Mistakes our parents made

When it comes to our parents' financial strategies, it may well be a case of 'do as I say, not as I did'. The baby boomer generation was born into a time of post war affluence, but as they near retirement many are realising their lack of financial acumen will deny them a comfortable and sustainable lifestyle once they leave the workforce.

Research[1] reveals the following disturbing facts:

- Many baby boomers approach retirement with lower than expected retirement savings, especially superannuation balances.
- The mean superannuation balance of those aged 55-64 in 2007 was $164,679.
- Many baby boomers believe they will have to sell their house to fund their retirement.
- Baby boomer women are an 'at risk' group in terms of controlling their future financial security. In retirement, boomer women are expected to have a greater reliance than men upon the age pension.
- A lot of the people who expect to work forever do so out of concern for the inadequacy of their retirement income.

So what are the five key mistakes your parents may have made and that you need to avoid?

1. They didn't have a sound retirement plan (or have it soon enough)

Key components of a successful retirement require long term planning. Many of our parents' generation have simply not given themselves enough time. They are ready to retire but haven't paid off their mortgage. They forgot about a Transition to Retirement (TTR) strategy designed to allow them to make tax effective decisions in the lead up to retirement.

2. Their super is inadequate

Superannuation is their most widely held major asset with 84% of baby boomers having super savings. But in a recent Wellbeing Index, ING Direct found only about one quarter of households were confident their super would provide a comfortable retirement.

To be fair, many baby boomers have inadequate super because it did not become compulsory until 1992 - too late for some to make adequate contributions. Subsequent generations have no such excuse!

3. They will have to sell their house to fund their retirement

One in five people with assets outside super expect to be selling those assets, including downsizing the family home, to fund their retirement.

According to a HILDA survey, about 80% of baby boomers own their own home. Many plan to downsize and use the difference between the prices of the two properties to fund their retirement.

In 2011-12 the median value of baby boomers' houses across Australia was just $467,000[2]. The current housing boom may have seen values increase in some areas, however so has the price of 'downsized' properties. The cash left over may still not be enough to finance their future needs.

4. They didn't diversify

Many baby boomers have insufficient diversification in their investment portfolio. Having all their eggs in the one basket (ie not having a mix of asset classes) leaves them more exposed to market fluctuations. This can seriously erode their retirement nest egg if there is a downturn, especially if they are close to or in retirement.

5. They invest in unwise tax schemes

With inadequate funds and looming retirement, baby boomers are prime candidates for dodgy schemes promising high returns. Remember, if it looks too good to be true, it probably is!

What should younger generations do differently?

Many baby boomers have found themselves struggling to fund their retirement despite benefitting from huge rises in the value of their homes over many decades.

Younger generations may not enjoy the same level of capital appreciation and will face additional financial burdens such as tertiary education debt and children staying at home longer. They may also have to supplement their parents' retirement funds.

Some retirement planning tips to keep in mind are:

- Have a retirement plan created by a professional as early as possible.
- This should take into account the raise in the qualifying age for the age pension to 70 by 1 July 2035 and likely increases to the preservation age for superannuation savings.
- The plan should cover insurance, taxation, cash flow and estate planning.
- A key objective of the plan should be to enter retirement free of debt.
- Top up your super through salary sacrificing as this increases your retirement nest egg and has short term tax benefits.
- Re-evaluate your plans when shifts in financial markets and the economy occur.

1. The Australian Evidence of Baby Boomers Financial Security: A Review
2. The Grattan Report

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