How to Prepare for Retirement

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Who's ready for retirement?

You've saved, invested, and the nest egg has been steadily growing. You've even designed a blueprint of how you will fulfil the next stage of your life. Now all you have to do is hand over the security pass and enjoy the farewell drinks. Not quite that simple, though, is it? Like all great life changes, a solid plan goes a long way in helping make this transition as seamless as possible! Let's delve into four key

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factors that contribute to this challenge and how identifying them can help you can prepare for retirement:

- Health probabilities;
- Investment misconceptions;
- Hesitancy in planning; and
- Longevity.

Evidence shows that retirees are living longer. Research from The World Economic Forum demonstrated that a boomer, born in 1947, had a life expectancy of around 85 years. In contrast, the last cohort of generation X, born in 1977, would live closer to 94 years of age.

1. Longevity

Here lies a significant risk in today's preparation of retirement planning, longevity. Deciding when to commence the next phase of our lives, choosing the timing or extent of continuing to work is challenging. Having clarity around the time frame of starting this transition helps determine how much we need to save and how our standard of living can look until this point. Often, just as the ink dries on our newly formulated retirement plan, it needs to be redrawn, updated, or adjusted. Why? We see people retire earlier than they anticipate for many reasons, ranging from their health to the economics resulting from global pandemics. This is all before we assess the probability of living longer. Longevity risk can be a significant blind spot when contemplating our future. With this risk comes the likelihood of falling short of the mark—the possibility of outliving our savings. This is a fear for many. Considering that 94 years is now an average life expectancy, we need to prepare our retirement plan with an expectation of living to 95, or even 100, ensuring this more significant demand on our accumulated savings can be met.

2. The health factor

Another factor to consider as your prepare for retirement is health care and assisted-living costs requirements. Articles often discuss savings you can make when you're no longer heading to the workplace five days a week. Saving on petrol, train fares, dry-cleaning, lunches and the daily latte habit. Given this view on potential savings, we shouldn't be surprised that so many of us fall back on a rule of thumb; that we need to replace 80% of our income from our regular earning years once we flick the switch to living the good life. In reality, the 80% "rule" is simply a guide. It’s a starting point to measure our intended lifestyle. Some retirees initially spend more than they did while working, seizing the opportunity to travel and enjoy a preferred pastime with more vigour and persistence. The spending pattern described above is known as the retirement smile. An initial spend doing all the things we dreamed of. After this phase, we often see a gradual tempering of expenditure. In other words, before increased costs in healthcare and assisted living services to become a reality. These costs and their timing can be one of the most prominent factors to be poised, planned and ready for. Discover how to live a healthy retirement, with our podcast, Talking About Retirement with Damon Sugden.

3. The investment 'misconceptions' factor

Many prospective retirees consider the simple rule of thumb approach to investing and asset

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allocation: 100 minus Age = Growth Assets. To put this into practice, a 70-year-old would place 70% of their portfolio in defensive assets, such as high credit quality bonds. However, the persistence of low-interest rates sees income from term deposits and higher-quality investment-grade bonds inadequate to generate sufficient returns. Such a high level of funds allocated to this asset class sees it challenging to combat future inflationary pressures or meet an adequate level of investment rule #1, diversification. Therefore a more significant proportion of our capital in retirement needs to target an adequate long term return. The challenge is finding investment solutions that:

- Generate acceptable returns while not unduly increasing risk;
- Meets our 'risk capacity' or financial ability to endure market ups and downs;
- Factors in our preferred level of risk, the sleep at night test; and
- Targets our required level of risk to see our money is sufficient for our lifetime.

Read the Seven Biggest Misconceptions About Retirement.

4. The planning factor

Lower take up in preparing a retirement plan is well researched. A survey conducted by Fidelity in the US talked about how prepared retirees felt in their post-work-life transition. The result showed that 94% who have a documented plan claim they felt far better prepared and, importantly, more confident. While many of us may possess some of the required skills to conduct such planning, the benefits of engaging a financial services professional will stand out in an ever-changing economic, social and legislative landscape. The key is in appointing a trusted professional. Hand the work over to someone else! An adviser who assesses your financial position while considering your ability to live life to its fullest, through all stages of life, despite living longer... If you would like to speak to one of our Advisers about how you can prepare for retirement, please contact us. *Here's to retiring better!*[/vc_column_text][/vc_column][/vc_row]

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> *Damon works with families and individuals to structure their wealth in a way that helps them lead happier, more fulfilling lives.*