YourLifeChoices

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Retirement Affordability Index™

‘THE NASTIEST, HARDEST PROBLEM IN FINANCE’

How much can you withdraw from your nest egg without running out of money or leaving too much in the kitty? Our experts explain the challenges and offer solutions.

YourLifeChoices
Simplifying retirement

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Survey reveals retiree strengths and concerns

Each year, **YourLifeChoices** conducts several surveys to help keep our content as relevant as possible for members. You generously take the time to tell us how you're faring in retirement or in the years leading up to retirement. You share your strengths, your concerns.

In this issue of the *Retirement Affordability Index™*, centred on the theme 'The nastiest, hardest problem in finance', i.e., making your money last as long as you do, we share guidance from our expert contributors plus the results of our *Ensuring financial security in retirement 2021* survey, which had 4102 respondents, plus. This is some of what you told us. ■

MALE-FEMALE BREAKDOWN

Male 48%
Female 52%

THE COHORTS

Self-funded couple and single homeowners 36%

Couple and single homeowners on a full or part Age Pension 47%

Couple and single renters on a full or part Age Pension 17%

SPENDING IN RETIREMENT

Compared to your spending just before retirement, is your spending in retirement?

Much higher 2%
Higher 8%
About the same 34%
Lower 34%
Much lower 22%

How confident are you that your savings and income will enable you to maintain your lifestyle for as long as you live?

Confident or very confident 47%
Neutral 22%
Not confident 31%

Are you confident about how much to spend in retirement?

Confident or very confident 47%
Neutral 29%
Not confident 21%
Financial adviser does it 3%

TOP FINANCIAL CONCERNS IN RETIREMENT

Not being able to afford long-term care expenses, such as in-home care or nursing home care 40%

Not being able to afford to live comfortably throughout retirement 32%

The income from your retirement savings not keeping up with the cost of living 32%

The possibility of outliving your retirement savings 28%

Not having extra money on hand in retirement in the event of an emergency 29%

RETIREMENT PLANNING

How often do you review your retirement income plan?

At least annually 50%
1-5 years 14%
Rarely or never 31%
Someone else does it 5%

How to spend in retirement, but make your money last

Former actuary now retirement expert *Don Ezra* tells what he has learnt about confident spending and navigating the 'nastiest, hardest problem in finance'.

Surveys show that retirees often leave estates bigger than the superannuation balances they had when they retired. This implies they've been living off only the income derived from super – indeed even less than that.

If a bequest is what drives you, that makes sense. But it's tough to believe that's what drives most retirees. Surveys in assorted countries reveal there's a more likely explanation (will I outlive my assets?) and solution (the only way to make sure my capital lasts is never to touch it at all).

Here are two ways to spend both income and capital, and still not outlive your assets.

Let's start with separating the spending and bequest motives.

A simple way is the way my wife and I did it. It was important for us to give our two kids something we could give with warm hands, as the saying goes, rather than with cold hands after we're gone. They were thrilled, and have made good and sensible use of it – and we have the gratification of seeing how useful it's been. Now they know they should expect no more, and they're fine with that, and anything that's left is a bonus for them.

Studies show that our spending tends to fall gradually through our retirement years, as we move from our early 'go-go' spending ... to a 'slow-go' pace.

The added bonus for us is that the openness has made it okay for them to discuss their finances with us. My wife and I never had that sort of conversation with our parents.

The other way, of course, is to leave it after you're both gone. And I think of three ways to do that. If you want to leave whatever remains after you're gone, you just ignore the legacy in your spending plans.

If you want to leave specific assets, leave those assets out of your own planning (though you might still take the annual income into account).

And if you want to leave a specific amount, buy a second-to-die insurance policy for that amount, and the premium becomes a part of your spending.

Now let's focus just on spending

It helps to divide your spending desires into needs (the things you absolutely can't live without) and wants (the things you can give up if compelled to in bad times – though it will hurt). I'm going to call your total assets, both super and other, your 'pension pot'.

Here's the problem, in a nutshell. There are still two major uncertainties in ensuring sufficient retirement income that lasts a lifetime. One is: how long will I require the income?

The other is: the income will be drawn from my pension pot, and I know how big the pot is today, but what will be the future investment return on the pot?

Together, they form a horrendous problem. Nobel Prize winner Bill Sharpe called this "the nastiest, hardest problem in finance".

It's far too difficult for me to solve in any universal optimal sense. But I can identify two approaches that work – one simple and one more complex. (This is called 'satisficing' – finding something that works and is good enough, even if imperfect. It's satisfying, and it suffices.)

The simple approach is first to estimate your life expectancy; that is, the *average* number of years of future life for a group of people of your age and gender. If you have a life partner, find your 'joint and last survivor' life expectancy, that is, the average number of years of future life for the one who survives the other (you'll have to find a life expectancy table for this).

Suppose the relevant expectancy in your case is 23.2 years, and your total pot is $500,000.

The amount to withdraw, for next year's spending, is $500,000/23.2 = $21,552. And so on.

What does "and so on" mean?

Well, a year from now, review your life expectancy. It may surprise you that it hasn't gone down by a full year. Never mind why – it's just a fact. If you want an explanation, see this blog post. Suppose it's now 22.3 years. Your pot used to be $500,000 less the $21,552 you withdrew, so it's now $478,448. Suppose you had a bad investment year, and your assets actually lost 1 per cent in value. They're now worth $473,664. The withdrawal is then $473,664/22.3 = $21,241. And so on.

You'll find that your withdrawal varies from year to year (not a surprise, since it deals with changing circumstances), but usually not a lot. And it's your wants that are typically affected, rather than your needs.

What you do with your investments in this approach is entirely up to you, and it affects the ongoing size and volatility of your pot and your withdrawals. But since (if you're alive) there's always some future life expectancy, there's always something left in your pension pot. In other words, your pot doesn't run out.

That's the simple solution.

The more complex solution goes into greater depth in many dimensions.

1. First, lock in your needs for the rest of your life, however long that may be.

Compare the needs with the lifetime income you're guaranteed to get, such as the Age Pension and guaranteed defined benefits from a super (pension) plan, rare as that may be. If the aggregate guaranteed lifetime income isn't enough for your needs, consider buying a lifetime annuity for the difference. Now your needs are okay for as long as you live, and you have a balance (or perhaps still your whole pension pot) left to invest and draw down gradually to meet your wants.

2. For this balance, two possibilities.

(2.1) One approach, only recently available in some countries, is to join a longevity pool that guarantees income for life but gives no guarantee about the amount. Your assets will be invested in accordance with the pool's stated policies.

(2.2) For a do-it-yourself approach, you need to examine both life expectancy and an investment approach. Here's what I do for my wife and me.

a. I plan for a lifetime that's longer than our life expectancy. I looked up longevityillustrator.org and found the length of time that only 25 per cent of couples like us would outlive, and that's our planning horizon. You could use the 10 per cent horizon if you're more cautious, though obviously it will result in a lower annual sustainable spending amount.

b. I hold five years of sustainable spending in cash-like securities (my 'self-insurance bucket'), and the rest in a global equity index fund (my 'growth-seeking bucket'). There are reasons for making that five years, but way too long for this kind of chat. (I've written it up for the London *Financial Times* money supplement and it's on my website.

Essentially, the five-year period is designed to give a high probability that, if the growth bucket suffers a decline in any year, it will recover within those five years, and we won't have to touch it in the interim. Meanwhile, we'll spend from the self-insurance bucket.

If the growth bucket grows (a not unreasonable hope, though not a guarantee, of course), we can take the following year's spending from it and preserve the size of the self-insurance bucket.

c. Of course, a problem is to calculate what amount of annual spending is sustainable from this combination of pots. Again, it's a complex formula, but that same article provides a table for a range of planning horizons and self-insurance periods. (The table assumes that you want your spending to allow for inflationary increases each year.) You can interpolate to find the sustainable spending that fits your circumstance and choices. That also tells you how much to hold in your self-insurance bucket and how much in your growth-seeking bucket.

This is the point at which you can compare the amounts of sustainable spending resulting from the 25 per cent and the 10 per cent planning horizons. If the 10 per cent horizon number works for you, that's great because your risk is greatly reduced. Otherwise use the 25 per cent number, which still has a built-in margin relative to your life expectancy.

d. Each year, redo this exercise. In fact, discipline is an important requirement for this do-it-yourself approach. You'll find, as with the first approach, that the new sustainable withdrawal varies from year to year, but typically not by much. And you'll have to re-balance your two buckets.

e. Perhaps every five years, re-examine your life expectancy. If you and your partner are still both going strong, you may have to extend your planning horizon slightly and recalculate your sustainable spending.

f. When one of you passes away, re-examine the life expectancy of the survivor. This will almost certainly result in a noticeably shorter planning horizon, and a higher amount of sustainable spending.

In addition to the life expectancy margin, which you will gradually adjust (as per step 2.2e) as you both survive, there are other margins built into these approaches. They arise from the fact that your spending is assumed to stay constant over your retirement years.

In fact, studies show that spending tends to fall gradually through retirement years, as we move from early 'go-go' spending, when we do all those things we'd been hoping to do once we had the time and the money, to a 'slow-go' pace, when we downsize our lives a little.

So the gradual decline in our desires creates a margin. And, after the first passing of life partners, again there tends to be a reduction in spending, so the margin from what's available goes up again.

Whichever of these approaches you use, it is bound to mean that your spending is noticeably higher than if all you spend is the investment income generated by your pension pot. That's because these approaches enable you to spend not only the income but the capital as well – gradually, but at a pace that ensures it doesn't run out in your lifetime.

And enabling you to do that with confidence is the purpose of this article. I have found in practice that intelligent but non-financial people get the idea right away, and it gives them double peace of mind – one, because they know the money won't run out, and two because they won't worry too much when the stock market falls. ■

Once upon a time *Don Ezra* was co-chair of Global Consulting at Russell Investments. Before that, he was an actuary. Today, he is happily retired, writing blog posts on his website https://donezra.com/ and the book *Life Two: how to get to and enjoy what used to be called retirement*.

Five facts everyone needs to know about life expectancy

With the life expectancy of Australians increasing over the years, most of us can assume we're going to live longer than previous generations. But are our expectations on the money, or way off the mark? We bring you five important facts everyone needs to know about life expectancy.

Back when compulsory super started in 1992, living to age 80 was considered a long life. Fast forward 30 years, and improvements in medical care and living standards have seen our lifespan extend by more than a decade. A 65-year-old today can expect to live well into their 90s and could spend more than three decades in retirement.

Understanding your life expectancy is a crucial part of any good retirement plan. Living just a couple of years longer than you expect could leave you without enough income for later in life. But it's not an exact science and no-one really knows how long they're going to live. However, you can make a more informed estimate with the right information. Here are five important facts you need to know about life expectancy.

1 Many of us underestimate how long we'll live

While a 65-year-old can expect to live well into their 90s, most retirees aren't expecting to live that long. In fact, the recent survey of more than 4000 **YourLifeChoices** members revealed that our expectations fall short by quite a few years.

On average, our survey respondents expect a 65-year-old male to have a life expectancy of just 82 years. Women aged 65, on the other hand, are expected to live longer and reach an average of 85 years. While these are our expectations about others, both men and women on average believe that they themselves will live to 85.

This result isn't surprising – a life expectancy of 85 years is a number widely published in many financial models. But for reasons we cover here, this number has some major flaws.

2 Life expectancy numbers are based on a 50 per cent success rate

Does a 50/50 chance of success feel like good or bad odds to you? Until very recently, the age of 85 was a convenient estimate of a typical lifespan. Not only is this estimate factually wrong, but it was based on only a 50 per cent probability of being reached.

> **What many people don't realise is that life expectancy isn't a static number – it changes as you age.**

The life expectancy of a 66-year-old female today, for example, is currently another 24 years to age 90. But in practice, around two-thirds of females of that age will live to anywhere between 81 and 99.

A retirement plan that gives you a 50 per cent chance of success is probably not the financial security many people look for. Which is why relying on 'average' life expectancy may do more harm than good.

3 Your life expectancy increases as you age

The Australian Bureau of Statistics (ABS) estimates that the life expectancy of an Australian male is 81 years and 85 years for a female. While these figures are correct, they include the deaths of people who die young from accidents or illness and can therefore be misleading when calculating life expectancies for retirees.

What many people don't realise is that life expectancy isn't a static number – it changes as you age. Once you've reached age 65, you are already a 'survivor' and will therefore have a higher life expectancy.

This trend continues as you enter your 70s, 80s and 90s. If we look at improvements in the mortality trend over the past 25 years, published by the Australian Government Actuary, half of today's

66-year-old men will live to at least 88, for women that age is 90. A male alive at age 90 can, on average, expect to live to 94 while a female can expect to live to 95.

If you're banking on living only until age 85, you could have another decade of living to fund.

4 Most of us want to live longer than our life expectancy

While our survey revealed the average age we expect to live to is 85, most of us would actually like to live longer. On average, both women and men would like to live until 88.

The prospect of living longer than previous generations makes the majority (63 per cent) of our respondents happy or very happy. While living longer might be great for our happiness, it might not be so great for our finances if we're not prepared.

5 Many retirees aren't confident their income and savings will last as long as they live

Most people assume that they'll spend less money in retirement. In fact, almost half (44 per cent) of our respondents said their level of spending today is about the same or higher than it was just before retirement.

It's no wonder that almost a third of respondents (31 per cent) don't feel confident that their savings and income will enable them to maintain their current lifestyle. And 28 per cent are highly concerned with the possibility of outliving their retirement savings.

Why uncertainty needs a safety net

Managing the very real risk of outliving your savings is probably the biggest challenge of any retirement plan. Income from super, such as account-based pensions, is generally not guaranteed – the payments stop as soon as your balance runs out. Income from investing in the share market is unpredictable. And for most of us, the Age Pension alone is not enough to live comfortably. So, what's the answer?

One way to plan for the unknown is to have a regular lifetime income stream, such as a lifetime annuity, as part of your retirement income plan. Adding a lifetime annuity to your retirement portfolio can boost your safety net income with regular income for life, helping to give you confidence that you can pay for your essential expenses to 100 years and beyond.

Feel confident in your retirement income

There's no need to second guess your life expectancy or income in retirement. A Challenger lifetime annuity gives you a regular monthly income, no matter how long you live. Find out more about how a Challenger lifetime annuity could work for you.

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Older Australians should be able to work – without penalty

Senior economist *Matt Grudnoff* tells how the Age Pension system must change to give older Australians more choice in retirement.

Many retired Australians are interested in doing some paid work, but the Age Pension income test acts as a big disincentive. The government could make changes that remove those disincentives and give retired Australians more choice about doing paid work and more flexibility over their incomes.

Economists know that increasing labour force participation can have huge economic benefits. While most of the focus for increasing participation rates is on families raising children, an important group has been largely overlooked – retired Australians.

The Age Pension income test acts as a disincentive for older Australians to continue to work in two important ways.

Older Australians have valuable skills and experience that are lost because pension means testing discourages them from working.

First, the means testing reduces the amount of income that those on the Age Pension take home. If an age pensioner's income rises above a low fortnightly threshold, then the pension is reduced by 50 cents for every additional dollar earned. This is on top of any income tax he or she might have to pay. Why go out and work when potentially more than half can be taken away in taxes and reductions in the Age Pension?

The second is that the means testing of the Age Pension makes the whole system more complicated. If someone is receiving the Age Pension and working, they need to report their fortnightly wages to Centrelink. If they don't do this and their income varies from fortnight to fortnight, they could be overpaid and face an unexpected debt. As a result, some age pensioners simply choose not to work.

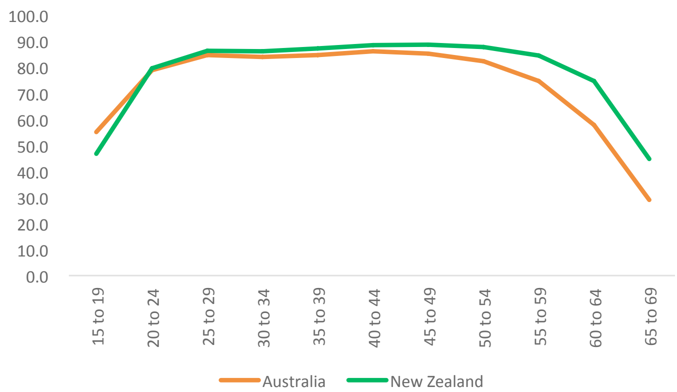
The decision to opt out of work is not only bad for individuals, reducing the potential income of some older people, it is also bad for businesses and the economy as a whole. Older Australians have valuable skills and experience that are lost because pension means testing discourages them from working.

Other countries have overcome this problem. One example is New Zealand, where the Age Pension equivalent is universal. That is, there are no income or asset tests. Everyone aged 65 and over who satisfies a residency test is given the full rate of the New Zealand Age Pension.

That means New Zealanders can choose to retire after 65 or continue to work either full time or part time. The decision to work does not affect the pension amount they receive. They don't have to worry about taper rates or if they might be overpaid and end up with a debt.

This policy has a significant impact on older New Zealanders' decision to work and they choose to work in far bigger numbers than older Australians. If we look at labour force participation rates by age for both Australia and New Zealand (see the chart on page 11), we can see that they are almost identical for younger and middle-aged cohorts.

Employment participation rates by age



A difference in participation rates starts to appear after the age of 50. Labour force participation rates for older New Zealanders is higher than for older Australians. In Australia, 29 per cent of those aged 65 to 69 choose to work. In New Zealand, that figure is 45 per cent – 16 per cent more.

That higher participation rate in New Zealand doesn't just benefit individuals. It also means more production and higher economic activity. If Australia was able to replicate the labour force participation rates in New Zealand, then our GDP would be $80 billion larger. This flows through to not just higher incomes but also to more tax revenue and more business income.

However, we need to be very careful that making the Age Pension universal is not a trap that forces older Australians to work. It must be about giving older Australians more choice. For that to happen, the Age Pension must be paid at a rate that offers people a dignified retirement – they must be allowed to choose not to work.

Australia Institute research shows that making the Age Pension universal does not have to affect the budget bottom line. A 2014 paper titled *Sustaining us all in retirement* shows that if we scrapped superannuation tax concessions, then we could not only make the Age Pension universal but also increase the amount paid by 25 per cent.

Superannuation tax concessions exist, it is claimed, to take pressure off the Age Pension. But they have increased rapidly in recent years and are now worth about $41 billion per year. By comparison, spending on the Age Pension costs about $51 billion per year. With a universal pension there is no need for superannuation tax concessions to take pressure off the Age Pension.

If Age Pension rates were increased by 25 per cent, singles would receive $31,443.75 a year (or $1209.40 per fortnight) and couples $47,404.50 per year (or $1823.25 per fortnight). That would help lift many age pensioners out of poverty and give all retired people a dignified retirement.

A Universal Age Pension would act as an income floor for older Australians. Superannuation and income from other assets could supplement that income. Older people would also have the option of working if they so desired. In short, older Australians would have more options as to how to live out their retirement years.

The benefits of giving older Australians the choice about continuing to work has big potential benefits, not just to the individual, but also to business and the economy as a whole. Scrapping superannuation tax concessions in favour of a Universal Age Pension, paid at a rate 25 per cent higher than the current Age Pension, would support all older Australians in their retirement. It's a win-win. ■

Matt Grudnoff is a senior economist at The Australia Institute.

Time to abandon traditional withdrawal rate in retirement

A rule of thumb is valuable in estimating retirement spending, but only if it remains accurate, writes finance specialist *Annika Bradley*.

The 4 per cent rule is a generally accepted rule of thumb to help retirees determine a safe level of annual income to ensure nest eggs last. But given the current environment of low interest rates and high equity valuations, it's time to revise that rate. It's also time to expand the retirement income toolbox, beyond this rule of thumb, to give the many Australians embarking on retirement the confidence to spend their hard-earned savings.

What is the 4 per cent rule?

Back in 1994, financial planner William Bengen conducted a study to find a starting withdrawal level (with the initial dollar amount adjusted thereafter for inflation) that could be sustained over every 30-year rolling time period since 1926. This was the genesis of the 4 per cent rule. It found that retirees invested in a balanced portfolio (an equal mix of stocks and bonds) could safely withdraw 4 per cent of their original assets, adjusted for inflation, for 30 years and not run out of money. The 4 per cent rule is convenient and fits neatly into Australia's financial planning infrastructure. It effectively takes an investment portfolio constructed for the saving (or accumulation) phase of retirement, tweaks the mix of stocks and bonds, and then 'sets and forgets' the level of spending each year. It keeps a very complex problem simple.

What's wrong with the 4 per cent rule?

It's too simple. It doesn't optimise for a retiree who may: live for a shorter or longer period than 30 years (longevity risk); wish to spend more in the early years of retirement; is unable to stomach market ups and downs, or holds significant levels of home equity. Exhibit 1 demonstrates the outcomes of the first three scenarios using a very simplified set of assumptions in an Australian context. It ignores the impact of the Age Pension, which provides a safety net as superannuation savings and investment assets are consumed.

While the Age Pension provides a significant safety net for retirees who desire income in excess of this minimum level, Exhibit 1 shows that the 4 per cent rule leaves retirees reliant on two main levers: market returns and spending levels. Granted, markets have done a stellar job underwriting most retirees' spending, but their future path is unknown and not all retirees can tolerate market risk.

Exhibit 1: Simplified scenarios under the 4 per cent rule – an Australian context

	An Australian Context: Starting balance of $697,589; ASFA Comfortable withdrawal amount for a couple of $63,799; ignores Age Pension impacts		
Age	Annual Inflation Adjusted Withdrawal Amount	Annual Return (equates to 4% p.a. for 30 years)	End of Period
65	$ 63,799	4%	$ 659,142
70	$ 72,183	4%	$ 415,449
75	$ 81,668	4%	$ 68,170
76	$ 83,710	4%	<$0 - funds exhausted
84			
88			
89			
94			
95			

	4% rule in practice (i.e. 4% withdrawal rate on the starting balance of $697,589); Scenario 1: longevity risk (i.e. lives for >30 years past the start of retirement)		
Age	Annual Inflation Adjusted Withdrawal Amount	Annual Return (equates to 4% p.a. for 30 years)	End of Period
65	$ 27,904	4%	$ 696,473
70	$ 31,570	4%	$ 678,324
75	$ 35,719	4%	$ 634,031
76	$ 36,612	4%	$ 621,315
84	$ 44,608	4%	$ 459,598
88	$ 49,239	4%	$ 328,290
89	$ 50,470	4%	$ 288,933
94	$ 57,102	4%	$ 45,782
95	$ 58,530	4%	<$0 - funds exhausted

	Lower withdrawal level of 3.3% (i.e. 3.3% withdrawal rate based on the starting balance of $697,589); mitigates longevity risk and leaves a large bequest		
Age	Annual Inflation Adjusted Withdrawal Amount	Annual Return (equates to 4% p.a. for 30 years)	End of Period
65	$ 23,020	4%	$ 701,551
70	$ 26,046	4%	$ 714,085
75	$ 29,468	4%	$ 711,009
76	$ 30,205	4%	$ 708,036
84	$ 36,802	4%	$ 646,656
88	$ 40,622	4%	$ 583,763
89	$ 41,638	4%	$ 563,810
94	$ 47,109	4%	$ 433,718
95	$ 48,287	4%	$ 400,848

	Scenario 2: spends more in the first 10 years (starting with $45k p.a.) and adjusts to a lower amount later in retirement		
Age	Annual Inflation Adjusted Withdrawal Amount	Annual Return (equates to 4% p.a. for 30 years)	End of Period
65	$ 45,000	4%	$ 678,693
70	$ 50,913	4%	$ 553,121
75	$ 57,604	4%	$ 364,520
76	$ 30,000	4%	$ 347,901
84	$ 36,552	4%	$ 155,972
88	$ 40,347	4%	$ 10,903
89	$ 41,355	4%	<$0 - funds exhausted
94			
95			

	Scenario 3: weak market returns at the start of retirement and strong returns later in retirement. Returns over the 30 year period equate to 4% p.a.		
Age	Annual Inflation Adjusted Withdrawal Amount	Annual Return (equates to 4% p.a. for 30 years)	End of Period
65	$ 27,904	-10%	$ 602,717
70	$ 31,570	4%	$ 494,303
75	$ 35,719	4%	$ 410,141
76	$ 36,612	4%	$ 388,470
84	$ 44,608	20%	$ 162,615
88	$ 49,239	4%	<$0 - funds exhausted
89		18%	
94		4%	
95			

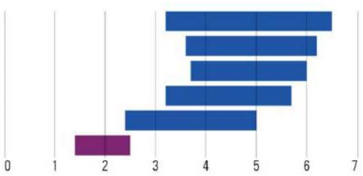
	Scenario 4: strong market returns at the start of retirement and weak returns later in retirement. Returns over the 30 year period equate to 4% p.a.		
Age	Annual Inflation Adjusted Withdrawal Amount	Annual Return (equates to 4% p.a. for 30 years)	End of Period
65	$ 27,904	18%	$ 790,229
70	$ 31,570	4%	$ 938,288
75	$ 35,719	4%	$ 950,316
76	$ 36,612	4%	$ 950,252
84	$ 44,608	-10%	$ 787,301
88	$ 49,239	4%	$ 711,657
89	$ 50,470	-10%	$ 595,068
94	$ 57,102	4%	$ 418,242
95			

Exhibit 1 ignores the impact of the Age Pension (part or full); it assumes that an Australian couple's starting amount is $697,589 based on Australian Superannuation Fund Association's (ASFA) average balances for males and females between age 65-69; the withdrawal amount is the ASFA Comfortable Standard as at 30 September 2021 for couples aged 65-84 who own their own home; the withdrawal is made at the start of the period; the inflation rate is set at the mid-point of the Reserve Bank of Australia's inflation target (2% - 3%); the market return is assumed to equate to 4% p.a. for 30 years based on an equal mix of growth and defensive assets (based on the paper Past Performance as a Reliable Indicator: What return expectations suggest for future investor returns).

The problem with a rule of thumb is there is often a lot of variation for the individual experience and it doesn't suit everyone. Morningstar's US team recently conducted a study, *The State of Retirement Income*, which looked at the lowest and highest starting safe withdrawal rates over history using different mixes of stocks and bonds at a 90 per cent success rate. It found, in some periods, investors with a 50 per cent stock/50 per cent bond mix should have applied a 3.7 per cent starting withdrawal rate, and in other periods the rate could have been as high as 6 per cent.

Exhibit 2: Highest and lowest starting safe withdrawal rates, by asset allocation

Asset Allocation	Safe Withdrawal Rates Lowest	Highest
100% Stocks	3.2	6.5
75% Stocks, 25% Bonds	3.6	6.2
50% Stocks, 50% Bonds	3.7	6.0
25% Stocks, 75% Bonds	3.2	5.7
100% Bonds	2.4	5.0
Mattress	1.4	2.5



(Rolling 30-year time horizon, starting from 1930 through 1990, 90 per cent success rate)
Source: Morningstar Direct. Data as of 31/12/2019

The individual experience is always unique. If your starting withdrawal level is too low or you only live for part of the 30 years, you will underspend in retirement and likely leave a large (and possibly unintended) bequest. Conversely, if your starting withdrawal level is too high or you live longer than 30 years, there is the risk of running out of money.

Is the 4 per cent rule still valid?

Morningstar's US study challenged the validity of the 4 per cent rule and found that the level is too high in the current market environment. Instead, the research suggested that a starting fixed real withdrawal rate of around 3.3 per cent per year is more achievable for a portfolio invested in a mix of 50 per cent stocks and 50 per cent bonds for 30 years.

The study is US-centric, but the conclusions are broadly transferable. In a world of very low interest rates, it's prudent to revise down the starting fixed withdrawal rate. And while a 0.7 per cent starting rate differential seems immaterial, the impact of compounding means that this could be the difference between relying solely on the Age Pension or living a more comfortable retirement.

Exhibit 3: Projected starting safe withdrawal rates, by asset allocation and time horizon

Equity Weighting %	10 Years	15 Years	20 Years	25 Years	30 Years	35 Years	40 Years
100	8.3	5.6	4.3	3.5	2.9	2.7	2.5
90	8.6	5.7	4.4	3.6	3.0	2.8	2.6
80	8.8	5.9	4.6	3.7	3.1	2.9	2.6
70	9.1	6.1	4.7	3.9	3.2	3.0	2.7
60	9.3	6.2	4.8	3.9	3.3	3.0	2.8
50	9.5	6.4	4.9	4.0	3.3	3.0	2.8
40	9.6	6.5	4.9	4.0	3.3	3.0	2.7
30	9.7	6.5	4.9	4.0	3.3	3.0	2.7
20	9.7	6.3	4.8	3.9	3.2	2.8	2.5
10	9.5	6.3	4.7	3.7	3.0	2.7	2.3
0	9.5	6.1	4.4	3.4	2.7	2.3	2.0

Source: Morningstar Direct. Data as of 31/12/2019

Beyond the 4 per cent rule – an expanded toolbox

While the 4 per cent rule has historically served many investors well, it isn't perfect, and it isn't for everyone. With the [Retirement Income Covenant (RIC)] looming, surely there are tools available that can be employed to deliver effective retirement income strategies that give all retirees the confidence to spend their savings? Let's take a look at a few.

Do annuities have a role to play?

There are two obvious use cases for annuities. First, annuities can provide income to cover basic needs. The Age Pension provides a stable income floor for many, but it doesn't always cover your basic needs, with the maximum amount for couples just under $38,000 a year. The Association of Superannuation Funds of Australia (ASFA) estimates couples need about $41,000 annually to live a modest lifestyle. **YourLifeChoices'** *Retirement Affordability Index*, developed with The Australia Institute and personalised across six cohorts, estimates a 'constrained' lifestyle for a couple would cost almost $45,000 per year.

There's a gap here, particularly if you're accustomated to a more comfortable lifestyle. A traditional (low-cost) lifetime annuity from an insurance company could cover this gap. Lifetime annuities come in different forms, but essentially they pay regular payments for life in exchange for a lump sum.[1] The annuity income stream consists of the principal amount (which the investor paid upfront), the interest paid by the insurance company and the return available from pooling risk (such as mortality credits). Basically, those who die earlier than average subsidise those who live longer than average.[2] With low bond returns, these mortality credits provide an additional return source compared with traditional bonds. Second, deferred lifetime annuities might aid investors who believe they have adequate assets to fund themselves with certainty until a particular age; beyond that, they worry they will run out of money. A deferred lifetime annuity provides an effective way of managing the risk of living longer than you expect.

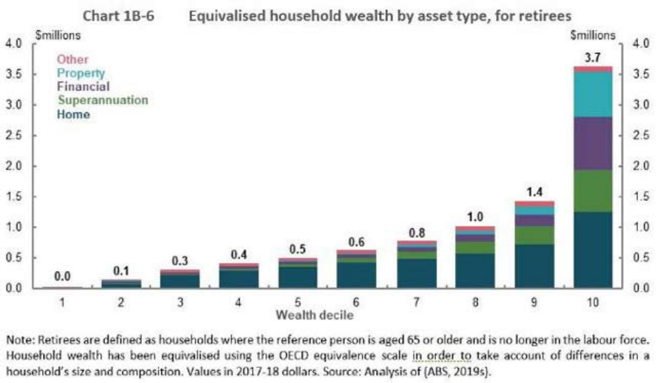
Annuities enable you to transfer some of the risk associated with achieving your retirement income goals and protect against market and longevity risk. But there are no free lunches and annuities have their own set of risks, one of which is that the insurance company can default. However, investors who are seeking certainty for a portion of their income should consider them.

1. "The Yin and Yang of retirement income philosophies," by Wade D Pfau, PhD, CFA, RICP® and Jeremy Cooper, Chairman, Retirement Income at Challenger.
2. by Wade Pfau, Ph.D., CFA, RICP.

The family home

The family home remains a large proportion of household wealth (Exhibit 4). While downsizing and unlocking some of that wealth seems an obvious solution, many older Australians prefer to stay in their home.[3] Retirees are also reluctant to supplement their retirement income through equity release schemes. However, the family home can't be excluded from the toolbox. In fact, the government's Equity Release Scheme has undergone some notable changes. For example, the interest rate has been lowered to 3.95 per cent and, subject to legislation passing in July 2022, a No Negative Equity Guarantee will be introduced.

Exhibit 4: Household wealth by asset type



Source: Retirement Income Review, July 2020, Final Report

Covenant-inspired tools

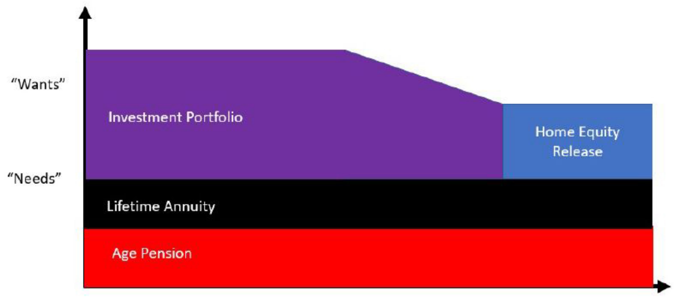
The advent of the RIC will inspire product innovation. Superannuation funds (many of them not-for-profit) with large pools of members are in a unique position to develop products, particularly those that derive value from risk-pooling. Some 'retirement income-like' solutions are already in the market, including Mercer LifetimePlus, QSuper Lifetime Pension and Magellan FuturePay. All are very different solutions, and one key challenge for investors will be comparing products and understanding whether they are right for them.

Bringing it all together

All investors have different preferences, risk tolerances and wealth levels and are willing to make different trade-offs. While rules of thumb are convenient, the reality is that different combinations of tools will best serve individual investors. Some investors will have a high risk tolerance and may prefer to rely on their portfolio and investment markets. Others will prefer an income-layering approach that uses a combination of tools (refer to exhibits 5 and 6). A key challenge is developing personalised strategies through more sophisticated online tools or better access to personalised advice.

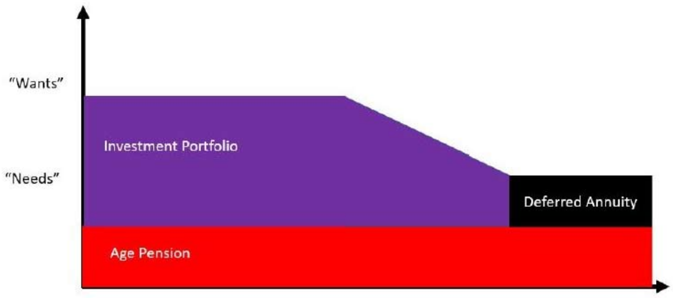
3. "Housing Decisions of Older Australians," Productivity Commission Research Paper, December 2015.

Exhibit 5: Stylised example of income layering – home equity as a buffer



Source: Adapted from The Yin and Yang of retirement income philosophies, by Wade D. Pfau, PhD, CFA, RICP® and Jeremy Cooper, Chairman, Retirement Income at Challenger

Exhibit 6: Stylised example of income layering – deferred annuities for longevity protection



Source: Adapted from "The Yin and Yang of retirement income philosophies," by Wade D Pfau, PhD, CFA, RICP® and Jeremy Cooper, Chairman, Retirement Income at Challenger

Superannuation in Australia has focused on the saving phase of retirement and the (overly optimistic) 4 per cent rule has provided a neat extension to this phase. Markets have offered limited impetus for change.

However, the spending phase of retirement is complex and very different to the saving phase – there are many unknowns (market returns, longevity) and investors have unique preferences and tolerances. Therefore, new approaches to spending the nest egg are needed.

The RIC provides an opportunity to break the nexus of the accumulation phase and develop more impactful tools, personalised strategies and financial-planning infrastructure to give retirees confidence to spend their savings. ■

Annika Bradley is director of Manager Research Ratings-Australia with Morningstar, a leading global provider of independent investment research. She is responsible for leading qualitative research on Asia-Pacific fund managers (excluding China, Hong Kong and Singapore) and their funds.

Technology is expanding the breadth of financial advice

We're told we all need financial advice, no matter how big the nest egg, but many Australians are daunted by the cost. Industry expert *George Haramis* explains an option.

Seeking financial advice generally has a positive impact on an individual's financial wellbeing. The Fidelity International *Value of Advice report* issued in 2020, found that:

- 74.3 per cent of Australians currently receiving financial advice say their financial wellbeing has improved as a result
- 88.5 per cent believe it has given them greater peace of mind financially
- 86.2 per cent say it has given them greater control over their financial situation.

Even the 'unadvised' recognise the potential benefits of advice, with the majority believing that:

- receiving advice would give them greater peace of mind financially (64.4 per cent), or
- greater control over their financial situation (63.3 per cent).

There is only one catch – the majority of Australians cannot afford it. Technology can bridge the advice affordability gap simply by using artificial intelligence (AI).

Accessing advice means you can make sense of complex and ever-changing superannuation, tax and Centrelink rules, and avoid costly mistakes and keep up with any entitlements.

Giving people access to affordable advice – through the use of AI – can help the nation's pension, social service, health and aged care funding requirements, and improve the country's overall finances, as those who receive any form of advice are more likely to be in a better financial position than those who do not.

How robo-advice can deliver personalised advice

The federal government, the Australian Securities and Investments Commission (ASIC) and industry participants support the use of technology to deliver affordable personal advice, that is, advice created by an algorithm (defining a set of rules or instructions to determine a particular outcome) versus a human adviser. This type of advice is generally called robo-advice.

The alternative, traditional, multi-topic comprehensive advice is unaffordable for most people. Initial advice can cost about $4000, with a similar (annual) outlay each time that advice needs to be reviewed.

However, it must be emphasised that not all clients are eligible for robo-advice, as their circumstances are complex, most likely requiring advice on multiple interrelated topics. They would therefore benefit from the expertise of a financial adviser.

What are the benefits of using an algorithm?

An algorithm is a process or set of rules to be followed in calculations or other problem-solving operations, especially by a computer.

As the development of any financial plan is governed by a strict set of rules that cover such topics as super, insurance, legal and tax, designing an algorithm to deliver digitally supported advice eliminates human bias.

However, this advice is not of the (complex) comprehensive style, but rather 'single topic' or 'episodic advice'. For most of the population – 95 per cent per cent of households earn less than $150,000 per annum – this is perfectly acceptable.

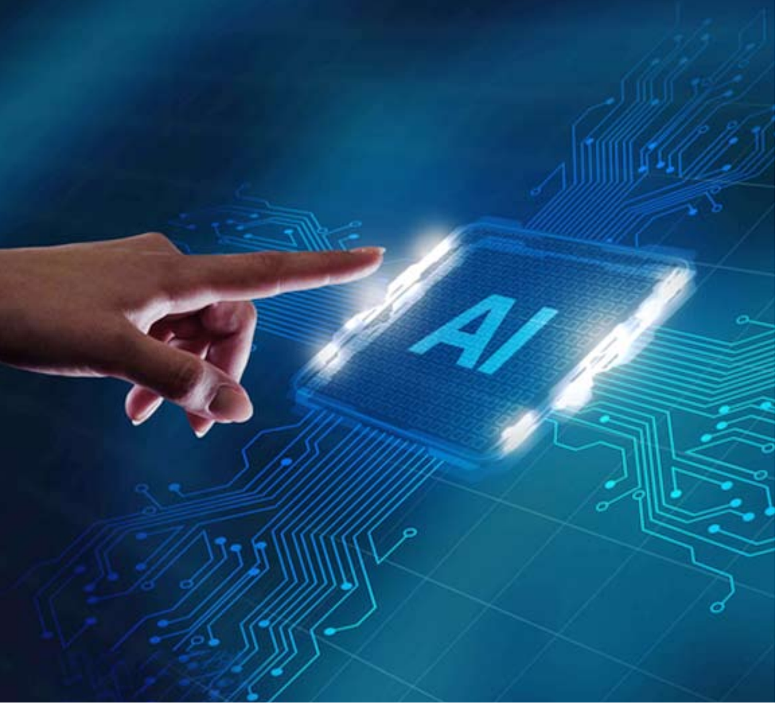
Focus group findings

In December 2019, moneyGPS commissioned an independently managed focus group research project to determine consumers' views and attitudes to using digitally supported advice tools.

Surprisingly, the idea of using AI to generate advice was well received.

The key reasons given by the group for using self-led advice technology were because it was:

- **Inexpensive** – i.e. less than $300 per topic versus potentially thousands
- **Convenient** – accessing and understanding it in their own time



- **Flexible** – they can go online only or talk to someone (via a Zoom style service)
- **Targeted** – only using the topics that are important to them
- **Safe** – all documents and the AI is compliant which provides that sense of confidence.

Additional feedback included:

- While almost all participants had thought about talking to a financial adviser, most had not, citing cost as the main barrier.
- Users were keen for their data to be transferred from their accountants to pre-populate the questionnaire making it easier to complete.
- Because most people were looking for solutions for a 'single issue', they were comfortable with the using AI-driven advice technology, as long it delivered simple, convenient solutions, at a low cost.

What type of advice can technology help deliver and what does it cost?

There seems to be a trend to use technology for either fully client-led advice or a hybrid digital-human experience.

The former is designed to deliver affordable advice covering single topic plans. Each plan could cost less than $300, which research tells us is an acceptable price point.

The hybrid solution is focused on people with complex situations and who can afford to work with an adviser. Some of the work uses AI, with final advice validated by the adviser. It's a more involved and expensive experience.

Importantly, using AI means that advice solutions can be scaled, meaning the advice can be delivered and used by a large volume of people at any one time at a very cost-effective fee.

What can go wrong?

The algorithm creating the advice must be kept updated to cater for any changes to rules for tax, super, insurance and so on. Not keeping the information up to date could cause incorrect advice recommendations to be issued.

Today's operators are guided by regulatory requirements across both digital and traditional services – everyone is in the same boat, to make sure they keep their systems updated.

AI and the Retirement Income Covenant (RIC)

The government intends to introduce the proposed covenant on 1 July 2022 and it will require trustees of superannuation funds to formulate, review and give effect to a retirement income strategy for members. This means trustees will be responsible for ensuring their members have an appropriate strategy to cater for their retirement income needs.

What does this have to do with AI?

It is possible to use AI to determine the most appropriate mix of assets – super, Age Pension and property – to meet a client's income needs and then to identify suitable products.

Taking it one step further, using technology to develop new AI capability can assist in designing new products to help meet a trustee's responsibilities under the covenant well before the consumer reaches retirement age – thus delivering much-needed, affordable advice at a critical life stage.

Technology and AI can collaborate with financial advisers

There is absolutely no reason why AI-driven advice technology cannot work with any financial adviser to complement an adviser's business offering. AI should be considered an adviser's new best friend.

As the cost to serve increases for the financial planning industry, advisers must view the use of AI-based advice tools as a necessary component of their value proposition. ■

George Haramis is the CEO and co-founder of moneyGPS. **moneyGPS** is powered by a state-of-the-art AI system to assist consumers navigate their finances with ease, delivering simple, convenient advice solutions. Visit www.moneygps.com.au

Fiduciary Financial Services Pty Ltd, AFSL: 247344, trading as moneyGPS.

Is personalised financial advice *really* just for the wealthy?

You get what you pay for, warns financial adviser *Helen Baker*, so beware budget-priced options – even if your finances are modest.

Nobel Prize-winning economist William Sharpe famously said "the hardest, nastiest problem in finance" is how to make your money last. Our relative success or failure in achieving this depends in large part on the company we keep.

A big component to the problem, he suggests, is uncertainty – both in terms of investment and morality.

We never know what the future holds for us: our health and longevity, our relationships and family, our sources of income or where we will live. Even what job we do isn't a given. Research by McCrindle suggests Australians will have 17 different employers and five separate careers during their working life.

At its core, financial advice is about addressing and planning for the uncertainties of life and its effect on our financial wellbeing. The aim is to develop greater clarity over where you'd like to be and then implement considered, workable strategies towards achieving that goal and minimising risks.

Is tailored financial advice only for the rich?

This has to be the biggest misconception there is when it comes to money – that financial advice is only for the very wealthy. It's not.

In fact, I would say the exact opposite is true. The less money and fewer assets you have, the less room for error you have. That means getting tailored advice to protect and build your wealth is actually *more* important.

Financial advice can and should cover a range of factors, which are relevant for every Australian – regardless of their net worth. This includes:

- **Getting your fundamentals right:** Understanding and effectively managing your household spend, maximising investments with Centrelink opportunities, planning for travel/kids/renovations, etc.
- **Superannuation:** Choosing appropriate investments within the fund, taking advantage of strategies, managing changes to risk along the way.
- **Estate planning:** Getting your will in order, deciding how your kids/grandkids/pets are looked after if something happens to you, updating those plans should your relationship change or your partner dies unexpectedly.
- **Investments:** Looking at how you can build wealth, invest surplus cash, which investments are suitable for your circumstances, earnings, outgoings and risk appetite.
- **Right-sizing your tax:** Using tax-effective strategies to your advantage, ensuring you aren't overpaying tax or underclaiming deductions (which is more common than you think!). Ongoing financial advice is tax deductible too – which few people realise.

Finding the value

As a financial adviser, you would expect me to be in favour of professional advice. And I am. Because day in, day out in this line of work, I see the benefits clients enjoy from having received advice that is specific to them. And sadly, I see people in a crisis confess, "I wish I had come to see you sooner".

In recent years, women over 55 have become the fastest growing demographic facing homelessness. Meanwhile, an estimated 3.6 million Australians have experienced emotional abuse – which often includes financial abuse – at the hands of a partner.

Of course, finances are complex – and you simply don't know what you don't know. Plus, our financial situations are as diverse as we are – there is no one-size-fits-all approach to money matters. Which is where the value of personalised financial advice lies.

Among the things you should look to get from your adviser are:

- staying up to date with constantly changing regulatory tax and economic factors
- devising current and future financial strategies – not just for retirement

- building financial independence so that you're not left destitute in the event of your partner's premature death, disability, divorce, etc
- ensuring you have adequate protections in place – such as insurances, risk mitigation strategies, an emergency cash fund
- getting the most out of your super and your investments.

If advice is so valuable, why don't more people get it?

More than one in four Australians has received financial advice, according to 2019 figures from the Australian Securities and Investments Commission (ASIC). And 41 per cent intend to do so in the future. The remainder may be put off for a number of reasons, many of which are based on preconceived ideas.

As previously discussed, the misconception that advice is only for the wealthy is a pervasive misnomer. Other factors that unwittingly cause people to forgo seeking advice include:

- a lack of understanding about what financial advice actually is
- misguided faith in advice from well-meaning but unqualified family and friends
- confusion between the roles of advisers and accountants
- having a 'set and forget' mindset about money
- overconfidence in their own ability to manage finances
- not knowing who to trust
- a sense of feeling inadequate in front of a professional.

Then there are structural issues, such as strict regulation of the sector driving up advisory costs beyond the reach of many. Regardless of the reason, inadequate advice and insufficient knowledge of financial affairs lead many people to the same result: mistakes, lost opportunities, leaving it too late and less financial security.

Super advice that's not so super

Superannuation is one of the biggest assets we have and it's universal – every Australian of working age has (and by law should have) super. So, it's surprising that so many Australians get it fundamentally wrong.

Super funds can only recommend their own fund. Are they giving appropriate strategic advice? For example, many people get sucked into the belief that consolidating your super is essential. But if done incorrectly, consolidating can actually cost you far more than it saves, e.g. loss of your insurances inside super; an inferior level or quality of insurance cover (and you may not realise that until you need to make a claim); knowledge of different investments available.

Another consideration to weigh up carefully is whether to create a self-managed super fund (SMSF). You may not need the complexity of substantial compliance and management costs and some may make inappropriate or non-compliant investments.

Don't accept just any advice – get good advice

As with virtually everything in life, when it comes to financial advice, you generally get what you pay for.

A suitably qualified, experienced and reputable adviser may cost more at face value, but his or her expertise should help you make those fees back many times over in the costs you save, the additional earnings your investments make over time, the mistakes you avoid and the peace of mind gained.

Conversely, that 'hot tip' from your dad, friend or local barista is unlikely to deliver the windfall you hope for. As technology advances, artificial intelligence (AI) and 'robo-advice' are emerging as a lower cost option – with their own benefits and drawbacks. Again, like most things, you get what you pay for.

Either way, be sure to seek financial advice from a professional source that is properly qualified to give it – such as verifying their credentials through ASIC's MoneySmart website. And always make sure the advice you receive specifically relates to your financial goals and your particular circumstances.

That way, you'll have a much better grip on tackling the "hardest, nastiest problem in finance" and making your money last the distance for you and your family in the days – and decades – ahead. ■

Helen Baker is a licensed Australian financial adviser and author of the new book, *On Your Own Two Feet: The Essential Guide to Financial Independence for all Women (Ventura Press, $32.99).* She is among the 1 per cent of financial planners who hold a master's degree in the field. Proceeds from book sales are donated to charities supporting disadvantaged women and children. Find out more at www.onyourowntwofeet.com.au

YourLifeChoices disclaimer

Constrained couples hit hardest over past year

Inflation was again strong in the December quarter, driven by bottlenecks brought on as the world economy continued to open. The main drivers were transport, housing, and clothing and footwear.

Transport was high because oil prices continued to rise, pushing petrol prices higher (+6.6 per cent). Automotive fuels reached record levels, surpassing the previous high set in the September 2021 quarter. Motor vehicle prices also continued to rise (+1.9 per cent) because of demand and restrictions in global supply chains.

Housing increased (+1.8 per cent) because of rising building costs. New dwellings bought by owner-occupiers (i.e. the price of building a new house excluding the price of the land) rose 4.2 per cent. This is the biggest increase since the introduction of the GST in September 2000 and caused by strong demand in construction, which has enabled builders to pass on higher costs. Supply shortages have also affected prices of timber, hardware and paint, pushing up maintenance and dwelling repairs by 2.4 per cent – another record increase since the introduction of the GST.

Clothing and footwear was a surprise inclusion in the groups rising the fastest as they are usually very flat. A 2.6 per cent increase was driven by garments for women (+3.8 per cent) on the back of reduced discounting.

Cash-strapped singles experienced the biggest increase in prices (+1.5 per cent), because of increased housing costs. Cash-strapped couples and constrained singles saw quarterly increases of 1.4 per cent, with all other cohorts seeing prices increase by 1.3 per cent. Over the past 12 months, constrained couples have seen prices increase by 4 per cent.

Matt Grudnoff
Senior economist, The Australia Institute

Weekly expenditure for retirees aged 54+	Well-off couples	Constrained couples	Cash-strapped couples	Well-off singles	Constrained singles	Cash-strapped singles
Expenditure items	Couple homeowners with private income	Couple homeowners on Age Pension	Couple who rent on Age Pension	Single homeowner with private income	Single homeowner on Age Pension	Single who rents on Age Pension
Housing	$191.91	$113.43	$214.82	$128.95	$95.17	$169.24
As a percentage of expenditure	12%	13%	29%	15%	19%	36%
Domestic fuel & power	$43.05	$32.33	$34.13	$31.14	$27.87	$23.66
As a percentage of expenditure	3%	4%	5%	4%	6%	5%
Food & non-alcoholic beverages	$253.25	$178.37	$161.29	$127.23	$89.43	$80.15
As a percentage of expenditure	$16% (-1%)	20%	22%	15%	18%	17%
Alcoholic beverages & tobacco products	$57.36	$31.32	$50.90	$30.94	$18.41	$25.87
As a percentage of expenditure	4%	4%	7%	4%	4%	6%
Clothing and footwear	$30.55	$17.34	$9.17	$20.32	$8.81	$7.27
As a percentage of expenditure	2%	2%	1%	2%	2%	2%
Household furnishings & equipment	$79.28	$34.40	$20.93	$43.39	$20.14	$16.07
As a percentage of expenditure	5%	4%	3%	5%	4%	3%
Household services & operation	$45.43	$32.14	$17.36	$40.98	$23.16	$12.31
As a percentage of expenditure	3%	4%	2%	5%	5%	3%
Medical & health care	$155.74	$111.00	$38.43	$89.42	$39.60	$23.43
As a percentage of expenditure	10%	13%	5%	10%	8%	5%
Transport	$213.16	$138.38	$65.79	$112.92	$57.59	$38.84
As a percentage of expenditure	14%	16% (+1%)	9%	13%	12%	8%
Communication	$33.98	$24.08	$26.06	$32.89	$16.98	$13.25
As a percentage of expenditure	2%	3%	3% (-1%)	4%	3% (-1%)	3%
Recreation	$308.22	$104.67	$68.05	$143.55	$54.00	$32.59
As a percentage of expenditure	20%	12%	9%	16%	11%	7%
Education	$0.62	$0.22	$0	$0.13	$0.12	$0.01
As a percentage of expenditure	0%	0%	0%	0%	0%	0%
Personal care	$30.29	$18.38	$12.77	$18.87	$9.95	$8.82
As a percentage of expenditure	2%	2%	2%	2%	2%	2%
Miscellaneous goods & services	$92.72	$50.00	$25.01	$56.28	$27.39	$17.06
As a percentage of expenditure	6%	6%	3%	6%	6%	4%
Total weekly expenditure	**$1,535.56** +$19.55*	**$886.06** +$11.16*	**$744.72** +$10.41*	**$877.01** +$11.45*	**$488.63** +$6.54*	**$468.56** +$7.14*
Total monthly expenditure	**$6,654.11** +$84.74*	**$3,839.60** +$48.37*	**$3,227.14** +$45.15*	**$3,800.36** +$49.61*	**$2,117.39** +$28.34*	**$2,030.41** +$30.90*
Total annual expenditure	**$79,849.34** +$1,016.84*	**$46,075.14** +$580.42*	**$38,725.64** +$541.76*	**$45,604.33** +$595.30*	**$25,408.74** +$340.11*	**$24,364.92** +$370.83*

**Percentage and dollar changes compared with September quarter figures*

Changes that could affect your retirement

YourLifeChoices keeps older Australians up to date with changes to the retirement landscape.

Change to Age Pension rates

The rate of a full Age Pension, including Pension and Energy Supplements, is set to be reviewed and increased from 20 March 2022. It is currently $967.50 per fortnight for singles and $729.30 per fortnight for each eligible member of a couple.

If you turn 66.5 in 2022

Australians are currently eligible for the Age Pension at 66.5 – changing to 67 in July 2023. If you are set to reach that milestone this year, you should look closely at the Age Pension application 13 weeks before your birthday. You can then address any hiccups well ahead of when your first payment would be due.

Update Centrelink

If you already receive an Age Pension or part pension, make sure Centrelink has your latest details and update key criteria as necessary. For part pensioners, a change in assets of $10,000 could mean an extra $780 per year in pension payments. Check that Centrelink has the correct and updated value for your car or caravan and that household contents are realistically valued.

Pensioner entitlements

If you receive an Age Pension, make sure you are receiving these entitlements:

- gas rebate
- electricity rebate
- water rebate
- council rates discount
- driver's licence and registration concession.

Rapid antigen tests

Age Pensioners and anyone with a Commonwealth Seniors Health Card (CSHC) or a Department of Veterans Affairs (DVA) card can receive 10 free rapid antigen tests.

Changes to your income and assets may mean you now qualify for a CSHC, which entitles you to much more than assistance with medical and pharmacy expenses. Even some self-funded retirees may be eligible.

Budget changes that will affect retirees

Key announcements in the May 2021 Budget are set to come into effect on 1 July 2022. You are likely to be affected if you are:

- between 66 and 74, not working, and want to put more money into super
- looking at downsizing and are aged 60 or over
- want to draw down a lump sum using the government's Home Equity Access Scheme (formerly the Pension Loans Scheme).

Working and the Age Pension

Do not assume that the Age Pension is unavailable if you are of Age Pension age and working. Check the eligibility rules here.

Home Equity Access Scheme

This scheme, called the Pension Loan Scheme until 31 December 2021, now has a lower rate and offers older property owners more flexibility.

On 1 January 2022, the scheme's interest rate was cut from 4.5 to 3.95 per cent and from 1 July 2022, homeowners aged 66 and over can receive two lump-sum payments a year, capped at 50 per cent of the annual Age Pension rate. Also from 1 July, a No Negative Equity Guarantee will be introduced to ensure that no participant will need to repay more than the equity he or she holds in the property used to secure the loan. ■