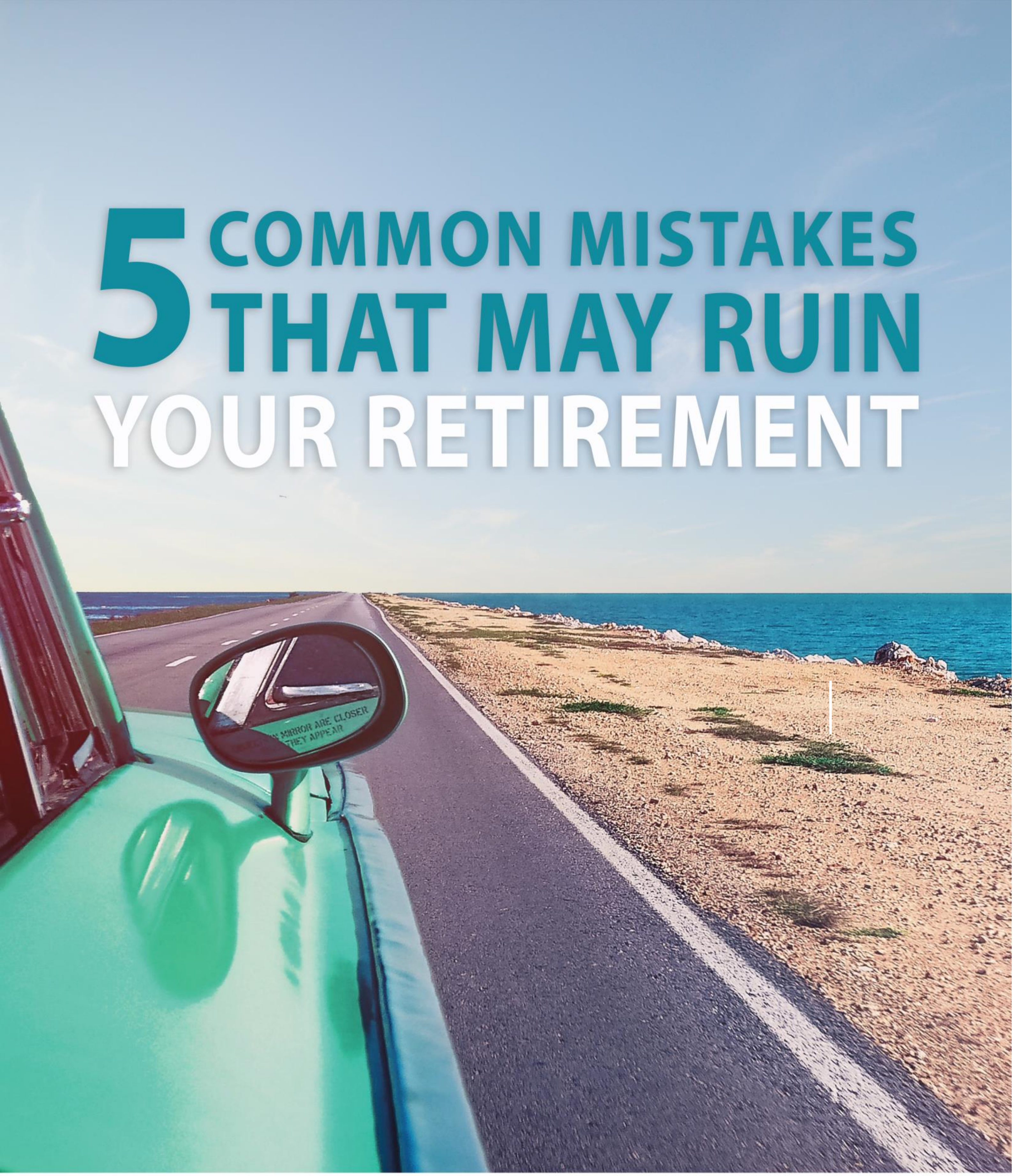
5 COMMON MISTAKES THAT MAY RUIN YOUR RETIREMENT



Priority1

5 Common Mistakes That May Ruin Your Retirement

Welcome

Over the past decade, the nature of work has changed significantly. As the nature of work evolves, how we define retirement is changing along with it. Back in our parent's generation, the word retirement brought to mind images of gentile retirement living, rose beds, bowling clubs and bingo nights.

In Australia, the average age at which people retire has risen from 64 to 65.6 for men, and from 61.8 to 64.2 for women. The eligibility age in Australia for the pension, which is now 66 has been slowly increasing from 65 but will have risen to 67 by 1 July 2023.

In 2016 to 2017, there were 3.6 million Australians, aged 45 years and over, who were retired. This group comprised 1.7 million men and 1.9 million women. Just over half of all retired persons were aged 70 years and over.

Little wonder then that given these trends, around the country, attitudes to retirement planning are changing.

Today increasingly, retirement is about achieving financial independence early in one's career and channelling your creative energy into pursuing your passions, be they business ownership, fine dining, travel, or more sophisticated investment approaches.

Improvements in public health and medical advances have seen declining death rates and commensurate longer life expectancies. As the Federal government budget comes under increased pressures from the challenge of a declining workforce, more and more Australian families are taking on responsibility for the financial planning for their retirement.

Let's Get Started

Whether you're close to retiring or it remains years away, it's never too early to begin planning. In fact, the earlier the better!

This is doing your homework will reap its rewards. Effective planning for retirement can be complex. There is a lot of knowledge to absorb.

You'll need to master budgeting, understand the benefits of compound interest, get your credit rating in shape, look at monitoring your spending and learn about the different classes of investment assets. Savvy planning also involves balancing asset classes, understanding the different levels of risk attached to those asset classes and fine-tuning your retirement plans.

Most of us want to do everything we can to ensure this stage of our lives is as comfortable as possible. This e-book identifies some of the common mistakes made in retirement and how to confidently manage your retirement nest egg.

Putting sound plans in place early and seeking professional guidance are key. The more you know, the better prepared you are for your retirement path ahead.

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1. Going Too Hard Too Fast

Retirement: you've made it! And one of the rewards for all your hard work is that you can now access your superannuation. Suddenly a world of opportunities opens up – a Caribbean cruise, major home renovations or maybe helping your kids reduce some of their debt.

Of course, you deserve to celebrate your retirement, but bear in mind that your super might need to support you for the next 30 years or more. Eat too far into your nest egg in the early days and you significantly reduce the time that your super will last. This is particularly the case in a low interest rate environment.

Take Ron and Val…

They retire with a combined super balance of $800,000. At an interest rate of 4% pa this nest egg will fund annual living expenses of $60,000 for 19.4 years[1]. If they spend $100,000 on travel and home renovations and give a further $100,000 to their children, the reduced nest egg will now only last 13 years.

[1] Does not take account of any age pension entitlement

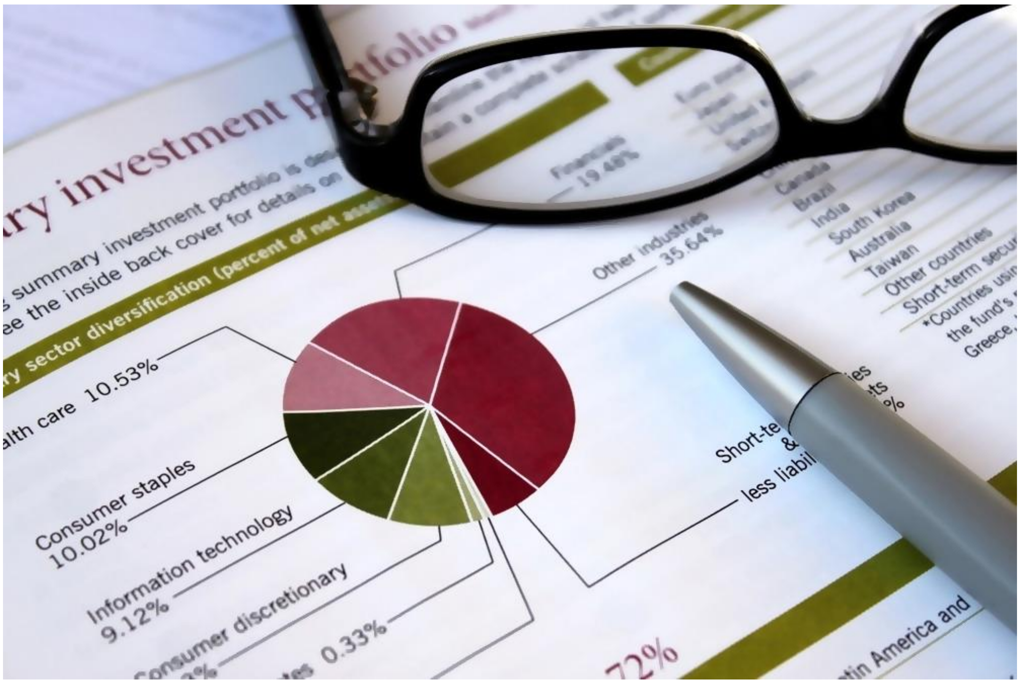
Planning for big expenses in retirement is just as important as it is pre-retirement. The longer that an expense can be deferred, the longer the money will last, and the greater the total income received.

In Ron and Val's case, this might mean scaling back the travel plans a bit, putting off the renovations for a couple of years, and helping their kids by making regular, small gifts rather than a large lump sum.

Your super is there to help you enjoy life in retirement, but it's a balancing act. Remember, a little restraint now may allow for more fun later.

2. Investing Too Conservatively

There's a common view that as you approach retirement you should tilt your investment portfolio towards more conservative investments. This means favouring things like term deposits, annuities and cash management trusts while reducing exposure to more volatile assets such as shares and property. The thinking is that preservation of capital is key, as without an earned income it is hard to recover from any downturns in the share or property markets.



In the days of high interest rates this might have been a good strategy, but when interest rates are low and life expectancies long, being too conservative with investment can see the money running out way too soon.

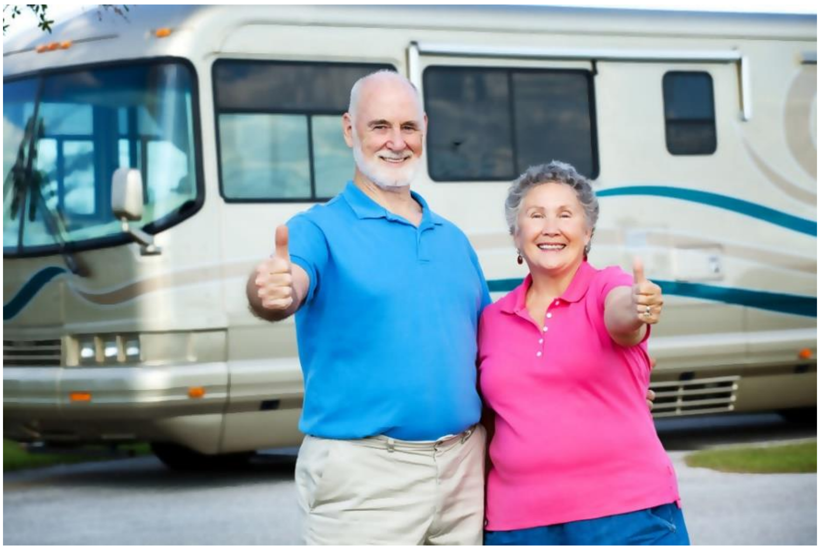
Peter plans to retire on his upcoming 63rd birthday. He has $600,000 in super and wants this to provide him with an income of $50,000 per year. If his net return is 3% pa, Peter's nest egg will last for just over 15 years[2]. The problem is there's a good chance Peter will live into his late 80s or even 90s. To give his savings a chance of lasting until he is 90 (27 years), Peter will need to target a net return of 7% pa.

[2] Does not take account of any age pension entitlement

Chasing higher returns does involve taking on greater risk. However, for a well-designed portfolio the great moderator of investment risk is time. Even over just a 10-year period it's much more likely that a 'growth' portfolio will meet Peter's needs rather than a more conservative one.

Ensure your nest egg keeps working hard through your retirement. Just because you stop working doesn't mean your money should too!

3. Leaving It Too Late To Achieve Your Goals



Most of us had retirement dreams, and couldn't wait to finish work. So once retired, why haven't we started ticking items off the bucket list? There's no time like now for living your dreams.

When Tony and Chris retired they had grand plans involving a campervan, Kakadu and a rescue-dog. Their great Australian road-trip was happening the very next year, after they, "just got few things out of the way".

Things like their daughter's November wedding, then the kitchen reno in January. Kakadu wasn't going anywhere; it would wait until July – after Chris's knee reconstruction.

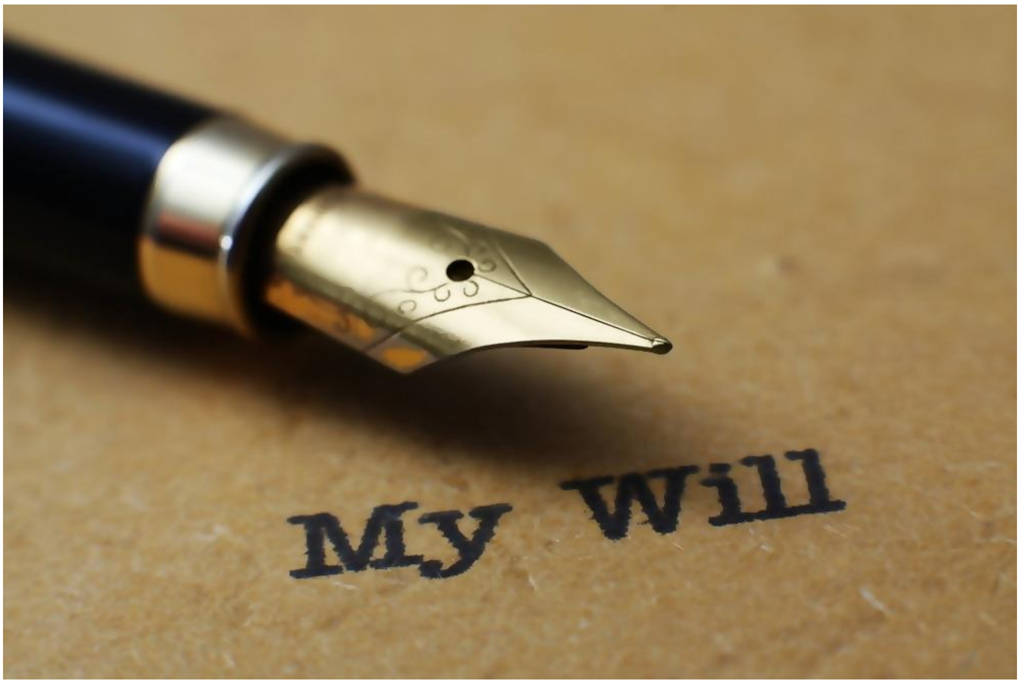
Eventually, they stopped putting a date on their road-trip. They were going to Kakadu – Someday.

But in this fast-paced world, someday can be elusive.

Nine years later Tony and Chris finally resumed preparations – they even visited a Campervan Show. But then Tony fell and needed hip surgery and reality hit hard: the road-trip was impossible.

Why do we so often put our dreams on hold?

4. Ignoring Estate Planning



Don't have a Will? You're in good company. Less than half of Australian adults do. Even then, many Wills are out of date or invalid. The upshot is that hard earned wealth may be fought over by family or distributed by government formula, and not end up with the preferred beneficiaries.

It's also important to remember that Wills are just one component of estate planning, so here's a quick checklist to help you get your estate planning on the right track.

- If you don't have a Will, make one. Consult a specialist estate planning lawyer.
- If you do have a Will, ensure it is up to date and reflects your current wishes. Is your executor willing to take on the role and likely to outlive you?
- Have enduring and medical powers of attorney drawn up so someone you trust can act on your behalf and make decisions if you are no longer able to do so.
- Review your superannuation death benefit nomination. Super death benefits can be directed to your estate and

distributed under your Will, or they can be paid directly to nominated beneficiaries.

- Look into pre-paid funerals or funeral bonds. Aside from relieving your family of one burden at a time of great stress, you may see an increase in your age pension payments.

Depending on business and financial structures, family dynamics, pension rules and legal requirements, estate planning can be complex. We can assist you to identify the estate planning issues you need to address, and the professionals you may need to consult, to ensure your assets are distributed according to your wishes and to provide the best outcome for your beneficiaries.

5. Carrying Debt Into Retirement

Increased housing costs and low wage growth are seeing more Australians carry higher levels of debt into retirement. Repaying this debt can place a major drag on retirement cash flows and hinder the achievement of retirement goals. These may include maintaining an adequate quality of life through retirement, and leaving a benefit to the next generation that is unencumbered by outstanding debt.

Fortunately, there are a number of ways by which retirement debt can be avoided or managed.

- If you’re still working, increase your debt repayments. It may also be worth considering delaying retirement. However, bear in mind that with increasing age comes the increasing likelihood of being forced into retirement by ill health.

- Tackle high interest debt first. If you’re paying interest on credit card balances or personal loans and have the ability to redraw on a mortgage, pay off the higher interest debts from your mortgage account.

- Already retired? Look at using your superannuation to pay off outstanding debt.

- Down size your home. This may allow you to pay off debts and still have enough to purchase a smaller home. If this strategy frees up more money than you need to repay your debt, investigate the superannuation incentives available to ‘down-sizers’. Also be aware any surplus cash you pocket may reduce age pension payments.

As always, it’s important to take your personal situation into account. For example, if your mortgage interest rate is low, you have significant investments earning a good return, and you have a long life expectancy, carrying some debt into retirement may be worth considering.

How can we help?

Your retirement could be four, or forty, years away. However, regardless of when your retirement is likely, the time to start planning for your retirement and how it will be funded is right now.

We can assist you to prepare a sensible financial strategy that helps you afford the retirement lifestyle of your dreams.

Contact us today to make a free, no-obligation appointment. Let's start with an informal chat.

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We are suitably qualified to discuss everything covered in this publication and encourage you to contact us if you have further questions about this material.

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