10 Money Tips

TRAC

By David Reed

1

As investors move close enough to retirement, they may have 50c in every $1 at stake in their retirement savings.

Trying to maximise returns with full exposure to the stockmarket may no longer make sense. The issue of sequencing risk becomes crucial, ie. the order of returns on the portfolio.

In the retirement risk zone, particularly a year either side of retirement, your focus should concentrate on portfolios that assure you a return “of” capital rather than a return “on” capital.

Our preference is to take a ‘silo’ approach with retirement savings to prepare your money for virtually anything that may happen.

For example, a ‘safe income’ silo should commence via a gradual glide path of money being allocated over a number of years so as to build a floor of income, that is preferably not directly tied to volatile growth assets.

Continued exposure to growth assets is important. Research shows that as a conditional probability statement, the experience of zero returns (let alone negative returns), in the first decade of retirement may be associated with a 70-80% chance of portfolio ruin (ie. your money running out before you pass away).

Therefore, holding a second silo of money that is invested into growth assets to maximise upside potential and assure longevity of your retirement savings is crucial.

2 Many people sell their family home when entering Aged Care facilities

If you are part of the 'sandwich generation', ie. caring for your own kids and parents at the same time, then issues such as Aged Care Accommodation may be an issue that will arise in the future.

This is a specialist area where good advice can give you more options than just selling the family home, and may literally save you many thousands of dollars. Seek out a meeting with an Aged Care Advice specialist (and preferably before you attend the first meeting with the Accommodation provider).


meeting room

3

For couples with a joint or shared credit card, it may be prudent to consider applying for a credit card for each of you prior to retirement.

If either spouse were to pass away, and the credit card was in their name, then the bank may cancel that card.

If there is little income, then it may be difficult for the surviving spouse to obtain a new credit card in their own name.


EXPIRES
END

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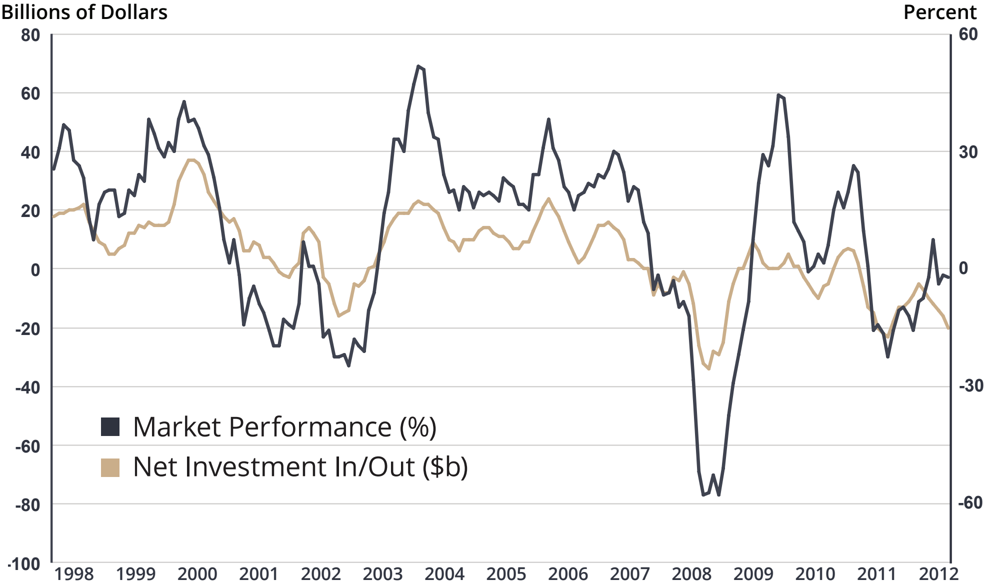
Emotions of Greed and Fear are likely to have more effect upon your retirement savings than any other decision you make.

EVIDENCE OF BUYING HIGH & SELLING LOW



The behaviour gap is up to 3.96% per year for stockmarket investors.

(Dalbar Inc 2012, USA)

If you don’t stand for something, then you’ll fall for anything.

Construct an investment philosophy that you are comfortable with.

Paying for expert investment advice can assist you with this process, and also provide you with a reliable external party to keep you from making emotional decisions. A documented investment philosophy can form the anchor point for all future investment decisions for both the adviser and yourself.

Net new cash flow to equity funds is plotted as a twelve-month moving average. The total return on equities is measured as the year-over-year change in the MSCI All Country World Daily Total Return Index. Sources: Investment Company Institute and Morgan Stanley Capital International

5 Potentially 60% of your wealth in your lifetime may come from the day AFTER you retire.

(Russell, 2012)

At retirement, many people will have accrued the most money they will ever have in their lifetime.

As compound interest commences after retirement, and in an appropriately weighted diversified portfolio, the earnings each year may result in very significant numbers. This is what Russell term 60/30/10 – ie. 60% of wealth from compound interest in retirement, 30% of wealth from compound interest while working and 10% from contributions made during your working life.

As an example, let’s say you retire with $1m. A 10% return the first year of retirement is $100,000. It may have taken you 5-10+ years of your working life to save an equivalent amount to that $100,000 earnings.

This potential can be subsequently sacrificed if your own conservatism at retirement results in moving more money into cash. We also see more so-called Lifecycle funds (that are gaining popularity with institutions by moving your asset allocation of money into a more conservative weighting of assets as you age) do similar conservative weightings.

As people are living longer, and drawing more money out of retirement savings, this conservative shift may not necessarily be beneficial in retirement.

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Research shows planning for retirement 5-10 years ahead has an increase of wealth of $157,427 for people with a retirement plan, compared to those without a plan.

(Texas Tech, 2011)

It’s never too late to start planning and saving for your retirement, but the best time to start is always today.

7

Financial literacy declines by about 2% per year after age 60 - yet confidence remains as high as when we were young.

Reduced abilities and high confidence can explain poor investment choices as we age.

Establish a written investment policy statement to adhere to for decisions.

Consider the use of a trusted adviser to assist with portfolio management and ongoing financial decisions that influence your retirement.

Studies on loss aversion show that for most people, the pain of a $1 loss is about as intense as the pleasure of a $2 financial gain.

Retirees are hyper-sensitive to losses. They have a response that a $1 loss is emotionally equivalent to $10 in gains.

Overcome behavioural biases through construction of assets into 'silos' that prepare you for virtually anything that may happen.

Assets exposed to growth asset market volatility shouldn't influence your necessary living expenses in the next 7 years or more.


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DOLLAR

For every $20 that you put into your retirement savings, it can generate $1 of retirement income per year.

9

(Russell Investments, 2009).

No matter how small, or how close to retirement, continue to maximise your savings into superannuation.

10

Self Managed Super Funds (SMSF's) are undoubtedly popular, flexible and a terrific structure for many people to build retirement savings.

Yet we are receiving queries more often now from pending retirees that have one, and the consideration of closing them down at retirement.

SMSF’s can vary from simple to highly complex, therefore it is impossible to have a hard and fast rule. Getting advice is my first recommendation and see a SPAA Accredited Adviser (ie. SMSF Specialist).

My next suggestion is to learn more about how much it costs to run your SMSF, whether you have illiquid assets (eg. property) that mean you have no choice to keep the SMSF unless you sell the property, and whether there are simpler options for you in retirement with other superannuation funds such as wholesale, retail or industry pension funds.

Finally learn more yourself about terms such as ‘anti-detriment’ benefits, creating reserves within an SMSF and think about your estate planning wishes. These factors, as well as many others, may influence your decision to keep or wind up your SMSF at retirement.

Listed References (As per each item)

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