

# Plan for a secure old age

A long life is fine but not on the breadline, so best be prepared

JACK Bogle, one of the fathers of the US managed investments industry, often said investors should hold low-risk assets in line with their age and increase the share over time as they aged. So a 65-year-old should have about two-thirds of their assets in low-risk bonds, for example, and the rest, say, in shares.



**Tim Blue**

That sounds about right, were it not for one thing: we are living so much longer that we may well outlive our assets. Some growth assets are still needed as we live longer and run into tight-fisted governments.

At the moment there are four people of working age for every one of retirement age. This is changing so fast that in 40 years — a little more than one generation — the ratio will be only two working people supporting one in retirement. Governments surely will be scratching their heads about how to fund the oldies and will not be keen to lift age pensions.

It has probably slipped your mind that next year is 65 years after 1945, and that means the baby boom demographic bulge is moving into retirement.

Challenger Financial Services suggests that retirees will grow from 13 per cent of the population this year to 22 per cent in 2049.

Dante De Gori at ClearView Retirement Solutions says given the big unknown — how long a client will live — advisers need to plan for it. “A difficult issue, but there are measures that they can take to reduce the unknown,” he says.

De Gori suggests planners do income projections for all clients to age 100. Life expectancy tables are an average figure so clients have a 50 per cent chance they will live beyond their projected life expectancy. “Always include growth assets in a client’s portfolio as this will be the part that will drive long-term growth and income, providing longevity on their capital,” he says.

Planning for Centrelink support is well worth considering, says De Gori. “Clients may not be eligible now but many will become so. Using Centrelink income can help reduce the impact on clients’ capital and prolong it.”

Then there’s the question of how much one needs in retirement. One rule of thumb is to think your capital could generate earnings of 5 per cent a year. So if you have \$200,000 in super, you could expect it to deliver about \$10,000 a year or \$200 a week.

This is not the lap of luxury. The Association of Super Funds of Australia suggests a comfortable lifestyle requires about \$50,000 a year for a couple and \$30,000 for a single person. Based on the 5 per cent rule of thumb, you need capital in the order of \$1 million for a couple.

If this is daunting, all is not bad news: don’t forget Centrelink. Provided they qualify for a full age pension, this couple could receive combined age pensions of \$1013 a fortnight to supplement their \$200 a week super pension. Together, this is \$36,738 a year (\$10,400 a year from the super pension and \$26,338 of age pensions). It is not quite the \$50,000 a year ASFA suggests you need for a comfortable lifestyle but well above the more modest lifestyle.

New products known as annuities coming to the market may also help. ING, AXA and Challenger have products that have been improved and tweaked to allow for our longer lives.

“These new products are likely to have considerable appeal,” says Watson Wyatt managing director Andrew Boal. “As part of an overall retirement plan, they can be used to give more certainty about a minimum guaranteed level of income for at least life’s essentials, no matter how long you live. Above that level, retirees can choose to retain full flexibility with any remaining retirement savings using an account-based pension.”

De Gori suggests that when starting an income stream as part of a retirement plan, leave 10 per cent to 20 per cent of the balance aside in superannuation or in other investments such as managed funds as a kind of insurance for a longer life. “It will provide another lump sum to invest while your income stream is finishing.”

Retirees should review their retirement finances at least annually. “This will help with longevity as an adviser and a retiree will know what position they are in each year and so there are no nasty surprises of money running out too early,” he says.

Joanna McCreery, a financial planner at Majella Wealth Advisers, says when the firm is making projections for how much a client needs to save to achieve the retirement income they want, it assumes clients may live a lot longer than their official life expectancy. “For instance, if we are working out how much a female client needs to save by the time she is, say, 60, we assume that she needs enough to be able to draw an income from her savings for longer than just 25 years (the present female life expectancy for a 60-year-old). We would assume 30 or more years, depending on the client and her family history.”

When advising retired clients on where to invest

assets, McCreery makes sure they are aware that their savings need to last a long time. “They may need to invest a reasonable portion in growth assets to ensure that the value of their savings is not eroded by inflation. Naturally, preservation of capital is important to a retiree, so we often use capital protected products to allow a greater exposure to growth assets.”

And as Wyatt suggests, research the product options that can help with longevity. “As a last resort you can always tap into your home equity using a reverse mortgage to help provide extra income, though you should always exercise caution here and get good advice before doing so.”