PLANNING FOR YOUR Retirement

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For most Australians, the approach of retirement is something to look forward to. Yet it can also be a time that fills us with trepidation, after all, we've saved for it, worked towards it, but are we really prepared for it?

While superannuation is one way of saving for life after work, it's not the only factor you need to consider when planning for your retirement.

As children finish their education, most parents are typically around 10 – 15 years away from retiring. This is often referred to as a transitional period. It is important when you find yourself at this stage of your life, to prioritise your financial security and ask yourself the following serious questions:

- When do I want to retire?
- What sort of retirement do I want to have?
- What sorts of holidays do I want to go on?
- Will I need to keep my private health insurances during retirement?
- What is the impact of reducing my working hours leading into retirement?

Work out what you need for retirement

If you haven't already started, now is the time to plan your retirement. The first step you need to take is to look at what you want to do in retirement, consider your annual budget for living and expenses, and decide where you want to live (family home, downsize, retirement community, etc). This will give you an idea of the income you might need.

For the financially prepared, this is an exciting time with many options. Sometimes the ideal retirement involves working – but at something completely different. It might mean volunteering, teaching, mentoring, consulting, getting into politics, writing a novel, or going back to university of TAFE – for the fun of it. ***(Redefining the Ideal Retirement – Time Magazine)***

Estimating what you will have when you plan to retire and understanding how long it will last can be a little tricky. A great way to get a better understanding of your financial and life goals is to create a lifetime dreams list. This will allow your financial planner to see more accurately how your money might be used leading into retirement, as well as gauge how much you will need once you reach retirement.

Am I eligible for the Age Pension?

The Government Age Pension is a fortnightly income designed to help eligible older Australians to supplement their retirement savings. A number of factors play a part in determining whether you're eligible to receive the Government's Age Pension:

- Age Requirements;
- Residence Requirements;
- Income and;
- Assets.

Currently, the qualifying age for the Age Pension is increasing by six months every two years until 1 July 2023 when the qualifying age will be 67. However, your Age Pension age may be under 67 depending on when you were born. The age you can access your super and the age you'll be eligible for the Age Pension won't necessarily be the same. Generally, you can access your super savings first.

To qualify for the Age Pension you must be an Australian resident who has lived in the country for at least 10 years. You must also have lived in Australia for at least 5 years consecutively, and you'll need to be in the country on the day you apply for the pension.

Centrelink will assess you and your partner's income, including that which you might receive outside of Australia. This may include income from:

- employment
- investments
- super and retirement pensions

Along with your income, the value of your assets determines your eligibility for the Age Pension, and possibly the payment rate you receive. The assets test takes into account the value of the assets you own including personal assets, business assets, property (not including your primary residence), superannuation, investments such as cash, shares, term deposits and bonds, private trusts and private companies.

Pay off your debts

Most working Australians aspire to the idea that they'll reach a point where they can retire debt-free and with enough money in their superannuation fund – perhaps supplemented by the age pension – to provide them with a comfortable standard of living in retirement.

For many, that remains a reasonable aspiration, but a growing range of challenges mean that retirement goals that could easily be achieved a few years ago, look like being harder to achieve in the future.

More retirees are hitting retirement with an outstanding mortgage. In times of low interest rates this isn't necessarily a bad thing. In fact, the wise use of debt can enhance your financial position at retirement. But if (or when) interest rates rise to historically 'normal' levels, anyone without a sound strategy for addressing the situation could see their financial position weaken.

Also of concern is the number of retirees who rent their homes. Even a modest home provides a high level of financial security that is unavailable to the non-homeowner.

Entering retirement with large debts is not ideal because the repayments will eat into your living expenses when you're no longer earning a salary. If you have money owing on your mortgage, credit cards or other personal loans, it's good to work out a plan to reduce the amount you own within a reasonable timeframe.

The bucket or tiered approach to investment in retirement

In developing your retirement investment portfolio, we will often adopt the Three Tier investment approach which uses the need for you to generate an income as its driving influence as all the funds are in pension and investment accounts.

The working or the philosophy is described below:

Tier One or Bucket Number One:
This tier is cash, and is designed to fund your immediate cash needs. This ensures that for the coming 24 months, pension payments can be met on time and you are not caught short. This is held in the operational accounts of your Bank and a second years' worth of cash is held within the investment portfolio.

Tier Two or Bucket Number Two:
This tier is designed to hold the next two years' worth of income payments. Rather than hold this money in cash, we invest this tier in Fixed Interest investments, which are still secure investments however they earn more than cash, therefore improving the efficiency of your portfolio and boosting returns for only a very small increase in risk. Earnings this tier generates are directed to the cash account.

Tier Three or Bucket Number Three:
The third tier of your portfolio is the growth portion of your portfolio. This tier attempts to keep pace with inflation by exceeding it over the longer term so that the overall value of your portfolio maintains its value. Depending on the account balance and the level of pension income your draw will determine if this tier is successful at achieving this aim. This tier is invested in a diverse share portfolio that has a bias towards income producing assets. This provides you with a level of security as well as aligning your investments with the purpose of your money. Earnings this tier generates are directed to the cash account.

Adopting this approach means that you have the first two years of pension covered, tier two covers year three through to year four and the income produced by your portfolio in these four years is expected to provide enough cash for another year. Therefore, the first five years are catered for and you are not expected to need to sell any growth assets for at least five years. This allows for volatility in markets and enables tier three investments to generate growth for you.

Build your super

Your super is your retirement nest egg. It is a highly tax-effective form of saving. You have the option of boosting your super with pre-tax earnings each year (limits apply). This means that you will be able to sacrifice more of your salary into super and reduce your tax bill. Alternatively, you can just claim a tax deduction for those extra contributions you make if your employer will not let you salary sacrifice (same limits apply).

You are also able to contribute after-tax money into super each year (again, limits apply). In the past few years we have seen a huge reduction in superannuation amounts, particularly among young people. The Federal Government's COVID-19 Superannuation Early Release Scheme saw 4.9 million applications to withdraw a total of $36.4 billion from super accounts. Many young people withdrew their full balance and will have a hard time playing catch up, even if it will be decades before they retire.

With Superannuation forming such an important part of your retirement plan, it is a good idea to consider what type of superannuation fund to utilise.
Traditionally an employer has chosen a fund to offer to its employees and most, particularly younger people will agree to this because accessing superannuation seems so far off, why bother with it now? While this is an effort for some, others have taken more of an interest and have selected a fund that shares their values, or appears to have good rates of return, but the use of an SMSF fund is growing in popularity with over 1.1 million Aussies choosing to take control of their retirement savings with a self-managed superannuation fund (SMSF).

As well as control, investment choice is a key reason for having an SMSF. As an example, these are the only type of super fund that allow you to invest in direct property, including small business premises.

Other reasons people give are dissatisfaction with their existing fund, more flexibility to manage tax and greater flexibility in estate planning.
If you think SMSFs are only for wealthy older folk, think again. The average age of people establishing an SMSF is currently between 35 and 44.

But an SMSF is not for everyone. There has been ongoing debate about how much you need in your fund to make it cost-effective and whether the returns are competitive with mainstream super funds.

So, is an SMSF right for you?

Here are some things to consider:

The Cost of Control
Running an SMSF comes with the responsibility to comply with superannuation regulations, which costs time and money.

There are set-up costs and ongoing administration and investment costs. These vary enormously depending on whether you do a lot of the administration and investment yourself or outsource to professionals.

A recent survey by Rice Warner of more than 100,000 SMSFs found that annual compliance costs ranged from $1,189 to $2,738. These are underlying costs that can't be avoided, such as the annual ASIC fee, ATO supervisory levy, audit fee, financial statements and tax return.

If trustees decide they don't want any involvement in the administration of their fund, the cost of full administration ranges from $1,514 to $3,359.

There is an even wider range of ongoing investment fees, depending on the type of investments you hold. Fees tend to be highest for funds with investment property because of the higher management, accounting and auditing costs.

By comparison, the same report estimated annual fees for industry funds range from $445 to $6,861 for one member and $505 to $7,055 for two members. Fees for retail funds were similar. Fees for SMSFs are the same whether the fund has one or two members.

Size Matters
As a general principle, the higher your SMSF account balance, the more cost-effective it is to run.

According to the Rice Warner survey:
Funds with $200,000 or more in assets are cost-competitive with both industry and retail super funds, even if they fully outsource their administration.

Funds with a balance of $100,000 to $200,000 may be competitive if they use one of the cheaper service providers or do some of the administration themselves.

Funds with $500,000 or more are generally the cheapest alternative.

Returns also tend to be better for funds with more than $500,000 in assets.

Even though SMSFs with a balance of under $100,000 are more expensive than industry or retail funds, they may be appropriate if you expect your balance to grow to a competitive size fairly soon.

Increased Responsibility

While SMSFs offer more control, that doesn't mean you can do as you like. Every member of your fund has legal responsibility for ensuring it complies with all the relevant rules and regulations, even if you outsource some functions.

SMSFs are regulated by the ATO which monitors the sector with an eagle eye and hands out penalties for rule breakers. And there are lots of rules.

The most important rule is the sole purpose test, which dictates that you must run your fund with the sole purpose of providing retirement benefits for members. Fund assets must be kept separate from your personal assets and you can't just dip into your retirement savings early when you're short of cash.

Don't Overlook Insurance

If you're considering rolling the balance of an existing super fund into an SMSF, it could mean losing your life insurance cover. To ensure you are not left with inadequate insurance you may need to arrange new policies.

Want to know more about setting up a SMSF? Speak with our specialist team of SMSF advisors. Contact our office on 1300 363 866.

Aged Care & Estate Planning

It's a sad but unavoidable fact: one day we are all going to die. You will most likely have clear ideas as to how you would like your hard-earned wealth – your 'estate' – to be divided amongst your loved ones or other beneficiaries. However, estate planning is a complex area of law and basic mistakes can see Wills declared invalid, money end up with unintended recipients, or benefits reduced by avoidable tax bills. So how can you avoid making some of these mistakes?

Aged Care

The need for aged care can be sudden, often triggered by unexpected changes in health. It can also be an uncertain and overwhelming experience for you and your family. Should you suddenly require aged care or additional support, it is a good idea to have a Living Will (or Advanced Care Directive) and Power of Attorney appointed before you actually need them. This will make the process of any unexpected care and financial requirements much simpler for friends, family and importantly, you. On top of the personal and emotional challenges, there are a number of important considerations:

- Which facility is suitable for you?
- What fees will you need to pay and how should you fund them?
- What should you do with your family home? and
- What impact will the move have on social security benefits?

Remember, finding an aged care placement is much like buying a house. You need to take your time, and what you want might not be immediately available, so start planning early and give it time.

Make a Will
Only around half of Australian adults have a valid Will. If you don't have one, make one. Otherwise your estate will be distributed according to a government formula, and if no beneficiaries can be identified your life's savings will end up in state government coffers.
If you do have a Will make sure you review it regularly and update as required. Just a few of the key events for revising your Will include entering or leaving a marriage or de facto relationship, starting a family, establishing investment vehicles such as companies or trusts, changes to the financial or health status of adult beneficiaries or to add gifts to charities.

Appoint an appropriate executer
Administering an estate can be a major undertaking. Ideally you will want an executor who is competent, organised, honest and unbiased. Often this will be a spouse who is also the sole beneficiary, and administration of the estate may be relatively straightforward. But it's common to also nominate an alternative executor should your spouse die before you. This may be an adult child or other close relative, and not necessarily a beneficiary. Whoever you nominate make sure you tell them that they are a (potential) executor and to provide them with important information such as the location of the original Will, and contact details for your lawyer, accountant and financial planner.

Identify assets that may not be dealt with by your Will
Any assets that you jointly own automatically pass to the surviving owner(s) on your death. They are not subject to your Will.

If you have provided your super fund with a binding death benefit nomination, your death benefit will be paid to the nominated beneficiary. There are some restrictions on who you can make a benefit in favour of and the person does not necessarily have to be a beneficiary of your Will. If you nominate your 'personal legal representative' (i.e. your executor), the death benefit will be paid to the estate and dealt with according to your Will. If you don't make a binding nomination the trustees of your super fund are obliged to pay the benefit to your dependents, as defined by superannuation law. This may not coincide with your wishes.

Be Fair
If someone has reasonable grounds to believe they should receive something from your estate but you have not provided for them in your Will, then they may be able to legally challenge your Will. Legal fees may be paid by the estate, eroding its value, so you'll want to minimise the chances of the Will being contested.

Get Expert Advice
Estate planning throws out many other traps for the unwary, from paying too much tax on a superannuation death benefit to not making provision for beneficiaries who are unable to adequately manage their own affairs. With so much at stake, it pays to consult a specialist estate planning lawyer.

Free Financial Health Check

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Not sure if financial planning is right for you? Book in for a free initial consultation with our experienced financial planning team today. *

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* Valid for new financial planning clients only

Contact us

Wherever you are in life, financial planning can help you make the most of what you have. Call 1300 363 866 to speak with our financial planning team today.
In person and video conference appointments are available.

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