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Top 10 Retirement Mistakes

Are you thinking of retiring soon but aren't sure where to begin? Are you worried you won't get the most out of the money you have saved, or that you may pay too much tax? Do you feel like your financial situation is okay, but you could be doing better?

Our passion is inspiring our clients to take action to enhance and protect their financial wellbeing through the use of innovative planning strategies. We'd like to encourage you to read through the following common retirement mistakes and see if any of them apply to you. The information has been gathered over more than 30 years of experience in the financial planning industry and we trust you will find it helpful.

#10 Not understanding your own investment profile

It is imperative that investors understand their own tolerance to risk. This ensures you are less likely to invest in opportunities that expose you to more risk than you can tolerate. Most investors have a basic understanding of the advantages in diversification; however, the relationship between risk and return is often misconstrued. It is important to note that a higher risk does not necessarily mean a higher return – it simply means the opportunity for a higher return.

When discussing risk with respect to investments, we are discussing the opportunity (the risk) for the investment to underperform or lose money. It is imperative that investors understand how they would react if their portfolio lost 5%, 10%, 20%. Further, they must assess their emotional wellbeing if a portfolio lost money in two or three consecutive years.

By having this understanding, a portfolio can be shaped so it minimises the opportunity of having an investor buy high and sell low. A portfolio structured to suit a person's individual investment risk profile will assist in providing a lifestyle rather than keeping the individual up at night worrying about their financial security.

#9 Cashing out or not cashing out superannuation

Most Australians now have extensive funds in superannuation. Superannuation is a complex area of tax law and with complexity comes inconsistency. Most harness their superannuation in retirement to provide an income stream. At age 60, an income stream provides a tax effective way for your superannuation funds to grow in a tax free environment whilst also providing tax free income. With Transition to Retirement strategies people may have purchased an income stream many years before retirement. The advantages of retaining the income stream should be weighed up against a commutation and repurchase strategy.

When a superannuation benefit passes to a person other than a financial dependant due to death, the proceeds may be taxed. A method to overcome this tax is by cashing out and reinvesting into super prior to retirement. This may not always be appropriate, as reinvesting the funds into super may not be available. Consideration should be given to the advantages of equalising super balances with a spouse or partner to leverage potential benefits a younger spouse may provide in this situation.

For most, once age 65 has passed many options evaporate. It is quite important that the calculations are done as early as possible (ideally before age 64) to ensure that maximum Centrelink benefit is achieved whilst ensuring tax is minimised in the event of death.

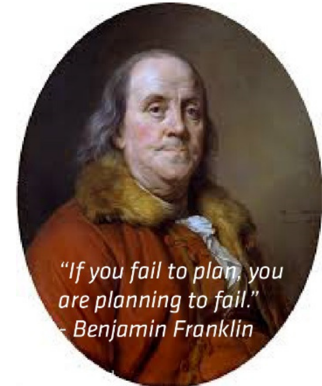
#8 Gifting too late

More and more parents are looking to help their children as they reach retirement. Some contribute towards school fees whilst others assist in the purchase of a first home. By waiting until retirement to provide such gifts, the funds given away will continue to be assessed under the assets test for Centrelink purposes.

This continued assessment occurs for five years after you have gifted the funds. Therefore, it may be more appropriate to provide gifts at least five years before you may be eligible for Centrelink entitlements, in doing so ensuring that you will not be assessed for funds you no longer have.

#7 Not planning to retire

Saving for retirement and retirement planning discussions are littered with clichés such as 'Plan to retire before your boss does it for you' or 'Fail to plan, plan to fail'. However over-used they are, they contain many truths. The best time to begin retirement planning is before you retire. By the age of 50, retirement should be a well-considered proposition, and by the age of 55, definite plans should be in place.



To plan adequately you must first understand your current budget and also have a clear understanding of the lifestyle and budget you hope for and require in retirement. Due consideration should be given to additional purchases such as white goods, motor vehicles and home maintenance. Another important consideration is whether travel is important, and if so, what type of travel.

It should first be recognised that life doesn't operate like a tap and we cannot simply turn our existing life off and turn a new one on. It is well worth considering a transition to retirement or a wind-down period. This can be quite beneficial from a financial point of view as you are deferring the need to live solely from your own resources.

#6 Saving too little or commencing too late

Once you understand the type of retirement you want it is imperative to start saving for it now. When mapping out a savings plan for retirement it is important to start out with a goal in mind. Once this is known, the amount required to be saved on a regular basis can be calculated.

There are only three variables with respect to retirement savings:

1. the amount required in retirement (the goal)
2. the amount that can be saved
3. the length of time to retirement.

By starting now you are maximising the amount of time you have to save for retirement, and in doing so giving yourself the greatest opportunity to achieve your retirement goal. One should work with a professional to ascertain how your retirement savings can be best applied. Options they will consider include debt reduction, direct investments and superannuation.

#5 Failure to consider the Age Pension

There are many tools online which assist in calculating the amount required to fund retirement. Many of these tools ignore the Age Pension.

Most people will qualify for at least part of an Age Pension. By structuring assets and income appropriately you can maximise this benefit. For example, a married, home owning couple may have up to $375,000 in assets and still qualify for the full Age Pension, which is $34,819 per annum.*

It is worth noting that a married, home owning couple who have $500,000 in financial assets appropriately structured could qualify for over $25,000 p.a. in Age pension whilst having their funds deliver them an income of $30,000 p.a., providing them with a total income of $55,000 per annum tax free!**

#4 Failure to understand the length of time in retirement

People are living longer. The average life expectancy for a 65 year old man has increased from 78 years of age in 1977 to 84 years of age and that of a 65 year old woman to 87 years of age in 2017***. Life expectancy continues to increase, and many people live quite a bit longer than the average. Retirement is the third phase of our life and for most will last beyond two decades, and for many, over 30 years. When assessing capital needs it is important to plan on this longevity to ensure we do not outlive our resources.

#3 Overestimate the benefit of downsizing homes

Many people believe they will enjoy a substantial financial windfall by downsizing their home. Often this amount is over-estimated.

When assessing the surplus funds as a result of downsizing one should consider:

1. What suburb will the new premise be in?

2. How many bedrooms are required?

3. Where will you store your caravan/boat/second car?

Knowing the above, how much will it cost?

It is also worth budgeting for the purchase of new furniture and white goods as often your existing items will not suit/fit in to your new home.

Lastly, transaction costs (selling and buying) need to be accounted for. When buying and selling a property you will incur stamp duty, agents' fees, advertising fees, brokerage and moving costs.

It is not suggested that such an option should not be considered; simply outlining that a realistic benefit should be calculated.

#2 Failure to maximise health

Travel is a joy that many retirees benefit from, but as years pass the excitement of sitting in a plane or car seat for an extended period or moving from hotel room to hotel room may become a drudgery. Even extended periods of driving may be ruled out due to a change in health of either member of the couple.

Often when we look back over our life we wish we had had more experiences in our youth. It is important that we do not make this mistake in retirement. Travel is just one leisure activity that ill health can cut short. We should all learn from our experience and not look back on the early stages of our retirement with regret.

#1 Not working with a professional

Working with a professional leading up to and throughout retirement should empower you to make appropriate decisions. A suitable professional will help map out your retirement plans, assist with setting goals, costing plans and budgeting for them, and in doing so provide you with the maximum opportunity to achieve your goals.

A financial planner will then make recommendations on how to apply your savings, taking into account your personal tolerance to risk, taxation and your overall situation. They will make sure that you are appropriately diversified and strategically structured to maximise opportunities and benefits whilst passing your 'sleep easy' test.

By working with a professional leading up to retirement, your plans will continually be reviewed, ensuring that taxation changes are managed, personal changes are adjusted for and continual updates occur to ensure your goals are achieved.

Working with a professional ensures that your money continues to work when you have stopped, and also assists with financial decisions to ensure that your planned lifestyle continues throughout your retirement.

If you would like to discuss any of the above information or simply have a few questions, please give us a call today to see if we might be able to assist you.

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Sources:

*Includes all supplements - Australian Government Department of Human Services A guide to Australia Government payments 20/3/2017

**Income p.a will vary depending on risk profile, investment returns, inflation rate and life expectancy

***Australian Bureau of Statistics Life Tables 2010-2012