The Challenge of Change in Searching for Nirvana

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Agenda

• Introduction

• Intergenerational Change and the Need for Tax Reform

• Outlining the Issues

• The Challenges of Retirement – Nirvana or Minefield?

• What can you do to Enhance Your Situation?

• Some Reflections
My Background

- Migrated to Australia 1953
- Family Fruit Business 1964
- T&G Life Insurance 1969
- Funds Management 1991
- Consultancy 2012
## Introduction – An Ageing Population

### Changes in Life Expectancy

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>0 (birth)</td>
<td>47.2</td>
<td>67.9</td>
<td>80.1</td>
<td>50.8</td>
<td>74.2</td>
<td>84.3</td>
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<tr>
<td>1</td>
<td>54.3</td>
<td>69.5</td>
<td>80.4</td>
<td>57.4</td>
<td>75.5</td>
<td>84.6</td>
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<tr>
<td>15</td>
<td>59.5</td>
<td>70.1</td>
<td>80.5</td>
<td>62.5</td>
<td>76.0</td>
<td>84.7</td>
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<td>25</td>
<td>62.1</td>
<td>70.8</td>
<td>80.8</td>
<td>64.7</td>
<td>76.3</td>
<td>84.9</td>
</tr>
<tr>
<td>45</td>
<td>68.0</td>
<td>72.4</td>
<td>81.8</td>
<td>70.6</td>
<td>77.4</td>
<td>85.4</td>
</tr>
<tr>
<td>65</td>
<td>76.1</td>
<td>77.5</td>
<td>84.2</td>
<td>77.3</td>
<td>80.7</td>
<td>87.1</td>
</tr>
<tr>
<td>85</td>
<td>88.9</td>
<td>89.1</td>
<td>91.1</td>
<td>88.9</td>
<td>89.8</td>
<td>92.1</td>
</tr>
<tr>
<td>95</td>
<td>97.2</td>
<td>97.3</td>
<td>97.9</td>
<td>97.3</td>
<td>97.6</td>
<td>98.3</td>
</tr>
</tbody>
</table>

*Sources: ABS 2014a; ABS 2014b (Table S1).*
During my Lifetime – Expectation of Life at Birth

Source: ABS
Changing Demographics

**Population Shares by Age**

Per cent of total population

- **15–64**
- **0–14**
- **65+**

Sources: ABS; RBA
Did you know ...

- When the age pension was introduced in 1909 the male life expectancy at birth was 55, which was 10 years **below** the age pension age. The aim was to help people who lived longer than the average.
- A male born today has a life expectancy of just under 80 years which is 15 years **over** age pension age.

Sources: RBA and 2014 Budget Papers
Did you know... Between 2010 and 2050 the number of people aged 65 to 84 is expected to double and the number of people 85 and older is expected to quadruple. Spending on the Age Pension is projected to increase by 70 per cent over the next decade based on current policies.
“.... this is an important national conversation about Australia’s future.”

Source: West Australian Newspaper 16 April 2015
“.... these massive upheavals, both in terms of lives lost and their major global impact were the result of the older generation in power clinging to their paradigm as technology and culture shifted beneath them.”
“.... I think Australia is getting itself into a bit of a spot of bother now. It's clear that we've been through the biggest mining and resources boom in our history. The iron ore price, which was our biggest export, at the start of the 2000s was around about $20 to $30. It went up to a peak of $180 in 2011/2012. The Reserve Bank Governor said that was the greatest gift of income to Australia since the gold rush of the 1850s but since then, of course, the iron ore price has headed south...”

Michael Stutchbury  AFR
“To harness the potential of the future we need to prepare and have a plan that aligns with the demographic challenges and opportunities we face. These important issues are clearly identified in the Intergenerational Report.”

J B Hockey, Treasurer
Population and Demographic Changes

The number of people (aged 15 to 64) per person aged 65+ is decreasing.

- In 1975: 7.3 people aged 15 to 64
- In 2015: 4.5 people aged 15 to 64
- In 2055: 2.7 people aged 15 to 64

Source: Intergenerational Report 2015
Population and Demographic Changes

NUMBER OF PEOPLE AGED 100+

Source: Intergenerational Report 2015
Participation Rates

Australia’s Participation Rate Forecast to Fall from 64.6% currently to 62.4% by 2054/55

Source: Intergenerational Report 2015
Participation Rates – Over 65

Senior’s Participation Rate Forecast to rise from 12.9% currently to 17.3% by 2054/55

Source: Intergenerational Report 2015
Health Spending

Health Care Spending Per Person (in Today’s Dollars)

- 1975: $670
- 2015: $2,830
- 2055: $6,460

Source: Intergenerational Report 2015
We have a responsibility to plan and budget not only for today, but for tomorrow.

Each day we spend $1.1 billion

Each day we collect $1.0 billion

$100 million shortfall is borrowed each day

Source: Intergenerational Report 2015
Our National Debt

Debt
$526 Billion

Annual Interest Bill
$17.2 Billion

25% of GDP

Source: Australian Govt, Treasury
The Government wants to involve the Australian community in a national conversation on tax reform.

The Government is committed to a better tax system to deliver taxes that are lower, simpler, fairer.
Composition of Aust. Govt. Taxes

Source: Re:think Tax Discussion Paper
Current Tax Rates

The following rates for 2014-15 apply from 1 July 2014.

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Tax on this income</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – $18,200</td>
<td>Nil</td>
</tr>
<tr>
<td>$18,201 – $37,000</td>
<td>19c for each $1 over $18,200</td>
</tr>
<tr>
<td>$37,001 – $80,000</td>
<td>$3,572 plus 32.5c for each $1 over $37,000</td>
</tr>
<tr>
<td>$80,001 – $180,000</td>
<td>$17,547 plus 37c for each $1 over $80,000</td>
</tr>
<tr>
<td>$180,001 and over</td>
<td>$54,547 plus 45c for each $1 over $180,000</td>
</tr>
</tbody>
</table>

Medicare Levy of 2% begins at $20,542 for normal taxpayers
Temporary Budget Repair Levy of 2% for Incomes over $180,000

Source: ATO
Bracket Creep

Chart 2.7 Estimated cumulative increase in taxpayers in third and fourth tax brackets, relative to 2014-15

Source: Re:think Tax Discussion Paper
Who Bears The Income Tax Burden?

- 7.8m adults = 45% of adults
- 2.9m taxpayers = 17% of adults
- 4.6m taxpayers = 27% of adults
- 1.6m taxpayers = 9.4% of adults
- 251,000 taxpayers = 1.5% of adults

45% of adults pay NO income tax
17% of adults pay 4% of all income tax between them = $1.8k each
27% of adults pay 34% of all income tax between them = $9.9k each
9.4% of adults pay 35% of all income tax between them = $29k each
1.5% of adults pay 26% of all income tax between them = $139k each

$46b = 34% of all income tax
$47b = 35% of all income tax
$35b = 26% of all income tax

Source: ATO Taxation Statistics 2010-11
The Issues

• Severe implications for long term funding
• Need for structural reform of national income base
• Alternative taxation methods
• How best to care for our ageing population
• Need for greater independence
• The role of the individual
• Compulsory superannuation becomes even more critical
• Change is necessary and inevitable
What are the Answers?

• Increasing level of GST?
• Increasing Income Tax?
• Reducing Non-essential Spending?
• Increasing Age Pension Age?
• Taxing Superannuation for Retirees?
• Assessing Principal Residences?
• Abolishing Negative Gearing?
• Taxing Large Super Balances?
Lessons I Take From It All

Financial Independence: Why We Want It

"... the power or right to speak, think, or do as one wants..."
The Quest for Nirvana

- No worries
- Freedom to choose
- Bucket lists
- Place in the sun – No more winters
- Long life expectancy
- Good health
What are the Alternatives?

- Self Funding
- Compulsory Superannuation
- Long Term Investing
- Independence from Government Pension
- Keeping Healthy

I'm retired - goodbye tension, hello pension!
Compulsory Superannuation Projections

- Assumptions
  - Commencement Age: 20
  - Retirement Age: 65
  - Starting Salary: $50,000
  - Inflation: 2.5%
  - Net Earning Rate: 6.0%
  - Contribution Rate: 9.5%

- Projections
  - Salary at Age 65: $148,190
  - Accumulated Super: $1,311,646
  - Multiple of Salary: 8.85 times
  - Tax Free Earning Rate: 6.0%
  - Potential Income: $78,698 pa
  - % of Final Salary: 53%
What a Great Tax Structure – Over 60’s

• Superannuation
  - Contributions – 15% Tax
  - Income – Taxed at 15%
  - CGT over 12 mths – 10%
  - Franking Credits Available
  - Withdrawals – 0%

  ▪ Compare this to Normal Income

• Account Based Pension – You must be drawing income
  - Income – Taxed at 0%
  - CGT – 0%
  - Franking Credits Available
  - Withdrawals – 0%

  ▪ Compare this to Other Structures
Other Savings or Investments

- Salary Sacrificing
- Negative Gearing
- Margin Lending
- Direct Shares
- Managed Funds
- Your Own Business
- Company Stock Options
- Dollar Cost Averaging

Not the only options but a few ideas to look at
Reflections: 46 Years of Investment Markets
The Crash of the 70’s

The Collapse -58.7%

The Recovery 273.7%

<table>
<thead>
<tr>
<th>End of Month</th>
<th>Price Index</th>
<th>Accum Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-1973</td>
<td>609.3</td>
<td>1261.6</td>
</tr>
<tr>
<td>Jun-1973</td>
<td>598.8</td>
<td>1249.2</td>
</tr>
<tr>
<td>Sep-1973</td>
<td>493.4</td>
<td>1041.1</td>
</tr>
<tr>
<td>Dec-1973</td>
<td>472.6</td>
<td>1013.5</td>
</tr>
<tr>
<td>Mar-1974</td>
<td>537.1</td>
<td>1171.4</td>
</tr>
<tr>
<td>Jun-1974</td>
<td>396.2</td>
<td>877.7</td>
</tr>
<tr>
<td>Sep-1974</td>
<td>251.8</td>
<td>578.2</td>
</tr>
<tr>
<td>Dec-1974</td>
<td>306.7</td>
<td>712.7</td>
</tr>
<tr>
<td>Mar-1975</td>
<td>380.4</td>
<td>902.0</td>
</tr>
<tr>
<td>Jun-1975</td>
<td>391.0</td>
<td>936.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>End of Month</th>
<th>Price Index</th>
<th>Accum Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-1978</td>
<td>520.5</td>
<td>1437.3</td>
</tr>
<tr>
<td>Jun-1978</td>
<td>580.9</td>
<td>1617.1</td>
</tr>
<tr>
<td>Sep-1978</td>
<td>658.5</td>
<td>1845.6</td>
</tr>
<tr>
<td>Dec-1978</td>
<td>621.1</td>
<td>1772.1</td>
</tr>
<tr>
<td>Mar-1979</td>
<td>662.9</td>
<td>1922.7</td>
</tr>
<tr>
<td>Jun-1979</td>
<td>665.0</td>
<td>1945.4</td>
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<tr>
<td>Sep-1979</td>
<td>840.9</td>
<td>2475.7</td>
</tr>
<tr>
<td>Dec-1979</td>
<td>941.1</td>
<td>2794.1</td>
</tr>
</tbody>
</table>

Source: Statex Actuaries price and accumulation indices as published in the SMH
The Crash of October 1987

ASX All Ordinaries Price Index Peaked on 21 September 1987

Source: ASX; RP Data-Rismark
The Decade of the 90’s

– Bond Market Crash 4\textsuperscript{th} Feb 1994
  – Alan Greenspan triggers Collapse by Raising rates by .25%
  – Global Sell Off – All Markets Affected

– Asian Crisis - 1997
  – Trigger was Thailand floating the Baht
  – Fear of Global Economic Meltdown
  – Russia defaulted on Bonds
The New Millennium & the GFC

Source: Commsec
The Stock Market Long Term

Source: Data to 28 February 2015. IRESS Chart shows the value of $10,000 invested on 31/12/79, S&P/ASX All Ordinaries Accumulation Index

Past performance is no indication of future performance.
Different Ways of Investing
Understanding Asset Classes
### Historical Performance

**Indices To 28 February 2015**

<table>
<thead>
<tr>
<th>Asset class</th>
<th>6 months</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
<th>20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian shares</td>
<td>7.52%</td>
<td>14.19%</td>
<td>15.79%</td>
<td>9.55%</td>
<td>8.06%</td>
<td>10.19%</td>
</tr>
<tr>
<td>Global shares</td>
<td>22.05%</td>
<td>23.32%</td>
<td>26.11%</td>
<td>14.73%</td>
<td>6.50%</td>
<td>6.95%</td>
</tr>
<tr>
<td>Australian property securities</td>
<td>17.88%</td>
<td>35.37%</td>
<td>23.33%</td>
<td>15.01%</td>
<td>3.32%</td>
<td>8.36%</td>
</tr>
<tr>
<td>Australian fixed interest</td>
<td>5.58%</td>
<td>10.31%</td>
<td>7.14%</td>
<td>7.34%</td>
<td>6.74%</td>
<td>7.50%</td>
</tr>
<tr>
<td>International fixed interest</td>
<td>5.22%</td>
<td>10.54%</td>
<td>7.41%</td>
<td>8.09%</td>
<td>7.68%</td>
<td>8.45%</td>
</tr>
<tr>
<td>Cash</td>
<td>1.36%</td>
<td>2.73%</td>
<td>3.08%</td>
<td>3.79%</td>
<td>4.82%</td>
<td>5.29%</td>
</tr>
<tr>
<td>Global resources</td>
<td>-4.72%</td>
<td>-4.64%</td>
<td>-6.50%</td>
<td>-4.65%</td>
<td>4.55%</td>
<td>7.23%</td>
</tr>
<tr>
<td>Global emerging markets</td>
<td>9.57%</td>
<td>20.05%</td>
<td>10.96%</td>
<td>6.46%</td>
<td>8.04%</td>
<td>NA</td>
</tr>
<tr>
<td>Global listed infrastructure</td>
<td>12.00%</td>
<td>24.44%</td>
<td>21.08%</td>
<td>15.89%</td>
<td>10.99%</td>
<td>NA</td>
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Source: S&P/ASX 300 Accumulation Index, (ASX All Ordinaries Accumulation Index pre April 2000), MSCI World Net Index ($A), S&P / ASX 200 - A-REIT Accumulation Index (ASX Property Trusts Accumulation Index pre April 2000), UBS Australian Composite Bond Index 0+ Years, Citigroup World Government Bond Index ex Australia AUD Hedged, UBS Australia Bank Bill Index, S&P / Citigroup BMI World Property Index (unhedged), HSBC Global Mining Accumulation Index, MSCI Emerging Markets Net Index, UBS Global 50-50 Infrastructure & Utilities Net TR Index (AUD hedged).

**Past performance is no indication of future performance.**
Returns of Australian shares

28 February 2015

Annualised return: 10.19%*

<table>
<thead>
<tr>
<th>Year</th>
<th>Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>23.6%</td>
</tr>
<tr>
<td>1998</td>
<td>11.5%</td>
</tr>
<tr>
<td>2000</td>
<td>12.7%</td>
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<tr>
<td>2002</td>
<td>8.1%</td>
</tr>
<tr>
<td>2004</td>
<td>9.3%</td>
</tr>
<tr>
<td>2006</td>
<td>6.3%</td>
</tr>
<tr>
<td>2008</td>
<td>25.8%</td>
</tr>
<tr>
<td>2010</td>
<td>29.6%</td>
</tr>
<tr>
<td>2012</td>
<td>23.1%</td>
</tr>
<tr>
<td>2014</td>
<td>23.8%</td>
</tr>
<tr>
<td>2016</td>
<td>-14.7%</td>
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<tr>
<td>2008</td>
<td>-0.8%</td>
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<tr>
<td>2010</td>
<td>45.1%</td>
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<td>2012</td>
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<td>2014</td>
<td>23.4%</td>
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<td>2016</td>
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<td>2018</td>
<td>14.2%</td>
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<tr>
<td>2020</td>
<td>-37.3%</td>
</tr>
<tr>
<td>2022</td>
<td>-6.8%</td>
</tr>
<tr>
<td>2024</td>
<td>-0.8%</td>
</tr>
<tr>
<td>2026</td>
<td>45.1%</td>
</tr>
<tr>
<td>2028</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

Source: IRESS, Colonial First State. *Data from 28 February 1996 to 28 February 2015. Percentage return over rolling one year. S&P/ASX 300 Accumulation index (All Ordinaries Accumulation index pre April 2000). The index returns cannot be directly compared to an individual Colonial First State fund’s return for many reasons such as they do not include allowances for fees or taxation and do not reflect the asset allocation or stocks held now or over time. **Past performance is no indication of future performance.**
Returns of global shares

28 February 2015

Annualised return: 6.95%*

Source: RIMES, Colonial First State. *Data from 28 February 1996 to 28 February 2015. Percentage return over rolling one year. MSCI World Net index ($A). The index returns cannot be directly compared to an individual Colonial First State fund’s return for many reasons such as they do not include allowances for fees or taxation and do not reflect the asset allocation or stocks held now or over time.

Past performance is no indication of future performance.
Returns of global fixed interest

28 February 2015

Annualised return: 8.45%*

Source: Colonial First State. *Data from 28 February 1996 to 28 February 2015. Percentage return over rolling one year. Citigroup World Government Bond Index ex Australia AUD Hedged. The index returns cannot be directly compared to an individual Colonial First State fund’s return for many reasons such as they do not include allowances for fees or taxation and do not reflect the asset allocation or stocks held now or over time.

Past performance is no indication of future performance.
Returns of Australian property securities

28 February 2015

Annualised return: 8.36%*

Source: Colonial First State. *Data from 28 February 1996 to 28 February 2015. Percentage return over rolling one year. S&P / ASX 200 - A-REIT Accumulation Index (ASX Property Trusts Accumulation Index pre April 2000) The index returns cannot be directly compared to an individual Colonial First State fund’s return for many reasons such as they do not include allowances for fees or taxation and do not reflect the asset allocation or stocks held now or over time.

Past performance is no indication of future performance.
The Best Returns

• If you had been a long term investor over the past 20 years, then 100% allocation to Australian Shares would have given the best return.

But! That is Only Part of the Answer

• Volatility, your age and investment time frames are big factors.
**My Thoughts?**

- We all have opportunities to fund for our “after full time work” nirvana
- It takes planning and discipline and we should be independent

**What About All this Change?**

- Change is inevitable – as a nation we are faced with a conundrum. We can’t afford to keep funding pensions as we are and we can’t take away incentives from individuals to fund retirement
- Better to pay tax than have very little income
My Thoughts?

• The budget will bring change

• It will be tempered by politicians’ desire for re-election

What might Change?

• Tax on Superannuation earnings over perhaps $75,000

• Higher GST

• Tightening of eligibility for benefits

• We only have a week to wait