FORESTHILL
Financial Planning

Feature Article

Welcome to this latest edition of our newsletter!

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In this issue, we open with some thoughts about retirement, but this time the non-financial challenges that you should consider well in advance of your retirement date. This is followed by our thoughts about income protection and some interesting findings that we picked up from a recent piece of research that was carried out in this important area of financial protection.

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

Retirement Planning is about more than money

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When you think of retirement, what do you think about? Is it those additional games of golf, spending a few months every year in the sun and lots of time with the grandkids? Or instead do you think about your pension fund and silently worry that you might not have enough money to do all the things that you want to do?

Yes, we recognise the important role that we play in minimising that financial worry and helping you to build up a pension fund that will allow you to live your life in retirement on your own terms. We do this with clients every day and to be honest, this is “meat and drink” to us! However we also recognise how important it is for us to help you to take a much more holistic view of retirement, and that is our focus here.

So let’s assume that together we’ve done the best job possible on the financial side and that you have the financial means to live your life to the full in retirement. What else do you need to think about?

Being together fulltime

Think about it - day one of your retirement. You wake up, not to the sound of the alarm clock but at your leisure. Your spouse who has been at home fulltime for the last few years is busy about his/her usual routine. Where do you fit in?

There are of course many ways to approach this. The wrong way is probably to just assume everything is now changed because you’re around! Instead you need to recognise that your partner may love their routine and don’t want this changed too much. Equally they need to be aware of the momentous shift in your life, and that you may struggle for a while to build your own new routine, both of your own activities and hopefully shared activities.

This is not the time for the “bull in a china shop” approach! Instead awareness of each other’s space, routines and hopes for the future together are crucial. The key to this is talking about it and working through it together.

Long days

The thinking around this needs to begin long before retirement. The working day, including your commuting time often punched in 11 or 12 hours every day. That's a lot of time to fill now, so how are you going to do it? Are you going to play lots of golf? Are you going to study or do voluntary work? Are you going to spend time out and about visiting all those places you'd been promising to see, but never had the time?

Have a plan and fill as many of your days as possible with activities that interest you and make you feel good about yourself. Keep your mind and body active. Your life will be one long day after another if you end up falling asleep in front of afternoon TV shows!

Mind your health

The simple task of getting up and going to work was good for your health, often followed by some exercise in the evenings. Now is the time to increase the focus on healthy habits, not cut back on them. You have more time now to exercise than ever before, so use it. That might be golf, it might be a brisk walk or a visit to the local gym – the instructors there will devise a fitness programme suitable for you.

Apart from the physical benefits, this will also be very important for your mental health. Physical exercise makes you feel better about yourself, so reap the rewards both physically and mentally.

Stay aware of maintaining your mental fitness too. Spend time with friends, do the crossword, read and study. Stay sharp.

With more time on your hands, you also have the opportunity to spend more time preparing healthier meals for yourself. The excuse of another takeaway because you're late home just won't wash anymore! Make good food a hobby – taking the time to get fresh, healthy ingredients and then spending a bit of time on food preparation.

Remember your value

You have so much to offer in terms of experience, expertise and time. Some people can retire with a perceived loss of value. Previously a company and colleagues relied upon you, and now that is gone. All that actually needs to change here though is that previously you were paid for your time and expertise, while now you can still offer this but maybe without payment. You will do it on your terms, only in areas that interest you, at times that suit you and in ways that make you feel good about yourself. You will add enormous value, whether that's to a voluntary organisation, coaching a sports team or mentoring less experienced business owners.

Having your finances in order is very important for a happy and satisfying retirement. But it's the other factors that will make you feel good about yourself and will help you live your life to the full for many years to come.

Is Income Protection really necessary?

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Unfortunately, people lose their jobs from time to time. However inevitably what tends to happen is that these people pick up new roles elsewhere or take a new path in their careers. As a result, their income may drop for a period of time, but will usually pick up again before too long. These people are in the fortunate position of ***being able*** to work.

Being unable to work because of illness or injury is a whole other matter. Little or no costs are moved

from your life, in fact new costs may emerge such as medical expenses, care fees etc. On the income side, there are social protection benefits available, but in reality these deliver no more than basic subsistence payments. So there is often a lot less money coming in, with sometimes more going out…

Income protection protects your most important asset in the event of illness or injury – your income. And yet at the same time, it still doesn't find its way into everybody's financial portfolio.

Your most important asset?

We have just reviewed some very insightful research carried out by Friends First among Irish consumers that shines a light on this issue, with some very interesting findings. First of all, when asked to rank their financial assets in order of importance, the findings were,

1. Our home (67%)
2. Our savings (57%)
3. Our pensions (48%)
4. Our income (43%)

While the findings might not be surprising in that we all have an emotional attachment to our homes, without their income, these people will lose all of the other assets (maybe bar their pension). Your income is the enabler of all of the other assets, and therefore is the most critical one to maintain.

How long could you cope?

The research then went on to ask how long employees could cope without their income where they are reliant on social protection, using their savings and maybe selling some assets. The findings here were startling when compared to the reality of income protection claimants.

- 44% of people said they could cope for 3-6 months only.
- 30% said they could cope for between 6 months and a year
- Less than 8% said they could sustain themselves financially for 2 years or more.

However the average duration of an income protection claim is **6.5 years**! And that's an average, many last longer than that. So while having the foresight to maintain a nest egg to see you through a year or two of income loss is extremely laudable and wise, on its own it just might not be enough.

How much of your income do you need to protect?

This is a really important question. While income protection still enjoys the benefit of tax relief at your marginal (highest) rate, it's another household expense that none of us enjoy. After all, you're paying for a benefit that you hope you never collect! It is really important that we spend time together looking at your specific situation, your expenses and how they might be impacted by a loss of income. You want to have enough cover to meet your needs in the event of a loss of income, without paying too much along the way. You need to consider any sick pay schemes that you might have access to through your employer, as these might impact the cover levels and cost of a policy to meet your needs.

When asked by the researchers, two thirds of respondents felt that they would require a replacement income of between 50% and 75% of their current income levels. Just over a quarter felt that they would need to protect between 25% and 50% of their income, while 7% felt they would need a replacement income of less than a quarter of their current income. It may be that this last group are approaching retirement and/or possibly their incomes are significantly in excess of their expenditure. Otherwise they may be a little unrealistic about the level of income they would need to replace!

How much replacement income would you need?

We all have a range of financial challenges; making our money go further today, investing wisely, saving for retirement and protecting our main assets. In addressing this final one, never underestimate the value of your income – it is the one single asset that you really can't live without.

Around the Web

Is Passive Investment Actively Hurting the Economy?

Everyone agrees that the rapid growth of passive investing is a novel enough phenomenon and that its effects require greater study.

Explainer: Who is the new pension scheme aimed at and how will it work?

What is this plan? The Government has finally launched proposals for how a new auto-enrolment pension scheme might work.

How Much Life Insurance Do You Need For Stay At Home Mom or Parent?

When calculating how much life insurance coverage a family should purchase for a stay at home spouse, look at how much it would cost to pay others to perform functions currently handled by them.

'The State pension wasn't designed to support the lifestyles people have in mind'

The State pension was never designed with the intention of supporting the sort of lifestyles that people have in mind for their retirement – full of leisure and travel and good health to indulge in personal projects.

Hackers are preparing an ‘unlimited’ ATM cash heist. Here’s how to protect yourself

The FBI is warning financial institutions that cybercriminals are preparing to execute a hack that could siphon a virtually unlimited amount of money from ATMs around the world.

Could Index Funds Become Too Popular?

Could the popularity of index funds be their downfall?

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