SUNDAY BUSINESS

Plan for a retirement five-to-10 years early

WHETHER JUMPING STRAIGHT IN OR TRANSITIONING SLOWLY, RETIREMENT NEEDS CAREFUL PLANNING

Anthony Keane

Early retirement is on the minds of more Australians as people put health and lifestyle ahead of having the biggest possible nest egg.

Financial advisers and strategists say since the pandemic there has been an increase in people wanting to retire well before the official pension age of 67.

Others are taking a more flexible path to full retirement, choosing to work part time and supplement their income with superannuation so they can enjoy more of their 50s and 60s.

However, too many are flying blind when it comes to retirement planning, and many may be able to stop work sooner than they think.

The key to retiring early is investing more money sooner into property, shares and other growth-focused assets, as well as making extra contributions into superannuation, which can be accessed seven years before pension age.

JBS Financial Strategists chief executive Jenny Brown has noticed a trend of more people wanting to retire sooner.

"One of the reasons behind that is that work is full on and people don't switch off," she said.

"You have got social media 24-7 so it's go, go, go, and as a result people are getting to their early 50s and think 'I don't want to retire at 65. I want to cut back my hours or want to retire early. How do I do that?'."

Potential retirees should consider what they are going to do with their time.

STEP ONE

Ms Brown said the first step towards an early retirement was to work out what you currently spent and how much money you would need to live comfortably in retirement.

"Look at that side of things then work backwards. How much do you need as a lump sum?" she said.

This initial planning hurdle is when many people trip up.

Research released in June by global investment giant Vanguard found about half of Australians do not know if their money will last in retirement, do not know how much they can spend each year without outliving their savings, and have not thought about how old they will live.

It found two-thirds of us do not know how long of a retirement to plan for.

"With Australians projected to live longer over the next 40 years, it is increasingly difficult to estimate how much money will be needed in retirement," Vanguard's How Australia Retires report says.

"This could lead to retirees spending too much or too little in their retirement years and subsequently experiencing adverse retirement outcomes."

People wanting to retire at least seven years early are going to need more than just their superannuation, because super cannot be accessed until after age 60 when a person stops working.

Tribeca Financial chief executive Ryan Watson said people planning to retire early needed to ensure they had they right mix of money both inside and outside of super.

"Inside superannuation because you want to maximise the tax effectiveness of this investment environment," he said.

"But, enough outside to ensure that you can financially afford to retire early."

WRITTEN GOALS

Mr Watson said it was important to understand your household cash flow both now and in retirement.

"If you know what you want to spend in retirement, you will be able to work out much money you will need to have invested to support your retirement," he said.

"Take the time to understand what you truly want from life, in the short, medium and long term.

"Once you have documented your goals, you can then understand whether you might have a financial gap to achieving them if you retire five to 10 years before you are entitled to an age pension."

Mr Watson said more people were taking stock of what was truly important to them, and prioritising the importance of time and what they enjoyed in life. This was leading to more early retirements or big changes to working arrangements to improve work-life balance, he said.

Marinis Financial Group managing director Theo Marinis has a long-running mantra for anyone wanting to retire comfortably and early: "Put money into super as soon as you can, as much as you can, for as long as you can".

"I have seen a lot more people retiring," he said.

"Everyone got freaked out by Covid and realised we are not going to be living forever. It freaked out people and is still freaking people out, and that's what's causing them to rethink their strategy."

Getting good financial advice well before retirement is crucial.

"Speak to somebody," Mr Marinis said.

"People don't realise how well off they are financially. Almost everyone who comes through my door doesn't think they have enough to retire comfortably.

"$1m puts you in the top 20 per cent. If you have $1m you can afford to retire early."

TAX SAVINGS

A majority of Australian retirees live off a combination of their super savings and the age pension, which currently pays a single person more than $29,000 annually and a couple combined close to $44,000.

The pension assets test can be generous, with a homeowner couple with $1m of other assets still able to access some age pension plus its related discounts and other benefits.

How your wealth stacks up, and how you can lift it

Anthony Keane

Official Australian Bureau of Statistics wealth data will be soul-destroying and scary reading for millions of people.

This month's release of ABS Household Wealth data shows Aussies got more than $431bn richer between December 31 and March 31, with total wealth topping $16.2 trillion.

Based on the latest Census figures, that works out to each household holding $1.5m.

Global investment bank UBS says it equates to average wealth of around $600,000 per person – every woman, man and child – "likely among the highest in the world".

But it is not the reality for the majority of Australians who battle wealth inequality.

A recent report by the Australian Council of Social Service and UNSW Sydney says almost half of all wealth is held by the highest 10 per cent of households, worth an average $5.2m each.

"They hold 15 times the wealth of the lowest 60 per cent – $343,000 per household," it says.

Wealth figures are skewed higher by age.

Older people are wealthier because they have had decades to benefit from compound interest multiplying their superannuation, shares and property asset prices.

The ABS says most of the recent gains in household wealth came from rising property and superannuation values. These deliver the biggest rewards to long-term holders, so don't be concerned if you're under 50 and your household has nothing near $1.5m.

Rather than worry about being near the base of the wealth ladder, there are plenty of things people can do to start climbing it.

Small daily changes turn into big wealth gains over time. Every $10 not spent on something pointless – and instead injected into savings, investments, a home loan or superannuation – is a step towards financial security.

Do this a few times each week and your net worth grows by more than $2000 a year, plus the investment growth or interest savings gained by making that money work smarter.

Household budgets have been blown apart by bill increases in recent years for insurance, groceries, energy and other key expenses. Spending a few hours examining what you spend, and comparing it with other providers, can deliver hundreds of extra dollars each year.

Sadly, the simplest way to get richer seems increasingly out of reach for young adults. It's property ownership – and many dreams are being dented by surging home values and high interest rates.

However, there are ways to get into property that don't require house deposits of $100,000 or more.

Real estate investment trusts spread money over different property assets and can be bought like shares, while people can team up with relatives, friends or the Bank of Mum and Dad to get a foot in the door.

Increasing government incentives and tax breaks for home buyers should be examined too.

The share market has been a huge driver of wealth for many, and there has been a boom in micro-investing apps that let people buy small pieces of companies with just a few dollars.

They round up purchases to divert spare change into investments, and provide a great starting point for climbing the wealth ladder.

And finally, don't forget superannuation. There are tax benefits for injecting extra, and compound interest multiplies it over decades.

The golden rule is to do something, and start today.

Scott Pape is on leave

Put money into super as soon as you can, as much as you can, for as long as you can

Strategies to sell off investment assets – such as shares and rental properties – can be used in the early years of retirement to lower tax and provide extra income.

"You can divest yourself of those things gradually and manage the capital gains of selling the shares and selling the property," Mr Marinis said.

As capital gains are added to other taxable income in a financial year, the tax bill will be much lower if there is no other income in the year a large asset is sold.

Capital gains tax can be offset by many people through concessional, tax-deductible, contributions to super. There is a limit of $30,000 per year – a potential $60,000 tax deduction per couple, and many people can make catch-up contributions for the unused portion of previous years' concessions contributions caps.

"You can contribute to super concessionally until 67 and non-concessionally to 75," he said.

BALANCING ACT

Leaping immediately into retirement is not appealing to everyone, and a gradual move from full-time work can deliver both lifestyle and financial benefits.

Mr Marinis said labour shortages gave employees bargaining power about shifting to part-time work.

"You can transition," he said. "Who says you can't work part-time?

"You can supplement your tax-exempt account-based pension with part-time work."

Tired workers could tell their boss they wanted to retire but would be happy to work three days a week to help them out. "As an employee you have some power," Mr Marinis said.

Even if the finances make sense, potential retirees have another big question to answer: what are they going to do with their time?

"You have to find something, whether it's Meals on Wheels or your local football club if that's your passion," Mr Marinis said.

"For your mental wellbeing, you have got to have a purpose in life. A lot of my clients work one or two days as volunteers, and feel like they are contributing something back."

Ms Brown said making extra super contributions early made an early retirement possible. People can choose to set up salary sacrifice so the money automatically comes out of their pay, or they can make voluntary tax-deductible contributions at any time of the year.

The voluntary road can be bumpy, as many people tend to spend everything left in their pay packet.

"We have found with a lot of people that they are not necessarily disciplined," Ms Brown said.

"If they salary sacrifice $20 a week it adds up, you save a lot of what you would otherwise be paying to the tax department.

"Remember you can't access super until you meet a condition of release, which is 60 and retired or generally 65. Start putting a little bit more away today – don't wait until tomorrow."

KEY QUESTIONS TO ASK YOURSELF

1. How much money will you need to live on each year in retirement?
2. What will you want to do with your spare time?
3. What are your hobbies and travel plans, and what sort of social life do you desire in retirement?
4. Are your finances structured to maximise income and reduce tax?
5. How will you maintain a positive purpose? Do you plan to give back to your community?

Source: Tribeca Financial

How would sea change affect CGT owed?

Money Man

Brenton Miegel

I own two properties – a rural property that I have owned and lived in for 25 years as my principal place of residence, as well as a coastal holiday house that I have owned for 20 years for personal use that has never been rented out. I am considering a "sea" change to live at the coast property for at least a couple of years, making it my principal place of residence and therefore the rural property would become the holiday home. I may sell the coast home later and move back to the rural property. What are the tax implications for both properties?

Your principal/primary place of residence is always considered to be an exempt asset for capital gains tax (CGT) purposes. While your holiday home has never been rented out, it would be assessable for CGT purposes upon its ultimate disposal. Should you spend a couple of years living in the home as your primary place of residence, this may afford you a very small reduction in the possible CGT. Similarly, by having your primary place of residence become an "investment" property for a couple of years, you are in a situation where a non-assessed CGT asset could have a small amount of CGT attributed to it upon your eventual disposal of that property. A significant consideration in this is the respective values of the properties, and the capital gains that have been made since you purchased both.

I recommend you seek the advice of your accountant, or a licensed tax adviser, before making any final decisions. It may be that you keep your primary place of residence, but choose to live in your holiday house/ investment property for an extended period of time without any CGT implications.

I'm retired and will turn 64 next month. In July 2021, I transitioned my super into pension mode. In October 2022, I used the bring forward provisions to top up my account, which bought the balance up to the then transfer balance cap of $1.7m. I understand the cap is rising in the next financial year to $1.9m. What amount can I add to my account with this increase to the cap?

The transfer balance cap (TBC) limits the amount of superannuation a member can transfer from accumulation phase to retirement phase. TBCs came into effect on 1 July 2017. The general transfer balance cap increased from $1.7m to $1.9m on July 1, 2023.

Unfortunately it is not as simple as adding $200,000 to super and then recommencing a new account-based pension. Several proportional indexation rules apply. If you transferred the full $1.7m from accumulation to pension in 2022, you may not be eligible to add any further funds despite the increase to the transfer balance cap. Seek help from a professional financial planner.

EMAIL YOUR QUESTIONS TO SUNDAYMONEY MAN@NEWS.COM.AU

Brenton is a director and an authorised representative of Goldsborough Financial Services Limited. His advice should be considered as an opinion. Readers should consider engaging their own personal financial adviser. Questions and answers may have been edited for length.

SHARE tips

Toby Grimm
Baker Young

BUY

Mineral Resources (MIN)
Recent positive updates from electric vehicle manufacturers are encouraging for lithium demand and, alongside solid iron ore pricing and asset sales, make the heavily-oversold stock attractive.

Temple & Webster (TPW)
Challenging retail conditions remain, but the online furniture and homewares retailer has delivered above-forecast sales supported by long-term structural advantages.

HOLD

Mirvac (MGR)
Recent update provides clarity on transaction volumes and comfort that its heavy discount to valuation supports holding the property developer.

Qube Holdings (QUB)
Continued resilience in car import volumes and a rebound in bulk commodities maintain a relatively attractive outlook for the port and freight firm.

SELL

RPM Global (RUL)
After a stellar 22-23 rally, the mining and environmental software developer unveiled disappointing guidance this week. Reduce exposure until greater clarity is provided.

Sigma Pharmaceuticals (SIG)
Recent regulatory issues with the proposed Chemist Warehouse merger highlight material risks around the deal, without which Sigma's valuation would be far lower.

Tony Paterno
Ord Minnett

BUY

ResMed (RMD)
The company is trading on a 12-month forward price-to-earnings ratio of 21 times, compared to a 10-year average of 28. Another strong quarter is expected in its upcoming update

Origin Energy (ORG)
Its assets, including a leading customer position, world-class Kracken retail platform and exposure to Octopus growth, will underpin its energy transition growth.

HOLD

APA Group (APA)
Set to benefit from significant government and industry investment in energy. We remain cautious about macro headwinds and regulation risk.

Aristocrat Leisure (ALL)
We have analysed the supplier opportunity in iLottery and conclude there is significant growth potential in the US for Aristocrat Interactive.

SELL

Bendigo and Adelaide Bank (BEN)
Regional banks face structural headwinds. Challenges remain in the sustainably increasing its return on equity towards its cost of capital.

JB Hi-Fi (JBH)
The stock is expensive. JBH is one of Australia's better-run non-food retailers, but its earnings and store growth opportunities are negligible.

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