The retirement years

We see creating and looking after your wealth as a lifelong commitment. That's why we offer regular financial advice and guidance throughout the different stages in your life. Together, we can build the financial wealth that lets you enjoy the truly important things in your life.

Financial priorities: Maximise retirement savings

Life motto: Life begins at 60

Retirement is a time to reap the benefits of your working life. For some it may be time to devote to the house, gardening and bowls. For others it may be time to explore the world, follow your passions and take new challenges.

Whatever your plans, maximising your retirement savings is essential, and the way you structure your finances can greatly affect your overall retirement income.

Case study: John and Susan Grant

Ages: John, 65 years; Susan, 63.5 years old

Occupations: Retired

Children: Emily, 38 years old; Nathan, 34 years old

Assets:
Home $175,000
Term deposits $225,000
Cash $20,000
Other (car, contents, etc.) $25,000

Income:
Interest from term deposits and cash $11,588
Age pension $17,711.20

Debts: None

Financial goals: Maximise retirement income and provide for Emily and Nathan

'We want to enjoy our retirement without worrying about money. We also want to leave something to our children.'

Recommendations/strategies from financial planner

John and Susan feel that their income of just over $28,000 from a part-pension combined with interest from term deposits isn't stretching far enough to cover their costs. They really want closer to $35,000 to live a more comfortable life.

Their current, combined situation is:

Income from $225,000 (at 4.75%) in term deposits i.e. $20,000 (at 4.5%) cash reserves	$11,588
Age pension (total assets $270,000)	$17,711.20
Total income	**$29,299.20**

If they re-organise their assets, they can come out ahead. Let's say John makes a spouse contribution of $100,000 for Susan, and then Susan purchases an allocated pension. The remaining $125,000 is used to establish a complying (life expectancy term) annuity in John's name.

Recommended structure:

Age pension	$21,377.20
Income from John's $125,000 complying pension at quoted real yield[1] at 3.26%	$8,344
Income from Susan's allocated pension[2]	$5,520
Interest received from $20,000 (at 4.5%) cash reserves	$900
Total income	**$36,101.20**

1. Real yield is the yield after it's been adjusted for inflation.
2. Based on the minimum pension valuation factor (effective 1 January 2006).

By restructuring their investments they can increase their income by $6,802.

By taking out a $125,000, complying 18-year annuity John would be effectively trading assets to buy an income stream. That income stream is treated concessionally by Centrelink's income test, putting John and Susan in a better financial position.

A complying, fixed-term pension must meet a number of requirements to be concessionally asset tested. One of these is related to life expectancy (which is based on government life expectancy tables). The term of the annuity must be at least equal to your life expectancy, or your life expectancy if you were five years younger.

In John's case, at 65 years old, his life expectancy is 17.70 years. Therefore, his complying, fixed-term income stream must be set for a term of 18 years. If he were to use the 'five years younger rule', the income stream would be based upon a life expectancy of 21.66 (rounded to 22).

Another option for John or Susan is a complying lifetime income stream, which has the same Centrelink benefits. A lifetime income stream would be for John's or Susan's lifetime, rather than for a fixed period. Obviously if they die earlier than their general life expectancy indicates, this income stream would not be beneficial because it cannot be passed on to someone else.

However, if they outlive their life expectancy, they are guaranteed an income until they die.

Note: Recent changes provide that from 1 January 2006 the term of some complying income streams may be based on a lifespan to age 100. Say for John at age 65, he would then be able to establish the income stream with a term of 35 years. Please consult your wealth adviser regarding your specific situation.

The family home

At some stage in their retirement years, John and Susan may also look at downsizing the family home or moving into a nursing home, hostel or retirement village.

If they decide on aged-care accommodation, once they sell their house they will no longer be eligible for the age pension unless they restructure their finances. Given that many hostels charge non-pensioners a higher daily rate, they'll need to look at the different investment options available, such as investing the funds into a complying pension.

Risk insurance

Life insurance during your retirement years can protect your loved ones, just as it does during other times. For example, life insurance could cover any capital gains tax on your estate, funeral expenses, and it can also ensure that your estate is equally divided amongst your beneficiaries. You could even use life insurance to bequest funds to the charity of your choice.

Estate planning

Estate planning is an important part of your financial strategy, particularly in retirement years.

For John and Susan, two important considerations are:

- Can they arrange their finances so that if one of them dies, the surviving spouse will still receive a reasonable income, and an age pension card?
- Can they protect their estate from their son-in-law, who they don't trust?

In their current situation, if John orSusan were to die, the surviving spouse would not be eligible to receive the age pension. However, if they reorganise their investments as suggested (John buys a complying, fixed-term pension and Susan buys an allocated pension), even as individuals they would still be eligible for the age pension (nearly $12,000 per year).

By setting up a testamentary trust in their wills, they can also protect their estate from their son-in-law. For example, in their wills they can nominate to leave their assets to the surviving spouse, but if there is no surviving spouse the assets can be held in a testamentary trust, which has Emily and Nathan as the beneficiaries.

Note: Advice contained in this flyer is general in nature, and does not consider your particular situation or needs. Please do not act on this advice until its appropriateness has been determined by a qualified adviser.

Looking for advice?

No matter what stage of life you're in, a wealth adviser can analyse your unique situation and help you make the most out of your finances. For more information on making the most out of your retirement income and estate planning, or to make an initial no-cost, no-obligation consultation, please contact:

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