10 things to do by 60 for financial security

BY RODNEY HORIN

Two trends that are happening in Australia – retiring earlier and living longer – are creating funding headaches for hundreds of thousands of Australians. Many who are retiring at 60 may have to potentially fund 30 years of retirement, possibly more.

This challenge becomes even more acute when interest rates are low.

I am constantly surprised how many retirees have no idea of the amount they spend each year, and therefore how long their savings will last. However, for retirees, these numbers are crucial.

Paul Keating introduced compulsory superannuation in 1992, so most Australians will have at least 25 years of superannuation savings available to them to fund their retirement. Most people would be surprised how little that amounts to, and how little income it generates when interest rates are low.

In fact, the average superannuation balance for Australian males when they retire is $271,000, and for women $157,000. Invested at 3 per cent, these two figures yield only $8100 and $4710 a year – clearly inadequate for even the most frugal of people.

The reality is that most Australians are underfunded when it comes to retirement.

If you are nearing 60 and are thinking of retirement, here are 10 things you should do to make your retirement years as financially secure as possible.

1 Know how long your savings will last

Most people find themselves underfunded in times of prolonged low interest rates.

If you require $100,000 a year to live and interest rates are 5 per cent, you need $2 million in capital. If interest rates halve, you need double the capital for the same income. If you have to dip into your capital to meet living expenses, have a clear idea of how long your capital will last. As your capital diminishes, your interest earnings will fall accordingly.

2 Clear all debt and pay off the mortgage

This seems an obvious thing to do, yet it is not unusual for older people to carry debt. Debt should be minimised, and a clear plan should be in place to pay it off as soon as possible.

3 Lower your costs of living

Successive Australian governments have altered the asset and income tests for aged pensions in an attempt to make Australians more responsible for funding their own retirements. This trend is likely to continue. Currently, 30 per cent of retirees in Australia are self-funded, while 70 per cent draw a pension. 20 years ago, 80 per cent were drawing a pension. Lowering your costs of living will make funding your own retirement easier.

4 Draw up a will and have good estate planning

Dying intestate (without a will) creates huge problems for the next-of-kin. Draw up a will and keep it current. Make sure your lawyer, accountant and executors have copies and ensure your family members know what your wishes are.

5 Keep your advisers close

Make sure your lawyer and accountant

know each other and understand their roles with regard to your financial affairs. Ideally, both should be younger than you. If your financial advisers are older than you, ask them to suggest colleagues to replace them.

6 Maximise the value of the family home

Most people's biggest asset is their home. Explore options of selling your home, downsizing, and funding your retirement through the proceeds. Retirees who work part-time can still make superannuation contributions, which attract lower tax rates.

7 Look into retirement living options

Have a good understanding of the options available regarding retirement homes. Many people find retirement homes give them peace of mind, but there can be large financial commitments involved. Retirement living is a lifestyle choice but it can come at a substantial price.

8 Understand aged care options

Whether you end up receiving care in your home or in a residential facility, the costs of aged care can be large. An ACAS assessment must be done and a Centrelink form completed before a spot at an aged-care facility can be sought. These are complicated and time-consuming. Research and financial planning done in advance is well worthwhile. The worst time to start looking at aged-care options is when you are in hospital and doctors are adamant a return home is impossible. Aged care may be funded via the rental income from a family home, but normally only if you have accumulated other investments to assist with the costs.

9 Simplify your family/corporate structures

Family companies and trusts may be useful during one's working life but diminish in usefulness after retirement. Consider the ongoing importance of a trust once you have retired. Seek accounting and legal advice on the benefit of retaining such structures.

10 Prepare your next generations

Being asked to help fund your grandchildren's education, or your children's lifestyles, can be difficult requests to turn down. Do your best to ensure your children are responsible and have jobs that produce income streams to cover their own expenses.

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