Boomer Retirees Will Be Disappointed

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My birth year is 1959 — positioning me at the tail end of the baby boom.

According to statistics, there are 5.5 million boomers in Australia.

Boomers grew up in a world different to the one we inhabit today.

- Bank managers were prudent;
- Teachers were respected;
- Higher education was free;
- Welfare was afforded to the elderly or less fortunate;
- Life expectancy was widely acknowledged to be 'three score and ten' (equivalent to the age of 70). Anything above that was c
- There was an abundance of jobs…without the need for tertiary qualifications;
- Prior to the introduction of credit cards, you went 'cap in hand' to the bank manager for a secured or unsecured loan. You nee
- You were allowed to go unattended to the park to kick a footy or spend a day exploring bushland;
- You misbehaved…you expected a clip around the ears;
- The courtesy of 'please and thank you' was the rule rather than the exception;
- And best of all, there were no iPhones or video surveillance to record those times when you were not quite on your best behav

Life was simpler back then.

But nothing stays the same forever.

The dynamics change.

And while we may reminisce about the 'good ol' days', we must accept responsibility for making the world more complex.

We took full advantage of the previous generation's austerity to create our prosperity.

The frugality of our parents and grandparents established a solid financial foundation: conservative debt levels; prudent lending con

Boomers took these stable conditions for granted and leveraged up.

Our willingness and eagerness to bring forward future consumption generated an unprecedented (an unsustainable) level of econor

Upon reflection, I can't help but think our generation has seen the best of times.

On balance, our youth and working lives have been pretty good.

Boomers are now progressively moving into retirement.

This phase of our lives is not looking so promising.

In the years and decades a, the wealth cycle will complete its rotation — prosperity back to austerity.

Sadly, most of my fellow boomers are ill-prepared for what lies a.

A fellow boomer recently reminded me of an article I wrote for *The Gowdie Letter* nearly two years ago.

He said: '*The more I read and see today, the more I'm convinced of the path you warned about.*'

Here's an edited extract of that article:

'*In my opinion we're on the cusp of a major trend that's going to impact asset values in the decades to come.*

'*Whether you agree or disagree with the conclusions, I trust it makes you think a little deeper about the road a.*

'*Assuming what's happened in recent history will "continue to be so", could prove to be a serious miscalculation. A miscalculatio*

'*Workers and retirees are ing into an unhappy future.*

'*Deflation. Debt. Demographics. Deficits. Depression.*

'*I'll go back over some old ground quickly.*

- *The Depression era generation (my parents) were generally frugal.*
- *Boomers were much less frugal than their parents. We borrowed (a lot) to have a better life.*
- *That ongoing debt accumulation process produced artificial economic growth statistics, showing the economy was growing*
- *Governments promised a truckload of entitlements on the back of the artificial (and unsustainable) economic activity.*
- *The spiraling cost of living, housing and funding for retirement (all as a result of the debt infusion into the economy) forced*
- *The lower birth rates translate into a lower number of future workforce participants.*
- *The future workforce participants are burdened with higher levels of borrowing for housing; higher levels of funding for chil*

'*I think that pretty much sums it up.*

'*We have a serious demographic showdown coming our way within the next decade.*

'*In one corner we have the Boomers. They have expectations of still living a life just slightly above their means (financed from in*

'*And in the other corner are Gen X, Gen Y and the Millennials. They're none too happy with the debt and entitlement legacy left*

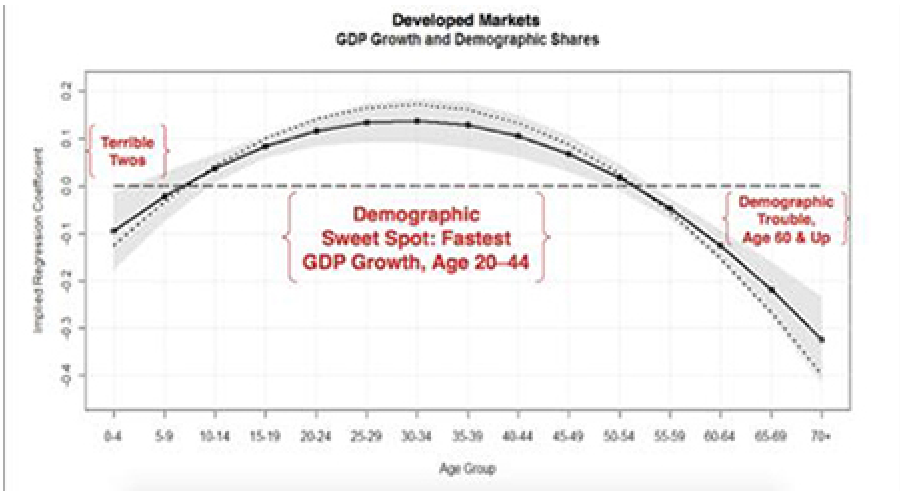
'*The economic tailwind created by the boomers from 1980 onwards is now building into a gale force wind.*

'*Economic activity is largely a result of a productive workforce.*

'*The following chart shows how GDP growth is impacted by demographics.*

'*Young people detract a little from GDP growth, whereas old people detract a lot.*

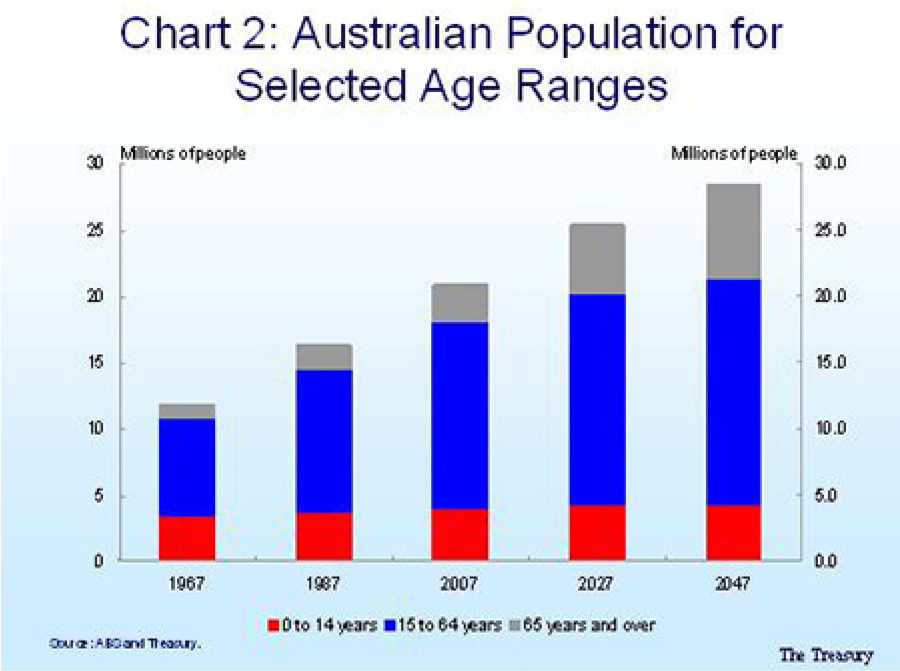
'*The economic sweet spot is when you have a large cohort of 20 to 44 year olds in the economy. For those past 44, remember w*



Source: Nomura Research
[Click to enlarge]

'*The following chart (from the Australian Treasury) projects our population distribution through to 2047.*

'*The fastest growing segment is the over 65s (the grey — possibly a subconscious reference to hair colour).*



Source: Australian Treasury Department
[Click to enlarge]

'*Economic growth is going to slow down.*

'*This is not unique to Australia.*

'*Europe, the US, UK and Canada are all facing the same demographic wind. Japan is already in the teeth of the demographic ga*

'*To avoid following the Japanese economic 'death by a thousand lashes' model, changes need to be made.*

- *Increased immigration to bolster the 15 to 64 age bracket. This 'solution' has problems. Yes, it gives a one-off fix, but what*
- *Increase tax rates. Lots of talk about just how Government is going to do this — GST hike, super grab, levy increases, cha*
- *Decrease entitlements. But once given, they are very hard to take back…especially when it's Government promises. Politi*
- *Increase the retirement age to 70 and beyond — whether this is done officially or unofficially (because people will not have*

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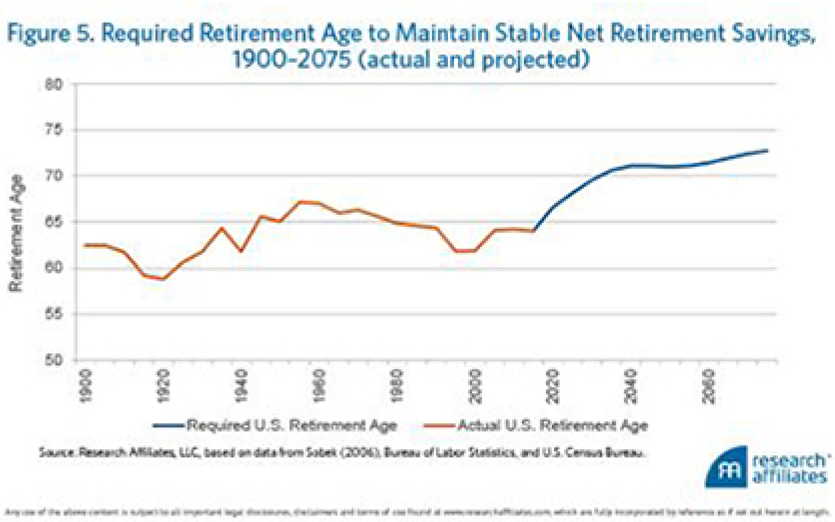
‘*The following chart is based on research from US based Research Affiliates. While this relates to the US, it has applications for us in Australia.*

‘*Based on maintaining stable retirement savings — not depleting retirement capital by retiring too early and by living for too long — Research Affiliates calculates that between 2018 and 2030 the retirement age will need to rise to over 70.*



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‘*Pressure is going to mount in the coming years as both sides of the demographic divide clash out of self-interest.*

‘*If something cannot continue, then it won’t. The outcome will be a combination of the options outlined above.*

‘*Let’s join a few dots here.*

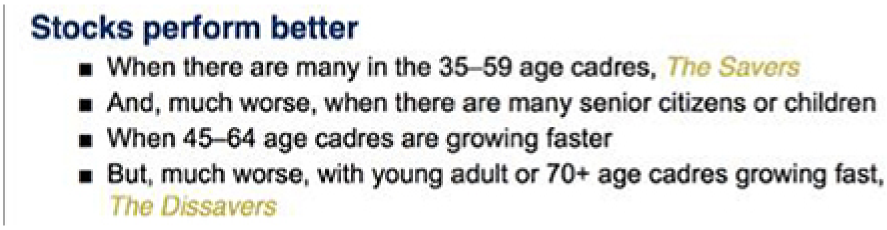
‘*Low economic growth feeds into low investment returns.*

‘*Low investment returns mean a lot of retirees are going to find their capital base is not sufficient to generate a standalone retirement income.*

‘*Portfolios will be gradually sold down to cover the income shortfall.*

‘*Will the following generations pay the price the boomers are asking for the assets they are selling down? Or will they wait for the boomers to blink?*

‘*I’ll leave you with this snapshot from Nomura Research on the demographic structure that works better for shares:*



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'*Appreciating the winds that are in our future, means we have to allocate our capital wisely.*

'*Buying shares based on the banal premise of "shares always go up in the long term" is really dumb investing. The road a is going to be very different to the one that allowed the investment industry to come up with this self-serving mantra.*'

When the next market downturn hits, retirees who thought diversification meant lower risk are going to learn a hard lesson.

In the search for yield, all asset classes have been pushed into overvalued territory, and are therefore vulnerable to heavy losses. T

The loss of significant capital means a high percentage of boomer retirees are going to be forced into austerity.

A return to the frugality of our youth is not the nostalgic trip boomers had in mind for their retirement.

Regards,

Vern Gowdie,
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