

Retirement choices just got harder

Robert Gottliebsen
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THREE groups of people are facing a very intense six months: Those being forced out of the workforce by the "Coonan plan", those negatively gearing property investors - especially in Sydney, and those who want to consider superannuation choice.

All three of these decision areas pose major challenges to financial planners. Last month in Australia, James Gately, the global investment services managing director of US index fund giant Vanguard, underlined similar problems facing many people in the US.

Vanguard has set up a special financial planning unit in the US because people there have become concerned about how much of their retirement funds they should withdraw each year in case they reduce their ability to finance later years if they live a long time.

In Australia and the US a large part of the financial planning sector has concentrated on setting up plans for those who have been retrenched. The retrenchment rate is now lower and new issues have emerged.

Gately says Vanguard recommends that Americans should only take out 4.5 per cent of the worth of their fund each year, although that percentage can rise as they get older. Vanguard does not plan to enter Australian financial planning, but if it did it would cause a major upheaval because most Australian financial planners are working on a different basis.

On the other hand AXA has recruited the services of Mark Textor, mastermind of John Howard's issue polling in the last election.

He says Australians have become much more aware of the greater complexity of most issues, and so rejected Labor's simple solutions. Accordingly, AXA will be looking at a much more detailed approach to financial planning rather than offering oversimplified solutions.

All the majors are closely examining their financial planning approach for 2005.

As one of the key pillars of the Government's retirement policy, the Coonan plan directly contradicts the Treasurer's claims that the Government wants to keep people in the workforce longer. While Peter Costello was mouthing those words in the last Budget, Helen Coonan, then assistant treasurer, was preparing a plan that would remove tens of thousands of high-paid professionals from the workforce by June 29 this year.

Most professionals with large amounts of superannuation operate self-managed funds, partly because the institutions can't provide long-term pensions without heavy charges. Those with substantial sums in self-managed funds established before Budget night can still spread their retirement payouts over a long lifespan -- until they are 106.

Under the Coonan plan these people must retire by June 30 this year or they will be forced to withdraw their money from their funds over a much shorter time -- by their mid-80s.

Maybe some Treasury officials think professionals work too hard and won't live past the average. Those who don't retire before June 30 and who are unlucky enough to beat the Treasury average lifetime estimates will have no superannuation income. So tens of thousands of Australians have to decide whether to leave the workforce by June 30 or hope that they will die in line with Treasury estimates.

The pretext for this dramatic change is that those with substantial amounts in superannuation may want to access the old age pension -- a preposterous idea. My guess is that Helen Coonan was sucked in by Treasury, because aspects of the Coonan plan have been incorporated in the so-called growth pensions, which also expire when a person is in their mid-80s, leaving them to rely on the age pension for the final years of their lives.

Like the Coonan plan, the growth pensions encourage people to leave the workforce early because they boost immediate income by leaving a gaping hole later.

A parliamentary committee will look at superannuation this year, but given the attitudes of Treasury to superannuation there is no guarantee that good sense will prevail.

On New Year's Day last year many Australians counted their wealth by the number of apartments and other residential dwellings they had negatively geared. Negative gearing had replaced superannuation as the preferred retirement mechanism for tens of thousands.

Indeed, in the months leading up to New Year's Day last year, negative geared loans represented half the housing loan market. What a difference a year makes.

In Sydney and Melbourne, dwelling prices have fallen by between 10 and 15 per cent and when that happens the personal payments covering interest, rates, taxes and repairs really hurt. If tenants are hard to find, or damage the property, it's a nightmare. In NSW there are big exit fees when you sell. The current bad experiences are causing new investors to wonder whether negative gearing is a good idea. As negative gearers decline in number so the home market is again being taken over by buyers who plan to live in their investment.

Sale numbers have slumped, but so far there has not been a substantial investor-led dwelling sell-off because investors are hanging on and are prepared to accept pain over the next few years on the basis that bricks and mortar will eventually deliver. They are probably right because zoning clamps and high building material costs will keep prices up.

However, Sydney has a unique problem. About 30,000 people are leaving the city each year, driven out by the high housing prices and other factors.

Melbourne, Brisbane and the other capitals are enjoying population growth, which underpins their property markets.

Meanwhile, money that was going into property is now hitting the share market, which is one of the reasons it was so strong in 2004, and is likely to continue growing in the current year.

Investors will need to be careful not to take it too high, given that the Reserve Bank wants to reduce the Australian growth rate.

This year, everyone with a superannuation fund will be under pressure to change. It is here that I hope the greater sophistication that appears to be emerging in financial planning will extend to superannuation funds management.

At the moment those with money in superannuation simply look at the figures from their fund manager on a monthly basis and sack managers who don't perform in the short term.

Many financial planners enjoy this sport because it lifts their commissions, but it is weakening the fabric of Australian corporate communities, forcing chief executives to take short-term decisions to the enterprise's longer term detriment. In 2004, a very good illustration of that phenomenon was NAB.

Overseas groups understand that Australian institutions have no concern about the longer term, and so buy our companies with long-term prospects cheaply.

Xstrata bought one of Australia's great mineral jewels, MIM, for an absolute song and will more than double its money in a year or two.

It is now trying to do the same again by buying WMC at token prices, although it has no hope of success because it will be blocked by the Foreign Investment Review Board due to WMC's dominant position in global uranium.

Those wanting a longer term approach to superannuation are currently forced into self-managed funds, so Australian institutions have only themselves to blame for the huge rise in self-managed funds. Unless they change their attitudes and recognise the growing sophistication of the market, self-managed funds may be the big beneficiaries of choice.

There is another factor that those making superannuation choices need to take into account -- how much risk do superannuation managers take to achieve their performance?

Unfortunately, measuring risk levels is difficult, but it is a concept that needs further work in 2005, particularly when applied to one or two industry funds.