

LIVING WELL IN RETIREMENT

Planning the next chapters of your life

As we move through our 50's and having reached half a century, we can truly consider it a milestone in our life's journey. Our thoughts may turn to early retirement and the desire for a more balanced lifestyle.

For many of us reaching half a century comes with a need for greater security and certainty as we stare down the strong possibility of living longer and reaching our centenary years. Enjoying a comfortable lifestyle in our post working years and enjoying good health and wealth is what most of us will yearn for.

With the advances in medical care and science, most of us will be living longer lives and as Australia's population ages, we as a nation will need to come to grips with it. According to the latest Australian Bureau of Statistics study on Australia's population (*FPA, Money & Life 2019*), the number of people aged 85 and over has more than doubled in the last 20 years (an increase of 110 %).

This compares with a 35% increase in our population overall. A baby girl born in 2021 has an almost 40% chance of celebrating her 100th birthday.

When we think of retirement, most of us think of stopping work, sitting back to relax and taking that long awaited overseas trip. The word RETIREMENT for some people may even mean retiring from an active LIFE and yet the best years are ahead of us if only we can change the way we think.

Redefining what retirement means and accepting the ageing process is the key.

A new way of thinking is needed, one that allows us to plan and make our financial future safe and secure whilst remaining agile, healthy, actively working, and contributing to our community. Keeping our minds and our bodies active will contribute to our health and our wealth. A fluid approach to life whilst preparing for a secure future is what we must define.

Preparing for the next 10 to 20 years and beyond

Defining and realising what our post working life years should look like is challenging and exciting. A health check on your assets, your super, your savings, your investments and your debt position will help you determine if you're on track to meeting your goals and live the lifestyle you want.

Maximising your wealth through work and having the right road map will help you to enjoy your health and your wealth for longer. That's what financial planning is all about. Remember the age old saying.....*"If you fail to plan, you plan to fail."*

As you move towards your retirement years, there are many ways in which to achieve a work life balance whilst building up your savings. Getting started on a plan and acting on it now, is particularly important. Let's look at four ways to prepare you for the future.

1. Transitioning to a new working life

Many people are deciding to work longer and well into their late 60's. Whilst it may seem to be unpalatable, it provides the opportunity to save longer for a brighter and more financially stable future. Staying in the workforce for as long as you can allows you to take advantage of additional earnings and potential tax savings, whilst still growing your super balance and other investments.

For many Australians trialling retirement appears to be the in thing. Maintaining work that provides purpose, self-dignity and an identity whilst ensuring that regular income continues to roll in.

If you are considering trialling retirement and dipping a toe into it, a Transition to Retirement strategy (TTR) may be a first worthwhile step to take.

Let's look at some of the key points in a TTR strategy:

- i. As you near retirement you start to work less hours or work on a part time basis. At the same time, you want to ensure that you're still saving for the day when you stop work completely.
- ii. You retain your super account but withdraw some of the money to start a TTR Pension Account.
- iii. As a result of working less hours or the possibility of a change in your career, you wish to supplement any reduction in your take home pay by drawing down a small amount out of your TTR Pension account.
- iv. As you continue to work and earn an income, your employer will continue to make Super Guarantee contributions to your super account. You then choose to top up your super by making additional contributions by salary sacrificing part of your salary and paying these as contributions into your super account.
- v. By salary sacrificing into super you will not pay tax at your marginal rate on the amount you contribute to super. The contribution to super is taxed at 15% possibly a lower rate than your income tax rate, and that's an immediate tax saving to you.
- vi. If you start a TTR pension after age 60, the pension payments are tax free.

A TTR strategy is not for everyone but understanding the fundamentals and managing your income and your super is key.

If you are aged 65 and wish to continue to work, you can also establish what is called an Account Based Pension. Having an Account Based Pension to supplement your take home pay and potentially reduce tax is a great way of delaying your complete retirement from the workforce. Again, it's all about rethinking and redefining retirement. Strategies that help you to live a meaningful and balanced life.

2. Using the family home to boost your retirement savings

Once you reach your 60's you may start to feel that your home is too big and that you're wanting to find a smaller home, one that allows you to spend less time in its upkeep. For some couples, selling the family home can also be a terrific way to release some of the equity they have built up and then use some of it to make extra contributions to their super account.

From the 1 January 2023, individuals aged 55 and over can make a non-concessional (after-tax) contribution into their super account of up to \$300,000 from the sale proceeds of their family home provided they have owned the property for at least ten years. These contributions are known as [Downsizer Contributions](#).

A downsizer contribution is a non-concessional contribution, but it does **not** count towards the contribution cap, giving your super a meaningful boost. Couples can contribute up to \$300,000 each into their super accounts, giving a total contribution per couple of up to \$600,000.

It is worth noting that when these contributions move into the retirement phase and you start drawing a pension, your pension investment earnings are tax free. Whereas, if you invest the sale proceeds of your home outside the super system, you may pay tax on any income from the investment.

If you make a downsizer contribution (from the sale of your principal place of residence), you are not required to buy a new home. In fact, there's no requirement to buy a cheaper or smaller home after making a downsizer contribution, so you could decide to purchase a more expensive replacement.

When preparing to plan for retirement, downsizer contributions can present valuable opportunities to make clever use of the tax benefits that super offers. The benefits of downsizer contributions don't stop at retirement. For example, if you are 75 years or older, your fund can always accept compulsory employer contributions and downsizer contributions.

3. Securing a guaranteed income in Retirement

In the ABC Australia Talks Survey (*FPA, Money & Life 2019*), over 50,000 participants said that their number two concern was about saving enough for retirement.

The Federal Government's focus on Australia's ageing population and its evolving Retirement and Incomes policy has seen financial markets become more innovative with competitive products aimed at helping individuals fund for their desired retirement lifestyle. This has given rise to product solutions that help retirees consider their future in a life stage approach, such as an Account Based Pension or an Annuity. For the purposes of keeping this brief, we will focus on Annuities.

An Annuity is a retirement income product that aims to provide a guaranteed income stream for a set time period or, life. The income period can be set over a fixed term or over the lifetime of the investor. The investor (often called the annuitant) gives the product provider a lump sum to invest and the provider pays an income in return. The lump sum can be derived from super money or money that sits outside of super.

Annuities can be grouped into two common types. They are a **Lifetime Annuity** and a **Fixed Term Annuity**. A lifetime annuity may appear to be the most attractive type of annuity to use. Why? Because it gives comfort to the individual annuitant that money will not run out whilst they are still alive.

There are pros and cons to building annuities into any strategic financial plan and here are just a few of the pros:

- An Annuity can give you peace of mind by providing a guaranteed income for life or for a chosen fixed term period.
- The income payments derived from an annuity are tax free if the initial purchase price is money that is withdrawn from super after age 60.
- If you contribute money to super first in a tax effective way e.g., via salary sacrifice and then transfer those funds into an annuity, this will result in tax free payments from the annuity.
- Only 60% of the income derived from an annuity is counted as assessable income for the age pension means test.
- Depending upon the type of annuity, you can state the amount and frequency of payments to assist you to qualify and receive access to the age pension, in full or in part.
- Annuities can be used to help cover your living costs and maintain your standard of living. They can be linked to inflation to help protect your lifestyle, or they can be linked to the performance of investment markets.

4. The Ageing Process

We all know the natural ageing process all too well, but some of us may not be so aware of the things we can do to bring certainty and comfort in our lives. The following points provide a quick health check on the things we all need to do.

❖ Create or update your existing Will and establish an effective Estate Plan

Consider how you wish to disburse assets such as shares, super, property, amounts held in other types of investments, life insurance cover, specific gifts and of course any business interests. How these are released to your beneficiaries in the event of death may have tax implications, so it is important to seek advice.

❖ Establish an Enduring Power of Attorney (EPOA)

An EPOA is a legal document that gives your chosen attorney(s) the legal authority to act for you and to make decisions on your behalf and to manage your financial matters and personal matters (including health care). The person you appoint as your attorney becomes your substitute decision-maker if you are no longer able to make decisions.

❖ Establish an Advance Health Directive (AHD)

This formalises your end-of-life care, your values, your needs and preferences. An AHD is often called a living WILL. It is a formal way to give instructions about your future health care. It will only take effect if you do not have capacity to make decisions for yourself or to communicate your preferences.

Summary comments

We have provided a lot of information here and the purpose is to present to you some of the opportunities in a straightforward way so you can consider your future retirement. It is clear most Australians are concerned about their health and the possibility of poor financial outcomes in retirement. It is important to remember that your future is in your own hands.

At PictureWealth, our aim is to help you navigate life's journey in stages. To provide you with the support and the advice that leads you to live freely today, with confidence that you can enjoy your future life tomorrow.

For more information or advice, reach out to one of our financial advisers.

If you would like a PictureWealth adviser to assist you in any way, contact us on 1800 935 343 or by email at financialwellness@picturewealth.com

Resource and reference material:

ASFA Retirement Standards – June quarter 2024

FPA Money & Life Publications – October/November 2022

Retirement Incomes feature – Financial Standard October 2022

Important Information

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