March 2021

Welcome to our Autumn client newsletter; the first edition for 2021!

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss if $1m is enough to retire on, look at the right time to seek financial advice, provide a few tips to parents who have become the bank of mum and dad and lastly discuss what it means to retire.

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,
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Is $1m enough to retire?

A million dollars is a figure that's often cited as the amount you need to retire. But while $1 million doesn't go as far as it used to – it only goes slightly above the median house price in Sydney[i] – for many people it still sounds like an impossibly large amount of money to save.

In reality, there's no set figure you need to have accumulated in savings, super, real estate or other investments before you can retire. Instead, the size of the retirement nest egg you'll need will really be determined by your individual goals and circumstances.

Calculate how much you need to retire

A large part of working out how much money you'll need to cover your retirement depends on the sort of lifestyle you'd like to enjoy.

The Association of Superannuation Funds of Australia (ASFA) estimates that Australians aged around 65, who own their own home and are in relatively good health, will need the following amount of money each year in retirement, depending on whether they intend to live a modest lifestyle or a comfortable one[ii]:

	Modest lifestyle		Comfortable lifestyle	
	Single	**Couple**	**Single**	**Couple**
Total per year	$27,902	$40,380	$43,687	$61,909

A modest retirement lifestyle is considered better than one solely dependent on the Age Pension but includes only basic activities. A comfortable retirement assumes you'll be involved in a broad range of leisure and recreational activities, do some travelling, and have a good standard of living.

If you own your own home, another useful measure is that you'll typically need around two-thirds (67%) of your pre-retirement income to maintain the same standard of living in retirement[iii].

Calculate your day-to-day expenses

Your current monthly budget is a good place to start when trying to forecast your day-to-day living expenses in retirement, but don't forget to factor in increases in the cost of living over time.

Some costs may be removed – for example, if you own your home you might be planning to have your mortgage paid off before you retire and perhaps the education costs of any children will also be out of the way by then. Work-related expenses, such as petrol or public transport costs, takeaway lunches, work clothes and dry cleaning will probably also be a thing of the past.

But you'll still have ongoing costs such as utilities, food, healthcare and insurances to cover, along with the costs associated with owning a car, if you have one. And it's likely that your spending on recreational activities could also increase once you have the time to enjoy them.

Your lifestyle

The type of lifestyle you'd like to enjoy in retirement could have a big impact on how much money you'll need.

Give some thought to the things you like to do now that you may want to do more of in retirement, or any new hobbies you might like to take up, and the expenses involved in doing these.

And if you plan to travel – be it around Australia in a caravan or eventually by plane across the globe – you'll need to plan for those costs, too.

Check your life expectancy

If you plan to retire at age 65 it's possible that your retirement savings will need to last you at least 20 years, as life expectancies in Australia continue to increase. Currently men aged 65 can expect to live to 84.9 years, while women can expect to live to 87.6 years[iv]. There are different living options available in retirement too, so it's important to think about the long term when considering your financial situation once you stop working.

Check eligibility for government entitlements

Depending on your circumstances, you could be eligible for a part or full age pension payment, which could boost your retirement income.

Other government benefits you may be eligible for include Carer's Allowance, Disability Support Pension, tax offsets or government loans.

You could also be eligible for a Seniors Card and/or a Pensioner Concession Card, which can help reduce the cost of public transport, some entertainment, healthcare and medications.

And don't forget that once you hit 60, there's a number of other benefits you might be able to access.

Options to boost your retirement funds

If you're concerned you won't have enough to retire and enjoy the lifestyle you'd like, you could consider working beyond the retirement age, whether full time or part time. Though this can affect access to your superannuation and other government benefits, so it's important to do your research.

And it's worth remembering that even beyond retirement your money can continue to grow if you leave your super invested and only draw it down as you need it via a pension, instead of taking it as a lump sum.

If you're unsure about how much money you'll need to retire, we can help you determine whether your retirement savings are on track.

i Core Logic, Hedonic Home Value Index, November 2020.

ii Association of Superannuation Funds of Australia (ASFA), Retirement Standard June 2020.

iii Moneysmart, How much super you need.

iv Australian Institute of Health and Welfare, Deaths in Australia, August 2020.

The right times for financial advice

COVID-19 has created uncertainty everywhere and impacted not just our health but our wealth too. From millennials to retirees, we've had to review our finances and adapt to the changing environment.

We've seen volatile share markets, slashed dividends on bank stocks, record-low interest rates and sectors like airlines, tourism and traditional retail struggling to survive. On the other hand, online shopping and e-commerce have surged, and more people are saving now than before the pandemic[i].

During this uncertainty, many people have found their financial adviser to be a critical source of guidance and a valuable sounding board. In many cases, the adviser-client relationship has been a long-term connection. It's built over many years and based on trust and confidence that the adviser has the client's best interest at the centre of every decision.

Demand for advice doubles

The financial advice industry is full of examples of clients reaching out to their advisers in recent months, leveraging these long-term relationships at a time of worry and crisis.

Recent research from the Investment Trends 2020 Financial Advice Report showed three in four financial advice clients had been in contact with their adviser to discuss the impact of the COVID-19 pandemic.

Advisers are also fielding an unprecedented number of calls from potential clients who are confused by the current markets and understand they need help.

The instability of recent times has undermined the confidence of those who are retired or are about to retire, with many wondering if they'll be left with enough superannuation savings for a comfortable retirement. But those who have a relationship with an adviser can rely on the fact their adviser knows them well, understands their unique circumstances and life goals, and can deliver advice tailored to them.

Advice for different life stages

Financial advice can be helpful at a range of life stages, not just when thinking about retirement. Some common things advisers can help navigate financially are:

- saving for and preparing to buy your first home
- getting married or starting a family
- budgeting and money management
- growing wealth
- estate planning
- planning for retirement
- retirement and aged care.

We can help with practical financial advice in all these scenarios. But more importantly, we can help you focus on your individual financial priorities and goals and create a plan to achieve them. It's been a challenging year but solid financial advice can assist you to make the best possible decisions, and take action that is appropriate to your circumstances.

Life's journey has many twists and turns and points at which priorities change. We are with you every step of the way.

i https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product

Tips for parents who became the bank of mum and dad

Aussie parents have coughed up more than $26 million to help their adult kids since COVID-19 hit our shores – and one in five is at financial risk from doing so.

Parents helping their adult kids financially isn't an unfamiliar concept in this country, but figures reveal mums and dads have forked out approximately $26.8 million since the outbreak of COVID-19 in Australia[i].

Below we look at what's going on across the nation and how you can make sure your own wellbeing doesn't fall by the wayside, particularly if you're the one in five at financial risk by providing such assistance[ii].

What's happening around Australia?

About 30% of Aussie parents have been providing financial support to their adult kids, as job losses and wage reductions hit many young Aussies hard[iii].

According to findings from financial comparison group Mozo, the most popular forms of assistance included help with[iv]:

- day-to-day expenses, such as utility bills and groceries – 48%
- car expenses – 29%
- purchases for the home – 24%
- medical expenses – 19%
- electronics – 18%.

Meanwhile, the majority of parents didn't expect to be paid back, despite the fact that one in five was at financial risk by offering such support, with 67% having to take money from their savings to help their adult kids and 37% having to cut back on expenses[v].

A survey by another financial comparison group Finder found that 17% of parents were also letting their adult kids live at home rent free, while one in 10 was providing free childcare for their grandchildren[vi].

Have you thought about your retirement?

You might be a number of years away yet, but retirement is worth a thought when considering the costs of your adult children living at home, or out of home and still needing your support.

After all, life expectancy is increasing in Australia, which means you'll probably need to account for a longer retirement than your parents. If you retire at 60 and live beyond age 85 for instance, you may be looking at funding a retirement that could span more than 25 years.

If you're wondering how much money you might need, the Association of Superannuation Funds of Australia (ASFA) benchmarks the annual budget needed to fund different retirement lifestyles, based on an assumption people own their home outright and are relatively healthy[vii].

September 2020 figures show individuals and couples, around age 65, looking to retire today would need an annual budget of $43,901 and $62,083 respectively to fund a comfortable lifestyle, or $27,987 and $40,440 respectively to live a modest lifestyle[viii].

If you're banking on the government's Age Pension supporting you, keep in mind to be eligible for a full or part Age Pension you must satisfy an income test and an assets test, as well as other requirements[ix].

Ways you could help your kids be financially independent

While many parents provide financial support to their children, providing adult kids with regular cash handouts (particularly if you're giving them more than may be necessary) could lead to poor financial choices and them living beyond their means because they've become too reliant on the bank of mum and dad.

To assist your kids, here are some things to think about.

- Teach them how to budget and save, about the consequences of unsustainable debt and what benefits an emergency fund might have.
- Challenge them to find a better deal with a different (phone, internet or credit card) provider and give them some incentive to do it. These are real life lessons that will hopefully stick.
- Explain how a loan works. Going through your loan statements with your kids is a great opportunity for some financial education. Plus, you can show them how much extra they could end up forking out if they don't take note of the interest rates they sign up to.
- If your kids are involved in time intensive study and are finding it difficult to commit to part-time work, it's also an idea to look into government allowances they may be entitled to, noting Coronavirus stimulus payments have also been extended into 2021 if they're finding it difficult to secure work.

It can be a tricky balancing act, providing financial support for your children while also keeping an eye on your retirement plans and we are here to help.

i - v Mozo: 30% of parents financially supporting their children during COVID-19

vi Finder: Bank of Mum and Dad: 44% of parents subsidise the lives of their adult kids

vii - viii ASFA Retirement Standard

ix Australian Government – How much you can get

Many in the dark about retirement

Whether retirement is a long way into the distance, or just peeking over the horizon, recent research[i] shows half of us aren't sure we'll have enough money to retire when we want, or even how much money we'll actually need.

There's always been a lot of unknowns when it comes to retirement but throw a global pandemic into the mix, and we're feeling more uncertainty than ever before. Things we once thought of as quite certain seemingly changed overnight.

And while that's all led to a whopping 76%[ii] of us believing it's more important than ever to plan for a secure financial future, we still don't know what that means when it comes to retirement.

One in three not confident of a comfortable retirement

That's a lot of Australians feeling insecure about how we'll manage when we stop working. According to the Association of Superannuation Funds of Australia (ASFA) Retirement Standard[iii], for a comfortable retirement, a single person needs about $545,000 and a couple $640,000 saved in super. This is assuming you own your house outright. Those numbers might seem pretty scary, but knowledge is power. It's better to be informed when you still have time on your side than stay in the dark and be left with fewer options.

Plan to bridge the gap

The first step is figuring out how much you need. Once you know the figure you're aiming for, how much you currently have, and how many years you are away from finishing work, you can put a plan in place to help you reach your retirement savings goals.

Ways you might consider doing this include:

- Topping up super with additional contributions (be aware of contribution caps).
- Replacing any super that's been accessed through the COVID early release of super scheme.
- Paying down personal debt like loans or credit cards.
- Making additional home loan repayments so you own your home sooner.
- Consolidating your super accounts so you aren't paying multiple fees (check you don't lose important insurance benefits or won't be charged an exit fee first).

If you're not sure what steps are right for you, we can help you figure it out.

Plan to protect retirement savings

COVID has made us pay closer attention to how our retirement savings are invested and some people may have seen their super balances drop. If you've got 15 or more years before you retire, chances are, your balance will likely have time to recover with the usual long-term market movements. But there's no guarantee, and it doesn't mean you can just sit back and relax.

It's worthwhile checking what type of superannuation investment product your retirement savings are invested in. Diversified or balanced options can help offer some protection against volatile market swings because they're made up of assets other than shares, like buildings and other infrastructure (although these are still susceptible to fluctuations).

One of the most important things to do is avoid making hasty decisions. Do your research, and if possible speak to us if you're wondering whether it's the right time to switch investment options or move your super from one fund to another. There may be a risk of locking in losses or unfavourable tax components that could have a significant impact on the kind of retirement you'd like.

Don't bank on working for longer

Given what we've seen with COVID and the economy, it's hardly surprising 30% of people said they were worried about sequencing risk - a market crash or downturn which significantly reduces the value of super savings. And if that happened, over 50% of us say we'll work for longer to build our retirement savings back up.

However, that might not be a failsafe backup plan. ABS data shows that of the people who retired in 2018-19[iv]:

- 21% had to stop working due to sickness, injury or disability
- 11% retired because they were made redundant or couldn't find work.

Add to that the average retirement age was just 55.4 years, working for longer to top up your super isn't an option for everyone.

Those surveyed said they're planning on budgeting $72,836 per year in retirement for a comfortable lifestyle. But if savings took a big hit at the wrong time, 42% of us would be willing to consider adjusting our standard of living expectations. While that might sound easy enough to do, retirement is supposed to be about thriving, not surviving.

Educating yourself and taking control of your financial future can help alleviate concerns about retirement. Having a plan and feeling financially prepared can give you peace of mind. If you need help creating a plan, speak to us. You spend your life working hard, and deserve to feel excited, not anxious, about retirement.

i,ii AMP Financial Wellness Report, Behavioural Architects, August 2020

iii https://www.superannuation.asn.au/resources/retirement-standard

iv https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release