

# You're a long time retired - plan now

The Higher Education HR Conference 2008

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## Important notice

- › This presentation provides general information on superannuation and planning for retirement.
- › You should not make any decisions just on the basis of this presentation – you will need to get detailed advice, tailored to your individual circumstances and designed to meet your needs.
- › Date issued: February 2008.

# Agenda

Adequacy – how much is enough?

How long will you be retired?

How much is enough?

Do you have a savings gap?

Building your super capacity

Call to action – what to do next



## Adequacy – how much is enough?

- › Surveys suggest that retired couples who are home-owners need about \$48,000 pa for a comfortable retirement.
- › Renters need more; single people need less
- › About 50% of existing pensioners have little income and rely on a full Age Pension
- › About 30% have reasonable super and get a part Age Pension
- › Only 20% are completely self-sufficient in retirement

*Source: Ricewarner Actuaries*

## Adequacy – how much is enough?

- › New Bureau of Statistics data indicates:
  - 3% of new retirees had \$500,000 or more in super = support comfortable lifestyle
  - 15% had \$200,000 or more in super = support modest lifestyle
  - Bulk of current retirees by necessity face a relatively low standard of living

*Source: Ricewarner Actuaries*

## Adequacy – how much is enough?

- › Other findings include:
  - 12.5% of individuals hold 66% of super assets
  - Men hold about 66% of super assets, and 34% for women.
  - However, the share held by women is up markedly from the 30% held in 2005
  - Almost 20% of the survey reported having no super at all
  - Such as low paid/casual workers, social security recipients and those who have cashed out their super. This figure is down from 25% in 2004

*Source: Ricewarner Actuaries*

# When can I retire?

## How long will you be retired?

*For a couple, each aged 60 years old, there is a 70% chance at least one will reach age 90*

## How long will you be retired?

Life Expectancy	Men		Women	
	Now	Future*	Now	Future*
	At age 60	22	26	25
At age 65	18	21	21	24

\*Based upon Government actuaries estimating improvement in life expectancies at the same rate as the preceding 25 years

Source: Australian Life Tables 2000/2002

# How long will you be retired?

## Time horizon for retirees

- › 65 year old males will live 18 years on average – and this grows by a year every decade
- › 60 year old females will live 25 years on average – several economic cycles!
- › Most financial plans are based on spreading expenditure over the period of life expectancy.....but
- › 50% of these retirees will outlive their life expectancy!

*Source: Ricewarner Actuaries*

# How long will you be retired?

## Three distinctive phases of retirement

Active Ages 60-75	Passive Ages 65-85	Frail Ages 75-100
Continuation of lifestyle but more time for leisure, travel and family	Shift to more passive activities; travel is closer to home	Restricted mobility means leisure activities are limited
Some part-time work	Some unpaid charitable work	Reduced contribution to economy and society
Increased expenditure on leisure. Majority still nett savers	Increased expenditure on health. More frugal lifestyles.	Increased expenditure on health and aged care
Housing upgrade	Housing down-sizing	Retirement village or nursing home

# How long will you be retired?

## Income needs in retirement

- › Expenditure in Active Phase is less than 75% of salary at retirement
  - Costs associated with working have ceased
  - Mortgage has been paid off
  - Some discretionary spending on children
  - Replacement of white goods and car – and an expensive holiday
- › Expenditure in Passive Phase reduces
  - Lifestyle becomes more frugal
  - Pensioners become more conservative (no scope to recover from losses)
- › Expenditure in Frail Phase grows
  - Health costs spike
  - Aged care and accommodation needs change
  - Decision-making ability is diminished

*Source: Ricewarner Actuaries*

# How long will you be retired?

## Expenditure in retirement

- › **Highest** in Active phase – particularly if spare time and money is used to help (middle-aged) children
- › Consumption **decreases** in Passive Phase but many retirees run out of superannuation and fall back on Age Pension
- › Costs **rise** in Frail Phase, though there are significant government subsidies for health expenditure in these years
- › Expenditure patterns vary significantly – and many pensioners on moderate incomes are net savers
- › As expenditure varies from year to year, a traditional lifetime annuity can only be used as a building block

*Source: Ricewarner Actuaries*

# How long will you be retired?

## Lifestyle risks for retirees

- › Managing their cash flow – retirees will be uncertain about their expenditure patterns; some will be frivolous and squander their benefit
- › Most will be unaware of the different phases of retirement and expenditure patterns
- › Adapting lifestyles – retirees need to make long-term decisions about health, aged care and accommodation
- › Estate planning – this is a lottery when you have no idea how much money is needed for consumption over the retirement years. Further, death benefits paid to non dependents from a pension are now taxed

*Source: Ricewarner Actuaries*

## How much is enough?

- › Modest lifestyle
  - Better than the lifestyle on just the Age Pension, but still only being able to afford fairly basic activities
  
- › Comfortable lifestyle
  - Broad range of leisure and recreational activities. Have a good standard of living through purchase of
    - household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel

*Source: Westpac/ASFA Retirement Living Standard (Sept 2007)*

# How much is enough?

## Retirement lifestyle costs

Cost Per Week	Single Homeowner		Couple – Homeowner	
	Modest Lifestyle	Comfortable Lifestyle	Modest Lifestyle	Comfortable Lifestyle
Housing – ongoing only	\$65	\$86	\$67	\$89
Energy	\$12	\$13	\$14	\$15
Food	\$65	\$130	\$138	\$184
Clothing	\$15	\$31	\$25	\$56
Household goods & services	\$49	\$86	\$51	\$91
Health	\$12	\$51	\$23	\$100
Transport	\$72	\$110	\$73	\$110
Leisure	\$44	\$142	\$74	\$204
Personal care	\$25	\$25	\$40	\$40
Alcohol & tobacco	\$0	\$22	\$0	\$44
Total per week	\$359	\$696	\$505	\$933
<b>Total per year</b>	<b>\$18,742</b>	<b>\$36,319</b>	<b>\$26,339</b>	<b>\$48,648</b>

Source: Westpac/ASFA Retirement Living Standard (Sept 2007)

## How much is enough?

Can I achieve my desired lifestyle in retirement?

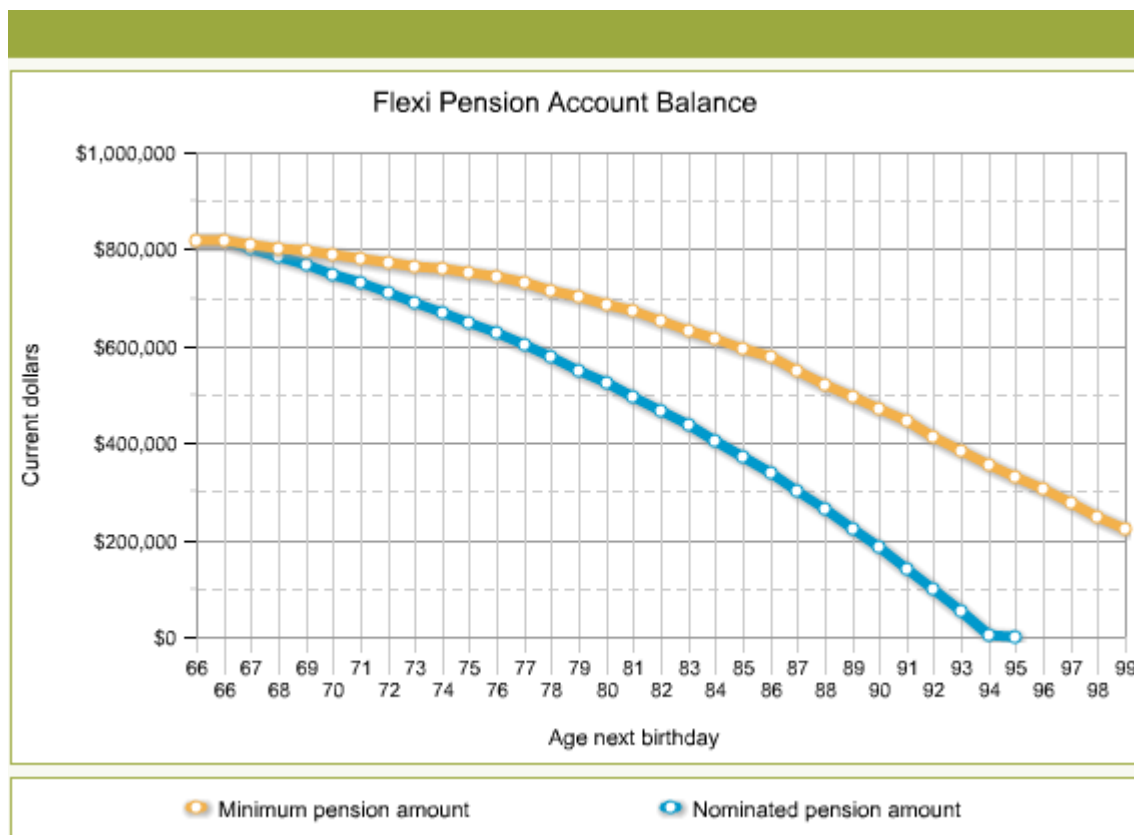
How much do I need to save to achieve it?

	<b>Modest Lifestyle Single</b>	<b>Modest Lifestyle Couple</b>	<b>Comfortable Lifestyle Single</b>	<b>Comfortable Lifestyle Couple</b>
Retirement income p.a.	\$18,742	\$26,339	\$36,319	\$48,648
Required lump sum at age 65 #	\$259,745	\$345,647	\$503,345	\$638,408

# Souce: Westpac Financial Services and based on average life expectancy and a return of 9%

# How much is enough?

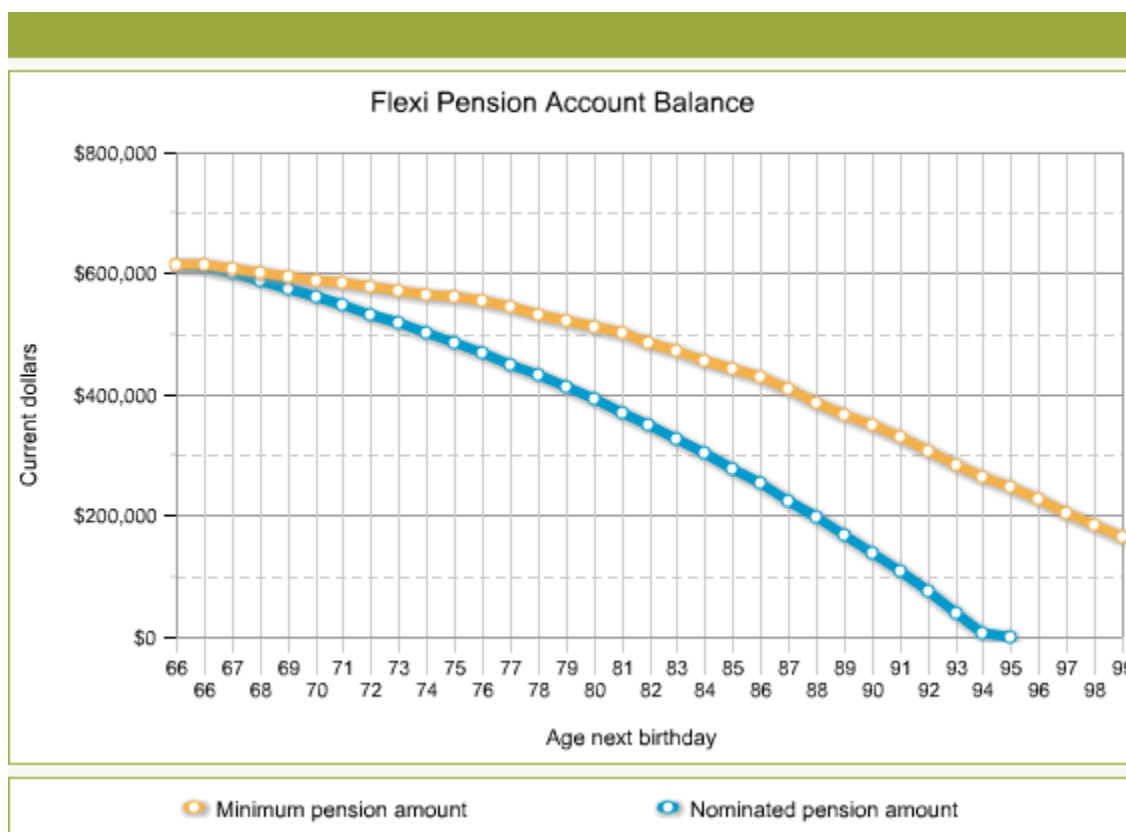
## Flexi Pension - couple



Initial Account Balance:	\$820,000
Date of Birth:	01/01/1943
Start Date for Pension:	01/04/2008
Investment Strategy:	Conservative Balanced
Minimum Initial Annual Pension:	\$41,000
Requested Initial Annual Pension:	\$48,648

# How much is enough?

## Flexi Pension - single



Initial Account Balance:	\$615,000
Date of Birth:	01/01/1943
Start Date for Pension:	01/04/2008
Investment Strategy:	Conservative Balanced
Minimum Initial Annual Pension:	\$30,750
Required Initial Annual Pension:	\$36,319

## Do you have a savings gap?

- › Prepare a budget
- › Assess your current superannuation position
  - Are my current super arrangements sufficient to achieve the level of income I think I need in retirement?
  - Build my super to achieve my desired lifestyle in retirement

# Do you have a savings gap?

What can I do?

- › Think about utilising your superannuation

## Building your super capacity

- › Government maximising incentives to save for retirement
  - Current ratio of people over age 65 to people working age is 1 to 5.6, projected to be 1 to 2.5 by 2050
  - Cost of aged and veteran pensions currently 3.6% of GDP, projected to increase to 6.5% of GDP under current pension system by 2050
  - July 2007 changes to superannuation have made superannuation even more beneficial

## Building your super capacity

- › A very tax effective investment vehicle
  - Ability to contribute before-tax income to superannuation
  - Earnings within superannuation taxed at a maximum rate of 15% in accumulation phase and are entirely tax-free in pension phase
  - No tax on superannuation benefits from age 60

# Building your super capacity

- › Lump sums
  - Via BPay
  - Cheque to UniSuper
  
- › Payroll deductions
  - Before-tax contributions (salary sacrifice)
  - After-tax contributions

## Building your super capacity

- › Example of achieving additional \$50,000 at retirement.

Assumptions:

- Contribution made fortnightly
- Real rate of return of 4% p.a.

Years from retirement	Net contribution per fortnight
5	\$371
15	\$111
25	\$59
35	\$36
45	\$23

## Building your super capacity

- › Salary sacrifice contributions are very tax-effective:
  - Before-tax salary contributed directly to superannuation
  - Contributions tax of 15% on entry to superannuation
  - Funds compound in a tax-effective environment

## Building your super capacity

- › Contribution limit applies:
  - Salary sacrifice and employer contributions count
  - If under 50, annual limit of \$50,000 applies
  - If 50 or more, transitional annual limit of \$100,000 applies until 30 June 2012

## Building your super capacity

Example: Individual on marginal tax rate of 41.5% salary sacrificing \$20,000 p.a.

	Taken as Salary	Salary Sacrificed
Salary sacrifice amount	\$20,000	\$20,000
Tax rate	41.5%	15.0%
Tax payable	\$8,300	\$3,000
Net funds for investment	\$11,700	\$17,000
<b>Net benefit</b>	<b>\$5,300 or 45%</b>	

- › Immediately 45% better off, before funds are invested
- › Funds to compound in tax-effective environment
- › Immediate net benefit of 24% for individuals on 31.5% tax rate

## Building your super capacity

- › Contribution limit applies:
  - Annual limit of \$150,000
  - If under 65, can use 3 year averaging provision (up to \$450,000 in one year)
  - If 65 or more, limited to \$150,000 per annum\*

\*must also satisfy work test

# Building your super capacity

- › What is it?
  - Payment made by Commonwealth Government to a superannuation account
  - Will pay \$1.50 for every \$1.00 of personal ‘after-tax’ contributions made in the previous financial year
  - Maximum super co-contribution is \$1,500 per year

# Building your super capacity

- › Any member who has:
  - Assessable income and reportable fringe benefits up to \$28,980 p.a. – maximum super co-contribution
  - Assessable income and reportable fringe benefits between \$28,980 and \$58,980 p.a. – part super co-contribution
  - Made after-tax contributions; ie: regular contributions or a lump sum contribution

## Building your super capacity

- › Access your superannuation as an income stream while you continue to work aged 55 or more
  - Can commence a non-commutable income stream
  - No lump sum access, must be in the form of an income stream
  - Maximum pension limit 10% of account balance at start of financial year
  - No restrictions if aged 65 or more
- › No work test
  - No requirement to semi-retire (reduce work hours)
- › Salary sacrifice excess income into superannuation

# Building your super capacity

## General Rules

- › Minimum super balance of \$200,000 in order to generate sufficient pension (maximum 10% of balance)
- › Is best utilised over an extended period of time
- › Little achieved if taxable income already at or below \$30,000
- › If aged 55–59, should generally have taxable income of at least \$100,000, ie. well into 40% tax bracket or higher
- › If aged 60 or more should generally have taxable income of at least \$50,000, ie. well into 30% tax bracket or higher

# Building your super capacity

## Defined Benefit Members

- › Will lose access to future formula-based benefits if transition to retirement is undertaken using defined benefit pension or lump sum
- › Pre 1 July 1998 Defined Benefit members will lose formula-based Indexed Pension unless used as the transition to retirement income stream
- › Defined Benefit members may use their accumulation account balance only in order to preserve future defined benefit entitlements

## Your call to action – what to do next

- › Set your goals
- › Do a budget
- › Assess your planning against your goals
- › Is action required?
- › Utilise your superannuation
- › Regularly monitor your goals and planning