

Retirement

Life Two: What we used to call 'retirement'

Are you ready — psychologically and financially — for the next episode?

Don Ezra YESTERDAY

If ever there was a word that needed to be retired it's retirement.

What kind of mental picture does this word conjure up for you — sunny beaches and no longer having to set an alarm clock? Or a stressful feeling about how much longer you will need to work to afford such a lifestyle?

Just as our working lives have changed immeasurably over the decades, so has our concept of retirement — not to mention how our long-term savings are structured. So in my own (very happy) retirement, I have been working hard to try and redefine it.

For starters, few people I know of traditional “retirement age” want to stop working completely. They might want to spend less time working, or do a different kind of work, but they still want to be active.

While more specific, the phrase “life after full-time work” is a mouthful. So I created an acronym for it, using the first letters: (l)ife (a)fter (f)ull-(t)ime (wo)rk, and it came out as LAFTWO. Aha, I thought, that's how my Texan friends would say “Life Two”. And suddenly three years of assembling thoughts fell into place, and acquired a structure, purpose and much more.

Life One is our grown-up working life. Life Two is what follows. It's the best part of life, so much so that Life One is just the long prologue that finally gives way to the main event, when enjoyment, happiness and fulfilment peak.

I'll connect that to another idea: that Life Two needs an education.

More than 100 years ago, education was a blessing. Now it's a necessity — we can't imagine life without it. But that's education for Life One. My point is that we need an education for Life Two. One day it'll be unthinkable not to have it. Today, I'll give you some ideas about what it might contain.

Second life

Let me start with how happiness varies with age. Have you heard of the [u-curve](#) of happiness? In country after country, survey after survey always shows that we're happy in our youth, then our

happiness tends to decline, bottoming out around our late 40s, then it rises again until we become happiest of all in our later years.

There's a psychological explanation. There's idealism when we're young and inexperienced, followed by stress as we strive for success and realise there are things that will never be perfect, followed eventually by an acceptance that perfection is unnecessary, and "pretty good is pretty good . . . and that's enough."

Our measuring stick eventually changes, and we gradually change to seeing the glass as half full rather than half empty. More importantly, there's a neurological explanation, involving that fact that the [dopamine supply](#) in our brains that constantly drives us to do more and better things, declines over time so we get progressively less pushy and frustrated — and happier.

This suggests we're hard-wired to be happiest in the years that coincide with our retirement. Whatever age you may be, think of it this way: the best is yet to come.

Ironically, retirement acts against this, raising fears that often turn out to be unnecessary.

We hear, over and over again, that people don't start thinking about retirement until they're at least 50. Then the regret starts. "Oh gosh, I wish I'd done something about this earlier, when there was still lots of time."

Anxiety starts a few years later. It becomes a big concern for older employees, to the extent of having negative effects on their workplace productivity and on their health. Again, there are many studies and journal articles around the world that point to this.

The financial angle is: "I don't think I have enough. Will I run out of money before I run out of life?" In all my years of experience, it's typically the biggest fear people have around retirement, particularly as [defined contribution](#) pensions become the norm. But there are psychological and practical issues too. "If I stop work, will I lose my identity? And how will I fill my time?" That's why education can help.

Education, education

Instead of a feeling of dread, better education in the lead up to Life Two can inspire confidence. Not repeating "everything's going to be fine," because frankly that's just not credible. But we can get rid of the irrational fears.

As for the rational fears, individuals need to learn about the following: "Here's what's involved. Here's a framework. You'll still have decisions to make, and have actions to take in setting up your own plans for the future. But once you get that far, the fear of the unknown will vanish, because you'll know what your situation is, what your options are, and that will at least put you in the driver's seat."

Employers with Life Two-educated employees should see improved productivity, and a greater ease of getting people to accept retirement — so, it could even help with workforce planning. I'd

like to think employers might pay for this later life learning — but in practice, this may be a journey you have to make alone, perhaps with guidance from a financial adviser.

There are three main subjects that will tackle the three fears I mentioned: psychological (identity), practical (time), and financial (make it last). We should probably start the financial education about 20 years before retirement, when there's still time to make a big improvement. The psychological and practical education should begin five years before retirement.

The psychological side can be really scary. For those defined by their work, no longer having a business card or job title can make them feel devoid of purpose. When I speak at conferences, I avoid being described as “the former actuary” or “the former consultant” preferring the term “happily retired”.

The irony is that people don't realise that it's a common feeling, to be scared of the transition to Life Two. We all feel that way. And when they know that, and acknowledge it openly, the fear typically goes away.

Another ironic aspect is that we've often typically made this sort of transition before — from home to university; from university to a career; from one job or even one city to another. Scary transitions, but also opportunities to reinvent yourself. And so is retirement.

Find the answers within

Everybody's plans for Life Two will differ. Some may long to laze on a beach, or spend more time with the grandchildren, whereas others will want to “give something back” or keep working. There are questions that you can ask yourself to help identify these desires; the answers will help you to formulate a plan that's unique to you. I've discovered many such sets. Let me show you two of them.

The first comes in the form of three questions, set out by the author [George Kinder](#) in his book *The Seven Stages of Money Maturity*.

FIRST QUESTION

You have all the money you need. How would you live your life?

SECOND QUESTION

You've just found out you have five to 10 years to live. How will you change your life?

THIRD QUESTION

You've just found out you have 24 hours to live. What are your regrets?

These are quite profound questions — particularly if your identity revolves around the workplace (where, let's face it, we spend many of our waking hours). Yet something about who

you'd really like to be in Life Two should come out of that exercise.

An alternative approach from the author [Ed Jacobson](#) starts with a reminder that life is about more than money. Family and friends, work and play, physical and mental (including spiritual) health: those are six other aspects. Think of them, with money, as seven asset classes in your portfolio of life's abundance. Think about how you'd rate your satisfaction with each component, and what you might do to raise your score in each. That too is a way to define your purpose.

And that leads to spending your time. You need leisure activities as well as activities related to your purpose or mission. And if you have a partner, then this is not just about you. I found something called the [Get-a-Life Tree](#) to be a great way of making a plan (again, not my idea, it's from Ernie Zelinski.)

It's important to remember that you and your partner are not just a couple, but also two different people (I got this idea from Tony Parsons). Many readers of [my blog](#) like the idea of a [Venn diagram](#) — two intersecting, partly overlapping circles — to identify activities you share and activities you want to keep separate. All three parts of the Venn diagram are important.

How much is enough?

For a first rough estimate, consider the "rule of £1,000" which says that, for every £1,000 you have available at retirement age, typically it generates £1 a week for the rest of your life. So £100,000 would make £100 a week available.

For those who want something more, I've found that even non-geeky people understand the notion I call your [personal funded ratio](#). It compares how much you have (and are likely to add, if there's time for future savings) with how much you need to continue the lifestyle you desire. A score of more than 100 per cent is good; under 100 per cent suggests a need for remedial action. There's a free [calculator tool](#) on my website to help individuals and couples make this comparison.

Your retirement income will be supported in different ways. How much of the funded ratio comes from pillar one — your government-funded pension? How much from pillar two — a workplace plan? How much from other assets — which could include a stocks and shares Isa, buy-to-let property or your home?

Will you reach 100 per cent without counting your home, or might you need its value to supplement your income — perhaps in the form of equity release?

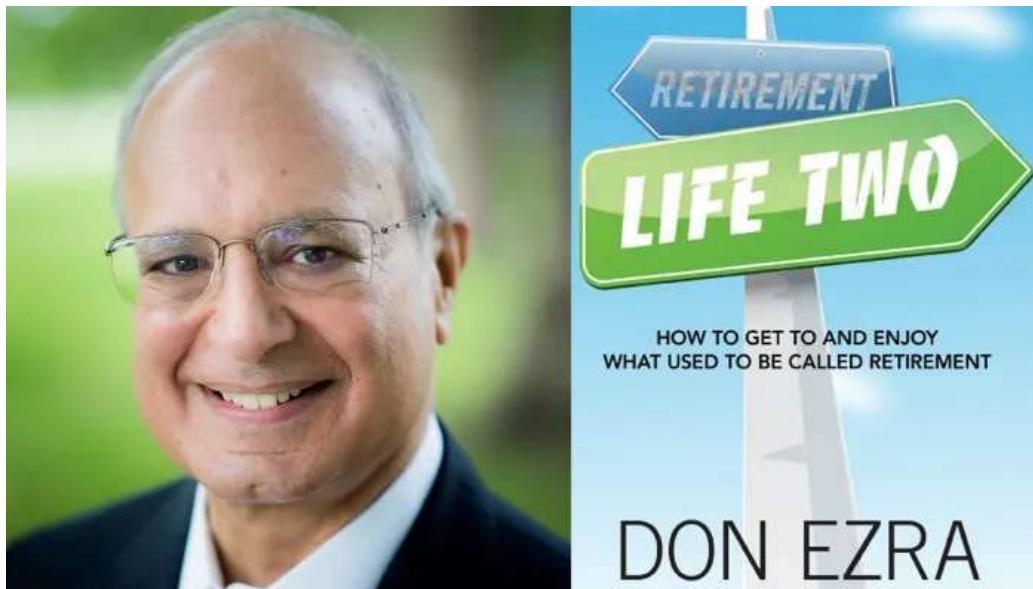
If you don't have enough, how much more do you need to save? Are you taking enough risk with your savings and investments to be adequately rewarded?

The biggest lever you can pull will be delaying retirement — more income from work, more time to save, and less time left to spend it.

These are the answers you need to find out, in order to make a sensible plan.

There are other aspects that relate to defining your [risk tolerance](#). Financial professionals think about risk as your investment returns turning negative. No. It's about how you react to the impact of investment returns on your lifestyle.

How much "lifestyle risk" you can stand determines how much investment risk you can tolerate. For example, if your investments lost £5,000 in a year, how much would you have to reduce the annual income you're drawing? And how would that make you feel? How about £50,000? These kinds of exercises are essential to defining your risk tolerance and managing your financial plan throughout Life Two.



Armed with this knowledge, you'll know where you are. That will give you that feeling of being in the driver's seat, because you'll have your own plan in answer to those three fears. You also know that no plan will ever work out. But the work that's gone into the plan will help you adapt, as circumstances change — that's why we plan, because it gives you resilience.

All of this will hopefully make Life Two truly the best time of life.

Don Ezra is happily retired, using his lifetime's experience with pension schemes to apply the principles for individuals, via his website DonEzra.com and his book 'Life Two: How to get to and enjoy what used to be called retirement'

Having 'the talk' with your adult children

We are not going to live forever. Some families — particularly in generations past — have found it very difficult to discuss any aspect of this phase of life with their adult children. Neither my wife Susan nor I ever had such a conversation with our parents.

I've found it helpful to think of three dimensions regarding the information to be shared.

The first dimension is a list of important documents and where they are to be found (preferably in one place). Also the people they may need to contact, and their contact details: not just

professionals like your doctor, your lawyer, your financial professional, but also close friends and relatives.

The second dimension relates to levels of involvement — an angle I found from [Anderson Elder Law](#). The least involved level is where your children know where to find the information mentioned. Next, you may want to share some of the actual details with them, such as your finances and your will. Once you start doing this, you will probably want to repeat the exercise periodically, as we now plan to do.

At this stage you're still in full control. It may later become necessary for them to assist you, or to share responsibility for your affairs — or to take over that responsibility completely. In that phase, the parents need the children, rather than the other way around. So, consult your children before making arrangements.

It can provide great peace of mind to know that all of this has been discussed before the need for the arrangements to be carried out ever arises — even if one day you may not remember ever having done this.

The third dimension involves saving trouble for [your executor](#).

Some wills are [hotly contested](#) by family members who can't stand one another. If that's the family attitude, you may not be able to solve this problem while you're alive.

The angst that it may be possible for you to spare your executor arises from the small things, like dividing up your personal possessions when different family members each want the same thing, or think that a particular apportionment or process of deciding is unfair.

I refer you to [an article](#) I particularly liked on the subject, by Paul Sullivan in The New York Times. A quote from the piece: "Just think for a second what it would be like on Christmas morning if your children ran downstairs and there were all of these presents, bright and shining, big and small, but with no name tags on them. Can you imagine the free-for-all that would ensue?"

That probably won't make any list of really important financial things to consider in the run-up to retirement. But emotional things? Yes indeed. And those are important too.

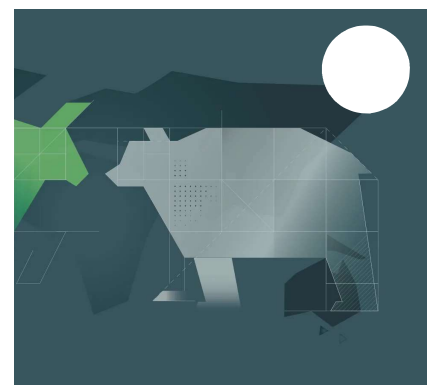
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