PREPARE FOR LIFE

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FINANCIAL SERVICES

Autumn 2020

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RULES OF RETIREMENT

By Mark Teale, Retirement Strategies and Solutions Specialist, Centrepoint Alliance

As people approach their retirement, it is important that they have a clear vision of how they want to live their life in retirement and how they will fund that lifestyle.

The following is not an exhaustive list of rules or guidelines but is a good starting point for those planning for their retirement life.

1. PREPARE – both financially and emotionally. What do you want to do in retirement? How much will it cost? Retiring to sit in front of a TV is not life, it is a sentence. If you are not ready financially or emotionally, retirement will not be period of enjoyment it will be incredibly hard, boring and, I suspect, short.

2. LEARN – what lifestyle will your finances support? How are they structured? What are your entitlements to any government benefits? Do not rely on the neighbourhood expert. Talk to someone who is qualified and in whom you can be confident that the information they are providing is correct and in your best interest.

3. ACTIVE – remain both physically and mentally active. Continue to exercise. Buy a bike, book travel with walking tour. Give back by becoming a volunteer. Read the classics, or all those books you always promised yourself you would read and then never did. Retirement is not a full stop and an active life is a fun life – no matter your age.

4. NEW – you are never too old to learn a new skill, language, musical instrument, painting or other pastime. Retirement will give you that opportunity, for example, to master that guitar which has been sitting in the corner of your living room for the last ten years; or learn French so you can sit in a Paris cafe and listen to what the French are saying about you while you drink cappuccinos at the wrong time of day!

5. ASSETS – USE THEM! – remember how hard you worked to accumulate the funds and assets to enjoy your retirement? Don't give your assets to your children - at the end of the day it will do them no favours, and it will reduce your income and limit what you are able to experience.

6. NO REGRETS – don't dwell on the past. Avoid contemplating what you should have done or not done and don't covet what other people may have. These are wasteful activities and will just make you bitter. Concentrate on what you have now and always remember there are other people who do not have what you have.

7. EMBRACE – don't live in fear. Welcome the change and the differences. Enjoy this time of your life and make sure you live every day. Never think of yourself as old, just experienced.

8. WORK – it maybe four letters, but it is not a dirty word. Be prepared if you need to do menial paid work to supplement your income – packing shelves, cleaning, cutting lawns, or event traffic control.

Now, if a you were observant, you may have noticed the anagram in the above tips - PLAN ANEW. That's what preparing for retirement is about – having the tools and strategies in place so you are set to enjoy the next stage of your life. And to ensure you are planning with intent, you need to:

9. IGNORE CONVENTION – retirement is not a time to sit on your bum and watch the world go by. Do not let people tell you that you are too old to attempt something new or tell you that you are too old to wear those clothes!

10. ANTICIPATE – look at the need for Powers of Attorney both from a health and financial position. Ensure your will is relevant and current. Prepay your funeral costs and be aware of the costs and planning required for aged care (hopefully this does become a reality). Do not leave these decisions in the hands of someone else – especially not your children

This is not a perfect set of pre and post retirement rules, but hopefully it will provide you with a starting point.

It is important to remember that retirement is an exciting part of life, so do spend time planning and talking to experts who understand what is required and can help you achieve your retirement goals.


RETIREMENT - WHERE DOES THE MONEY COME FROM?

By Peter Kelly, Retirement Strategies and Solutions Specialist, Centrepoint Alliance

There's a lot of news about the Retirement Income Review. But do you know the areas that they will be examining?

The Australian Bureau of Statistics (ABS) conducted research into the retirement intentions of Australians. Amongst other things, the research provides an interesting insight into the main source of income for those who have retired.[1]

Source	Male	Female
Government pension/allowance	49%	45%
Superannuation	33%	17%
Partner's income	9%	37%

This is in contrast to the intentions of those aged over 45 years who indicated that they intend to retire[2].

Source	Male	Female
Government pension/allowance	22%	28%
Superannuation	57%	52%
Partner's income	2%	11%

It is worth highlighting, the figures quoted in the tables above represent the main source of retirement income. For many retirees, if not the majority, income will come from a combination of sources that include a government pension, superannuation, other savings including ongoing business interests or investments, and, in some cases, access to home equity.

So, what is Australia's retirement income system? Today, the system is constructed around three pillars:

1. a means tested age pension
2. compulsory superannuation, and
3. voluntary savings, including the family home.

PILLAR 1 – GOVERNMENT MEANS TESTED AGE PENSION

When we speak of the age pension, this includes age pensions paid by both Centrelink and the Department of Veterans Affairs (DVA). The rates of pay and general conditions are identical however people who qualify for a DVA age pension may receive this five years earlier than the qualifying age for an age pension from Centrelink.

According to the ABS, just on half of retired Australians receive their main source of income in retirement from a government pension or allowance. While this is declining as the main source of incoming, there is still an expectation that it will make up some part of the income received in retirement.

Many regard the receipt of a government pension as a right or entitlement. As is often stated, "I have paid taxes all my life – I deserve to get the pension!"

PILLAR 2 – COMPULSORY SUPERANNUATION

The first compulsory superannuation for all Australian workers was endorsed in 1986. When introduced, the contribution rate was set at 3%.

As a result of the Superannuation Guarantee legislation in 1992, compulsory superannuation contributions gradually increased from 3% to the current 9.5%. The rate will progressively increase to 12% by July 2025.

Compulsory contributions include contributions made under the superannuation guarantee legislation and may also include other contributions prescribed under an industrial award or agreement. These are often referred to as mandated employer contributions.

PILLAR 3 – VOLUNTARY SAVINGS, INCLUDING THE FAMILY HOME

Retirement income can be generated from a wide of sources including voluntary savings.

These might include interest, dividends and capital gains from:

- Bank accounts, including term deposits
- Private loans, including mortgages and vendor finance
- Investment properties
- Managed funds
- Shares
- Investment bonds
- Annuities
- Business interests
- Employment – part-time, fulltime, seasonal
- Private family trusts
- Voluntary superannuation contributions
- Home equity release, including reverse mortgages
- Pension Loans Scheme

Let's consider a couple of these in a little more detail.

VOLUNTARY SUPERANNUATION CONTRIBUTIONS

A voluntary superannuation contribution is essentially any superannuation contribution that is not a mandatory contribution, as covered in Pillar 2. Voluntary contributions can be made by an employer or by individuals as a personal contribution. Note that both employer and personal superannuation contributions are subject to annual limits or caps.

Voluntary contributions made by an employer are those made in addition to mandated contributions, and may include discretionary employer contributions and contributions made under a salary sacrifice arrangement.

Personal contributions include personal tax-deductible contributions and non-concessional contributions. Non-concessional contributions are generally made from after-tax income. In addition, non-concessional contributions may include the proceeds from the disposal of small business assets that qualify for small business capital gain tax relief, and contributions made by an individual for the benefit of their spouse.

From 1 July 2018, contributions may also be made by individuals aged 65 or older who contribute all or part of the proceeds from the sale of an eligible family home to superannuation. Referred to as downsizer contributions, they are capped at a maximum of $300,000 per person. Certain conditions must be met for a contribution to be made under the downsizer rules.

Individuals can access their superannuation benefits once they meet a condition of release, generally being retirement after reaching their preservation age, turning 65, or becoming permanently disabled.

Superannuation benefits may be paid as a lump sum, as an ongoing regular income stream or pension, or as a combination of both. In most circumstances, superannuation benefits paid to a person aged 60 or over are not taxable in the hands of the recipient.

ANNUITIES

Annuities are income stream products offered by life insurance companies. They can be purchased with either superannuation or non-super savings.

To commence an annuity, a lump sum is paid to a life insurance company in exchange for a guaranteed income payable for the term of the annuity. This may be for life, or for a fixed term.

Annuities provide a regular source of income that does not fluctuate with movements in underlying investment markets.

They can be a useful investment for those who may be looking for a regular and predictable income in retirement.

HOME EQUITY

Accessing equity in the family home in order help fund retirement living expenses is a topical issue.

Equity may be accessed by downsizing the family home to free up some extra cash and making a downsizer contribution to superannuation, or simply investing the surplus funds in non-superannuation investment.

Other equity release arrangements include reverse mortgages and arrangements whereby a homeowner sells a proportionate interest in their home to private investors.

The government also offers a reverse mortgage known as the Pension Loans Scheme. Eligible people can receive a regular additional fortnightly payment from Centrelink which is repayable, with interest, once the property is sold.

Equity release arrangements are generally only available to people who own freehold property.

We can expect to see the government place a greater focus on people accessing their home equity to help fund retirement living expenses in the future.

CONCLUSION

Income in retirement can come from a variety of sources depending on individual circumstances.

Structuring retirement income in the most appropriate manner will differ from person to person. In order to structure the best plan for your retirement, it's important to speak to expert. The experiences and advice from a well-meaning friend or neighbour should not be a substitute for quality professional advice.

[1] https://www.abs.gov.au/ausstats/abs@.nsf/mf/6238.0
[2] ibid.

WHAT IF I RUN OUT OF MONEY...

By Miriam Herold, Head of Research, Centrepoint Alliance

Following retirement, a person's objectives for their life savings and the risks which they face are very different from those experienced while still accumulating wealth. One of the biggest worries for people after they retire is the fear of running out of money. In fact, a recent study undertaken by Challenger and National Seniors Australia has found that 53% of Australians over the age of 50 are worried about outliving their savings.

The fear of running out of money has increased as life expectancy has increased. Over the past 20 years, life expectancy in Australia has increased around 2 years. Once Australian women have reached the age of 65, they can now expect to live for another 22.3 year (to the age of 87.3) while the current life expectancy for Australian men at age 65 is currently 19.7 years (to the age of 84.7).

As Australians are generally living longer, they are also spending a longer amount of time in retirement. However, the size of nest eggs that retirees have to fund this period in retirement has not increased proportionately. Hence the fear of running out of money is genuinely a much more valid concern for individuals approaching and in retirement in 2020 than it has been in the past.

Many retirees who own their family home are asset rich as a result of the phenomenal growth in Australian residential property prices over the past decade. At the same time, these investors may have insufficient capital accumulated in their superannuation funds to meet their income requirements through retirement. One option which may be appropriate could be to sell the family home and contribute up to $300,000 of unlocked equity value to their superannuation through the downsizer contribution.

Another option may be to consider an allocation to a guaranteed annuity product. Lifetime annuity products provide a guaranteed level of income, backed by the issuing life insurance company. Annuity products offered today offer far greater flexibility than those historically available providing the ability to access capital, if required, with lower penalties and flexible deferral periods available before the commencement of income payments, which can help in meeting an individual's circumstances.

One of the key values that a Financial Adviser brings to a client is the intimate knowledge of a client's circumstances and situation, along with insights into their preferences and tolerances. There are a number of ways that an adviser can work with clients to best address the risk of an individual running out of money before they die. These strategies range from behaviours which can be adjusted in the lead up to retirement through to investment strategies which can be incorporated within portfolios post retirement.

In order to make their nest egg last as long as possible, retirees need to ensure that they have enough of their portfolio invested in growth assets. Many investors increase their exposure to conservative asset classes such as bonds and cash as they approach retirement, however there is a fine balance between the need to protect the asset base and ensuring that the portfolio can generate adequate returns.

By maintaining a healthy exposure to riskier assets with larger expected returns, the accumulated savings will likely last for a longer period of time as returns continue to compound, even as the retiree starts to drawdown an income stream.

[1] "Retirement income worry: Who worries and why?" January 2020, Challenger & National Seniors Australia

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