



## Retirement Incomes Working Group Adviser Retirement Methodology Survey Results

The Actuaries Institute Retirement Incomes Working Group (RIWG) arranged a survey of financial planners as part of its research program into the methodologies adopted by advisers in providing financial advice, particularly in a retirement incomes context. The objectives of the Institute are firstly, to understand the industry and current advice processes, and secondly, if possible to contribute constructively to the development of tools and processes which may be of assistance to planners and their clients.

This survey was originally designed to be completed by individual planners and the first collection of responses was from individual planners. The opportunity later became available to speak with executives of dealer groups to get detailed responses on the same questions, but the results of those structured interviews have not been included in this paper to maintain methodological consistency with the earlier responses.

This paper is in two parts. Part A provides a brief, high-level commentary on the results of the survey. Part B provides the detailed results of the survey, including all comments provided by respondents (other than a very small number of comments that were edited or excluded because the response might have identified the respondent or the respondent's employer).

A copy will be provided to the Financial Planning Association (FPA), which supported the survey by advertising its availability to its members together with a link to the survey collection tool, and also to all participants in the survey who provided email details.

The Actuaries Institute wishes to express its gratitude to the FPA and to individual respondents for their time and effort.

### PART A - High Level Commentary on Survey Results

Half the survey respondents were salaried and half self-employed. Two thirds worked in practices with fewer than 5 advisors, while 20% worked in a group of at least 50 advisors.

Risk profile questionnaires are still very dominant at least as the initial stage of considering the appropriate asset allocation (see the detailed responses to Question 3).

Asked whether the asset allocation flowing from the risk profile questionnaire is usually the allocation that is recommended to the client, 42% of respondents said that is usually the case (Question 5). Interestingly, only two of the many adviser comments on this question referred to the existing asset allocation; we might perhaps have expected the existing asset allocation to be a more frequent discussion point, especially for new clients.

Equal numbers of respondents, asked how difficult it is for them to depart from the asset allocation that flows from the risk profile questionnaire (Question 6), said "extra compliance



effort, but possible”, “I have some discretion to vary the Risk Profile from that resulting from the Risk Profile Questionnaire” and “I can recommend any asset allocation that I think is best for the client”.

Compliance with requirements in relation to asset allocation and risk profile questionnaire is a significant hurdle. Consider for example two comments by respondents to Question 6 (how hard is it to vary the asset allocation away from the allocation consistent with the Risk Profile Questionnaire): “Why bother. Too much compliance and you just get slammed at an audit”; and “There has to be a very good reason for the variation for compliance to be happy”.

Only 45% of respondents have significant or full discretion over the methodologies they use (Question 7). Most respondents are provided with preferred methodologies by their employers or dealer groups that they tend to stick to, or that they must stick to.

Asked “how often is the asset allocation that flows from the risk profile questionnaire appropriate for the client taking into account their income, assets, personal circumstances and investment objectives” (Question 9), the three most common responses were “reasonably often” (39% of responses), “frequently” (29%) and “sometimes” (20%). We can reasonably infer that there must be a significant percentage of cases where the adviser does NOT regard the asset allocation emerging from the risk profile questionnaire as appropriate.

Some advisers have a view that the risk profile questionnaires produce too cautious an asset allocation (Question 9). Consider the following comments: “The questions about losing money in the risk profile bring the asset allocation right back from where it should be”; and “Questions that are asked are usually very negatively focused and do not take into account your points mentioned in the question” (clients’ assets, income, personal circumstances and investment objectives). Having said that, some advisers seem to have an opposite view, for example the adviser who commented that the asset allocation emerging from the risk profile questionnaire “tends to be a bit too assertive”.

Another interesting comment on Question 9 is “If completed without adviser, clients tend to come out more conservative however education usually clears this up”. This comment seems to call into question whether risk profile questionnaires are a stable instrument in the sense that they can produce different results according to whether or not they were completed with assistance or input from an adviser.

Question 11 suggests that 14% of advisers would leave their clients in a sub-optimal asset allocation flowing from the risk profile questionnaire and a further 54% might try to shift the client but not by more than one risk band even if the discrepancy between the appropriate asset allocation and the asset allocation arising from the risk profiling were more than one band. This is largely due to compliance (“In all honesty due to the paperwork required and compliance to change anything we tend to stick to the risk profile”) although the valid point was also made “to avoid the risk of clients reacting to a market downturn irrationally”.

Almost half (46%) of advisors who responded to Question 12 and Question 13 used life expectancy to determine their planning horizon, with a margin of zero to five years. Another 19% add a margin of six or more years to life expectancy.

There are a several approaches to capital management in pension phase (Question 17): 40% of advisers “accept the income that the client requires and focus on portfolio construction”, 34% use “time segmentation approach (bucket strategies)” and 27% recommend following “SIS minimums”. A large majority (78%) advises on trade-offs (Question 19).



Over 80% of advisers will give holistic advice incorporating non-superannuation assets and tax, estate and means test issues, although only a third will “situational risk tolerance (a technical assessment of how much risk the client can bear)” (Question 19).

A narrow majority of respondents to Question 20 (51%) said that projections in their statements of advice (SoAs) contained only central estimates without optimistic and pessimistic or similar indications of the variability of the results. Only 11% said that they already use stochastic methods.

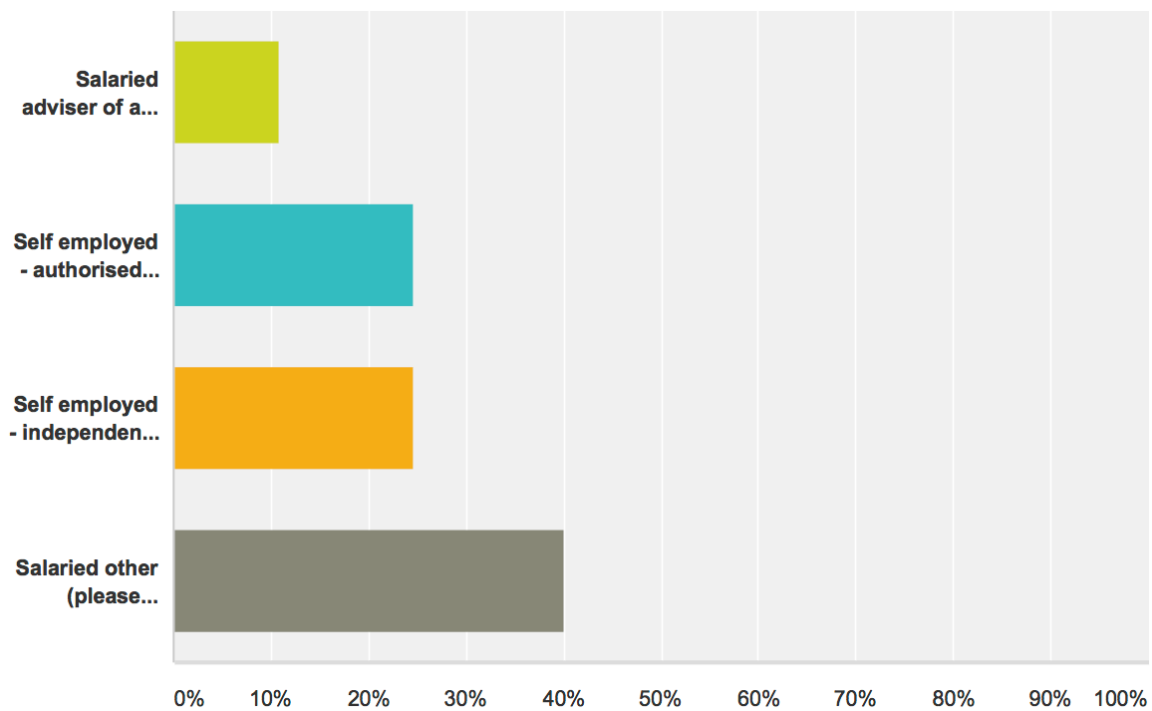
A minority (39%) of respondents to Question 21 believed that they would make more use of stochastic methods in future but 46% were unsure. The comments revealed conflicting views about stochastic methods: the adviser who commented “I think it will be one of the greatest enhancements to retirement planning” clearly had a different view to the one who commented “This is just more information to confuse the client so not likely”.



## PART B – Detailed Survey Results

### Question 1:

Which of the following best describes your employment / licensing status?		
Answer Options	Response Percent	Response Count
Salaried adviser of a bank	10.8%	7
Self employed - authorised representative via one of the 'big 6' dealer groups (ANZ, CBA, NAB, WBC, IOOF, AMP)	24.6%	16
Self employed - independent license	24.6%	16
Salaried other (please comment)	40.0%	26
Comments:		23
	<i>answered question</i>	<b>65</b>
	<i>skipped question</i>	<b>0</b>





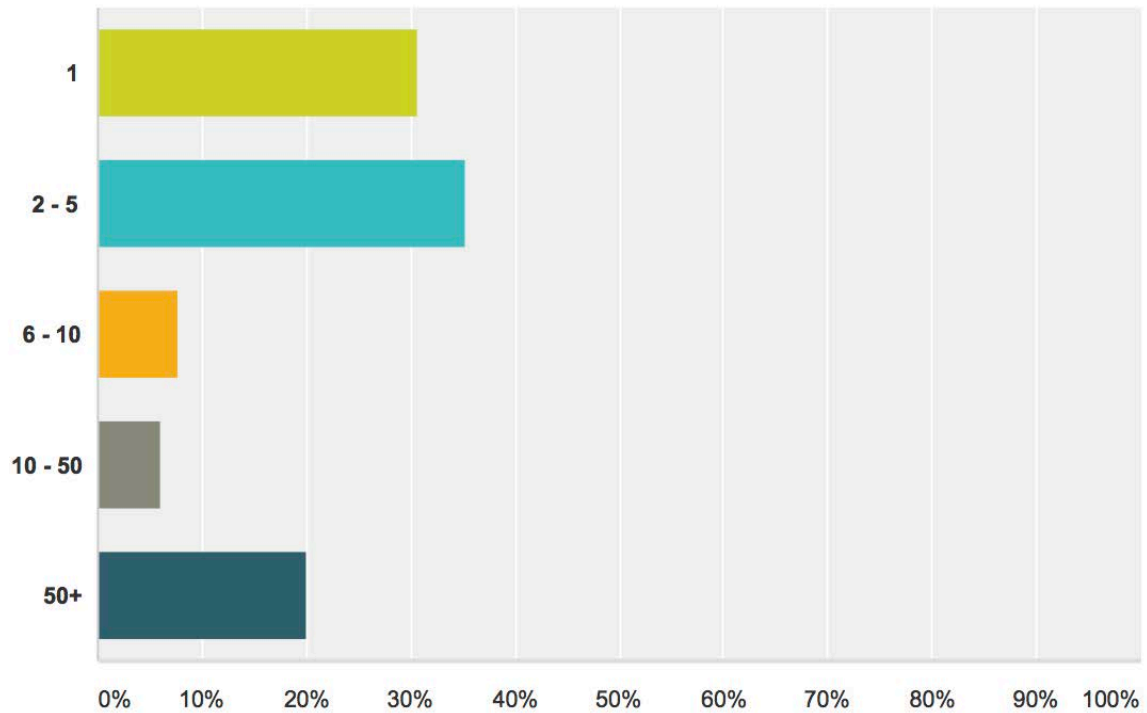
### Comments:

- Self employed writer and assessor
- Firm with independent licensee
- Salaried adviser - AR of big 6
- Licensee Manager
- Salaried employed of a small business with a corporate AR with an independent licensee.
- Salaried adviser of independent license
- Super Fund
- Salaried adviser of independent licensee
- Salaried adviser of independent licensee
- Salaried adviser for one of the big 6 dealer groups
- Salaried employee of a self licensed business
- Salaried -Non-aligned firm
- Salaried adviser to {name of firm}
- Salaried adviser at a small business
- I was an adviser specialising in risk under the {name of firm} banner
- {Name of firm}
- Financial Adviser/Authorised Representative to a practice which is part of {name of wealth management company}
- Auth Rep of an independent financial planning group
- Employee at licensed firm
- Employee of corporate authorised rep {name of firm}
- Industry fund
- Regulator/compliance/{regulatory role}
- Responsible for platforms within group



## Question 2:

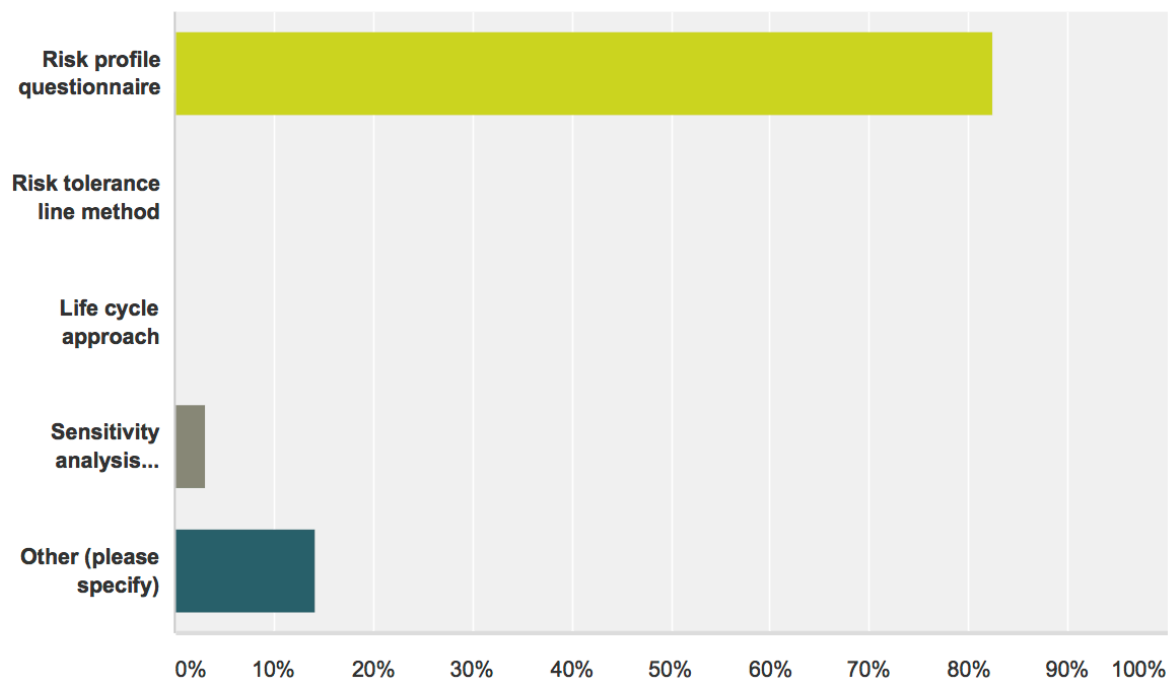
Approximately how many advisers work at your firm?		
Answer Options	Response Percent	Response Count
1	30.8%	20
2 - 5	35.4%	23
6 - 10	7.7%	5
10 - 50	6.2%	4
50+	20.0%	13
<i>answered question</i>		<b>65</b>
<i>skipped question</i>		<b>0</b>





### Question 3:

What method do you use for determining the investment risk profile of your clients?		
Answer Options	Response Percent	Response Count
Risk profile questionnaire	82.5%	52
Risk tolerance line method	0.0%	0
Life cycle approach	0.0%	0
Sensitivity analysis approach	3.2%	2
Other (please specify)	14.3%	9
Comments:		15
<b>answered question</b>		<b>63</b>
<b>skipped question</b>		<b>2</b>





**Comments from respondents who had replied “other – please specify”:**

- Risk profile + risk required to meet objectives + risk capacity
- Needs basis and tolerance
- Combination of risk profiling questionnaire that is completed by the client and also conversation with the client.
- Mix of Finametrica’s questionnaire overlaid with discussion on goals, risks and ensure return ranges are in line with requirements at a level of volatility clients are comfortable with.
- We tend to explain the risks and recommend cash reserves as appropriate
- Detailed questionnaire re health status, proposed lifestyle and asset position plus interview

**Comments from respondents who had replied “risk profile questionnaire”:**

- With education
- Plus discussion with clients
- Terrible but had to use the risk profile question. I think we need to move to more objective based questioning.
- Is required by the licensee
- Use questionnaire but have regard to overall client needs as well – don’t just tick a box and accept that.
- Also discussions about them verbally as well, better understanding of their feelings
- Finametrica + in depth discussions with Clients

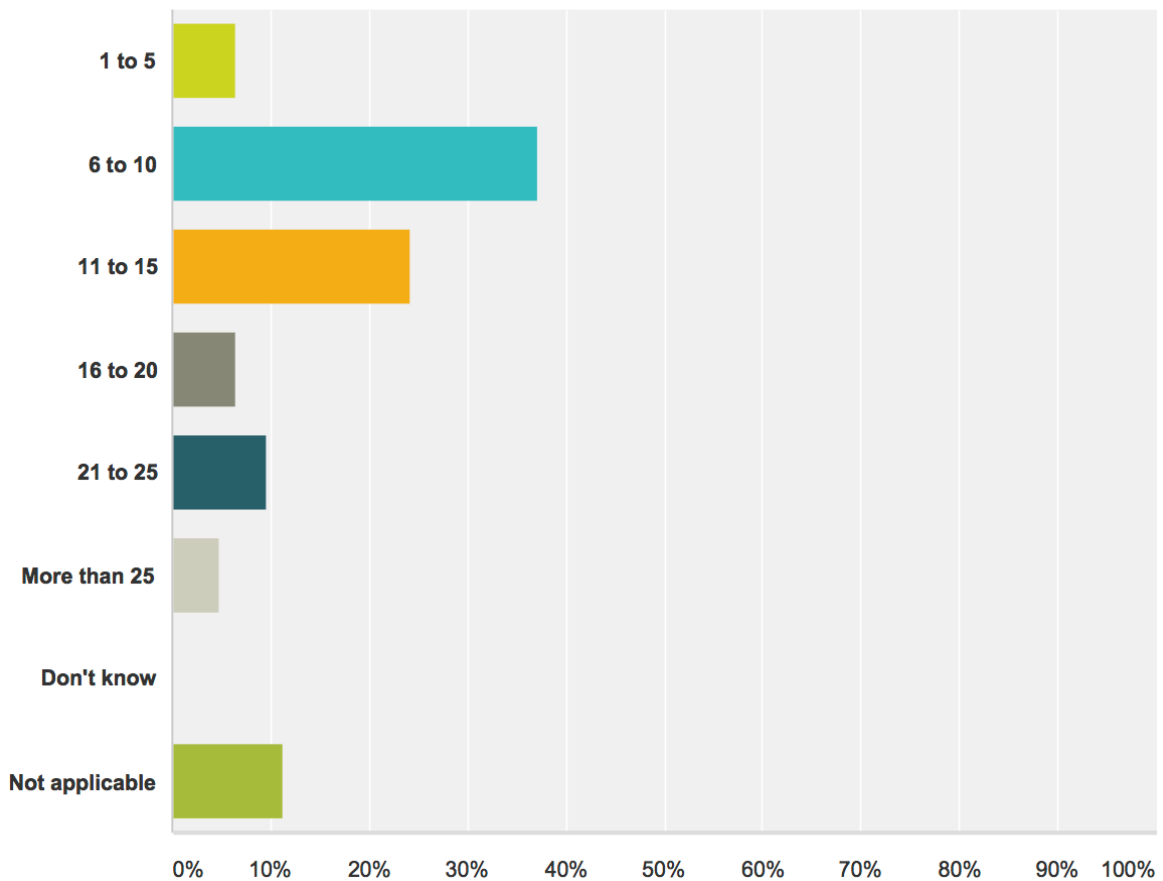




#### Question 4:

For those using a Risk Profile Questionnaire, how many questions are typically contained in the questionnaire?

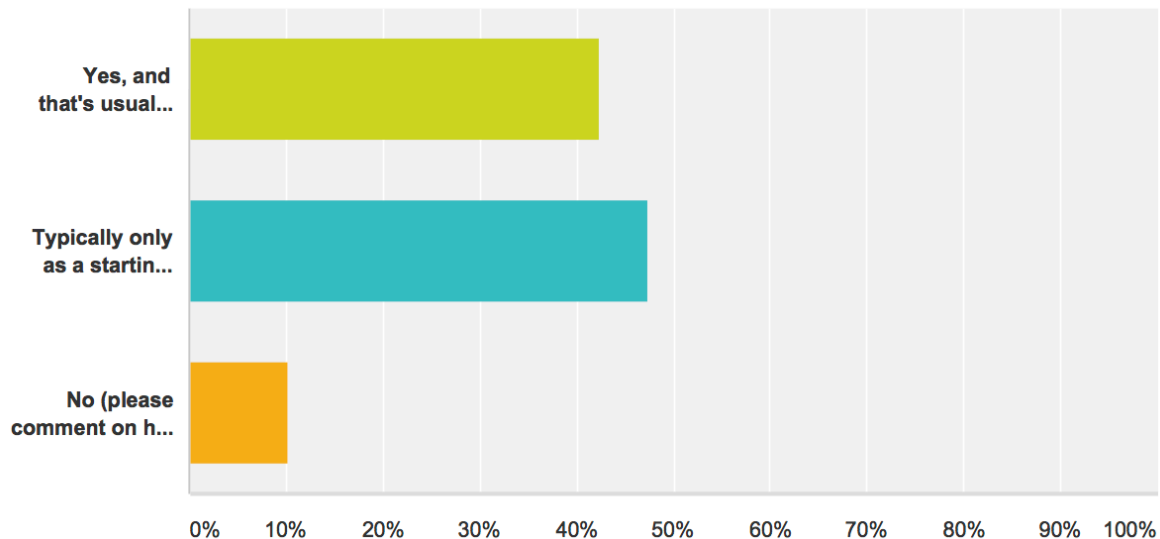
Answer Options	Response Percent	Response Count
1 to 5	6.5%	4
6 to 10	37.1%	23
11 to 15	24.2%	15
16 to 20	6.5%	4
21 to 25	9.7%	6
More than 25	4.8%	3
Don't know	0.0%	0
Not applicable	11.3%	7
<i>answered question</i>		<b>62</b>
<i>skipped question</i>		<b>3</b>





## Question 5:

Do you use the results of the Risk Profile Questionnaire to map clients to an asset allocation?		
Answer Options	Response Percent	Response Count
Yes, and that's usually the asset allocation recommended to the client	42.4%	25
Typically only as a starting point (please comment)	47.5%	28
No (please comment on how you choose an asset allocation)	10.2%	6
Comment:		33
<b>answered question</b>		<b>59</b>
<b>skipped question</b>		<b>6</b>



### Comments from respondents who had replied "Yes, and that's usually the asset allocation that is recommended to the client":

- You would expect to see this as justification of asset allocation but acceptable to use something different if explained
- There are discussions with the client & an assessment of the suitability but generally AA will be unchanged from result
- I also have discussions with the client about the risk profile and what it means to them in terms of saving of retirement and investing in general
- I tended to use model portfolios. Any advisers sitting in the suburbs who think they can pick the best investments for a client are kidding themselves.

### Comments from respondents who had replied "Typically only as a starting point":

- Assess interrelationships between answers as well as individual risk score allocated
- Actual asset allocation will depend on client's needs and objectives
- Map to an asset allocation for discussion with client, which is then altered if needs/objectives dictate



- Starting point for broad allocation to income/growth; must also consider client preferences and other assets.
- We have discussions with clients about risk, their required return and then workout the correct allocation
- Depends on answers to individual questions and any contradictions. It is only a starting point in a range of different considerations (age, funding source of portfolio etc)
- Gives an indication to how comfortable they are with potential to lose money BUT need to then discuss what their likely needs are and whether they can achieve this with their assessed profile - they may in fact be able to take less risk.
- Also delve deeper to understand their experience and how they feel about the Risk profile it has established
- We also take into account the client's entities and how assets can be spread across them and what level of risk is actually needed to meet their objectives.
- Also question the client directly and have open discussion.
- Risk Profiling via Finametrica measures a Client's personal Risk Tolerance. We also need to determine how much investment risk (read as how much exposure to Growth Assets) they need to achieve their lifelong cash flow needs. Then there is often a compromise between the two.
- Starting point to determine likely comfort of various investment strategies, usually narrow down to 3 before discussing specific timeframes, goals and strategies for the client.
- Discussion about time horizon, previous investments and goals to fine-tune recommendations
- Also discuss risk capacity before deciding on appropriate allocation
- Also factor in goals & objectives & investment timeframe
- Also depends on age and investment horizon and retirement plans
- Use that as a discussion point, to get the client thinking about some core concepts and then engage in further discussion.
- It's used as a basis for discussion about risk v reward, tolerance for risk, need for risk, timeframes etc.
- I would also look into what the client is currently invested into and ask questions regarding their comfort level with their current investments
- Risk profile is enhanced via conversation with clients
- It gives us a starting point
- Discussion with client about where they place and the variance allowed of the typical AA model to ascertain the tolerance to under- or over-weighting within the chosen risk profile.
- We also need to build in budget / cash flow considerations, other preferences the client may have nominated and our advice on what level of risk is required to achieve stated goals - e.g. maybe the client does not need to take on as much risk as suggested by the 'risk profile'.
- Further analysis of ability to meet long-term objectives and return requirement is then built in to determine if a more or less aggressive profile is required

#### **Comments from respondents who had replied "No":**

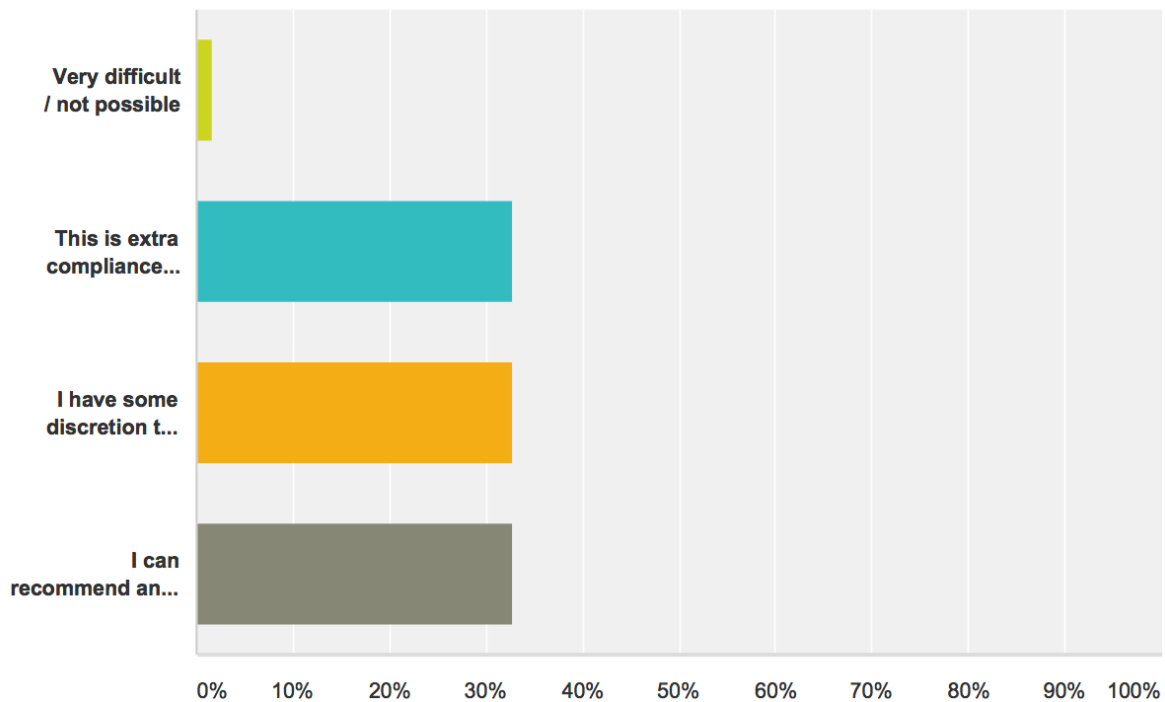
- We tend to explain the risks and recommend cash reserves as appropriate
- My clients are usually elderly, some are entering residential aged care others are into granny flat arrangements within the family. Centrelink and care fees are major issues. Few clients have the life expectancy to reasonably make new equity investments.
- Sort of, our investment philosophy is quite simple the next 3 years worth of needs are kept in cash and term deposits, the remainder is invested as per the risk profile
- We use needs based investing approach
- Based on targeted return required



### Question 6:

How difficult is it, from a compliance point of view, for you to recommend an asset allocation that differs from what flows from the Risk Profile questionnaire (e.g. if you thought an alternative asset mix was better for the client)?

Answer Options	Response Percent	Response Count
Very difficult / not possible	1.7%	1
This is extra compliance effort, but possible	32.8%	19
I have some discretion to vary slightly from the Risk Profile result	32.8%	19
I can recommend any asset allocation I think is best for the client (please comment on how you would document your decision for compliance purposes)	32.8%	19
Comment: (e.g. what would be the consequence of deviating from compliance expectations?)		27
<b>answered question</b>		<b>58</b>
<b>skipped question</b>		<b>7</b>





**Comments from respondents who had replied “There is extra compliance effort, but possible”:**

- Justification is required. Detailed notes are especially required when increasing a risk profile but not as much detail required when decreasing exposure to growth assets.
- Why bother. Too much compliance and you just get slammed at an audit.
- There has to be a very good reason for the variation for compliance to be happy

**Comments from respondents who had replied “I have some discretion to vary slightly from the Risk Profile result”:**

- As long as the reasoning is documented
- Documents in details the details the conversations and dissuasion between myself and the client and get the client to sign it
- I feel comfortable having the client put their input into their assessment of their asset allocation. Some will disagree with the assessment and are then adamant that they would like to be invested in a more/less riskier allocation. I think the questionnaire provides a good starting point and helps explain the whole risk profile/asset allocation process to the client
- An explanation for the deviation would need to be file noted
- Clear reasoning as to why the recommended asset allocation differs from the benchmark asset allocation by more than 10%. This is to be documented in the SOA and clients need to be warned about the impact of this on their portfolio.
- Discussion with client sometimes uncovers their desire to change profile (up or down) but are generally based on time frame compression or similar. Discussion about use of variance (+- 10 to 15%) to target allocation, so long as overall defensive & growth are within target allocations.

**Comments from respondents who had replied “I can recommend any asset allocation I think is best”:**

- Need to explain reasonable basis from default asset allocation and how the variance meets the clients needs.
- Notes and discussion regarding the factors that led to the variation.
- The client signs their consent to vary their risk profile and asset allocation which is done within the risk profile questionnaire.
- Document reason through SOA and file notes
- File notes would clearly explain why the asset allocation has differed.
- Document in file notes & Statement of Advice
- None of these responses fit my situation
- We have model portfolios for specific targeted performance returns
- Simply need to have a basis for the advice and demonstrate client understands.
- As said earlier I have an explanation section to explain discussions held
- No consequence as long as it is the client's best interest
- Must document fully the reasons for such decision and confirm client acceptance of such.
- Risk Profiling via Finametrica measures a Clients personal Risk Tolerance. We also need to determine how much investment risk (read as how much exposure to Growth Assets) they need to achieve their lifelong cash flow needs. Then there is often a compromise between the two.
- Justify why I think that and the conversations held with clients
- We are outcomes driven i.e. goals. If the inputs don't achieve the outcome, then appropriate risk profile is advised. This is the case when risk needs to be added or reduced.
- As above: provided it makes sense, shouldn't be tied to risk profile

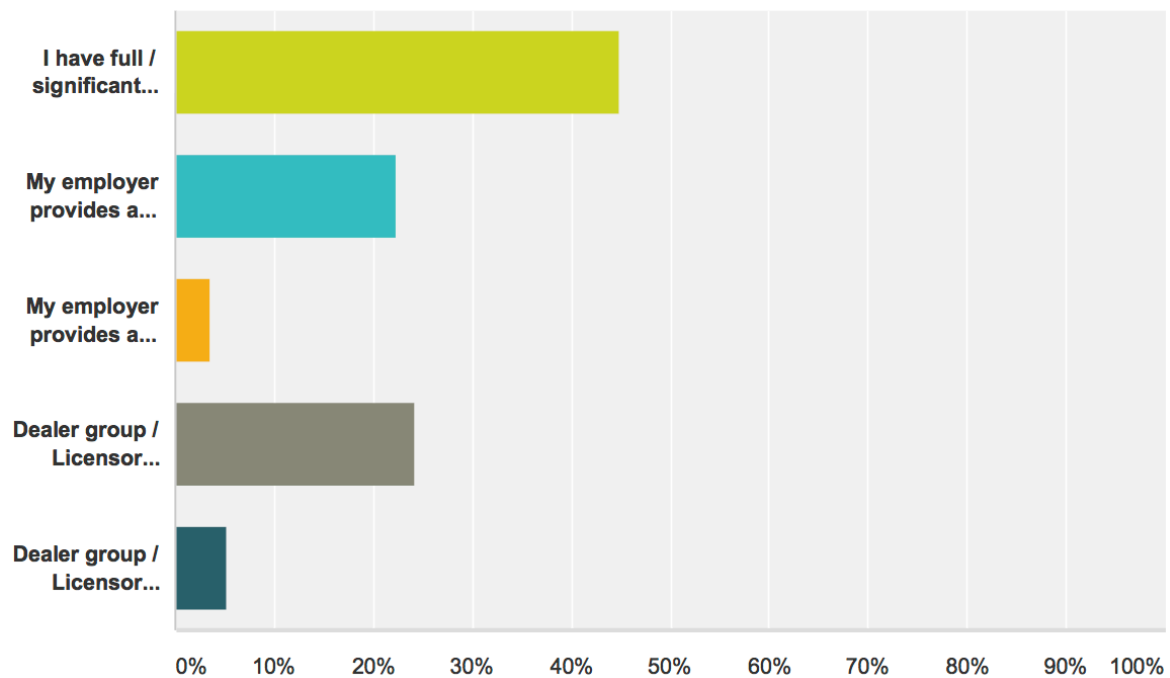


- I will have explained the situation and secured agreement to the recommendations or recite their reluctance to my recommendations and make alternative recommendations within their "boundaries"
- As a sole practitioner with own AFSL, I am "Compliance ". Any investment recommendations are documented in the SOA to reflect the client's need for income and then estate planning.



**Question 7:**

Who designs the retirement approach (asset allocation and retirement capital management) used in your firm?		
Answer Options	Response Percent	Response Count
I have full / significant discretion over the methodologies I use	44.8%	26
My employer provides a preferred methodology which I TEND TO stick to	22.4%	13
My employer provides a preferred methodology which I MUST stick to	3.4%	2
Dealer group / Licensor provides a preferred methodology which I TEND TO stick to	24.1%	14
Dealer group / Licensor provides a preferred methodology which I MUST stick to	5.2%	3
Comments (how much discretion do you have?):		11
	<i>answered question</i>	<b>58</b>
	<i>skipped question</i>	<b>7</b>





**Comments from respondents who had replied “I have full/significant discretion over the methodologies”:**

- Whatever suits the client and works in their best interest.
- A lot of discretion but we use model portfolios as a starting point and then vary from there
- Complete

**Comments from respondents who had replied “My employer provides a preferred methodology which I TEND TO stick to”:**

- As a team, all advisers discuss preferred methodology which is expected to be adhered to for consistency but there will be some variation from this as required
- I prefer to stick to the methodology of the firm. It's important that a firm has clear philosophies and methodologies for formulating advice. No matter which adviser a client sees in a firm they should receive the same advice

**Comment from respondents who had replied “My employer provides a preferred methodology which I MUST stick to”:**

- Adviser team approach to review and update, based on an investment philosophy we believe unanimously and the data available

**Comments from respondents who had replied “My dealer group/licensor provides a preferred methodology which I TEND TO stick to”:**

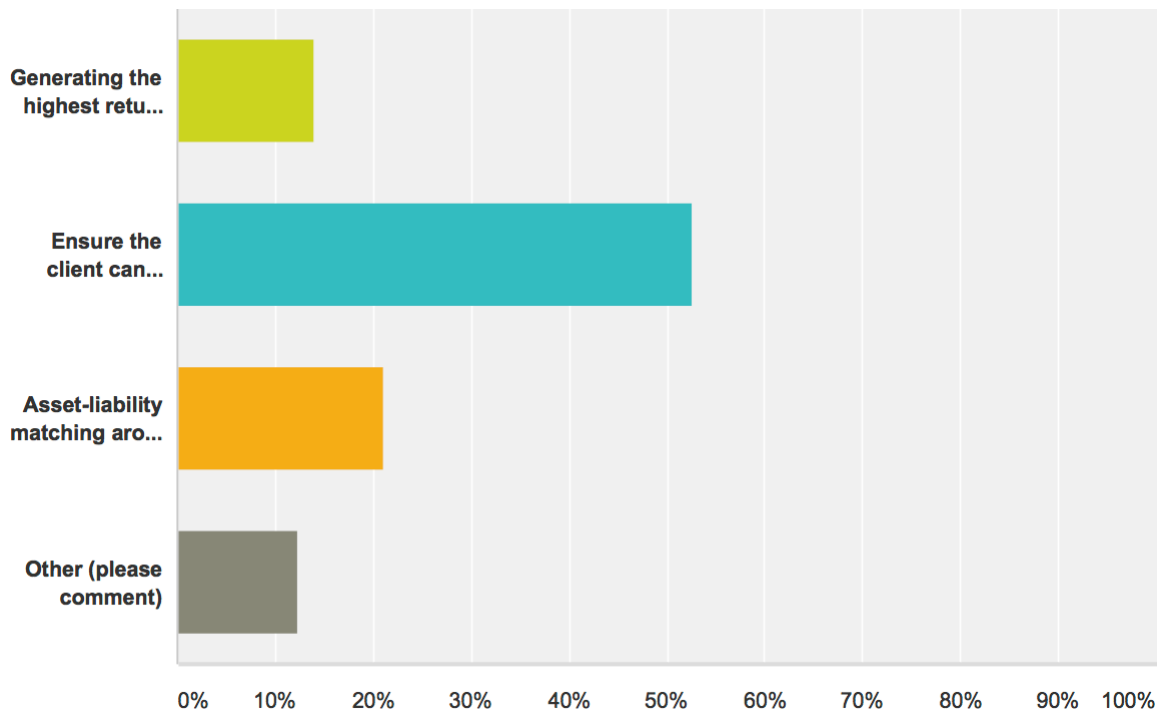
- Little overall discretion
- Quite a bit
- Purely for compliance
- I don't feel that it is about the discretion I have. I feel it is more about what the client is comfortable with and how they can sleep at night knowing that their money is invested within their risk profile at a risk level that they can deal with once they have been educated and they understand the concept.





### Question 8:

What do you see as the main objective of portfolio construction for retired clients?		
Answer Options	Response Percent	Response Count
Generating the highest returns subject to risk tolerance	14.0%	8
Ensure the client can sustain a given level of spending	52.6%	30
Asset-liability matching around retirement cash flow	21.1%	12
Other (please comment)	12.3%	7
Comment		13
<b>answered question</b>		<b>57</b>
<b>skipped question</b>		<b>8</b>





**Comments from respondents who had replied “Ensure the client can maintain a given level of spending”:**

- Meeting lifestyle expenditure requirements and capital longevity, most important issues.
- ..within their level of tolerance to investment volatility. The aim is for them to eat well forever, but sleep well every night
- Wealth preservation vital
- Also need to factor in many 'one-off' expenditure items that the client may not foresee.

**Comments from respondents who had replied “Other”:**

- Given changes in demographics and retirement situations it is based on the individual client
- Achieving the clients desired lifestyle and objectives
- Protection and to meet objectives
- Making sure the client does not run out of money
- It is about all of these and more. It is about providing the client with a level of confidence that they will be able to maintain their level of spending and standard of living for x years to come. It is about providing them with the confidence that they have a plan and after taking the many variables in to account, inflation, risk profile, etc. they will be financially secure.
- Managing risk adjusted Returns and ensuring capital lasts for life expectancy
- Depending on risk profile, obtaining growth sufficient for portfolio to keep pace with inflation is paramount, together with growth to match income drawdowns (so capital remains static). For investors with 50%+ into growth assets, the ability of the portfolio to generate excess returns over time to grow the portfolio (so they don't run out of capital and have to rely solely on Centrelink).

**Comment from a respondent who did not specify a main objective:**

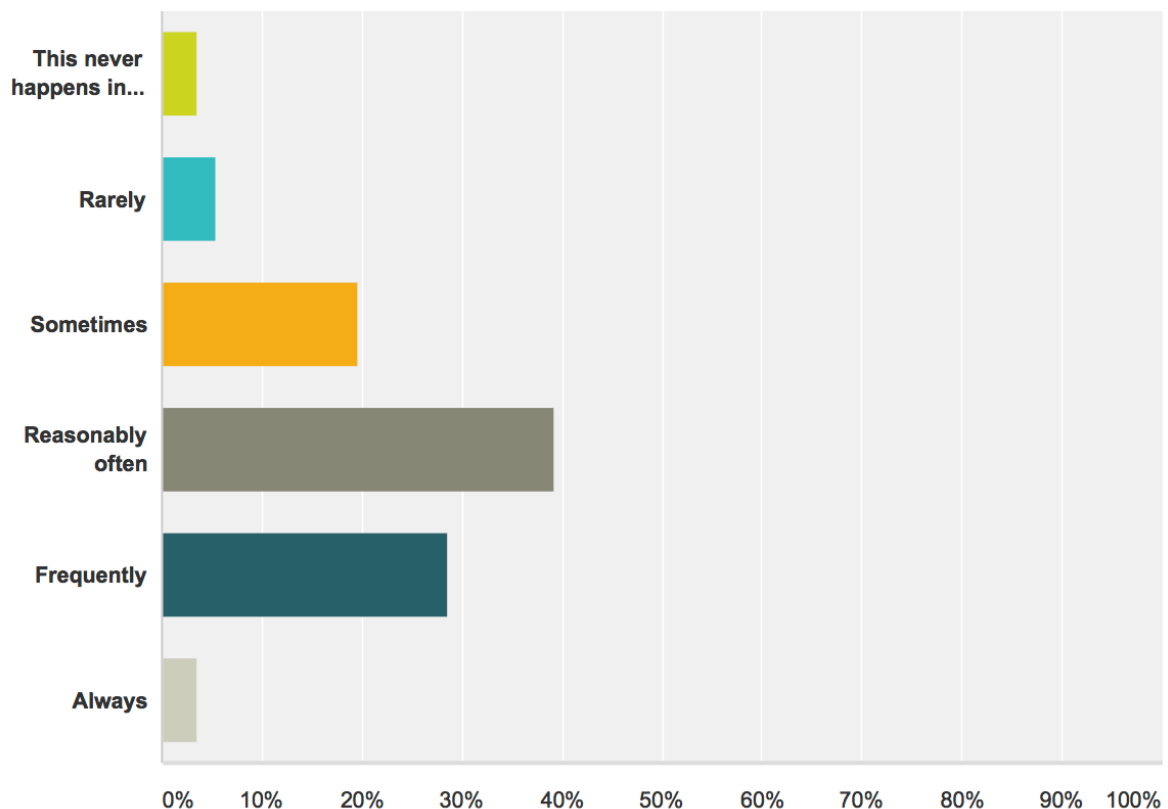
- reducing downside risk, whilst providing sufficient income/growth to attempt to offset pension payments.



### Question 9:

Currently, how often do you think the asset allocation that flows from the risk profile questionnaire is the one that you believe is appropriate for the client taking into account their income, assets, personal circumstances and investment objectives?

Answer Options	Response Percent	Response Count
This never happens in practice	3.6%	2
Rarely	5.4%	3
Sometimes	19.6%	11
Reasonably often	39.3%	22
Frequently	28.6%	16
Always	3.6%	2
Comment (e.g. if not, why not?)		14
<b>answered question</b>		<b>56</b>
<b>skipped question</b>		<b>9</b>





**Comments from respondents who had replied “This never happens in practice”:**

- We don't have a risk questionnaire per se, however we ask questions regarding experience of investing. We find it more useful to discuss a possible range of experience in returns to understand how an individual feels about risk.
- My clients are not standard retirees

**Comment from respondent who had replied “Rarely”:**

- The questions about losing money in the risk profile bring the asset allocation right back from where it should be.

**Comments from respondents who had replied “Sometimes”:**

- Clients have often taken more risks than they think they have!
- More analysis is required to demonstrate to a client what return a given asset allocation will generate. Most clients want to be 'moderate' or 'balanced' investors because they only think of the immediate risk (loss of capital). Rarely do they think of the long term risk (not having enough capital at retirement to generate sufficient income).
- It depends largely on the age, objectives and wealth position of the client.
- Questions that are asked are usually very negatively focused and don't take into consideration your points stated above in the question

**Comments from respondents who had replied “Reasonably often”:**

- Tends to be a bit too assertive
- If completed without adviser clients tend to come out more conservative however education generally clears this up
- Our licensee doesn't provide separate profiles for those in accumulation vs pension phase, sometimes the weighting to income assets is not entirely in-line with what I think the client needs.
- Trying to get the perfect weighting into respective asset sectors is almost impractical, thus more relevance is given to getting defensive versus growth allocation closer to benchmark levels

**Comment from respondent who had replied “Always”:**

- If it matches the risk profile, it's inherently "appropriate". Whether this will achieve client goals is a different question, and where differences may also be appropriate

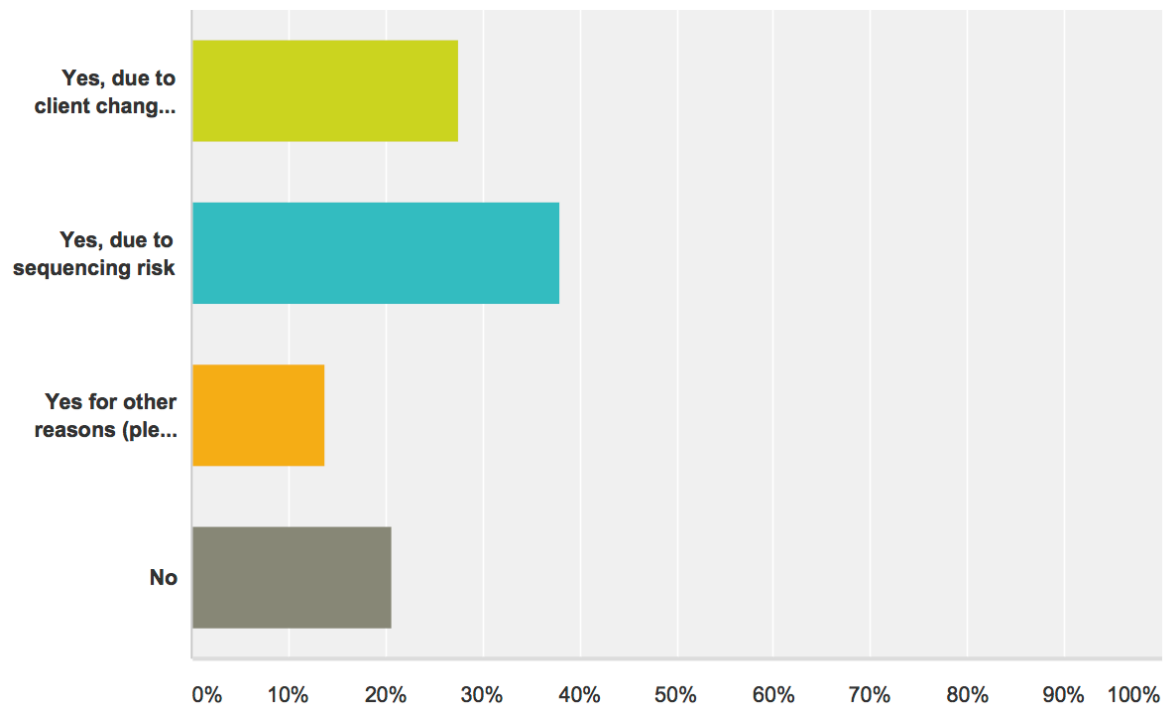
**Comments from respondents who had not specifically replied to this question**

- We don't use risk profiling
- Our role is to advise, not instruct



### Question 10:

Do asset allocations typically change for clients near retirement?		
Answer Options	Response Percent	Response Count
Yes, due to client changing risk profiles	27.6%	16
Yes, due to sequencing risk	37.9%	22
Yes for other reasons (please comment)	13.8%	8
No	20.7%	12
Comment		14
	<b>answered question</b>	<b>58</b>
	<b>skipped question</b>	<b>7</b>





**Comment from respondent who had replied “Yes, due to changing risk profiles”:**

- Approaching retirement, we review the clients risk profile more often - clients are acutely aware that they don't have time to recoup substantial losses and so usually take a more conservative approach.

**Comments from respondents who had replied “Yes, due to sequencing risk”:**

- Their tolerance to investment volatility does not change (very rare), however their need to drawdown means we begin building Cash in their portfolios leading up to retirement for their initial drawdown needs.
- Also because when clients seek advice near retirement they find out they are less tolerant of risk than the default option
- When clients retire, they still have a life expectancy that spans 20+ years. Therefore, they have the time to afford being a growth investor. However, the focus of the "growth" risk investor (70-80% in growth assets) is to derive income - not capital returns. Therefore, the tactical asset allocation of the portfolio shifts.

**Comments from respondents who had replied “Yes, for other reasons”:**

- Due to the need for pension payments
- Varies on a client by client basis - generally there is an increase in the cash balance to ensure that if there is significant market volatility that the pension can still be funded
- Lifestyle changes. Changes in family circumstances
- Higher levels of cash needed for expected / planned consumption
- Depends on the level of education and the relevant market movements just prior to advice - but rarely a significant change with any of my clients that would surprise me.
- Move to build in defensive component to cover income payments in early period of retirement

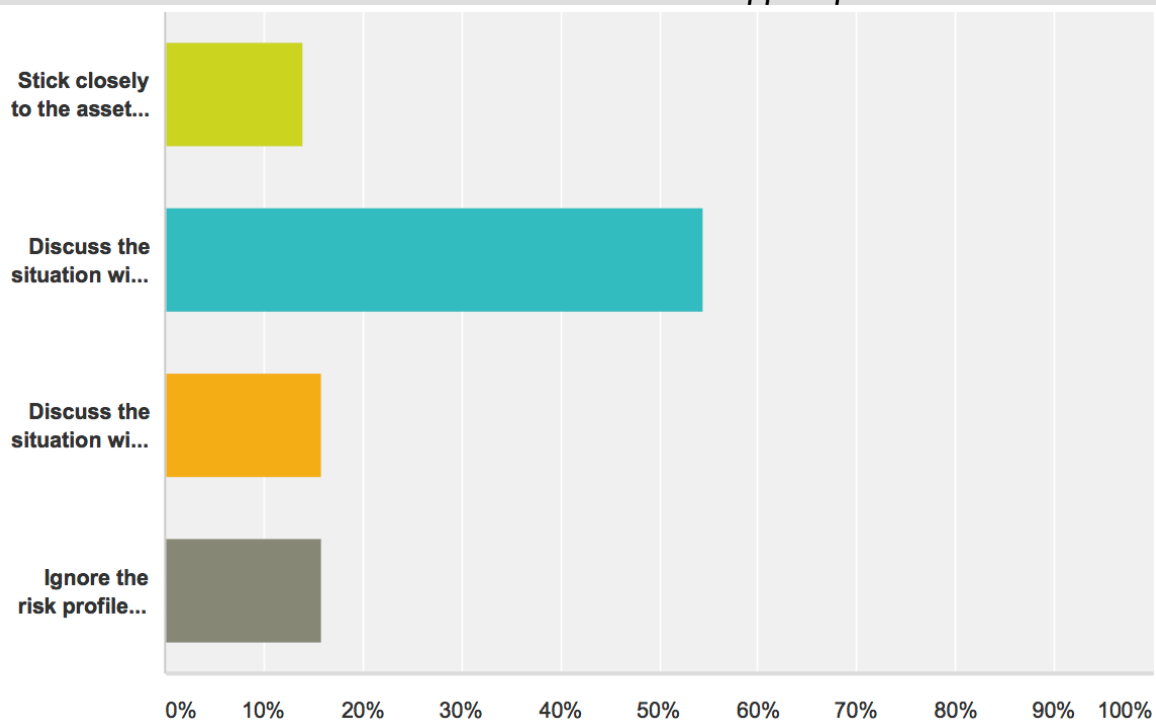
**Comments from respondents who had replied “No”:**

- They hope to be retired for a long time. Therefore, as long as the portfolio is constructed to deal with short, short-medium and medium-term needs, while meeting the client's risk profile target, there is no need to change.
- Not typically, but if so, can be for any of the above
- Only if the client wants



### Question 11:

What do you do if the client's risk profile result seems to be sub-optimal in achieving their investment/retirement goals?		
Answer Options	Response Percent	Response Count
Stick closely to the asset allocation that flows from the risk profile (please comment why)	14.0%	8
Discuss the situation with the client and attempt to persuade them to adopt an allocation other than the allocation that flows from the RP Questionnaire but try to stay within ONE risk band of the one that was produced by the risk profile questionnaire	54.4%	31
Discuss the situation with the client and attempt to persuade them to adopt an allocation other than the allocation that flows from the RP Questionnaire but try to stay within TWO risk bands of the one that was produced by the risk profile questionnaire	15.8%	9
Ignore the risk profile – provided that the client is prepared to sign a statement confirming the asset allocation that we discuss and agree on, it doesn't matter what the Risk Profile Questionnaire said	15.8%	9
Comment		18
	<b>answered question</b>	<b>57</b>
	<b>skipped question</b>	<b>8</b>





**Comments from respondents who had replied “Stick closely to the asset allocation from the risk profile”:**

- Discuss other options with them in regard to their investment/retirement goals, work longer, lower expectations etc.
- Again question does not match practise. Would actually demonstrate to client through financial modelling their lifestyle goals, the risk profiles available and the range of experiences. This leads the client to either adjust lifestyle expectations or expect higher volatility
- For compliance. Generally review Risk Profile as client gets more comfortable and confident with the process and our relationship.
- In all honesty due to the paperwork required and compliance to change anything we stick to the risk profile.
- I feel that the client needs to have a level of responsibility in choosing their risk profile. By helping them understand: how the market works; past performance; no one has a crystal ball for future performance and the risks involved that they are comfortable with their choice and outcome, based on a good understanding.
- Discussion around ramifications of risk profile and making sure client will accept these circumstances.
- To avoid the risk of clients reacting to a market downturn irrationally

**Comments from respondents who had replied “Discuss the situation with the client but stay within ONE risk band”:**

- It's important to stay close to the RP and discuss with client the impact that may have on lifestyle
- I would not try to persuade, however would help client to understand/educate.
- My answer is to discuss with the Client so they are aware - however the choice of how much to move away from their tolerance to risk is theirs after in depth discussion, and rarely would we be comfortable more than one band away.
- It's even more important in these circumstances to be discussing the clients risk profile with them each and every review.
- This would be ideal but ultimately if something different is required, discuss with client & let them make decision

**Comments from respondents who had replied “Ignore the risk profile”:**

- We put in the chosen risk profile in our SOA and then we let the client know they have a choice, i.e. take on more risk and increase the likelihood of achieving your goal or keep profile and be prepared to change your goal i.e. retire later, live on less.
- The risk profile is a starting point in the discussion with the client, not a prescription that must be followed. After the completion of the risk profile questionnaire comes a detailed discussion with the client, which focuses on them achieving their goals, so it is not possible that the risk profile of the client would be sub optimal. If they are conservative investors and such a return fails to achieve their goals, your discussion on risk profile isn't finished.
- The risk profile is but one tool. Ultimately it comes down to what the clients actually need to do to achieve what they need - however the client needs to understand the advantages and disadvantages of whatever they do. Risk profiles are very much overrated.
- As long as the client is fully informed and comfortable we can move away from the risk profile questionnaire
- Not applicable to my client base





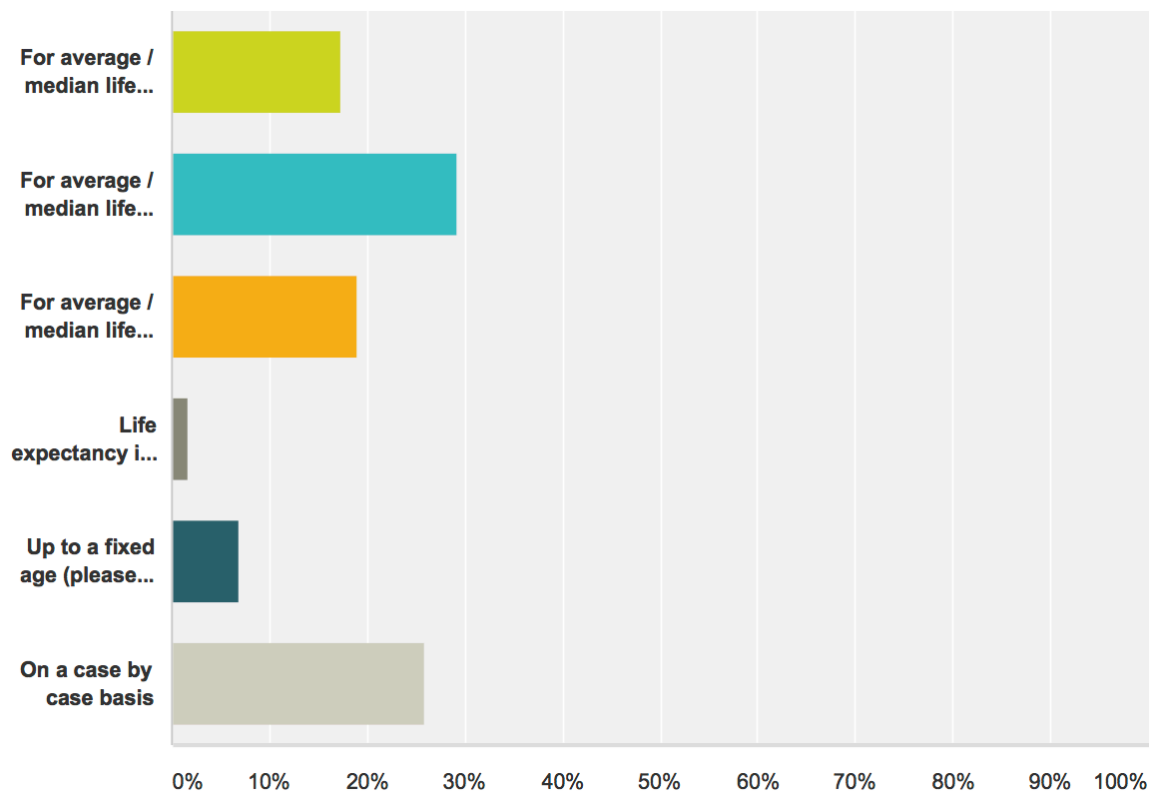
**Comment from respondent who had not specifically replied to this question:**

- Sorry, your questionnaire is biased towards risk profiling, so I suspect your results will also be biased/compromised. We don't use risk profiling!



Question 12:

Financial plans are typically constructed:		
Answer Options	Response Percent	Response Count
For average / median life expectancy	17.2%	10
For average / median life expectancy + a margin of ONE to FIVE years	29.3%	17
For average / median life expectancy + a margin of SIX or more years	19.0%	11
Life expectancy is stochastically modelled	1.7%	1
Up to a fixed age (please comment on the age used)	6.9%	4
On a case by case basis	25.9%	15
Comment		11
	<b>answered question</b>	<b>58</b>
	<b>skipped question</b>	<b>7</b>





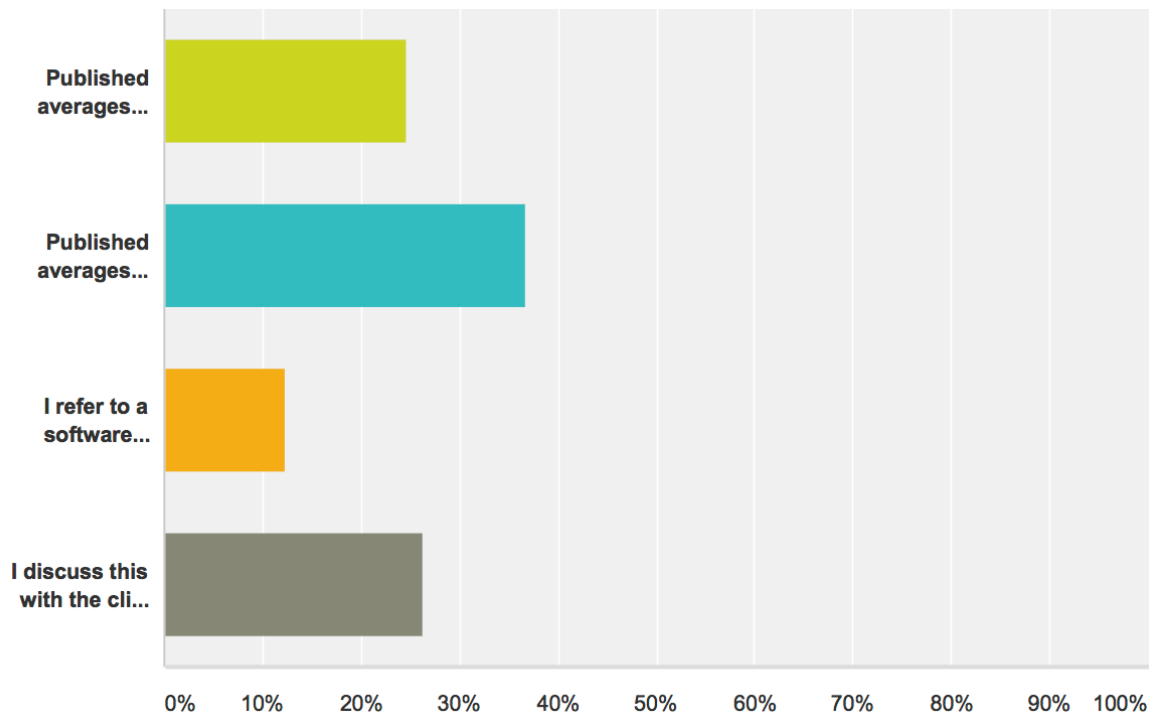
#### Comments:

- I am currently working on age 100 as it is better to err on the side of caution
- We discuss longevity with the client. If all of their family members die at age 65 due to heart attack and our client is 40kgs overweight, average life expectancy isn't going to work. If they have a parent who is 90, average life expectancy isn't going to work.
- Age 90
- Default option, planner can elect to have increased time frame [From a respondent who replied "average life expectancy plus a margin of 1 to 5 years"]
- I begin using to Age 100, but in reality am comfortable average life expectancy + 10 years
- Duration is generally driven by income needs then projected to identify how long resources will last.
- Depending on client current health
- Where clients have family history of long life spans I often model a life expectancy +10 years
- To around age 90
- To age 100
- We often provide a last survivor life table chart.



**Question 13:**

How do you determine your client's life expectancy?		
Answer Options	Response Percent	Response Count
Published averages (please explain where you get these)	24.6%	14
Published averages including allowance for improvements in life expectancy	36.8%	21
I refer to a software package (please comment on which one)	12.3%	7
I discuss this with the client and agree a suitable age for planning	26.3%	15
Other (please specify)		24
<b>answered question</b>		<b>57</b>
<b>skipped question</b>		<b>8</b>



**Comments from respondents who replied "Published averages":**

- Life Expectancy tables - government publications
- Bureau of stats
- ABS - published by {name of wealth management company} Technical Dept
- Aust Life Expectancy tables
- Aust Life tables from the AGA (Aust Govt Actuary)
- Australian Govt Actuary
- ABS



- Federal Government Actuary tables
- Life Tables
- Standard population life tables

**Comments from respondents who replied “Published averages including an allowance for improvements in life expectancy”:**

- But all subject to discussing with the client and having regard to things like family history etc
- Clients wishes and expectations are also discussed (some have family history of either very long or short life expectancies they wish to work with)
- ABS
- ABS

**Comments from respondents who replied “I refer to a software package”:**

- Xplan
- XPlan
- Xplan
- We use Midwinter for this
- Midwinter
- Generally build into dealer group model

**Comments from respondents who replied “I discuss this with the client and agree a suitable age for planning”:**

- Normally 100 to be safe
- I gather information about the family’s history and then work from there. As a starting point (where the information isn’t known or not reliable) we use published averages including an allowance for improvements in life expectancy
- Health data is collected and individual life expectancy considered, some aged care entrants are physically good and could last for a decade others might be only aged 70-ish but three more years is a long future period for them.

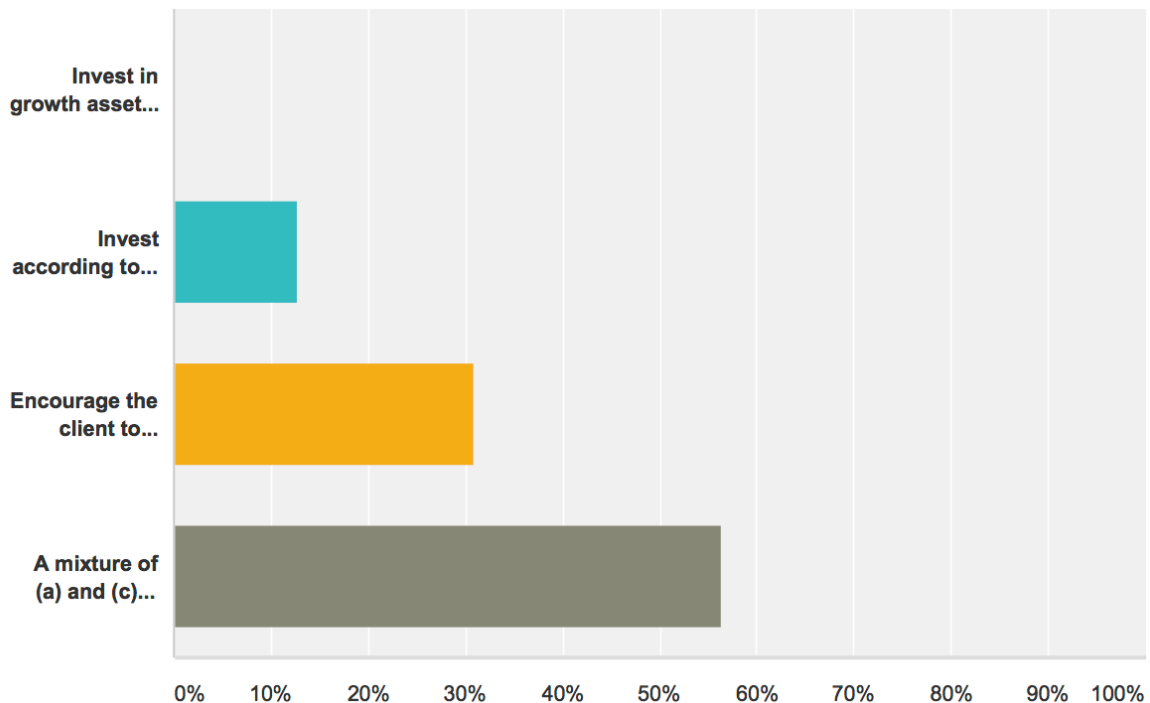
**Comment from respondent who replied “Other”:**

- Age 90 exceeds current life expectancy



**Question 14:**

What do you do if the client would only be able to achieve their target retirement lifestyle if high asset returns are achieved in future?		
Answer Options	Response Percent	Response Count
Invest in growth assets to give a reasonable probability of meeting the target objectives, notwithstanding the probability that this allocation runs the risk that assets may expire more quickly than if a cautious allocation were adopted	0.0%	0
Invest according to risk profile and let the client make their spending decisions	12.7%	7
Encourage the client to reduce their target and goals to be more in line with what they can afford based on their asset levels	30.9%	17
A mixture of (a) and (c) above	56.4%	31
Comment		11
<b>answered question</b>		<b>55</b>
<b>skipped question</b>		<b>10</b>



Comments from respondents who replied "Invest according to the risk profile and let the client make their spending decisions":

- more a mixture of B & C
- B&C



**Comments from respondents who replied “Encourage the client to reduce their target and goals”:**

- Again discuss volatility however aim to build in more protection (lower growth assets) where possible
- It all comes down to compliance and not wanting to deviate from this.
- Make the client aware of the likely outcomes
- The answer above is probably too simplistic - many other factors are discussed / considered, including the implications of all of the options above.

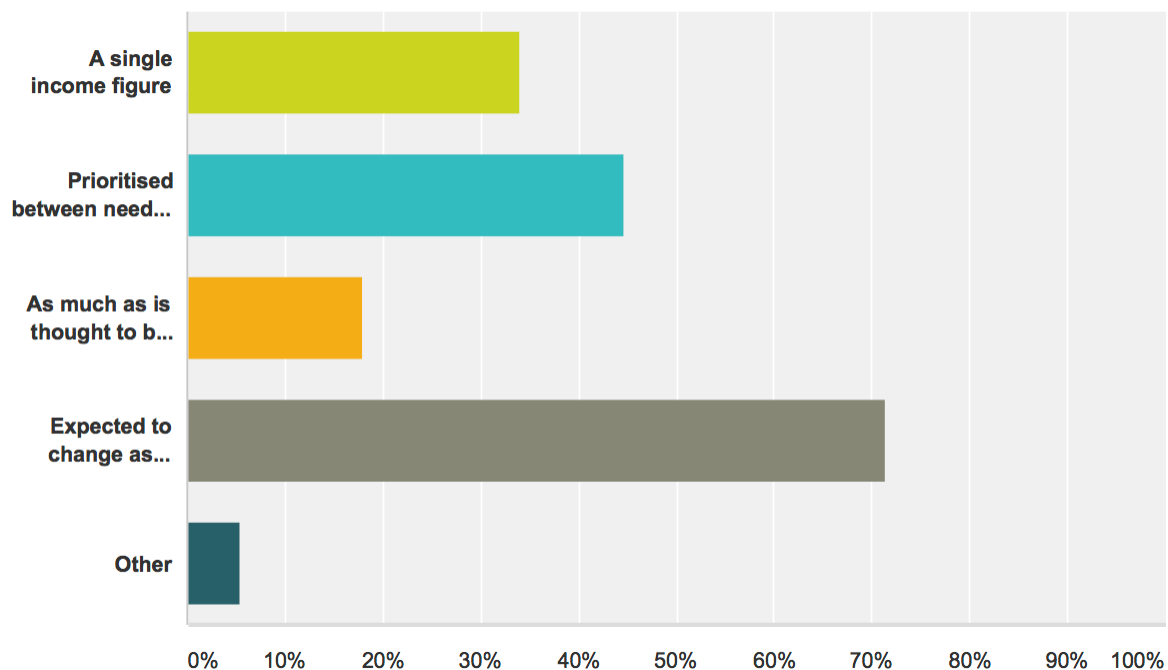
**Comments from respondents who replied “A mixture of investing in growth assets and encouraging the client to reduce their target and goals”:**

- Adjust and adapt overtime rather than maintain a fixed position
- Let the client decide if they want tot take more risk or change their goals
- Not to forget the existence of Social Security
- It would depend on how realistic the client’s goals are and the client's level of comfort with a higher risk/return strategy



### Question 15:

The spending goals of retired clients are generally: (more than one response acceptable)		
Answer Options	Response Percent	Response Count
A single income figure	33.9%	19
Prioritised between needs and wants	44.6%	25
As much as is thought to be viable	17.9%	10
Expected to change as clients get older	71.4%	40
Other	5.4%	3
Comment		7
<b>answered question</b>		<b>56</b>
<b>skipped question</b>		<b>9</b>



#### Comment from respondent who replied "As much as is thought to be viable":

- Viable subject to minimum cost of living outcomes

#### Comments from respondents who replied "Expected to change as the client gets older":

- Will use AFSA stats as a guide for clients
- We generally set a target and adjust up or down as necessary
- More in earlier retirement years

#### Comment from respondent who replied "Other":

- We tend to tell the client what their income is expected to be





## Question 16:

**How do you ascertain what level of lifestyle is sustainable given a clients asset levels and financial situation? Please mention any software tools you use.**

### Comments:

- Questionnaire
- Xplan modelling tools review of existing spending patterns and planned future spending
- Previous spending levels, reference to AFSA standards
- Xplan calculators
- Discuss their spending pattern, where they want to live, the amount of travel they want. Model different expenditure levels to show how long their capital can provide the nominated income levels. Software = AdvisorLogic
- Retirement projections using XPlan.
- Cashflow modeling tools in Advisor logic to have an estimate based on current legislation and various other assumptions on how long funds are likely to last.
- Set a base level of capital
- Many clients have a clear idea of what they will need, others have no idea. We start by looking at the family and how they are living their retirement to get a benchmark. For those clients that have no idea we will commence the discussion with the APRA retirement index and then add or subtract from that depending on the objectives of the client.
- Use ASFA retirement adequacy chart as a starting point 7 discuss directly with member
- What they have been historically spending is a good indicator. People don't generally change their spending habits dramatically in the first 10 years of retirement at least.
- In house projection software
- Xtools + (IRESS)
- I use as a reference the ASFA retirement standard. Netactuary (Brian Benzulla etc) tools. Farrelly's Investment Strategy Modelling. A budget if possible.
- We use COIN type analysis and other Risk profiling tools
- For most clients will use the AFSA statistics so they can understand. However, if the client is HNW, will try to break down income level between basic lifestyle cost and additional for lifestyle
- Discussion with clients, Henderson Poverty Index
- We generally model at what age assets will run out based on different living expense assumptions e.g. current vs reduced in retirement - We use Prospera and CCube
- Continually reassess. Get the best net returns possible whilst remaining diversified. Regularly adjust asset allocation as required due changes in investment outlooks
- Full strategy analysis
- I use mix of retirement calculators used by {name of wealth management company} & XTools cashflows
- Lifelong cash flow modelling using Coin Strategy projections in COIN planning software
- Xplan
- Discussions and past spending habits
- Use a budget and find out what new purchases likely to be made such as caravan, car, wedding for daughter etc
- Model in Coin
- Cash flow budgeting
- COIN is used which takes into account variables such as fees, CPI, AWOTE, earnings, expenses, etc.
- Modelling that provides a range of how long capital is expected to last depending on spending levels that are minimum/preferred/ideal
- By their expected income levels from investments



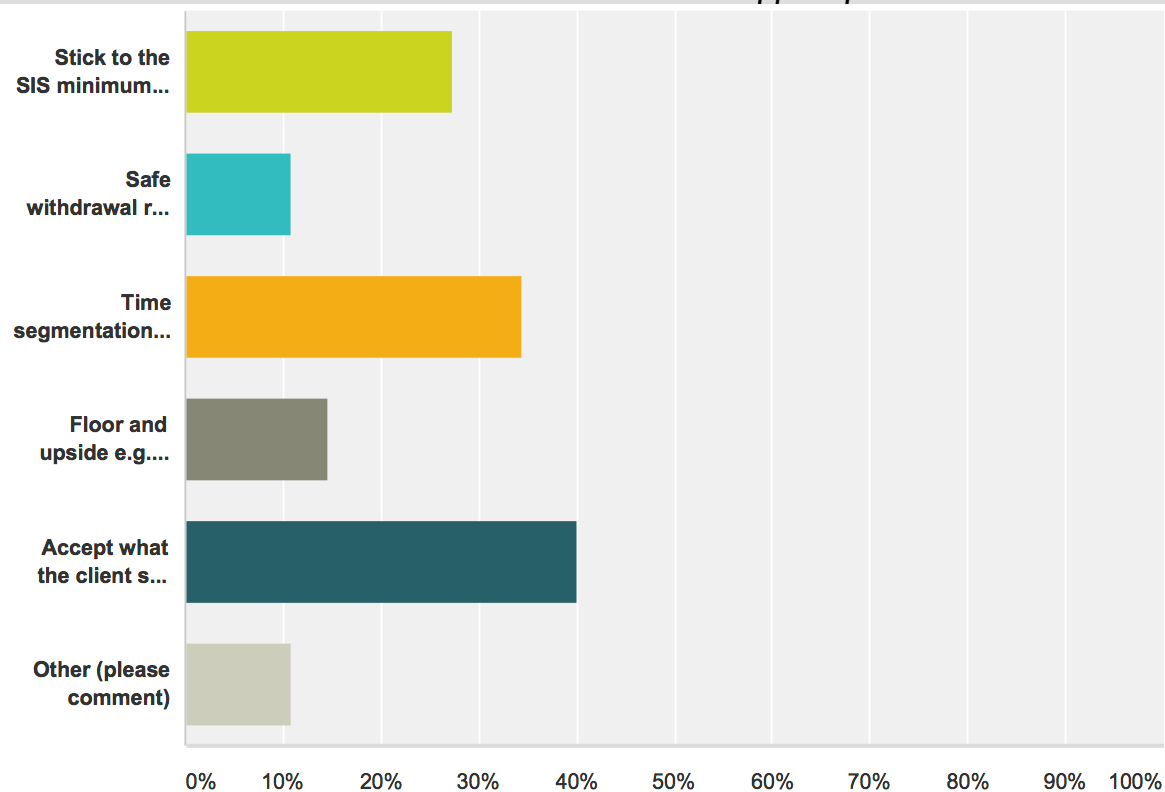
- Xplan
- Xplan CALM
- Experience
- I do my own calculations (hand-held calculator) and also use XPlan XTools+
- Spending estimate and return assumption based on risk profile. Midwinter software.
- As a general rule, if clients are drawing around 4% p.a. of their portfolio, the portfolio is expected to support throughout retirement and leave a healthy legacy for their kids - which is generally what clients like to do.
- I will look at client's current asset and income position. Then I will look at the investment time frame and then ask what levels of risk clients are willing to accept and also look at estate planning (how much assets they wish to pass on and not accept financial risk). All these factors would then determine the level of income and lifestyle client can afford and can be sustained over the long term.
- Personally developed Excel modelling tool
- Excel spreadsheet that takes into consider drawdown rates, income returns - linear and age pension
- My clients are pretty realistic and have a good idea of what they can live on. They are prepared to downsize, etc, if needs be.
- Generally if there's a dollar left at target age on a single static model using average expected return, it's considered "acceptable"
- Budget current and forecast
- Xplan
- Xplan with a pragmatic overlay. All clients are different.
- 5% rule
- Discussion with client. Refer to ASFA Retirement Standard
- Project capital / income based on a range of scenarios and always include a 'worst case' scenario – i.e. mediocre returns, higher than expected living needs and other expenditure.
- We don't talk about lifestyle, we talk about income
- Discussion with client and consideration of available resources including Age Pensions
- Xplan modelling looks to retain margin in assets at very late ages over and above home ownership



### Question 17:

Thinking about your MOST RECENT client at the point of retirement (or in retirement), which of the following methodologies did you use to manage retirement capital and spending? (multiple selections permitted)

Answer Options	Response Percent	Response Count
Stick to the SIS minimum pension withdrawal rates from superannuation account based pensions	27.3%	15
Safe withdrawal rate e.g. Withdraw an annual amount for life equal to 4% of the retiree's total starting portfolio value indexed to inflation - Please comment on the rate you used.	10.9%	6
Time segmentation approach (bucket strategies) e.g. Break retirement up into more manageable time periods and invest in the most suitable asset class for each bucket, based on it's time horizon	34.5%	19
Floor and upside e.g. Invest in a guaranteed income stream (such as lifetime annuities) to provide a floor income, then invest remaining investments in a more risky portfolio	14.5%	8
Accept what the client says their spending needs are and take that as a given and focus on portfolio construction	40.0%	22
Other (please comment)	10.9%	6
<b>answered question</b>		<b>55</b>
<b>skipped question</b>		<b>10</b>





## Question 18:

Please comment on responses to Question 17.

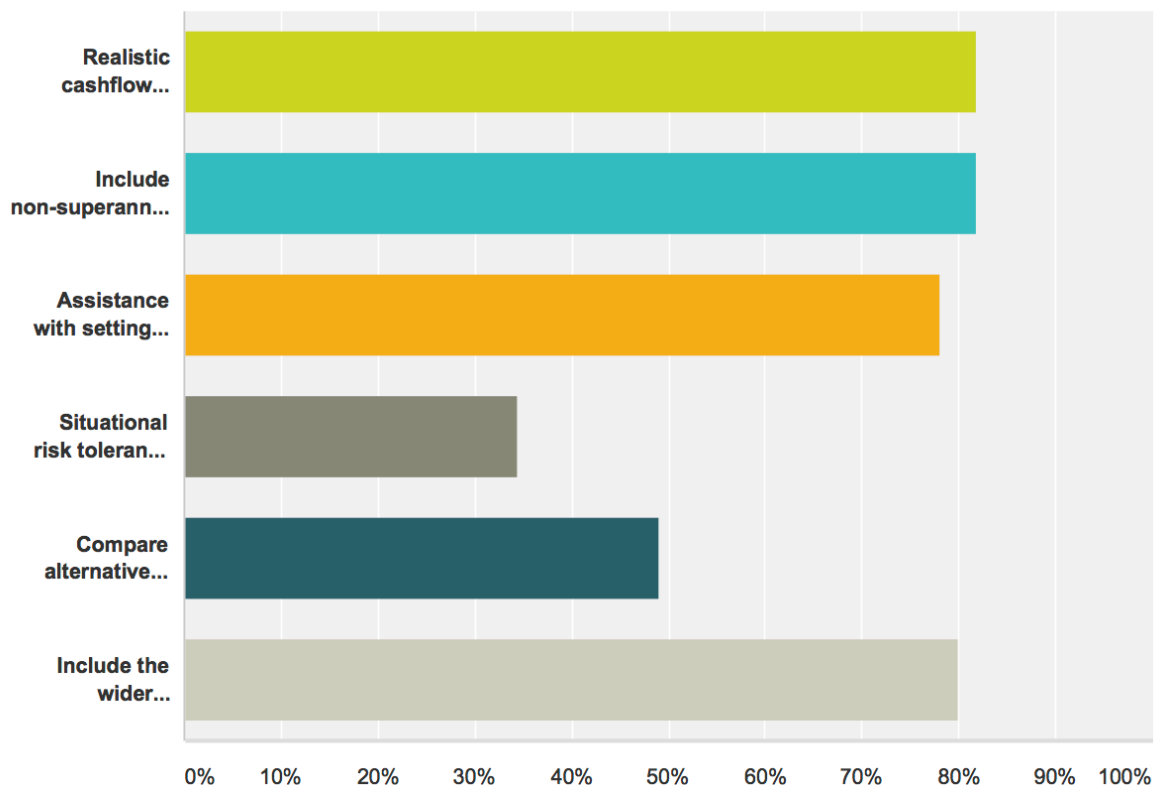
### Comments:

- Let the clients know based on their chosen spending need an estimate of how long funds will last before they are on age pension only
- In some cases, need to warn client that no change in spending will result in running out of funds. Ultimately, the decision is up to them,
- We completed a capital model that looked at the possible outcomes over time depending on how much the client took. We then examined the risk of failing to achieve the required return. The client provided a budget to commence the model.
- Financial modelling for long term and strength of asset position at age 90 and work backwards on target rate of return
- Already established a bucket strategy but also in the process of implementing a floor.
- We provide guidance and show them the impact of different drawdown rates but ultimately accept that it's their money
- Cash for next 2-4 years - the rest can be invested in a diversified portfolio to the level of agreed risk tolerance
- Case by case business identifying goals
- A mix of the client's spending needs based on their current spending and minimum pension withdrawal rates.
- Fortunately the client was in a position where SIS min + Age Pension met their cash flow requirements
- Client is comfortable on minimum withdrawal rate
- Start with client spending needs, discuss fixed expenses likely to continue as well as talk about plans (often travel) for early years of retirement and to some calculations to determine if their "guess" is right and sustainable.
- I would have a reasonable conviction re spending estimate. This also contains a margin of safety given spending will reduce if client lives until old age
- 4% is generally the rate used.
- Many planners will also do the last option
- Client retiring was entitled to CSS pension, which was sufficient to funding retirement living expenses
- Particular client has more than adequate funds for needs



**Question 19:**

Thinking about your MOST RECENT client for retirement advice, which of the following activities were included as part of your advice process/service? (multiple answers permitted)		
Answer Options	Response Percent	Response Count
Realistic cashflow projections to show how the strategy will meet income and expenditure objectives	81.8%	45
Include non-superannuation items in meeting retirement objectives (including the age pension, repaying debts as well as options like working longer or downsizing the home)	81.8%	45
Assistance with setting realistic goals and objectives for retirement and if not, advise on the trade-offs needed to set more appropriate goals	78.2%	43
Situational risk tolerance (a technical assessment of how much risk the client can bear based on age, wealth, required cashflows and timing)	34.5%	19
Compare alternative strategies and discuss the risks and rewards of each one	49.1%	27
Include the wider implications of the advice (tax, estate planning and social security entitlements)	80.0%	44
Other comments		2
<b>answered question</b>		<b>55</b>
<b>skipped question</b>		<b>10</b>





**Comments:**

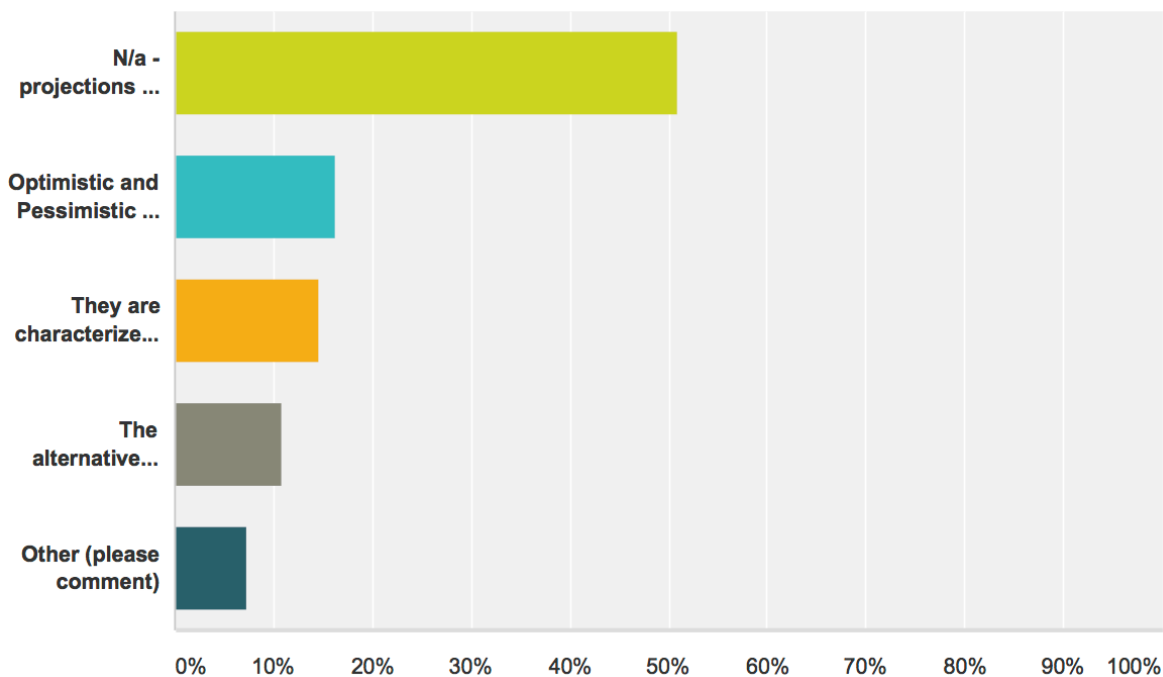
- We often show the impact of downsizing vs not, as well as modelling different levels of living expenses and how they will impact their balance over time.
- Midwinter very good on this



**Question 20:**

Where Statements of Advice (SOAs) include alternative projections reflecting more or less favourable potential outcomes than the main estimates, how are those alternatives determined and characterised?

Answer Options	Response Percent	Response Count
N/a - projections are typically based on a central estimate only	50.9%	28
Optimistic and Pessimistic (or similar) without any quantification of the assumptions used	16.4%	9
They are characterized in quantitative terms (probabilities or percentiles) but the alternatives are not themselves derived from a stochastic model (A stochastic model is one that can demonstrate the range of possible outcomes from uncertain variables (such as market performance) and the probability of certain outcomes occurring.	14.5%	8
The alternative projections show probability lines that are determined from stochastic models	10.9%	6
Other (please comment)	7.3%	4
<b>answered question</b>		<b>55</b>
<b>skipped question</b>		<b>10</b>



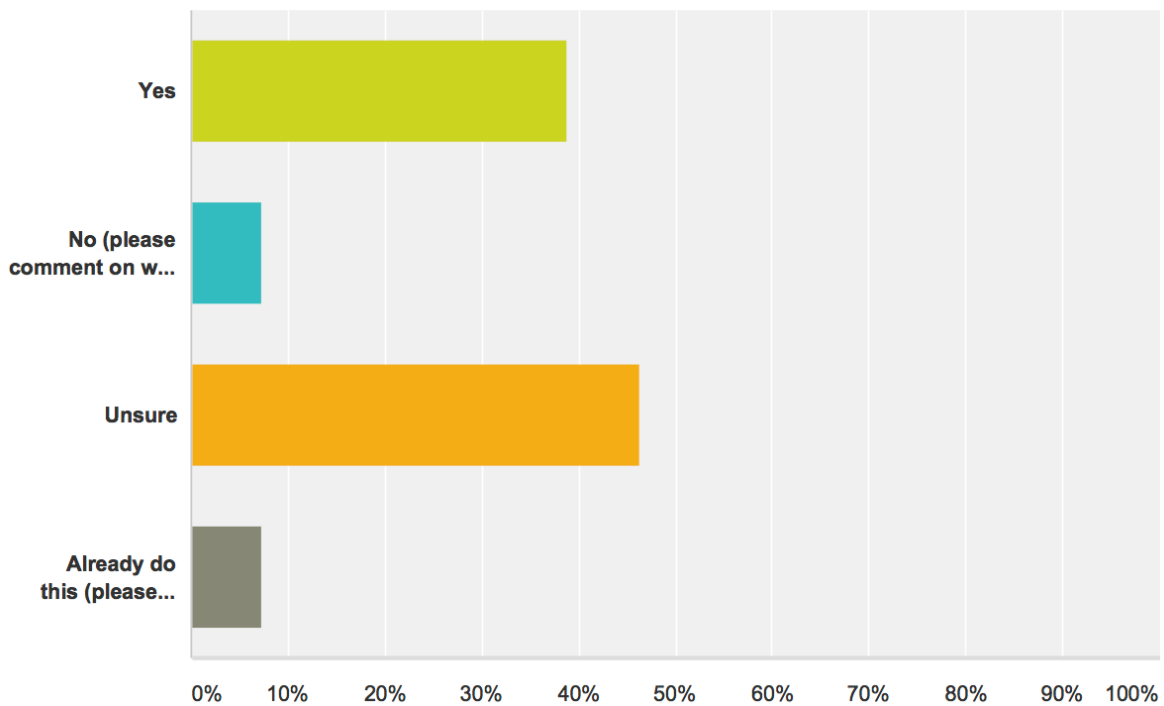
**Comments:**

- Limited details of assumptions provided
- Farrelly's and other software showing best, worse, base projections
- Continually review, reassess and adjust



### Question 21:

Are you likely to make greater use of stochastic asset models in future to show clients the range of possible outcomes and how confident they can be in achieving a particular outcome?		
Answer Options	Response Percent	Response Count
Yes	38.9%	21
No (please comment on what obstacles you see to the use of stochastic models)	7.4%	4
Unsure	46.3%	25
Already do this (please explain how)	7.4%	4
Comment		12
<b>answered question</b>		<b>54</b>
<b>skipped question</b>		<b>11</b>



### Comments:

- Using charts and tables sourced from XPlan and structured either within the SoA or in the appendix.
- This is just more information to confuse the client so not likely, we simply produce a new report each year as part of our review process that show likely outlook based on assumptions at this time, as really who has a crystal ball.
- We have created models using Excel off the back of Finametrica research
- Ability to explain to clients and for advisers to use this properly
- We base our targeted returns on the history of performance and standard deviation for the asset classes we invest in.





- Any model has pros and cons. Also needs to be accessible and not overly costly - the cost of providing advice is already too expensive.
- Yes if the dealer group would have allowed this
- If my employer changes to software that uses this approach
- I don't feel qualified to use stochastic models, but would do so with adequate training and understanding of the benefits.
- I think it will be one of the greatest enhancements to retirement planning
- My clients are retired and have limited life expectancy and limited funds for paying an advisor.
- Examination of long-term position is starting point to development of strategy and also review of investment risk profile for meeting objectives



## Question 22:

Please indicate which professional bodies you belong to:		
Answer Options	Response Percent	Response Count
Association of Financial Advisers (AFA)	10.9%	5
Association of Independently Owned Financial Professionals (AIOFP)	0.0%	0
Association of Superannuation Funds Australia (ASFA)	0.0%	0
Australian and New Zealand Institute of Insurance and Finance (ANZIIF)	0.0%	0
Australian Institute of Superannuation Trustees (AIST)	0.0%	0
Chartered Accountants Australia and New Zealand (CA)	2.2%	1
Chartered Financial Analyst Institute (CFA)	0.0%	0
CPA Australia (CPA)	2.2%	1
Financial Planning Association of Australia (FPA)	97.8%	45
Independent Financial Advisers Association of Australia (IFAAA)	0.0%	0
Institute of Managed Account Providers (IMAP)	0.0%	0
Institute of Public Accountants (IPA)	2.2%	1
National Insurance Brokers Association (NIBA)	0.0%	0
SMSF Association	10.9%	5
Stockbrokers Association of Australia	0.0%	0
	<b>answered question</b>	<b>46</b>
	<b>skipped question</b>	<b>19</b>

It should be noted that the FPA was the key source of survey respondents so it is to be expected that a high proportion of the respondents would be FPA members.