

# Approach To Retirement

## Case Study

Prepare for the best.



### Strategy overview

Use the flexibility of Wrap Capital Protection to assist a client's final approach to retirement by protecting their accumulated capital whilst providing upside growth potential.



### Key terms

- ▶ Wrap Capital Protection – refers to a solution on Wrap which gives advisers the ability to protect their client's holdings.
- ▶ Protection Portfolio – the value of the combined value of the managed fund and the Capital Protection Fund.
- ▶ Protection Term – the term selected by the adviser for Wrap Capital Protection.
- ▶ Minimum Outcome – the minimum value of the Protection Portfolio at the end of the Protection Term.



### Hypothetical client information

- ▶ Frank is 55 and has a \$250,000 superannuation balance.
- ▶ His adviser forecasts that he will need \$600,000 to retire at age 65 and maintain the lifestyle he requires.
- ▶ Frank expects to contribute \$20,000 (after contributions tax) per annum until age 65.



### Client problem

Frank wants exposure to growth assets as he not only wants to achieve his target of retiring with \$600,000 but he would like to exceed this amount. However Frank knows that investing in growth assets comes with risks. Frank has similar concerns to many investors approaching retirement in balancing their portfolio between the competing goals of:

- ▶ Minimising the risk of market declines eroding the value of his existing funds and any new contributions he makes;
- ▶ Maintaining some exposure to growth assets to ensure his capital has the potential to grow and improve his retirement balance; and
- ▶ Maintaining flexibility to adapt his strategy as his personal situation and market conditions change.



### Adviser opportunity

Frank needs to take some risk to achieve his target, but his adviser thinks the risks can be managed by using Wrap Capital Protection. Frank's adviser identifies three potential options for Frank:

- ▶ a reasonably certain target of around \$550,000 by using cash assets only but offers Frank no potential upside growth;
- ▶ a potential target of around \$650,000 by investing in growth assets with Wrap Capital Protection, with a minimum outcome of \$450,000<sup>1</sup> that can rise if markets rise; and
- ▶ a potential target of over \$650,000 by investing in growth assets only, but with no downside protection at all.

<sup>1</sup> \$450,000 is equal to the initial investment of \$250,000 plus \$200,000 in additional contributions over 10 years.



## The solution

Frank needs to decide whether to pursue a growth strategy which could help him reach his target by age 65 but leaves his capital unprotected and therefore might leave him needing to work for longer if his investments do not perform well. Frank decides to initially use the Wrap Capital Protection solution because it gives him the upside potential with a rising Minimum Outcome, and he knows that he can change the strategy if necessary at any time.

Frank places Wrap Capital Protection over his current portfolio of five Funds with a maturity date of 10 years.

- ▶ By utilising Wrap Capital Protection, Frank's existing superannuation balance is protected to at least \$250,000 at maturity;
- ▶ All new contributions Frank makes into these existing Funds will increase the Minimum Outcome on a dollar for dollar basis;
- ▶ Over 10 years the \$200,000 Frank expects to contribute and the \$250,000 in his current balance means his Minimum Outcome will be \$450,000 at maturity; and
- ▶ Given the long maturity date, Frank's initial exposure to the Funds will be high, with minimal allocation to the defensive BT Capital Protection Fund.

ASSET	FUND A	FUND B	FUND C	FUND D	FUND E
Protection Portfolio	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Protection term	10 Year	10 Year	10 Year	10 Year	10 Year

The Funds Frank has invested in would need to stay at or below their initial value for the entire 10 year period for Frank to end up in his worst case scenario of \$450,000 at maturity.

Frank's adviser is mitigating the chance of this occurring by using the features of Wrap Capital Protection as follows:

- ▶ Growth Capture. An increase in the value of the Protection Portfolio can lead to an increase in the Minimum Outcome a quarterly basis.
- ▶ Increase Minimum Outcome. If the value of the Protection Portfolio has increased, the adviser can choose to increase the Minimum Outcome on an ad-hoc basis.
- ▶ Instalment Protection given new contributions may receive some allocation to the growth opportunity.

**Growth Capture.** Each quarter, the Wrap Capital Protection automatically locks in 50% of all gains above the Minimum Outcome level. So at any time the fund experiences positive performance through unit price growth or distribution re-investment it will automatically increase the level of the Minimum Outcome at the next lock-in date.

**Instalment Protection.** Each new contribution Frank makes is independently allocated into the growth and defensive funds based on time to maturity. The clock effectively starts again for the new contribution. This means that new money entering a Fund that already has a high exposure to defensive assets as a result of poor performance, will not share the same allocation. New money can reallocate the fund back into more growth exposure.



## The results

Frank understands his Minimum Outcome will be \$450,000 upon turning 65 if he makes all the contributions.

- ▶ Frank agrees to make the regular \$20,000 contribution (after contributions tax) each year, increasing the Minimum Outcome on a dollar for dollar basis.
- ▶ The regular contributions are allocated between the managed fund and the Capital Protection Fund each time
- ▶ After five years, let's assume that Frank has enjoyed good performance. His Protection Portfolio is assumed to have increased to \$450,000 and the Minimum Outcome to \$400,000 due to Growth Capture<sup>1</sup>.
- ▶ Frank's adviser suggests he use the Increase Minimum Outcome feature.
- ▶ This will increase his Minimum Outcome to \$450,000 and, with \$100,000 of contributions remaining, ensures Frank's Minimum outcome will be is \$550,000 at the end of the term.
- ▶ Frank understands that the impact of agreeing to the plan is that the allocation to his Capital Protection Fund will be higher.
- ▶ Let's assume Frank then experiences a GFC-like market. Frank knows that he can fall back on his Minimum Outcome of \$550,000 if he keeps making contributions.
- ▶ Frank can work with his adviser to keep an eye on the market over the next few years to identify potential changes to the strategy and Wrap Capital protection.



## Client outcomes

- ▶ Frank has used a risk managed approach to retirement planning actively managing the Minimum Outcome through the period.
- ▶ If Frank's needs change, Frank can always reassess his strategy and investments



## Adviser outcomes

- ▶ The client conversations shift from overall investment performance and account balance to the Minimum Outcome. This provides the client with a much more tangible measure of their progress towards the financial target.
- ▶ Even after a GFC-like market, Frank's account balance fell but at all times Frank knew the Minimum Outcome, avoiding the difficult conversations in this period.
- ▶ The adviser value proposition became something they could control with Wrap Capital Protection rather than focusing on fund selection or asset allocation.

<sup>1</sup> Assumes net performance of 7% p.a.



## For more information

 **Speak** ▶ to your Wrap Business Development Manager

 **Visit** ▶ [wrapcapitalprotection.com.au](http://wrapcapitalprotection.com.au)

 **Call** ▶ 1300 360 899

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