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Welcome to our quarterly magazine – in this edition:

Welcome to the first inTouch magazine for the new year. If this is the first time you have received one of our quarterly magazines, welcome. I hope all new and past readers of our publication enjoy this edition. The articles are designed to give you a broad understanding of what is happening in the financial services industry and how any legislative changes could impact you, or someone you care about. Amazingly, only around 20% of Australians have a financial adviser, but research continually shows that those that have an ongoing relationship with a financial adviser are better off and feel more confident about their future – and that is what I love about this industry. We only have one life, let's make the most of it! After reading the articles, I encourage you to book a review meeting with your financial adviser to check your plan is on track.

Till next time,

Darren

Darren
RI Advice CEO

Time to consider the alternatives

Retail investors should take their lead from some of the worlds largest superannuation funds and consider bolstering their exposure to alternative investments.

Leading global institutional investors, including some of Australia's largest superannuation funds, have been steadily increasing their exposure to alternative investments with some stellar results.

The 2015 Towers Watson Global Alternatives Survey, produced in conjunction with the Financial Times, found the top 100 pension funds boosted their alternatives exposure by 5 per cent in 2014, surpassing US$1.425 trillion in alternative assets under management.

> By adding alternatives to their portfolio, investors may have a better chance of achieving their retirement goals.

The report found that institutional investors globally were ramping up their use of alternatives to access manager skill and build greater diversity into portfolios, at a time when market valuations were under pressure.

Their increased allocation, namely to direct real estate, private equity, hedge funds and infrastructure, was a key contributor to the sector's strong performance.

Over the three years to 31 December 2015, retail and industry super funds have delivered over 10 per cent per annum (after fees and tax), according to Chant West's Asset Sector Performance Tables[1].

RETIREINVEST

RI advice
one life, make the most of it

The importance of asset allocation

There are many academic studies which show asset allocation is the single biggest contributor to investment performance. It's estimated that over 90 per cent of a portfolio's return variability is attributed to asset allocation.

A breakdown of the asset allocation of Australia's largest super funds by Mercer[2], reveal an exposure to a broad range of alternative assets of between 13 per cent and 32 per cent.

By comparison, the Australian Taxation Office's Quarterly Self-Managed Superannuation Funds Statistical Report – June 2015 edition, shows self-managed super fund investors have a relatively small exposure to alternatives, and furthermore, that exposure is concentrated solely in direct property.

As at June 2015, the $600 billion SMSF sector was 31.7 per cent invested in Australian shares, 26.73 per cent in cash and term deposits and 15 per cent in property with the remainder in a hotchpotch of collectables, managed funds and debt securities.

It's a vastly different asset allocation mix to that of sophisticated institutional investors.

Basically, the SMSF sector has a relatively high exposure to cash, fixed interest and equities, at a time in the cycle when interest rates are at record low levels and equity market volatility is high.

> Many retail investors are limiting themselves to a very small number of investment opportunities.

By looking at the entire alternatives universe, retail investors can open themselves up to parts of the efficient frontier and capital structure which traditional asset classes don't, providing the potential to boost a portfolio's performance over the investment cycle with lower volatility.

> Alternative managers ultimately seek to generate positive returns independent of equity and bond markets.

This is critically important in the prevailing lower growth, lower return environment where financial advisers are facing increasing pressure to deliver returns that meet the needs and retirement expectations of their clients.

1. https://www.chantwest.com.au/resources/super-funds-defy-tepid-share-market

2. Mercer Post Retirement Market Trends in Australia Report 2014

The case for alternatives just got stronger

Alternative investments have the potential to maximise a portfolio's return with lower risk over the long term, which is critical in the prevailing lower return, lower growth environment.

There are many compelling reasons why investors should consider having an allocation to alternative assets and strategies, as part of a diversified portfolio.

For starters, alternative asset classes, including private equity, hedge funds and physical assets like property and commodities, have performed strongly, especially when compared to traditional asset classes.

In 2015, a year when Australian shares delivered a dismal 2.85 per cent and domestic fixed interest added just 2.6 per cent, private equity returned an impressive 16.9 per cent, unlisted Australian property returned 12.7 per cent and unlisted infrastructure delivered 12.8 per cent, according to Chant West's Asset Sector Performance Tables[1].

Over the longer term, private equity and infrastructure have also been standout performers, delivering an annualised return of 9.8 per cent and 8.9 per cent respectively, compared to 5.5 per cent from Australian shares, 4.9 per cent from global equities and 6.2 per cent from domestic bonds.

Performance by Industry Segments
Results to 31 December 2015[2]

	Industry Funds	Retail Funds
1 month (%)	0.3	-0.1
FYTD (%)	1.7	1.4
1 year (%)	6.7	5.2
3 years (%)	10.7	10.3
5 years (% pa)	8.5	8.2
7 years (% pa)	8.4	9.1
10 years (% pa)	6.0	5.4
15 years (% pa)	6.9	5.7

> Performance aside, investing in alternatives also provides important diversification benefits.

By introducing alternatives into a portfolio, investors are able to diversify the sources of return and in doing so, lower overall portfolio risk and deliver a smoother average return profile.

Traditional portfolios, which are typically a mix of equities, bonds, listed property and cash, only have exposure to a handful of sources of return. While that level of diversification may be adequate for some investors, it may leave them too reliant on a single driver of returns, for example, rising equity markets or high bond yields.

The alternative investment universe, on the other hand, is extremely broad. It gives investors access to many strategies which are designed to perform in all market conditions and have a low (or even negative) correlation to traditional asset classes.

Direct property, for example, is lowly correlated to Australian equities while infrastructure is negatively correlated[3].

By constructing a portfolio with multiple strategies and multiple sources of return, advisers can potentially smooth out a portfolio's returns and deliver clients a less bumpy ride.

What are the risks?

A common downside to investing in alternatives is reduced liquidity, although there are number of highly liquid hedge fund strategies including managed futures, global macro and equity long-short.

The trade-off is typically higher returns in what's commonly referred to an 'illiquidity premium'.

For the majority of long-term investors, liquidity isn't a top priority, however, it is critical for income-hungry investors like retirees who are drawing an income from their investments.

Another factor to consider is that alternatives tend to be more expensive than traditional asset classes with higher investment fees and performance fees.

Furthermore, when it comes to alternatives, manager selection is crucial because there's a high dispersion of returns between high performing managers and underperforming managers. Advisers can help their clients manage 'manager risk' by conducting extensive due diligence and research before investing.

1. https://www.chantwest.com.au/resources/super-funds-defy-tepid-share-market

2. http://www.superguide.com.au/boost-your-superannuation/asset-classes-the-investment-winners-2015

3. Bloomberg LP, Datastream, Willis Towers Watson

Will you lose your pension benefits?

91,000 people are estimated to lose their Social Security Pension (including Age Pension) when changes take effect on 1 January 2017.

Speak to your financial adviser now about your new game plan.

Don't be caught offside when the new pension rules kick in

The Government is making two changes to means testing for Social Security pensions (including the Age pension), which will take effect from 1 January 2017.

If you currently receive a part pension, or plan to retire soon, you need to be aware of how the changes could impact your entitlements. For some, the changes will create a cashflow shortfall and may have a significant impact on their standard of living.

As every situation is different, it's important your game plan is both appropriate and sustainable for your circumstances.

A financial adviser can help identify an appropriate strategy for you.

The value of advice on budgeting and cashflow management

The most effective and consistent way advisers can add value is to educate clients about the benefits of saving, budgeting and cashflow management.

Record low interest rates and extremely volatile market conditions are recent reminders that the financial planning process must be built on more than just superannuation and investment advice to keep investors engaged and win new clients.

The direction of interest rates and the performance of equity markets are beyond anybody's control, which is why a growing number of advisers are expanding their value proposition to include advice on saving, budgeting and cashflow management.

By focusing on budgeting and cashflow management, and leveraging technology which automatically gathers client account balance and transaction data from a wide range of financial account providers, advisers can gain a complete picture of a client's financial position, examine their financial behaviour, set targets and keep them accountable for the things within their control.

According to the Choice, Chance and Wealth Dispersion at Retirement report by the National Bureau of Economic Research (NBER) in the United States, a major determinant of a person's long term wealth is their ability to save, budget and manage their cashflow.

The NBER report found income only explained 5 per cent of wealth dispersion while investment choices only explained 7 per cent. Chance events, such as an inheritance, accounted for 4 per cent of wealth dispersion.

The report concluded that people who made it a priority to save were able to accumulate significant wealth, regardless of their income, personal circumstances and investment choices.

> However, despite the proven benefits, few people have the strength to save and stick to a budget. To many people the word 'budgeting' is a negative word. It represents discipline and pain.

This is why a professional adviser can add enormous value.

By incorporating advice on budgeting and cashflow management into the advice process, advisers can educate clients about the long-term impact of their financial behaviour, help them set realistic expectations, develop a spending plan and keep them on track towards their goals and objectives.

They can better articulate and demonstrate their value, irrespective of how underlying investment portfolios are performing.

According to Peter Malekas, managing director and founder of money management, cashflow and budgeting platform, *Moneysoft*, advisers who have enhanced their value proposition to include a saving, budgeting and cashflow management service are able to engage with clients on a different level. They can have deeper conversations around a client's goals, values and priorities, rather than the performance of their investment portfolio and the general economy.

"Too many client meetings and reviews are dominated by conversations about the short-term performance of a client's investment portfolio but by shifting the focus to fundamental wealth creation principles like saving and cashflow management, advisers can have deeper client conversations, which often result in clients adjusting their financial behaviour and achieving improved outcomes," he said.

"It's interesting how something seemingly as simple as a budgeting and cashflow management tool is allowing advisers to reach more new clients while strengthening their existing relationships."

As the advice industry continues to formally separate financial product from financial advice, new financial planning models will increasingly include advice and guidance on saving, budgeting and cashflow management.

"With the help of an adviser, clients can see the long-term impact of their financial decisions, take positive action to change their habits, achieve their savings targets and ultimately maximise the probability of achieving their goals and objectives," he said.

Aged Care Case Study

Margaret, a 75 year old widow, lives on her own in the family home and receives the full Age Pension. Recently Margaret, whose vision is diminishing, had a fall.

Concerned about her ailing health, Margaret, supported by her children, has started the process of moving into an aged care facility with proper medical care and support.

Margaret has been assessed by an Aged Care Assessment Team (ACAT) and been offered a place in a nearby residential aged care facility from March 31, 2016. She has also had her income and assets assessed by the Department of Human Services.

Margaret isn't ready to sell the family home so she will rent it out.

The home, which is valued at around $650,000, is counted in the aged care means test. A capped value of a person's principal place of residence is assessed as $157,987.20.

Similarly, the income Margaret earns from renting out her former home, which is $375.00 per week, is now counted in her aged care income assessment, under the new changes to the aged care rules introduced on 1 January 2016.

The Department of Human Services has deemed that Margaret should make a contribution to her Aged Care costs.

She'll be required to draw on her income sources.

Residents who can be asked to pay a means-tested fee may be asked to pay an accommodation payment. These payments may be made through either:

- Refundable accommodation deposit, which is an amount paid as a lump sum;
- Daily accommodation payment, which is an amount of accommodation payment paid as a daily payment; or
- A combination of both.

Margaret will continue receiving the full Age Pension for now, as her former home is exempt from the pension asset test for two years after she enters the aged care facility.

After the two year period, the value of Margaret's former home will be counted as an asset for the pension assets test, which may affect the level of government assistance she receives and therefore her ability to cover her aged care accommodation and service costs.

Alternatively, Margaret's former home can be exempt indefinitely, when she enters an aged care facility, if she rents out her former home and pays her lump sum as an interest rate equivalent.

New changes to the aged care rules

Older Australians, and their families, may be affected by a change to the aged care rules introduced on 1 January 2016.

All new residential aged care recipients will have any rental income they earn from their former principal home included in their aged care means test, under changes to the aged care rules introduced on 1 January 2016.

Previously, rental income earned from a recipient's former principal home was only counted in the aged care means test if they made lump sum accommodation payments but not if they made periodic accommodation payments or a combination of lump sum and periodic payments.

The new change may increase the means tested care fee.

Who will be affected?

Everyone who enters care after 1 January 2016 or has been formally discharged from residential care for more than 28 days and re-enters care after 1 January 2016 will be affected.

The change will not affect residents who took temporary medical or social leave ahead of 1 January 2016, and re-enter care after 1 January 2016, nor will it impact on those who made arrangements to enter an aged care service or to transfer from one service to another before 1 January 2016 and enter care after 1 January 2016.

Will entering aged care affect a person's pension entitlements?

In order to qualify for government subsidised aged care, applicants must be assessed by an Aged Care Assessment Team (ACAT) and undergo an aged care means test assessment.

This will determine how much government assistance a person is eligible for.

Everyone who wants to move into an aged care home must have their income and assets assessed by the Department of Human Services or the Department of Veterans' Affairs if they want to receive government assistance for their care and accommodations costs.

In most cases, people who qualify for the age pension continue to receive the same amount of pension income after moving into a residential aged care facility.

Despite constant posturing for changes to the age pension eligibility rules, the family home is often excluded from the pension assets test.

If a pensioner moves out to enter an aged care facility and their former home remains vacant, it will only be exempt from the pension assets test for two years.

After the two-year period, the value of a person's former home will be counted as an asset for the pension assets test, which may affect the level of government assistance they're eligible for.

The secret to living longer

Scattered all over the world are mysterious pockets of people who live past 100. What secrets can Australians, who should be living longer, learn from these 'lands of immortality'?

Our life expectancy is one-quarter genes, three-quarter lifestyle choices, according to a classic Danish study of twins.[1] So what lifestyle choices are most conducive to longevity? Dan Buettner, a National Geographic researcher, is on a mission to find out. He believes the answer lies within 'Blue Zones', areas where people live to 100 at 10 times the average rate. By examining Blue Zones around the world he has developed a formula that could extend your life.[2]

Invisible exercise

Okinawa is one of these Blue Zones. An archipelago about 1,300 kilometres south of Tokyo, the island has been described by researchers as the 'ground zero of longevity'. It has the longest disability-free life expectancy in the world and women live longer there than anywhere else on the planet. Dementia and heart disease, a leading cause of death in Australia, are essentially non-existent.

Blue Zone communities don't devote a part of their day to exercise like we do (or attempt to). Instead, it is seamlessly woven into their lives.

Without grocery stores or machines, Okinawans are constantly exercising through activities such as walking and gardening. Both strengthen the body, help reduce stress and ensure sufficient vitamin D for stronger bones, which should be easy to achieve in sun-soaked Australia, yet one in four of us is deficient.

These slower, integrated exercises create what Buettner calls a 'downshift', where the body avoids inflammatory, stressful states, reducing the risk of Alzheimer's and cardiovascular disease, which currently affects 1.4 million Australians and contributes to 30 percent of deaths in Australia. Downshift even further with a nap in the afternoon, like the Blue Zone Icaria in Greece, in order to reduce the risk of heart disease.

Hara, Hatchi, Bu (and repeat)

Gardens don't just provide Okinawans with exercise and peace of mind. They're also the source of Okinawan's plant-based diet, a diet shared by all Blue Zones. The Okinawan diet is full of colourful vegetables and high in soy foods such as tofu and miso soup, which may help prevent breast cancer and heart disease. Moderate drinking doesn't go astray either. Buettner even recommends making 'Wine at 5' a key part of your lifestyle to increase longevity.

However, it's not what you eat but how you eat it. 'No diet in the history of the world has ever worked for more than 2 percent of the population,' says Buettner, so rather than going on the next fad diet, adopt a Blue Zone strategy for healthy eating. Hara, Hatchi, Bu is an ancient Okinawan phrase, spoken before meals that reminds you to stop eating when your stomach is 80 per cent full.

You could create your own phrase ('stomach is weighty at 80 matey'). The Okinawans also put away food after serving instead of leaving out a buffet.

No man is an island on these islands

The Blue Zones all share a deep sense of community. In Okinawa, you are born into a Moai, or friendship circle, that provides financial and emotional support for life, creating a feeling of always being cared for. One Moai of five women, together for 97 years, has an average age of 102.

The idea of finding the 'right tribe' is crucial to health and happiness. Your chance of being overweight dramatically increases if your friends are overweight too, according to a 2007 study from Harvard and the University of California.

This suggests that choosing friends who are physically engaged, caring and healthy will make you healthier too. According to Buettner, finding your tribe could not only add seven years to your life, but 'life to your years'.

Blue Zones also revere the elderly, who often live with their younger relatives. Living together produces beneficial effects for both parties, even lowering rates of mortality and disease in children (known as the Grandmother Effect).

Nowhere is this reverence more evident than Blue Zone Sardinia, off the coast of Italy, which instead of swimsuit calendars hangs a 'centenarian of the month calendar' in its bars, says Buettner.

What's your 'ikigai'?

Finally, Blue Zone inhabitants possess a deep knowledge of their reason for living and live it out daily. Okinawans call this their 'ikigai'. If our work is our ikigai then what infuses our life with purpose in retirement? The Okinawans have no word for retirement. Instead, their sense of purpose extends throughout their whole life. Take the 102-year-old karate master whose ikigai was teaching his art. If you can figure out your ikigai, you could add seven years to your life, says Buettner.

It seems the key to longevity is not made up of gym workouts and high-protein salads. Instead, according to Buettner's research, Blue Zones across the world all seem to show the same thing: there is no pill or supplement. Just your friends and family, the right activities and eating your veggies.

1. Herskind, A. M., McGue, M., Holm, NV., Sørenson, T.I., Harvald, B. & Vaupel, J.W. Human Genetics. 1996, March. 97(3): 319–23.

2. Buettner, Dan. The Blue Zones: Lessons for Living Longer From the People Who've Lived the Longest. Washington, D.C.: National Geographic. 2009.

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