Vanguard®

# Retirement Income Builder User Guide

As at March 2024

# Introducing the Retirement Income Builder

The Retirement Income Builder is a storytelling tool for advisers to use with their clients.

It has been designed and built by Vanguard, in collaboration with advisers, to help you answer critical client questions such as:

1. When can I retire?
2. How much can I afford to spend in retirement?
3. How long will my money last?

Vanguard's Retirement Income Builder makes it easy to project the likelihood that your client will achieve these goals by:

- **Planning** their retirement income taking a total returns approach
- **Forecasting** their total wealth using the Vanguard Capital Markets Model®
- **Identifying** the sources of drawdown including accessibility to the age pension
- **Generating** 'what if' scenarios to inform adviser & client decision-making

A 'total-return' approach allows investors to separate the spending strategy from their investment strategy. In addition to the benefit of smoothing spending throughout retirement, it allows investors to better diversify risk across countries, sectors and securities, rather than skewing their portfolio to a segment of the market with higher income yields, or taking excessive risk by reaching for the desired yield.

Unlike similar tools in the market, the Retirement Income Builder:

- Recognises the importance of the adviser-client relationship by using a visual interface that allows you to use the tool dynamically, in front of your clients.
- Forecasts how your client's wealth may change as they spend through retirement at different confidence levels using stochastic modelling. Stochastic modelling, rather than deterministic modelling, provides a more realistic assessment of how the future may unfold by looking at a wide variety of potential market scenarios that account for fluctuating market returns.

Read this document to understand the assumptions that sit behind the tool design.

**When to use the tool**
Use the Retirement Income Builder as part of your initial client conversations and then again at review meetings to understand how they're tracking.

Start using the Retirement Income Builder now.

The Vanguard Capital Markets Model® is a proprietary financial simulator that takes into account current macroeconomic conditions and equity and bond valuations to forecast future returns for a wide range of asset classes and portfolios.

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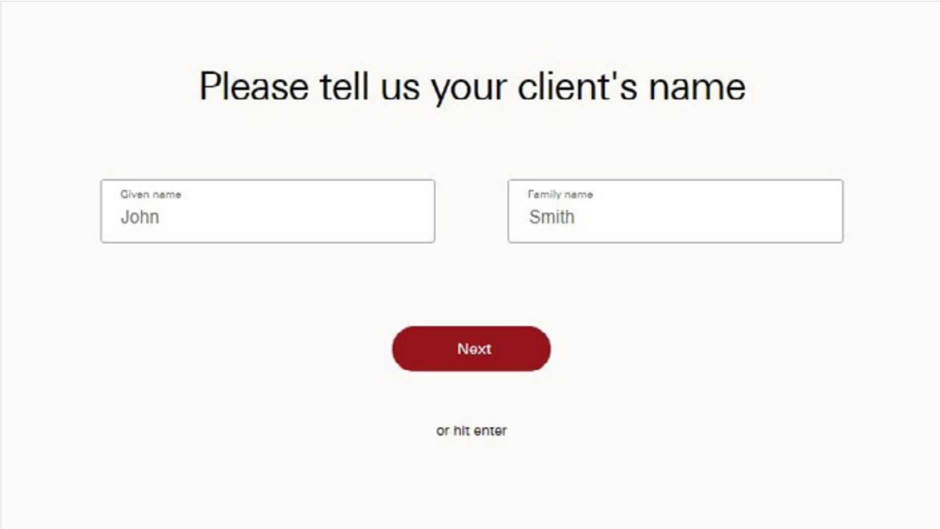
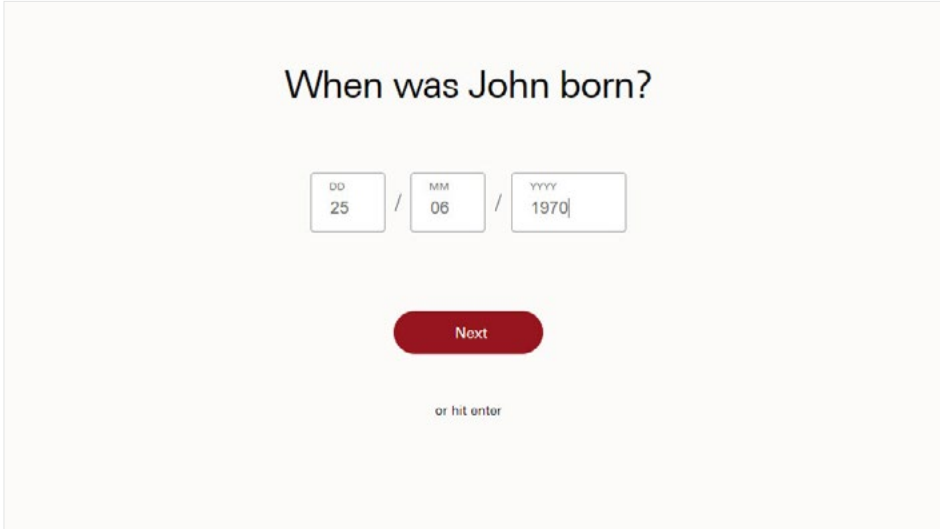
# How to add your client's information

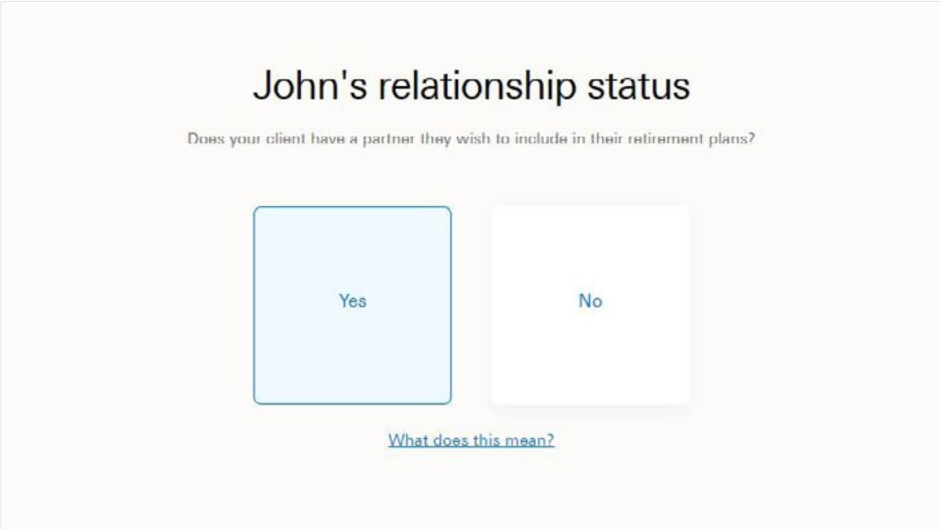


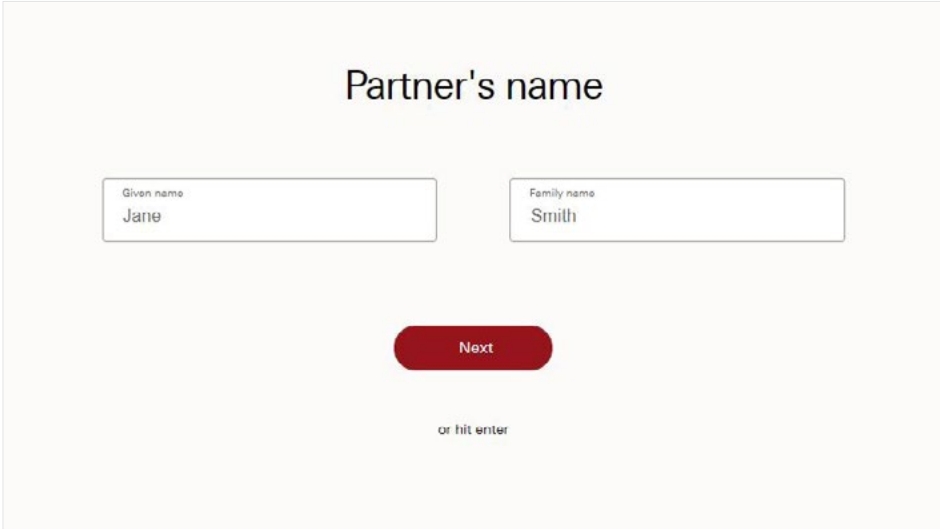

**Adding your client's personal information**
Start by entering your client's name. If they have a partner, this will be added after the next step.

Enter your client's date of birth here.

# How to add your client’s information

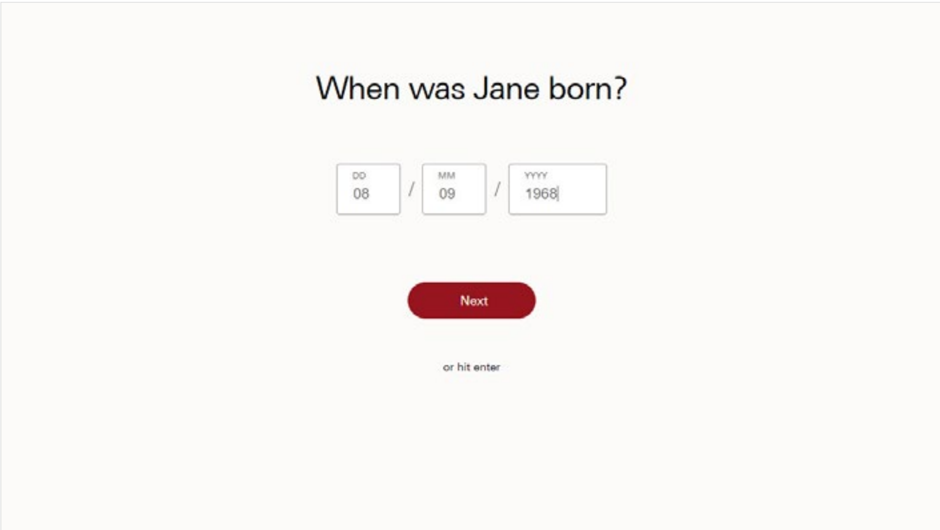



If they have a partner, select **Yes**. Your client is considered to be a member of a couple if they are married, in a registered relationship or in a de facto relationship. This could affect age pension eligibility and payments.




If you clicked **Yes** this screen will appear. Enter their partner’s name.

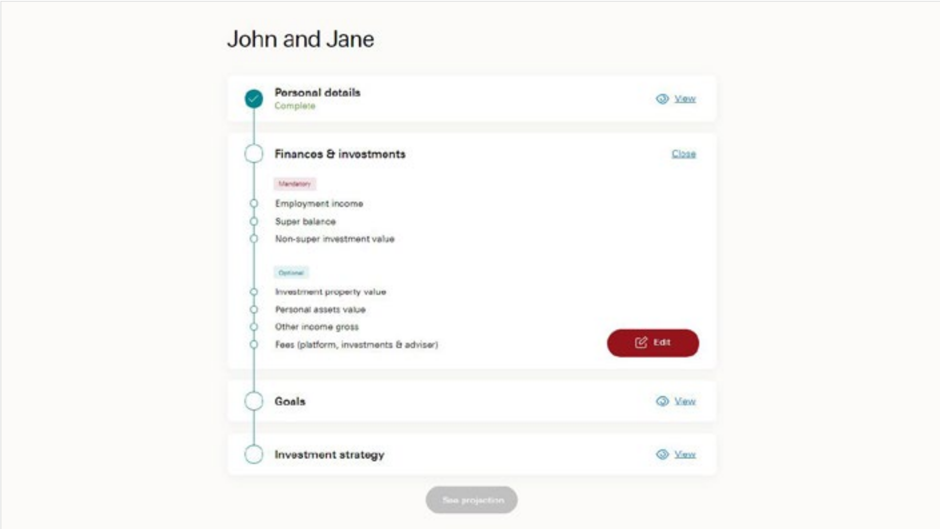
# How to add your client's information

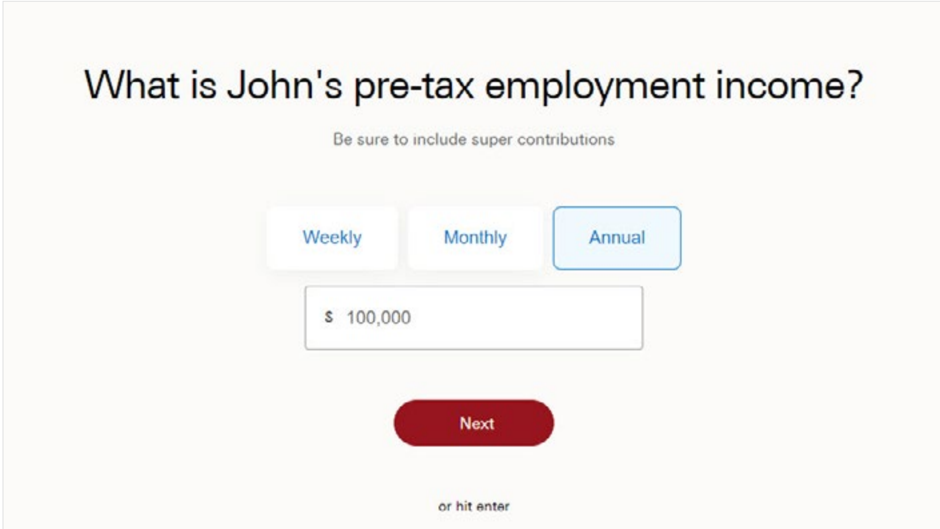



Next, you need to enter their partner's date of birth.


Select **Yes** if your client owns their own home, even if it is mortgaged. Your client's principal home is defined as the home they live in and the first two hectares of land it's on. It must be on a single title. There may be some exceptions for rural customers and primary producers.

# How to add your client's information



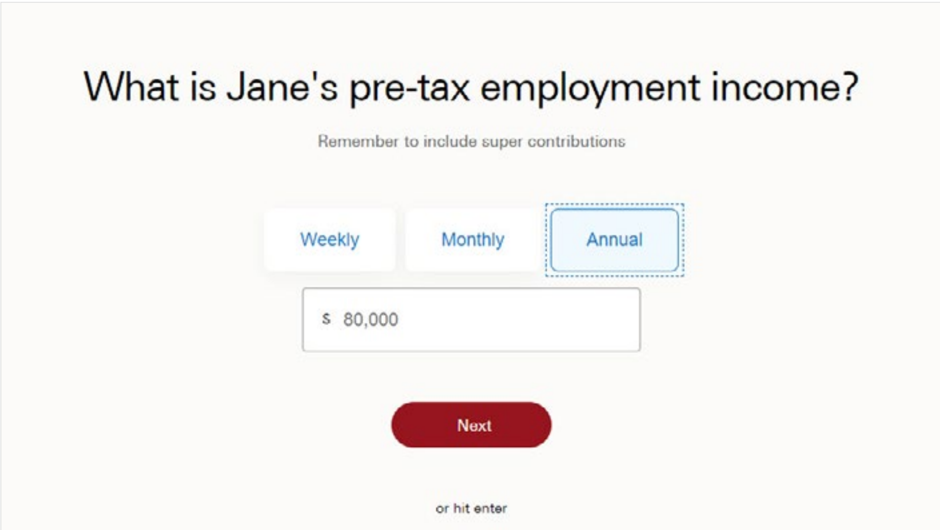

**Entering their financial details and investments**
Once you've added your client's personal details, you'll enter the dashboard screen. This is where you'll be able to add details about your client's finances & investments, goals, and investment strategy.

Select the red **Edit** button to start entering your client's **Finances and investments** information.

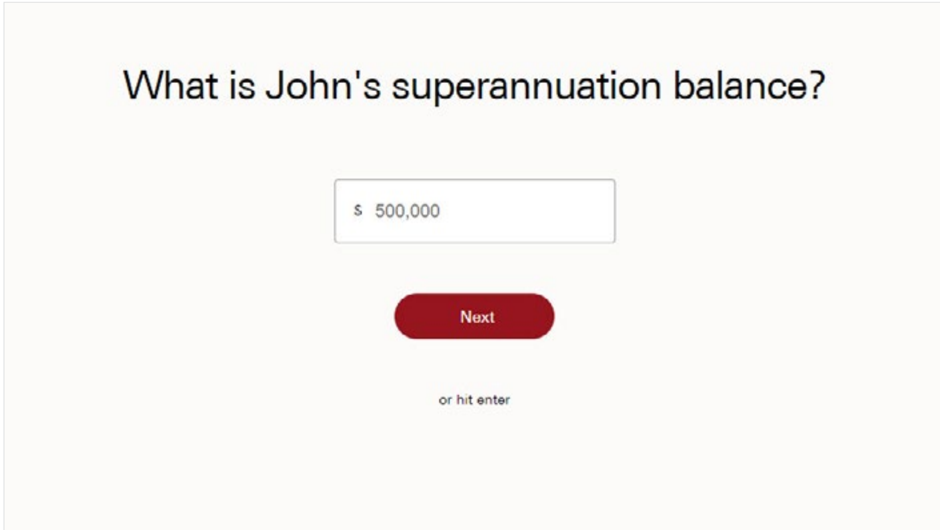
Pre-tax employment income can be entered as either weekly, monthly or annual amounts. Input the amount inclusive of Super Guarantee (SG*) contributions.

* **Note:** SG rates will change based on legislation.

# How to add your client's information

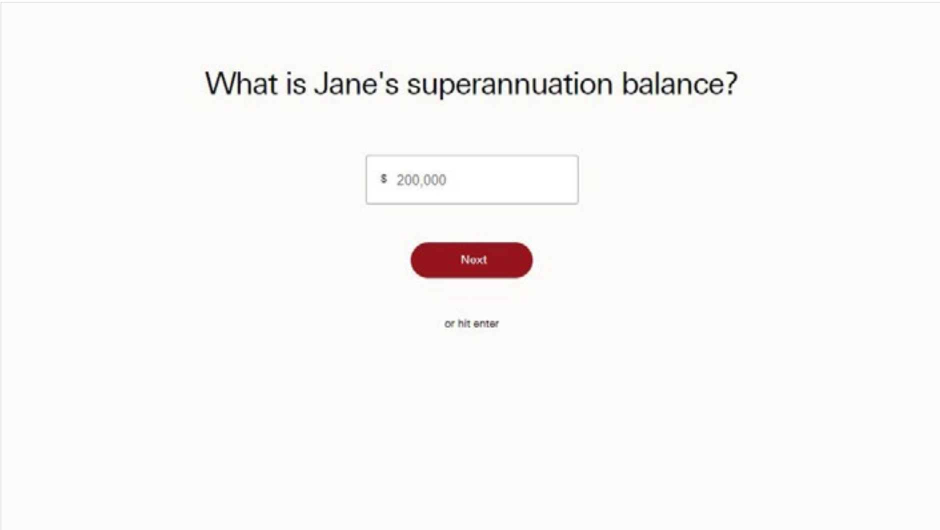



Pre-tax employment income can be entered as either weekly, monthly or annual amounts. Input the amount inclusive of Super Guarantee (SG) contributions.

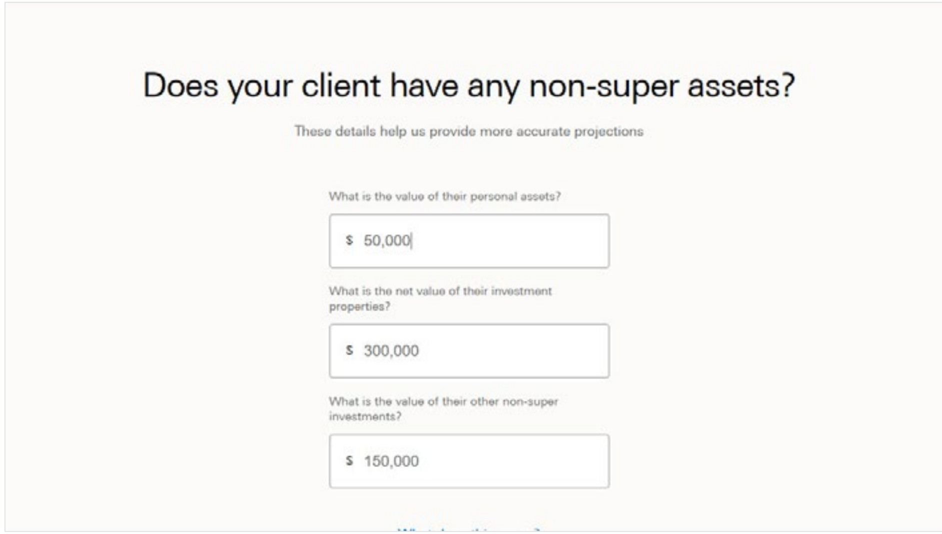



Enter your client's superannuation balance as at today's date.

# How to add your client's information




Enter their partner's superannuation balance as at today's date.



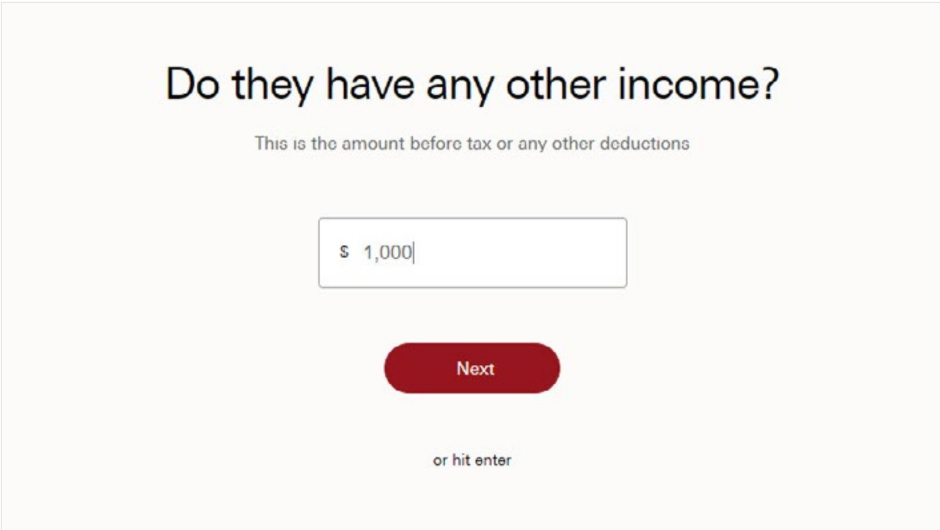

Nominate the total value of any personal assets your clients own inside and outside Australia such as cars, boats and caravans.

Investment properties need to be included as a total market value at today's date, less any associated loans.

In this example, John and Jane have investment properties worth $1,000,000 with a loan of $700,000. Hence, the total value of their investment properties is $300,000.

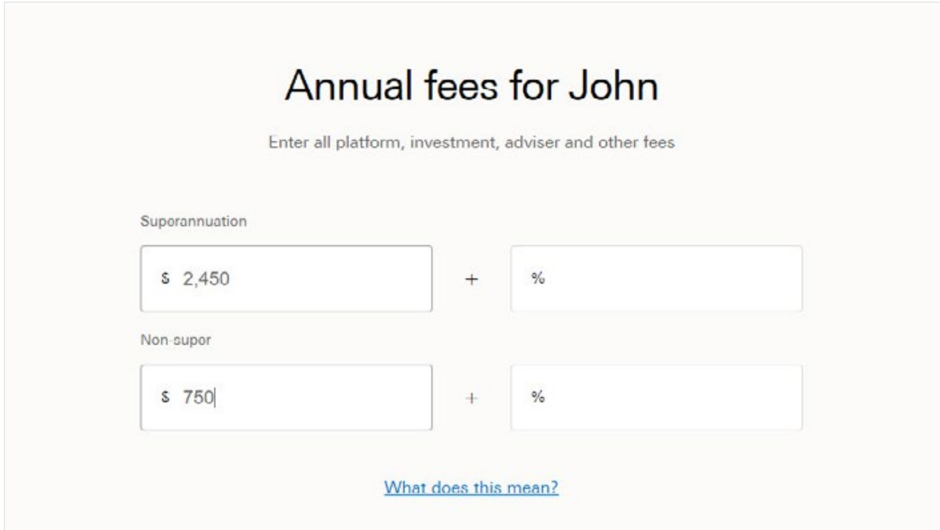
Enter your client's non-super investments. This includes account-based investments such as bank accounts and term deposits, and marked-linked investments such as managed funds, shares and bonds.

# How to add your client's information



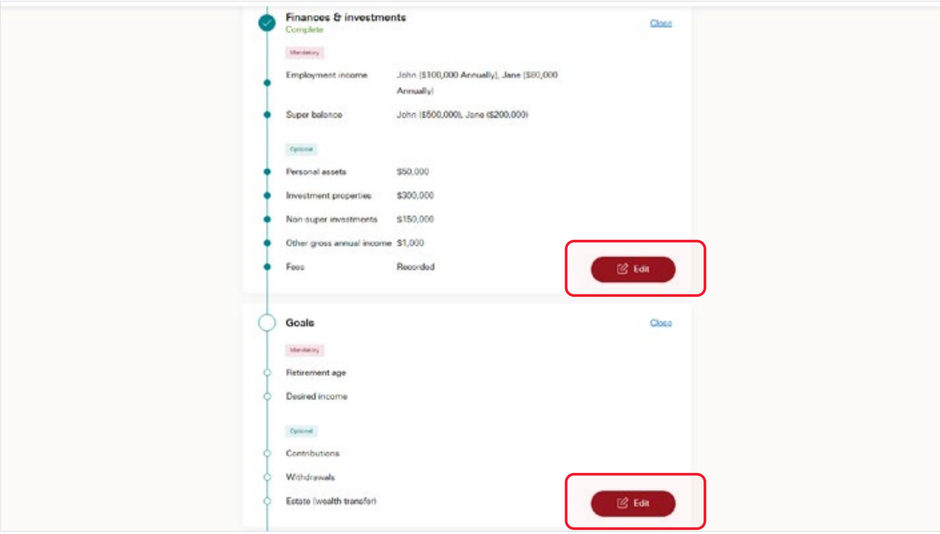

Other income includes rental income from investment properties, distributions from a trust, etc. This amount should exclude interest expenses (for example expenses related to an investment property loan).

This income will be added to your client's taxable income.



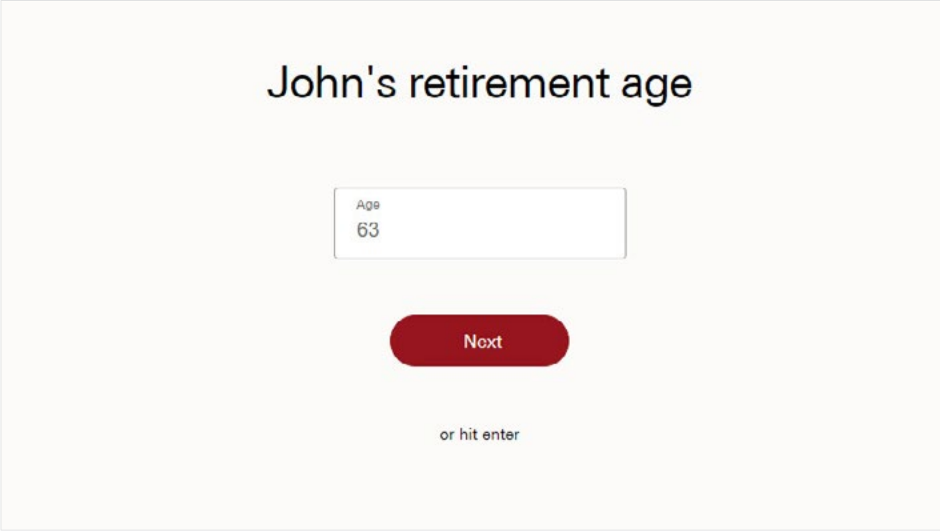

Annual fees include platform, brokerage, investment and advice expenses. These can be entered as a dollar figure and/or a percentage-based fee. These inputs can be entered separately for each client - here, we have split the fees proportionately for John and Jane.

# How to add your client's information



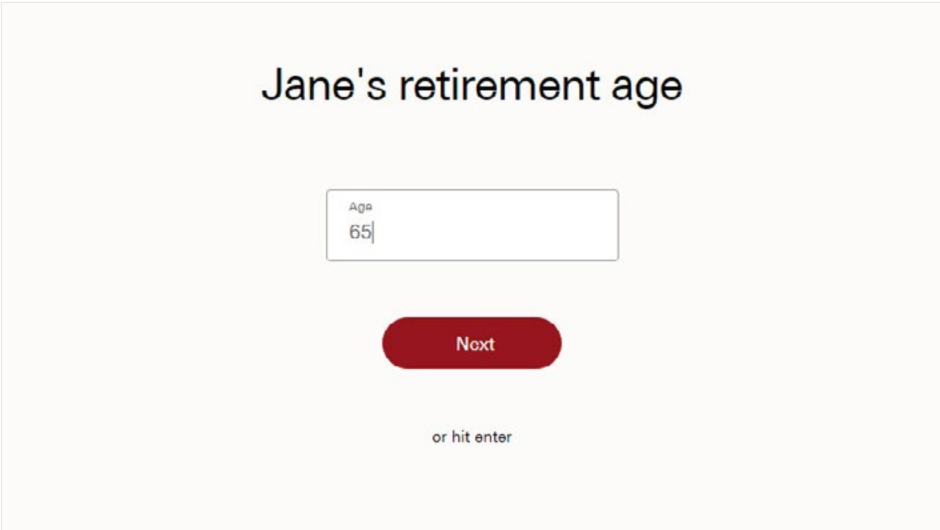

Once you've added your client's finances and investments, you'll automatically return to the dashboard screen.

You're now ready to enter your client's **Goals**. Click on the red **Edit** button to continue.

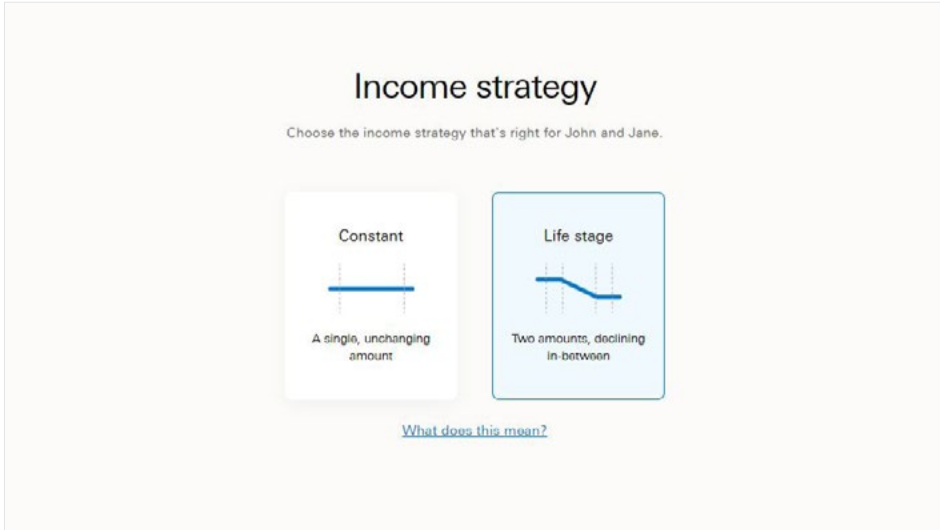



**Defining your client's goals**
Enter the age that your client intends to retire from all employment. At this time the Retirement Income Builder doesn't allow for a transition to retirement strategy.

# How to add your client's information




Enter the age that your client's partner (if applicable) intends to retire from all employment.

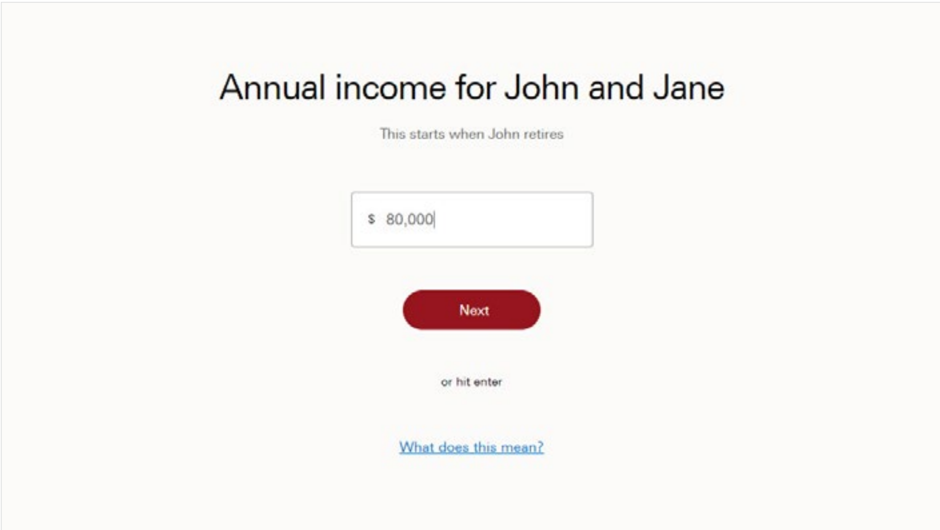


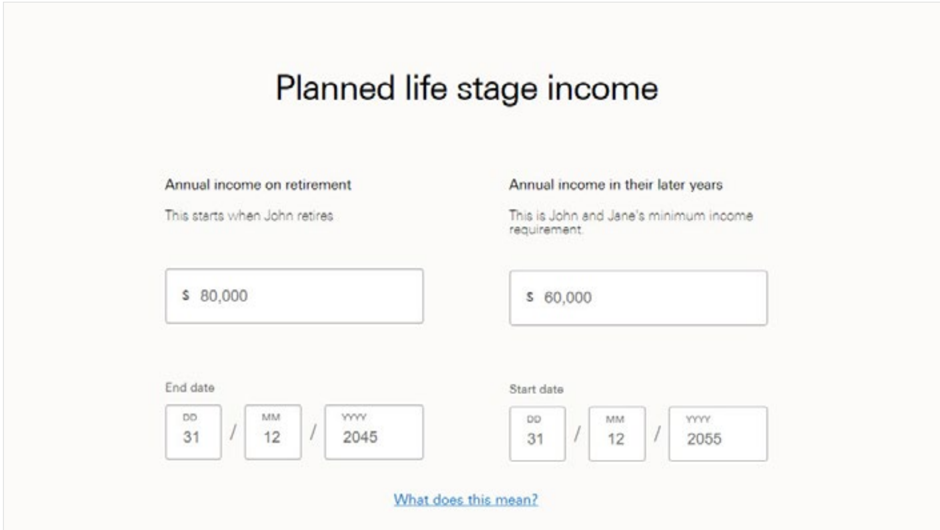

Now you need to select the most suitable income strategy for your client.

Click on **Constant** if your client prefers a single, unchanging amount during their retirement OR **Life stage** if they prefer two amounts, declining in-between.

Life stage may be more suitable if your client expects to spend more money at the beginning of retirement (for example travelling more when they first retire) and less in their later years.

# How to add your client's information




If you selected the **Constant** income strategy, you only need to input the couple's desired retirement income.This will be assumed to increase annually with inflation.

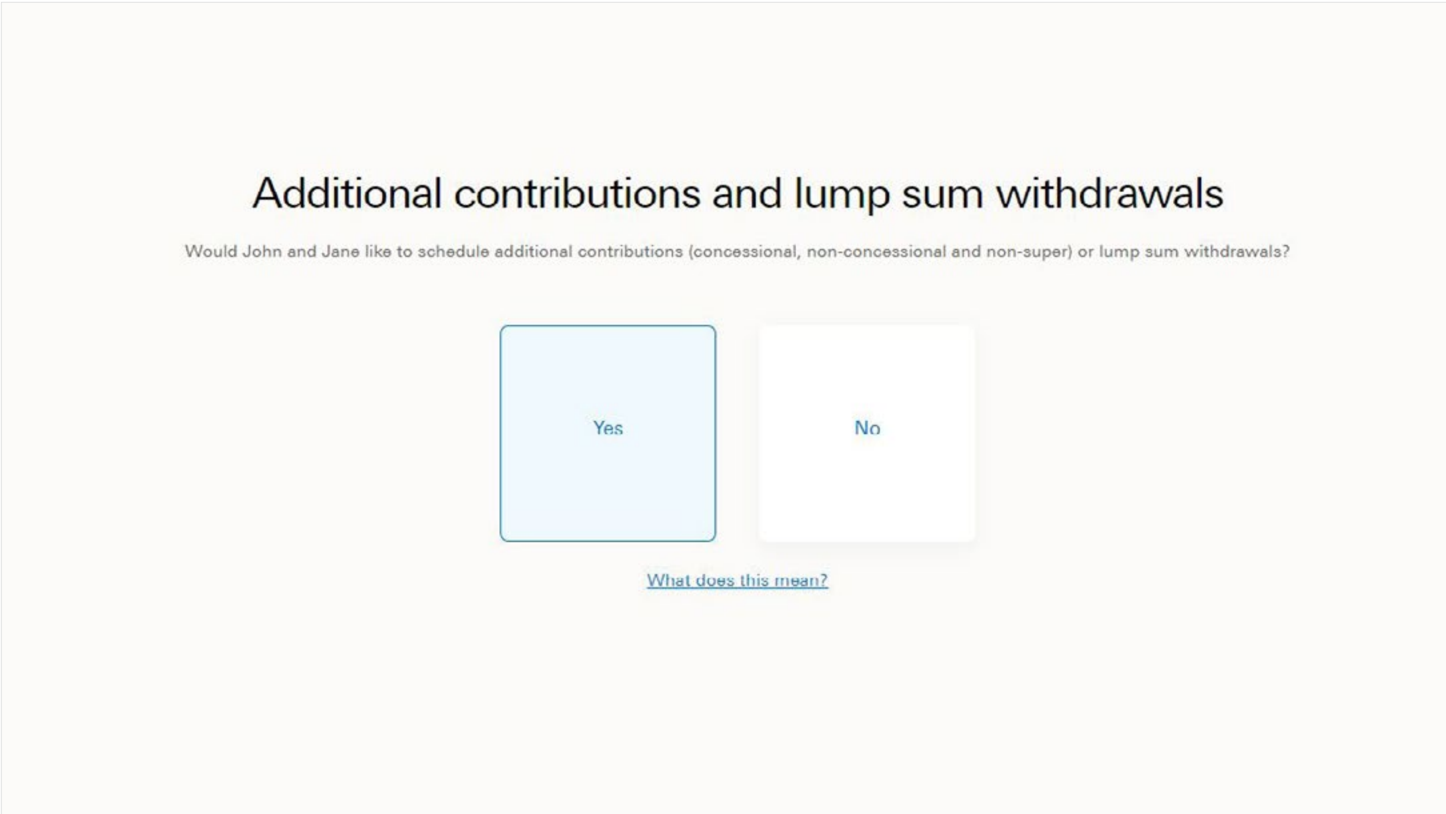
If you selected the **Life Stage** income strategy, you'll need to enter the total annual income when your client starts their retirement and an end date for this initial level of income. This amount is for both partners.

You'll then need to enter the reduced amount they require for their later years, and how long you would like it to take to reduce to that level. In this example we've reduced the couple's income from $80,000 to $60,000 from 2045 to 2055. The income will reduce over the decade until it reached $60,000.

If one partner retires before their spouse, the model will start by drawing income from the wages of the employed partner before drawing down from their asset base. When the second partner retires, the drawdown on their asset base will increase.

# How to add your client's information

Click **Yes** if your client plans on making additional contributions to their super fund (i.e. more than SG) or investments outside of super. This is also the location to indicate planned lump sum withdrawals (or goals) from your client's super.



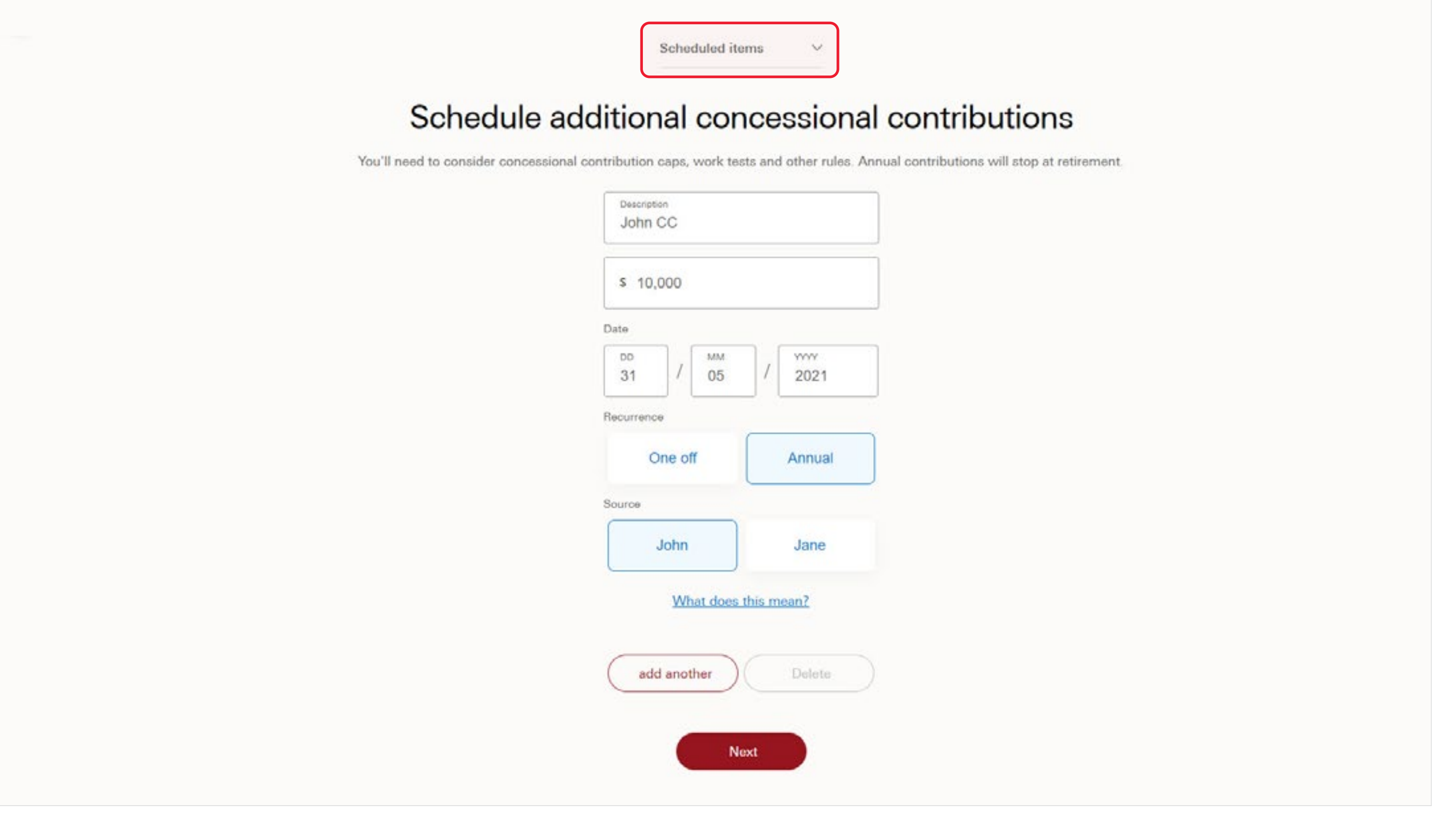
# How to add your client's information

Add any additional concessional contributions that fall within contribution and carry forward limits.

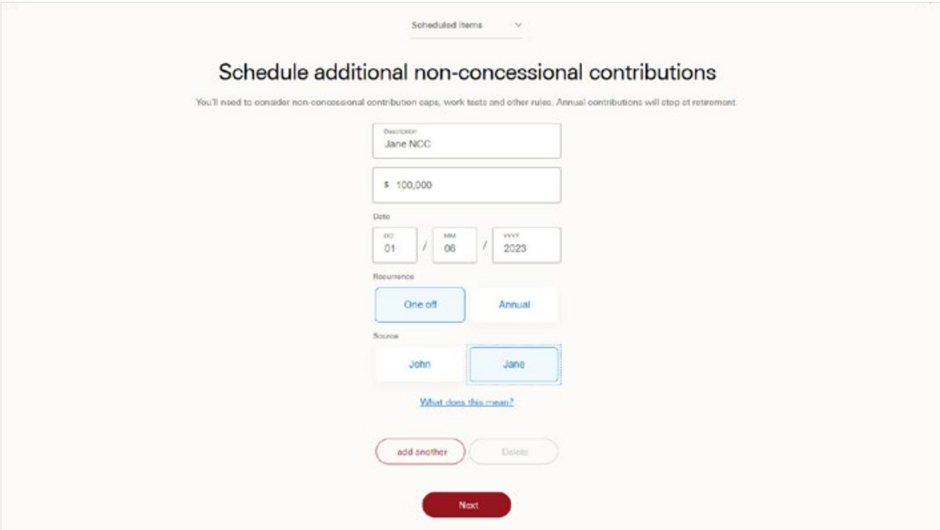
You can select whether the contribution is **One off** or **Annual** and nominate which partner (if applicable) is the source of the contribution. Once you have entered these details, you can use the drop down menu (at the top of the screen) to switch between the different concessional contributions you have entered.

Annual contributions occur each year until your client's selected retirement age.

In this example we clicked Add another and entered the same concessional contribution for Jane.  Alternatively, you can click Next to proceed.



# How to add your client's information

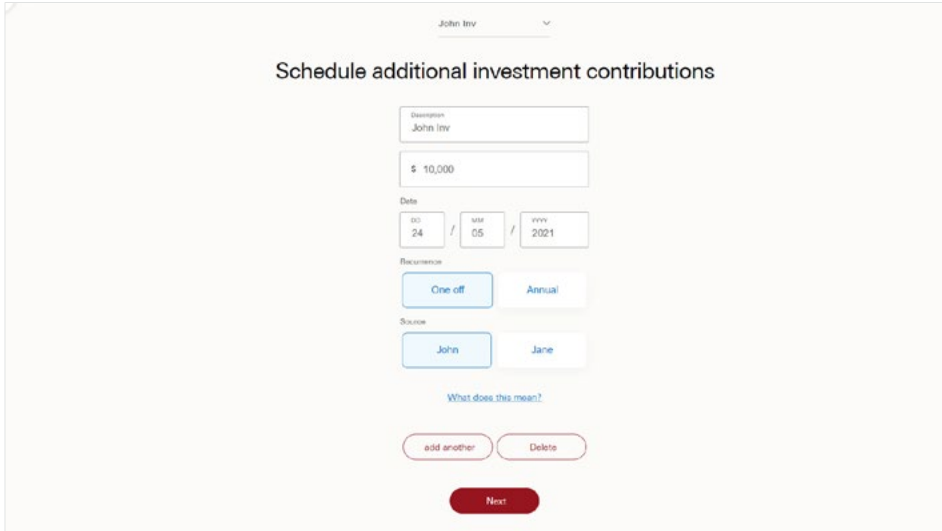



Enter any non-concessional contributions here.

In this example we've entered a non-concessional contribution for **Jane** in 2023.

Click **Add another** if you'd like to schedule more non-concessional contributions in the future.

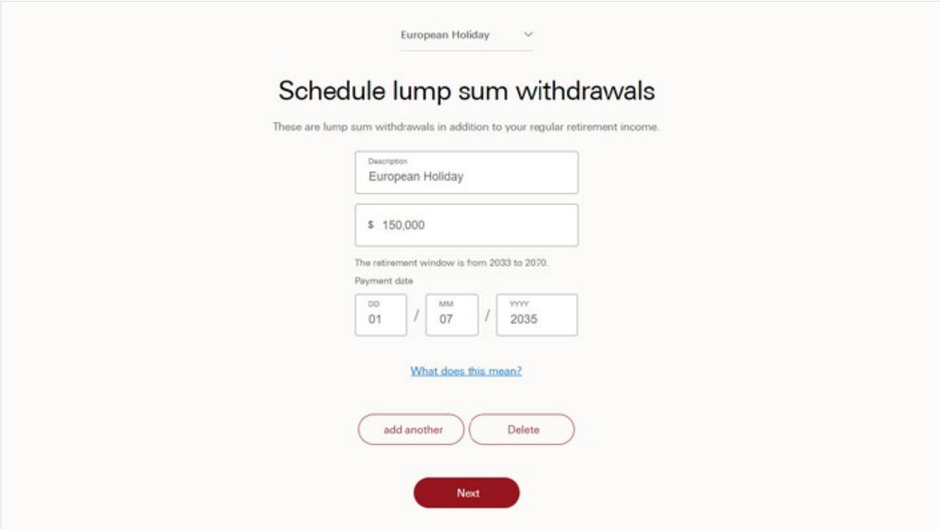
Clicking **Next** allows you to enter additional investment contributions.




Non-super contributions can include after-tax deposits that are annual or one-off into non-super vehicles. This could include direct shares, managed funds or ETFs.

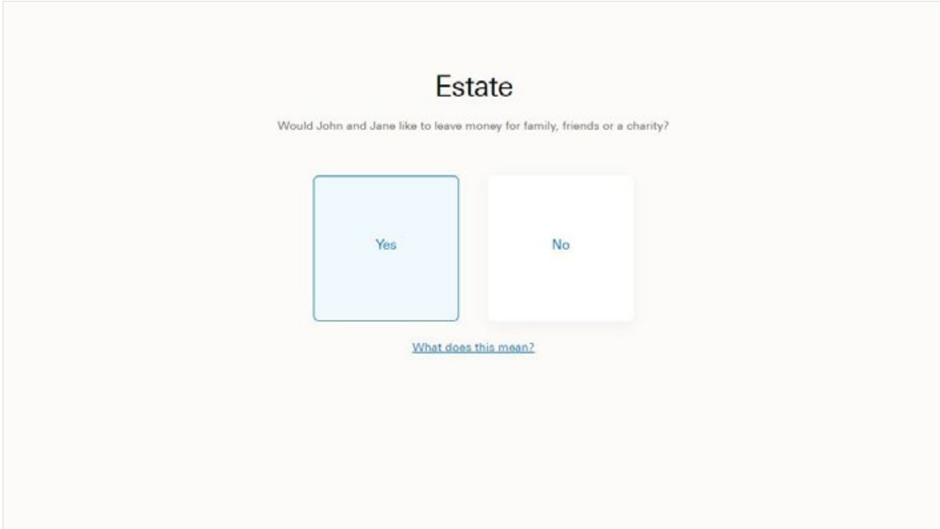
For example, John receives an after-tax gift of $10,000 and invests this in ETFs.

# How to add your client's information



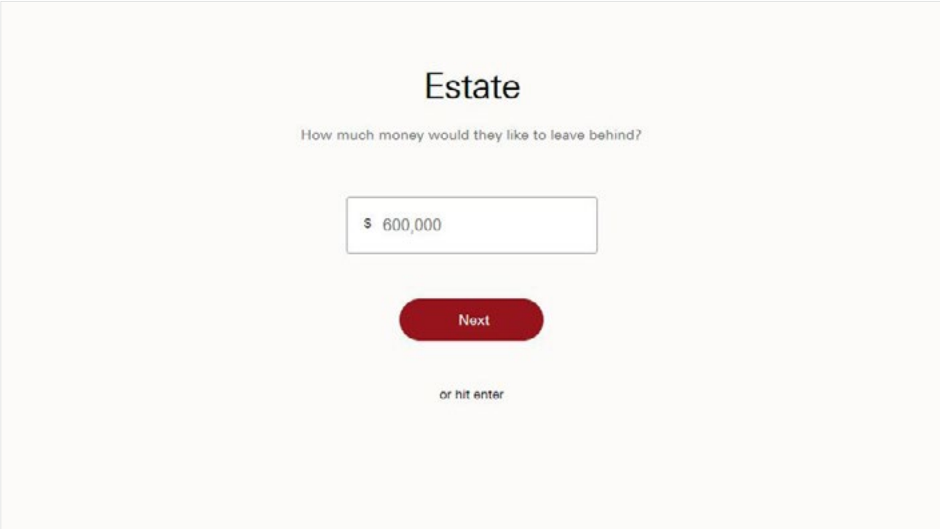

Here you can nominate any lump sum withdrawals from your client's super such as holidays or renovations. This is for items that are funded outside your client's annual retirement income.

These withdrawals will be displayed as **Goals** in the projections.

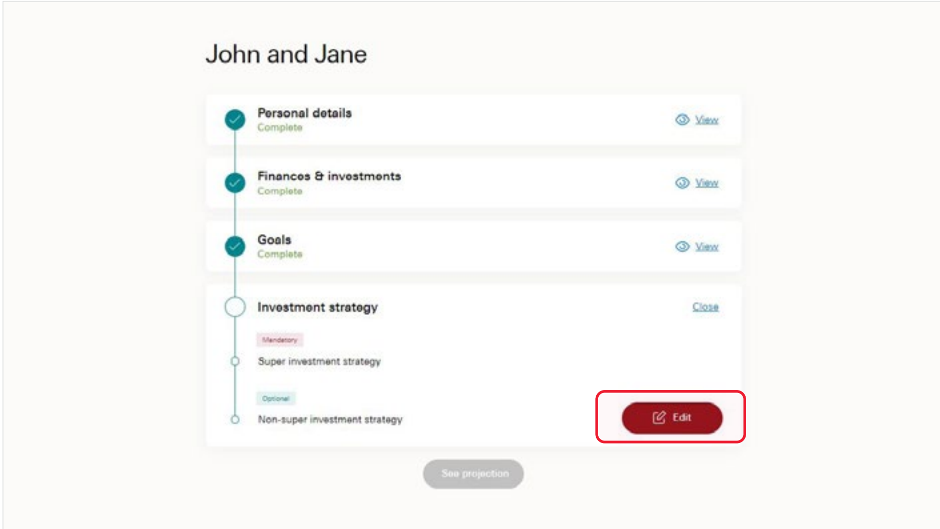



Click **Yes** if your client plans to pass on wealth to a beneficiary.

# How to add your client's information




If they would like to leave an estate, enter the amount here. This should exclude your client's primary residence.

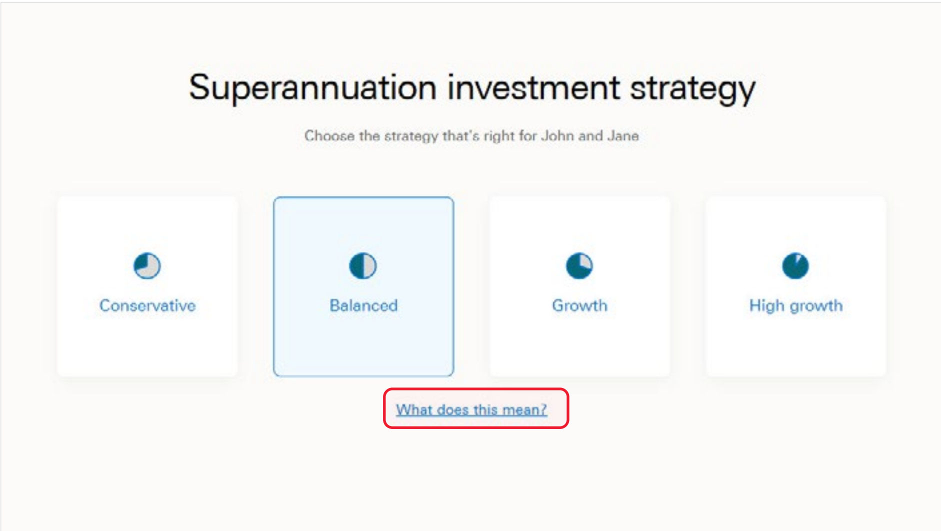


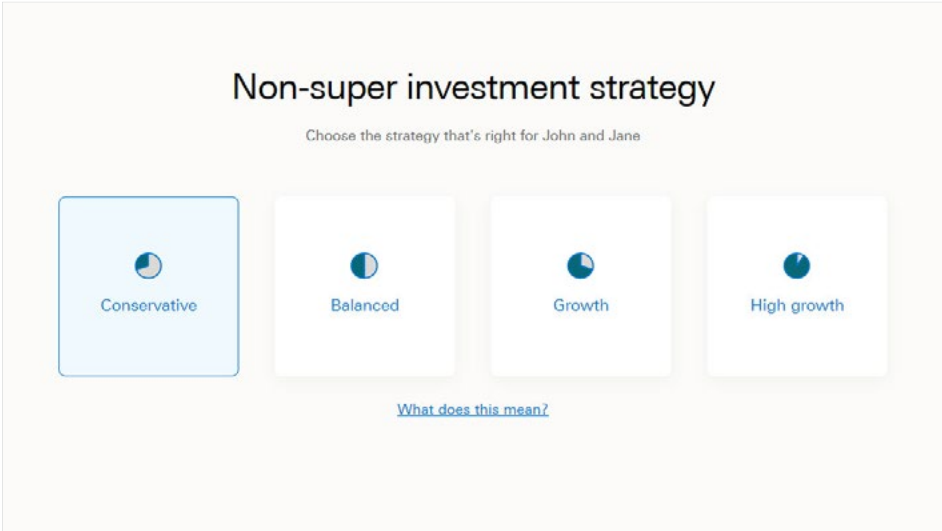

Once you've finished adding your clients goals, you'll automatically be returned to the dashboard screen.

You're now ready to add their **Investment strategy**.

Click on the red **Edit** button to continue.

# How to add your client's information




**Selecting their investment strategy**
Click on the option that aligns with your client's superannuation investment strategy.

To read about the asset allocation for each strategy you can click on **What does this mean**. Otherwise, move on to the final question.

This section is only applicable if your client has assets outside their super. Select the option that aligns with your client's non-super investments.

# How to add your client's information

**About the four investment strategies**
Your client's projections will be based on the selected investment strategy using our forecasting engine, the Vanguard Capital Markets Model® (VCMM).

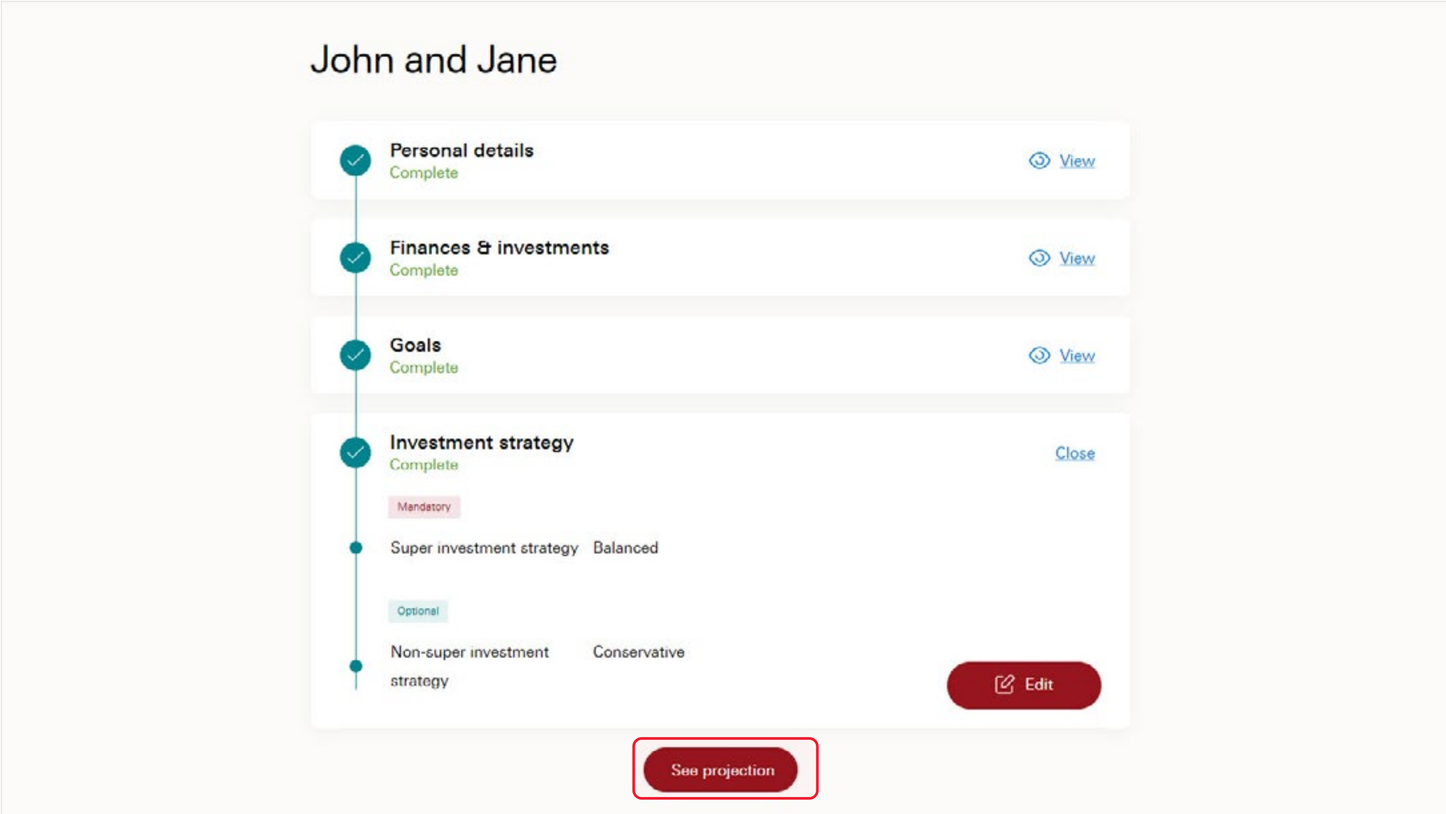
These forecasts predict the probability that your client will achieve their planned retirement income and level of wealth needed to reach their goals, using stochastic modelling.

The four strategies detailed represent Vanguard's diversified portfolios. These are available as managed funds, ETFs or managed accounts.

# How to add your client's information

Now that you've entered all your client's information you're ready to view the projections. Click on **See projections**.

You can edit your client's information at anytime (before or after viewing the projections) by clicking on the **Edit** button.



# How to interpret and adjust your client's projections

- An introduction
- Wealth drawdown
- Income outlook
- Income sources

# How to interpret and adjust your client's projections

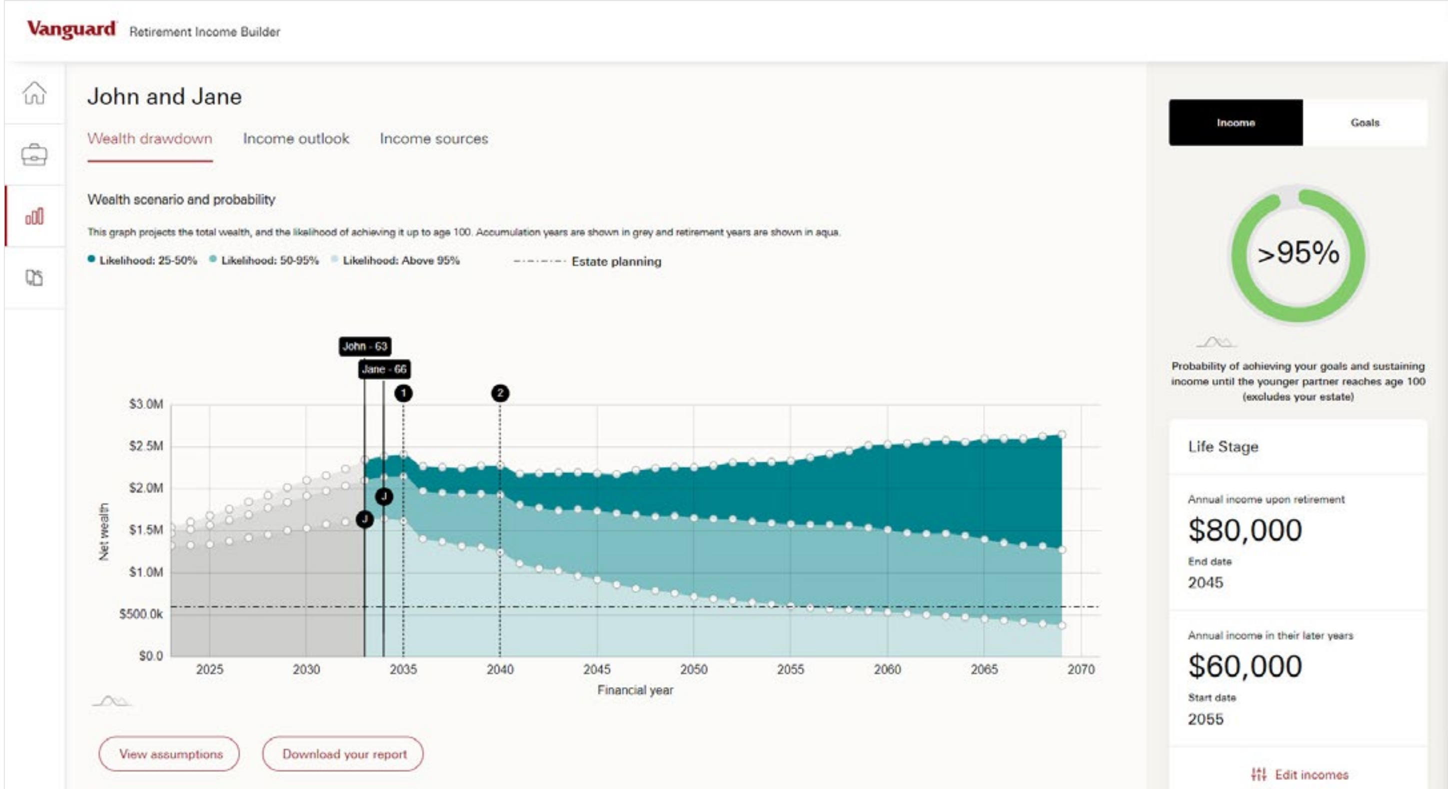
**An introduction**
There are three options to select from when you are ready to view your clients' forecasts: **Wealth drawdown**, **Income outlook** and **Income sources**. We'll dive into these shortly.

Select the **Home icon** in the top left hand corner if you would like to create a new client portfolio (note you will erase this client's information).

You can click on the **Briefcase icon** to amend any of your client's details. You can also edit the income levels and goals from the right hand panel.

The >95% donut at the top right indicates the overall likelihood of clients achieving their goals and maintaining their income until the youngest partner is aged 100. Note: this excludes the Estate.

The three bands of aqua indicate the probability ranges of your client's total wealth. To see the dollar value projection at any given year, hover your mouse over the white dot on the relevant band.Note that the calculation for your client's retirement will default to the beginning of the next financial year.



# How to interpret and adjust your client's projections

**Wealth drawdown**
The point displayed on the graph indicates a 50% likelihood that John and Jane will have $1.9m in projected wealth by the year 2040, taking into account their $150k European holiday in 2035. Their European holiday (Goal 1) is indicated by the vertical line numbered '1'.

You'll note that the graph also displays two other scenarios at the same point in time, denoted by the lighter and darker shades of aqua:

- >95% likelihood of achieving approximately $1.2m
- 25% likelihood of achieving approximately $2.2m

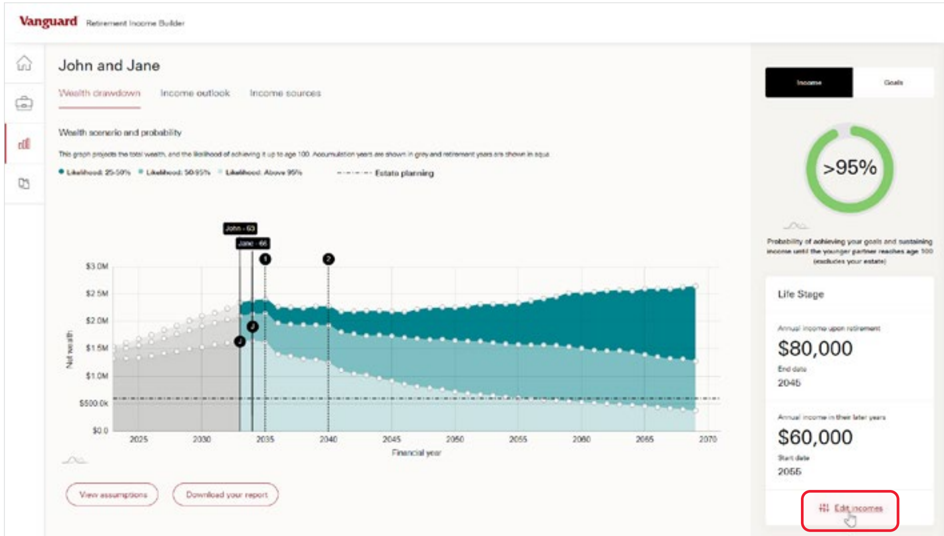
These can be reviewed by hovering your mouse over the relevant white circle on the chart.

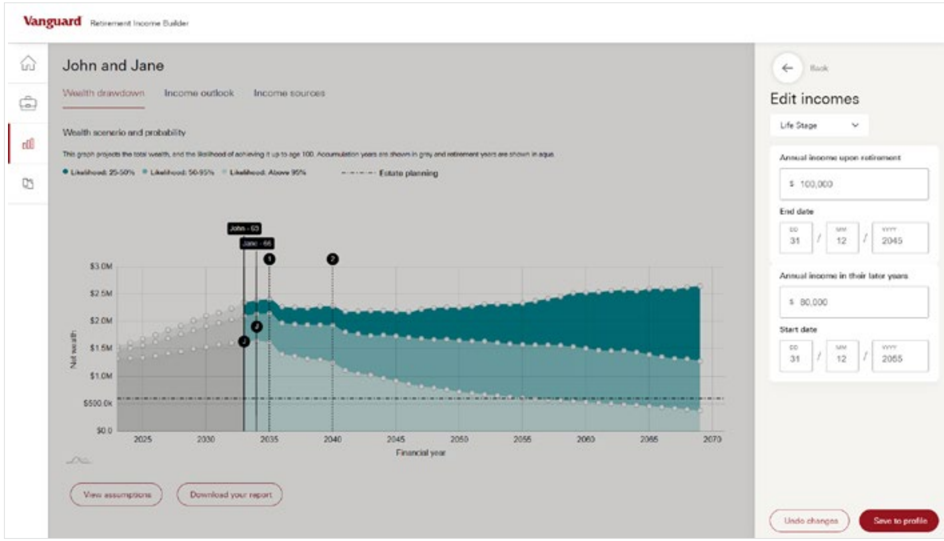
Other key indicators on the chart:

- Accumulation years are shown in grey and retirement years in aqua.


- The black horizontal line within the graph represents the client's **Estate** goal.
- The black vertical line represents your client's planned **Retirement age**. By clicking and dragging your client's initial (ie. 'J'), you can change the projections by making their planned retirement age earlier or later
- Any Goals entered (lump sum withdrawals) are numbered and displayed as black vertical lines. These can be seen in the above example. Projections do not factor in the sale of any investment properties.

# How to interpret and adjust your client's projections



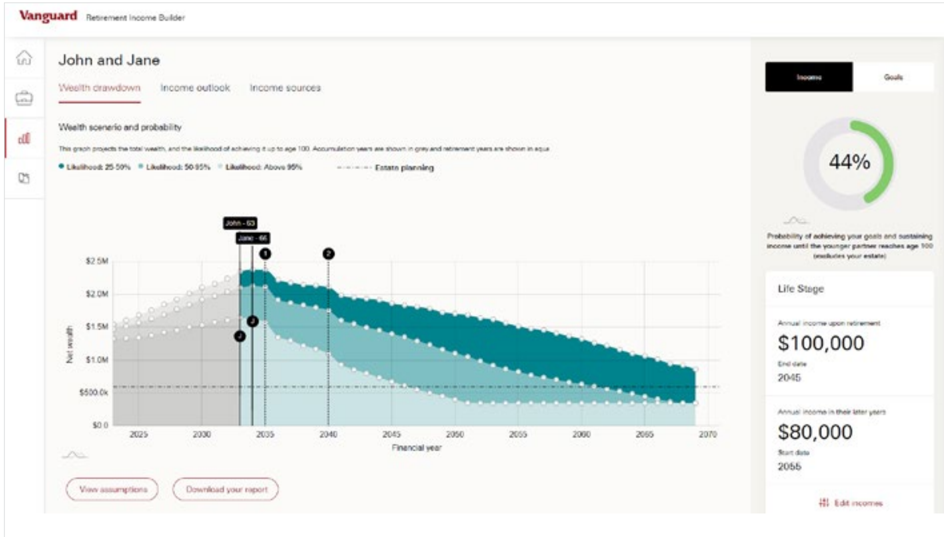

On the right-hand side of the screen, you'll see the probability of your client attaining their annual income goals to age 100 (in this example it is based on the **Life stage** income strategy). You'll notice that it's over 95%. This is the highest level of probability that the tool will display.

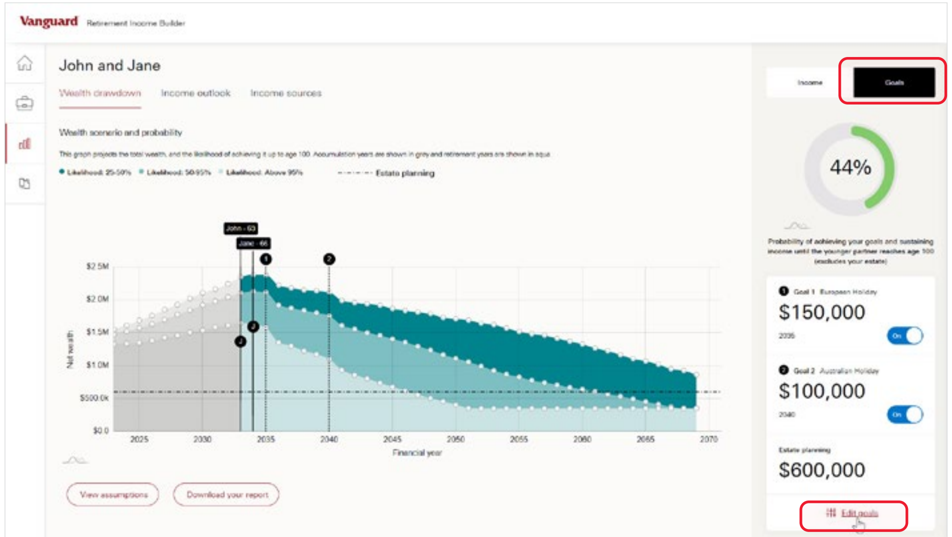
You can also edit their income levels to see the impact on their wealth drawdown and likelihood of achieving their goals.

Click the **Edit incomes** link to adjust your client's income goals.

After clicking on the **Edit incomes** link you'll be able to adjust their income levels and also the dates at which they commence their income. As this example shows a Life stage income strategy, you can edit both the amount at retirement and in their later years. We have increased both amounts by $20,000 to help your clients understand the impact of their decisions and make informed choices. Using the dropdown menu at the top of the right-hand side panel, you can also switch between the **Life stage** and **Constant** income strategies.

# How to interpret and adjust your client's projections




After increasing the clients income expectations by $20,000 we can see a significant shift in the clients' wealth projections. In this scenario, based on a 95% probability (as shown in the lightest aqua), John and Jane will have depleted their wealth by 2052 (with the exception of their investment property and personal assets). From 2052, the age pension acts as a safety net and forms the majority of their income.

We can see that the couple now have a 44% chance of achieving their goals and sustaining their income to age 100.

If you find that your client's projected wealth is less than anticipated, drag your client's initial (ie. 'J') on the vertical line and shift it to the right, to illustrate the benefit of retiring later. Alternatively, if the projected wealth is less than anticipated, click their initial and shift it to the left to project the impact of retiring earlier.

You can also use the right hand side of the screen to edit your client's goals. Click on the **Goals** tab and then the **Edit goals** hyperlink.

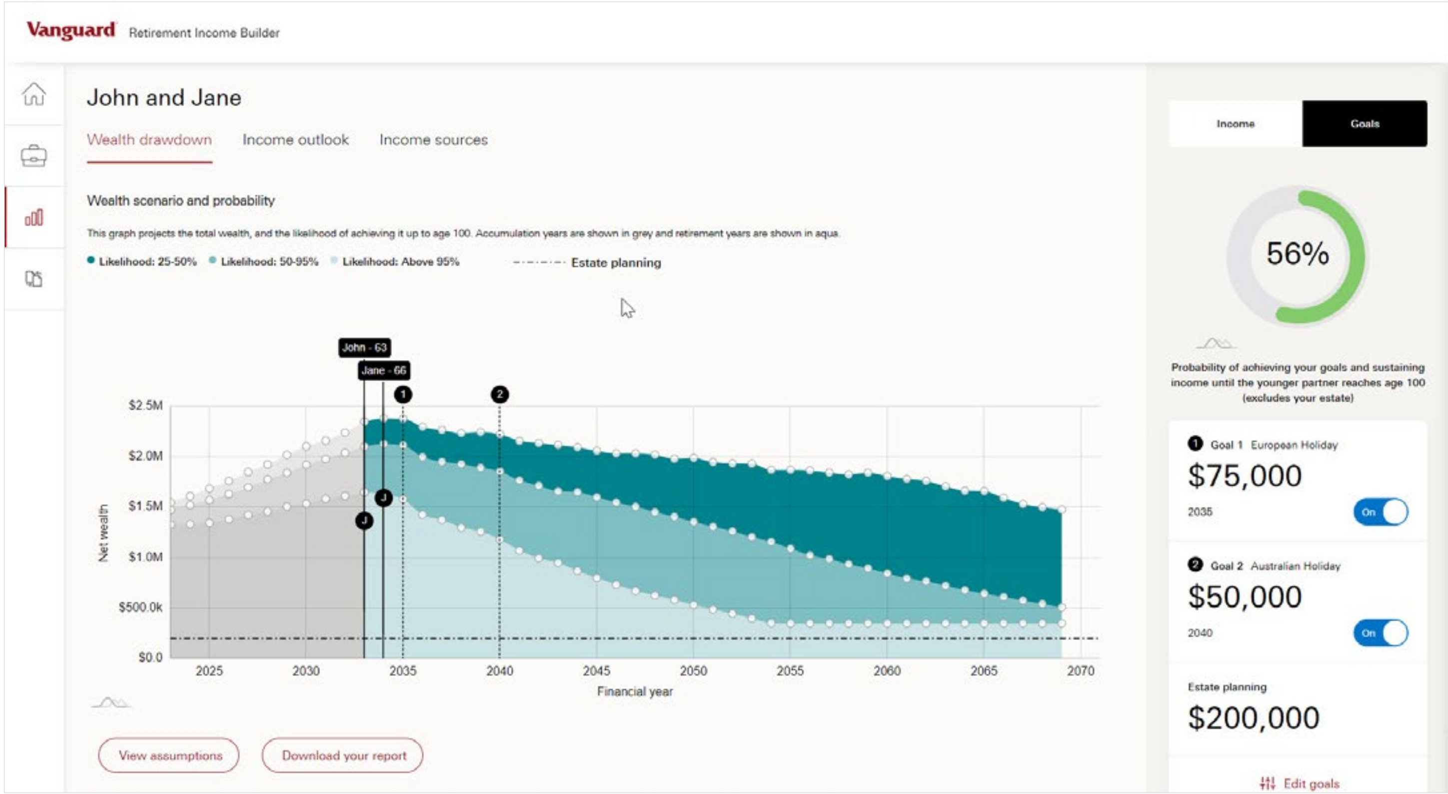
# How to interpret and adjust your client's projections

Within the **Edit goals** tab you can change the amounts and number of spending goals that your client has outside of their annual retirement income.

Decreasing the dollar value of Goals will naturally lessen the drawdown of your client's wealth. As seen in the graph, this will impact both their **Projected wealth** and **Income outlook**.

Edits to **Estate planning** will either move the black horizontal line on the graph up or down.

- There is an inverse relationship between the line's height and the probability of being able to generate the intended amount left in your client's estate.




In previous examples, in 2046, the black horizontal **Estate line** intersected the 95% probability dotted line.

- This means that there is a 95% probability that your client will be in a position to leave $600k to their beneficiaries until 2046.
- As your client ages, this probability reduces. This is reflected by the black horizontal Estate line entering the 50–95% probability range after 2046.
- By reducing the size of the estate your client wishes to leave to their beneficiaries, the goal may become more attainable throughout your client's later years. This is seen in the above screenshot where the estate has been reduced to $200k.

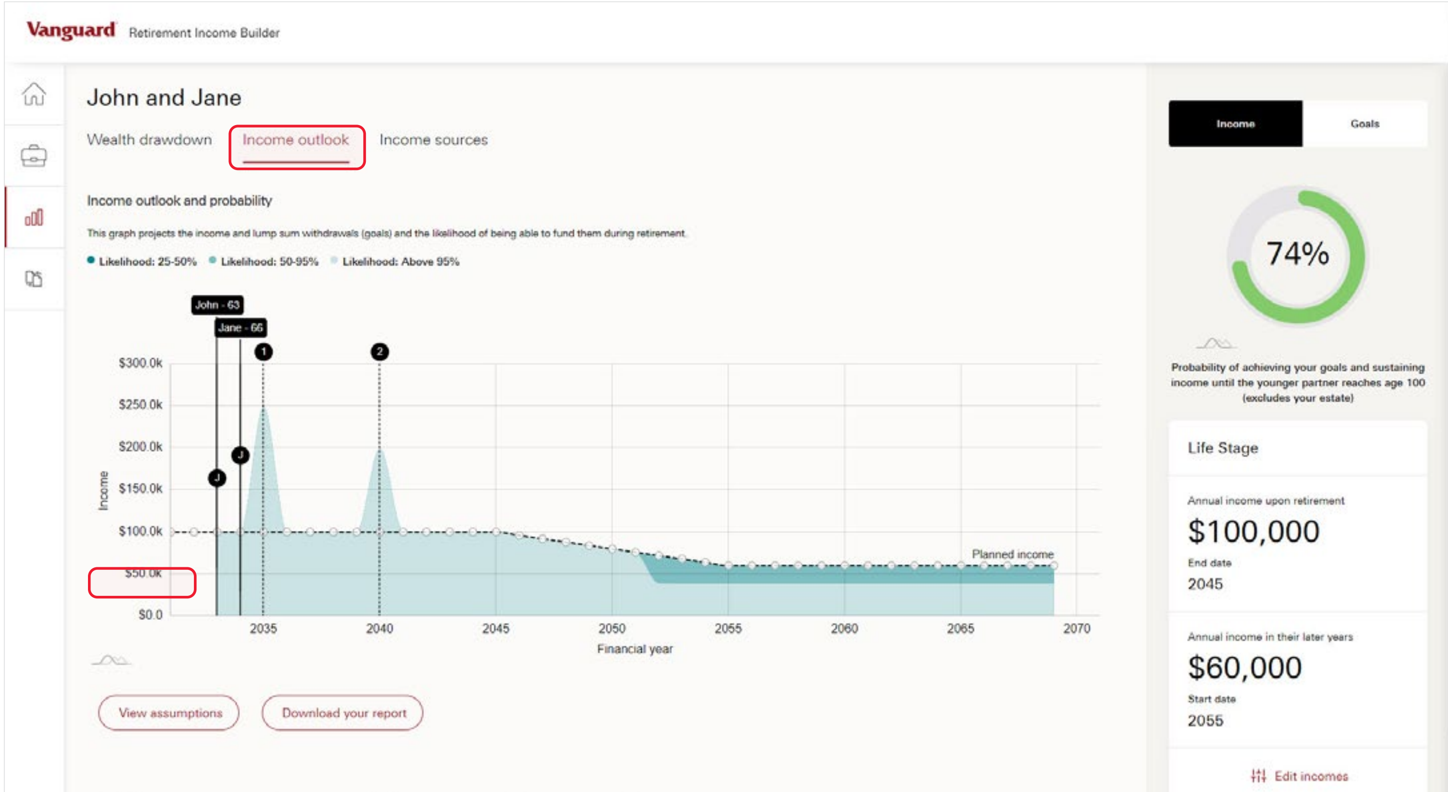
# How to interpret and adjust your client's projections

**Income outlook**
Select the **Income outlook** tab to see a visual projection of your client's income and lump sum withdrawals.

The shading reflects the likelihood of your client's ability to fund these two items in retirement.

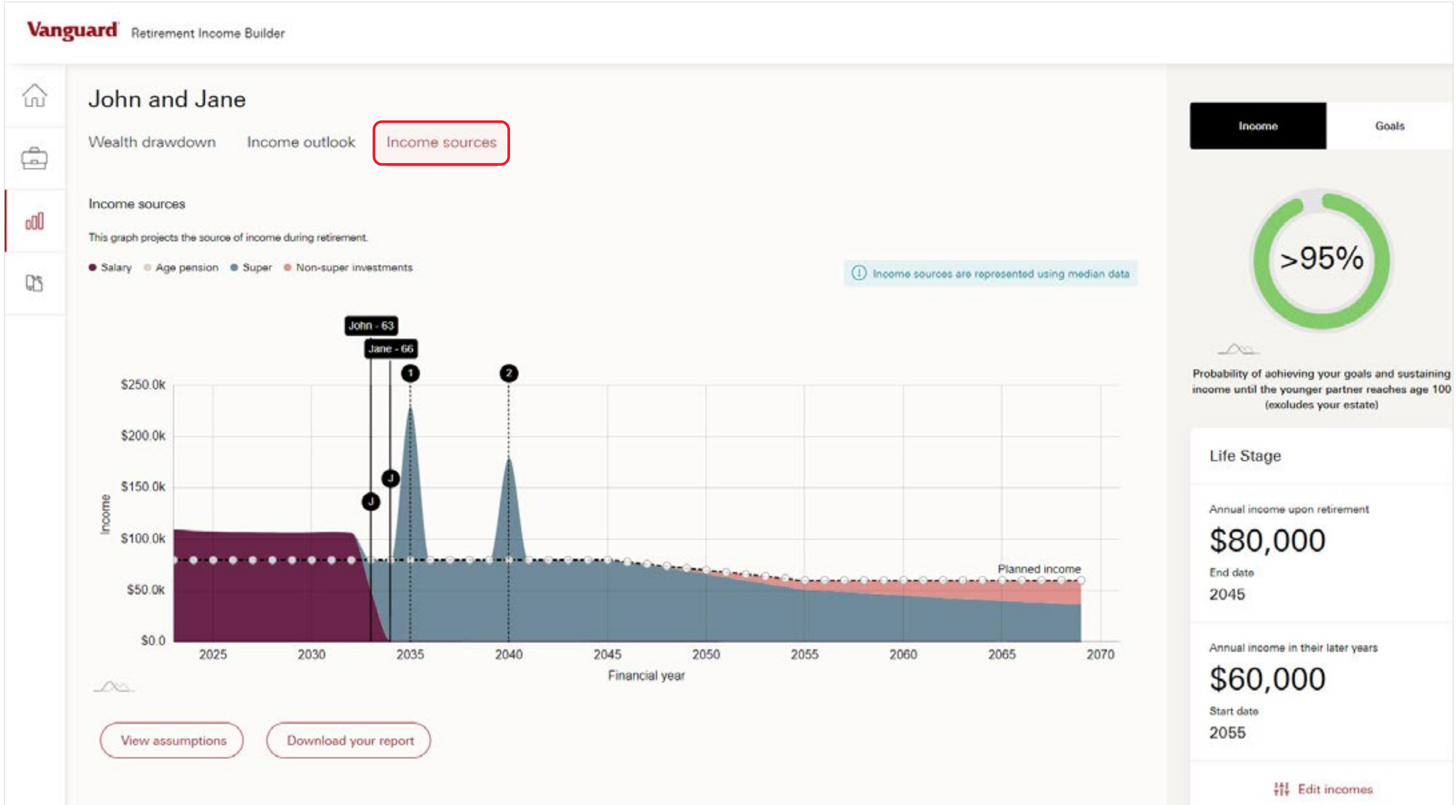
For illustrative purposes, we have changed John and Jane's maximum retirement income to $100k, commencing in 2033. This has impacted the probability of achieving their goals and income.

- Over the years 2045–2055, the $100k maximum reduces down to their target minimum income of $60k. This target minimum then commences from 2056.
- We can also see that from 2051 onwards, the likelihood of meeting that income target has declined to 50–95%.
- The income outlook does not decline to zero as these clients are eligible for the age pension.




Similar to the **Wealth drawdown** tab, you can use your clients' initials to move the vertical black line and visualise the impact of changing their retirement date.

# How to interpret and adjust your client's projections




**Income sources**

The **Income sources** graph illustrates the various sources of income during retirement by showing a representation of how these sources could interact for the median outcome of the projection. This includes **Salary**, **Age pension**, **Super** and **Non-super investments**.

This has been projected assuming John and Jane will take a $150k European holiday in 2035, and a $100k Australian holiday in 2040.

Given the uncertainty of market returns, the actual mix of income, including the projection of age pension payments, will not match the projection in the chart as market returns will not always be at median values. The chart can help plan for changes in how spending may be funded, such as how the client may become eligible for the age pension. This chart visually represents the clients' income sources in retirement, rather than providing the actual order of funding their income and goals, as this will depend on the clients' individual circumstances. For further information please refer to the 'Income sources' section of the *Assumptions* document.

# Frequently asked questions

# Frequently asked questions

**What does the Retirement Income Builder calculate?**
The Retirement Income Builder provides an outlook for a client's wealth drawdown, income outlook and income sources as they approach and live through their retirement years.

**Can I use these projections in my Statement of Advice?**
The Retirement Income Builder is designed to capture a wide range of personal information from a client. The intention of the tool is to provide an illustration and probability of outcomes a client can potentially expect from current and future financial scenarios. All representations are illustrative only, and we have assumptions and disclaimers that cover the illustrative nature of the outputs from the tool.

If you have relied on the illustrations generated by the tool within the SOA, and also referenced them, outputs from the tool may be used as an appendix to an SOA. Vanguard Assumptions and Disclaimers clearly articulate that the information contained within the Retirement Income Builder Tool reports are illustrations only, and Vanguard does not accept any liability for reliance on the information within the reports.

**Who is Retirement Income Builder suitable for?**
The tool is mostly suitable for clients who are approaching retirement or in retirement.

**Can I allow my clients to use this?**
The Retirement Income Builder has been designed for advisers to use in front of their clients. To get the most of the tool we'd recommend that you use it during client conversations.

**Can I save my client's projections?**
Unfortunately you won't be able to save client projections at this time.

You can save a PDF report which includes your client's information, any contributions they may have made, their goals, an overview of their wealth and income during retirement as well as the underlying assumptions.

**How do you deal with couples who have different retirement ages?**
The model will assume that the couple begins their retirement income when the first partner retires (i.e. whomever retires first).

**What are the different growth rates of assets in the model?**
For both super and non-super investments, you'll have the opportunity to nominate the investment strategy. These range from conservative through to high growth. More information can be found in Appendix 1 of the *Assumptions*.

Inflation is the assumed growth rate for property and personal assets.

**What is the investment strategy based on?**
The investment strategy is based on Vanguard's diversified fund asset allocations. The asset allocations can be found in the Investment Options section of the *Assumptions*.

**What is the Vanguard Capital Markets Model® and how does it work?**
The Vanguard Capital Markets Model® (VCMM) is a proprietary financial simulator developed and maintained by Vanguard's Investment Strategy Group.

It is a long-term tool that takes into account current macroeconomic conditions and equity and bond valuations to forecast distributions of future returns for a wide range of asset classes and portfolios.

The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More importantly, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based. The primary value of the

# Frequently asked questions

VCMM is when it is used to analyse potential client portfolios. VCMM asset-class forecasts—comprising distributions of expected returns, volatilities, and correlations—are key to the evaluation of potential downside risks, various risk-return trade-offs, and diversification benefits of various asset classes.

**What is stochastic modelling and why have you chosen to use it?**

Stochastic modelling forecasts the probability of various investor outcomes under different conditions using random variables. This allows us to project different wealth drawdown and income outlook scenarios with a breakdown on how probable different outcomes may be.

Traditional projection tools that use deterministic modelling allocate a constant rate of return based on a chosen investment option. Deterministic modelling tools fail to consider two large variables in investing, volatility and time. Projections can be misleading if you assume there is no variation in return.

**How much does the tool cost?**

The tool is free for advisers.

**Are the projections adjusted for inflation?**

Yes. All details provided for your client should be added in today's dollars. The projections will take inflation into account. More information can be found in Appendix 1 of the *Assumptions*.

**How are fees captured?**

An annual dollar and/or percentage based fee can be applied to each partners superannuation and non-super investment assets (excluding investment properties and personal assets). This includes all platform, investment, advice and other fees.

**Age 100 is too old for many of my clients. Can I change the date of the projections?**

Our projections are displayed until the youngest partner reaches age 100.

This provides flexibility as younger ages can be viewed by dragging your cursor toward the left along the horizontal axis, until you reach the desired age.

**In what order is the income sourced?**

Income sources are used in the following order:

1. Employment income and other income
2. Age pension
3. Super assets of the client in retirement phase
4. Investment assets of the client in retirement phase
5. Investment assets of the client in accumulation phase
6. Super assets of the partner in accumulation phase (subject to preservation age tests)

**Are the minimum withdrawal rates taken into consideration?**

Yes. Standard legislated minimum withdrawal rules are applied.

**How is age pension eligibility determined?**

Eligibility will be determined by a number of factors including age, home ownership, assets and income tests. More information can be found in the Age Pension section of the *Assumptions*.

**How often is the portfolio rebalanced?**

It is assumed that super and non-super investments are rebalanced annually on 1 July based on the asset allocation of their selected investment option.

**Is the family home taken into consideration for the estate?**

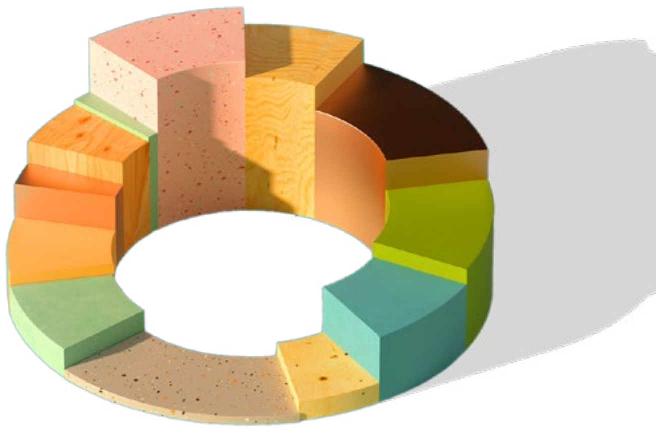
No. The model doesn't include the family home in the wealth drawdown.

# Frequently asked questions

**Are franking credits considered?**
Yes. A portion of each investment strategy is allocated to Australian equities where 70% of dividends from this allocation are assumed to be franked.

**What enhancements are on the horizon?**
We review our adviser tools on a regular basis. If you have any ideas to improve the tool or have any general feedback please get in touch with us on 1300 655 205. We'd love to hear from you.

**How can we learn more about Vanguard's diversified funds?**
Our diversified funds are available as managed funds, managed accounts and ETFs. You can find out more here.



By using the Retirement Income Builder tool, you accept that it is illustrative only and is limited by the data you enter, and the assumptions inherent in the tool. The information and illustrations within any resulting report are a result of the data inputs you make and the forecasts generated through the Vanguard Capital Markets Model®.

The economic scenarios in this document are generated by the VCMM as at 31 December 2020. The VCMM is a proprietary financial simulation tool developed and maintained by the Vanguard Investment Strategy Group (ISG). The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The projections and other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. VCMM results will vary with each use and over time. The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based. Actual asset classes used in the forecast depend on selected investment options for superannuation and investment assets and their asset allocation (see Investment options for more information). The theoretical and empirical foundation for the VCMM is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among Vanguard Retirement Income Builder.

The Retirement Income Builder tool is provided for financial advisers to use and the tool is not intended for use by others. By using the Retirement Income Builder tool, you acknowledge the following:

In generating the report, Vanguard will not take into account the personal objectives, financial situation or needs of your clients, so it may not be applicable to the particular situation you are considering. The use of the Retirement Income Builder, and any report resulting from the use of it, is not a recommendation of any financial product, nor is it an offer to acquire an interest in any Vanguard product. It is not investment advice or a recommendation to acquire, hold or sell securities or to adopt a particular investment strategy. Before making any investment decision, you should consider whether the information is appropriate to you and your clients.

You should consult the latest Product Disclosure Statement (PDS) or, if relevant, the latest Investor Directed Portfolio Service Guide (IDPS Guide), before deciding whether to acquire, hold or sell interests in any Vanguard product. You can access Vanguard's PDSs, the IDPS Guide and other related disclosure material at vanguard.com.au or by calling 1300 655 205.

The forecasts and opinions provided in the resulting report are based on statistical models of return profiles across broad asset classes. In reading the resulting report, Vanguard strongly recommend you read and consider the assumptions on which the report is produced. Past performance is not indicative of future performance, and actual performance may differ materially from the forecasts and opinions in any resulting report. Vanguard does not guarantee the performance of any product, investment strategy or forecast return set out in any resulting report.

Advisers are permitted to share the resultant report with clients to which the report relates subject to the condition that the report is shared along with the assumptions and the Vanguard disclaimers therein.

The Retirement Income Builder tool is provided as is and without warranty as to its condition or fitness for purpose. Vanguard accepts no liability for any errors or omissions within any resulting report or in the use of the Retirement Income Builder tool.



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