HOW TO WORK OUT YOUR RETIREMENT NUMBER

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The amount of money needed for retirement is not one size fits all. How you'd like to spend your retirement is as unique as you. From the big life changing goals, to the smaller, more personal ones that give your life meaning.

There's no defined age you must retire by, and it isn't just about your finances. Your state of mind, where you'd like to live, how you spend your time as well as your goals, all play a big part.

LIVING WELL IN RETIREMENT

Australia has one of the highest life expectancies in the world, and it's likely to increase well into the 90s over the next 40 years. [1]Meaning you could be looking at around 30 years in retirement.

So, whatever your retirement goals are (like travelling, having a sea change, caring for family or working part-time), it's important to be prepared financially.

THE COST OF LIVING IN RETIREMENT

Assuming you own your own home, recent research shows that to retire comfortably, couples will need about $640,000 as a lump sum to retire on.[2] Yet, a recent survey by Roy Morgan shows many Australians aged 50-64 may not have the amount they need to retire comfortably at 65, and in fact many may still be in debt.[3]

It can be easy to feel overwhelmed by these figures, but your finances may actually be in better shape than you think.

WHAT YOU CAN DO YOURSELF, RIGHT NOW

There are a number of things you can do yourself now, that can really make a difference to your future retirement – both financially and mentally. That includes thinking about how you'd like to manage your income and lifestyle to reflect your changing needs. Here are some ways to get started:

1. Get clear on your retirement goals and how you'd like your life to look

Too many options can make planning difficult, so it's good to get a clear idea about the lifestyle you want and the top things on your list, including:

- knowing how you want to spend your time
- if you have a partner, comparing lists, so you're on the same page
- working out where you want to live.

2. Work on simplifying your finances

It's a great idea to get your finances organised sooner rather than later. Some of the things you can work on now include:

- tracking your spending
- working out where you can make savings
- getting your super sorted
- taking advantage of any government incentives you may be entitled to.

Other tips and information are also available on www.amp.com.au/retireright and https://www.moneysmart.gov.au/superannuation-and-retirement.

3. Think about your numbers

Have a realistic look at how you can achieve your goals, and live the lifestyle you'd like within your budget.

You may need to reassess some things in favour of others, or be stricter on the smaller things (like eating out) so you can enjoy bigger things in retirement (like a holiday).

4. Put a plan in place to help achieve your retirement goals

Once you're clear on your goals, a plan will help you step out how you'll get there. It can make all the difference.

SO HOW MUCH IS ENOUGH?

To work out how much money you'll need in retirement, start by asking yourself these questions:

- **Do I have enough money saved in my super?** Try this super simulator to find out if you're on track or if you have a gap in your savings

- **Am I going to have to rely on the Age Pension?** If you plan to retire before you get the Age Pension, consider what savings you'll need to support you for those extra years in retirement
- **Will I have to work longer or do something else to generate an income?**

HOW COULD YOU RETIRE WITH MORE?

Once you've considered these questions, think about ways to give your financial situation a boost while you're still working.

1. Salary sacrifice (before-tax or concessional contributions)

Ask your employer if you can put more of your pre-tax salary into your super, above the Superannuation Guarantee (SG) amount of 9.5%. You'll only be taxed 15%[4] on this amount. But remember that salary sacrifice will mean taking home less pay, in return for having more in your super. Use this salary sacrifice calculator to find out how much you could put aside.

2. Tax deductible personal contributions (before-tax or concessional contributions)

Similarly, following changes introduced from 1 July 2017, employees can now make a personal contribution to their super and claim it as a tax deduction, a way of contributing to super which previously only applied to the self-employed. Similar to salary sacrificing, you'll only be taxed at 15%[4] on your contribution amount.

If you choose to contribute in this way, you'll need to fill in a 'notice of intent' form and send it your super fund before you submit your tax return.

Do I have enough money saved in my super? Try this super simulator to find out if you're on track or if you have a gap in your savings

3. Personal contributions (after tax or non-concessional contributions)

You can also make after-tax contributions to your super, and these contributions are not taxed as you've already paid tax on this income at your normal tax rate. You can only make after-tax contributions provided your total super balance is less than $1.6 million. If you earn less than $51,813, the government could make a co-contribution up to a maximum of $500.

4. The low income super tax offset

If you earn $37,000 or less a year and put some pre-tax money into your super, you might be eligible to receive a refund of the tax paid on your pre-tax super contributions (up to a maximum of $500) into your super account from the Australian Taxation Office (ATO).

5. Spouse contributions

Changes introduced on 1 July 2017 increased the income threshold for the tax benefits available when making spouse contributions. If your spouse earns $37,000 or less and you contribute to their super you could receive a tax offset of up to $540. Providing they earn less than $40,000, you could receive a partial tax offset

6. Consolidating your super

Got more than one super account? Think about consolidating your super into one account to save on fees and reduce paperwork. Most of us have moved jobs at least once in our working lives and that can sometimes result in lost or missing super. You can do a lost super search to help you track down any lost or missing super and consolidate it into one super fund to bulk up your nest egg. But make sure you check whether there are any:

- exit or withdrawal fees from your existing funds
- insurance implications, such as making sure your required level of insurance is in place before you consolidate your super.

7. Review your super

Your super fund should be working for you, so it's important to review it at least once a year. It's useful to:

- review your investment options and what other options are available
- look at your level of insurance – is it appropriate to cover your needs?
- pay attention to your fees and premiums, these can add up over time and impact your balance.

By the time you retire, your super will likely represent one of your biggest assets. It's real money and it's your money, so putting some thought into making contributions today may help you achieve the lifestyle you want in retirement. But remember that the money you contribute into super will be subject to preservation and not accessible until you retire.

While super might seem like basic maths – you just add to it – some contribution strategies might suit you better than others, so it's important to understand your options.

TALK TO US

Most of us need some help to create a plan for our retirement goals. And making the most of your super, investments, government entitlements and incentives can be hard to do on your own.

We can help you explore the cost of your retirement goals and work out what your retirement number might be, including helping you:

- Work out how much you'll need to live on
- Work out how you could create an income in retirement
- Understand possible future expenses
- Examine your superannuation savings, planning for now and in retirement
- Understand your living options, including aged care and what it could mean for your finances
- Find ways to keep doing the things you love, and new things you'd like to do
- Understand the rules around age pension eligibility.

After all, understanding all your options, and having a clear plan for your future, really can help you step into your idea of retirement with confidence.

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[1] Australian Government Treasury Department., 2015 Intergenerational report. https://treasury.gov.au/publication/2015-intergenerational-report/chapter-1-how-will-australia-change-over-the-next-40-years/

[2] ASFA, Retirement Standard Summary, December 2016. The lump sums required for a comfortable retirement assume that the retiree/s will draw down all their capital and receive a part Age Pension. All figures in today's dollars using 2.75% AWE as a deflator and an assumed investment earning rate of 6%. They are based on the means test for the Age Pension in effect from 1 January 2017.

[3] Roy Morgan Research, State of the Nation Australia spotlight on finance risk, August 2016.

[4] 30% if you earn over $300,000 per annum.

Any advice contained in this document is of a general nature only and does not take into account the objectives, financial situation or needs of any particular person.