Retirees will need $1.2m to match age pension

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SELF-funded retirees would need $1.2 million in savings to get the same return as the old age pension after this week's rate cut slashed their earnings.

AMP Capital chief economist Shane Oliver said some self-funded retirees could now find themselves in the Centrelink office to make ends meet.

"The problem is we're seeing bank deposit rates fall from 6 or 7 per cent down to 2.5, depending on which bank you're with, in only a few years," Mr Oliver said.

"If their savings get so low, they might have no choice but to go on the pension to make ends meet, or they will have to take more risk with their investments, by investing in the share market, for example, to get a higher income flow."

CONCERNED: Michelle and Leigh Ratzmer with children Izabella and Stirling in Adelaide yesterday. Picture: BIANCA DE MARCHI

The Reserve Bank cut the official interest rate by 25 basis points on Tuesday to a record low of 1.5 per cent.

As a result, investors are getting just 2.43 per cent on term deposits, while super funds returned only 2.81 per cent to June 30.

The age pension for a couple is $34,252.40 a year. To make the same returns on an annuity investment, a 65-year old couple need $1,207,925.

Adelaide financial strategist Theo Marinis, of Marinis Financial Group, agreed with the $1.2 million estimate and said people could prepare by diversifying their investments.

"Nothing that is going well lasts forever, that is why the first rule of investment is diversify, the second rule of investment is diversify and the third rule is diversify,'' he said.

"For example, commercial property through managed funds has had fantastic yields over the past 12 months in double figures.''

SA winemaker Leigh Ratzmer, 37, said $1.2 million in savings was a lot of money for young families to contemplate as they thought ahead to retirement.

"With the rising cost of living it is not unreasonable to expect that's what we will need but it does seem a lot of money to have to put away,'' he said.

"We (wife Michelle) do think about it and are getting to a stage in our life where we will have to concentrate more heavily on the latter part of our working careers. Super is a consideration but our family has always been more property focused.''

Newspaper columnist and investment adviser Scott Pape has warned against people relying on the pension, saying superannuation was a better bet in the long run.

"A study by HSBC spanning more than 16,000 people in 15 countries found that, on average, Australians run out of their savings 13 years before they die – one of the worst results in the world," he said.

"The best thing anybody can do is to make sure that their super fund is an ultra-low fee fund. The more your fund takes the less money you make."