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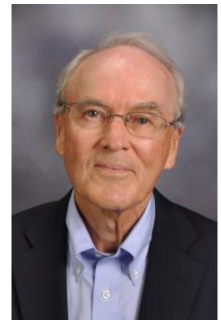

March 29, 2018

Dear Reader:

Following is an article written by Richard Eisenberg and printed in the August 19, 2013 edition of Forbes. Good and interesting reading.

TO SOLVE THE U.S. RETIREMENT CRISIS, LOOK TO AUSTRALIA

You know that "retirement crisis" America's facing? (More than half of U.S. households risk being unable to maintain their standard of living in retirement. … Social Security is due to run short of money by 2033. … About a third of workers aren't offered retirement plans. …).

Now imagine living in a country where *all* employees are covered by an employer-sponsored retirement plan. Where the government equivalent of Social Security is generous. Where people don't tap their retirement funds early, as many Americans do, running the risk of depleting their savings. Where the savings rate is 10%.

Say G'day to Australia.

WHAT AUSTRALIA IS DOING RIGHT

Lately, I've been hearing a lot about Australia's highly rated system (tied with the Netherlands for the second best in the world, behind Denmark, according to the Melbourne Mercer Global Pension Index). So, I decided to find out more about it and see what America could learn from our friends Down Under. Turns out that if we take a page or two from Australia's playbook, we might be able to junk the phrase "retirement crisis" when talking about what we'll face when we stop working full-time.

There are three pieces in Australia's retirement system:

THE AGE PENSION. That's their version of Social Security and it pays up to about $28,000 a year to people roughly 65 and older. (The age is scheduled to rise to 67 in 2023). Australians don't pay into the system as we do with Social Security; the money comes from the government's general revenues.

Unlike Social Security, the Age Pension is means-tested; benefits are reduced for Australians with high incomes or substantial assets, using a sliding scale. About 56% of people get the full pension; the rest get a reduced version.
Qualifying for the Age Pension also entitles recipients to valuable government-

provided benefits, like discounted prescription drugs and transportation expenses.

A MANDATORY RETIREMENT SAVING PROGRAM KNOWN AS THE SUPER (SHORT FOR SUPERANNUATION GUARANTEE). This is the lynchpin to Australia's retirement system. With The Super, employers are required to contribute into tax-advantaged retirement plans, like 401(k)s, 9.25% of earnings for virtually all employees age 18 to 70. That percentage will gradually rise to 12% by 2020. Employees choose where to invest the money.

Earnings are taxed 10% as they accrue and there's a 15% capital gains tax on profits from investments held more than a year. But as with America's Roth IRAs, retirement withdrawals are tax-free. Australians can begin taking the money at 55, if they're retired.

Unlike 401(k)s, loans from the Saver aren't permitted and pre-retirement withdrawals are generally forbidden. (One reason Australia could get away with these tough rules: its public health system prevents residents from getting socked with huge medical bills, as can happen in America.)

VOLUNTARY SAVINGS. Employees can contribute to The Super on their own, but just 20% choose to do so, according to Julie Agnew, author of the Center for Retirement Research at Boston College article "Australia's Retirement System: Strengths, Weaknesses, and Reforms."

Australians can also save for retirement and for other purposes outside of work. Many do, which explains the 10% saving rate.

Overall, Australia "has done a really great job," says Allison Schrager, a New York City-based economist who wrote about the system for the website Quartz.

HOW AUSTRALIA GOT SERIOUS ABOUT RETIREMENT. But it wasn't always so.

"In the 1980s, our retirement-plan coverage was similar to what is in the U.S. now," says David Knox, senior partner for Mercer and author of the firm's annual global retirement report. "A little less than half the workforce was covered by pension plans."

Realizing this and fearful that an aging population would strain Australia's Age Pension system, the government and unions got together to create The Super. Initially, employers had to kick in 3% of pay.

The key was that, unlike in the United States, all employees would be covered. "It didn't matter if you employed one person or 10,000 people," Knox says. There's no Super for self-employed people, however.
"In the United States, your retirement coverage and how much you can set aside depends on what your employer offers," says Arthur Noonan, a Mercer senior partner based in Pittsburgh. "We've made it more difficult than it needs to be."

There's one hidden catch with The Super's mandatory employer contributions: employees get lower pay and smaller raises than they would otherwise, since the money has to come from somewhere. “Instead of wages going up by one and a half percent a year, they’ve gone up between one-half and one percent,” Knox says.

AUSTRALIA'S SYSTEM ISN'T PERFECT. And for all the beauties of Australia’s retirement system, I wouldn’t call it perfect. Mercer’s index bestowed a B+ grade (much better than America’s Gentleman C, however).

For one thing, I don’t think all the onus should be on the government and employers. Individuals ought to be required to save for retirement, too – or at least have contributions automatically taken out of their pay unless they choose to opt out. “If I was to design the system from scratch, I’d have the employees contribute,” Knox says.

To make the program truly uniform, the self-employed should also have access to The Super.

Another flaw: If Australians annuitize their Super accounts and receive monthly installments over their lifetimes, the money can run out if they live too long. This makes older Australians “heavily exposed to longevity, inflation and investment risks,” Agnew wrote.

Schrager also bemoans the ability to game the Age Pension by making sly money moves. For instance, housing wealth isn’t counted in the asset test, so Australians in their 50s are taking on more housing debt than ever, she says, then paying it off with their Super.

“There are some issues with the Australian retirement system, but they’re relatively easier to fix than the ones we’re facing here,” Schrager says.
There’s no denying Australians are in better shape for retirement than Americans.

What America Can Learn. Could their system work here?

Well, there’s zero chance that Congress and the president would require employers to offer retirement plans then contribute to them on behalf of their employees. So I doubt we’ll ever get close to Australia’s broad coverage.

And I’m not expecting Social Security to get means tested anytime soon, since too many Americans would squawk about not getting their benefits after paying into the system.
But if we won’t require firms to put away retirement money for employees, why not do the next best thing and make the ones that offer plans automatically enroll staffers unless the workers choose to opt out? Better still; require the plans to feature auto-escalation, so the percentage that employees save goes up each year.

“We could get a lot more saving by opting people into retirement plans with the option to default out,” Schrager says.

The push for mandatory auto-enrollment and auto-escalation has been growing lately, with the strange bedfellows of AARP and the U.S. Chamber of Commerce embracing it, along with a number of financial services firms.

Reuters' Mark Miller recently noted that, according to Putnam Investments, employees who are automatically enrolled in workplace plans are on track to replace 91% of their pre-retirement income in retirement and those in auto-escalation plans are headed to 95 percent replacement rates.

Maybe we can't easily spread retirement joy like Nutella. But it's time to stop decrying America's flawed retirement system and start fixing it.

THE STRATEGY WE ARE FOLLOWING IS SIMPLE. It is buy and sell rather than buy and hold. Why? When the elevator goes down velocity rises and prices fall. When the elevator goes up it grinds up at a 45° angle. Since 1929 there have been 16 bear markets with 4 to 5 quarters going down; taking 5 years or more to recover. We try to avoid the negative and participate in the up. About half of the time the market does little or goes up, about the other half of the time the market does little or goes down. Buy and Hold doesn't work half of the time.

Flesh and blood human beings can't afford the big soul-destroying, retirement-destroying downturns during their prime investing years. Almost all-American workers today depend on 401k(s) and have no pension. Every investor who is in the market for a long time will experience a long-term bear. Why us e a strategy that works only half the time? Take defensive action when the elevator goes down and participate when the elevator goes up. When the forecast is for a possible tornado – head for shelter. Will you be upset when you emerge from the shelter to find your house not demolished and still intact? *

BUCKET LIST

If you're like most people, you have a personal "bucket list" of things you want to do during your life. I'd like to recommend adding another item to the list.

Every year around March, thousands of people journey to Washington, D.C. to enjoy the National Cherry Blossom Festival. If you've ever seen these trees in bloom, you know what a breathtaking spectacle they are. While we often associate our capital with the dreary grind of politics, for a few weeks every year, the city becomes festooned with color.

The festival has a long and happy history. The trees were first donated in 1910 by the city of Tokyo as a symbol of friendship between Japan and the United States. Unfortunately, the trees were infested with pests, forcing President Taft himself to order them burned. Undeterred, the Mayor of Tokyo donated three thousand new trees, which the First Lady, Helen Taft, helped plant on March 27, 1912. More trees were planted over the next decade, until in 1927, a group of children re-enacted the first planting. Historians consider this the first edition of the festival. A symbol of spring, rejuvenation, and friendship, the trees are some of the most beautiful possessions our nation has.

As a financial advisor, part of my job is to help people achieve the goals on their personal bucket list. The National Cherry Blossom Festival is an event I'd recommend everyone adds to theirs.

Please do not hesitate to call me with any questions or comments at (502) 228-3900 or via email walt@wwafn.com. Referrals are always accepted and appreciated.

Sincerely,

Walt

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*Please note: Implementing this strategy does not assure a profit or protect against loss in declining markets, and it cannot guarantee that any objective or goal will be achieved.

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