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What makes for a comfortable retirement?

Although $250,000 can sound like a lot of money, for a couple, that's how much you will each need in savings to enjoy a few of life's comforts in retirement – rather than just the basics.

A great retirement is a subjective idea. One person's comfortable post work life is another's idea of penury. So when you're thinking about your financial future, it's always a good idea to remember that your individual tastes will most powerfully shape your needs.

Although the pool of super savings continues to swell, most older Australians still rely on the Aged Pension as their main source of retirement income.[1]

It takes care of the basics, but life on the Age Pension is far from the luxurious – or even comfortable – lifestyle most people would like for their later years.

For those seeking a comfortable lifestyle, additional retirement savings to supplement your Age Pension entitlements are essential.

But how much?

For couples, a good place to start is $250,000 each, as this amount provides most of the extras needed to enjoy a 'comfortable' rather than basic lifestyle.

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What does the Age Pension provide?

From March 2015, the maximum payment for the Age Pension (maximum basic rate plus pension and energy supplements) is $22,365 per year for a single and $33,716 for a couple. That gives a single person $430 a week to spend and each member of a couple receives $324.

It's not a lot and the lifestyle it provides is fairly basic, with little room for anything other than the bare necessities. The Age Pension doesn't stretch to cover holidays away from home, expensive meals out and home or car repairs.

What is a 'modest' retirement lifestyle?

A simple way to see what retirement really costs is to check the ASFA Retirement Standard, which regularly details two retirement lifestyles: 'modest' and 'comfortable'.

A retirement where you are totally dependent on the Age Pension is fairly similar to ASFA's 'modest' retirement budget. The extra expenditure above the Age Pension it provides requires a $50,000 lump sum for a single retiree and $35,000 for a couple.

The 'modest' lifestyle for couples allows spending of $159 a week on food, $41 a week on energy, $17 for clothing and $26 for household goods and services.[2] That's not exactly luxurious.

For a single retiree, more than 80% of the 'modest' budget is earmarked for essentials such as food, utilities, clothing, transport, health and home maintenance, with very little left for leisure activities.[3]

What if I want more?

For a retirement lifestyle that offers a few more comforts, more retirement savings are needed to boost your Age Pension entitlements.

ASFA's 'comfortable' retirement budget allows for a better standard of living and if you own your own home, you can be involved in a broad range of leisure activities.

A 'comfortable' budget allows retirees to own a reasonable car, regularly eat out at restaurants, afford bottled wine, purchase good clothes, afford regular haircuts at a good hairdresser, replace your kitchen and bathroom, hold private health insurance and take domestic, and occasionally, international holidays.

For that kind of lifestyle, a couple will need a lump sum of $510,000, or $255,000 each to boost their Age Pension entitlements.

The investor's guide to risk

Are you a thrill seeker, loving nothing more than living from one adventure to the next? Or the more cautious type, prone to undertaking detailed research before making your move?

These are the kinds of questions your financial planner asks when establishing your risk profile. And they're not just talking about the way you like to live your life!

Risk is an important element of any investment strategy. All investments carry some degree of risk which impacts on their potential to earn. In fact, there is no growth without some level of risk, but striking the balance between risk and return is a challenge that can be achieved with careful planning.

What is investment risk?

Investment risk is the probability that your financial goals won't be reached. Risk is a result of fluctuations in value of your investments and therefore investment risk relates to the potential for your investment to go up and down. In general, the higher return potential, the higher the risk.

All investments carry some form of risk and you need to be comfortable with the amount of risk you are willing to take. Certain factors impact on your decision to take a higher level of risk and these include:

- How much money you need to reach your goals.
- The time frame you have in order to meet your goals.
- Whether you would accept your investment not growing faster than inflation.
- The return you expect from your investments.

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Sources:

1 Australian Bureau of Statistics, *Retirement and Retirement Intentions, Australia, July 2012 to June 2013*

2 Association of Superannuation Funds of Australia, *ASFA Retirement Standard, December Quarter 2014*

3 Deloitte, *Adequacy and the Australian Super System, June 2014*

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- How comfortable you are with fluctuations in the value of your investments.

These questions will help you balance the risk and reward equation and should help to confirm that taking risk is a necessary part of investing.

In fact the biggest risk can often be taking no risk at all because your investment won't have the growth potential to achieve your goals.

The golden rules of managing risk

No matter what your risk profile is, there are some golden rules when investing:

Be conscious of time

Investments move in cycles and knowing your investment time frame will impact your investment choices. In general more volatile investments (those that fluctuate in the short term) aren't recommended if you are likely to need the money in the short term. If you plan to keep your investment over the longer term, fluctuations in the market tend to even out eventually.

Diversify

Diversifying your investments is another way to reduce risk. If you're diversified across lots of asset classes, investment managers and companies, you're spreading your risk. This is because they're all likely to perform well but at different times and in different circumstances. Buying a broad range of investments is not often possible, so managed funds can be a good option.

Know your investments

Before you invest you need to understand the sort of investment risk or fluctuations you're likely to experience during the time you'll be invested. Forewarned is forearmed. Your financial adviser can help you with this.

Stick to your plan

Setting your financial goals with your financial planner is one of the most effective ways of managing your reaction to investment risk. Your financial adviser can design a strategy to help you achieve your goals. When you make a long term commitment to the investment strategy you'll be less tempted to shift your investments when you experience volatility.

Saving women's retirement

With our aging population and inevitable shift toward self-funded retirements, the gender gap in retirement savings has become a critical issue to address for the government, businesses and individuals alike.

According to research conducted by MLC, women typically retire with 40% less in their super than men[4] – $112,632 vs. $198,235 on average.[5] So it's no surprise that over a third of women expect to have far from enough money to fund their lifestyles when they exit the workforce.[4]

How are women funding retirement?

- **42% of women are reliant on the age pension or government allowances when they retire, as opposed to 25% of men.**[6] As our aging population places additional strain on the welfare system, this percentage of Australians relying on government support will become unsustainable. If this situation doesn't improve, more women than men may find themselves falling beneath the poverty line in the future when the government is forced to curb expenditure.
- **44% of women report their partner's income will be their main source of support for meeting living costs in retirement.**[6] While this strategy can work for some couples, it doesn't protect women from the realities of divorce, which can be particularly difficult for women with dependent children. A 2012 study by the Australian Institute of Family Studies (AIFS) found that divorced women with dependent children found it much harder to recover financially than their childless peers.

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- **10% are drawing down on super in the form of an annuity or allocated pension.**[6] To ensure women have more financial freedom in retirement, and to make our current system more sustainable, we need to drive consistent increases in this percentage.

What's driving the super savings gap?

There are a few unique drivers underpinning the current gender gap in retirement savings, including:

- **Women tend to retire earlier than men.** Between 2012 – 2013 the average retirement age for women was 50, whereas the average age for men was 58.5.[6]
- **Women are more likely to take a career break to raise children.** The reality for many mothers is a break from the workforce equals a break from paying super.
- **Women are more likely to work part-time.** When women return to the workforce, they are more likely to take up part-time roles that limit the amount they can save in super.
- **On average, women are paid 17% less than men.**[7] Even when women work similar hours to men, they may take home significantly less income which affects the amount they are able to save towards retirement.
- **Women (on average) outlive men. The average life expectancy of men aged 65 is now 87 years and for women aged 65 it is 90 years.**[8] Couple this with the fact that many married women from traditional backgrounds surrender control of their finances to their husbands, and there is substantial risk that many women may fall beneath the poverty line in their later years.

What can women do to save their retirements?

There are a range of things women can do now to increase their super balances:

- **Maximise pre-tax contributions.** Women working full-time and earning less than $300,000 pa can take advantage of the 15% tax rate on pre-tax contributions to boost their super.
- **Consolidate multiple super accounts.** By bringing their super together in the one fund, women can cut down on fees and put the power of compound interest to work for their money.
- **Grow their super and protect their income stream.** As women (on average) outlive men, growing their super through wise investment and having an income stream they won't outlive are crucial.
- **Speak to a Financial Adviser.** Consulting a financial expert can help women take stock of their personal finances and put a savings plan in place to ensure they have the income to support a comfortable retirement.

Sources:

4 MLC Quarterly Australian Wealth Sentiment Survey December 2013

5 ASFA Retirement Standard December 2013

6 Retirement and Retirement Intentions, ABS, July 2012 to June 2013

7 Gender pay gap statistics, Workplace Gender Equality Agency, March 2014

8 Australian Life Tables 2005-07 cited in Institute of Actuaries, Submission to Financial System Inquiry 2014, www.actuaries.asn.au