



PERSONAL WEALTH  
SOLUTIONS

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## HOW TO RETIRE SUCCESSFULLY

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July 2021

**RI**advice



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# Introduction

## **A successful retirement means different things to different people.**

For some, it's defined by how much quality time they get with loved ones. For others, it's about keeping active and seeing the world. Or it could be about volunteer work, further study and learning, or a leisurely pace interwoven with sport, craft or gardening.

Whatever your definition of retirement success, one thing is sure – no one wants their golden years pressured by financial concerns. A bit of careful planning can eliminate the worry of not having enough to live on. Wherever you are on your road to retirement, it's never too early to start planning. Even if you feel you've left things a little late, planning now can still make a significant difference.

This book provides valuable insights to help you with your plans for retirement. While the main focus is on financial issues like superannuation, investing, Centrelink benefits, tax and retirement income strategies, it also explores more general retirement lifestyle issues.

Broader life balance issues are discussed, along with estate planning and accommodation options. You can also pick up important tips about seeking financial advice.

Keep in mind that the rules, regulations and figures used in the world of finance often change, so this book and other printed materials should be used as a guide only. A qualified financial adviser can answer questions and provide up-to-date information.

Read 'How to retire successfully' and discover how financial advice can add real value to your pre-retirement planning and retirement years.

## **This publication**

While 'How to retire successfully' has been published to help you with your retirement planning, the information and advice contained within does not take into account your individual needs, risk profile, financial situation and objectives. It is of a general nature only and does not contain any recommendation, offer or invitation to buy or sell any financial product.

Before making any investment decisions, you need to assess the extent to which the information is appropriate to your individual investment objectives, risk profile, financial situation and other particular needs.

Seeking help from a qualified financial adviser is valuable. They will work with you so the investment decisions you make are the most appropriate for your circumstances and can help you lead a comfortable retirement, free from financial worry.

# Planning for retirement

Research shows we are living longer, healthier lives.

## Planning for how long?

Figures released by the Australian Bureau of Statistics in November 2020 show life expectancy in Australia is the highest on record, and among the highest in the world. A male born in 2017–2019 could expect to live 80.8 years while a female could expect to live 85 years.

So, depending on the age you retire, you may need enough to last more than 20 years.

If you are age	Your life expectancy	
	Male	Female
45	37.5	41.0
50	32.9	36.3
55	28.5	38.7
60	24.1	27.1
65	20.0	22.7
70	16.1	18.4

Source: 2017-2019 life tables (Table 1.9), Australian Bureau of Statistics.

## It's never too late

While people approaching retirement might often wish they had started planning a lot earlier, particularly if volatile market conditions have reduced the value of many super balances, it is never too late.

Sure, starting early can make a significant difference to your retirement lifestyle, but even well-planned decisions close to retirement are valuable. Don't let procrastination or fear of the unknown rob you of a well-planned, successful retirement.

It's never too late to learn either. Reading, taking courses, researching on the internet, talking with knowledgeable advisers can all add to your ability to make financial decisions that are right for you.

### Three core issues need to be considered in retirement planning:

#### 1 Your current financial situation

What do you own? How much do you owe?

How is your health? How much will you need to live on?

#### 2 Your goals

What would you like to achieve – now? in 5 years? in 10 years? in 20 years?

Why are these goals important to you?

How can you achieve your goals?

#### 3 Your timeframe

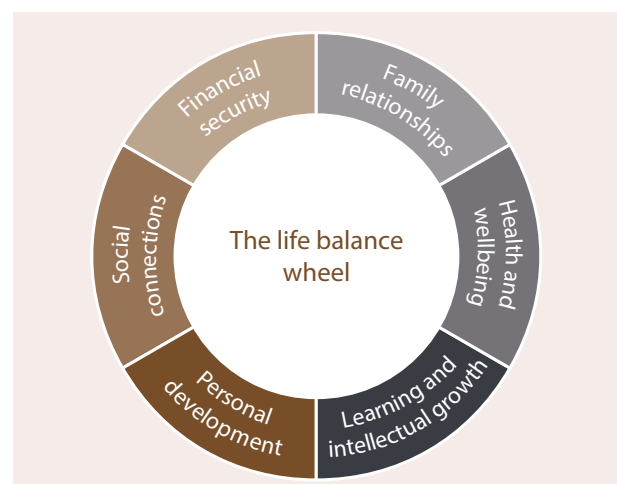
How far ahead do you need to plan?

What sort of time period do you need to plan for?

## Lifestyle – getting the balance right

Ensuring you have enough money to do what you want in retirement is an important part of the planning process. While money will not make you happy, it can help you achieve what you want. But retirement is about more than financial security. Other aspects will also play an important role in creating a healthy, happy retirement. Consideration of physical, emotional and psychological aspects will make retirement planning a far more rewarding process.

We recognise six key areas that combine to create a satisfying life. The 'life balance wheel' can help you think about how important the different aspects will be to you when you retire. Evaluating these 'life balance groups' will help you clarify what a balanced life means to you.



## Family relationships

Retirement will give you more time to invest with family. Perhaps you want to help raise your grandchildren, spend time with relatives overseas or relax with your partner. You might find yourself spending more time with loved ones than ever before – and this could perhaps make them in some ways seem ‘less lovable’. You might need to set out boundaries and personal space.

If you and your partner both now find yourselves at home all the time, spending all day every day together may come as a bit of a shock. This might create some stress in your relationship. Or your child might suddenly expect you to babysit their children all the time since you’ve seemingly got so much time on your hands. It’s worthwhile thinking about and talking through these issues to ensure your family relationships grow and improve through your retirement experience, and not the reverse.

## Health and well-being

Keeping healthy in your mind and body will help you enjoy retirement to the full. Consider how you will maintain if not improve your health in retirement. Physical activity and a good diet are important, as well as regular medical checkups.

Exercise can be a fun and social experience – from golf and aqua-aerobics to stretching and walking. Remember, good health is all about quality of life.

## Learning and intellectual growth

Keeping your mind active is important at all ages. Even if your body is starting to protest against some forms of physical activity, there’s no reason why you can’t remain mentally stimulated. Whether it’s your local library, a public speaking group, book club or educational course, you’re never too old to learn something new.

Courses at adult education centres, TAFE and community colleges or universities cover diverse interests – from cooking, music and craft to politics and language. Studying in a group environment can provide intellectual stimulation as well as valuable social contact.

## Personal development

Retirement years are often a time to reflect on experiences and think more deeply about the world around you and your purpose in life. Taking the time to review spiritual health can be rewarding.

You might just want to think about your feelings and attitudes – and perhaps keep a journal or write your memoirs. Others might want to get involved in their local church, take up meditation or Tai Chi or spend time in nature. Time out at a health retreat can be regenerating, or you might want to take part in community work or overseas aid projects.

## Social connections

Your working life will have given you considerable people contact and you might have created many friendships as a result. Retirement can potentially leave a large gap.

Some retirees find it very important to maintain the friendships they made while working. Others are attracted to part-time or volunteer work or join some sort of social group like a sailing club, bush walking group or seniors group.

Social interaction promotes physical and psychological health.

## Financial security

For years, you’ve probably had a regular pay packet coming in to reward your work. When you’re no longer working, knowing you don’t have that same earning capacity can be a bit daunting. Will you be able to afford the retirement lifestyle you desire?

A financial adviser can help you work out what sort of retirement income you might need and how to structure investments to help achieve your income. They will take into account your current circumstances, budget needs and future desires.

## Specific goals

Thinking through the life balance issues explored above will help identify specific expenses important to you so you can budget accordingly. These might include things like an annual interstate trip to visit your grandchildren, membership fees for the local gym, or fuel and motoring fees for your new boat.

The more specific your retirement financial goals, the more realistic and effective your plan can be. The main goal of your financial plan should be to give you the income you need to enjoy the lifestyle you want.

Generally speaking, you can do this by structuring your investments to:

- improve investment returns within your level of risk tolerance
- reduce tax payable
- identify and address tax impacts
- maximise social security entitlements
- provide regular income payments.

## How much is enough?

Most people will not have enough money to do all they dream of doing in retirement. If you were to rely on your investments and savings alone, here's a rough idea of how much you would need to have saved, depending on the level of retirement income required, and the number of years in retirement.

## How much money will you need in retirement?

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

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

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

### Budgets for various households and living standards for those aged around 65 (September quarter 2020, national)

	Modest lifestyle		Comfortable lifestyle	
	Single	Couple	Single	Couple
Total per year	\$27,987	\$40,440	\$43,901	\$62,083

### Budgets for various households and living standards for those aged around 85 (September quarter 2020, national)

	Modest lifestyle		Comfortable lifestyle	
	Single	Couple	Single	Couple
Total per year	\$26,609	\$38,077	\$42,065	\$58,345

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.

There is more to planning your retirement income than investments and savings alone. If you have not been able to save enough through the superannuation system, you might be able to supplement your income with a full or part government pension, or convert other assets into appropriate investments.

### Next steps

Take some time to think about yourself and what you enjoy and what will really matter to you in retirement. Write down your thoughts.

Ask yourself:

- What is important to me?
- What are the things in my life that I really enjoy doing?
- What are the things I don't enjoy doing?
- Are there any areas I would like to improve
- Is there anything I've always wanted to do or achieve, but have never had the time?

Think carefully about each of the areas covered in this chapter. Group your ideas under three headings to help form your personal retirement lifestyle plan:

- 1 My current situation
- 2 My goals
- 3 The potential time period I need to plan for.

# Introduction to financial planning

## What is a financial plan?

You've probably heard sayings like 'failing to plan is planning to fail' or 'how can you get to where you want to be if you don't know where you're going?' Well, a financial plan should give you a clear path to achieve your goals.

Also called a Statement of Advice or SoA, a financial plan is a written document describing your current financial situation and your short and long-term goals. It sets out exactly what you need to do with your money, including your investments, to achieve your goals and the retirement income you require. Your plan will also identify tax and social security implications, as well as costs and benefits of implementing the plan.

The objective of most retirement plans should be to provide a secure income throughout retirement. It can also seek to improve your situation in the related areas of tax and Government entitlements. A good financial plan will allow you to relax and enjoy your new lifestyle.

## The financial planning process

Quality financial advice should place careful emphasis on each step of the planning process, allowing advice to be tailored to the unique needs of each individual client. While different financial planning groups work in different ways, here's how an adviser would approach the process with you:

### Getting started

At or before your first meeting, you will receive a **Financial Services Guide** including an **Adviser Profile** with details of the person you are meeting with. It is worth spending a little time reading these materials so you can decide if you wish to continue to work with this adviser and whether the services offered are right for you.

At the initial meeting your adviser would get to know you and discuss what you want to achieve. This helps both parties identify the type of advice required and whether they can work together to achieve the goals.

### Gathering facts

You may be given a questionnaire to complete that provides necessary background information and helps determine your tolerance for investment volatility. This profile establishes your financial situation, objectives and how far you are from achieving your goals.

### Agreeing on the service

As with all new clients you will be given an Adviser profile and Financial Services Guide (FSG). You may also receive a Letter of Engagement although this is not mandatory.

### Developing strategy

As part of this step, your adviser would analyse your needs and objectives and identify potential issues. Drawing on their experience as well as research and technical resources, your adviser would consider and develop a range of strategies. These would be assessed to determine what suits your situation and goals. Advisers are obligated under the law to act in the best interests of the client. Research would be conducted into any appropriate products and a document then prepared outlining recommendations.

### Presenting recommendations

In a written **Statement of Advice**, your adviser would outline recommendations. This document provides full details of recommended strategies, implementation approaches, alternative strategies considered, and the cost to implement the recommended approach. Specific information is also provided about any recommended products.

### Implementing advice

After you and your adviser review the strategies together and indicate that you are happy to proceed, your adviser would prepare a plan for implementation. This provides a clear guide about what they intend to do and when, as well as associated costs.

Once the advice has been implemented, your adviser would discuss with you what sort of ongoing service you require, as advice is subject to changes in your lifestyle and goals. Any ongoing service costs would also be discussed and documented. You would have the opportunity to request future reviews.

## The three pillars of a financial plan

A good financial plan will always be tailored to your personal circumstances and objectives. Typically it will be structured to address three elements:

### 1 Cash reserves

Keep at least \$5,000–\$10,000 in an ‘at call’ deposit account for unexpected expenses. A cash management account offers a high level of security, easy access, and usually pays higher interest than a regular bank account. This account could be topped up as required from growth investments.

### 2 Income

- Ideally, there will be two levels of income:
- a basic level to meet daily expenses
- a flexible level to help pay for other expenses such as holidays and birthdays.

A regular, secure income could come from social security through the age pension and allowances (see Chapter 4) and or investments including superannuation (see Chapter 3).

### 3 Growth investments

The balance of money should be invested and left to grow in value to provide for future income needs. Growth investments include property and shares.

When making growth investments, think about whether they offer you:

- diversity across a range of investments
- a timeframe that matches your investment goals
- quality
- the right balance between risk and return
- a global perspective.

## Four principles of wise investing

### 1 Diversify your investments

This means do not put all your eggs in one basket. Money should be spread across a range of investments – for example, including a variety of stocks in a share portfolio. Money should also be spread across a range of asset classes. For example, some might be in cash, some in shares and some in property.

You should never put all your money in one type of investment because research shows no one investment has consistently outperformed every year. Different asset classes have their ups and downs depending on things like ‘investment cycles’ and what is happening in the broader economy. Similarly, no investment manager is consistently number one. Spreading your money across investments, asset classes and managers will help you take advantage of the ups and protect yourself through the downs.

The following table shows shares have outperformed other asset classes more often over the long-term but have had considerable volatility from year to year. Investors who diversify their investments may achieve a more consistent rate of return. If one investment temporarily falls in value, there are other investments potentially rising in value.

#### Next steps

Think about your current financial situation, your goals (both short- and long-term) and your needs. Follow the financial planning process described above and write down any issues you feel need addressing. Keep adding to this list as new concepts are introduced throughout this book.



## Performance across asset classes 2005 – 2019

Year	Australian Shares	International Shares	International Shares (Hedged)	Australian Listed Property	Australian Fixed Interest	Cash
2005	22.5	16.8	18.7	12.7	5.8	5.7
2006	24.5	11.5	17.5	34.1	3.1	6.0
2007	16.2	-2.6	6.0	-8.4	3.5	6.7
2008	-38.9	-24.9	-39.1	-55.3	14.9	7.6
2009	37.6	-0.3	26.7	9.6	1.7	3.5
2010	1.9	-2.0	13.1	-0.7	6.0	4.7
2011	-11.0	-5.3	-1.9	-1.6	11.4	5.0
2012	19.7	14.1	18.7	32.8	7.7	4.0
2013	19.7	48.0	32.3	7.3	2.0	2.9
2014	5.3	15.0	12.6	26.8	9.8	2.7
2015	2.8	11.8	3.8	14.4	2.6	2.3
2016	11.8	7.9	10.3	13.2	2.9	2.1
2017	11.9	13.4	20.0	6.4	3.7	1.7
2018	-3.1	1.5	-7.6	3.3	4.5	1.9
2019	23.8	28.0	26.8	19.6	7.3	1.5
<b>Annualised return (% pa)</b>	<b>7.9</b>	<b>7.7</b>	<b>8.9</b>	<b>4.9</b>	<b>5.7</b>	<b>3.9</b>

■ Highest yearly return ■ Lowest yearly return Past performance is not an indicator of future performance.

Source: S&P/ASX 300 Accumulation Index, MSCI world ex Aust (AUD) TR, MSCI world ex Aust (Hedged to AUD) TR, S&P/ASX 300 A-REIT Index, Bloomberg AusBond Composite 0+ Yr Index, Bloomberg AusBond Bank Bill Index

## 2 Match investments to your timeframe

‘Short-term’ and ‘long-term’ are often included in talk about investments.

That’s because time is very important.

Investment timeframes	
Very short-term:	less than 1 year
Short-term:	1–2 years
Medium-term:	3–5 years
Long-term:	6–10 years
Very long-term:	more than 10 years

What type of investments you choose will be influenced by how much time you have to invest. Very broadly speaking, people who are investing for longer than five years tend to invest more in shares and property. That’s because these investments tend to perform better over the longer term, despite their short-term volatility. When investing for the long-term, it’s important to keep perspective and not be put off by short-term under performance.

People with a shorter timeframe tend to invest more in fixed interest and cash because the returns are less variable and capital is therefore more secure.

## 3 Balance risk and return

When choosing investments, you will need to work out the balance you want between what sort of return you would like and how much risk you are prepared to take on.

Very generally speaking, investments with fairly low risk in terms of potential capital loss – such as cash and fixed interest – tend to deliver lower rates of return. Investments that can be more volatile like shares generally reward investors with the potential for higher returns.

Going for the least risk is not necessarily the best answer because inflation and tax can quickly erode the value of your investments if your portfolio is not structured properly. Chasing the highest returns may not be the best answer either because of the potential for loss.

To get a better understanding of the level of risk associated with different asset classes, see ‘The four asset classes’ a little later in this chapter.

## 4 Choose quality investments

Remember the old saying, “If it sounds too good to be true, then it probably is.”

Don't be taken in by investments that promise the world and claim high returns with little risk. If you are unsure of an investment offer or if the details are not quite clear, be wary of proceeding.

You should only invest your money if you feel confident the investment represents good quality. ‘Good quality’ might include things like an established track record, a well-researched and thoroughly-presented offer, or management by a respected investment manager. In the case of shares, quality can mean companies with good management and strong balance sheets.

Keep in mind that even though the financial services industry is heavily regulated, fraud still occurs. If you do not have specific expertise in identifying whether an investment is quality, seek help from a professional adviser.

### Next steps

Think about whether your current investments fit with the four principles of wise investing discussed above.

Consider how your investments could be restructured to incorporate these principles.

## The four main asset classes

The types of assets available to investors can be broken into four main groups: cash, fixed interest, property and shares. While there are also other ‘alternative’ assets available, these are the most common ones.

### Cash

As the most secure of asset classes, cash also generally produces the lowest return over the medium to long-term. Cash investments include bank accounts and cash management trusts.

While these investments have their place, it is risky to put all your money into cash – even during periods of relatively high interest rates. Many people leave too much parked in cash and then wonder why the value of their money is quickly eroded by tax and inflation.

### Fixed interest

Fixed interest is an overall term that is applied to many different types of debt securities.

Fixed interest investments include securities like bonds issued by governments, semi- government bodies and companies, as well as bank bills and debentures. They tend to offer returns higher than cash and carry low risk relative to investments like shares.

Returns from fixed interest investments are usually in the form of income or interest, although there may be an element of capital growth or loss depending on the type of debt security.

Different types of fixed interest investment – such as international bonds, corporate debt, mortgages and emerging market debt – can be accessed through managed funds. These can vary in terms of their risk of capital loss and potential income level.

### Property

Property offers the potential for both income (from rent) and capital growth (if the value of the property increases over time). There are numerous ways to access property investment. Apart from a direct investment in residential property, investment can also be made directly in commercial property such as office space, retail property such as shopping centres, or industrial property like a warehouse. Investment can also be made through property trusts, where investors pool their money together and a professional manager operates the trust. These trusts can either be unlisted or listed on the Stock Exchange. Property trusts can offer diversity in investments, easy and more flexible investment access and professional management.

### Shares

Shares are also called equities. Buying a share means you are in effect becoming a part-owner of a company and will share in the results of that company's performance, along with other shareholders.

This type of investment offers the potential for income – through dividends – and capital growth, where the share price goes up. Investing in Australian shares can offer tax advantages through franked dividends, where you might get tax credits on dividends distributed from profit which the company has already paid tax on. This is known as ‘dividend imputation’.

## How much in each asset class?

Which asset classes you invest in and what proportion of your money you invest will depend on a number of factors. These include:

- how much money you have to invest
- your age
- your personal and financial goals
- your investment timeframe
- your risk/return balance
- how much income and capital growth you need.

## Asset class performance

As mentioned earlier and shown by the graph below, different asset classes deliver different performance. The graph shows the value of \$10,000 amount invested according to different indices. Indices are a measure or industry benchmark which combines a range of different investments such as equities or bonds. For example, the S&P/ASX All Ordinaries Accumulation Index represents the 500 largest companies (by market value) listed on the Australian Stock Exchange.

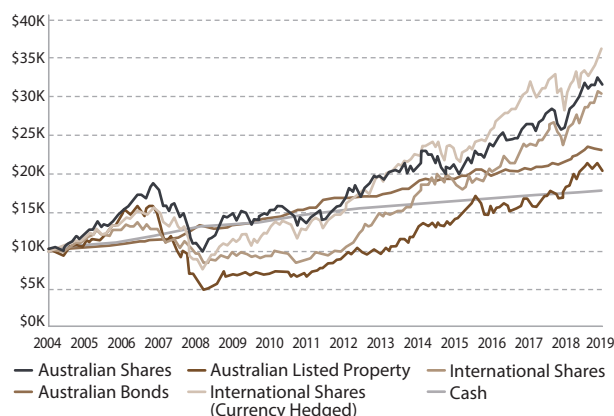
In the case of this chart, the original investment of \$10,000 delivered varied amounts after 15 years depending on which index it was invested to follow. Investing in a portfolio of currency-hedged international shares was the strongest performer over this period with the difference to the unhedged global shares index driven by currency hedging which protected against the increased value of the Australian dollar over this period.

Assets can provide income and / or capital growth. Growth investments can help guard against the effects of inflation. While shares and property tend to be known as growth assets, cash and fixed interest are regarded as income-producing.

Investments	Income	Growth
Cash	✓	✓
Fixed interest	✓	✓
Property	✓	✓
Shares	✓	✓

Source: IOOF Research

Growth of \$10K (December 2004 – December 2019)



Source: S&P/ASX 200 Accumulation Index, MSCI World ex Australia Net Total Return (in AUD), MSCI World ex Australia Hedged AUD Net Total Return Index, S&P/ASX 200 A-REIT Index, Bloomberg AusBond Composite 0+ Yr Index, Bloomberg AusBond Bank Bill Index

## Evaluating investment choices

When choosing investments for your retirement, weigh them up against these sorts of criteria:

- How predictable is the income?
- How often will income be received?
- Will the value of the income be eroded by inflation?
- How will income be taxed?
- How secure is the investment and its manager?
- How easily can you access your money?
- How is the income and value of the investment assessed by Centrelink?
- What rate of return can you expect over the next year? Will that be enough?
- Will you be kept informed of the investment’s performance?

### Next steps

Categorise your current investments according to the four main asset classes: cash, fixed interest, property and shares.

How is your money spread across each category?

Are you comfortable with the balance in light of your lifestyle goals and timeframe?

Before you restructure your current investment portfolio, consider seeking financial advice.

## Impact of inflation and tax

Inflation measures changes in the price of goods and services. Rising prices correlate to rising inflation which means the buying power of your dollar is eroded. If your investments are not earning more than the rate of inflation, you are going backwards. Inflation and taxation can have a significant impact on your investments, as the following example shows.

### Case study: Maria

Maria saved \$10,000 and decided to invest it at an interest rate of 5% per annum, so she expected her investment to increase by \$500 over the year.

The annual inflation rate was 2.5%, meaning the buying power of her \$10,000 was reduced by 2.5% over the year.

Maria was subject to income tax at the top rate of 45% (excluding the Medicare levy). In her tax return, she declared the \$500 interest she earned.

Here's a simplified summary of the value of Maria's investment at the end of the year:

One-year term deposit	\$10,000
+	
Interest credited at end of term	\$500
-	
Income tax (45%)	\$(225)
Net value at end of year	\$10,275
Effect of inflation (2.5%)	\$(250)
<b>Real value at end of year*</b>	<b>\$10,025</b>

\*Excluding Medicare levy.

The real value of her investment after one year was \$10,025 – only \$25 greater than her original investment.

This makes Maria's net investment return only 0.25% – far less than the original 5%.

Maria's story shows why it is essential to weigh up the impact of inflation and tax before investing. Growth assets may provide better protection against the impact of inflation and tax.

**Many retired people have to live on the income produced by their investments. So the effect of inflation and tax can cause serious problems. The following table gives more examples of the impact of tax and inflation.**

Taxable income	Marginal tax rate	Interest rate (%p.a.)	Return after tax (% p.a.)	Inflation rate	Return after tax and inflation (%p.a.)
\$0 – \$18,200	0%	4.0	4.00	2.5%	1.50
\$18,201 – \$45,000	19%	4.0	3.24	2.5%	0.74
\$45,001 – \$120,000	32.5%	4.0	2.70	2.5%	0.20
\$120,001 – \$180,000	37%	4.0	2.52	2.5%	0.02
\$180,001+	45%	4.0	2.20	2.5%	-0.30

Rates and thresholds apply for 2020–21 financial year and exclude Medicare.

## Risk and how to manage it

Risk management is a vital part of a successful investment strategy. Understanding your risk profile – how much you want to make and how much you are prepared to lose – will influence how aggressive your investment strategy is. This section explores the different types of risks associated with investing and how to address them.

You might think putting all your money in cash is the least risky solution but it will only earn low interest. One of the best ways to reduce any type of risk is to diversify investments across a number of different asset classes.

Note: The list of risks following is not comprehensive. It's important that investors be well-informed and engage the services of a good financial adviser.

### 1 Inflation risk

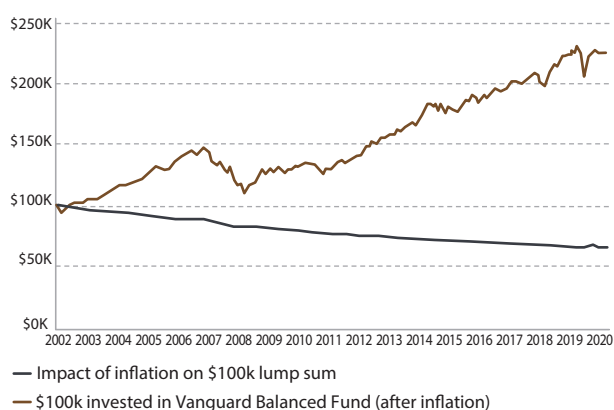
The future value of your savings in current dollar terms is uncertain because of changes in prices over time due to inflation. Inflation can be driven by certain factors such as government taxes with excises on wine for example accounting for a sizeable proportion of the total selling price. Other drivers include the strength of our dollar.

If the value of the dollar falls against other currencies like the Euro, any goods we might import rise in Australian dollar value and cost us more for example.



If your portfolio is not adequately protected against inflation you may see the purchasing power (what you can afford using your savings) fall over time. The Reserve Bank of Australia targets inflation to be, on average, between 2% to 3%. If we take the midpoint of that range (2.5%) we can see below just how much a lump sum of \$100,000 can decline over time due to the impact of inflation. Conversely if invested in a Balanced portfolio (with 50% growth and 50% defensive assets) that has historically been a more than adequate protection against inflation as seen below.

### Impact of inflation on \$100K (December 2012 – October 2020)



Impact of inflation on \$100k lump sum    \$100k invested in Vanguard Balanced Fund (after inflation)

## 2 Risk of volatility

Market movements mean the value of an investment can go up or down, and sometimes very quickly. Depending on what is happening in the economy, interest rates can change, share prices can become over-inflated and the value of investments can drop. While returns average out over a longer term, in the short-term an investment may even deliver negative results. But then a few years later, returns might be up in the double digits.

Investors can make a mistake by abandoning a company's shares when they suddenly drop in value. By doing so, they can turn what might have been a temporary loss into a permanent one. The value of shares usually recovers over time. Share investors who stick with their strategy through the good and the bad over the long-term generally go on to recover and produce a healthy return.

### The solution

Investment diversity helps counter market risk. This is because asset classes tend to perform in different ways at different times, according to different market conditions. So when one asset might be down, another might be up. You can spread risk by putting money in a range of investments.

## 3 Market timing risk

Investment markets and economic cycles are incredibly complex. No one can know for sure which way markets will move – not even full-time economists and fund managers. So trying to predict market rises and falls and work out the best time to buy and sell investments is more a matter of good luck than good judgement.

When one type of investment is performing well and another performing poorly, the temptation is to switch money into the 'hot' investment. While this sounds good in theory it ignores the fact the best performing assets often change from year to year. It's a similar story when choosing investment managers. Last year's shining star can be at the bottom of this year's performance charts.

Market timers often inadvertently sell when the market is low and then miss out on being in the market when prices rise.

### The solution

You might have heard the saying, "It's more important to spend time in the market than trying to time the market."

Having a diversified investment portfolio will help spread your money across assets and managers experiencing good times and bad times.

Once you have a solid investment strategy tailored to your personal circumstances, maintain your conviction and stick with your strategy. If your investment timeframe is long-term, don't let short-term volatility spook you.

But a simple 'buy and hold' strategy isn't always the best option either. Investments need to be evaluated for their quality and their suitability to your changing financial needs and personal circumstances.

A financial adviser can help you do this.

## 4 Political and legislative risk

Fortunately, Australia's political system is one of the most stable in the world, which is good news for investments made in Australia. But in this era of globalisation, chances are some of your assets will be invested offshore. Some countries – particularly developing nations – can have a potentially unstable political environment. This can influence the performance of investments in these countries.

Changes to Australian laws can also impact on your investments. Legislative change can affect tax, social security and superannuation arrangements – as well as conditions in other industry sectors. For example, changes to laws surrounding media ownership or telecommunications could influence performance of investments in these sectors.

## The solution

It's difficult for individuals to keep informed and up-to-date with political and legal issues. But that's what many investment analysts and managers are skilled in. They consider these sorts of issues when choosing investments and managing portfolios.

Many financial planning groups have dedicated research and technical specialists that keep an eye on political and legal developments. In mapping out an investment strategy, a financial adviser needs to take into account relevant regulations and any planned legislative change.

## 5 Currency exchange risk

The relative value of currency between countries is important when looking at overseas investments. Rises and falls in the value of currency can really accentuate gains and losses in offshore investments.

## The solution

A good way to invest in foreign markets is through managed funds because professional managers can implement sophisticated currency management techniques. Some managers apply currency overlays or 'hedging' to help protect against movements in the Australian dollar. Others deliberately leave investments exposed to a variety of foreign currencies.

## 6 Exposure risk

This refers to the risk of having all or most of your eggs in one basket. As a result, if that investment hits hard times and performs poorly, income and growth from your investments will be poor – perhaps even non-existent. You will have no other investments offsetting this poor performance. See page 15 for more information.

Having too strong an exposure to a particular type of investment will also accentuate other types of risk, such as those explored above.

## The solution

Diversify investments across asset classes, investment types, and managers. A mix of assets with opposing characteristics will reduce the portfolio's overall risk and help provide a more consistent rate of return. If one investment temporarily falls in value, chances are you'll have other investments rising in value.

### Next steps

Work out your general investment timeframe:

- Short-term (1–2 years)
- Medium-term (3–5 years)
- Long-term (6–10 years)

Identify which investments you hold in each timeframe category (eg, shares – long-term; cash – short-term etc). Do your investments suit your timeframe?

Are your investments diversified enough? If not, think about how you could make them more diverse.

Always seek advice from a financial adviser if you are unsure.

# Superannuation explained

Superannuation is increasingly becoming a major part of Australians' retirement funding. This is largely driven by the compulsory 9.5% (for 2020-21) contributions paid by employers. But it is also due to the tax concessions for personal savings which make superannuation a particularly attractive way to save for your retirement.

Statistics released by the Australian Prudential Regulation Authority (APRA), which is the regulator for superannuation, show that all superannuation balances total approximately \$2.864 trillion as at 30 June 2020.

## APRA Quarterly superannuation performance statistics highlights June 2020 (released 25 August 2020)

The value of your personal superannuation nest egg will depend on a number of factors, such as how long you've been saving in superannuation, what your investment returns have been like and the level of contributions made by you and/or your employer.

Your retirement will be more comfortable and secure if you can afford to put some savings aside in superannuation throughout your whole working life. But in the years leading up to retirement, it is particularly important to consider making extra contributions to superannuation.

Chances are you will have paid off your mortgage and your children will have left home so you may have more money available to invest in these years.

You will need to work out the best strategy for you to contribute to superannuation and how much you should contribute. Due to the access restrictions on superannuation, it is also important to have some savings outside the superannuation environment.

## Super tax attractions

Superannuation is a long-term savings option and a good way of protecting your savings against the eroding effects of tax. Tax concessions may be available when you put money into superannuation, on the investment earnings and on money you take out.

Superannuation investment earnings are generally taxed in the fund at just 15%, rather than your marginal income tax rate. And capital gains on assets held within the fund for more than 12 months are taxed at only 10%. Once you start a pension (but not a transition to retirement pension), no tax is paid on the earnings and capital gains. This can boost the returns to help your savings last longer.

This can boost the returns to help your savings last longer.

However limits may apply to the amount of your superannuation you can use to start a pension. Special rules apply to defined benefit income streams and certain non-commutable income streams.

As well as these tax benefits, amounts you receive from superannuation, either as a lump sum or a pension, may be tax-free after you reach age 60.

In return for these tax concessions, your superannuation savings generally cannot be touched until you reach your preservation age and permanently retire. Your preservation age depends on your date of birth. For many people it is age 55 but if you were born after 1 July 1960, preservation age gradually increases until it reaches age 60 for those born on or after 1 July 1964.

Date of birth	Preservation age
Before 1/7/1960	55
1/7/1960 – 30/6/1961	56
1/7/1961 – 30/6/1962	57
1/7/1962 – 30/6/1963	58
1/7/1963 – 30/6/1964	59
On or after 1/7/1964	60

## How much is enough?

Before you can work out how much you need to save in superannuation, you have to decide how much income you will require for a comfortable retirement and what lump sum is needed to produce this much income.

A financial adviser can help you with these calculations and plans.

You should remember that your retirement could last 20 years or more and the amounts you need to save may look quite daunting.

Your adviser can also help you look at ways to increase your ability to save such as reviewing your cashflow and your ability to salary sacrifice or place savings in other investment vehicles.

The later you leave it to start saving the harder it may be to reach your goals. Time and the power of compounding interest can both help to get you to a comfortable retirement. So the sooner you start the easier it will be. But if you can't save it all on your own, you don't need to panic. You may be entitled to receive some age pension to top up your income (refer to Chapter 4 for more information) which takes the pressure off how much you have to save.

## Voluntary contributions

Generally, you or your spouse can put extra money into superannuation yourself, as lump sums or as regular contributions subject to superannuation rules. Speak to your financial adviser to determine if you are eligible and the amount able to be contributed.

- If you are under age 67 you can contribute regardless of whether you are working or not.
- If you are age 67 to 74 an annual work test applies. You must have worked at least 40 hours within a 30 consecutive day period before you can make any contributions for that financial year.
- Once you turn age 75\* you cannot make any further personal contributions, even if you are still working. However, you might be eligible to make a downsizer contribution from the proceeds of the sale of your home.
- Also, if the contributions are non-concessional (after tax), your total superannuation balance as at 30 June of the previous year must be less than \$1.6 million (2020-21).

Generally, contribution caps (concessional and non-concessional) apply to limit the amount of contributions that can be made without tax consequences. Speak to your financial adviser to determine if you are eligible and the amount able to be contributed.

Generally, you may be able to claim a tax deduction for your own personal voluntary contributions, however you must ensure that you satisfy all the relevant criteria.

If you claim a tax deduction for your voluntary personal contributions, the contributions will count against your concessional contributions cap.

If you don't, they will count against your non-concessional contributions cap.

You should speak to your accountant or tax adviser to determine eligibility and how to claim a tax deduction.

As an added incentive, if you are working (employee or self-employed) you may be eligible to receive a government co-contribution to match your personal contributions not claimed as a tax deduction.

If the sum of your assessable income, reportable employer superannuation contributions (e.g. salary sacrifice) and reportable fringe benefits less deductions for carrying on a business, is \$39,837 or less, the government will match 50 cents for every dollar of your personal after-tax contributions, up to a maximum co-contribution of \$500. If you earn between \$39,837 and \$54,837 you can receive some level of co-contribution based on a sliding scale.

Note: to receive the co-contribution other eligibility criteria apply. These thresholds apply for 2020-21.

### Next steps

- Review how much superannuation you have saved, how much you are currently contributing and your timeframe to retirement.
- Work out how much income you need to live comfortably in retirement (consider the lifestyle goals outlined in Chapter 1).
- Assess how much more you need to save.
- If you need to contribute more to superannuation – which most people do – remember that even small additional contributions can make a huge difference over time, especially with the power of compound interest where you earn interest on your interest.

\* Personal and non-compulsory employer contributions may be accepted on or before the 28th day of the month following the month you turn 75, if you have been in gainful employment for at least 40 hours during any 30 consecutive day period in the financial year that the contribution is made (the work test).



# Government entitlements explained

## Qualifying for a government pension

You might be worried that your superannuation and other savings will not provide you with an adequate retirement income. If you are not able to increase your retirement savings, you might be able to supplement your retirement income with the age pension. How much you receive will depend on the amount of income and assets you have. Even if you only end up with a very small pension amount, at least you will qualify for the other benefits such as pharmaceutical and travel benefits, discussed later in this chapter.

Generally speaking, to qualify for the age pension you must be:

- an Australian resident for at least 10 years in total, and
- at least pension age.

Since 1 January 2020 the qualifying age for the Age Pension increased from 65½ years to 66 years. The qualifying age will then increase by 6 months every 2 years, reaching 67 years by 1 January 2024.

### Age pension age

Date of Birth	Females	Earliest date Males of Eligibility	
Before 1 Jan 1949	Attained	Attained	Already eligible
1 Jan 1949 – 30 Jun 1952	65	65	Already eligible
1 Jul 1952 – 31 Dec 1953	65.5	65.5	Already eligible
1 Jan 1954 – 30 Jun 1955	66	66	Already eligible
1 Jul 1955 – 31 Dec 1956	66.5	66.5	1 Jan 2022
From Jan 1957	67	67	1 Jan 2024

## The income and assets tests

The most difficult thing to work out when assessing how much age pension you may receive, is how to apply the means tests to your situation. Centrelink applies two 'tests' – one to your assets, one to your income.

The basic premise of the assets test is the more assets you have, the less pension you receive. The income test works similarly – the higher your assessable income, the less pension you receive.

## Five steps to the age pension

This table shows the maximum level of age pension currently paid:

If you are	\$ per fortnight	\$ per annum
Single*	\$944.30	\$24,551.80
Couple combined	\$1,423.60	\$37,013.60

Amounts are effective as at 20 September 2020 however they are indexed regularly so check with your adviser.

These amounts include the pensioner supplement of \$69.60 per fortnight for singles and \$52.50 per member of a couple and the energy supplement of \$14.10 for singles and \$10.60 per member of a couple.

People in receipt of a pension on 19 September 2009 may be assessed under transitional arrangements and be eligible for different rates of payment.

\* Also applies to illness separated, respite care or partner in gaol.

Follow these five steps to determine whether you can get the pension and, if so, how much:

- 1 Work out the total value of all your assessable assets. Assets include shares, term deposits, your car, personal belongings and so on, but if you are a homeowner, the value of your home is NOT included as an asset.
- 2 Compare the assets you have with the Centrelink thresholds. The maximum age pension is reduced by \$3.00 per fortnight for every \$1,000 (single or couple combined) you have in excess of the lower limit shown in the table below.

### The assets test\*

If you are a	The full pension will start to reduce when you have assets over	You are not eligible to receive the pension if you have assets in excess of
Single homeowner	\$268,000	\$583,000
Single non-homeowner	\$482,500	\$797,500
Couple homeowner	\$401,500	\$876,500
Couple non-homeowner	\$616,000	\$1,091,000

\* Thresholds are effective from 1 July 2020.

Thresholds are indexed regularly so check with your adviser. People in receipt of a pension on 19 September 2009 may be assessed under transitional arrangements and be eligible for different thresholds. Different thresholds apply for illness separated couples.

- 3 Calculate your assessable income from all investments and sources. Working this out is quite complex because you have to look at how the Government calculates income for some investments such as bank accounts and shares which is determined under deeming rules. Other investments have specific rules to determine income for Centrelink purposes.

- 4 Compare the income you have with the Centrelink thresholds. The maximum age pension is reduced by 50 cents for every dollar of income you have in excess of the lower limit shown in the table below.

#### The income test\*

If you are	The full pension will start to reduce when you earn over this amount per fortnight	You are not eligible to receive pension if you earn in excess of this amount per fortnight
Single	\$178	\$2,066.60
Couple	\$316	\$3,163.20

\* Thresholds are effective from 1 July 2020 however they are indexed regularly so check with your adviser.

Customers in receipt of a pension on 19 September 2009 may be assessed under transitional arrangements. Different thresholds apply for illness separated couples.

- 5 Whatever the lowest pension amount is from steps 2 and 4 is the pension you receive.

### Case study: Meg and Darcy

Meg and Darcy are married, own their home and are not sure whether they will qualify for any age pension. They have combined assessable assets of \$385,000 and combined assessable income for social security purposes of \$16,900 pa.

First, Meg and Darcy need to work out the level of pension they are entitled to under the assets test. The combined pension will decrease by \$3.00 per fortnight for every \$1,000 of assets they have in excess of \$401,500. With assessable assets of \$300,000, there is no decrease in the age pension entitlement under the assets test.

Next, Meg and Darcy need to work out the pension level they are entitled to under the income test. They have assessable income of \$16,900 (or \$650 per fortnight). The level of (combined fortnightly) pension they are entitled to will decrease by 50 cents for every dollar they earn over \$316 per fortnight. They may therefore receive a pension entitlement of \$32,671.60 a year under the income test.

Finally, they need to compare the results of both tests to see how much pension they are entitled to – that is, whatever is the lesser amount. Their pension entitlement is determined by the income test as it produced the lower figure (in this case \$32,671.60 a year).

## Maximising your pension entitlement

You may receive more age pension if you are able to minimise the amount of assessable income and assets you have.

You could do this in two ways:

- 1 Choose investments that are favourably assessed by Centrelink
- 2 Value your assets in line with accepted Centrelink guidelines.

### Choosing 'social security friendly' investments

Investment decisions should not be solely driven by 'social security friendly' motivations. When planning your retirement finances, the four principles of wise investing (page 15) should be considered first. Then you can move on to other considerations such as finding a good balance between achieving your financial goals and maximising your age pension. The table on the next page shows why some investments are considered 'social security friendly'.

### Valuing your assets in line with accepted Centrelink guidelines

Centrelink has guidelines about what and how to value assets. These may be quite different from the way you would value your assets. Here are some useful tips that could legitimately reduce the value of your assets:

- Don't include the value of your home.
- Use the 'fire or garage sale' value for personal assets, and not the insurance or replacement value.
- Pre-pay your funeral expenses (or invest up to \$13,500 in a funeral bond).
- Spend money renovating your home.
- Make a gift of up to \$10,000 per financial year (per couple or single) – with a limit of \$30,000 over any five year rolling period.

### Other government benefits for pensioners and retirees

Even if you only receive \$1 age pension, you are entitled to certain benefits from the Pensioner Concession Card including:

- bulk billed medical rates
- discounts on eligible prescriptions
- lower council and water rates
- cheaper car registration
- reduced fares on public transport.

Investments	Treatment by Centrelink
Non-account based income streams eg, lifetime/fixed term pensions/annuities (term > 5 years)	Only part of your income payment is assessed by Centrelink under the income test. Note: Pensions that commenced before 20 September 2007 that meet certain criteria may be eligible for a 50% or 100% asset test exemption. Pensions commenced on or after 20 September 2007 are generally fully assessable under the asset test.
Account-based income streams eg, allocated pensions/allocated annuities	Account based income streams commenced from 1 January 2015 are assessed under the deeming rules. Some people who commenced an account based income stream before 1 January 2015 may have only part of their income payment assessed under the Centrelink income test.
Investment property	Your rental income, less allowable expenses, is assessed under the income test.
Financial investments earning more than the current deeming rates	These investments are assessed as earning income at deeming rates. The portion of the return greater than the deeming rates is not assessed by Centrelink under the income test.

The value of these concessions varies but is estimated to be worth around \$800 to \$1,200 a year if you are single or \$1,500 to \$2,000 a year for a couple.

### The Commonwealth Seniors Health Card

If you are excluded from the age pension because you have too many assets or too much income, you may be entitled to the Commonwealth Seniors Health Card (CSHC) – provided you are pension age and have adjusted taxable income and deemed income from account-based pensions of no more than \$55,808 a year if you are single or \$89,290 (combined) a year if you are a couple (as at September 2020).

The definition of adjusted taxable income includes taxable income, foreign income, net investment losses, reportable fringe benefits and reportable superannuation contributions.

The card provides discounts on eligible prescriptions and bulk billing with some medical practitioners.

Since January 2015 income from your superannuation account based income stream is subject to the deeming rules and could impact your eligibility for the card.

### Social Security support for the early 'retiree'

For older Australians not employed but not yet 'of age pension age', there may be other forms of government support.

The JobSeeker Payment is made available to people who are actively seeking employment. It is payable to people between 22 and Age Pension age who are unemployed and registered for employment with Centrelink. You must meet residence rules.

As well as looking at your job-seeking activity, Centrelink will also look at your assessable assets and income. The rules for JobSeeker Payment are different than those that apply to the age pension. For example, if your assets exceed the lower asset limit (refer to the assets test table on page 36) you cannot qualify for the allowance.

#### Next steps

- Consider the options available to reduce your assessable assets and income, such as the strategies outlined on page 38 and 39.
- Seek advice from Centrelink or your financial adviser about whether you may be eligible for any social security benefits.

# Retirement income strategies

Once you've built up a retirement nest egg, it can seem like a lot of money. You might be tempted to take at least some of your superannuation as a lump sum and treat yourself to something. But remember, with life expectancies on the increase, your money is likely to have to last a long time – maybe even over 20 years. To ensure you enjoy your retirement, you'll want your money to last at least as long as you do.

Retirement income can come from a variety of sources – a government pension, investment returns such as interest, dividends and rent, and retirement income stream investments especially designed for retirees. You'll need to consider how you want to access your superannuation and consider the advantages of leaving it in the superannuation system and drawing a regular income from it.

This chapter explores several strategies for making the most of your retirement income. Some strategies can provide tax efficiencies or favourable Centrelink treatment. Some give flexibility in how you can access your money, with no guarantee of how long it will last. Others provide a secure income for a set time.

## Three things you could do with your super

### Option 1 Take the lump sum

It might sound good having such a large amount of money in your hands. You could go on a holiday, buy a new car or pay off any mortgage you might have left. But before you follow this temptation, remember you'll need money for many years to come. And by taking money as a lump sum, you might miss out on tax advantages of leaving it in the superannuation system.

If you do decide to take all your superannuation as a lump sum, it would be wise to re-invest it in a well-planned manner, according to the four principles of wise investing (see Chapter 2, and the case study on page 45).

### Option 2 Leave it in superannuation, and maybe draw regular pension payments

If you decide to keep your money within the superannuation system, the investment earnings on this money will continue to be concessionally taxed at up to 15%.

If you choose to start a pension with your superannuation savings, you will receive a regular income which receives favourable tax treatment. If you have retired, the earnings and capital gains on the assets supporting the pension are exempt from tax. Generally there are limits on the amount of superannuation you can use to start a retirement phase pension.

### Option 3 Take part as a lump sum and part as a pension

This could offer you the best of both worlds some money for now and some money for later. When planning your retirement income strategy you need to think about whether you have enough investments that give you easy access to funds. If not, taking a partial lump sum could provide you with a future cash reserve. Superannuation rules restrict the amount that can be transferred into retirement phase pensions.

Speak to your adviser for further information on how the rules may apply for your circumstances.

Be aware though that even if you use all of your superannuation savings to start a pension, you may be allowed to draw extra amounts of money as needed from the pension. Many products allow you to draw extra amounts of money as needed so you could get flexible access to your funds.

## Retirement income and tax

If you are aged 60 or over superannuation lump sum or income stream payments are tax free (if paid from a taxed source, which is the most common source). If you are less than 60, the tax you pay depends on whether you take the money as a lump sum or income stream and on what basis contributions were made. Between your preservation age and 59, tax concessions may apply.

Looking more broadly, other tax concessions may be available to reduce tax payable on non-superannuation investments.

Current legislation makes it possible for a couple over age pension age to receive up to \$61,186 (combined) in 2020-21 in retirement income before paying any tax, excluding Medicare. For a single person the level is \$33,898. The level of tax free income you may receive in retirement depends on your specific circumstances and investments.

## Age pension implications

Account based pensions commenced since 1 January 2015 are assessed under the deeming rules. Some people who commenced an account based pension before 1 January 2015 may receive a more favourable income test assessment.

Other retirement income investments (e.g. annuities) may be assessed favourably under the income test and, as a result, you may be entitled to higher age pension or other social security payments.



## Retirement income investment options

If you want a regular income in retirement, there are a number of products you can consider. Broadly, you can choose a pension, payable from superannuation funds, or an annuity, payable from life insurance companies. Both types of retirement income stream may be account-based or non-account-based.

### Flexibility but no guarantees

Account-based means you have an account balance, and investment performance can have a positive or negative impact on the balance. There is flexibility in the amount of income you draw, including the ability to access lump sums – even the entire balance.

But you do not have any guarantee that payments will continue for any set time. How long your money lasts, depends on how much you draw, fees and your investment returns.

Each year you need to take a minimum amount of income. This is based on a percentage of the account balance at commencement and each 1 July. The percentages depends on your age as shown in the table below.

Note: the COVID-19 crisis had a negative effect on the account balances of many retirees and the minimum percentages were reduced by 50% in 2019-20 and 2020-21.

Minimum income payment	
Age at start of pension and each 1 July	Percentage in 2019-20 and 2020-21
Under 65	2.0%
65–74	2.5%
75–79	3.0%
80–84	3.5%
85–89	4.5%
90–94	5.5%
95 or over	7.0%

### Tax-effectiveness of income streams

Using your superannuation savings to start an income stream can provide tax benefits which may make a considerable difference to your retirement income. Consider the case study of Harry below.

Harry is 60 years of age and single. He needs to decide how to invest his \$750,000 superannuation savings and knows he wants a regular income of \$30,000 per annum.

Harry's investment		
	Account-based pension	Bank term deposit
<b>Year 1</b>		
Total investment	\$750,000	\$750,000
Annual income	\$30,000	\$30,000
Income tax payable	\$0	\$2,242
LITO and LIMITO	n/a	\$955
Medicare levy	\$0	\$600
Tax and Medicare levy paid in year 1	\$0	\$1,887
<b>Harry's net income</b>	<b>\$30,000</b>	<b>\$28,113</b>

Rates and thresholds apply for 2020-21 financial year. Assumed 4% pa income distribution.

Harry is thinking about investing in either an account-based pension or an investment portfolio outside superannuation. By choosing an account-based pension he will receive an extra \$1,887 in income in the first year and he'll pay no tax on this option.

### Leaving employment

If you leave your employment you may also receive an Employment Termination Payment (ETP). This sum may include:

- amounts in lieu of notice
- payments for unused rostered days off
- 'golden handshakes'
- a permanent disability payment to an employee.

To qualify as an ETP, the payment must be received within 12 months of employment termination to qualify for tax concessions.

### ETP tax treatment for ETPs

The tax free component is received tax free. Tax on the rest of an ETP depends on your age.

These payments are subject to specific tax rules. Check details with your tax adviser.

### Which payments are not ETPs?

- Unused annual leave payments.
- Unused long service leave payments.
- Redundancy or early retirement scheme payments within specified tax-free limits.

These payments are subject to specific tax rules. Check details with your tax adviser.

## Easing into retirement

You might not want to make a sudden break from full-time work to complete retirement. Perhaps you'd prefer to semi-retire. Under **'transition to retirement'** arrangements, once you've reached your preservation age – as outlined on page 33 – you can draw on your superannuation through an income stream without having to retire from the workforce. You could use these income stream payments to supplement your part-time working income.

The payment rules for these pensions have the same minimum payment requirements as discussed for account-based income streams, but they also have a cap on the maximum amount that can be paid out each year. This cap, which applies until the earlier of when you fully retire or reach age 65, is 10% of your account balance on the commencement date or 1 July for subsequent years.

Another point of difference is the earnings and capital gains from assets supporting a transition to retirement pension are taxed at up to 15%. Whereas earnings and capital gains on assets supporting a retirement phase pension are tax free.

Some people with a 'transition to retirement' pension get significant advantages by contributing some of their pre-tax working income into superannuation through a 'salary sacrifice' arrangement with their employer. They have the potential to pay less tax and build bigger superannuation benefits. A financial adviser will be able to help you work out whether similar arrangements might be to your benefit.

### Next steps

- Look at the different retirement income products available to you. Weigh up the advantages and disadvantages of each.
- Consider the tax and social security implications of where you could invest your money in retirement. A financial adviser will be able to assist you in this area.

## Other issues to consider

### The value of insurance

On the road to retirement, you're probably working hard to get your finances in order and save as much as you can. What if something were to happen to you? How would it impact on your plans for retirement and your partner's plans? Sadly, some people work hard to prepare for a successful retirement, but pass away or have some other health mishap before they get there. Having the right insurance cover will help protect you and your loved ones financially in case of the unexpected.

There are different forms of cover available to suit your needs including:

- **Trauma insurance** – cover for a range of serious medical conditions.
- **Income protection** – provides income to meet your financial and daily living commitments if you are unable to work due to illness or injury.
- **Total and permanent disablement** – a lump sum provided when a sickness or injury results in permanent disablement leaving you unable to work again.
- **Life insurance** – provides a lump sum to dependants in the event of death.

You might have some cover in some of these areas provided through your superannuation fund. This can be a cost effective and convenient way to obtain insurance but there are often limitations to the cover provided so you may need to consider additional coverage. Your personal circumstances will determine the type and level of insurance cover you require.

Some insurance policies offer automatic increases in line with the Consumer Price Index (CPI). Beware of policies that only offer insurance for accidental death – only around 25% of life insurance claims are attributable to an accident.

Many people lose track of their insurance policies and coverage. It is good to regularly review your insurance arrangements to ensure you have the most suitable cover – both in light of your personal circumstances and changing costs. A review might also reveal you have too much cover, incurring unnecessary expense.

### Estate planning

Planning for the unexpected should also include estate planning. You've probably worked hard to build up and retain the value of your assets. Have you thought about what would happen to your money if it outlasts you?

Estate planning involves a lot more than just having a will. Your will should be prepared to make sure it is effective. It's wise to consider how you want assets distributed, who you want them distributed to, and what is the most tax-effective manner to do so.

Many assets can't be passed onto beneficiaries via a will, and any assets jointly owned pass on to the survivor. Superannuation assets may pass to your named beneficiaries, but the trustee of the super fund often has discretion on whom to pay. Matters including trusts and Power of Attorney could also be considered.

Estate planning starts with a full review of your potential estate and how you would like each of your beneficiaries looked after. In most cases, it is a combination of writing a will, nominating your beneficiaries for any superannuation money, and carefully thinking about ownership of assets during your lifetime.

### Ensuring your family knows what to do

It is a good idea to ensure that all relevant details such as where important documents are kept, who your advisers are and how to contact them as well what the priorities may be in an emergency situation are captured. Equally important is ensuring those who may have to act for you know where to locate this information. Some financial advisers are able to assist with the efficient capture of this information.

### Retirement living arrangements

By the time you approach retirement, chances are your children have left home and your house might be feeling too big. It could be time to downsize to save time and energy maintaining your current home. Comfortable, easy-care and convenient accommodation may be especially appealing. At some stage in retirement you might realise your health is demanding a different living situation – perhaps a retirement village, in-home care or an aged care facility. Some children want to know how they can help their parents if they are unable to live independently.

If you are living in your home you may find that a lot of your savings are tied up in the home. While this provides you with somewhere to live, you may find it difficult to make ends meet with the other savings you have available. If this sounds like your situation, one option you can consider is a reverse mortgage to take some of your money back out of your home without selling or moving out.

A reverse mortgage is a loan that can pay you a lump sum or regular income payments. But unlike a normal loan, you don't need to make any repayments until you sell the home or move. These loans are not for everyone, as the interest and fees are added to your loan balance and can eat into your equity over time. You should get financial and legal advice before using a reverse mortgage and read the contract conditions carefully.

Common questions about planning retirement accommodation include:

- What type of accommodation could you consider?
- What cost structures are involved with the different accommodation options?
- How can you afford these costs?
- Will you be able to keep your age pension?
- Do you have to sell your home?

There is a lot to weigh up before making a decision. Consider your level of mobility and medical care requirements, how much family support you have, and the funds you have available to meet expenses. If you are considering the advantages and disadvantages of staying at home or moving to an aged care facility, costs will obviously be an issue.

If there are health issues involved, the choice can become more difficult and you may need to contact My Aged Care and Centrelink. To access government subsidised care services at home or in an aged care facility, your care needs will need to be assessed.

## Getting advice

Government subsidies may depend on your income and assets. If you need help on options for aged care you should consider consulting a financial adviser, a lawyer and a health care professional. This will help you determine the best option and the best method for funding it.

For approved residential aged care facilities, it is imperative to speak with a financial adviser before you make your decision.

They can provide advice and help you analyse your situation to:

- explain the various fees and charges as well as payment options
- determine some of the impacts of selling or retaining your home
- assess the impact on your Centrelink entitlements
- help you maximise your Centrelink entitlements
- structure your investment portfolio effectively.

Charges for residential aged care can be complicated and expensive. A financial adviser will be able to help you structure your portfolio and income to ensure you receive all the age pension benefits you are entitled to. Your adviser may also be able to more effectively structure costs associated with aged care.

If you are already in a residential aged care facility, a financial adviser can review your investment portfolio and assess whether it can be restructured to help reduce some of the fees.

Accommodation options available to retirees, aside from living in your home, are:

- retirement villages
- lifestyle parks
- residential aged care facilities.

### Next steps

- Think about your current insurance arrangements and whether they give you peace of mind.
- Review your Will – or get one done if you don't have one.
- Capture all relevant documents and important information in one place.
- Consider putting in place an enduring power of attorney.
- Make sure you have considered all the implications of distributing your estate. Will it go to who you want it to, in the most tax- effective manner? A financial adviser can help answer this.
- Before you move house or decide to move into some sort of aged care facility, consider all of the health and financial implications.



# Tips on seeking financial advice

## Should you get professional advice?

If you only seek financial advice once in your life, retirement is the time to do it. Since you no longer have a salaried job providing a regular income, you'll need to plan your finances.

There are now a lot more options for retirees to choose from in terms of lifestyle, financial arrangements and investment products.

And the rules and regulations around investments, superannuation, rollovers, tax and social security have become extremely complex.

A financial adviser can help you set up your financial arrangements to make the most of Centrelink benefits, so that you get a regular dependable income. They will work with you to help you realise your personal lifestyle goals and what you want for your retirement.

If you can't decide whether you want to use an adviser or tackle your plans alone, consider an initial meeting with a professional adviser to discuss your options.

Speak with friends or relatives who have used an adviser or done it themselves to get their perspective on the benefits and pitfalls of either approach.

## Helpful seminars

There are often seminars run to give prospective retirees the opportunity to:

- Gather information on some key retirement issues.
- Compare the professionalism, quality and skill of the company and adviser.
- Talk with advisers in an informal setting.
- Ask questions.
- Listen to planning concepts while remaining 'anonymous'.

## Six steps to financial advice

If you are unsure of the financial planning process, take a look back at page 11 where it is explored in detail. A financial adviser will work through a six-step process with clients to help you get quality advice tailored to your individual circumstances and goals.

- 1 How they can help you
- 2 Getting all the facts
- 3 Agreeing on the service
- 4 Strategy development
- 5 Presenting recommendations
- 6 Implementation and ongoing service

## Licensing requirements

Financial planning groups in Australia must hold an Australian Financial Services Licence obtained from the Australian Securities and Investments Commission (ASIC). ASIC checks that the directors of the company have adequate qualifications and experience before issuing the licence.

## Experience counts

Feel free to ask your financial adviser about their background. You need to be satisfied that they are well-qualified and experienced to advise you on what to do with your money.

Some issues you might want to ask about are:

- Whether they have tertiary qualifications or have completed relevant professional courses (such as those offered by the Financial Planning Association of Australia).
- How long they have been a financial adviser and what they did before that.
- What ongoing training they receive to ensure they keep up-to-date with legislative changes and new investment strategies.
- What support their company provides them with to provide quality advice.

## Payment for financial advice

By law, a financial adviser must clearly explain – and put in writing – how you will pay them for their services. Ensure you discuss up-front the payment options available to you.

A financial adviser should explain their costs to clients and also include details in the written Statement of Advice they provide to clients.

Financial advisers can get paid in a number of different ways:

### Fee-for-service

This means the adviser will charge you a fee for their professional services. This can either be based on a sliding scale according to how much you invest or how much time the adviser takes to work with you, similar to the way your accountant or solicitor may charge you.

Advisers may receive remuneration from a service or product provider when they put your investments or insurance with that company. This remuneration covers some or all of the costs associated with the provision of advice. The service or product provider may pay the adviser remuneration out of the entry fee, ongoing product fees or insurance premiums.

### A combination of both

Advisers may receive payments via a combination of remuneration from service and product providers and fee-for-service.

Advisers must make a full disclosure to you of fees they receive.

### How well resourced is the adviser?

It's not possible for any one individual to stay abreast of all legislative and product changes and come up with new strategies alone. That's why it's important advisers work as part of a quality team backed by solid resources.

A financial adviser should be supported by specialist research and technical teams that help them keep up-to-date with new developments that affect financial planning including changes in investment markets, the economy and government rules and regulations. The insights provided by these teams help ensure advisers make the best recommendations to clients.

### How a financial adviser can help

A financial adviser can provide a range of value-added services that could help you plan for a successful retirement, including:

- General investment strategies to help you achieve your goals
- Advice on the structure of superannuation and rollovers
- Tax effective strategies
- Centrelink strategies
- Access to streamlined investment services such as master trusts designed to reduce costs
- Planning income streams to help meet individual needs
- Planning future capital growth strategies
- Access to estate planning and risk protection.

### Privacy information

You should ask your financial adviser for a copy of their Privacy Policy which details how they handle personal information.

### Tips for finding and using an adviser

- Write down what you want to achieve financially and in what timeframe.
- Call potential advisers and ask for a copy of their Financial Services Guide (FSG). This is a legal document that all licensed advisers must produce, which must include a copy of their adviser profile.
- Review the FSG. It must tell you what services are being offered and if the adviser can prepare a Statement of Advice for you, advise you on particular products, and recommend investment products (such as insurance products and managed investments). It must also tell you how the adviser is paid and will show if the adviser works for, or is connected with, an investment company or bank. Check the FSG to see if the adviser holds either a licence from ASIC (licence holder) or has an authority to represent the licence holder (authorised representative).
- Prepare a list of questions you would like to ask the adviser at the first appointment.
- Make sure you read all the information you receive from your adviser.
- Never sign a document you have not read and do not understand.
- Avoid investments that promise high returns with 'no risk'. Remember, if it sounds too good to be true, it probably is.
- Request receipts and keep all paperwork.

## Statement of Advice (SoA) checklist

If you choose to use the services of a financial adviser, they should provide you with a written Statement of Advice (SoA). Here are some issues to keep in mind when you get it:

- Does your SoA cover all the financial and lifestyle issues that are important to you?
- Do you feel confident that the selected investments offer you the right level of security and risk?
- Has an estimate been prepared of the likely returns that your investments will achieve, and when income payments will be received?
- Can you get access to some of your money if you need it quickly?
- If you currently receive or will apply for a government pension or allowance, do you have a clear understanding of how the investments recommended will affect your entitlement?
- Check that the SoA discloses the costs of implementing your plan, together with commissions your adviser may receive. Have you looked into the various fees charged by fund managers and the cost of advice?

You should make sure that you are fully satisfied with your plan before it is implemented.

### Next steps

Decide whether you want to try preparing your own retirement plan or will seek financial advice. Why not meet with a financial adviser just to hear what they could offer and whether they're the right adviser for you.

If you choose a financial adviser, ensure that the Statement of Advice (SoA) they prepare for you satisfies the criteria outlined on the left.

Contact the below for more information about seeking financial advice:

- Australian Securities and Investments Commission through [www.asic.gov.au](http://www.asic.gov.au)
- Financial Planning Association of Australia Limited through [www.fpa.asn.au](http://www.fpa.asn.au)

## Where to from here?

This publication provides a broad picture of retirement issues that you should consider.

These include:

- The importance of knowing your lifestyle goals when planning your finances.
- How a financial plan will help you.
- The four principles of wise investing.
- What tax-effective superannuation savings mean to you.
- Investment choices when you receive your retirement payments.
- How to receive a regular income throughout your retirement.
- How you might be able to qualify for an age pension and boost your retirement income.
- The importance of a financial adviser.

You need to decide your way forward. You might choose to:

- **Do it your way** – prepare your own financial plan and maintain it through ongoing research. Some people find this a challenge and are happy to embrace it.
- **Seek the advice of a financial adviser.** With complex rules and regulations around superannuation, tax, Centrelink benefits and retirement income stream products, professionals who work daily in retirement planning can add real insight and value.
- **Procrastinate.** You might think there's always next week, next month, next year. But why delay the inevitable. As with any sort of financial planning, the sooner you start, the better. Little things done now can make a significant difference to your future. Leaving your retirement plans to chance or the last minute could see you miss out on better options or make costly mistakes

**To ensure you retire successfully, start planning now – and make the most of your retirement years.**





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