The Retirement Cliff

and how to avoid it — sample from the introduction (book in progress)

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Part 1 — Introduction

In this part we will outline the reasons behind the writing of this book and set the scene as to why it is so important to plan ahead for your retirement. Having been a professional financial planner for almost 25 years I have seen the full range of outcomes in retirement – from a daily struggle to make ends meet right through to the other extreme of being able to do whatever you want to do, when you want to do it.

Of course, even the concept of being able to do whatever, whenever is very different for different people and it is really important to state upfront that there is no magic number that leads to a successful retirement. Happiness is certainly not related to retirement wealth (of course, having enough doesn't hurt!), and so the process of retirement planning needs to be tempered with a degree of realism. This is where a financial planner who can produce a series of realistic outcomes for you can really help.

Throughout the book we will use worked examples to demonstrate key points.

What is the retirement cliff?

I coined the phrase 'the retirement cliff' in the late 1990s when it became apparent that very many people were walking into retirement completely unprepared for what lay ahead. I was seeing people in the later stages of their working lives spending like there was no tomorrow as their mortgage was paid off, the kids had left home and their entire income was theirs to spend on whatever they desired.

This included holidays, entertainment, 'toys', clothing, cars and increasingly generous gifts. They would agree to pay private school fees for grandchildren, or take the whole family on significant trips, or tell the children that they would help them out with a home deposit. All of these things occurred because for the first time in their lives – they could.

Or… they thought they could.

For many people, peak cash flow occurs just before retirement. In the current world, this is different to peak earning which nowadays occurs in your early forties according to the statistics I have seen, but available and spendable income maximises in the years before retirement.

This is a big problem as the illusion of wealth is quick to acquire, and very difficult to let go of.

Imagine that your household earned income from employment was $150,000 leading up to retirement and that this was earned by one partner in a couple earning $110,000 and the other partner earning $40,000. The after-tax available income would be $117,256 and this could be spent in any way you liked. Remember that previously it is likely that this couple were repaying a mortgage and paying for their children which might have taken $40,000–$50,000 off the top meaning that they were really living on around $70,000 per annum.

Now, in the same way that a pay rise only feels like a pay rise for one week (after which we quickly adapt to the new ‘normal’), this increased available cash starts to get spent pretty easily. The result – the household expenditure increases to match the new-found spending capacity.

But here’s the problem. The day after retirement most of that spendable capital disappears for most people.

One day after retirement your income becomes what is available from the retirement wealth that you have acquired and for some whatever social security becomes available at that time. As at 1 July 2023 the age at which you will qualify for the age pension is 67. Anyone under that age will not be entitled to any age pension from Centrelink.

> *This is a sample from the introduction of a forthcoming book. Chapters on planning ahead of retirement, the transition itself, and late-stage retirement are in progress.*