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Who Says You Need $1M to Retire?

Australians should not panic about funding their retirement, says Adelaide-based financial strategist Theo Marinis.

“Of course, the more money you put away the better off you will be, but even if your retirement savings are minimal or non-existent, you can still live better than most retirees around the world.” Theo said.

“For a traditional Australian couple (one a stay at home partner and the other at 65 years of age on an average annual income of $65,000 and $200,000 in superannuation) the actual ‘take home’ from the combination of Age pension and super will be very similar to what they were earning when working full time.”

“From his or her wage the worker would have paid $11,851 annually in tax and Medicare Levy and $5,367 would have been paid each year by an employer on their behalf via compulsory Superannuation Guarantee Contribution (SGC). Separate to this discussion, there would have been other expenses to be considered (ie., transport to work, perhaps buying work appropriate clothing and paying union or social club expenses). In hard figures, however, annual take home pay would have been $47,782 or $919 per week ‘in-the-hand’.”

“Now a retired couple currently receives a federal government pension of $1,079* per fortnight or $28,054* per year. In addition, if they draw down from their superannuation savings at the rate of 8.0% or $16,000 pa, they can achieve an annual income of $44,054 or $847 per week* – effectively about $63 per week less than their pre retirement earnings. Such a scenario could be expected to run for approximately 18 years*, after which time other strategies may need to be considered, depending on the personal circumstances which prevail at that time.

“For people on higher incomes, for example a figure $80,000 pa, this scenario is likely to be slightly more favourable, given that they are likely to have higher SGC savings. For retirees who have been Centrelink dependent or who have little or no retirement savings however, the Age Pension (which is currently fixed at 25% of the average male ordinary time weekly earnings) is often actually a pay rise.”

“Interestingly, a lot of people don’t realise that it is often the families which are used to living on annual incomes of $100,000 or above (and who have not made very significant provision for their retirement) who are most likely to suffer in retirement.

“For example, a marketing manager with annual earnings of $150,000 (whose only superannuation savings are $12,385 pa via compulsory superannuation) but who is used to living on approximately $96,683 pa (after tax, Medicare and super take home pay) will find the relative gap between retirement savings and lifestyle expectations even more significant. Furthermore, there is likely to be little prospect of much Centrelink support.

These are the people who most urgently need to see a financial adviser to develop a strategy to help them achieve their retirement expectations which will probably require around $2 million in super savings.”

“There is something further that the federal government could do, however, which would significantly improve the quality of future retired life of all working Australians. This would be by an announcement in the May 2012 Budget that it had decided to double the age based contribution levels to allow working Australians who are in a position to make additional savings to their superannuation to do so, without incurring the harsh penalties which currently apply.“

"The current Concessional Contribution cap of $50,000 per annum for people over the age of 50 (stated to fall to $25,000 per annum post 30/06/2012) is ridiculously low and deprives Australians of a vital opportunity to boost their superannuation savings in their peak earning years."

"Regardless of individual circumstances, however, Australians should be heartened to know that we live in the most generous retirement country in the world, and that we care about each other and dignity in retirement. With a little forward planning and some self sacrifice, I believe that most people should be able retire with dignity, no matter what we earned during our working lives," Theo said.

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** This is a snapshot figure as at April 2011 and is used as an illustration only. On past experience figures will vary due to changes in Government policy and pension rates.*

This scenario assumes that a $200,000 investment will earn 7.4 per cent pa in interest (X-plan default rate) over 15 years that this investment will be drawn down at 8 per cent pa, there will be an ongoing MER of 1.9% and pensions will be indexed by 3 per cent each year. The life expectancy of an Australian male who is currently 65 is 79.4 according to the ABS website (http://www.aihw.gov.au/mortality/life_expectancy/trends.cfm).This scenario runs for 15 years beyond retirement. Alternative funding strategies, such as taking out a reverse mortgage, downsizing, or moving into care, will need to be employed to fund the remaining years.

If pension rates change, one partner dies or becomes a full time carer this scenario will change.

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