they said the world was my oyster but someone STOLE THE PEARL

A Baby Boomer's guide to LIVING a LIFE of CHOICE not compromise

Markham Collins & Russell Mann

From hippie to Harley and all roads in between

'Many people take no care of their money 'til they come nearly to the end of it, and others do just the same with their time.'

Johann Wolfgang von Goethe

Your authors are both Baby Boomers. Late Boomers, we were born in 1960 and 1961. We both have siblings spread across this generation from 1946 to 1965, sitting between what was the industrial age of our parents and the technological age of our children.

In Australia, Boomers number about five million people (depending on the source material that you choose) or roughly 22% of the Australian population. The significance of this generation economically, culturally and politically cannot be underestimated. According to the Australian Government Department of Health and Ageing in February 2012:

> *Australia is being transformed by population ageing, along with social, economic and policy change. We are at a critical demographic turning point because the Boomer cohort – the five and a half million people born between 1946 and 1965 – has begun to turn 65 years of age. People now in their fifties will be bringing to later life a range of life experiences and expectations that are profoundly different from those of previous generations.*

> *Boomers are the first generation to face the new 'third age' with its unprecedented expectation of a decade or two of relatively healthy life after retirement. Individuals, governments and employers are becoming increasingly aware that Boomers' retirement from the workforce will have a major bearing on Australia's economic and social wellbeing as well as the future of younger generations.*
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> *Empirical evidence educating Boomers to prepare for a productive and healthy retirement is, however, lacking in current research and the recent financial crisis has called what little we do know into question.*

Maybe the character of Bud (Michael Madsen) in Quentin Tarantino's epic, *Kill Bill 2* was spot on when he stated, 'The biggest killer of old people is retirement!'

Boomers are increasingly moving away from the concept of retirement and preferring terms such as 'lifestyle' and 'sea change' to describe their mindset. Retirement, which is a derivation of a French word loosely translating to the English word withdraw, has connotations of a bygone era when our parents retired at 65 and were dead a few years later after frugally living on the pension in between.

Despite the opportunities presented in Australia's post-World War 2 golden economic years, those of the Boomer generation are generally unsure if their finances will provide their desired quality of life now and beyond retirement, which could stretch to 20 or 30 largely active years.

FINANCIAL EDUCATION

One of the longest relationships each of us will ever have is the one we have with money. Temptress, saviour or devil, money can be all things and none of them. Money is viewed by many as an end in itself – have enough money and all your problems will be solved! (Really? If that were the case the Betty Ford Clinic with its famous clientele would be out of business very quickly.)

Our early lessons in money were provided by parents who had lived through The Great Depression of the 1930s, a world war and the privations after the war. They were cautious, frugal and saved before they bought. Markham's father told stories of public servants with wage cheques that couldn't be cashed during The Great Depression and that set the scene for his lessons of financial responsibility. We're sure that others had similar tales of financial austerity from older generations.

And then came Bankcard in 1974, the start of 'easy credit' (easy to get into, anyway). Like the contraceptive pill, which was a precursor to the sexual revolution, Bankcard revolutionised our spending patterns, allowing us to buy now and pay later, a concept foreign to our parents.

GLOBAL FINANCIAL CRISIS

The Global Financial Crisis or GFC (described more accurately as the 'Northern Atlantic Financial Crisis' by some economists… but we digress!) began in earnest in late 2007 where 'Western countries' experienced significant falls in their financial markets which, in turn, impacted on the superannuation balances of Australian superannuants as equity markets declined sharply and property markets froze.

By way of illustration, the fall in two of the 'Bluest Blue Chip' stocks on the Australian market at the time, BHP Billiton (BHP) and Commonwealth Bank of Australia (CBA), shows starkly the impact on the Australian equity market during the peak of the GFC.

Share	Price	Date
BHP	$50.00 (High)	May 2008
	$20.00 (Low)	November 2008
	Fall	**60%**
CBA	$62.16 (High)	November 2007
	$24.03 (Low)	January 2009
	Fall	**41%**

Despite the fact that Australia, by the standards of most of the other major developed countries, escaped the worst effects of the GFC – such as massive falls in house prices and double-digit unemployment – the major local fallout post-GFC remains the negative psyche of the Boomers. Despite the 24-hour news cycle being jam packed with ideas for making money, the Baby Boomer generation has never been so confused about their finances. In fact, according to the Department of Health and Ageing:

- 40% of the Boomers surveyed believed that they were more financially insecure (worse off) following the onset of the GFC.
- 47% of retirees believed that they were worse off following the GFC compared to 39% of workers.
- Those most affected by the GFC also tended to have the poorest health. For example, co-morbidity of chronic diseases including diabetes, cancer and cardiovascular disease was associated with financial insecurity following the GFC. 62% of those with poor health were affected by the GFC compared to only 36% of those reporting excellent health.
- Women were more affected by the GFC than men with 45% of women reporting that they were negatively affected by the GFC compared to 38% of men.

As a result, the Australian equity market (All Ords) remains 12% below the peak achieved in 2007, which has resulted in historically high levels of funds transferred from shares and other growth asset classes to bank term deposits and cash. In fact, in recent years the savings rates of Australians have grown to levels not seen since the 1950s, as cash held in bank term deposit and cash accounts has grown to over one trillion dollars. Great news for the banks, as they now need to rely less on volatile offshore markets to fund their loan books, but bad news for retirees with deposit rates set at levels which see retirement funds eroded when inflation and tax are taken into consideration.

The conclusion that we can draw is that significant sections of the Boomer generation were affected by the GFC, not just financially but physically and psychologically. If we extrapolate the above percentages across the five million individuals who make up this cohort, there are several million people who believe (at least) that they are worse off following the GFC. Many of them also believe that they don't have the time to start again with their finances.

For the Australian economy this will no doubt play out in reduced economic growth as significant numbers of people reduce their spending patterns.

WHAT ELSE COULD POSSIBLY GO WRONG?

The GFC is, of course, only one factor affecting Boomers' financial situations. The following are phenomena being experienced for the first time en masse, so it is little wonder that personal finances create anxiety:

Adult children – Our children are staying at home until their late 20s or early 30s and are comfortable asking, 'Dad can I have a hand with a deposit on a house?' and 'I'd like a wedding like the Kardashians!' If your household is like ours, we have good cop/bad cop relationships with the kids. The good cop always bends to the kids' wishes, and that nest egg that we are trying to build suffers a little more. The bad cop (in the kids' view) is the Christmas Grinch and delays handouts or, heaven forbid, makes the kids work for treats and presents.

Ageing parents – Our parents are living longer than ever before, and often with increasingly debilitating illnesses requiring significant finances to fund medical requirements and/or nursing home care. The Boomers are often the carers, which has a psychological and financial impact on the whole family.

Divorce – Marriages are failing at a rate that would astound our forebears. While it's not for us here to debate the merits of staying in an unhappy marriage for the sake of the kids, or for religious or other reasons, what we can say is that divorce has a major impact on the lives of both parties. Simple maths indicates that after divorce two properties need to be funded by the parties. Bring into the equation new partners, additional children, stepchildren, spousal maintenance (determination and payment) and there is a recipe for financial hardship for both parties that usually isn't considered early when emotions are high.

Superannuation – Baby Boomers have been described as 'the generation that superannuation forgot'. Compulsory super really only came into place for the masses in 1992 through the Hawke/Keating Government's legislation. In 2016, the level of compulsory superannuation is 9.5% of salary, but this has increased incrementally since 1986, so many Boomers' accumulated superannuation balances are now too small to support any sort of adequate lifestyle.

The family home – The family home is often the major asset of this generation. As the Australian Financial Review stated, 'In contrast to the general perception of Boomers as cash-rich gadabouts, the reality for many is different. With their wealth tied up in the family home, the majority in fact depend on trading down to realise cash that will see them through their retirement.' (Bleby, M 2014, 'Retirement - Baby Boomers forced to downsize: Moving Near Mum's – at 60', Australian Financial Review, 26 May, p.3)

Those who don't downsize often take out reverse mortgages, where you borrow up to a percentage of the value of the house with repayments only required upon sale of the house or death. Both options create significant emotional and financial issues.

And, with a large number of Boomers expected to try to sell their 'McMansions' in the next decade to move to apartments or townhouses in rapidly gentrifying inner-city areas, supply of this type of housing is expected to outstrip demand, further eroding superannuation 'savings'.

Employment – The effects of the GFC have meant that many Boomers have had to extend their working lives or have been forced to re-enter the workforce. However, employment opportunities for the over fifties are at best problematic. Ageism is rife. It is fine for the Government to debate extending the retirement age to 70 as a minimum to be eligible for the pension, but the reality of maintaining employment until then, particularly for blue-collar workers, is a very different matter.

Government policy changes – Frequent changes in government policy in the areas of pensions and superannuation are both confusing and frightening for this generation. How can I plan it if you buggers keep changing the goalposts?

When Federal politicians are in opposition they opine that we need to have consistent laws about superannuation and tut-tut the mean-spirited government's policies regarding the Age Pension. The transformation when they form government, however, is startling as they look down the barrel of those nasty budget deficits and the ever-increasing numbers of non-taxpayers who receive government pension assistance. That beautiful $1.4 trillion nest egg that is superannuation looks like manna from the Gods.

Health – Weight is a major issue for Boomers. Technological advances developed by this generation have automated many former manual processes. Add to that the ready availability of fast foods high in fat, sugar and salt and we have an obesity epidemic.

That, in turn, is leading to a burgeoning health crisis. Professor Hugo, with the Australian Research Council through the University of Adelaide, has completed studies that indicate obesity rates for Boomers are more than double those of their parents at the same age. They also have twice the rate of asthma, triple the rate of diabetes and double the cholesterol levels of their parents. The research has also shown that the proportion of Boomers with three or more chronic conditions is 700% greater than the previous generation.

The family business – Another major asset of the Boomer generation is the family business. We know from our parents' examples – and indeed our own business, Collins Mann – that the standard practice for Small and Medium Enterprises is to continue to plough profits back into the business instead of into superannuation or other asset classes. Often there is a compelling argument for this investment as the business often produces a yield higher than other market options and, more importantly, the business owner is in control of the investment.

The plan is, of course, to sell the business for a multiple of recurring revenue (or other industry measure) and retire on the proceeds of the sale.

The mistake that many small business owners make, however, is that they have not commercialised the business so that it can continue to prosper without them. The true assets of the business walk out the door each night when the owner and/or key personnel leave for the day. The owner is often the business and they have, in effect, merely bought themselves a job. Ultimately, there is very little to sell in the absence of the current owner.

Estate planning – The lack of will to complete a will! One of the first questions we ask new clients is, 'Do you have a will?' We are yet to meet a Boomer who has a will that reflects their current circumstances. They often have a will that was written pre-children so it makes no mention of guardians, testamentary trusts, and more. Or they are divorced and haven't updated the will to prevent the previous love of their life from inheriting their worldly possessions – the final insult, maybe? Remember, 'Where there is a will, there is a relative.' Get it done by a professional so your wishes are followed and are difficult to challenge.

Risk insurances – Boomers' personal risk insurances – including life, income protection, trauma, total permanent disability (TPD) and more – are either poorly structured or inadequate to be able to preserve their lifestyles in the case of adversity.

Market research shows that Australians are chronically underinsured when it comes to personal insurances, with the Financial Services Council estimating that the underinsurance gap for working Australians is $1.1 trillion. Illnesses where substantial time is required recuperating can have a devastating impact on personal finances where insurance is inadequate or non-existent

It always amazes us that people insure their car, their house and other assets yet do not insure the most important asset – cash flow, or their money earning ability.

You could survive in the desert for days without food but very little time without water. So it is with money. If you were seriously injured or otherwise incapacitated, how long would it take until you were unable to meet mortgage, school and car payments?

These issues are beginning to look like tabloid journalism, aren't they? You know the type – bad news sells or, in the old sales rhetoric, raise the pain level to elicit a response that you are looking for (in the case of the Boomers – a change in habit). Up the pain and anger to elicit change, right?

Well, maybe a little. But the point is that the Boomer generation has some unique problems that have not been experienced by previous generations and are unlikely to be repeated in the future.

WHAT CAN YOU DO?

Given this post-GFC malaise, and the range of other issues facing Baby Boomers, they should therefore be looking at their particular financial situation and seeking advice as to how to achieve their personal goals. But are they?

The *Ageing Baby Boomers in Australia* study by the National Seniors Productive Ageing Centre stated, 'The GFC did not appear to impact on levels of financial planning for retirement. Approximately the same percentage (22%) of those affected or not affected by the GFC was planning 'very little' compared to approximately 20% who were planning 'a lot'.

So, as a generation, we Boomers are unsure if we can finance our lifestyles before and after retirement at a time when we are going to live longer and expect more from life. It's starting to look like a life of compromise if we don't start careful planning, doesn't it?

So why aren't we planning, then?

Humans, being what they are, have always displayed a fight or flight mentality when facing fear. The fear of money has been evident in many new clients we have interviewed over the years. They avoid planning their finances, preferring to stick their heads in the sand and hope the problems go away.

Inheritances, lottery wins, or continuing to work will solve the problems, they think. Yeah right. You'll be 70 when your parents are likely to leave this mortal coil, one in how many million win the lottery, and what are the chances of staying employed long into your sixties?

What we see more and more often is people going for the big play, putting it all on black like in roulette. All their eggs in one basket offering fantastic returns or tax minimisation – do Nigerian scammers ring any bells?

While poorly administered regulatory systems allow scheme promoters to successfully prey on financially inept clients, tabloid reporting showing some elderly couple from the Gold Coast losing their $250,000 nest egg to some unscrupulous property developer really makes us mad because, despite the moral and criminal actions of the perpetrators of the 'scams', it was greed on the part of the clients that resulted in their loss of capital.

The fact is that they were so far behind where they needed to be to pay for their chosen lifestyles that they embarked on high-risk strategies because the promises of above-average returns were too enticing. The old saying, 'If it looks too good to be true it probably is' remains true today and tomorrow.

There is no silver bullet here and we don't want to see any more Boomers appearing on television bemoaning that they lost their life savings to a con-man. It's time to stop waiting for the big win and thinking 'She'll be right'. Instead, it's time to make a plan.

The planning process by its very nature needs structure, so in this book we will take you through the same steps we follow with our clients to help them reach their financial goals. These include:

1. Awareness – knowing where you are financially
2. Goals – knowing where you want to go
3. Strategy – determining how you can reach those goals
4. Support – finding out who can help you
5. Review – staying on course to achieve those goals

In Part 1 we will take you through these five steps so you can reach your financial and personal goals.

However, beyond reaching financial goals, Boomers have a range of other financial issues they may need to tackle in the coming years, as discussed earlier. In Part 2 we'll delve into more detail regarding some of the specific issues we see our clients facing, and how you can manage them while continuing to pursue your financial goals.

The thing to keep in mind is that it all comes down to planning.

If you haven't planned how you are going to finance your lifestyle now and in retirement, you could be in for a painful (and frugal) shock. The public purse can't provide adequate pensions and healthcare for five million people.

So turn the page, or forever hold your begging bowl.

If you could implement a financial plan that offered a life of choice rather than compromise - *would you follow it?*

Of course you would! And yet the world's largest population cohort is hurtling head first into retirement on precious more than a whim and a prayer. Of even greater concern, most will run out of money before they meet their maker.

Written by Baby Boomers for Baby Boomers, there's no sugar-coating the facts in this refreshing, fast-moving and totally relatable tale that clearly and candidly addresses the financial realities faced by those born between 1946 and 1964. And there's more… the actions needed for enjoying your twilight years in financial comfort are explained in black and white, along with check lists for getting your affairs in order.

The good news is: You can live a life of choice not compromise. *So what are you waiting for?*

Markham Collins and Russell Mann are Baby Boomers and business partners of a successful financial planning practice. Both have held senior management roles within Australia's top four banks and guided some of the country's most successful people to plan and achieve financial and personal goals. Each is absolutely committed to providing Australians with financial education and options for achieving a life of choice not compromise.

PERSONAL FINANCES

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