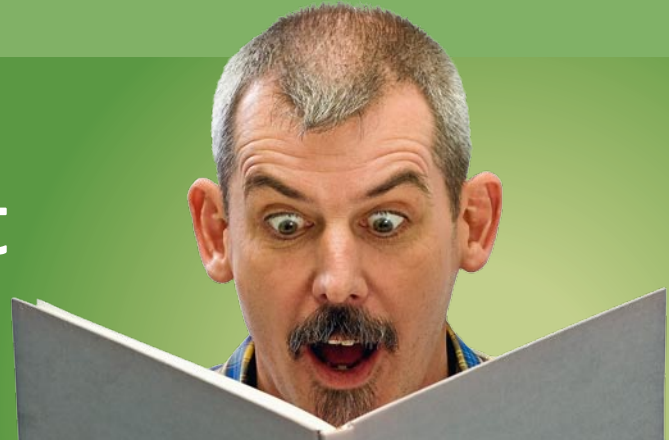


Educational Series

Simple steps to a better retirement



You are likely to spend more than 20 years in retirement. Don't leave things to chance; you've earned it, so don't lose it.

Retirement – it's a subject that many people tend not to think about too much. After all, for many people, retirement is a long way off, so why worry about it now?

How long will your retirement last?

There are many reasons why planning now can put you in the driver's seat later. For starters, have you thought about how long your retirement could last?

Take John and Mary, a couple aged 55: there's a 72% chance Mary will live to celebrate her 80th birthday and a 56% chance John will celebrate it with her. If they both make it to 80, she has a 7% chance and he has a 4% chance of living to 100. On average, once men and women reach age 65 they are likely to live a further 18 and 21 years respectively.

How many years will you have in retirement?

Age at retirement	Female	Male
55	30 years	26 years
60	25 years	22 years
65	21 years	18 years
70	17 years	14 years
75	13 years	11 years

Source: Australian Government Actuary.

The bottom line is that, in order to make sure that your money doesn't run out before you do, you need to plan to be retired for at least 20 years – or be prepared to accept the fact that you may have to keep working for much longer than you anticipated.

So you need to start thinking seriously about how you are going to provide for your retirement and consider seeking financial advice now, rather than later. Apart from anything else, planning for your retirement will mean that you can improve the chances of retiring when you want to, rather than having to stay at work.

What issues do you need to consider?

Although you may retire whenever you choose, there are rules covering when you can access your super (for example, your preservation age), or convert it to an income stream (pension). So you need to bear this in mind when planning for your retirement.

Accessibility

Generally, you have to have reached your preservation age 60 before you can access your super as a lump sum or an income stream. The table below shows when you can access your super. People born before 1 July 1960 can access their super when they are 55, whereas if you were born after 30 June 1964, you have to be 60.

If you are not quite ready to fully retire, but might be looking to reduce your working hours in the lead-up to retirement, a pre-retirement pension might be right for you if you are over 55. It allows you to convert your super into an income stream but doesn't allow you to make a lump sum withdrawal until you're fully retired.

How old do you have to be before you can access your super?

Your birthday	Preservation age
Before 1/7/1960	55
1/7/1960 – 30/6/1961	56
1/7/1961 – 30/6/1962	57
1/7/1962 – 30/6/1963	58
1/7/1963 – 30/6/1964	59
After 30/6/1964	60

Qualifying for the Government Age Pension

Another major consideration is that if you are expecting to get the Age Pension in your retirement, you need to factor in the age at which you are able to apply. This depends on whether you are a man or a woman. All men, regardless of when they were born, and women born after 1 January 1949, can apply for the Age Pension once they reach age 65. Women born before 1 July 1935 are eligible for the Age Pension at age 60. Women born between 1 July 1935 and 31 December 1948 are eligible to apply for the age pension once they reach the age shown in the table below.

Date of birth	Qualification age
Before 1/7/1935	60
1/7/1935 – 31/12/1936	60.5
1/1/1937 – 30/6/1938	61
1/7/1938 – 31/12/1939	61.5
1/1/1940 – 30/6/1941	62
1/7/1941 – 31/12/1942	62.5
1/1/1943 – 30/6/1944	63
1/7/1944 – 31/12/1945	63.5
1/1/1946 – 30/6/1947	64
1/7/1947 – 31/12/1948	64.5
1/1/1949 and later	65

Taking these two factors into consideration, there could well be gaps between the time you choose to retire, the time you are able to access your super, and the time you can apply for the Age Pension.

So how much can you expect to receive on the Age Pension?

Currently, the maximum pension is around \$13,650 pa for a single person, or around \$22,800 for a couple*. Once you do the sums, you will realise that few people can rely on funding their retirement solely from this source.

Most people find they need an additional source of income, such as their super, to help fund their retirement. The value of your super and other savings can affect how much age pension you receive as, when you apply, you will be 'means tested' to determine your eligibility.

Means testing

There are two separate tests used to determine the level of pension payments you might receive – an income test and an assets test. Your entitlement is subject to both an income test and an assets test, and the test which results in the lowest rate of payment is used.

The table below shows the current thresholds that apply. If your income or assets exceed the full pension limit (column B), your payments will proportionately decrease from the maximum until they phase out completely – once you reach the 'cut out' threshold (column C).

	A	B	C
		Full pension limit [#]	Pension cut out [^]
Assets Test			
Homeowner – couple		\$236,500	\$825,500
Homeowner – single person		\$166,750	\$520,750
Non-homeowner – couple		\$357,500	\$946,500
Non-homeowner – single person		\$287,750	\$641,750
Income Test			
Couple		\$6,032 pa	\$63,414 pa
Single person		\$3,432 pa	\$37,940 pa

Source: Centrelink.

[#] As at 1 July 2007.

[^] As at 20 September 2007.

Your financial position

Of course, there are other financial considerations to think about.

- Will you still have a sizeable mortgage to pay off?
- What about your children's education costs?
- What lifestyle do you desire in retirement?
- Have you saved enough to sustain your current lifestyle in retirement?
- Can you afford to retire or do you need to keep working?

Tax

When you review your financial position, tax is a very important element to consider. From age 60 all super withdrawals and pension income payments will be tax free. If you are under age 60 you may pay tax on some of your super withdrawal or pension payment. Also, if you plan to sell a property to fund your retirement you need to consider the capital gains tax implications.

There are many issues to consider, and a financial adviser may be able to help. Many advisers have access to financial modelling software which they can use to map out various options for you. This can be useful and help identify what you need to do to achieve your retirement goals.

* As at 20 March 2007.

The tax benefits of super

To give Australians an incentive to put money away for their retirement, super is taxed at lower rates than most investments outside of super.

For example, a pre-tax contribution to super of \$10,000 is taxed at 15% when it goes into the fund, leaving \$8,500 to be invested. Assuming you are taxed at the highest marginal tax rate of 46.5% on your salary or wage, the same \$10,000 in a non-super environment (when taxation is applied to your salary) will leave only \$5,350 to invest – a \$3,150 difference. Additionally, any income your super earns is taxed at a concessional rate of 15%.

Once you turn 60, all super benefits, both lump sum and pension, are tax free.

The miracle of compound interest

‘Earning interest on your interest’ is a familiar phrase to many people, but it underplays the real engine of compounding – time. Although super is often criticised for its inaccessibility, it is precisely this feature which can help Australians secure their retirement lifestyle. Over 20 or 30 years, the compounding of returns can be significant.

How much super is enough?

That all depends on how much money you think you will need in retirement. This will be different for everyone.

To give you an idea of what is achievable, here are two examples which may help. Both examples assume that your retirement income has to keep pace with inflation of 2.5% pa, and that the investments deliver a return of 7% pa.

A change to one or more of the variables will produce different results. These examples are for illustration only and do not take into account any of your personal circumstances. You should speak to a licensed financial adviser to determine what is suitable for you.

Example 1

Bill accumulates \$200,000 in super. On retirement, he converts his super into a pension which pays a regular income each year. Looking at the chart below, based on the assumptions we have made, you can see that \$200,000 could deliver \$18,090 per annum for 15 years, \$14,906 for 20 years, or \$13,052 for 25 years.

\$200,000 in super earning 7% pa with inflation running at 2.5% pa will pay an indexed income of:

\$18,090 → for 15 years

\$14,906 → for 20 years

\$13,052 → for 25 years

Source: Colonial First State. Amounts shown in today's figures.

Will this be enough? A superannuation target of \$500,000 could potentially deliver \$37,264 pa for 20 years, or \$32,631 pa for 25 years.

Example 2

Example 2 looks at things from the other way around. Robert sets a target income of \$24,000 pa in retirement, indexed for inflation at 2.5% pa. Looking at the chart below Robert would need to accumulate \$265,345 for 15 years, \$322,025 for 20 years and \$367,748 to last 25 years.

How much super will Robert need earning 7% pa with inflation at 2.5% pa to pay an indexed income stream of \$24,000 pa for:

15 years? → \$265,345

20 years? → \$322,025

25 years? → \$367,748

Source: Colonial First State. Amounts shown in today's figures.

To estimate how much super you could have when you retire and any additional salary sacrifice contributions you may need to make to reach your ideal sum, go to the ‘How much super is enough?’ calculator at colonialfirststate.com.au.

Remember, the earlier you start accumulating super, the better it could be. This isn't just because of the compounding, it's because you are likely to have more disposable income when you are younger. Liabilities such as mortgage repayments and children's education really eat into a family's income, especially if there is only one wage earner.



Pre-retirement checklist

Although retirement is a long way off for most people, it could represent as much as 25% of your life. The importance of providing for it cannot be overstated. With an ageing population and our average life expectancy increasing, it is unlikely that the Government will be able to provide for us all in retirement. But even if the Government can, ask yourself would social security be enough?

We strongly recommend that you consider planning for your retirement now, rather than leaving it until later, when you may not have the resources, or the time left, to make any real difference.

Here is a 'pre-retirement checklist' of the subjects that have been covered in this flyer. We hope it helps you secure your financial future in retirement.

1 When would you like to retire?

(Date) _____

2 How many years of retirement do you need to provide for?

15yrs 20yrs 25yrs Other _____ yrs

3 What are your main financial objectives in retirement?

1 _____

2 _____

3 _____

4 How much income will you need to deliver the lifestyle you want?

(You might want to visit our 'How much super is enough?' calculator at colonialfirststate.com.au.)

\$ _____

5 How much super will you need to have accumulated to deliver the retirement income you desire?

\$ _____

Think about what you want to do in retirement, especially your personal and financial retirement objectives.

Look to put in place a retirement strategy that is right for you, and seek financial advice before taking any action.

Need more information?

Please speak with your financial adviser or visit our website at colonialfirststate.com.au.

Alternatively, you can contact us:

Enquiries about existing
investments, please call 13 13 36

Enquiries about new
investments, please call 1300 360 645

The information contained in this document is based on the understanding Colonial First State Investments Limited ABN 98 002 348 352 AFS Licence 232468 has of the relevant Australian laws as at 1 July 2007. The document assumes that the current taxation and superannuation laws will continue to apply without any change. This is general advice only and does not take into account your individual objectives, financial situation or needs. You should assess whether the information is appropriate for you and consider talking to your specialist financial or taxation adviser before making an investment decision. Colonial First State is the issuer of superannuation and investment products. Product Disclosure Statements (PDS) for these products are available at colonialfirststate.com.au or by contacting us on 1300 360 645. You should consider the relevant PDS before making an investment decision. Eligibility criteria apply for contributions to superannuation. Please refer to the relevant PDS for details.