your retirement money

Your free 18-page guide

Find answers to the big questions every retiree asks

- How long might my retirement last?
- What income will I need?
- How can I boost my retirement income?
- How do I maximise my Age Pension?

PLUS Your retirement spending checklist

Household® Capital

How much money do I need to retire?

Over-60s have a lot to look forward to – today's pre-retirees and retirees are healthier and wealthier than any previous generation. But they're also likely to enjoy longer lives than their forebears, and that raises big questions.

Just a few decades ago, most people could expect to live for 10-15 years after the end of their working life but now, there's 25 or even 30 years of active retirement to plan for – and to fund.

For more than a century, the Age Pension has been in place to support older Australians and today, most retirees still benefit from at least a part-Age Pension. But the pension itself isn't enough to pay for a comfortable retirement. At about $24,000 a year for a single, full pensioner and $36,000 for a couple, it's a long way from the roughly $44,000 and $61,000 needed for a comfortable retirement.

Meanwhile, the number of Aussie retirees is expected to double to about seven million by the middle of the century, putting pressure on the government's coffers. This makes it likely the Age Pension will become less, rather than more, generous.

In the days before superannuation, people used savings to top-up the pension in retirement and since the introduction in 1992 of the Superannuation Guarantee, most employees have also been able to build a nest egg inside the super system.

But although superannuation can make a big difference to standards of living in retirement, the introduction of the Super Guarantee came too late in many people's working lives to have a major impact. Simply put, most of today's retirees don't have enough savings and super to fund a retirement of 25-30 years.

The big question about retirement income

If you're a typical Baby Boomer, you probably worked hard, raised a family, paid off a mortgage and before you knew it, you were staring at your retirement date. The chances are you've got some savings and some super, and you own your own home (about four in five older Aussies do).

In fact, with house prices surging in recent decades, the average retiree owns a home worth $700,000, which is well above average super balance at retirement of just over $200,000 for women and almost $300,000 for men.

Most Baby Boomers have a strong desire to stay in their family home for as long as possible, and might be asking themselves some hard questions. How can I afford to pay for my retirement? How long will my money last? And, will I have to sell the family home?

So, how much does retirement really cost? While there's no standard retirement, at least there's a retirement standard.

ASFA – the body representing Australia's superannuation industry – releases a report every quarter called The ASFA Retirement Standard. It's a useful guide to how much income you might need in retirement.

ASFA looks at all the costs Australians aged 65-plus are likely to face, then comes up with two numbers: the cost of funding both a modest lifestyle, and a comfortable lifestyle.

Super balance required	Modest Lifestyle	Comfortable Lifestyle
Single	$27,814 per annum	$43,601 per annum
Couple, combined	$40,054 per annum	$61,522 per annum

A modest lifestyle is considered better than surviving on the Age Pension – for example, 'modest' means being able to do home repairs but not improvements, only enjoying leisure activities such as going the movies every now and then and running a cheap car – but there's little room for life's luxuries.

A comfortable lifestyle steps things up a level; it means being able to afford a full range of leisure activities, running a decent car, eating out often, making regular home improvements and covering the cost of top-level private health insurance.

ASFA has also worked out how much you might need in super when you retire (assuming you're a homeowner and qualify for a part-Age Pension) to generate those levels of income.

Super balance required	Modest Lifestyle	Comfortable Lifestyle
Single	$70,000	$545,000
Couple, combined	$70,000	$640,000

Meanwhile, record house prices can be a double-edged sword. On one hand, equity in the family home built up over a lifetime can be put to work generating income in retirement. But record house prices also often mean record mortgages.

The big retirement costs

A growing number of people are retiring with an outstanding mortgage, forcing them to make repayments on a fixed retirement budget or dip into savings or super to repay the bank.

A long-awaited holiday or car upgrade can be expensive, as can getting the family home retirement-ready. This is also the stage in life where adult children may try to tap the Bank of Mum and Dad for help with a home deposit. Then there's planning for the later stages in life, such as the cost of care at home or residential aged care.

All this needs to be funded on top of the savings you'll need to generate your retirement income.

For nearly three decades, the Australian retirement income system has been built around three pillars: savings (including those built up in your home), the Age Pension and the Superannuation Guarantee. The three pillars were designed to work together to provide fair and sustainable retirement outcomes.

In the future, that may be the case, but at present, most Aussies retire without enough super and savings such as cash and investments to fund a comfortable retirement, even when a part-pension is taken into account. Add in costs like giving the kids a hand-up or home upgrades, and only the wealthy are in a position to fund a comfortable retirement that could last as long as 30 years.

The savings locked up in your home

The other part of the third pillar, however, often gets forgotten, and that's the savings built up in the family home. In the same way that superannuation was designed to supplement the Age Pension, the equity in your home can be used to build the foundation of a higher, longer-lasting retirement income.

Increasingly, the government is supporting initiatives to help retirees access the savings locked up in their property. Measures such as a revised Pension Loans Scheme (PLS), the downsizing-to-super rule, and support for flexible financial innovations that help people tap into their home equity are creating new opportunities for retirees to enjoy a better retirement.

In fact, a combination of savings, super and home equity can be structured to fund the retirement lifestyle you've been looking forward to, while still optimising your Age Pension entitlement, as we'll explain as you read on.

How to calculate your retirement income needs

You don't need to be a whizz with a spreadsheet to work out what you'll spend in retirement and whether you'll have enough income to support that spending.

We've all got a different picture of what retirement looks like. The ASFA Retirement Standard that we talked about in previous pages will give you an idea of how much income you might need when you retire, but it's only a guide and best used as a starting point.

With ASFA's numbers under your belt, you can start working out your own retirement budget. That doesn't mean you need to track every dollar you spend on a spreadsheet; just collect your bank statements for, say, the past three months and put them under the microscope.

You'll soon work out where your money goes, and when you retire, many of those expenses – such as property rates, home and contents and health insurance, running a car and stocking the pantry – won't change much.

Once you've ascertained your big, fixed expenses, you can add in the extra expenditure you think you might incur in retirement (you might be looking forward to travelling regularly) and take out the costs you won't have anymore (such as the cost of commuting to work).

Something else you can look forward to when you retire is tax – paying a lot less of it, that is! The combination of seniors' tax offsets and concessionally-taxed products such as account-based pensions means you may never be subject to income tax again. After you've talked to an accountant or financial adviser to ensure you've got the right understanding of your retirement tax liabilities, make sure you factor that into your budget.

Your home and your superannuation

Believe it or not, Australians are some of the wealthiest people in the world and most of that wealth is tied up in real estate. Although there have been flat periods and the occasional dip, house prices in most capital cities have been rising for decades. Over-60s who bought their home in the 1970s and '80s faced double-digit interest rates on their mortgages but by now are likely to have built themselves a big nest egg.

There's something that's provided even better returns over the last ten years, and that's superannuation. Growth funds – the type of super fund in which most Australians have their super invested – have returned, on average, close to 9 per cent per annum for the past decade. Account-based pension funds, which are used by retirees to create an income stream and don't incur a tax liability, have returned even more.

But most experts suggest those supercharged returns aren't likely to continue. Instead, people looking to the future should be more cautious.

The online retirement planner offered by the Australian Securities and Investments Commission (ASIC) uses a projected earnings rate of 5 per cent for a growth fund – before fees and taxes. That might not sound like a great return but it's still well ahead of the current, low rate of inflation.

Calculating your retirement budget and income

The days of working out whether you're retirement-ready using a pen and paper (or calculator or slide rule) are long gone. Instead, there is a range of online tools which can do the modelling for you.

ASFA's Super Guru calculator is easy to use and will give you a quick snapshot in just a couple of minutes.

For example, let's take Dave, a 62-year-old who earns $65,000 a year and has a super balance of $170,000. Jenny, his partner, is the same age, earns $38,000 and has $55,000 in super. They both plan to retire when they reach Age Pension age, which for them is 67.

According to the Super Guru calculator, Dave and Jenny will be able to combine income from their super with their pension entitlements to create an annual retirement income of

$53,909 – just short of the $61,000 or so they'd need for a comfortable lifestyle.

Want to dig a little deeper? ASIC's Moneysmart retirement planner gives you a picture of how much super you'll have when you retire, and how much Age Pension you might receive. You can also see how different levels of contributions, fees and earnings rates will influence the outcome in the years between now and retirement – allowing you to tweak your super now to get to the retirement income you want.

If you've already worked out your retirement budget and thus the income you'll need each year, Industry Super Funds' Retirement Needs Calculator works out the lump sum you'll need to fund your lifestyle, based on when you plan to retire and how long you want to maintain your chosen lifestyle.

What if your retirement income falls short?

It's important to remember, though, that most calculators simply crunch a few numbers, then tell you the lump sum you'll need to generate a certain level of retirement income. They don't take into account the funds you'll need for home improvements, helping the kids, repaying debt or meeting unexpected bills.

You'll need to work out how much those extras are likely to cost, as well as think longer-term about issues such how you plan to fund the costs of aged care or in-home support much further down the track.

First, remember that retirement planners and calculators are meant to be used as a guide. They don't provide a detailed retirement roadmap. Second, they generally only consider your super balance and don't take into account your other assets, such as savings, shares or equity in your family home.

There are several ways to generate retirement income outside superannuation that an online retirement income calculator won't show you, so there's no need to throw in the towel if a calculator says your income will be lower than you hoped – as we'll explain as you read on.

Check out page 17

for Your retirement spending checklist

How you can create a retirement income

Once you know how much income you'll likely need in retirement, it's a matter of deciding how you'll create it – and knowing what to do if you're falling short.

When you clock off for the last time, you leave behind the security of a regular pay cheque. Fortunately, there are many ways to create a regular income using savings you've built over your time in the workforce.

If you've been an employee, the chances are that you've built up a reasonable sum inside your superannuation fund, thanks to the Super Guarantee system.

It used to be that reaching Age Pension age also meant having to take your money out of your super fund and invest it elsewhere. This is where the term 'lump sum' originates, but there are now ways to keep your super working for you in a tax-free environment, most commonly by transferring your funds to an account-based pension.

Account-based pensions

Sometimes called allocated pensions, account-based pensions are simply a type of super fund that pays a regular income. Earnings on the fund's investments are free of tax (provided you've reached age 60) and your regular income payments are tax-free as well.

Most funds will let you choose whether you prefer to be paid fortnightly, monthly or annually, and you're free to make larger withdrawals any time, which are also tax free.

The downside is that you have to draw down a certain percentage of your super fund balance each year, based on your age, as you can see in the table in the next column. Plus, the level of earnings you receive to continue building your super balance depend on the fund's underlying investments, which can vary.

Age	Minimum % withdrawal
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 and over	14%

You can expect that over time the balance of your account-based pension will decrease, and if you live long enough, it will eventually fall to zero.

Annuities

Purchasing an annuity is another way to create a regular income from your super or other savings. An annuity is a guaranteed payment from a life insurance company for either an agreed term, such as 15 or 20 years, or for as long as you live, in return for the deposit of a lump sum with the company.

Like account-based pensions, the income from an annuity can be paid at a frequency that suits you, and there's usually the option to have your income increase by a certain amount each year, such as, for example, to match inflation.

By offering a guaranteed payment, annuities offer a high level of income security for the term of your product. On the downside, because annuities are very conservative investments, and with interest rates at a record low, they offer a low return.

And, in most cases, once you've bought an annuity, you're locked in for the full term or face a penalty for withdrawing your money.

Investments outside superannuation

While it's hard to overlook the tax benefits of superannuation as a savings platform and income-stream provider, there are also limits on how much you can pay into super. If you've reached those limits (or you've reached age 75, when you're generally unable to make further contributions) you need to look at non-super investments.

Bank accounts and term deposits

If you're looking for rock-solid security of income, your local bank or credit union is likely to be your best bet because deposits up to $250,000 are protected by the Australian government. That security comes at a cost, though, because most bank accounts and term deposits in 2019 are offering returns below 2 per cent, which means they generate a low level of income for your money.

While it's sensible to keep some of your funds in safe haven such a bank account, with interest rates currently so low, it's worth considering investing the remainder of your money in other asset classes.

Shares

When you use your money buy shares, you become the part-owner of a company and can buy and sell your shares on an exchange, including the Australian Securities Exchange. Shares provide two main types of return: an increase in the share price itself and regular payments from the company to its shareholders in form of dividends.

Retirees have long been attracted to shares that pay franked dividends, because in addition to regular dividend payments, these shares have the benefit of franking credits. Franking credits are effectively a rebate of tax already paid by the company and for shareholders who don't have tax liabilities, these rebates can provide a source of income. When franking credits are taken into account, shares can pay a return higher than most other investment types.

The downside is that shares usually only pay dividends twice a year and can stop paying dividends altogether, depending on the performance of the company itself. There's also the risk of volatility (which means a company's share price can rise and fall quickly, often without notice, eroding gains you may have made on the purchase of the shares) and in extreme cases, there's the possibility of losing your entire investment if the company, and thus its share price, collapses.

Unlocking home equity

With property prices remaining high in most parts of Australia, unlocking some of the money tied up in the family home can be valuable in terms of improving your retirement income.

Downsizing to release cash

Selling up and buying somewhere smaller and/or less expensive can give your bank balance a boost. There's also an incentive to downsize through a government initiative that lets you transfer some of the sale proceeds to your superannuation fund without hitting the usual contribution limits.

But most older Australians don't want to move – an overwhelming majority say they want to stay put when they retire. There's also the cost of moving to consider, given that selling fees can soak up thousands of dollars, and in most states and territories, stamp duty alone can add about 5 per cent to the cost of buying a new home.

If you don't want to downsize but do need to cash in some of your home equity, there are other options.

Reverse mortgages

In most cases, reverse mortgages involve a lender providing a lump sum in return for a mortgage secured against a residential property. Interest is added to the debt and compounds over the life of the loan. The mortgage is usually repaid when the property is sold, either by the owner or their heirs.

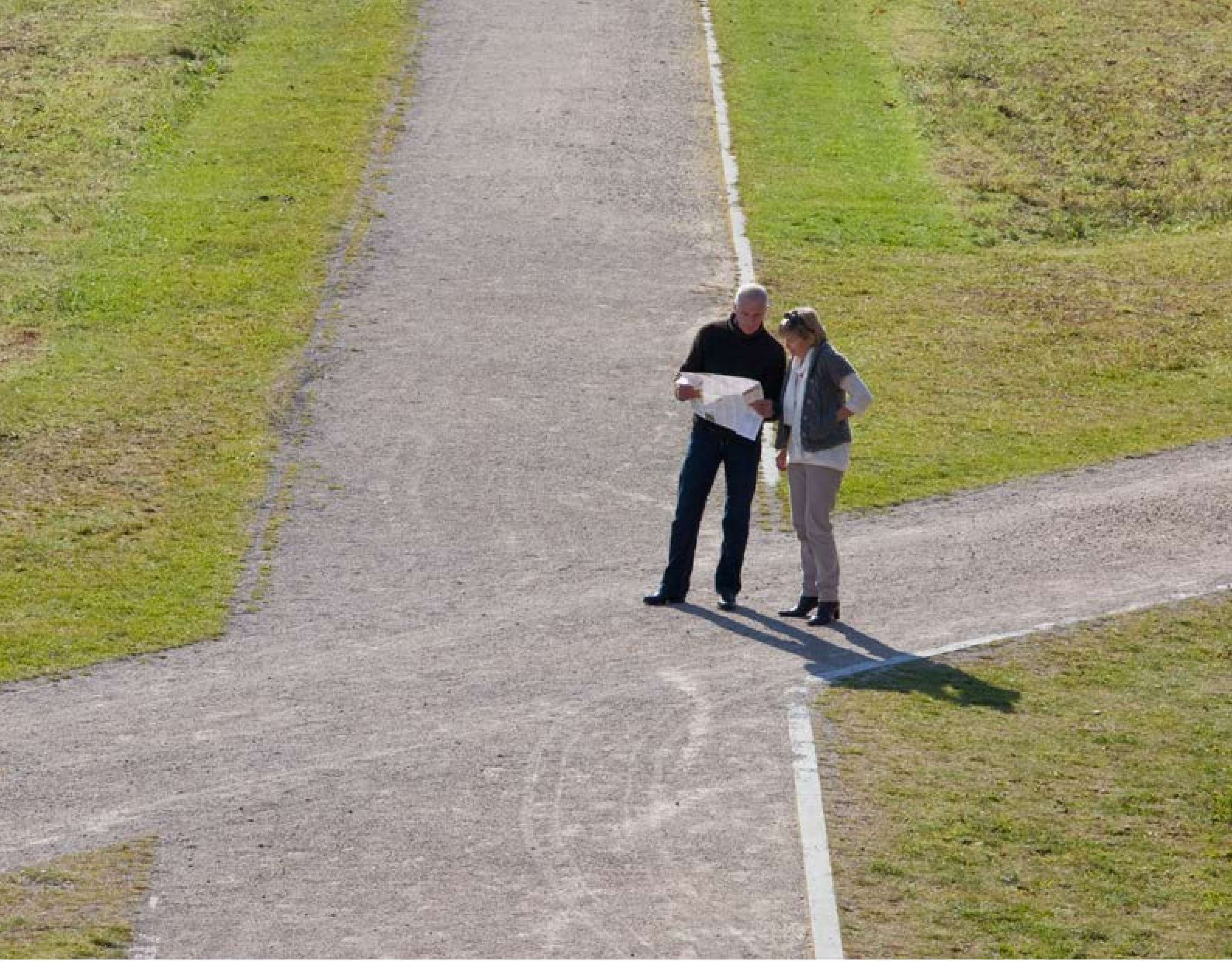
Reverse mortgages have been promoted in the past as means of providing a lump sum to older Australians so they can meet expenditure needs or repay debts, but usually didn't involve consideration of the need to create a long-running retirement income. All of the major Australian banks have now withdrawn from the reverse mortgage market.

Household Loan

A Household Loan is a new product in the Australian market that gives homeowners the opportunity to draw on some of the savings in their home to meet their retirement income needs.

A Household Loan is a loan that you can use make contributions to super or build an investment portfolio outside super – both of which can create an additional retirement income stream. A Household Loan can also be used for expenses such as home renovations, providing financial support to family members or meeting the cost of aged care.

While structured as a reverse mortgage, the Household Loan has been designed specifically for retirees with equity in their home but a need for more retirement income. While interest accrues on the loan, the rates are significantly lower than traditional reverse mortgage products.



Your retirement income choice and the Age Pension

Many retirees use a combination of retirement income streams to boost their Age Pension income, and each option has its own pros and cons.

Applying for Age Pension payments can seem like a complex process, especially if you plan to create a retirement income stream from another source to supplement those payments. So, we've set out the steps in simple terms.

When you lodge a claim with Centrelink, both your income and assets are assessed.

The Age Pension assets test

Nearly everything you own – cars, household contents, super savings, money in the bank – is taken into account, with only one big exception: your home, regardless of how much it's worth. The value of those assets is added up (we're talking market value, not replacement cost) and compared to the limits in the table below.

If you're	
Single	$263,250
A couple, combined	$394,500

Homeowners with assets below those limits won't be impacted by the assets test, but once your assets exceed those limits, your pension payment starts to reduce.

The Age Pension income test

The income test is a little more complicated. As with the assets test, there are limits, which we've set out below, to how much income you can receive before pension payments are impacted.

If you're	Income per fortnight	Income per annum
Single	up to $174	up to $4,524
A couple, combined	up to $308	up to $8,008

When income exceeds those limits, the pension starts reducing by 50 cents for each dollar of income above the limit. Centrelink will assess income from all sources, including wages, rent from investment properties, investment returns and income streams from account-based pensions.

But unlike taxable income, which is assessable income less any allowable deductions, Centrelink assesses income from different sources in a number of ways

Financial assets and deeming

Centrelink groups several investment types together and calls them financial assets. Financial assets include bank accounts, term deposits, shares, loans and account-based pensions.

Instead of assessing the actual income received from these investments, Centrelink uses a set of rules called deeming to work out your Age Pension payment. This means your financial assets will be assumed, or 'deemed' to earn a certain rate, even if you are receiving a higher or lower real return from those investments

Here's how it works:

If you're single, the first $51,800 of your financial assets are 'deemed' to be earning 1 per cent income. Anything over $51,800 is 'deemed' to be earning 3 per cent.

If you're a member of a couple, the first $86,200 of your combined financial assets are 'deemed' to be earning 1 per cent. Over $86,200 a deeming rate of 3 per cent applies.

Retirement income options and the Age Pension

Bank accounts and term deposits

Bank accounts and term deposits are classed as a financial assets, so the balance will be subject to the deeming rules. Even though the official deeming rates have recently been lowered, it might still be difficult to find a term deposit paying the higher deeming rate of 3 per cent – thus, Centrelink assumes you are receiving a higher return on your savings than you most likely are.

Account-based pensions

Account-based pensions are also subject to the deeming rules. As we explained earlier, depending on your age, you need to draw a minimum percentage of your account balance as income each year, and that percentage rises with your age.

If you're aged between 65 and 74, you need to draw a minimum of 5 per cent of your balance each year, which is higher than the top deeming rate. This makes account-based pensions a useful tool for generating retirement income, while maximising Age Pension entitlement – because you're drawing down more income than Centrelink assumes you are.

Annuities

Annuities are income streams paid by a life insurance company, that are guaranteed for life or for a fixed term. Centrelink uses a range of assessments on annuities, based on when the annuity was purchased, when it commences and how long the income is paid for, so speaking to Centrelink or a financial adviser is advisable to ensure you understand how purchasing an annuity may impact your pension entitlement.

Household Loan

Because home equity release is simply drawing down on the savings you've effectively accumulated in your home, the money you draw down isn't classed as income by Centrelink.

If you draw on your home equity to purchase investments or commence an account-based pension, however, the assessment that applies to those products will be used. It's also important to know that if you place the money you draw down in a bank account for more than 90 days, Centrelink will assess this sum under its assets test.

Deciding which option is best for you

Because everybody's retirement story is different, there is no 'best' option, and it may be that a combination of retirement income strategies will work most effectively for your personal circumstances.

You might find that income from investments or an account-based pension, bolstered with funds drawn from the savings in your home, can give you the income you need for a comfortable retirement, while ensuring you're still eligible for the Age Pension. It's wise to speak to a financial adviser or your superannuation fund about investments from income or super and the impact on the pension. You can also talk to Household Capital about how a household loan can work with the pension to create a better retirement income.

Asset and income test limits correct as at September 15, 2019.

Deeming rate thresholds are indexed in line with the CPI in July each year. The stated deeming rates of 1 per cent and 3 per cent are not yet implemented but will be backdated to July 1, 2019.

Jim's story

The peace of mind of knowing health costs are covered

"I knew I had a few operations coming up – nothing serious but I knew they were going to put me out of pocket a bit because I've already had a couple and although I'm a member of a health fund and I have the highest level of cover, you end up with extra costs.

"I do have savings that I use to pay for my general expenses but the extra costs would've taken a fair amount of the cash I'm sitting on. Everyone has a quality of life they want to maintain and taking the money out of savings would have mucked around with the quality of life I'd worked out I was going to have, so I didn't really want to touch that money.

"I own my ground-floor apartment, which is worth more than $500,000, and I've known a few people who've taken out reverse mortgages for about the same amount as I needed – $50,000 – to do home renovation, so I knew this type of loan existed. And I knew that home equity release is really well regulated.

"So, I checked all of the home equity release and reverse mortgage companies out and Household Capital came across as very good, plus their interest rate was lower … and their funds were coming from ME Bank, which I knew a bit about. With some of the other lenders, it wasn't clear where the funds were coming from.

"Household Capital were very, very good in sending documents and their retirement specialists were very competent and easy to deal with.

"To get a Household Loan, you have to see a solicitor, who makes sure you understand the legal ramifications of the contract you're signing, and you have to see a financial adviser, to make sure you understand the financial ramifications. I have some legal experience so I found it very straightforward but I don't think other older people – I'm in my mid-70s – would find it very complex – after all, most people considering this probably have had a mortgage at some time in their lives.

"You do have to understand compound interest, though, insofar as you don't make repayments, instead the interest compounds daily and is added to the loan secured on your property. But Household Capital will provide you with tables that show what you'll owe after five years, 10 years and so on, and your accountant will go over the same thing.

"Your lawyer will probably ask if you've spoken to your beneficiary and the executor of your will, because the Household Loan against your home has to be paid when you vacate the property or on your death, before your assets are distributed to your estate. So, you should speak to your beneficiaries and let them know what you're doing.

"I could've borrowed more but that would've diminished my estate for my daughter and I didn't really want to do that. When I told my daughter that part of her inheritance was going to be used like this, she just laughed and said 'Do whatever you think is right for you', and that was it – she wasn't worried about it at all.

The name and identifying details of this Household Capital customer have been changed to protect his privacy.

"It's good to have the peace of mind of knowing that the expenses from my surgeries is covered and won't impact on the lifestyle I set up for myself."

Jim

Your retirement spending checklist

Monthly expenses

- ○ Housing (mortgage repayments or rent) ______
- ○ Property rates ______
- ○ Home insurance ______
- ○ Contents insurance ______
- ○ Home maintenance ______
- ○ Utilities (electricity, gas, water) ______
- ○ Internet connection ______
- ○ Mobile phone ______
- ○ Premium TV (Foxtel, Netflix) ______
- ○ Vehicle insurance ______
- ○ Vehicle maintenance ______
- ○ Fuel ______
- ○ Public transport ______
- ○ Groceries ______
- ○ Pet care ______
- ○ Pet insurance ______
- ○ Entertainment (dining out, hobbies, activities) ______
- ○ Health insurance ______
- ○ Health services/medications ______
- ○ Clothing ______
- ○ Personal care (products and services) ______
- ○ Gifts ______
- ○ Charitable contributions ______
- ○ Travel (holidays) ______
- ○ Personal debt repayments (credit cards, loans) ______

TOTAL: ______

Large expenses

- ○ Home renovation ______
- ○ Contents upgrades (white goods, electronics) ______
- ○ Vehicle upgrade ______
- ○ Caravan ______
- ○ Boat ______
- ○ Out-of-pocket medical ______
- ○ Pre-paid funeral ______
- ○ Loans/financial gifts to children ______
- ○ Professional financial advice ______

TOTAL: ______

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