5 COMMON MISTAKES THAT MAY RUIN YOUR RETIREMENT

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Assured Future Financial Services

Helping you secure your future

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Welcome

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

According to the **Australian Bureau of Statistics**[1], the latest census showed an average retirement age of 55.4 years, and on average, women retire sooner than men. On average, Australians can expect to live to 85 for women and 81 for men[2]. So, depending on your retirement age, this means you could need your savings to last up to 30 years. Meanwhile, the eligibility age for Age Pension in Australia has gradually increased from 65 to 67, which could help explain why the average age people intend to retire is 65.5 years.

In 2019, there were 3.9 million retired Australians, comprising 1.7 million men and 2.1 million women, or around 1 in 5. Just over half of all retirees are aged 70 years and over. Pension is currently the main source of income for retirees.

With half a million people intending to retire in the next five years, it's little wonder that given these trends, attitudes to retirement planning are changing. As the federal government budget comes under increased pressure from the challenge of a declining workforce, more and more Australians are recognising that they will not be able to rely on the safety net of the Age Pension and will need to take responsibility for funding 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 where doing your homework will reap its rewards. Effective planning for retirement can be complex. There is a lot of knowledge to absorb.

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[1] https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release

[2] https://www.abs.gov.au/statistics/people/population/life-tables/latest-release

You'll need to understand your spending and savings habits, appreciate the benefits of compound interest, get your credit rating in shape, and learn about the different classes of investment assets. Savvy planning also involves diversifying your investments, understanding the different levels of risk attached to different asset classes and fine-tuning your retirement plans.

Most of us want to do everything possible 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 you can confidently build and manage your retirement nest egg.

Putting sound plans in place early and seeking professional guidance is key. The sooner you act, the better prepared you will be for your retirement.

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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.

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[3]. 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.

Planning for big expenses in retirement is just as important as it is pre-retirement, perhaps even more so, as you no longer have any salary income. The longer that an expense can be deferred, the longer the money will last.

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.

The fact is the earlier a savings strategy is implemented, the better. And that strategy will need to be reviewed and altered from time to time as your lifestyle and priorities shift.

[3] Does not take account of any age pension entitlement.

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.

Even as interest rates rise, with longer life expectancies, 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[4]. 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.

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!

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

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 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?

While it's unwise to spend retirement savings too quickly, delaying our goals may mean never achieving them – after all none of us is getting any younger. It's important to enjoy life while still fit and healthy enough. If you're not sure of your finances, speak to your financial adviser.

The key is to set your goals, budget carefully, and stick to your plans.

A wise man once said, "Don't save a good wine for a special occasion. Open it *now* and make *today* a special occasion."

In other words, live the best life you can – now.

Sound advice.

4. Ignoring Estate Planning

Don't have a current Will? You're in good company. Less than half of Australian adults do[5]. 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 can no longer do so.
- Review your superannuation death benefit nomination. Super death benefits can be directed to your estate and distributed under your Will or paid directly to nominated beneficiaries.
- Consider looking into pre-paid funerals or funeral bonds[6]. 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 in identifying 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] https://www.finder.com.au/press-release-oct-2018-10-million-australians-don't-have-a-will
[6] https://www.humanservices.gov.au/individuals/topics/funeral-bonds-and-prepaid-funerals/28486

5. Carrying Debt Into Retirement

Increased housing costs and low wage growth are seeing more Australians carry higher levels of debt into retirement[7]. Repaying this debt can place a significant 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 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.
- Downsize your home. This may allow you to pay off debts and 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 that 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.

[7] https://theconversation.com/more-people-are-retiring-with-high-mortgage-debts-the-implications-are-huge-115134

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 it and how it will be funded is right now.

We can assist you in preparing a sensible financial strategy that helps you avoid making these retirement mistakes and 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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The purpose of this document is to provide factual information only and is not intended to be financial advice. However, any advice provided is general in nature and does not take into account your objectives, financial situation or needs. You should consider whether the advice is suitable for you and your personal circumstances. Please speak to your Lifespan financial adviser before making any financial decisions.