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Retirement Planning:
A Roadmap for Australians aged 55+

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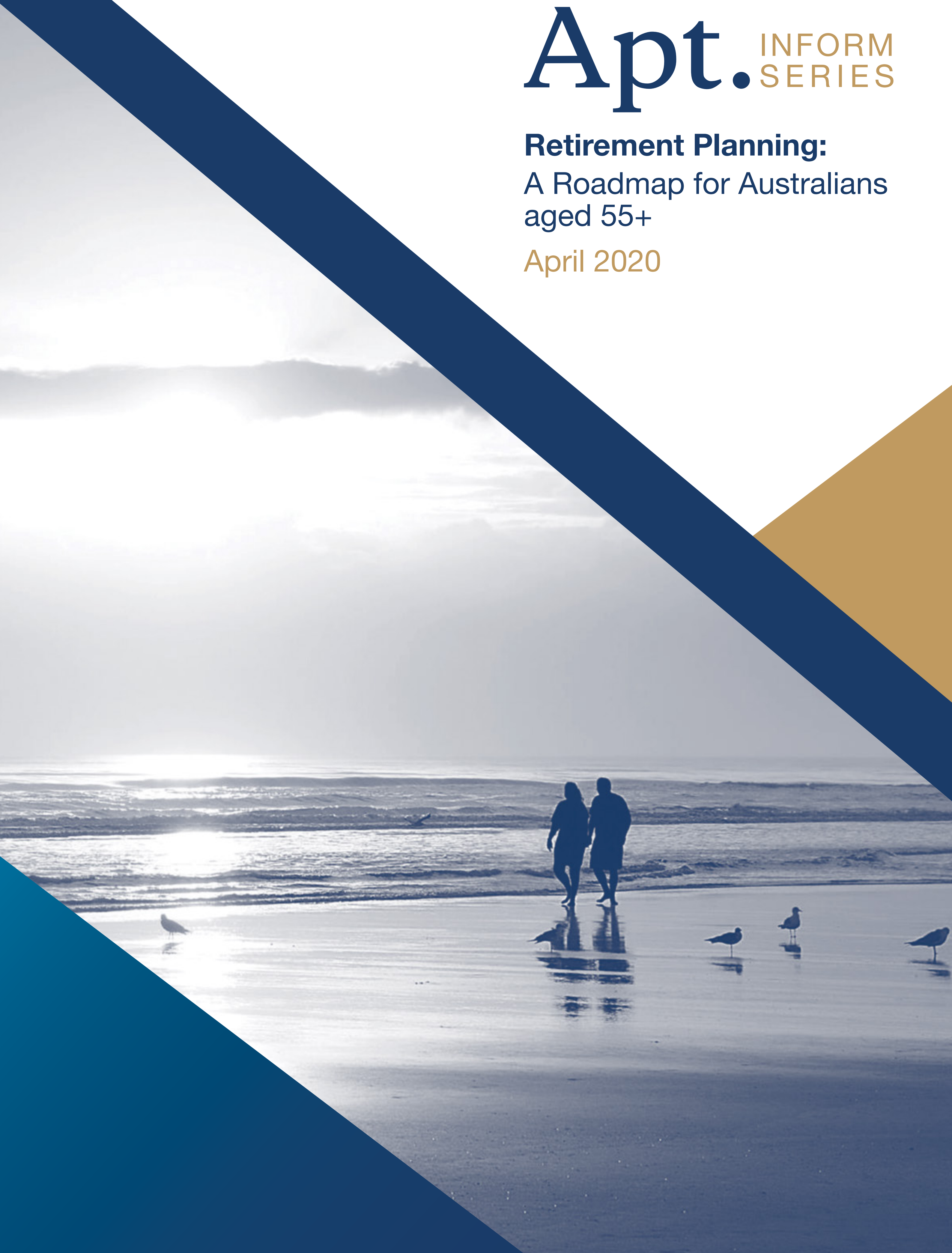


HOW MUCH WILL I NEED TO RETIRE?

Retirement Planning: A Roadmap for Australians aged 55+

Retirement is often referred to as the 'golden years', the time when a person is rewarded for a lifetime of contribution with freedom to enjoy spending time with family and friends, doing the activities they love. With the high cost of living in Australia, however, the lead up to retirement can be fraught with worry, particularly when it comes to how much money will be required.

Many of us intend to rely on our superannuation, yet 49% of retired men and 45% of retired women in Australia are currently relying on the Age Pension as their main source of income.[1]

As retirement draws nearer, it can feel increasingly daunting. Many Australians believe they won't have enough money for their dream retirement, feel overwhelmed, and do nothing about it, but when it comes to planning for retirement, inactivity is your enemy.

It's time to stop thinking and start planning.

The first step to setting a concrete plan for your retirement is to understand how much you will need to maintain the lifestyle you want.

Step 1: Understand what it costs to retire comfortably

While online tools and calculators can be helpful as a guide, how much you need to retire really depends on the specifics of the lifestyle you want and as retirement draws closer, you need to be thinking on a micro level.

This means examining your current lifestyle in detail, understanding the amounts you spend on everything from groceries to fuel, dining out to cosmetic and personal care items and travel, as well as considering your broader financial goals such as supporting children or grandchildren to buy property.

According to the AFSA Retirement Standard , to live a comfortable retirement lifestyle you will need $44,146 per annum as a single, or $62,269 per annum as a couple. For a couple, this equates to $1,192.90 per week, which must cover both your basic and discretionary costs. Could you live comfortably, with peace of mind, on that amount?

Whether this is realistic for you really depends on your definition of comfort and what you want to achieve with your money. If you want to take overseas holidays, for example, the Retirement Standard suggests a budget of $28.23 per week, or $1,467.96 per year. However, according to Westpac research, the average Australian spends $4679 on overseas travel each year.

1. Australian Bureau of Statistics, Retirement and Retirement Intentions 2016-2017
2. Figures quoted from the Australian Financial Standards Association, ASFA Retirement Standard December Quarter 2019

According to the AFSA, the below figures are what you will need per week, for each category, to cover basic living costs:

ITEM	COMFORTABLE COUPLE	COMFORTABLE SINGLE	YOU?
Building and contents insurance	$32.61	$30.76	
Council rates	$39.38	$39.38	
Water charges	$25.46	$21.92	
Home improvements	$6.70	$6.70	
Repairs and maintenance	$20.08	$20.08	
Electricity and gas	$57.29	$46.20	
Food – groceries and other fresh food	$207.32	$119.28	
Bundle of home phone, broadband, mobile	$29.70	$22.82	
Household cleaning and other supplies	$25.11	$19.24	
Cosmetic and personal care items	$6.71	$4.79	
Barber or hairdressing	$22.83	$14.87	
Media, including digital	$8.65	$8.45	
Computer, printer and software	$5.00	$5.00	
Household appliances, air conditioners, smart phone	$15.74	$14.53	
Miscellaneous	$6.97	$6.97	
Clothing and footwear	$51.34	$27.57	
Car transport and running costs	$156.18	$146.14	
Public transport	$5.13	$2.56	
Health insurance	$83.63	$41.81	
Chemist	$45.44	$26.16	
Co-payment and out of pocket	$54.94	$30.48	
Vitamins and other over the counter medicines	$5.65	$2.82	
Membership clubs	$5.87	$3.93	
TV, DVD	$1.20	$1.20	
Streaming services (Stan/Netflix or like)	$11.12	$11.12	
Alcohol consumed or equivalent spent with charity or church	$40.89	$19.59	
Lunches and dinners out	$82.83	$59.16	
Cinema, plays, sport and day trips	$9.79	$5.87	
Domestic vacations	$72.16	$47.41	
Overseas vacations	$28.23	$17.82	
Take away food, snacks	$28.95	$21.08	
TOTAL WEEKLY EXPENDITURE	$1,192.90	$845.72	
TOTAL ANNUAL EXPENDITURE	$62,269	$44,146	

If the figures don't add up for you, don't be alarmed. There are many strategies you can apply to help you get there, but it may be worth getting professional advice.

Step 2: Understand how much you'll need to retire

Based on the above study and taking into account the average life expectancy, as a couple you need around $640,000 to retire comfortably. But that forecast is based on using all your capital over your life expectancy and doesn't leave much room for error.

The actual figure you'll need depends on the lifestyle you want to live, including a wide range of discretionary costs, like whether you want to renovate your home, downsize your home, help the kids or grandkids financially or regularly upgrade your cars.

Many people aim for the magical $1 million-mark, but many others require more than that. The only way to know how much you'll need is to plan out your costs as laid out in step one and then seek professional advice to ensure you have the full picture.

Step 3: Understand your government entitlements

The Age Pension

The full Aged Pension will supply you with $1297.40 per fortnight, $33,732.40 per annum, for a couple or $860.60 per fortnight, $22,375.60 per annum for a single. You may also be eligible for Pension and Energy Supplements, which, at the maximum rates, will increase your entitlements to $1423.60 per fortnight for a couple, or $944.30 for a single. Whether you are entitled to the Aged Pension is dependent on a number of factors:

1. Your age

IF YOU WERE BORN INBETWEEN OR PRIOR TO	YOU QUALIFY FOR THE AGE PENSION WHEN YOU ARE:
1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	66 years and 6 months
From 1 January 1957	67 years

2. Your assets and income

The income and asset tests are used to determine your eligibility. While the specifics of these calculations can be complex, you will receive the full pension if you are determined to fall below the following limits:

- Your principal place of residence and up to two hectares of land on the same title
- Accommodation bonds paid to aged care facility
- Super balances held when under age thresholds
- A cemetery plot and a prepaid funeral, with no limit on value, or up to two funeral bonds of a maximum of $13,000 each.

Because the asset test does not include your primary residence, non-homeowners have a higher asset threshold.

The income test includes deemed income plus income earned from:

- Paid employment excluding the first $250 per fortnight
- Overseas pensions
- Business income
- Trust distributions
- Rent received from investment property, after expenses are deducted

Deemed Income is defined as income received from:

- Money in the bank/interest
- Shares
- Managed funds
- Superannuation and pension balances

Deeming rates set the amount which it will be assumed you will earn on these investments. If you earn over the deemed rate, the additional amounts do not count as your income.

	SINGLE – FIRST $51,200	SINGLE – ABOVE $51,200	COUPLE – FIRST $85,000	COUPLE – ABOVE $85,000
Deeming Rate	1.75%	3.25%	1.75%	3.25%

FULL PENSION	SINGLE HOMEOWNER	COUPLE HOMEOWNER	SINGLE NON-HOMEOWNER	COUPLE NON-HOMEOWNER
Maximum Assets	$263,250	$394,500	$473,750	$605,000
Maximum Actual Income for full pension	$174 per fortnight, after which time your pension is reduced by 50c in the dollar for every dollar over.	$308 per fortnight after which time your pension is reduced by 50c in the dollar for every dollar over.	$174 per fortnight after which time your pension is reduced by 50c in the dollar for every dollar over.	$308 per fortnight after which time your pension is reduced by 50c in the dollar for every dollar over.

You can still receive a part pension, on a sliding scale, if you have up to:

PART PENSION	SINGLE HOMEOWNER	COUPLE HOMEOWNER	SINGLE NON-HOMEOWNER	COUPLE NON-HOMEOWNER
Maximum Assets	$578,250	$869,500	$788,750	$1,080,000
Maximum Actual Income	$2,062.60 per fortnight, after which you are not entitled to any pension.	$3,155.20 per fortnight after which you are not entitled to any pension.	$2,062.60 per fortnight after which you are not entitled to any pension.	$3,155.20 per fortnight after which you are not entitled to any pension.

There are ways you can reduce your assessable assets and make the most of your investment at the same time. The examples given below are from fictional scenarios. Whether these options will be helpful to you is heavily dependent on your situation, context and goals and we recommend you seek professional advice before making changes to your asset structure.

- Reallocation of assets – you may look at strategies to reallocate your assets, for example, selling an investment property (which typically has a return of around 2.1%-3% in Sydney) and purchasing shares, which may have up to a 5% return – yet both will be subject to a deeming rate of 3.25%.

- Topping up the superannuation of a younger spouse. Centrelink do not consider the balances of pre-pension age spouses, so topping up a spouse's account can reduce your assessable assets.

Commonwealth Seniors Health Card

If you are not eligible for the Aged Pension, you may be eligible for a Commonwealth Seniors Health Card. This card entitles you to:

- Cheaper pharmaceuticals
- Bulk-billed doctor's visits (subject to your doctor's policies)
- A higher Medicare refund once you have reached the safety net.

Additionally, depending on your state or territory of residence, the card may entitle you to:

- Reduced fares on public transport
- Discounts on utility and other bills
- Reduced property and water rates

The card does not take into account your assets, just your income. The thresholds are as follows:

	SINGLE	COUPLE	COUPLE SEPARATED BY ILLNESS, RESPITE CARE OR INCARCERATION
Maximum Income	$55,808	$89,290	$ 111,616

Step 4: Review strategies and retirement options

Maximise your Super

As you enter the last decade of your working life, it's more important than ever to take advantage of concessional contribution limits in each tax year. From 1 July 2018, new legislation enables you to rollover your unused concessional cap, meaning you can increase your concessional contributions by the unused amount in tax year 2019-2020 and have five years to use them, provided your super balance is below $500 000.

If you are 65 or over and ready to downsize the family home, legislation that came into effect on 1 July 2018 means you can contribute up to $300 000 post tax into your super, and it won't count towards your non-concessional contribution cap, the $1.6M accumulation cap or age/work test requirements.

Take the time to review and understand your investment options with your super fund. Independent professional advice can be invaluable to guide you through these options and make sure you are maximising your funds.

Transition to Retirement

A transition to retirement strategy, whereby you reduce your working hours and draw on your super while still earning, can be worth considering. While many of the tax advantages previously associated with this strategy have been wound back, it can still be useful in helping you to adjust to life post workforce and your new level of retirement expenses.

Retiring Overseas

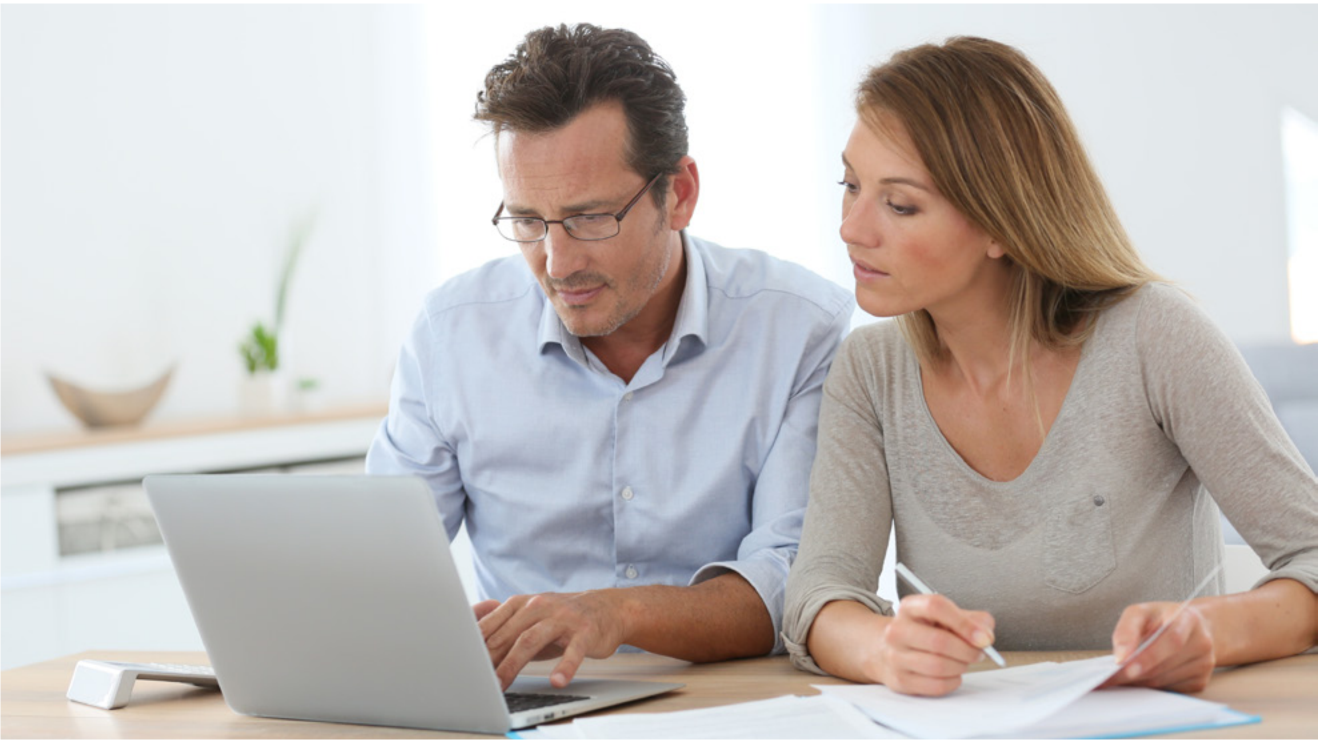
Retiring overseas in a country where the cost of living is lower can seem like an attractive option, but it's important to understand the tax implications for you and your super. These vary depending on the country you are living in, so while you shouldn't discount this option completely, it pays to understand your new financial landscape and associated tax implications before you make any firm plans. For those with a self-managed super fund, an overseas retirement may have significant tax implications.

Step 5: Carefully craft your investment strategy

Market downturns are always unpleasant, but the closer you come to retirement, the more vulnerable they can leave you. On the other hand, keeping your money in cash, earning no more than the current interest rate, isn't going to make the returns most of us need for a comfortable retirement.

While you can't control the market, what you can control is how and where you invest your hard-earned money. Making sure you have diverse investments that match your risk profile and take into account your situation and goals is key.

Seeking professional advice from an adviser who offers full transparency regarding how and where your money is invested will help you achieve a balance of earning and reasonable returns while protecting your capital and ensuring you can weather market volatility.



Step 6: Plan for life's uncertainties

While we all want to be there for our loved ones, in the good times and the bad, unexpected financial burdens in the lead up to or post-retirement can leave you vulnerable, so it's critical to have the right protection and a plan in place.

What would occur, for example, if something were to happen to your children? Would caring for grandchildren and/or assisting them financially become a reality? How would this impact your finances during retirement? While it can be unpleasant to even consider, making sure your children have the right level of life cover to protect you is important.

Or if you have ageing parents, it may be left to you to cover some or all of the costs of aged care. These types of life events are something you need to consider in your retirement plan.

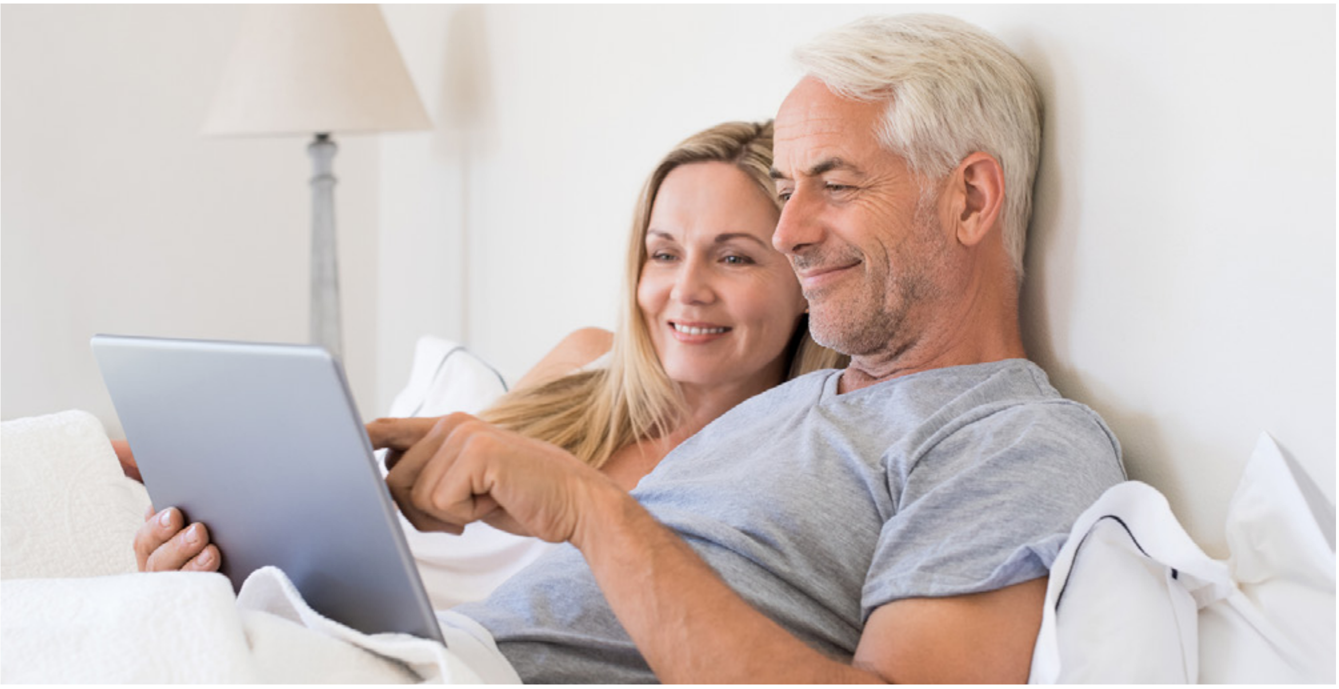
Seeking professional advice to ensure you are protecting your wealth while still being able to assist your loved ones is a wise decision. A good financial adviser can help you structure your finances, retirement plan and insurances to not only maximise your financial position, but also ensure you are protecting yourself from unnecessary financial burden.

Step 7: Plan for the Emotional Transition

Retirement is more than a lifestyle change; it's an identity shift. It is an emotional time when your social structure and finances change considerably. Many of us focus on the financial aspects and forget that there is a considerable emotional transition to be made.

Work gives us a sense of purpose, motivates us to achieve goals, and builds social connections. It provides us with a clearly defined role and identity and keeps us physically and mentally active. When we retire, we leave all of this behind, which can lead to a sense of purposelessness and isolation.

In the workplace, you had a place in the ecosystem – a role and responsibilities that gave you a certain status. You might not be conscious of it, but we all seek out status, and feeling low levels of it has been linked to many health issues, from depression to cardiovascular disease.



It's important to prepare yourself for the emotional side of retirement, and it can be helpful to start planning for this transition three to five years out. Some things to consider are:

- *A transition to retirement strategy,* whereby you decrease the amount you work over a period of time, which is often used as a financial strategy, can be a good way to transition your lifestyle too.
- *A plan for the everyday*, not just the big life events, like relocating or travel. Work provides a structure that most likely dictates your routine from the time you wake up until you get home and unwind. While it might sound great to have all that time to yourself, in reality, many find it hard to fill.
- *Making new connections:* Just as with any life transition, your social life will change too. If many people in your life network are still in the workforce, they won't be available when you are. Social clubs for sports or hobbies can be a great way to expand your social network and make connections with people who are in a similar boat.
- *Setting goals:* You want to spend some time relaxing and enjoying a slower pace of life, but it's likely that you will tire of that quicker than you think. You probably won't play golf every day, so start thinking about the other things you would like to do. It might be learning a language or taking an art class; we all have those things we said we would do 'one day' and in retirement, you have a chance to make them a reality.

Step 8: Set a Date

Many of us count down to exciting life events and milestones, like holidays, but how many of us countdown to retirement with a fixed date in mind? Setting a date for your retirement can be a helpful way to make it feel like a reality and give you a timeframe for working toward your financial goal, even if you change it later. We know that a lack of self-continuity (that feeling that 'future you' five years from now has little or no connection to you today) can be a barrier when it comes to planning for retirement, even when it is just around the corner. Setting a date can help to overcome the psychological barriers and increase the chances of sticking to your plan.

Creating Your Plan

It can seem overwhelming, but if you take these steps, your plan will likely become clearer and more defined goals will emerge.

We recommend seeking expert advice that takes into account your situation and goals, to build a customised retirement plan. Apt Advisers will take the time to understand you, your situation and your goals to make recommendations that will help you realise your dream retirement. Our expert advisers are always across proposed legislative changes and can help you think one step ahead.

Having helped thousands of Australians on the journey, Apt Advisers can share that experience to help you make the right decisions and enjoy the retirement you deserve.

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