YOUR GUIDE TO
LIFE AFTER WORK
BABY BOOMERS

APRIL 2019
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BORN BETWEEN 1946 AND 1964, BABY BOOMERS COVERS ANYONE AGED 55 TO 73 IN 2019.
OF ALL VALUABLE ASSETS AUSTRALIANS COME TO OWN THROUGHOUT THEIR LIVES, NONE IS MORE OVERLOOKED THAN SUPERANNUATION.

YOUR GUIDE TO LIFE AFTER WORK IS ONE PART OF ANZ’S CAMPAIGN TO HELP US ALL TAKE CONTROL OF THE WEALTH WE ACCUMULATE IN SUPERANNUATION, AND ENSURE WE TAKE APPROPRIATE CARE OF IT FOR OUR FUTURE FINANCIAL WELFARE.

ON THE FOLLOWING PAGES, WE WILL:

- ADDRESS THE COMMON MISTAKES PEOPLE MAKE WHEN PLANNING FOR THEIR RETIREMENT
- PROFILE HOW PEOPLE YOUR AGE ARE TAKING CONTROL TO GET MORE OUT OF THEIR SUPER SAVINGS
- EXPLAIN WAYS TO ACHIEVE A HAPPY INDEPENDENT LIFE AFTER WORK.

AFTER ALL, RETIREMENT IS A CHAPTER IN YOUR LIFE UNLIKE ANY OTHER, WHERE YOU SHOULD HAVE THE FINANCIAL INDEPENDENCE AND TIME TO FOCUS ON YOURSELF AND YOUR LOVED ONES, SHAPING LIFE AS YOU WISH.

A SECURE SUPER BALANCE IS IMPORTANT IN ACHIEVING FINANCIAL INDEPENDENCE AND THE FREEDOM THAT COMES WITH IT. YET, ALL TOO FREQUENTLY WE HEAR STORIES OF AUSTRALIANS RETIRING WITH INADEQUATE SUPERANNUATION SAVINGS.

A FEW SIMPLE DECISIONS NOW CAN MAKE A BIG DIFFERENCE LATER IN LIFE, SUCH AS ROLLING MULTIPLE SUPER ACCOUNTS INTO ONE AND BEING MINDFUL ABOUT WHAT YOUR SUPER SAVINGS ARE INVESTED IN.

NO WORKING AUSTRALIAN IS TOO YOUNG TO MAKE SUPERANNUATION A FINANCIAL PRIORITY. NOR IS ANYONE TOO OLD TO START MAKING THE MOST OF WHAT THEY HAVE.

IN THIS GUIDE YOU’LL FIND INSPIRING STORIES FROM PEOPLE OF ALL BACKGROUNDS WHO ARE FOLLOWING DIFFERENT APPROACHES TO MAKE THEIR SUPER WHAT THEY WANT IT TO BE – AND YOU CAN TOO.

ALEXIS GEORGE
Deputy CEO and Group Executive, ANZ
Research commissioned by ANZ makes it clear that independence – both now and in the future – is a priority for the vast majority (71 per cent) of Australians.

The study shows that most Australians feel independent in their current lives, and most believe that money plays an important role in gaining and maintaining that sense of independence.

However, most Australians don’t fully understand how superannuation fits into this picture.

More than one-quarter of us don’t even know how much super we have, and many of us are wildly wrong about how much we’ll need each year to enjoy a satisfying, independent post-work life.

What independence means to us
ANZ’s in-depth survey of 1000 Australians in March 2017 found ‘independence’ is a priority for most Australians.

The majority (73 per cent) of Australians define being independent as being “secure, safe, happy and responsible for their own lives” because they can look after themselves financially.

Women are significantly more likely to feel that independence means “not having to rely on others”, while men feel that “being in control” describes it best.
How money relates to independence

And what role does money play in people’s feelings of independence?

- One-third of Australians say independence means “financial freedom”.
- For 30 per cent, it means “having enough money to live my life”.
- And about 20 per cent say independence means “not having any debt”.

Super-charged independence

Despite our clear feelings about independence and financial security, when it comes to getting a grip on how super fits into that picture, things start to go fuzzy for Australians.

Almost all Australians say they are thinking about the money they’ll need in retirement, but far fewer are clear about where they’ll get that money from.

In fact, superannuation is a key long-term saving strategy for exactly that purpose – for 20 per cent of us, it’s our only strategy. Despite this, only about 40 per cent of us see our superannuation as a key asset in our plans to live a fully independent life.

What we get wrong

- Most (72 per cent) of us are concerned about whether we’ll have adequate funds for retirement – suggesting we don’t have an actual plan in place.
- About 38 per cent of us believe a super balance of less than $300,000 will be enough to retire on – which is an unrealistically low estimate.
- More specifically, 31 per cent of Australians aged 18 to 34 believe they’ll need less than $100,000 – when in fact $100,000 would only last a couple of years.
- A quarter of us have more than one super account – meaning multiple fees and charges are eating up more of our savings than they should be.
- Fifteen per cent of us don’t even know our super balance – which indicates that we’re not actively managing it to secure the independence we say we want.
- And one in eight of us either doesn’t know what super is for or believe it has no purpose – when in fact its specific purpose is to ensure our future independence.

This lack of understanding and engagement is a major concern, because our super is critical to our future independence.

Katrina Horrobin, from The Association of Superannuation Funds of Australia (ASFA), says financial independence is very important to all Australians in retirement, but not everyone achieves it.

“The age pension is sufficient to avoid absolute poverty in retirement, but just avoiding poverty is not a goal that Australians aspire to,” she says.

“Superannuation is the key to financial independence and to a life of greater dignity and comfort in retirement.”

So why do so many of us value our financial freedom, yet remain largely disengaged from our super, not understanding it fully and not taking care of it?

Horrobin says many people simply aren’t aware of how much money they need to retire.

How much super do you need for a comfortable life?

To help educate people, ASFA has developed guidelines on the super balances required in retirement. These figures assume you’re a healthy 65-year-old who owns your own home outright at retirement.

- For a comfortable retirement, a single person will require a super balance of $545,000 at retirement and a couple needs $640,000. This allows for a broad range of activities and a good standard of living.
- For a modest retirement, both singles and couples need $70,000 at retirement. The lump sum required is relatively low due to the fact that the base rate of the Age Pension (plus various pension supplements) is sufficient at this budget level. However, this only allows for fairly basic activities and spending levels.
- Renters will need more than $1 million in savings when they retire. In fact, leading industry research firm Rice Warner says $1 million is the ideal figure for a comfortable retirement, even for those who own their own homes.

Throughout our lifestage retirement guides, we provide guidance on how you can take control of your super – regardless of what stage of your working life you’re currently at.

By giving your superannuation some attention now, you have the opportunity to ensure you’ll meet whatever lifestyle goals you have. It really is one of the easiest ways to achieve financial freedom – and therefore independence – in retirement.

Now’s the time to take charge.
For the Baby Boomer generation – people born between 1946 and 1964, and now aged 55 to 73 in 2019 – retirement is clear and present. The first of the Baby Boomers have already retired, while the remainder have less than a decade before they’ll be able to access their superannuation.

The pressure is on to accumulate savings to provide for a secure and comfortable future.

Leading Australian social researcher Mark McCrindle, of McCrindle Research, says Baby Boomers have benefitted from the superannuation policy changes implemented over the past decade, but the rising cost of living means they’ll need more savings than ever to accommodate a comfortable retirement.

“The retirement lifestyles that we expect are pretty high level these days,” he says. “Ensuring we don’t run out of funds altogether is the first challenge, but secondly, we don’t want to run short and crimp our lifestyle.”

Baby Boomers can expect to live longer than previous generations, but they don’t consider themselves old. After retirement they plan to stay active and keep spending on lifestyle pursuits, travel and going out.

“It’s an age group where people have finished their key expenses,” McCrindle says. “Previous generations would have a car and run it to the ground. That’s not the case with Baby Boomers. They’re retiring and buying a new car.

“They’re also not downsizing [their homes]; they’re upscaling to nicer or newer accommodation, close to the city, close to the action.

“It’s a generation that’s worked hard and saved hard and doesn’t have the mindset of previous generations that was to leave money to their kids. They’ve funded children at home later, so they’re happy to spend it themselves.”

Despite this general trend, he adds, many Baby Boomers are looking to save a little extra so they can offer financial help to children who may be struggling.
Baby Boomers are working longer

With their longer life expectancies and young-at-heart outlook, Baby Boomers are staying in the workforce longer. Over the past decade or so, the average age of retirement has risen by about four years for men and three years for women, according to the Melbourne Institute’s Household, Income and Labour Dynamics in Australia (HILDA) survey.

Only 28 per cent of men aged between 60 and 64 were retired in 2015, down from about half in 2001, HILDA data shows. For women, the proportion dropped from 68 per cent in 2001 to 48 per cent in 2015.

Baby Boomers are also challenging the traditional concept of retirement by working part-time, consulting, starting businesses, volunteering, or switching jobs to follow a passion rather than abandoning the workforce entirely.

In fact, while Millennials may have the reputation for pursuing the freelance lifestyle, Baby Boomers are the group most likely to choose freelance, casual or contract work, with 63 per cent preferring these flexible options, according to McCrindle Research.

However, not all Baby Boomers have the option of working longer. The HILDA survey revealed that while most people retire voluntarily, more than one-quarter retire as a result of poor health – their own or another person’s. And between 10 per cent and 15 per cent of people retire involuntarily as a result of job loss.

Essential retirement-planning tasks for Baby Boomers

Given this picture, Baby Boomers would be wise to expect the best but prepare for the worst when it comes to their retirement. With just a few years left until they exit the workforce, they should be putting the finishing touches on plans for achieving their post-work goals.

A key priority for Baby Boomers entering retirement will be to sustainably meet daily living costs and lifestyle expenses.

According to ASFA’s Retirement Standard, a retired couple needs an annual income of around $60,604 to support a comfortable retirement lifestyle, while a single person needs $42,953 per year.

This amount will vary according to individual preferences, age and life expectancy. It would also be prudent to set aside an emergency fund to cover unforeseen expenses such as healthcare and long-term care costs.

Integral to Baby Boomers’ retirement planning should be taking advantage of strategies to maximise superannuation balances. For example, those thinking of downsizing their home or relocating could take advantage of recently introduced rules that allow retirees to contribute a lump sum from the sale of their primary home into their super. A couple can collectively deposit $600,000, while singles can contribute up to $300,000.

Investment returns will play a part in securing adequate income in retirement, but careful planning is needed to ensure Baby Boomers’ money lasts as long as they do.

By using a range of income sources – including assets such as shares, bonds and term deposits; rental properties; freelance or consulting work; social security; an annuity; and perhaps a guaranteed pension – Baby Boomers can prepare themselves for whatever adventures lie ahead.

RETIREMENT-READY CHECKLIST:

BABY BOOMERS

- Use a retirement calculator to work out much super you’ll have at retirement.
- Make the most of your last working years by optimising your retirement savings with the help of a financial planner.
- Consider the health benefits of retiring early: it can add years to your life.
- Be realistic about how much super you’ll need: people often misjudge their expenses in retirement.
- Choose your ‘financial independence’ date. Make it at least a decade out so you can get your finances in order.
- Don’t retire with debt: pay off your mortgage and other debts before retirement.
- Look into the new downsizing rules: a retired couple can sell the family home and collectively deposit $600,000 into their super accounts.
- Decide how you want to access your super: as a retirement income stream, a lump sum payment or a combination of the two.
- Lodge a binding death benefit nomination with your super fund to control who gets your super.
- Create an ‘emergency fund’ outside of your super so you have time to recover any losses.
How does your super stack up compared to other Baby Boomers’?

Figures from ASFA’s October 2017 report *Superannuation account balances by age and gender* show how much super Baby Boomers have saved over their working lives.

Around 58 per cent of total superannuation assets are held by those aged between 50 and 69, according to ASFA. The average super balance for people aged 50 to 54 during 2015–16 was $135,290, ASFA found. For people aged 60 to 64 this figure increases to $214,897 and for 65-69-year-olds, it drops to $207,105 as people start drawing down their super.

When balances are compared by gender, it becomes clear that women are, on average, worse off than men. Around 45 per cent of women aged 65 to 69 reported having no super at all.

The superannuation guarantee – which is the compulsory amount your employer must pay towards your super – was introduced in 1992 at 3 per cent of your salary and increased to its current rate of 9.5 per cent in 2014–15. This means that some Baby Boomers started their careers with low or no levels of compulsory super.

The ASFA figures show that most people retiring within the next few years will rely either partly or substantially on the age pension for some or all of their retirement income.

With retirement on the horizon, it’s crunch time for Baby Boomers with the next decade your last chance to top up your super, writes Josh Alston.

*September 2018*
HOW MUCH SUPER DO YOU HAVE COMPARED TO YOUR PEERS?

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Average Super Balance</th>
<th>How Much Super You Should Have at Your Age To Be On Track*</th>
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<tbody>
<tr>
<td>50-54 Y/O</td>
<td>All: $135,290</td>
<td>50: $287,110</td>
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<tr>
<td></td>
<td>Males: $172,126</td>
<td>51: $302,286</td>
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<td></td>
<td>Females: $99,520</td>
<td>52: $317,950</td>
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<td></td>
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<td>53: $334,118</td>
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<td></td>
<td></td>
<td>54: $350,806</td>
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<td>55-59 Y/O</td>
<td>All: $180,489</td>
<td>55: $368,031</td>
</tr>
<tr>
<td></td>
<td>Males: $237,033</td>
<td>56: $385,810</td>
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<td>Females: $123,642</td>
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<td>59: $442,655</td>
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<td>60-64 Y/O</td>
<td>All: $214,897</td>
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<td>Males: $270,710</td>
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<td>64: $550,086</td>
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<td>65-69 Y/O</td>
<td>All: $207,105</td>
<td>65: $573,212</td>
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<td>Males: $246,915</td>
<td>66: $596,760</td>
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<td>Females: $171,227</td>
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<td></td>
<td>69: $663,928</td>
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</table>

*ASFA report, Superannuation account balances by age and gender, October 2017 for the year 2015-2016. *Data supplied by ASFA, based on the recommended amount at each age to reach a comfortable retirement. Assumes an income of $59,000 a year with a nominal return of 5.73% after fees and taxes.

Now is the time to make sure your super balance will be in the best shape possible when you retire.

The maximum fortnightly age pension payment for those eligible (including the maximum pension supplement and the energy supplement) is $916.30 a fortnight for a single and $1381.40 for a couple.

So, now is the time to make sure your super balance will be in the best shape possible when you retire.

How are your retirement savings tracking?

According to ASFA’s Retirement Standard, the super balances required for a comfortable retirement are:

- comfortable lifestyle for a couple: $640,000
- comfortable lifestyle for a single: $545,000

These figures assume outright home ownership and relative good health. They also assume that the retiree draws down all their super capital as a lump sum, and receives a part age pension.

ASFA defines a comfortable retirement as one in which you can take domestic holidays and occasional overseas holidays, go to restaurants and enjoy a good range and quality of food, take part in a range of regular leisure activities, have top-level health insurance, own a car and replace your kitchen and bathroom over 20 years.

ASFA’s Retirement Tracker can tell you whether you’re on track for a comfortable or a modest retirement.
1. Work out how much super you’ll have at retirement
There are several online calculators that can help you estimate your super balance on retirement, including MoneySmart’s retirement planner. Once you understand the gap between what you’ll currently have and what you’ll need to retire comfortably, you can put a plan in place. A financial planner can also help you work out how to bridge the gap.

2. Review your level of risk
Have you assessed the risk level of your super investments? Many people opt for the safer approaches, but depending on your appetite for risk and the general market conditions, you could look at the pros and cons of switching to a higher-risk and potentially higher-return super investment profile.

3. Invest as much as you can now
Making voluntary contributions to your super has tax advantages, so consider making extra contributions while you’ll still working. This can be via salary-sacrificing or one-off contributions from bonuses or a windfall. As you are likely at or reaching a stage when your children are moving out of home, you might find yourself with more available income to invest into your super.

4. Review your insurance.
As we get older, our insurance premiums start to become more expensive, so review your insurances inside and outside of super to ensure you have the right level of cover.

5. Consider downsizing
Since July 2018, couples can sell their family home and collectively deposit $600,000 into their super accounts. See the Australian Taxation Office (ATO) website for more details.
Long-term strategies have laid the foundations for entrepreneur Marcel Kreis’s secure retirement, writes Sylvia Pennington.

Marcel Kreis and his wife Mimi married in 2012, and he moved to Mimi’s home town of Melbourne where they now live. They share a blended family of five adult children, three of whom live with them.

At 66, the ex-CEO of Credit Suisse Private Banking Asia Pacific, is an investor in, and CEO of, E2 Language, a software development company that specialises in online learning, and Branded Trust Assurance Systems, a corporate sustainability platform.

While he has no plans to stop working – “I would find retiring [and] doing nothing business-wise pretty daunting; I’ll stay active and keep involved” – investments both inside and outside superannuation ensure that he’ll be able to maintain his lifestyle should he choose to call it a day.

Getting an income from super

“I’d like to generate enough of an income from superannuation to allow me to manage my outgoings,” Kreis says.

“I don’t mind drawing down on some of my capital, but for everyday requirements I’d like our superannuation to be able to generate enough money to allow us to maintain a certain standard of living.”

Kreis’s investment approach is a conservative one, suited to someone of his age and stage of life. His superannuation is invested in fixed-income instruments that allow him to take a ‘set and forget’ approach.

“They take two or three years to mature and, in the meantime, we collect the dividends and coupon payouts,” Kreis says.

“I don’t watch the capital movement of the bonds, because at the end of the day, they’re good quality. As long as I’m not worried about the credit risk of the issuer, the weekly fluctuations don’t concern me all that much.”

An investment on the side

Outside super, Kreis has begun using robo-advice.

“I’m using it for our personal asset investment because I’m not a good stock picker – I’m quite the opposite,” he explains. “What I like about robo-advice is it replaces human decision making with an asset-allocation process that’s based on an algorithm.

“It absolutely cannot foresee major black-swan events like the 2008 global financial crisis, but it takes a lot more of the human element – and the possibility of human error – out of the equation.

“That’s important to me, because the money I lose now I’m not going to easily make back, and when you’re in that position your appetite and stomach for risk become rather diminished.”

Baby Boomers’ superannuation shortfall

In addition to owning their home outright, Australian couples need a minimum annual retirement income of $60,843 in order to enjoy a comfortable retirement lifestyle, according to ASFA’s Retirement Standard for the September 2018 quarter. For singles, the annual figure is $43,200.

The majority of Baby Boomers have not accumulated sufficient superannuation to generate these income levels, without recourse to the age pension (either in full or in part).

The average superannuation balance for men aged 65 to 69 was $246,915 in 2015–16, according to ASFA’s research. Women in the same age bracket had an average balance of $171,227.

While the superannuation guarantee means Australians are required to begin contributing to super from the time they enter paid employment, Kreis believes that for most people retirement planning doesn’t figure until they hit their career peak – typically between the ages of 45 and 55.

“Start saving now, no matter how little

While establishing a long-term savings fund or paying extra into super from the get-go puts individuals in a stronger position two or three decades hence, it can seem an unrealistic proposition for hard-pressed younger workers still trying to establish themselves, Kreis notes. However, it’s a strategy that’s well worth implementing early.

“There are plenty of places you can put in $10,000 or $5000 and start to save, then in 15 or 20 years’ time it can be a very decent amount,” he says.

“But it’s tough with housing prices where they are, and salaries and tax rates where they are – it’s very difficult for people in their 30s who are starting a family to save money.

“If you’re in the fortunate position to be able to put an extra few per cent of your income aside for retirement, that’s fantastic.”
For younger generations, planning for retirement happens whether they like it or not. The superannuation guarantee – which makes it compulsory for employers to contribute to their employees’ super funds – has been in place for most of their working life.

Not so for the Baby Boomer generation. Those born between 1946 and 1964 – now aged 55 to 73 in 2019 – spent much of their careers without this watershed workplace benefit. So now, as they approach or enter retirement, many fall well short of the amount they need to be comfortable.

This is no doubt a cause of anxiety for many Baby Boomers – but it doesn’t have to be. Experts say putting in place a level-headed strategy even in the final years of a working career can yield more than people might think, particularly if the mortgage is paid off and the children have moved out.

Why Baby Boomers fall short on their super

The Australian Bureau of Statistics (ABS) estimates that around two-thirds of all retirees still depend on the government’s age pension as their primary source of income. The maximum fortnightly age pension payment for those eligible (including the maximum pension supplement and the energy supplement) is just $916.30 a fortnight for a single and $1381.40 for a couple.
For Baby Boomers concerned they don’t have enough, the single biggest thing they can do to boost their retirement wealth is to work a few years longer.

ASFA recommends retirement savings of $545,000 for an individual and $640,000 for a couple, in order to support a comfortable retirement lifestyle. But ASFA figures show that Baby Boomers, on average, fall well short of this.

Around 58 per cent of total superannuation assets are held by those aged between 50 and 69, according to ASFA. The average super balance for people aged 50 to 54 during 2015–16 was $135,290, ASFA found. For people aged 60 to 64 this figure increases to $214,897. For 65-69-year-olds, it drops to $207,105 as people start drawing down their super.

When balances are compared by gender, it becomes clear that women are, on average, worse off than men. Around 45 per cent of women aged 65 to 69 reported having no super at all.

In addition to missing out on years of the superannuation guarantee, there are other reasons many Baby Boomers’ super falls short, says Susan Thorp, professor of finance at the University of Sydney Business School. Divorce can have a significant impact, particularly for women coming out of an era when women’s workforce participation was lower than it is now. Being a renter rather than a homeowner is also a major determinant of retirement wealth.

“Neither of those are things that people generally volunteer for,” Thorp says.

Consider retiring later to boost your super
Thorp emphasises that with the vast disparity between peoples’ accumulated retirement wealth, there is no one-size-fits-all strategy to build super.

While there are proven health benefits to retiring early (see page 26), for those Baby Boomers concerned they don’t have enough, the single biggest thing they can do to boost their retirement wealth is to work a few years longer.

This isn’t always possible, of course. Health reasons or carer responsibilities can make this option untenable. But when it can be done, working longer increases a person’s super balance on the one hand, while delaying the commencement of drawdowns on the other – giving a double win.

In particular, avoiding drawing down their super balance until they are eligible for the age pension at age 65-and-a-half will significantly impact the amount of super they have.

“Delaying your retirement is easily the most productive thing to do in terms of wealth management,” Thorp says.

What people should avoid doing is exposing their retirement savings to risky investments in the hope of quickly making up the shortfall. We are currently experiencing one of the longest periods of market growth on record, and that will come to an end at some point. It’s worth assessing the risk profile of investments to ensure they can weather a market correction or a period of volatility – in other words, remaining level-headed about retirement planning.

A level-headed plan
A sensible, well-planned retirement strategy can yield more than some might think in the remaining years before leaving the workforce, says Gordon Schauer, director and founder of Financial Planners Inner West. The trick is to assess current finances and look for small ways to make a big difference.

While money might have been tight when Baby Boomers were paying off a mortgage as well as covering the living expenses and education of their children, these things may no longer be the case, Schauer explains.

“Along the way they’ve spent most of their incomes and didn’t have enough money to actually save, but all of a sudden the Boomers are in a position where they have more to put into savings and are maybe 10 or 15 years from retirement,” he says.

Salary-sacrificing at a low tax rate can have an outsized impact with another decade of compounding interest, Schauer adds. And assessing insurance settings for unnecessary cover and amalgamating multiple super accounts into one could also yield extra savings.

Schauer’s final word on the issue is that most people with super balances below the range deemed to be “comfortable” ($545,000 for an individual and $640,000 for a couple) will still have fulfilling retirements.

Some of his clients are retiring with $300,000, but by adding in the pension and with one partner working part time, they can enjoy a good life.

“A lot of those clients are saving up for overseas holidays and things like that,” Schauer says. “It’s not a bad life.”
When I retire. It’s a phrase often said with the kind of wistful tone used for talk about the possibility of winning a lottery. But here’s a reason to get seriously focused on preparing for retirement – it could add years to your life.

Research has revealed a link between early retirement and health benefits, including greater longevity. A 2017 Dutch study titled *The causal effect of retirement on mortality* followed a group of public servants who responded to an early retirement offer at their workplace. It found that the men were 2.6 percentage points less likely to die over the next five years than their non-retiring colleagues.

This effect has been confirmed by other studies around the world. A US study, *The health consequences of retirement*, found that approximately seven years of retirement can reduce the chance of getting a serious disease (such as diabetes or a heart condition) by 20 per cent.

Closer to home, a study by the University of Sydney, *Retirement: A transition to a healthier lifestyle?*, revealed an association between retirement and a series of positive lifestyle changes contributing to better health.

Studies show that retiring sooner rather than later can add years to your life, writes Rosemary Ryan. July 2018
“Retirement really gives people the opportunity to think about their lives and possibly change their lifestyle, plus they have more time, and less stress from their occupation. It’s an opportunity to engineer a healthier lifestyle.”

Why retirement can be good for your health

Published in the American Journal of Preventative Medicine in 2016, the University of Sydney study followed the lifestyle behaviours of 27,257 working Australian adults for more than three years, during which time more than 3000 of them retired. It found that when people retired they became more active, slept better and reduced their sitting time – something that has gained notoriety as a key health threat.

After controlling for various factors, the study found that people who retired were more likely to enjoy a healthier lifestyle than their working counterparts, including:

• increasing their physical activity by 94 minutes a week
• reducing their sedentary time by 67 minutes a day
• increasing their sleep by 11 minutes a day.

In addition, 50 per cent of the retired female smokers quit smoking.

“Our findings weren’t surprising,” says lead researcher Melody Ding, senior research fellow at the University of Sydney’s School of Public Health. “Several studies in Europe and North America found retirement was associated with more physical activity and leisure time. This is likely because retirement reduces barriers to exercise like lack of time, low energy from work and competing priorities.” Sometimes it takes a major life event like retiring for people to think about changing their lifestyle, adds Ding.

“Retirement really gives people the opportunity to think about their lives and possibly change their lifestyle, plus they have more time, and less stress from their occupation. It’s an opportunity to engineer a healthier lifestyle.”

Why you need a vision for your retirement

Avoiding these potential negative effects and ensuring a rewarding and healthy retirement requires a vision and some forward planning. Ding urges people to start thinking about their retirement and the lifestyle they want, and to begin transitioning long before their final day of work.

“With any sort of behavioural change, it’s important to start planning ahead of time – starting to get healthy in a purposeful way, rather than just waiting until your last pay cheque,” she says. “And also to reconnect with other networks in a way to make the retirement life more meaningful. What comes with retirement sometimes is a sense of loss, loss of purpose, but that can be found in other forms apart from paid work, like volunteering.”

Making sure you have sufficient money to fund the retirement lifestyle you envision also requires careful thought and planning.

Setting yourself up for a comfortable retirement

Personal financial expert Noel Whittaker says financial literacy and a keen interest in learning early how to make the most of your money are key factors in achieving a rewarding retirement.

“You need to understand from a young age that how much you’ll have when you retire and how long your money will last depends mainly on the rate of returns you can get,” he explains.

“If you’re generating a better rate of return ongoing, you’ll have more when you retire – simple as that. So you need to understand [that] you need to get a diversified portfolio early and understand the way it works.”

“The worst thing is that someone gets to 60 and gets a $400,000 super payout, and all they’ve ever had is a bank account and they don’t know what to do with it.”

Particularly important is a passionate interest in your superannuation.

“Superannuation is like a herb garden,” says Whittaker. “If you want to keep your garden nice and provide yourself with lovely fresh herbs, you’ve got to take care of it.”

Why retirement can be good for your health

Published in the American Journal of Preventative Medicine in 2016, the University of Sydney study followed the lifestyle behaviours of 27,257 working Australian adults for more than three years, during which time more than 3000 of them retired. It found that when people retired they became more active, slept better and reduced their sitting time – something that has gained notoriety as a key health threat.

After controlling for various factors, the study found that people who retired were more likely to enjoy a healthier lifestyle than their working counterparts, including:

• increasing their physical activity by 94 minutes a week
• reducing their sedentary time by 67 minutes a day
• increasing their sleep by 11 minutes a day.

In addition, 50 per cent of the retired female smokers quit smoking.

“Our findings weren’t surprising,” says lead researcher Melody Ding, senior research fellow at the University of Sydney’s School of Public Health. “Several studies in Europe and North America found retirement was associated with more physical activity and leisure time. This is likely because retirement reduces barriers to exercise like lack of time, low energy from work and competing priorities.”

Sometimes it takes a major life event like retiring for people to think about changing their lifestyle, adds Ding.

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A series of small, steady efforts led Dave and Sue into a world-travelling retirement, writes Brigid Blackney.

Retirement is proving fabulously busy for Dave Pearse and his wife Sue (pictured). The couple has spent the past few years travelling the world after quitting their jobs managing a Sunshine Coast resort.

“We got to the stage where we realised we could pay ourselves the same as what we were earning, and after that it was a no-brainer to take to the road,” Pearse says.

So far their travels have taken them to New Zealand, Britain and the French countryside as well as to other parts of Europe, various parts of Asia and South America – a journey they’ve dutifully recorded on their blog. Right now they’re on the foodie trail in Bangkok, gearing up to head north to volunteer at an elephant rescue sanctuary.

It’s a dream lifestyle, and one they don’t take for granted.

“It wasn’t until 10 years after we got together that we took our first overseas trip together – and I now very much have the travel bug, as has Sue,” Pearse says. “We enjoy each other’s company and usually have a lot of fun working through the challenges that travel presents.”

Early on in their relationship, money was much tighter – the couple both had children from previous relationships, and on the financial front they were just getting by.

“We didn’t have too much,” Pearse says. “We sought financial advice from a number of sources and followed that as best we could. At the same time, we tried to make sure we lived a happy life.”

It was part of a multi-pronged approach in which the couple also paid extra off their mortgage as well as making regular personal contributions to their super.

“It took a bit, but the key elements are to spend less than you earn, and also, if possible, to pay your interest payment each month on your mortgage, so that your fortnightly payments come straight off the principal,” Pearse says.

These small but steady efforts paid off, and the couple’s travels are now funded by the rental income from their property, as well as their superannuation drawdown.

Pearse emphasises that in order to make their money go as far as possible, they continue to implement sensible money decisions while they’re on the road.

As full-time travellers, accommodation is a major expense – and a key area where the couple find creative ways to keep costs down. When visiting particularly expensive locations they volunteer to housesit while local homeowners are away.

“This first couple of years we did a lot of housesitting, which helped us fund our lifestyle a lot, especially in New Zealand and the UK where living costs are very high,” Pearse says.

This year the pressure is off a bit, as they’re exploring areas where their dollar goes further. But they’re not resting on their financial laurels – the couple still engages a company to manage their investments, and continues to seek third-party financial advice.

“We keep a close eye on what the market and what the Australian government are up to, with changes and different policies,” Pearse says. “We do everything we can to live within our means, and make changes to what we’re doing to adjust to external changes as they happen.”

For now, things are looking rosy. And with plans to visit Cambodia before meeting family and friends for a joint holiday in Indonesia, the Pearses are making the most of it.

“We sought financial advice from a number of sources and followed that as best we could. At the same time, we tried to make sure we lived a happy life.”
It was only a few generations ago that average Australian life expectancies were 50 years. Now, men live for 80.4 years and women for 84.5 years.

And since these averages are dragged down by people who pass away early, this means that if you make it to retirement in reasonable health, you’ve a good chance of living well into your late 80s or 90s.

That’s the good news. It also means many of us are going to have to adjust our approach to superannuation if we want it to support us through up to 30 years of our post-work life.

Australians’ retirements are now lasting up to three decades. So start early to help make your money last, writes Nigel Bowen.

November 2018

Work out your super strategy at the start of your career, not the end

Once you’ve reached your mid-60s there are no pleasant options for growing your super balance warns Deakin Business School Associate Professor and superannuation expert Adrian Raftery.

“Either you chase after high returns, with the downside of higher risk, live frugally to preserve your capital, or stay in the workforce.”
“A financial adviser can help you come up with a realistic estimate about the super balance you’ll need to live the lifestyle you plan to lead.”

However, starting in your 20s or 30s is whole other ball game. Setting out how you want to live your post-work life and what it will cost (a retirement strategy) at the beginning of your career will make all the difference, thanks to compound interest (explained below).

To start, figure out how much you’d like to retire on, when you’d like to retire, and work backwards from that. (Online calculators, such as MoneySmart’s retirement planner can project how much super you’ll have and the difference extra contributions can make to your final balance.)

Be realistic about how much you’ll need
People are prone to misjudging how long they’ll live for and what their expenses during retirement will be, says RetireInvest Castle Hill/Hornsby financial planning manager Mark Robinson.

“The default assumption is we’ll live as long our parents did,” he says. “But, especially if we’re leading healthier, less dangerous lives than they did, we’ll probably be around longer than they were.”

ASFA’s retirement standard suggests $640,000 is required for a couple to have a comfortable lifestyle in retirement, while a single will need $545,000.

However, the exact amount needed depends on your lifestyle and expectations. Schroders Global Investor Survey 2018, which surveyed more than 22,000 people around the world, found many Australians are significantly underestimating the cost of living in retirement.

The biggest misconception is around what percentage of a retiree’s wealth will be required to cover living expenses. Australians who have not yet retired expect that they will use 39 per cent of their retirement income on living expenses.

However, the retired people surveyed are using 58 per cent of their income on living expenses: a nearly 20 per cent gap between expectation and reality.

Furthermore, 61 per cent of Australian respondents said they do not have enough to live comfortably, or could do with more to live comfortably. The reasons given included increased life expectancy; the costs associated with healthcare and the rising costs of living.

Ways to boost your super and make it last longer

1. Tap into the tax benefits of super
From a tax perspective, super is one of the most effective savings vehicles. Changes introduced in the 2016 federal budget put a tax-free cap of $1.6 million on super balances and lowered the income threshold at which the 30 per cent tax rate kicks in on super contributions from $300,000 to $250,000.

If you ask your employer to put some of your salary into super before you are paid, this amount will be taxed at 15 per cent instead of your marginal tax rate. You can also make personal contributions of up to $100,000 every year and if eligible you may be able to claim a tax deduction on a portion of this – just keep in mind the caps on certain types of contributions.

And the government’s new downsizing rules means that from July 2018, if you are 65 years or older and meet eligibility requirements, you can make a downsizer contribution into your super of up to $300,000 from the proceeds of selling your home without affecting your non-concessional cap.

2. Consider taking out an annuity
While a lot of Australians retire with inadequate super, plenty more mismanage large sums of money they’ve spent their working lives accumulating.

There are various ways to access your super, but a fixed-income annuity is a way of receiving a regular guaranteed income, regardless of how the markets perform. Annuities purchased with super are tax-free from age 60.

Income can be received monthly, quarterly, half-yearly or yearly and you can choose whether you want the payments to last for the rest of your life, your life expectancy or a set number of years.

Raftery says there’s a range of different annuities, all of which have their pros and cons.

“In general, annuities work best for those who worry they will be tempted to go on a spending spree and run down their retirement funds quickly,” he says.

Potential drawbacks, according to MoneySmart, are that you can’t take your money out as a lump sum, you cannot choose how your money is invested and you may not be able to transfer it somewhere else if you change your mind.

3. Invest in financial advice
Still confused? A financial adviser can help you come up with a realistic estimate about the super balance you’ll need to live the lifestyle you plan to lead, says Raftery.

“They can also run through the upsides and downsides of strategies of downsizing, postponing retirement, shifting more of your super into growth assets, and so on.”

He suggests meeting with the adviser long before you retire and then checking in annually to make sure your retirement plan is on track.
We’re all waiting for that magical day when we can stop working and retire. But what date will that be? Chances are you haven’t thought much about exactly when you might finally be able to down tools – but choosing a date can be a major motivator to get your retirement plans in order.

Findependence Day by Jonathan Chevreau is a novel about a young couple dealing with financial struggles and decisions through various life stages. One decision they make is to set their own financial independence day – or “Findependence Day” – the date they’ll have enough money so they will no longer need to work.

Setting your own financial independence day is a great idea, says financial adviser Gordon Schauer of Financial Planners Inner West, and it’s something he suggests to his clients.

“Getting clients to set a retirement date is a way of getting them to start thinking about the strategy they need to get them to the goal of financial independence,” he says.

“Once they’ve named that date, we can plan their investments and organise their savings so once they reach that age they have enough to live on.”
When can you afford to stop working?

Schauer says most people don’t know when they are going to retire.

“Many think they will keep working as long as they can, and if they get retrenched or a health issue comes up then they’ll think about retiring,” he says.

“However, I encourage clients to set a date and prepare for it. It can always be changed later on, but having a set date really helps focus the mind on how much money they want to live on and the strategy to get to that goal.”

Once you have a date, you can organise your investments so they’re in the best position to bring in the returns you need, balanced with the degree of risk you’re comfortable with. Schauer says there is an ideal amount that people should aim for, but it varies according to personal circumstances.

“Some retire on a few hundred thousand dollars, while others have $2 million,” he says.

“There’s no right answer to how much you need. Someone on $200,000 would need to allow for a part age pension, so it’s important to sit down with clients and discuss the super rules – and do it well in advance so they know what to expect.”

How Phil set a retirement date

So how do you choose your date? One of Schauer’s clients, 66-year old Phil Canaway, set his own retirement date for July 7, 2017.

Canaway had been working in the banking and finance industry for 46 years – mostly as an information technology and business project manager – and worked out his retirement date with his employer. He told his employer the date a year in advance, and they reviewed it together.

“I wanted to set a date because I believe if you fail to plan then you plan to fail,” Canaway explains. “I always said to my employer I would give them plenty of notice, as I wasn’t going to retire on the day I turned 65 – it was a little bit more complex.”

He says it was good to agree on a date with his employer, as it meant his exit strategy could be carried out properly.

“It also meant my financial planner and I could sit down and work out what I needed for retirement,” he adds. “Having that date in mind allowed me to better focus on all aspects of retirement. For example, I had some long-service leave owing, and knowing my retirement date allowed me to minimise the tax payable on it.”

Canaway says in his case everything worked like clockwork: “It was a planned ramp-down where I transitioned into retirement. I was moving to the Gold Coast permanently after I stopped work, and my employer was happy to let me trial it by allowing me to work three days in Sydney and two days from the Gold Coast.”

His advice to anyone considering setting a retirement date is not to rush into it.

“You’ve worked all your life for your retirement goal, so you want to make sure that every dollar you’ve earned and put away is going to work hard for you,” he says.

“I also need to have a financial plan in place. But having that date in mind really helped with my planning.”

Invest so you’re ready for your ‘findependence day’

Schauer explains that when clients have a set date in mind it also helps him to advise them on their investment strategy to ensure their goals are met.

“People should start thinking about a retirement date about 10 years out,” he says. “This is because the share market generally moves in 10-year cycles. It’s difficult to time markets, but if you’re 10 years out you can implement a more aggressive strategy, and then closer to the peak of the cycle you can pull back and make a portfolio more conservative.”

He adds that if a client wanted to retire sooner – say, in around three years – their investment strategy would need to be more conservative.

But no matter how far out from retirement you are, he says, the point is to set a time frame to work with.

“The important thing is to set the date – and don’t forget it can be adjusted according to how your strategy is performing.”
While previous generations had typically paid off their homes before reaching retirement, in the course of a decade-long property boom we’ve borrowed more than ever before to buy our homes, and are now much more likely to be leaving the workforce still paying off that debt.

Why is this an issue? Because the government’s age pension system assumes that Australians will be retiring with a paid-off home to live in at minimal cost, as well as money in their super account to either replace or supplement the modest age pension.

Singles eligible for the full pension receive just $23,824 a year, while couples receive $35,916 – and these figures include the maximum pension supplement and the energy supplement.

“If you use your super to get rid of your mortgage, that leaves the pension,” says Robert Snell, financial planner at Life Values. “You can survive on that income, but I don’t think many people would see it as enough to enjoy the comfortable retirement they’d hoped for.”

Rising house prices are seeing more of us rely on our super to pay off our mortgage – a dangerous strategy, warns Nigel Bowen. March 2018
“That minority of people who think 10, 20 or 25 years ahead and take appropriate action to secure their financial future are the ones most likely to have the money to enjoy life once their careers end.”

Later in life. The latter is relevant because people often delay purchasing property until they are in a serious relationship.

In addition, no longer required to save the traditional 20 per cent deposit before buying, many Australians have been purchasing homes with deposits of only 10 per cent or even 5 per cent, resulting in proportionately larger mortgages.

While noting that younger Australians may be more interested in travelling and other costly activities than saving for a home deposit, Eslake concludes that the chief reason those aged 25 to 54 don’t own a home, or have a large mortgage if they do, “owes more to economic influences – and in particular the deterioration in housing affordability”.

The implications of this trend

To illustrate what this changing landscape means in real-life terms, Snell gives the example of an average-earning couple who bought a house in Sydney a decade ago when they were 25 years old. Back then, the average house price was $521,000.

“If they put their minds to it, they could have the mortgage paid off by now,” Snell says.

“In contrast, imagine they waited and, at age 35, bought a house now at the average price of $1.15 million. Even if they put their minds to it, there’s just no way that mortgage is going to be paid off for at least 20 years. I’ve run the numbers and by buying at 25 rather than 35, that couple would be $2.3 million ahead by retirement age.”

Snell’s story illustrates what potentially lies ahead both for individuals and for Australian society.

The 2017 Household, Income and Labour Dynamics in Australia (HILDA) survey showed that between 2011 and 2015, only 9.9 per cent of male retirees and 13.1 per cent of female retirees used their super to pay off debt. But most of those people bought property back when housing was still affordable.

The HILDA survey also showed that between 2002 and 2014, the average mortgage debt of homeowners in the 18 to 39 age range increased 99 per cent in real terms from $169,000 to $337,000.

And the situation has almost certainly worsened since then, as house prices continue to grow.

How to pay off your mortgage faster

Encouragingly, with a bit of forward planning and sacrifice it is possible for people paying off a property to enjoy a comfortable retirement.

“That minority of people who think 10, 20 or 25 years ahead and take appropriate action to secure their financial future are the ones most likely to have the money to enjoy life once their careers end,” Snell says.

Snell’s first piece of advice is to forget about taking out a reverse mortgage.

“They can work well if you’re 85,” he says. “But at 65 you’re not going to be able to access more than around 20 per cent of the equity in your home through a reverse mortgage.”

While a reverse mortgage won’t save you, what Snell refers to as the ‘Game of Homes’ might.

“Put bluntly, many people have resigned themselves to the fact they will only be able to either get into the housing market, or make a big dent in their existing mortgage, when their parents pass on,” he says.

Those who can’t rely on an inheritance might want to consider downsizing, especially if their children have flown the nest.

“There are tens of thousands of dollars of costs involved in selling the family home and moving to a cheaper one,” says Snell. “Nonetheless, if you’ve got $300,000 owing on the mortgage and you move to a house or apartment that’s over $300,000 cheaper, then that’s your debt problem solved.”

Alternatively, as younger Australians are endlessly exhorted to, middle-aged mortgagors can cut back on expenses – overseas holidays, new cars – and throw every spare dollar into shrinking the mortgage.

This strategy can be turbocharged by accessing super early and using it to clear your mortgage before you stop working.

“People can opt for a ‘transition-to-retirement’ pension,” Snell explains. “Once you reach what’s known as ‘preservation age’ – which is between 55 and 60, depending on when you were born – you can take out up to 10 per cent of your super balance each year. [So] if you had, say, $300,000 in super you could take out $20,000 to $30,000 during your final years in the workforce and put that towards paying down your mortgage.”

Depending on your personal circumstances, this could be balanced out by salary-sacrificing additional super payments until you reach your annual contributions cap of $25,000. This will help maintain your super balance while allowing you to use dollars taxed at 15 per cent to pay off your mortgage rather than your marginal tax rate.

A solid investment

There are good reasons why Australians down the ages have prioritised paying off their house before contemplating other investments.

“You can put money into voluntary super contributions or shares, but a bedrock piece of financial advice is to prioritise eliminating non-tax-deductible debt,” Snell says.

“The return on other investments will vary, but if you’re paying 5 per cent interest rate on your mortgage, you’re effectively getting a 5 per cent return on the money you use to pay it off. Apart from all the financial benefits, there’s a real sense of security that comes with knowing you own that asset outright.”
THREE EASY STEPS FOR A DEBT-FREE RETIREMENT

1. DON’T OVER-COMMIT WHEN YOU TAKE ON A MORTGAGE
   Be realistic about how much you can afford in repayments so that your mortgage will be paid off before you retire.

2. PRIORITISE PAYING OFF YOUR MORTGAGE
   Examine your budget to work out if there are ways to pay off your mortgage faster.

3. MAXIMISE YOUR SUPER
   Work out how much super you need to have a comfortable, independent retirement, and aim to reach that balance.
There’s a widespread perception that many older Australians opt for a sea or tree change, or shift to a funky inner-city apartment, once work and raising children are no longer concerns.

However, the reality is many Australians stay put. For example, one academic survey estimated only 9 per cent of Australians over age 50 downsized between 2006 and 2011. It seems the majority of Australians have traditionally lived in their chosen residence as long as they are able to.

But that may be about to change.

Is the new downsizing rule right for you?

In the 2017-18 federal budget, the government announced various measures to make Australia’s housing market ‘function more rationally’, to the benefit of both older homeowners and aspiring first-home buyers.

It was legislated in December 2017 and took effect from July 1, 2018.

Nigel Bowen looks at the pros and cons of downsizing to make the most of new generous super-contribution rules.

December 2018
How it works:
• As of the start of the 2018-19 financial year, a retired couple (if they meet certain conditions) can sell the family home and collectively deposit $600,000 into their super accounts.
• Such a contribution will not count towards their concessional or non-concessional contribution limits, the contributor won’t need to meet the work, maximum age, or $1.6m balance tests for contributing to super.
• The home sold must have been owned by the individual, their spouse or former spouse for the past 10 or more years.
• It must have been the principal residence of the individual(s), making the sale exempt, or partially exempt, from capital gains tax under the main residence exemption.
• You must be at least 65 years at the time of making a downsizer contribution and the home cannot be a caravan, houseboat or other mobile home.
• In total, an individual can contribute up to $300,000 to their super (that’s $600,000 for a couple).
• There is no requirement to buy another home.

Financial considerations before downsizing
Jacaranda Financial Planning senior financial advisor Brett Stene is not opposed to downsizing, but has seen it go wrong for clients.

He tells his clients if they just move to a single-storey house in the same area, or sell a four-bedroom suburban house to buy a two-bedroom flat in the inner city, they probably won’t end up with much money to put into super.

This is especially the case once you deduct the cost of shifting residences. Greville Pabst, chief executive officer and executive chairman of WBP Property Group, and judge on Channel Nine program The Block, says when a homeowner sells his or her existing home and buys another for $1 million, around $100,000 disappears into the black hole of stamp duty, legal fees, removalists, real-estate agent commissions, advertising and presenting the house for sale.

Obviously, the cheaper the house the less stamp duty there is to pay, but even on a $600,000 house in New South Wales the stamp duty would be $22,490.

Stene warns that “the government giveth and the government taketh away” when it comes to the downsizer contribution. For example, if a couple sells the family home and puts $600,000 into super, they can lose both their pensioner concession card and their pension.

“If they go from a full pension to no pension at all, they are $35,000 a year worse off. Super is concessional taxed, but your home is currently still an exempt Centrelink asset. You can live in a house worth $5 million and still get a full age pension.”

Why people decide to downsize
RetireInvest Circular Quay financial adviser John Walker says many clients don’t want to move but feel they need to.

He encourages his clients to consider all their options before selling.

“I always point out there’s usually a uni student nearby happy to earn some money mowing their lawn,” he says. “Also, they can release equity by taking out a reverse mortgage rather than selling.”

Try before you buy
Walker encourages people to try before they buy. For example, to lease their existing home and rent where they’re planning on moving to.

“A seaside town that seems delightful during a weekend stay might not seem so attractive once you’ve lived there for 12 months,” he adds. “Once you sell up in locations such as Sydney and Melbourne, it can be difficult to get back into the market. Especially if prices have gone up 10 per cent, 20 per cent or 30 per cent since your departure.”

Tax advantages of downsizing
Walker doesn’t deny parking up to $300,000 (for an individual) or $600,000 (for a couple) in a low-taxed super account is tempting. But he points out many over-65s are already on an effectively low tax rate on non-super sources of income.

He is referring to the $18,200 tax-free threshold, and 19 per cent tax rate between that and $37,000. People who have reached the age where they qualify for the age pension have a higher tax-free threshold – effectively $32,279 for a single person or $28,974 for each eligible member of a couple.

“Plus, there are tax offsets, such as the much-discussed dividend imputation, which may support some older Australians who have share portfolios.”

He adds: “Nobody is denying putting money into super is a simple and effective investment strategy but there are other options to generate lightly taxed income in retirement.”

But it is a unique opportunity to add up to $300,000 to your super, outside of the strict contribution limits. So if downsizing is in your plans or an idea that appeals to you then do your sums thoroughly to work out what you’d have left over after downsizing to contribute to super.

If they add up, and you’re happy with what you’d have to contribute, and with all that is involved in downsizing your home, then a next good step would be to talk it over with a financial planner.

It could be particularly useful for wealthier Australians who cannot add to their super once it hits the $1.6 million limit, beyond the small pre-tax limit and incremental investment returns. For them, the downsizing option is a golden opportunity to add a lump sum.

“Nobody is denying putting money into super is a simple and effective investment strategy but there are other options to generate lightly taxed income in retirement.”
While some of us have no intention of fully retiring any time soon – if ever – there will come a time when you’re able to access your superannuation savings. And since you can do that in a number of ways, it’s worth knowing your options so you’re prepared when the time comes.

When can you access your super?
Most commonly, you can access your super when you have reached any of the following three options:

- your ‘preservation age’ and retired
- age 60 and ceased an employment arrangement
- the age of 65 (even if you’re still working).

Your preservation age is the minimum age you need to reach in order to access your super. It can be from 55 to 60 years of age, depending on what year you were born.

There are several ways to access your super. Gayle Bryant explores the options and which might work best for you.

September 2018
You need to also consider the transfer balance cap of $1.6 million for the 2018-19 financial year. Effective July 1, 2017, the cap was placed on the amount of money that could be transferred to a retirement account with tax-free investment earnings. This transfer balance cap will be indexed in $100,000 increments but remains at $1.6 million for the 2018-19 financial year.

Option 2: Lump sum payment

You also have the option of taking your super as either a single lump sum or several large withdrawals spread over time. While this may seem an attractive option that would allow you to pay off any outstanding debts – such as your mortgage – there are some implications to consider, the first of which is tax.

If you choose this option, withdrawn money is no longer considered to be super money, so if you invest it, any earnings gained outside your super account will be taxed at your marginal tax rate.

Leaving money in super also has ramifications. The underlying investments can be affected by market downturns and fluctuations that are more volatile than you’re comfortable with and in some cases you may find yourself with negative returns.

Some super investors may leave their money in super because their fund offers a “guaranteed” return. However, often these returns come from very safe assets such as cash and may not give you the growth you require over time.
If you're aged 60 or more, you can withdraw your super tax free. If you're younger, you may need to pay tax. If you're between your preservation age and under 60, you can withdraw the taxable component up to the low rate threshold of $205,000 (2018-2019) tax-free. This is a lifetime threshold indexed annually. Any amount of taxable component you withdraw over this low-rate cap is generally taxed at 17 per cent including the Medicare Levy. If you're below preservation age the taxable component withdrawn is generally taxed at 22 per cent including the Medicare Levy.

If you're thinking about this option, you also need to consider what you'll live on if there's nothing left in your super account and you have no other income-generating assets. While the age pension is an option, it's unlikely to provide you with a comfortable lifestyle.

Your preservation age is the minimum age you need to reach in order to access your super. It can be from 55 to 60 years of age, depending on what year you were born.

**Option three: A combination of both**

A third option would be to draw down a lump sum that is just enough to pay off your debts, and then start a retirement pension with the remainder. You can withdraw more than one lump sum but if you intend to make regular withdrawals then it is usually better to set up a retirement income stream. This way you can keep a proportion of your super money in a tax-effective environment and draw down a regular income.

**So, which option should you choose?**

The best option for you will depend on your circumstances.

For example, a superannuation pension generally suits those who have fully retired and have the flexibility to draw down at least the minimum amounts.

However, if you need a lump sum to pay off your debts, then drawing it out of your super could be an option, especially if you have other assets outside super that you can use to fund your lifestyle.

If you're nearing the time when you'll be able to access your retirement income, start discussing these options with your financial adviser or accountant now, so you can make an informed choice based on a comprehensive understanding of the pros and cons of each.

**What are the pros and cons of each option?**

<table>
<thead>
<tr>
<th>Option</th>
<th>Pros</th>
<th>Cons</th>
</tr>
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<tbody>
<tr>
<td>Lump sum</td>
<td>Usually received tax free if over 60 and can use to pay off debts such as mortgage, invest elsewhere or make large purchases, such as a car or holiday.</td>
<td>Could run out of money. Earnings on any investments outside super are taxed at your marginal rate.</td>
</tr>
<tr>
<td>Retirement income stream</td>
<td>Receive regular income, which helps with budgeting. Payments are tax free if you're over 60. Investment earnings are generally tax free.</td>
<td>The maximum amount you can transfer into an income stream is $1.6 million – the ‘transfer balance cap’.</td>
</tr>
<tr>
<td>Lump sum and retirement income stream</td>
<td>Can use lump sum for large purchases while drawing an income stream from remaining funds.</td>
<td>Need to monitor lump sum withdrawal amounts to ensure retirement income stream still provides enough to live on.</td>
</tr>
</tbody>
</table>

All case studies are hypothetical and are not meant to illustrate the circumstances of any particular individual. Taxation law is complex and this information is our interpretation of the law. It has been prepared as a guide only and does not represent tax advice. You should seek independent tax advice specific to your individual circumstances from a tax adviser or registered tax agent. Superannuation is a long-term investment and the rules and regulations governing it are subject to change. ANZ recommends that you keep informed of the changes to superannuation and any potential impact any changes may have.
If you’re an older Australian, your superannuation balance is likely to be one of your biggest assets.

For people who have worked consistently and been covered by the superannuation guarantee (under which employers must pay a percentage of your salary into your super) since it started in 1992, their super is likely to be their second biggest investment behind their family home. For those who don’t end up buying a property, it could well be their biggest asset.

Average superannuation balances at retirement in 2015–16 were $270,720 for men and $157,050 for women, according to research by ASFA.

Given the amounts in question, ensuring that these funds are passed safely on to our dependents after we die is a priority for most of us.

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Your super isn’t part of your estate

But many Australians are not aware that it’s not as simple as making a will to cover your assets and appointing an executor to ensure that your wishes regarding your super will be enacted.

This is because superannuation does not automatically form part of the total asset pool covered by your will, explains NDA Law principal and estate-planning specialist Andrea Michaels.

“It’s a common misconception that super is part of your estate, along with other assets such as your house, car, bank accounts, share portfolio and any other goods and chattels you’ve amassed,” Michaels says.

“It’s not. Your super is totally separate. It falls outside your estate, and you need to advise your super fund trustee where you want it to go when you die.”
“It’s a common misconception that super is part of your estate, along with other assets such as your house, car, bank accounts, share portfolio and any other goods and chattels you’ve amassed.”

The good news is that there are two simple ways you can take control of who your super will be passed on to.

**Leaving your super benefits to your dependents**

If you have dependents, your first option is to complete a binding death benefit nomination through your super fund. This is a legal document that advises your fund which of your dependents you wish to receive your superannuation benefits and in what proportion. (This option does not allow you the choice of leaving your super to anyone else.)

Check with your fund if your nomination is lapsing or non-lapsing. The difference is a lapsing nomination is generally valid for three years and must be renewed before it expires, while a non-lapsing nomination does not expire.

Under Australian superannuation law, benefits can be paid directly to your spouse, children or stepchildren, or others who are financially dependent on you at the time of your death. Payments can be made as a lump sum or as an income stream.

If there’s a reasonable likelihood that your will might be challenged – a common occurrence if you have estranged children or if there’s a blended family in the mix – making a binding nomination in favour of a spouse or dependents can ensure that your super will fall outside the pool of funds to be contested under your will.

If you fail to do this, your family may not receive your superannuation or life insurance payments.

“Money does strange things to people,” Michaels observes, “and there are times you know one or more parties won’t be happy with the way assets have been left – even if they’ve been told what’s going to happen ahead of time.

“Providing you’ve made a binding nomination in favour of your chosen beneficiaries, there are no avenues for appeal – except in New South Wales.”

(Under some circumstances a NSW court may have the power to overrule a binding nomination and order that your death benefit be paid to your estate – see below.)

**Paying your super benefits to your estate**

The alternative to nominating a beneficiary for your super balance is to direct your superannuation fund to pay your super benefits to your estate. This means your super will be added to the total asset pool covered by your will, and will be dispersed accordingly.

Most funds ask you to do this by filling in a simple form during the application process, although you can often do this through your fund’s website.

Generally, if you have no dependents eligible to receive your benefit and do not make a nomination, your super benefit will be paid to your legal personal representative for inclusion in your estate.

Leaving your super to your estate can also provide asset protection and tax benefits for your beneficiaries, if your will stipulates that funds be directed to what’s known as a testamentary trust. (A testamentary trust is a particular type of trust established under your will and activated after your death for the benefit of your beneficiaries.)

**Don’t leave a world of trouble behind**

There are advantages to both options, and it pays to consider your circumstances carefully before deciding which is best in your situation.

Considering the big picture and seeking professional advice from a lawyer with estate-planning expertise will give you certainty and should create the optimal outcome for your dependents.

“It can be like doing a jigsaw puzzle – you really need someone who’s going to look at all the pieces to make sure they fit together,” Michaels says.

One thing is certain: failing to nominate a beneficiary for your superannuation benefits means you’ll be leaving the decision about who will get one of your biggest assets to a third party. In the absence of a valid binding nomination, it will be up to your super fund trustee to decide who receives your benefit and in what proportion.

“Often you’ll have family members going to the trustee, pleading their cases,” Michaels says. “Trustees have to listen to all the arguments before they make a decision, and if people aren’t happy they can take the matter to the Superannuation Complaints Tribunal (SCT).”

(Please note that from November 1, 2018, complaints must be made to the Australian Financial Complaints Authority, the new external dispute resolution scheme for financial services complaints.)

SCT chair Helen Davis notes that such a situation is fraught to begin with, and can be compounded by complainants’ lack of familiarity with the role of superannuation.

The distribution of death benefits is the SCT’s biggest complaint category, Davis says, comprising 21.5 per cent of all complaints received in the first quarter of 2017. Cases typically take more than a year to resolve.

Planning properly and putting things in place ahead of time can reduce the likelihood of your loved ones having to endure months or years of conflict, stress, uncertainty and expense after you’re gone.

“If you’ve worked hard all your life, you don’t want to see your retirement savings spent on legal fees or ending up going to someone not of your choosing because an independent person has decided they’re the neediest party,” Michaels says.

“It’s up to you to do something about it if you want to have a say on where all that money is going.”
When making your will, seek advice from an estate-planning lawyer with superannuation expertise.

Lodge a binding death benefit nomination with your super fund, specifying whether your super benefit should go to a beneficiary or beneficiaries, or be paid to your estate.

Ensure your nomination remains up to date and reflects your current wishes.

Communicate your intentions to your family – ensuring that there are no surprises will reduce the likelihood of conflict after your death.
Think you could manage on a little over $900 a fortnight? That’s what a single retiree who qualifies for the full government age pension receives – $916.30 a fortnight, or $23,824 a year.

For a couple it’s $1381.40 a fortnight, or $35,916 a year. And these figures include the maximum pension supplement and the energy supplement.

So it’s not surprising that Mima Rahaman, a senior financial adviser with Thinkwealth Management, describes life on the age pension as “tough.” Patrick Canion, chief of financial planning firm ipac Western Australia, is a little blunter: “It sucks.”

Rahaman is upfront with her clients about the need to take financial responsibility for their own retirement: “I advise all [of them] to maximise the amount of money they save for retirement so they don’t need to rely on the age pension.”

Canion agrees that relying on the age pension alone is not advisable. “You can make do from week to week,” he says, “but when big items come along you can really struggle. For example, if the fridge packs it in, or your shoes need repairing, often you’ve got nothing to fall back on.”

But if the age pension alone is inadequate to live on, how do we work out how much we might actually need in retirement?

How much retirement income is enough?

ASFA creates estimates of the annual income required by both single people and couples to provide for either a ‘modest’ lifestyle or a ‘comfortable’ lifestyle in retirement.

Its latest estimates, for the September 2018 quarter, suggests that a single person of retirement age (around 65)
needs an annual income of $27,595 to provide for a ‘modest’ lifestyle, while a couple needs $39,666. (For older retirees these amounts are slightly lower.)

You might be thinking that those figures aren’t much higher than the age pension, so perhaps the age pension is not so bad after all. But then, what exactly does a ‘modest’ lifestyle include?

Well, as it turns out, not a great deal.

A ‘modest’ vs a ‘comfortable’ retirement

ASFA’s budget for a modest retirement lifestyle for a retired couple aged 65-85 covers the following expenses a week:

• $50.34 on electricity and gas
• $165.15 on food
• $92.85 on health services
• $21.65 on home phone, broadband and mobile
• $46.66 on a domestic holidays.

So perhaps ‘modest’ might more accurately be described as ‘frugal’. There’s not exactly a lot of wriggle room there, either for luxuries or for unexpected expenses.

What about a ‘comfortable’ lifestyle?

ASFA estimates that for this, a single retiree needs $43,200 per year and a couple needs $60,843.

$60,843
$43,200

That’s a lot more than the maximum age pension. And even with this income, a ‘comfortable’ retirement lifestyle is not going to include long overseas holidays or extravagant entertaining.

Most of us probably imagine retirement as a time when we can relax, enjoy life at a slightly slower pace, and spend more time with family and friends. What we don’t want is to be worrying about our financial security.

Whether retirement is a long way into the future or getting close, it pays to look ahead and make the smartest financial decisions you can to boost your retirement savings. Talk to your financial adviser about the best way to do this, whether it’s through investing in your super or other assets.

“You can make do from week to week, but when big items come along you can really struggle. For example, if the fridge packs it in, or your shoes need repairing, often you’ve got nothing to fall back on.”

Budgets for households and living standards for retirees aged 65-85
(September quarter 2018, national)

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Budgets for households and living standards for retirees aged over 85
(September quarter 2018, national)

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The figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. Source: ASFA
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