

# How Much Do I Need to Retire?



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# How Much Do I Need to Retire?

This is a tough call, as the answer depends on a whole range of issues that boil down to where, how well and for how long you want to live. Not always easy to answer in advance. However, it does help to think of this question in terms of the **income** you will require to maintain your preferred lifestyle. You can then work back from that figure to calculate what amount of money you will need to support that requirement, or to estimate how a given level of savings might fare.

## ASFA RETIREMENT STANDARD

The Association of Superannuation Funds of Australia (ASFA) has undertaken a study to estimate how much singles and couples who own their homes require to provide for a “modest” and “comfortable” lifestyle.

This survey looks first at what retired Australians spend their money on, and then determines precise costs for those items. The results are then tested by selected groups of retirees for what looks reasonable and what does not.

The survey provides for the fact that costs differ between regions and between males and females (e.g. expenditure on hair care, clothing, panel beating etc.). Accordingly, ranges of estimates are produced. The results are updated quarterly.

The latest survey results available at the time of writing (April 2019) show:

Income required in retirement (\$ p.a.)		
	Modest lifestyle	Comfortable lifestyle
Single	\$28,220	\$44,183
Couple	\$40,719	\$62,435

These are national average figures for 65-year olds. Figures for 85-year olds are lower, but not by much. The survey grapples with obvious subjective difficulties such as what constitutes “modest” and “comfortable”. But it does represent a valiant attempt to put a figure on a concept that can be very difficult to pin down.

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The “modest” lifestyle is aimed at better than just survival on the Age Pension, but still assumes only basic activities. The “comfortable” lifestyle assumes an older, healthy retiree who:

- is involved in a range of leisure and recreational activities;
- runs a reasonable car;
- can update the kitchen or bathroom at some stage;
- entertains and eats out from time to time;
- purchases good quality clothing and household goods;
- maintains private health cover;
- can afford more frequent domestic (and occasional international) holidays.

You can see more at the ASFA website at [www.superannuation.asn.au](http://www.superannuation.asn.au).

## CENTRELINK ASSISTANCE

For reference, I note that the prevailing full rate of age pension is \$24,554 for singles, \$37,014 for couples. So the Age Pension amount is something less than ASFA standard for even a modest lifestyle – which figures I guess in that its role is as a safety net.

Of course you can have other assets and income and still qualify for some Centrelink assistance. A single homeowner can have up to \$268,000 in assessable assets (i.e. excluding the home) and still receive the full Age Pension, while a couple can have assets of \$401,500.

## THE BIG QUESTION

Once assets reach the assets test threshold, the pension starts to reduce. So the additional income-earning potential from owning more assets is partially offset by the reducing eligibility for Age Pension. But we can have a go at estimating the amount of income you can expect to draw from the combination of your investments and the Age Pension, sustainably over the longer term. Bear in mind this is at best an estimate, and has to contend with a great many assumptions and uncertainties such as:

- What return will you actually achieve over several decades? It's hard enough to predict what you'll earn in a week, let alone 30 years;
- Will income demands reduce, stay the same or go up over the years? Conventional wisdom says spending reduces as you get older – although the ASFA survey says it's not by much, and some expenses (eg medical costs) may well increase;
- Will the rules, particularly concerning Age Pension entitlement, get easier or tougher;
- And of course, the Big One – how long will you live?

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So take this as a well-meaning attempt to answer an impossible question. The numbers in the table below spell out the level of income that should be sustainable for a period of 30 years, including the Age Pension, based on having a certain level of financial assets that can be earning a return for you in retirement. The results assume:

- That you are a homeowner, and that a fire sale value of your personal effects, home contents and possessions is about \$30,000. (For Centrelink's purposes this is not unrealistic);
- Your portfolio is moderately conservative and earns on average about 5% per year
- That annual income increases each year in line with inflation;
- That Centrelink's eligibility rules remain much as they are today.

Financial Assets at Commencement	Income expectation			
	Single Person		Couple (combined)	
	Income p.a.	Income per fortnight	Income p.a.	Income per fortnight
\$100,000	\$24,500	\$950	\$35,500	\$1,365
\$200,000	\$28,500	\$1,100	\$39,200	\$1,500
\$300,000	\$32,500	\$1,250	\$43,000	\$1,650
\$400,000	\$35,500	\$1,365	\$47,000	\$1,810
\$500,000	\$38,000	\$1,460	\$50,500	\$1,940
\$600,000	\$40,000	\$1,540	\$53,500	\$2,060
\$700,000	\$42,500	\$1,640	\$56,000	\$2,150
\$800,000	\$45,000	\$1,730	\$58,500	\$2,250
\$900,000	\$47,500	\$1,830	\$61,000	\$2,350
\$1,000,000	\$50,000	\$1,925	\$63,000	\$2,425

At the risk of repetition, these income figures represent the income you could reasonably expect to live on, including Centrelink entitlements where eligible, for a period of 30 years. At the end of that period the financial assets will have run out and you'll be left with the Age Pension only.

These numbers were estimated using a software package that allows us to consider changes in all the variables and assumptions listed and to take into account tweaks of the investment strategy – to account for the unique circumstances of each individual and to squeeze the optimum result from the retiree's portfolio.

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You would cut back these income estimates if:

- You are sceptical as to the future availability of Age Pension benefits;
- You are planning on getting a telegram (or email or text message or hologram) from the Queen (or King?) by living to 100 and beyond;
- You plan to eat out more as you get older (i.e. expenses will rise faster than the average).

Alternatively, you might add a bit to them if:

- You don't mind drawing on the equity in your home. This will often happen in the normal course of events as retirees tend to sell the large family home and downsize in later years. Alternatively there is the reverse mortgage option offered by some banks, or Centrelink's Pension Loan scheme;
- You expect living costs to reduce as you age;
- You are likely to do some part time paid work. I note that the means tests for Age Pension eligibility allow single pensioners to earn up to \$172 per fortnight and couples to earn \$304 per fortnight without impacting the Age Pension assessment;
- You intend to age disgracefully, even if it means an early exit.

As it is, it seems that the Age Pension plus \$200,000 invested gets a single retiree up to ASFA's "Modest" lifestyle target, while almost \$700,000 is needed to get to "Comfortable". For couples, the nest egg required on top of the Age Pension is about \$200,000 and \$800,000 respectively.

## IN CONCLUSION

Remember that this is just one way of answering what is an almost impossible question. Not only does the answer depend on a number of different variables, but it also looks different for everyone – depending on the lifestyle they want in retirement.

Think about what income you will need to (or would like to) draw in retirement and use the information in this article to work backwards.

While 'having enough' is something that concerns us all at one time or another, understanding where you sit in the grand scheme of things does not need to be made more complex than it is.

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