futuro FINANCIAL SERVICES

Observer

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The greatest challenges facing future retirees

Most working Australians aspire to the idea that they'll reach a point where they can retire debt-free and with enough money in their superannuation fund –

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The greatest challenges facing future retirees cont...

perhaps supplemented by the age pension – to provide them with a comfortable standard of living in retirement.

For many that remains a reasonable aspiration, but a growing range of challenges mean that retirement goals that could easily be achieved a few years ago look like being harder to achieve in the future.

Losing interest?

One of the greatest challenges facing future retirees (and current ones) is the fall in interest rates. Retirees have long relied on term deposits and annuities to provide steady, low risk income. However, an investor who has seen term deposit interest rates fall from, say, 3% to 0.3% has experienced a 90% fall in income. This is driving many investors to look for higher yielding assets such as shares, though it needs to be kept in mind that pursuing this yield means taking on more risk.

Eating the nest egg

The federal government's COVID-19 Superannuation Early Release Scheme saw 4.9 million applications to withdraw a total of $36.4 billion from super accounts. Many young people withdrew their full balance and will have a hard time playing catch up, even if it will be decades before they retire.

House and home

More retirees are hitting retirement with an outstanding mortgage. In times of low interest rates this isn't necessarily a bad thing. In fact, the wise use of debt can enhance your financial position at retirement. But if (or when) interest rates rise to historically 'normal' levels, anyone without a sound strategy for addressing the situation could see their financial position weaken.

Also of concern is the number of retirees who rent their homes. Even a modest home provides a high level of financial security that is unavailable to the non-homeowner. Single women are over-represented in the non-homeowner category and women are, in general, less well served by our superannuation system than men. The gender pay gap and time taken out of the workforce to raise families see women retire with 47% less super than men.

Aging and health

Australians are living longer than ever before, with women outliving men by five years. However, those extra years may not come with good health, so aside from funding an extended normal retirement, retirees will also need to prepare for the cost of in-home or residential aged care.

Australia's demographic time bomb will see an increasing number of non-working older Australians become dependent on a smaller number of younger Australians to make stuff, provide services and generate the tax revenue needed to run a country. Pressure is likely to mount on retirees to contribute more to the cost of the services they require. That could be through increases to the age pension age, or greater use of home equity funding, such as reverse mortgages.

Don't delay

An investor's most valuable asset is time, and it's never too early to start planning your retirement. You should also review any plans that may be out of date.

While some of these challenges may seem daunting, there are viable strategies for addressing each one. So don't delay. Your licensed financial planner will be able to assess your situation and help you develop a strategy to thrive in retirement.

A great way to help your kids – and you

We are always hearing about how important it is to insure our own lives and income, but what about insuring our children's?

How would your adult child and their family survive financially in the unfortunate event of an accident or an illness that prevented them earning an income for an extended period of time?

Income protection, TPD and trauma insurance are often not a consideration to a young family in today's financial climate with many struggling with mortgage repayments, education spending and increased living costs.

But what would be your role if your child and their family were suddenly without an income? Without adequate insurance how would they cope?

What if you had helped your child to buy his or her first home and that child suffered a long term-illness or disability? How would that affect you if they couldn't make the repayments?

Here's a scenario...

Alan and Joanne's married son Tim was involved in a car accident, sustaining a spinal injury that prevented him from working for two years. Unfortunately, Tim did not have income protection or accident insurance.

The bank foreclosed on his mortgage and Tim and his young family were forced to move in with Alan and Joanne. Eventually, Tim recovered and was able to return to work.

Aside from the emotional impact on Tim and his family, Alan and Joanne's retirement plans were seriously compromised. Joanne's health deteriorated due to the extra stress of the situation, and she was diagnosed with severe depression.

What could Alan and Joanne have done differently?

They could have asked Tim if his income was protected in the case of an unforeseen illness or injury, Learning that the young couple was allocating all spare cash to the mortgage, the parents might have offered to help pay for adequate insurance cover.

Even if you are not in a position to contribute to the cost of their insurance, raising the issue with your adult children and encouraging them to talk to a financial professional could be some of the best guidance you could ever give them.

An important conversation

None of us likes to consider our own mortality. For our older loved ones, it's an even more confronting topic and difficult to discuss.

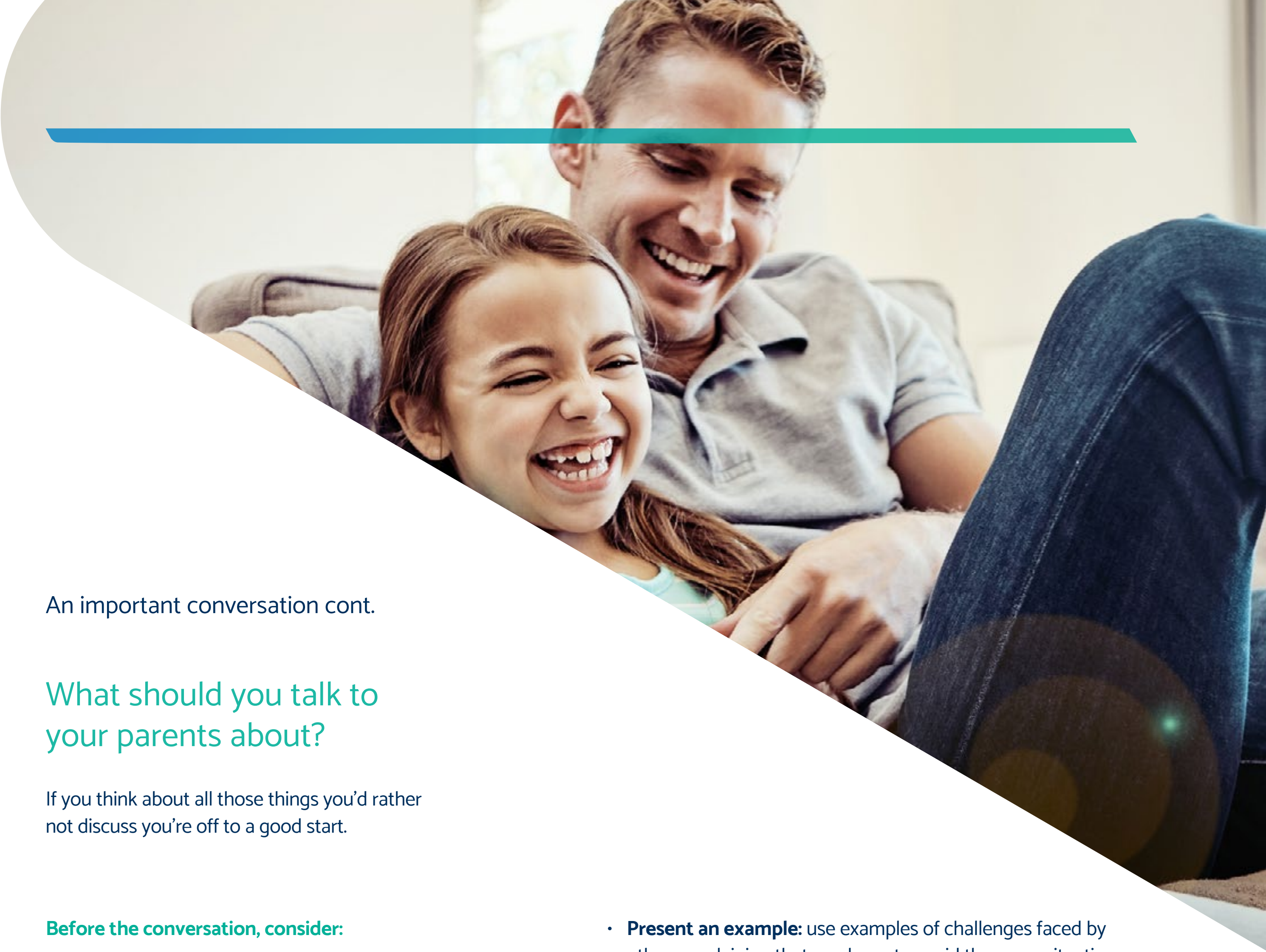
When Lindsay became ill, his family's priority was to support him through his treatment, and keep him positive and as comfortable as possible.

Typical of his generation, Lindsay had always been very private, never sharing personal information – not even with his nearest and dearest. After he passed away, it dawned on the family that nobody knew whether Lindsay would have preferred cremation or burial. At such an emotionally charged time, the question caused quite a dispute.

As parents, we aim to have open dialogue with our children over issues like drugs, sex, etc. But as our parents age, difficult discussions around medical arrangements, Wills, money, etc, are usually put off until something occurs to trigger the talk. Often, by then it's too late, which is why it's so important to communicate while you still can.

Once Lindsay's funeral was over, the family faced more complex questions: did Lindsay have a Will? Was there any insurance? What investments and assets did he have? Trying to locate Lindsay's paperwork and make sense of his finances became a nightmare.

If only someone had asked him . . .



An important conversation cont.

What should you talk to your parents about?

If you think about all those things you'd rather not discuss you're off to a good start.

Before the conversation, consider:

- Finances, assets, investments, accounts, insurance policies, etc
- Will:
  - Is it current?
  - Where is it kept?
  - Who is the executor?
- Medical:
  - Medications
  - Power of attorney
- Funeral preferences
- Aged care arrangements, family home, care facilities
- Location of important documents
- Usernames and passwords for online accounts
- Contact details for doctor, financial adviser, trustees, power of attorney, solicitor, executor, etc.

During the conversation

- **Extend an invitation:** invite your loved one to express their feelings and articulate their wants. Present the discussion as a means to making their life more manageable. Stress that you're not taking over, but that you care and that they are in control.
- **Present an example:** use examples of challenges faced by others, explaining that you hope to avoid the same situation. Tell them you'd like to help them organise their paperwork to provide peace of mind and a plan for their future.
- **Support independence:** point out that you're not reducing their independence but ensuring they maintain their independence as long as possible.
- **Don't judge:** as your loved one opens up, listen respectfully and without judgement. Encourage discussion around their choices so you can understand and help implement them.

Carefully consider your approach. These are sensitive topics, introduce them gently and tactfully. It may be helpful to involve their executor, financial adviser or accountant.

Finally, just when you think your job is done, have the same discussion with your children, only in reverse. Be clear about what you want and why you're talking to them.

Children don't want to think about your mortality any more than you do. They'll think you're overreacting and probably won't thank you for the information – not right now anyway. But that's the nature of kids.

The main thing is that when your time comes, they'll realise you've saved them a lot of heartache.