TRANSCRIPTION

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[START OF TRANSCRIPT]

Robert Coulter: Good morning, ladies and gentlemen, and thank you for joining us for the Securing Your Future information session for AMP shareholders. This is the first time that we've put on such a session before the AGM, and I thank you for attending. My name is Robert Coulter, I'm delighted to be introducing this morning's session.

Today's session is titled Securing Your Future. We're lucky enough to be hearing from Paul Clitheroe, who will share his thoughts on the state of the markets and investments. I'll then be inviting Colin Lewis, Head of Technical Services, and Greg Elias, Client Adviser, both from ipac, which is a wholly-owned subsidiary of AMP. Colin and Greg will join Paul in discussing issues like managing your money over a longer life expectancy, making the most of your entitlements, and transferring assets to kids, Centrelink tax and other considerations.

We have left time at the end of the session for questions, which Paul and the panel would be happy to answer. This session will conclude at 11:00 AM. If you do want to ask a question, could I ask that you make your way to one of the microphones and then I'll direct the questions to the correct person.

Before we start, I need to remind you - and if I could have the disclaimer there - I need to remind you that any information in this presentation is general in nature. The information of course does not take into account your personal objectives, financial situation or needs.

I'm delighted to announce our first speaker. Paul Clitheroe AM is one of Australia's most respected financial advisers and the bestselling author of *Making Money* and *Free Yourself From Debt.* He co-founded ipac securities in 1983 and remains involved with the business today. Paul is chief commentator for *Money Magazine*, Chairman of the Australian Government Financial Literacy Board, and Chair of Financial Literacy at Macquarie University. Please join me in welcoming Paul Clitheroe.

Paul Clitheroe: Thanks, Robert. Good morning, folks. It's very nice to be coming to Sydney on a sunny day. If any of you were in town last week, truly, in the torrential downpour, it's just unbelievable. Now, speaking of sunny weather, that's kind of my job today. I'm rather fortunate in many ways, because I know there's going to be a lot of detail in the AGM, and like you, I'm also an AMP shareholder, so I'm also interested in the Company and detail. But my job is to actually distract you from detail a little.

I'm an extremely keen sailor, I do silly things like Sydney-Hobarts and so on. One of the things I'm always saying to my crew on my boat, we're very concerned about technical detail, very concerned about tension on halyards and mast rake and the way sails are set, and all the sort of stuff that we tend to do to go really quickly. Often I'm yelling at my - well, no, sorry, yelling, you don't yell at your crew, that would be very inappropriate. I'm often encouraging my crew to get their heads out of the boat. Today, before we get into the detail of an AGM, I'd like to encourage us all to get our heads out of the boat a little bit, in terms of money and what is going on.

The thing that disturbs me, and has really disturbed me a lot in the last few years now, is that each year now for three years in a row, Australians have topped the World Bank survey, but we've topped it at the wrong place. We're the most negative adults on the planet of all the countries measured. Particularly in my role, I'm a professor of economics out of Macquarie University and I've got a chair out there in economics, in financial literacy. We're really interested in why, behind the World Bank data, are Australian adults the most negative?

There are many arguments around this. For example, if you pick up the Australian media at the moment, what are you likely to see being a major headline? Something really positive, or something fairly negative? Obviously you can argue about that. Many argue the issues in politics at the moment are not particularly satisfactory. We had obviously an argumentative situation with the previous Labor Party, you may approve or disapprove of our Prime Minister, Mr Abbott, but obviously there's been some drama there around approval and criticism and so on.

What's fascinating is that, at the moment, we're actually significantly more negative, according to the World Bank, as adults in Australia, than are the population of Greece. Now, you'd rather think to yourself that a Greek adult would have every right to be a bit more negative than us, but they're not. The research behind that goes that basically the Greeks are saying, look, it's so darn bad, it's got to get better.

Whereas I think a lot of Australians are thinking, you know, we actually, I think, know how good it is in this country, it's not perfect, but we think we know how good it is. Most of the underlying behavioural psychology is saying that Australian adults are concerned, and particularly with political messaging, we're concerned that maybe, just maybe life can't keep being this good. That in fact seems to be the underlying - the psychologists' conclusion as to why Australian adults are negative and why we are currently the world's greatest whingers.

This is a problem for me, because I came out as a 10 quid Pom when I was eight years old, with my mum and dad. My dad was a medico, my dad became a - was obviously an English doctor, and he was worked in Griffith as a doctor for many, many years. So my schoolmates loved that old English joke, back in those days it was, what happens when a planeload of 10 quid Poms lands at Sydney Airport? Well, you always know if they're 10 quid Poms, because when the engines shut down, you can still hear the whining. Well, we Australians have overtaken the English. Well done, folks, excellent, good job. I am a little perplexed about this. In terms of getting your head out of the boat and looking around you, I'm always encouraging people who are telling me how dreadful it is out there.

I had the cabby this morning having a bit of a whinge on the way in, and I was saying to the cabby, what's up? He said, oh, you know, it's terrible, people have got no money and there's no spending. I said, for heaven's sake, I'm sick of all this, what have you been doing lately? He said, oh, I've been overseas. He's an Italian guy, a delightful bloke. He said, I've been overseas to see my ageing parents in Italy. I said, how often do you do that? He said, I can only afford to go twice a year. I said, that's terrible, that's really - that must be a tragedy. What do you do on weekends? He said, oh, I've got a little shack down Jervis Bay and we duck down to the little beach. I said, what do you mean a beach shack? He said, well, really it's sort of, you know, big enough for the kids, five bedrooms.

Then of course he's smiling, he's actually - and I said, by the way, you're a cabby, you're on the road the entire time, think about your first car. My first car, which I was lucky enough to get when mum passed it on to me, was a 10 year old Datsun 1000. It was a fantastic car, look, you used to use more oil than fuel, the amount of rust in the darned thing, it would be dragged - but you remember those smoke billowing cars on the roads? You probably had one. Has anyone seen an old car lately, apart from a museum? Well, on the way home, look around you.

Life here might be terribly, terribly tough and it could be about to get worse. But in actual fact, as you look around you, I encourage people to think about the house you grew up in. In Griffith, where my dad was a doctor - I mean, my standing joke of course is, being a Griffith boy, my dad was about the only legal drug dealer for about 150 miles. But putting that aside for a moment. But it is interesting in Griffith, and I do remember as a young kid from England, is that my mates in Griffith were always amazed because our little house in Griffith, where the toilet had been in the back balcony had been built into the property. We had a toilet separate to our bathroom.

Now, this is not 1735. I mean, we're talking when I was - I'm nearly 60, so we're talking 40-odd years ago. Seriously, in Griffith, a house with a toilet not in the bathroom was a bit of a luxury item. If we go back to the house our grandparents lived in or our great-grandparents that you might know about looked in, look, I'm really struggling that life for Australians is not better. I am really seriously struggling with this issue.

So for me, as we look around out of the boat and we fret. In Australia, we fret about many things. A major fret point in Australia is the ageing population, we're very fretful about this. Obviously the Treasurer in the Budget is going to talk to us, and he's warning us that running $40 billion-plus deficits each year is not a very good idea, and I agree wholeheartedly with the Treasurer. I don't want to run a deficit on my family budget, nor do you. I don't want to give away my children's future by a nation spending more than it's receiving. So we're in this together, we all agree with this. How we're going to fix it, of course, is going to be the great challenge.

But part of the challenge, it seems, is the ageing population. As I turn 60 in July, I'm clearly part of the problem [inverted]. But if I step back and see ageing as a major whinge factor, I'm rather struggling to see the problem. Does anyone have a problem with living longer? Now, I talk to my clients at ipac about living longer, and they go, oh, it's going to be terrible, I'll be sick for longer, it'll be bloody awful. I go, for - excuse me - I go, oh, for heaven's sake.

I'm just gobsmacked that as I turn 60 in July - now, here's a piece of economic genius for you, now I didn't think of this one, this is fascinating. I only just realised that with superannuation in this country, by sheer chance - I turn 60 on 7 July - by sheer chance I'm - Vicki, my wife of 32 years - you wouldn't read about it, took about good management 32 years ago. I married a girl whose birthday is on 20 June next year, we turn 60 in the same financial year, giving us significant superannuation economic efficiencies. Now, there's a point for you. Vicki is not particularly impressed with this point, but I was mightily impressed with myself, I wouldn't have thought of that 32 years ago. So there you go, talk about transition to retirement, pensions and stuff, it's all very exciting for us.

But the thing I'm gobsmacked by is, as I'm about to turn 60, and if we go back to some of the things that our politicians are frightened to speak to us about. The reason our politicians are frightened to speak to us is a very good reason. Speaking the solid truth as a politician is a really risky business, because they may need to tell us something we don't want to hear. And in a democracy, we vote, and so it's very powerful stuff. So the negativity around the ageing population, I do fret about.

So if we go back to 1908, when the aged pension system was started, our forebears chose a male retirement age to receive a pension at 65 and females at 60. We all know, I'm sure, but we need to remember in 1908, when a male needed to achieve the age of 65 to receive an aged pension, male life expectancy was 54 years and seven months. In other words, you received a pension 10 years after the average male was dead.

Guess how much that cost government budgets? You're dead right, not very much. Also, by the way, the pension was set at 14 per cent of average weekly earnings. You needed to pay tax for in excess of 20 years, and receive a Magistrate's certificate saying you were an Australian of worth to the community, whatever the heck that means. As you can imagine, pension payments were about diddily of government expenses.

Now, I am absolutely in favour of a strong safety net. But I'm also cognisant, and not as a whinge factor or a negative factor, that here I am about to turn 60, and providing I survive, or providing you don't all throw rocks at me at the end of this session and I actually survive this session, and obviously don't get run over by a bus in George Street. Basically here I am about to turn 60, I'm five years past my life expectancy of just 107 years ago. I'm still doing Sydney-Hobarts like so many - you know, climbed Kilimanjaro with my wife last year, and all the stuff that we do.

I rather like a website - look, AMP has got a really good site that'll do this for you, but AMP being a - and I do say this with all honesty - a very decent organisation, its calculator will give your life expectancy. But there's actually a better one out there, it's called the death clock. The reason AMP can't do that is that death clock is just too rude. Also, the death clock does do something that I, if I was running AMP like Mr Meller and the Board here today, I wouldn't have an AMP calculator doing this. Because if you do get a death clock, it actually gives you a date of death. Which is really convenient for planning your money. But liability-wise, I think, folks, I'd give it a miss.

But the death clock is quite extraordinary. Right now, the death clock - it depends how much I cheat. The two things you need to cheat on the death clock are, number one, your body mass index, the death clock is very weight sensitive. If you're a smoker, don't go there, the death clock just doesn't like smoking at all. But it's also very alcohol sensitive. I'm not quite sure who's got to the death clock lately. So if I put in I'm a non-drinker and my body weight is actually all right, basically I come up at the moment with life expectancy of 91, and that's with an asterisk.

My wife, who's about - close to a year younger than me, Vicki went onto the death clock. Vicki is healthier than I am, she doesn’t go to the pub with her mates on a Friday night and have 16 beers, which definitely improves your life expectancy. So when she was doing hers recently, she came up at about 97. Now, both Vicki and myself both had a big asterisk beside our number, 91 and 97. What the asterisk said is, don't plan your money on this age. I thought, why is that?

Of course, what the death clock actually realises, and certainly the Department of Actuarial Studies at Macquarie University, we're very cognisant of this. It is just gobsmacking, this is so important to your money. We can talk about shares and property all you like, unless we get this bit right, you're wasting your time. This is the important bit. The important bit is, life is changing dramatically.

What we do know is that for each year on average we in this room and all of the population survive, you live three months longer. You're going, that can't be true, he's making that up. Please only go back about 170 years, where life for the first time in 7000 years of measured human history, life for humans really changed in the 1850s. The Industrial Revolution was well underway, medicine was starting to improve.

If we'd only go back that 170-odd years by the way, if we now picked on women - I picked on men a minute ago - if we now pick on women, it was only 170 years ago, if you went to the world's longest living countries for females, which was Sweden, Japan and Denmark back then, a female on average died at 43. Forty-three was your life expectancy. That's just a fact, feel free to look it up, it's called Doctor Google. Don't do it now, though, it's rude, do it later.

But basically, in only 170 years - so where does this three months come from? Pretty simple, isn't it? In just 170 years, we've gone from women living to 43 in first world countries to living to 83. There's the 40 years in barely 170, close enough to three months a year for every year. Now, we can be really negative about that, and some of my clients have said to me, oh my God, I've seen - we've all seen people pass away, we've cared for mothers and fathers and aunts and uncles and it's awful, okay. So many people say to me, so Paul, that means we're going to live longer in misery. Which of course is the current Australian attitude, it seems to be all about misery at the moment.

But interestingly, what's truly fascinating is the truth is, our period of disability is also shrinking. Thanks to arthritis drugs, thanks to pacemakers, thanks to all sorts of things. I suspect that every person in this room, me included, is a beneficiary of this amazing medical system we have. There's plenty of whinging about the Australian medical system in the press, by the way. But if I get run over here by a bus in George Street, this is the country I want to get run over in. I am absolutely certain I will get first class care if I get splattered in George Street. Providing I'm still alive, I mean, if I'm dead, there's not much point. But I am really confident this is the place I want to get run over. Silly, isn't it? This is the place I want to be confident when I get run over by a bus. If I do get run over by a bus being careless, this is the country I'd do it in.

So what's really fascinating is that, as we are living significantly longer on average - on average. Obviously, bad things happen, the world is not fair. But in that expectation, I've also got a realistic expectation of a shorter period of disability. Really quite interesting, this is really positive news. As a community of people, how do we - and I hate to tell you this, it sounds awful, doesn't it - how do we support our politicians? I think our politicians are going to struggle to lead us into change. It's going to be hard for them.

Because obviously, to me, as I turn 60, obviously yes, I could retire. But to me, if the death clock is right and I've got 31 years in front of me, and I want to keep sailing a boat and so on, I'm just basically going to have to keep working. I don't think the system should say, gee, Paul, you're retiring and you like sailing, we, the government, will buy you sails for your boat. I just don't really think we can run the place quite like that. That's going to be a challenge going forwards, because we want a lot of stuff, we want great education, great roads, great health, absolutely I want a supported safety net called a pension system, categorically.

I am very happy [inaudible - technical difficulty] that is allocated is going to be challenging. It's going to be hard for politicians to convince us. Because what we'd all like is we'd all like to pay less tax and we'd all like more services. We're an intelligent group of people in this room, we're all shareholders, we understand how business works, and it doesn't stack up. But it doesn't stack up not for negative reasons, it's really positive, it's about life extension, it's about living better, it's about living well.

I remember it was about - where are we now - probably 30 years ago, you might have taken an overseas trip. When you got back, all your friends wanted to come around and see your photos. What happens when you come back from a trip now? Your friends go, oh, you're back, do you want to pay golf on Tuesday? Or they might give you, oh, how was Moscow? And about four seconds later they go, yeah, yeah, yeah, did you see that Souths won on the weekend? Isn't it interesting that even travel is no longer a novelty? Haven't we changed?

Do you know how many return international airfares Australians are going to buy this 12-month period? That's June going back to 1 July last year, we're not quite there yet, but we already know what the number is going to be because people pre-book. Australians will buy nearly nine million international return airfares. It's not really a place doing it that tough, is it? Drive your new car to the airport, fly away. Look, you might whinge about being in economy, but hey, start whinging about being in economy on your way to London, you're not going to get much sympathy from me, to be perfectly honest with you. Look, I don't mind caravanning in Bermagui, but London is probably better.

It wasn't that long ago when I started ipac with my four partners, again about 32-odd years ago, and conversations with clients were really much different. We'd say, what are you planning in your retirement? The number one dream, only 32 years ago, was the couple would beam and say, we're going to garden. We would say, that's lovely, how often are you going to garden, and they would garden every day. Now, I guess I come back from that generation, and probably my children are even worse. Personally, I love the garden, I could watch the gardener all day, but that's not really a sign of poverty either, is it?

I say to my clients as I did 30 years ago, they'd say, Paul, we're going to do a cooking class. I go, fantastic, where are you doing that? 30 years ago my clients would say, we're going to do a cooking class at the local TAFE, of course, where else would you do a cooking class? They'd say, we're going to learn a language in retirement. I go, that's fantastic, you need to be stimulated, where are you learning a language? At TAFE. Now, of course, my clients tell me they are doing a cooking class in France, and when they get back from that, they'll be doing a language course in Italy. Now, I think they're right, by the way - they still whinge about flying economy, by the way - but it just seems to me that life ain't that bad.

So what do we do with all this stuff? All we do is, I'd encourage you to go to the death clock, not if you're a smoker, you may want to lie about your drinking habits. But you'll probably be shocked how long you might be around on average. But what's fascinating is another site for me that drives money decisions, it's a very simple website, there's a bunch of them, just go to any world population clock.

I flipped one on using Google - isn't Doctor Google amazing, talking about change, I've got Doctor Google in my pocket somewhere. I just flipped on good old Doctor Google on my iPhone - which in itself is a technological revolution, by the way, changing the entire world, changing the way we do business, changing the way we live, changing medicine, [list goes on]. This, by the way, is the equivalent of a steam engine car at the moment, this thing is barely starting the revolution, which is going to be super, super exciting.

But this thing tells me - and the world clock I look at is based in London. I looked at it at seven minutes to 10, which meant it was 53 minutes into the day. So, at 53 minutes, this is - so in other words, it's 12:53 in the morning in London. So when they talk - I'm talking about the world's population in the new day. So it's a little bit after midnight, London-time, the world's population was 7,313,137,000. In the first 53 minutes of the day, as measured world economic clock based in Greenwich London Time, in the first 53 minutes, 156,750 people have been born on the planet, first 53 minutes of the day. 64,683 have died. Don't ask me their names. Giving, in the first 53 minutes of the day, a new population in the world of 92,000 people.

How do I make money out of this, how do I guide investors through this, how do I guide people through this? This change revolution we are going through has not been seen in 7000 years. We have never seen populations living this long, this rich, demanding of services, demanding of government, and so on. This is not negative, it's fantastic stuff, it is really exciting. It's really exciting for AMP as a company, by the way.

Number one, of course, if you're AMP obviously with insurance, if people don't die, you get to keep the premiums, that's excellent, I'm all for that. But also, people don't mind either. I don't want to collect on my death policy, I'd really prefer not to, I'm very happy for my insurance company to keep collecting my premiums, thank you very much. Also, of course, wealth management and so on, the same for all big financial institutions globally.

In Australia, people say to me, Paul, what about property in places like Sydney, what's going to happen, surely we're due for the great crash in property prices to come any day now, it's getting so expensive. I say, yeah, but I come from fundamental economics, and the problem for me is that I know the numbers, and anyone knows the numbers. Sydney's population is going to grow by a minimum of 500,000 people in the next five years, categorically. Where do you think they're going to live, caves, tents? They'll want a roof.

So if we have clearly an undersupply - not that big anymore, a slight undersupply of housing in Sydney, we have 500,000 new people coming into this city over the next five years, being born here and so on, what do you think happens to supply and demand around property? So absolutely we'll get a property crash at some point in time, of course we will, you don't get any investment doing that, we all know that, it's ridiculous. Why will it happen? Rates will go up, there'll be an economic downturn, whatever it may be, so of course property prices are going to come off at some point in time.

The last time I really saw that in Sydney, you may call - wasn't this a ripper - in January of 1990, Vicki had given up work as a schoolteacher, our second young baby was just being born and we were contemplating number three, we'd borrowed some money to buy a little three bedroom house in Artarmon. Remember this one folks? Our mortgage hit 18.75 per cent. Wasn't that fun? Now, here's something we can whinge about, because we're sort of similar ages, my sort of age plus. I think we all paid off our mortgage - I checked mine out, it took us about 22 years to pay, and obviously we got bigger houses as the kids grew up and stuff, but it took us some 22 years to finally become debt free.

Guess what the average rate of interest on our mortgage was over those 22-odd years? Yeah, about 10 per cent. My kids were whinging the other day, my son, Marcus, who's about to turn 28, he was complaining at the moment he can't get better than 3.99 per cent. I could kill the little bugger. But I do remember that 18.75 per cent on my mortgage in January of 1990, because my dad rang up very excitedly saying, oh son, this is fantastic, I got a 16 per cent term deposit. Do you also remember that one? Can you see that life can't be fair? Can you see we can't all win all the time?

Because right now, what's happened to me is I paid my mortgage off over 22 years at about 10 per cent, finally I get rid of the mortgage, I build up some money in the bank, and guess what happens to me? The bank's about to write to me on some renewal of some term deposits, what do you think I'm going to be offered next month? I reckon I'll be lucky to get 2.6 per cent, sir [laughs], it might be 2.4-something per cent. Yeah, so basically these are challenges in this room.

What do we do about it? Well, basically what we do do about it is - in fact, this is why I feel comfortable talking to shareholders, because obviously you own shares, I do put you in a different category to people that are 100 per cent in term deposits. But again, it does make me chuckle a little, because a term deposit, funnily enough, if you're going to die relatively soon, a term deposit is perfect, very safe, very certain.

The problem I've always had for some 30-odd years, even though my dear old dad was getting 16 per cent some years ago, the problem I've always had with term deposits is, ironically, they feel the right investment for a retiree. So as I'm about to turn 60, they feel right to me, I'm not putting my money at risk. But ironically, a term deposit is probably the most capital safe investment I know, but it's the most income risky investment I know.

So for example, many Australians, particularly retirees, sold Commonwealth Bank shares during the GFC only six or seven years ago. You may have forgotten, it was only six or seven years ago that the Commonwealth Bank shares fell from $55 to about $24, in fact $23.40. That was only a few years ago, now they're over $90. Ironically, Australians sold more Commonwealth Bank shares, in that week of the GFC after the collapse of Lehman, Australians sold more Commonwealth Bank shares at about $23-and-a-bit in a week than any - it's the biggest week of selling of Commonwealth Bank shares in the history of its listing.

What did we do with the money? People were selling in a panic, they thought the bank was going to collapse. Most investors then took their money and then what they did with them? They bought Commonwealth Bank term deposits. Which given they thought the bank was going to collapse, is strategically interesting. Then again, what else do you do? Stick it in a tin and bury it under the peach tree? That's risky as well, you may get robbed. But of course, back then - and you could get only seven years ago

- you could get a five-year, eight per cent term deposit. A year ago when that five-year term deposit matured at eight per cent, guess what you were getting? About four per cent. Your income has halved. What happened to Commonwealth Bank dividends during the GFC? Not very much, right?

So this issue, if we're not going to drop dead as we would have done only 107 or 108 years ago, if we males are not going to drop dead at 54, which I don't think we are on average, and ladies aren't going to drop dead at 58, which clearly they're not, we actually need to change our habits. That's where I am very fearful. I'm very fearful if people own only shares in retirement, I'm fearful if they own only property in retirement. I'm even more fearful if they only hold interest-bearing securities in retirement.

So basically, I don't have a crystal ball, I can't tell you when property is going to have a downturn, because at some time it will. I can tell you for certain that we cannot find a century where shares did not have three downturns in excess of 50 per cent. I'll say that again, we can't find a century - and share markets have been around since the Venice market opened in about 1670 - but we can't, in these number of centuries - in every one of those centuries we see three downturns in excess of 50 per cent.

So if I am going to be around to, say the average for a male of my age and my bodyweight and my non-drinking status - put that aside for a moment - basically I am nearly guaranteeing myself of seeing at least a 50 per cent downturn in the share market in my coming years. Look, I won't guarantee much, but there'll be another - I don't know why and I won't pick it, for heaven's sake. Why do you think - a best question ever for a money adviser is, why are you still working? It's a good question, huh? Because I don't know either, all right, I don't know either. But I do know how not to lose my money through risk.

At the moment, I'm terrified watching retirees who are now being offered the 2.6 per cent, sir, or the 2.4 per cent. But unfortunately you'll see many ads online offering you a property debenture for nine or 10 per cent. I saw an income fund being pushed heavily on the internet last night, offering 12 per cent. Well, for heaven's sake, I know you understand risk, but a lot of your friends in retirement will go, gee, 12 per cent is better than two per cent, and guess what they end up doing? We do a State Mortgage all over again, we do Pyramid Building Society all over again, we do Westpoint, we do Fincorp.

For heaven's sake, we've just got to get it into Australian's minds, this risk and return concept. So yeah, absolutely you can go from 2.2 or 2.5 per cent, can you get up to 3 or 3.1 per cent without shoving yourself around the risk curve too much? Yes, you can. But if you tell me, hey, great news Paul, I've listened to you, I've bailed out of my 2.4 per cent term deposit and I've just got an investment promising me 12 per cent, you may as well put the money in a brown paper bag and donate it to me. Seriously, I'll give you a receipt for a tax deduction. But honestly, it is just nutto stuff. If we're going to go beyond bank TD rates, we're going to need to take more risk, we're going to have to be a little bit careful.

Now, I'm going to now wrap this up and invite Rob back up. My view is, number one, is that the world is not perfect. Because of technology and communications, you will now see instantaneous horrible things, you'll see terrorists cutting people's heads off, you'll see horrible things on there. You'll hear all about Greece, will China slow down, it is very confusing. This thing produces noise, if that noise distracts you, I don't think you'll make good decisions.

Your money decisions should be around supply and demand. They should be around population growth. Australia is going to be 35 million people in 30 years' time. Therefore, if I own Woolies shares, which I bought some 21 years ago at the listing, my Woolies shares have gone up and they've gone down. Year one, they paid me an 11 cent dividend, that's the bit I eat. This year they're paying me $1.39 dividend. Significantly steady increase in dividend stream. That is why I like owning parts of businesses like Woolies and AMP.

I know our banks are expensive, they're a bit cheaper today, I happen to think our banks are good businesses. With 35 million Australians in time to come, do you think banks will do better or worse? Do you think the 35 million - those 12 million new Australians for example, will Woolies go broke because 12 million people will choose not to eat? A bit of a long shot for me. Population growth is very important to me, because it provides aggregate demand.

Population growth is what ends up - property will probably go down at some point in time. In 10 years' time, will property in Sydney be cheaper or more expensive? With 500,000 more people in five years, sure prices may go down in the short term, but my rent will be okay, and that's the bit I eat. So what I'm encouraging is, remember, we're now not investing for five years' in retirement, we're probably investing for 30 or 40 years in retirement on average. It means we need to change our habits and we need to be careful. So the world is not perfect. What I keep saying to people at the world, is the world is the least worst it's ever been.

Let's be more specific. I'll hand you back to Robert, thank you very much.

Robert Coulter: Thank you, Paul. I don't know about the death clock, but I'll have a look at it when I get back to work.

I would now like to invite Colin Lewis, Head of Technical Services, and Greg Elias, Client Adviser, from ipac, to join Paul up on stage. I think we might just explore some of those things that you were talking about Paul, especially about longer life expectancy. Thanks.

Paul Clitheroe: Thanks, guys. These two guys are a couple of my ipac colleagues. I'm going to pay particular tribute to Colin, because if you're thinking, gee, I wouldn't mind asking Paul a question, if it's a hard question, what actually happens is I say, I'll get back to you later, and I run and see Colin. I get all the glory, he's actually the bloke who actually knows something. So it's actually very handy having you, Colin, thank you for that.

Okay, but look, Greg, let's start off with the - what you do is, you're a professional financial planner. Haven't seen you in the papers lately, which augers well for your career future.

Greg Elias: That's good.

Paul Clitheroe: Very pleased about that.

Greg Elias: [Laughs].

Paul Clitheroe: Oh, it's been a bad time for the advice industry, hasn't it, folks? Who do you trust? Isn't that interesting, who do you trust? It's a biggy, isn't it? Really fascinating. I trust Greg.

Greg Elias: Thank you.

Paul Clitheroe: Not with my money. No, no, no, sorry, Greg, now I'm being a bit too cheeky. So basically, tell me Greg, and this is a serious question, is that a 60 year old - you were far too young, but if I'd come to you 30 years ago, you wouldn't have told me this. But 30 years ago, you would have looked at the figures and you would have said, Paul will probably live about eight or nine years, and Paul's wife will probably live about 12 years. You would have made, if you were not in nappies, you would have made a decision to probably invest me mainly around term deposits and stuff, because you know I'm not going to be around a long time on average.

What do you do now? I come to you as a 60 year old. You're going, geez, Paul, you could be around for 30 years.

Greg Elias: Great question. Good morning, everyone. Paul, you touched upon the very idea that living longer can lead to complications is probably as absurd as it sounds. But the reality is for many people, living longer will lead to complications, many of them financial. But let's stick to financial.

Paul Clitheroe: Let's do.

Greg Elias: So I guess the issue for a lot of people is - and we may have a visual aid or two just to help us look at this. But life expectancy, as you touched upon, is growing. I think now for females the average life expectancy it's a tick over 87 years, and for men it's a tick over 86 years. To put a bit of context around why people are living longer, you mentioned of course that there have been developments and progression in medicine, and that's obviously a big part of it. We can also look at things such as progression and improvements to aged care facilities and the like.

Also, there is a greater resistance to things that have typically been bad for us, like smoking. Of course, we've seen an absolute explosion of gym memberships and healthcare clubs and things of that kind. So people are generally wizening up to what's good for them and what isn't.

There's a visual aid here which shows our favourite clients, Jack and Jill, and they both earn average incomes. They've got their house paid off, they're each 55 years old with a view to retiring at age 60.

Paul Clitheroe: Now, help me here a second, so it looks to me, at 60, Jack and Jill have got about a bit over $700,000. Does that include the house?

Greg Elias: That doesn't include the house.

Paul Clitheroe: Okay, that's their investment money.

Greg Elias: That's right. So what we're looking at here is their investable capital. That is the money that's going to help them meet their objectives in retirement. Now, of significant on this slide, you'll note that - and I hope everyone can see, but there are two green lines. The first green line, which is a darker green line, shows the average life expectancy of a male. Now, for these people, I guess the biggest issue of living longer is that you place yourself at serious risk of outliving your capital.

Okay, now the biggest issue that creates is, at the moment, or at the point where you outlive your capital, what have you got left to draw on? As Paul said, for most people, the reality is you've got some type of Commonwealth support, be it an aged pension or something else. One of the biggest issues that creates is, at the current point in time, if you're someone who's relying on an aged pension, you and your partner are both receiving an income of around about $31,000 a year, with a small supplement. If we look, though, at the figures released by the Association of Superannuation Funds in Australia, they tell us that to facilitate a comfortable lifestyle in retirement, you need a bit over $58,000 a year. So there's a massive gap there, a shortfall that people are going to find hard to bridge.

Now, of significance here, you'll note there's another green line just further of the right of the graph. What this is, this is your life expectancy plus 20 per cent. Now, the significance of that is, the life expectancy numbers that are given to us take into consideration things like infant mortality and teenagers who do stupid things in cars. So the reality is that people who get into their 50s and 60s - and I think you touched on this, Paul - you're actually a better than even chance of living beyond your life expectancy. Which again, for many people could create an issue.

Paul Clitheroe: Hang on a second, you've got a problem here. Your problem here is, see, now you've got the same problem as Joe Hockey. If my wife is here now, my wife is looking at that graph, she is extremely unhappy. You know why she is unhappy?

Greg Elias: She wants the $700,000 plus the house to go to the kids. What you're trying to tell my wife - you've got a bigger problem than Joe - are any of you liking the look of this graph? You can all see what the end result is, right? Unless you die early, and we can't call that an advantage, that would be being overly negative, even by Australian standards. Because clearly the kids will be richer if you die early, but I'm hoping the kids wouldn't encourage that either. So the problem you've got is you've got the Joe Hockey problem. As an adviser, you've got to say to myself and my wife as I turn 60 in July, Paul and Vicki, you've got a house, you've got $720,000, you want about $58,000 a year, and if you spend about $58,000 a year, you are actually broke, apart from your house, at 86.

Greg Elias: That's correct.

Paul Clitheroe: This is bad for me. Vicki is going to tell me to keep working.

Greg Elias: [Laughs] This is bad, and look…

Paul Clitheroe: Vicki is probably right. But how do you explain - how do you think this is - sorry, you're probably thinking this is good. I'm thinking this is - how do you explain this?

Greg Elias: It's good question. I think - what it leads us to do is try and work out ways, whether you're still working or you're not working, what are some ways you can change this outcome? Because to me, that's people's - the clients we see, and I'm sure you'll agree, Paul, the biggest fear of people is not being able to take that trip to Bali or take that cruise, it's outliving their capital. That's the situation this creates. So we spend and we harness all of our energy and our time and our efforts into working out ways that you can change this outcome, so that whether you live to your life expectancy or 20 per cent beyond it, you're in a situation where you can continue meeting your expenses in retirement, and that's the outcome that we'd look for.

Paul Clitheroe: Okay, so what are you going to do about this, though?

Greg Elias: Good question. So again, if we can sort of unpack that into two groups, people who are still working and those who aren't. There's a few things that you can do. For those who are lucky enough to still be working, we've got another visual slide here which will show the first possibility, which is simply, well, if you're going to live longer, why not work longer?

Paul Clitheroe: This would be my wife's solution [laughs].

Greg Elias: As you mentioned. So working longer obviously changes the outcome and does so very positively. But let's be honest, that's not a very palatable outcome to the person who wants to retire at age 60. So a quick fix is to work longer, but again, at some point you need to place a value on working versus living your lifestyle in retirement exactly the way you want to. So working longer is one option.

There is another option if you're still working, and that's what we call working smarter. Now, what is that? Well, we've kept the same scenario as we had initially, so we've still got Jack and Jill at 55 and they're still planning on retiring at age 60. However, they're going to be doing something a bit different. That is, as ridiculous as this may sound, they're actually going to go to work for a bit less money. What this involves is using their income to make contributions to super.

Now, you touched upon super as we spoke about before. It has many tax concessions to the average Australian investor, and in the situation here we've got is Jack and Jill working to age 60, but over the next five years, rearranging their income so that they send a portion of it to super pre-tax. Now, the impact of that is that they save personal income tax and their feeding their nest egg. So that's the benefit, I guess, of entering into an arrangement with your employer, you can save tax and grow your nest egg at a much more rapid rate. What we're seeing here is, rather than Jack and Jill have their capital expire at their life expectancy, now we're moving towards age 90, which is getting towards a better place than where we want to be.

Paul Clitheroe: Yeah, this is still - look, it's still a challenging one. Ladies and gentlemen, please don't put your hand up and tell me, but could you think back to what inheritance you received, if you have received, from your parents? Just put that in your mind for a moment. Or maybe what your parents received from grandparents. I think another challenge is going to be, in terms of passing our wealth - I'm going to come to you here, Colin Lewis.

In terms of passing our wealth to our children, this, for Vicki and myself, is a really - it's probably an area we spend - I have a financial planner, it's a second opinion really powerful. Vicki and myself spend a bit of time with - we've got a 27 year old, a 25 year old and a 21 year old who's a third year at university. Some that challenges us about this, it's not in a sense, will our money run out, will it last long enough, and so on like that, but it may be for many of you in the audience. If life has changed in a way it's never changed in 7000 years, how do you transition?

Now, we all know giving kids too much too early could be really dangerous. Kids probably need help getting into the Sydney housing market, we all have strategies to do this. But if, for example, if - and I know these are only average numbers - but if, for example, I do last to about 90, and let's say Vicki, which is likely, lasts longer than me. So let's say, if Vicki is 95, does Vicki then leave all of our wealth to 75 year old children? That's never happened before, this is all new. Do we do what the Sri Lankan community does, where wealth is passed to the next - it skips a generation, it's passed to the grandchildren. I'm really challenged by this.

Then my wife, Vicki, will say, but Paul - we've got two kids living in relationships, and Vicki says, but if that breaks up, what's the legal situation there? Is there going to be early disputes around de factos and money? It's all this stuff that I don't think our parents worried about. When I said to my - my mum had passed away - when I said to my dad that I'd met - dad liked Vicki - I said to my dad I was marrying Vicki, he said, thank God for that. But there wasn't really much more said or done.

Some years ago my dad passed away, I've got one sister, and my dad was a country doctor, he wasn't a super-rich man. His estate - he didn't remarry, which can complicate things as well - his estate got split between Jane and myself, it wasn't a huge amount of money but it was appreciated. But it kind of was never really spoken about.

This is really challenging, Colin. So you know, Vicki and myself we're thinking of our wills, we fly a fair bit, if we both drop dead in a plane accident and there's this lump of money there, and because we haven't had a chance to spend too much of it, we've been too busy making it - which is a really big error, by the way. Dying the richest person in the graveyard is a really bad plan. Maybe we need a change of attitude around that point as well.

Maybe, in actual fact, our money is meant to go backwards. But guess what? We've all worked so hard to make our money go forward, we're all having a heart attack looking at a graph, and I'm having a heart attack. I've worked pretty solidly for some 40-odd years to grow money, I know I should cut into the money. Gee, the feeling, it just feels wrong, Colin.

Colin Lewis: [It does for all of us].

Paul Clitheroe: I'm used to creating the stuff, not spending the stuff. So if I drop dead [think of myself] dropped dead in a plane crash, our current wills are hilarious. They currently - we decided look, what we'll do is - and we're redoing them now. Some years ago we said, right, the kids will each get a third of the estate, as in, a third of their third, three children, three pots. So each child will get a third of their third at 25, and then we figure they'll blow that. So they then get another third at 35, and we figure they'll get divorced and that's the end of that. The final third they get at 45, and we figure if they blow that, well, it's tough. That's as good as we can do.

Colin Lewis: It's a difficult question. I must say that estate planning and asset protection is becoming a critical piece of anybody's financial plan now. It's a very important piece that Greg spoke about, about saving for the future retirement and making sure your money lasts. But estate planning is another critical part, that you can leave something for your kids. Now, in the worst case scenario, looking at the first graph, that even if you died at the end of the life expectancy and so forth, at least the family home would go to the kids in that scenario.

But people want to potentially do more than that. As Greg indicated, the ASFA-Westpac index is you want to be living on around about $58,000 and have a comfortable retirement. So you certainly need to accumulate that sort of wealth before retiring. But you really do need to plan, and plan properly, how you leave your assets, what's remaining at the end of the day. All too often - you may get this one too, Paul - but readers that write into the *National Seniors Australia Magazine* that I write for. Too often people think that they've accumulated this wealth and then when they die, that it will go to the government.

Paul Clitheroe: That it what?

Colin Lewis: That it will go to the government. That question comes up frequently.

Paul Clitheroe: Where does that come from?

Colin Lewis: I don't know. But I think there is a remote chance where that can happen, and that's where if somebody died intestate or without a will and you have absolutely nobody to leave it to, in terms of family and relatives and so forth, that ultimately it is possible the government can get it. But that's a very rare situation. So I really want to break that myth.

Paul Clitheroe: But do you really get…

Colin Lewis: Yes, absolutely.

Paul Clitheroe: But death taxes went decades ago.

Colin Lewis: It's not about death taxes, it's a case of what happens to your assets. That it will be left of the government because, I've saved, I've got these concessions, the government wants it when I die. That's definitely not the case.

Paul Clitheroe: Yes, but there is a death tax they could pay.

Colin Lewis: Yep.

Paul Clitheroe: Because if Vicki's passed on, which the death clock says she won't, and I'm last to go. If I, with three non-dependent kids, if I drop dead with money still in super, I actually will pay a death tax, won't I?

Colin Lewis: You will pay…

Paul Clitheroe: It's not called a death tax.

Colin Lewis: It's not called a death tax. Death tax went back out in the late…

[Over speaking]

Paul Clitheroe: Okay, so I die and I pay a tax, it's a death tax, all right.

Colin Lewis: It is a tax, a pseudo death tax.

Pail Clitheroe: Talk about that, it's important.

Colin Lewis: Okay, so what actually happens here is, if with your superannuation assets now, we're talking super here. In the event that you die, if you leave your money to your spouse, it will go to your spouse tax-free. It'll also go to children who are minor or under age 18, somebody who's financially dependent to you. But at the end of the day, if you then leave it to your spouse and then your spouse passes away, and if your money ultimately goes to an adult son or daughter - and as we are all ageing, the likelihood probably of that happening, it will happen - that money is still sitting in super, a portion of that benefit can be taxed. It gets a bit complicated, your death benefits gets broken down into a tax-free component and a taxable component, and that taxable component can be taxed up to 17 cents in the $1.

Paul Clitheroe: I could pay 17 per cent tax?

Colin Lewis: Up to 17 per cent tax on a portion of your death benefits.

Paul Clitheroe: So the trick is, if I'm lying in my death bed and my wife's passed on, I've got three adult children, on my death bed, I need to take my money out of super.

Colin Lewis: That's it. Basically, the day before death, it comes out tax-free, the day after death, there's tax payable. So it's a…

[Over speaking]

Paul Clitheroe: Yes, Greg, can you help me here?

Greg Elias: Very quickly, very quickly. I spoke to a client not too long ago who said, he's got his plan, he's got it all worked out. He said, if I have a heart palpitation, I'll first call the super fund and then I'll call the ambulance.

[Laughter]

Paul Clitheroe: Okay, I'll pay that.

Robert Coulter: Gentlemen, can I pause you there. I might - because we could carry on for some time, but we do need to finish at 11 o'clock. I'll pause you there and I'll invite people, if you have a question for either Paul, Colin or Greg, if you could make your way to the microphone and we'll do our best to answer that.

Paul Clitheroe: There's somebody on the right-hand side down there.

Robert Coulter: If you come to…

Question: A question, if your adult child is a sick person, is mentally ill or a disabled adult child, how does that pass on?

Colin Lewis: In those circumstances where you do actually have unfortunately a son or daughter who is disabled, then they will get tax concessions in terms of - you don't have to fear, you can structure your super that they can continue to receive an income stream for the rest of their lives in a very tax effective manner. So you don't have to worry about that.

Paul Clitheroe: So to be clear there, Colin, what we're saying is, in that situation, we're saying that if you have an adult child who - in that situation, the adult child is dependent, and if you die, because you have a dependent child, this tax we're talking about is not triggered, because you have a dependent child.

Colin Lewis: That's right. I was talking generally before, there are exceptions, and for disabled children, adult [inaudible - technical difficulty]…

[Over speaking]

Colin Lewis: Yeah, absolutely, Paul.

Question: Hello, good morning. I've got a question here to ask. I understand that when one turns 65 and to be able to contribute to professional super - I mean, I'm talking about when one person is retired. When one turns 65, one has to have 40 hours steady consecutive days working in the full time two years. Can I ask you - and also one has to be gainfully employed during this period of time.

Can I ask you, how does one convince the tax department that this is not a hobby? When one particularly has got an interest in, I don't know, whatever, say gardening or something like that, when that, during their working lives before they turned 60, is as a hobby, say gardening or some other hobby. Now they like to take it on at 65 with a working thing so that they can contribute to professional super. So can you please tell me, how does one fulfil this? Does one need an ABN, for example? How does one convince the tax department?

Paul Clitheroe: Very good question. Convincing the tax department of anything is never easy, so it is a good question.

Greg Elias: The point the gentleman has touched on is, if you would like to put money into super and you have passed age 65, there is a requirement you have to meet, it's called a work test. That work test requires you to be gainfully employed for 40 hours over a consecutive 30 day period. So effectively what that means is, you need to rack up 40 hours of work in a month. Now, if you do that, that will allow you to put money into superannuation for the duration of that financial year.

The question on how best to convince the Tax Office is an interesting one. The key here is that you need to be gainfully employed. So by gainfully employed, that means you need to be employed for some type of reward. So babysitting your grandchildren normally won't fly. What you need to do is that you need to be able to substantiate that you were employed for some type of reward. The best way to do that, I guess, is via a payslip.

But the 40 hours, the work test requirement can be achieved in many ways. I see people around my neighbourhood in Marrickville, two types of people delivering Woolworths leaflets. We've got the 16 year olds after a bit of pocket money, and we've got the 65 year olds who are trying to meet that work test requirement. So to answer your question, what you will need is some type of documentation to substantiate that, hey, I was employed for 40 hours and gainfully employed for reward. So you need something to back up those hours of work.

Paul Clitheroe: How often would I need to do that? So if I - okay, I'm getting the hang of this. The gentleman might have a company structure and he might be able to pay himself to do garden work for a month. But if I went out and got a job delivering the local newspaper - okay, so I've now retired, I'll retire on 1 July. I do a month delivering the *North Shore Times*, I've done my month, I've got my 40 hours. Is that it forever, or how long does that last?

Greg Elias: Good question. So you would need to meet the work test for every year in which you wish to put money into super. So in that situation…

Paul Clitheroe: Oh, so it's just a month a year delivering newspapers?

Greg Elias: Just a month a year. So if you were to deliver the *North Shore Times* for the month of July, that would allow you to put money into superannuation up until the following June, 30 June the following year.

Paul Clitheroe: Yep, do another month.

Robert Coulter: Gentlemen, I would…

[Over speaking]

Paul Clitheroe: Hang on, I'm working out my future here, do you mind?

[Laughter]

Colin Lewis: I think one thing that's quite interesting, just on this point, is that, as Paul said, as we're all ageing and of course the government is pushing out the aged pension age from 65, 67 and now to 70 and so forth, and the superannuation rules are still hanging around when the aged pension age was 65. Will they start to increase the arbitrary ages within super, and does that 65 go to 70 in the future? But of course, hand-in-hand with that, you'd expect the preservation age, the age when you can start to access your money, going up as well. So it'd be interesting to see, in terms of the gentleman's question, 65, will that ultimately go to 70 before you need to meet the work test requirements?

Paul Clitheroe: I'll tell you what we might do, I know Robert is under pressure. Sir, could I encourage you - Robert needs to - could I encourage you to come forward and have a personal chat with Colin? He's worth thousands an hour, so come and grab him, otherwise we're going to get thrown off stage. But do come forward and grab Colin.

Robert Coulter: You're not going to get thrown off stage, but we'll go overtime. Many thanks, ladies and gentlemen, for your time and attention this morning. I think you'll agree it was an excellent topic. That concludes our presentation, Securing Your Future, this morning. Please join me in thanking today's speakers, Paul Clitheroe, Colin Lewis, Greg Elias.

Paul Clitheroe: Thank you.

Greg Elias: Thank you.

Colin Lewis: Thanks.

Robert Coulter: Thank you, and good morning.

[END OF TRANSCRIPT]