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NEWSLETTER

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How do I ensure I am free of financial worries after retirement?

Dear Sir or Madam,

This guest newsletter by Michael von Wartburg, financial planner at Swiss Life, deals with the issue of whether a one-off payout or a pension will help you to enjoy a carefree retirement age.

Whether you decide to withdraw a lump-sum or to take a steady pension, both consultation far in advance and a detailed financial plan are essential, as both options have their pros and cons: a steady pension offers more security and calculability, whereas a lump-sum withdrawal allows you to be more financially flexible and individual.

In contrast to a pension, a lump-sum withdrawal enjoys tax privileges, and should there be any residual assets one day they will go into the estate. A pension, however, guarantees a fixed income until the end of life. Which of the two options is the better is decided on a case-by-case basis – a general rule does not exist. For this reason early planning is an absolute must to allow the right decision to be made based on a solid foundation. You should take your first steps towards a meaningful decision at an age between 50 and 55 years.

What should my life look like once I have retired?
Your first step should be about developing specific ideas about how you want to live during your retirement: Would I like to continue living in my current home? Would I prefer living in a house or in an apartment adapted to the needs of people my age? Will I be travelling a lot, and how long? Do I have other desires or hobbies? What if I need care?

Will I be able to cover all I wish with my income?
On the other hand, it is necessary make a list of all future income: pension income, investment income, and possible rental income. Is it also possible to expect a large inheritance increasing my assets? Subsequently your future total income needs to be offset with the foreseeable costs of living during retirement. It could be possible that your assets might be reduced over time. Ask yourself: Can I accept that, can I live with that? Anyone who notices that the budget does not allow much room for manoeuvre is often best served with a pension.

The need for security often takes number one spot on the list
The older you get, the higher is the need for (financial) security. It is for that reason, and that reason alone, that a secure income is the most important issue for people reaching (or having reached) retirement age when it comes to financial planning and ultimately to their well-being. Traditionally this need has been covered by the Occupational Pension Act (OPA) pension. But a lump-sum withdrawal also helps you reach your aim – with more flexible and individual solutions than with a pension. However, if you go for a lump-sum withdrawal it is recommended that you ensure a high liquidity of your assets – although currently funds that are easily accessible may offer only modest yields.

Arranging your very own pension payment plan
If you make a lump-sum withdrawal, you also have the option to arrange your very own pension payment plan. This plan can include either an annuity for life or a temporary pension with regular payments. The plan can also include buying secure, conservative bonds that are then sold step-by-step over time, thus securing a regular income. It is also possible to combine the solutions described above. As it happens, very often a combination of a lump-sum withdrawal (of part of your pension fund) and an annuity offers the best solution: the annuity coming from your pension plan guarantees you a basic income, whereas the capital that has been paid out enables you to fulfil individual needs and desires. As we know through our consulting experience, only in the fewest of cases can a certain diminution of assets be avoided altogether.

Careful check of risk capacity and risk tolerance
Anyone who owns considerable assets is in a position to take a number of risks – provided they are prepared to accept the ups and down that are par for the course when taking such risks – without losing too much sleep. For example, this could be investing in equity funds – particularly if these produce good yields which in turn can then be used to cover the cost of living. However, not only is a risk capacity required but also a certain risk tolerance if you are on the lookout for high yields. Whether you really have both of them at your disposal can only be established during a thorough meeting with an expert consultant.

About the author
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Kind regards
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