

Financial Insights

with Australian Unity Personal Financial Services

8 November 2011

How long will your savings last in retirement?

Try our 'Money Life Calculator'

		Investment earning rate															
		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%						
Capital drawdown rate	5%	22.43	25.80	31.00	41.04	Should not run out											
	6%	18.32	20.48	23.45	28.01							36.72					
	7%	15.49	16.99	18.93	21.60							25.68	33.40				
	8%	13.42	14.53	15.90	17.67							20.10	23.79	30.73			
	9%	11.84	12.69	13.72	14.99							16.62	18.85	22.23	28.55		
	10%	10.59	11.27	12.07	13.02							14.21	15.73	17.79	20.91	26.72	
	11%	9.58	10.13	10.77	11.52							12.42	13.53	14.95	16.88	19.78	25.16
	12%	8.74	9.21	9.73	10.34							11.05	11.90	12.94	14.27	16.09	18.80
	13%	8.04	8.44	8.88	9.38							9.95	10.62	11.43	12.42	13.68	15.38
	14%	7.45	7.78	8.16	8.58							9.06	9.60	10.24	11.01	11.95	13.14
15%	6.93	7.23	7.55	7.91	8.31	8.77	9.29	9.90	10.63	11.53							

Approximate years your savings will last

To roughly work out the life expectancy of your retirement savings, just go to the column which matches the average annual **earning rate** your investments should achieve, then move down that column until you reach the average annual **drawdown rate** (see far left hand column) you will be making on your savings (your drawdown rate is: the amount of income & capital you will withdraw from your investments each year, divided by the amount you have invested, multiplied by 100).

The number you arrive at in the table estimates the number of years your money will last.

Here's an example of how to calculate your **drawdown rate**: Let's say someone has \$600,000 in retirement savings and they require an income of \$54,000 p.a. Their **drawdown rate** is:

$$\$54,000 \div \$600,000 \times 100 = 9\%$$

If their **earning rate** is say 4%, then their money will last around 15 years.

To ensure our calculator has as much relevance as possible we recommend the following tips:

- If you want your retirement income to increase with inflation, you can take that into account by subtracting

the expected rate of inflation from the **earning rate** of your investments. We expect inflation to average around 3% p.a., so if your investments earn on average say 7% p.a., then you would select 4% as your 'real' earning rate.

- If you will qualify for the Centrelink Age Pension you shouldn't include it when you calculate your drawdown rate. For example, let's say a homeowner couple aged 65 has \$400,000 in savings which earns 7% p.a., (that's about 4% after inflation) and they require \$42,000 a year income. They should initially qualify for age pension of around \$22,000 p.a. (indexed). So, to calculate the life expectancy of their retirement savings, they should use a drawdown rate of 5% (i.e. [$\$42,000$ less $\$22,000$] \div $\$400,000 \times 100$). Given the real earning rate of 4%, this means their savings should last about 41 years.

Of course, our 'Money Life Calculator' is just a guide. To accurately assess the life expectancy of your retirement savings you should talk with your Australian Unity financial adviser. They have access to a sophisticated software system which takes into account all of the variables and calculates taxation and Centrelink benefits each year of your retirement.

Strategies to help you stretch the life expectancy of your retirement savings

- Increase your contributions to super before you retire (including using the 'Transition to Retirement' rules to create additional tax advantages)
- Arrange your finances so you pay no tax in retirement
- Increase the return you generate on your investments
- Arrange your finances to qualify for higher Centrelink benefits
- Retire later

- Work part-time in retirement
- Lower your income requirement in retirement
- Sell your home for a less expensive home
- Decide to leave less or nothing to your estate

For the majority of retirees, the most appropriate solution usually involves many strategies. And your Australian Unity financial adviser will be pleased to model different scenarios for you to ensure the right combination of strategies is employed for your situation and lifestyle needs.

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[®]
with Australian Unity Personal Financial Services

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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