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The future of retirement solutions

After 30 years of focusing on the accumulation phase, product providers like Allianz Retire+ are turning their attention to retirement, with a keen eye for innovation.

For many of us, the prospect of receiving a letter from the Queen to mark a 100th birthday was something grandparents would joke about with each lap around the sun; a rare milestone that one could only hope to achieve.

However, it's estimated that the last 100 laps added about 20 years to the average Australians' lifespan, meaning the likelihood of receiving such a letter – albeit, now from the King – has shot up too.

That's right; improved nutrition, medical advances, and overall improved quality of life means people are living longer. In fact, a 65-year-old couple today has a 50% chance one of them will live well into their nineties. Further, according to the Centre of Excellence in Population Ageing Research, the centenarian population – being those aged 100 and over – is expected to increase by 200% to 15,900 by 2041.

And while it might feel like we will all be working to 100 at the moment, the reality is that by 2041 about 10 million Australians will be living in retirement, compared to the 7.4 million today.

From a wealth transfer perspective, the idea that a person might need to fund upwards of three decades of their life is significant, Allianz Retire+ chief product and marketing officer Simon Aboud says.

“What we see today is about \$55 billion of funds transferring from accumulation into retirement, and that's going to grow to about \$200 billion by 2040,” he explains.

“This presents a very large and growing opportunity but with that comes challenges. Most people would have been living off an employment-based income for their life, and it's a transition point where you become self-funded, or a combination of self-funded and reliance on the Age Pension, which brings uncertainty.”

When considering this demographic shift and how it interacts with product design, Allianz Retire+ focuses on three core risks.

The first is longevity risk, or the risk people will outlive their savings.

“As people are living longer in retirement, those savings need to last for multiple decades and through those decades there will be unpredictable markets and expenses that will arise,” Aboud says.

The second risk considered is market and sequencing risk.

“In the event that there's a market drawdown, particularly when someone retires or in those early years, they're drawing down their income off a lower capital base and that can have a detrimental impact over the long term as they'll have a lower base to draw from once markets start to recover,” Aboud explains.

The third risk, and perhaps the most topical now, is inflation. Currently, the Consumer Price Index sits at 7%, placing a lot of pressure on retirees' hip pockets.

“Higher inflation reduces purchasing power, amplifying the fear of running out of money,” Aboud explains.

The cumulative affect of all these challenges results in people taking a more conservative approach and living a more frugal retirement than they can actually afford, and ultimately passing away with their super balance still intact.

The challenge for the industry is working out how to ensure retirees have the confidence to spend in retirement and enjoy the lifestyle they desire, Aboud says.

A large part of that challenge stems from the many uncertainties in retirement planning around how long you're actually planning for, and also the fact that decisions made early on can have an impact later down the track.

Successful financial planning starts with a clear understanding of the clients' objectives, Aboud points out, adding that accumulation phase goals are typically much clearer cut.

“But once someone makes that transition into retirement, the goal shifts and it becomes about how to secure certainty and reliable income over the long term. This requires a different set of products and solutions, and we haven't seen as much innovation in this space in the last 30 years,” he says.

But that's starting to change, with issuers now focusing on innovative retirement tools and products, making advisers' jobs that much easier. Aboud notes that these products aren't intended as a whole-of-portfolio solution, but rather to serve as the foundation of an investment portfolio, on which advisers will layer their traditional asset allocation.

This is because these products boast features that provide certainty. For example, guaranteed income for life, which is backed by an insurer and can therefore be relied upon, and flexibility to access capital should a clients' circumstances change.

Investment protection is also paramount, Aboud adds, saying: “What we know is that retirees don't want to put the brakes on the potential for their portfolio to grow over time, so being able to invest in share markets or other markets with either partial or total protection helps mitigate sequencing risk.”

And just because people are living longer, that doesn't mean that everyone will, so death benefits are also a necessary feature, he adds.

Now, because not everyone receives personal

financial advice, these products are also being made available in a variety of ways.

“We know that platform is the preferred way for advisers and clients to invest because of the administrative benefits, so they need to be integrated on platforms. Beyond that, they also need to be made available through super funds, inside an account-based pension... They should also be incorporated into portfolios earlier on, as we know that over 50% of people won't be able to work for as long as they might like to,” Aboud explains.

The Allianz Guaranteed Income for Life product, also known as AGILE, addresses all the forementioned needs, can be integrated into platforms and sits inside an account-based pension. Allianz Retire+ has also recently partnered with administrator Link Group to offer AGILE to its super fund clients and their members.

“AGILE is a long-term retirement income solution designed to give your clients certainty which comes from combining protected investment performance with a guaranteed lifetime income stream. The product helps to alleviate the worry about tomorrow's 'what ifs', market volatility and whether they will have enough money for the future,” Aboud says. **FS**

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