

Human Resources

Who'll take care of the baby (boomer)?

With many baby boomers preparing to retire over the coming years, financial security is a key issue for this sector of the workforce. Melinda Finch considers the scale of the challenge, looks at the role HR professionals will play in this area and considers some of the options available to baby boomers

SINCE 1995, Australia's estimated resident population aged 45 years and over has increased by 30 per cent. In contrast, the number of children aged 0 to 14 years has increased just 2.3 per cent, and the number of people aged between 15 to 44 years has increased 4.8 per cent. This uneven distribution of growth reflects the gradual ageing of Australia's population, which inevitably impacts on labour market supply, retirement and income support policies."

So began the gripping report on the ageing of Australia released in February by the Australian Bureau of Statistics. *Retirement and Retirement Intentions, Australia, August 2004 to June 2005* presents information about the workforce participation plans of people aged 45 years and over who have, at some time, worked for two weeks or more.

The ABS examined retirement trends, factors that influence decisions to retire, and the income arrangements retirees and potential retirees have made to provide for their retirement. Among the findings came the alarming statistic that of people aged 45 years and over who had retired from the labour force, nearly half (42 per cent) indicated that their main source of income had changed (and even dried up) since retirement.

"There were almost 2 million people (67 per cent of all those who were retired) who reported that their main source of current income was a government pension or allowance, representing an increase of 50 per cent compared with the number of people who stated it as their main source of income at retirement. This may be due to people reaching the eligible age to receive a pension or allowance during their retirement rather than at the start of their retirement, or due to assets or other sources of income being exhausted," the report said.

The old running out of money problem ...

With the odds stacked firmly against many would-be retirees hoping to maintain their current standard of living after leaving the workforce, it's time HR departments started helping organisations to help their staff to help themselves (and their bank balances). Unfortunately financial savvy and old-fashioned thrift are not traits that come easily to many of us in a world where the line between want and need is constantly blurred by a barrage of advertising imagery and social conditioning, credit card offers and seasonal sales.

Fortunately 2006 is set to be a landmark year for financial literacy in Australia with the Government launching a national information campaign aimed at raising awareness of the immediate and long-term benefits of improved financial literacy, and encouraging consumers to engage with financial literacy information and resources.

This will also trickle down to workplace level, and a pilot program is underway with the Master Builders Association (MBA) that will see 200 apprentices and cadets receive training in money management in the ACT. The pilot is the first collaboration by The Financial Literacy Foundation, which was set up in June 2005, with an industry association to integrate financial literacy into vocational education.

The Financial Literacy Foundation (www.understandingmoney.gov.au) will deliver a national strategy to provide a framework within which financial literacy initiatives can function more effectively and more consistently to raise community financial literacy levels. For older workers, those born between 1946 and 1964, there's going to be a lot to catch up on. Just as

well the Government is so determined to deliver on its commitment to give Australians the opportunity to better manage their money.

How HR can help

“HR departments are key in assisting employees make the most of their remuneration,” says John Minto, manager of workplace solutions, National Australia Financial Planning (NAFP). “Quality financial planning advice enables employees to maximise their take home pay, increase their savings potential and provide a higher degree of comfort in financial decision making.

“The most progressive HR departments are nominating an employee/employer advice advocate to assist in planning the information requirements of employees, coordination and delivery of services to the workplace. Some companies have even obtained an Australian Financial Services Licence and have full-time resources dedicated to advice provision. Some HR departments are still just making financial planning services available on request whilst others (usually blue collar industries that actually are in most need of advice) are yet to facilitate financial planning advice as a benefit of employment,” he says.

For those preparing to join the 3 million retirees aged 45 years and over in Australia it's more important than ever to know your options. New legislation, for example, means that once workers turn 55 they can draw an income from their super fund while they are still working. According to NAFP, this can be done by using an allocated pension, a retirement product that allows you to place your superannuation payout and draw on it gradually with government prescribed limits. There are many other options to consider and baby boomers trying to make sense of it all are right to expect more help from their employers. “The complexity of superannuation law and recent legislative changes has created an environment of uncertainty and confusion for even the most sophisticated employees. This has placed many employees in potential advice providing situations. The risk of not assisting employers prepare adequately for retirement is now real,” Minto warns.

Preparing for retirement

So what special provisions are companies making for this worker demographic? More flexible remuneration and working conditions that encourage phased or staggered retirement (where employees work fewer days but stay with a company longer) are just the start. In addition, “salary sacrifice arrangements are no longer limited to higher employee levels and workers are being encouraged to stay in the workforce longer by accessing non-commutable income streams, other government incentives and tax advantages that will boost retirement savings,” he says.

The level of retirement savings amongst all Australians continues to be a great concern for the Government and, to this effect, an inquiry aimed at improving the superannuation savings of people under age 40 was launched in June 2005. That committee is expected to report its findings to Parliament by late this year, but one outcome is certain: workers from Generation X and Y won't have a Government pension to fall back on by the time their retirement rolls around.

With more and more entrants to the pension pool over the next decade or so it is only going to get smaller and smaller. Exiting the workforce is also fraught with gender issues as the life expectancy for women is still higher than for men (a girl born between 2000 and 2002 could expect to live to 82.6 years while a boy could be 77.4 years). So there are a lot of women who by divorce, widowhood, longevity or money mismanagement will face a declining standard of living in their old age. There are already slightly more women (1.7 million) than men (1.3 million) currently retired in Australia.

The benefits of offering financial planning services

Research released by **Adage.com.au**, the recruitment arm of mature age consultancy SageCo, in September 2005 found that, of 990 mature age professionals and senior decision

makers in organisations surveyed, access to retirement advice and planning programs including finance and health was listed as one of the top factors underlying employer attractiveness. It came close behind flexible work arrangements, access to training and development, opportunities to transfer knowledge and share it with the organisation, and to mentor younger workers.

Forward thinking HR departments and professionals would do well to educate themselves about financial literacy developments and stay informed about the rapidly growing financial services market. What has changed, especially in the area of superannuation legislation, and what's on offer could potentially have a big impact on their baby boomer staff and those that follow them for years to come.

Financial planning tips for baby boomers

Employers who are able to assist employees with life transition events such as retirement will not only impact their bottom line via increased retention and workplace productivity levels but also have happier employees. Paul Gordon, national strategy manager of corporate client relations for wealth management advisory firm ipac, offers some tips for everyone concerned.

Step 1. Identify your behaviour to money.

Step 2. Set some shorter-term goals so you are motivated to improve your behaviour to money.

Step 3. Get organised and start planning.

Step 4. Attack your debt first.

Step 5. Address your investments in terms of tax effectiveness, timing and relevance to your goals. Let your money work for you while you sleep.

Step 6. Go back and assess your behaviour to money - has it changed? If so, keep going, if not, go back to step 1.

Step 7. Most importantly protect what you own, including your biggest assets such as your ability to earn income.

Step 8. Protect those you love. Not just for today but all the tomorrows.

Step 9. Start talking to people who are in control of their money and personal wealth plan.

Step 10. Make sure you do not take your eye off this plan. It is a journey, so enjoy your success along the way.

Step 11. Share these steps with your kids NOW.

Step 12. Enjoy your success.

18 April 2006