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Happy 50th! Now the work begins….

As you pack the recycling with the empty bottles of Jansz and Penfold's 389 – and reflect on turning 50 – perhaps it's also time to get real about how much superannuation you have. If you and your partner want a 'dream' old age, you should be thinking about an accumulated $1.7m, per person.

A combined total of $3.4 million in retirement savings will deliver annual tax-exempt income of $170,000, increasing with inflation over time. (This figure is based on the Account Based Pension (ABP) 'minimum' income level of 5% for the age range 65 – 75, as per the ABP 'glide' plane set by the Government Actuary).

This 5% is also conservative and well below the ASX All Ord's average return of 8.9%[1] pa over the 30 years to 30 June 2020 – a period which includes the GFC and the COVID-19 collapse, but not the unbelievable recovery (thus far) in 2021. Whilst it goes without saying, I will say it anyway – ***"Past performance does not guarantee future performance".***

It should also go without saying that when in 'income drawdown phase' your retirement savings would generally not (or should not) be invested 100% in Australian shares or invested 100% in some other combination of growth assets.

When considering a portfolio to produce retirement income, diversification across asset classes, with further diversification **within** each asset class in line with your individual risk profile is vital, precisely because - ***"Past performance does NOT guarantee future performance."***

So, whilst your $3.4m in combined ABP funds will return less than 8.9% pa over the long term, it will still be a financial 'magic pudding.'

But what if you are like most of us, and you've put the mortgage and the kids' education, a nice car and the odd "look at me" holiday in Europe ahead of saving for the future?

Then it really is time for a reality check, and time to resist internal pressure for a holiday house or the latest Range Rover. According to ASFA[2] the average Australian male aged 50 – 54 has a superannuation balance of $242,000, and his sister has $159,000. Whilst this statistic is less likely to apply to readers of InvestSMART, the considerations for a sensible approach to retirement planning still apply.

Paying off the family home is smart. Don't dawdle, particularly with interest rates around 2.5% pa. Pay it off quickly; even if this might mean in some instances, having a chat with your partner about going back to work, or increasing paid work hours.

In the meantime, increase your personal super contributions and, if possible, those of your partner, to the current maximum Concessional Contribution (CC) cap of $27,500 pa, (noting that this cap is inclusive of your employer's Super Guarantee and / or your salary sacrifice contributions).

What may surprise many people with taxable incomes above $45,000 pa, is that additional Concessional Contributions are very tax effective when compared against a personal tax rate of 34.5% and the 15% contributions tax payable by your super fund.

The tax savings are even greater when your annual taxable income is over $120,000, or above $180,000 (based on personal tax rates of 39% and 47% respectively). That said, there are still immediate tax advantages for taxable income above $18,200 and up to $45,000, as the personal

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[1] Vanguard's 2020 Index Chart.

[2] Association of **Superannuation** Funds of **Australia**, Experience to date with the early release of **superannuation**[1], June 2020, pg. 15.

tax rate (inclusive of Medicare Levy) is 21% pa versus 15% in super. However, the higher the income (and the higher the tax rate) the greater the benefits.

The exception to this general rule is when ‘Division 293 income’ exceeds $250,000. Division 293 adds back several items into taxable income (eg, negative gearing property losses, among others). The result is the application of Division 293 tax in the form of an additional 15% on CCs, (or 30% in total). The increased tax rate is designed to bring the concession for higher-than-average income earners back to an amount in line with the ‘average’ concession – effectively reducing the tax concession for individuals whose combined income and contributions are greater than the current Division 293 threshold of $250,000.

For those unfortunate (or is that fortunate) enough to be in this position, paying super tax at 30% on your CC is still better that a personal tax rate (Medicare Levy inclusive) of 47%.

If you have money invested outside of superannuation and a home which is paid off, it is worth remembering that you can top up to $110,000 per year in Non-Concessional Contributions (NCCs). Bear in mind that there is a cap of $330,000 in any one year via the “Three Year NCC Bring Forward rules”. Within your medium-term planning, keep an eye also on the 2021 budget-day announcement which, if legislated, will allow ‘downsizers’ over 60 to each contribute an additional $300,000 to their super, (effectively a $600,000 limit for couples). This amount is over and above the normal NCC limits.

Whilst NCCs do not provide any immediate tax saving benefit, the earnings inside the fund will only be taxed at a maximum 15% (zero once you can start your ABP) and you could be boosting your super balance close to the magic $1.7m figure, for each of you!

Based on the scenarios above, many will be thinking “great ideas, but I don’t have the extra cash to top up our super.” Don’t forget that you are in an age-group where you are also likely to inherit. If you do, my best general advice would be to address the mortgage first (as the home is Capital Gains Tax free) then put any extra into super, subject to the contribution caps which apply. Buying a boat or upgrading the car should not be considered without first addressing these priorities.

There is, however, an associated balancing act to consider here. Once your cash is in super, it can be very difficult to get it out until you’ve retired and reached your preservation age (currently 59 for those born 1 July 1963 to 30 June 1964) unless you are in exceptionally difficult circumstances, and then only in very small amounts. Consider having a cash reserve for emergencies.

Bear in mind too that around age 50 we also may also enter the ‘career death’ phase. Speaking bluntly, if we become too expensive – sometimes our IT skills and energy levels are far below the younger generation – we can become obsolete. Very few well paid executives/senior managers remain in these positions until retirement age – let alone super preservation age, which will be age 60 from next financial year.

A further harsh reality is that around this age, via the circumstances of friends and acquaintances, we become increasingly aware not only of our mortality, but our morbidity. Protecting the family financial base by having appropriate insurance in place should be an integral part of our retirement planning considerations.

And speaking of your family financial base, if you have children, you would also be aware that they will not really become financially independent until at least age 25. This can be due to the comfort of home and the increasing pressure to have a master’s degree, combined with a certain level of job insecurity while they are under 30.

Now, at this point it is easy to throw our hands in the air and declare that $3.4m just won’t happen, and that is true for most Australians. Bear in mind, however, that $2.4m in super is far better than $1.4m, which is much better than $400,000……

The starting point is to be realistic about your situation. Involve your partner, who also has a profound interest in the outcome, and who may just not have thought about the impact a small super balance will have on their retirement lifestyle. A ‘one page’ assets and liability sheet, so that you both know where you really are financially, can help you to start the discussion about what retirement might look like for you both. Had you considered life ‘post-kids’ or moving back home to the country?

The next step is to meet with a financial planner who can help you organise your finances and realistically assess where you want to be and help to guide you there.

To my retirement savings mantra ***“put away as much as you can, as soon as you can – for as long as you can” I would also add “don’t procrastinate, be realistic and get help; it is rarely too late to benefit from professional guidance”.***

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