The Adviser View

Building resilient retirement portfolios in the current environment

We were delighted to talk to Catherine Jenkins, financial planning manager at Hayes Girling Financial, about why annuities are coming back in favour as part of a resilient retirement portfolio.

Lifetime annuities referred to in this article are for Challenger's Lifetime Annuity (Liquid Lifetime) CPI indexed or fixed options.

> **"I feel annuities are a good way to go to have a resilient portfolio because they provide a guaranteed regular income stream that's very clear to the client."**

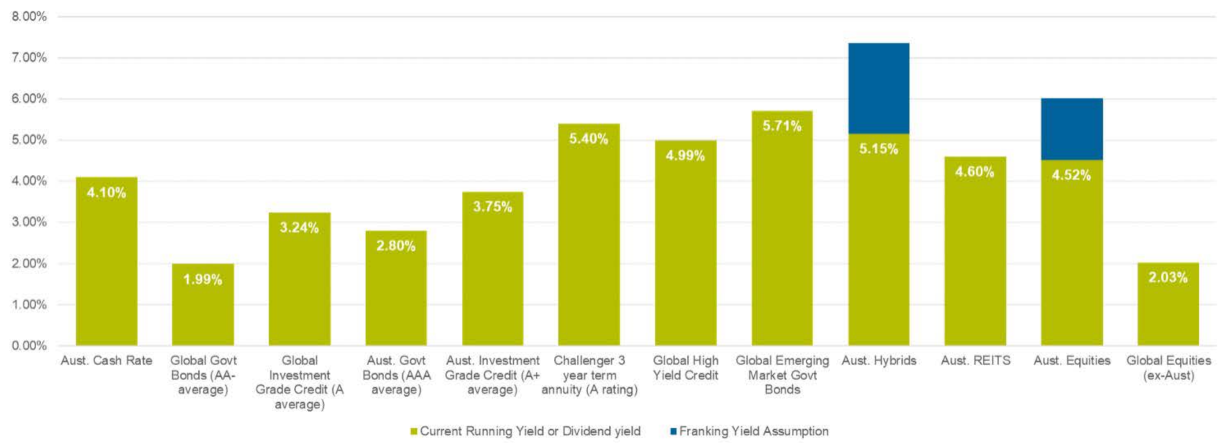
Success with a client can come from many points. The obvious one is when they have enough money to retire. I'm finding that the approach used to be to have as much capital as possible invested for a client, which is great – it can give good returns. But clients need to live, they've got to enjoy their money, and they can't take it with them.

A truly defensive investment

My interpretation of a resilient portfolio is to make sure that there are selected investments that act defensively in a client's portfolio and aren't impacted by market movements. One of the things that everyone was a bit shocked with when Russia invaded Ukraine was that bond investments dropped, as well as shares, property - the whole lot went at once. We had people ringing who were in defensive portfolios that have been impacted by a market movement.

Even though you've got this careful and diversified investment for a client, the markets are still moving in a way that people still have this underlying fear that there's going to be a big drop. It has made us rethink how we're doing our investments. For me, resilience is actually going one step further, and helping to provide advice on a guaranteed regular income like a lifetime CPI indexed or fixed term annuities that helps to take that stress away.

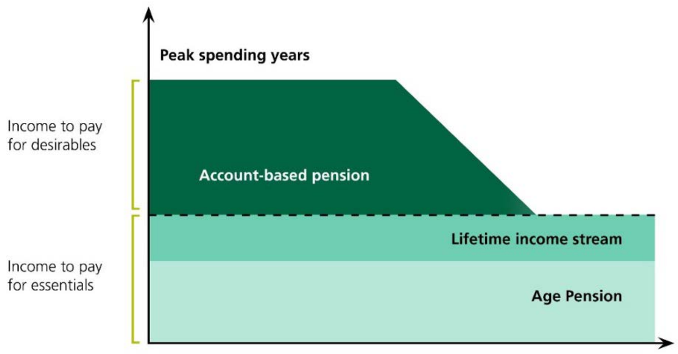
Current yields on different asset classes



Source: Representative ETF issuer holdings data (Vanguard, Blackrock, Betashares). This graphic is for illustrative purposes only and reflects current running yields of underlying assets within representative ETFs as at July 5, 2023. At different points in the market cycles this income and growth relationship will not be relevant or will change. This does not show the volatility of each underlying asset class to generate those returns.

Traditionally we've looked at defensive investments to soften the volatility that clients are getting through growth investments. For example, in a moderate portfolio you might have 50% defensive 50% growth. We've typically used CPI linked lifetime annuities, diversified fixed income, cash and term deposits in that defensive side to smooth out returns and to provide some stability during volatile markets.

While term deposits can be a short-term outlook that provides a little bit of stability in the portfolio, lifetime annuities are your long-term view. And that's where, over the years, Challenger has been really good at explaining the income layering process where you've got your account-based pension, your Challenger lifetime annuity and then the Centrelink pension, to complete the income portfolio.



Boosting spending confidence in retirement

I feel that annuities are a good way to go to have a resilient portfolio because they do provide that guaranteed regular income stream. It's very clear for the client. That to me is wonderful because it helps take the stress out of investments and market returns and volatility for a client. It does mean they have to lock in - you don't want to be changing your mind. But it's very clear on the quote what they will get. Getting payments regularly really helps. It's very easy to explain to a client exactly what they will get if they pass away or if they pulled their money out. All of that is very transparent, which is what I like.

So being able to have that lovely conversation and give clients the okay to spend a bit of money and live their best retirement, particularly for people that have struggled their whole life, saved, budgeted and done all the right things. It's lovely to be able to say 'You can take your money and have a bit more fun'. You can see that it's improving their lifestyle, and bringing them joy, which is wonderful.

We had a lovely lady whose husband passed away and had controlled the self-managed super funds with lots of shares and things in there that she didn't understand and didn't feel comfortable with. So we closed down the SMSF and set her up with an lifetime annuity and some cash. And that's all she needed. She doesn't worry. It just comes every month and she's set to receive regular income for the rest of her life. She gets comfort out of it being dependable. It was perfect for her.

Dependable income has become vital in an uncertain environment

I think people are rethinking the risk return profile of their portfolios. I've often heard advisers say that they only recommend annuities for conservative investors. And I'm like, no, no, that's not what it's there for. There are a whole range of other reasons. So you know, we'd be quite happy to recommend an annuity for a balanced investor or a growth investor provided it fit in with exactly what they needed. There are lots of annuity income options to suit different risk profiles and income layering needs.

Challenger lifetime income products deliver guaranteed regular income payable for life, regardless of how long you live. With a Challenger lifetime annuity as part of your clients' retirement plan you can help build a more resilient investment portfolio because the payments from the annuity are guaranteed to be payable for your clients' lifetime.

We're always ready to support you and your clients

Challenger has a range of tools to help you and your clients with their retirement and aged care planning, including calculators, videos and case studies. To access them or find out more:

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