RETIRE READY
FINANCIAL PLANNING
THINK AHEAD.

March 2015

In this edition of our client newsletter we've gathered some key insights and commentary to help inform your financial and investment decisions.

This year is shaping up to be another challenging year in the world's markets. This means it continues to be important that you have clear goals in place which you are working towards with a strategy that's going to work over time.

Achieving your lifestyle goals now and in the future is important to us, so we'll continue to keep you informed with the latest thinking and ideas on key topics of interest throughout 2015.

To discuss any of the ideas raised in this newsletter, please don't hesitate to contact us. We hope you enjoy reading this edition.

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Make working later in life work for you

Tips for taking a freestyle approach to work and retirement

The relationship between work and retirement is changing. Nowadays we expect a lot more from our later years than previous generations—we're no longer satisfied with treading water and we want to go freestyle.

But with the pension qualification age increasing, people living longer and concerns about whether we have enough money in our super, we may have to work longer to generate enough income to maintain our lifestyle and enjoy a comfortable retirement.

For an increasing number of Australians working longer in life doesn't mean continuing on the 9-5 treadmill. They are making an active choice to go freestyle, match their career with their passion and continue playing a meaningful role on their own terms.

So after years putting the family first, now's the time to think about your needs and how best to combine your working income with your retirement savings.

Ways to help you make working longer work for you

- **Change the way you work**—think about going part time, job sharing or consulting.
- Maintain your employability by **marketing your expertise**—network and become your own brand.
- Pass on your knowledge to the next generation by **mentoring young Australians** through a programme like Elderberry.
- Tap into your inner entrepreneur and join Australia's growing band of **seniorpreneurs** by starting your own business.
- Talk to a **retirement coach** about how to move from a full time job to part time work, a small business or retirement.
- Don't **price yourself out of the market**—consider taking a pay cut for the right move.
- Rather than jumping straight from **full-time work into retirement** think through the consequences for your health, social contacts and finances—and how you could make the transition easier, working part time for example.

Government regulations about what you can do and when

- At 50 you can pay more into your super from your **before-tax salary**—up to $35,000 pa.
- At 56, you can start **a transition to retirement strategy** to reduce your working hours and maintain your after-tax income.
- At 60, if you can access **your super, it will be tax-free.**
- And once you're eligible for the age pension, you can access the Work Bonus, which allows you to keep more of your income or work for short periods with little effect on your pension.

Restrictions that can apply

- At 65, you can no longer bring forward two years' worth of **after-tax super payments** to make a total contribution of up to $540,000.
- And you may be unable to access **workers' compensation or insurance cover** following a workplace accident.

Talk to us about how to structure your work, lifestyle and finances so that you can go freestyle.

After the dust settles, a fresh start…

Taking stock of how your life's travelling at the start of a new year is probably an exercise you're likely to pursue with greater urgency if you've recently come to the end of a serious, long term relationship or gone through a divorce. What's next, you want to know. How do you rebuild your life, is your financial outlook positive, what happens if you find a new partner? The questions, and often anxieties, pile up.

While the key things in life are good health and loving relationships, financial security is very important too. But there are steps you can take to get your life back on a more stable and desirable foundation, at least from a financial point of view.

For many recently-divorced or separated, you may find yourself with a significant lump sum, being your share of the financial settlement. It's probably best not to do anything too major with that money, such as going out and buying a home, too soon after you get it. Take a breather, wait a while until the emotional dust has settled and you're thinking more clearly about what to do next. Whatever you do, don't go on a spending spree – this money is likely to be critical to your future financial security.

Goal setting

When the dust settles identifying some short, medium and long term goals and creating a financial plan is a sound step. With a plan you're likely to feel more in control and less anxious about what's ahead – a plan helps you shape your own future, rather than being shaped by it. It's at this stage that a good financial adviser can help you formulate goals and provide a pathway, and strategies – in areas including investment, super, tax, insurance and estate planning, to help you reach them.

How much can you spend and save?

One thing you should do as you make a new start in life, is make a budget – reflecting your life ahead, not your former lifestyle. A realistic budget means taking control of your money, helps you keep spending in check, and shows you where savings can be made – a key building block for your new future.

Until you're accustomed to your new circumstances, try to avoid taking on any new debt, and aim to pay off any existing debts, starting with the highest interest ones first. If you've taken over the (pre-separation) family home and there's a mortgage over it, or you end up buying a new home somewhere down the track, aim to pay the home loan off and become mortgage-free as soon as possible.

A secure future

The amount of super you have following a separation/divorce may be less than you had before it. Because super is so tax effective, it can really make sense for you to try hard building it up for your future, and salary sacrificing can really help. Again, talk to your financial adviser about this, it can be a complex area and you're very likely to benefit from professional help.

While separation and divorce is likely to put you through an emotional wringer, things are likely to improve. You wouldn't have gone through the distress of a break up if you didn't think a happier life lay beyond!

If you choose to re-partner, consider a prenuptial agreement, more accurately termed a 'binding financial agreement', drawn up by, and signed in the presence of, your lawyer. It's designed to help protect your assets in the event of a split up and helps remove the anxiety about sharing your future with someone new.

Don't forget your estate planning. A post-divorce life, with or without a new partner, calls for new arrangements. With new challenges come new opportunities for personal happiness and growth so when you're able to clear the fog, grasp your new opportunity with both hands!

Retraining your savings brain

Where there's a will there's a way, especially when it comes to saving. The latest scientific findings reveal that although fewer than 25 per cent of us have a genetic predisposition to squirrel money away for the future, we can all learn to save if we set our mind to it.

According to Dr Hersh Shefrin of Santa Clara University in California, a further 25 per cent of people will always struggle to save thanks to a part of their brain that does not respond to a hormonal stimulus which encourages strong willpower.[i]

The good news for those with impulsive personalities is that there are many behaviour-changing techniques and online-based tools that can be used to increase your ability to save.

As knowledge expands about how the brain can be retrained to create new pathways for processing information, so does the knowledge that anyone can learn how to flex their savings muscle.

Nature vs nurture

It's been found that a gene named COMT[ii] determines whether we are born spenders or savers.[i] It turns out that those of us with a certain COMT variant are more likely to have the pleasure hormone dopamine present in the part of our brain that controls learning.

If something is pleasurable we are more likely to give it a go. So if learning is pleasurable it is easier to acquire financial knowledge then go on to save rather than become an extravagant spendthrift.

Science has also shown that your response to the different ways of increasing your natural saving habits will depend on how your brain is wired. Washington University's Stephan Siegel researched the spending habits of thousands of sets of twins and discovered that genetic differences accounted for about a third of the reason why individuals were more likely to save than not.[iii]

Your money personality

The key to financial success begins with an awareness of our unconscious behaviour.

A study involving MRI scans has also shown that different parts of the brain light up when an individual is presented with a series of prices for a product. In some study participants, a high price will activate the part of the brain that suggests purchasing is risky and, therefore, the temptation to spend is subconsciously diminished.

In other words, learning how to control the impulse to buy non-essentials could be as easy as redefining your attitude to what constitutes risky spending.[iv]

To better understand your approach to money, you could take one of the many online quizzes designed to identify your spending personality.[v] Once you are aware of this you can begin to reassess your perception of financial risk when you go shopping.

Parents can also reinforce responsible attitudes towards money by helping their children understand financial consequences and enabling them to develop lifelong saving habits.

Savings strategies

A simple technique that works well if you are saving for investments, children's education or a holiday is to place a picture of the goal you have in mind on an envelope. A photo of your child on an envelope is more likely to encourage parents to put money in it.[vi]

Similarly, a picture of a holiday destination placed somewhere you look regularly can make it more compelling to save for that dream vacation.

Another trick is to remove temptation. If you do your banking and budgeting electronically you could use one of many online apps designed to divert a portion of your regular income to a savings account automatically.

There are even banking products that can calculate how much needs to be put away each week to reach your savings goal and transfer that amount into your nominated account.

If you would like to be better at managing money, your financial planner can show you how to exercise your savings brain and help you reach your personal goals.

i www.chase.com/online/chase_blueprint/document/JPMC_Chase_BornToSpend_FINAL.pdf

ii COMT is short for catechol-O-methyltransferase

iii http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1649790

iv http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1876732/

v http://d1c25a6gwz7q5e.cloudfront.net/papers/1342.pdf . Page 35.

vi http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1732709