BE PREPARED

Australians are living longer than ever before, so it's important your retirement portfolio can support you for the rest of your life.

BY JESSICA ABELSOHN

If you haven't discovered already, retirement can be an exciting time in your life that brings new hobbies, more time with loved ones and holidays. But one of the greatest downsides can be no longer having an employment income. Enter your retirement portfolio.

In an ageing population, people need more options than just their superannuation.

"You hear of so many retirees who, after working so hard throughout their lifetime, reach [retirement] and are solely dependent on welfare payments," says Peter Telenko, a representative from Adelaide Financial Planning. "Once in this predicament, there's no going back. It's not a great way to reward yourself after all those years spent working."

Telenko also notes that the ageing population will only put more pressure on Australia's welfare system, unless those approaching retirement are financially prepared.

According to an Australian Treasury Report released in 2010, "men aged 60 in 2050 are projected to live an average of 5.8 years longer than those aged 60 in 2010, and women an average of 4.8 years longer".

While people spend between 40 and 50 years working, there's still an additional 30 years or so spent in retirement. This means that when people retire, they'll have many more years ahead of them, and they'll need enough money to live comfortably during this time.

Planning ahead

According to Telenko, people should be thinking about their retirement in the early years of working. "The earlier you start to accumulate money, the better. It gives you the luxury to contribute a smaller amount as you can leverage on the strategy of compounding interest," he says.

"It's the old analogy of pushing a small barrel of money up a gradual incline, the steepness of incline being the length of years to retirement. Compare this to a shorter timeframe with the challenge of a steeper incline – the barrel of money needs to be larger to achieve the same outcome."

The Financial Planning Association of Australia (FPA) suggests you think about what you need and what you'd like, being honest about which is which. While the FPA »

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emphasises living costs, they also make note of incidentals that may pop up, such as a new car or renovations to your home. Also, don't forget those holidays that you so richly deserve.

And of course, throughout life, there are things that can occur that are out of your control. Markets change, legislation changes and your circumstances change. You need to be prepared for anything that may transpire.

It may sound clichéd, but 'don't put all your eggs in one basket' needs to be your tagline when it comes to planning for your retirement.

While you may have already retired, it's never too late to make the most of what savings you have and make them work for you.

Diversification is key

The best retirement portfolio is a diversified one. It may sound clichéd, but 'don't put all your eggs in one basket' needs to be your tagline when it comes to planning for your retirement. While your superannuation plays a large role in your retirement, it's also handy to have other investments such as property, shares and even some collectables such as art, antiques or other investment options.

Importantly, the investments in your retirement portfolio should complement each other.

"Investment markets are exposed to different cycles, therefore you should choose investments that correlate well together. This means when one underperforms, the other may outperform," Telenko recommends. "For example, during times when interest rates are high, you will achieve better returns from government bonds compared to shares, where company profits may erode due to the higher interest they pay on their loans."

Diversifying reduces your vulnerability to any changes that may occur.

"If you have made a big effort to accumulate your nest egg for retirement solely within superannuation, the rules may change as to when you can access these funds, or there may be a change whereby the tax efficiency of this strategy is diminished," Telenko explains.

Talk to an expert

Don't rely on your friends or family for financial advice. Talk to a professional and try to discuss your options as early as possible with them. A plan can be developed, in consultation with you, on how you invest your money to fund your future. Remember, financial security is key to enjoying your retirement. ••

TOP INVESTMENT OPTIONS FOR RETIREES

Peter Telenko shares the top options for you and why they should work.

"There are two phases – accumulation and retirement."

"In an accumulation stage, superannuation is a very attractive investment as it offers a simple way to fund for your retirement. There are good tax incentives and you can usually construct a well-diversified investment portfolio that suits your investment timeframe."

"Once in retirement, superannuation can be transferred into an Account Based Pension where all earnings within the fund are tax free and all withdrawals for retirees over age 60 are also tax free. Account Based Pensions are also very simplistic, flexible, and easy to manage and usually have well-diversified investment options."

Peter Telenko is a representative of Adelaide Financial Planning Pty Ltd AFSL 483663. The information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the information without first seeking expert financial advice.