FORESTHILL
Financial Planning

Feature Article

Welcome to this latest edition of our newsletter!

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In this issue, we open with the final instalment in our series of articles that is looking at the financial challenges of a particular age group. Now it's the turn of the senior members of our community aged 70+. This is followed by some thoughts about funding for retirement and whether all of us are saving enough for later in life.

Finally, there is our usual mix of content that we found on the web that we think will be of interest to you.

Best wishes!

Main Articles

Your 70's onwards – looking after yourself & others

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Stay healthy

A decline in health costs money, no matter what support you get from insurance policies and the state. Your house may need to be modified, you may need to pay carers, you may need to install expensive equipment etc. There are a whole range of areas in which ill health costs money.

While of course this is not fully under your control, do everything you can to stay healthy. Eat well and continue to exercise as much as you can, even a short walk every day makes a difference. Look after your mental health too – maintain social contact with family and friends and keep your hobbies and interests going as much as you can. Staying healthy will be a boon for your finances.

Stay aware

Help yourself make sound financial decisions. When you are making decisions where there are sizeable sums of money involved, do your research. This might be a significant purchase or getting some work done around the house. If you're not comfortable doing this research yourself, ask a trusted family member or friends to help you. There are loads of great resources available on the internet to help you make better decisions. If you don't know where to find them, ask someone who does.

Unfortunately there are always less savoury characters in our society. There are countless stories of people targeting elderly people in their homes with a range of scams, usually under the pretence of doing some "much needed" work. However this usually results in shoddy work that is hugely over-priced and sometimes results in these conmen stealing from you when given access into your home. Never buy from someone at your door. If you want to, take their number with a view to carrying out your research first. And run this by your family or trusted friends before you actually do anything. If the person at your door is genuine, they will completely understand you taking your time in deciding to buy whatever they are offering.

Claim everything due to you

You probably spent around 40 years working and paying tax, now it's your turn to receive. Know all of your entitlements and claim them, whether it's in relation to social welfare rights, free schemes for the elderly or other such supports. You've earned the right to these supports!

Continue to invest wisely

This is one area where it's really important to work with a financial planner. They will help you identify what your life goals are and to develop a financial plan and investment strategy to ensure your goals are achieved. Your goals might be around living life to the full for the next 10 years, maybe building a war chest for long-term care later in life or indeed your goals might relate to transferring money in a tax efficient way to your loved ones. In fact you will probably want to consider a whole host of different scenarios and potential outcomes. Your planner will help you look at all of these.

These goals need careful planning and a wise investment approach. Simply locking all of your money up in a deposit account is often the wrong strategy. Get help to identify your goals and to invest wisely.

Begin wealth transfer now

Wealth transfer is often a tricky area. Apart from the odd gift, people often don't want to face it "until they are gone". However on the other hand most people hate the idea that after their death, they may leave their loved ones with a significant tax bill. This may for example force the sale of the family home.

Now is the time to ensure that you leave a lasting legacy and not a tax bill. Planning your wealth transfer should be in train now. There are tax exemptions that allow you to transfer wealth to others while you are alive without incurring a tax bill. Know what is available to you and how you and your loved ones may benefit from a structured estate planning approach. Your financial planner is the person in your corner on this one.

Make sure your wishes are clear

It is your money and for you to do with it as you see fit. Make sure your wishes are crystal clear, irrespective of what the future holds for you. Should the day come where you lose your mental capacity, it is very important that you will have an Enduring Power of Attorney in place that will ensure your affairs can continue to be managed as you would wish. Of course, ensure whoever will carry out this role is very clear about what you would want.

Likewise your Will should reflect how you wish your assets to be distributed upon your death. As part of this, don't be afraid to talk to us about death. Trust me, it'll happen to every one of us! A recent survey in the UK of more than 2,000 people found that 30 per cent of people are uncomfortable seeking financial advice to talk about death. This undermines their financial outcomes as beneficial plans are not implemented.

Also more than half of people aged over 55 haven't discussed bank accounts, insurance, investments and personal possessions with their family. This reticence to discuss these issues unfortunately stores up challenges for bereaved family members down the road.

At this stage in life, make sure all your financial decisions reflect what **you** want. A family member or trusted friends can help you with those everyday decisions. As your financial planner, we want to help you to make wise financial decisions to ensure that all of your life goals are achieved and enjoyed.

Are we all saving enough for retirement?

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The OECD suggests that people *on average* should target a replacement income in retirement of 70% of their pre-retirement earnings. Higher earners probably don't need such a high replacement level, as they often have other assets to call on, and enjoy reduced expenditure as mortgages and other debt tends to have been paid off. However for low earners, they require a replacement income of up to 90% of their pre-retirement earnings to survive, as they tend to need every penny that they earn just to get by. Currently the *maximum* state old age pension for a single person is €12,652 – this represents just 33% of the average annual earnings in 2017. And with less than half of the population (and only about a third of private sector workers) having any pensions savings at all, many people face survival at best, penury at worst in retirement.

Will the policy makers save the day?

The pensions crisis is one of the biggest challenges facing policymakers today. Think of the National Debt or Brexit on steroids! It just doesn't get the coverage as it is such an enormous challenge and it is a problem that can be (and usually ends up being) kicked down the road for the next government.

The problem is that state old age pensions and also the pensions of public sector workers are paid for from current tax revenues. There is no pot of money set aside to cover these promises. Currently we have 5 workers paying tax for every pensioner who receives a pension. Over the coming decades, this ratio will drop to 2 workers for every pensioner. The problem is getting worse, so the options of policymakers are limited.

How are you fixed yourself?

Because the state is not going to rescue us, each of us needs to fund our own retirement to a large degree. Your own state of readiness depends on many factors, including

- Your desired lifestyle in retirement
- How much you will save between now and retirement
- How much your employer will pay into your pension fund
- How much you have already saved
- What assets you may have to sell to fund your retirement lifestyle
- What windfalls are likely to come your way – e.g. an inheritance.

Aviva carried out some great research in both 2010 and 2016, called "Mind the Gap" in which they examined the gap between what people are saving and how much they need. Their key finding is that Ireland has the third largest pension gap in Europe, with an average pension gap of *€12,200 per person, per annum*. 51% of people said that they are not prepared for retirement.

In order to achieve the OECD replacement figure of 70% of pre-retirement earnings, Aviva calculated the following average **additional** pension savings (not total savings) that people need to make,

- For a 30 year old – €5,100 per annum.
- For a 40 year old - €6,700 per annum.
- For a 50 year old - €9,700 per annum.

- For a 60 year old - €28,000 per annum.

(Source: Aviva's Mind the Gap, 2016)

What needs to be done?

The state has a critical role through pension policy. Within the next few years we are certainly going to see auto-enrolment of all workers in pension schemes. This means that your employer will be obliged to automatically include you in a pension scheme, where a fund will be built up for you based on contributions from yourself, your employer and the state itself (through tax relief or some other credit system). Of course you will be allowed to opt out, but the default position is that you must be included in a scheme. This will be a major change in Irish pension policy and hopefully will have the desired effect of improving retirement outcomes for people. This approach has certainly been successful in other countries. We now need to see how auto-enrolment will be rolled out, as the devil is always in the detail!

However, as identified in the Aviva research, we all need to take personal responsibility too and save more. A very rough rule of thumb is that you should save half your age as a percentage of your earnings – a 30 year old needs to save 15%, a 50 year old should be saving 25% of earnings etc. This is a very rough calculation though, nothing beats your financial adviser examining fully your specific circumstances and advising the right contribution level for you. However it's pretty simple – the quality of your retirement lifestyle will be a direct result of the assets you build up yourself.

We also need to educate ourselves better on where we actually stand in our own retirement journey. How much are you likely to have in retirement? Is that enough to meet your needs? What are your options to improve your situation? Are you missing tax saving opportunities?

At the end of the day, spending money today on retirement saving is hard, as there is no immediate reward. However hopefully you will live a long and happy retirement – this will certainly be hugely enhanced by the retirement planning you do today.

Around the Web

Predictable Elements for an Unpredictable World

An advisor's best answer to the inherent unpredictability of markets is to introduce elements of the predictable into the equation

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Are investors being fooled by the work ethic fallacy?

While most active funds under-perform, investors persist in the belief that hard work pays

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Another year, same old same old

Stop worrying about the day-to-day price movements and memember you are in it for the long run.

Fraud: here's how scammers get away with it

Online bank Monzo reveals the most common cons, from stolen cards to student 'mules'.

The Psychology of Money

Investing is not the study of finance, it's the study of how people behave with money.

Pensioners can unlock cash early, Revenue announces

Car dealers are braced for business...

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