

Retirement planning - when is enough, enough?

Many of my recent consulting assignments continue to be focused succession planning -- especially regarding management of the transition to "retirement". It's a challenging area in these volatile times where asset values, income requirements and the reliability of passive incomes are not easy to forecast.

With the average age of farmers both sides of the Tasman nearer 60 than 50 many business owners are contemplating their options. Some are proactive about this and working with time on their side. Others are slower to realise the time for transition to "active retirement" is almost overdue. Those in their early 60s will have fewer good summers to gamble with. For them, there is a heightened sense of urgency to get into this next phase while their health and resources enable them to enjoy the fruits of their life's work.

Included in strategic thinking around this are complex issues. What is "sufficient" wealth, how much should be directed to retirement needs and what obligations (if any) there are to the next generation?

Decisions are inevitably influenced by each family's values and beliefs about passing on wealth, how to achieve fair (if not equal) treatment of the next generation and more importantly, how much will be required for the retiring generation to enjoy a much deserved retirement.

As with all strategic thinking, this area is heavily dependent on quality information. Superficial analysis can lead farmers to believe they will require substantial wealth to fund their desired retirement lifestyle. I'm finding that many are "overproviding" -- especially by thinking that they need to maintain their capital right through the retirement phase. The amount of wealth required diminishes significantly if assets can be used to generate income while being gradually consumed over the period of retirement.

The needs of each family will differ according to their expected lifestyle. Regardless, there is one important factor to recognise. That is the probability that the period of "active" retirement is likely to span little more than 10 to 15 years. Once people reach their late 70s it unlikely they will consume, travel or spend at anything like the levels required during the younger and more active phase. This has a significant impact on wealth required at retirement.

There are some excellent online calculators to help establish target retirement funds. These take account of individual circumstances including likely investment returns, life expectancy and annual personal expenditure. It's an exercise well worth doing.

Establishing how much wealth can or should be transferred to the next generation becomes once simpler once the needs of the founding generation are clarified. Any surplus can then be invested or structured in favour of the next generation and managed towards a timely and equitable allocation.

Trends in the projects I am working on suggest that progress is greater potential for families who collaborate than for those who separate. Given the likelihood that farms will become more corporate as they are transferred to the next generation, the resulting growth in size will be a plus for sustainability.

Obligations to the succeeding generation need to be kept in perspective. My observation is that character built through the challenge of developing a business while carving out a personal and family pathway is what makes the journey rewarding and worthwhile. While a helping hand will no doubt be appreciated by those that follow, I certainly see occasions where those who have worked hard to build a business forsake the rewards they deserve only to make wealth too easily available to those who follow.

Being on top of this type of succession planning is fundamental to a brighter outlook for the sunset years.

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