

# Financial Insights

with Australian Unity Personal Financial Services

6 May 2011

## To what extent do key financial factors impact on the life of your retirement savings?

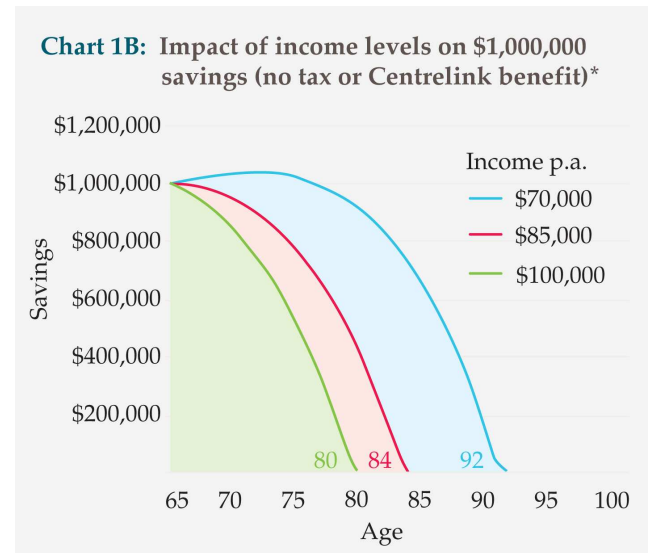
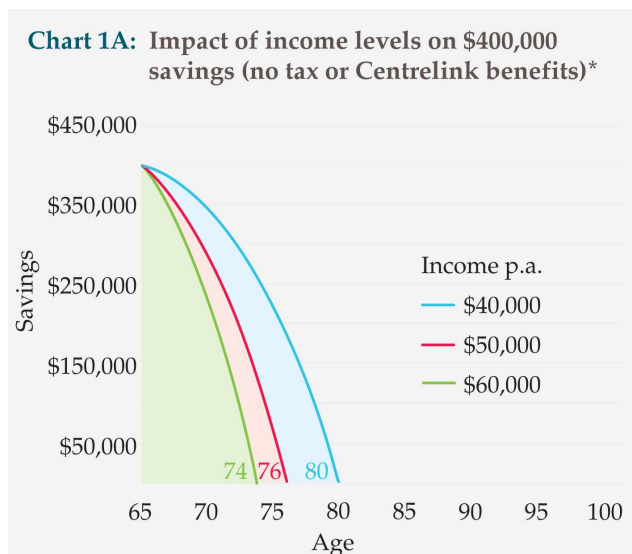
Everyone has different expectations as to what level of income will provide them with comfortable retirement.

But the one thing they have in common is that all those approaching retirement can optimise their retirement finances by understanding the key factors that impact on the longevity of their life savings – and then taking steps to managing those factors to their advantage. And, in this special report, we will look at the impact of the following factors:

1. Income level in retirement
2. Access to Centrelink benefits
3. Earning rate of investments
4. Age when you retire
5. Taxation

### 1. Impact of income level in retirement

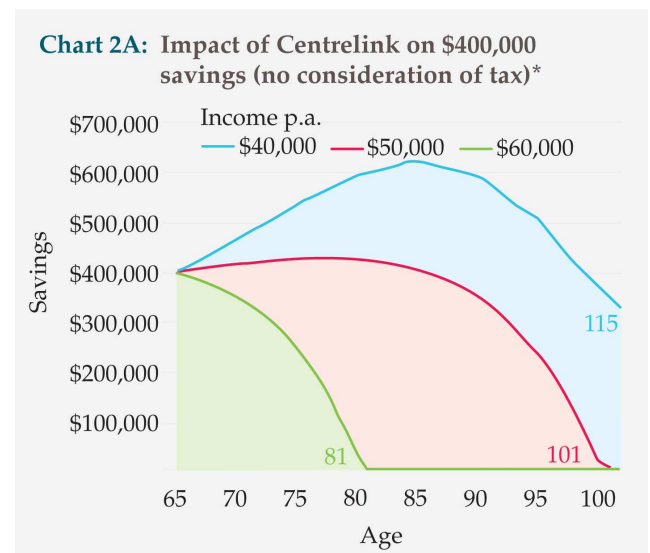
On the surface, the impact of the level of income you choose can be substantial. For example, consider the run-down of capital as shown in Chart 1A, and to a lesser extent in Chart 1B. Both assume a retirement age of 65 for a married couple, a net investment return of 8% p.a., and income indexation of 3% p.a. They both have their finances arranged so they pay no tax in retirement, but do not qualify for Centrelink benefits.



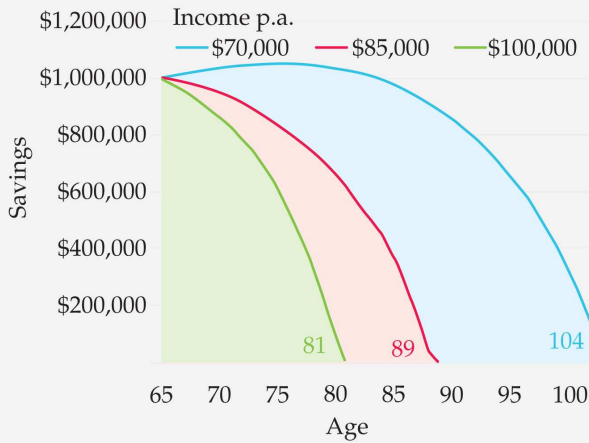
Choosing a lower level of income can greatly alleviate problems with the life expectancy of your savings, as can consideration of the other factors discussed in this report, especially the factor of accessing Centrelink benefits.

### 2. Impact of Centrelink benefits in retirement

Arranging your finances to maximise Centrelink benefits (if appropriate) can substantially increase the life expectancy of your life savings. Consider Charts 2A & 2B which show the life expectancy of capital for our six income level scenarios from Section 1 with the retirees' finances arranged to maximise Centrelink benefits.



**Chart 2B: Impact of Centrelink on \$1,000,000 savings (no consideration of tax)\***



These results are a substantial improvement on the results in Section 1 where the retiree’s finances were not arranged specifically to qualify for Centrelink benefits (see Table 1A below):

**Table 1A: Comparison of longevity of capital - with and without Centrelink benefits (no consideration of tax)\***

Savings	Income drawn	Life expectancy of savings (Years)	
		No Centrelink	With Centrelink
\$400,000	\$40,000	80	115
\$400,000	\$50,000	76	101
\$400,000	\$60,000	74	81
\$1,000,000	\$70,000	92	104
\$1,000,000	\$85,000	84	89
\$1,000,000	\$100,000	80	81

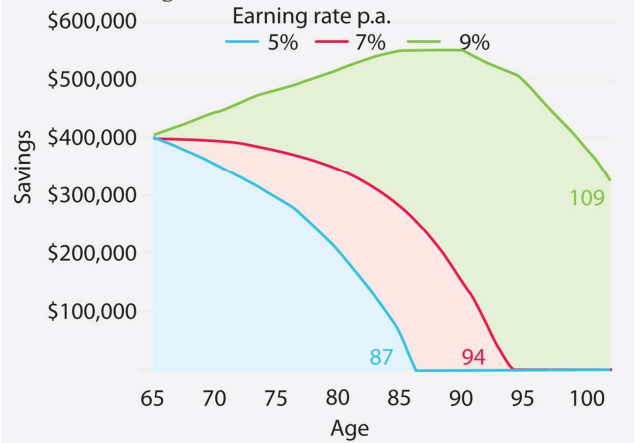
With the \$400,000 savings examples, the lower income levels show the most improvement. This is because there is less pressure on the drawdown of superannuation because the couples can qualify for a part age pension of about \$22,000 p.a. – and this comprises a significant amount of their required income.

In the \$1,000,000 savings examples, Centrelink benefits have much less impact as the couples receive no Age Pension at the start (due to the assets test) and receive little age pension towards the end due to the income test. With the \$100,000 income example, the income test virtually eliminates the age pension and there is only one year’s difference by including Centrelink.

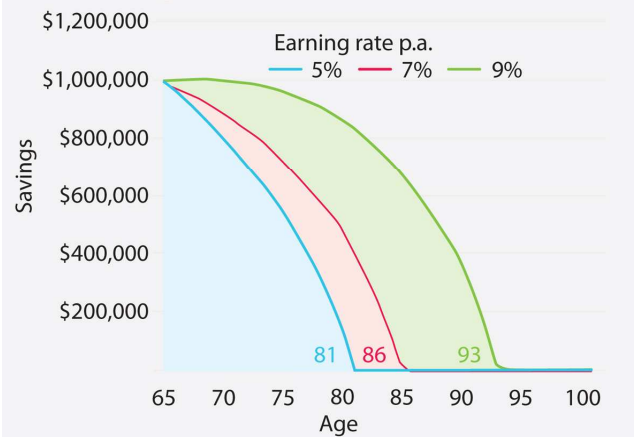
### 3. Impact of earning rate on investments

Another factor affecting the run-out of savings is the earning rate of your investments. Clearly, the higher the rate of return, the longer your savings will last, as can be seen in Charts 3A & 3B which show the impact of differing returns on different income levels.

**Chart 3A: Impact of net earning rate for income of \$50,000 (no tax but with access to Age Pension)\***



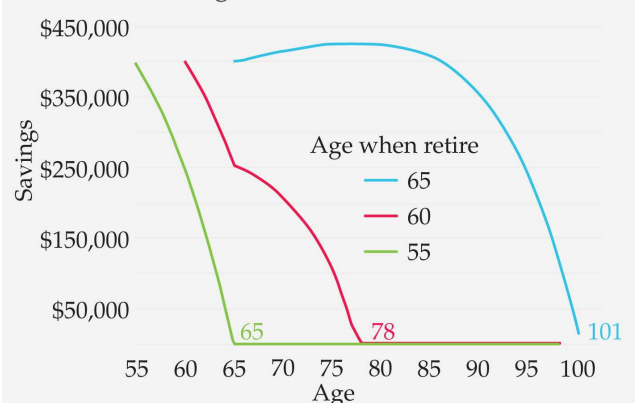
**Chart 3B: Impact of net earning rate for income of \$85,000 (no tax but with access to Age Pension)\***



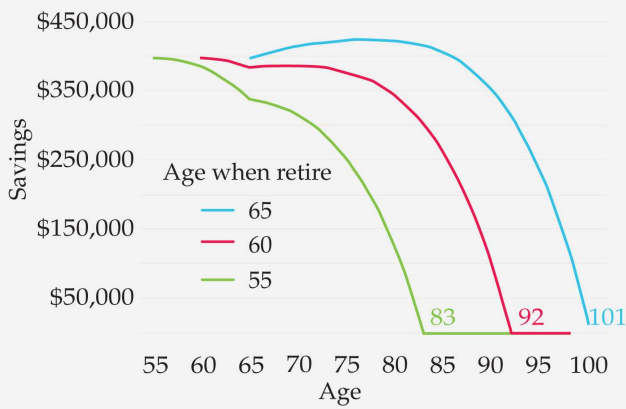
### 4. Impact of your age when you retire

Retiring earlier can have a significant impact on the life expectancy of your savings. Consider Chart 4A which shows a serious run-down of savings for people who retire up to 10 years earlier than age 65 (despite the fact we have taken Centrelink Age Pension benefits into account).

**Chart 4A: Impact of early retirement with income of \$50,000 (no tax but with access to Centrelink Age Pension benefits from age 65)\***



**Chart 4B: Impact of early retirement with investment income of \$50,000 plus income of \$22,000 from applying for NSA (no tax but with access to Centrelink benefits)\***



For the younger couples, Newstart can make a significant difference (see Table 4A). Note that the couple aged 65 does not qualify for Newstart as they qualify immediately for the Age Pension.

**Table 4A: The difference made by Newstart Allowance\***

Retirement age (with \$400,000 of savings and income requirement of \$50,000 p.a.):	Life expectancy of savings (Years)		
	No Newstart	With Newstart to 65	Difference
55	65	83	18
60	78	92	14
65	101	101	0 (this couple does not qualify for Newstart Allowance)

## 5. Taxation

There are two main areas for concern associated with tax in retirement: lump sum tax on taking money out of super, and tax on the income your savings generate.

If you are under 60, you will be liable for lump sum tax if you cash out your super. Currently the first \$160,000 is tax free but you will pay 16.5% tax on every dollar withdrawn above that. This tax can be significant for higher levels of withdrawals, as can be seen in Table 5A. (Note: If you are over 60, withdrawals from superannuation are generally tax free.)

**Table 5A: Lump sum tax liabilities\***

Lump Sum Withdrawal from Superannuation	Lump Sum Tax	
	Under age 60	Age 60+
\$200,000	\$6,600	\$0
\$400,000	\$39,600	\$0
\$600,000	\$72,600	\$0
\$800,000	\$105,600	\$0
\$1,000,000	\$138,600	\$0

Assumption: all super held by one partner

Income tax can also have an impact on the life expectancy of retirement savings. Consider Table 5B which shows the amount of tax a single retiree might pay on different incomes from fully taxed sources, even after taking into account the Senior Australian Tax offset. Table 5C shows the tax for a retiree couple who are able to split their income.

**Table 5B: Income Tax Liabilities (no income splitting)\***

Annual income from fully taxed sources	Income tax p.a. (Age 65)	Total income tax over 20 years
\$40,000	\$4,752	\$95,048
\$60,000	\$12,150	\$243,000
\$80,000	\$18,750	\$375,000
\$100,000	\$26,650	\$533,000

**Table 5C: Income Tax Liabilities (with income splitting)\***

Annual income from fully taxed sources	Income tax p.a. (Both age 65)	Total income tax over 20 years
\$40,000	\$0	\$0
\$60,000	\$1,826	\$36,520
\$80,000	\$9,505	\$190,096
\$100,000	\$17,200	\$344,000

## 6. Other factors

As well as the factors we have discussed above, there are a number of others that could affect how long your savings will last in retirement. These include:

- Varying leisure expenditure: You may want to spend heavily on travel in the early years of your retirement, or buy a new car, or a motor home or boat etc. Also, your income needs could reduce as you grow older and maybe become less active.
- Health costs: You may need to fund significant medical costs for yourself or loved one later on in life.
- You may be expecting an inheritance that will significantly boost your savings.
- You may want to leave an inheritance for your children or grandchildren or create a trust for a disabled dependent.

### What is the best way to increase the life expectancy of your savings?

The answer to this question is different for everyone – because everyone has a unique situation, needs and goals. That’s why every retiree and every person approaching retirement needs to seek professional advice from a financial adviser who is experienced in optimising retirement finances for their clients.

Importantly, this isn’t a ‘set & forget’ piece of advice. Things change all the time. Like investment markets, legislation, tax rules, Centrelink rules, and your own situation. This means you need to have your retirement plan reviewed regularly to ensure your retirement finances stay on track.

## Who is Australian Unity Personal Financial Services?

We specialise in providing professional strategic advice to help you improve your current financial position and ultimately achieve your long term lifestyle goals.

Importantly, our initial advice isn't a 'set and forget' service. Instead we offer you regular financial mentoring and ongoing guidance – in all aspects of your personal finances – to set you, and keep you, on the path to financial wellbeing.

Our team of experienced financial professionals can provide you with a detailed and totally tailored blueprint for financial success in any or all of the following areas:

- Financial advice
- Wealth creation
- Retirement planning
- Investments
- Superannuation
- Home loans
- Commercial loans
- Investment loans
- Equipment finance
- Car finance
- Personal estate planning
- Business estate planning
- Personal risk insurance
- Business risk insurance

Australian Unity has a proud 170 year heritage of helping Australians create secure financial futures. This pedigree and experience, combined with our corporate strength and leading edge strategic advice capability, means we are uniquely placed to offer you high quality personal financial services... each finely tuned to your particular needs to ensure you achieve your vision of a secure financial future.

After all, your financial wellbeing is at the heart of everything we do.

**MoneyInsights<sup>®</sup>**  
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Australian Unity Personal Financial Services is committed to providing Australians with a genuine understanding of their investment options. This is achieved via our comprehensive investor education program called Money Insights.

*Because knowledge is the first step to creating a secure financial future.*

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