Thinking about retirement
A guide to help you plan and fund your retirement lifestyle
By now, you’ve done most of the hard work: holding down a career and acquiring assets to boost your financial situation along the way.

Now, in the years leading up to your retirement, it’s time to really start thinking about that next phase of your life. And then, once you know what you want your retirement lifestyle to look like, you need to know how you are going to fund it, and how to access your money so it goes the distance.

There are many ways to live your retirement years – studying, volunteering, travelling. Maybe even working part-time. But you certainly don’t want to spend your retirement worrying about money. That’s where a little planning comes in. And the sooner you start planning for retirement, the better off you’ll be when you get there.

This book is a guide to help you get a picture of your retirement, and then show you how to get there, including steps to reach your nest egg goal. The second part of this guide focuses on strategies to help you access your super once you’ve reached your retirement age, and make it last as long as you’ll need it.

Remember - you don’t have to do it alone. Your financial planner can help you implement strategies suitable for your individual needs.
The changing face of retirement

Today we are retiring earlier and living longer.

1975

| Working life | Retirement |

2005

| Working life | Retirement |

In 1975 we retired at 64* and had a life expectancy of 72.9#

Today we retire at 58* but have a life expectancy of 80.9#

*Asteron/UNSW Effects of Longevity Improvements on Retirement Funding, 2006.
# Calculations based on Australian Historical Population Statistics Cat 3105.0.65.001 and ‘Life Expectancy’, Deaths Australia Cat 3302 2005.

A longer, more fulfilling retirement

People no longer seem to spend a brief retirement of five or ten years in frailty and ill health. Instead, more people are enjoying a long, healthy, active retirement. As a result, retirement is no longer just for ‘seniors’. Rather, it is two-phased: the early (active) years, followed by the later (more restful) years.

Our general expectation of our retirement lifestyle has also changed. Many retirees now look to work and travel in retirement and maintain an active lifestyle.

Whatever your retirement ends up looking like, no doubt it will be very different from your parents’ retirement. And different again from the type of retirement your grandparents had.

That also means it is likely to be more expensive. But, a little planning – and budgeting – goes a long way. So start thinking about your retirement, today.

Take a closer look at your super

Over the years your super balance has been accumulating – a result of your employer’s contributions to your fund (super guarantee), your personal additional contributions, and your investment choice. But is it enough to fund your retirement lifestyle – and will it go the distance?

Compulsory superannuation was introduced in Australia in 1993, so for many people they’ve only been funding their retirement for less than 20 years. In the years leading up to retirement, when most of your debts are paid off, and you’re still working, it’s a good opportunity to make the most of your super in preparation for retirement.

Of the retiring baby boomers: 40% will spend 25 years in retirement; 40% will spend 35 years; and 10% will spend 35+ years in retirement.1

1 Association of Superannuation Funds Australia, Clare R ‘A less than super future’ 2005
A snapshot of retirement today²

• As well as helping to fund their retirement lifestyle, many people like to stay connected to the workforce. 46% of retirees want to work part-time in retirement.

• 73% of retirees want to travel overseas and 40% want to travel Australia in their early retirement years.

Too many Australians don’t plan appropriately for the years they will spend in retirement, thinking that their compulsory super contributions will be enough to fund their lifestyle of choice. And if not, there’s always the Age Pension.

The truth is, however, that many Australians retire without having saved enough to enjoy the kind of lifestyle they imagined. And the Age Pension at $18,229 per annum for a single person and $27,482 for a couple³ doesn’t go far.

The cost of retirement today

The Association of Superannuation Funds of Australia estimates the cost of a ‘comfortable’ retirement at $39,159 per annum for singles and $53,565 per annum for couples.⁴ But this is still not a carefree lifestyle – budgeting is still required!

² Asteron/Stellar research, June 2006
³ Centrelink rates from 1 July 2010
⁴ Association of Superannuation Funds of Australia, Westpac-ASFA Retirement Standard, March Quarter 2010 www.superannuation.asn.au
The age of longevity

If 50 is the new 40, then 95 is the new 85!

Many people see 85 to be a good ‘end date’ to use when thinking about their retirement. But the truth is, more than half of today’s 65 year olds will live beyond 85.5

Your retirement planning should factor in longevity, so that you don’t risk outliving your retirement savings.

• Approximately 70% of today’s 65-year-old women will live beyond age 85.
• Approximately 75% of 65-year-old women in 2015 will live beyond age 85.5

5 Source, ABS, Australian Life Expectancy Tables, 2000 – 20002. Projection for 2010 – 2025 were determined by Asteron based on historic rates of mortality improvements
The ageing Australian population

Australia’s population will soon be retiree-heavy – this is because the large ‘baby boomer’ generation (born 1946 – 1961) are all at, or approaching, retirement age.

- The fastest-growing segment of the population is the group aged 85+
- Over the last 20 years, the number of Australians aged 85+ has increased by 165%
- Total population growth was 29% over the same period

With more retirees, and fewer people of working age there will be greater pressure on the government for health care and welfare assistance.

Population pyramids – our ageing population

In 2005 the large baby boomer population, represented by the ‘bulge’ on the graph, is still generally working.

In 20 years, the bulge has shifted up. More people have moved into retirement, while there are fewer people of working age to support them.

The group aged 85 years+ has increased dramatically.

Source: ABS Population Pyramids www.abs.gov.au

ABS Population by Age and Sex, Australian States and Territories, Cat 3201 June 2008
Know what you want – and how to get there

Three easy steps

Spending more time in retirement means you’re going to be spending more in retirement.

Whether you are an early retiree who is active and healthy or in the later stages of retirement, needing support and care, retirement costs money. It is important to plan for all stages of retirement to help you retain your financial independence for life – however long that may be.

The first big question you need to answer is: how much is enough?

Understanding how much money you’ll need to fund your retirement lifestyle can be tricky. A rule of thumb is to take 65% of your pre-retirement income. This is because by the time you retire you won’t have a lot of the big expenses you used to – like paying off your mortgage, kids’ school fees and other costs involved in raising a family.

But it’s also important to remember that while some things will cost less in retirement, you will have some other increased – and new – expenses, such as aged care.

Step 1 –
How much is enough?

The best way to understand how much you’ll need in retirement is to have a think about your retirement lifestyle, and the costs associated with it. The following budget breakdown is a good way to get a rough idea of the cost of a ‘comfortable’ retirement.’

This budget breakdown is for a comfortable – but not financially-carefree – retirement lifestyle. And it assumes you’ve paid off your major expense, the family home. Estimate your retirement lifestyle budget below.

<table>
<thead>
<tr>
<th>Weekly outgoings</th>
<th>Modest lifestyle</th>
<th>Comfortable lifestyle</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single</td>
<td>Couple</td>
</tr>
<tr>
<td>Housing – ongoing only</td>
<td>$54.08</td>
<td>$51.91</td>
</tr>
<tr>
<td>Energy</td>
<td>$28.81</td>
<td>$38.27</td>
</tr>
<tr>
<td>Food</td>
<td>$71.76</td>
<td>$148.65</td>
</tr>
<tr>
<td>Clothing</td>
<td>$17.72</td>
<td>$28.77</td>
</tr>
<tr>
<td>Household goods and services</td>
<td>$25.73</td>
<td>$34.89</td>
</tr>
<tr>
<td>Health</td>
<td>$33.04</td>
<td>$63.77</td>
</tr>
<tr>
<td>Transport</td>
<td>$88.31</td>
<td>$90.81</td>
</tr>
<tr>
<td>Leisure</td>
<td>$73.72</td>
<td>$109.84</td>
</tr>
<tr>
<td>Communications</td>
<td>$9.18</td>
<td>$16.08</td>
</tr>
<tr>
<td>Total per week</td>
<td>$402.37</td>
<td>$582.99</td>
</tr>
<tr>
<td>Total per year</td>
<td>$20,981</td>
<td>$30,399</td>
</tr>
</tbody>
</table>

7 Association of Superannuation Funds Australia, Westpac-ASFA Retirement Living Standard, detailed budget breakdowns, March Quarter 2010
Step 2 –
Your nest egg goal

Working through the retirement lifestyle budget probably gets you thinking about how you will spend your money when you are retired. And wondering where it’s going to come from.

Once you have an estimate of what your retirement lifestyle will cost, you can start thinking about how much you need to accumulate before you retire to achieve this lifestyle. Your nest egg goal is calculated based on your retirement lifestyle budget and the number of years you anticipate you will spend in retirement.

How much will I need?*

Single person

<table>
<thead>
<tr>
<th>Annual retirement income</th>
<th>Years in Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20 years</td>
</tr>
<tr>
<td>$20,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>$30,000</td>
<td>$155,000</td>
</tr>
<tr>
<td>$40,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>$50,000</td>
<td>$480,000</td>
</tr>
</tbody>
</table>

When you’re working out your nest egg goal don’t forget to add in any major one-off capital expenses such as extra money for aged care, a house renovation or a new car. And if you think you’ll still have debt (like your mortgage) in retirement, factor those payments in too.

Investing in your retirement

Your nest egg goal is the amount you are aiming for to meet your retirement lifestyle expectations. You don’t have to save exactly this amount. The beauty of the super environment is that your money is invested and should grow over time. The earnings can help you to reach your goal.

*Amounts rounded to nearest $5,000.

Note: Based on single person who owns own home with no other assets or income and receives the Age Pension. Assumes money invested in superannuation and rolled to an allocated pension with Balanced rate of return of 7.24%.
What about the Age Pension?
In Australia, we have a ‘three-pillars’ approach to helping people create financial independence in retirement.9

1. Compulsory employer super contributions (super guarantee)
2. Additional savings and contributions you make to top up your super
3. A government ‘safety net’ – the Age Pension system (which is means tested)

The Age Pension is a government-funded income paid to eligible retirees. It’s a safety net for retirees to fall back on, and it can be used to top up your retirement income. But the Age Pension only pays you up to $18,229 per annum for singles and $27,482 per annum for a couple10, which is approximately 28% of the Average Weekly Ordinary Time Earnings in Australia11 and approximates the poverty line.12 Relying solely on the Age Pension could impact your lifestyle.

The government assesses your eligibility for the Age Pension by calculating your other income and assets. Currently those single individuals with income up to $146 per fortnight and homeowners with assets (excluding their home) up to $181,750 ($313,250 non-homeowners) are eligible for the full Age Pension. Couples with combined income up to $256 per fortnight and combined assets up to $255,000 (homeowners) and $389,500 (non-homeowners) are eligible for the full Age Pension.11

Put a financial plan in place now, to minimise your future reliance on the Age Pension and to give you peace of mind about your financial security in retirement.

Step 3 – Sprint to super
Relying on your compulsory employer super contributions and social security alone is probably not enough to get you to your retirement goal. But there are strategies that you and your financial planner can implement to make the most of your super while you’re still working. And then, you can structure your income in retirement to give you the lifestyle you want.

Investing in your super is one of the most tax-effective ways to save for your retirement. And there are also some great incentives to encourage you to invest in super and help your money grow exponentially in time for retirement.

Sprint to super in the years leading up to retirement with the following strategies.

After-tax contributions
After-tax contributions – sometimes called personal contributions, or non-concessional contributions – are deposits into your super fund by you from your take-home (post-tax) salary.

Because the government has already taken tax out, these contributions are not taxed when you deposit them into your super fund, and they are not taxed when withdrawn after you reach retirement.

There is a maximum after-tax contribution limit of $150,000 per financial year. People under age 65 can make three years contributions in one year, which means you can contribute up to $450,000 – but then can’t contribute for the remaining two years.

If you are aged 65 to 74 you need to meet a work test to be eligible to contribute, which means you must work at least 40 hours in 30 consecutive days in that financial year.

Salary sacrifice
Salary sacrificing a portion of your pre-tax salary into your super fund is one of the most tax-efficient ways to boost your super account and reduce your income tax. Rather than paying income tax of up to 46.5% (including Medicare levy), you will only pay super contributions tax of 15% on whatever you contribute into your super fund. This tax is deducted within the fund.

This means for someone who is on the highest marginal tax rate of 46.5% it’s the difference between investing 53.5 cents in every dollar and investing 85 cents in every dollar.

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10 Centrelink rates from 1 July 2010
11 ABS, Average Weekly Earnings Australia May 2010 Cat 6302
Government co-contributions

Employees on lower incomes can use government co-contributions to increase their super.

If you earn less than $31,920 pa and you make a $1,000 after-tax contribution, the Australian Government will contribute $1,000 to your retirement savings. If you earn between $31,920 and $61,920 per annum you can receive a proportion of the $1,000 government contribution, paid on a sliding scale depending on how much you contribute and how much you earn.

The after-tax contributions you make, and the co-contributions you receive are not taxed when they are deposited into your super fund, though earnings are taxed at 15% within the fund. After-tax contributions and co-contributions will also be received tax-free when paid out in retirement.

Self-employed people are also eligible for the co-contribution.
As you approach your retirement age, it is time to decide how to turn your super into income – bearing in mind that your superannuation needs to support the lifestyle that you want for as long as you require it.

You’ve also got some decisions to make, which can affect how you access your super, and when.

- Are you ready to completely retire from the workforce?
- Do you want to work part-time and transition to retirement?
- Do you want to take part of your super as a lump sum?
- Can you maximise Centrelink or Department of Veterans’ Affairs benefits?

Retirement income streams

Converting your super to an income stream is known as ‘rolling it over’, because you don’t touch it, and it remains in the tax-effective superannuation environment. An income stream, such as an allocated pension, provides regular income to meet your retirement needs. Similar to a salary payment, an amount is paid into your bank account regularly (usually monthly or quarterly).

Because your nest egg is still in the super environment, this means it will continue working for you, just as it did when you were still accumulating super, and the earnings are now tax-free. But it also means it will continue to fluctuate with the market, depending on the investment options you have chosen.

From the age of 60, income streams will be received tax-free, and you may also get some Centrelink advantages from keeping your money in the super environment.

Lump sum

Drawing down a lump sum is tax-free for people at least age 60, but remember once you take your money out of the tax-effective super environment you’ll have to manage your savings yourself – with some help from your financial planner of course.

The fundamentals of retirement – income stream, lump sum or both?

In the current super environment, you have a couple of options available to you once you reach your ‘preservation age’ – that is the age at which you can access your preserved funds, depending on when you were born. You can also access your super upon reaching age 65.

From age 55 you can access your super as an income stream, and then from age 65 you can withdraw all or part of your super as a lump sum and/or convert it to an income stream.
Maximise your super ….

…and Centrelink

Many people are eligible to receive Centrelink or Department of Veterans’ Affairs payments such as the Age Pension to supplement or top up their private income.

To receive the Age Pension, your income and assets are subject to means testing, but you may be able to structure your retirement savings to increase your eligibility for the Age Pension through retirement income streams.

Retirement income stream products can provide favourable treatment under the Centrelink income test. It is important to seek advice from your financial planner when considering Centrelink benefits, so they can help you structure your income and assets correctly.

… by moving assets into super

You may have accumulated assets and investments outside super, in which case you can consider cashing them in to make a contribution to super before you reach age 65 or retire (subject to contribution limits).

If you are considering moving assets into super, seek advice from your financial planner to ensure you are eligible and consider all of the tax implications. This applies particularly if you are planning on selling a business – there are different rules for money resulting from the sale of a business.
If you’re nearing retirement and need to boost your super – or aren’t ready to retire completely – transitioning to retirement may help you achieve your goals. And it’s a strategy you can implement even if you’re still working full time.

Transition to retirement (TTR) is only available if you are aged 55 or over, and is particularly beneficial for those aged 60 or over, because then you receive your pension tax-free. TTR works by taking advantage of the different tax rates inside and outside super.

The strategy has two benefits:

1. It allows you to ‘test the water’ before retiring completely – perhaps by reducing from full-time to part-time work, but without reducing your income.
2. If you are happy to keep working full-time, it enables you to give your superannuation balance a boost.

**How does it work?**

For people who want to reduce to part-time work, TTR involves starting an allocated pension to top up your income so that your take-home pay remains unchanged.

For those seeking to boost their super balances, it involves salary sacrificing some of your income, and restoring your take home pay to its previous level by drawing income from an allocated pension.

When you commence a pension, investment earnings on your nest egg are no longer taxed at up to 15%. Pension payments also have some tax advantages over salary. So this strategy can provide tax savings – which, combined with tax-free earnings, can boost your superannuation account balance and provide a better retirement nest egg for you.

**Step 1**

Your salary is split into two parts:
- Some is salary sacrificed straight into super
- The rest is paid as cash salary to you.

**Step 2**

The money that is currently in your superannuation fund is rolled over to start an allocated pension. The pension payments are used to top up your income.

You can choose how much income to receive each year. Between age 55 and 65 the minimum pension you will normally have to take is 4% of your account balance and the maximum is 10%.

However, for the 2010/11 financial year, the minimum pension is only 2% of your account balance.
**Case study – Peter**

Peter is aged 55 and earns $60,000 pa. His net income after tax is $48,000. He is not contributing to super but his employer pays the compulsory 9% superannuation guarantee. This has 15% tax deducted in the fund so his net super contribution is $4,590.

If his super fund earns 7% per annum, at the end of the year Peter’s balance has grown to $322,440.

**Peter decides to use a transition to retirement strategy to boost his super:**

**Step 1**

He arranges for his employer to salary sacrifice $23,000 into his super fund, and receives $37,000 cash salary (less tax). His employer still pays 9% super on his full $60,000 package.

**Step 2**

Peter rolls his $300,000 superannuation balance to a non-commutable allocated pension. He can choose an income between $6,000 (2%) and $30,000 (10%) so he decides to take $18,220 to supplement his cash salary. This gives him a net income of $48,000 – the same as he had before implementing the strategy.

The table below demonstrates the year one net value to Peter’s super balance when using the transition to retirement strategy.

<table>
<thead>
<tr>
<th></th>
<th>Without Transition to Retirement</th>
<th>With Transition to Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial super balance</td>
<td>$300,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Super contributions (gross)</td>
<td>$5,400</td>
<td>$28,400</td>
</tr>
<tr>
<td>Contributions tax</td>
<td>$810</td>
<td>$4,260</td>
</tr>
<tr>
<td>Growth in fund</td>
<td>$21,000</td>
<td>$21,000</td>
</tr>
<tr>
<td>Tax on growth</td>
<td>$3,150</td>
<td>$0</td>
</tr>
<tr>
<td>Pension income</td>
<td>$0</td>
<td>$18,220</td>
</tr>
<tr>
<td>Peter’s super balance after one year</td>
<td>$322,440</td>
<td>$326,920</td>
</tr>
</tbody>
</table>

So the net result for Peter is that he has boosted his super balance by $4,480 at the end of one year without reducing his take home pay.

And if Peter was age 60, the tax savings would be even greater and his super balance would be boosted even more.

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* This general information is an example only and should not be relied on as advice for that particular person. Each person should consider their own circumstances and seek appropriate advice.

** Non-commutable means you cannot withdraw lump sum amounts from your pension until you retire or reach age 65.
Allocated pensions

Ready to shift into ‘full-time’ retirement?

Allocated (or account–based) pensions are currently the most common type of retirement income stream. They provide retirees with a flexible income.

An allocated pension can only be purchased with superannuation money. You can specify the amount of income you wish to receive each year (above government minimums). You can also withdraw money from the allocated pension at any time.

Allocated pensions allow you to nominate how your money is invested while you are drawing down your income from it, and the account balance fluctuates according to the performance of the underlying investments you choose. But remember, since the performance of an allocated pension is not guaranteed, you can’t be certain that the pension will last throughout retirement.

Upon death, any remaining account balance is payable to your beneficiaries. While the allocated pension is treated favourably for the Age Pension income test, the full account balance is included in the assets test.

Don’t forget to factor in longevity
Your financial planner can help you structure your retirement savings so that it lasts as long as you do! Drawing down on your allocated pension too heavily could see your super run out.
Case study – Rob and Anne*

Rob and Anne are both aged 65. Rob has $500,000 in super, while Anne is a homemaker, and doesn’t have a superannuation balance.

They have calculated that they need an income of $55,000 per year (after tax) for a comfortable lifestyle. To maximise their retirement savings their planner suggests rolling all of Rob’s super into an allocated pension with a balanced risk profile – half is invested in shares, and half in cash/fixed interest.

Rob and Anne can receive the $55,000 per annum income they need through a combination of allocated pension and Age Pension, until their money runs out at age 92. After this time, Rob and Anne will only have access to the full Age Pension of $27,482 per annum. If only one of them is still alive, the Age Pension is $18,229 per annum.14

The graph below shows Rob and Anne’s level of income each year and their assets reducing, until they run out at age 92.

Assumptions:

Taxation and Centrelink rates effective 1 July 2010

Projections assume expenses are inflated at 3% (CPI), income at 4.5% (AWOTE) and Tax items at 1.00%

The gross investment return for the Balanced profile is 7.24% made up of Income 4.15% and Growth 3.09%

This example is intended for illustrative purposes only and is not an estimate, forecast, guarantee of performance or payment indicator.

14 Centrelink rates effective 1 July 2010

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What next?

Protect your wealth
Protecting your wealth is just as important as growing it. Speak to your financial planner about putting appropriate insurance strategies in place to protect your future plans.

Make sure your super fund has your tax file number
It is important to make sure that your super fund has a record of your tax file number. If it doesn’t, you may incur tax penalties, and if you are still contributing to super your fund may not be able to accept your contributions.

Wills and estate planning
The last thing any of us want to do is leave our family to have to deal with any confusion about our intentions for our estate. Your financial planner can tell you how to keep your super fund up to date with your beneficiary nominations, and can also refer you to a specialist who can organise your will and manage estate planning issues.

Further reading
You may want to do some further research into retirement lifestyles and superannuation. There are many resources available online, or in hard copy, to help you understand superannuation – and to help you get a picture of your retirement lifestyle.

Association of Superannuation Funds Australia – www.superannuation.asn.au
Australian Taxation Office – www.ato.gov.au
Financial Planning Association – www.fpa.asn.au
Superliving – www.superliving.com.au
Your life, your retirement – www.yourlifechoices.com.au

The importance of advice
Getting the right strategies for you, and your unique situation, takes some planning. After all, your retirement income will need to last for as long as you do.
To help you afford the retirement lifestyle that you imagine, financial advice is vital. A financial planner can assist you in calculating an approximate retirement nest egg and then help you maximise your retirement income with tax-effective strategies.
The initial outlay of the cost of your financial plan, and ongoing financial advice, is often negligible in comparison to the reassurance you get from knowing you are making your money last as long as you need it.
By putting in place a plan for retirement now, you can spend the next few years thinking about the years ahead, and not worrying about what your future retirement holds.
Important note
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