

a new **beginning**



Paul Clitheroe's

**TOP
TEN**

**tips to making the most
of your retirement**

get ready for the new retirement



In the last few decades the whole concept of retirement has shifted – from what was once seen as the beginning of your ‘twilight years’, to a time that is now regarded as a new beginning, an opportunity to get your ‘second wind’, to take off and not look back. In many ways retirement has become a new life stage. Thanks to better health care we are living longer, meaning that some Australians will spend more time in retirement than in the workforce.

Another significant change has been the trend towards retirement planning. Thirty years ago, most people automatically retired at 65, or earlier – it was just the done thing. Financial planning was fairly random, if at all existent, and it usually only took place after you had hung up your work boots for good. These days though there is overwhelming acceptance of the need to prepare for retirement. In my view this is far more sensible, especially considering our sometimes uncertain economic times and Australia’s rapidly ageing population.

Retirement means different things to different people. For some it could mean taking off around the country, for others dialling back on work and focussing on giving back – through volunteering or mentoring.

There is probably one thing most retirees do agree on – retirement is a time to do all, or at least some of the things that they did not have the time or freedom to do in their working lives. In my case it will definitely involve more time on the golf course!

Without wanting to throw cold water on your dreams (or mine), there is another thing we all have in common – we all need money for retirement, and a fair bit of it, too. Exactly how much depends on what you want to do when you retire, and what sort of lifestyle you would like to maintain as you get older. In 2011, the Association of Superannuation Funds of Australia (ASFA) estimated that a couple looking to have a ‘comfortable’ retirement needed to spend almost \$54,000 a year, while those seeking a ‘modest’ retirement lifestyle needed to spend close to \$31,000 a year. How does this compare with what you live on now?

It might sound daunting to sit down and work out how much you will need to live each year when you retire, especially if you plan on living for at least another 20 to 30 years after you stop working full time. The good news is that with the right planning, preparation and dedication to reaching your goals, you can live your dream. You might have to tweak it here or there, but it can be done.

People often ask me when is the best time to start planning for retirement. In a perfect world I believe you should start the day you join the workforce. You are never too young to start thinking about your retirement plans. But realistically, I think you need a minimum of five to 10 years to prepare properly for retirement. The more time you give yourself the better.

I believe in keeping things simple, and planning for retirement is no exception. Follow my tips and you will see how straightforward it can be.

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.

TOP TEN TIPS

my ten tips for retirement

1. plan ahead
2. cost your dream
3. fund your dream
4. take steps now if you are coming up short
5. take advantage of Government assistance and other sources of retirement funding
6. cut back on tax where you can
7. get the right investment mix for you
8. consider the kids (if you want to!)
9. take aged care into account
10. take action

tip one – plan ahead

This is the fun part, where you get to map out the things you would like to do and achieve in retirement. For this exercise, you will need to forget about money, for now at least. This needs to be about your life, pure and simple. Ask yourself a few questions:

- ~ what things do you want to be doing (travel, study, etc)?
- ~ where do you want to be?
- ~ what 'treats' would you like to indulge in?

This will be your 'wish list', so be ambitious. If you are retiring with your partner it might be helpful to prepare your lists together, after all you could find it tricky if one of you wants to drive around Australia for a few years and the other wants to curl up at home with a library of good books. For couples, there may need to be some compromise to ensure you remain on the same page .



food for thought –

If you are having trouble coming up with a 'wish list', it can be helpful to start small and build up to those big dreams. Many of us have spent so long thinking about everything other than ourselves, as we have become caught up in careers, family life, social life, that at first you might not be sure what you want to do in, or get out of retirement.

Stop for a moment and think about the things that make you happy in the little spare time you presently have, and go from there.

Maybe you would start by aiming to perfect your favourite recipe, finally getting around to reading War and Peace, eliminating three putting, learning how to cast a fly in front of a trout's nose or visiting a country you have always wanted to see. Build from this, let your imagination go, and you will be amazed at how easy it becomes to envisage an engaging and pleasurable retirement ahead of you.

After you have come up with your wish list, then consider some practicalities. While I encourage you to have your dreams about retirement, I also encourage you to keep your feet grounded in reality. There's not much point kidding yourself about the gleaming stable of Ferraris you're going to own and drive around in retirement if you're currently struggling to keep an old Commodore on the road. This is why you have to include in your wish list the regular, more concrete things you will need in retirement. Consider these questions:

- ~ where do you want to live?
- ~ should you sell your house in favour of downsizing to a more manageable property, especially if you are still living in the family home?
- ~ if you are a couple (or a person who just likes cars), will you need one, two or more cars?
- ~ what sort of lifestyle do you want to lead?
- ~ what activities would you like to pursue?
- ~ what sort of entertainment will you want to enjoy, and how often?

This is by no means an exhaustive list, just a guide to get you going. You are the best person to judge how you want to live your life in retirement, and thinking ahead is helpful in working out how important certain things are to you. Most of us do not expect to be spending every day at home looking after the grandchildren or mowing the lawn – I reckon most of us want to be out there, being healthy, active and embracing all that extra time. You will want to go out with your friends, travel and not have to worry about the bills too much when they come in.

those monthly bills will keep coming

Retirement does not include immunity to those monthly bills. Car expenses, entertainment and ever-rising household costs such as gas, electricity and insurance will still arrive like clockwork. Planning ahead will help lift this burden.



As I have said many times, the earlier you start to plan for retirement, the easier it will be when you get there. It will also give you a manageable amount of time to secure the funds you need to achieve your retirement goals. You can't do this the week before. You need time to consider your retirement expectations, build your wealth and a financial safety net that will allow you to enjoy chasing your dreams.

tip two – cost your dream

So, you have your plan, you know what you want to do, and you are probably feeling pretty excited – now you have to cost it out. This might feel like having a bucket of cold water thrown over you, but stop and think for just a moment. This is the ‘reality’ part of your retirement and it is a necessary step. It does not mean the end of your dream.

The essential key to costing your dream is a one of my favourite financial tools - budgeting. A sound and realistic budget is a major element in making your retirement plan come true.

It might also surprise you to learn that while you will need a reliable income source in retirement, you do not need a fortune to live well.

There are some good budgeting tools freely available on the internet. These include budget planners at www.smartmoneyguide.com.au (this is one of ipac’s online financial calculators and is very user friendly) and the Australian Government’s MoneySmart site www.moneysmart.gov.au. I recommend you check them out, and get that budget done. Then, keep your budget figures handy for the next step.

did you know?

Most Australians do not retire on a golden nest egg – in fact about 77% of men and women aged over 65 currently receive all or part of the aged pension.

A 2009 survey by the Australian Bureau of Statistics found 59% of Australians aged 45 or above intended to retire at some point in the future. Of these, 39% said the main influence on when to retire was financial security, followed by personal health (27%) and becoming eligible for a pension (11%). Of those intending to retire, 53% said they expected their superannuation to provide their main source of income, 27% expected a government pension or allowance to be their main source of income, and 7% of people did not know where they would source their income from.

Source: ABS Retirement and Retirement Intentions, Australia, July 2008 to June 2009



tip three –fund your dream

Now we are getting to the nitty gritty, the number crunching.

Your budget will have told you how much money you will need each year to live the life you want, or realistically can, in retirement.

Using your budgeted annual costs, you can now calculate your 'capital target', which is the amount of money you will need to fund the life you (realistically) want during your retirement. Fortunately, so that you don't have to consult a mathematician, there is a very simple and convenient formula that you can use to help you work out your capital target yourself. It goes like this:

- ~ if you want to retire at 55, multiply your annual required retirement income (derived from your budget calculations) by 17
- ~ if you want to retire at 60, multiply your annual required income by 15
- ~ if you want to retire at 65, multiply your annual required income by 13.

When you've worked out how much you need each year planning ahead becomes important. If your nest egg is looking a bit meagre, but you still have years ahead before retirement, you may still have enough time to build up your savings to reach your capital target.

This could mean delaying your retirement, modifying your plan (including for example, reducing annual spending), or continuing with some paid part-time work once you retire from fulltime employment. Remember, you can work part time throughout your retirement, as in Australia, for most occupations, there is no longer a compulsory retirement age.

However, you may not want to retire later, or do part time paid work in retirement, in which case there are other options you can explore to sufficiently build up your nest egg.

Alex & Grace



Alex and Grace have done their plan and their budget, and estimate that they will need \$65,000 a year in retirement. They decide they want to retire at age 60 and want to know how much capital they need to continue funding their lifestyle.

calculation:

\$65,000 (required annual income) x 15 = \$975,000.

Alex and Grace will need to have a minimum nest egg of \$975,000 to fund their retirement – assuming they want an income of \$65,000 a year, and retire at 60.

'when you've worked out how much you need planning ahead becomes important'



tip four – take steps now if you are coming up short

Not having enough is a very common problem for Australians who want to retire, so if you are feeling that there is a big gap between your capital target and what you actually think you will have, don't despair – you are not alone.

The key is preparation and time. If you have five to ten years up your sleeve, you are well placed to set a plan in action to help you reach, or maybe even pass, your capital target. There are a number of options to this plan, and you might choose one, some or a combination of all to make it work.

These include:

- ~ earning more
- ~ spending less
- ~ saving more
- ~ investing in higher growth assets (which we'll look at a bit closer in tip seven)

Sounds simple doesn't it! However, if you're having trouble doing so yourself, it could be worthwhile getting some help from a financial adviser. Not surprisingly, being one myself, I have always been a supporter of getting good financial advice if you feel you need it, particularly at times in your life when major financial decisions need to be made. And I reckon concerns you may have about being short of funds for your retirement, and what to do about it, is one of those major decision making times.



‘if you are coming up short it may be time to talk with a financial adviser’

tip five – take advantage of government assistance and other sources of retirement funding

For some people thinking about retirement, it will all depend on when they can access the age pension. In 2011, the qualifying age is 65 for men and women, gradually rising to age 67 by 2024.

No one is going to claim the age pension will fund anyone's dream lifestyle, unless it's a bad dream. The age pension is fixed by law at 27.7% of male average weekly ordinary earnings, which is well below the technical poverty line. Unfortunately though, the reality is that many senior Australians will simply have to make do with the pension, and no government is likely to make it any more generous as the Australian population gets older and more pensioners need to draw on the public purse.

Take this a wakeup call to revisit, or create, your retirement plan!

The age pension is means tested (separate valuations of both your assets and income), and even if you are not eligible for the full amount, it is well worth applying for a part pension, as this gives you a Pensioner Concession Card. This card lets you access a range of other benefits, such as free or concessional dental care, eye care, hearing services, pharmaceutical prescriptions, council and water rates, gas and electricity charges, driver's licences, car registration, insurance premiums, adult education courses, entertainment, public transport and interstate rail fares.

Even someone on a part pension of only \$1 will qualify for a Pensioner Concession Card. So if you are thinking that all the Centrelink paperwork is not worth it, think again. Your first visit to Centrelink will probably take some time, so make sure you ask whether there is any other government assistance you are entitled to. You might be surprised by what is available.

Another potential source of retirement funding, is taking out a reverse mortgage - and this can be a sensible move if handled properly. Reverse mortgages are aimed at retirees who own their own home, and who are 'asset rich', but 'cash poor'.

As the name suggests, this is the opposite of a traditional 'forward mortgage' where you borrow money and pay it off. A reverse mortgage lets you convert the equity or ownership in your home into cash, receiving it either as a lump sum or regular payments. Unlike a regular mortgage, no loan repayments are necessary, with the loan balance, plus accrued interest eventually repaid from your estate when you die, or from sale proceeds if you sell the property.

Because reverse mortgages entail you reducing equity in your home and building up a substantial debt, you must make sure you really understand what you are doing and what the effects of your reverse mortgage will be.

Under no circumstances should you sign up for one before getting advice from an independent solicitor and ideally from your accountant or financial adviser first.

However, as I say, if you do all your homework properly and get professional advice at the outset, reverse mortgages can be a very useful source of retirement funding. Just don't reduce your home equity to the point where you compromise your chances of getting decent aged care, which is not cheap, in your later years. Also get professional advice on how reverse mortgage payments may affect your eligibility for the age pension.



tip six – cut back on tax where you can

Minimising tax means more money in your pocket, so it makes sense to get good taxation advice. This especially applies to your superannuation. The government is increasingly encouraging us to fund our own retirement, and for many senior Australians retirement is the time when they are glad they made a commitment to their super.

The money that goes into your super fund is lightly taxed, the earnings your money makes whilst in super are also lightly taxed, and if you wait until you're 60, you can take your money out of super, tax free. For this reason, if no other, it could be worth delaying your retirement – or at least putting off accessing your super – until then.

Along with investing in super, there are a number of other ways to minimise your tax bill from investing. Some financial products are more tax friendly than others, such as shares that pay franked dividends. These can be a great way to minimise the tax you need to pay, or may even lead to you getting a fatter tax refund, at tax return time.

Another popular and effective investment way to minimise tax is negative gearing into shares or property. With negative gearing, the costs of holding the investment, including significantly, the interest costs, are tax deductible. This has both the benefit of reducing the tax you need to pay come tax time, and reducing the real cost of holding the investment.

Done properly, negative gearing is a sound, long term wealth building strategy. However, when you borrow to invest, particularly when you are approaching retirement, you need to pick the right investments, at the right price, and practice restraint. Under no circumstances should you borrow more than you can comfortably afford to repay, and you need to be able to keep making those repayments through stormy economic times that can happen at any

point – just look at the relatively rapidly arriving financial bombshell of 2008. The last predicament you want to find yourself in is having to sell out in a depressed market and turning paper losses into real ones. This is a particular hazard with negative gearing into shares using margin loans, so be careful and seek professional advice if you feel unsure about it.

Another key way to minimise tax, is to make sure you get all the tax deductions you're legally entitled to. This is where having a good accountant can help. I know they cost money, and can be unsettling to visit, a bit like going to the dentist, but from my experience using a good accountant to do your tax returns, and provide you advice throughout the financial year, should ensure you pay as little tax as you legally can, and which should also more than offset the cost of their services (and they are tax deductible, too).

'minimising tax means more money in your pocket now and in retirement! Make sure you get good taxation advice.'



TAXES



tip seven – get the right investment mix

This is a very important area, because the type of investment assets you hold as you approach, and enter retirement, will affect the size of your nest egg, and therefore your retirement income.

A hyper-abbreviated crash course in investment basics might help here.

1. Risk equals return. This simply means, the higher the investment risk you take, the higher your potential return – but also the higher the risk of losing money.
2. Cash, term deposits and other interest bearing securities are lower-risk ‘income’ investment assets, most suitable for providing a reliable income stream
3. Shares and property are higher-risk ‘growth’ investment assets, most suitable for longer term capital (asset price) growth.
4. The risk of quality growth investments is reduced when those investments are held for the long term.

Now that you know these key investment characteristics, you need to base an investment strategy and asset mix upon them that best suits:

- ~ your temperament (how comfortable are you with risk?)
- ~ the returns you want (growth assets for capital growth; income assets for regular income streams)
- ~ your stage in life (are you approaching retirement, in retirement, or in aged care? How old are you, what’s your health like, what’s your present financial position, what are your retirement goals?)

Say for example you were 10 years out from retirement, and your nest egg was looking too small to fund the retirement you would like. To achieve the higher capital returns you needed to boost the size of your nest egg, you would want to increase the growth assets in your investment portfolio – at the same time taking comfort from the fact that the higher, (short term) risk involved in increasing your growth assets would be reduced by the (long term) decade still to run to retirement.



On the other hand, if you were already in retirement, and the regularity of income and lower risk of capital loss were your main priorities, you would want to reduce your growth assets and increase the volume of lower-risk income assets in your portfolio.

In addition to all this, as I mentioned in tip six, you need to take into account the tax implications of your investment strategy and holdings, particularly in relation to how much money goes into your super, and when and how much comes out of it.

Getting your investment mix right and keeping it right for your situation is an ongoing process requiring regular attention. By all means get involved in it yourself, but there are times, I’d suggest, particularly as you enter retirement and need to consider your super options, that getting assistance from a good financial adviser is a good move.

‘getting your investment mix right is an ongoing process’

tip eight – consider the kids (if you want to!)

There's no doubt that the world now is a much different place to the one our parents and their parents lived in when they retired. Significantly, we are living longer – in fact there is now a one in three chance that a 50-year-old will live to the ripe old age of 100.

So, if you are planning to leave your kids an inheritance, think about whether you want them to wait until you peg out at possibly, 100, when they are not-so-young nippers of 70 or 80. The chances of this happening are higher now than ever. So, will you feel happier to give the kids part of their inheritance earlier, when arguably they need the money more? Let's face it, crazy property prices in many parts of Australia, high interest rates and uncertain economic conditions could mean your children could use all the help they can get, earlier rather than later. Not only that, but you will still be around to see them spend it. It's something to think about.

Whatever you decide, it is important to get your will and estate planning in order. This should ensure that your money goes to whom you want it to go to, in an orderly fashion, rather than your death becoming the catalyst for ugly family squabbles over who gets what in the absence of you having a proper will.

Having a will and getting your estate planning in order will make life much easier for the family and loved ones you leave behind. It doesn't need to be complicated, or expensive to draw up, but it does need to be specific and legally binding. Your solicitor is the best person to offer advice on this.

'its important to get your will and estate planning in order – it makes sure your money goes where you want it to!



tip nine – take aged care into account

Along with wills, aged care is one of the topics people tend not to talk or think about too much. It's understandable, no one relishes the thought of having to move out of their home, and needing help to get by.

But with the Australian population over the age of 70 likely to double in number to nearly four million in the next 20 years, aged care is going to become an ever larger part of the landscape. That, coupled with the fact that most of us will get old and might need caring for means it makes sense to get a head start on understanding this complex – and potentially expensive – question of aged care.

Many people will make their own plans for how they want to be cared for as they age. They may stay in their own homes, with support from family or other carers. Some will move into a retirement village with varying levels of support, while others may need a higher level of care in a nursing home.

Navigating your way through the aged care jargon and complicated information can be quite overwhelming, not

to mention very stressful for the person moving into care, and their family members. Finances might be the last thing you want to think about, but the reality is, you must. The decisions you make can make a big difference to your immediate financial position and how long your money will last. Aged care is such a complex area, particularly in the various ways you can pay for it, and how that might affect your entitlement to government assistance and so forth, that you really do need good professional advice on how to approach it.

Fortunately at ipac we have a specialist division dedicated to aged care matters, which I recommend to you. It's all about seeing you get the aged care you want and need, while making your money last. Phone ipac or visit the ipac website www.ipac.com.au for more info. And, while you're there take the time to look at the Aged Care Action Planner. This helpful tool guides you through the aged care process and the five steps you need to consider in arriving at the right decisions. It's good, and free, make use of it.

tip ten – take action!

Before you know it, another year will be past and we will be celebrating Christmas or birthdays again and wondering where the hell the last year went. Don't you think as we get older every year seems to fly by faster? That's how it feels to me, anyway.

Retirement might seem like a fairly faint blip on the radar to you right now, but believe me, you could be surprised at just how quickly that blip becomes louder and more insistent, demanding your attention. Like those Christmases and birthdays, retirement might seem to be upon you much sooner than you once thought.

So save yourself the sleepless nights, do some leg work and get set for what is ahead of you. It might mean a bit more effort and sacrifice now, but you will absolutely thank yourself later when you do hit retirement and can confidently reach for your wish list and see your retirement dreams come true.



re-cap

So, here we are at the end of this booklet, and the question stands – are you ready for retirement? I reckon these tips will have given you plenty of food for thought. Remember, the key to a successful and enjoyable retirement is all in the planning – and as for executing your plan, well, the best time to start doing it is right now.

my top 10 tips for retirement

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2. cost your dream
3. fund your dream
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ipac, a leading financial advisory firm, has been helping people get the most out of their money and their life for more than 25 years, and they can help you too!

If you need help formulating your plan, an ipac adviser can help. Call **1800 626 881** or visit www.ipac.com.au to make an appointment.

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