FLASH NOTE

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Why and how should you prepare for retirement?

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Retirement is often synonymous with a lower income. It is therefore important to start saving as soon as possible to aim to maintain your standard of living once retired. In this article, we address the following questions: Where should you start? How should you go about it? What are the best strategies for your circumstances?

Retirement: a risk of reduced income

Factors such as longer life expectancy, an ageing population, increasingly non-linear career paths, and disrupted relationships with work since COVID-19 are some of the major trends that are upsetting the balance in pay-as-you-go pension schemes.

In developed countries, as the number of pensioners grows, the number of active professionals paying into pension pots is dwindling. For example, among the OECD member states, there are currently four people of working age (20–64 years old) for every person of retirement age (65 and over), according to the organisation’s statistics. This ratio will be 3:1 in 2025 and 2:1 in 2050.

Retirement is synonymous with a potentially lower standard of living. However, the replacement rate (the difference in income between working life and retirement) should further widen according to the OECD, given the ageing of the population and certain measures taken, such as lower returns on supplementary pensions, in developed countries.

> **Good to know:** In 2020, in OECD countries, the average gross pension replacement rate reached 51.8% (60% net).

Save over the long term and diversify your investments

It is important to build up savings throughout your working life. The best way to do this is to save regularly so that you have capital and/or additional income when you retire. By investing your savings, you can generate income (such as interest, dividends and capital gains), which can in turn be reinvested to potentially generate further income. Ideally, of course, you should start as early as possible to minimise the effort required.

The earlier you start saving, the more you can plan for a long-term horizon and the more you can diversify your investments, thus adjusting the level of risk. Historically, risk goes hand-in-hand with higher returns. You may have to accept the idea of possibly incurring losses in the short or medium term, bearing in mind that the objective is to generate performance over the long-term.

To optimise your pension, you should regularly (every 10 years) review your future situation in detail, such as by anticipating the expenses you will have once you retire (fewer expenses related to your children’s education but increased expenses related to healthcare or loss of autonomy, etc.). These needs will have to be compared with the amount of basic and supplementary retirement pensions that you will receive. Using this approach, you can draw up a plan for how you will fund your retirement to suit your needs and desires.

Good to know: If you invest €70 per month for 40 years, at an average interest rate of 2% per year, you will obtain capital of more than €50,000 by reinvesting the gains. To reach this amount in only 10 years, you would need to set aside nearly €400 a month.

What strategies should you use to prepare for retirement?

In addition to investing in real estate, especially a primary residence so that after retirement you can free yourself from housing expenses which are often the biggest outlay, you can gradually invest some of your savings in long-term products. Some of these products can offer particularly attractive returns. For example, in a securities account, savings are invested in shares listed on the stock exchange and its long-term profitability can outperform regulated savings accounts. Another example is life insurance which, in addition to being highly liquid, offers undeniable tax benefits upon expiry (in the event of withdrawals).

You can also diversify your investments by using some of your savings to invest in one or more retirement-specific products, offering different tax benefits to life insurance. With some exceptions, your funds will only be released upon retirement, meaning you can secure your future standard of living.

A few years before you retire, you should approach a financial adviser to examine the best options for your profile and projects. For example, it is possible to sell some of your real estate assets to generate more liquid financial assets, which are easier to buy or sell. You may also have questions and wishes concerning how you will pass on your wealth. These matters should be planned for, so it is important to seek out information in advance.

How to generate additional income through asset management

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[1] The Organisation for Economic Co-operation and Development (OECD) seeks to promote policies that will improve economic and social well-being around the world.

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