

## Retirement Planning (what is it?)

Do you think about your retirement and when you would like to retire?

This is one of the questions I ask clients on an almost daily basis, the answer I typically get (tongue in cheek) is tomorrow.

I then rephrase the question to realistically when do you think you will retire, this seems to bring the mood down a bit and the voice becomes starker and the answer is normally based around the age at which people believe they will get the Age Pension (65 – 70).

I find that most people nowadays are leaving it to chance and have the attitude of what will be will be.

However there are people who do pro-actively plan for retirement and the earlier they start the more confident they can be that they will meet the retirement goals they have set themselves.

### So what is retirement planning?

Well firstly it is about determining the realistically preferred age you would like to retire at and secondly it is about determining the income (and capital expenditure, something most retirement calculators fail to factor in!) you would like to achieve during your retirement years.

### What is the average retirement age?

The average retirement age for people who have retired over the last 5+ years is age 63.5 the average intended retirement age from 2.3 million Australians surveyed in 2013 is also around 63.5, bear in mind this is the average (likely therefore that people with the provision to do so would retire earlier and those without provision later).

That said it is becoming increasingly common nowadays for people to transition to retirement and work longer so perhaps from age 60 reducing to 4 or 3 days a week, cutting back a bit more at age 65 and so on.

### How much is needed for retirement?

According to the Association of Superannuation Funds of Australia it is (*Budgets for various households and living standards for those aged around 65 September quarter 2015, national*):

	Modest lifestyle		Comfortable lifestyle	
	Single	Couple	Single	Couple
<b>Total per year</b>	<b>\$23,695</b>	<b>\$34,090</b>	<b>\$42,962</b>	<b>\$58,915</b>

A modest retirement lifestyle is considered better than the Age Pension, but still only able to afford fairly basic activities.

A comfortable retirement lifestyle enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.

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

Although the above provides a good overview of what might be required to cover the costs of living in retirement it too does not really cover any major capital expenditure.

Although capital expenditure will not necessarily be required annually if required almost certainly will be quite lumpy for example an upgrade to the car, downsizing the home (not down valuing necessarily) which will incur stamp duty costs and purchasing a caravan/boat are just some of those items that will require a lump sum of capital.

So of course it does come down to the way that a person/couple live their retirement as to the amount of funds they will need annually but the AFSA Retirement Standard could very well be a good guide and I am sure given the choice most people would opt for a comfortable retirement with and should also give some consideration for additional capital expenses as above (perhaps an additional \$3,000 - \$5,000 per annum).

### **Where will your retirement income come from?**

Once you have the age and income required you will need to start thinking about how this income can be generated, typically there are 2 streams of income in retirement:

- Retirement State Benefits (Age Pension); and
- Private Provision

#### Retirement State Benefits

The Age Pension here in Australia is means tested and so what you receive when you become eligible currently between ages 65 – 67 will be tested by using an income and assets test tested against your private provision.

Clearly if you wish to retire before your Age Pension Age your would be reliant solely on your private provision, so for example a very crude calculation is if you wish to retire at age 60 based on having a comfortable lifestyle you will need up to around \$420,000 just to get you to the age at which the Age Pension is payable.

The maximum Age Pension for a couple is currently around \$33,500 per annum and so this could be a gap of around \$31,500 per annum to bridge for 18 – 23 years (based on retiring at age 60 – 65 and using the current average life expectancy of a couple age 50).

However if you are able to generate an income of \$31,500 per annum it is likely that your assets and or income will mean that you do not qualify for the full Age Pension and instead you have a reduced or even no Age Pension then of course the income gap to be bridged becomes higher.

We also work regularly with UK expats and it is then likely that we will need to consider the UK State Pension which is payable based on how many qualifying years a person has, the payment from this is fortunately not means tested.

### Private Provision

This would be the money in your Superannuation Fund and any other savings or investments you may have ie cash in the bank, managed funds or an investment property/ies that would be able to provide you with an income either through yield or capital withdrawal.

### **What next?**

Next is to understand how the above all fits together and how near or far away the picture looks from your realistically preferred retirement goals.

For our clients once we have had the in depth discussions around their retirement agenda we do this by using financial modelling software and this allows us to by using sets of agreed assumptions determine what someone might have in their Super Fund at retirement based on how they are invested and what contributions are going in.

We also factor in any other private provision that that may have for example an investment property or a share fund etc .

We then run a forecast of whether they will meet their required income levels through retirement working out what Age Pension benefits they may be entitled to alongside using their private provision (both inside and outside of superannuation) that they have accumulated (and if applicable factoring in the UK State Pension).

If following these financial forecasts it looks like you are on track then you may want to start planning at improving your initial goals ie bring retirement forward and or increase your level of expenditure.

However if you are off course then things need to be addressed this can be done by creating additional wealth (perhaps contributing more to super or investing in property or managed funds for example) and or adapting your goals (prolonging retirement age or reducing your expense goals).

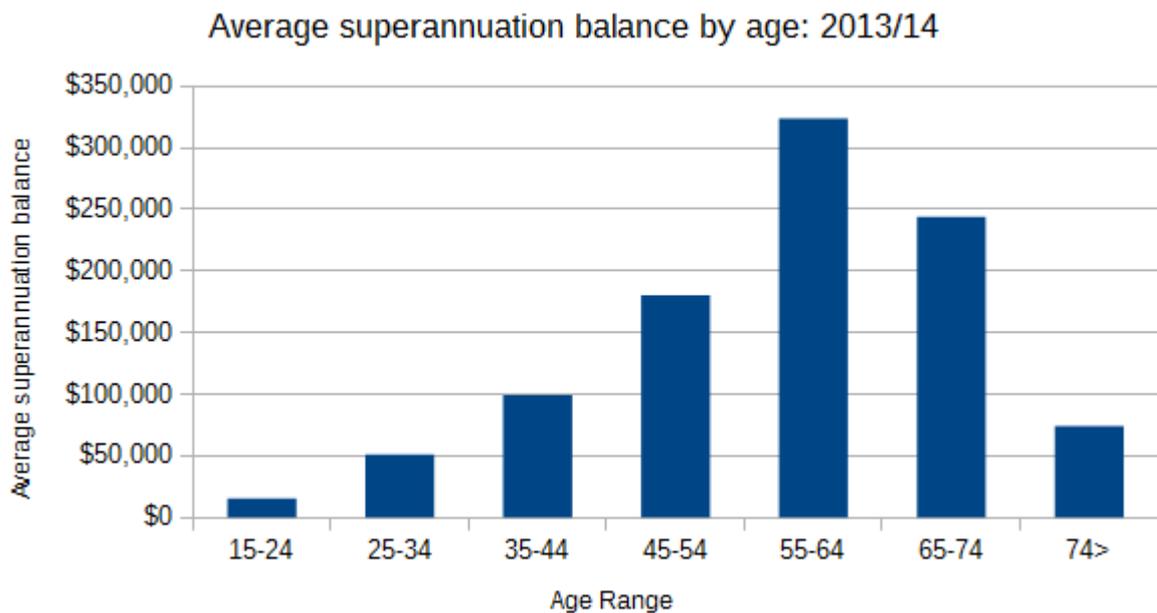
There can be many different strategies, vehicles and asset classes to use for creating wealth and using a professional reputable Financial Advisor is a great way to understand the most appropriate for your situation.

Once the retirement plan has been agreed upon it should be reviewed regularly to ensure that it remain on track as there will certainly be roadblocks along the way, typically these are things like changes to legislation, economic conditions and even personal changes things like redundancy.

Reviewing regularly will make it easier to adapt to changes so as to keep things on track.

## So how are you travelling?

The graph below shows the average superannuation balance for different age brackets, have a look to see how you compare.



Remember the above has quoted many averages and not everyone is going to want the same thing at and during retirement so these things should be looked at on an individual basis so that it becomes your tailored retirement plan.

Statistics and graphics sourced from:

<http://www.solepurposestest.com/articles/average-superannuation-balance-by-age/>

<http://www.superannuation.asn.au/resources/retirement-standard>

<http://www.abs.gov.au/ausstats/abs@.nsf/products/FA701E410A126C43CA2573D700161420?OpenDocument>

<http://www.humanservices.gov.au/customer/services/centrelink/age-pension>

<http://www.superguide.com.au/boost-your-superannuation/latest-data-find-out-how-long-you-can-expect-to-live>