

Media Release

Inflation and cost-of-living growing focus for Australian retirees

Challenger whitepaper reveals dedicated investment approach needed to manage retirement risks

28 April 2024: Protecting retirement income from inflation is an increasing priority for Australians in or approaching retirement with retirees uniquely exposed to a range of investment risks, the latest whitepaper from leading retirement income provider, Challenger, has revealed.

The research paper, *Protecting retirement income from inflation*, found inflation risk has a unique, heightened impact on a portfolio in the retirement phase, with flow on effects to sequencing and longevity risks.

Commenting on the paper, Challenger's Head of Retirement Income Research, Aaron Minney, said an investment strategy that provides a steady rate of return is required to provide confidence in retirement.

"Cost of living spikes tend to be short term and that is manageable during the accumulation phase as there is time to recover. But retirement is different, it is all about having a secure, regular income and that allows you to enjoy your lifestyle," Mr Minney said.

"While equities have historically delivered a rate of return higher than inflation more than 70% of the time, for positive returns this sometime required a 16-year investment horizon.

Retirees do not have this luxury, meaning they are at heightened risk to the impacts of inflation and need a hedge in their retirement portfolio that can protect the income," he said.

The impact of inflation remaining higher for longer is being acutely felt by mature Australians today. Challenger's [Retirement Happiness Index](#) revealed 2 in 3 Australians over 60 said rising cost-of-living and affordability challenges were impacting confidence they would have enough money to retire.

Cost-of-living concerns were most notable for pre-retirees, unadvised Australians, and women, with almost 40% of these cohorts reporting cost-of-living as *significantly* impacting retirement happiness and their view of financial security.

Mr Minney said professional advice and increased financial education were crucial to empower safe spending and confidence.

"While the fall in inflation from multi-decade highs is good news for our economy, many retirees continue to struggle with cost-of-living because of the cumulative impact inflation has had on their financial position," Mr Minney said.

"There is a clear need for some form of professional financial advice, yet we found only one in five Australians over 60 are currently receiving it. Education on retirement options was also found to be critical, with almost 80% of respondents saying it would boost their happiness.

“Advisers have an important role to play in enabling safe spending, empowering retirement confidence, and protecting income to last throughout their client’s golden years. As we continue to navigate a volatile market and geopolitical landscape, retirees need a portfolio that is protected from inflation risks so that they don’t experience another cost-of-living crisis when inflation has another upturn.”

With more than 2.5 million Australians, 10% of our population, set to retire in the coming decade, retirement is a top priority for government, industry, and aging Australians.

Challenger’s inflation whitepaper reveals allocating a portion of capital to a guaranteed income stream, such as an inflation-linked lifetime annuity, can enable greater retirement confidence, prevent underspending, and minimise investment risk.

“We know more than 70%¹ of Australians over 60 would be happier if they had a guaranteed income,” Mr Minney said.

“There is a misguided perception that equity market exposure will be sufficient to maintain your lifestyle in retirement, but data clearly shows that while this may be the case when you are working and accumulating savings, in retirement you need an investment strategy that will help you maintain your lifestyle regardless of market returns or spikes in inflation.

“Today, many retirees are underspending due to the fear they will outlive retirement savings. We, as an industry, have a responsibility to empower confidence to spend in retirement, provide assurance that income will keep pace with inflation, and protect from the highs and lows of market-linked investments,” Mr Minney said.

The [Protecting retirement income from inflation](#) whitepaper and latest Challenger modelling can be found here.

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About Challenger

Challenger Limited (Challenger) is an investment management firm focused on providing customers with financial security for a better retirement. Challenger operates a fiduciary Funds Management division and an APRA-regulated Life division. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

1. Research undertaken by YouGov in February 2024, surveying a nationally representative sample of 1,049 Australians aged 60 and above. Current as at 12 March 2024.