3 key considerations for SMSF investors in the lead up to Retirement

Australians are enjoying longer and more active retirements than ever before, so what can you do to help make sure your money lasts?

Baby boomers are retiring in greater numbers and many have taken more control over their retirement savings by self managing their super. Over a third of self managed super funds (SMSFs) are in the pension phase and 56 is the average age of SMSF members[1], which means that many are approaching retirement.

What's more, Australians are living longer and healthier lives than previous generations[2]. This means that it's important to have plans in place to help ensure your money lasts when you stop working.

So how can you try to make sure that your investment strategy caters for your long and healthy retirement? You may need to take a fresh look at your investment choices, as well as consider what your lifestyle and spending habits will be like when you retire.

Here are three key factors to consider.

1. The diversification of your assets

Investing in a mix of defensive and growth assets may lower the risk that all your assets will underperform at the same time. For Laird Abernethy, Head of Investment Sales at Colonial First State, the fundamental principles of a diversified investment portfolio stand no matter what your superannuation structure – and it's something that SMSF investors need to be mindful of.

"If you look at SMSFs as a whole sector, there's a significant portion in Australian direct equities and a significant portion in cash – and that's not a diversified portfolio. I think SMSF members need to consider other areas to invest in and how they structure their portfolio to last them over the next 15, 20 or 25 years."

Referring to the global financial crisis, Abernethy suggests that "baby boomers may be carrying an element of caution with investment decisions they're making into retirement. They may not get the returns they need just by investing in cash and fixed income. They may also need some level of equity exposure to ensure they minimise the risk that they outlive their retirement savings."

It's also important to keep in mind that equities are tied to the ups and downs of the market, so they are generally considered to be a riskier investment than cash or fixed interest, although they offer the possibility of higher returns. It's wise to seek professional financial advice to help you work out what types of investments are right for you.

2. Your lifestyle and financial needs when you enter retirement

The early years of your retirement are likely to be the most active, which means you'll probably be spending money on things like recreational activities and travel.

"You don't automatically stop your lifestyle when you enter retirement," says Rick di Cristoforo, Head of Retail Sales at Colonial First State. "In fact, it might actually be more expensive because you've got more free time to spend money on your enjoyment."

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[1] Source: ATO: Self-managed super funds: A statistical overview 2012–13.
[2] Australian Federal Government: Intergenerational Report 2015.

Abernethy agrees. “That first phase of retirement is probably where you’re pulling out the most in terms of your pension or other income streams, so it may be worth considering growth strategies and market linked strategies.”

For Abernethy, the trick is doing that in a way that ensures you don’t draw down your capital too early and protects against market risk.

“You want to lower the volatility of your investment returns so you have more certainty around the possible outcomes, especially if you’re investing in assets that are linked to the ups and downs of markets, like equities. What we’re seeing now are a lot of products that are focused on minimising volatility and products that minimise draw downs.”

3. How your needs may change during retirement

Your lifestyle goals and spending habits are likely to change as you get older, so you should also adapt your investment strategy.

“You’ve got to think about how you adjust your asset allocation as your needs change during retirement and that’s where advice is really important,” says Abernethy. “It can take into account not just the income stream you require, but also your goals, such as taking a trip every year.”

“Everyone’s different, so talking to a financial adviser is important.”

Source: Colonial