

Ask your CPA

Fishing for the best retirement plan

Think Ahead

If there's one thing you don't want to get wrong in your life, it's your retirement income plan.

How you choose to invest the capital you have accumulated, or your superannuation lump sum, will determine the sort of lifestyle you should expect in retirement. In retirement you will have much more leisure time – time to expand your lifestyle with travel, hobbies, sport or study. Whether or not you are going to be able to enjoy your retirement to the fullest will depend on how you arrange your financial affairs.

And this means having a life plan, which covers income, health, housing, recreational pursuits and relationships.

The perfect plan

In planning process your objectives should be:

- to identify and value your assets and your current lifestyle.
- to establish your income needs.
- to work out a realistic, tax effective and appropriate plan which matches your resources with your lifestyle aspirations.

To satisfy your needs, your financial plan will need to generate income for living (food, petrol, fares) and discretionary expenses (gifts, travel, social outings). It will also need to allocate your income and capital to cover both fixed (rates, insurance premiums, car registration) and discretionary commitments (holidays, upgrading your car, and so on).

Getting the allocation of your assets right in retirement is essential. Should you lose them in a poor investment, you're unlikely to be able to recover the money, since you no longer have the same earning potential as you did prior to your retirement.

BNW Accountants Warwick

10 key factors

The 10 key factors that must be taken into account in allocating your assets are:

1. What is the security of the investment income?
2. What is the frequency of income?
3. If it is not fixed interest, what level of returns can reasonably be expected?
4. Does the income from the investment offer any inflation protection?
5. Does the investment offer any capital growth?
6. Is the investment 'tax friendly' (via tax rebates or tax-exempt income)?
7. What is the security of the underlying investment?
8. Does the investment offer easy access to capital?
9. How is the investment regarded under social security rules?
10. Have you considered estate planning?

Protection against sudden change

An important consideration when putting a retirement portfolio together is to allow for changes in the economic climate. You should know how your portfolio will react to rises and falls in inflation, interest rates, and to fluctuations in the stock market, and be in a position to change or modify parts of your portfolio as necessary.

While security is important, you shouldn't necessarily put everything into cash investments and bank accounts. (Many retirees were caught in the 1990s in cash investments in which returns plunged to 3% and 4%.) Instead, in this era of rapid change, security is also about having flexibility – a portfolio that is suitably diversified to cushion against adverse cycles and move with the times.

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Depth of knowledge

Many of our members now hold an additional designation, Financial Planning Specialist (FPS), and are fully qualified licensed financial planners. Therefore, in addition to offering you more insightful tax advice, your licensed CPA (FPS) can offer you a greater depth of knowledge and innovative thinking on the ways to achieve real financial independence. This covers the total spectrum – from developing your personal portfolio to advising on better budgeting, smarter investing and estate planning.

CPA standards

Above everything, the CPA brand is a recognized sign of excellence. CPAs must continually achieve high business standards to retain their status. They are required to stay abreast of economic developments and research the latest trends, superannuation and taxation changes, and the pension system. In other words, they make it their business to know what will work best to turn your dreams into reality.

In addition, CPAs are required to constantly enhance their knowledge and undergo ongoing professional development. This is achieved by undertaking structured professional development programs, including attendance at seminars, workshops, lectures and discussion groups.

CPAs are also bound by a strict Code of Professional Conduct and subject to regular quality assurance audits administered by CPA Australia.

With this combination of qualifications, skills, and experience, CPAs remain at the leading edge of their profession, so you can be assured you will receive the best advice the next time you 'Ask your CPA'.

Your retirement plan checklist

- Have you calculated the value of all your assets?
- Have you calculated the value of all your debts?
- Have you developed a lifestyle plan – what you intend to do with your time and how much it will cost to do it?
- Have you calculated the cost of all recurring expenses (rates, car registration, insurance premiums etc.)
- Have you decided if your current residence is suitable for your retirement?
- Have you calculated how long your retirement savings will last if you leave them where they are?
- Have you assessed if you are eligible for pension entitlements?