

## Rewriting the retirement rules

By John Collett  
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**The baby boomers are doing things their way when it comes to leaving the workforce.**

It's retirement - but not as their parents knew it. The first of the baby boomers are hitting retirement and showing they will do things their way. Mostly, they want to travel, stay fit and healthy, do some voluntary work and help out their children and grandchildren, says a financial adviser with RetireInvest, Tim Brady.

But the national practice manager with Industry Funds Financial Planning, Frank Gayton, says the financial crisis has reduced the nest eggs of many and they are wary of risk.

"Most people have been pretty shell-shocked by the downturn they have experienced and the decline in values," he says. However, with the recovery in markets since March, retirees are starting to put more money into growth assets.

Most retirees still depend on the age pension for lifetime-guaranteed income. Gayton says for many of his industry-fund clients, much of the advice is aimed at maximising the pension and the concessions that come with it.

With people living longer, he says, there is a case for retirees putting some of their nest egg into an annuity to cover the bills. Annuities pay a fixed interest rate, usually adjusted for inflation, for fixed terms - life expectancy or life. But they fell out of favour with retirees after their favourable treatment under the asset test used to work out the age pension was ended in 2007.

More products are coming to market to help manage longevity risk. Insurers are starting to release sophisticated annuity-style products but Gayton prefers simple annuities, which are indexed for inflation. Industry Funds Financial Planning charges fees for advice and does not pay commissions. Where commissions, including those on annuities, cannot be turned off, they are rebated to the clients.

Reverse mortgages are also fulfilling a need of retirees who are asset-rich, yet cash-poor. They allow those older than 60 to borrow against their home. The loan is repaid when they sell the house to go into a retirement home, or from the estate when they die. But, as no repayments are made on the loan, the interest capitalises and the debt can grow quickly.

Gayton says reverse mortgages can be appropriate for the right person, where they are borrowing much less than the value of the house. Centrelink and the Department of Veterans Affairs also have a limited type of reverse mortgage scheme whereby the money can only be taken as an income stream, not as a lump sum. The most they can borrow is the amount that, when added to their existing part-pension, takes them to the maximum pension.

John Hewison, the founder of financial planners Hewison and Associates, which charges fees only, does not recommend reverse mortgages or annuities to his clients. He designs investment strategies that have an underlying reliable income stream for his clients. His clients are generally well off and do not need to access cash from their house. He says, however, that reverse mortgages have a place for people with small nest eggs and a lot of wealth in their homes, as long as they understand the product.

Planners recommend their clients take out private hospital and ancillary cover if they can afford it.

"If something goes wrong, they need to be able to access the best and quickest solutions they can," Hewison says.

Some superannuation funds have links with health funds, so it is worth checking this option first, Gayton says. Health cover can be cheaper if bought "wholesale" through a fund rather than as an individual, he says. If private hospital cover is bought earlier in life, and kept, the premiums are lower compared with someone who joins later. Finally, with the rise in divorce and blended families, retirees' estate planning is more complex than ever.

Brady says planners have to ensure the "right money goes to the right people at the right time".

### **Safety and peace of mind are major concerns**

Tony and Sandra Moore are making the most of their retirement. They're off to Europe in August and September with a group of friends but before that they are going to try to tackle the Routeburn Track in New Zealand.

Tony, a former school inspector and Sandra, a former teacher, didn't do much travelling when they were bringing up their two children.

Both 62, Tony and Sandra met at high school and they have paid off their home. Tony does some part-time work and he and Sandra are volunteers with Meals on Wheels and look after their grandchildren a couple of afternoons a week. Sandra also volunteers as a Sydney Airport Gold Ambassador, assisting travellers at the airport.

They both have defined benefit pensions, "which has been a really good wicket for us and has really helped us", Sandra says. These are pensions that pay a defined benefit for life and are generally no longer available to public servants. They each also have small (market-linked) allocated pensions.

They first went to see a planner in the late 1980s and their daughter, an accountant, said she thought they were paying too much in fees. For the past 10 years they have been clients of Tim Brady at RetireInvest in Sydney's Brookvale.

"We just wanted to know that our nest egg was relatively safe; that we had enough money to pay all the bills and enough money to do all of the things that we want to do," Sandra says.

"Tim is just a phone call away and whenever we need anything we just contact him. It's like having a really good GP; someone you trust and someone that you can talk to about things that are pretty important."

### **Need to know**

An annuity can help cover the risk of outliving savings.

Reverse mortgages may be a good idea but check the government scheme first.

Estate planning needs are more complex than ever.

Private health insurance cover should be maintained.

*This story was found at: <http://www.smh.com.au/articles/2009/10/20/1255891802289.html>*