

Overcoming challenges in retirement

challenger 



Retirement is different

Managing different goals

Health
care

Income
planning

Age
Pension

Aged
care

Goals in retirement

Capital
drawdown

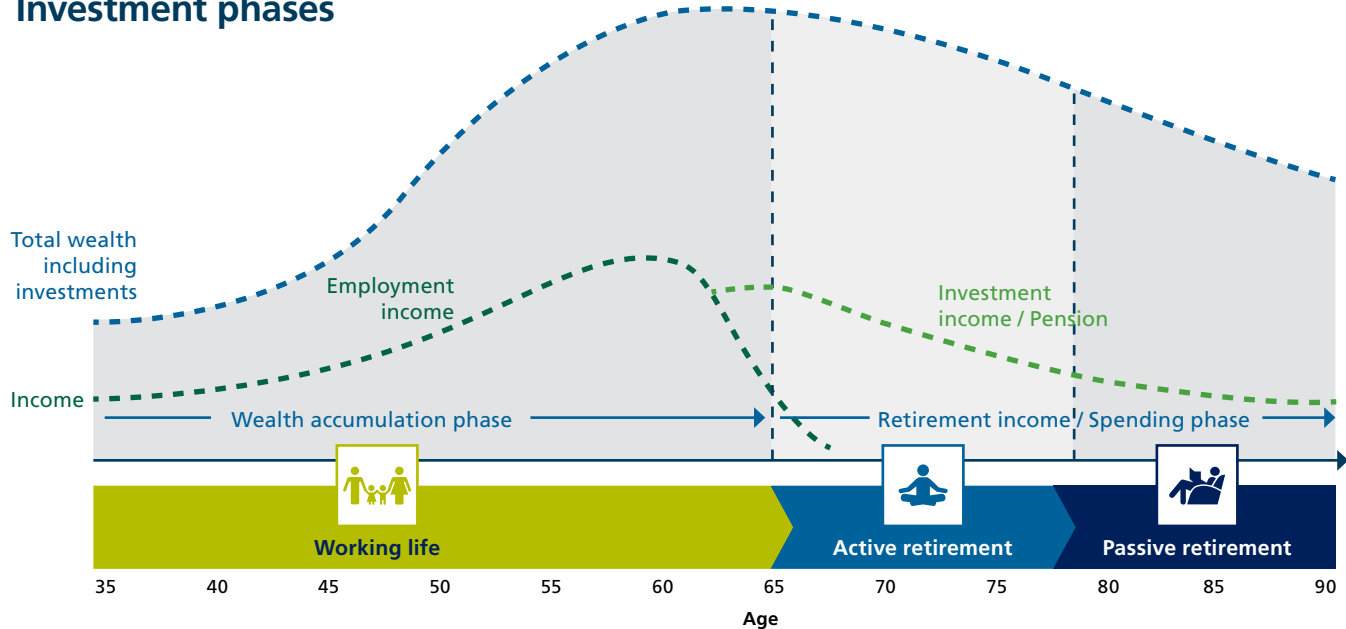
Investments

Estate
planning

Family
home

Retirement is different

Investment phases



Your goals

- Grow your career and income
- Support your children through school
- Pay off your house
- Save for retirement

Your focus during retirement

- Cash flow to support your everyday needs, i.e. utility bills
- Protect your income so you can spend confidently in retirement
- Make your income last for an unknown timeframe
- Consider potential need for aged care

As a **transition into retirement** is made, there needs to be a much bigger focus on **income stability and wealth protection** rather than wealth accumulation.



Retirement is different

Managing different risks

Sequencing risk

A simple run of bad luck early in retirement can turn your financial life upside down

Emotional risk

Behavioural biases getting in the way of good decision making

Longevity risk

We are approaching the point where 30 years is a conservative planning horizon

Market risk

Market performance can fluctuate, making it hard to predict whether income will last

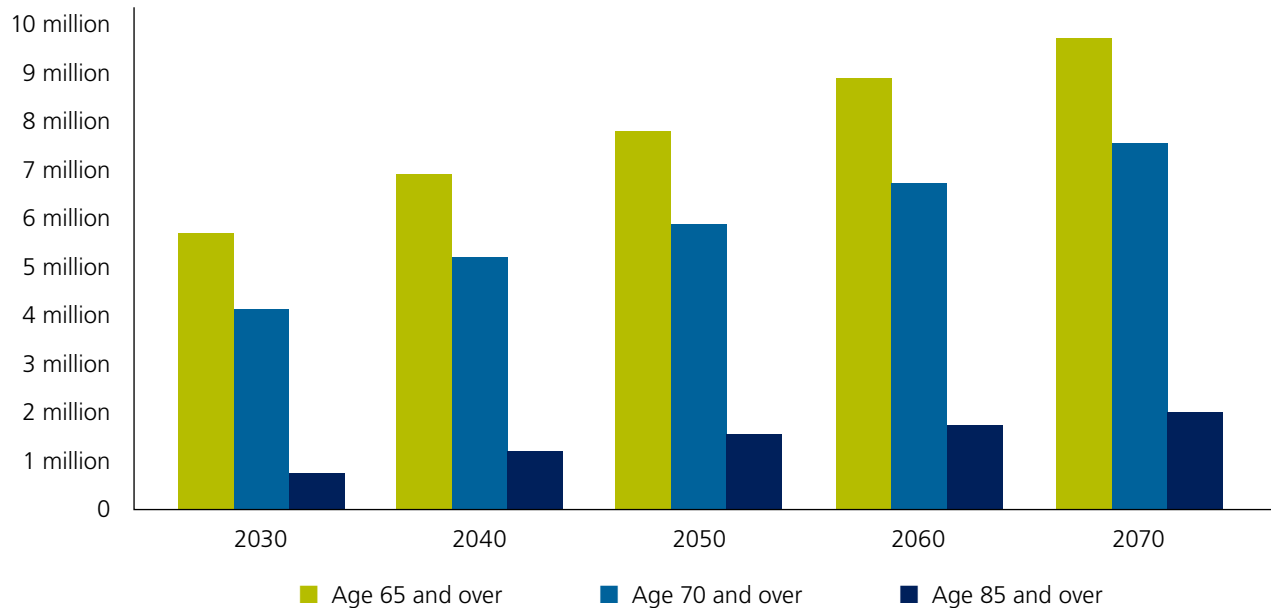
Inflation risk

With inflation eroding purchasing power, a retirement portfolio needs to keep up with spending requirements for retirees

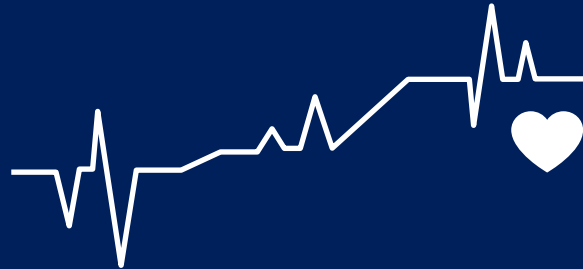


Making your money last

Australians are living longer



The number of Australians 85+
is **projected to grow** 64% by 2034.
In fact, an Australian who is 65 today, has a
good chance of living **well into their 90s.**



Making your money last

Average life expectancies

Average life expectancy	From birth	From age 67	From age 67 with mortality improvements
Males	81	85	88
Females	85	88	90



Making your money last

Probability a diversified investment amount will last the term

Investment term	Initial withdrawal rate							
	3%	4%	5%	6%	7%	8%	9%	10%
20 years	100%	98%	88%	67%	55%	41%	28%	16%
25 years	100%	93%	69%	51%	38%	29%	18%	6%
30 years	100%	81%	60%	38%	28%	18%	7%	5%
35 years	96%	68%	53%	33%	20%	9%	4%	1%
40 years	93%	59%	41%	25%	16%	5%	4%	1%

Source: Pfau and Cooper (2020), 'The Yin and Yang of retirement income philosophies', using Dimson, Marsh and Staunton Global Returns Dataset (1900-2013).

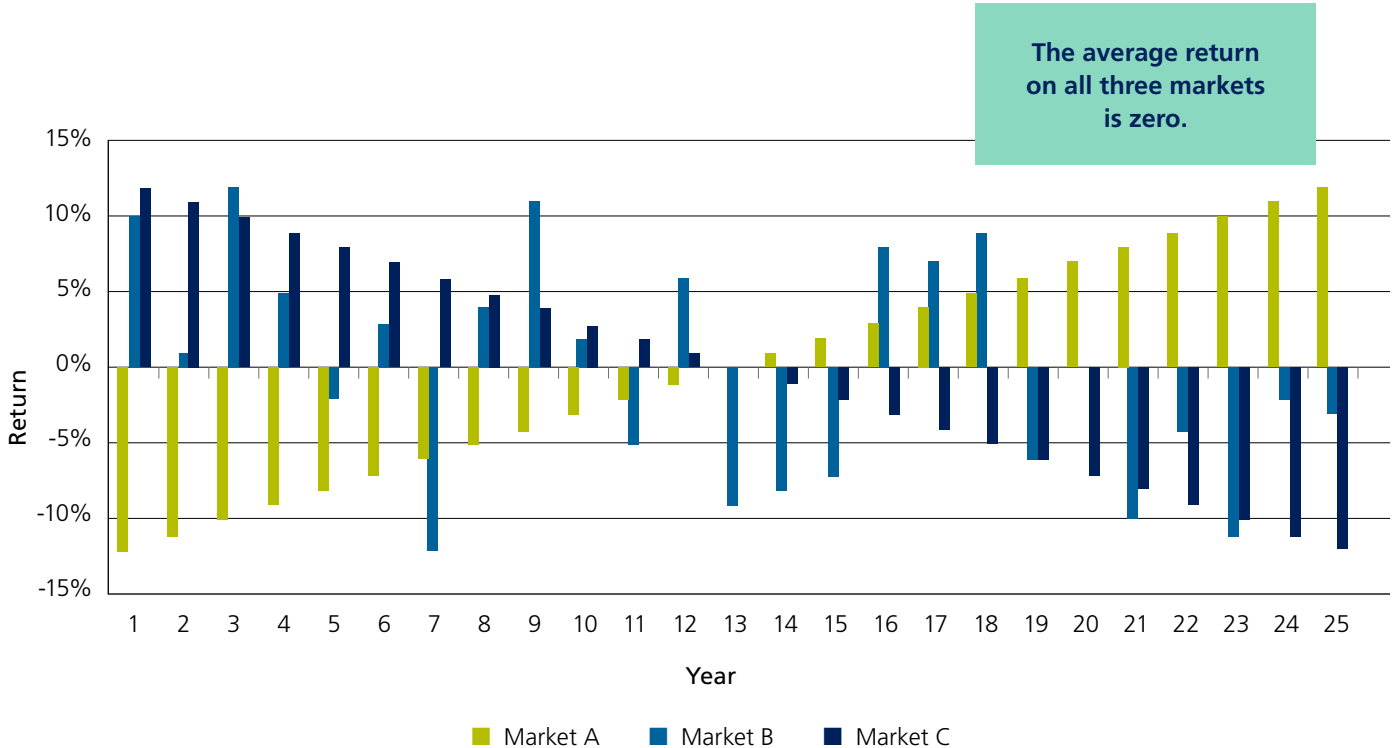
Assumptions: investment mix of 50% Australian stocks, 40% Australian bonds, 10% Australian bills.

When investment returns can be negative, the timing and order (sequence) of these returns can be **critical to the overall impact** on your savings.



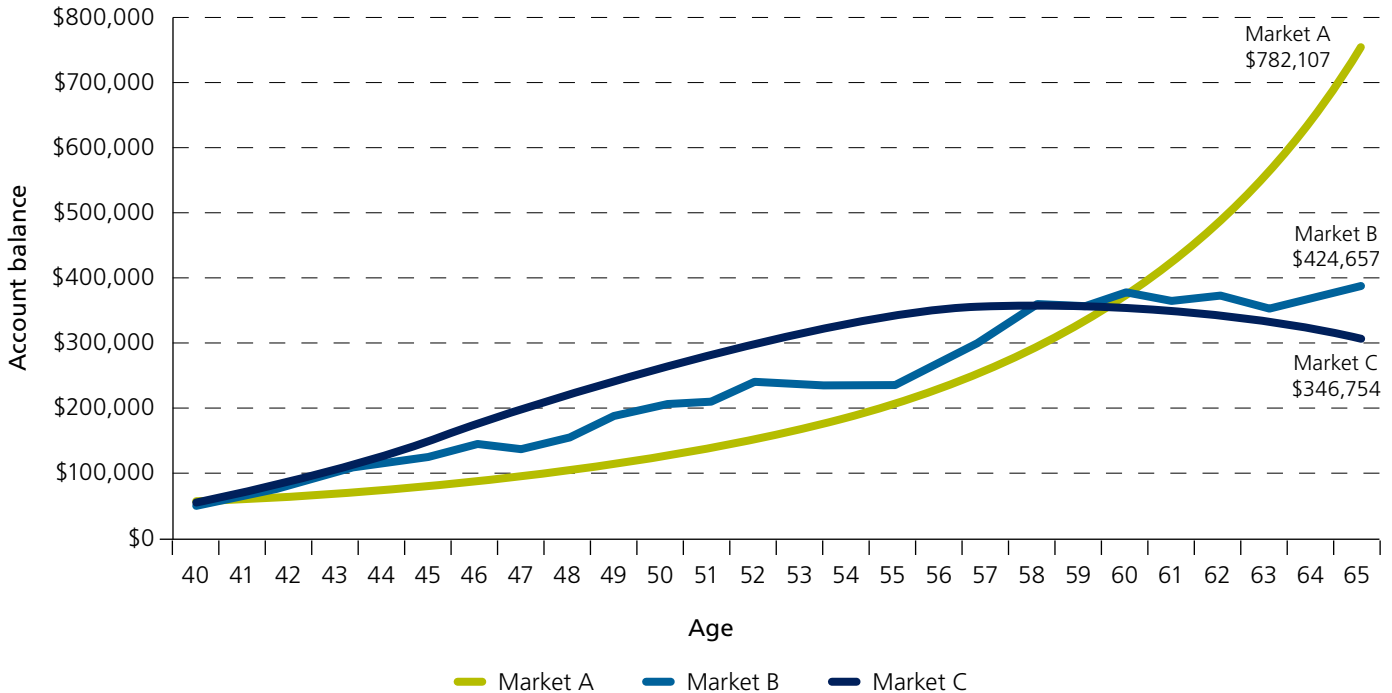
Protecting your income from share market movement

Sequence of returns – three different markets



Protecting your income from share market movement

Cash flow in – Regular savings in accumulation

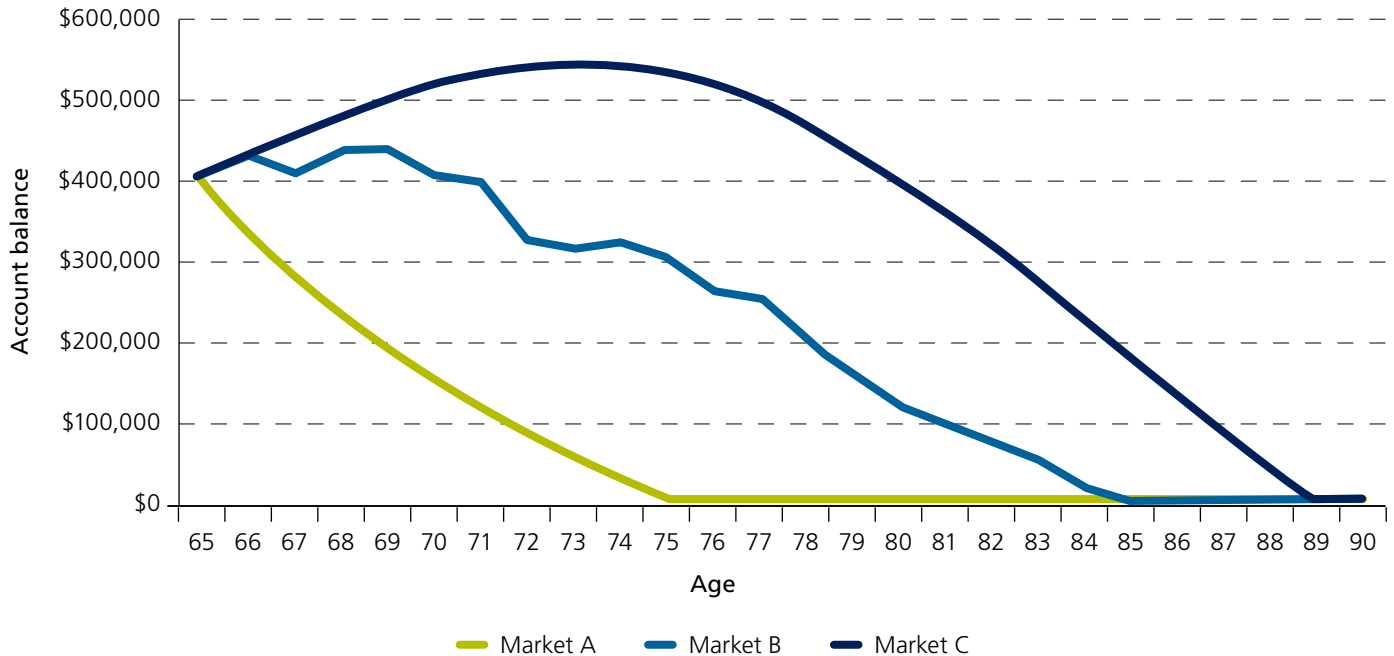


Source: Challenger.

Assumptions: Initial balance of \$50,000. Contribution of \$10,000 in first year, increasing by 4% every year.

Protecting your income from share market movement

Cash flow out – Regular drawdown in pension phase



Source: Challenger.

Assumptions: Initial balance of \$400,000. Withdrawal of \$20,000 in first year, increasing by 2.5% every year.

“ ...luck plays a huge factor in how long the funds are going to last. And what we have to do when we get to retirement is to minimise the impact of luck. We have to **invest in things that don't expose us** to this sort of risk. We have to reduce the impact of the sequence of returns. ”

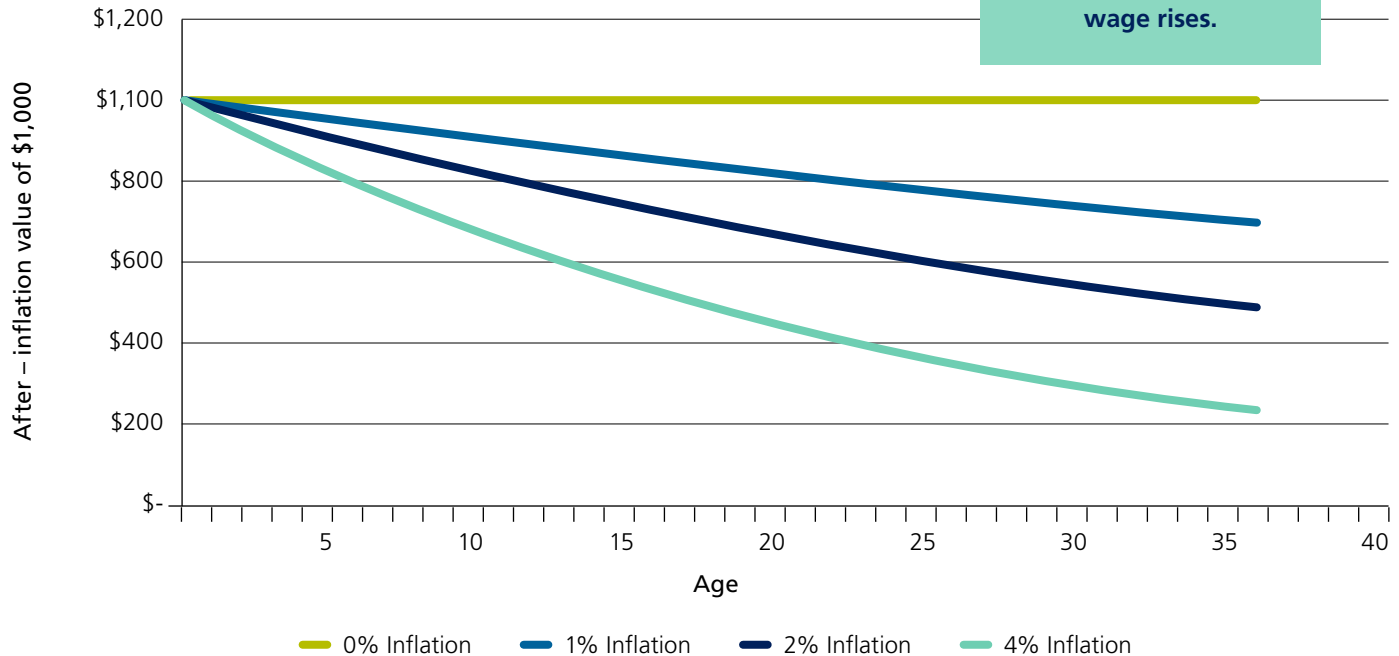
**Moshe A. Milevsky, Ph.D. Associate Professor of Finance
York University, Toronto.**



Protecting against inflation

Cash flow in – Regular drawdown in pension phase

Inflation takes on a new dimension in retirement because retirees' savings are disconnected from wage rises.



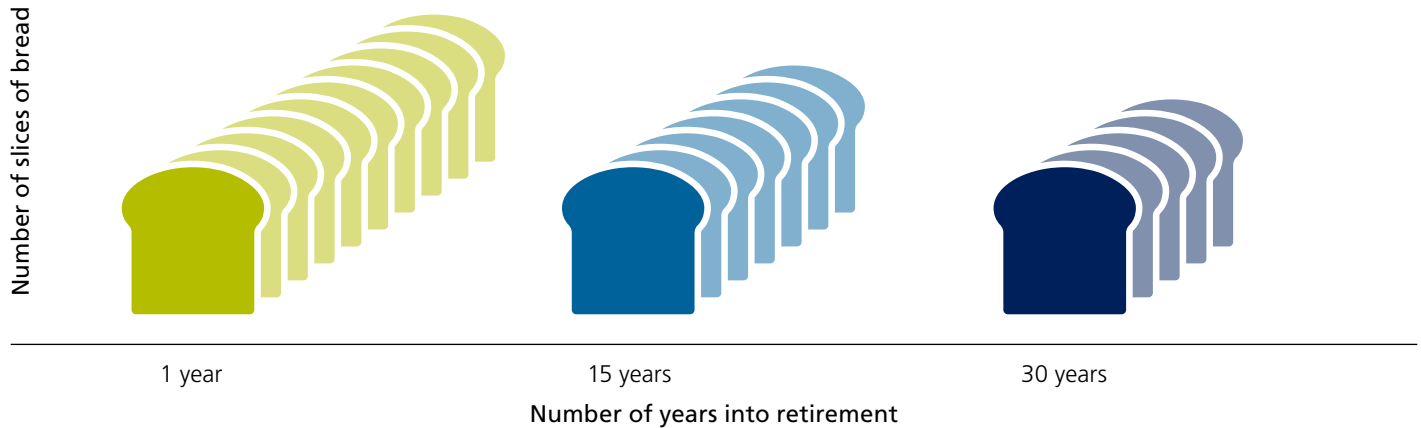
The average inflation rate over the last 25 years has been 2.8% per year. That means a dollar today is worth around **half of what it was** 25 years ago.

– Based on ABS data, December 2023



Protecting against inflation risk

How many slices of bread will you get in the future?



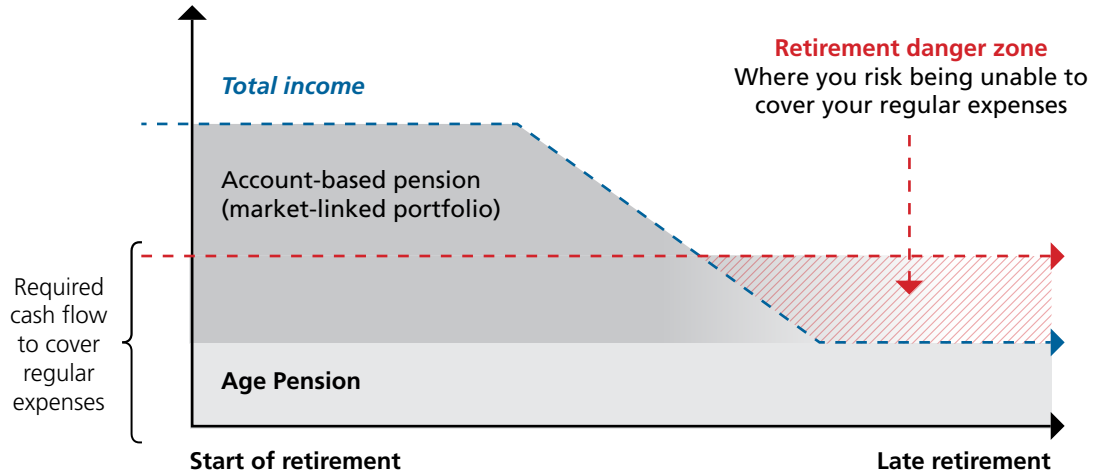
The diagram is illustrative only.
Source: Challenger.
Assumptions: Average inflation of 2.5% p.a.

In the later stages of retirement, these **retirement risks** mean that if you only invest in an account-based pension there is a real chance you will no longer be able to meet your regular expenses – this period is called **the retirement danger zone.**



Consider a different approach in retirement

An income layering strategy can help keep you out of the retirement danger zone

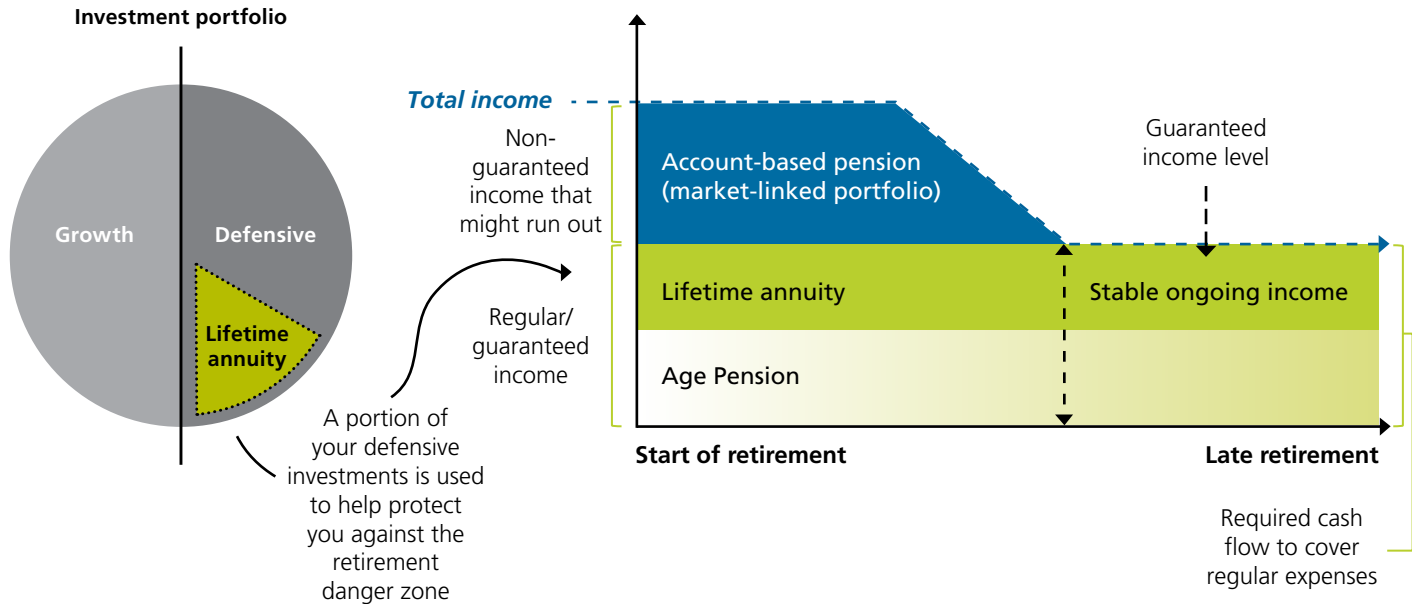


It is vital you can cover your **regular living expenses** and maintain your standard of living in retirement. This means ensuring you have enough income to get by day-to-day for however long you live. The Age Pension alone may **not be enough** to cover even a modest cost of living, so combining these payments with regular income from a lifetime annuity can top up your income to help cover your essential expenses.



A comprehensive retirement income plan

Income layering strategy





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