

## ACHIEVING A SECURE RETIREMENT WITH A BALANCED STRATEGY

# Balancing Growth and Security

Many retirees face the challenge of balancing their desire to enjoy early retirement with ensuring they have enough income for later years. Vanessa and Simon wanted a strategy that would provide financial stability while allowing them to enjoy their active years. This case study explores how their financial planner, Marie, helped them select a combination of income products to achieve a secure and sustainable retirement.



### BACKGROUND

**Vanessa and Simon** are both 67. They are married and have two adult children, Christopher and Laura.

They own their own home, worth about \$2 million. Vanessa has \$450,000 in Super. Simon has about \$700,000 in Super. They have private savings of about \$75,000 and other personal assets of \$25,000. They do not intend to make a specific bequest to their children as they don't need it.

**Goals** An annual retirement income of \$90,000 to support their lifestyle and discretionary spending.

**Challenge** They want to be 90% confidence that their plan will cover as long as either of them could live.

They also want to have certainty that if their health deteriorates as they get older, they will have security of income.

### APPROACH

Marie, their financial planner, uses the Optimum Pensions LifeSpan Calculator to project their longevity, recommending a planning horizon of 36 years (age 103) for 90% confidence their funds will last.

Marie explains the benefits of using a combination of two types of retirement products: an investment-linked annuity (ILA) and an account-based pension (ABP) to help them meet their desired lifestyle.

Vanessa and Simon want to understand how much income they can expect to receive in retirement, how much their income might vary from year to year, and what the income would be when one of them dies before the other.

#### Strategy 1: 100% in ABPs

100% of the superannuation invested in ABPs.

Allows drawdowns of \$90,000 per annum until age 93, then reduces to \$80,000 at age 94 before running out, leaving only the Age Pension.

They qualify for Age Pension at age 72.

#### Strategy 2: 100% in ILAs

100% of the superannuation invested in ILAs.

Provides guaranteed income of at least \$90,000 per annum for life but lacks access to emergency cash.

Qualifies them for an immediate Age Pension but at a lower rate in later years.

#### STRATEGY 2: ABP/ILA COMBINATION

Splitting their investments by Vanessa investing \$250,000 in an ILA and \$200,000 in an ABP and Simon investing \$450,000 in an ILA and \$250,000 in an ABP.

Meets their \$90,000 annual goal until age 101 before a slight reduction to \$80,000. Offers earlier Age Pension eligibility at age 70 and better access to cash reserves for emergencies.

## OUTCOME

Marie determines that **Strategy 3 (combining ABP and ILA)** best balances security, flexibility, and longevity protection:

- **Income Security:** Provides stable income throughout retirement, with only a slight reduction later in life.
- **Age Pension Benefits:** Earlier qualification and sustained support.
- **Access to Cash:** Retains emergency funds and flexibility for one-off expenses.
- **Longevity Protection:** Ensures income for life, even if they live beyond age 103.

## LESSONS FOR FINANCIAL ADVISORS

### Blending Income Products

Combining ABPs with lifetime income solutions can deliver comparable or better outcomes for clients with lower savings.

### Maximizing Age Pension Benefits

Proper structuring of assets can increase Age Pension eligibility, enhancing income sustainability.

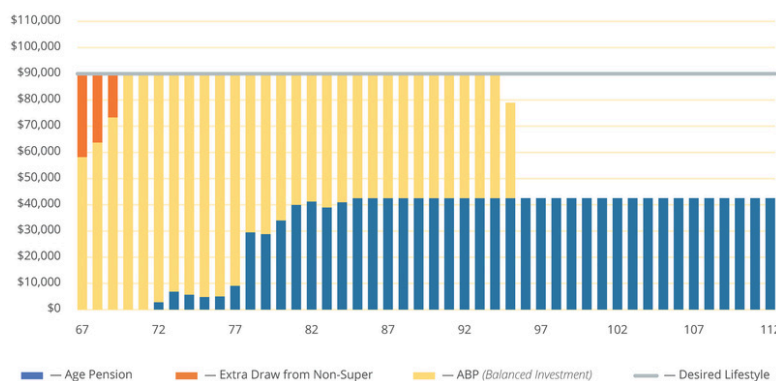
### Addressing Longevity Risk

Lifetime income products protect clients against the uncertainty of outliving their savings.

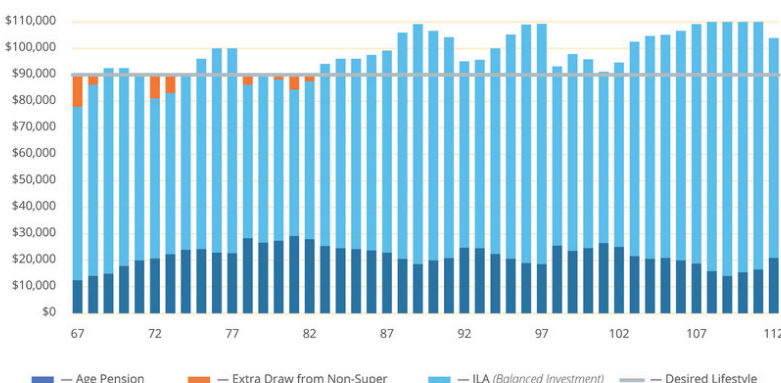
## GET IN TOUCH

Discover how strategic income planning can help clients achieve financial security, regardless of savings size. Contact us to learn more about incorporating lifetime income products into your advisory practice.

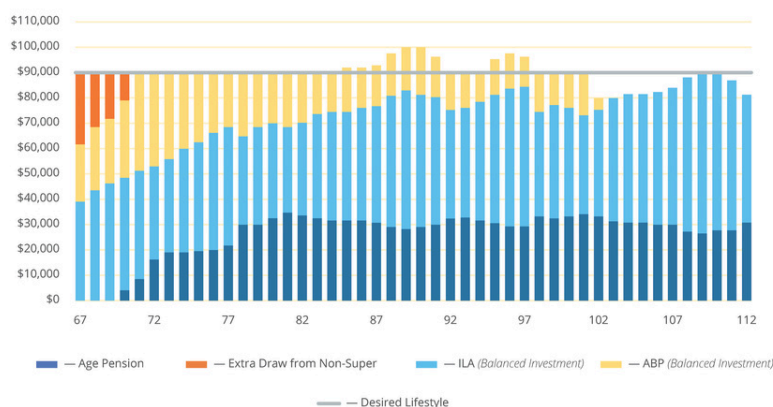
**CHART 1** Strategy 1 retirement income breakdown (in today's dollars)



**CHART 2** Strategy 2 retirement income breakdown (in today's dollars)



**CHART 3** Strategy 3 retirement income breakdown (in today's dollars)



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Redesigning Retirement

### Assumptions

- Uses an account-based pension for retirement with a 6% per annum return (net of all fees and charges)
- Cost of living increases = 2.75% per year
- Increase in the Age Pension payment rate = 2.75% per year
- Mortality rates as per the Australian Life Tables 2015-17 with 25-year improvement factors
- The ILA rates are based on a design by Generation Life. This has a 2.5% booster rate, meaning a higher starting income is paid in return for future increases being based on net returns less 2.5%. Refer to our article "What is an investment-linked annuity?" which is available from our website.
- 65% reversionary pension for Vanessa if Simon dies prematurely and a 50% reversionary pension for Simon if Vanessa dies prematurely.
- All figures are in today's dollars.

**Disclaimer** This case study of a hypothetical Vanessa and Simon is provided for illustrative purposes only and does not reflect any specific individual's circumstances. Prepared July 2023 using current Age Pension entitlements. Projection details and assumptions are shown in the charts above. Information current as of 1 July 2023. For financial advisers only. This general information does not consider any person's objectives, financial situation, or needs and does not constitute personal financial advice. Each person should assess its appropriateness to their circumstances. The ILA rates used are based on Generation Life's design, with identical investment returns (net of fees and charges) to the ABP and current as at 1 July 2023. The Generation Life ILA design is based on Optimum Pensions' design, for which Optimum Pensions receives a royalty.