Financial considerations in your 50s and 60s

Turning 50 might have you first asking, "How did that happen so quickly?"

This is the time where we realise, we are getting older and we will probably have to have a plan for retirement one day. So, you might ask yourself the obvious questions. When would I like to retire and what financial position do I want/need to be in?

So, how much do I need to retire?

While planning retirement can mean different things to different people, generally your lifestyle in retirement is a result of the plans you put in place to set yourself up for this time.

How much income you want, how and when you can access your super, if you are eligible for government assistance, and having a structured plan are all things worth considering.

The first big question is 'how much do I need to retire'?

While a logical question, it's often a difficult one to answer. The amount you need will differ depending on the plans you have and the financial resources at your disposal (superannuation, cash in the bank, investment property sale or rental income, age pension etc.).

There is an online resource to help with this at https://www.superannuation.asn.au/resources/retirement-standard.

The ASFA Retirement Standard (see over page) benchmarks the minimum annual cost of a comfortable or modest standard of living in retirement for singles and couples aged around 67, is reviewed regularly and updated quarterly in line with inflation.

To make this personal to you, put together a budget of your current expenses and then consider which ones will not be relevant in retirement (eg. hopefully the kids are self-sufficient by then).

You also need to consider any other one-off retirement expenses you might expect to incur, like the caravan and the vehicle to tow it with. Will your home be suitable for retirement? Maybe that 3-month trip to Tuscany?

Keep in mind the investment returns your savings generate and your actual level of expenses in retirement will have a notable impact on whether the projection ends up being right for you.

A personalised retirement plan will always yield the best result.

Accumulating assets

Generally, the best place to accumulate retirement assets is in superannuation because of the significant tax benefits. There are, however, a few things to consider.

What is the best structure for your super?

Saving on fees and getting a good investment return are paramount. It pays to compare your current fund to other possibilities. Generally speaking, the more complexity in super the more expense, so consider if you really do need a complex structure like a Self-Managed Fund, or if a simple Industry, Retail or Wrap Account structure might give you the same outcome at a lower cost. Often your Employer's super fund has additional benefits and a low-cost structure, so this could be your first consideration.

Investment considerations

It's important to invest in line with your risk profile, so you really do need to understand where your money is actually invested. Generally, it's sensible to take more investment risk when you are younger and to taper the risk off closer to retirement, if you can afford to.

Accessing your super

Your super provides not only a tax effective way to save for retirement, but also tax effective retirement income once you reach an age at which you can access your funds.

Once you reach your preservation age, which is a legislated age depending on when you were born, you may be able to access some of your super. There is a potential strategy to consider that allows you to draw income to either transitioning to retirement by reducing your hours worked or implementing other super strategies to boost your retirement savings while you continue to work.

Your preservation age may be several years earlier than the age at which you may become eligible for a part or full Age Pension.

After you have met a condition of release of your preserved super benefits, any payments you take from super from age 60 are tax free. The most common condition of release is retirement post age 60, however from age 65 you can access your super regardless of your work status.

Retirement planning steps

The sooner you have a plan the better. Repaying debts, such as your mortgage, and planning additional super contributions are a good place to start. The difficulty with low contribution caps is the ability to get enough money into super, so start planning before it is too late. Also, consider your partner's situation along with yours. There is now a maximum amount you can commence a superannuation pension with, so equalizing account balances with your partner may make sense. Consider contribution splitting, non-concessional contributions, spouse contributions and government co-contributions as potential ways to maximise your position.

There is also a significant opportunity to make downsizer contributions to super if you sell your family home, which is important to consider and could impact on the timing of the sale of your home. This leads to thinking if you want that sea-change or tree-change in retirement. Timing could play an important part.

Savings and investments outside of super can also be used to provide you with alternative financial resources for your retirement, often tax effectively with the benefit of tax offsets available to eligible senior Australians. There is also a need to consider issues such as Estate Planning, and the impacts of Capital Gains Tax. Is providing for your family important to your plans?

The main thing is, as you get closer to retirement, you cannot afford to make financial mistakes. You don't have the time you had when you were younger to rebuild or to recover from losses. So, having a solid plan, and potentially working with an adviser to keep you on track, may be the best investment you ever make.

For more information, please contact us.

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