

# Planning for Retirement

## Retirement – what will it look like for you?

Ideally, we all want to be in a position where we can achieve a comfortable retirement, achieving our desired goals, whatever they might be.

## What are the issues?

When we think about retirement there are a number of issues that should be considered, which can be grouped into financial issues and non-financial issues (lifestyle issues).

**Financial issues** are usually easy to identify and address issues such as:

- Can you afford to retire, and when?
- How much do you need to retire?
- Where will your retirement income come from?

**Lifestyle issues** are likely to be different for each of us. Have you considered the lifestyle aspects of retirement such as:

- What will you do with your time?
- Are you thinking about moving house?
- Do you or your spouse have any health concerns that may impact on your retirement?

These are just some of the issues that fall under “lifestyle”, so let’s have a look at these in more detail.

## Lifestyle issues – set clear goals

Retirement is as much an emotional issue as it is a financial one for many people. Quite literally, an old way of life has ended and a new way of life is beginning. Some of us underestimate how important our work is in so many ways. Apart from providing us with income, it also gives us a sense of status and identity, as well as companionship.

So before you retire you should take stock of your personal development and set some meaningful activity goals. It is important to be proactive and to think through all aspects of retirement including:

- Location (where you plan on living)
- What lifestyle goals do you have?
- Do you want to travel regularly or eat out?
- What are your interests and hobbies?

Relationships form an important part of our happiness, so plan activities that keep you in contact with others and your loved ones.

Good health is a prerequisite for enjoying retirement, so ensure you invest in your wellbeing.

Retirement is also a time of your life where you tend to think more about your life philosophy – what matters most to you now?

All of these issues are important to consider and will have an impact not only on your lifestyle but also your finances.

## Financial issues

When looking at financial issues the key question is “**How much do you need to retire?**” Clearly this will depend very much on whether you plan to live a more extravagant or a more frugal lifestyle in retirement. Generally though, most people would like to be able to maintain their pre-retirement lifestyle in retirement.

Another important consideration is whether you will be entitled to receive any Age Pension. This can prove to be a valuable addition to your retirement income as well as providing various concessions.

Also, your income needs may change over time. Retirees generally require a higher level of income in the early years of retirement. However, you should also factor in increasing health care costs as you get older.

How your money is invested and the impact of future inflation may also have an impact on how much you need to retire.

To work through these issues it is recommended that you seek professional advice from a licensed or appropriately authorised financial adviser.

## Start with a budget

The first step is to start with a budget. Once you have done this, you are in a better position to cost out your retirement. How much you are going to need in retirement will have a large impact on when you can afford to retire.

A good place to start is looking at your current income. With that in mind you need to take into account that some expenses will be eliminated in retirement. For example, you may not have loan repayments, school fees and work related costs once you reach retirement. Also, you are likely to receive your income from tax-effective sources, such as allocated pensions, franked dividends etc, than a fully taxable salary.

On the other hand, there may be additional expenses which need to be considered. Research has indicated, for example, that retirees tend to have higher medical and leisure expenses compared to pre-retirees. You may also have significant one-off expenses when you enter retirement. For example, you might want to replace your car, pay off debts, or take a long overseas trip.

Generally speaking, when you add all of this together, most people find that they can maintain their pre-retirement lifestyle with less income. A common rule of thumb for middle income earners who own their own home is to budget 60-75% of their pre-retirement income. This amount will vary depending on your individual situation.

## What does the research show?

There has been some research done to estimate what it might cost to live in retirement. Westpac commissioned ASFA to do this research and the results are updated quarterly. Budgets are calculated for a "comfortable retirement" and a "modest retirement".

The main differences between a comfortable and a modest retirement are that "comfortable" retirees will generally be able to run and maintain a newer car, maintain their private health insurance, travel regularly including the occasional overseas trip, go out to the movies or the theatre, eat out regularly, entertain at home etc. In other words, do the sorts of things that most of us would like to be able to do in retirement.

If you would like to have a look at the detailed budget breakdowns you can visit the ASFA website at [asfa.asn.au](http://asfa.asn.au).

## Strategies to help you achieve a comfortable retirement

So, what strategies can you explore to assist you in working towards a comfortable retirement?

There are a range of strategies that can potentially improve your situation and help you meet your retirement goals, including:

- Maximise your super through contributions
- Reduce the amount of tax you have to pay
- Work longer
- Save more and spend less
- Invest in a more aggressive investment mix to improve your long-term returns
- Borrow to invest
- Pay off non-deductible debt
- Downsize your home

Which one or ones are important for you will depend on your particular situation and a financial adviser will be able to work with you to determine the most appropriate strategies for you.

## Get good advice – a licensed financial adviser can help you

Seeking advice is an important step in ensuring you maximise the opportunities available to make the most out of your investments.

A financial adviser will work with you to identify your financial and lifestyle goals for retirement and determine the best strategies to enable you to achieve those goals.

For more information, contact Mercer on **1800 633 403**.

## Summary

Planning for retirement requires consideration of both your financial and lifestyle goals.

The investment decisions you make before retirement will fund your lifestyle after retirement, so it makes sense to seek assistance to ensure you are maximising your retirement nest egg.

Take some time to consider your retirement goals and make a start on your budget. And most importantly, seek the advice of a licensed financial adviser who can advise you on strategies tailored to your individual situation and needs.

To speak directly with a Mercer financial adviser call **1800 633 403**.  
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