

¹ Association of Superannuation Funds of Australia (ASFA); "ASFA Retirement Standard"; <https://www.superannuation.asn.au/resources/retirement-standard>; accessed 29th August 2017
² McCrindle Research; "Wealth Transfer Report"; page 7; August 2017

Executive Summary: Reinvention is the new retirement

Today, our 'lucky country' status is under real threat. The rise of technology and cheap labour from neighbouring countries means jobs are at risk of being rendered irrelevant and we are being told to prepare for a 'gig economy'. Skyrocketing house prices, expensive lifestyles, and a desire for instant gratification, means expectations and pressure are higher than ever.

Generations gone-by first made their fortunes on the sheep's back, before then digging resources out of the ground; but it's not clear where our future fortunes will come from next.

The government already cannot afford to provide meaningful support to the masses. By way of example, the age pension today covers only a third of what is considered a 'comfortable lifestyle'¹ in retirement, and who knows where this will end up by the time the next generation is ready to retire.

The safety net is fast disappearing and working Gen X and Yers are facing significant uncertainty at a national and a personal level.

With their maturation alongside that of the super system, the expectation has been that Gen Xers will largely self-fund their own retirements, but it is clear from our research that this financial trajectory is not looking good.

Projecting the current ASFA figures forward to 2043, when many of Gen X and Y will be retired or retiring from the workforce, a comfortable self-funded retirement is likely to require a savings balance of between \$2.09 and \$3.98 million.

Calculations extrapolating out from Gen X and Y's financial position today (based on real world HILDA data), and using 5 per cent investment returns and Australia's long running inflation rate of 5.07 per cent, show that as much as 94 per cent of our population won't achieve a comfortable retirement.

Even allowing for a much more conservative inflation rate of 2.5 per cent, 81.3 per cent would fail to reach the necessary target.

These factors place into sharp focus the importance of how we deal with the looming \$3.5 trillion intergenerational wealth transfer². This will truly be a watershed moment for the nation. Modelling shows that meaningful, long-term investment of this pool of wealth (using projected returns of 5 per cent) could create a \$11.5 trillion positive impact to the Australian economy, helping to significantly improve our economic opportunity and place on the global stage.

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Further analysis of the likely distribution of intergenerational wealth also illustrates the importance of careful orchestration. Whilst the 80/20 rule bears out with 20 per cent of the population inheriting 77.54 per cent of the pool, of critical importance is that 75 per cent will inherit \$110,000 or more, a figure materially significant in whether Gen X and Y achieves financial independence for retirement.

It is clear that how we choose to approach these challenges will change the face of Australia forever, producing a financial reckoning or, alternatively, the opportunity of reinvention: of mindset, of career and of our next economic chapter.

Successful reinvention will rest on creating significantly better financial capability amongst Gen X and Y through education to enable smart, long-term financial decision making.

It is our view that the economic reckoning facing Gen X and Y, if handled well, is a huge opportunity for reinvention for the better.

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