eureka report

Retirement dreaming

Theo Marinis explains how to navigate the transition to retirement.

By Theo Marinis
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Holidays are usually a time for decision-making, and given the 'corona crunch', this January will be even more important.

Come December 2021, a year's time from now, I predict a rush of retirements – particularly as so many of those who were eligible in 2020 delayed retirement due to their inability to travel.

So, what should you do if you are over 60… and over it?

My first piece of advice is to tell no one at your place of work. Word may well get out and you could risk being taken off the redundancy list! If there is a $200,000 golden handshake with your name on it, you don't want to miss out.

Next, set up a meeting for yourself and your partner with your financial planner. Look at the numbers and be prepared to think 'asynchronously' – or perhaps 'creatively' may be a better term. Whatever you do, don't panic – you will be fine.

According to moneysmart.gov.au, an Australian couple currently needs a minimum income of $61,909 per annum, and a single person $43,687 per annum, for a comfortable retirement. To generate this income level, you will need super fund capital of $645,000 (couple) and $545,000 (single). This calculation also assumes receipt of a part age pension.

Now, bear in mind that a tax-free retirement income of $61,909 per annum is pretty close to earning $100,000 per annum, before paying tax and superannuation. In fact, a gross annual salary package of $100,000 will see you take home, net, approximately $70,391 per annum. (This figure takes into account the deduction of SG – currently 9.5 per cent per annum – less tax and Medicare levy of $20 934 per annum [at the current October 2020 Budget tax

rates] offset by a part, low and middle income tax offset (LMITO) of $1,040 per annum.)

Having said that, I am not absolutely certain that while most readers of the Eureka Report would consider having just over $60,000 per annum to spend 'comfortable', it probably doesn't achieve the retirement dreaming we might indulge in on a somnolent Sunday afternoon.

The magic pudding

Let's imagine you and your partner are 60, have $2 million in retirement savings, own your $1 million house, have no debts or other obligations, and your present gross annual household income is $150,000.

The first recommendation your adviser will make is that you and your partner high five it – you've made it to the 'magic pudding' zone – where your retirement savings will generate, over the medium to long term, more than the equivalent of your final NET take home pay.

In simple terms, if correctly structured, your $2 million savings pool will kick off an annual tax-free income of $100,000. This should produce a slight increase in spending capacity when compared to your pre-retirement take home income because then, you were also paying tax and super.

Your adviser is most likely to recommend that you now move from the accumulation phase of your super by transferring to pension phase, using an account based pension (ABP). You will be required to draw a minimum income – 4 per cent per annum if you are aged under 65 (post age 65, the minimum percentage increases with age, in line with super being designed to be exhausted by about age 100).

Whilst the minimum percentage rule was halved for 2020/21 due to COVID-19, we are projecting into what will hopefully be virus-free times, again!

Therefore, I would typically recommend 5 per cent as a sustainable initial annual drawdown, subject of course, to current age and intended spending.

If you and your partner are over 65, have lived in your home for more than a decade, and you decide to downsize, the government also permits you to each contribute up to a further $300 000 into your ABPs from your home sale

proceeds.

If you live outside Sydney and Melbourne, you may well be able to find an apartment that's liveable for $400,000, possibly even a home in the country, but your family and health needs should be taken into account.

Supposing you live in Brisbane and can move to say, Rockhampton, you can buy a lovely home for $400,000, get great medical care – and add an extra $600,000 to your ABP. That additional capital will provide additional tax-exempt retirement income of $30,000 per annum.

And while I mentioned thinking 'asynchronously', if you are comparatively young and fit, it may be worth adventuring for a decade or so. If you are brave, and without grandparent responsibilities, you could buy a property, rent it out, and put your belongings into storage. With the rental income you may choose to become 'grey nomads' – or even live a few years in cheaper countries, such as Thailand or Malaysia, allowing your bank account to build even further – splashing your extra cash on a glamorous international lifestyle.

A 'more moderate' retirement

What if you own a $500,000 house, and have only $300,000 in retirement savings? Don't panic, you are still going to be OK.

Australia's social security system will ensure you have a good retirement, by world standards. A couple receiving a full aged pension benefit will receive approximately $37,000 per annum.

In addition, at 5 per cent, you will be able to supplement your combined age pensions with an additional $15,000 per annum from your superannuation ABP – so your 'spendable' income will be $52,000 per annum.

If circumstances permit, and you are so inclined, you can also earn $316 per fortnight (approximately $8,200 per annum) from employment income, without affecting your pension – taking the above equation to $60,000 per annum tax-free or ($68,400 tax free if you both work part-time).

While that sounds like a massive fall (around 55 per cent) from your work-related

earnings of $150,000 per annum, remember that your NET take home was more likely to be around $90,000, as roughly 31 per cent went in tax and Medicare levy, with a further 9.5 per cent directed to your superannuation account.

So, in reality, in this 'moderate retirement' scenario, if you decide to work part-time, you will retire on about two thirds of your former take-home pay.

If you are worried about further funding being required later, remember that there is also the federal government's new pension loans scheme, under which you can be paid up to 1.5 times the maximum age pension rate. Essentially, the government is offering a reverse mortgage arrangement for aged pensioners, currently charging around 4.5 per cent per annum interest, a charge well below the reverse mortgage rate being charged by the big banks.

In 2019, the cost of the average home across Australia grew by 1.1 per cent per month… obviously, coronavirus will slow this down for a time, and in fact, we may well in fact see property prices fall in the next 12 months or so. However, the point is that the value of your asset should grow in the medium to longer term, despite the interest accruing against it, if you access the new pension loans scheme. Bear in mind too that repayments are not due until the property is sold – and you can use this low interest scheme for income, or to fund renovations or repairs.

Mistakes

The biggest mistakes I see are when people decide to retire and then take on significant debt, such as buying a holiday home or a sports car. If you are contemplating retirement, it is too late for these extras. You should consider your savings as a fruit tree – and you need to live off its produce – try not to eat the tree.

The other key mistake is failing to plan for the financial (and social) future. Retirement is incredibly boring if you don't have a hobby or a purpose after work has ended, and even worse if your main interest involves daily visits to Dan Murphy's or following your partner around Westfield.

As well as not telegraphing your retirement (and cruelling the chance of receiving a redundancy payment) get advice on when would be the best time to

retire – perhaps it might be July 2, as opposed to June 28 (you may save considerable tax because you are in a new financial year, particularly when it comes to the payout of your unused leave entitlements).

If you are unsure about retirement and have built up considerable long service leave, it might be worth a trial. See how you go. If you hate it, go back to work until you have put in place better financial plans. If you love it, give your employer five weeks' notice a month before your return, so you can personally hand-over and swan around for a week saying farewell.

There is a lot to consider about retirement, so do get advice from professionals, and from friends and relatives who have done it, before handing in your notice.

My final comment is to recommend that you start the discussion with your partner early – BOTH of you being 'at home' is likely to impact enormously on a partner's life too. Give them time to plan and adjust – don't just spring it on them. They may have some terrific ideas to add to the mix.

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