Retirement road map:

Here’s how to plan for a great retirement

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A downloadable eBook

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Introduction

Planning for retirement makes perfect sense, but it's actually something many Aussies put in the too-hard basket. Studies show only 44 percent of Australians over the age of 40 feel prepared for retirement.

However, it's important when you consider that retirement can make up a significant stage in your life. According to the Australian Institute of Health and Welfare, men can expect to live until 84.5, while life expectancy for women is 87.3 years. That means if you retire at the age of 65, you want to ensure you have savings that will last for at least 20 years.

The good news is, it's never too early or too late to start looking at your superannuation, and mapping out your post-work years. Being proactive about doing this can help ensure a comfortable retirement ahead.

In this ebook, we split the retirement planning into five distinct categories and give you some tips on how to navigate your way through each one, no matter what stage of retirement you are at.

Whether you need tips on boosting your super, strategies for controlling your debt levels or ideas on how to make lifestyle changes that'll have a positive knock-on effect in retirement, this ebook will guide you through everything you need to know.

Let's get started!

Stage 1:

Laying down your goals for retirement

It goes without saying that the best time to plan for retirement can be while you're still earning an income. This lets you map out your goals in advance and also start building your financial strategy.

Planning for retirement is often something we put off because we think we have years (or even decades) of time to get on top of it. But the truth is, the earlier you start planning, the more likely you are to secure a comfortable retirement.

Here's what you could consider when getting started.

Plan for the type of retirement you want

Mapping out your retirement is a process, and it evolves over time. But it could be a good idea to create a plan and refer back to it regularly. Here's what you could consider as part of the process:

1. **The age you wish to retire.** This will help you figure out your superannuation strategy.
2. **Your retirement needs.** This involves factoring in what your expenses will be once you retire, plus any unforeseen costs (such as medical bills).
3. **The income you'll have.** How much will you have to live on? Factor in super, income from any investments and government entitlements such as the Age Pension.
4. **Estate planning.** Taking time to prepare a legal will, consider your insurances such as life insurance and letting your family know of your wishes.

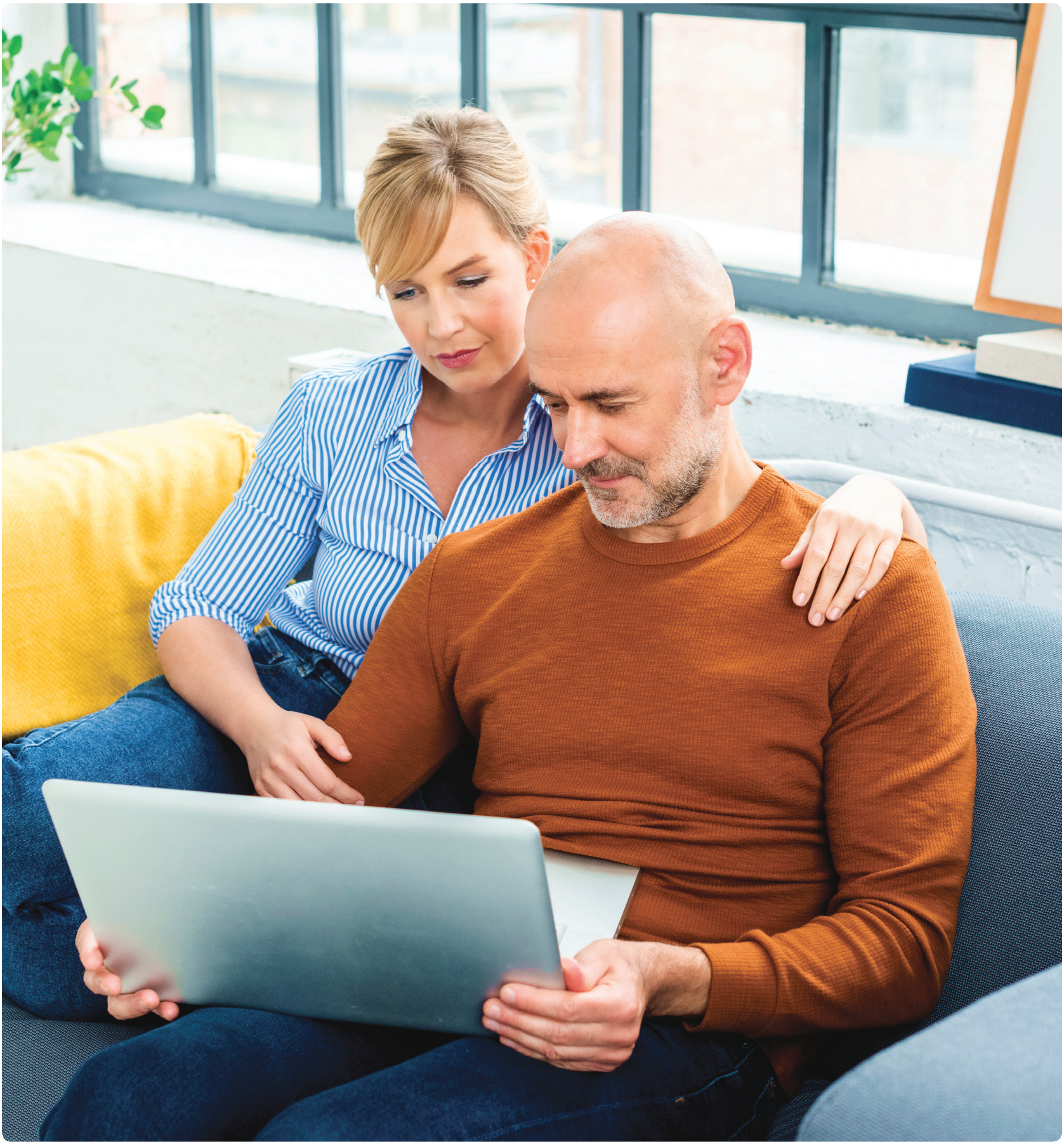
Budgeting for retirement

If you've figured out whether you will want a modest or more comfortable lifestyle, what does that look like in dollars and cents?

MoneySmart shows the Association of Superannuation Funds of Australia's (ASFA) estimates couples planning for a modest retirement will need $40,739 a year (or $780 a week to live on). If you want a comfortable lifestyle, you'll need to budget for $62,562 a year, or $1,198 per week.

If you're retiring solo, you'll want to ensure you have around $28,179 per year to live on (around $540 per week) for a modest lifestyle. If you want a more comfortable retirement with the means to travel more and spend more, you'll need to budget for $44,224 per year, or around $847 per week.

These amounts assume you own your home, retire at 65 and live to 85.



Stage 2:

Getting your finances on track

It's easy to panic a little the closer you get to retirement, especially if you feel like you're not as prepared as you should be.

But the good news is, there's still time to make a significant impact on your savings and reach a solid financial position if you plan ahead. One of the easiest ways to start is by taking a snapshot of your current debts and considering ways to pay them down.

Tips on further reducing debt

One study by AMP and the National Centre for Social and Economic Modelling found that nearly 4 in 5 people aged 50-65 have some degree of household debt, and carrying that into retirement with you may put extra pressure on your finances and lifestyle.

Some common strategies that might be worth considering when it comes to debt include:

- Consolidating smaller debts into one large one so you just pay one debt off
- Transferring credit debt to a zero-interest card to make it easier to pay off
- Paying all your debts on time or before the due date to avoid penalty fees
- Paying the full amount owed rather than minimum repayments
- Making extra repayments on your debts whenever you can

Of course, there's no one-size-fits-all solution to reducing debt. It all comes down to your individual needs and financial situation, so do your homework or you may wish to consult with a financial planner to help work out the best way to really nail a strategy that works for you.

Do you have enough to retire on?

You might still have a good amount of time before retirement – but will you have enough money to last you 20 years or more after you leave work?

If you've paid off your home, a general rule of thumb is that you'll need 67 percent of your pre-retirement income in order to maintain the same standard of living in retirement.

To find out, write down all your income each month, and your current expenses. Don't forget travel, groceries, bills and any hobbies or subscriptions you regularly pay for.

Then, work out your retirement income, based on super, investments, savings and any government benefits you may be entitled to. If there's a big discrepancy, you may want to:

- Think about how you can spend less in retirement
- Consider how you can be saving more right now (perhaps by cutting back)
- Consider staying at work for a few extra years
- Look at ways you can earn more from your investments

If you need help, chat to a financial planner who can crunch the numbers for you and offer advice on what you should be doing now to plan ahead for retirement.

Creating a retirement pay cheque

Cash flow is everything during retirement, so you want to make sure you'll have enough to live on. The ASFA's standard budget breakdown for retirees can help you design your own 'pay cheque' for your retirement years, as it factors in all expenditure you may be faced with – from groceries to utility bills, appliances to public transport.

You may have already done this if you're trying to live by your retirement budget, but if not, now's the time to do it so you're aware of where there might be any shortfalls.

Building an emergency fund in case of unexpected expenses is also worth looking into – whether that's for medical treatments or a leaky roof. And don't forget to include premiums for all of your insurance policies, such as for health, life and funeral insurance, in your budget so you have all contingencies covered.

Paying down your mortgage

Entering retirement debt-free is the ultimate goal for most of us – simply because every dollar you owe will reduce the funds you have to live on.

But it's definitely not easy in a country of ever-rising house prices. According to the Australian Housing and Urban Research Institute (AHURI), 27.5 percent of Australians are still paying off their home when they retire – and it can have knock-on effects for your mental health, according to research.

You might want to look at ways to chip down your home loan before you retire. Talking to a financial advisor can help you figure out a reasonable strategy within your means, whether it's increasing your repayments, switching providers, or refinancing.

Bumping up your super

The more money you move into your super fund, the more you'll have stashed for retirement. And if you've been contributing the standard 9.5 percent to your super for decades, you may have a good base to build on by now.

You may wish to consider ways to bump up your super – such as contributing any lump-sum inheritance or tax returns you receive. You could also look into investing some of your pre-tax income into super (which is known as salary sacrificing). These amounts will generally be taxed at a lower rate than the marginal tax rate. Just be aware that your employer's contributions and any salary sacrificing you do cannot exceed $25,000 per financial year.

Other ways that a super account can be bumped up are through after-tax contributions (up to $100,000 per year), or if you earn under a certain amount each year, it could be through low income super tax offset or even Government co-contributions.

The super guarantee rate is set to increase from 9.5 percent to 10 percent on July 1, 2021, which will further help grow your super.

Checking into your super's investment strategy is another way of potentially growing your super. Your super fund invests your money for you, and most funds let you choose from a range of investment options, from conservative to growth. The options you choose can make a big difference to how your super grows. However, you may want to consider your age, when you will be accessing your super and the level of risk you feel comfortable taking on.

A higher growth option will have higher risk and experience more volatile returns over the short term. A conservative option will offer lower risk but may provide lower returns over the long term. There is no one correct approach.

Stage 3:

Adjusting your lifestyle in preparation

Depending on how far off from retirement you are, there are many strategies to consider that could assist to bump up your retirement funds. Some strategies include selling the family home (or downsizing), changing your investment strategy or even thinking about whether you want to keep working part-time after retiring.

The final couple of years before leaving work can be especially important ones in your retirement road map.

Do you look at downsizing?

Downsizing to a smaller home – especially if your kids have left home and you don't need much extra space – is a popular way among Australians to boost cash flow and super.

If you sell your home and buy something cheaper, you can put up to $300,000 into your super as a 'downsizer's contribution'. You must be over 65 and have lived in your home for the past 10 years or more. If you're a couple selling a property you own jointly, you can both take advantage of this and contribute up to $300,000 each to your super funds.

The downsizer's contribution isn't tax deductible and you can make it even if your super balance is over $1.6 million – but financial advice will help you with how it might affect your government entitlements.

Downsizing also comes with plenty of lifestyle benefits, like less upkeep and maintenance. This can give you more time in your day for the activities you enjoy. Plus, you can always move somewhere more convenient for your new lifestyle, whether it's being closer to family and friends or somewhere more peaceful. If you prefer metro areas closer to CBDs, downsizing may help you avoid the high property and rent prices in these locations.

Common options for downsizing include:

- Apartments
- Townhouses
- Granny flats
- Retirement villages
- "Tiny houses"
- Long-term caravanning
- Renting a single bedroom or living quarters

Doing a retirement trial run

Before you actually do retire consider practicing living on your 'retirement budget' – if you're not doing that already.

It'll prove to you whether it's possible, and if you find you've miscalculated, there's still time to make adjustments – whether you stay on at work for a bit longer, opt to work part-time, or reduce your spending more than you have already.

To move towards living on less, you might consider cutting back on holidays or eating out, managing on just the one car or looking at eliminating subscriptions (like streaming services) that you don't really use. It all adds up!

Winding down at work

While some people dream of retirement, enforced downtime may not be everyone's cup of tea – so it might be worth considering whether you want to retire fully, or adopt a transition to retirement (TTR) strategy.

This basically involves accessing some of your super while you keep working (restrictions may apply depending on your age). If you decide to reduce your work hours, it's a way to supplement your income. But if you decide to keep working full-time, you can consider a TTR strategy to keep growing your super and saving on tax. Chat to your super fund or financial advisor to find out what you need to know to set it up.

You may also decide to head back to work after a few years' retirement – either because you've got lots of spare time on your hands, need cash flow or just miss the camaraderie of a workplace. There are rules around doing this though, so talk to your financial advisor about what might apply to you.

Building your post-retirement social life

It's great to be as financially prepared for retirement as possible, but many of us don't consider that we should be mentally prepared, too.

And given the run-up to retirement can be hectic, you may not give much thought to your social life once you're away from work, or how you might fill the gap once you're no longer spending all those hours with your workmates.

Research shows that retirees with social support, and those who plan to fill their days with activities (such as visiting family or friends, volunteering, exercising and working part-time) may be happier and more content in retirement than those who haven't put a plan in place.

So look into local groups you might want to join, plan some trips, and start making friends with people who are already retired and have similar interests to you, rather than waiting until you actually stop work for good.

Getting your affairs in order

If you haven't yet thought about your aged care choices, now could be the time to start putting some decisions in place.

This might also be a good time to review your will (or get one if you haven't got one in place; it's estimated that nearly half of Australians die without a legal will in place).

That might mean choosing a power of attorney – a solicitor or family member you trust. Or, you may wish to have your adult children share the responsibility.

Whoever you appoint as your power of attorney, it's a good idea to visit a solicitor together to sign the paperwork and discuss your wishes for the future in regard to health decisions, legal issues and where you'd like to live.

Talking to family about your end of life wishes

It's never easy to talk about what will happen when you pass away, but you're better off preparing family members early and ensuring your wishes are known.

Take the time to discuss your plans for retirement (including your end of life wishes) with your loved ones, and let them know what you'll be putting in place, and where.

This could also be a good time to assess your insurances such as private health cover – or, if you haven't already, consider life insurance and funeral insurance policies, for additional peace of mind.

Stage 4:

Accessing your super and claiming your eligible benefits

You might want to consider applying for any eligible government benefits when you retire and doing a review of your budget and cash flow.

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Here's what you need to consider:

The Age Pension

You must be 66 years or older to access the Age Pension and you can check here to see if you're eligible. You'll need to do an income test and an assets test.

The basic amount a single person receives on the pension is $868.30 per fortnight, while a couple receives $1,309 per fortnight. You may also be eligible for a Pension Supplement - a regular extra payment to help with utility, phone, internet and medicine costs if you get income support from the government, or the Energy Supplement - an extra payment to help with energy costs if you get certain payments from the government.

The carer's allowance

This fortnightly supplement is given to those who may be caring daily for someone who is seriously ill, frail or has a disability. To receive it, the carer and the person you're providing care to must meet the criteria.

The payment is around $131.90 per fortnight.

The disability support pension

If you have a permanent physical, intellectual or psychiatric condition that stops you from working, you may be eligible for the disability support pension.

How much you receive depends on your age and circumstances but the minimum basic rate is the same as the Age Pension (see above).

Other benefits to consider

There are other government entitlements available, including the Pensions Loan Scheme, which enables you to get a voluntary, non-taxable fortnightly loan.

If you've reached the Age Pension age, check if you're eligible for the Commonwealth Seniors Health Card, which gets you cheaper health care and other discounts.

The payment and service finder tool can help you figure out what you may be eligible for.

Accessing your super

Generally, you can start accessing your super at your preservation age, which is 55 for anyone born before 1 July 1960 or between 56-60 for anyone born after that date.

You can access some of your super while still working as part of a transition to retirement (TTR) strategy. This involves transferring some of your super to an account-based pension. You need to keep your super account so you can continue receiving compulsory contributions from your employer, or contributions you make yourself.

Just be aware that starting a TTR pension can impact you or your partner's government benefits and it may also affect your life cover, if it happens to be bundled with your super.

You can also withdraw your super as a super lump sum at your preservation age, or a combination of both.

Conclusion

Retirement is a great time to carve out a lifestyle you're happy with – whether that means living in a different place, travelling more or simply having time to focus on your health and your family.

And whether you're looking to partially retire or leave the workforce behind completely, there are lots of options to help you create a retirement that you're happy with. As we've shown, it's a good idea to be both financially and mentally prepared for retirement, and to have all your affairs in order – including a will, life insurance and power of attorney.

We hope this ebook has given you the information and tools you need to create your retirement road map for the coming years.

Good luck, and here's to a great retirement!

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