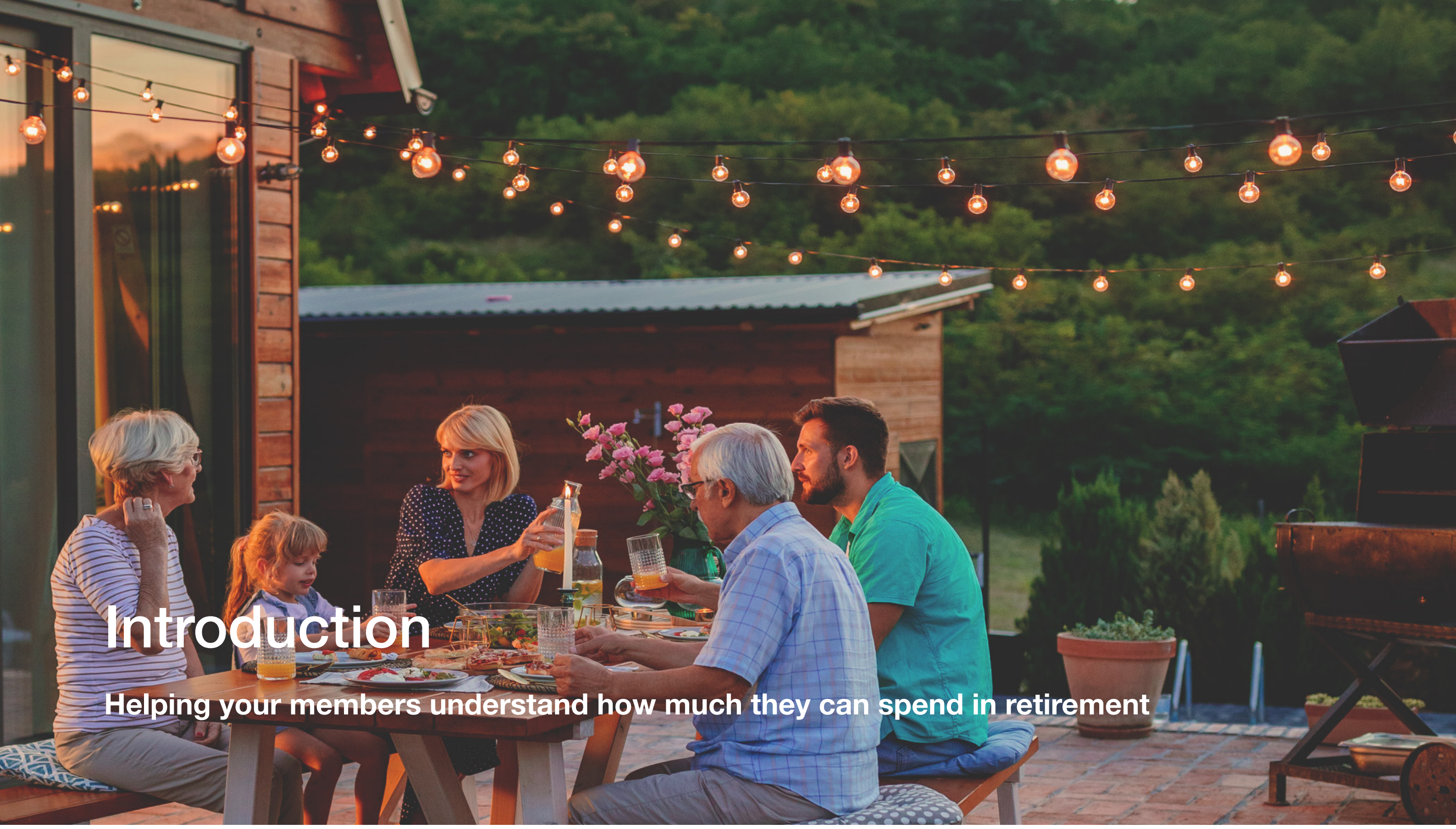
Frontier Advisors Retirement Strategy

Helping members maximise retirement income

frontieradvisors.com.au



Introduction

Helping your members understand how much they can spend in retirement

Like most superannuation funds, your retirement income strategy seeks to help your members balance three main objectives.

- Maximising retirement income.
- Managing risk for the stability and sustainability of retirement income.
- Allowing flexible access to capital.

Did you know

Research has shown around 50% of superannuation retirees drawdown at the mandated minimum rates. These members are currently minimising their retirement income rather than maximising.

How can you help?

Your fund can help your members confidently spend more of their super income in their early years of retirement. This will help in fulfilling the first objective of your retirement income strategy. But more importantly, it will allow your members to spend more money in the earlier years of retirement, when they can enjoy it most.

Not all retirees will want to drawdown more income but helping them understand how much they can take and how long their balance can last will reduce some of the anxiety members face at retirement.

Current product design is poor

Minimising, not maximising income

Minimum drawdown rates means too many retirees live a frugal retirement. The variability of minimum drawdown rates make it difficult for retirees to budget.

The minimum drawdown rates have been set by government to ensure wealthy retirees don't simply park large sums in superannuation to continue growing their investment tax-free. They aren't designed as 'default' rates and yet around half of your retired members are likely to drawdown at this rate – the lowest amount they can.

Retirees drawing down at these minimum rates will never run at out money. On the contrary, the average retiree will leave around 30% of their funds unspent.

Reasons why minimum drawdown rates result in poor member outcomes

1. Minimises the income available to retirees, which can impact their quality of life in retirement.

2. Provides higher income in later years, with the drawdown rate increasing every five years.

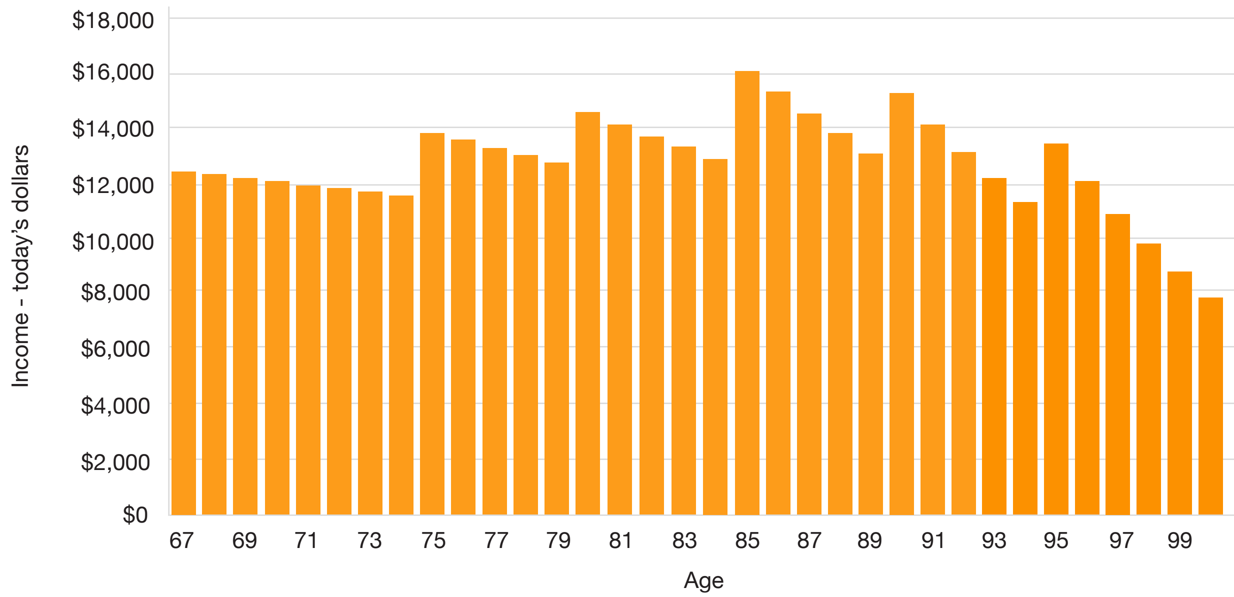
3. Leads to variable income, reflecting market movements automatically.

4. Results in high, and often unintended, bequests.

The current temporary reduction in the minimum rates exacerbates these problems.

Drawing down the least amount of income may be a suitable strategy for a retiree with substantial assets outside super, or a strong bequest motive. However, less than 10% of members prefer this approach[1]. Almost three-quarters of members want regular income for lifetime with some flexibility.

Poor member outcomes result from drawing down at minimum rates



1. Frontier Advisors. A super retirement, 2021 – survey of 3,500 superannuation members.

The Retirement Wage

How much can retirees safely spend in retirement?

The Retirement Income Covenant supports funds "developing specific drawdown patterns that provide higher incomes throughout retirement".

The Retirement Wage is a set regular payment paid in retirement from an existing account based pension.

Like an employment wage, the Retirement Wage can be designed to increase each year. It would be recalculated annually to reflect performance, like a wage would be, but in this case investment performance! While it involves no longevity protection, the recalculation can take into account future mortality expectations. Retirees retain full flexibility, with the ability to change the income drawdown or withdraw all their money at any time they like.

The Retirement Wage concept is simple, and something retirees will readily understand. However, calculating a 'safe' withdrawal rate is complex and most funds provide little assistance to their members.

Intelligent spending rules

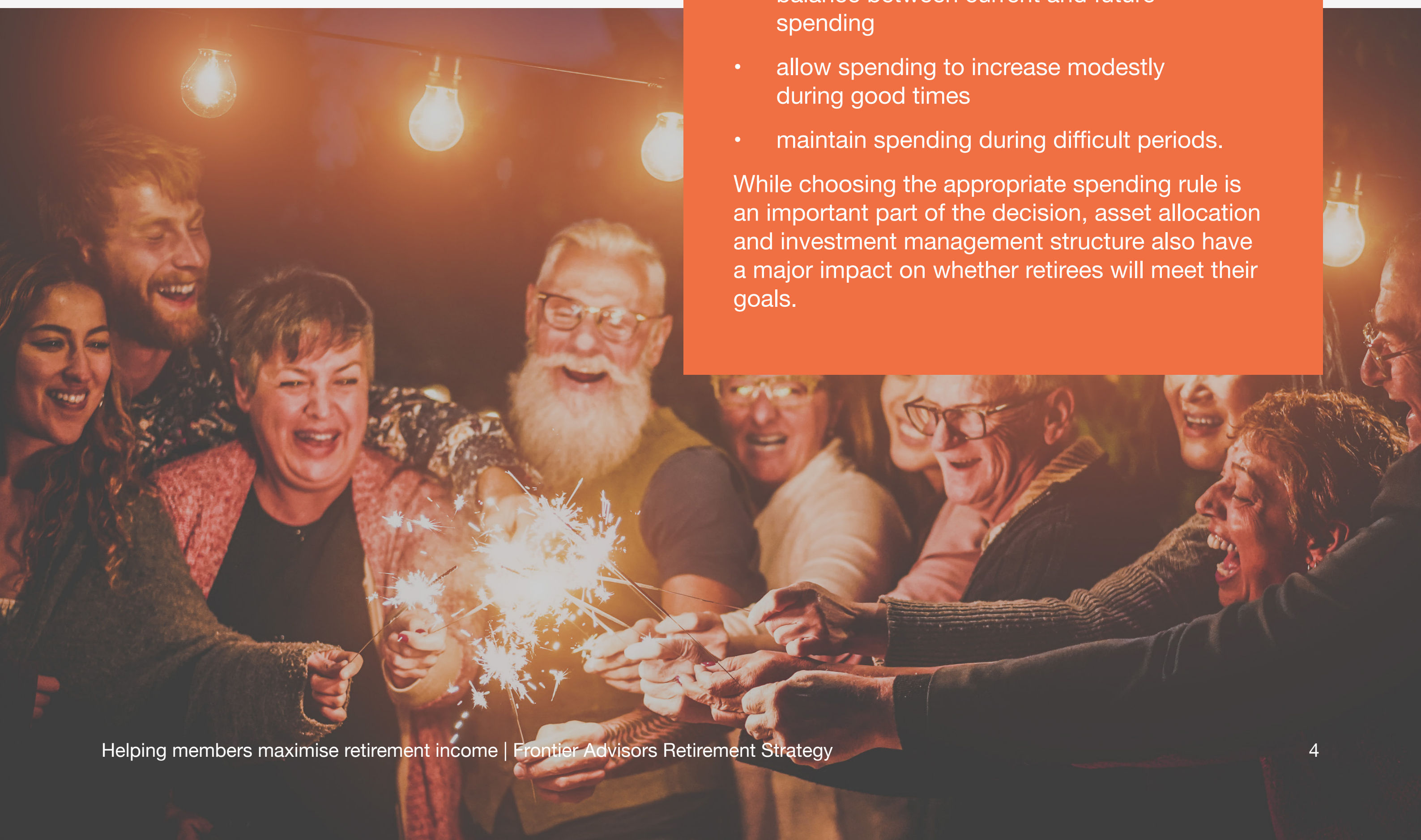
Retirees face a unique challenge – balancing the conflicting goals of meeting current spending, as well as supporting long-term spending well into the future. The decision to spend now means that less money is available for future needs.

Regardless of their circumstances, retirees must have a methodology to determine how much to spend each year. Ideally, the level of annual income should keep up with inflation and for budgeting purposes there should not be large swings from year-to-year in the level of income. However, investment returns create volatility which needs to be factored in.

A good spending rule should:

- allow an adequate amount of spending each year
- do not spend so much that the retiree runs out of money
- have some degree of predictability from year-to-year
- balance between current and future spending
- allow spending to increase modestly during good times
- maintain spending during difficult periods.

While choosing the appropriate spending rule is an important part of the decision, asset allocation and investment management structure also have a major impact on whether retirees will meet their goals.



Proposal

How can Frontier help

At Frontier, we're passionate about enhancing retirees' financial future.

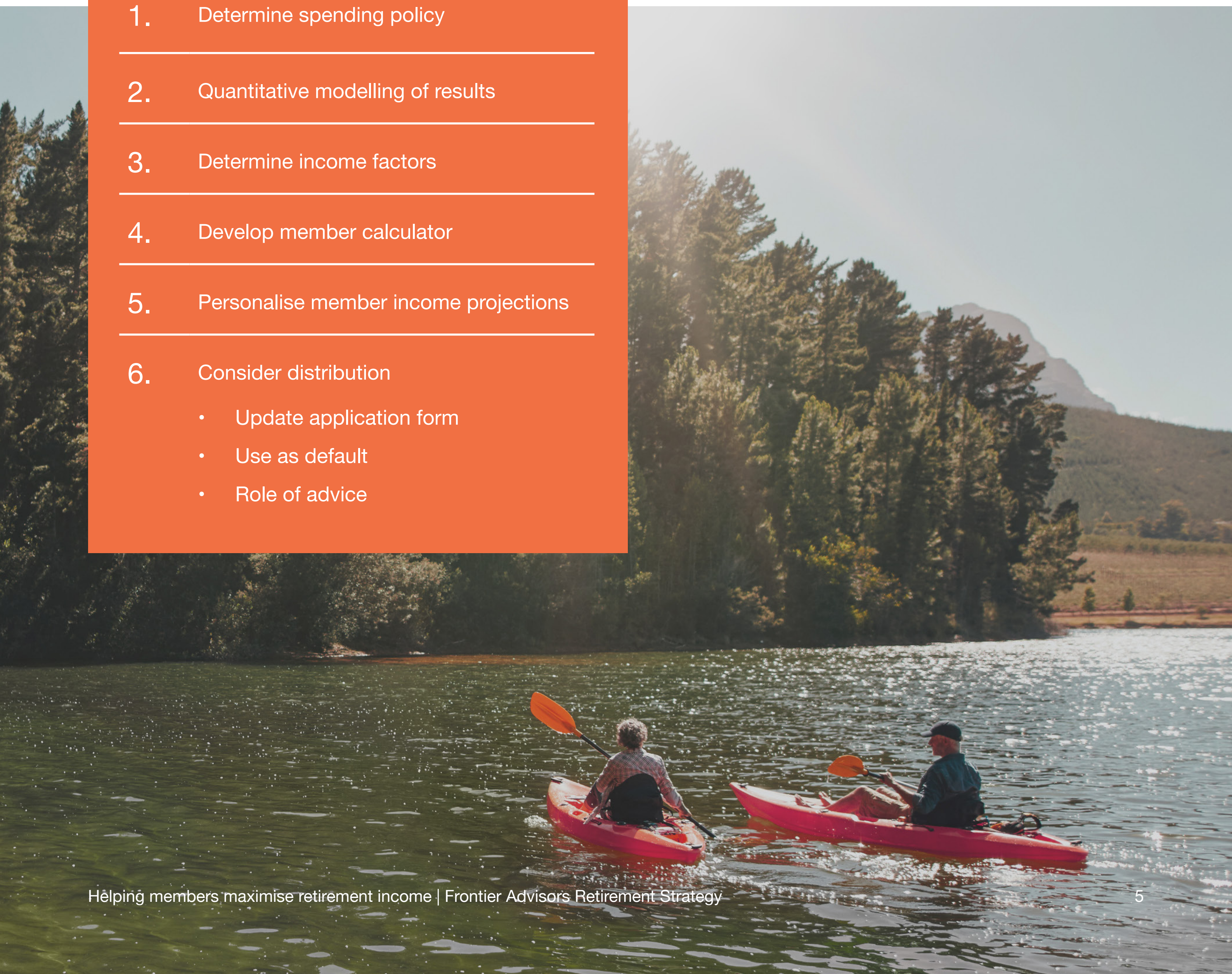
Our Retirement Wage approach involves crafting tailored drawdown patterns that help members better enjoy their retirement.

Our strategy delivers instant results, positively impacting member outcomes while aligning seamlessly with your primary goal - maximising income. And the best part? It's straight-forward and quick to implement. No need for complex new 'products'. We outline below the steps involved.

Frontier is here to help you improve the outcomes for your retirees. Get in touch with our retirement specialists or your client team to learn more.

Implementation steps

1. Determine spending policy
2. Quantitative modelling of results
3. Determine income factors
4. Develop member calculator
5. Personalise member income projections
6. Consider distribution
    - Update application form
    - Use as default
    - Role of advice



Frontier Advisors Pty Ltd
ABN 21 074 287 AFSL 241266

Level 17, 130 Lonsdale street
Melbourne VIC 3000

+61 3 8648 4300

frontieradvisors.com.au