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Retiring Soon? Don’t panic

“Stockmarket gyrations have the ability to cause panic amongst Baby Boomers who are soon to retire, but this can be avoided with a sensible investment strategy in place” says Adelaide based financial strategist, Theo Marinis.

“The doomsayers are suggesting that many retirees may need to return to work, may not be able to put food on the table and generally, face a very bleak old age. It is my view that in Australia, such suggestions are both ill-informed and nonsensical.”

“Most people retiring from the full-time workforce today will have the benefit of at least 20 years of superannuation behind them. As a result of the Superannuation Guarantee, it is estimated that most people should have around $230,000, which has the potential to generate approximately *$14,000 per annum.

“Of course stock markets do move adversely and quite suddenly at times, so it is sensible for a couple to retain two years’ income (in this scenario $28,000) in cash as part of the funds defensive assets in line with their risk profile, as a volatility buffer. This can mean the difference between having to sell assets at ‘fire-sale’ prices to fund lifestyle costs and having time for your portfolio to recover when markets are down.

Most commentators seem to ignore however, that investment earnings from superannuation for such a couple will be **in addition to a government provided age pension which is currently worth $29,354 per annum**. Accordingly, our ordinary, hard working couple, if they are well advised, will have a tax free retirement income of around $43,35400 per annum at age 65 (this is equivalent to a Gross Taxable Income of approx $54,000 per annum) and in many cases this may provide more spending money than when they were working!

“Naturally, people with higher superannuation benefits or other assets may only qualify for a reduced pension. With sensible financial planning, however, there are very real opportunities to receive some of our taxes back in retirement and allow access to the discounts and benefits of being an Age Pensioner.”

“Inflation can be another cause of concern for people considering their long term financial future. Bear in mind too, that government pensions are indexed and generally expenses tend to reduce as we get older. Downsizing the family home, or perhaps, considering a reverse mortgage, may also be options which are available to maintain financial security and quality of life in our older years,” he said.

“Retirement for most people these days is at least a 15-20 year proposition. Therefore it is important to have a robust plan that will ensure your cost of living is adequately met”.

“Retirees, with the help of a diligent financial adviser, should ensure their assets are allocated broadly via a mix of growth and income assets and importantly, with a cash buffer to help ride out the rough times. The strategy should also include specific structuring of assets to ensure that any potential social security benefits are maximised, with the minimisation or elimination of tax”

“Such a strategy will provide far more flexible and less expensive alternative to that of buying an annuity and will provide the same asset protection without requiring retirees to forfeit access to their hard earned capital. It could mean, of course, that your financial adviser may need to work a little harder than simply recommending the ‘set and forget’ approach characteristic of annuities.

“Retirement should be a fantastic time in Australian’s lives; it is the time when there is no job to worry about, kids are likely to be independent and all debts are likely to be paid. In addition, there may be a range of discounts available which can be accessed to further reduce the cost of living”.

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“The most important message for retirees is not to panic, despite what is said publicly by headline seeking commentators. If you have an income strategy which includes an appropriate income buffer, there is plenty of time for markets to recover, while you enjoy retirement”.

**The Account Based Pension income stream which would be available assuming a conservative long term balanced fund earning rate of 6.1% p.a.*

NB: Based on the above earning rate assumption, and after allowing for full indexation of 3.0% p.a., it is estimated that this income stream would be available for a period of 22-23 years, or to age 87-88

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