FINANCIAL REVIEW

Dec 13, 2024 – 5.00am

Wealth reporter

Michelle Bowes

Seven ways to future-proof your savings in case of early retirement

The secret ingredients to a good retirement are preparation and control, but life can be unpredictable. Here's how to build flexibility into your plan.

Kath, was forced to retire earlier than she had planned, with her husband, John.

Two knee operations brought Kath's 47-year nursing career to an abrupt end at the age of 65.

Kath, now 71, is among the one-quarter of Australians forced into early retirement due to circumstances beyond their control. She had hoped to work for at least another five years.

"When I started nursing we did 12-hour shifts. There weren't any lifting machines so we had to lift very heavy bodies. There weren't many males in the industry and I do know a lot of nurses that retired early."

Alongside her physical ailments, Kath (who asked for her surname to remain private) was also caring for a mother with Alzheimer's disease.

So when her husband, John, also fell ill, it finally led Kath to conclude that enough was enough. "I just couldn't deal with everything," she says.

Keep your retirement plans flexible. **Simon Letch**

That extra five years would have made a difference financially for Kath, who began her career before compulsory superannuation was introduced. “I don’t have as much as I probably would have liked,” she says of her retirement savings.

Estimates from the Australian Superannuation Funds Association (AFSA) show that someone earning $85,000 a year who retires at 65 instead of 70 would potentially miss out on $43,350 in super contributions.

However, the real impact of retiring earlier goes beyond reduced contributions. With a $400,000 balance and assuming a 5 per cent annual drawdown, retiring five years early could mean missing out on an additional $105,000 in potential savings, including investment earnings, ASFA says.

Far from popular notions of leaving the workforce at a time of their choosing to pursue a life of leisure, it is not uncommon for retirees to find themselves in a similar situation to Kath’s. And it’s not just those whose occupations take a physical toll on their bodies, that may be forced into early retirement.

Australian Bureau of Statistics figures from the 2022-23 financial year (the most recent available) shows 27 per cent of Australians retire earlier than planned. The most common reasons are personal sickness, injury or disability, the need to care for others, or being retrenched and unable to find work.

“We have a lot of clients that reduce their hours in order to provide support for their children and their grandchildren,” says Watson Wealth managing partner Elliot Watson.

“So that their children can work full-time, they’ll sacrifice their future retirement and their superannuation so that their children can pay the bills, and in particular, their mortgage.”

The average age of all retirees at the time of retirement was 60 in 2022-23, while the average age people intend to retire is 65.

New research from Challenger and Macquarie University found that planning for retirement and choosing when to retire were key to enjoyment and wellbeing in retirement.

“Proactively choosing how and when to retire may be the secret ingredients to wellbeing in our golden years,” says lead researcher Joanne Earl.

“Feeling empowered to choose when and how you step into this next phase of life results in a healthier transition and greater retirement happiness, retirement adjustment, and satisfaction.”

Aware Super chief executive Deanne Stewart says recent member research it conducted has reminded the fund just how emotional retirement can be – and that those emotions are not always positive.

An early retirement is not always a happy one says Aware Super CEO Deanne Stewart. **Louise Kennerley**

Speaking recently at The Australian Financial Review Super and Wealth Summit, Stewart said: “We often think, ‘oh, it must be so exciting, you get to spend time with the family, get to travel’. That is certainly the case for many retirees, but for many other retirees, there’s actually a huge amount of worry, a huge amount of concern, a huge amount of emotional baggage.”

A forced early retirement can be “a very different retirement compared to those that get to go and travel and do amazing things”, Stewart says.

Olivia Maragna, co-founder of Aspire Retire Financial Services, says one of the key risks of an unintended early retirement is longevity risk – or the risk that you’ll outlive your money.

“The longer you live in retirement, the more important it is to ensure your retirement savings last. If your retirement is forced earlier than planned, it may mean you’ll have to rely on your savings for a longer period than expected.”

While retiring at a time of your choosing is not the reality for all, it’s important to remain flexible, and expect the unexpected when planning for retirement, Maragna says. “A flexible plan is critical to navigate these challenges effectively.”

Here are seven ways you can future-proof your finances and protect them against an unforeseen event that waylays your retirement plans.

Insure the gap

Watson says having adequate insurance in place could be crucial to ensure that any gap between a forced early retirement – because you become sick or have an accident – and your planned time of retirement is mitigated.

"We do encourage clients to take out total and permanent disability insurance, trauma insurance and income protection insurance," he says.

To protect against an early retirement to care for a sick or injured spouse, Watson also recommends insuring the cost of losing the carer's income.

Invest outside of super

"I'm a massive fan of putting heaps of money into super, but for those unforeseen events before 60, when you can't access your super, what is actually going to finance you during that period?" Maragna says.

This inability to access super before preservation age is a key reason to have assets outside of super – or what Maragna calls a hybrid retirement plan – so that you can use these assets until super can be accessed, whether your early retirement is planned or not.

Based on the ASFA retirement standard, which suggests living costs for a comfortable retirement of $52,000 a year for a single person or $73,000 a year for a couple, retiring at 55 would mean you'd need $260,000 to $365,000 invested outside of super to bridge the gap until age 60.

But Watson says it's important that this money is invested in assets with high liquidity – such as shares – so they can be converted to cash quickly, while its also important assets outside of super are invested tax-effectively.

Adjust your super

An earlier than expected retirement means your super may need to last longer than originally planned. "A more conservative approach might be appropriate if you're going to be relying on your portfolio for a longer time," Maragna says.

Beyond moving your super into a more conservative investment option, it may also be necessary to adjust your super asset allocation to ensure you have a mix of income-producing assets for the short term and growth assets for the longer term.

Maragna also advises watching out for the effect that market volatility could have on your retirement nest egg and the impact of inflation on how far it goes.

Downsize or relocate

Watson says accessing the equity in your property can be another way to fund an unplanned early retirement.

"Consider downsizing your home or relocating to an area with a lower cost of living. This can free up valuable cash and reduce ongoing expenses," Maragna says.

While downsizing can free up cash for day-to-day living expenses, providing you are at least 55 years old you can also put up to $300,000 into your super as a downsizer contribution.

Reduce debt

It's also a good idea to reduce your debts later in life in case you are left without a steady income stream before you can access your super. This is one reason financial advisers often emphasise the need to clear your mortgage before retirement.

"The fewer fixed monthly expenses you have, the more adaptable your budget will be. Try to pay off high-interest debts, like credit card balances, and aim to reduce or eliminate your mortgage," Maragna says.

Beyond reducing debts, you may also need to consider lifestyle adjustments, such as scaling back your discretionary spending to fit your changed circumstances.

Build an emergency fund

Maragna says an emergency fund, with enough money to cover six months of living expenses, can be a useful buffer for an unexpected retirement.

"A substantial emergency fund is one of the best ways to ensure flexibility in your financial life.

"This provides a cushion in case of unexpected events like a health crisis or job loss without requiring you to dip into your retirement savings prematurely."

Plan for alternative income

While you may no longer be able to continue to work in your established occupation, there may be other ways you can earn some income.

Maragna says: "This could be rental income, part-time consulting, freelance work, or even a side business. Having these alternatives can help offset the loss of your primary income."

Investments that pay income, such as dividend-paying shares or an investment property, can also provide you with money to live off.

Michelle Bowes

Writes about personal finance from our Sydney newsroom. She has been a business journalist for 25 years and is the author of Money Queens: Rule your Money, an award-winning personal finance book for teenage girls. *Email Michelle at michelle.bowes@afr.com*

Elliot Watson

Elliot Watson is the founder and Managing Partner of Watson Wealth, a family-owned comprehensive wealth management business designed to support clients through every stage of life. A Certified Financial Planner (CFP®), Elliot combines deep technical expertise with a genuine passion for helping people build wealth, protect their future, and make confident financial decisions. Known for his personalised approach, he takes the time to understand each client's unique goals and tailors' strategies to fit their journey. Beyond his professional work, Elliot is committed to lifelong learning and giving back—whether through teaching financial literacy, community support, or contributing to policy discussions that shape the financial wellbeing of Australians.

Phone: 02 4038 1623 | Email: admin@watsonwealth.com.au | Web: www.watsonwealth.com.au