

How much money do I need to retire?



Before you get started

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Letter from Wealth Today

Dear [Reader](#)

WELCOME TO WEALTH TODAY

Wealth Today was built specifically to facilitate the integration of financial planning into existing appropriate businesses and to provide sound individual financial advice to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of Members who share our vision and commitment to providing tailored financial advice and building a new foundation of financial understanding and security for everyone.

With a national network of like minded experts, we have the potential to provide the financial building blocks for future generations.

KNOWLEDGE GIVES YOU A HUGE ADVANTAGE

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of eBooks that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this eBook and find it informative and professionally presented. Of course your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

TAKE THE NEXT STEP

We invite you to meet with one of our authorised representative to discuss what it was you were hoping to achieve when you downloaded this eBook and to establish if they can help you achieve your goals and objectives.

At the rear of this book you will find the details on how to book an appointment with one of our experts.

We look forward to meeting you soon.

[Wealth Today](#)

Contents

Before you get started	1
Letter from Wealth Today	2
Introduction	4
The Retirement Challenge in Australia	5
Generic Formulas for Estimating Retirement Income	6
2.1. The ASFA Retirement Standard	6
2.2. The 60% - 70% rule	9
2.3. Multiples	9
Creating Your Personalised Retirement Profile	10
3.1. Increased life expectancy	10
3.2. Retirement expectations	10
3.3. Drawing up a 'Retirement Budget'	13
3.4. Determining the Level of Income Required	13
3.5. Calculating the Required Amount of Capital	14
Conclusion	15
Readers Notes	16
Take the next step	20
Appointment Booking Request form	21

Introduction

If you are looking for a classic “*How long is a piece of string?*” question you could do far worse than selecting the question that we are attempting to address with this guide: “*How much money do I need to retire?*” There are simply so many variables and different sets of circumstances to consider that a ‘catch all’ answer is virtually impossible. In asking this question the emphasis should therefore be very firmly on the ‘I’: ‘*How much do I (with my specific needs, interests, personal circumstances etc.) need to retire?*’

The focus on individual circumstances does not mean that you should ignore the standard answers and ‘rules of thumb’ that are often proposed as ideal formulas for calculating retirement savings/income. You should, instead, do your best to move beyond the standard answers so that the answers fit **you** rather than you being required to fit in with the answers at some point in the future!

To do justice to these two elements (i.e. formulas/rules-of-thumb and consideration of personal circumstances) this guide will be divided into two parts. The first will deal with general measures for estimating the level of income required in retirement and the second will assist you to apply this so it is meaningful to your personal situation.

Before we dive into the subject at hand it would be good to just spend a few moments to remind ourselves of why the question of ideal retirement income is so important. It is a well-worn cliché that regret always comes too late but this cliché can almost be read as an accurate summary of the result of many people’s retirement planning efforts (or, perhaps more correctly, the lack of such efforts).

We live in a world where not carefully working through the issues related to securing a good income for the last part of your life is nothing short of reckless. This is a world of increased life expectancy (which means that your retirement income may have to last much longer), fluid job markets (where the security of a pension linked to the job-for-life of the past is nothing but a pipe dream for most) and very high property prices (which for some people may mean that a disproportionate amount of their retirement income will be spent on securing a roof over their heads). These things are not listed as a mere scare tactic. They should rather be a hopefully timely reminder of the importance of doing your homework long before you retire.

This 2017 edition has been updated to include:

- The latest ASFA Retirement Standard (September quarter 2016)
- ASFA budget breakdowns and retirement standards for those aged 85 and over
- Updated life expectancies
- Age Pension assets test changes effective from 1 January 2017

The Retirement Challenge in Australia

The proportion of Australians participating in the labour force has increased over time, mostly because of increases in participation of women and mature-aged workers.

Research by the Australian Bureau of Statistics and the Australian Institute of Health and Welfare reveals the average annual participation rate of Australians in the labour force

- aged 15 to 64 increased from 63% in 1992 to 65% in 2014
- aged 55-64 rose from 43% in 1992 to 64% in 2014
- for older Australians aged 65-69 grew from 10% to 26% over the same period.¹

A key challenge for this group is that compulsory superannuation only commenced in 1992, so they have not had the benefit of accumulating superannuation savings throughout their career, as younger employees have under the current superannuation system.

Thus, those approaching retirement over the next 10 years will need to either accept that they may be dependent on the government pension system to supplement their superannuation or find other ways to fund their living while in retirement.

So, a key question of many Australians, especially those considering retirement, is

How much do I need to retire?

We have outlined in the eBook some ways to assess this question, however two other questions that will obviously come to mind when determining the answer to this are:

- a) What lifestyle would I like to be living when I retire?

and

- b) How much do I need to save between now and when I intend to retire?

The answer to these questions will rely totally on you, your requirements and your expectations. So, once you determine how much you need to retire – ruling out unexpected windfalls through winning the lottery - it is important that start working on your financial independence as soon as possible.

¹ Source: <http://www.aihw.gov.au/australias-welfare/2015/working-age/#t2> Accessed 16 March 2017

Generic Formulas for Estimating Retirement Income

In this section we outline some of the answers that different experts give to the question of ideal retirement incomes. It should be emphasised that the figures presented here are of the 'ballpark' variety in the sense that they are not applied to individual circumstances. Studying the figures will, however, give us a good idea of some of the principles that can be used when the time comes for individual application.

2.1. The ASFA Retirement Standard

The ASFA Retirement Standard, is published by the Association of Superannuation Funds of Australia Limited

The ASFA Retirement Standard take a budget-driven approach to the question of ideal retirement income, analysing different cost of living items at today's prices, before including them in a generic retirement budget. It is updated quarterly to reflect inflation, and provides detailed budgets of what singles and couples would need to spend to support their chosen lifestyle.

The ASFA Retirement Standard is based on:

- a) a modest lifestyle: considered to be better than the Age Pension, but still only able to afford fairly basic activities,
- b) a comfortable retirement: considered to be one that allows a healthy retiree to be involved in a broad range of leisure and recreational activities, a good standard of living through the purchase of such things as household goods, private health insurance, reasonable car, good clothes, range of electronic equipment, domestic and occasional international holiday travel.

The current figures (September quarter 2016) are as follows:²

Budgets and living standards for those aged 65 - 85:

	Modest lifestyle		Comfortable lifestyle	
	Single	Couple	Single	Couple
Total per year	\$23,996	\$34,560	\$43,372	\$59,619

Budgets and living standards for those aged over 85:

	Modest lifestyle		Comfortable lifestyle	
	Single	Couple	Single	Couple
Total per year	\$23,572	\$34,952	\$39,164	\$54,942

Note: These figures assume the retiree is a homeowner and relatively healthy. Single calculations are based on female figures.

ASFA provides a further breakdown of these figures into expenditure components, shown in the tables that follow, broken down according to two age categories:

- retirees age 65 – 85
- retirees over age 85.

²<https://www.superannuation.asn.au/resources/retirement-standard>

ASFA Retirement Standard for retirees age 65-85

	Couple		Single Female	
	Comfortable lifestyle – couple	Modest lifestyle – couple	Comfortable lifestyle – single female	Modest lifestyle – single female
Housing – on-going only	\$101.10	\$72.23	\$87.21	\$75.25
Energy	\$59.16	\$57.09	\$43.62	\$42.98
Food	\$201.57	\$162.38	\$111.98	\$78.39
Communications	\$29.97	\$14.50	\$22.76	\$8.28
Clothing & footwear	\$57.49	\$28.74	\$38.32	\$17.71
Transport	\$137.82	\$93.33	\$135.25	\$90.76
Household goods & services	\$90.83	\$37.37	\$77.53	\$27.56
Health services	\$154.92	\$85.39	\$87.78	\$44.24
Leisure	\$311.52	\$111.76	\$227.32	\$75.01
Total per week	\$1,143.38	\$662.79	\$831.79	\$460.19
Total per year	\$59,619	\$34,560	\$43,372	\$23,996

ASFA Retirement Standard for retirees over age 85

	Couple		Single Female	
	Comfortable lifestyle – couple	Modest lifestyle – couple	Comfortable lifestyle – single female	Modest lifestyle – single female
Housing – on-going only	\$101.10	\$72.23	\$87.21	\$75.25
Energy	\$59.16	\$57.09	\$43.62	\$42.98
Food	\$201.57	\$162.38	\$111.98	\$78.39
Communications	\$28.80	\$14.41	\$22.63	\$8.23
Clothing & footwear	\$57.48	\$28.75	\$38.33	\$17.71
Transport	\$51.92	\$47.20	\$42.48	\$37.76
Household goods & services	\$174.12	\$68.60	\$150.43	\$48.39
Health services	\$208.79	\$148.36	\$130.87	\$95.56
Leisure	\$170.76	\$71.30	\$123.53	\$47.79
Total per week	\$1,053.69	\$670.32	\$751.08	\$452.06
Total per year	\$54,942	\$34,952	\$39,164	\$23,572

These figures obviously represent average expenditure without considering regional and individual variations. The budgeted expenses in the above tables are also based on the assumption that retirees own their own home; something that is not true in many cases.

They do, however, provide us with a good starting point for our discussion on how much is required for living expenses, when retired, by placing some concrete figures on the table. Your task is to assess your own requirements and determine how far you will need to deviate from these averages and why.

2.2. The 60% - 70% rule

A technique that has been over used in the world of financial planning is to calculate ideal retirement income as a percentage of current income.

This percentage is usually set at between 60% and 70%. According to this rule-of-thumb you need the following income levels in retirement, when compared with your current income.

Annual pre-retirement income	70%	60%
100,000	70,000	60,000
80,000	56,000	48,000
60,000	42,000	36,000
55,000	38,500	33,000
50,000	35,000	30,000
45,000	31,500	27,000
40,000	28,000	24,000
30,000	21,000	18,000

The reason for the popularity of this method is that it is over simplified. Do a few calculations and you're done! It is also why this is a somewhat dangerous way of preparing for retirement.

Many people have been lulled into a false sense of security by the fact that they were doing okay in the percentages game, without considering their individual circumstances. Percentage calculation should therefore be seen as a 'blunt instrument' that can be used as a good launching pad for further detailed planning and budgeting. It should never be the 'end all and be all' of retirement planning.

2.3. Multiples

Another oversimplified rule-of-thumb to determine the required level of retirement capital is the use of multiples.

The strength of this method is that it takes actual expenditure (rather than current income) into account.

Prospective retirees are asked to draw up a detailed budget of after-tax expenditure and then to multiply it in the following ways, for example:

- If you plan to retire at 55 multiply by 17
- If you plan to retire at 60 multiply by 15
- If you plan to retire at 65 multiply by 13

The use of this method has yielded some good results in the past.

It remains to be seen whether it will stand the test of time, especially when you consider the fact that life expectancy is increasing and that many people will therefore have to make use of their retirement income for longer.

Creating Your Personalised Retirement Profile

By making use of the information presented in the previous section you will, by now, have a pretty good idea what a 'ballpark figure' for what level of retirement income you require for a comfortable retirement.

The accuracy of this figure will be determined by considering factors that are specific to your own circumstances and also relating to the changing world in which we live.

You should fine-tune your initial estimates by taking into consideration some of the factors mentioned below.

3.1. Increased life expectancy

It is unfortunately the case that much of the literature on retirement planning is based on assumptions that are out of date and obsolete. This is especially true when it comes to assumptions on how long the average person will have to live on his/her retirement income. Improvements in medical technology and general health mean that we are on average living much longer than our parent's generation.

The *Australian Government Actuary* regularly releases figures on mortality and life expectancy. These figures show a remarkable upward trend in life expectancy.

To underline one of the most important findings:

A woman who is 55 today, is expected to live another 31.02 years (life expectancy of 86.02 years). A woman who is 65 today, is estimated to live another 22.05 years.

A man who is 55 today, is expected to live another 27.71 years (life expectancy of 82.71 years). A man who is age 65 today is expected to live another 19.22 years³.

The bottom line of increased life expectancy for retirement planning is that there are many more years to plan for.

A person who retires at 65 and lives to 90 will need to fund 25 years of retirement. It is obvious that none of us can predict whether we will, in fact, reach a ripe old age. This is, however, an area where we should aim to err on the side of caution.

One implication of this is obviously that we should strive to maximise the availability of long-term income as much as possible. Some advisers advocate the adding of a 'longevity premium' (10-20%) to the amount that you calculate as needed for retirement.

3.2. Retirement expectations

Asking yourself a few basic questions and then using your answers as the basis for a likely retirement budget is a very useful and necessary exercise. Some of these questions are listed below. The answer that you give to each of them will make a significant impact on your personal retirement bottom-line.

Do I plan to take early retirement?

Early retirement is a dream for many people, but it also imposes heavy costs on the early retiree. These costs come in the form of a 'double whammy':

- An increased number of years that will have to be funded from retirement income and
- A decrease in the number of years that you have available to save for retirement.

If you plan to pursue the dream of early retirement you should therefore make sure that you take these factors into account by maximising your retirement income as early as possible. It is highly recommended that you make use of the services of a professional financial adviser to help you reach your goals in this regard.

3

http://www.aga.gov.au/publications/life_table_2010-12/ Accessed 20 February 2017

Is my house paid for?

Much of the literature on retirement planning work on the assumption that accommodation costs will be limited to maintenance and utilities. This is not the case for many retirees.

Increasing property prices means that many people get on the property ladder much later in life, leaving them with uncleared mortgages at retirement age. Others have made use of the rising popularity of re-mortgaging to finance home improvements or other expenses.

Having a large amount of debt to pay off could have a very negative impact on the desire for a comfortable retirement. It could therefore be the case that a well-designed debt reduction strategy should form part of your retirement planning. This obviously does not only apply to mortgage debt but also to any other debts held.

Will I have access to any regular sources of income in retirement?

Some people may be eligible for veteran's pensions or employer pension schemes. If you expect to receive regular income from such sources, you should reflect it in your planning.

Will I be able to generate income in retirement?

Some retirees still manage to earn sizeable incomes even though they are officially retired. This is done through remaining connected with their old profession to engage in consulting, freelancing or locum work; or perhaps by turning a lifelong hobby or passion into an income source. You will need to determine whether you will have the ability and, perhaps more importantly the desire, to become part of the growing ranks of semi-retired people in our society.

If you are quite sure that you will not be able to earn an income during retirement (perhaps because of health issues or simply because you want to work on your golf swing!) you will need to reflect this fact in your budgeting.

What do I want to do in retirement?

The answer to this question will be critical in determining your retirement needs. You will obviously need much less money if you plan to potter around in the garden than would be the case if you plan on embarking on several 'around the world' voyages.

People who plan for a very active retirement would be well advised to budget for significant income needs during the early phase of their retirements. In some cases, this may mean that you will actually need more than your current income if you want to maintain the lifestyle that you desire.

Do I have assets/savings that are not in my super?

Many people see the balance of their superannuation fund as almost the only relevant figure when it comes to calculating what they will have available for retirement. They could save themselves a lot of anxiety by also considering other possible funding sources. This can include the equity in your home (some of which can be released by moving to a smaller property or a cheaper area) and obviously also any other deposits or investments that you hold.

Will I have extra expenses in retirement?

Most people expect that they will face rising medical expenses in retirement (this fact should be reflected when you draw up your retirement budget). What shocks many of them, however, is that there are expenses in many other areas that can also rise significantly.

This is particularly common in cases where certain expenses (e.g. mobile phone bills, computer costs, transportation costs etc.) were carried by employers as fringe benefits.

To avoid any unpleasant surprises in this area you should carefully list expenses that you are not currently responsible for that will come out of your own pocket in retirement.

Will I have access to the Age Pension?

If you can satisfy the eligibility criteria, you may be eligible for a full or partial Commonwealth Age Pension.

It would obviously be quite difficult to have a comfortable retirement while relying solely on the Age Pension when you consider the maximum Age Pension rates (effective at 1 January 2007):

Single: \$22,805 per year (\$877.10 per fortnight)*

Couple: \$34,382 per year (\$1,322.40 per fortnight) *

However, having access to the Age Pension as a small additional income source can make a significant difference to your personal finances in retirement.

*The rates include the basic Age Pension rate, Energy Supplement and Maximum Pension Supplement

More information, (including eligibility criteria and payment rates) on the Age Pension can be found on the *Human Services* website:

<https://www.humanservices.gov.au/customer/services/centrelink/age-pension>

Changes to the pension assets test

Important changes effective from January 1 2017 will impact on the ability to access the Age Pension. Your entitlement to the Age Pension is determined by the operation of the income and assets test. Whichever test results in the lowest Age Pension rate is the one that applies.

Changes to the asset test thresholds are as follows:

Home owner*	2016 rules	2017 rules
Single– maximum assets for full pension	\$209,000	\$250,000
Single– no pension after assets exceed	\$793,750	\$542,500
Couple – maximum assets for full pension	\$296,500	\$375,000
Couple– no pension after assets exceed	\$1,178,500	\$816,000
Non-homeowner		
Single– maximum assets for full pension	\$360,500	\$450,000
Single– no pension after assets exceed	\$942,250	\$742,500
Couple – maximum assets for full pension	\$448,000	\$575,000
Couple– no pension after assets exceed	\$1,330,000	\$1,016,000

*The value of the home is exempt from the assets test.

Further to the changes to the asset test thresholds, the taper rate, or the rate at which the Age Pension is reduced based on your level of assets is also changing. Previously pension payments were reduced at a rate of \$1.50 per every \$1,000 of assets that exceeded the asset test threshold. From 1 January 2017 pension rates are now reduced by \$3 for every \$1,000 of assets above the threshold.

The impact of these changes were predicted to impact on more than 495,000 Australians in the following manner⁴:

- An estimated 170,000 people are estimated to experience an increase in their pension payment
- An estimated 326,000 people are estimated to lose all or part of their Age Pension payment.

3.3. Drawing up a 'Retirement Budget'

Once you have answered the questions listed above you should draw up a detailed retirement budget; with expected income and expenditure (a financial adviser can assist you with this process). Annual figures based on this budget will provide you with a goal towards which you can work in saving for your retirement.

3.4. Determining the Level of Income Required

You will, by now, have a very good idea of what your expenses in retirement are likely to be.

The ultimate goal of retirement planning is to develop ways in which this level of expenditure can be financed. Before estimating this consider the following two final points in relation to the level of estimated income required:

- Depending on how many years from expected retirement you are it may be prudent to allow for the impact of inflation in your estimate. This factors in the expected increases to the everyday cost of living.
- Consider factoring in an additional 10-20% to your estimated expenses to allow for ill health, unplanned items and underestimation.

Most people derive retirement income through two sources:

- **Regular Monthly Income:** This can include employer or overseas pensions, salaries for part-time work and the Age Pension.
- **Returns on Investment:** In most cases this represents interest (or other forms of growth e.g. dividends) derived from capital (lump sum) investments.

Expenditure that cannot be covered by expected regular income will have to be covered by returns on investment, or capital.

Before estimating the level of capital (savings) you will require, you should first calculate how much of a shortfall you are likely to have between your anticipated annual income from other (non-investment) sources. and expected annual expenditure.

This shortfall is the required amount you will need to have 'saved up' to ensure an adequate income level.

⁴http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/

3.5. Calculating the Required Amount of Capital

Once you have determined the annualised shortfall you can use the table on the following page to give you a rough idea of how much capital savings you will need to finance it.

The table below provides some general estimates (not adjusted for inflation) of how much capital you will need to generate different levels of income at different levels of return on investment. It assumes retirement age at 65 and average life expectancy.

Please note that it is provided as general advice only. A qualified financial adviser will be able to help you to draw up a more complete and accurate picture based on your individual circumstances.

The main benefit of making use of something like the table above is that it gives you a concrete goal that you can work towards.

The figure that you have reached may seem daunting but remember that a journey of a thousand miles begins with a single step.

We would recommend that this first step should be to seek out competent financial advice to help you reach your goals!

Desired Annual Retirement Income	Capital Required
60,000	1,500,000
55,000	1,375,000
50,000	1,250,000
45,000	1,125,000
40,000	1,000,000
35,000	875,000
30,000	750,000
25,000	625,000
20,000	500,000

This table assumes a drawdown rate of 4% from capital each year to achieve the annual income specified. It assumes that income will be indexed to inflation for life (the above figures assume inflation of 3% per annum) and that capital will be passed on as an inheritance intact and in today's dollars.

Conclusion

It is our sincere hope that the information presented above set you thinking about some of the issues that you should pay attention to in planning your financial future.

It would be impossible, however, to present a complete guide to all your financial planning needs in a document as brief as this.

We urge you to continue your explorations by making use of some of the other resources and eBooks from the Wealth Adviser stable.

We also stand ready to serve you with objective and professional advice, so please do not hesitate to contact us if we can be of further assistance.

Take the next step

We trust you enjoyed this eBook and found it informative and professionally presented. Of course your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and to meet with our authorised representative to discuss what it was you were hoping to achieve when you downloaded this eBook and to establish if they can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with one of our experts.

We look forward to meeting you soon.

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Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday from 8am and until the normal final starting time of 6pm. After-hours appointments are available by request most weekday evenings and on most Saturdays if preferred. Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Preferred appointment day and time

Day

Date

Time

Am/pm

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