New life, old life

January 2023

Contents

About this report

The descriptions and statistics in this report are based on insights from the report *Building better retirement futures* produced by Fidelity International in conjunction with the Financial Planning Association of Australia and CoreData Research, the 2021 report *Retirement: The Now and the Then*, and a large quantitative research study undertaken for Fidelity International by independent research firm MYMAVINS. The large quantitative research study involved an online survey of 1,207 Australians over 45, with fieldwork undertaken in August 2022.

Respondents included pre-retirees working full-time and in the peak of their careers (n = 395), semi-retirees and those transitioning to retirement (n = 366), and early retirees (n = 446).

Retirement can be considered a state of mind. So, for this study, respondents self-categorised as pre-retirees, semi-retirees or retirees. However, one group was categorised by the researchers: respondents over 50, working less than full-time, were classified as semi-retired. Early retirees have all retired within the past 10 years (regardless of age).

Statements made in this report may be impacted by the efficacy and underlying limitations of the reports on which it is based.

Foreword

The Financial Planning Association of Australia recently undertook research to measure the benefits and value of working with a financial planning professional.

The findings couldn't have been clearer. Australians with an active relationship with a financial planner are better off. They suffer less financial stress, enjoy a higher quality of life, have more financial confidence and are more satisfied with their wealth.

When it comes to retirement, advised pre-retirees envisage a brighter retirement future than the unadvised, and advised retirees experience a better retirement.

CFP® professionals have the most impact. Advised clients of a CFP professional benefit more than clients of non-CFP professionals. They have the highest quality of life, the most financial confidence, and are the most satisfied with their wealth.

The future looks bright for financial planners, but there is a need to evolve. Three macro trends are transforming financial planning, and presenting opportunities and threats in equal measure – the emerging advice gap, an unprecedented wealth transfer, and the maturity of super.

Over the past four years, the advice gap has widened as demand for advice continues to outstrip supply. Since December 2018, registered financial adviser numbers have fallen by more than 40%. At the same time, demand for advice has only increased, as the younger baby boomers reach retirement.

But that's just the start. The biggest wealth transfer in history has begun. According to the productivity commission, over the next 20 years, we will see around AU$3.5 trillion transferred between the generations.

For most practices, it will be predominantly their current clients who will transfer this wealth to the next generation via gifts and inheritances. If they haven't already, it would be wise for financial planners to engage the broader family in their services, and to take into account the differing needs and preferred ways to engage of the younger generation.

In addition, the baby boomers are retiring with unprecedented wealth in super. Many full-time workers have had an entire 30-year career of compulsory contributions. For most Australians, super is their second largest asset, after their home.

Pre-retirees require more support as they approach retirement, and there is more scope to add value over time when dealing with pre-retirees. The sooner they start planning, the better.

I commend the insights in this report to you as the genuine voice of the client. Too often, the client's voice is muted or simply not at the decision-making table.

I trust this research proves useful to you in your strategic planning, informing your business model and helping you in identifying the characteristics of your ideal client, your service offers and how you construct portfolios.

Sarah Abood
Chief Executive Officer
Financial Planning Association of Australia

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

Introduction

Now is a great time to be an older Australian in the workforce. With full employment, the demand for local, skilled workers is at a record high.

It's becoming more comfortable to work as well. Since COVID, flexible work arrangements have become commonplace and are widely accepted by most employers.In addition, most older Australians want to work longer than previous generations did, transitioning into retirement over time.

But, despite these opportunities and good intentions, most older Australians are not actively planning for the final chapters of their working life.

Many of us invest lots of energy into building our careers and spend years, perhaps even decades, planning our ascension up the corporate ladder. And many of us find the time to plan the lifestyle and financial aspects of our future retirement.

But too few of us take positive action to improve the circumstances of the inevitable wind-down phase of our working life.

In this study, we find that the runway to retirement is shorter than expected – most of us don't work for as long as we intend to. Sometimes the reasons are out of our control; sometimes, they're not.

Whatever the conditions that bring about our retirement, there are always things we can do to prepare and improve our circumstances – and, more importantly, our quality of life.

With adviser numbers dwindling and the advice gap widening, it's important to baseline the experience of those who don't have access to the services of a professional financial adviser.

As such, we explore the emotional experience of unadvised Australians over 45 and compare the experience of pre-retirees with semi-retirees and early retirees.

From this perspective, we explore the frameworks for pre-retirees to plan for their retirement more effectively. What should be incorporated into a retirement plan? When should you start? And what are the measures of success?

For advisers, we explore what risks need to be managed for pre-retiree clients and what that means for advice practices, portfolio construction frameworks and investment decisions.

I look forward to discussing the study's insights with you and how they might apply to the strategic plans for your practice.

Richard Dinham
Head of Client Solutions and Retirement
Fidelity International

Opportunities for older workers

The pandemic has accelerated the changing landscape of work in Australia. Knowledge-worker industries have shifted from the traditional nine-to-five, office-based model to a more flexible working arrangement, with remote working usually a component.

The outcome is that many jobs can now be performed from home without a peak-hour commute or dedicating an entire day to the office.

These new ways of working present an opportunity for older Australians in the workforce, especially those with higher education or skill backgrounds.

In addition, there is a unique mix of factors that are currently providing opportunities for older knowledge workers. Since the start of the pandemic, Australia's strict border controls have seen a negative net overseas migration.

Specifically, 112,900 more people left Australia than arrived between March 2020 and September 2021. Since then, net migration has rebounded but is still not at pre-COVID levels.[1]

This lack of migration to Australia has stifled Australia's supply of skilled workers. With the economy still growing, the unemployment rate in Australia is at historic low levels – 3.4% in October 2022.

This is great news for older Australians planning the wind-down phase of their careers.

The low unemployment rate, combined with the lack of skilled workers, means there is a real opportunity for older workers, who may have been overlooked in the past, to continue contributing to the workforce.

Moreover, the pandemic has led to a rethinking of what work means and what is really important in life. Workers now have higher expectations of their employers, demand work-life balance and flexibility, and feel it is the responsibility of businesses to take societal action.

The *Return on Action Report Australia*[4], commissioned by Atlassian, found that in the year to March 2021, 29% of workers have experienced an improvement in work–life balance and 26% work more flexibly than a standard nine-to-five workday.

Almost two-thirds (64%) agreed that their employer has been supportive of flexible and remote working.

Figure 1: Net overseas migration dipped markedly when borders closed[2]

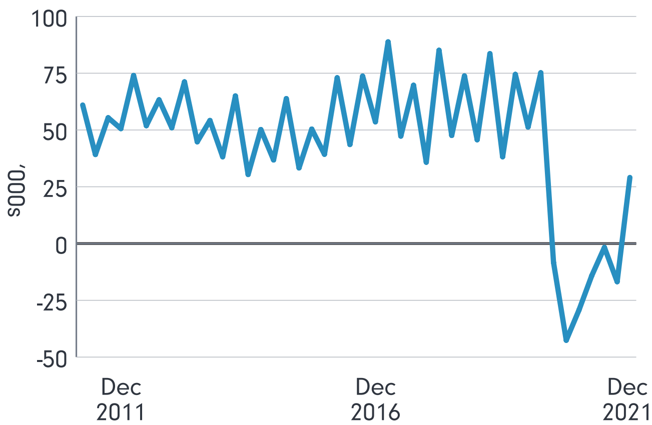


Figure 2: Australia's unemployment rate is at a historic low[3]

1 Source: ABS National, state and territory population, December 2021
2 scanloninstitute.org.au/publications/migrationdashboard
3 ABS Labour Force Status Aug 2022
4 3kllhk1ibq34qk6sp3bhtox1-wpengine.netdna-ssl.com/wp-content/uploads/2021/07/atlassian-2021-return-on-action-report-australia.pdf

The runway is shorter than expected

Older Australians often intend to take advantage of the new ways of working, but it doesn't work out that way.

The average age at which Australians plan to reduce their work commitments and transition into retirement is 62.5 years, and the average age we would like to retire fully is 64.8 years.

But the reality is different. The average age at which Australians start reducing their work commitments is 61.4 years, and the average age we fully retire is 63.4 years.

These averages reflect the fact that one in three older Australians who planned their retirement did so earlier than they intended.

The top three reasons for retiring earlier than planned were that they were suffering from personal health issues (two in five), they were required to care for someone suffering from health issues (one in eight), or they were made redundant and lost their job (one in eight).

Therefore, it makes sense that one in four retirees report feeling out of control at retirement.

The sooner you start planning, the better

If there's a risk you may be forced into an earlier retirement than intended, it makes sense to start planning early. The good news is that pre-retirees are the most open to receiving advice.

Four in five pre-retirees currently receive advice, have received advice in the past, or would consider receiving financial advice. And, of the pre-retirees who have never received financial advice, three in five are open to it.

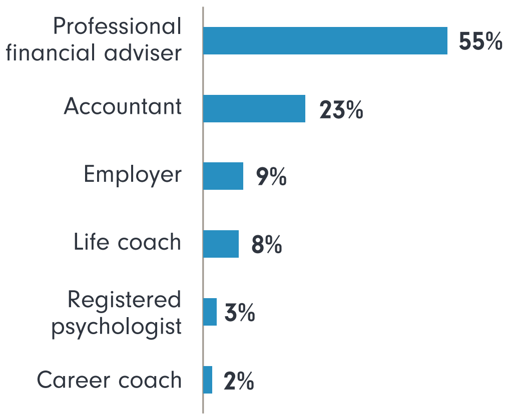
The preferred professional to seek advice from is a professional financial adviser. More than twice the number of respondents would seek professional support from a financial adviser than an accountant.

And professional financial advisers are preferred over employers as a source of information, by a factor of more than five to one.

Compared with semi-retirees and early retirees, pre-retirees have the lowest life satisfaction. One reason is the prevalence of financial stress. Around one in two pre-retirees worries about money at least monthly; one in three worries about money daily.

Pre-retirees feel the least financially capable, have the lowest emotional resilience and are the least likely to live consistently within their values system. That's not a coincidence – when we live according to our values, we are happier and more resilient.

Figure 3: Financial advisers are the preferred source of professional advice



The importance of a sense of control

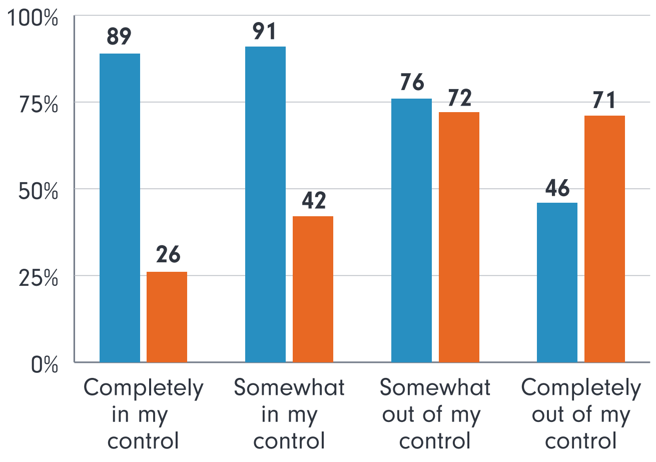
Major life changes like retirement are challenging. Pre-retirees approach retirement cautiously, wary of the number of uncertainties around this unknown period of life.

A key driver of a positive emotional experience at retirement is a sense of control, or agency, in the decision.

Those who felt completely in control of when they stopped working full time had an overwhelmingly positive emotional experience – nine in 10 experienced positive emotions, and only one in 10 experienced negative emotions.

But those who didn't perceive they had a choice in when they stopped full-time work had a terrible time. Seven in 10 of those who felt completely out of control experienced negative emotions when they stopped full-time work, and less than one in two experienced positive emotions.

Figure 4: Sense of control drives emotional experience



A sense of control over the retirement event is not just a driver of emotional experience, it is also a key driver of life satisfaction. Semi-retirees who felt completely in control of when they finished working full time have higher life satisfaction than those who felt less in control.

Those who felt completely out of control when they stopped working full-time have the lowest life satisfaction scores.

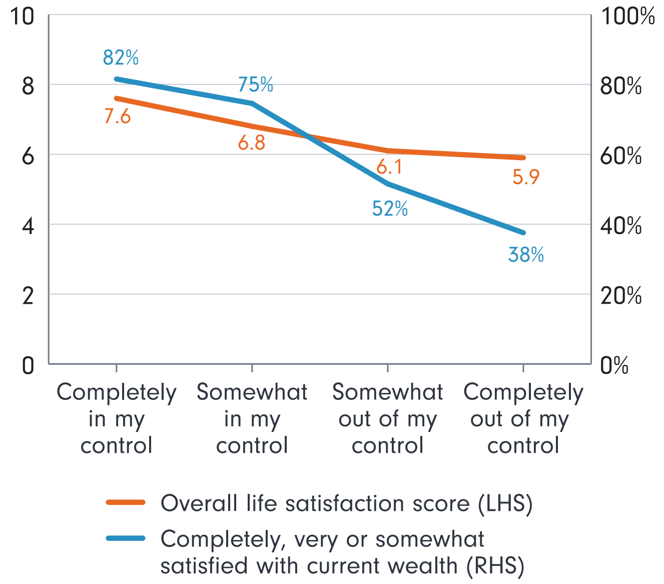
On a scale of zero to 10, where zero is no life satisfaction and 10 is perfect life satisfaction, those who perceived they were completely in control have a life satisfaction score of 7.6.

However, those who felt completely out of control have a life satisfaction score of just 5.9.

Satisfaction with wealth is also strongly correlated with feeling in control of retirement.

Four in five of those who felt completely in control of finishing full-time work are satisfied with their current wealth, while less than two in five of those who felt completely out of control are satisfied with their wealth.

Figure 5: Sense of control drives life and wealth satisfaction



Taking control of retirement

We can't control everything when it comes to our retirement, but there are some things we can control. With a little planning, we can control the likelihood of being made redundant, and we can control the consequences if we suffer from ill health or we're required to care for someone suffering from ill health.

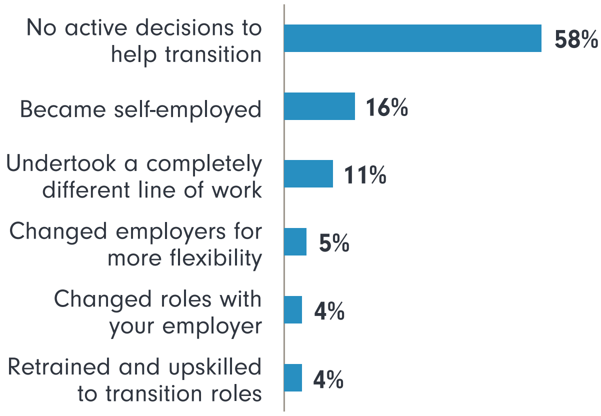
Most of us put lots of energy into building our careers, but not necessarily the inevitable wind-down phase of our careers. And while most of us say we want to transition into retirement, very few take active steps to make it happen.

Fewer than one in two of us makes an active decision about ending our career, which makes the transition into retirement more successful. And, fewer than one in five of us becomes self-employed, when this can clearly increase agency in retirement.

Not everyone's circumstances are suited to self-employment. Perhaps you don't have the career experience, financial independence, or risk profile to decide on self-employment.

But what feels like a risky decision may be the right decision and may, in fact, be a less risky course. After all, if you are self-employed, you have more flexibility if you suffer from ill health or need to care for a loved one, and you won't be made redundant.

Figure 6: Percentages of people taking action to prepare for semi-retirement



Retirement doesn't need to be a mental health event

Major changes in our lives can be stressful events. They become even more stressful when they're thrust upon us, and we don't feel like we have any agency in what's happening.

But planning can help. An effective plan will help pre-retirees envisage an optimistic future and provide action steps to improve the probability of achieving it. Contingency planning builds resilience and a safeguard when things go wrong.

A dose of reality can help as well. Part of the reason life satisfaction is higher among retirees is that their expectations change over time.

Our definition of success changes as we age. When asked what success in life means, around two in five pre-retirees chose being financially successful.

But for retirees, the figure was one in four. Retirees display a level of acceptance of their circumstances and characters that can only be described as wisdom.

Such wisdom manifests in how retirees define success in life. The top five answers (in order) are: being happy in yourself, doing what you love every day, helping those around you, building quality relationships, and setting and reaching meaningful goals.

This is also reflected in how retirees spend their time. Retirees aren't big spenders. They engage in mostly low-cost activities, including relaxing, spending time with family and friends, reading and engaging in hobbies and exercise.

Advanced statistical analysis can help us derive the true drivers of life satisfaction for older Australians. A regression analysis identifies seven factors that drive life satisfaction and the strength of each factor's influence on life satisfaction.[5]

Wealth and health are both recognised drivers of life satisfaction, but they are ranked sixth and seventh respectively on the impact on life satisfaction.

There are five more important factors influencing life satisfaction and happiness. Emotional experience is the strongest driver of wellbeing and therefore the single best predictor of overall life satisfaction. This reflects the importance of having an optimistic and positive mindset.

The other important drivers of life satisfaction are feeling confident and resilient, having purpose and meaning, a sense of control and connection with family and the community.

Figure 7: Perceptions of success change over time

5 www.adviserratings.com.au/news/the-average-client-today-and-in-the-future

Overcoming barriers

For pre-retirees to benefit from advice, it first needs to be accessible. There are several hurdles on the supply side of the financial advice market as well as the demand side.

The adviser exodus has seen more than 40% of advisers leave the industry within a four-year period as the industry seeks to professionalise.

In fact, the number of advisers in Australia has fallen from 28,000 in December 2018 to fewer than 16,000 in October 2022.

Not only are there fewer financial advisers servicing clients, but since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, each adviser now services fewer clients.

According to Adviser Ratings, each adviser now manages 10 fewer clients than they did three years ago – and their average fee has skyrocketed by 40%.

It also appears that episodic advice does not meaningfully change the number of clients an adviser can service. While clients like to be in control of when their strategy is serviced, they prefer active relationships with their adviser. The majority (17 in 20) like to review their strategy annually or more regularly.

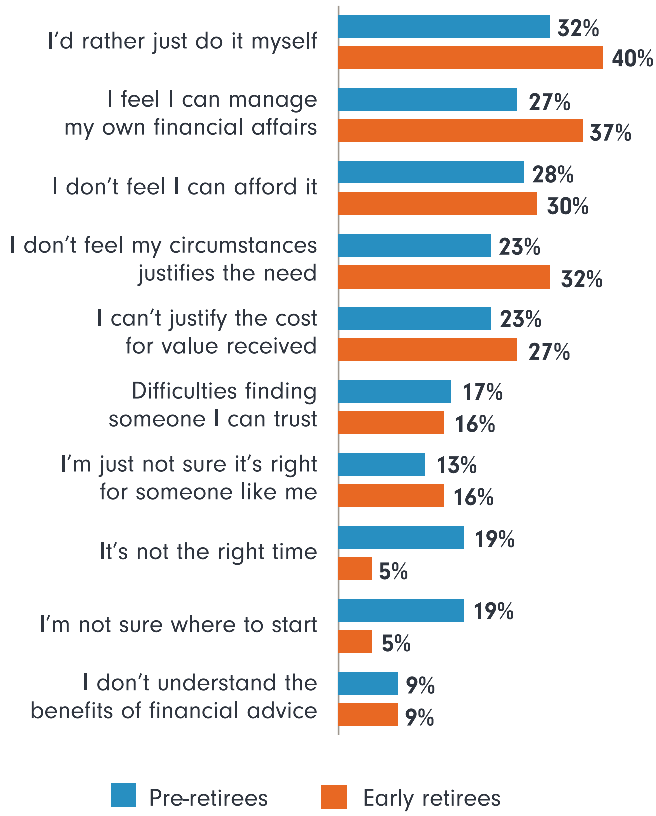
Understandably, the main reasons pre-retirees are not currently seeking financial advice relate to a lack of affordability. Three in 10 say they don't feel they can afford it, and one in four says they can't justify the cost.

Others don't feel their circumstances justify the need or would rather do it themselves.

It appears that advice may be being priced out of reach of the people that could benefit most. But that's perception, and not necessarily real.

The evidence is that existing clients of advisers are not price sensitive as they understand that advice addresses their biggest retirement concerns.

Figure 8: Reasons for not currently seeking advice



Advisers can address the cost barrier in three ways.

First, they can reduce upfront fees and recoup the shortfall over time with an ongoing relationship. This is not ideal in a professional practice, introducing conflicts that may not be in the client's best interest.

Rather, it's preferable that each client assignment is profitable, so a second option is for the adviser to withdraw services and not offer them to price-sensitive prospective clients.

The third course of action is to address the information asymmetry: building the client's understanding of the value of the advice to their circumstances.

This can be achieved by bringing the value proposition to life as early as possible in the client experience journey. If the adviser can show the client that they can address their greatest concerns, they will be more willing to pay their professional fees.

The vast majority of pre-retirees (nine out of 10) have burning questions they want answered about the affordability of their future retirement.

The five most common questions pre-retirees would like to ask an adviser are:

- How much do I really need?
- Am I on track?
- What are my options?
- How much should I be saving today?
- What can I afford to spend in retirement?

The adviser who uses modelling tools at the initial interview and shows how these questions will be addressed if the client engages their services will fast-track client understanding of the value of advice in their circumstances. When the information asymmetry dissipates, the client will be more willing to pay professional fees.

Risk in the real world

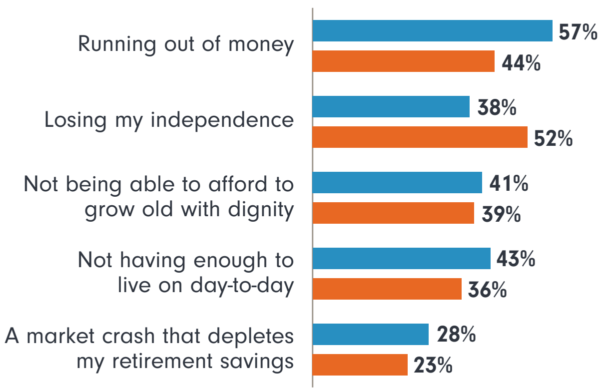
Pre-retirees have questions about affordability because they fear running out of money. Most pre-retirees (around three in five) worry about running out of money in retirement. In fact, it is their most common concern. When we ask pre-retirees to rank their concerns, running out of money is also their highest-ranking worry.

Their other big concerns are consistent with this. Around two in five pre-retirees worry about not having enough to live on day-to-day in retirement and not being able to afford to grow old with dignity.

People already living in retirement share these concerns but to a lesser extent. Their biggest concern for the future is losing their independence (one in two). Two in five retirees worry about running out of money in retirement.

That makes sense, because over nine in 10 retirees understand the difference between their discretionary wants and essential needs, and the majority are willing to take corrective action if their retirement goes off track. Over one in two retirees is willing to spend less today and defer spending on major items like holidays if necessary.

Figure 9: The concerns of pre-retirees



Much like the experience of the Great Depression, where a generation rewired and became more conservative in their decision-making, recent global events appear to have impacted Australians' risk tolerance.

One in two Australians over 45 says that recent events, such as the pandemic and the war in Ukraine, have impacted their attitude to investment risk, and two in five say they are more conservative now.

One in four say they are willing to accept much less risk now.

Generally, Australians get more conservative as they age. Around one in six 45- to 49-year-olds regards themselves as having high or very high risk tolerance, but only one in 20 people over 70 considers they have a high or very high risk tolerance.

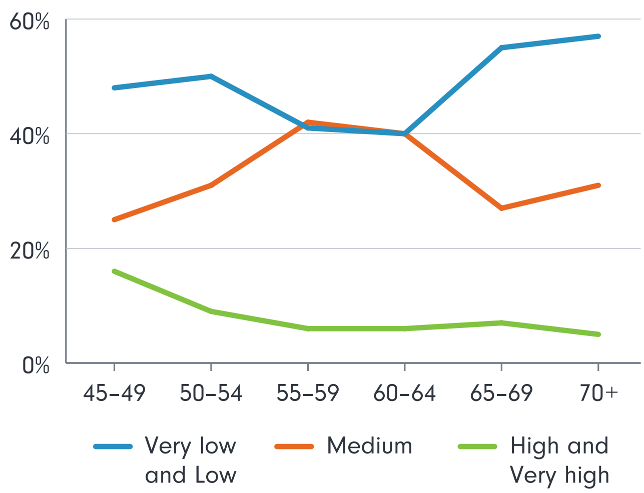
But risk tolerance is not necessarily driven by age or stage of life; it is more nuanced than that. There are clearly other factors at play, like engagement, capability and professional advice.

In all these examples, there is a positive statistical relationship, meaning the higher the engagement capability and use of financial advice, the higher the risk tolerance.

Figure 10 plots the risk tolerance of individuals by age group. It shows that those aged 55 to 64 are less conservative than the younger and older age cohorts.

While one in two people aged 50 to 54 categorises their risk tolerance as very low or low, this falls to two in five for those 10 years younger, only to rise again to three in five for those older than 70.

Figure 10: Risk tolerance by age

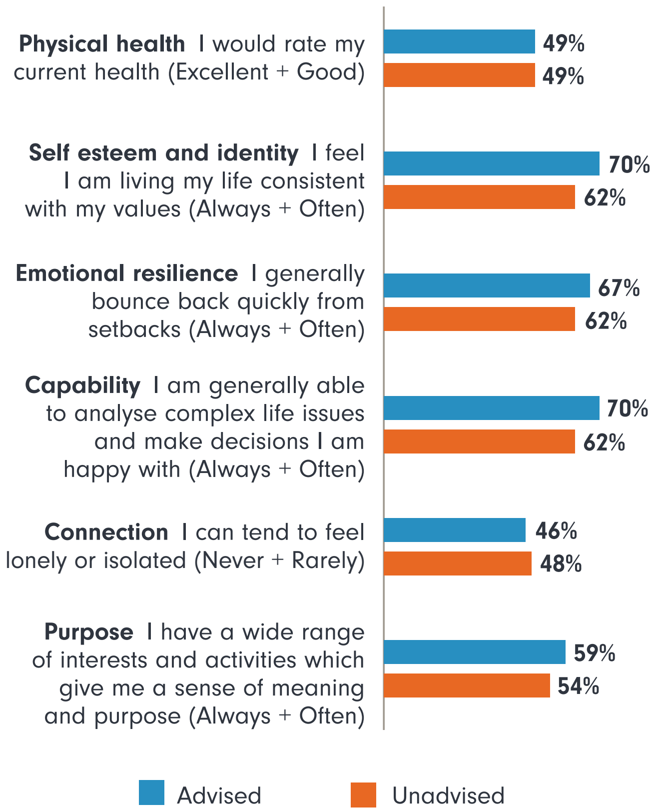


The role of the adviser

Advised clients have a higher quality of life and are more satisfied with their lives than the unadvised, even after statistically controlling for wealth and age.

Advised Australians say they live more consistently within their values, are more financially capable and resilient, have a greater sense of meaning and purpose, and are less socially isolated than the unadvised.

Figure 11: Quality of life of the advised versus unadvised



With so much evidence of the intangible benefits of advice, there is a strong argument that financial advisers should embrace the drivers of quality of life and intentionally enhance the client's sense of purpose, financial capability, resilience, sense of control, day-to-day emotional experience and social interaction.

And it appears pre-retirees are expecting it. In fact, most expect their adviser to discuss more than money.

Three in four believe that a financial adviser can play a role in aligning their financial decisions with their values.

Three in four pre-retirees also believe a financial adviser can help them make more confident financial decisions and enhance their quality of life in retirement.

The majority of pre-retirees even believe financial advisers can play a role in building their emotional resilience to withstand major life changes in retirement.

Managing the risks

The main financial risks pre-retirees, semi-retirees and retirees face are longevity risk, market risk, in particular sequencing risk, and inflation risk. These risks require separate and often conflicting strategies to manage them.

At the same time as managing these risks, the retirement strategy must provide regular income, the flexibility of income to meet volatile expenditure, a cash reserve, access to capital if required and positive net returns over the long term so the money doesn't run out.

How long the money lasts in retirement depends on three variables: how much we start with, how much (and when) we draw down capital and the characteristics of our investment returns.

When forced into early retirement, we don't have control over our starting capital, and it's probably less than we had planned. But we have a level of control over and agency in the other two variables – how much we spend and how we invest.

Generally, the longer we can defer capital expenditure, the better for retirement affordability. And while the quantum of returns is important, the order of returns and the management of volatility have an even greater impact on portfolio sustainability.

Managing volatility in retirement

The first objective of any retirement portfolio is to protect capital, and there are benefits to minimising the impact of negative markets during periods of market volatility.

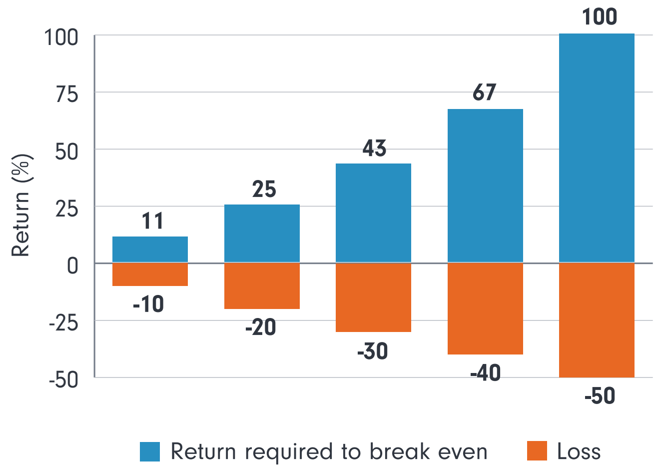
Limiting losses during periods of market volatility has an especially powerful impact on longer-term investment outcomes.

This is due to the compounding effect, which retiree investors often overlook. For example, an investment loss of 10% will require a subsequent 11.1% positive return to break even, and the asymmetry increases as the loss increases.

For example, a 50% loss will require a subsequent 100% gain to break even. And that's assuming no drawdowns are being made.

But for retirees, it's not an option to turn off drawdowns. In retirement, when investment prices fall, regular payments may be funded by selling assets at depressed prices, leaving less exposure to participate in the inevitable recovery.

Figure 12: Returns required to break even following a period of negative returns



Investment outcomes are more important than returns

That's why investment returns do not tell the whole story for retirees. Investment outcomes need to be considered, and one way of measuring that is using the 'capture ratio'.

The capture ratio refers how much an investment moves proportionately to the market. There can be upside capture ratio, when the market moves upwards and similarly a downside capture ratio when the markets move down.

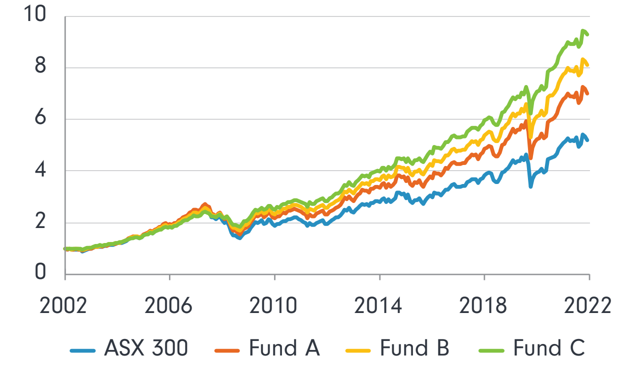
The reason for two distinct capture ratios is that not all investments move the same when markets go up as they do when markets go down. In the table below, we have four different funds with different capture ratios. The ASX 300 has 100% downside and upside capture ratio because it is the market. It captures all the gains as well as all the losses.

Table 1: Capture rates and capture spread of three hypothetical funds

	Downside/upside capture	Capture spread
ASX 300	100%/100%	0%
Fund A	90%/100%	10%
Fund B	70%/90%	20%
Fund C	50%/80%	30%

However, not all funds are equal and, at various times, some can deliver protection against market drops while still capturing enough of the upside. Over a 20-year period, we see that Fund C performs the best. Even though it lags when markets rise, it has the best capture spread, meaning it protects during times when the market goes down. The compounding effect of protection from losses, means that there is less recovery requires and delivers a much better investment outcome.

Figure 13: Investment outcomes of three hypothetical funds

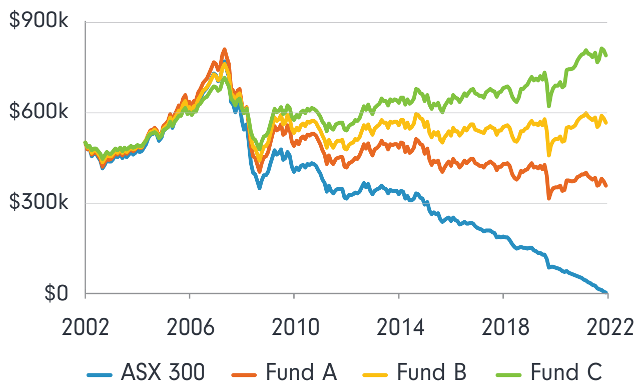


Source: Fidelity International.

For retirees, it is even more important to avoid negative returns where possible. In order to have money to live on, retirees need to make regular drawdowns. This puts further pressure on their investment returns. The mix of higher protection from falling markets, regular drawdowns in retirement and the long-term effects of compounding magnify the benefits lower capture of negative returns.

This reinforces the need to protect the downside to minimise the compounding impact that negative markets can have in retirement.

Figure 14: Decumulation outcomes of three hypothetical funds



Source: Fidelity International.

Framework for planning

The objectives of the Retirement Income Covenant, which came into effect for super funds in July 2022, provide useful guidance for advisers. Specifically, the objectives are threefold:

- Maximise the level of retirement income
- Provide stable and sustainable income in retirement
- Provide flexible access to capital.

These objectives can conflict with each other. For example, the need for access to capital will constrain the level of retirement income provided by the portfolio.

In this study, we learned that around one in two older Australians doesn't intend on spending all their money in retirement – they want to leave a bequest to the next generation.

In the context of an active relationship with the client, advisers can instil spending confidence by providing guidance on how much can be spent today while still being responsible for the future. This can be achieved by helping the client envisage the late retirement years.

Everyone will eventually have health issues, and most baby boomers want to stay in their homes as long as possible. In order to grow old with dignity, they will face increased health-care and home-care costs, and will probably be required to modify their homes. Some, but certainly not all, will require aged care accommodation.

Spending confidence starts when we can envisage old age. The first variable in the formula that determines how much we can spend is the length of time we are seeking to fund.

Does the client have longevity in their genes? If so, your actuarial life expectancy is probably too short.

The next decision is the desired bequest amount above the family home. Then we need to agree on a figure for likely healthcare and home-care costs for old-age.

No-one knows what this cost will be. Still, a rule of thumb of 20–30% of the starting superannuation balance and an assumption that any aged care accommodation costs will be funded by the sale of the family home are prudent and reasonable.

Some of the major financial planning software providers have limited projection modelling functionality to enable easy scenario testing. But basic modelling functionality can be used to assess a safe drawdown rate.

More than nine in 10 older Australians say they understand the difference between their essential needs and their discretionary wants. And, when it comes to spending on discretionary wants, they are flexible.

If things go off track in retirement, reducing spending on discretionary wants is the first course of corrective action older Australians are willing to take.

The objectives of retirement strategies set out in the retirement income covenant apply to super funds, not advisers. But they are useful for advisers to consider for two reasons; a framework to measure success over time, and more efficient implementation of retirement advice.

Interestingly, the objectives conflict with each other. Having flexible access to funds will limit the ability to maximise retirement income. The expected risks in retirement include market risk (sequencing risk), inflation risk, and longevity risk, or the risk of running out of money prematurely. Again, strategies to manage these risks and conflict with each other, requiring compartmentalisation of the risks and a combination of strategies to manage them.

Investment framework for retirement investing

Financial advisers typically use frameworks to build portfolios suited to retirement. These frameworks are considered in some detail in Fidelity's *Building Better Retirement Futures* white paper.

Five frameworks for managing asset allocation in retirement are identified, as below. Three compartmentalise money, allowing for competing objectives to be achieved and risks appropriately managed.

Utilising one of these investment frameworks, particularly the complex bucketing and income layering approaches, can improve retirement outcomes and enhance wellbeing by providing a sense of control, increased confidence and a more positive emotional experience.

Retirement outcomes are thereby improved in several ways. Even though retirees need access to capital and usually fund their money to live on by selling assets, these frameworks provide mechanisms to be long-term investors.

That's important because it allows retirees to stay invested and be rewarded for taking equity risk over the long term. It also encourages discipline, so that retiree investors avoid starting and stopping investments and trying to time the market.

The long-term components of the retirement strategy can be invested to limit the downside capture when markets fall. Periods of volatility can present

Table 2: Five frameworks for managing retirement risk and outcomes

Strategy	Primary benefit	Personalisation	Sequence of return risk	Longevity risk	Inflation risk	Market risk	Frequency of review	Complexity
Same as accumulation	Simplicity and consistency	Low	🔴	🔴	🔴	🔴	Low	Simple
Conservative asset allocation	Accounts for retiree's reduced risk tolerance	Low	🟢	🔴	🔴	🟡	Low	
Simple bucketing	Cash bucket provides peace of mind	Medium	🟡	🟡	🟡	🟡	Medium	
Complex bucketing	Extra buffer provides additional layer of security	High	🟢	🟡	🟢	🟢	High	
Income layering	Dynamic allocation and withdrawal approach tailored to retiree's needs and wants	High	🟢	🟢	🟢	🟢	High	Complex

opportunities for bottom-up stock pickers to avoid retaining underperforming stocks. Portfolios benefit not just from picking the winners, but by avoiding the losers.

Investors can spread the risk associated with specific markets or sectors by investing broadly in equities, real estate, high-yield bonds, government bonds and cash. Diversifying in this way typically has the benefit of smoothing returns and limiting downside capture when markets fall.

High-quality, income-paying stocks tend to be leading global brands that operate in multiple regions. These businesses are well-placed to perform throughout the different business cycles.

Conclusion

In this study, we flipped the perspective to uncover the retirement planning needs from the consumer's point of view. We learned that the adviser's role is evolving and if we focus on managing investment performance, we miss the bigger picture.

Today is a great time to be older in the workforce, but many of us won't get the chance. We will be forced into retirement through ill-health, redundancy, or having to care for a loved one. So, it's imperative that we engage our clients in retirement planning when they're younger.

There is a greater potential opportunity to add value to younger pre-retirees. Not only is there more time to positively impact on their financial outcomes, but there is also more opportunity to transform the non-financial aspects of clients' lives. By instilling a sense of agency and control, clients can approach their retirement with more confidence and resilience, more certain of a positive future, which gives them a more positive day-to-day emotional experience.

In this paper we explored the expectations of the role of the financial adviser and the opportunities to take control of our finances, our careers, and our lives. We believe now, more than ever, Australia needs a thriving financial advice profession.

About Fidelity International

Fidelity International offers investment solutions and services and retirement expertise to more than 2.52 million customers globally. As a privately held, purpose-driven company with a 50-year heritage, we think generationally and invest for the long term. Operating in more than 25 locations, we invest AU$503.3 billion globally on behalf of clients in the Asia-Pacific, UK, Europe, South Africa, the Middle East and South America. We are responsible for A$231.1 billion in assets under administration.*

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*Data as at 30 September 2022. Read more at fidelity.com.au