
13 Oct 2021

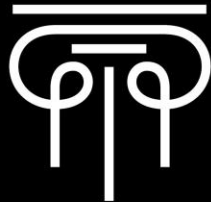
Equity income is key to providing better retirement outcomes

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How to provide better retirement outcomes

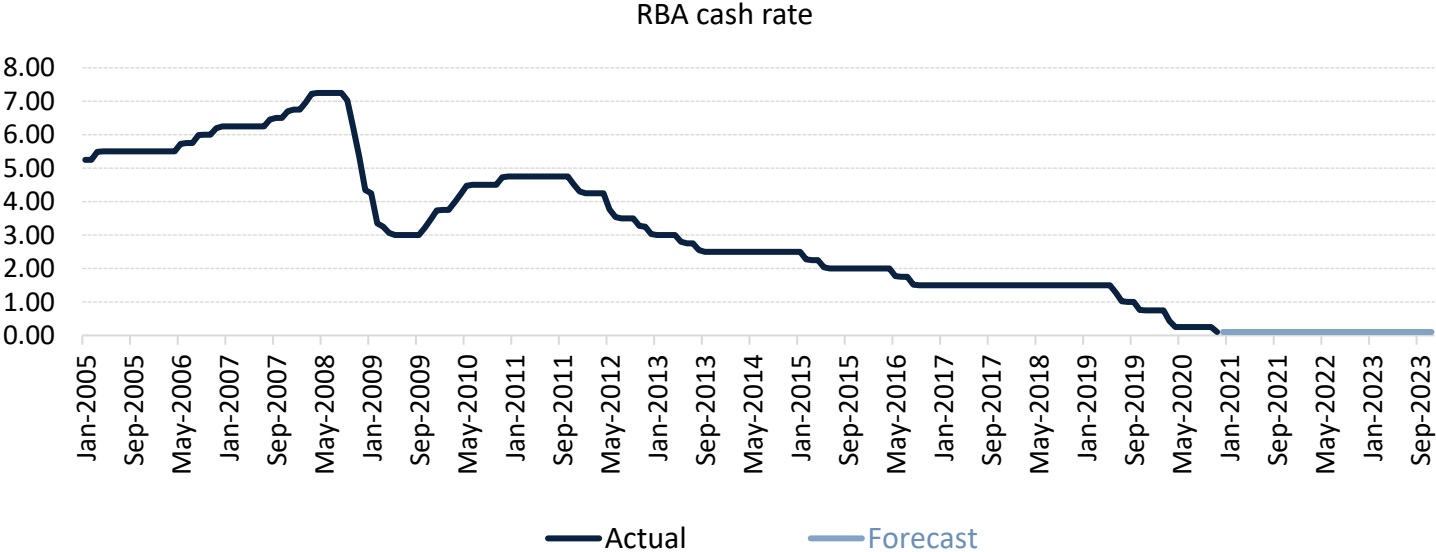
Decumulation - *“the nastiest, hardest problem in finance”*

Bill Sharpe, Nobel laureate

Problem	—	Australia’s defined contributions system places all the risks on the individual in retirement
Typical Solution	—	De-risk by increasing allocations to “safe” cash and bonds, focus on total returns, and supplement income by drawing down on capital
Alternate Solution	—	Equity Income can provide a better retirement outcome

RBA forecasts three years of record low 0.1% cash rate

OFFICIAL RBA CASH RATE EXPECTATIONS – EVEN LOWER FOR LONGER



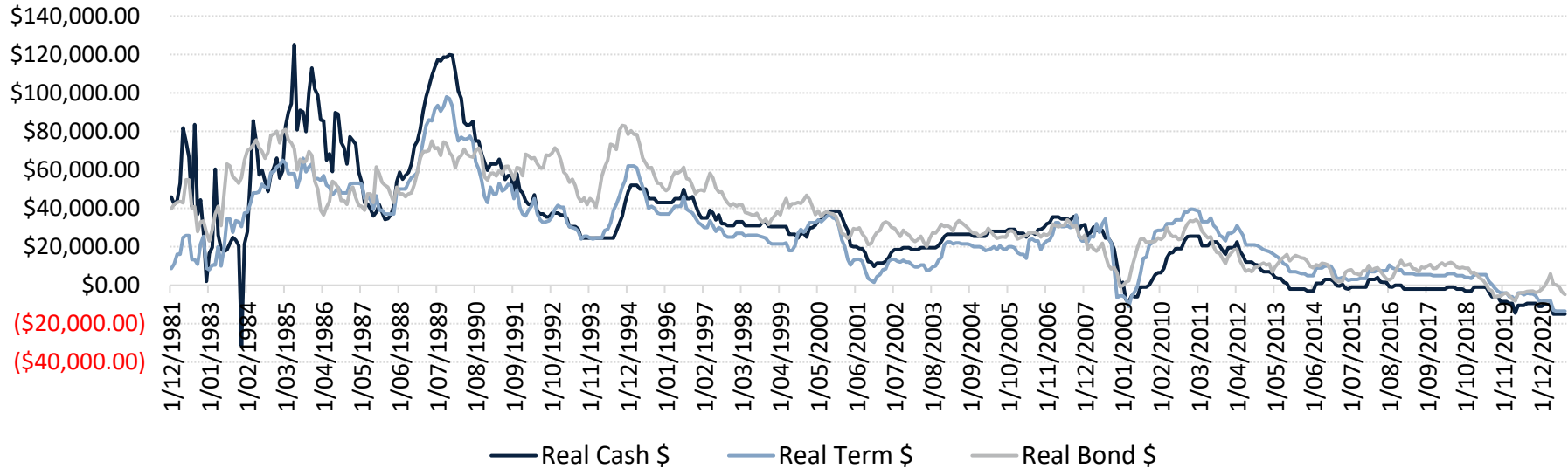
Source: RBA, Plato

“Given the outlook, the Board is not expecting to increase the cash rate for at least three years.”

Monetary Policy Decision 3 November 2020.

Safe assets lose you money

NEGATIVE REAL RATES OF RETURN



Source : Plato, RBA updated to 31/8/2021 using Trimmed mean inflation rate

Safe options = going backwards! *

*depending on your risk profile

Investing for retirees is different



Retirees are different

- **They need to live off their investments:**

- Investment income and/or drawdown replaces regular salary

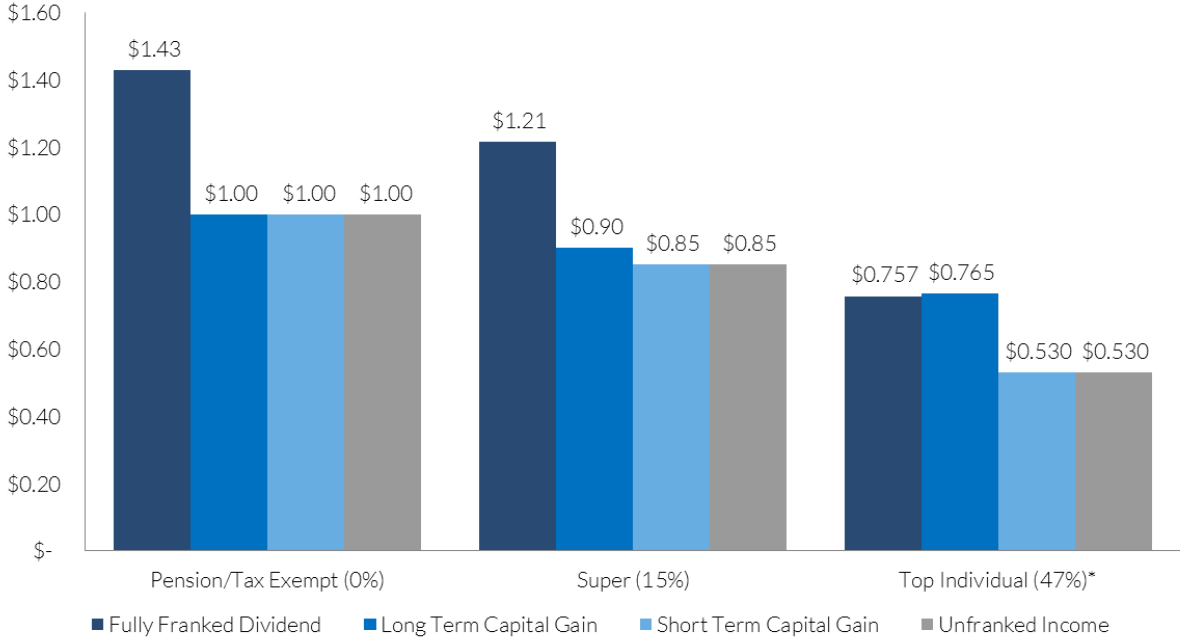
- **They are taxed differently:**

- The first \$1.6m in pension phase superannuation is tax free whereas accumulation superannuation is taxed at 15%

- **They face longevity risk, inflation and sequencing risks:**

- Risk of outliving your investments, unknown costs of retirement, unknown levels of and timing of investment returns
- Significant evidence that retirees prefer to live off income rather than drawdown on capital

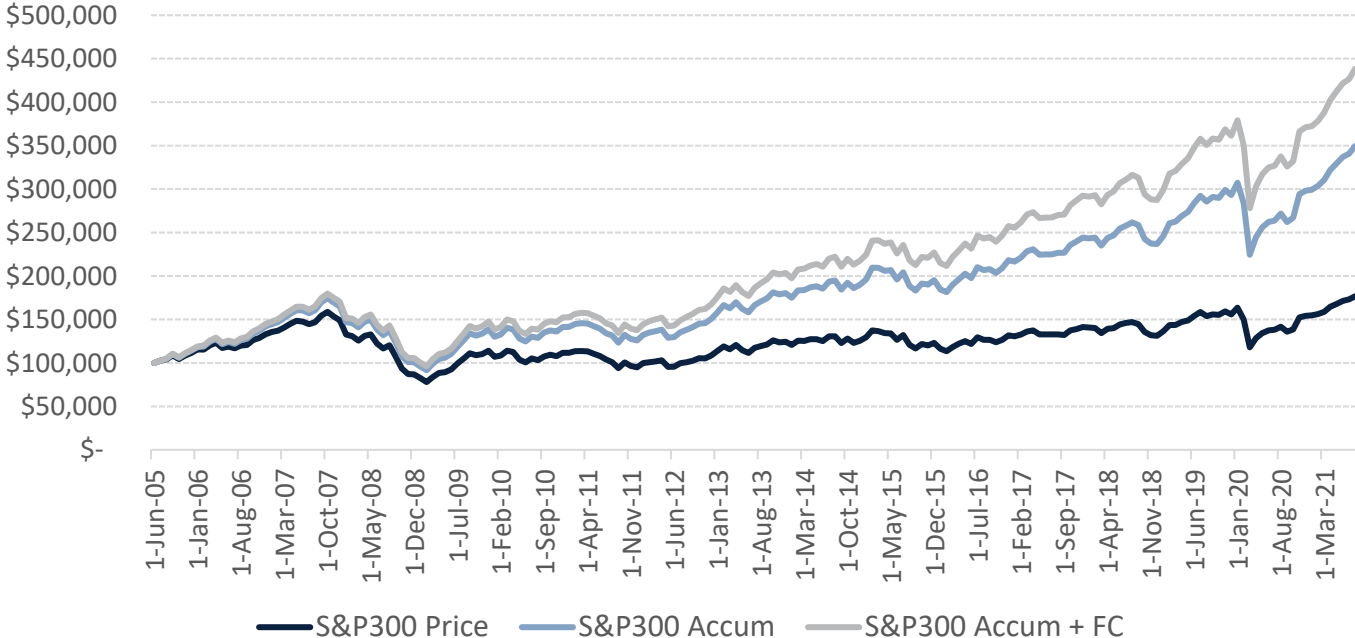
Pension phase super tax rates are different



Tax effectiveness depends on your tax status!

Source : ATO, Plato using 1 July 2020 tax rates including Medicare levy. After tax value of \$1 of pre-tax return)

Franking credits add an important boost to returns

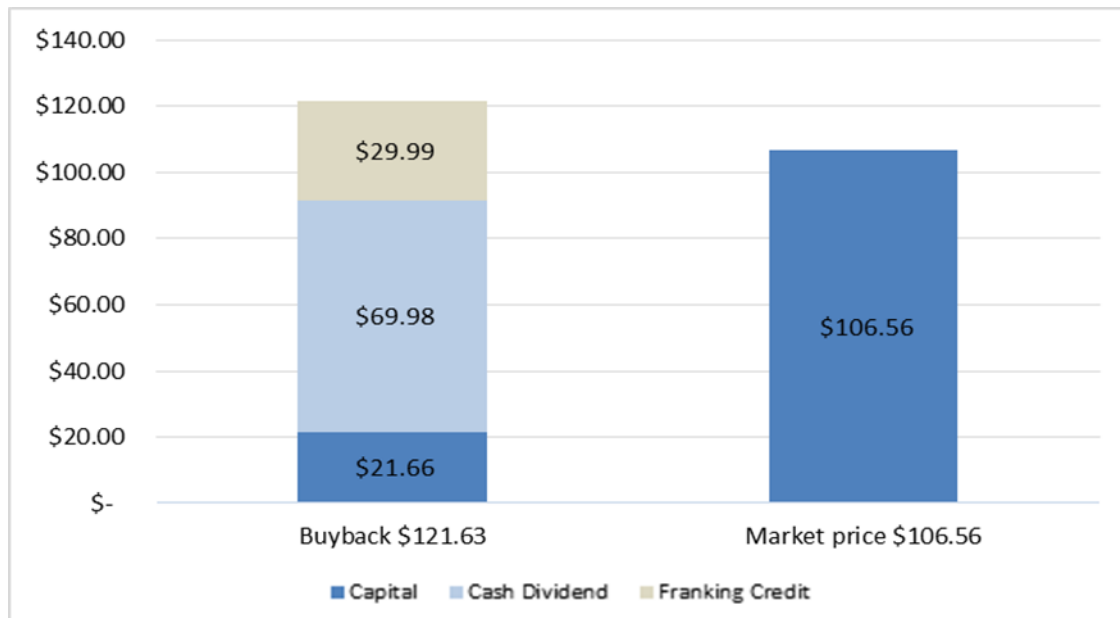


\$100k accrues to \$177k Price, \$349k Accumulation and \$438k including franking credits

Source: S&P 30 June 2005 to 31 August 2021

Tax effective buy-backs are very advantageous

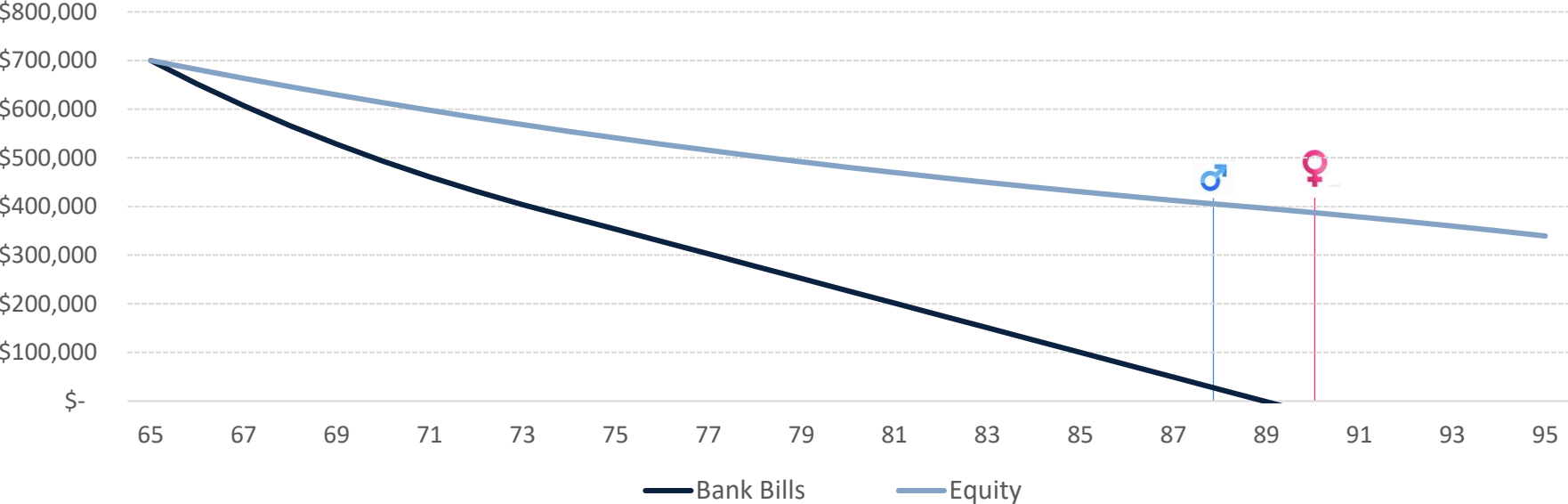
CBA BUYBACK – WORTH 14% AFTER TAX FOR ZERO TAX INVESTORS



Highlights value of franking credits

How safe is the safe option? Expected outcome with no risk

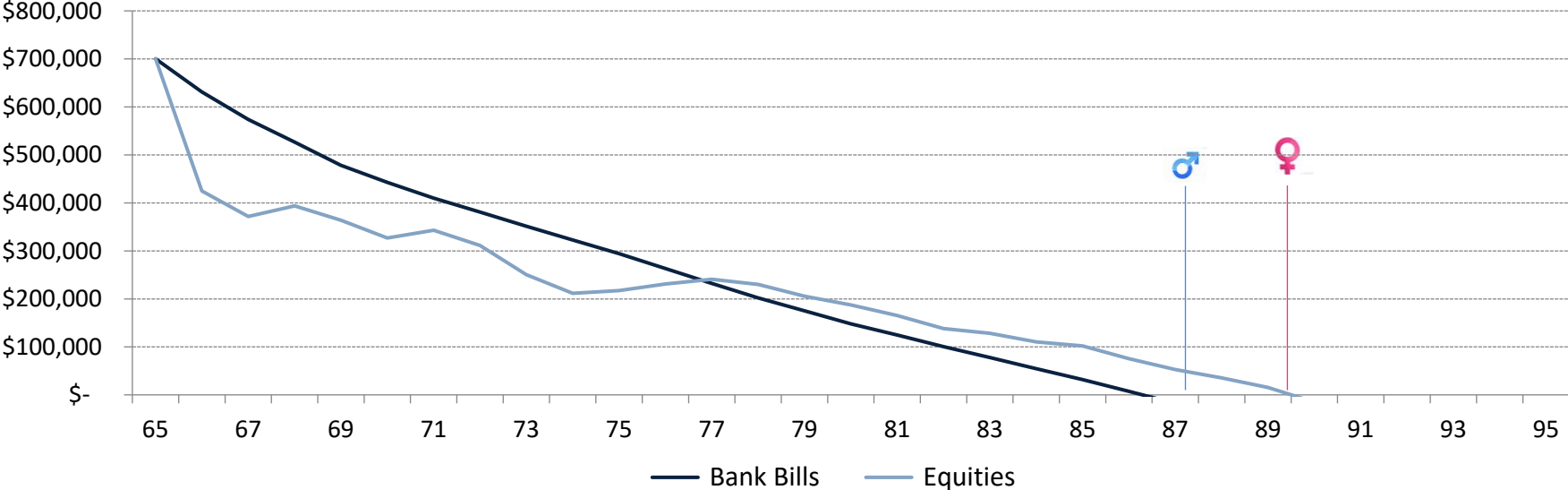
RETIREMENT BALANCES WITH AGED PENSION



Source: Plato, ASFA, Dept Human Services, Australian Life Tables
Assumptions: Home-owning couple aged 65 ASFA Comfortable \$63,352pa expenditure 0%pa and 4%pa real earnings rate on bank bills and equity \$700,000 starting balance

How safe is the safe option? Worst 5% of simulations

RETIREMENT BALANCES WITH AGED PENSION



Source: Plato. ASFA, Dept Human Services, Australian Life Tables

Assumptions: Home-owning couple aged 65 ASFA Comfortable \$63,352pa expenditure 0%pa and 4%pa real earnings rate on bank bills and equity \$700,000 starting balance

Retirees are reluctant to draw down on capital

“Retirees are concerned about outliving their savings and tend to spend less rather than use products to manage this risk”. P415

“Precautionary saving for aged care costs appears to inhibit some people from drawing down assets.” p415

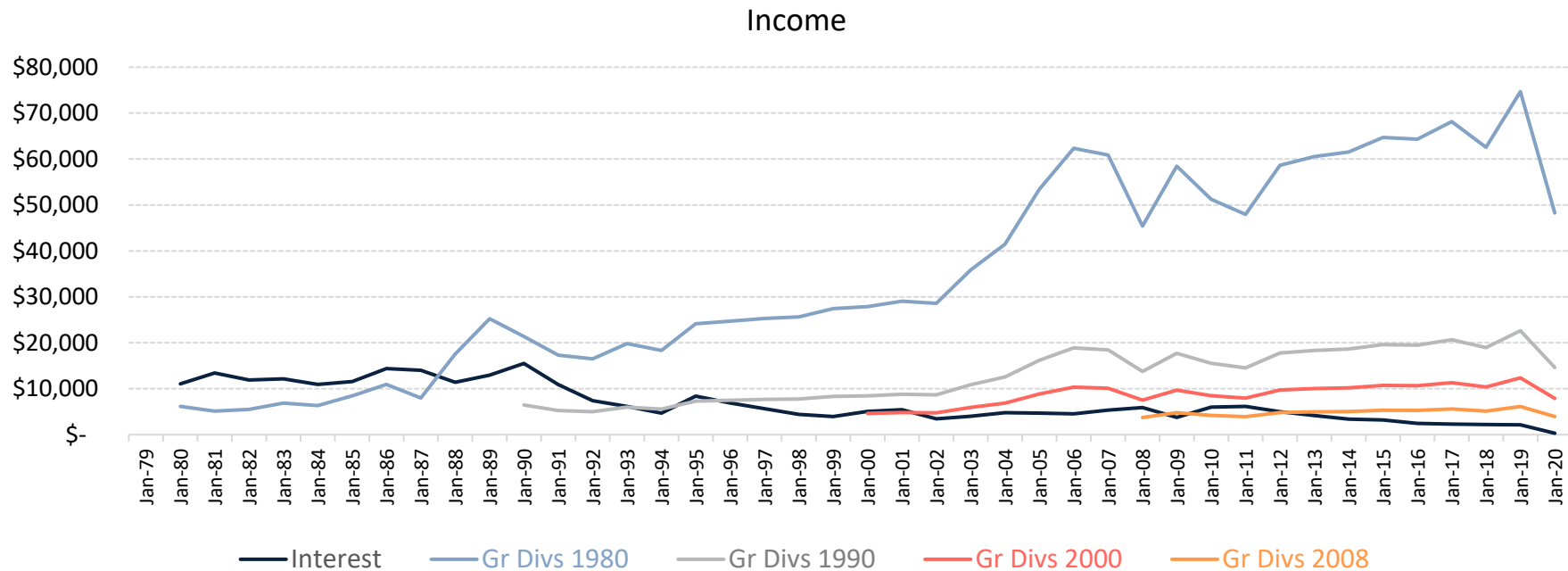
“Most people do not draw down their savings, instead, they live off the income generated by their savings.” p427

“In general, retirees do not consume their retirement savings. net financial wealth (including superannuation but not housing) grows in retirement” p432

“Data provided by a large superannuation fund found members who died left 90 per cent of the balance they had at retirement.....This suggests that retirees tend to consume only the income derived from assets and not the assets themselves. ”p432

Comparing the income from \$100k investment

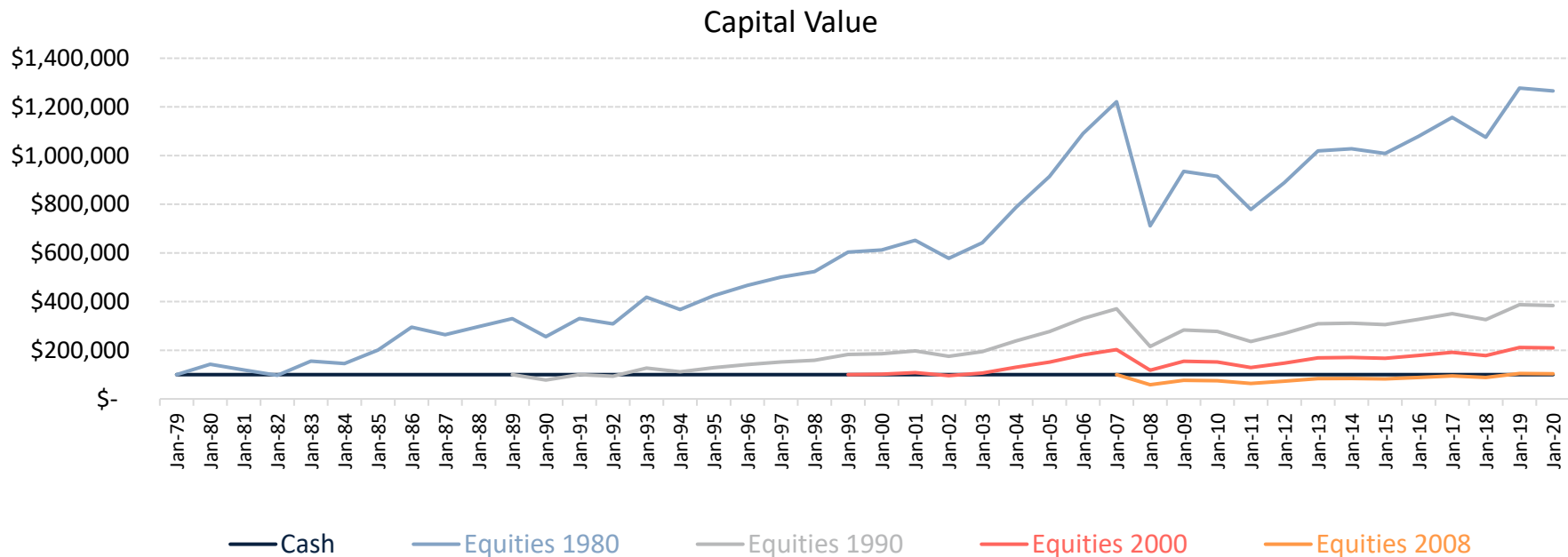
CASH VERSUS ALL ORDINARIES/S&P ASX 300 GROSS DIVIDENDS



Source: Plato, RBA, S&P, invest \$100k at the start of the year, spend all income All Ords to June 2005, S&P300 thereafter

Comparing the capital from \$100k investment

CASH VERSUS ALL ORDINARIES/S&P300 GROSS DIVIDENDS



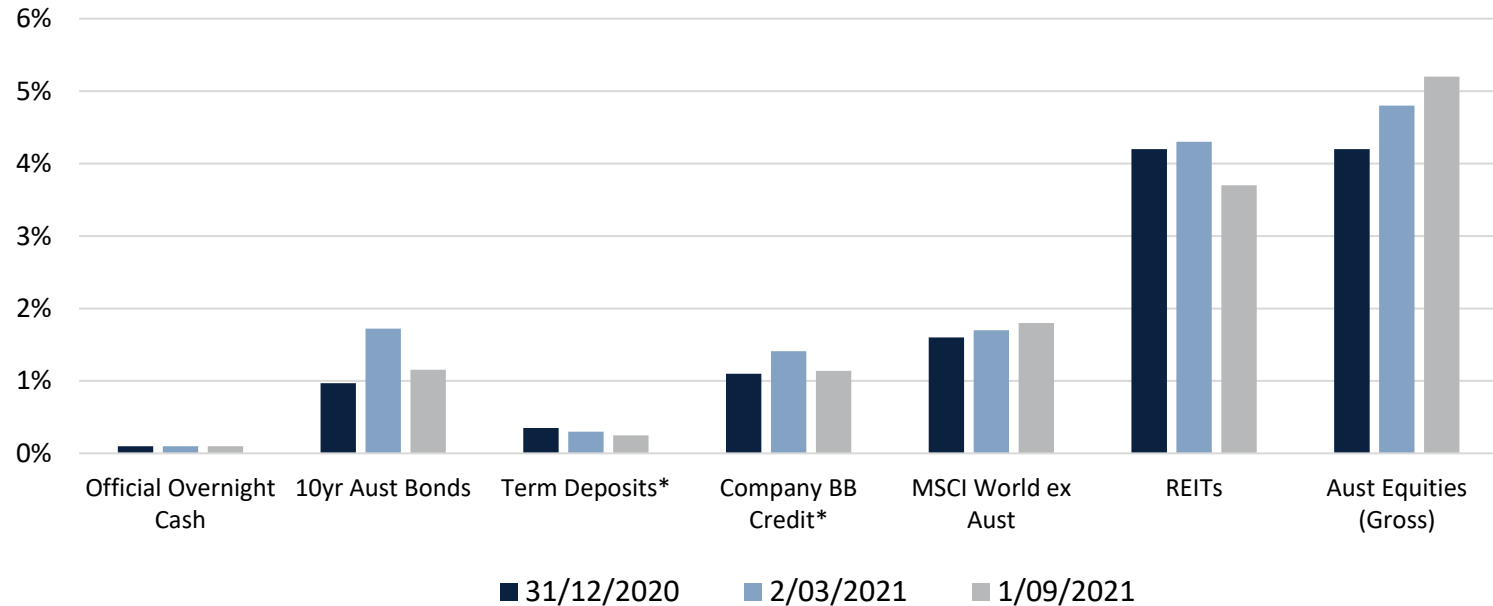
Source: Plato, RBA, S&P, invest \$100k at the start of the year, spend all income. All Ords to June 2005, S&P300 thereafter

Market outlook



Asset Class Outlook for Income

FORECAST 12 MONTH INCOME AS AT 01/09/2021

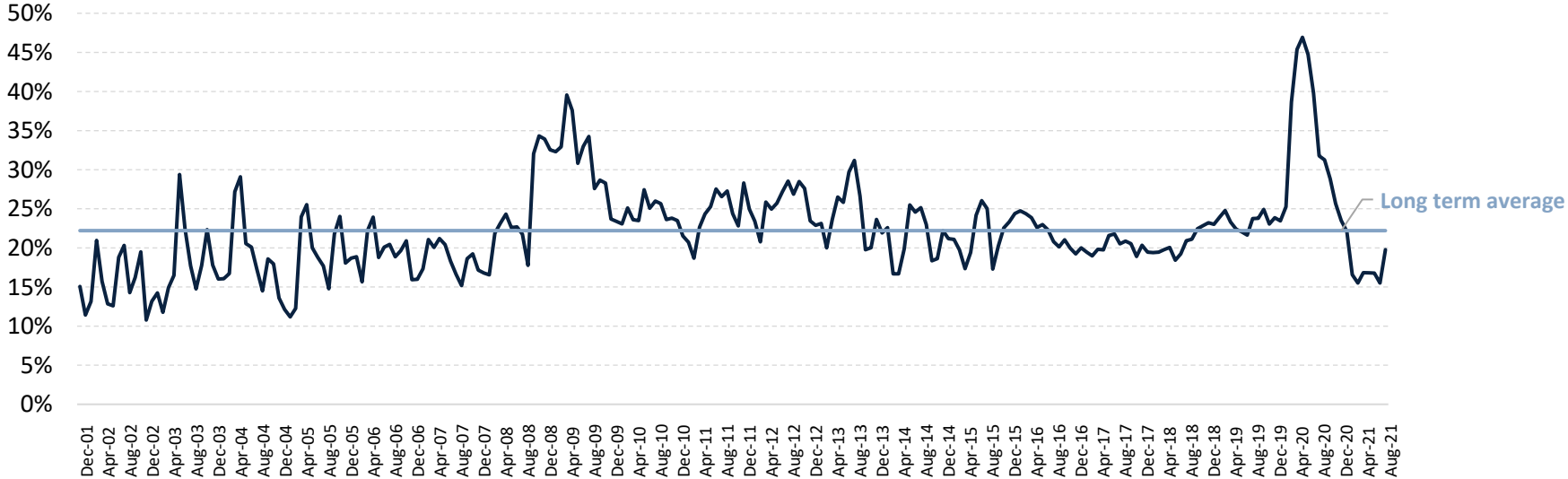


Source: Plato, Bloomberg, *RBA *The above forecast may not occur and you may not receive any income from any product including the Plato Fund.*

Dividend outlook has improved significantly over past year

AVERAGE % CHANCE OF DIVIDEND CUTS FOR AUSTRALIAN MARKET

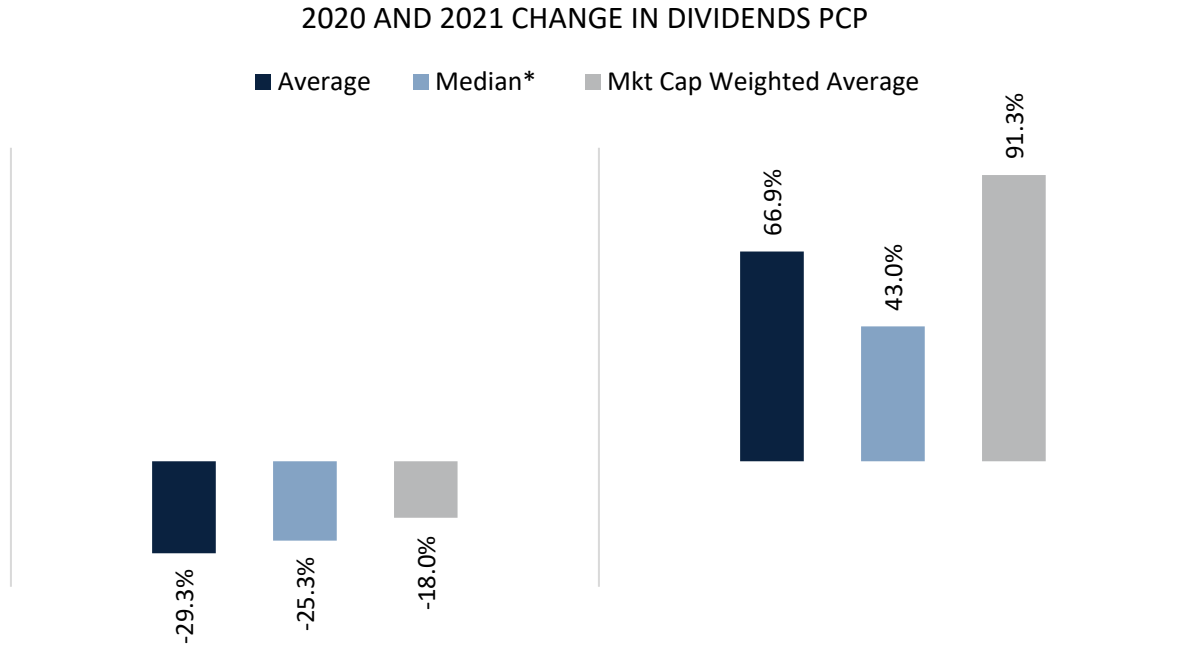
Div Cut Probability - Australia
31 December 2001 - 31 August 2021



Source: Plato, based on MSCI World IMI (Australian portion)

Results season August 2021 - Dividends

EARNINGS UP AND DIVIDENDS EVEN MORE



Source: Plato, Iress, S&P200

Summary / Market Outlook



Equity income is key to providing better retirement outcomes



— **Bad news: Interest rates to remain at historic lows**

- “safe assets” exacerbate longevity risks



— **Good news: Dividends are rebounding strongly**

- Equity income can provide retirees with high levels of tax effective income - the key to better retirement outcomes
- Active fund management critical in delivering income, total return & avoiding dividend traps



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