How to lift your income

RETIREMENT PLANNING - SPECIAL REPORT

SITTING PRETTY: Bill and Jacqui Seppelt at their Dulwich home (see Page 30) and, below, Adelaide Stock Exchange in 1962.

Main picture: DYLAN COKER

When it comes to a retirement investment strategy, cash deposits are dismal. Personal Finance Writer Anthony Keane suggests other options

INCOME paid to many retirees has gone from bad to worse in recent years as the world remains stuck in a lowinterest environment.

Those who shifted their life savings into the safety of cash during the Global Financial Crisis have watched their bank deposit interest rates shrink from 7-8 per cent in 2008 to less than 2.5 per cent today.

With their savings barely keeping up with inflation, and falling behind in key areas such as council rates, health insurance and electricity, some are again wading into the share market in search of higher dividends.

Financial experts say share dividends should form part of a retiree's assets but there are many other options to spread your income and risk.

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DIVERSIFY

Baillieu Holst financial adviser Travis Adams says the first step is to clearly understand your income requirements and personal-risk appetite.

"The low-interest rate environment has created an even greater need for retirees to generate income from a broader range of sources," he says. "The good news is that there are plenty of opportunities out there to create a diversified portfolio that includes domestic shares, international shares, listed and direct property, infrastructure and fixed interest."

Income sources could be both within and outside superannuation, Mr Adams says. Super is a great vehicle for retirees to hold wealth, because once it's in the pension-paying phase, there is no tax payable on either income or capital gains. And income gets an extra boost thanks to 30c-in-the-dollar tax credits that come from fullyfranked dividends.

Financial strategist Theo Marinis says diversifying your assets is the first rule of investment. "Straight after the GFC, when they were getting 7 per cent, people thought cash was the place to be — now they're getting 2.5 per cent," he says. "You need cash as part of your portfolio, but not the whole lot."

Mr Marinis says share dividends had been delivering income of 6-7 per cent a year — including the tax benefits of franking credits — for the past four or five years but that did not mean retirees should put everything in shares.

"Don't worry about what a particular asset class will do next week, next month or next year. Be exposed to all asset classes, according to your risk profile."

Advisers often recommend taking the sleep-at-night test.

If holding volatile investments such as shares means you can't sleep at night because you worry about losses then don't put yourself through the anxiety. But if you decide to stay solely in cash, expect your retirement assets to shrink over time.

MAXIMISE BENEFITS

Mr Marinis says retirees with full or part-pensions should make sure they receive the largest age pension possible, by keeping their assets up to date with Centrelink.

As a part-pensioner's assets shrink during retirement, they are usually entitled to larger pension payments.

Retirees should check that Centrelink is assessing their income and assets correctly, Mr Marinis says.

"They constantly update systems and sometimes double up, counting the same bank account twice," he says.

Every dollar counts. "Once you have retired, your income — regardless of how much you have got — is limited," Mr Marinis says.

WORK AFTER RETIRING

As Australians live longer and stay healthy well into their retirement years, more are supplementing their pension income with paid work.

Wealth on Track principal Steve Greatrex says most retirees today underestimate how long they are likely to live.

"A lot of people should consider working longer or working part-time and being part of the economy," he says.

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"I know it's not very popular. But being 60, 65 or 70 today is not the same as being that age 30 years ago.

"People are just fitter and more active. I don't think it's good for society for people not to be working and I don't think it's good for individuals not to be working. There are lots of things people can do to become part of the productive economy."

It doesn't have to be backbreaking labouring work.

Retirees could earn extra money by renting out a spare room on Airbnb, Mr Greatrex says.

ACCEPT VOLATILITY

High-growth, high-income assets such as shares have always delivered their owners a short-term roller-coaster ride. However, research over many decades has shown that they deliver far superior longterm income and growth returns.

Mr Greatrex says people who ignore these assets will have to accept "modest" returns in retirement.

"You have to have reasonable exposure to sharebased investments in your portfolio, and be prepared to take volatility to some extent, as long as you understand what you are doing," he says.

A recent survey of advisers and pension-age investors by Plato Investment Management found that generating income was the No.1 priority for 94 per cent of retirees.

Almost 80 per cent of them expected income greater than 5 per cent from their portfolios, the survey found.

That's a number that cash just can't do.

"In a lowreturn and low-rate market, retirees must look for specialist, high-yield strategies to supplement traditional sources of income like cash or fixed income," Plato managing director Don Hamson says.

"To achieve the level of income they expect, retirees need to use investment strategies that prioritise income, as well as tap into their status as tax-free investors, harnessing the benefits of franking credits to deliver strong returns."

CASE STUDY

Investing hasn't stopped in retirement for Bill and Jacqui Seppelt, of Dulwich, who earn income from a diverse range of sources including a superannuation allocated pension, share portfolio and cash deposits.

Mr Seppelt, 70, says he has built up a "reasonable share portfolio, mostly blue chips" over many years.

"Being blue chips, they all have good dividends to supplement the superannuation," he says.

Despite being retired, Mr Seppelt remains open to opportunities, and says he is looking to put some cash towards an investment property.

"It's no good in cash at the moment — it doesn't matter what your age is," he says.

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