

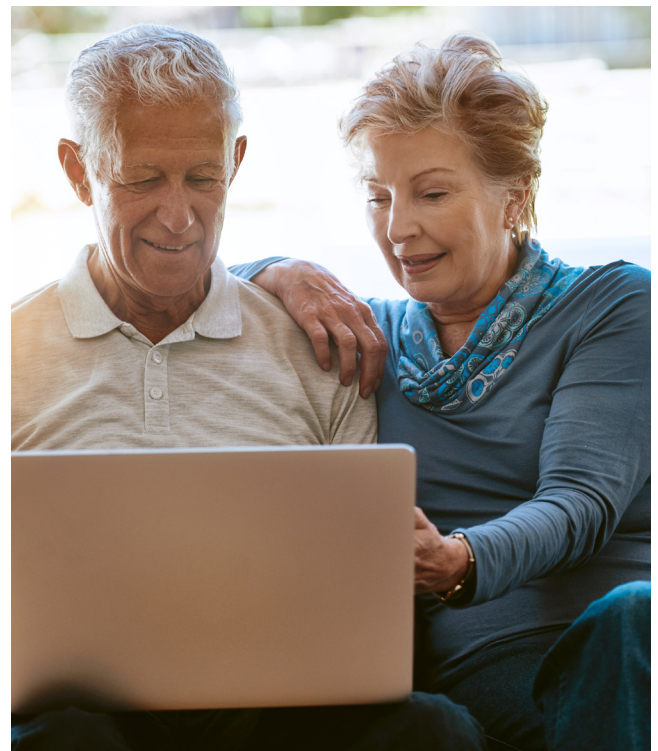
# Financial security in retirement after the Coronavirus crisis

## A new period of retirement income uncertainty

**A recent survey of over 3000 YourLifeChoices members shows that falling equity markets have triggered a rethink about retirement savings. Based on the first five months of 2020, this year will be unlike any other. While the immediate impacts of the Coronavirus pandemic have been felt by many, the secondary effects of falling world share markets and financial uncertainty have weighed on the minds of respondents to this year's survey.**

The 2020 edition of the survey was conducted during April and provides a unique insight into the thoughts, concerns, and hopes of retirees across Australia. The resilience of retirees is evident, and it's encouraging to see that they are still feeling confident about their futures, albeit cautiously.

This year's survey focused on three key areas: the impact of share market falls on savings; where financial advice is sought (and most valued); and finally, whether retirees have fallen into any common income planning traps such as over-confidence or aversion to loss.



## Key findings

**#1 FINANCIAL CONCERN FOR RETIREES**  
 PEOPLE ARE WORRIED  
**ABOUT LOSING THEIR SAVINGS**  
 AS THE SHARE MARKET FALLS




Shares remain the top result when people were asked about their best performing investment asset, but an increasing number also nominated equities as their worst performer. It highlights growing fears that investing in shares alone won't always fund a person's retirement.

**85% OF RETIREES RECEIVING ADVICE FROM A FINANCIAL ADVISER**  
 DURING THE PAST YEAR HAVE BEEN **HAPPY ★★★ OR VERY HAPPY**



People value a good financial adviser and those that use one understand the importance of financial advice. However almost half the people surveyed didn't receive financial advice. People were also less likely to value advice from their super fund.

**OVER 40% OF PEOPLE INCORRECTLY BELIEVE THAT SUPER OFFERS GUARANTEED INCOME FOR LIFE**



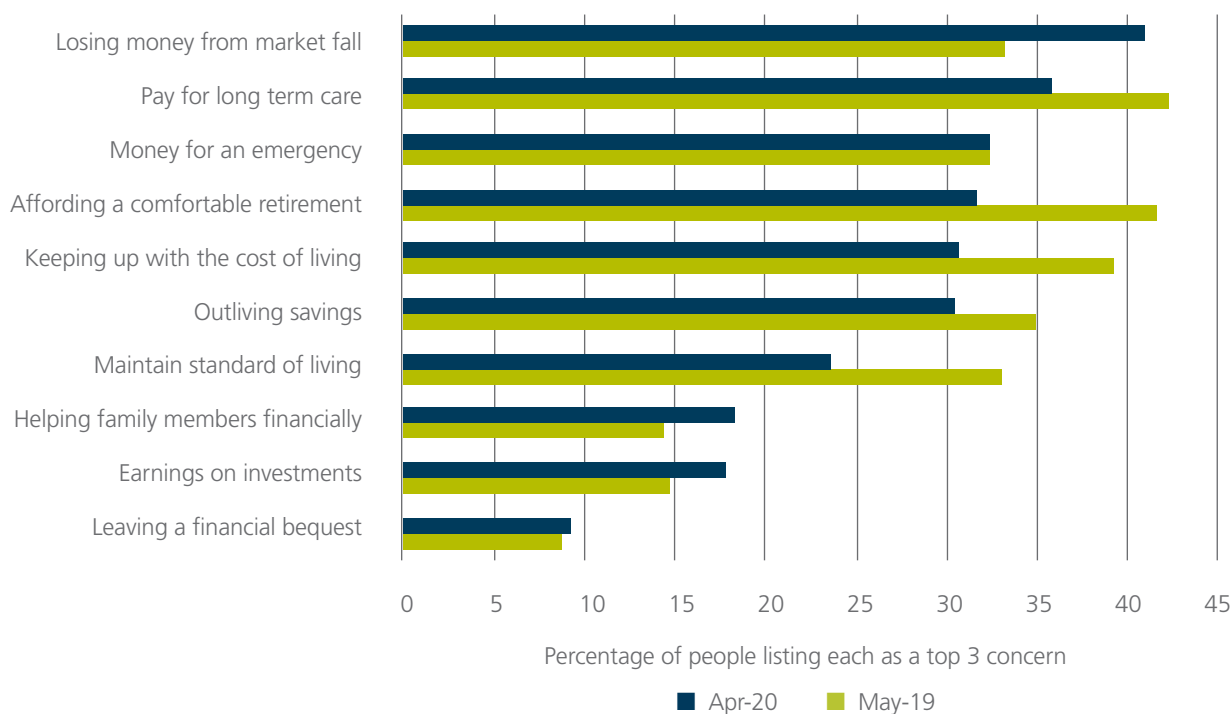
Many people believe that their super can provide guaranteed income for life, indicating that many don't understand how super works in retirement. While super is designed to pay income for life, it is dependent on markets and the drawdown amounts. Only lifetime annuities and the age pension offer a retiree guaranteed income for life.

### People are worried about the impact of markets on their savings (after the event)

The market volatility of early 2020 has reminded people that investing is not always a one-way bet. The April 2020 survey was the first time that the top fear among retirees was related to losing their retirement savings because of a fall in the market. It was the top-rated concern across all respondents and a total of 41% of respondents said it was one of their top three financial concerns for retirement. In May 2019, market falls rated as the fifth most common concern.

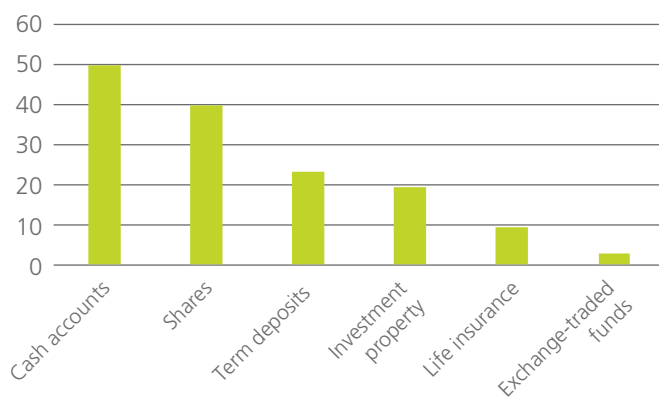
On the next page, Figure 1 details the changes in retiree concerns between 2019 and 2020. Worries about paying for long-term care remained relatively high, but the previous concerns over sustaining a comfortable retirement have declined. Broader concerns around living standards have all fallen possibly as a result of the impact of self-isolation or because people are more worried about the falling market. Living standards under the lockdown might be challenging what retirees view as comfortable as they adjust to a "new normal" that likely involves fewer social engagements, recreational activities and holidays.

**Figure 1: The key concerns of older Australians**

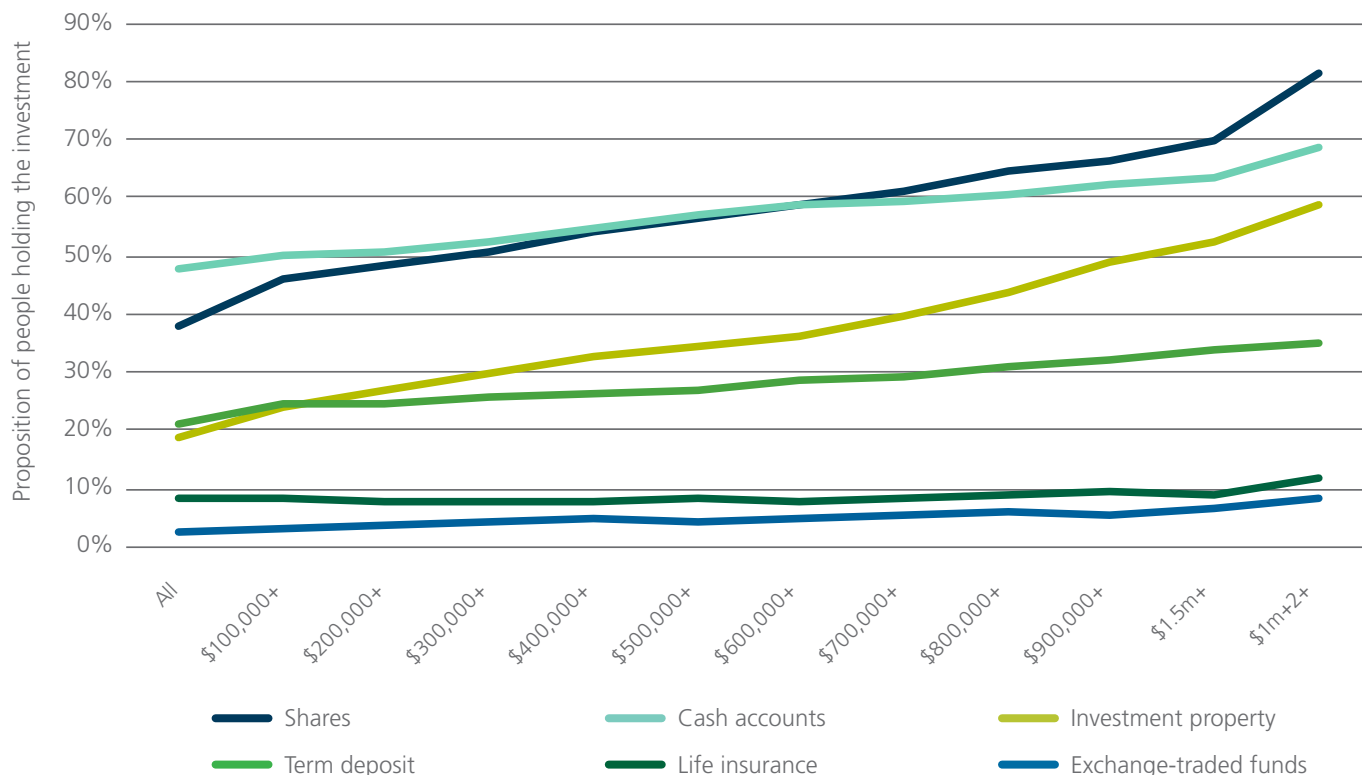


The sharp increase in concerns over share market losses is reflective of the popularity of shares as an investment and source of income for retirees. Share ownership increases with wealth, and a majority of the YLC subscribers who responded and have over \$300,000 in total savings reported holding shares. More people have cash accounts, but otherwise shares are the most popular investment. Figures 2 and 3 illustrate this point with Figure 2 showing the proportion of people who own different investments, while Figure 3 provides a break down across different wealth bands.

**Figure 2: The proportion of YLC respondents holding each investment**

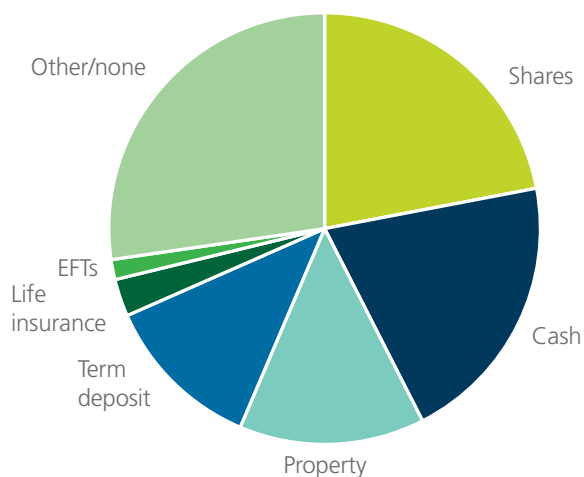


**Figure 3: The proportion of people with assets as wealth increases**



This popularity of shares was also reflected in a question on the best performing investment which is shown in Figure 4.

**Figure 4: Perception of best performing investment**



Shares were considered the best performing asset, just edging out cash accounts, despite the recent volatility. The responses also highlighted the passion of property investors. While a smaller proportion (19%)

of investors hold investment properties, in part due to the amount of money needed to buy an investment property, they viewed the performance favourably. Almost three-quarters (14% of the total) of investment property holders rated this as their best-performing investment, compared to 55% (22% of the 40%) of share investors. Maybe that’s why you hear more about property around the BBQ. You don’t usually hear people talk about life insurance options. Only a minority of the small number of life insurance investors rated it as a high-performing investment.

**Loss aversion**

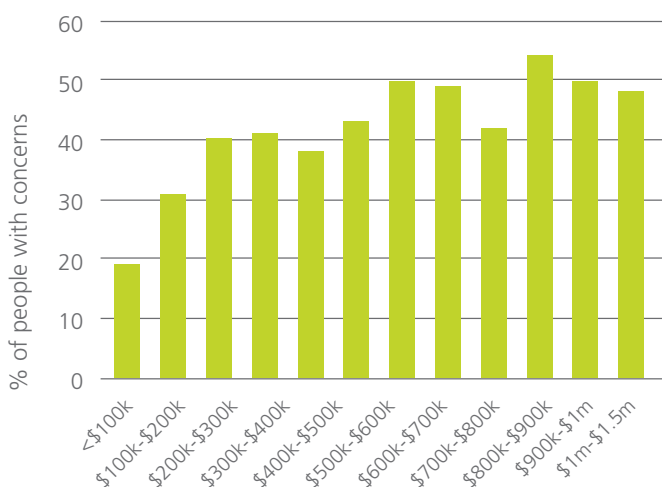
One of the most intriguing issues of financial behaviour is the impact of loss aversion. The research shows that people dislike a loss more than twice as much as they like an equivalent gain. This aversion was evident in the way that people have reacted to the recent share market volatility.

People who were concerned about the impact of market falls, or not earning enough income, were also the happiest with the amount of income that they have for retirement. Presumably this was before the fall in

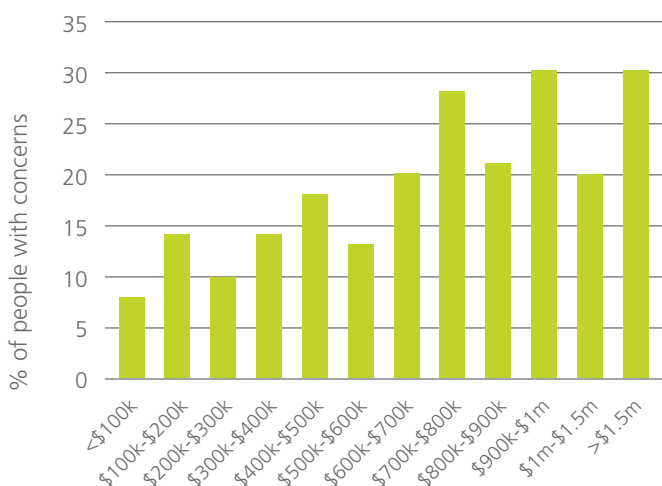
markets which has made them concerned that their income might not last.

The concerns over market volatility is also related to wealth as can be seen in Figures 5a and 5b. People with more savings will tend to have more income for retirement and a greater chance of being happy with that income. Loss aversion is highlighted in the fear of losing some of that wealth or income. This has been an issue for self-funded retirees as the impacts of the COVID-19 pandemic include dividend cuts and low interest rates impacting their income in retirement.

**Figure 5a: Concerns over market loss, by wealth**



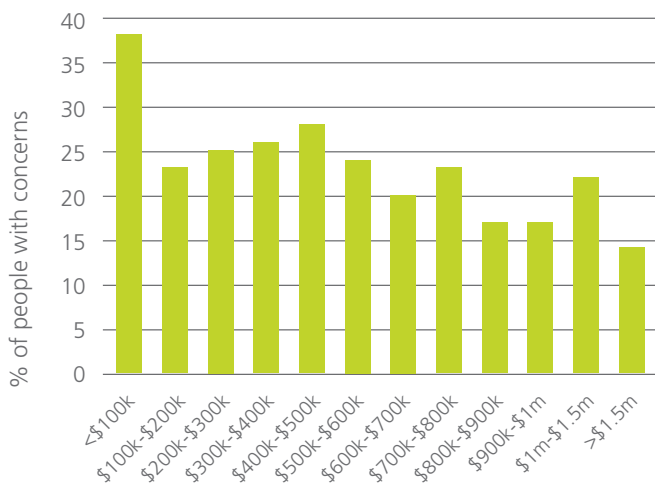
**Figure 5b: Concerns over investment earnings, by wealth**



At the other end of the spectrum, concerns about having money for an emergency fell as wealth increased. Figure 6 shows how this concern was greatest for those with more limited wealth.

Retirees that are just getting by are more worried about being able to deal with the unexpected expenses that occur through retirement.

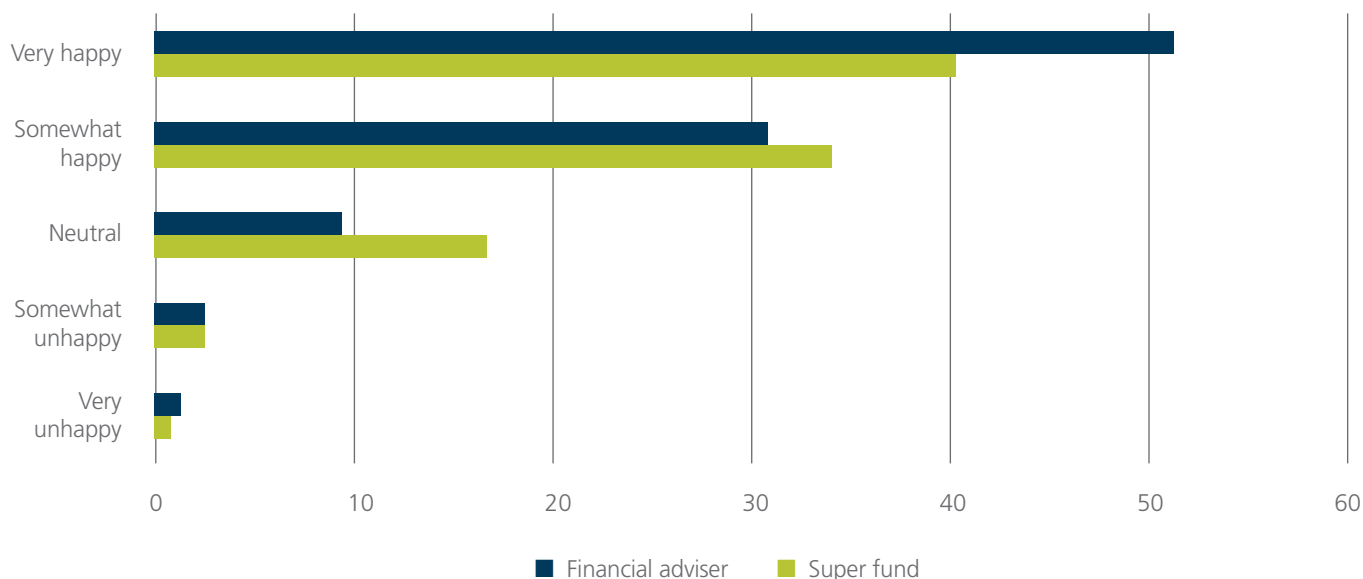
**Figure 6: Concerns over the availability of money for an emergency**



**The benefit of advice**

One way that retirees can manage their concerns is to speak to a financial adviser. Well over a third (39%) of respondents spoke to a financial adviser during the previous 12 months and most were happy with the advice they received. Super funds were also considered a good source of advice, although they didn't rate as highly as financial advisers. The overall results in Figure 7 indicate that financial advisers and super funds are both providing positive support for older Australians.

**Figure 7: How happy were you with the advice you received from your financial adviser or super fund?**



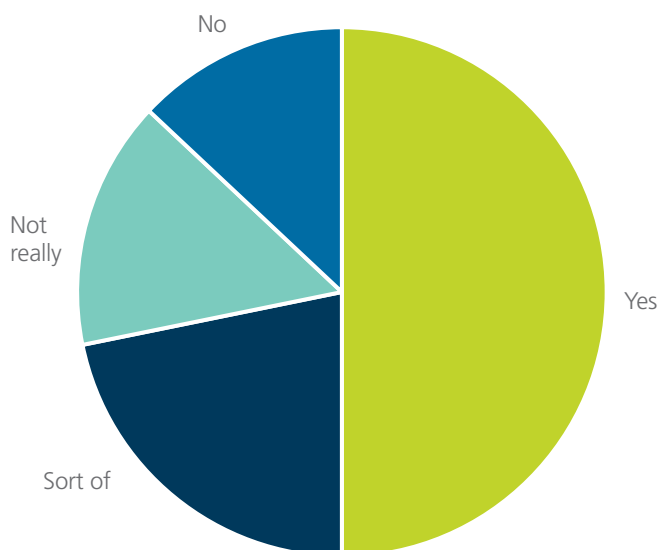
**Fear of outliving savings**

People’s fear of outliving their savings has typically been a big concern for a number of retirees. In the wake of share market volatility, the ranking has slipped, but it is still a significant concern with 30% of respondents rating it in their top three concerns.

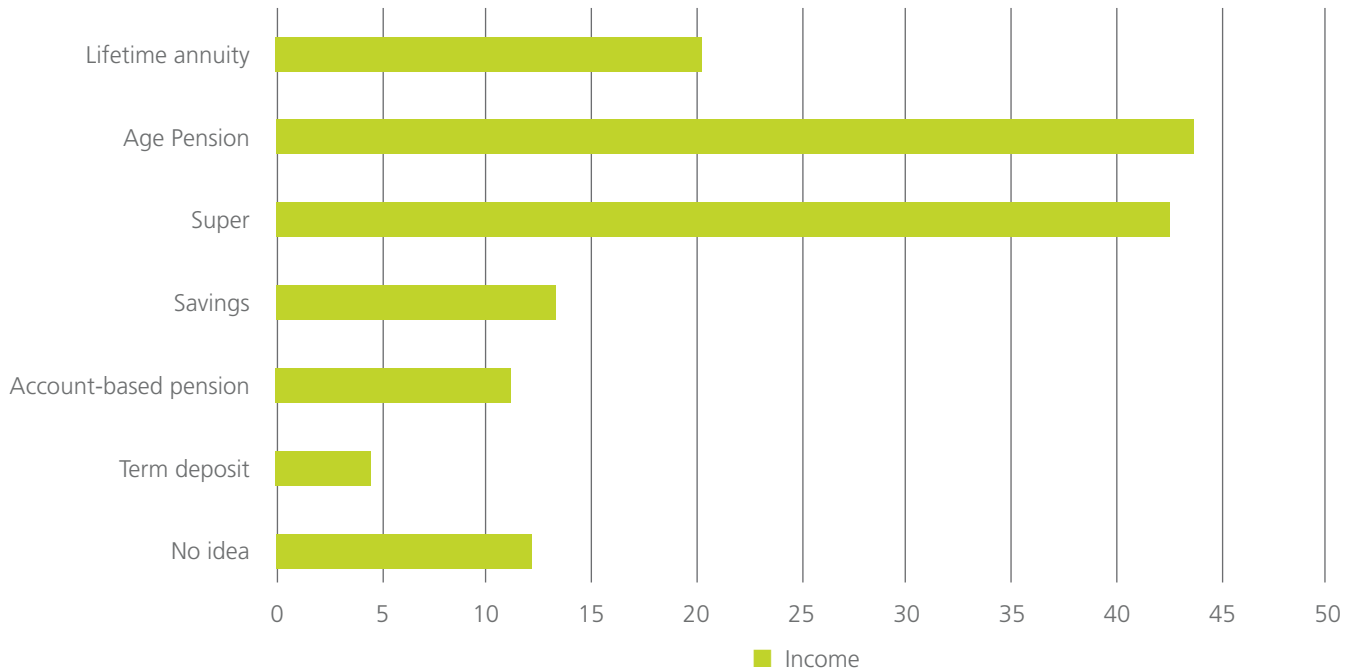
Lifetime annuities are an investment product that provides retirees with secure and reliable income that lasts for life. Figure 8 shows that half the respondents confidently answered that they know what an annuity was. Another 20% felt that they had some idea of the product.

However the majority were unable to recognise that a lifetime annuity provides guaranteed income for life. Only 20% selected a lifetime annuity from a list of products used by retirees as the one providing a guaranteed source of income for as long as you live. The age pension also provides income for life, but only 44% noted this, as Figure 9 shows. The majority of people receiving the age pension were able to identify that it provided guaranteed income for life. Only 25% of the tribes who identify as self-funded retirees agreed that the age pension provided income for life, possibly reflecting a personal view that they will never get an age pension.

**Figure 8: Do you know what an annuity is?**



**Figure 9: What is the best offer for guaranteed income for life (select up to two)**



Over 40% of people believe that super best offers a guaranteed income for life. This shows a lack of understanding about the investments inside super. In fact, a majority (51%) of people who were worried about losing money in the market thought super would give them income for life. They were also less likely to recognise the benefit of the age pension.

These results suggest that there is a misguided expectation that super is guaranteed to provide income for life. Rising fears about the impact of falling share markets demonstrate that there is growing realisation that super does not provide guaranteed income for life. With the market recovery in April and May calming some of the fears, expectations might not revert to reality. Another dip in markets could shake this belief to the core and leave panicked retirees seeking a true source of guaranteed income.

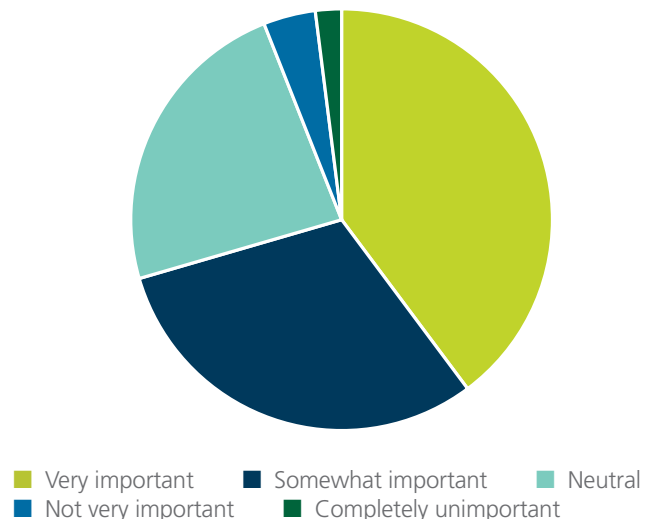
**Seeing the benefit in not having all your eggs in one basket**

One way to manage a retirement where nothing in life is fully guaranteed is to have a comprehensive retirement income plan that includes a range of income sources such as super, the age pension (if eligible) and other guaranteed income sources. A majority (70%) of people, as can be seen in Figure 10, said it was very, or somewhat, important to have a balanced and

comprehensive financial plan. This majority increases to 85% for those with at least \$400,000 in financial assets such as super and investments.

At least if people don't fully understand all the intricacies of retirement income, they generally appreciate the benefit of having a range of sources for retirement income.

**Figure 10: How important is it to have a balanced and comprehensive retirement plan**





**For information about setting up guaranteed income for life to help cover your living costs, visit [challenger.com.au](https://challenger.com.au) or speak to your financial adviser about Challenger lifetime annuities.**

## Methodology

The *Financial security in retirement after the Coronavirus crisis* survey was conducted by the **YourLifeChoices** website in partnership with Challenger Limited in April 2020. The survey was conducted using SurveyMonkey and sent to **YourLifeChoices** database of 230,000 Australian members aged 50-75 years. The survey received 3007 responses to 41 quantitative and qualitative questions.

### About **YourLifeChoices**

Established in 1999, **YourLifeChoices** is Australia's largest specialist retirement website, with 230,000 members who receive daily newsletters keeping them up to date on retirement income, planning and entitlements.

**YourLifeChoices'** mission is to deliver authoritative and independent information to all Australians seeking an affordable retirement. Much of the information shared with members and website visitors is based upon regular research and surveys conducted online. Visit [www.yourlifechoices.com.au](https://www.yourlifechoices.com.au) for more information.

### Who is Challenger?

Challenger Limited (Challenger) is an investment management firm focused on providing its customers with financial security for retirement. Challenger operates two core investment businesses, including Challenger Life which is regulated by the Australian Prudential Regulation Authority (APRA), and a fiduciary Funds Management division.

Challenger Life is Australia's largest provider of annuities providing secure, reliable income to thousands of investors.