The Hidden Politics That Will Push Back Your Retirement

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Are you within 15 years to retirement?

Sorry to be the bearer of bad news.

You may want to rethink that timeframe.

As from this Saturday (1 July, 2017), you need to be 65 years and six months to qualify for the age pension. The eligibility age stead

This change has been telegraphed for a few years. No big news here.

I appreciate that, but it serves as a reminder of the thin edge of the official wedge.

The unofficial wedge is a different and darker story. One you need to understand, comprehend and plan for.

Genuine economic growth is a function of two factors — an increase in the labour force and productivity.

In recent years, both these factors have been slowing. Yet, against this established growth formula, we have recorded positive GDP

This aberration has only been made possible due to our chronic addiction to debt. A four-decade-long habit is masking what's really

Without the drivers of genuine economic growth, we'll be unable to fund our addiction indefinitely. The truth — as we witnessed with

There's the first bit of bad news.

Debt accumulation inflates, debt reduction deflates.

The latter is in our future. The timing could not be worse for those in retirement, and those salivating at the prospect of abandoning t

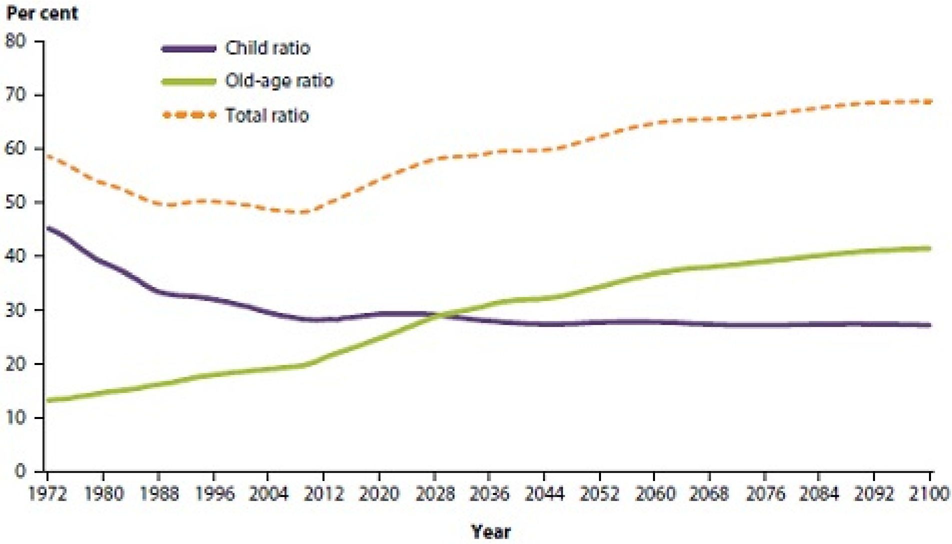
An Australian Institute of Health and Welfare report looks at our dependency ratios…the young and old who are dependent upon tho

The child ratio is the number of children aged zero to 14 compared with the number of people aged 15–64 (considered the 'workforc

The old-age ratio is the number of people aged 65 and over compared to the considered 'workforce' age.

The total ratio is the combination of the two dependency ratios.

The higher the ratio, the greater the financial burden placed on the shoulders of those in the 15–64 age group.



Source: Australian Institute of Health and Welfare
[Click to enlarge]

The bad news is that the dependency trend is on the rise.

Of even greater concern is that this is entirely due to the old-age ratio increasing. The flat-lining child ratio spells problems for future

For those over-65, please do not take offence, but, from an economic perspective, people in the old-age category are generally less

In the past, that cost has been much easier to bear. The workforce base was sufficiently broad enough to support the aged apex. Th

The reason 'workforce' is written in inverted commas is because not everyone in the 15–64 age group is actually in the workforce.

Australia's labour Force participation rate (those employed or actively seeking employment) peaked in 2009 at 66%.

Since then, the rate has been on a slight downward trend…again this is not the direction we want to see.

Source: Trading Economics
[Click to enlarge]

Then we take this one step further.

We'll use the Australian Bureau of Statistics' latest data to illustrate this point:

> '*The quarterly underutilisation rate, which is combined measure of unemployment and underemployment in the labour force, wa*

When you strip out the un- and under-employed from labour force participation, it means only 50% of the 'workforce' age group is fu

If we use the Roy Morgan Research data on unemployment, the underutilisation rate is closer to 20%.

What do you think that dilution does to the dependency ratios? It's not a pretty picture.

Strip out who are actually NET taxpayers (those who pay more than they receive in government transfer payments), and the taxpayi

Oh, and by the way, I have not even mentioned the impact automation is going to have on the workforce.

With each passing year, a percentage of Australia's 5.5 million baby boomers is looking to retire. Not all are managing to achieve thi

According to the Australian Institute of Health and Welfare report: '*In 2014, the participation rate for women aged 65-69 was 20% co*

Perhaps some are opting to stay in the workforce voluntarily, but others are being forced to defer retirement.

Lower retirement incomes (thanks to a tighter asset test and low interest rates), rising fixed costs and longer life expectancies are th

Many will not have accumulated sufficient capital to fund a 'comfortable' retirement, which, according to SuperGuide, is as follows:

> '*A couple can expect to enjoy a "comfortable" life in retirement if they retire with a superannuation lump sum of at least $535,000*

On the surface, $500,000 earning 5% — plus a part age pension — looks 'comfortable'.

But allow me to take you out of your comfort zone.

What happens if we take the theory and apply a little practice?

Below is an edited extract from my book, *How Much Bull Can Investors Bear?*

Let me show you what would have happened if you'd retired in June 2007 (when share markets were still going strong) and investe

You place your trust in a responsible planner. They recognise the market's looking a bit toppy in 2007. To offset the prospect of any

The textbook says to place four years' worth of drawdowns in cash, and the balance in 'growth' assets. This way, you can draw from

Here's our example based on $500,000 to invest and a $25,000 per annum drawdown.

For the purpose of the exercise, I've used performance data supplied by Super Ratings.

Below is the median annual return for balanced funds over the past nine financial years and a projected return for this financial year

1. 2007/2008 financial year: -4% (loss)
2. 2008/2009 financial year: -7% (loss)

3. 2009/2010 financial year: 9.8% (gain)
4. 2010/2011 financial year: 8.7% (gain)
5. 2011/2012 financial year: 0.4% (gain)
6. 2012/2013 financial year: 14.7% (gain)
7. 2013/2014 financial year: 12.7% (gain)
8. 2014/2015 financial year: 9.7% (gain)
9. 2015/2016 financial year: 3.0% gain
10. 2016/2017 financial year: projected gain of 9%

The table below shows the outcome if we apply the above performance figures to our $500,000 investment — $100,000 in cash (fou

(Note the $100,000 cash buffer plus interest earned exhausts the cash buffer after 4.5 years. Therefore, halfway through year five, w

Year	Start Amount of Balanced Fund	Performance	Balance	Less Annual Drawdown	End of year balance of Balanced Fund
07/08	$400,000	Minus 6.4%	$374,400	Nil	$374,400
08/09	$374,400	Minus 12.7%	$326,850	Nil	$326,850
09/10	$326,850	Plus 9.8%	$358,880	Nil	$358,880
10/11	$358,880	Plus 8.7%	$390,100	Nil	$390,100
11/12	$390,100	Plus 0.4%	$391,600	$12,500	$379,160
12/13	$379,160	Plus 14.7%	$434,900	$25,000	$409,900
13/14	$409,900	Plus 12.7%	$461,960	$25,000	$436,960
14/15	$436,960	Plus 9.7%	$479,345	$25,000	$454,345
15/16	$454,345	Plus 3.0%	$467,975	$25,000	$442,975
16/17	$442,975	Plus 9% (estimate)	$482,843	$25,000	$457,843

After ten years, our starting $500,000 is now worth $457,843 (the cash buffer expired in early 2012).

The account balance would be much lower if the drawdown had been indexed (which happens in reality). In addition, if a planner wa

The fact is that if your account-based pension (with a focus on growth) gets hit early by negative returns, it’s unlikely you’ll ever reco

As you can see, the impact of two negative years has not been offset by eight positive years. And in the context of negative returns,

Even though six of the eight positive years produced very respectable returns, the retiree is still behind. There goes the theory of gro

The temporary halt in debt accumulation in 2008/09 put our hypothetical retiree on this slippery slope.

In theory (there’s that word again), the four-year cash buffer is the solution to the volatility problem. However, from the bitter experie

To demonstrate just how *slippery* the slope can become, let’s hypothetically say the run of eight positive years are now followed by t

17/18	$457,843	Minus 6.4%	$428,541	$25,000	$403,541
18/19	$403,541	Minus 12.7%	$374,116	$25,000	$349,116

Twelve years later, your capital is 30% less than when you started.

Here's the other really bad news…global share markets are ripe for a major fall.

A fall that has all the potential to make 2008–09 look like a mere hiccup.

Minus 6.4% and minus 12.7% might be numbers that people wish they had achieved.

Given that the majority of Australians have their superannuation assets — by default — in balanced funds, they are highly exposed

Once you are on that slippery slope, there is no way back.

There you have it, folks — the bad news on retirement.

Too few. Too many. Too much. Too high. Not enough. Too long.

Too few children being born.

Too few taxpayers in an increasingly automated workforce.

Too many in the dependent category.

Too much has been promised to too many.

Markets are too high and extremely vulnerable.

There simply will not be enough to go around.

And finally, we are living too long for the current retirement funding model.

The end result will be RIP — 'retirement is postponed'.

While the official age might be 67, we should mirror-reverse those numbers and expect the unofficial number to be 76.

If you are within 15 years to retirement, you need to take action now.

Save more. Pay more attention to where your retirement capital is invested.

Regards,

Vern Gowdie,
Editor, *Markets %26 Money*

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Vern GowdieEditor at Markets %26 Money

Vern Gowdie has been involved in financial planning in Australia since 1986. In 1999, *Personal Investor* magazine ranked Vern as o

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