

WEALTH BITES

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superannuation
investment
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advice

How much do I need to retire in Australia?

One of the most frequently asked questions is, 'How much do I need to retire?'. While you may think of reaching for a calculator to tell you the answer, it goes much deeper than that. No magic number fits everyone, as it depends on your circumstances and what you want from life when you retire.



In conversations with clients, we help to paint a vivid picture of their ideal retired life. This may range from simply enjoying where they live with the people they love, to world adventures and everything in between. Importantly, the retirement you see for yourself today may be completely different than in ten or twenty years.

How expensive is retirement?

Research conducted by the Association of Superannuation Funds of Australia (ASFA) provides a good basis for answering how much retirement costs. Each year, ASFA surveys retirees aged between 65 and 84 to determine their spending. This provides a detailed average breakdown of how retired Australians spend their money. These are compiled as the basis for two lifestyle standards, 'Modest' and 'Comfortable', for singles and couples.

[Based on ASFA Retirement Standard for the March quarter 2024](#), for those who own their own home outright, to live 'comfortably' as defined by ASFA, which includes the occasional restaurant meal and an international holiday once every seven years, singles need to budget \$51,630 per year, and couples \$72,663 per year. To achieve this 'comfortable' retirement, you'll need to have a nest egg well above half a million dollars by retirement age (age 67), with singles needing a total of \$595,000 and \$690,000 for a couple.

Again, for those who own their home outright, a 'modest' retirement as defined by ASFA allows a lifestyle only marginally better than what can be afforded on the Age Pension, with infrequent access to exercise, leisure, and social activities. Singles and couples need at least \$100,000 to achieve this.

Your lifestyle and spending

Your lifestyle choices are important in determining how much you'll need to save for retirement. Creating a detailed budget based on your lifestyle preferences will help you set your retirement savings goal. It's helpful to divide your expenses into needs and wants. While you cannot go without what you need, you can prioritise what you want. This will be a significant determining factor in how much you need to retire.

Superannuation

It's important to grow your super balance as it can be a very tax-effective tool. In retirement, it's also very flexible and purpose-built to fund retirement income needs. Overall, it is generally the most effective retirement structure available in Australia.

Superannuation is typically the largest asset retirees in Australia have, excluding the principal place of residence. One of the best ways to grow your super is by contributing what you can. While the mandatory superannuation guarantee contribution (11.5% from 1 July 2024) is helpful, depending on your desired lifestyle, it's usually insufficient.

You can contribute more to your super through salary sacrifice or personal contributions. The maximum yearly threshold is \$30,000 for concessional contributions and \$120,000 for non-concessional contributions. If certain requirements are met, it is also possible to bring forward up to three years of non-concessional contributions or utilise unused concessional caps from the previous five years.

Additional options include spouse contribution, co-contribution, superannuation splitting, and downsizer contribution. To make the most of these options, it's always wise to seek guidance from an adviser before you make additional contributions.

Downsize your home

Often, the family home is bigger than what you will need in retirement. If you've owned your home for at least ten years and are over 55, you may be able to contribute up to \$300,000 (per person if a couple) from the proceeds of downsizing into your super. Before considering a downsizer contribution to super, it is important to consider eligibility requirements and weigh the pros and cons to ensure it aligns with your financial goals.

Review your investment strategy

It's vital to ensure that your investments align with your goals and risk tolerance, especially as you approach retirement. Assessing asset allocation, income generation, inflation protection, and liquidity can help boost your retirement savings and provide financial security.

Age Pension

The Age Pension is designed as a safety net, providing a guaranteed income stream to cover essential living expenses. Eligibility depends on various factors, including age, residency status, and income and assets tests. When planning for retirement, taking the Age Pension into account can help you better estimate how much is needed to supplement your pension income and maintain your desired standard of living.

Working with your financial adviser to understand the rules and eligibility criteria for the Age Pension can help you make informed decisions about your retirement savings strategies, such as when to access your super and whether to make additional contributions.

Conclusion

As you can see, there is much more to figuring out how much you need to retire than simply reaching for a calculator to tell you the answer.

As a financial adviser, we can help you visualise your ideal retired life and create a plan to help you achieve it.

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