SUNDAY BUSINESS with ANTHONY KEANE

Is your super enough? How to play catch-up

Superannuation is often Australians' biggest asset outside their family home, but in many cases is not large enough to deliver the comfortable retirement that most people crave.

While everyone's financial situations and future dreams are different, and it can be confusing to work out exactly what is needed, there are several ways to boost a super balance to get back on track towards financial freedom.

A recent analysis by the Association of Superannuation Funds of Australia found that many people nearing retirement do not have a big enough nest egg to deliver them a comfortable retirement income of $70,806 for a couple or $50,207 for a single.

ASFA says a single person needs a lump sum of $595,000 at age 67 to achieve this income through a mix of their own funds and Centrelink's age pension. However, median super balances for today's 65-year-olds are $215,000 for men and $191,000 for women.

ASFA also calculated the current balance needed based on your current age and wage to achieve retirement comfort, and found that many younger workers are already on track thanks to the rise of compulsory employer super contributions towards 12 per cent by mid-2025.

Financial specialists say ASFA's Retirement Standard calculations can be a good tool and guide, but every person should work out their own target, track their progress, and realise that generous tax breaks and age pension payments mean they may not need as much as they think.

STEP ONE

JBS Financial Strategists CEO Jenny Brown said the first step was to understand your own spending habits, through a budget or by examining expenses, to work out how much annual income you would want if retiring tomorrow.

"That's the starting point, and once you know that you can work backwards," she said.

Longer lifespans today mean many people can expect to live into their nineties, although spending typically reduces after the late-70s as many seniors become less mobile. Centrelink pension payments can also come into play when a person's assets and income start to fall.

"There are a lot of calculators on ASIC's MoneySmart website that can help you reverse engineer it," Ms Brown said.

"As a rule of thumb, I divide the annual amount by 7 per cent to get a ballpark figure," she said.

"Then you know what that magical number needs to be. It will depend on your personal financial situation."

For example, if you want to retire on a relatively luxurious income of $120,000, divide that by 7 per cent to get a lump sum of $1.71 million.

Remember that retirement doesn't all have to come from superannuation, although the zero tax rate on super pensions' income, capital gains and withdrawals for people aged over 60 makes it hard to beat.

"You can put money into a blue-chip portfolio outside of super," Ms Brown said.

"The downside of that is when you sell it there is more tax potentially to be paid," she said.

Property investors can grow a real estate portfolio and then sell a property or two near retirement to shift money into the low-tax then zero-tax environment.

"Seeking advice is always good," Ms Brown said.

"We can plug the figures into an appropriate calculator that takes Centrelink into consideration.

"There's nothing wrong with qualifying for a couple of dollars of pension because you get a lot of benefits. It does come down to what you want to live on and how much you have got."

PRACTICAL TIPS

Before examining super's tax benefits and strategies, there is a simple way pump in more money.

"Spend less than you earn," Ms Brown said.

Then comes the top tip from almost all advisers: "maximise concessional contributions so you can claim a tax deduction for them".

Australians are allowed to put $27,500 a year each into their super and claim a tax deduction for it. These are known as concessional contributions and include employer contributions and salary sacrifice. Your money is taxed at just 15 per cent going into the fund, rather than up to 47 per cent if taken as wages, so the potential tax benefits are huge.

Rule changes in recent years have given people the ability to carry forward extra concessional contributions from the unused portion of previous financial years' $27,500 concessional cap, as long as their balance is below $500,000. This means clever tax planning can potentially reduce or remove capital gains tax on the sale of an investment simply by funnelling more money into super.

Tribeca Financial CEO Ryan Watson said the best government superannuation incentive "hands down" was the ability to make tax-deductible contributions into super, "closely followed by our ability to make catch-up superannuation contributions".

He said other ways to give super a boost included:

- Ensuring fees paid to your super fund for administration and investment were below 0.5 per cent of your balance each year.
- Reviewing your investments, because poor performers could wipe tens of thousands of dollars off your final balance.
- Maximising your ability to make deductible contributions and catch-up contributions.

> "You don't need a million bucks
>
> **Theo Marinis**
> Marinis Financial Group

- Reviewing your need for life and total and permanent disability insurance within super in the final decade before retirement.

"Premiums have become very expensive for anyone over 50 years old these days, so potentially decreasing or cancelling your insurance cover if it's no longer needed can help maintain your investment balance," he said.

Mr Watson said most people became focused on or concerned about their super as they reached their 50s and 60s.

"As a general rule, the Australian population has a relatively low rate of financial literacy, particularly when it comes to superannuation," he said.

"Couple this with the fact that what one family needs to live on in retirement in terms of cashflow can be completely different from the next family. It all comes down to the lifestyle they choose to live in retirement."

THE SQUIRREL EFFECT

Marinis Financial Group managing director Theo Marinis said the traditional idea of needing $1 million to retire comfortably was not true.

"You don't need a million bucks to live like somebody with a million bucks," Mr Marinis said. About

Warning signs that your dividends may drop

Anthony Keane

Share dividends have lost some lustre lately despite delivering billions of dollars to Aussie investors over many years.

Australia is one of the world's highest dividend-paying countries, and retirees in particular love them because of the extra franking credit-related tax benefits they deliver to those who are on lower incomes or have shares sitting in their super.

However, surging interest rates in the past 18 months have resulted in other assets such as bonds and bank deposits paying more than 5 per cent – above the Aussie share market's average 4.7 per cent dividend yield – without the risk of owning shares.

Most banks, for decades seen a great high-dividend investments, are now anything but beautiful, with their capital growth in reverse in recent years.

For many investors, dividends remain an important feature of their portfolio because of their reliability and regularity.

But there are several red flags that investors should watch out for to check if their dividend strategy is likely to turn sour. Here are five.

1. CRAZY-HIGH YIELDS

A stock that is paying a high dividend yield of more than 10 per cent is usually a sinking stock, and this can signal that a company is in trouble.

The yields can be high because they are based on past dividend payouts at a time the share price has tanked.

It's important to research and understand why a yield is high. But don't sell unnecessarily – many of Australia's big resources stocks have been paying excellent dividend yields in recent years as a result of big profits, and their outlook remains solid.

2. SHRINKING DIVIDENDS

A company that has reduced its dividends over time is likely to be making smaller profits, which no investor wants to see. Similarly, flat profits mean flat dividends and less potential for compounding growth.

It's easy to check on past dividend payouts online using a company's corporate website or investment platforms and websites.

3. A STRUGGLING SECTOR

Sometimes it's not a company's fault that its dividend is diving or being scrapped. Events impacting the profitability of their entire sector could be shrinking profits and payouts.

Banks have taken a barrage of hits in the past decade ranging from the rise of PayPal and buy now, pay later businesses, to a royal commission, to cryptocurrency. It's shown in their share prices – among the big four banks only CBA's has climbed since November 2013. The share prices of the others – Westpac, NAB and ANZ – are down 36 per cent, 25 per cent and 17 per cent respectively compared with 10 years ago.

4. ANALYST CONSENSUS

See what experts are saying about your stock, because market analysts follow markets and mega-trends more closely than typical investors.

You can check broker recommendations on online share trading websites and investment platforms, and if a majority of analysts are slapping sell recommendations on a particular stock it could be time to get out – even if it is still paying a juicy dividend.

5. HIGH DEBT LEVELS

High interest rates don't just hurt dividend investments by reducing their attractiveness compared with other asset classes such as bonds and cash.

Companies need growing profits to pay growing dividends, and those with large debt suddenly must pay much bigger interest charges.

Check a company's debt level, and its changes over time, using annual reports and financial statements, or get an expert such as a stockbroker to help you. The days of high dividends equating to rising dividends and great investments are behind us.

Scott Pape is on leave

$400,000 in super could be combined with Centrelink benefits to deliver a similar retirement income, he said.

A homeowner couple with $450,000 of assets can still get a full pension worth almost $830 a week, according to Centrelink.

But Australians still worry that their super won't last.

"I call it the squirrel effect," Mr Marinis said.

"However much money you have, you worry that it won't be enough."

Mr Marinis said even wealthy clients worried about running out of money, but the issue for many retirees today was not outliving their savings but dying with excess money left over.

"Don't just focus on the amount of money you have got. Over time you get more money from Centrelink as your balance runs down," he said.

Mr Marinis said catch-up contributions were great for people who could afford them and had under $500,000 in super.

"Use it as a personal contribution, reduce your personal tax liability, and throw a large amount into super," he said.

"If you have assets outside super, you could realise those gradually and throw the money into the low-tax super environment."

Each member of a couple can contribute $110,000 a year of non-concessional contributions, made with after tax money such as asset sale proceeds, up until age 75.

"Keep building assets outside super so when the time comes you can do it," Mr Marinis said.

ASK BIG QUESTIONS

Aware Super recently noticed a 50 per cent jump in online searches for "retirement planning" and its head of advice, Peter Hogg, said "more and more people are wanting to do something".

Mr Hogg said ASFA's Retirement Standard was a good engagement tool but "everyone is different".

"It's such a personal thing. When are they looking to retire? How much income might they need?" he said.

Aware Super and other superannuations funds, government websites such as MoneySmart and financial advice groups also have retirement planning tools and calculators to help people check and project their retirement savings.

Compulsory super only came into effect in the early 1990s, and at 3 per cent of wages, so many older workers do not have the current balances that their children are likely to enjoy.

"If you haven't been in the system the whole time, it is a bit harder," Mr Hogg said.

He said people aged under 55 should start asking what retirement might look like for them.

"Understanding how they might want to live life in retirement – and what their goals are – will help them start a super strategy for retirement," he said.

"Simple steps like engaging with their super fund, consolidating accounts and making extra contributions could make a considerable difference."

EXTRA INCENTIVES

Mr Hogg said salary sacrifice was often the most powerful super-boosting tool as it could happen automatically with each pay.

"Take the opportunity to contribute directly through your payroll department pre-tax," he said.

The government's co-contribution scheme pays $500 into the super fund of people earning below $43,445 who put $1000 of after-tax money into their super, while people earning up to $58,445 get some co-contribution.

"If you are at a lower income level, or your spouse is, co-contributions are a good way for the government to top up your contributions," Mr Hogg said.

"With that $500 you get a 50 per cent return on your money, which is good," he said.

People with a low-income spouse on less than $40,000 can qualify for a $540 tax offset each year by putting $3000 into their partner's super fund.

Inheriting an asset ... and a headache

Money Man

Brenton Miegel

Q: My mother recently passed away and left her house to me and my sister, who is a disability support pensioner and has always lived there. Due to the housing situation we retained the house, and my sister will keep living there. This is effectively a dead asset to me and will count against me when I access the age pension; I'm 58 and working full-time. What options do I have to avoid it? Can I gift it to my children? Or are there other options?

A: You are correct that having your name on the title of the property (in effect, an investment property for you) will mean it is assessed for asset test purposes by Centrelink. Without knowing all your current financial position, it is simply not possible for me to offer anything more than some "thoughts": depending on the value of your overall investment portfolio now, and projected value in nine years, you may be worrying about getting some age pension unnecessarily at this time – you may not be eligible in the future! You could consider gifting your share of the home to your children; however, there would be stamp duty implications (short term) and capital gains tax implications for your children (long term). Depending on your financial position should you dispose of the property, there may be minimal CGT implications for you. I acknowledge, and appreciate, there may be ongoing costs now (rates, insurances and the like); however, these become part of the cost base (given you are not getting rent) should you eventually dispose of the property. I would recommend you seek the advice of a professional financial planner for further advice and strategy development before making any decisions.

Q: I have just started an allocated pension with REST and get a part age pension. Do I need to notify Centrelink of this change, or will they know because I have already submitted my superannuation details to them? Will the amount I get from my allocated pension affect my age pension?

A: If you are in receipt of any income support payment from Centrelink, you should always report any changes to your financial situation. While moving from a superannuation fund to an allocated pension may not seem significant, and in fact the asset and income test assessment is likely to be identical, you must report this. Centrelink will want to see proof of the closure/rollover of the superannuation fund, and proof of the new allocated pension, including a "Centrelink Schedule". One positive you can take from doing this is you won't need to report/update allocated pension details again, as this happens automatically twice yearly.

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

Timothy Haselum
Catapult Wealth

BUY

Endeavour Group (EDV)
Finance leasing and interest costs plus gaming regulations have scared off investors, even though earnings are flat. A weak Australian dollar and price weakness, could see overseas investors start to sniff around.

Pilbara Minerals (PLS)
It's now down 27 per cent in the last 12 months. Probably wait for some upwards momentum, but look to accumulate on this weakness.

HOLD

Macquarie Group (MQG)
A big miss on reporting, with all divisions down heavily except banking and financial services. Earnings look shaky.

CAR Group (CAR)
Strong results highlighted that the Carsales.com owner is kicking goals, and the soft Australian dollar is working in its favour. Looks fair value.

SELL

Champion Iron (CIA)
Strong results saw the iron ore miner shoot the lights out with a 34 per cent jump in profits and a number of growth opportunities in the pipeline. It's now pushing past full valuation.

Ingenia Communities Group (INA)
Generally stable earnings come from its rental/leasing business model in retirement living. Its development pipeline can be seen as relatively lower quality than traditional REITs.

Toby Grimm
Baker Young

BUY

Ramsay Healthcare (RHC)
The hospital operator has successfully divested its $1bn stake in a Malaysian joint venture. We see this as a clear positive, improving operating margins and reducing debt.

Aristocrat Leisure (ALL)
The company delivered better-than-expected results, highlighting the continued post-pandemic recovery in its key gaming machine markets.

HOLD

Lend Lease (LLC)
With encouraging signs that interest rate pressure on the commercial property sector may be peaking, we see attractive long-term value at current levels.

Orica (ORI)
The explosive manufacturer's underlying profit was slightly below estimates. However, cash flow was strong and the company upgraded its growth and performance targets.

SELL

Domain Holdings (DHG)
A resurgent residential property market drove its performance last year, but this may have come at the expense of market share.

Objective Corporation (OCL)
The software developer benefits from stable government contracts. However, we think the growth potential is limited and see the stock as overpriced.

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