When should I retire?

There is no right or wrong time to retire. Some people wish to work, even when they do need the income. Some wish to wind down from work over a long period, working less hours before finally ceasing work. Others cannot retire soon enough!

The financial means an individual or couple has is a very important factor, however, this is just one consideration. Other lifestyle factors which may need to be considered include: travel plans, health issues, spending time with family and setting aside time to enjoy hobbies.

How much do I need?

According to the Association of Superannuation Funds of Australia Limited (ASFA) as of March 2023, it's estimated that a couple aged 67 require a joint savings balance of $690,000, and singles aged 67 require a balance of $595,000 to enjoy a comfortable lifestyle at retirement.

The reality is that there is no 'one-size-fits-all' amount of money required to retire. The amount required to retire is driven by a multitude of factors unique to the individual, including: retirement age, cost of living requirements, Centrelink eligibility, life expectancy and any lump sum requirements such as debt repayment.

Specific to superannuation, factors that may influence the amount required to retire include: the level of investment risk and corresponding investment performance, and the product fees payable.

Australia's three pillar system

Funding retirement in Australia can be categorized into three pillars:

- Compulsory superannuation
- Voluntary super contributions and
- The Age Pension

An individual's retirement may be funded partially from each pillar. The Age Pension is designed to be a safety net for those requiring extra support in retirement, rather than a means to fully fund retirement. The Age Pension entitlement reduces in line with an applicant's assets and income.

Ways to boost your super

As of the 2024 financial year, most people have a limit of up to $27,500 that can be contributed to superannuation before tax. This is known as the concessional contribution cap. This cap includes the super guarantee amount paid by employers which is currently a minimum of 11%, rising to 12% from 1 July 2025.

You can boost your super by making salary sacrifice payments through your payroll or lump sum contributions for which you claim a tax deduction. You can also boost your super by making additional voluntary contributions from your after-tax income. There are incentives to encourage voluntary savings, including co-contributions from the government and potential tax offsets for spouses.

After-tax contributions are non-concessional contributions and will count towards your non-concessional contribution cap unless you have claimed a tax deduction for them. The general non-concessional contributions cap is $110,000 or $330,000 over three financial years. You may have a lower limit or not be entitled to the full amount, depending on the size of your total super balance at the beginning of the financial year.

Many Australians wish to downsize their home at retirement. Subject meeting to the ATO's criteria, you may be able to boost your superannuation by downsizing your home and making a contribution with the proceeds of up to $300,000 per person.

Source: Australian Tax Office

Transition to retirement

For people who have reached preservation age (between 55-60) who would like to keep working on reduced hours, a transition to retirement (TTR) strategy allows them to access some of their super to top up the income, while continuing to grow their retirement savings. If you're under age 65, you may be able to withdraw up to 10% of your super balance each financial year.

A transition to retirement strategy may assist with boosting super and reducing tax on income whilst continuing to work. This may allow you to maintain the same lifestyle while working less hours as retirement approaches.

Investing for retirement

Reducing the amount of risk in your portfolio as you get older is a basic investment principle. As people get closer to retirement, their capacity and willingness to tolerate financial risk falls.

Older people tend to prioritise making their money last over watching it grow. They also don't have the same timeframe to work and earn money, and wait for markets to recover if there is a downturn.

That said, retirees may still need to maintain some exposure to growth assets to fight inflation (prices of goods and services increasing over time) and longevity risk (the risk of retirement savings not lasting long enough).

Estate planning

Estate planning is the process of determining and arranging how you want your assets to be allocated after your death. It can also cover how you would like to be cared for, both medically and financially, if you are unable to care for yourself and making your own decisions.

It can include documents such as:

- A will;
- Testamentary trust (as part of a will); and
- Superannuation binding nominations.

Source: https://moneysmart.gov.au/wills-and-powers-of-attorney

Superannuation is a non-estate asset, meaning that it will not automatically form part of your estate when you pass away. You may wish to consider putting a death beneficiary in place so that your super fund carries out your wishes. You can generally nominate a spouse, an adult child or your estate as the beneficiary, however there are different tax consequences depending on who is nominated.

For more information, please contact us

1300 349 188
contact@yourlifestyle.com.au
yourlifestyle.com.au

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