REIT asset class, which underscores the uniqueness and attraction of listed real estate.

**The income predictability provided by REITs will be important to retiree portfolios. Interestingly, retirees may be living in their own real estate investments.**

Figure 12: Proportion of population aged 65 years and over



Source: World Bank

## STRATEGY IMPLICATIONS:

With Japan as a useful example, the income predictability provided by REITs will be important to retiree portfolios. Interestingly, retirees may be living in their own real estate investments.

# Infrastructure equity perspective

Andrea McElhinney, AMP Capital Investment Director, Community Infrastructure, explains that infrastructure offers a range of investment characteristics that can be particularly attractive in generating stable income for retirees in a low-return environment.



**ANDREA MCELHINNEY**  
AMP Capital Investment Director,  
Community Infrastructure

Infrastructure assets are typically essential to the day-to-day operation of our society and are often less influenced by economic factors than other businesses, which tend to create consistent returns through market cycles. In addition, certain types of infrastructure assets enjoy the protection of monopolies or operate in markets where the barriers to entry are high, such as airports, seaports and energy storage and transmission assets.

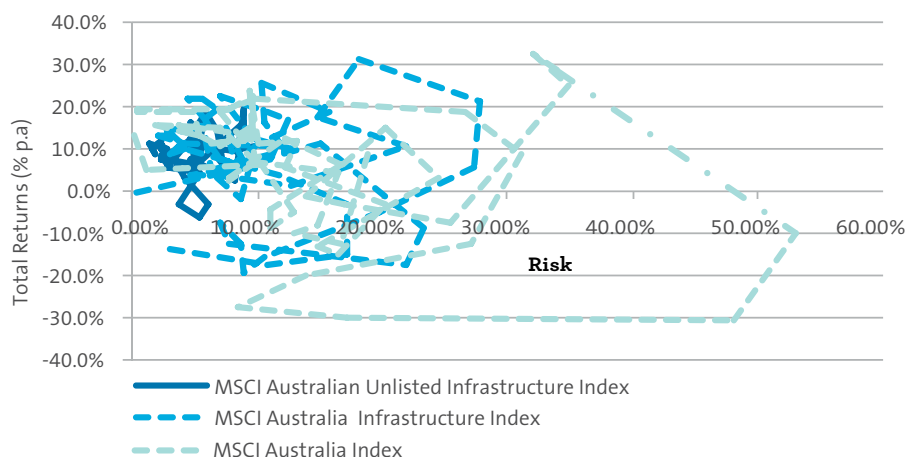
Infrastructure asset revenues are often underpinned by regulation or by long-term contracts with highly creditworthy counterparties (which can often include governments). Consequently infrastructure assets often offer a high level of visibility and security about future revenues. Infrastructure asset revenues are also often linked to inflation, which can help investors protect against erosion of the value of their investment by inflation over time.

Of particular note, social infrastructure investments, most commonly structured as Public Private Partnerships (PPPs), primarily focus on high yielding operational assets with stable and predictable cash flows over a 25-30 year concession term with low exposure to economic conditions and asset usage, making them a good fit for retirees.

Through the market cycle, infrastructure tends to provide better risk-adjusted returns compared to general listed equities. Figure 13 is a snail trail of returns against risk for Australian infrastructure and Australian equities and shows that Australian infrastructure, direct and listed, during the past 15 years has delivered better risk-adjusted returns than general equities, which displayed relatively higher risk for a given level of return.

**Figure 13: Direct and Listed Infrastructure versus listed equities offers better risk-adjusted returns**

Rolling annualised 15 year quarterly risk and returns



## STRATEGY IMPLICATIONS:

Infrastructure assets provide stable cash flows that are important in retirement. A core infrastructure portfolio that is comprised of both listed and direct assets can offer retirees access to liquidity.

Source: AMP Capital, Bloomberg, 31 December 2016

Footnote to chart: MSCI Australia Unlisted Infrastructure index uses data from Australia domiciled unlisted funds but includes approximately 65% foreign assets. Previously the IPD index. Past performance is not a reliable indicator of future performance.



## IN SUMMARY

- Superannuation balances are still not high enough to generate income adequacy throughout retirement.
- With interest rates and investment yields in coming years expected to be much lower than the 20-years preceding the GFC, retirees who focus their investment strategy on cash and term deposits are potentially at risk of poor retirement outcomes. Retirement is a long-term game and longevity risk is a significant issue.
- It is our view that there needs to be a richer suite of post-retirement products oriented around the goals of retirees. No single product can be expected to deliver suitable outcomes for all.
- There is scope to significantly improve financial wellbeing in retirement by implementing strategies with more transparent linkages to the spending goals of retirees.

1 Association of Superannuation Funds of Australia, as at September 2016.

2 Thaler, Richard T. 'Some Empirical Evidence on Dynamic Inconsistency', *Economic Letters* (1991).

3 The Household, Income and Labour Dynamics in Australia (HILDA) Survey represents results of panel surveys undertaken with 9500 households across Australia, with expenditure data gathered annually since 2002. The survey is not totally comprehensive as it excludes some items such as holidays and other types of discretionary spending.

4 Reeson, et al (2016) 'Superannuation drawdown behaviours: An analysis of longitudinal data' CSIRO-Monash Working Paper.

PERSPECTIVES

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RESULTS

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