LifeGuides

# Plan to live the retirement you deserve



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## We all want to live a long and carefree retirement. Being healthy and happy is a priority, as is having the funds to ensure we live the retirement we deserve.

**As of July 1, 2013 the maximum age pension, including the pension supplement, for a single person was $808.40 per fortnight. That's nearly $58.00 per day. Could you maintain your ideal lifestyle on this amount? It pays to take the right steps to help secure your retirement lifestyle.**

## Setting your target

When thinking about retirement, the hardest question of all may be this: how much money do I need to live the life I want? The answer will depend on the lifestyle you desire and how long you expect to live in retirement.

### When do you want to retire?

These days there is no fixed age to retire; however the average Australian currently retires at around 61 to 62 years of age. Obviously this doesn't mean you can't change your mind, either working longer or retiring and then going back to work after a few years off.

But, establishing a retirement age is an important step in setting your lump sum target.

### When can you qualify for the age pension?

To qualify for a part or full age pension, you have to meet an income and assets test and the age requirement. You can find details of the requirements at www.humanservices.gov.au - just enter "age pension" into the search box.

Currently men must be aged 65 and women 64, depending on your date of birth, however from July 2017 the age will gradually increase for both so by July 2023 the retirement age will be 67 for men and women.

### How long will your retirement income need to last?

While no one likes to think about how long they will live, it's important to consider when calculating the lump sum you'll need. The fact is Australians are living longer and you don't want your retirement income to run out of steam before you do.

When estimating your life expectancy take into consideration:

- Your family history – did your parents and grandparents all live to be over 90?
- Men and women have different life expectancies.

| Australian life expectancy (source: Australian Institute of Health and Welfare 2009) | |
|---|---|
| Men | 79 |
| Women | 84 |

### So how do you estimate a target for your retirement lump sum?

A common mistake is to assume that if you've paid off the mortgage your needs will be very basic. This may not be the case. You may intend to travel, enjoy new or old hobbies, entertaining and sport or cultural events.



## Get help

There are a number of methods you can use to determine how much you may need and some of the sites listed at the end of this guide can help. As can a meeting with a qualified financial planner.

The fact is setting a target can be complex, as is developing a strategy to achieve it.

You will need to factor in inflation, both before and after retirement, along with your own time frame, available funds and attitude to risk. The ideal financial planner will take a holistic view of your current circumstances, lifestyle and future goals. The right planner will work with you to develop a plan that is tailored to your specific needs. These are likely to include:

- advice on how to save for your retirement
- help to determine the amount of savings/ superannuation you will need when you retire
- calculating how much income you'll need in retirement
- advice on investment solutions that will provide your retirement income
- providing you with advice on how to transition from the workforce into retirement.

For more information you may like to read our LifeGuide, ***Understanding financial planning,*** which will give you an overview of how a planner could help you along with some insights into how you can choose the right one.

However, before you do meet with a financial planner, the following may give you a basic ballpark to start working with.

## How much will it cost you to maintain your lifestyle?

Some experts suggest a yearly figure of 75% of your income prior to retirement.

Obviously this can't take into account your individual circumstances, but as people often tend to live "to their income" and sometimes even beyond it, this method may give you some idea.

**The Association of Superannuation Funds of Australia (ASFA)** produces a table providing a guide to the amount you may need to live a comfortable or a modest retirement. It can be found on their website at www.superannuation.asn.au

For the March quarter of 2013, ASFA Retirement Standard suggested a couple could live a modest retirement on $32,603 per year and a comfortable retirement on $56,317 per year.

Both budgets assume that the retirees own their own home outright and are relatively healthy.

The difference between the two budgets mainly relates to the extra items included in the comfortable budget. These include items such as being able to update the kitchen or bathroom at some stage, being able to purchase wine and eating out from time to time, being able to entertain family or friends at home, private health insurance at the top rate, purchasing magazines and CDs, an economy overseas holiday and being able to afford additional alcohol or gifts.

**Using $56,317 per year as a target how much would you need to retire?**

This will depend on how you invest your lump sum and if you will be topping it up with help from the government, through the age pension.

For the sake of this example, let's leave the pension to one side and imagine you're comfortable with an investment strategy that generates a retirement income of 5.5%, you would need a total lump sum of $1 million ($1mil x 5.5% = $55,000)

However, we haven't factored in any one-off expenses. You may need to:

- Buy a new car (say $45,000)
- Have a holiday (say $30,000)

Adding in a new car and a major holiday to our example, your retirement target would be $1,075,000. However, we're still not finished.

## What about inflation?

Our example hasn't taken into account inflation between now and your retirement, or during your retirement.

For the sake of this simplistic example lets assume you are 40 and you want to retire at 60. While inflation differs from year to year, lets assume it averages at 4% (this may not be the case) with 20-years to go until retirement how much will your lump sum target really be worth?

| Years to retirement | 4% inflation rate |
|---|---|
| 5 | 1.22 |
| 10 | 1.50 |
| 15 | 1.80 |
| 20 | 2.20 |

The above table shows that, assuming an average inflation rate each year of 4%, in 20 years time you may need $2.20 for every $1.00 you have today. Therefore, in 20 years time you may need $2,365,000 to buy what you can today for $1,075,000.

These calculations are for illustrative purposes only, and can be complex so it may pay to get professional advice.

## Do you need professional advice?

Ask yourself the following questions:

- Do I know how much money I will need to fund my retirement lifestyle?
- Do I know how much lump sum combined with pension I will need?
- Do I know how much I need to invest now to reach my desired lump sum target?
- Do I know where to invest to suit my time frame, attitude to risk and goals?
- Do I have a plan in place to live the retirement I deserve?

If you answered no to any of these, then it may pay to speak with a qualified financial planner.

In most cases people fund their retirement through investing their lump sum and supplementing this with a full or part pension. Our LifeGuide *Living the retirement you deserve*, has more information for people living in or close to retirement



## Understanding your investment horizon

Once you've estimated your retirement target and how much you need to set aside to reach it, the next question is: where to invest? This is a critical decision.

**Your investment choices may include:**

- investing in various asset classes, such as property, shares, fixed interest, cash or a combination of them all
- taking advantage of superannuation (which we will examine in a moment).

Read our LifeGuide to ***Investing for your future***. It contains useful information about various investment options, and looks at the importance of diversifying and how you can develop a strategy that's right for you.

### If retirement is a long way off (more than five years away)

If your investment time frame is more than five years, investments in areas of higher volatility such as the stock market could be an option. There are several strategies for investing in the stock market. The right one will depend on the investment time frame, amount of available funds, knowledge and the level of risk that the investor is comfortable with. For example, you may choose shares yourself or invest in a managed fund that can provide greater diversity.

### If retirement is three to five years away

If this is your time frame then a managed fund with an appropriate mix of local and overseas shares, property, fixed interest and cash could be an option. The shares may expose you to growth investments while the fixed interest and cash investments are generally more secure. If you're over 50, making extra payments into superannuation is also an option that we'll discuss in a moment.

### If you're about to retire

If your retirement has almost arrived, more stable options such as cash and fixed interest investments are options which may be considered. If investing through a major financial institution, your capital is relatively secure and you'll receive an agreed rate of return. However, don't dismiss growth investments. You'll hopefully live a long and happy retirement so you need to ensure your income keeps pace with inflation. Consider the fees and charges and the likely rate of inflation to estimate your eventual return. There are also some specific superannuation strategies that are available.

## Superannuation

This is often one of the most tax effective ways to plan for the future.

Where a worker qualifies, the employer must make a contribution of 9.25% p.a. of 'ordinary times earnings' (as defined by the Australian Taxation Office) from 1 July 2013 to a complying super fund of your choice. The super guarantee rate will gradually increase from 9% to 12% of your ordinary earnings over 7 years.

There are limits to the contributions made by employers for high-income earners and there are some workers who don't qualify for employer superannuation contributions. You can check your eligibility at the Australian Securities and Investment Commission (ASIC) consumer website www.moneysmart.gov.au or by calling the Australian Taxation Office (ATO) Super Infoline on 13 10 20.

### Superannuation co-contribution

To boost the retirement earnings of low-income earners the Federal Government may make a co-contribution to your superannuation. If you earn $33,516 or less per year, then for every $1.00 you contribute the government will contribute $0.50, up to a maximum of $500 per year.

The amount of co-contribution decreases as your income increases, ceasing altogether where earnings are greater than $46,920 per year (for financial year 2013/2014). You can check your eligibility with the ATO.

**Making contributions before tax**
A minimum 15% tax rate applies to all super contributions made by your employer as well as any contributions you make that you're eligible to claim as a tax deduction. Before tax contributions generally cannot exceed $25,000 per year (indexed), over which any amount contributed will be taxed effectively at the top marginal tax rate plus the Medicare Levy as a minimum.

**Making contributions after tax**
There is also a limit on the after-tax superannuation contributions, from which no tax will be deducted in the fund. The limit for the 2013/2014 financial year on after-tax contributions is $150,000.

If you are under age 65 at any time during the financial year, you can bring forward the next two years' non-concessional contributions caps (providing you haven't already done so in the two previous financial years). The cap for 2013/2014 financial year for brought forward amounts is $450,000. This effectively creates a three-year block period where total non-concessional contributions cannot exceed three times the first financial year's non-concessional contributions cap.

This may be appropriate if you've received a lump sum.

Exemptions may apply including those for small business owners and people who may have received settlements for personal injury. You should seek advice about your particular circumstances.

## Transition To Retirement (TTR)

Once you reach 55 years of age, you can take an income stream from your superannuation before retiring permanently from the workforce. By combining this with continuing to work and/or making more contributions you could be better off in two ways:

**1. Boost your superannuation balance**
By combining a TTR pension with extra salary sacrifice contributions to your super fund, you may boost your super. This can work particularly well for higher income earners because their pension payments are taxed at a lower rate than their normal employment income. Consider getting advice for such strategies and be aware that there are maximum contributions you can make to your fund without getting a tax penalty.

**2. Cut back hours**
You could decide (with help from your employer) to work fewer hours and earn less from your employer but top this up by withdrawing an income stream from your super.

**Salary sacrifice**
Salary sacrifice is when you and your employer agree to pay a portion of your pre-tax salary as an additional contribution to your super on top of the compulsory 9.25%.

**Spouse contributions**
A tax offset up to $540 can be claimed on contributions made on behalf of a spouse if they have a low or nil income.

## Super choice

In most cases you've the right to choose the superannuation fund to which your employer will contribute. If you choose not to select your own fund your employer will contribute to a default fund of their choice.

Generally you have four basic options to consider:

- a fund run by the company you work for
- a fund open to employees in your particular industry
- a fund open to everyone
- a self managed fund.

## Lost superannuation

If you've changed jobs regularly, you may have superannuation savings that you are unaware of. The ATO runs a Lost Members Register where you can track down any missing super. You can access this through the ATO website or call the Super Seeker self-help phone service on 13 28 65.



### Choosing a fund

It's often important to choose a fund that not only has a history of producing solid returns but also one that allows you to nominate your own 'risk profile'. This is essentially your comfort level with the strategies employed. Your "risk profile" may change depending on your circumstances and the time you have to retirement. Some specific awards don't allow you to choose which fund your super is paid into. You need to check whether this applies to you.

Each fund should provide what's known as a Product Disclosure Statement. This statement must clearly include but is not limited to the following:

- the fees and charges associated with the fund
- the insurance benefits available, including things such as disability and death benefits
- the significant risks associated with investing in the fund because of the investment options chosen
- how your contributions will be paid into the fund
- how the fund will be administered (this is important from your perspective as an efficient fund will save you time and money)
- the investment options available and how they are applied
- whether individuals can choose from a range of investment strategies
- historical investment performance for members and the different factors that contribute to that performance.

### Comparing performance

When evaluating performance it's suggested that you judge the results over the long term (at least five years) and that you're comparing 'apples with apples'. For example, if you're considering a fund that has 75% of its portfolio in Australian shares and 25% in fixed interest, there's no point checking the returns against a fund which has 75% of its portfolio in fixed interest.

First, examine what sort of investment strategy would suit your needs and then compare funds offering similar strategies. Also remember that past performance is no guarantee of future returns.

### Fees and charges

Over time, what seems like a small amount can add up. This could severely impact your final return. So if the fees are going to be higher overall, it's important to check whether the investment returns are likely to make paying the additional fees worthwhile.

The ASIC consumer website www.moneysmart.com.au can help you compare the various funds and also has a superannuation calculator to estimate the likely impact of fees on your eventual return.

### Self managed superannuation funds (SMSF)

As the name suggests, you do have the option of starting and managing your own superannuation fund. This is an increasingly popular strategy.

In fact, it's estimated that approximately 31%* of the total superannuation assets held in Australia are in SMSFs.

Generally the basic structure of an SMSF is as follows:

- it has four members or fewer
- each trustee is a member and each member is a trustee
- no member of the fund is an employee of another member unless they're related
- no trustee receives remuneration for work involved in managing the fund
- the trustee can be a corporate entity
- like all funds, it's regulated and must report to the ATO.

As a trustee you'll be legally responsible for ensuring the fund complies with all of the rules and regulations.

You may delegate this duty to a professional but the buck still stops with you. You should also understand that superannuation funds are for retirement benefits.

They're not designed to give you early access to your superannuation for other purposes.

The costs of establishing and running a SMSF can also vary greatly based on a range of factors including the type and nature of administrative and professional support required as well as the size of the fund.

## Key steps to consider

Planning to live the retirement you deserve will mean different things at different stages of your life and you should know it's never too early or too late to make a difference.

However, human nature being what it is, people often begin to consider their retirement, at key milestones such as a major birthday. The following are some steps to consider however some will be more relevant depending on how far you are away from retirement.

Whatever situation you are in, we recommend seeking advice from a qualified financial planner.

**1. Determine how much money you will need to fund your retirement.**

If you need more income than you think you can generate or are entitled to through a full or part pension, you have two choices:

A. Boost your nest egg.

B. Invest with the aim of greater return, but this may carry greater risk.

You will also need to consider the impact inflation will have on your retirement plan. You will find a Retirement Planning Tool at www.moneysmart.gov.au

**2. Take stock**

Find out where you are at financially right now. You may want to use the "net worth calculator" at www.moneysmart.gov.au

**3. Do a budget**

This may sound like a very basic approach, but having a budget will help you determine how much money you have available to invest.

**4. Review your insurance**

Suffering an uninsured loss this close to retirement could set you back years. A meeting with a qualified financial planner could also help to make your insurance more cost effective; for example some insurance could be paid through superannuation.

**5. Clear your bad debts**

If you have debt that is not attached to an income producing asset or a growth investment that is delivering growth beyond the cost of servicing the debt then you may want to consider taking steps to clear that debt as soon as possible.

* www.ato.gov.au/superfunds

60 – 80

**6. Consider making additional after tax contributions to your super**

Any contributions you make to superannuation above the capped rate will attract taxation. Once your money is in the superannuation environment, it will then attract tax concessions.

**7. Consider your investment time frame and tolerance to risk**

Now is probably not the time to make a mad rush to the retirement finish line and try to boost your eventual lump sum through risky investments. A risky investment now could severely impact your retirement.

**8. Diversify**

Diversification is one of the key building blocks of a wealth creation strategy. You should consider how you can manage to diversify your investments across the four main asset classes –

- cash
- fixed interest
- property
- shares.

The right asset mix will also depend on your situation, the amount you have available to invest and your time frame.

**9. Consider working longer**

Knowing how much you need to generate your retirement income can be sobering. But having a target gives you something to aim for. In some cases you may decide you need to work for a few extras years or alter your investment strategy.

**10. Using the equity in your home to invest**

You may have greater opportunities to build wealth than you realise. For example, by using the equity in your home to invest. You should speak with a professional advisor about what's right for you but borrowing to invest can magnify your profits although it is a step up the risk ladder, which may not be suited if you are close to retirement. Remember borrowing to invest can magnify any losses.

**11. Consider a margin loan**

A margin loan is where you borrow to invest in the share market and the loan itself is secured against your investments. It's a strategy that gives you more money to invest. The returns are the same regardless, it's the fact that more money is being invested in the market to achieve those returns. Of course you are also going into debt to invest so there are risks and you have to be careful that the income and capital growth are sufficient to make this worthwhile. Again you should consider your time frame, attitude to risk and speak with a professional advisor before making any decision.

**12. Consider 'Transition To Retirement'**

If you're 55 or older the strategies we've examined earlier in this guide could help boost your retirement lump sum or ease your way to retirement.

## Getting help

Retirement planning is complex and each individual's circumstances are unique. You should consider getting professional investment, taxation and retirement advice.

You'll find a list of questions to ask potential financial planners in our LifeGuide ***Understanding financial planning.***

Many of the contacts below also provide great information for people looking to build wealth for their retirement.

- **The Australian Taxation Office** provides a host of helpful information and free booklets concerning tax issues at www.ato.gov.au
- **For superannuation** go to www.ato.gov.au/super or call the Super Infoline 13 10 20.
- **The Australian Securities and Investments Commission (ASIC)** consumer website is www.moneysmart.com.au or you can call 1300 300 630.
- **The Treasury website** www.simplersuper.treasury.gov.au has a detailed explanation of the recent changes to superannuation.
- **The Financial Planning Association of Australi**a www.fpa.asn.au 1300 626 393 can provide advice on choosing a financial planner and has an online tool to help you find a planner in your area.
- **The National Information Centre on Retirement Investments (NICRI)** www.nicri.org.au 1800 020 110 is a not for profit organisation providing free information over the phone and fact sheets.
- **The Association of Superannuation Funds of Australia** www.superannuation.asn.au (02) 9264 9300 can provide information on choosing funds and how funds are accredited.
- **The Self Managed Super Fund Professionals' Association of Australia** www.spaa.asn.au is a body established to promote professionalism in the industry. If you're looking for assistance in establishing your own superannuation fund, the site provides a service to help you locate an accredited member in your area.
- **The Australian Consumers' Association** www.choice.com.au has done a great deal of research into various financial products.
- **The Financial Ombudsman Service Limited** (FOS) www.fos.org.au 1800 367 287 can assist if you have a dispute with a planner or financial institution.
- **CANNEX** www.canstar.com.au is an independent organisation providing both information and comparisons of various financial products.
- **InfoChoice** www.infochoice.com.au can provide unbiased information on various financial products.
- **Centrelink** www.humanservices.gov.au 13 63 57 provides a free financial information service, including one-on-one consultations.
- **Consumer Affairs** www.consumerlaw.gov.au can provide links to the relevant department in your state or territory.

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## For more assistance

Contact your local branch

**Phone or visit anz.com**

**General Enquiries**
**P.** 13 13 14
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24 hrs / 7 days

**ANZ Investment Lending**
**P.** 1800 639 330
8am – 6pm (AEST) Weekdays

**ANZ Financial Planning**
**P.** 1800 305 058
8am – 8pm (AEST) Weekdays

**ANZ Trustees**
**P.** 1800 011 147
9am – 5:30pm (AEST) Weekdays