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AMP Information Session

SPEAKERS:

ROBERT COULTER
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MR R. COULTER: All right. Good morning, ladies and gentlemen, and thank you. Thank you for joining us for this morning's information session. My name is Robert Coulter. I'm delighted to be introducing this morning's session. In today's session, we'll be hearing from two speakers, the first being Shane Oliver, which is AMPs chief economist. Shane will share with you his thoughts on the investment outlook for 2018 and the opportunities in those markets. Shane will also take the opportunity to cover some of the key points from this week's federal budget announcement. I'll then invite Sam Rio, AMP adviser, to join me in discussing some issues like Centrelink entitlements, gifting and aged pension considerations.

As in previous years, we've left time at the end of the session for questions for both Shane and Sam. They would welcome those. And we'll also be able to take questions online for the folks who are listening to us over the web. Now, I also recognise many of you have questions about AMP this morning, but at this morning's information session we'll be focusing on the subjects that both Shane and Sam are talking about. They're both incredibly knowledgeable. So this is a great opportunity to make the most of their time. This session will conclude at 10.30 am, and the AGM will commence in the Savoy Room across the hallway at 11 am. Now, before the session starts I just have to remind you that any information in this presentation is general in nature, and, of course, it does not take into account your personal objectives, your financial situation or needs.

I'm delighted to introduce our first speaker. He'd be very familiar to most people in this room and online. Shane Oliver is one of Australia's most respected and recognisable financial commentators. Shane joined AMP in 1984, becoming chief economist in 1994, and is now the chief economist and head of investment strategy. Shane has extensive experience in analysing economic and investment cycles, and what current positioning means for return potential for different asset classes, such as shares, bonds, property, and infrastructure. Shane is a regular media commentator on economic and investment market issues and engages regularly with investors at public forums and events. Please join me in welcoming Dr Shane Oliver. Thanks, Shane.

DR S. OLIVER: Okay. Thanks for coming along today. I had thought I might need a Perspex screen after the events of the last three weeks, and Robert and others said, well, if you get a Perspex screen then the people down the front will be hit by the teacups and the bottles and things that come to the screen. So we can't do that. But, in any case, I just want to say a little bit about that, because I have been – as Robert just said, I have been at AMP a long, long time.

Many times, when I go into the building down there at Circular Quay I look up and see that little sign, the Tom Bass sculpture on the side of the building that says amicus certus. And if you want to google that now, that AMP sculpture might come up, and it means in full – because that's the short version of it – it means in full a sure friend in uncertain times. And I've got to admit that over those 34 years, going on for 35, it's inspired me. You know, I felt proud working for a company that had a noble purpose. Obviously, it started off in insurance and then went more broadly in terms of saving. But that sure friend in uncertain times was a thing that inspired me.

And when I talked to people back then in the 1980s, the 1990s, a lot of them talked about being in the service. And I used to think, well, this isn't quite the military service, but many of them saw it that way in the service of AMPs clients and customers. But, unfortunately, something has happened, some bad behaviour has occurred, and has that caused significant damage to our customers, clients, and, of course, shareholders.

And someone on Twitter recently said to me – I don't know how much you guys read the social media, but a few years ago I got into one. I don't use Facebook, because I always thought Facebook was for narcissists. You know, it's where you put your picture up. So I went down the path of Twitter, where I don't have to put up my picture. And my name on Twitter is ShaneoliverAMP. I reckon I'm about the only person at AMP who has got their social media name as ShaneoliverAMP. So I'm almost intertwined with AMP.

Someone said on Twitter, in a tweet to me, well, maybe you should lose the last three letters, and I can understand where they're coming from. And I thought to myself, well, if I do that then I am dumping on that legacy, on that noble purpose to be a sure friend in uncertain times. All of those people I've worked with through my career who have done the right thing for our clients and customers, and also many of – most of my current colleagues at AMP, who do come to work trying to do the very best they can for their clients and customers.

And I mean the broader AMP. Not just the people who work in the AMP buildings, but the financial planners and so on. Most of them, the great bulk of them are focused on doing the right thing. And, believe it or not, I even have an AMP financial planner, and I'm really happy that I've got one, because I reckon I'm financially better off than if I didn't have one. So, anyway, I won't be ditching the term AMP. What has to happen now is that the bad behaviour has to stop and the good behaviour – which I see all the time – has to rise to the surface and dominate.

And that brings me to today. The best I can do is continue to do the best I can for our clients and customers, which is partly what today is about with this little session. So I'm going to provide a bit of an overview as to how I see the budget. Not a lot on that, because the media is full on that; it's covered regularly in the newspapers. But a few key points on the budget.

To be honest with you, I kind of like the budget because it seemed fairly responsible to me. On the one hand, the government has had a revenue windfall. It's equivalent to about $7 billion a year. The first time in a long time the budget has looked better, rather than worse, and that has meant that they've got a bit of flexibility. Now, they could have given all of that money away, you know, pre-election handout. But, of course, they didn't. They let the bulk of that go to further reducing the budget deficit and then saying, well, if in a few years of time we get much higher levels of revenue and we're into surplus then we will cap the level of revenue at around past relationship to GDP and we will have tax cuts.

So, in the meantime, there's very small tax cuts, which amount to a sandwich – I think I've got a chart here – which amounts to a sandwich and a milkshake. Hopefully I've got the chart. There it is there. So that shows – it's a chart from the budget papers themselves. IT shows the value of the tax cut that was announced in the next financial year. So for someone earning $85,000 you're getting about $530 a year, which, if you divide that by 52, is about $10. And I joked this is another sandwich and a milkshake tax cut, and someone says tell me where you can buy a sandwich and a milkshake for $10 these days. And I must admit, when I go around in Sydney to buy that, I got to a point where I was buying $10 for the sandwich and there was no money left over for the milkshake. And so, from this year, I've been making my own sandwiches. So that's where I can get my $10 sandwich and the milkshake from: make it yourself.

But, in any case, not a lot. Not a lot of stimulus in the short term. The bulk of the tax cuts are actually next decade, so it's promise of things to come. Is that sensible? I think I can go back. Is that sensible? If you look at that chart there, it shows government spending as a share of GDP. That's the grey line. It goes back to 1989/90. You can see it goes up and down. The blue line is the level of revenue, and the government is assuming that the level of revenue will rise, giving us that surplus eventually.

Now, of course, if you don't do anything then lots of Australians will go into higher and higher tax brackets, so it makes sense to start giving some of that money back when that happens. So you can't rely on the revenue line going up forever. Eventually, Australians won't want to work any more. So it makes sense to cap that, and the government has signalled if we get to that surplus next decade then we'll start cutting tax rates more broadly for Australians. Obviously, a long way to go.

Big question in all of this is whether the revenue line keeps going up as the government is assuming, and, you know, if we have a recession globally, the US goes off the rails, whatever, then that could threaten that. So there's still some issues around the budget. But, overall, I'd give it a tick. I thought it was a reasonable outcome. Who were the losers? There wasn't a lot of losers in the budget. Sam might go into some of the details on superannuation later.

But the losers I came up with: dodgy people and illicit smokers. I don't know what they are, but dodgy people are dodgy people who buy a boat for 20,000 and they pay for all of it in $100 bills. So you won't be able to do that any more; you'll only be able to buy a $10,000 boat with $100 bills. So that's made life a little bit tougher there. Illicit smokers: there's some effort to crack down on people buying tobacco that's not properly taxed. I think that's what that means. But not a lot of losers in this budget, mostly winners.

So I'll go on to how I see the investment outlook. This year started off on a rough note, if I think about this year. You can sometimes go through years where they're relatively smooth. Last year was relatively smooth. We worried about Trump taking over, lots of noise around Trump, but the US share market just went up. We worried about the elections in Europe, The Netherlands, France and so on. Share markets just kept going up. We worried about the Fed raising interest rates. Share market just kept going up.

This year has been a bit rougher. We get to January. The share market's still going up. February: share markets came down, worried about higher inflation, higher interest rates in the US. We get over that, Trump comes along with his tariffs, and, of course, share markets didn't like that, because they think if he puts tariffs up there will be less trade globally and that will be bad for global growth and profits. And then we simply get over that, and then we get this AMP stuff. But, anyway, that's a different issue.

What annoys in all of that – so that's one point to note. And I would've put this up two years ago, when I was last down here, and I'll put it up again, because I think it's very important in times like the current – in times like last year. If you responded to all of that noise last year and stayed on the sidelines in cash, you would've got $2, 2 per cent, but if you'd closed your ears, stayed with the market, you would've done pretty well. So I think it's very important at times of volatility to turn down the noise. I won't go through everything here. That's the best way to get the advantage of compound interest that a well-diversified portfolio of shares will give you.

But turn down noise: very, very important. I think that's the highlight of that chart there, even around financial issues at the moment with the Royal Commission going on. You've really got to find a way to stay focused in your investments, and, if anything, try and take a bit of a longer-term approach, rather than trade around too much. So that's the noise we saw over the last few years. Lots of things going on: of course, worries at the moment about a trade war is the big one at the moment.

But, over the years – if you go back five years, remember the Fed was going to end quantitative easing, money printing, and everyone said, well, the share markets have only gone up because of money printing, because of quantitative easing. What happened? Well, the Fed ended money printing, or quantitative easing, back in 2014. And the US share market has kept going up. So lots of worries over the years, but it has mostly turned out okay, and you can see the returns. A typical balanced fund last calendar year – this is a well-diversified mix of shares and bonds and cash and property and so on – after tax, believe it or not, returned about 10 per cent, and over the last five years it was also 10 per cent. So returns have actually been pretty good over the last five years.

What about the current situation? Now, I got to say this: if I go back two years ago, when I was here, share markets were a lot lower. So whichever way you measure share market valuation, two years ago they were cheaper than they are now, because, if you remember back in 2015, there was worries about Grexit. Whoever cares about

Grexit any more? We've moved onto Brexit, but that was a joke as well, I think. It is relevant – I think Brexit was important if you're a citizen of the UK, but if you're a citizen of Australia, you know, who cares? You should have been buying. The day you heard about Brexit, you should have been buying, you know, when they voted to leave.

Anyway, two years ago, we had those things. Grexit, worries about China, worries about the Fed starting to raise interest rates, and share market has fallen into a bit of a hole in February of 2016. Now, since then, share markets worldwide have gone up a lot. So back then they were cheap, even in May 2016. Now, two years later, they're around fair value to slightly cheap in places like Europe, Japan and Australia. And the US share market: it's on the expensive side. So the valuations aren't quite as attractive as they were a few years ago.

But I think what matters is whether we're going to have a recession or not in the US. If you believe there's a recession imminent in the US and that will flow globally, then I would be a lot more cautious. Alternatively, if you're of the view that the global economy can keep going, then profits will keep rising and share markets have more upset. And that's the view that I have. I don't think we're at the point yet where the US is about to go into recession.

So we see global growth running close to 4 per cent this year and next. I've got some numbers down there for Australia and other countries. Australia is sort of okay-ish, but for a country that has population growth of 350,000 people per annum – don't forget in many countries, Japan, it's going backwards; in Europe it's very slow despite that immigration intake a few years ago; and US sits about .4 per cent or something per annum – so we've got very strong population growth. So, despite that population growth, and once you allow for that, underlying growth in Australia is a little bit constrained.

And that explains why our share market has been a relative laggard compared to global shares over the last few years: our economy not doing as well as it could. Not doing badly, but not as well as other countries. So you're seeing better profit growth in other countries around the world than you are in Australia. So, anyway, that's on the growth story.

Big issue, I think, is inflation in the US and how quickly it moves up. It has been moving higher. As it goes higher, it means the Federal Reserve will continue to raise interest rates. I don't think we're at the point yet where the Fed has to slam the brakes on, bringing about a recession, but I do think we're at the point where interest rates will continue to rise in the US, and that will cause volatility. And we saw a bit of that back in February of this year. But I do think we've got a bit more to go in terms of that growth cycle before you ultimately go into a more significant downturn.

So, on interest rates, Fed to keep raising rates. European Central Bank, Bank of Japan, Reserve Bank: all on hold. So I probably mentioned this last time I was down here two years ago: my mother, eighty – I always get the maths wrong – she was born in 1933, so she's about to turn – what's that, 85? Hopefully, my maths is right. It's a bit sad the current generation can't do mental arithmetic, and I would've – my kids have to pull this out to work out how old she is, if I tell them she was born in 1933.

But, in any case, what's that got to do with it? Well, it's got this to do with it: a lot of people have money and cash, shares, money and cash. She does have a financial planner; in fact, the same one as me. But she still worries that she's getting that very low rate of return. And, unfortunately, the news for her is going to remain a low rate of return on her cash, on her bank deposits. So that's going to be an underlying reality for Australians for some time to come.

Aussie dollar: I think there's still more downside. We're currently around US74.6 cents. I think, as the US central bank continues to raise interest rates and our central bank holds them then the gap will get wider. It will become more and more attractive to park your money in the US, rather than Australia, and that will put downwards pressure on the value of the Australian dollar.

Now, share markets, I think, will provide decent returns, but, as I said, it's going to be a bit more volatile than it was last year. We're no longer cheap in markets. We're around fair value, and the US slightly expensive, and we've got the Fed raising interest rates. Flipside: profits are going up, so markets keep going higher. Just expect more volatility, like we've started to see this year.

So just looking at some of those things, how do I know the global economy is okay? Well, every month you get these surveys come out. They call them PMIs, purchasing managers indicators. They're surveys of businesses. And when you look at them for services, for manufacturers, they're running at higher levels, long long way from where we were at the time of the GFC, which you can see that big dip there. So that's telling us the global economy is in reasonably good shape. We got Donald Trump causing mayhem in the US. You may recall last year he went to see the Pope, and this was at a time when Melania didn't want to hold his hand. And, of course – just watch this bit.

RECORDING PLAYED

DR OLIVER: The Pope doesn't know what's going on there. I don't know if he'll – Pope doesn't know what's going on there. Anyway, Trump's a funny guy. My son keeps saying to me you know, dad, you look a bit like Trump with that haircut. And I say, well, that's not true. Trump's part is sort of down here somewhere and mine's up here. And my son says give it a few years, dad.

But, in any case, you know, when you're an investor you've got to put some of your personal views aside. You know, a lot of us are a bit sceptical about Donald Trump; don't like some of his attitudes and approaches to things. And I must admit I'm in that same camp. I thought someone else would have made a better president. But he is there, and I have to look at him in terms of what he will do for the US economy. And the focus last year was getting tax cuts, deregulation. All of those things are good, at least for the share market, and that's the way you have to look at these things. You've got to put your personal views aside, your personal politics aside, and try and work out what it means for the economy and markets.

I do get a bit concerned this year. He's coming up to the midterm elections, so he doesn't want the Republicans to lose control of the House of Congress. I think they quite possibly will, nonetheless. But he has become more populist again, more focused on the politics, and part of the tariff story is about that. The trouble with the tariffs is that you might, sort of, try to hit the Chinese, but you end up hitting your own workers who go to K-mart or Walmart, in the case of the US, and got to pay more for goods and what have you. So they have to be a little bit careful about that.

Are we going to have a full-fledged trade war? I don't think so, but, obviously, it's going to be something we've got to keep an eye on over the next few months. I kind of think they'll find some negotiated solution, but it's going to probably take a while to get to that point before we can be really confident in that. Now, one thing that I like to track is the evolution of economists' growth forecasts. So the IMF, an organisation which is global: it puts out these economic forecasts every so often. So that shows their global forecast for each of those years.

And you can see that, over the last five, six years, they typically start off too optimistic and have to revise down. And that meant inflation stayed low; interest rates stayed low or had to be eased. Now, we've come into an environment – look at 2017, 2018. They've actually had to revise up. So that just highlights the environment, globally, has changed from one of disappointment to one of things actually looking a little bit better.

And you're seeing in the US a gradual uptick. You've got to get the microscope out there to see it, but you can see a bit of a gradual uptick in US inflation pressures, which is why the Fed is raising interest rates. You know on Friday night or – this is really exciting for me – there's two really exciting things happen on Saturdays for me. One is I get up in the morning and see what the share markets have done, and after the payrolls come out I see what the payroll numbers have done. And the unemployment rate in the US fell to just 3.9 per cent; rarely gets any lower than that, which tells us you've got a very strong labour market in the US, and sooner or later wages growth will pick up, and that's why the Fed is raising interest rates back to more normal levels.

The other thing that gets me a little bit excited on Saturdays is about 6.30 I get to see the auction clearance rates, and in Sydney and Melbourne they've been slowing down. Not in Melbourne as much, but they've been slowing down quite a bit. So if you track the property market – as an economist, I have to – there's quite a severe slowdown occurring in the property market, and that's showing up in lower home prices. But, anyway, inflation heading up, interest rates in the US – the European line is the green line there. It's going up, and probably has more upside. But, as I said before, other countries, including Australia, keeping interest rates low.

So this brings me to the investment cycle. This is very stylised. The best time to be in shares is when you're getting towards the end of a bear market, obviously. Everyone's bearish. Shares are cheap. Global recovery might be on the way. But as you get towards the top of the cycle, which is where we are increasingly now, you start to see more volatility. And, eventually, as central banks slam on the brakes, economies slow, profits fall, and you go into a bear market. I don't think we're there, but we're no longer at the bottom of the cycle. We're at the top of the cycle, where it starts to get a bit more volatile, and I'm thinking particularly here about the US.

So if I look at Australia it's a mixed story. If you're a pessimist, you can easily tell a story we're about to go into recession. Housing's about to crash, consumer will struggle on the back of that. That'll drag us into recession. If you're an optimist, you say, well, we've just been through a massive collapse in mining investment. That is bottoming out. We're seeing signs that mining investment might start to improve. Non-mining investment is picking up. There's a massive boom in infrastructure spending, and, in the meantime, the labour market is strong and business confidence is strong, and that'll keep the consumer going.

Now, the reality is, I think, somewhere between those two. The Aussie economy will keep going, but it's not going to be booming, which means the Reserve Bank probably stays on the sidelines, profits keep rising, but our share market remains a relative laggard compared to global shares. So why is the Fed raising rates and we're not? They have, as I said, a very low unemployment rate. If you add in underemployment, it's about 8 per cent in the US, so this is people who are actually unemployed and people who have a job but want to work longer hours. About 8 per cent. In Australia it's 14 per cent. Lots of spare capacity in our labour market. Lots of people underemployed, want to work hours, but all those underemployed people is what's keeping wages growth down in Australia. So it's very hard for the Fed to raise interest rates any time soon in Australia.

A lot of people say, well, maybe the jobs market is going to be stuffed because of artificial intelligence. I saw this survey in the US which tells me that robots and artificial intelligence can't do anything. Americans were asked would you consider having sex with a robot, and apparently only 16 per cent said yes. 65 per cent said no. So that tells me there is a limitation to what robots can do, and I think the same goes for artificial intelligence. The bottom line is actually quite interesting. Americans were asked is having sex with a robot cheating on your partner. It was about mixed: 33 per cent said yes, 32 per cent said no. And the funny thing is that the males were more inclined to say no, it's not cheating.

So, anyway, be that as it may, I guess this is an interesting day for many of you – or the next bit will be; I'm just the warm-up act. I like this one, because every day I try to be consistent with this. It relates to drinks, how much alcohol you should have per day. And the medical evidence is, sort of, a bit all over the place, but I think it, sort of, says something to that effect that as you drink more your risk of heart disease goes down but if you drink too much more it goes back up again because your risk of cancer rises. And so you get this optimal number, which is around two. That's the death rate on the vertical line, number of drinks on the horizontal. The optimal number is about two per day.

And, interestingly, the recommended guideline in Australia is two per day, believe it or not. That's Australia just there in the – for men, the darker blue one, and for women. Its recommended guideline is about 20 grams of pure alcohol per day. I know it says ethanol, and that's what I stick in the Holden, but it's got pure alcohol, 20 grams. In America, the recommended guideline for men is 55 grams of pure alcohol per day. Females, it's just over 40, which explains a bunch of things. You know, you wonder why Donald Trump got up. You saw all of those red states on that election day a few years ago. Well, they were all drunk. Their brain cells had been killed by too much alcohol.

But, anyway, two is the optimal number. So just think that today, tonight, when you get back home. Try and stick to two per day. Red is better than white is better than beer is better than spirits, and you can't have 14 on Friday. It does not work that way. And if you wait two weeks and have 28 on one day you might end up dead. So it definitely does not work that way.

So just moving on, I've talked about valuations. Earnings growth: just look at Australia. I know there's a few shades of blue here. I think we must have watched that film and thought we'll have some similar, Forty Shades of Blue. But, anyway, that's Australia there. But you can see the profit numbers for 2018 to 2019 are higher in the US and higher in Europe and so on. So we're a bit of a laggard on the profit growth story.

Now, this is one of those charts you put up to show you've done some work, because you can't read it. You can get a copy of it if you want or come and see me, whoever. But what it shows our instructing solicitor 10 per cent or so declines in the US share market, going way back to 1968. I went back to 1968 because that's when Nixon was president, and now we've got Trump, and there's some parallels. But, anyway, so we go way back there. Lots of declines greater than 10 per cent. It then shows how long they went for. The average was nine months. It then shows the top to bottom fall. It then shows whether there was a recession or not.

The bottom line is that if we're going to get a deep bear market in the US – because the US share market did have a 10 per cent fall from its high earlier this year to its low in February, and it still hasn't got back to the high – if we're going to have a bear market, you know, 20 per cent, 30 per cent, that sort of thing, you probably have to go into recession in the US. And as I said before, I don't think the conditions are there yet for the US economy to go into recession. The tax cap boost is still coming through. Monetary policy is still relatively easy. They haven't overinvested in things like that they did prior to the tech wreck or prior to the GFC. So that's why I think this bull market still has further to go, but, as I said before, still a bit more volatile than what we got used to.

So I'll just zip forward, because I am running out of time here a little bit. I just wanted to say something about housing. I mentioned the auction clearance rates recently have been coming down. Again, a few shades of blue there. Sydney and Melbourne: you can see they're now quite at low levels compared to the highs. Sydney, in fact, is back to where it was around 2011, 2012. Now, historically, those numbers in the fifties, compared to up in the eighties, where we were a year or so ago, that is associated with falling house prices, and you can see there on the right-hand side home prices are now falling on a monthly basis in Sydney and Melbourne, and on an annual basis in Sydney. So they're coming down, and I suspect you've got quite a bit more downside to go.

Dangerous to generalise, though. If I go to Perth and say, well, the housing boom is almost over, they say, well, we've been in a housing bust for the last few years. House prices are back to where they were in 2007 in Perth. So Perth, I think, is bottoming out. Darwin is bottoming out, and Adelaide, Canberra and Brisbane all very boring, like they've been for the last few years, yeah? You might get a couple of per cent or something like that. But it's wrong to say we've had an overall Australian housing boom. It's really been a Sydney/Melbourne phenomenon, and then for the last little while it's been Hobart as well. But I do expect we're going to have a rougher ride in housing for a little while to come.

So I might wrap that up. I think the environment globally is pretty good, but shares are not as cheap as the one were, say, two years ago. And, therefore, you do have to expect a bit more volatility, even though the overall broad trend in markets probably remains higher. Thanks for your time.

MR COULTER: Thank you, Shane.

DR OLIVER: Absolute pleasure.

MR COULTER: Thank you, Shane. And, Shane, if I could get you to join us back once – well, no, once Sam has finished. Now, I'd like to invite AMP advisor Sam Rio to the stage to join me in discussing the Centrelink entitlements, gifting and aged pension considerations. For the people here who were here a few years ago, Sam was also presenting. Sam joined IPAC, which is now AMP Advice, in 2005. He has over 19 years' experience as a senior financial advisor. Sam has a specialist knowledge in the areas of government payments and services, and is passionate about retirement planning. Sam has a Graduate Diploma in Financial Planning and is a certified financial planner. Please join me in welcoming Mr Sam Rio.

MR S. RIO: Thanks, Rob.

MR COULTER: Welcome back, Sam.

MR RIO: Thank you.

MR COULTER: Thank you.

MR RIO: Good morning, all.

MR COULTER: Right. Sam – and for the folks who were watching online last year, if you were watching through the webcast, we discussed last year about the, sort of, significant changes that have happened in Centrelink, and I thought there were some really big changes that have occurred in the Centrelink means test. And they came into play last year. So I think it would be worthwhile, sort of, recapping what impact they've had, if you could maybe discuss that for us.

MR RIO: Yeah, absolutely. Bearing in mind that there are two means tests that Centrelink apply when calculating an aged pension. There's an income test and an assets test. Now, there weren't any changes to the income test, but there were major changes to the way Centrelink assessed persons with high assets. And there was some good and bad news in that. The change that came into effect from January last year was some good news in lifting the point at which assets began to reduce your aged pension. And, broadly speaking, there was a lift of about $40,000 for single persons and around $80,000 for couples. And that meant around 50,000 pensioners got a full aged pension who were once on a part aged pension. That was the good news.

But the bad news was that once you crossed the higher new assets test threshold, instead of losing $1.50 for every $1000 you had over that threshold, you now lose $3 for every 1000 above that threshold. And so that's meat a significant reduction in aged pension entitlements for a larger amount of the population. 100,000 pensioners lost their pension completely, and around 230,000 pensioners had their pension reduced as a result of that change.

And bearing in mind that whilst this was largely felt by the aged pensioners, there are other pension entitlements that felt the brunt of this change. Those on a disability support pension, Veterans' Affairs pensions and carer payments were also impacted by that change in January last year. And what that basically has come to is that the amount you can now have before you lose your pension completely drops significantly. Whereas before the change in January last year a single person owning their home could have as much as $794,000 in assets before they lost their pension completely, that threshold currently now sits around that 556 mark. So you can see from that there's around 240,000 drop in threshold before you lost your aged pension for a single person.

For a couple, you had the capacity to have around $1.2 million in assets before you lost your pension completely. That threshold now is 837,000 for a couple home owner. And to get a further perspective, if we look back at what you were getting as a pensioner before the changes, a 65 year old who had $600,000 in assets, prior to the change, found themselves with around 250 a fortnight in an aged pension. That same person won't get to see 250 a fortnight for about seven years as a result of this change. And the couple who had $800,000, they were, prior to the change, getting around 560 per fortnight combined. That couple with that level of assets won't see that rate of aged pension for around six years.

So you can see it's meant that people have now had to rely more heavily on their own savings and assets to keep up a given lifestyle. And, look, the Association of Super Funds of Australia have worked out what they believe is a comfortable retirement for most Australians, and please don't take this as the figure to go for, but, essentially, they said single homeowners who had no debt lived about 45,000 a year to have a comfortable retirement, and couples who were debt-free, homeowners, need around 60,000 per year.

And with a whole range of assumptions, many of which I covered two years ago, the association has come up with what they belief is an appropriate level of assets to deliver that sort of lifestyle. So, essentially, 540,000 should get a single person get a 45,000 per year retirement, lasting until about aged 90, at which point your only assets are pretty much your home. And for a couple, you'd need around 640,000 to deliver your 60,000 per year lifestyle through to about aged 90.

Now, a couple of big assumptions there, one being that they're working on your superannuation and other investments generating a return of 6 per cent per annum. For some investors, that's a bit of a stretch, if you're very conservative. There's also an assumption there about how much of a pay rise you want to give yourself over the journey to keep up with the cost of living. 2.75 per cent is the assumption there. And, of course, we are assuming that you are entitled to an aged pension along the journey, and some people won't.

MR COULTER: And these are all based on that sort of mortality .....

MR RIO: Yeah, so essentially getting to around age 90 and pretty much at that point only having your home and an aged pension to live on.

MR COULTER: So, Sam, the logical lead out of that is what have you seen your clients, your colleagues' clients, what steps have they been taking to, sort of, regain or increase their pension? So the logical one that I link to – and I know you hear me say it all the time – is around gifting. I would like your – you know, how do you reduce – do you give money away? Do you gift it?

MR RIO: Yeah. Look, it's certainly one of those things that comes up whenever there's a change, an adverse change to the Centrelink means test rules. And, look, there's not a lot of financial sense in gifting, but I get it that people would like to see their kids potentially enjoy the inheritance whilst they're there to see it. But if we give you an idea about what you can and can't do with gifting and Centrelink, Centrelink permit $10,000 per financial year as a gift without there being an adverse impact on your aged pension, but even that's subject to a cap of $30,000 over a given five-year period.

And to give that further context, if you're looking for a return on that $10,000 if you are going to make that gift, yes, it will increase your aged pension by around 780 per annum, but it would take you about 18 years to actually get in front with that. So it doesn't make a lot of financial sense. So gifting, really, is not a financial strategy. It is another strategy that you may simply want your close relatives to enjoy whilst you're there to see it.

There are other things that you need to think about too. It's not just the Centrelink side of it, because there are issues for the recipient and also for yourself when you are gifting. For instance, if you're looking at giving away property, there is tax for the person giving it away. Even though no money has changed hands, the tax office looks at that as a deemed sale, and they will attach a value to that transaction. So there's tax on your side for giving it away. There's also particularly stamp duty for the persons who are receiving your property. So be careful about giving large sums away, particularly if it involves property or shares.

And, of course, then there's the issue of the person receiving the money. What impacts will it have on their personal taxation situation? As generous as a gift may be, they need to think about whether that particular gift is now going to create a tax problem for them. It's a problem I'd rather have, but nonetheless it's one thing that needs some consideration. And for your part, bear in mind the statistics on relationship breakdowns are pretty high. So giving gifts to someone who's not yet married or, indeed, married, you need to think about what might happen if that relationship breaks down. That gift that you've made may well end up in the hands of the ex.

MR COULTER: Well, Sam, what's the stats?

MR RIO: 40 to 50 per cent, yeah.

MR COULTER: Yeah.

MR RIO: And they're the ones that are just reported.

MR COULTER: True. Now, moving on from that, what have you seen people sensibly do to reduce the amount of Centrelink, DVA, for the asset count?

MR RIO: Sure. Look, there are some things that make a lot of financial sense. Look, for those who want to deal with the morbid topic of pre-paying for their funeral, there is no limit as to what you can spend on pre-paying your funeral. So that makes a lot of sense in terms of taking the pressure off the estate at an emotional time, running around. doing all of the preparations. So I can see some sense pre-paying funeral. If that's too much of an issue for you to consider, there are investments that you can put your money into that mature upon your death. They're called funeral bonds. They're guaranteed. There's only a certain amount you can put into those before Centrelink count them, but the first 12,750 per person into a funeral bond will not be counted as an asset. So there may be some sense that. And the money doesn't need to be used to pay for the funeral upon your death.

Bringing forward plans for holidays: that can make sense. Again, maybe even overspending on your holiday if you feel like it, but, yes, holidays are fine. Centrelink are okay with you spending money on yourself, whatever that amount might be. Repairing your home, renovating your home: your home is not an asset at this point in time, so you can spend what you like on your home. So that will certainly produce a Centrelink outcome. But, again, I caution you against doing this purely for a Centrelink outcome, because spending fifty or a hundred thousand dollars on a renovation: great for your home and for your aged pension, but you actually now have far less capital to fund your retirement. So be careful with that.

Dare I say it, upsizing: most people in the retirement space are considering downsizing, but because the home is not an asset, yes, if you're flush with money you can potentially spend more on your next home and find that that produces a beneficial aged pension outcome. Make sure there's enough left over to keep that retirement going though. There are certain times of annuities that are asset-friendly. I won't go into a lot of detail about that. I will be around for questions beyond this to talk about the scenarios where that might be beneficial.

A couple of sensible things you might think about doing. When you report your assets to Centrelink, don't exaggerate their value. Centrelink are happy to accept $10,000 as home contents. They are working on what is a fire sale value for your contents, not what you believe they're worth should you replace them. Likewise for cars and caravans, you can go for the bottom end of what's called the red book value, or, indeed, if you feel your car is that tattered you can submit a value that's underneath the normal valuations for that particular vehicle.

If you're fortunate enough to have a younger partner, that is, a partner that is under aged pension age, one of the opportunities is to put some of those financial assets in their name. Of course, there are rules about how much you can put into superannuation, but one of the quirks in the Centrelink rules are that if you aren't yet of aged pension age money in superannuation is not considered to be an asset. So if you have a partner under aged pension age you can use that opportunity to shelter some assets from Centrelink's means testing. Of course, once they get to aged pension age we've got that problem all over again.

And if with all of the efforts that you might do about reducing your assets, bear in mind there is still the income test to deal with. So just because your assets sit below the figures I quoted earlier, you might still find your pension is not quite maximum because there is still an income test and Centrelink work on the idea that they will always calculate your rate based on both an income and an assets test and will give you the one that delivers the lowest. So merely getting your assets below a certain level doesn't guarantee you getting a full rate pension.

MR COULTER: So, Sam, second-to-last question before I open up to people on the floor here and the folks online, can you just comment on the measures that were taken to compensate those who lost their pension, please.

MR RIO: Yeah. Initially, the government came up with a couple of concession cards for those who lost their pension as a result of the 1 January 2017 changes, and they were given an opportunity to receive the Commonwealth Seniors Healthcare Card, and potentially a low income healthcare card as well. Subsequent to that, and in last year's budget, the government had decided to restore full pension card concessions for those people who had lost their pension in January last year. And most pensioners got those cards early October last year. So a full suite of concessions were returned to those pensioners who had lost their pension as a result of the January changes.

For those who weren't on a pension in January last year and still find they can't get a pension because of the reduced assets limits, there still are a couple of concession cards that are fairly generous in their concessions available to those persons. There are two cards. One is a healthcare card or a low income healthcare card. Neither of these cards are assets-tested. They are purely income-based. Now, the low income healthcare card uses a quirky Centrelink assessment of what income is, so it's not income in the way you and I would look at it. There are things like deeming that go into calculating how much income you are actually generating. And if you're a single person with your income being, you know, just under 29,000, you can find yourself enjoying considerable concessions regardless of your asset levels, and couples just over the $49,000 mark to get, largely, the sort of concessions you'd find on the full-blown pensioner concession card.

Bearing in mind that, anecdotally, the concessions around registration, utilities and the like add up to around 1000 a year, the underestimated concession is the health side of things. And whilst the Commonwealth Seniors Healthcare Card doesn't have all the car registration utility-type concessions, it does provide you with concessions on scripts, bulk billing. And as we all know, as we get older, health issues become more and more an issue, and the benefits of the healthcare card in that space are unlimited. So don't worry too much about the discounted rego and the utilities. It's the health side of the concession that's most beneficial, and there are very generous limits for you to have a Commonwealth Seniors Healthcare Card. That card, of course, is only available to those who are already over age 65.

MR COULTER: And the stamp duty, Sam?

MR RIO: Yes. Thanks, Rob. One of the little-known concessions that are out there is stamp duty. Now, it's not a case in every state, but in Victoria, for instance, if you are a concession card holder – and that is either a pensioner concession card, low income health card or a Commonwealth Seniors Healthcare Card, there are stamp duty savings depending on how much you spend on your next family home. And it's a one-off opportunity, so you can't keep buying your next residence with it, but, essentially, you get full stamp duty relief if you purchase a property under 330,000.

Not too many of those in inner Melbourne. You'll get some stamp duty relief if it's under 750,000.

Now, if you're a couple, you double those figures. So you might find that a couple can enjoy some stamp duty relief even somewhere closer to inner Melbourne, because $1.5 million will get you some stamp duty relief.

MR COULTER: And that's different – sorry, Sam – that's different in each state though, right?

MR RIO: That's right, exactly right.

MR COULTER: Different in Victoria to - - -

MR RIO: Absolutely.

MR COULTER: - - - the folks who are listening to online? Yes, okay.

MR RIO: The figures I've quoted are Victorian thresholds. So it's an unknown, in many cases, benefit to having a concession card. And if you don't know it, unfortunately, you can't go back and claim it after you've settled on your property purchase.

MR COULTER: Well, good to know. Sam, final question before I invite Sam back up. And so I know in the previous slide you talked about upsizing a house, potentially. I want to take that the other way. So many people – I'd like your thoughts on downsizing, people moving from the family home to a smaller dwelling, you know, your thoughts on that, what measures are there to help those in retirement and buying a home.

MR RIO: Yes, certainly. There was a major budget announcement that comes into effect from July this year, and that is, for those persons who are over age 65 selling their family home, they can use the proceeds of that sale to put into superannuation. And there are a couple of conditions there. One is that home needs to have been your home at least 10 years, and, obviously, you need to be over 65.

The opportunity there is for you to put 300,000 per person – so if you're single, 300; if you're a couple, 600,000 – into superannuation without the normal rules about having to work, because once you're over 65, typically, the only way you can get money into superannuation is if you are working. Well, you don't need to satisfy the works test with this particular initiative. And why would you do it? Well, it largely is if you have taxable income already at play then it makes sense to shelter some of the proceeds from selling your home in the superannuation environment, because once it's in superannuation you have the opportunity of converting that contribution into a tax-free retirement income, where both the income paid to you is tax-free and the interest being generated on that asset is also tax-free.

Now, there are some catches about converting that contribution into an income. You may be aware that one of the changes introduced last year was this issue of having no more than $1.6 million in super before you can make a contribution. Well, once again, those who are selling their home don't have to worry about that $1.6 million cap. They can still add their three hundred or six hundred thousand to super. But if you already have $1.6 million in super you won't then be able to convert that contribution into a tax-free income. That may mean leaving it in superannuation, where the tax is 15 per cent. And then you've got to do the maths with your advisor to say is that a better outcome than if I just left the money outside of superannuation? So courses for courses in this space here.

And, of course, I've touched on the fact that there are stamp duty savings for those who have got a concession card. So, in tandem, there are opportunities for those who are in the space of downsizing to use the proceeds to not only help with their retirement, but to also ensure that they're not paying any more tax than they need to.

MR COULTER: Sam, we might hold it there. Thank you. You have rolled through a considerable amount of information. Sorry, I have .....

MR RIO: Just quickly for those who aren't aware, there have been changes to the age at which you qualify for an aged pension. They have been in play for quite some time.

MR COULTER: Of course.

MR RIO: Currently, the rules are that if you are born after January 1957 you need to wait until age 67. There is on the table plans to push that out to age 70. That's not yet over the line. It's still being debated. So it's probably going to progress towards age 70. Sorry, Rob.

MR COULTER: Okay. No, no, thank you. Thank you, Sam. Please join me in thanking Mr Sam Rio.

MR RIO: Thank you.

MR COULTER: Sam, can you stay there. Shane, could you join me, thank you. Thanks for your candour this morning. I really appreciate it. Ladies and gentlemen, if you have questions for either Shane or Sam, we have microphones in the middle and you can make your way to that microphone, and we'll endeavour to answer them. Now, if you've been viewing today's session through the webcast and like to ask a question, so you can email us to shares@amp.com.au. That's shares – forgive my New Zealand accent, but it's s-h-a-r-e-s@amp.com.au. Sir.

QUESTION: How are you?

MR COULTER: Good, thank you.

QUESTION: Sam, the thing about the – giving away property.

MR RIO: Yes.

QUESTION: Is that considered the same thing through the will?

MR RIO: No, no. Once you're deceased, you've lost your aged pension. So there's no issue about a - - -

QUESTION: I'm talking about before you – if you die before your aged pension.

MR RIO: If you die - - -

QUESTION: Before your aged pension.

MR RIO: Yeah, and you're – what, and you're giving away property through your will?

QUESTION: Correct.

MR RIO: Yeah. No, there's no issue about giving away property through your will, because once you've died Centrelink are no longer an issue for you.

QUESTION: I understand that.

MR RIO: The person receiving it – you're referring to the person receiving it?

QUESTION: Yes.

MR RIO: Right. Yeah. So, yes, the moment Centrelink believe you have an entitlement to that property - - -

QUESTION: Yes.

MR RIO: - - - bearing in mind that there's probate and all those issues that need to be – Centrelink will then say you – the onus is on you to report that you've now inherited some property. Now, they won't necessarily know that until that property actually makes its way to your name.

QUESTION: The other person's name.

MR RIO: Correct.

QUESTION: But will there be stamp duty and charges on that for the person who's going to have that deemed in that will?

MR RIO: No, I don't believe there's stamp duty for those who inherit property.

QUESTION: The only reason why I ask is because you mentioned that before. Now, I wasn't quite sure it was either before your pension or after your pension.

MR RIO: No, I was referring to those who are physically giving property whilst they're alive - - -

QUESTION: Whilst they're alive, yeah, yeah.

MR RIO: - - - to somebody. Yeah.

QUESTION: Yeah. But once you're dead, and whether it be before your pension or after your pension, there's no stamp duty; is that correct?

MR RIO: I'm pretty sure the Victorian are there's no stamp duty on the property being given to you through the estate.

QUESTION: Okay. Thank you very much.

MR RIO: Thank you.

MR COULTER: Ladies and gentlemen, are there any other questions? You can make your way to the microphone or either Shane or Sam.

QUESTION: In regard to self-managed super funds, what happens to the 1.6 million on July 1? If you've increased your 1.6 by, say, 30 per cent, does that go up?

MR RIO: Depends what phase you're in. Are you in the pension phase already?

QUESTION: Yes, yes.

MR RIO: Yeah. No, the 1.6 issue is at the time you start your pension. You've already started it and you're under 1.6, there's no need to roll back the excess of the 1.6, if that's what you're referring to.

QUESTION: No, I want to know does the 1.6 increase for the people who have the maximum 1.6.

MR RIO: No, not in July. No. You're referring to July coming up?

QUESTION: Yes.

MR RIO: No.

QUESTION: Will it ever increase or - - -

MR RIO: It increases for those who hadn't already had 1.6 as of July last year.

QUESTION: So it’s fixed?

MR RIO: For those who have already crossed over.

QUESTION: Bad news.

MR RIO: Yeah. Bugger.

QUESTION: A quick one while you’re on that. That 600,000 - - -

MR RIO: Yes.

QUESTION: - - - for a couple - - -

MR RIO: Yes.

QUESTION: - - - if you’re doing the home sale: can that all go into one of the two super, or does it have to be split?

MR RIO: No, it has to be split 300 each.

QUESTION: Right.

MR RIO: So it can’t be 600 into one person’s name, no.

QUESTION: Good try.

MR RIO: Fabulous.

QUESTION: Shane, looking into your crystal ball, with the US probably going into a recession whenever, when would you suggest that we should start cashing out to take advantages of the volatility in the future with the Australian share market?

DR OLIVER: Yeah. Well, at the moment, as I was saying, I can’t see any signs that the US is about to go into recession. You don’t – I normally – prior to recession, you get a build-up of excess, overinvestment, excessive debt growth. You might have that in the public sector, but it needs to be in the private sector, excessive inflation, interest rates and so on. You don’t have those things at the moment. I think those things would take a couple of years to build up, so I’m thinking more of a 2020 story would be a time when you might become more cautious if you do actively manage your investments on a short-term basis.

History tells us that, you know, we had a bear market in 2007 to 2009. In Australia, our market fell 55 per cent. We had no recession here, but the US did. So what the US does is always key in these sorts of things. So, in your case, you know, it’s sort of a story over the next couple of years. You might start averaging down a little in terms of your exposure, but, at the moment, I think it’s probably okay.

MR COULTER: And folks, we have, probably, about two or three more minutes before the conclusion. So if you would like to ask a question.

QUESTION: Yeah, a question for Shane. You mentioned that the Australian dollar is going to go weaker. Can you tell us how much weaker? And, second question, if you can also make a comment on AMP shares and the reputational damage that it's caused.

DR OLIVER: I can't really make a comment on the shares, but, as I said before, it has caused immense damage to, obviously, the share value, shareholders, and to clients who were affected by those issues. What impact? I think I said it had an impact on me. I felt depressed. This is a company that I've been at for 34 years, and so if you're feeling depressed about what's happened with the share price I'm feeling depressed about what's happened at AMP. It's embarrassing. But it's not so much the embarrassment issue. It's just you feel depressed that this has happened. You feel let down, ashamed to some degree. So it's had a huge impact. And it's about rebuilding, and I think you've got to go over there and see the team who are now leading in that rebuild. But I can't really comment on the share price.

In terms of – because I'm not an expert on that. It's not my area of expertise. So that's why you've got to take that one over there. But in terms of the Australian dollar, I think one of the things I've learnt as an economist: you don't rely too much on levels. You rely more on direction. Whenever an economist tells you it's going to go precisely to 65 cents you've got to be a bit cautious of that. But I do think it's going down, and rough thinking I was having was that it was going to get into the high sixties, like 68, 69. Now, you might say, well, last time Australian interest rates were below interest rates in early 2000s we went all the way down to 48 cents. The big difference between now and then is that the commodity prices are a lot higher.

So two big drivers of the Aussie dollar: commodity prices – iron ore price today: $65 a tonne. Back then it was about 12. So that's a big support for the Aussie dollar. The other big driver is interest rates. That's going to be a big negative, probably worse than it was back then. So it means downside for the Aussie. Guess is into the high sixties, but probably not as low as 48 cents.

MR COULTER: Thank you, Shane. We have one more question, which has just come in over the web, which is how do you obtain a healthcare concession card? Sam, please.

MR RIO: Yeah. The cards aren't automatically issued, so you do need to formally apply. most of Centrelink's processes are now moving to an online method of applying, but you will need to apply either in paper form or online, and you will need to back up your claim with financials. So Centrelink will want to see the sort of assets you disclose so that they can conclude themselves that you are under the income limits. And that goes for all concession cards. I mean, the pensioner concession card comes out automatically for someone who gets an aged pension, but the low income healthcare card and the Commonwealth Seniors Health Card, they require actual applications for.

MR COULTER: Thanks, Sam. We will draw it to a close there. We will take your question offline. I'm just pushed for time. Many thanks, ladies and gentlemen, for your time and attention this morning. This concludes the presentation. Now, if you do have questions we have some of Sam's colleagues here in the front, Daniel, Mark and Anthony. Sam and Shane will be around for a little moment in time. Morning tea is now being served in the foyer. The 2018 annual general meeting will commence in the Savoy Ballroom at 11 am. So please remember to collect your handsets on the way in as well. Please join me in thanking today's speakers, Shane Oliver and Sam Rio. Thank you and good morning.

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