



INFORMER

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Understanding your Retirement Options

If you're thinking about retiring, it's a good idea to know what your options are beforehand. That way you'll be fully prepared when you're ready to stop working altogether. After all, everyone wants to enjoy a comfortable retirement, without worrying about financial security. This Informer highlights some of the important issues you should consider before retiring and your options with accessing your super.

The issue of retirement adequacy

Research shows that most Australians won't have saved enough super by the time they retire¹. Consequently, this will impact how comfortable a retirement they will enjoy – or not, as the case may be.

As a guide, your final retirement account balance should be about six times your final salary. In reality, the average final payout is only \$112,600 for women and \$136,000 for men². Neither amount is a lot of money to live on for the rest of your life.

And, if you thought you could rely on the Government's Age Pension, think again. Forecasts suggest that the pension won't be enough for an average couple to enjoy even a modest lifestyle in retirement. More on this later.

The issue of longevity risk

Compounding the issue of retirement adequacy is longevity risk. This refers to the fact that an increasing number of retirees are outliving their savings. To give you some idea of what we mean, the average 65 year old will live another 18 years (males) and 21 years (females) in retirement³.

Given the average payout figures above, this suggests that a great number of retirees will struggle financially, if their super is their only means of support.

So, how much super will you need?

The answer to this question depends on whether you're seeking a "modest" or "comfortable" lifestyle in retirement.

Every quarter, the Association of Superannuation Funds of Australia (ASFA) benchmarks the annual budget needed for singles and couples to fund a modest and a comfortable retirement lifestyle⁴.

If we use their figures for a comfortable retirement and assume longevity of 20 years, the amount of super you'll roughly need is:

Years	Single \$40,121 pa	Couple \$54,954 pa
20	\$560,000	\$780,000

Source: ASFA Retirement Standard. Assumptions: Prudent portfolio 6.0% pa returns after fees and taxes, 3.0% pa inflation, invested in an indexed account based pension.

What's a modest lifestyle?

Saving enough for a modest lifestyle will provide you a retirement that's better than the Age Pension. However, you will only be able to afford basic items and activities.

	single	couple
Total per week	\$417.05	\$604.47
Total per year	\$21,746	\$31,519

What's a comfortable lifestyle?

If you've saved enough for a comfortable lifestyle, you will enjoy a good standard of living. You will be able to afford such things as household goods, private health insurance, a reasonable car, good clothes and domestic and occasional overseas holidays.

	single	couple
Total per week	\$769.44	\$1,053.91
Total per year	\$40,121	\$54,954

As you can see from the above tables, the total annual amounts for a modest lifestyle are low, with little leeway to spend on personal pleasure items.

However, to move from a modest to a comfortable lifestyle would mean finding an **additional 84% pa for singles and 74% pa for couples**.

These figures are quite confronting when related back to the average final payouts quoted on the previous page.

Fortunately, there are some simple ways to get your super heading in the right direction prior to retirement.

Before we look at these, let's look at your options for accessing your super, as these will influence your saving strategies.

If you are over 60 there is more to smile about – your tax savings are greater!

When can you access your super?

To ensure that everyone uses their super for retirement purposes only, the Federal Government restricts when you can access your money. This is called “preservation”.

Preserved money can only be accessed if you satisfy one of the following conditions of release. You:

- reach age 65;
- retire permanently after reaching preservation age;
- leave employment on or after age 60;
- use a Transition to Retirement strategy upon reaching preservation age;
- die or become totally & permanently disabled;
- become terminally ill;
- meet the requirements for severe financial hardship or APRA’s compassionate grounds requirement;
- leave employment and any preserved money is less than \$200;
- leave employment and your super has a restricted non-preserved component; or
- are a temporary resident holding an eligible class of visa and have permanently left Australia.

If you’re a temporary resident still living in Australia, the conditions of release differ to Australian citizens. In particular, retirement and reaching preservation age are not applicable.

What age can you access your super?

You can access your super once you reach preservation age. Your preservation age depends on your date of birth as follows:

Date of Birth	Preservation Age
After 30 June 1964	60
1 July 1963 to 30 June 1964	59
1 July 1962 to 30 June 1963	58
1 July 1961 to 30 June 1962	57
1 July 1960 to 30 June 1961	56
Before 1 July 1960	55

Tax Facts to make you smile

If the thought of saving tax brings a smile to your face, keep reading. Super remains one of the most tax-effective ways to save for retirement – especially compared with non-super investments.

For a start, super contributions and all investment earnings are only taxed at 15%. In contrast, non-super investments are taxed at your marginal tax rate, which can be as high as 46.5% (including the Medicare Levy).

There’s even more to smile about if you’re aged 60 or over as, in most cases, you won’t pay any tax when you withdraw your super. Take a look at what we mean:

Age	Tax Payable on withdrawal
60 and over	Nil
55 to 59	Tax free up to \$165,000* Balance at 16.5%
Under 55	21.5%^

* For the financial year 2011/12. Tax rates include the 1.5% Medicare Levy. ^ Terminally ill individuals receive their super tax-free.

What is Transition to Retirement?

If you’re 55 or over, you can take advantage of Transition to Retirement (TTR). TTR allows you to access your super without having to retire or leave your job.

The benefit of this is that you can continue building up your super with contributions (both employer and personal), while receiving payments from your super.

In effect, you can maintain your quality of life, while your money continues to be invested in the lower taxed environment of super. However, there are other benefits of TTR:

- **potential tax savings** – you can reduce your annual income tax and boost your super balance at the same time by salary sacrificing into super;
- **nil tax on earnings** – all investment earnings grow tax-free when invested in an account based pension product;
- **tax-free payments** – all your regular income payments are tax-free once you turn 60.

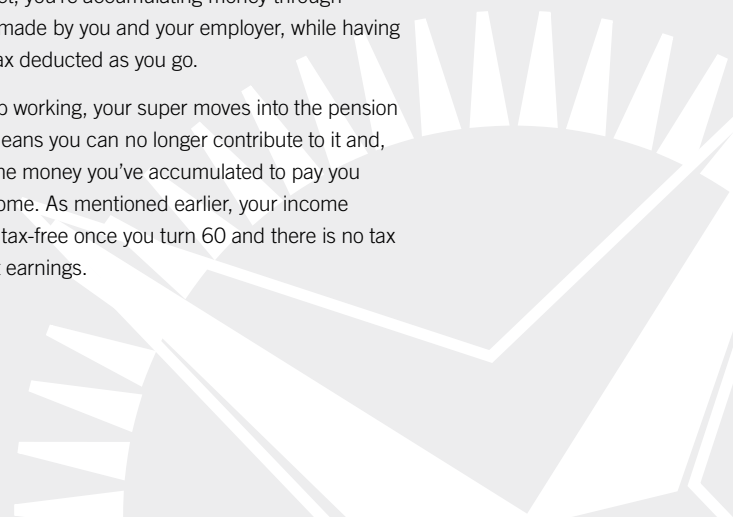
Understanding the super life cycle

Super has two distinct phases – accumulation and pension.

While you’re working, your super is in the **accumulation phase**. In effect, you’re accumulating money through contributions made by you and your employer, while having any relevant tax deducted as you go.

When you stop working, your super moves into the pension phase. This means you can no longer contribute to it and, instead, use the money you’ve accumulated to pay you an annual income. As mentioned earlier, your income payments are tax-free once you turn 60 and there is no tax on investment earnings.

TTR allows you to maintain your quality of life, while your money continues to be invested in the lower taxed environment of super.



Savings strategies to boost your super

So, let's return to the issues of retirement adequacy and longevity risk. What can you do to ensure you're on the right track to a comfortable retirement? It's actually quite simple:

1. Before you retire, calculate how much money you'll need. You can do this by visiting **www.moneysmart.gov.au** and using the projection calculator.
2. Maximise the growth potential on your money before and after retirement.

If you need to start saving extra to reach your retirement goals, try these strategies:

- **Top up your super** - with concessional (salary sacrifice) and/or non-concessional (after-tax) contributions.
- **Merge your super** - and benefit from higher interest on a bigger balance. You may also save on fees, but be sure to check for loss of insurance and exit fees before you leave your other fund.
- **Split your contributions** - there could be tax advantages for you and your partner by splitting your contributions.
- **Start a Transition to Retirement strategy** - have a chat with an AXIS adviser to see how this strategy can work for you.

How can AXIS Financial Group help?

AXIS has over 17 years' experience in providing quality advice about super and pensions. If you'd like to know more about savings strategies or your retirement options, please contact us.

We'd be happy to meet with you at your workplace or you can visit our Perth office. Alternatively, feel free to contact us on Freecall 1800 111 299 or at super@axisfg.com.au

¹ *Are Retirement Savings on Track?*, ASFA Research and Resource Centre, June 2007.

² *Survey of Income and Housing 2009 - 10*, Australian Bureau of Statistics, September 2011.

³ *Spending patterns of retirees as they age - the needs of older retirees*, ASFA Research and Resource Centre, July 2011.

⁴ *ASFA Retirement Standard*, June 2011.



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