

M&CO Newsletter

Looking forward to 35 Years of Retirement? - That's Half Your Adult Life!!!!

That Life expectancy could reach 100 years of age by 2030, is the claim of a Stanford University biologist, who bases his finding on biological advances and anti-ageing technology. Many people now in their 50s will live to at least 2050. To retire at age 65, means 35 years in retirement!

So it's not just a question of having enough income each year in retirement, but also one of whether you will outlive your retirement savings. The Association of Superannuation Funds of Australia, last year found that to have a comfortable lifestyle, retired singles who live in their own home need \$35,430 a year and couples need \$47,507.

The Australian Government Actuary estimate that a 55-year-old woman will live on average until she is 84.9 and a man of the same age until 80.9. These are averages. About 40 percent of the population will spend up to 25 years in retirement, 40 percent up to 35 years and more than 10 percent over 35 years.

So a single person aged 60 needing \$35,430 a year, would need \$792,913 to fund this level of income to age 100 (assuming a rate of return of 6 percent a year).

Compulsory super contribution of nine percent a year will not get you that sort of money. Recent changes to superannuation in the Federal Budget have canned the concept of revving up contributions in the years immediately before you retire. From July 1, the amount will be capped at \$50,000 a year for tax-deductible contributions (or \$100,000 up to 2012 -only 6 more years- if you are aged over 50) and \$150,000 a year for undeducted contributions.

So while it makes sense to get as much of your retirement savings into super so you can enjoy the tax-free environment, you'll need to adopt a steady-as-she-goes strategy to achieve this end. What that means is you should be looking at making additional super contributions from as early as possible rather

than leaving it until latter-on in life. The benefit of compound interest means the longer your money is invested in a tax advantaged environment, the more the end benefit.

If you invest \$1000 a year for 40 years, you would have \$161,924 in your super account at the end of that period, assuming 7% earning and 15 percent earnings tax. If you delayed contributing for 20 years but double the contribution to \$2000 a year, at the end of 20 years (with the same assumptions), you would only end up with \$77,531 in your super account. It is estimated that you need 15 percent of your income to go into super in order to enjoy a comfortable lifestyle in retirement. If you cannot afford to make the personal contribution yourself, have your parents or grandparents' make-it for you and you'll still qualify for a co-contribution.

Is your money working hard enough for you? The difference between a 6% and 8% return can be quite substantial looking at 30 or 40 years. If you have not selected the type of investments you want, then your super contributions will likely go into a balanced default option. If you only have a few years before you retire, a regular review of your investment alternatives will be most beneficial and for those of you who (still) distrust super "because a future government will grab it back", i.e. tax-it out of existence, preferring instead "trusted brick and mortar" we have not so good news: A Tokyo held international tax conference by the Asian Development Bank Institute, identified "Wealth Taxes and taxes on immobile resources (CGT on property), as gaining importance in the future while the consumption tax base is likely to erode as e-commerce becomes more important..."

John De Mallory & Team, Brisbane

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T 61 7 3831 6088 | F 61 7 3831 2444 | E info@mcofinancial.com | W www.mcofinancial.com

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