

FINANCIAL SURVIVAL GUIDE

I'm worried about my retirement income

Most retirees have seen the value of their investments fall since the onset of the global financial crisis.

If you're a retiree who is worried about your financial future, what is the best course of action to take? Should you change your financial plan, cut back on spending or return to work? What are the traps to avoid?



STEP 1: Look after yourself

A big financial loss can be extremely traumatic. It can have an impact on all facets of your life—your physical and emotional health, family relationships and your outlook for the future. It can often lead to feelings similar to grief.

It is very important to look after you and your family before worrying about anything else. You'll be in a much better position to stay on top of your financial situation and deal with the practical consequences if you can stay calm and well.

Try to look forward rather than beating yourself up about the past. Thinking like 'if only I hadn't...' or 'since the peak of the market in 2008, I have lost \$x' won't get you anywhere.

Watch your health

If your investments have fallen in value, it's possible that you're feeling a sense of anxiety or depression. It's good to know that there is help out there for you.

In response to the current economic downturn [Beyond Blue](#) has produced a comprehensive free booklet, [Taking care of yourself after retrenchment or financial loss](#), to give you practical help. Visit their website to order or download a copy of the booklet or call their information and referral line on 1300 224 636 to order it or talk to someone about your situation.

Get professional help if you're not coping

It's important to stay active, exercise (walking is good), eat well and ensure you're getting enough sleep. Signs you may not be coping with the stress include:

- having difficulty sleeping
- feeling overwhelmed, anxious or fearful or
- drinking alcohol, smoking or taking drugs more than usual.

These symptoms usually decline or disappear with time but if they are concerning you, it's worth finding extra emotional support. Family members and friends can be an excellent starting point or consider speaking with your family GP.

There are many free sources of [personal support and counselling](#) available to ensure your health and relationships don't suffer. It is essential to get professional help if things are getting on top of you. Ignoring the signs may only compound the problem. If you ever consider self-harm or suicide contact the [Lifeline](#) 24-hour support service on 131114.

Time to rebuild

Once you're feeling confident and your health and emotional issues are under control, it's time to tackle your finances.

STEP 2: Review your financial plan

Watching the value of your investments fall can make you feel like you're spiralling out of control. Getting yourself into a state of panic and reacting too quickly can sometimes make the problem worse. Markets move up and down in cycles. Over time, most investments will recover from the current downturn.

Before you start selling or switching investment, it's worth revisiting the golden rules of investing. Start with your objectives — your reasons for making investment decisions in the first place.

Get back to basic

A good financial plan will be designed to suit your needs over the long term. We know in advance that markets will go up and down — but nobody knows when or by how much. Review the reasons why you are investing:

- How much of your money will you need for spending in the next couple of years?
- How much of your money is not needed until years ahead, and can be invested with the aim of growing in value and protecting against inflation?
- Do you need a regular income to live off?

ASIC's [key tips for investing](#) are a good starting point for reviewing your objectives in more detail.

Revisit your attitude to risk

A severe market downturn will test everybody's tolerance to risk. While no-one likes losing money, some people will feel they can ride out the downturn. Some even view it as an opportunity to buy assets cheaply. Other people will find that their investments went down by more than they could bear — financially or emotionally.

Now is a good time to review your risk tolerance and check that your investments suit it:

- Start by using the [Fido risk and return calculator](#)
- Think about [which investment option is right for your life stage](#): growth, balanced, capital stable or capital guaranteed?

It's human nature to want to earn 50% profit per year but is that realistic? As a guide, if an investment is offering an annual return of 2% more than similar investments are offering, it generally means increased risk. Learn how to recognise [the sort of high returns](#) that are simply [too good to be true](#).

Talk to your adviser

If your retirement investments were recommended by a financial planner, consult that planner about what you should be doing in the current investment climate. It is always worth putting your questions in writing and asking for a written response in the form of a statement of advice.

A good [statement of advice](#) will set out the planner's recommended strategies and demonstrate how each strategy will meet your personal needs and objectives. Only ever act on advice you understand.

Whatever advice you receive, the investment decisions you make need to meet your long term goals and suit your risk profile, not what is performing best this year.

In a market decline, switching from growth investments to more conservative investments can have bad long term consequences and may mean that you lock in investment losses (e.g. by selling assets when the price is low and being unable to make up lost ground when markets recover.)



See our information on [how to complain](#) if you are not happy with the advice you have received.

What if the numbers just don't add up?

The key issue is whether you have enough money to live on, based on the current value of your assets and what income they are generating. You may need to use a [budget planner](#) to review your current income and expenditure to ensure you are still able to live within your means.

Once you've reviewed your financial needs and goals, it's time to assess whether your current assets and investments are still able to deliver the amount of income and capital growth you need.

Key contacts

- [Review your attitude to investment risk](#).
- If you think you have received poor financial advice, contact the [FOS](#)  on 1300 780 80.
- Free, independent financial information:
 - [NICRI](#)  on 1800 020 110
 - the [Financial Information Service](#) on 13 23 00.

STEP 3: Review your current portfolio

Now that you have reviewed your needs and goals, check whether your current investments are still a good way to meet them.


Even if you think you've weathered the financial storm of the past two years reasonably well, it is important to review your finances and investments regularly.

Within each of your investment types, a common objective will be to get a competitive return from an investment that is within your risk tolerance. Your objective should not be to recover past losses or get an exceptional return. That kind of thinking just leads to unwise risks. The only constructive way to look at financial decisions is to say: 'Starting from where I am today, what is the best thing to do?'

Growth investments

The first step is to do a stocktake of your 'growth' assets. These are assets that you would expect to grow in capital value over the long term, such as property, shares and growth-oriented managed funds.

Look at account statements, annual reports, financial statements, prospectuses and Product Disclosure Statements for information about how your investments should be performing and how they actually are performing.

- Shares: 6.7 million Australians own shares in some form according to the [ASX](#) . The rewards for investing in shares can be high but, as recent market performance has shown, so can the risks. Revisit the ground rules and safety checks for [investing in shares](#) to determine how your shares are holding up.
- [Unlisted investments](#), including mortgage funds, unlisted property trusts and debentures, can be illiquid and risky because there's no readily available secondary market for you to trade in.
- Managed investment schemes: interests in [managed investment schemes](#) are usually purchased through financial planners or directly from the fund manager. Make sure you only deal with licensed

and registered schemes and that you seek professional, independent advice and do your own research about any schemes or funds you invest in.

- [Complex investments](#) such as contracts for difference (CFDs), collateralised debt obligations (CDOs), futures, options, hedge funds and structured investments are more difficult to understand than other classes of investment. So if you have any in your current portfolio, consult [our checklist](#) to review your product knowledge and the risks involved.

For each class of growth investment you own, you will need to examine long-term performance and fees, and then assess its prospects for future growth. You'll also need to think about your tax situation before making any changes to your portfolio that might make you liable to pay capital gains tax or have an impact on your Age or Veteran's Pension.

Any growth investment's potential to make future returns depends on two key factors:

- how well that market segment performs, and
- how well that individual investment performs compared to others in that segment.

Getting an accurate picture of an investment's likely future value takes an experienced person who can access detailed, ongoing research. If that is not you, then either get expert advice, or consider investing in a diversified fund run by experts, or investing in an index fund. An index fund will give you at least average returns and have low fees.


Income streams

Some investments are designed to provide you with a regular income stream. You can get income from:

- dividends from shares
- dividends from managed funds
- rent from investment properties
- payments from an allocated pension or an annuity.

[Pensions and annuities](#) are the most common form of retirement income stream and account-based pensions or annuities are increasingly popular. The capital (usually from super) that you invest in the income stream is placed in an investment account. You can select from varying investment options offered by the fund manager, which have varying levels of risk.

There is no limit on the maximum amount of income you can draw down from a retirement income stream each year but there are requirements for [minimum draw downs](#).

These minimum draw downs have been amended as a result of the global financial downturn. The government has reduced the minimum drawdown for [2008–09](#) ; and has extended this measure for the 2009–10 financial year. This change applies to:

- account-based annuities and pensions (payable since 1 July 2007)
- allocated annuities and pensions (set up prior to 1 July 2007)
- account-based and allocated pensions payable from retirement savings accounts and

- market-linked (term allocated) annuities and pensions.

The measure is designed to help your pension account balance to recover from the capital losses associated with the global recession. It means you are less likely to be forced to sell assets at a loss in order to meet the minimum withdrawal requirement.

For example, if you are aged 65–74 you are only required to draw down 2.5% of your account balance in the 2009–10 financial year (instead of the usual 5%). The percentage is based on the account balance on 1 July at the beginning of each financial year.

In a frozen mortgage trust?

About 50 Australian mortgage trusts have frozen or deferred their redemptions due to the global financial crisis. These are valued at around \$30 billion. A decision to freeze or defer redemptions is usually made to prevent withdrawals from destabilising a fund.

The trustee decides to delay redemptions until liquidity improves instead of being forced to sell assets at a time when they may not achieve their optimal value. It doesn't necessarily mean there has been any decline in the asset value of the trust or that investors won't get their money back.

Many trusts with frozen redemptions continue to make regular interest payments to their members but you cannot get your capital back until the trustee decides to re-open redemptions when conditions improve.

There are some limited circumstances under which withdrawals can be made. The guiding principle is that all members must be treated equally.

From October 2008, operators can apply for permission to allow members to withdraw on hardship grounds. To be able to withdraw your capital you will need to be able to satisfy the operator that:

- you are unable to meet reasonable and immediate family living expenses or
- there are compassionate grounds for repaying you — for example, you need the money to cover medical costs for serious illness, funeral expenses or to prevent foreclosure or
- you have become permanently incapacitated.





A cap has been placed on each hardship withdrawal to ensure they don't disadvantage the other members of a trust. The most each member can withdraw is \$20,000 plus 50% the balance of their investment in the trust.

Relief is also available if you invested in a frozen fund through an intermediate structure such as a superannuation fund, other managed investment scheme or an investor-directed portfolio service.

Lost money in a managed investment scheme?




There are many valid reasons for investing in a managed fund or [managed investment scheme](#) but some of these investment vehicles can be complex and some carry more risk than others.

Unfortunately some have not survived the financial turmoil of recent times. Use the links below for more information if you are an investor or client of any of the following:

- [Timbercorp](#) , responsible for 33 [managed investment schemes](#) 
- [Great Southern](#) 
- [Storm Financial Limited](#) .

Other points to consider






Shares: You may also need to review your share portfolio if you have selected particular holdings on the basis of their dividend payments. Pressure on many companies to preserve cash and support their balance sheets in the current financial environment has resulted in many making the decision to cut dividends. Others are being forced to issue more shares in order to raise capital and if a company issues more shares, the value of its dividend per share is diluted.

Insolvency: another by-product of any recession can be corporate insolvency: a situation where a company must stop trading because it is unable to pay its debts when they fall due. Find out more if you are an [employee](#) , a [shareholder](#)  or [investor](#)  who has been affected by a company insolvency.

Managed investment schemes: before joining a managed investment scheme conduct [safety checks](#) to ensure it is running legally and properly. If you are considering an unlisted investment (one that is not traded on a stock exchange) use ASIC's [benchmarks and disclosure principles](#) to ensure you understand the product and can make informed decisions.

Illegal early access to super: Be very wary of offers to access your super early. These are scams because early access is illegal except in very limited circumstances. Report anyone who tries to talk you into getting your preserved benefits early through a self-managed super fund or for a fee to ASIC on 1300 300 630 or the ATO 13 10 20. Such illegal schemes have been known to deliberately target people experiencing financial difficulties.

Key contacts

- To learn more about investing, use free, independent resources like the [Australian Securities Exchange](#) (ASX) . It has free online classes, seminars and events, simulation games, brochures and booklets.
- These organisations can also provide useful information about retirement investments:
 - [NICRI](#) 
 - the [Australian Shareholders' Association](#) 
 - the [Australian Investors Association](#) 
 - [CHOICE](#) .

STEP 4: Strategies for the future

So you've reviewed your financial needs and goals and you've had a close look at your current investments. What can you do if there is a shortfall between the amount of money you need to live on and the amount you have available from investments and other sources?

Consider income support

Be sure to check your entitlements with [Centrelink](#) and [Veterans Affairs](#). As a result of the drop in investment markets, many more retirees now qualify for a part Age Pension (under the income and assets tests).

The single Age Pension was recently increased by up to \$32.49 per week and a range of other initiatives has been announced to assist retirees. From 20 September 2009 the Seniors Supplement will be made available to 300,000 self-funded retirees who are eligible for the Commonwealth Seniors Health Card or the Department of Veterans Affairs Gold Card.

The Seniors Supplement will be \$790 a year for singles and \$1190.80 a year for couples, paid quarterly. This is equivalent to the minimum rate of Pension Supplement received by part pensioners.

Eligible seniors will continue to be eligible for other concessions linked to the Commonwealth Seniors Health Card such as: reduced prescription medicine prices, discounted Medicare safety net threshold and concessional rail travel.

- Check if you are eligible for the [Age Pension](#) or call Centrelink Retirement Services on 13 23 00.

Cut back your spending

You may realistically have to make some tough decisions about your lifestyle. A common trap for retirees is to underestimate how much money you are going to need to live on. And it is important to ensure you do those calculations based on your life expectancy and based on a conservative rate of return (say 2% on your investments). If it looks like you will run out of money prematurely, your only options are to generate more money, or cut back on how much you spend.

Start by looking at your expenditure before looking for other sources of income or capital. Use the [budget planner](#) to see which expenses are essentials and identify non-essential items you may be able to cut back on.

Make use of cash reserves

Your nest egg may not be that healthy but you should make sure you don't overlook savings accounts and other sources of 'rainy day' money before you consider selling longer term investments.

Stay diversified

Most retirement income streams and other investments provide a range of investment options. These are set out in their Product Disclosure Statement. If you've been in a 'high-growth' strategy you're more likely to feel the impact of fluctuations in share and property markets. This may lead you to think that you should be shifting your money into a 'safer' investment option, such as cash or fixed interest.

Any decision to switch investment options should be based on your age and when you will need to withdraw the money to spend it. Finding the [right investment strategy](#) shouldn't be a knee-jerk response to short-term market fluctuations that have resulted in a short-term dip in the value of your investments.

Provided you still have enough capital left to pay an income stream for your life expectancy, you should be able to ride out the current downturn.

However, if the capital value of the income stream has fallen you may find yourself in the position where you have to draw down a percentage that is higher than the required minimum to have enough income to live on. Attempt to look at all the assets and sources of income you have available before making such a decision.

TIP: Reduce your superannuation pension payments. Cut the amount you take from your allocated pension payments each month and use bank account reserves to tie you over. This will help you to stretch the capital value of your income stream until the market picks up.

Should you sell investments?

Selling your investments at the bottom of the market should be avoided if at all possible. If a financial planner recommends this, ask:

- How will it affect what my assets are worth in 5 or 10 years time?
- How does the 10 year past performance of the new investment compare with my current portfolio?
- What fees and charges will apply?

Ask the planner to provide their answers in writing in a [statement of advice](#).

Remember that selling investments when the price is low may mean that you're unable to make up lost ground when markets recover.

TIP: Draw from your least volatile portfolios. If you have your investments diversified you should have at least three years income allocated to a conservative portfolio and that's where you should be drawing from.

Go back to work?

Once you've reached retirement age you are entitled to go back to work without jeopardising the tax-free status of your superannuation benefits. However, there are age-based restrictions on how much you can contribute to super as a way to re-grow your capital base and you can't turn off an allocated pension or annuity if you do decide to return to work.

Once you turn 65 you must work 40 hours over 30 consecutive days in a financial year in order to continue making contributions to super.

From age 70 to 74 you can no longer make spouse contributions or take advantage of government co-contributions. From 75 you can't make your own contributions and are only entitled to employer mandated contributions (the 'super guarantee') if the employer chooses to pay.

A decision to continue in the workforce for longer than anticipated will also depend on your health, desire to continue working and whether you can find a job or not.

Sell the family home?

Sometimes, selling your home and downsizing into smaller accommodation is a valid way to release some of the wealth you've accumulated over the years.

The most tried and tested method used for freeing up that wealth is downsizing. This involves putting your current home on the market, taking the tax-free capital gain, buying a new, smaller and cheaper home and using any excess money to invest in order to generate further retirement income.

Part of your planning process should be to think carefully about what type of alternative accommodation you're looking for. Do you have a particular location in mind? Do you want to stay close to family and established social networks or escape all that completely? Do you have a style of accommodation in mind and particular facilities that you find appealing?

If you do decide to downsize or purchase a new home as part of your retirement plans, you will need an up-to-date appraisal of your home's market value to ensure your expectations are in line with present market conditions. This will give you an accurate idea of how much capital you will have available to pay for your next home.

Remember that all prices are relative. Your home's value may have fallen slightly over the past 12 months. However, the prices of properties you will be considering for purchase may also have fallen slightly, in line with current market conditions.

Should you take out a reverse mortgage?

Another option is to stay in your home and take out a reverse mortgage where the lender gives you cash now in exchange for payment when you sell it, move out or die.

However, reverse mortgages and similar equity release products have complex conditions and come with significant risks. Before entering into such an agreement, download a copy of [Thinking of Using the Equity in Your Home?](#) or phone ASIC's Infoline on 1300 300 630 for a copy.

You can also call NICRI's [free reverse mortgage information service](#)  on 1800 615 676.

Should you chase high returns?

Be wary of chasing investments with higher returns. Remember that [high returns](#) generally come with much higher investment risk. In addition to scams offering early access to your super, there are other investment offers that you should think carefully about:

- [tax schemes](#)
- [mezzanine investing](#)
- [illegal managed investment schemes](#).

TIP: FIDO has [more information about investments to watch out for](#).