

Advice Matters

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How much do I need in retirement?

It's the question on everybody's lips – how much do you need to save for a comfortable retirement?

How much is enough

While we all hope for a simple answer, how much you need for retirement differs from one person to the next. Additionally, a comfortable retirement is based on a whole range of factors including:

- **When will you retire?**
- **How long you'll spend in retirement?**
- **Whether you'll sell assets in retirement to fund your lifestyle?**

- **How long you'll be able to maintain your health?**
- **How are your assets invested?**
- **And the most important question; how do you even know if you're on track?**

Thankfully, there are some elements of guidance you can refer to, but you do need to remember that they are for guidance only.

A modest or comfortable retirement

The first of these is the "ASFA Retirement Standard", which is published each quarter. The ASFA Retirement Standard is published by the Association of Superannuation Funds of Australia (ASFA), and provides figures to approximate the level of income required for a modest or comfortable lifestyle.

The latest figures available state that a single person (aged 65) requires an annual income of \$27,425 for a modest retirement lifestyle and \$42,593 for a comfortable lifestyle. For a couple (around 65 years of age), the figures rise to \$39,442 and \$60,604 – approximately 42 per cent higher.^[1]

A modest retirement lifestyle is considered better than the Age Pension, but where you are only able to afford fairly basic activities.

A comfortable retirement lifestyle 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. If either of these sound like you, then there is a starting point to reference.

Determining what you need as a lump sum

What do these needs equate to as a lump sum at retirement, though? Again, ASFA have provided some estimates, and the numbers may surprise you.

For a modest retirement lifestyle, the answer (whether a single or couple aged 65) is \$70,000. While this might sound a lot lower than expected (and based on the numbers quoted earlier would only cover a couple of retirement years), the main assumption here is that you would qualify for a full age pension in retirement, which would substantially meet the income requirements.

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This publication contains general (including taxation) information only. It is not intended to constitute financial product advice. Any information provided or conclusions made, whether express or implied, do not take into account the investment objectives, financial situation and particular needs of an investor. It should not be relied upon as a substitute for professional advice. You should obtain and consider a Product Disclosure Statement (PDS) before making any decision to acquire a product.



Financial Planning



How much do I need in retirement?

(cont.)

For a comfortable retirement, the lump sum estimates are much higher - \$545,000 for a single person and \$640,000 for a couple, although this again assumes a part age pension.

A different approach is to look at your pre-retirement income and consider how much of it you will need in retirement. Assume, for example, you will need 65 per cent of your pre-retirement income, so if you earn \$50,000 now, you might need \$32,500 in retirement.^[2]

Another method to calculate a lump sum

Another method is to take your current annual expenses (or estimated requirement) and then multiply this amount by varying factors depending on the age at which you plan to retire. Taking into account a set of assumptions, this method does provide you with a capital amount to aim for in order to generate the income you need.

Using the \$32,500 figure earlier, and assuming retirement at age 65, this would equate to a lump sum target of \$422,500.

But you need to keep in mind that the investment returns you generate and your actual level of expenses in retirement, will have a notable impact on whether the capital amount you estimate ends up being suitable for you.

So, if you manage to guesstimate an amount needed for retirement, what can you do to get there?

Clearly, the longer you give yourself, the greater your chances of achieving your outcome, without the need for extra savings on an ongoing basis.

Have clarity in your own mind of your current financial position - your income and expenses, what you own and what you owe. Get a clear snapshot of where you are today.

Proactively allocate free cash flow toward strengthening your financial position by repaying debt, building up your savings and investments or making additional contributions to super. Start considering how best to use your financial resources

to support your income needs in retirement. Make sure you monitor your plan on an ongoing basis and accept that changes may have to be made.

Making the most of the retirement planning opportunities available to you can be as much about what to do, as it is about what not to do, in order to avoid the pitfalls of an ever changing retirement landscape.

And remember that you don't have to go it alone. Financial advice can be useful if you plan to take a non-traditional approach to retirement such as progressively winding back your hours worked, moving to part-time employment, or perhaps, working your own hours by consulting to your industry or profession (joining the gig economy).

Source: The article was prepared by Bryan Ashenden, Head of financial literacy and advocacy at BT and is current as at 23 January 2019. <https://www.bt.com.au/personal/your-finances/retirement/how-much-super-will-i-need.html>

BUDGETING APPS *to help you save*

Where does all that money go? A host of apps are available to help you easily answer that question and even budget better, so you don't get caught short in the event of a 'rainy day' and can feel more comfortable and in control of your finances every day.

The best place to start is with your bank. Most major Australian banks offer their customers great tools to help improve how they manage their finances.

In addition, we've found these seven apps to help you get off to a great financial start.



TrackMySPEND

This free app allows you to track your personal expenses on the go and is very simple to use. Made available by the Australian Securities and Investments Commission's MoneySmart website, it will give you a better picture of what you are spending your money on.

You can use it to record expenses such as your weekly household budget, work or travel expenses, particularly those cash expenses that are difficult to record or the costs of a special event, such as a wedding.

You can also separate your spending into categories like "needs" and "wants" to identify areas where you can rein in your spending and start saving.



TrackMyGOALS

Also available from the MoneySmart website and free, this easy-to-use app will help you set realistic savings goals and help you to prioritise them, making it easier to achieve them and providing you with positive encouragement by tracking your progress.

You can also use this app to track how well you are saving for a holiday, wedding, car, house, renovation, school fees or anything else you are dreaming of.



Pocketbook

Also free, this popular budgeting app integrates with many of the major Australian banks. This means you don't have to manually enter all your expenses onto the app. Instead, you sync the app with your

bank accounts and credit cards to track where your money is going.

You can use mobile photos and geo-location to input cash transactions like coffee or a beer, or add additional details like photo receipts, bills and invoices to help you track your transactions.

Pocketbook automatically organises your spending into categories like clothes, groceries and fuel, showing you where money is being spent.

You can also set up budgets for each category, see your balances and view your transactions. The app ensures all your bills are automatically detected and in the one place. Plus, you get notified when bill payments are coming up and if you have enough money to cover them.



Mint

Another free app, Mint brings your bank accounts, credit cards, bills and investments together so you instantly know where you stand. You can see what you're spending, where you can save money and can even keep track of your credit score. Plus, it allows you to easily create budgets you can stick to.

You get bill reminders so that you pay bills on time. And, you can schedule payments on the spot or for later, ensuring you never miss a payment again.



Acorns

This app helps you to save and invest proactively, by using your digital loose change.

You simply connect it to your credit card, debit card or another funding source and allow it to round up each of your transactions to the nearest dollar. It will then invest the change into a pre-decided diversified portfolio of investments that takes into account your investment goals and your risk tolerance. The transactions are small so hopefully you won't even notice them.

This app is free to download. Once an account is opened, there are no fees on \$0 balances. After that Acorns charges \$1.25 per month for accounts with a balance under \$5,000 and 0.275% a year (charged monthly,

computed daily) for accounts with a balance of \$5,000 and over.



Expensify

This app is great for people with work expenses. Not only does it help you track and log all your work expenses, it also liaises with your office while you are away.

Expensify automates every step of the expense management process. Its technology will read and scan your receipts and then add these to an expense claim that can be automatically submitted to your employer and approved. You could very well get your expenses reimbursed in just a few minutes.

A very basic service is offered to individuals for free. All the bells and whistles are available for US\$9 a month on a corporate plan.



Goodbudget

This app is a modern take on the time-tested envelope budgeting method, where the cash for each month's expenses is taken out and divided into envelopes for each budget category – for example, groceries, transport, eating out or rent.

The idea is to stop spending on that category once you've emptied the envelope or before, if you're really disciplined.

Goodbudget helps you to stick to your budget limits. Rather than discovering that you overspent when it's too late, you can plan your spending beforehand and only spend what you have.

Because you can share a budget across multiple devices, the app can also help couples manage the combined household budget and check how each partner is tracking.

There's a free version that allows you to create 20 envelopes and share across two devices. However, for US\$6/month or US\$50/year you get unlimited envelopes and accounts, the ability to share these across five devices and to keep five years of history.

Source: Money & Life (October, 2019)
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<https://www.moneyandlife.com.au/budgeting-saving/7-budgeting-apps-help-save-2018/>



MAKING SENSE OF MEDICARE AND YOUR TAX OBLIGATIONS

Who pays what?

To help pay for the public health system which we call Medicare, you're required to pay a 2 percent Medicare levy as part of your income tax. While the low-income tax offset can reduce your individual tax liability, sadly it does not reduce the Medicare levy per se, which can make it that little bit harder to get ahead with your savings.

However, if you're on a taxable income of over \$90,000 as a single or \$180,000 for families, and don't have private health insurance, you may also be subject to a surcharge of up to an extra 1.5 percent of your income, on top of the basic Medicare levy.

The surcharge was designed to encourage those who can afford it to take out private health cover and use the private hospital system, hence reducing demand on the public Medicare system. But you are exempt from paying the Medicare Levy Surcharge by having private health insurance with a sufficient level of hospital cover.

But while taking out private health insurance can be cheaper than the additional surcharge, you need to do your homework before. Private health cover has come under a lot of criticism for not offering value for money due to a myriad of shortcomings, none the least being exclusions and major out-of-pocket costs.

Rebates for private health insurance

However, if you do decide to take out private health insurance, you may also be eligible for a rebate depending on your income level.

While the private health insurance rebate is income tested, singles and families earning under \$90,000 and \$180,000 respectively, can expect the highest (base tier) rebate of 25.059 percent (under age 65). To work out your rebate you can use the Private Health Insurance Rebate Calculator on the ATO website.

Most people with private health insurance can claim the rebate as an upfront reduction on their private health insurance premium. However, if you don't claim the rebate as a reduction to your premium, you can still claim it as a tax offset in your annual income tax return.

What exactly is the lifetime health initiative?

If you're under age 31 and still in two minds whether to take out private health cover or not, the Federal Government has provided an incentive to help you decide. Should you wish to buy health insurance after 1 July following your 31st birthday, you'll be required to pay an extra 2 percent for each subsequent year of cover due what's called a life time health cover loading (LHC).

For example, if you join at age 35, you'll pay 10 percent more for your hospital cover

than if you'd joined five years earlier. Given that the cost of top hospital cover averages around \$4,500 for families and \$1,250 for singles, a 20 per cent loading means you'd be paying an additional \$900 and \$250, respectively.

If you take out private patient hospital cover when you are 40 years old, you could pay an extra 20 percent on the cost of this cover annually for 10 years. If you wait until you are 50 years old, you could pay 40 percent more annually.

However, it's important to note:

1. The maximum LHC loading that can be applied is 70 percent
2. The LHC loading applies to the cost of hospital cover only, not extras cover, and you will cease paying this loading after 10 years of continuous hospital cover.

Source: Money & Life (September, 2019)
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<https://www.moneyandlife.com.au/family-and-life-events/making-sense-of-medicare-and-your-tax-obligations/>

Contact your local Adviser

Elders Financial Planning Pty Ltd AFSL 224645 ABN 48 007 997 186
Head office: L9/ 80 Grenfell Street Adelaide SA 5000
T 1800 060 741 W www.eldersfp.com.au



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