IS $1 MILLION ENOUGH TO RETIRE ON?

PERPETUAL PRIVATE INSIGHTS
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Everyone who's approaching retirement wants to know how much money they need to save - how much is enough to leave work confidently and then live comfortably? Lately, we've been seeing $1 million dollars bandied around as the magic number.

So, is $1 million enough?

Well, it depends. If you're a high-income earner and want to maintain a similar lifestyle when you retire, then $1 million might not stretch as far as you think. If you're happy to spend less, then it may be enough.

The Association of Super Funds of Australia (ASFA) calls this the difference between a 'modest' and a 'comfortable' retirement. It estimates that a couple needs an annual income of around $40,000 for a 'modest' life and $60,000 for a 'comfortable' life.

Gold Coast or Amalfi Coast?

While ASFA recommends $60,000 for a 'comfortable' life, if you're used to a much higher income, then this probably won't keep you as *comfortable* as you'd like.

The Australian Securities and Investments Commission's Money Smart website has another approach. It suggests that if you'd like to maintain your current lifestyle when you retire, then assume you'll need two thirds of your pre-retirement income. So, if you're currently earning $150,000 you'll need $100,000 a year to live the life you're used to.

Now let's talk about you

While these calculations are useful *in general*, they're not going to perfectly suit *you*. The amount of money you'll need will vary a lot depending on your personal situation. Here are some of the most common variables:

- **Your home** If you own your home, you'll need less income. Retirees who own their homes outright spend on average 5% of their income on housing, compared to 30% for retirees who rent[1].
- **Your health.** You are likely to spend more on healthcare as you age. While Medicare should cover much of the increase, private healthcare costs are rising much faster than inflation, going up 66% since 2009[2].
- **Dependents** If you're supporting children, or parents - or both, you'll need to think about how their financial needs will affect *your* financial needs over the years.
- **Less over time** Most people spend less as they age (spending falls by 15% on average between the ages of 70-90[3]). This is because as they get older many people have bought most things they really want (and can afford) and have less desire to be so *busy*.
- **Longevity** People are living longer and longer, which is fantastic, but it does make it harder to work out exactly how much money you'll need. Do you need to fund a retirement that lasts till you're 88 or 108?

Keeping the money flowing

When you've worked out roughly how much income you'll need, the next step is to work out how to get it. Here are some of the main ways:

- **Account-based pensions** You generate regular income payments by transferring some, or all, of your super to an account-based pension account. It's generally tax free (as it stays within super), but your income will fluctuate depending on how your investments perform.
- **Annuities** An annuity gives you a set income for a defined period, or for the rest of your life. It's great for reliability (you'll always receive the same income), but not so great if you need extra cash for an emergency or a one-off purchase. You may also get locked into whatever rate is available when you buy it – which may not be great when interest rates are at all-time lows.
- **Dividend investing** Share dividends can be a great (and growing) source of income. While shares have potential for excellent returns, they also come with greater risk.
- **Government assistance** Even if you're reasonably well off, you may still be eligible for a part pension - 2/3 of retirees are[4] - and then there's the seniors healthcare cards, travel discounts and other concessions.
- **Term deposits** You receive a set rate of interest for the term of your investment. Great for security and guaranteed income, but often a lower rate of return than other investments and you normally pay a break fee and lose part of your interest if you withdraw early.
- **Rental property** Renting out an investment property is a common way to diversify your investments and gain a consistent income. Difficulties can occur if you have problems with tenants, you need to make expensive repairs, or rents or the value of your property falls.
- **Work** Many people choose not to stop working entirely. They enjoy their work and it keeps them mentally active while giving them purpose, a sense of identity and time with friends. You could wind down slowly, keep working indefinitely, or flex your work depending on your needs.

It's never too late to get advice – or too early

As you can see, working out exactly how much money you'll need to retire is complex. The complexity starts with some big super decisions - whether to self-manage your superannuation (SMSF) is just one of them - and it gets more complicated from there.

An experienced financial adviser, like we have at Perpetual, can unravel the complexity for you and get you closer to your ideal retirement life. We can put together the appropriate mix of investments and investment structures to generate the right level of returns, minimise tax and remain within your risk appetite. We will also keep on top of any changes in regulations, or your personal life, and adjust your plan to meet the new reality.

In today's world, when the only constant is change, most people feel more comfortable having a guide on their side.

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1. Coates, B and Chen, T., *The Conversation*, "Retiree home ownership is about to plummet. Soon little more than half will own where they live.", 12 April, 2019.
2. Graham, D. and Mihm, M, *Choice,* "Private Health premium increases announced", 1 Feb, 2019
3. Coates, B and Daley, J. *The Conversation*, "Why we should worry less about retirement and leave super at 9.5%" Nov 7, 2018
4. Australian Institute of Health and Welfare, "Older Australia at a glance", 10 Sept, 2018