

Retirement Planning



Retirement planning is difficult because of the numerous competing financial obligations we have, so it must be prioritised. Further, retirement plans should not end up being based on assumptions that have never been questioned.

Retirement is NOT One Phase

Robert C. Atchley, professor emeritus at Miami University, Ohio, developed [six descriptive phases](#) of retirement that represent a transitional process individuals go through when they permanently exit the workforce. While they do not apply to everyone, they do convey the message that to view retirement as one long life phase is rather naïve.

It could be a very long stage, depending on the age you actually retire and your life span. But it is a multi-phase journey depending on your health, the health of your spouse, death in the family, the state of your finances, and so on and so forth.

Tied in to this subject is the notion that spending will be the same throughout retirement. Not so. Initially, a lot may be spent on travel. As time goes on, spending tends to concentrate more on health issues.

Do NOT Exit Equity

There is a common assumption that because of the well-documented risks associated with stocks, individuals need to get out of equities and into safer investments such as fixed interest once they retire. But inflation never retires and will continue to do what it does best – erode the value of your savings. Hence some equity exposure will always be necessary to provide growth. Of course, this decision should be taken after looking across the board at all the sources of income (pension, dividends, interest, rent income, annuities), all the assets and the overall allocation.

Retirement is NOT a Destination

Life expectancy in Australia is about 80 years for men and 84 for females. That is just the average. If you are in reasonably good health, exercise regularly, eat healthy food and do not suffer from any chronic or acute diseases, you could reach your 90s. That means that if you choose to retire at the age of 65, your retirement period may well last for 20 years or more.

Retirement is not a vacation. You cannot be on holiday for 20 years. Neither is it a destination nor a stopping point. It is just a completely different way of life than the 9 to 5 routine. A transition is a more apt way to describe it, one that requires planning and adjustment.

You do NOT need 80% of pre-retirement income to live on

John Rekenthaler, Morningstar's vice president of research, wrote about the 80% savings myth. He says the financial services industry misleads retail investors by selling the notion that an 80% replacement rate of pre-retirement income is required for a successful retirement.

The point he makes is that once you retire you pay less tax, you have no loans to service (hopefully), no longer have to worry about keeping money aside for your children's education and are no longer saving huge amounts for retirement.

The Australian Securities & Investments Commission agrees. It says high income earners should assume you will need 67% (two-thirds) of your income to maintain the same standard of living in retirement.

What you have to figure out is the lifestyle you plan to lead. Someone may just want a car – some may want a Mercedes-Benz. You may want to buy designer clothes and eat in expensive restaurants. In that case, ensure your savings plan accommodates such a lifestyle. Take some time to map out what your expenses may be in retirement to ensure you're accumulating enough to support them.

Retirement planning requires a clear-eyed analysis of future needs and income. Don't fool yourself by making the wrong assumptions.

Our team can refer you to a suitably qualified Financial Planner who can help you understand your options and develop a plan to organise your finances to help fund your retirement. It is essential to have a retirement plan appropriate for your age, personal circumstances and risk profile. Even if you are many years from retirement, it's never too early to start planning for a comfortable retirement.

Good retirement planning is both tax effective and investment effective. Contact your invest adviser to help you implement an effective retirement planning strategy.

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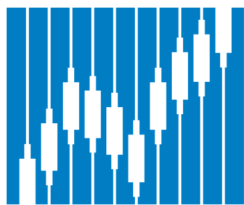
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