

I've been thinking about...emerging trends in portfolio construction

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Sweeney Research, brought to you by Australian Seniors Finance

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This article is a synthesis of findings derived from a number of studies conducted on behalf of Australian Seniors Finance amongst retirees in 2005 and 2006. In total, the research was composed of 16 group discussions and 1200 telephone interviews. Those interviewed were people who owned their own home or apartment. This article is an adaptation from an address given to the PortfolioConstruction Conference.

The retirement landscape is one of less stress and more time. Retirees are more laid back. There's not the same intensity of competition; there's the possibility of new friends. Yet, at the same time there are fewer challenges and goals. Unless they are self motivated they can drift. Retirees have bought that most precious commodity... time. Time for themselves. Time to do all the things they were previously unable to do. Time for sport; hobbies; exercise; charity work; computer learning; travel; for their grandchildren. They don't have time to be bored; that would be an indulgence. In the main, they find a whole range of things that replace work. A recurring sentiment is... *"I run out of time. I don't know how I had the time to work."*

Retirement has given them a new lease of life, although many would like the best of all worlds by having a day or two of work each week. In fact, more than a third of retirees would have preferred to remain in the workforce rather than retire when they did. However, this significant minority had little choice. Redundancy, ill health, or simply reaching the retirement age stipulated by their employer necessitated their retirement. These "reluctant retirees" are substantially more likely to be on lower incomes...

% Agreeing	Total (%)	Income		
		\$15k or less (%)	\$20k - \$30k (%)	\$35+k (%)
I would have preferred to keep working rather than retire when I did	36	49	→ 44	→ 23

Source: Sweeney Research and Australian Seniors Finance

Thus, having time freedom is one thing. Being short of money to pursue all the new horizons is another...

% Agreeing	Total (%)	Income		
		\$15k or less (%)	\$20k - \$30k (%)	\$35+k (%)
A problem with retirement is that you never have enough money to do the things you want to	47	64	→ 62	→ 21
I don't think I have enough money to live comfortably for the rest of my retirement	31	51	→ 36	→ 12

Source: Sweeney Research and Australian Seniors Finance

Retirees do not anticipate any greater Government largesse. In fact, almost two-thirds of them believe that *“in the future the quality and quantity of Government services for retirees will probably decline”*. Already today, their dealings with Government agencies, and particularly Centrelink are far from stress free. They are critical of the amount of red tape; of having to wait in queues; of being shunted from person to person; of encountering staff who don’t listen; of incompetency; lack of knowledge; and lack of response.

All of the above is frustrating and annoying. Yet, they realise they can’t do anything but *“cop”* it. Retirees are philosophical. And, above all ease, resilient. 69% of retirees agree to the proposition... *“There are a lot of adjustments you have to make when you retire.”*

Retirees work the system by using their Seniors card and accepting whatever privileges and discounts that go with the territory. Their spending is far from profligate and cavalier. They’re prudent; selective; buy things only when they can afford it; and look for value for money. Small day-to-day sacrifices are made. Budgeting is a way of life. They plan and think about what they are going to spend their money on; put the brakes on impulse spending.

This emotional fragility is not surprising when we compare what they believe *“is needed to live a basic but comfortable enough life”* and what they actually receive...

- Perception of what a couple needs \$32,200
- Perception of what a single needs \$24,800
- What they receive \$29,500

Yet, these are not people who are disenchanted with their lot. There is little bitterness about the status quo, even if they do have concerns. That descending hierarchy is...

	Concerned (%)
The cost of petrol	79
The future generation	65
The cost of private health insurance	63
Medical costs	62
The cost of essentials such as groceries	60
Inflation	59
Your health	58
Council rates	56
The cost of things like gas and electricity	54
The cost of house maintenance	52
Your independence	51
The person in the future	51
The Australian economy	45
Your safety	45
Your finances in the future	43

Source: Sweeney Research and Australian Seniors Finance

In any discussions with retirees, the future for their kids and grandchildren emerges as a recurring theme. What will the world be like? War, terrorism, crime, violence, drugs and

alcohol are some of the macro issues that are cause for concern. But, they also think about rising divorce rates, the comparative absence of job security, globalisation and the impact it has on the trend towards casualisation of the workforce.

Whilst they worry, to a greater or lesser extent what's ahead for the next generation, they also recognise that their offspring are in a better situation than what they were at the same age. They earn more; they are better educated. And, as a result of that, the vast majority of retirees have no aversion whatsoever towards spending their kids' inheritance. This term is well known throughout the retirement community: 69% are aware of the term. In the main, they are sympathetic to this notion:

We've earned it, so we're entitled to enjoy it... The kids are doing well. They can look after themselves... If you need to spend it to be comfortable then "go" for it... They're living for the moment so why shouldn't I?

Many would still like to leave something – but not if it is going to seriously compromise their own lives. And, at any rate most think that their kids encourage them to spend, to enjoy life to the best of their capacity. So, there's no guilt factor here!

	Agreeing (%)
They would say it's your money do what you like with it	89
We've done our job by giving them a good education	82
Our kids earn more money than we did	81
I plan to enjoy the rest of my life rather than think about what I leave them	71
My kids are happy about me spending their inheritance	66

Source: Sweeney Research and Australian Seniors Finance

Attitudes to home equity release products

Retirees' recognition of home equity release products has grown very substantially in the past year or so. Today, more than nine in ten are aware of the concept. There is an improving understanding of it as well as acceptance of its potential:

If you're short of cash it would be excellent... It's great for others. It's an alternative to selling your house and moving out of the suburb... It's appropriate if you're cash poor and the value of your home is significant... It's a very useful *last resort*.

	Agreeing (%)
This financial product sounds like a good idea for some people	83
This product might be good for those who are asset rich and cash poor	81
There's no way I'd go into debt at my age	78
It's a good idea for those who don't want to downsize from where they are	70
If you needed money for some kind of emergency, a home equity release product would be a good idea	66
Getting a home equity release product would be better than selling your home and shifting to another neighbourhood	60

Source: Sweeney Research and Australian Seniors Finance

Consideration, though, boils down to **absolute needs *plus* careful evaluation of the options.**

The marketplace is less than 100% confident because of the fear of the unknown, the distrust of organisations (including financial advisers) and a comparative lack of knowledge of the details:

Can I get out of it? What are the hidden costs? How much are the fees? What equity would you have in your home in 20 years time? Does it affect the pension? Is the interest rate fixed or variable?

	Agreeing (%)
I would want to be able to decide whether the interest rate was fixed or variable	83
I would need to know a lot more about it before I considered using it	86

Source: Sweeney Research and Australian Seniors Finance

Retirees are looking for re-assurance, transparency, and comparisons from one lender to another. When they do get to the point of looking into HER, the decision making process will extend for some time. It will not happen overnight. They'll collect information from a number of providers, talk to an adviser. And, hopefully get positive word-of-mouth endorsement from an acquaintance who has "made the leap". Retirees will sift and analyse to the best of their ability. Yet, the catalyst that will start all of this process is *necessity*. In descending order of importance, the reasons for "using" HER products are...

	%
Substantial repairs and maintenance	65
As a way of getting money so they don't have to sell the house	64
From the house	47
To help out one or more of the kids now	41
For extra money to live on a day-to-day basis	35
A new kitchen	29
To pay off current credit cards	24
For a holiday or new car	21

Source: Sweeney Research and Australian Seniors Finance

As more and more financial institutions enter this marketplace, there's a likelihood that comfort levels with the product will improve. The entry of the big insurance companies and banks will help to add further legitimacy to the product. However, the organisation they would select will be dependent on a number of things:

Which one inspires confidence? Which one appears to be most transparent? Which one offers "the best deal"? Which one comes from recommendation? ...through either word-of-mouth or a financial planner. Which one is "easy"... in terms of contactability, service, friendliness and knowledge? Which one conveys that they have expertise and experience? Which one is open and upfront? Which one is approachable?

Long term, this market will inevitably grow. As more and more people take up the product, it will become a self-fulfilling prophecy. When the media highlights the product positively it will act as a stimulant. However, any negative publicity will curtail the rates of growth substantially. Industry regulation, therefore, is an imperative. And absolute mandatory is for each entrant to be "squeaky clean".

About half of all retirees have heard of ASF. This awareness has been generated through the well recalled “*Wheelbarrow*” and “*Bricks*” commercials. Were they to consider an equity home release product, very substantial proportions would be happy to shortlist ASF, partly for comparative purposes, partly because the work they’ve put in with seniors gives them a level of credibility, partly because “*they seem reliable and secure*” and, finally, ASF have advertised.

Segmentation of the retiree market

The foregoing paints a broad brush picture and of course there are different attitudinal groupings. Segmentation analysis allows us to hypothesise five segments. The segmentation is derived from a cluster analysis of retirees’ responses to 33 Agree/Disagree statements included in the quantitative telephone survey. The statements covered attitudes to life, to retirement, to spending behaviour, and to leaving money to their offspring.

	% of Retirement Population
Subsisting Retirees	33%
Reluctant Retirees	14%
Transitional Retirees	13%
Can-Do Retirees	29%
Worry-free Retirees	12%

Subsisting Retirees account for one third of home owning retirees. They are the financially disadvantaged, having lower incomes and smaller home values. They have a greater reliance on Centrelink support, struggle to make ends meet, and worry about the future. Predictably enough, this segment displays a higher interest in Home Equity Release products.

Reluctant Retirees are recently retired and were pushed into retirement through redundancy, ill health and so forth. The gap between what they would like to do and what they can afford is a frustration for them.

Transitional Retirees are finding it difficult to adjust to retirement. They are less concerned about finances. Rather, it’s a case of how to fill in time.

Can-Do Retirees: This segment is far more likely to think that “Retirement is the best time of your life”. Extremely high proportions of these people agree to the proposition “I never seem to have enough time to do the things you want to do”. They are going to fit the most they can into life while they are still around to enjoy it. Yet, they have no intention of spending their money in a flippant way (they are debt averse).

Worry-free Retirees: These are the oldest and wealthiest of retirees. They love this phase of their life. They take advantage of their financial situation to fully enjoy a range of interests and pastimes. They are happy being the age they are, have fewer concerns about their finances, and ‘get on with it’ without dwelling too much on the future. Their level of interest in a Home Equity Release product is low.