
Financial Foundations
7 steps to secure the retirement you want.
From the Financial Advisers at Financial Foundations Australia

Clarity, control, and confidence for retirement.

Achieving a successful and financially secure retirement is one of the most important goals in life for most working Australians.

After a lifetime of hard work and sacrifice, your reward is to live the ideal life in retirement—the life you have always wanted and deserve. However, most people are uncertain about what financial steps to take in order to plan for a successful retirement. Making complex financial decisions can often seem overwhelming, leaving many unsure about how and where to begin.

Our guidebook offers step-by-step advice on topics such as Goal Setting, Superannuation, Debts, Tax, Income planning and Investment management – to help you live the life you want in retirement.

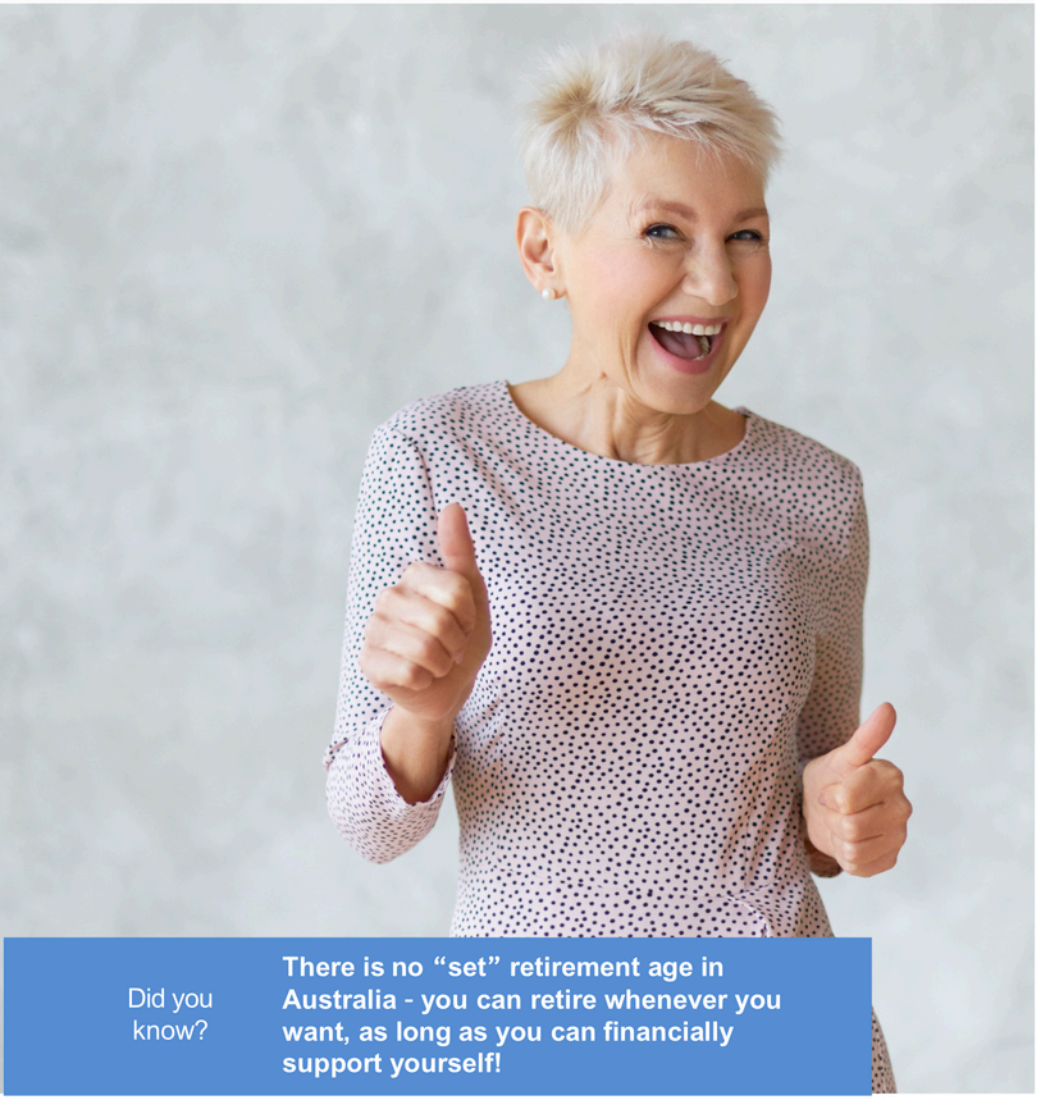
These 7 steps can help you identify key challenges and opportunities when it comes to retirement planning, and what you can do about them. Applying these steps will help you achieve a better life in retirement, with less worries.

1. **Understand the life you want in retirement.**
2. **Determine the resources you'll need.**
3. **Boost your super.**
4. **Have a debt strategy.**
5. **Create a retirement pay cheque.**
6. **Invest intentionally with realistic expectations.**
7. **Know how long your money will last.**



1 Understand the life you want in retirement.

"**Money is just fuel for living the life** and retirement you want, which means something **different to everyone**."



Did you know?

There is no "set" retirement age in Australia - you can retire whenever you want, as long as you can financially support yourself!

Achieving your ideal retirement starts with understanding what **that means to you.**

It might be a mix of travelling the world, spending more time with family, enjoying your passions and hobbies, contributing to the community or caring for others.

Ultimately, money is just fuel for living the life you want, which means something different to everyone. This is why it's essential that before you create a financial plan or make investment decisions, you define what your plans and intentions are, and understand what factors are likely to make your golden years fulfilling.

Many people retire with all the money they need, but don't live a truly great retirement. The sense of identity and purpose that many find in their work needs to be replaced, as does the time you've committed to work. Getting clear on your values and intentions will help you make better personal and financial choices that lead to a greater sense of wellbeing and satisfaction in retirement. Whether it's family, community, or adventure that you value or something else, make sure your choices are aligned with these.

You'll also need to decide on which pathway you will take to retirement. Many people save and invest with a certain age in mind for retiring fully, some gradually reduce their working hours over time while others even retire more than once.

Be mindful that what you want in the early years of retirement will evolve over time, so be sure to have regular conversations about the life you want – because that's the first step to living it.

2 Determine the resources you'll need.

"**Knowing you've got enough funds** creates the confidence and freedom to spend – **and enjoy your money.**"

Once you know your retirement life goals, you'll need to understand how much income is required to fund them.

A common rule of thumb is that you'll need 70–85% of your pre-retirement income, however everyone's situation is unique, so you're best to get specific. This requires you creating a budget or spending plan, and breaking down costs into categories such as lifestyle, bills, and travel.

Most people will spend more in retirement on certain expenses such as travel, health care and hobbies while other expenses might come down such as petrol and clothes.

When you're clear on how much income you need in retirement, you'll need to determine how much money you need in superannuation and other assets to provide it. While there's many commentators and articles telling you that you need a million dollars for a comfortable retirement, the reality is not that simple.

Some will need much more while others may need much less – what's important is what you need to fund the retirement you want. A financial adviser can help you understand what amount of capital you will have to build up to retire how you want to, and when you plan to.

Knowing the amount of assets you need to achieve your desired retirement may lead you to work a few extra years to shore up funds, or may enable you to reduce working hours or retire sooner – knowing you have what you need.



Did you know?

The super guarantee (SG) rate your employer needs to pay into your superannuation is 12%

3 Boost your super.

"The super rules might change consistently, but for **almost all Australian's it's still the best method of** funding retirement- and one of the best retirement systems in **the world"**

As retirement approaches, your mortgage repayments are generally lower, and any children are financially independent. **This means you've got more cash flow to shore up your retirement–enter supernanuation.**

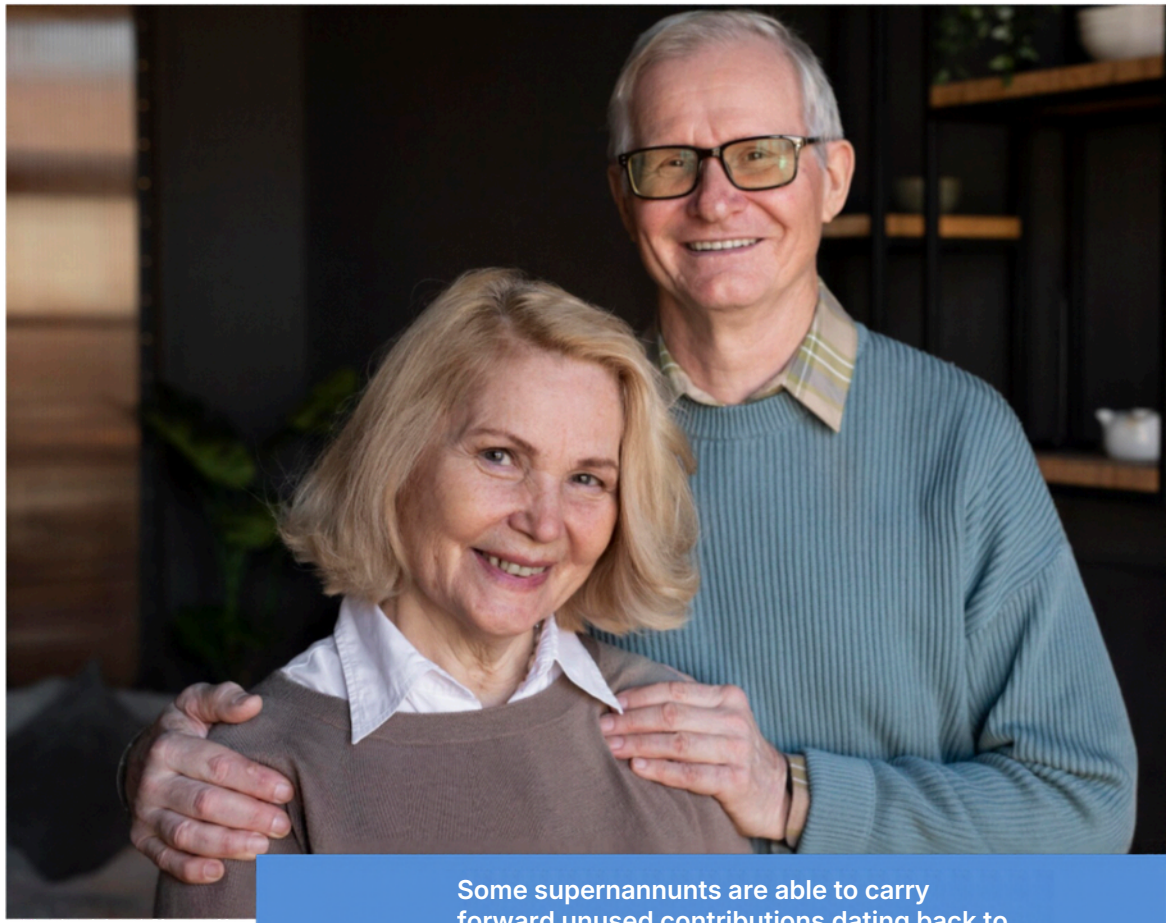
Making additional contributions is a terrific way of boosting your super and reducing your tax. Generally, start with maximising your $32,500 concessionary contribution cap, which includes employer super guarantee payments (currently 12%). You can salary sacrifice part of your employment income or via a one-off contribution. Either way, you can claim the contributions you make as a tax deduction which means a lower taxable income for you, and more money in your tax refund.

For example: If you normally pay personal income tax at, say, 30% or more, but super only taxes contributions at 15%, you're instantly ahead every time you put money into super (by 15%+). That's why extra concessionary contributions can be such an attractive strategy.

If you didn't contribute the maximum annual concessionary contribution amount to your super in the past, you're able to utilise the 'catch-up' contribution rules to boost your super even further and drive your tax bill lower. Some will also be able to carry forward unused contributions from up to five years ago.

You also have the non-concessional contribution caps available to you. Up until age 75, you're able to make non-concessional contributions of $130,000 each financial year, or $390,000 across three financial years if you wish to contribute more than $130,000 in any one year. You don't receive a tax deduction for the contribution, but the contribution goes into the fund without any contributions tax — unlike the 15% contributions tax levied on concessionary contributions. The take advantage of this option you might have built up savings, sold an investment property or taken a redundancy.

If you or a partner are a lower income earner you might be eligible for the government co-contribution of up to $500, or a tax offset of up to $540 for a spouse contribution.



Did you know?

Some supernannunts are able to carry forward unused contributions dating back to previous financial years, so you can catch-up on the years you didn't take advantage.



“FFA have helped me create a pathway to retirement that has given me confidence I’m on track.”

– Jenny

4 Have a debt strategy.

"A smart debt strategy can lead to more **money and choices in retirement."**



Did you know?

If you are 60 years old or older and you have retired, you can take a tax-free lump sum from super to clear debt.

If you're still making mortgage repayments after you retire, it will eat into the amount of money you have to live on. **It's almost always a good idea to pay off your mortgage by the** start of retirement which may mean making extra home loan **repayments above your minimum.**

For many soon-to-be-retirees, a common question is whether paying the mortgage off faster or making additional super contributions is the smarter financial strategy? A financial adviser can help you compare the cost/benefit of each option however choosing to make extra super contributions is generally the way to go.

This is based on the tax benefits of making super contributions, as well as comparing the likely earnings rate on the assets inside super to the interest costs on the home loan.

Generally speaking, based on the tax savings and the return you can achieve inside super, it is better financially to make contributions into super over making extra repayments on your mortgage.
If your mortgage is still quite large and it keeps you up at night, for that reason it may make sense to focus more so on the mortgage.

If you choose not to prioritise the mortgage or are unable to pay it down prior to retirement, you can clear the remaining debt with a tax-free lump sum from super once you have retired. This is a great way to kick off your retirement, and just knowing this is an available option will reduce the worries some may feel towards their mortgage as they near retirement.

If you have investment or business debt, it may be worthwhile to consider selling assets such as investment properties to clear this debt prior to retirement.

5 Create a retirement pay cheque.

"Organising your financial resources to optimise your retirement income can make **the difference."**

Before retirement arrives, you'll need a plan to transform your **accumulated resources and the benefits you're eligible to receive into sufficient income to sustain the life you want.**

The primary method of funding retirement is an income stream from super, 123, and an account-based pension. It's tax-effective and highly flexible. You can choose the level of income you wish to draw on a regular basis, which is tax-free after turning 60. There's a minimum annual drawdown amount of 4% for those under 65 and 5% for those between 65 and 74. In addition, all the income and capital gains from your investments are received tax-free up to an individual balance of $2.1m – that means up to $4.2m invested tax-free for couples for the duration of retirement.

You should also understand if you qualify for the government Centrelink age pension. For a home owning couple, you can have assets up to $1,121,000 and be eligible for a part pension - excluding your home.

If you have investment income from a share portfolio or investment properties, it may be worthwhile to assess the benefit of selling these assets and contributing the proceeds to super to maximise the tax efficiency of your retirement pay cheque. For those intending to fund their retirement from investment properties, proceed with caution. Relative to a diversified portfolio, residential property is low-income, illiquid, and time-consuming. It's great for wealth accumulation but less effective for retirement.

If your combined income sources aren't enough to sustain you through retirement, you may consider downsizing your home. As long as you are older than age 55, have owned your home for longer than 10 years and are an Australian Citizen, you are able to make a once-off tax-free "Downsizer" contribution of up to $300,000 into super each ($600,000 in total).



Did you know? **Couples can have up to $4.2m in their combined super invested tax-free for retirement.**



“FFA have taken away our stress about whether we can or can’t retire.”

– Mike and Joan

6 Invest intentionally with realistic expectations.

"When the stakes are as high as retirement, the right investment strategy, mindset, and **expectations are essential."**

Your investment approach should be what we call 'intention led'. **This means that your asset mix is dictated by what the money needs to do for you – which funds the lifestyle and experiences you've got planned.**

It might be that you need long-term returns of 8% to sustain your ideal retirement, or 6% to make sure you never run out of money. This should be the starting point for determining your investment portfolio and risk, not by whether you identify as being a 'conservative' or 'high growth' investor. To generate the required returns, focus on 'total return' rather than investing for income and dividends. A high-income portfolio will be a low growth portfolio, and you need growth to combat your drawdowns over the long-term. For those nearing retirement it's natural to be more cautious of investment risk – it's your life savings and the stakes are high. It's important to recognise that your money is invested not just up until you retire, but the duration of your life – so you're going to see many more ups and downs on investment markets.

Most importantly, you can control investment risk not just through diversification, but by-way of cultivating the right mindset for investing. Disappointment is the result of poorly set expectations, so ensure they're realistic in the short and long-term. Expect market volatility, knowing there will be market corrections and crashes, as there will be recoveries during your retirement.

Since 1950, we've seen a correction of more than 10% on the United States S&P500 approximately every two years. No one knows when a correction or crash will begin or how large it will be, however, we know this - every decline in the history of US and Australian share markets has been erased by a subsequent market rally. Distancing yourself from the daily market commentary (and at times hysteria) is key to great investing outcomes – and it will help you sleep at night.



Did you know? **Share markets experience a correction of more than 10% on average once every two years.**

7 Know how long your money will last.

"It's more important to live rich **than** die **rich**."



Did you know? **The average Australian couple spends around 50% more in their 60's than their 80's.**

To live with real freedom in retirement, you need to know how **long your money is going to last.**

There's a range of factors that influence how long your funds will support you including your living costs, future travel, asset allocation strategy, investment market performance, unexpected costs, financial support you provide to others, inheritance you may receive – and of course the age you retire.

Projecting out the likely value of your superannuation and other assets over the course of retirement will give you context for future personal choices and financial strategies. When doing this, you can anticipate that your living and travel costs will reduce as you age. The average retired Australian couple spends around 50% more in their 60's than in their 80's.

Your life and finances will not play out according to a multi-decade projection as life is uncertain and ever changing, however it will give you a greater sense of security, and the confidence and freedom to spend your money – because it's more important to live rich than die rich.

Generally, if you're drawing more than 6% per year from your nest egg then you may face some longevity risk, which is the risk of outliving your savings. If there's a risk of outliving your money and downsizing isn't an option, then considering a different investment strategy might be appropriate to reduce this risk, however this requires careful planning and sound expectations.

For many, they would like to leave an inheritance to loved ones. This is best done through your home and other property as your retirement savings should be for your retirement.

Preparing for, and living the retirement you want takes careful planning.

At Financial Foundations, we've helped countless Australian's retire on **their terms – and often sooner than they expected.**

Now we'd like to help you too. Together we can help you define your retirement intentions and then take smart steps to achieve them with confidence.

To get started visit **www.financialfoundations.com.au** or call us on **(03) 9793 3722.**



Don’t just retire – retire well.

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