"You're a long time retired"

"The importance of money flows from it being a link between the present and the future."

John Maynard Keynes, Influential 20th century economist

If you have just retired, or are just about to, the recent market volatility may have you more worried than most. Here are a few ideas about what you can do to lessen the negative effects, and ensure an acceptable level of income for the next twenty or so years.

Everyone has been affected by the market falls in the past year. But if you were planning to retire soon, or have just finished up work, you are likely to be even more worried about what affect your diminished investment will have on your retirement income and lifestyle.

There are still several things you can do to boost your income and set yourself up for the future. To help you see in a practical sense the difference some of these strategies can make, let's look at John and Mary's situation.

JOHN AND MARY – OUR CASE STUDY COUPLE

John, 65 and Mary, 64 had $1,000,000 in investment assets within a 'balanced' portfolio in addition to the family home on 1 July 2007. The majority of this money was in superannuation so they will pay no tax in retirement.

Assuming a portfolio return of 8% pa over the next 25 years, John and Mary were expecting an $89,765 annual retirement income. This would have included total Centrelink payments of approximately $330,022.

However, over the past 15 months, the value of their nest egg has fallen to $831,760, which will reduce their retirement income. The good news is that their Centrelink payments will increase to go some way to covering the shortfall as they will now be eligible for increased support. In the meantime, John and Mary consider some other options:

- **John keeps working.** If John retires now, his retirement income for the next 25 years would be $76,169 pa. However if he puts back his retirement for five years, and can save $15,000 pa, that income would rise to $91,376 a year (assuming, in both cases, that his retirement capital was invested in a balanced portfolio earning 8%).
- **Changing the balance of their portfolio.** John and Mary have been spooked by the markets and are thinking about changing the assets in their portfolio. Their adviser shows them the following calculations:
  - If they kept their nest egg of $831,760 in the balanced portfolio, and over the 25 years of their retirement it earns an annual average return of 8%, they would enjoy an annual income of $76,169 (including Centrelink payments).
  - However if they moved 70% of their assets into cash and fixed interest (which represents a defensive type of portfolio) assuming a return of 6.00%, their income would drop to just $66,604 pa (including Centrelink). They would have gained more security and certainty, but at the cost of tens of thousands of dollars over the length of their retirement.

John and Mary decide to make the most of the opportunities they have at the moment. John will work part-time for another few years so they can make the most of the potential of future market increases, and they will leave their money invested mainly in the balanced portfolio with approximately 65% in growth assets as shown in the table overleaf, knowing that a couple of sacrifices now, will still bring them greater rewards in the future.

Here are some other ideas to get you thinking:

HOW TO MAXIMISE YOUR INCOME

- **Access Centrelink payments.** Depending on how much the value of your assets has fallen, you may be eligible for more Centrelink support. This will help to supplement the reduced income from your investment assets. When markets are performing poorly, it makes sense to maximise your eligibility for Centrelink benefits and this is one area where financial advice can be particularly valuable.

ADVANCE
A member of the St George Group
INVESTIGATE

AFFECT OF MARKET CRISES

Investor risk profile ranges of asset allocation

Investor risk profiles suit different asset allocation ranges as demonstrated in the chart below. For example, an investor looking for high growth will have between 40-46% of his portfolio allocated to Australian Shares whilst a Moderate risk-profiled investor will have between 19-25% allocation to Australian Shares.

	Defensive		Moderate		Balanced		Growth		High Growth	
	Min %	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %	Max %
Australian Shares	9	15	19	25	27	33	33	39	40	46
International Shares	4.5	10.5	12	18	21.5	27.5	28	34	38.5	44.5
Property	3	9	4	10	5	11	6	12	2	8
Australian Fixed Interest	22	28	18	24	11	17	4	10	0	0
International Fixed Interest	17	23	14	20	7	13	2	8	0	0
Other	1.5	7.5	3	9	4.5	10.5	6	12	7.5	13.5
Cash	22	28	9	15	3	9	0	6	0	3
Average Total Growth Assets as a percentage of total portfolio	25%		45%		65%		80%		100%	

Source: Advance Alliance Investment Suite February 2008

John and Mary's balanced portfolio

- **Work longer.** It may not be what you had in mind, but hanging in there for a few more years, at least part-time, will make a big difference to your retirement lifestyle. Firstly, you can delay or reduce money coming out of your retirement capital. This gives your investment more time to grow in a tax-effective environment. Plus, while you're still working, you can continue to contribute to super.

This may help offset some of the value 'lost' in the recent market downturn and you may even be buying into investment markets at relatively cheap prices, improving your potential for long-term gains.

- **Think thrifty.** You may have been looking forward to retirement as a time when you can take a long holiday or upgrade your car or home. After decades at work, you deserve it. But since you've waited this long, are you sure you can't wait just a little longer? If you are able to leave more money in the tax-effective super/retirement environment now, you'll be much better off in the long run after your capital has had a chance to rebuild.

HOW TO LOOK AFTER YOUR PORTFOLIO

- **Take a long term view.** Life expectancies for Australian men and women stretch well into the 80s. Retire in your early 60s and you still have 20 years of spending to do. Fortunately you also have 20 years of investing to meet those costs.

When you're retired you need a predictable income to live on, so it's understandable that you may lean towards investing in more conservative assets. But don't forget to protect your capital from taxation and inflation by investing in growth assets like shares and property as well. Even if you're around retirement age, you do have time for your growth assets to recover from a downturn. Your adviser can help you get the balance right between secure investments that pay for your retirement, and more volatile long-term growth investments that act to protect your capital from inflation and taxation.

Maintain a balanced portfolio. You wouldn't be the only investor who in recent months has considered liquidating their portfolio for the security of cash. But while cash has an important role to play in your portfolio – and the experts are saying you may now need a few years worth of income in reserve – over the long-term it won't provide you with the growth you need to maintain your investment value, and ultimately, the lifestyle you want. It's important to talk with your adviser before moving your retirement capital into defensive investments.

MAKE THE RIGHT DECISIONS

In the current market environment security is rightly a priority. Yet even at 65, believe it or not, you still have time on your side. Consult your adviser before you make investment decisions that could cramp your lifestyle not just over the next few years, but for decades.

Only a financial adviser can provide you with tailored solutions to meet your individual situation and objectives.

ADVANCE
A member of the St George Group
INVESTIGATE