

10 trends

THAT WILL AFFECT RETIREMENT IN AUSTRALIA



WealthAdviser

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Before you get started

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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

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Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

Introduction

There are a number of trends that will affect when you'll be able to retire in Australia, as well as how you'll spend your retirement. We're living in a period of rapid economic, social and demographic change that is affecting us now and it will continue to affect us well into the future. It seems change is the only constant in these turbulent times.

Here are ten trends that will have an impact on the retirement of Australians.

1. The economic impact of COVID-19

Economies around the world have been ravaged by government lockdown measures and the restrictions implemented to limit the spread of COVID-19, just like we have in Australia. Many of us have also seen our super balances take a hit as share and other investment markets have taken a tumble along with the world economies. That's because super funds invest in volatile assets like shares. Although over the long-term quality shares tend to deliver good returns, there are times like we're experiencing now where markets decline or stagnate.

The retirement plans of many older working Australians have also been thrown into disarray by the impact of COVID-19 on their super balance in much the same way that the global financial crisis (GFC) of 2008/2009 disrupted the plans of people on the verge of retirement back then. The Australian share market (and many super funds) took just over four years to reach their pre-GFC peak after the market disruption caused by the GFC.¹ Those Australians who were already in retirement had their assets and income significantly affected, and many workers who were planning an imminent retirement at the time were financially forced to delay their plans. It's the same situation now.

How world economies and investment

markets will rebound post-COVID-19 is still very uncertain. The International Monetary Fund believes the world will experience the most significant and prolonged economic recession since the Great Depression during the 1930s.² This would be a much bigger downturn than occurred during the GFC.

Many older Australians have also lost their jobs their ability to save for their retirement. It is difficult for older Australians to get back into the workforce once they lose their job which ultimately amplifies the significance and impact of longevity risk.³

One of the Australian government's economic responses to the COVID-19 pandemic has been to allow the tax-free early release of up to \$20,000 of super for people who meet specific eligibility criteria (such as being on JobSeeker or JobKeeper). Normally, you can't receive your super tax-free unless you've turned 60 and you've met a condition of release (such as retiring from the workforce).

More than two million Australian have withdrawn their super early under the COVID-19 early release scheme and the impact on their retirement savings could be severe. For example, a person aged 30 who withdrew \$20,000 could forego nearly \$70,000 in investment earnings if their super fund averaged a conservative 5% return over the next 30 years.⁴ While the potential loss in investment earning for older Australians will be less severe, an early withdrawal still leaves them with less funds during their retirement years.

2. Increases in life expectancy

Increasing life expectancy rates due to factors such as medical advances and better diets means that we're all likely to spend longer in retirement than previous generations. According to the latest figures from the Australian Institute of Health and Welfare: funds can only be borrowed to acquire a single asset

¹<https://www.canstar.com.au/superannuation/how-long-super-savings-recover/>

²<https://edition.cnn.com/2020/04/14/business/imf-world-economic-outlook/index.html>

³<https://www.abc.net.au/news/2019-11-22/starting-a-new-job-at-63-australias-older-workers/11724368>

⁴<https://moneysmart.gov.au/budgeting/compound-interest-calculator>

- men currently aged 65 can expect to live to an average age of 84, and
- women can expect to live to 87.⁵

If you retire at 60, you could therefore expect to spend well in excess of 20 years in retirement. This is far longer than previous generations spent in retirement when life expectancy rates were much lower. It obviously means that you'll need more funds during your retirement years.

- According to the Association of Super Funds of Australia (ASFA), how much income you'll need in your retirement will depend on:
- the type of lifestyle you want to lead, and
- whether you're single or have a partner.

Their latest estimates are outlined in the table below⁶.

Lifestyle	Annual living costs
Couple - modest	\$40,719
Couple - comfortable	\$62,435
Single - modest	\$28,220
Single - comfortable	\$44,183

You can plan to finance your retirement years using a variety of methods, including a combination of superannuation, other investments (such as property, shares or fixed interest), as well as the age pension if you're eligible.

3. Increased health and aged care cost

One of the by-products of increased life expectancy is increased health and aged care costs (including private health insurance if you have it). According to ASFA, an Australian retired couple spends an average of \$4,700, to \$9,700 per year

during their retirement years on health costs, so it is a significant expense.⁷

Many Australians will also be forced to enter aged care facilities in their final years or alternatively, they may require residential care at home. The cost of this care may need to be met by releasing equity from the family home if you are a homeowner. Alternatively, you may need to find other ways. Either way, you will need funds to ensure you (and potentially your partner) are taken care of properly.

4. Reduced levels of home ownership

The Australia is one of the most expensive property markets in the world, especially in Sydney and Melbourne⁸. Perhaps not surprisingly given that fact, home ownership rates in Australia are also on the decline.⁹ In addition, according to the Grattan Institute, the percentage of Australians over 65 who own their home (currently 76%) will fall to 57% by 2056 due to housing affordability issues.¹⁰

The number of Australians entering retirement while they still have a mortgage is also increasing.¹¹ These people either have to:

- use part of their super to pay off their mortgage in a lump sum when they retire, or
- continue to make mortgage repayments out of their super income/pension.

The financial advantages of owning your own home in retirement are significant. You won't need to spend any of your super to pay off your mortgage or to make rent or mortgage payments. This will be a significant saving, especially if you're on a modest income.

You can also choose to downsize your home to free up some funds that were invested in

⁵<https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy>

⁶<https://moneysmart.gov.au/glossary/asfa-retirement-standard>

⁷<https://www.superannuation.asn.au/ArticleDocuments/269/2018-ASFA-Retirement-Standard-Budgets-Review.pdf.aspx?Embed=Y>

⁸<https://www.macrobusiness.com.au/2020/02/australian-houses-ranked-worlds-second-most-expensive/>

⁹https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1617/Quick_Guides/TrendsHomeOwnership

¹⁰<https://grattan.edu.au/news/fewer-retirees-will-own-their-home-in-future-and-that-has-big-implications-for-policy>

¹¹<https://nationalseniors.com.au/news/latest/new-research-shows-seniors-are-taking-on-more-mortgage-debt>

a larger family home that may have become too big for you (and your partner if you have one).

5. Increases to the age pension eligibility age

If you're planning on accessing the age pension in retirement, the eligibility age is progressively increasing. The current eligibility age of 66 will be increased to 66 years and 6 months on 1 July 2021 and to 67 from 1 July 2023.¹²

Unfortunately, increases to the life expectancy of Australians means there will also be more and more pressure on the pension system. This pressure could force the government to make the income and assets tests to qualify for the pension stricter over time, so it's vital to effectively plan to self-fund your retirement as much as possible.

The proportion of Australians relying solely on the age pension for income in retirement has decreased since Australia's compulsory superannuation system was implemented in the 1990s.

However, it's also important to structure your financial affairs in order to be able to take advantage of any pension entitlements if you can. If you're not eligible for the full age pension, you may be eligible for a part pension. Getting professional advice can be the difference between being eligible for any age pension or not.

6. Working longer

One of the effects of the government increasing the pension age is that many Australians will need to work for longer before they can afford to retire. Depending on your financial situation and your health, you may need to work to the age of 67 or even longer. Many older Australians will also choose to transition to retirement by scaling back and working part-time or casually rather than retiring and stopping work completely. The government is

actively encouraging Australians to work longer in order to reduce the reliance on the age pension. You can earn up to \$300 per fortnight if you're still working without affecting your pension eligibility provided that you pass the age pension asset and income tests.¹³

7. The lower super balances of women

The latest available figures show that women currently retire with 47% less superannuation than men.¹⁴ There are many reasons for this, including the facts that:

- more women are in lower-paying jobs than men (earning on average 13.9% less),
- many women take time out of the workforce to have and/or raise children for a period of time, and
- women are more likely than men to be in casual or part-time roles. 68.2% of all part-time employees in Australia are female according to the latest available statistics, while women comprise just 37.7% of full-time employees.¹⁵

A lower super balance presents a financial challenge in retirement, especially for single women and especially given that their average life expectancy is three years longer than men. 40% of single retired women experience economic insecurity or poverty in retirement.

8. Changes to super legislation

Australia has had numerous changes to superannuation legislation over the years and more are scheduled. For example, the compulsory employer super guarantee percentage is scheduled to progressively increase to 12% by 1 July 2027. This is the amount of your earnings that your employer is legally required to pay into a super fund on your behalf. The current rate is 9.5% and

¹²<https://www.dss.gov.au/seniors/benefits-payments/age-pension>

¹³<https://www.superguide.com.au/retirement-planning/age-pension-income-test-thresholds>

¹⁴ <https://www.womeninsuper.com.au/content/the-facts-about-women-and-super/gumzs>

¹⁵<https://www.wgea.gov.au/data/fact-sheets/gender-workplace-statistics-at-a-glance>

increases are scheduled to occur at the dates outlined in the table below.¹⁶

Date	Superannuation Guarantee Percentage
1 July 2021	10
1 July 2022	10.5
1 July 2023	11
1 July 2024	11.5
1 July 2025	12

In addition to this change, there has been a myriad of other changes to Australian super legislation over the years. Australia's super system is extremely complex, causing many people to be confused without expert and independent professional advice.

9. Self-employment numbers in Australia

Approximately 10% of the Australian population is self-employed. If you're self-employed, you don't have to make superannuation guarantee payments to yourself if you're operating under a sole trader or partnership structure. Although there are tax incentives if you do (you can tax deduct up to \$25,000 per year as super contributions)¹⁷, many self-employed people don't contribute to super at all. This means they don't have a super nest egg building for them over time like employees do via the compulsory super guarantee.

According to ASFA, approximately 25% of all self-employed Australians have no super at all.¹⁸ If you're self-employed and you aren't investing in other assets or building up your business to either sell or to continue to provide you with income in retirement, you may not be financially secure enough to retire when you want to.

While there are generous small business concessions available to help navigate this issue, you are effectively investing all your would-be future superannuation into one business. In doing so you are betting that it

will grow in value, be sellable down the track and running a highly concentrated pseudo investment portfolio. The upside is that you have control over the business but unfortunately that is not always a good thing.

10. The loss of confidence in financial institutions

The recent Financial Services Royal Commission further eroded public trust in many major financial institutions in Australia after details of unethical conduct was revealed. It is perhaps not surprising then that there has been a growth in the number of self-managed super funds (SMSFs) operating in Australia.

According to the latest figures from the Australian Taxation Office (ATO), more than 1 million Australians are members of their own SMSF.¹⁹ This means they are taking charge of investing for their financial future, rather than relying on professional fund managers

The bottom line

All of the trends we've outlined have highlighted the need to plan effectively for your retirement. There's an old saying that 'those who fail to plan, plan to fail'. It's especially true when it comes to planning financially for your retirement.

The earlier you start planning, the better, but it's better late than never. It's important to get independent, professional financial advice to help you. This advice should take into account your individual circumstances and goals.

¹⁶<https://www.ato.gov.au/Rates/key-superannuation-rates-and-thresholds/?anchor=Superguaranteepercentage#Superguaranteepercentage>

¹⁷<https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super->

[contributions---too-much-can-mean-extra-tax/?page=2](https://www.ato.gov.au/Individuals/Super/In-detail/Growing-your-super/Super-contributions---too-much-can-mean-extra-tax/?page=2)

¹⁸<https://www.superguru.com.au/about-super/self-employed>

¹⁹<https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/SMSF/Self-managed-super-funds--A-statistical-overview-2017-18>

Appointment booking request form

About the Adviser

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Our services

Preferred appointment day and time

Day

Date

Time am/pm

Contact details

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

Email

Your Details

Title

First name

Last name

Mobile



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Wealth Adviser is a division of WT Financial Group Limited
Head Office: Level 5, 95 Pitt Street Sydney NSW 2000
Telephone: 02 9248 0422