

Succession Planning Case Study

Retirement Income

Consider the following:

“Only 1 in 15 (7%) retirees live on an annual income of \$70,000 or more”.

“Almost one million people have returned to work since retiring”.

“Four in ten retirees maintain that you need the same or a higher amount of income in retirement to live comfortably”.

“Despite the evidence that the Baby Boomer generation has more retirement resources at their disposal than previous generations, some members of this group may not have an adequate retirement income generated by these resources”.

“A Senate Committee on Superannuation noted that there was a strong consensus amongst superannuation industry representatives that an adequate retirement income was between 60 and 65 percent of pre-retirement gross income”.

So how much is enough?

Statistics can provide you with guides and averages on the amount of retirement income you will need, but the answer to this question can only be determined by you when considering your individual circumstances. By planning ahead, steps can be taken to establish an income stream to match that required to meet and maintain your desired standard of living in retirement.

Background

Lucas ran his own sports equipment store for 15 years before deciding to retire at 55. This decision was made as a result of an unexpected offer to buy his business from a national chain. As he owned his own home outright, he had always considered that his superannuation and future retirement income would come from the sale of his business. With the purchase offer being an immediate and unexpected decision he had to make, he ended up accepting the price offered, without really understanding what alternative choices he had, nor what issues drove his business value. He also had not assessed the level of income he required in retirement, nor did he calculate the sale price for his business needed to give him an income earning asset of enough size to generate his retirement income. Unfortunately now Lucas' income was such that he could not afford luxuries that he and his family had become accustomed to prior to the sale of his business and his retirement.

Planning

Lucas could have avoided this scenario through some careful planning while he still owned the business. Firstly, he could have determined, with the assistance of a financial adviser, the retirement income he required, to maintain his desired standard of living without being afraid to include luxuries. From this, his level of retirement assets needed to generate this income could have been determined, as can what proportion of this was dependent on the sale of the business.

Example

Once retirement income is known, the following calculation will assist in the determination of the level of income earning assets required:

$$\text{Planned Personal Retirement Income (\$)} / \text{Planned Investment Yield (\%)} = \text{Retirement Assets (\$)}$$

Next Step

The next step for Lucas would then have been the completion of a Business Value Gap analysis, which assists in determining what the business was worth and the improvement required, if any, to match it with what it needed to be worth. The inclusion of all of these issues in an Effective Succession Plan could have helped Lucas and his family.

Sources:

1. An adequate superannuation-based retirement income? Research Brief 12 2005-06 Parliament of Australia, 16 March 2006

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