

# Will you have enough to retire on?

Superannuation (super) is the largest asset outside of the family home for a lot of people. However, many of us are still unsure if it is enough to help us retire comfortably. It is extremely important to plan for your future and ensure that you will have sufficient wealth (including super) to provide you with a regular income during retirement.

Have you taken the time to think about how much super and overall wealth is needed for your retirement? How much income will you need to provide you with your desired lifestyle? How long do you think you'll live during retirement?

On average, retirees require approximately 75 per cent of their pre-retirement income to provide a comfortable lifestyle during retirement. It is important to ask yourself if you can maintain your desired lifestyle on the Age Pension (currently set at \$670.90 per fortnight for a single person or \$505.70 per person per fortnight for a couple). If the answer is no, then maybe it is time to start thinking about your retirement and the importance of planning for the future.

## How much do you need?

Answering these questions can be hard. A financial adviser can help you not only answer these questions but construct a financial plan to assist you to achieve the required level of capital needed for your retirement. To do so, your financial adviser will determine your annual income after tax and the type of lifestyle you can afford during retirement.

Throughout your life, your lifestyle may be affected by different focuses such as repaying your mortgage or educating your children. During your lifestyle stages, different strategies are available to support your wealth accumulation strategy as shown in table one.

**Table 1**

	20 to 30	30 to 40	40 to 55	55 +
Reduce non-deductible debt	✓	✓	✓	✓
Gearing	✓	✓	✓	✓
Salary sacrifice into super			✓	✓
Government incentives	✓	✓	✓	✓
Transition to retirement	N/A	N/A	N/A	✓

We recommend that you seek financial advice from a licensed financial adviser to help you determine which strategies might best suit you.

## Your wealth accumulation strategy: more than just super

There are many strategies available to build your wealth (including your super) for retirement and the following strategies will help you start this journey.

### Reducing non-deductible debt

Historically, reducing your non-deductible debt such as a mortgage has been a sound strategy. It provides you with piece of mind and the security of owning your own home. However, times have changed and you may wish to consider some alternatives such as additional contributions into super or tax effective investment gearing.

Depending on your financial circumstances, these alternatives could assist in accumulating wealth for your retirement. In this instance, a financial adviser would be able to help you based on your goals and objectives.

### Investment gearing

Investment gearing is simply borrowing to invest. Gearing enables you to invest larger sums of money. Recent market volatility and uncertainty has somewhat reduced the appeal of investment gearing but it remains a legitimate strategy.

Investment gearing offers tax advantages when expenses exceed income. This is commonly known as negative gearing. This can reduce your assessable income for tax purposes, but be mindful that it is not appropriate for all people.

Investment gearing can provide magnified investment returns; however, it can also magnify your losses. Complex in nature, the risks of this strategy are best discussed with a financial adviser who can help you determine whether or not it is appropriate for you.

## Salary sacrifice into super

Super, which is concessional tax and encourages you to save for your retirement, may be another option. You may consider making additional voluntary contributions into super via salary sacrifice (pre-tax contributions) or personal contributions (after-tax contributions).

Salary sacrificed contributions reduce your income for tax purposes and are not taxed at your marginal tax rate.

All contributions into super are treated as concessional contributions and are subject to 15 per cent tax<sup>1</sup> and count towards the concessional contributions cap.

A financial adviser can assist you to work out whether you would benefit from making salary sacrifice contributions based on your goals and objectives.

<sup>1</sup> Assumes the concessional contributions cap is not exceeded.

## Government incentives

The Government co-contribution scheme is an initiative aimed at encouraging Australians to invest more into their super accounts. In this scheme, the Government contributes \$1.00 for each \$1.00 of personal contributions you make up to a set limit. If your total income is under \$31,920 and you make personal contributions of \$1,000, you'll receive the maximum co-contribution of \$1,000 from the Government in a financial year. This maximum amount reduces by 3.333 cents for every \$1 of your total income above \$31,920 and cuts off at \$61,920.

You are eligible to receive the co-contribution if:

- you make a personal after-tax super contribution to a complying fund
- your total income (assessable income plus reportable fringe benefits plus salary sacrifice to super) is less than \$61,920
- ten per cent or more of your total income is from eligible employment, self-employment or a combination of both
- you are not a temporary resident at any time during the year
- you are aged under 71 at the end of the financial year.

## Transition to retirement

One of the common tax effective retirement planning strategies for those aged 55 or over is transition to retirement (TTR). A TTR strategy offers opportunities for wealth accumulation and tax efficiency, especially for those aged over 60, who can access a tax-free income stream.

There are two components to the TTR strategy:

- commence a non-commutable account based pension receiving between three and ten per cent of the account balance as an income stream
- salary sacrifice part of your employment income into super so that, including the pension, the overall net income remains unchanged.

Complex in nature, this strategy is best discussed with a financial adviser to determine whether or not it is appropriate for you and how it could benefit your wealth accumulation strategy.

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<sup>1</sup> Assumes the concessional contributions cap is not exceeded.

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