PREPARE FOR LIFE

Summer 2021

IN THIS ISSUE

PROTECTING FAMILIES FROM ‘HEALTH POVERTY’

Poverty is not just a financial measure – it can also affect health. But life insurance can help manage the risks.

More than 40% of Australians report such low levels of physical and mental wellbeing that they are defined as living in ‘health poverty’, according to new research.[1]

It suggests many Australians are unaware of the risks they face given life and disability insurance levels continue to decline.

The comprehensive analysis by the ARC Centre of Excellence in Population Ageing Research (CEPAR) assessed more than 30,000 Australians’ views of their health across physical function, role function, social function, pain, mental health, and vitality.

“Our investigations of what aspects of health were contributing to health poverty suggests lack of role functioning and vitality were the most important elements,” the report found.

“They account for much of the change over time, the differences between groups, and the differences in trends between groups.”

While there are measures of poverty across several aspects of life, there is no established measure of health poverty, according to the report.

According to the CEPAR measure, the rate of health poverty fell between 2001 and 2009, but then quickly climbed again, in line with rising diabetes and drug-induced deaths.

Women and Indigenous Australians more at risk

The research found specific groups, including women and Indigenous Australians, were more at risk of health poverty.

Around 44% of women suffered from health poverty in 2001 compared to 40% of men. The gap grew larger (33% for men and 40% for women) by 2010, with women’s health poverty continuing to get worse, reaching a record high of 46% in 2018.

Indigenous Australians were also at risk, suffering extreme rates of health poverty of more than 60% by 2018.

While older Australians tend to have more health problems, the health poverty gap between older and younger people narrowed over the last two decades.

Underinsurance and health poverty

The report shows many Australians are at risk of health poverty, yet actuarial firm Rice Warner (recently merged with PwC) estimated Australians were underinsured by $1.8 trillion in 2017[2].

And the gap has widened. Rice Warner’s 2020 analysis revealed that the total sum insured has decreased by 17% and 19% for death and TPD cover respectively over the previous two years.

The table below estimates the actual average level of death and TPD insurance that 30 and 50-year-old parents need. (The amount is lower for older parents as they have less time until retirement, lower expected debt, higher super savings, and spend less time looking after children.)

Table: Average insurance need per parent

Age of parents	Basic level death need	Basic level TPD need
30	$561,000	$874,000
50	$207,000	$499,000

If you would like to review your current life insurance cover, contact your adviser.

[1] A1 Trends in Health Poverty in Australia, 2001-2018 | CEPAR. (2021, July 30). Retrieved from https://cepar.edu.au/publications/working-papers/ trends-health-poverty-australia-2001-2018

[2] Rice Warner (2020, November 19) https://www.ricewarner.com/new-research-shows-a-larger-underinsurance-gap/

RETIREMENT VILLAGE OR LIFESTYLE RESORT – WHAT IS THE DIFFERENCE?

By Peter Kelly, Retirement Strategies and Solutions Specialist, Centrepoint Alliance

At first glance one could be forgiven for thinking there is no difference between traditional retirement villages and what are becoming known as lifestyle resorts.

In fact, even a slow drive past or a visit could leave the casual observer completely in the dark as to the differences between these two forms of "over 55's" retirement accommodation.

With an ageing population, fuelled by a maturing baby boomer generation, there has been a proliferation of new residential developments designed specifically to accommodate the lifestyle needs of healthy and mobile retirees.

Modern retirement accommodation is first class, offering a range of facilities for their residents that may include a swimming pool, recreation hall, coffee shop, bowling and croquet greens, a men's shed, and the like. Coupled with that, a wide range of social activities, and excursions, are often provided, contributing to a very active social calendar for those residents that wish to be engaged.

However, when the layers are peeled back, the differences start to emerge.

When considering moving into retirement accommodation, it is important to understand the differences around the ownership structure and the entry, ongoing, and exit costs.

In the main, retirement villages operate on a deferred management fee basis. There are some strata titled retirement villages however they are in the minority. Each State has legislation in place that governs retirement villages.

On the other hand, lifestyle resorts had their origins in caravan parks and mobile home villages. They are governed by state-based legislation that covers manufactured homes or residential tenancy arrangements. This is different to the legislation governing retirement villages.

The main difference between a retirement village and a lifestyle resort is the ways costs are structured.

Let's consider each in turn:

Retirement Villages

As mentioned, the most common form of retirement village ownership is the deferred management fee model.

This involves a resident making an entry contribution, often in the form of a loan or donation to the village operator in exchange for a license or right to occupy a selected unit within the village.

The license is generally granted for the life of the resident or until they chose to vacate their dwelling. A village may be structured as stand-alone villas, free-standing dwellings, units in an apartment building, or a combination of these.

In addition to an entry fee, residents will be required to make a regular monthly contribution towards the maintenance of their unit and the villages common areas. They will generally need to also pay the costs of their gas, electricity, telephone, data, and contents insurance.

The contract between the village operator and the resident will set out what happens when the resident leaves the facility.

When a unit is vacated, it will be on-sold to a new resident, generally after it has been refurbished, with a portion of the sale proceeds passing back to the departing resident.

Whether a former resident is responsible for the costs of refurbishment, and importantly whether they are entitled to all or any capital gain on the sale of their unit, will be set out in their contract.

Refurbishment will often be carried out by the village operator, ensuring a consistent standard is maintained throughout the village. Often the village will manage the sale of vacated units. Large villages may have dedicated staff to handle the sale process.

The most significant cost incurred when leaving a village is the deferred management fee. This is usually expressed as an annual percentage (say, 2.5% or 3% per annum) for each year of occupancy. However, the number of years the fee applies is usually capped with the maximum deferred management fee generally being around 30% to 35%. Depending on the contract, this may be based on the entry contribution or on the sale price.

When a resident leaves a village, they will be required to continue to pay the regular maintenance fee until such time as their unit is sold. This could take some time depending on the demand for units in a particular village. However, legislation may cap the length of time the management fee can continue to be paid.

Lifestyle Resorts

Lifestyle resorts differ significantly from retirement villages in the way they are financially structured.

The fact they are covered by legislation governing manufactured and mobile homes is a giveaway.

Residents of lifestyle resorts generally own the building in which they live. However, they lease the land on which it is situated. They pay rent for the space their home occupies.

While a lot of the discussion around lifestyle resorts focusses on mobility or relocatability, many of the newer developments are anything but that. They are newly built homes securely affixed to the ground beneath them.

Like retirement villages, modern lifestyle resorts incorporate an array of facilities for the enjoyment of residents.

In addition to paying rent for the land occupied by their dwelling, a regular maintenance fee may be payable along with the costs of insurance and utilities.

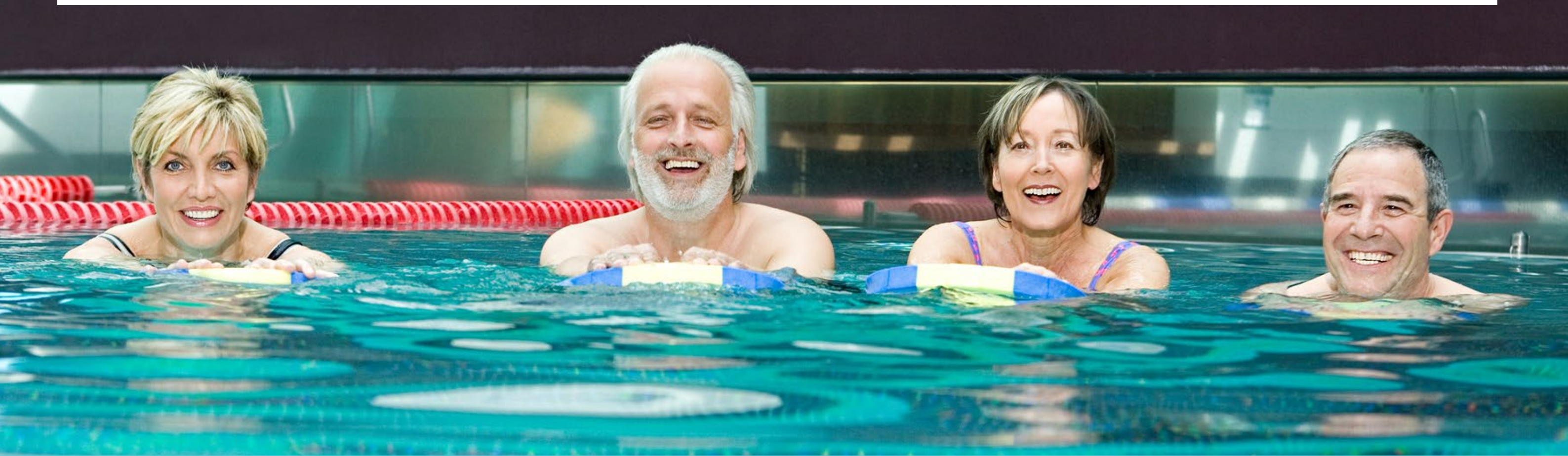
When it comes time to leave a lifestyle resort, the home may be removed, if it is easily relocatable, or it can be sold in-situ. The sale may be handled by the facility operator or, quite commonly, a real estate agent can be engaged to handle the sales process. Generally, any capital gain from the sale is retained by the resident.

Competition amongst the operators of retirement accommodation is very healthy, driven by an increasing number of mature Australians looking for an alternative to traditional home ownership.

Whichever option suits you, understanding the way the different types of accommodation work and the pricing implications requires some careful study. The contract between the village operator and the resident should be read and understood before a committing to a particular village.

It is vitally important intending residents seek their own independent legal advice before entering any contract.

Finally, whether choosing a retirement village or a lifestyle resort, this will be a lifestyle decision, rather than a pure investment decision.

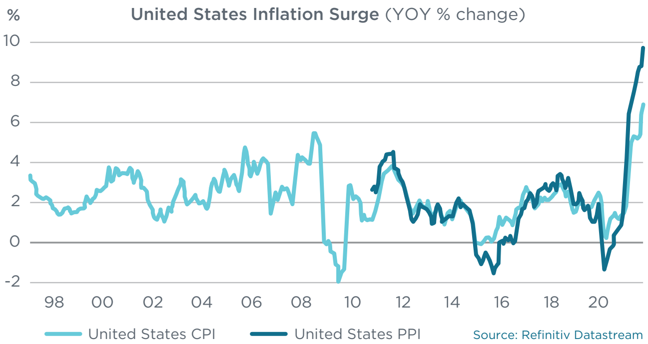


HAS PEAK INFLATION ARRIVED?

Nikolai Bull, Research Analyst, Centrepoint Alliance

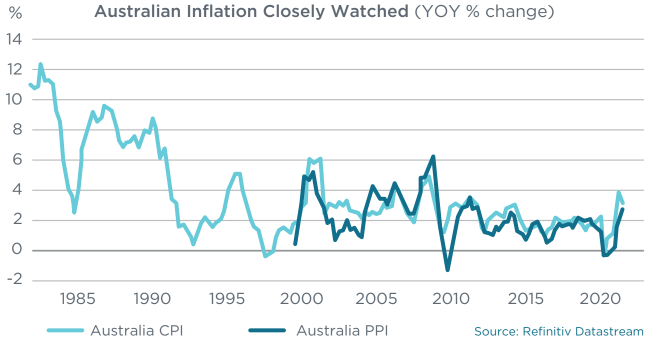
Inflation, a concept explained simply as the cost of living, has risen in the US at a pace not seen since the 1980's.

The Consumer Price Index's (CPI) 6.8% surge has been driven by sharp increases in the prices of goods as the demand for products continues to outweigh the supply. The Producer Price Index (PPI) is a measure of the prices that manufacturers receive which eventually feeds into the (CPI). The PPI has hit all-time highs since its inception in 2011. Shortages and wait times for products have been a reality for consumers and businesses across the world as supply-side issues continue to be afctor in the rise in prices. These supply issues are portrayed by increased supplier delivery times combined with participation rate levels hovering 1-2% below pre-pandemic levels. The argument of whether this increase is a temporary 'bump' or a structural shift remains the biggest macroeconomic question in global financial markets. At this point in time, the markets are betting on the former.



It is likely that peak inflation, if it hasn't already been seen, is going to be seen in the next few months in the United States. The US lead the global surge in inflation, so a turn down in their CPI will likely point to a global return to 'normal' inflation levels. This is yet to be seen. Underestimating the supply chain's ability to meet the needs of consumer demand is often the case as seen in 1990, 2008 and 2011, where price rises retraced sharply back to the longer-term averages. Inflationary pressures in the last 15 years have been dealt with swiftly by the underlying structural forces in economies such as aging demographics, significant debt-levels, and technological innovation, all of which are deflationary.

Australia has not felt this global inflationary rise so far, as the levels seen domestically are (only) the highest since 2008. The coming months will tell whether Australia is lagging its global counterparts, or whether there is a fundamental difference between the inflation surge internationally versus domestically. Although inflation levels aren't as high as other countries, the quarterly CPI rise in September actually reached the 2 - 3% target range that is outlined by the Reserve Bank of Australia (2.1%). The RBA has felt pressure around whether to maintain its Yield-Curve-Control program or not. Short term interest rates rose significiantly as a consequence.



It is extremely difficult to predict what inflation is going to do on a monthly, or even a quarterly basis. What is a better measure of the possible future directions of inflation? Research sees inflation peaking within the next 6 months and gradually returning to pre-pandemic levels. The one unknown however, is the persistance of supply chain issues if future COVID variants arise that shut down aspects of global economies. A persistance of supply chain problems could result in extended inflationary numbers. However, peak inflation numbers are likely around the corner.

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