ORBIT
FINANCIAL SERVICES

How to retire comfortably
to the lifestyle you've always imagined

Retirement means different things to different people

For some, it means the ability to spend more time with loved ones while for others it may mean pursuing a neglected hobby or travelling the world.

Regardless of whatever retirement means to you, one thing is for sure – no one wants to spend their later years worrying about money. Some careful planning can help to set you up financially for your retirement years ahead. Even if you think you may have left it a little too late, some careful planning today can still make a difference to the quality of life you experience when you eventually decide to retire.

This document provides some insight into the issues and considerations you need to think about when planning for retirement. It's designed to be of a general nature only, and doesn't contain any recommendations, offers or invitations to buy any financial products. Before making any investment decisions about your retirement, you should evaluate the extent to which this information is appropriate to your individual investment objectives, risk profile, financial situation and other requirements. A financial adviser can help you with this process.

We are living longer than ever before

According to the Australian Bureau of Statistics, life expectancy in Australia is amongst the highest in the world, and on record. For example, on average, a male born between 2013 to 2015 can expect to live to 80.4 years of age, while a female can expect to live 84.5 years. So, depending on the age you retire, you may need enough money to last more than 20 years.

Getting started

We often find that many people who are approaching retirement feel that they should have started their retirement plans sooner, especially if their retirement savings have declined somewhat due to volatile market conditions. However it's never too late to start planning. In fact, we often advise clients that some structured planning in the last five to ten years before you leave the workforce can make a big difference to the quality of life you enjoy when you eventually decide to leave the workforce permanently.

Of course, starting early can make a significant difference to your retirement lifestyle, but even well-planned decisions close to retirement can have a positive impact. Don't let procrastination or fear of the unknown deprive you of a financially secure, comfortable retirement.

There are a number issues and considerations we need to examine when it comes to effective retirement planning. This generally involves:

- Your current financial circumstances and obligations

  This includes an analysis of the current household income, your assets, any savings or investments held inside and outside the superannuation environment, and so on. We'll also need to consider your near and longer term financial commitments and obligations such as mortgage repayments on your primary home or any investment properties. Other foreseeable expenses such as funding a dependent's education or planned overseas holidays also need to be taken into account.

- Your financial and lifestyle aspirations

  Naturally ensuring that you have enough money to do what you want when you retire is an essential part of the planning process, however we believe that life is about more than just money; it's also about ensuring that you are fulfilled emotionally and psychologically when you retire and have more time on your hands. We'll explore these "lifestyle aspirations" you may have for the future as part of our retirement planning process.

- Your retirement time frame horizon

  Where you are now, and where you want to be in the future are key ingredients in determining how, and particularly when, you may be able to afford to retire to the lifestyle you desire.

What makes a successful retirement?

A fulfilling life is about more than just money. Many of us enjoy the social aspects of coming to work, the sense of belonging and camaraderie and working towards achieving shared goals. For others, voluntary work at a favourite charity, community group or other organisation they're passionate about brings a sense of fulfilment that simply can't be achieved by working for financial reward alone. It's important to consider how you will continue to enjoy these less tangible aspects of life in retirement when you have more time on your hands. Put simply, ensuring that you have enough money to do what you want is in retirement is an important part of your retirement plans but how your life will continue to be truly rewarding and personally fulfilling is equally important and often overlooked.

The impact of retirement on household dynamics

The ability to spend more time with family is a common aim for many approaching retirement. However spending too much time with family members can lead to tension. If you and your partner are usually both at work, you may find that spending more time together can be a bit of a shock, which could lead to some strain in your relationship. Establishing some boundaries and participating in hobbies or other activities outside the home can help.

Keeping healthy

A healthy mind and body will guarantee your retirement is enjoyed to the fullest. Now that you have more time, it's a good opportunity to spend some time maintaining or improving your health. Physical activity and eating well are important, as well as receiving regular medical check-ups. Participating in group activities can be a great way to meet new people especially if you join some exercise classes for seniors such as stretching, yoga or walking groups.

Keep your mind active

Your body may be starting to show signs of ageing, but you're never too old to keep your mind active. You may be surprised to know that women 65 years of age and over are one of the fastest growing users of Facebook. It's a great way to keep in touch with extended family and others you care about from the comfort of your own home. You may also wish to consider taking up a new hobby, signing up for an adult education course or joining your local library. The options are literally endless and once you start exploring you are sure to find something that will interest you. Learning in group environments is a great way to meet new people and to feel a sense of belonging with people who share similar interests.

Personal development

When we no longer have the distraction of a busy work life or professional commitments to occupy our thoughts, you may find yourself thinking more deeply about your life's experiences, your purpose in the universe and the world around you. With more time on your hands, you may find that you have the ability to focus more on your spiritual health.

Maintaining social networks

Retirement can bring about a sense of loneliness for those that have grown accustomed to having regular social contact at work. Without regular social contact retirees can fall prone to loneliness and isolation which may ultimately lead to anxiety and depression. For your own psychological and emotional wellbeing it's important to consider how you will remain socially active once you are in retirement. For example, you may wish to give some consideration to joining a book club, local charity or community group.

How much is enough?

It's different for everyone

Everyone's needs and expectations in retirement will be different, however as a general guide, the Association of Superannuation Funds of Australia (ASFA) suggests that for a modest lifestyle, a single retiree needs about $467 per week ($24,270 per year). A couple will need about $671 per week, or about $34,911 per year, to live modestly.

To live comfortably, a single retiree needs about $840 per week ($43,695 per year), while a couple will need $1,155 per week (or $60,063 per year). This amount takes into consideration a car, clothes, private health insurance and leisure activities such as entertainment and holidays. These figures assume retirees own their own home and are relatively healthy.

Note: These figures were correct at the end of September 2017, but inflation means retirement costs will rise over time.

Superannuation explained

For most of us, our superannuation savings will form a substantial part of our retirement plans. Your superannuation balance is largely influenced by a number of factors such as how long you're been saving in the superannuation environment, what your investment returns have been like over time, and the contributions made by you and/or your employer. Generally speaking, your retirement will be more comfortable and financially secure if you are in a position to make extra contributions into your super fund over and above the contributions made by your employer.

Ideally, you should start making additional contributions as soon as you can afford, but it's particularly important to do so in the years leading up to retirement. It's often useful to have some savings outside of the superannuation environment, as there are access restrictions on the amount of money you can put into superannuation (which are determined by your age).

Taxation incentives

The Federal Government offers a range of incentives to encourage Australians to use the superannuation environment as a way to save for their own retirement. For example, tax concessions may be available when you contribute money into your super fund, on the investment earnings within the super fund, and on the funds you withdraw. Superannuation investment earnings are usually taxed in the fund at just 15%, instead of your marginal income tax rate. Capital gains on assets held within the fund for more than 12 months are taxed at only 10%. Once you begin receiving a pension (but not a transition to retirement pension), no tax is paid on the earnings and capital gains. This can increase the returns to help your savings last longer.

However there are limits that may apply to the amount of superannuation you can use to start a pension. Special rules also apply to defined benefit income streams and certain non-commutable income streams. In addition to these tax benefits, money received from superannuation, either as a lump sum or a pension, may be tax-free when you reach age 60 years of age.

In return for these tax concessions, you are generally unable to access these savings in your superannuation fund until you reach your preservation age and permanently retire. Your preservation age depends on your date of birth, as outlined below.

Date of birth	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
On or after 1/7/1964	60

How much money will you need in superannuation savings for a comfortable retirement?

The figure of one million dollars is often touted as a rough guide as to how much money you will need in superannuation savings to enjoy a comfortable standard of living in retirement. However the reality is that many people will approach retirement age with substantially less money. This is where advice from a financial adviser can be particularly beneficial. An adviser can assess your situation and provide you with strategies and recommendations to boost your superannuation savings while you are still working.

Understanding government entitlements

Qualifying for a government pension

The Australian Federal Government provides support for retirees facing financial hardship once they reach Pension eligibility age, however this shouldn't be regarded as he main way to fund your retirement. It's worth noting that with Australia's ageing population, and Australians living longer than ever before, there is likely to be greater strain on the Age Pension system, which means taking the necessary steps to fund your own retirement is more important than ever before.

Generally speaking, to qualify for the Age Pension you must be an Australian resident and have reached Age Pension age. Age Pension age is calculated according to your date of birth as per the following table.

Date of birth	You'll be eligible at
1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	66
1 July 1955 to 31 December 1956	66 years and 6 months
From 1 January 1957	67

How much will you receive?

The Age Pension rates, effective from 20 September 2019, and applicable until 19 March 2020, are set out in the tables below.

A single person eligible for the full Age Pension can expect an annual Age Pension income (including Pension Supplement and Energy Supplement) of around $24,268. A couple eligible for the full Age Pension can expect combined annual Age Pension entitlements (including Pension Supplement and Energy Supplement) of around $36,582.

Age Pension rates (per fortnight)

Single	From 20 September 2019
Base	$850.40
Pension Supplement	$68.90
Energy Supplement	$14.10
Total	$933.40

Couple (each member of couple)	From 20 September 2019
Base	$641.00
Pension Supplement	$51.90
Energy Supplement	$10.60
Total	$703.50

The Age Pension rates are adjusted twice-yearly – in March and September.

You can have a certain amount of income and assets and still receive the maximum level of Age Pension. However if your income or assets exceed certain thresholds, your Age Pension reduces according to a sliding scale.

Many people in retirement may find themselves living on a combination of their own savings (accumulated in the superannuation environment) and the government Age Pension. Two tests – the income test and the assets test are used to assess your eligibility to receive the Age Pension.

The Income and Assets tests

Essentially, the more assets you own (including property) the less pension you will receive. Likewise, the higher your assessable is, the less pension you will receive. It's important to note that the family home is not included in the assets test.

A financial adviser will consider these factors as part of the retirement planning process, as it may be possible to structure your income and investments to maximise your retirement income.

Other government benefits for pensioners and retirees

Even if you are only eligible to receive a small Age Pension, you are entitled to a number of other benefits when you reach Age Pension age via the Pensioner Concession Card such as:

- Bulk billed medical rates
- Discounts on eligible prescriptions
- Lower council and water rates
- Cheaper car registration
- Reduced fares on public transport

The value of these concessions varies, but can be worth around $800 to $1,200 a year if you are single or $1,500 to $2,000 a year for a couple.

What can you do with your super?

Once you are eligible to withdraw your super you have three options:

Option 1: Take the lump sum

Withdrawing your superannuation savings as a lump sum is a popular option for many retirees however it's important to weigh up the benefits and potential pitfalls of this option before you make a decision. Lump sum withdrawals are generally tax-free if you are 60 years of age and over. However if you are 55-59 years of age, and make a lump sum withdrawal you may have to pay some tax. You may wish to withdraw a lump sum in order to pay down or clear debt or you may wish to withdraw partial amounts as you need it. The downside of making lump sum withdrawals is the risk that you may be tempted to splurge or overspend which could mean your money runs out sooner.

Option 2: Leave your money in super

Leaving your money in superannuation allows you more time to consider your options and seek advice from a financial adviser. Depending on your age and whether you're still employed, you can continue to make contributions to your super fund, which means you're continuing to build your super fund balance. Your money left within super will continue to be concessionally taxed at 15%.

Option 3: Invest in a retirement income stream

This is one of the most popular options when it comes to accessing super and involves turning your savings in the superannuation environment into a regular income stream. Should you choose this option, your investment earnings will be tax-free, and for most people over 60 years of age, income payments are also tax-free. There are a number of different types of income stream investments to choose from. Some are very flexible allowing you to withdraw some or all of your money at any time while others are less flexible but offer a guaranteed income. A financial adviser can help you to select the best option for your particular situation and requirements.

Other factors to consider

The value of insurance

Throughout your entire working life, you've worked hard to get your finances in order and save as much money as possible with a view to having a secure, comfortable retirement. However the reality is that many people will never make it that far and pass away prematurely, or suffer a severe and debilitating illness or injury. With the right insurance cover in place you can protect you and your loved ones financially in the case of unexpected events.

There are different types of cover available, and these include:

Trauma insurance: Cover for a range of serious medical conditions.

Income protection: Provides income to meet your financial and daily living commitments if you are unable to work due to illness or injury.

Total and permanent disability: A lump sum provided when sickness or injury results in a permanent disability that renders you unable to return to work.

Life insurance: Provides a lump sum to your dependants upon your death.

A number of superannuation funds provide a level of insurance cover with the fund itself, and while this may be a cost-effective option, the level and type of cover may be less than suitable for your particular needs and situation. Furthermore, many people lose track of their insurance cover, allow it to lapse, or simply aren't aware of the extent of cover they'll need to protect their loved ones in the event of an unexpected illness, injury or death. For this reason, it's good to review your insurance cover on a fairly regular basis to ensure it remains relevant to your needs and circumstances. It's worth keeping in mind that a review may reveal that you have too much cover, causing unnecessary expense.

Estate planning

Planning for unforeseen events should also encompass estate planning. Nearly half of all Australians will die without a will. If this happens, or if your will is considered invalid, the government will pay any bills or outstanding taxes from your assets and then distribute the remaining assets according to a predetermined formula. This means that your assets may not be passed on according to your wishes, or some family members may receive more than others, leading to potential conflict and disputes.

Estate planning involves a thorough assessment of your potential estate, and a detailed understanding of how you would like your estate to be transferred to your beneficiaries at the time of your passing. Most often, estate planning will involve a combination of writing a will, nominating your beneficiaries for any funds held in superannuation, Powers of Attorney, as well as instructions for the care of any dependent children.

Estate planning involves more than just having a legal will, it also considers the manner in which you would like your assets distributed, who they should be distributed to, and what would be the most tax-effective manner to do so.

Introduction to financial planning

What is a financial plan?

Financial planning is the process of examining where you are now financially, where you want to be in the future, and then developing detailed financial strategies that are designed to make these future goals and objectives become a reality.

Planned properly, it requires the skills of a qualified financial advisory professional; one that understands the complexities of government regulations, taxation and how different strategy options may hinder or advance you on your path to financial security. Ultimately, a financial adviser will become intrinsically familiar with your financial circumstances and develop a tailor-made financial strategy that's purpose built for you.

The financial planning process

While different advisers may have different areas of specialisation, the approach to gaining a detailed understanding of a client's particular circumstances, their goals and objectives for the future, and then responding with detailed strategies and recommendations is almost always universally the same. The standard financial planning process typically involves:

An introductory meeting

This initial meeting with your financial adviser is a "getting to you know" session that often involves a high level discussion about your current financial situation and what you hope to achieve by entering into a relationship with an adviser. It's also an opportunity to ask any questions in relation to the adviser's skills, background, areas of expertise (if any) and their particular approach to investing. This meeting is often provided free of charge, and lets both parties reach a decision as to whether working together will be mutually beneficial.

Identifying your goals

Should you agree to work together, the next step is to clearly define your short term and long term goals. This stage serves as the foundation for developing your comprehensive financial plan.

Assessing your financial situation

Your financial adviser will undertake a thorough examination of your financial position – examining your assets, liabilities, insurance cover as well as any existing investments or tax strategies you may have.

Developing your financial plan

Equipped with a thorough understanding of your current circumstances, obligations and future goals, your financial adviser will begin work on your financial plan. This involves a considered analysis of various investment alternatives, taxation implications, and financial modelling. Upon completion of this work, your adviser will recommend suitable strategies, products and services that are designed to achieve your objectives in the most tax-effective manner. This information is presented in a document called a Statement of Advice. This document clearly outlines the fees and charges associated with the recommended products and services as well as the adviser's advice.

Implementing the recommendations

Once you and your adviser have reviewed the strategies together, and if you are satisfied with the recommendations and wish to proceed, your plan will be put into action. Where appropriate, your financial adviser may work with other related specialist professionals, such as an accountant or solicitor.

Ongoing reviews

Your circumstances, lifestyle and financial goals are likely to change over time, so it's important to review your financial plan on a regular basis to ensure it remains appropriate to your needs and circumstances over the longer term, and to help keep you on track to achieving your goals.

Four principles of wise investing

While advisers may have different approaches to investing, we believe in four key principles that are essential to successful investing.

1. Diversify your investments

Diversifying your investments means spreading them across different asset classes n order to spread your risk. Many people invest across the main asset classes such as shares, property, cash and fixed income, and also invest in a number of different areas within each asset class. For instance, some assets may do well when the Australian dollar is rising while others may do better when the Australian dollar is falling. By placing your money across a number of different asset classes and investments, the positive returns you receive from one investment may offset negative returns from another investment due to fluctuating economic or investment cycles.

2. Consider your investment time frame horizon

As a general rule, the longer you can remain invested in the market, the lower the risk. This is because investments tend to perform better over the longer term. Your investment time frame horizon will largely depend on your current age now, and when you hope to retire in the future.

Long term investors may be more inclined to invest in property or shares, as these investments tend to perform well over a longer time frame, whereas short or medium term investors would be better advised to invest in cash or fixed as returns are less variable and the capital invested is therefore more secure.

Investment time frames	
Very short term	Less than 1 year
Short term	1 - 2 years
Medium term	3 - 5 years
Long term	6 - 10 years
Very long term	More than 10 years

3. Risk and return

When working out the best investment solutions for your needs, your financial adviser will talk to you about your attitude towards risk, or what we call your "risk profile." Your appetite for risk will often depend on your life stage and whether you want to grow your savings over the long term or need to draw a regular income. Usually, your age and relative proximity to retirement will determine whether you're investing for the short term, medium term or long term.

Generally speaking, low risk investments (such as cash and fixed interest) typically have low returns, while high risk investments (ie those subject to greater volatility such as property and shares) may reward investors with higher returns. Choosing the least risk option is not always the best course of action as inflation and tax can quickly erode the value of your portfolio if it's not structured appropriately. Pursuing higher returns isn't always necessarily the wisest course of action either as the potential for loss is greater.

Your financial adviser can explain the implications of risk and return in greater detail and help you to select a suitable investment structure that's right for you.

4. Choose quality investments

Be wary of investments that promise high returns with minimal risk. It's an unfortunate reality that many Australians have lost their entire life savings due to poor financial advice or falling victim to investment scams. In many of these cases, inexperienced investors have received unsolicited advice by "investment spruikers" offering greater than market returns with low risk. Avoid these offers at all costs. Remember, if it sounds too good to be true, it probably is.

You should only invest your money if you are convinced the investment represents good quality. In these circumstances 'good quality' may include such things as an established and verifiable track record, a well-researched and thoroughly-presented offer, or management by a respected investment manager. When it comes to securities, 'good quality' can often refer to such qualities as companies with well-established good management and strong balance sheets.

It's important to keep in mind that even though the financial services industry is heavily regulated, fraud still occurs. If you don't have the financial expertise to differentiate a wise investment from a potential scam, seeking guidance from a reputable, qualified financial adviser is essential.

The four main asset classes

When it comes to investing there are four main types of assets; cash, fixed interest, property and shares. Although there are other assets available, these are the most common.

Cash

Cash is generally regarded as the most secure asset class however it also produces the lowest return over the medium to longer term. It's generally suitable for short term investors who require stable returns over a relatively short period of time. Cash investments typically include bank accounts and cash management trusts.

Fixed interest

Fixed interest investments offer investors a regular income for a specified term with the expectation that the principal will be repaid at the end of the term (maturity date). Fixed interest investments generally involve lower risk than shares and property, but sit higher on the risk spectrum than cash. Consequently, the returns from fixed interest are generally slightly higher than for cash. Fixed interest investments include corporate bonds, government bonds, semi-government bodies and debentures.

Property

Property is a favourite investment type for many Australians with the ability to generate relatively higher returns through rental income and capital growth (if the value of the property increases over time). However, as an investor, it's important to keep in mind that property is an asset class like any other and is subject to rises and declines in value over time.

It's also important to keep in mind that the upfront costs of investing in property can be significant, with stamp duty, legal fees and other costs such as pre-purchase pest and building inspections potentially adding about 5% extra onto the property's purchase price. This is one reason why residential property is generally regarded as a longer term investment. It can take time to recoup those upfront costs. Also remember that if you need access to your money at short notice, property may not be the ideal investment as it can take several months to sell depending on market conditions at the time.

Shares

Shares, also known as stocks or equities, are a popular investment choice for many Australians. As an investment, shares have lower and fewer upfront costs compared to property. There are no ongoing costs, and, depending on the share you choose to invest in, shareholders can earn regular income through dividends as well as enjoying the potential for long-term capital growth. Having said that, it's important to understand that share prices rise and fall and the payment of dividends and the return of capital are not guaranteed.

When you invest in shares listed on the Australian Securities Exchange (ASX), you are effectively buying "a slice" of a public company. As a part-owner, you may be entitled to a stake in the company's profits. This is paid out to shareholders as "dividends". As the company's business grows over time, the value of the shares may grow, and this can provide capital growth for shareholders. With thousands of companies listed on the ASX, there is a wide variety of companies and industries you can invest in through shares.

How much should you invest in each asset class?

Your financial adviser will discuss asset class recommendations with you based on their understanding of your risk profile, your investment time frame horizon, and your specific goals and objectives. In making a determination as to the most appropriate asset class allocation for your needs will involve considering:

- How much money you have to invest
- Your degree of comfort with risk and return of each asset class
- How much income and capital growth you need to achieve your retirement objectives
- Your age
- Your near term and longer term lifestyle and financial goals
- Your investment time frame horizon

Assets can provide income, capital growth, or both. Shares and property are generally regarded as growth assets, while cash and fixed interest are regarded as income producing.

Investments	Income	Growth
Cash	✓	×
Fixed interest	✓	✓
Property	✓	✓
Shares	✓	✓

Understanding risk

Investing for your long-term financial security can be challenging. There are many factors to consider and one of these is how much risk you are prepared to take.

Generally, there are three key types of risk that you need to consider when it comes to investing:

1. Losing your initial investment
2. Lower than expected growth in the value of your investment
3. Lower than expected income return.

We would all love to find an investment with low risk and high returns. But in reality, risk and return are inversely related, so that the lower the risk of an investment, the lower its long-term returns are likely to be.

Investment markets move up and down over time. If you're in a position to invest for ten or more years you may be prepared to take on more risk in your investment portfolio. This means you'll have time to ride out any short term fluctuations in investment returns and benefit from the potentially higher returns offered by growth investments such as shares.

As you approach retirement, or when saving for a specific goal such as the purchase of a home, you are less willing to risk losing your savings. This is particularly true when markets are volatile, and the risk of capital loss increases. At this time, you might put a greater emphasis on investing in defensive assets, such as cash and fixed income.

In summary

Advice worth paying for

As you can see, there are many factors to consider when it comes to planning for retirement. However one thing is for certain - the key to a successful retirement is careful planning. Seeking professional advice can make all the difference. To find out how we can help you plan for the retirement lifestyle you want in the future, please feel welcome to contact us.

Alison Crawford

Orbit Financial Services

Suite 101

203 Robina Town Centre Drive

Robina QLD 4226

07 5661 9720

alison@orbitfs.com.au

www.orbitfs.com.au

ORBIT
FINANCIAL SERVICES

Orbit Financial Services Pty Ltd is a Corporate Authorised Representative (No. 1261981) of Capstone Financial Planning Pty Ltd. ABN 24 093 733 969. Australian Financial Services Licence No. 223135.

Information contained in this document is of a general nature only. It does not constitute financial or taxation advice. The information does not take into account your objectives, needs and circumstances. We recommend that you obtain investment and taxation advice specific to your investment objectives, financial situation and particular needs before making any investment decision or acting on any of the information contained in this document. Subject to law, Capstone Financial Planning nor their directors, employees or authorised representatives, do not give any representation or warranty as to the reliability, accuracy or completeness of the information; or accepts any responsibility for any person acting, or refraining from acting, on the basis of the information contained in this document.