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Money crisis looms

Julianne Dowling | August 15, 2008 - 8:40AM

Our mortality prospects are improving but there's still a looming money crisis arising from a longer life expectancy.

For the average business owner facing lean superannuation savings, it may mean having to work longer than expected in order to survive - albeit with less hours.

According to Mark Johnston, of Investment Trends, of those investors with self-managed super funds (SMSFs) still working, the average expected time to retirement has increased from 10 to 12 years in the wake of the market downturn.

"I think longevity risk is much less of an issue for SMSFs than other superannuants, since SMSFs tend to have far higher balances."

The average SMSF balance as of March was \$755,000 as of March 2008 (APRA data), he said. The average member balance is a little over half this amount.

Johnston says his 2008 SMSF investment report reveals that 31% of SMSF members are business owners/self employed, meaning around 120,000 business owners run a SMSF.

But overall, the self-employed have less super than the national average with 28% having nothing and a further 53% having account balances of less than \$40,000.

There's a marked dichotomy between the 'haves' with financial assets versus the 'have-nots'.

A report on self-employed and retirements savings by The Association of Superannuation Funds of Australia (ASFA) in June found that 64% of the superannuation assets are held by 8% of the self-employed but there was a link between a concentration of super monies and those people with better business plans.

Pauline Vamos, CEO of ASFA, said: "The higher balance, the better the business and they (owners) often took advice. The more access to advice, the more advantage they take of tax breaks and discounts and so there's a link in getting sound advice and making the most out of super contributions."

"Our ANOP research on consumer attitudes shows that a certain proportion of respondents don't believe that their retirement income won't last them for their full retirement years."

On top of this, investment specialist Dr David Knox, partner at Mercer argues that those drawing down on their super through Transition to Retirement strategies will face an even worse shortfall unless the markets improve.

This is because investment returns from superannuation are likely to be lot lower in the next few years and the combined effect of less returns and outflows through an allocated pension will create a decumulative effect that's difficult to compensate if you were planning to retire early.

And the older self employed with lower super assets are even more at risk.

As one longevity expert says, you either live frugally and die rich or run out of savings in the meantime.

Vamos believes that more older business owners are using transition to retirement (TTR) strategies and this is likely to be a trend. This is a strategy for those aged 55 years and over because it means gaining partial access to superannuation benefits and being able to 'top up' income, allowing that person to possibly go part- time.

And if you're over 60, any money coming out of super will be tax-free.

"Look at Bunnings; there are lots of ex-tradies working part-time in stores such as this."

Certainly, financial planners are anecdotally reporting more requests for TTR-related advice once people approach their preservation age.

Katrina Pulbrook, an ANZ Financial Planner in Melbourne, says that she's found fewer small business owners asking for it,

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mainly because they don't have a large enough super balance to meet the requirements.

When they do ask, she says: "There is a real education problem with this strategy because it is complicated."

Participants at last week's annual Investment & Financial Services Association conference were told that industry calculations showed that 60% of people will run out of money before they hit old age.

Ingevity principal Andrew Robertson, a former McKinsey consultant, says that at least one partner in a couple will live another 30 years and that the cost of care is likely to be higher after age 80 so we'll need more - not less - in our frail years.

According to Mercer's Dr Knox, part of the problem is the under-estimation of life expectancy by financial planners who use standardised tables which don't necessarily reflect the individual's situation.

Dr Knox advocates a new generation of pension products, similar to those in the US where guaranteed capital income streams and a mix of strategies aim to overcome this shortfall. Even advances on life insurance policies, a relatively untapped market in Australia, could offer a solution.

While Asteron launched the first longevity income stream a few years ago, there's still a way to go.

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