How to cook a nest egg

COST OF LIVING

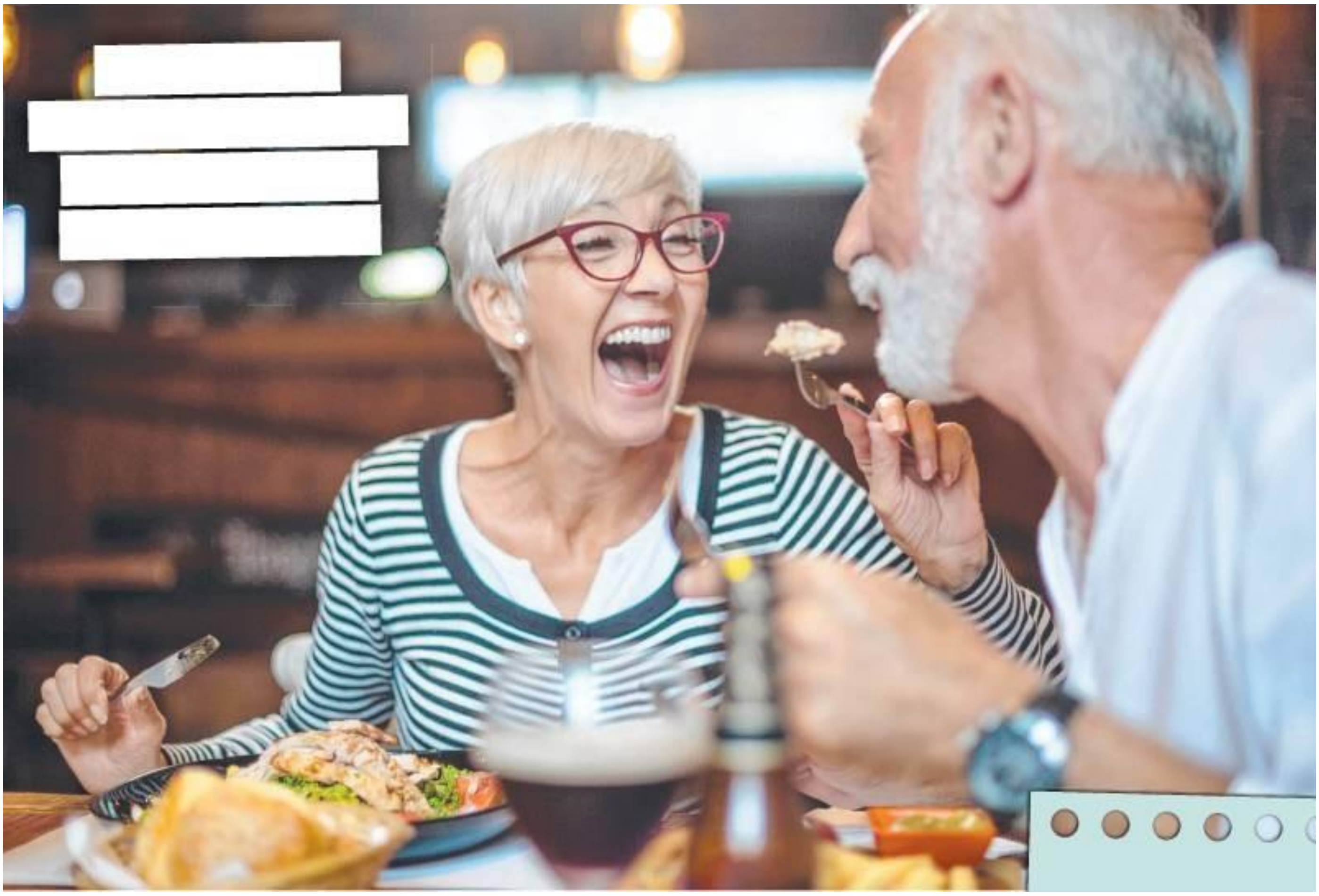
ANTHONY KEANE

eToro's Robert Francis

THE RECIPE FOR INVESTING IN A HEALTHY RETIREMENT IS BEST SERVED THREE WAYS

Saving for retirement seems complex but the truth is, there are really just three simple ingredients to help create a sizeable nest egg.

Despite millions of investment options available, almost every growing asset stems from real estate or businesses, while superannuation delivers the best structure for tax savings.



Cash, too, is an investment class and vital in reducing risk for retirees, but with interest rates effectively zero – delivering negative returns after inflation – it's not a growth asset.

Investment platform eToro Australia's managing director, Robert Francis, says it starts with considering what your own ideal retirement looks like "and what kind of financial position you'd need to be in to realise that".

So what should you tackle?

SHAREMARKET

Shares in businesses can deliver scary short-term volatility but over the long term have delivered strong investment returns averaging 7-8 per cent annually.

Francis says the proportion of shares to hold depends on your risk tolerance and strategy, but generally younger investors and super fund members hold more.

"Overall, it's a good idea to focus your portfolio either mostly or entirely on growth until you reach middle age, at which time your objectives may shift towards consistent income generation and lower risk," he says.

A portfolio can contain global giants such as Amazon, Apple and Google as well as Aussie favourites such as the big banks and resources giants.

"You can also add in ETFs, commodities, crypto and real estate – if that's your thing, too," Francis says.

"If you start building your retirement portfolio sooner, it's likely that these investments will mature over time and be ripe for the picking once you hit retirement."

PROPERTY

Property Investment Professionals of Australia chairman Peter Koulizos says rental properties as a retirement strategy have become "more and more popular".

Real estate investments deliver both capital growth and rising rental income, but people shouldn't focus solely on property because it is not a liquid asset and can't be sold off in pieces. "You either have to sell all of it or none of it, and that's why you need alternatives such as shares or an income stream from your super," Koulizos says. "The reality is you should spread your risk."

Property investors should consider putting extra cash into super as they approach retirement rather than paying down their property debt, and professional advice is important.

"When you pull it out of super it's tax-free, but all the rent you earn from an investment property is taxable," Koulizos says.

This is a key reason why owning real estate within a self-managed super fund is attractive.

SUPER

Superannuation is not an asset itself – it's a structure for holding assets, and financial strategist Theo Marinis says it works well because of its tax benefits and forced saving model.

"We're human, and the more we earn the more we tend to spend," he says.

"The reason people build super nest eggs is because they don't notice it going in, it's in a tax-effective environment and it grows."

Earnings in super are taxed at 15 per cent while saving for retirement, and typically zero per cent after you retire.

"The downside is you can't access it (until age 60) – that's why you don't go putting all your eggs in one basket," Marinis says. "There's no secret to this stuff – it's putting money away for a long period and letting compound interest do the work for you," he says.

Retirement portfolio tips

1 Before investing, work out what you need to comfortably retire. **Moneysmart.gov.au** has calculators that project super and compound investment returns.

2 Diversify your savings, including Australian and international investments, to lower risk and smooth out returns.

3 Have a long-term investment strategy that rebalances often and avoids knee-jerk reactions.

4 Reduce growth assets and increase conservative investments in the decade before retirement.

5 Keep an eye on fees, which can eat into super and investment returns.

Source: eToro, **Moneysmart.gov.au**

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