

Minimum Benefit

Case Study

Prepare for the best.



Strategy overview

Use the flexibility of Wrap Capital Protection to assist a pension client meet their minimum income needs whilst providing access to growth to help them address inflation and longevity risk, giving advisers the ability to protect their client's holdings.



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

- ▶ David is 65 and just retired with a superannuation balance of \$600,000.
- ▶ David will require an annual income of \$40,000 per annum in retirement to meet his living expenses by receiving pension payments from his superannuation.



Client problem

David has similar concerns to many investors commencing retirement in balancing their portfolio between competing goals as follows:

- ▶ Ensuring a safe, predictable flow of income to meet his living requirements;
- ▶ Maintaining some exposure to growth assets to assist David's capital to grow and subsequently last further into the future.
- ▶ Creating flexibility to adapt his strategy as unforeseen circumstances occur and market conditions change.



Adviser opportunity

David's adviser can provide him with a cash flow model that provides income certainty over 10 years, while still providing David with some growth allocation in order to defend his portfolio against shocks and longevity.



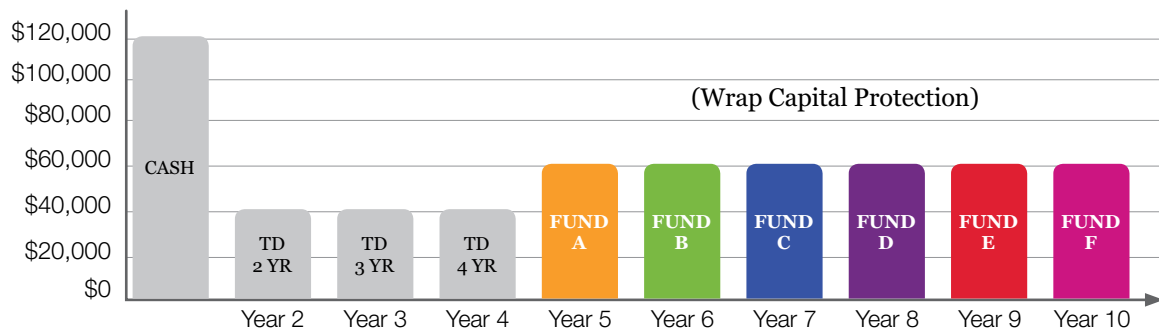
The solution

David builds a stream of minimum yearly payments using a combination of asset types to provide his pension payments. Central to the strategy is the concept of a known minimum amount of income being available each year:

- ▶ David's adviser suggests at least 2–3 years of income (\$120,000) be kept in cash to provide a market volatility buffer. It also provides a liquidity buffer for David in the event he needs to access a larger pool of cash than had been previously anticipated.
- ▶ For David's medium term needs his adviser suggests using term deposits of \$40,000 each maturing in year 2, 3 and 4, paying interest at maturity. These provide the relative certainty of the \$40,000 income required being available, plus the known value of interest to be received is likely to cover inflation during the period.
- ▶ For the remainder of the portfolio, David's adviser suggests an innovative strategy using Wrap Capital Protection. Using all remaining funds of \$360,000 (\$600,000 less \$240,000 cash & term deposits) split into six yearly tranches:

ASSET	FUND A	FUND B	FUND C	FUND D	FUND E	FUND F
Protection portfolio	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
Protection term	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year

Maturity Date by Asset



This chart provides an indicative asset allocation on the day the adviser implements the portfolio as described in this case study. The timeframes refer to the expected duration of the asset and are not projections of a future position or expected returns.

The strategy is designed to provide a maturity profile giving David certainty that in each year he will have sufficient assets maturing to meet his pension payment needs for that year:

- ▶ Term deposits maturing in years 2–4 to refill the cash buffer each year with \$40,000 plus interest earned.
- ▶ Funds protected at a minimum of \$60,000 (in today's terms) from years 5–10. It is highly likely that the amount maturing in these years is more than the Minimum Outcome as a result of the Growth Capture feature.

Growth Capture. Each quarter, Wrap Capital Protection may automatically increase the Minimum Outcome if the investor's protected investment has grown. So as the fund experiences positive performance through unit price growth or distribution re-investment it may automatically increase the level of the Minimum Outcome at the next lock-in date.



The results

- ▶ In year 2–4 David is able to transfer maturing term deposit of \$40,000 (plus interest earned to counter inflationary impact) to his cash account for the next years living expenses.
- ▶ If in the future David wants to increase the portion of his holdings in cash products, his adviser can either withdraw funds from one of his Protection Portfolios or sell it down completely and place the proceeds in a term deposit.
- ▶ Once the Protection Portfolios begin maturing these proceeds can be used by David to “top up” the cash account if the cash buffer has been accessed during the previous period.
- ▶ Any remaining funds within the Protection Portfolio not required to be transferred to the cash buffer have their maturity date re-set to provide a future pension payment. As each succeeding year matures and the surplus funds are reinvested in Wrap Capital Protection, David extends the time his capital is exposed to growth assets under Wrap Capital Protection and increase the likelihood of extending his future pension payments.

The strategy of rolling protection into the future gives David the potential to significantly extend the time period in which he will receive a pension from his investments via greater exposure to growth assets. Assuming there is no growth in any of the funds throughout the entire period, David will still receive a pension based on the value of his portfolio today. Under very low growth assumptions David’s pension is likely to last significantly longer as a result of:

- ▶ Investing in growth assets over long time periods increasing the chance of positive performance and the potential of Growth Capture taking place increasing the Minimum Outcome.
- ▶ The cascade effect of each maturing Protection Portfolio which may have grown pushing more investment into new longer dated Protection Portfolios.

The certainty of David’s future pension payments is important, particularly when compared to the asset allocation he held on day 1:

- ▶ In traditional investment thinking David’s asset allocation reflects that of a Growth Fund with 70% allocated to growth assets (Wrap Capital Protection) and 30% to defensives (cash & term deposits).
- ▶ An aggressive allocation to growth assets can be contemplated with the certainty of Wrap Capital Protection’s Minimum Outcome managing David’s minimum pension needs through the period.
- ▶ Such an aggressive growth allocation is likely to provide David with significant opportunities for extending the period over which his pension can be received if investment markets perform well.



Client outcomes

- ▶ David has enjoyed a risk managed approach for his pension that contemplates a clear worst case scenario and the flexibility to adapt and improve it as conditions permit.
- ▶ David’s portfolio enjoys a sizeable allocation to growth assets, providing an important hedge against inflation and longevity.
- ▶ David is able to continue to receive his required pension income under this strategy.



Adviser outcomes

- ▶ The client conversations can focus on the minimum outcome rather than yield or performance. This provides the client with much greater comfort that their minimum pension requirements can be consistently met.
- ▶ David’s adviser can play an active role in the ongoing management of David’s pension needs rather than buying a “set and forget” product that requires little ongoing input or advice.
- ▶ The adviser value proposition became something they could control with Wrap Capital Protection and influence positively (the Minimum Outcome) and run strategically in conjunction with an asset allocation that considered David’s needs.



For more information

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

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 **Call** ▶ 1300 360 899

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