10 must-dos to live life on your terms in retirement

In the 1930s, the average Australian worked from 16 to 65 years and had a life expectancy of 63. The average person could spend 100 per cent of their income without needing to worry about funding their retirement years.

In 2015, however, things are very different. On average, we now work from 23 to 58 years and have a life expectancy of 82. Unless you have accumulated enough money to fund your retirement, such as through superannuation, investments and savings, you may find yourself reliant upon the limitations of the aged-pension.

Today, more than ever before, it is important to plan for retirement so you can live comfortably.

The key issues for consideration are:

- how much money you will need to fund your desired lifestyle
- what benefits you may be entitled to from the government, if any
- how you can maximise your superannuation leading up to and during retirement
- how you can best protect your assets now and once you pass on
- which investment strategies will build your wealth with maximum benefit and minimum risk
- what choices, decisions and actions you can take NOW to take control of your money, so you can carve a pathway towards retirement with clarity, certainty and confidence.

Planning ahead will help you strike a balance between the lifestyle you desire and your financial resources – and it's never too late to start! The decisions you make (or the ones you neglect) today, can make a huge difference to the life you will lead upon retirement.

The following 10 tips will help you take appropriate steps now so you can live life on your terms in retirement.

1. Determine your needs and goals in retirement

Depending on when you plan on retiring, it is possible that you will have 10, 20 or even 30+ years of life expectancy after you stop work. This may seem a long way off now, but the reality is that retirement may come around sooner than you think, and sometimes forced through illness or external factors out of your control.

The first step in planning for your retirement is to envision and define what you want your retirement to look like.

A great way to do this is to start with a blue sky picture. This means "painting a picture" of your ideal day in retirement - where and in what type of accommodation you would live, how you would spend your leisure time, how you would feel, what assets you would own, where and for how long you might travel, how you might contribute to the community and so on.

Writing down your goals for retirement will not only help you work out how much money you will need to live and maintain your ideal lifestyle, it will also help you prepare emotionally in the transition from work to retirement.

If it turns out that you cannot afford your blue sky, having planned your retirement will ensure you are well positioned to make any needed adjustments.

2. Set and maintain a budget

Once you have a clear picture about what you want your retirement to look like, you need to work out how much income you will need each year to maintain it.

To know how much annual income you will need in retirement, start by working out your current expenses, then take out any expenses you know will cease between now and retirement. For instance, you may have paid off your home loan, your children may have moved out of home, you may downsize your accommodation, or may become a one-car household. In working out your expected costs in retirement, remember to add in any new expenses such as travel and leisure costs, and allow for the rising cost of goods, services and utilities.

3. Manage your debt

Whether you are five years away from retirement or 15, it's important to get debt under control, stay on top of your bills and other expenses, and continue to build upon your savings and investments to ensure you are best placed once retired.

With most retirees having a reduced cash flow than when working, it's important to minimise your expenses while at the same time keeping debt low. This should start with the aim of entering retirement with no debt.

While you are still working, borrowing money for investment purposes can be a good way to grow your wealth more quickly but this comes with additional risks and needs to be well thought through and managed along the way.

Any decision to go into debt when you are no longer working should be very carefully considered.

Any financial strategies that require you to go into debt should only be entered into with a very clear and thorough understanding of how they work, what the benefits and risks are and what alternative strategies have been considered and dismissed.

4. Understand government entitlements

Many Australians rely on government support to fund their retirement; however, this support may not be sufficient to supplement your living needs, let alone allow you to achieve your personal retirement goals.

With the current Commonwealth Government proposing legislation to move the pension entitlement age to 70 years by 2035, it's important to understand how this may impact you should this legislation be passed.

If you are currently 55 years of age, your new age pension age will be 67.5 and if you are currently 49 years of age (or younger), your new age pension age will be 70. If you are somewhere in between, your age pension age will be between 67.5 and 70.

For anyone younger than 49 now, you will have had the benefit of compulsory Superannuation Guarantee Contributions paid by your employer for almost your entire working life. Superannuation Guarantee Contributions were introduced as compulsory in 1992 by the Keating Labor government and started at three per cent. This was gradually increased to nine per cent in 2002 and is set to increase to 12 per cent by 2025.

This compulsory savings strategy will certainly give you some choices about when you retire and how much money you have upon retirement.

If you are self-employed, it is vitally important that you pay yourself superannuation. (This does not apply to those set up as a company structure; as they have to pay themselves Superannuation Guarantee Contributions as an employee).

Without the forced savings plan and possible introduction of an increase to the age-pension age, these people could find themselves working until age 70.

5. Educate yourself

Take the time to familiarise yourself with the terminology that comes with retirement such as superannuation, age pension, account-based pension, annuity and estate planning, among others, and what these things do and will mean for you when you retire. While you may decide to work with a professional such as a financial adviser to help you navigate these concepts, it is also important to have an understanding of them yourself.

6. Maximise your superannuation and pay less tax

Superannuation is a government-supported, forced savings plan for your retirement. It is first and foremost a tax structure that comes with a concessional tax rate of 15 per cent. Given you meet certain conditions, it can also be exempt from tax once you are retired.

When you begin working, building your super contributions gives you a powerful way to take advantage of compounding returns. As you move through your working life, you can look at more sophisticated strategies for accelerating your superannuation through salary sacrificing or self-managed funds. And in the approach to retirement, you can take further advantage of strategies that provide more tax benefits.

Although there are limits to how much you can put in to superannuation and when you can take it out, it is the best savings vehicle by far to build wealth for your retirement, as long as it is structured and invested appropriately for your needs.

It is vitally important that you are in a position to make choices about how your hard-earned superannuation will be invested so that you can maximise the benefits and entitlements you deserve. Make sure you review your superannuation statements when they come in once or twice a year and be comfortable with how your superannuation is performing.

7. Make informed investment decisions

Decisions you make about where and how to invest your money often comes down to two things: for how long your money will be invested; and how well you sleep at night knowing your money is moving up and down in value.

When investing, leading American business magnate, investor and philanthropist, Warren Buffett, suggests, “Be fearful when others are greedy and greedy when others are fearful”.

Understanding what your money could do when invested, both positively and negatively, is crucial to ensure you are making informed decisions and not reacting and moving your money at the wrong time.

Superannuation, in particular, is a long-term investment, even if you have reached retirement. Most people want to invest conservatively in retirement; however, the returns you might achieve in a conservative portfolio may not be enough to last your lifetime. The investment decisions you make can make or break a portfolio, so it is important to understand what you are doing and why.

8. Protect yourself and your family

Your most valuable asset is not your home or your car, it’s you! More accurately, your ability to earn an income to pay for your daily needs and lifestyle choices. And while most people would not question the common sense of insuring their house or car, they often don’t consider it necessary to take out insurance on their most valuable asset - themselves!

While you have debt and/or a non-working spouse, ensuring you have adequate personal insurance will protect your family if something goes wrong. Later in life and in retirement, other insurances may become more important, such as private health insurance or a funeral plan. While the unexpected can derail your long-term plans, putting the appropriate insurance protection in place will help you stay afloat during the difficult times.

9. Plan your estate

We spend our lives working and building our wealth so that we can live a comfortable life and do the things we love. If we are lucky, we may even have enough to leave something behind for our family, friends or a charity of choice.

While having a well-written and structured Will is essential to knowing your assets are protected should you pass on, estate planning provides a more comprehensive approach to ensuring your assets are distributed according to your wishes.

Estate planning involves documenting all of the specific items that you want to leave behind such as leaving an item of furniture to a friend or passing on a recipe to a family member.

It is also important to understand what assets do not automatically fall in to your Will, such as your superannuation.

10. Live for today but plan for tomorrow

It is never too early or too late to start planning for your retirement. However, it is just as important to enjoy your life today. Having a financial plan is about striking a comfortable balance to enjoy your lifestyle today and save for the future. The earlier you start, the easier it will be. The better organised and prepared, the less chance that you will take a wrong turn along the way.

At Jenbury Financial, we empower you to make informed decisions about how to optimise your financial savings, assets, investments and superannuation so you can live life on your terms upon retirement.

As your trusted adviser, Jenbury Financial is there with you every step of the way. We take the time to find out what's important to you, then tailor an achievable financial plan that helps you to create, grow and protect your wealth, with the ultimate goal of giving you financial freedom. The freedom to do the things you want, when you want.

For your free, no obligation financial assessment discussion, contact us today on 03 9762 0640.

11th May 2015