FIDUCIAN FOCUS

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BUDGETING FOR RETIREMENT: 5 THINGS TO CONSIDER

Budgeting for retirement is an essential part of ensuring a secure financial future for yourself and your loved ones. Australia has a comprehensive superannuation system which has helped retirees maintain their standard of living. However, it may not be enough for all your financial needs in retirement.

The earlier you start planning for retirement, the better off you will be. This is because when you plan early, you have more time to save, and your investments have a longer period to grow.

On the other hand, if you start planning for retirement later in life, you may have to make larger contributions or take on more risk to catch up. It is never too late to start planning for retirement, but the earlier you begin, the more secure your financial future will be.

A financial advisor can help you determine your risk appetite and create a retirement plan which aligns with your goals and comfort level.

5 Things to Consider When Planning Retirement

1. Your Current and Future Expenses

It is essential to have a clear understanding of your current and future expenses when planning for retirement. Your retirement goals will determine how much you need to save and budget accordingly. If your goal is to travel the world and enjoy the finer things in life, you may need more money than someone who wants a simple retirement.

According to ASFA, single retirees aged 65-84 years of age who own their own home, require a minimum of approximately $50,000 per annum for a comfortable retirement (for couples it's around $71,000).

When creating a financial plan, factoring in inflation, can assist in your assessment of your retirement budget.

2. Superannuation

As you approach retirement age, you'll need to start thinking about accessing your superannuation and how you'll use it to fund your retirement. We recommend that you meet with a financial adviser to look at what options you might choose with your super. Are you planning to create an Income Stream, or do you plan to access all or some of your funds as a Lump Sum?

3. Government Benefits

In addition to your superannuation, you may also be eligible for certain government benefits, such as the Age Pension or the Commonwealth Seniors Health Card. These benefits are means-tested and will be based on your income and assets.

4. Healthcare

As you age, your healthcare needs may increase, which means you'll need to budget for healthcare expenses in retirement. This includes things like private health insurance, dental expenses, and aged care services. The cost of healthcare can vary depending on your health needs and the type of care you require, so it's important to consider this when assessing your retirement budget.

4. Housing

Housing is a big expense for most people, and this doesn't change in retirement. In fact, you may find your housing costs actually increase as you age, especially if you require specialised care or modifications to your home. When budgeting for retirement, it's important to consider your housing options and any associated costs, such as mortgage payments, rates, insurance, repairs and maintenance.

Don't Rely on Your Retirement Plan Alone

While having a solid retirement plan is crucial, it is also essential not to rely solely on it for your financial security. As we have seen in recent times, unexpected events such as a pandemic or economic recession can greatly impact the value of our investments and savings.

It is important to have an emergency fund and explore other opportunities for income, such as part-time work or starting a small business. By diversifying your sources of income, you can have added financial stability during retirement and be better prepared for any unforeseen circumstances.

With proper planning, expert financial advice, a realistic risk assessment, and careful consideration of market fluctuations, you can ensure a financially secure future for yourself and your loved ones.

Plan well, plan early, and always be prepared. Your future self will thank you!

WHY IT'S IMPORTANT TO REBALANCE YOUR RETIREMENT INVESTMENTS

Investing is an essential tool for building wealth and securing a strong financial future. Although gaining high returns on investments is the ultimate goal, it's crucial to understand investment portfolios are not static; they require careful monitoring and periodic rebalancing to achieve maximum profitability.

Rebalancing is the process of adjusting your portfolio back to its original asset allocation. It ensures your portfolio remains in line with your investment goals and risk tolerance, and can lock in profits from overperforming assets and take advantage of buying opportunities.

Why Investments Move Up and Down

Investments are subject to market volatility, influenced by a variety of factors such as economic conditions, political events, and company performance. These fluctuations can cause your investment portfolio to deviate from your initial asset allocation.

For instance, if you have a portfolio of 60% stocks and 40% bonds, a surge in the stock market may increase your stock holdings to 70%, exposing you to higher risk.

Conversely, during a bear market, stocks may decline while bonds remain stable or even increase. This can result in a decrease in your stock holdings and an increase in bond holdings, making your portfolio more conservative and potentially limiting returns.

You may also add property to your portfolio, which provides diversification, but might also cause your asset allocation to deviate from your initial plan.

The Frequency of Rebalancing Your Investments

The frequency at which you should rebalance your investments varies depending on individual factors such as age, risk tolerance, and personal investment goals. However, as a general rule of thumb, rebalancing should be done at least once a year or whenever your portfolio deviates significantly from your desired asset allocation.

For young investors with longer investment horizons, annual rebalancing may be sufficient. On the other hand, older investors may need to rebalance more frequently, allowing them to reduce risk and protect their investments as they near retirement.

Rebalancing in the Lead-Up to Retirement

As individuals approach retirement, rebalancing investments becomes exceedingly important. While the primary goal often shifts from accumulating wealth to generating income, it is important to keep in mind that even after retirement it is vital to ensure our funds continue to grow to meet our increasing life expectancy. This often involves reducing risk by shifting more growth orientated assets into income-producing investments. This is particularly relevant with Australian shares that are often higher income generating due to their propensity to pay high dividends than most international shares.

Regular rebalancing ensures retiree portfolios remain appropriately exposed to market volatility, whilst allowing for any likely market volatility. A balanced portfolio can continue to provide a consistent income stream during retirement, which can be crucial for maintaining one's lifestyle.

Therefore, proactive rebalancing is a key strategy in safeguarding retirement finances.

Tips for Rebalancing Your Investments

Rebalancing your investments may seem like a daunting task, but here are some simple tips to help you do it effectively:

- Set a date: Decide on a specific time each year, or every six months, to review and rebalance your portfolio.
- Stick to your plan: Don't let emotions dictate your investment decisions. Stick to your original asset allocation plan and rebalance accordingly.
- Consider transaction costs: Rebalancing may involve buying and selling investments, which can incur transaction costs. Be mindful of these costs when making decisions.
- Seek professional advice: If you're unsure about how to rebalance your investments, seek guidance from a financial adviser who can help you make informed decisions, especially as your needs change and you may require other strategies to meet your goals.
- Keep track of your investments: Regularly monitoring your investments allows you to identify when they deviate from your desired asset allocation and allows you to take action promptly.

In summary, investments are for the long-term and regularly rebalancing your investments is crucial for achieving maximum returns and mitigating risk in Australia's ever-changing economy. By setting a schedule, sticking to your plan, and seeking professional advice when needed, you can ensure your investments are well-positioned for continued growth and financial stability. Don't neglect the importance of rebalancing; make it an integral part of your investment strategy for long-term success.

MAKING THE MOST OF YOUR RETIREMENT: UNDERSTANDING HOW TRANSITION TO RETIREMENT WORKS

Entering into retirement can be both exciting and nerve-wracking. On one hand, you finally have all the free time in the world to do what you want, when you want. On the other hand, it can be difficult to adjust to a new lifestyle and to ensure your financial security for the years to come. And it is often moving from full-time work to semi or full retirement that is the hardest transition to make.

By strategically managing your transition from full-time work to retirement, you may be able to access your superannuation benefits while still working and receiving an income.

The main purpose of a Transition to Retirement (TTR) plan is to provide individuals with more flexibility and control over their retirement savings and cash flow - particularly as they approach retirement age.

A TTR strategy can be used in three ways:

1. To increase your superannuation whilst you continue to work full-time
2. To receive the same income but reduce your working hours
3. To increase your income whilst continuing to work

Each of these options can assist you as you ease into retirement, but TTR strategies are not always appropriate for everyone.

Once you have reached preservation age, you may wish to continue working, and use a TTR Income Stream (TRIS) to access some of your super funds. This amount can be up to 10% of your account balance each year and may be paid as a lump sum or at regular designated periods. As you continue to work, you can continue to make contributions (or salary sacrifice to save tax) to your super account, whilst also accessing funds through your TRIS.

Case Study Example

Let's assume: You are 60 years of age and wish to continue working for another 5 years. You earn $100,000 per annum which includes $9,909.91 of superannuation paid by your employer. Your income tax and Medicare levy would equal $21,548.08 per annum. Your 'take home' monthly pay would be $5,709.50. You have $500,000 in your superannuation fund.

By opting into a TTR strategy, you can continue working. Your employer will continue making superannuation contributions and you choose to salary sacrifice $15,000 into your super (not exceeding the annual cap of $27,500, so tax on contributions would be 15% - less than your marginal tax rate). You withdraw 2% of your $500,000 superannuation balance ($10,000 for the year).

In this scenario, your monthly income would be around $4,973.38 from your salary, plus $833.33 from your TRIS. You are still 'taking home' $5,806.66 as your income tax and Medicare levy has reduced to $16,885.92. You are also adding more to your superannuation by way of additional contributions.

You can apply the same methodology and work less hours for a reduced salary, thus transitioning into retirement.

Not for Everyone

The best retirement strategies are those which cater to an individual's particular circumstances. A TTR/TRIS strategy may not be the best course to take for some, for example, if you have a low super balance or have other sources of income such as a rental income, you've already retired or close to retirement age or if you're on a low marginal tax rate.

You should also consider the effect of drawing down your super and the impact a TTR strategy could have on any social security payments.

The Importance of Advice

A Transition to Retirement strategy can provide you with a much-needed boost to your retirement income without sacrificing your lifestyle or financial security. However, always seek professional advice before making any decisions about your retirement savings so that they can evaluate the full impact of your retirement strategy.

At Fiducian, we provide our clients with tailored solutions so contact us today to find out if a TTR strategy is advisable for you.






2023

END OF YEAR CLIENT EVENTS








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