WEALTH BITES

2024

JOHNSTON FINANCIAL

superannuation
investment
insurance
advice

A tale of two retirements – which would you choose?

Steve and Sue Smith have worked hard all their lives, paid their taxes, and now that they have retired, they feel they are entitled to a full age pension.

Jenny and John Jones have also worked hard and paid their taxes. However, concerned that Australia's aging population and ballooning pension bill will make it increasingly difficult to qualify for an age pension, they have sought to be as financially independent in retirement as possible. With diligent savings and smart use of superannuation, they have built a significant nest egg.

While both couples have equally valid views, in one respect, Jenny and John have already been proven correct. Changes to the assets test from 1 January 2017 reduced the number of people qualifying for a part pension, with some losing it altogether. As Australia's population continues to age and life expectancy continues to climb, this will increase pressure on the government to potentially further modify the age pension system.

What matters most?

This leaves would-be pensioners asking themselves: what matters most? Living frugally or living the most comfortable lifestyle they can?

Several strategies can help boost the level of age pension, but these usually involve reducing the level of financial assets assessed by Centrelink, which can end up denying pensioners both the income those assets could otherwise generate and potential future capital withdrawals.

The Smiths might, for example, spend big on home improvements, give money away to their family within allowable limits, and take an expensive overseas holiday. Once back home they might then qualify for a full age pension of $43,752 combined per annum[1]. That's close to the amount ($46,994pa[2]) that the Association of Superannuation Funds of Australia (ASFA) calculates is sufficient for a "modest retirement" for a 65-year-old couple. That is, "only able to afford fairly basic activities."

Things aren't quite as bleak as that. The income test allows Steve and Sue to earn a combined $9,360 per year[3] and still receive a full pension of $43,752 pa combined, but for the comfortable lifestyle, they need $72,148 pa based on the ASFA report for the December 2023 quarter. That leaves them quite a way short of being able to afford a "comfortable" lifestyle. ASFA defines this as one that "enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.

The self-funded alternative

That's more the kind of lifestyle the Joneses have in mind, even if it means not qualifying for any age pension. Freed from the need to watch every dollar and report any changes in their circumstances to Centrelink, such as an inheritance, they are also insulated from the impacts of any future changes to the age pension.

---

[1] Effective from 20 March 2024.

[2] Based on December quarter 2023.

[3] Effective from 20 March 2024.

Start early and plan well

Unfortunately, many people retiring today don't have a choice and, dependent on the age pension, they will be denied that comfortable retirement. The key is to start retirement planning as early as possible.

Pensions and superannuation are complex areas, so it is essential to obtain detailed and personalised advice from a qualified financial adviser. Take control of your future now.

Johnston Financial Pty Limited

170 Bridge Street – Tamworth – NSW 2340

02 67668211

advice@johnstonfinancial.com.au

www.johnstonfinancial.com.au