# Retirement planning for owners and employees: Start early and stick to the programme

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## Retirement

Retirement is a fairly modern concept – in the past, most people worked until they dropped. Retirement is changing again with many different ideas and versions for what it will be like. Changes to work – especially the smaller amount of hard manual labour – means that people can work longer if they want to or have to. The key is always going to be working out what you want in retirement - and then making sure that have the resources.

- ‘Retirement’ is not necessarily the right word.
- A relatively new concept.
- In any event, retirement is being redefined.
- There are many versions and visions of retirement.
- Good to think in terms of twenty (or more!) good summers.
- Beware playing catch up if you are financially behind in the game.

## Retirement is scary

Many people face retirement with trepidation – this may be for financial, personal, social or family reasons or simply because a big change is coming at a time of life when change is no longer easy. A big part of the fear is about getting enough income from your investment capital – especially so at a time of volatile markets and low cash returns.

- Retirement is a major developmental stage when change is not necessarily easy.
- Social adjustments need to be made.
- Family adjustments need to be made.
- Work adjustments need to be made.
- Financial adjustments need to be made.
- Retirement is not a single event which happens on just one day.
- Most people go from building wealth to using their wealth on which to live.

## Set the goal

Working out how much money you will need in retirement and then setting a goal for that is the greatest preparation that you can make for retirement. The earlier you do this the better – not just because it is easy to build wealth from a younger age than it is to start to play catch up at 50, but because you also know exactly where you are going. A journey with the destination well defined is a lot easier and less stressful than wandering around aimlessly. Research shows that SMARTI goals are much more likely to be achieved.

The best thing you can do financially is to set a goal. Goals should be:

- Specific

- Measurable
- Achievable
- Relevant
- Time-bound
- In writing
- Goals need to be numeric – e.g. "we will have a net worth of $1m by end of 2022".
- Your main financial goal will always be your freedom figure (the amount that you need for financial freedom).

## How much is enough?

This is the big financial question. There are seven factors which make up a matrix and you may be able to alter any one of them to have some confidence that you have enough to live well in retirement. These seven factors make the calculation for how much is enough a very difficult one – any one of them can change and throw out the final result. However, it is still better to attempt this calculation than not try at all – the amount that you need may not work out perfectly, however, it is better to know broadly what you might want than have no idea at all. The amount that you decide that you need is your 'freedom figure' and that should become your big financial goal.

There are seven factors:
- Lifestyle
- House
- Other income
- Work
- Age
- Inheritances
- Investment returns

Calculating your goal is not easy. Any of the above factors could change and make the figures incorrect. Nevertheless this should not stop you trying – any SMARTI goal is better than none.

Try a six step exercise:
1. Imagine a certain amount of net worth: (a reasonable amount for you to go into retirement with).
2. Deduct the value of your house and lifestyle assets.
3. Apply investment returns to the balance (say 3-4% real rate of return).
4. Add other income.
5. Do a mock budget in retirement.
6. This is your surplus or deficit.

If you do not have enough to retire, you can try changing one of the seven factors (e.g. how much you have in lifestyle assets).

## The time value of money

If you still do not have enough to retire, you need to think about how to grow wealth. All of the numbers show that the earlier you start the better off you will be – you need time for compound interest to do its work. You also need a strong surplus to save and invest – the rate of saving will nearly always beat the investment rate of return.

- Two keys to growing wealth:
    1. Time – as long as possible means starting as soon as possible.
    2. The savings rate will beat the investment rate of return.
- Everything else is detail.
- Don't let the detail distract.
- The important questions: How much can you put aside and how quickly can you start to do it?

## Invest to a plan

Research shows that your asset allocation will determine most of your investment performance (risk and return). Asset allocation is the percentage of your assets/investments in the main asset classes – shares, property, bonds and cash. This is determined by a range of things which make up your investment type (i.e. whether you are a conservative, balanced or aggressive investor).

- Find your investment type. The important factors are:
    1. Time to retirement.
    2. Your investment personality.
    3. Your investment type sets the asset allocation that you will have.
- Asset allocation is the most important factor for investment performance (both risk and return).
- Find your investor type on www.sorted.org.nz.

## Consider your investment style

You need to make a decision as to whether you will manage your own investments or have someone manage them for you. There are pros and cons for each approach:

- Managed:- pros
    - Let the professionals manage for you.
    - None of your time involved.
    - Easy access to difficult markets.
    - But…
    - There is a cost.
    - And a lack of control.

- Self-managed:- pros
    - You are in control.
    - Lower fees.
    - Flexible and ability to access securities quickly.
    - Good learning.
    - But…
    - Difficult to access difficult markets (off shore and commercial property).

## Timing

Markets are very difficult to time. However, there are times when certain investments are great bargains (times of great economic gloom) and times when they are grossly over-valued (boom times). That old saying: "*buy in gloom, sell in boom*" is very easy to say, but very difficult to do. Most people do precisely the opposite – they buy into bubbles and sell out when the market has crashed – to their great cost.

- Beware bubbles.
- Bubbles are always followed by crashes.
- Bubbles appear regularly in most markets.
- Consider dollar-cost averaging.
- Dollar-cost averaging simply means drip-feeding into the markets.
- Be sure to change investment strategies gradually (affectively dollar-cost averaging).
- Beware being panicked into or out of markets.