

9 August 2011

Retirement's two phases will influence needs

Different financial models need to be considered for self-funded retirees when they look at their financial needs throughout retirement, suggests Mr Philip Galagher, head of wealth management at Equity Trustees Limited (EQT).

“We have to start thinking in terms of the entirely different needs of two phases of retirement – the early, or Active Retiree, and the less active, Elderly Retiree.

“The needs of Elderly Retirees are quite different from those of Active Retirees and this affects their financial needs.

“The first stage of retirement is characterised by being active, independent and seeking experiences or pursuing dreams which can be dependent on the level of income.

“Then there is an expanding second stage, characterised by increasing frailty and less activity which, depending on the level of support needed, doesn't require as much income.”

Mr Galagher said there was not a set age when an Active Retiree becomes an Elderly Retiree, and the slowing down was likely to happen gradually over a few years.

“However, it is inevitable, and the time spent as an Elderly Retiree is likely to increase for those who are now pre-retirees or Early Retirees.

“The number of Australians aged over 85 has doubled as a percentage of the total population in the last 20 years and at the same time increased in numbers by over 170 percent. Their needs are quite different to those of a 65 year old retiree.

“Most financial models look at an initial amount needed to fund a 'comfortable' retirement, which is based on travel and entertainment, and the models used simply increase initial income by an inflation factor to meet future needs.

“At the same time regulations require pension payouts from superannuation to increase as a percentage of capital.

“So a well-managed super fund in pension mode could be paying much larger pension in real terms to a member at age 85 than it did at age 65.

“Models now used to assess the annual income needed for a comfortable retirement currently don't take into account that there will come a time when retirees lead a less active life and their income needs will be reduced.

“The possibility of intensive medical support that may be needed during the last months of their life also needs to be considered.

“The number of Elderly Retirees is only going to increase further as Australians live longer and as baby boomers grow older and seek different types of service to those they found useful when they were Active Retirees,” he said.

Mr Gallagher said that as self-funded retirees transition to retirement, they should look forward to around 15 years of enjoying an active life.

“But as they slow down they should be looking at reinvesting the income they once spent on external leisure activities in expectation of their need for an increased level of care later.

“The needs of Active Retirees are well served, but Elderly Retirees are not so well served, and as numbers continue to grow, more strain is being placed on the resources that are available,” Mr Gallagher said.

He predicted an increase in the range of services required by Elderly Retirees.

“Indeed, Trustee companies are just about the only entities that have the experience and track record of service, products and knowledge, including wealth management, to deliver the across the board help that less active and frail, self funded Elderly Retirees need.

“This can involve the complicated and technical, such as intergenerational wealth transfer and acting under power of attorney, to the mundane.”

He uses the example of Equity Trustee clients seeking help in finding of reliable service providers to look after home maintenance and even getting someone to change light globes.

“We are familiar with responding to client needs when they still take an interest in their affairs, setting up financial arrangements to reflect their wishes then, and then acting under enduring power of attorney to help when they are no longer capable.

“People with families can usually rely on them for help, but not everyone in Australia has family nearby for all sorts of reasons.

“At the same time, many older Australians don’t want to be a burden on their children or grandchildren and want an entity they can trust to look after their interests,” he said.

Mr Gallagher predicts that providing services to Elderly Retirees will see significant growth in the immediate future in all areas.

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“The increased need for medical care and aged accommodation has been well documented. There will be a corresponding increased demand in specialist financial services and hands-on assistance to manage the affairs of people, either no longer able to be, or not interested in being, involved themselves,” he said.

About Equity Trustees: *Equity Trustees is a publicly listed company that provides a range of financial services to corporate and private clients. Its businesses include private client wealth management, funds management, responsible entity appointments, and corporate and personal superannuation.*

The company manages over \$4 billion in its funds management, private client and superannuation businesses and has more than \$19 billion under responsible entity administration. Equity Trustees employs over 180 people in its Melbourne, Sydney and Brisbane offices.

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