



HELP ME – HOW MUCH MONEY DO I NEED TO RETIRE?

Marie Harrison is 62 and she wishes to retire in a few years. She asks Adrian for advice to see if she has enough money to retire on and he shows her how to double her super balance.

What a great question. Just how much money is enough to retire on? Is it \$300,000? Is it \$1 million or perhaps even more?

A recent study (see table) shows that a single person, like Marie, would need at least \$19,000 per annum to have a modest lifestyle in retirement, rising to \$37,000 for a more comfortable lifestyle.

But what does that translate to her superannuation balance required at retirement?

Marie wants to retire at 65 which is the age pension age, and expects to live to 83 (which is the life expectancy for females). Currently Marie has \$202,000 in super as well as \$20,000 in a term deposit. However given that she would want to generate at least an 8% return on her funds, which is typical for a balanced portfolio, she would need to have at least \$450,000 in superannuation at age 65 to live a comfortable lifestyle in retirement.

	\$ required p.a. in retirement	Super required at age 65 **
Single		
- modest lifestyle	\$19,141	\$235,000
- comfortable lifestyle	\$37,002	\$450,000
Couple		
- modest lifestyle	\$26,851	\$330,000
- comfortable lifestyle	\$49,502	\$615,000

Source: Westpac ASFA Retirement Standard.

** Based on 8% pa net return & living to life expectancy

We can see that Marie is somewhat short of having a comfortable lifestyle in retirement and if she does nothing extra to her superannuation savings over the next few years, then she would need to rely on the age pension at some stage.

So what can she do?

There are six factors which are important in determining how much that you need in funds when you retire as follows:

- The current level of your retirement savings;
- the amount of money that you can put away or save each year into super;
- the rate of return that you willing to risk your money for investment;
- the age that you are wanting to retire at;
- the amount of money that you intend on spending per year in retirement;
and
- the age that you expect to live til.

Speaking to Marie she said that she could save \$3,000 after tax per month towards retirement as she didn't have too many costs at present. I recommended to her that based on this amount she would actually put in an extra \$4,379 pre tax into super each month via salary sacrifice. By doing this for the next three years, together with her 9% compulsory super she can have a super balance in excess of \$415,000 at age 65. If she took on greater risk and went with a growth portfolio strategy which generates 9% return then her balance would increase to \$424,000.

I also showed her that just by working one extra year to age 66, her balance would increase to \$484,000 if she wanted to guarantee a more comfortable lifestyle in retirement.

So despite being only three years away from retirement, we can see that just by doing a few simple strategies Marie can more than double her current super balance.

7 ways to boost your super balance

- **Take on greater risk** – to increase your return on super you generally have to take on a greater risk. Note that this may result in negative results from time to time.
- **Let the government help you** – if your income is under \$59,000 then you are eligible for government co-contribution into super which can be up to \$1,500 per annum. Free money.
- **Work a few more years** – working beyond 65 has a dual positive impact on super savings. Not only are you putting extra funds into your super but you are also delaying the time that you are taking it out as well.
- **Convert to allocated pension in retirement** - there is no tax on earnings (or withdrawals) when you convert your super fund into an allocated pension.

- **Salary sacrifice for tax savings** - if you earn more than \$30,000 there are tax savings to salary sacrificing into super. You save as much as 31.5% tax.
- **Self managed super funds (SMSFs)** – there are generally benefits with cost savings via SMSFs rather than general managed super funds once you start having a balance over \$100,000.
- **Borrowing within super** – since September last year, SMSFs can borrow via ‘instalment receipts’ to invest in shares and property. Seek advice on this because special rules do apply.