The 15-Minute Retirement Plan



Ways to Avoid Running Out of Money When You Need It Most

Fisher Investments Australasia™

One of the biggest risks an investor faces is running out of money in retirement.

This can be a personal tragedy. People may work their whole lives to save enough wealth for a comfortable retirement only to find they've come up short. To help you minimise this risk, Fisher Investments Australasia recommends keeping the following key questions in mind when planning your retirement:

1. **How Long Will My Savings Need to Provide for Me?**
2. **How Might Cost of Living Changes Impact My Savings?**
3. **What is My Primary Investment Goal in Retirement?**
4. **What Additional Income Might I Receive in Retirement?**
5. **What Important Tradeoffs Might I Need to Make?**
6. **Can I Stay Disciplined to an Investment Strategy to Meet My Retirement Goals?**

1. How Long Will My Savings Need to Provide for Me?

One of the most important factors for retirees' investment goals is their investment time horizon. Many investors in their late 50s and 60s—approaching retirement or already retired—underestimate how long they need their investments to last. In every developed country, people are living longer, healthier lives due to improving medical treatments and technology. Both you, and if married, your spouse, should prepare to live a long time—and make sure you have enough money to maintain your lifestyle or provide for future generations.

Exhibit 1 shows the World Health Organization's research on life expectancies for men and women in developed countries at birth and at age 60. On average, people are expected to live 25 additional years after turning 60—that means 25 additional years your investments may need to support you in retirement. Don't make the mistake of underestimating how long you will need your savings to provide for you.

Exhibit 1: Average Life Expectancies Across Developed Nations

Country	Life Expectancy At Birth (years) Both	Male	Female	Life Expectancy At Age 60 (years) Both	Male	Female
Australia	83	81	85	26	24	27
Austria	82	79	84	24	22	26
Belgium	81	79	84	24	22	26
Canada	82	80	84	25	24	26
Denmark	81	79	83	23	22	25
Finland	81	78	84	24	22	26
France	82	79	85	26	24	28
Germany	81	79	83	24	22	25
Ireland	81	79	83	24	23	26
Israel	83	81	84	25	24	26
Italy	83	81	85	25	23	27
Japan	84	81	87	26	23	29
Netherlands	82	80	84	24	23	26
New Zealand	82	80	83	25	24	26
Norway	82	80	84	24	23	26
Portugal	81	78	84	24	22	26
Singapore	83	80	86	26	23	28
Spain	83	80	86	25	23	27
Sweden	82	81	84	25	23	26
Switzerland	83	81	85	26	24	27
United Kingdom	81	79	83	24	23	25
United States	79	77	82	24	22	25
AVERAGE	**82**	**80**	**84**	**25**	**23**	**26**

Source: World Health Organization Data. 2015 life expectancies across developed nations as defined by MSCI World Index constituents. Data were unavailable for Hong Kong, which was excluded.

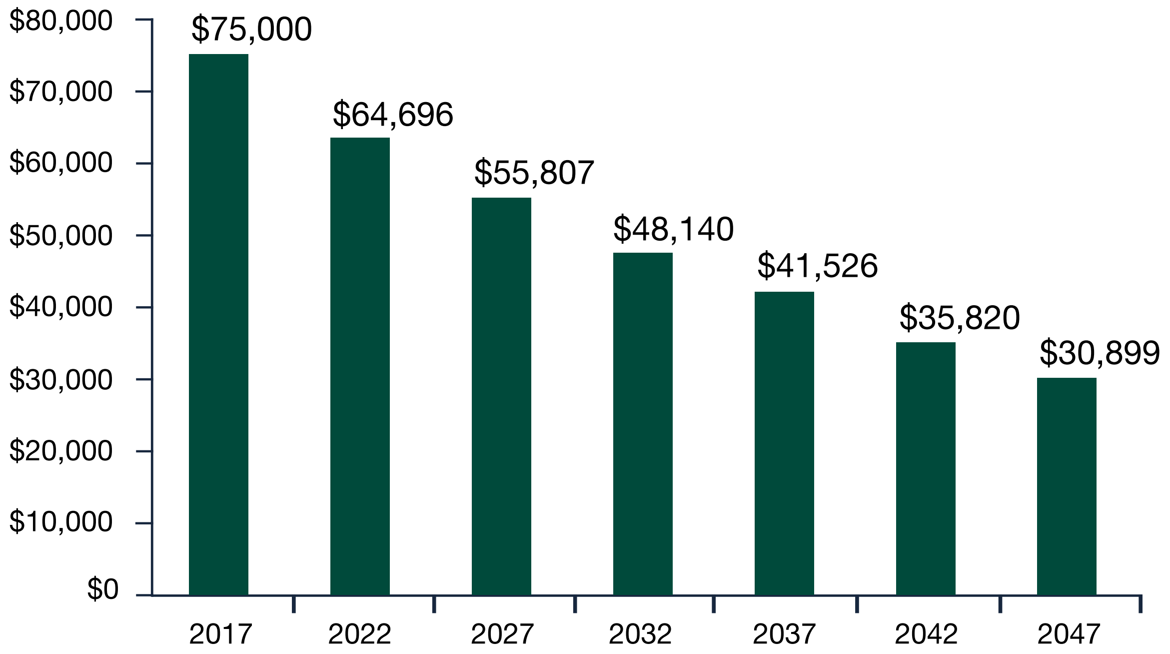
2. How Might Cost of Living Changes Impact My Savings?

As you anticipate your investment time horizon, it's also critical to understand how your expenses may change in retirement. Prices for goods and services often increase over time, and many investors fail to realise how much of an impact these increases can have on their retirement income. In G20 nations, many central banks target a 2-3% inflation rate. If inflation meets that target, a person who currently requires $75,000 to cover annual living expenses would need about $135,000 in 20 years and $182,000 in 30 years just to maintain their purchasing power and lifestyle.

Similarly, if you placed $75,000 under your mattress today, in 30 years that money would only be worth around $30,000 in today's dollars. Of course, in places where inflation runs faster than 2-3% a year, your savings will need to work even harder to overcome the insidious impact on your retirement purchasing power.

An additional factor to consider: Many retirees spend money in different areas than they did in earlier stages of life. For example, your healthcare costs may grow as a proportion of your overall expenses as you age. Your housing costs may fluctuate if you move, lease, sell or buy property. In many parts of the world, these expenses can increase more than the average inflation rate, meaning some retirees should plan for even higher costs.

Exhibit 2: Maintaining Purchasing Power With Assumed 3% Inflation Rate



3. What is My Primary Investment Goal in Retirement?

Time horizon, cash flow needs and inflation are all key factors to consider in your retirement planning. Another cornerstone is establishing a primary goal for your portfolio.

A precise way to determine your portfolio's goal is to define your "growth objective"—the amount of money you plan to have at the end of your portfolio's time horizon. Possible growth objectives include:

Portfolio growth: You want to increase the purchasing power of your assets as much as possible across your investment time horizon.

Maintaining the value of the portfolio in real terms: You aim to maintain your present purchasing power at the end of your time horizon.

Depleting assets: You have no desire to leave any assets behind at the end of your investment time horizon.

Targeting a specific ending value: You desire a specific ending value, perhaps to make a donation to charity or to pass on to heirs.

Your primary investment goal helps create a roadmap for retirement. Focusing on your investment goal may also make it easier to stick with your investment strategy during market volatility.

4. What Additional Income Might I Receive in Retirement?

As you plan your retirement, you should account for all your future income sources—not just income from investments. Many receive income from occupational or personal superannuation schemes, or because they continue to work in retirement. Retirees rarely rely on just one source of income. For instance, you may have a pension that provides some retirement income, but rely on other investment income to pay for expenses for your desired retirement lifestyle.

Active retirements have also become increasingly popular over the past few decades. Some retirees work to supplement their income, others continue to work simply because they enjoy it. Exhibit 3 shows some of the other reasons why retirees choose to keep working. The gold highlights "want"-based reasons, whilst the blue shows "need"-based reasons.

Whilst it may not be an option for everyone, working in retirement can provide some financial flexibility. As you envision the ways you'll spend your money and your time in retirement, potential employment and other income sources are important considerations.

Exhibit 3: Reasons People Choose to Work in Retirement

"Need"-based Reasons	"Want"-based Reasons
• Make ends meet • Keep insurance or benefits • Decreased value of savings or investments	• Buy extras • Stay active and involved • Enjoy working • Job opportunity

5. What Important Trade-offs Might I Need to Make?

Like many investors, you may plan to draw from your investment portfolio during retirement. The cash flow you require, combined with your growth objective, may require some trade-offs to minimise your risk of running out of money in retirement. For example, you may need to increase your exposure to investments with potentially higher returns—and be willing to tolerate the greater short-term volatility associated with them.

To better understand the trade-offs of different strategies, first consider the following questions:

1) What's an appropriate asset allocation for my goals and objectives?

2) What is an appropriate withdrawal rate to avoid running out of money in retirement?

Asset Allocation

We believe your asset allocation is the single greatest determinant of portfolio returns and your likelihood of being able to afford the retirement you want. Asset allocation is what you invest in—your portfolio's mix of equities, fixed interest, cash or other securities.

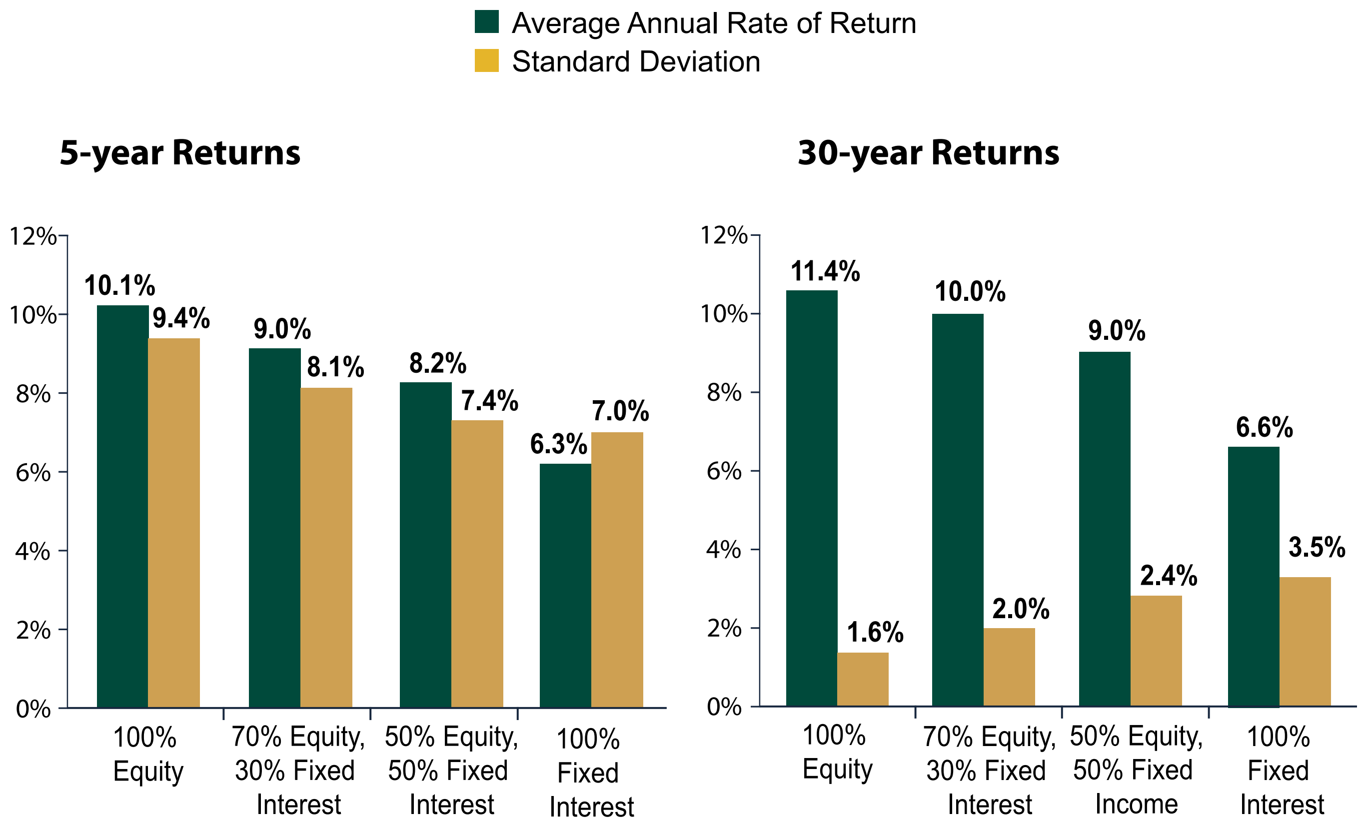
Asset Allocation

When many people hear that their asset allocation could determine if they run out of money or live comfortably, they instinctively want to avoid risk of short-term loss. However, most people get it backward. For example, there's a common misperception that fixed interest is safer than equities. This stems from equities' higher short-term volatility. Therefore, retirees looking to avoid volatility sometimes opt for fixed interest—but end up neglecting their longer-term return needs.

Exhibit 4 shows that the more fixed interest there is in a portfolio, the lower the volatility (as measured by standard deviation), but also the lower returns over shorter time periods.

Over longer periods, such as a 30-year period, equities actually have lower volatility than fixed interest, but greater returns. This means if you have a longer time horizon and/or higher return needs, equities may need to be a larger percentage of your asset allocation than you previously considered. This is especially true when you factor in retirement withdrawals.

Exhibit 4: The Equities Versus Fixed Interest Decision



Source: Global Financial Data, Inc.; as of 23/10/2017. Average rate of return from 31/12/1925 to 30/11/2016. Equity return is based on Global Financial Data, Inc.'s World Return Index and is converted to AUD. The World Return Index is based on GFD calculations of total returns before 1970. These are estimates by GFD to calculate the values of the World Index before 1970 and are not official values. GFD used specified weightings to calculate total returns for the World Index up to 1969 and official daily data from 1970 on. Fixed Income return based on Global Financial Data, Inc.'s Global USD Total Return Government Bond Index and is converted to AUD. Standard deviation is a measure of the dispersion of a set of data from its mean and is used as a measure of risk. The higher the variation in a product's returns, the greater its standard deviation. Therefore, lower standard deviation is generally preferable.

Beware the Risk of High Withdrawals

A common—but incorrect—assumption is that since global equities have historically delivered a roughly 10% annualised average return over the long term,* it must be sustainable to withdraw 10% without drawing down the principal.

Nothing could be further from the truth. Although equity markets may annualise about 10% over time, returns vary greatly from year to year. Miscalculating withdrawals during market downturns can substantially decrease the probability of maintaining your principal. For example, if your portfolio is down 20% and you take a 10% distribution, you will need about a 39% gain just to win back the initial value.

When you consider how devastating years of excessive withdrawals could be, it's clear how important it is to properly manage your cash-flow expectations and discretionary spending.

Difficult Decisions

Ultimately, your asset allocation decision will require trade-offs. For example, you may have to tolerate more short-term volatility for higher long-term returns. Or, you may have to weigh your discretionary purchases, living expenses and income needs—and consider how they may change throughout your retirement. In order to meet your investment goals you'll need to consider these and other trade-offs.

**Source: Global Financial Data, Inc.; as of 30/11/2016. Based on 10.18% annualised GFD's World Index returns from 1926-2016 and is converted to AUD.*

6. Can I Stay Disciplined to an Investment Strategy to Meet My Retirement Goals?

In our view, one of the biggest obstacles to investors' retirement goals is investors themselves. For example, many investors react emotionally when markets are volatile, selling securities after prices have dropped or over-concentrating in investments after prices have significantly appreciated. Similarly, some investors "chase heat" by selling their holdings in order to buy the "hot" investment based on short-term, backwards-looking outperformance. These emotional investment decisions make it harder for investors to reach their long-term goals. When investors over-concentrate in particular stocks, sectors or countries, they can expose themselves to excessive risk. When markets experience negative volatility, investors may expose themselves to a different kind of risk by selling assets that may be appropriate for their long-term goals. On the whole, many investors don't remain invested long enough to realise even stock market-like returns over the long-term, let alone beat the market.

US market research firm DALBAR, Inc.'s 2016 study, The Quantitative Analysis of Investor Behavior (QAIB), quantified the cost of this investor behaviour, comparing equity and fixed interest markets' returns to average mutual fund investors' returns over the past 20 years ending 31 December 2016. QAIB data show average equity fund investors hold their mutual funds for an average of four years. Further, they earned an annualised 4.7% return versus the S&P 500's 8.2%. Similarly, average fixed interest fund investors earned an annualised return of 0.5% versus the Barclay's Aggregate Bond Index's 5.3%.*

DALBAR concluded, "...the average mutual fund **investor has not stayed invested for a long enough period of time to reap the rewards that the market can offer more disciplined investors... when investors react, they generally make the wrong decision.**"

At different points in the market cycle, investors missed gains due to fear of loss or assumed excessive risk due to optimism. Fear and greed can be difficult for many investors to control on their own. Over time, that opportunity cost can add up, as DALBAR's data show.

** Presented in terms of US dollars. Currency fluctuations between the US dollar and the AU dollar may result in higher or lower investment returns.*

Which Retirement Plan Makes the Most Sense for You?

This brochure has covered many important retirement plan considerations: your life expectancy, investment goals, retirement expenses and income from investment and non-investment sources. However, there is no one right answer for how these considerations should factor into your retirement plan—only the answer that's right for you. And remember, the process doesn't stop after you create your retirement plan—maintaining discipline is also key to long-term investing success.

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