

How much super is enough?



Your retirement may be a distant thought or it may be just around the corner. Either way, it's important to know whether you can rest easy when you retire and afford the lifestyle you desire and deserve.

Calculating how much super is enough

While Australian employers are required to contribute at least 9% of your salary to superannuation, will this be enough for you to live comfortably in retirement? The amount of super you'll need depends on your personal circumstances such as your:

- > current age
- > current income and assets
- > desired retirement age
- > desired retirement income
- > current superannuation balance.

Is compulsory super enough to meet your needs?

Even though compulsory super is intended to help fund your retirement, it may not provide you with the lifestyle you want. Here are some considerations before you decide whether you can rely solely on compulsory super.

The cost of living

The cost of living will increase in the future due to inflation. For example, if a car costs \$30,000 now, in ten years the same car will cost \$40,317 and in 40 years it will cost \$97,861 (assuming a 3% p.a. inflation rate).

The age pension

Currently, the maximum age pension for a single person is approximately \$450 a fortnight. It's even less per person if you're in a couple. Could you afford your current lifestyle on this amount? Also, as the Australian population ages there will be fewer taxpayers to fund the age pension relative to the number of retirees. By the time you reach retirement, access to the pension may be limited.

Life expectancy

For many people, their retirement period could be as long as the time spent in the workforce. Life expectancies have increased significantly. Men aged 65 can generally expect to live until 81 while women can generally expect to live until 86. Chances are your retirement could span 20 years or more, requiring substantial savings to provide for it.

Less time to accumulate super

Few people have a continuous work history. A substantial amount of time may be spent on travel, studies, and raising a family. And with frequent corporate restructures, time out of the work force due to redundancy can't be ruled out. This means less time to accumulate superannuation. For most of us, compulsory superannuation alone is unlikely to provide for a comfortable retirement.

Continuing with life's comforts

According to research by the Association of Superannuation Funds of Australia Limited¹ (ASFA), a 'comfortable' lifestyle requires approximately \$34,000 annually for a single person and \$46,000 for a couple. A 'comfortable' budget allows you to maintain the lifestyle you currently enjoy. This could include up to 10 domestic trips a year and an overseas trip every five years. A comfortable budget could also allow you to purchase items such as a computer, mobile phone and entertainment system and eat out up to three times a week. This is assuming that by retirement age, you also own your own home.

The amount of super required in retirement depends on your chosen lifestyle and financial obligations. Obviously, if you have grand plans, you will need to save substantially more than if you plan to live modestly.

1 AFSA – Comfortable Lifestyle and Modest Lifestyle, December 2006 .

How to have enough in retirement

To give you an idea of how extra contributions to your super can make a difference, this table shows how much is needed per week, to reach your target income.

Current age	To reach \$250,000	To reach \$500,000	To reach \$750,000	To reach \$1 million
40	\$94	\$187	\$281	\$374
45	\$147	\$294	\$441	\$587
50	\$243	\$487	\$730	\$974
55	\$449	\$897	\$1,346	\$1,795
60	\$1,090	\$2,180	\$3,270	\$4,360
	...and how much income will \$250,000 give you per week?	...and how much income will \$500,000 give you per week?	...and how much income will \$750,000 give you per week?	...and how much income will \$1 million give you per week?
If you plan to provide for yourself until age:				
70	\$1,154	\$2,308	\$3,461	\$4,615
75	\$687	\$1,373	\$2,060	\$2,746
80	\$538	\$1,076	\$1,615	\$2,153
85	\$469	\$938	\$1,408	\$1,877
90	\$432	\$863	\$1,295	\$1,726
95	\$409	\$818	\$1,228	\$1,637

The calculations in this table are based on these assumptions:

- > the person retires at age 65 and has no superannuation currently
- > superannuation contributions are taxed at 15%
- > superannuation earns 8% per year (split between 5% income and 3% capital gains)
- > 20% of the income earned is assumed to include imputation tax credits from Australian share dividends
- > capital gains are taxed at the concessional tax rate (effectively 10% for super)
- > superannuation is withdrawn as a lump-sum payment at 65 years of age
- > post-retirement funds are then fully invested and earn 8% p.a.
- > personal tax liabilities in retirement are not included in the model.

If you start planning for retirement before age 40, you'll require even less contributions per week to reach your target income.

To calculate how much super you'll need for your future, it's best to contact your ANZ Financial Planner. They will be able to estimate how much income is required for your lifestyle, and get you on track to achieve your financial goals.