

BDO PPN Virtual Conference Series

# RETIREMENT PLANNING - HOW MUCH DO YOU NEED?

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# TODAY'S AGENDA

- ▶ Introduction
- ▶ Why retirement planning is important
- ▶ A look into how much is needed to retire on
- ▶ Retirement planning variables
- ▶ Spending patterns of retirees
- ▶ Retirement lifestyles
- ▶ Role of superannuation in retirement
- ▶ Case studies
- ▶ How to broach this subject with your clients
- ▶ How can a financial planner help



# WHO IS KELLY KENNEDY?

- ▶ In the financial planning industry for around 15 years
- ▶ Experience working with the HNW individuals and family offices
- ▶ Worked for ANZ Private, Centric Wealth and Shadforths
- ▶ Have been providing advice since 2016
- ▶ Joined BDO in September 2020 following the BDO / DBW merger
- ▶ Authorised representative of BDO Private Wealth Advisers



# BDO PRIVATE WEALTH ADVISERS

- ▶ BDO Private Wealth Advisers has been advising clients for over 30 years
- ▶ We hold our own Australian Financial Services License (AFSL)
- ▶ Provide financial advice to individuals and their entities
- ▶ We work on a fee for service basis
- ▶ Our advice is tailored to suit the life stage of our clients
- ▶ Our focus is on helping clients choose a better future and providing peace of mind

*Helping people build better futures for over 30 years*

# A BIT OF BACKGROUND ABOUT RETIREMENT

- ▶ Average age of retirement in Australia is 62-65 years
- ▶ Retirement is more gradual and less abrupt than it used to be
- ▶ Women tend to retire 1-3 years earlier than men
- ▶ Superannuation and voluntary savings allow people to achieve a better retirement income and standard of living
- ▶ Retirees who are not home owners experience higher levels of financial stress and poverty than those who are home owners

# HOW IS RETIREMENT BEING FUNDED?

- ▶ Lower income earners primarily rely on the Age Pension
- ▶ Middle income earners use a combination of the Age Pension, superannuation and voluntary savings
- ▶ High income earners utilise superannuation and voluntary savings
- ▶ As of June 2019, around 71% of people aged 65 and over received the Age Pension or other pension payments
- ▶ Over 60% of those were on the maximum rate
- ▶ For most households aged 65 and over:
  - The family home is the main asset
  - Superannuation makes up a small portion of net wealth

# HOW MUCH IS THE AGE PENSION?

▶ Maximum payment rate of the Age Pension\*:

	Fortnightly	Annual
Single person	\$967.50	\$25,155.00
Couple	\$729.30 each	\$37,923.60 (combined)

\*Rates current as at time of writing

\*Figures include pension and energy supplements

# RETIREMENT PLANNING VARIABLES

## ▶ Income

- What level of income do you want to have in retirement?
- Are you happy to draw on your capital to meet your income needs?

## ▶ Expenses

- There will be a number of fixed non-negotiable expenses that everyone has e.g. keeping a roof over your head, the lights on and food on the table
- The rest of your spending is on lifestyle or discretionary spending e.g. how many holidays you take per year, how often you eat out at restaurants, what type of car you drive

## ▶ Time frame

- How long do you plan to continue working? Do you want to retire at age 50 or work until you are 70?



# RETIREMENT PLANNING VARIABLES

## ▶ Risk / return

- Investment decisions will impact the outcome
- For example, holding everything in cash means you are taking minimal risk but will achieve a small interest return
- On the flip side, investing in shares, property or other growth assets means taking more risk but should reward you with higher returns

## ▶ Legacy objectives

- Are you happy to draw on your capital to meet your income needs?
- This has been called SKI holidays or “spend the kids inheritance holidays”
- Do you wish to preserve your capital and only live off the income?
- Do you wish to leave a specific legacy or have philanthropic wishes?

## ▶ Liquidity events

- Do you anticipate any liquidity events such as selling a business or receiving an inheritance?

# SPENDING PATTERNS OF RETIREES

- ▶ Food makes up the largest part of essential spending
- ▶ This declines steeply with age
- ▶ Spending on health increases with age but dips after age 80
- ▶ Discretionary expenses decline through retirement e.g. travel, leisure activities
- ▶ It is estimated that a couple aged 85+ will spend 7.8% less than those aged 65-85
- ▶ Many retirees underspend during the early years of retirement which is when they are most active

# RETIREMENT LIFESTYLES



	ABOVE AVERAGE RETIREMENT <sup>1</sup>	COMFORTABLE RETIREMENT <sup>2</sup>	MODEST RETIREMENT <sup>2</sup>
Holidays	1-2 luxury holidays each year (e.g. cruise ship, international travel) & 1-2 domestic holidays or trips each year	One annual holiday in Australia	One or two short breaks in Australia near where you live each year
Eating Out	Regularly eat out at restaurants May dine at exclusive or feature restaurants	Regularly eat out at restaurants. Good range and quality of food	Infrequently eat out at restaurants that have cheap food. Cheaper and less food than a 'comfortable' lifestyle
Transportation	May own a luxury car or several cars, perhaps a boat	Owning a reasonable car	Owning an older, less reliable car
Drinking	Afford bottled wine, may seek exclusive or cellar door wine	Afford bottled wine	Afford cask wine
Clothing	Good clothes, can afford designer brands	Good clothes	Reasonable clothes
Hair Dressing	Afford regular hair cuts at a good hairdresser and ad-hoc styles	Afford regular hair cuts at a good hairdresser	Afford regular hair cuts only at a basic salon or pensioner special day
Leisure	Take part in many leisure activities and social groups Subscriptions to the ballet, opera, art galleries and other prestigious events	Take part in a range of regular leisure activities	Take part in one paid leisure activity infrequently. Some trips to the cinema
Electronic Equipment	Have the latest electronic equipment	A range of electronic equipment	Not much scope to run air conditioner
Home Repairs	Ongoing expense, not a luxury but a necessity Renovations every 5-10 years	Replace kitchen and bathroom over 20 years	No budget for home improvements. Can do repairs, but can't replace kitchen or bathroom
Medical Costs	Private health insurance	Private health insurance	Private health insurance
Income Needed Per Year	~\$150k - \$200k	~\$60k	~\$40k

<sup>1</sup>Please note that this does not include additional items such as charitable donations, helping children/grandchildren with educational expenses, large ad hoc purchases and so forth.

<sup>2</sup>Source: Association of Superannuation Funds of Australia (ASFA).

# ROLE OF SUPERANNUATION IN RETIREMENT

	Individual	Super - Accumulation	Super - Pension	Family trust	Corporate beneficiary
Potential advantages	<p>Can utilise low marginal tax rates in retirement</p> <p>50% CGT discount available for assets held &gt; 12 months</p> <p>Principal residence exempt for CGT purposes</p>	<p>Concessional tax environment - maximum 15% tax on investment earnings and capital gains</p> <p>No minimum drawdown requirements</p>	<p>0% tax on investment earnings and capital gains</p>	<p>Asset protection</p> <p>Succession planning</p> <p>Choice of beneficiary for income/gains distribution</p>	<p>Asset protection</p> <p>Succession planning</p> <p>Flat company tax rate of 30%</p> <p>Can be used to house assets for distribution in later years</p> <p>Franking credits can offset some tax payable on dividends</p>

# ROLE OF SUPERANNUATION IN RETIREMENT

	Individual	Super - Accumulation	Super - Pension	Family trust	Corporate beneficiary
Potential disadvantages	<p>No asset protection</p> <p>Significant tax payable at higher end of the marginal tax rate scale (up to 47%)</p>	<p>Contribution limits</p> <p>Total super balance limits how much can be held in super environment</p> <p>Complexity</p> <p>Regulatory / legislative risk</p>	<p>Transfer balance cap limits how much can be held in pension</p> <p>Must draw a minimum pension % each year</p> <p>Complexity</p> <p>No contributions allowed</p> <p>Regulatory / legislative risk</p>	<p>Must distribute all gains and income to beneficiaries</p> <p>Regulatory / legislative risk</p>	<p>Flat tax rate of 30% on capital gains</p> <p>No capital gains tax discount</p> <p>Top up tax payable on any dividends paid</p> <p>Regulatory / legislative risk</p>

# ROLE OF SUPERANNUATION IN RETIREMENT

	Individual	Super - Accumulation	Super - Pension	Family trust	Corporate beneficiary
Best when	You are no longer working and potentially have a low individual marginal tax rate	Building / storing wealth in a low tax environment for retirement		You can have low income earning beneficiaries that you can distribute to	When you want to hold assets in a lower taxed environment until retirement

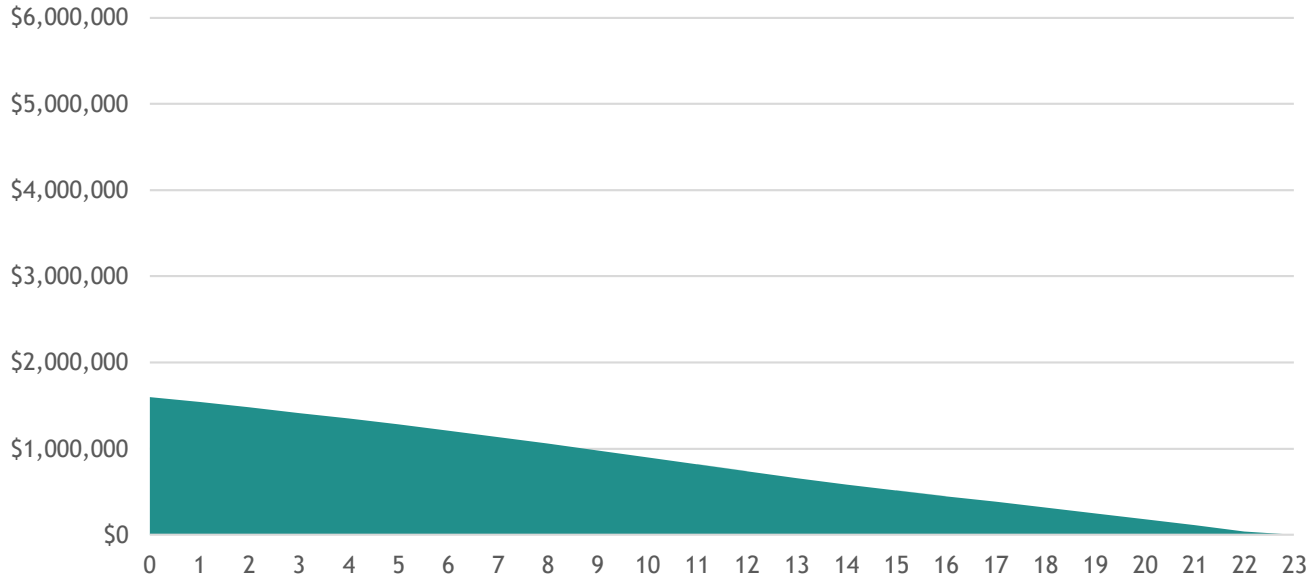
# CASE STUDY 1

- ▶ Ross and Rachel
  - Both age 65
  - Recently retired
  - Home owners, no mortgage
  - Wish to have retirement income of \$120,000 pa
  
- ▶ Assumptions
  - Life expectancy is 84y for Ross and 88y for Rachel
  - Inflation of 2.5% pa
  - Investment returns:
    - 50% growth / 50% defensive option = 6.15% pa
    - 70% growth / 30% defensive option = 6.76% pa
    - 80% growth / 20% defensive option = 7.12% pa

# CASE STUDY 1

## ► Scenario 1

- Expenses are \$120,000 pa
- Comfortable drawing on capital
- Balance invested in 50% growth / 50% defensive option

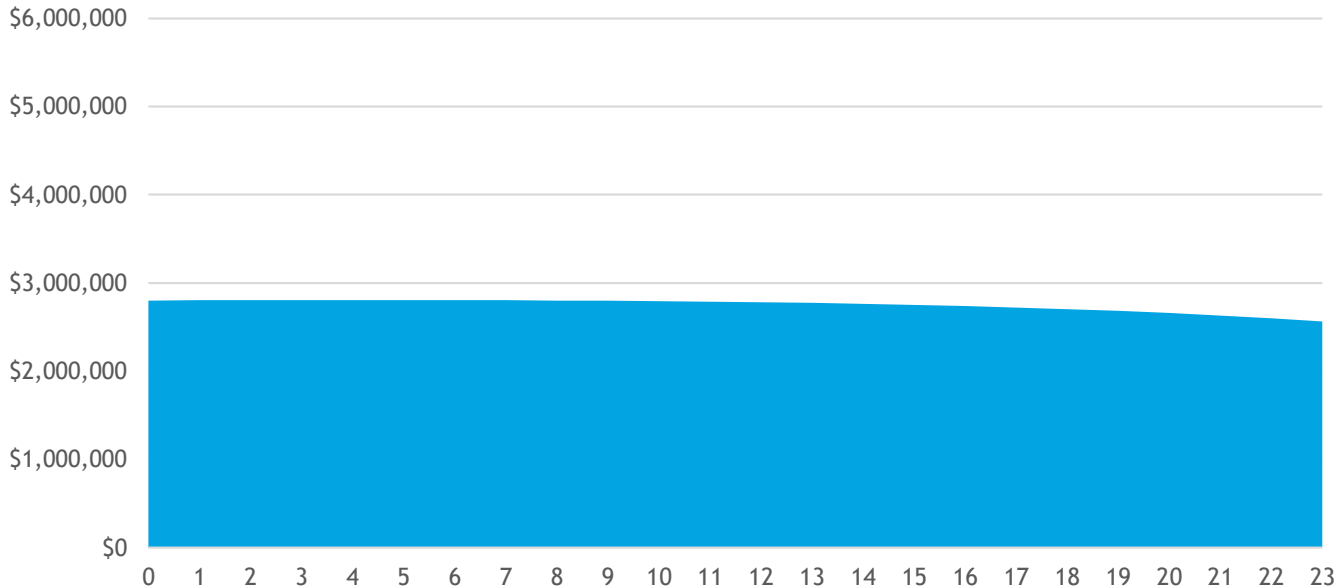




# CASE STUDY 1

## ► Scenario 2

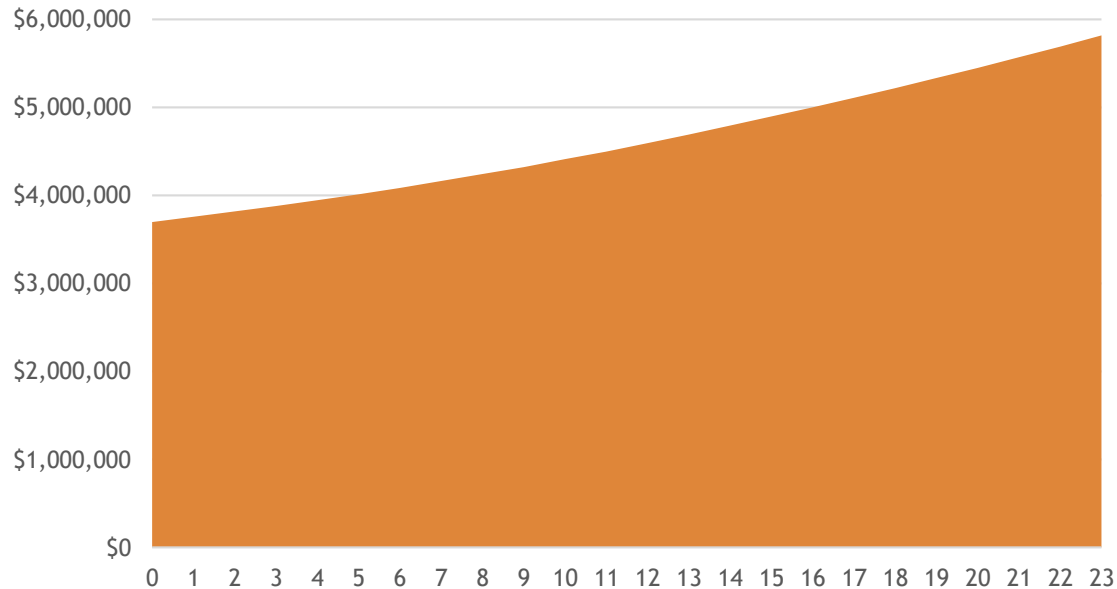
- Expenses are \$120,000 pa
- Wish to maintain balance of capital
- Balance invested in 70% growth / 30% defensive option



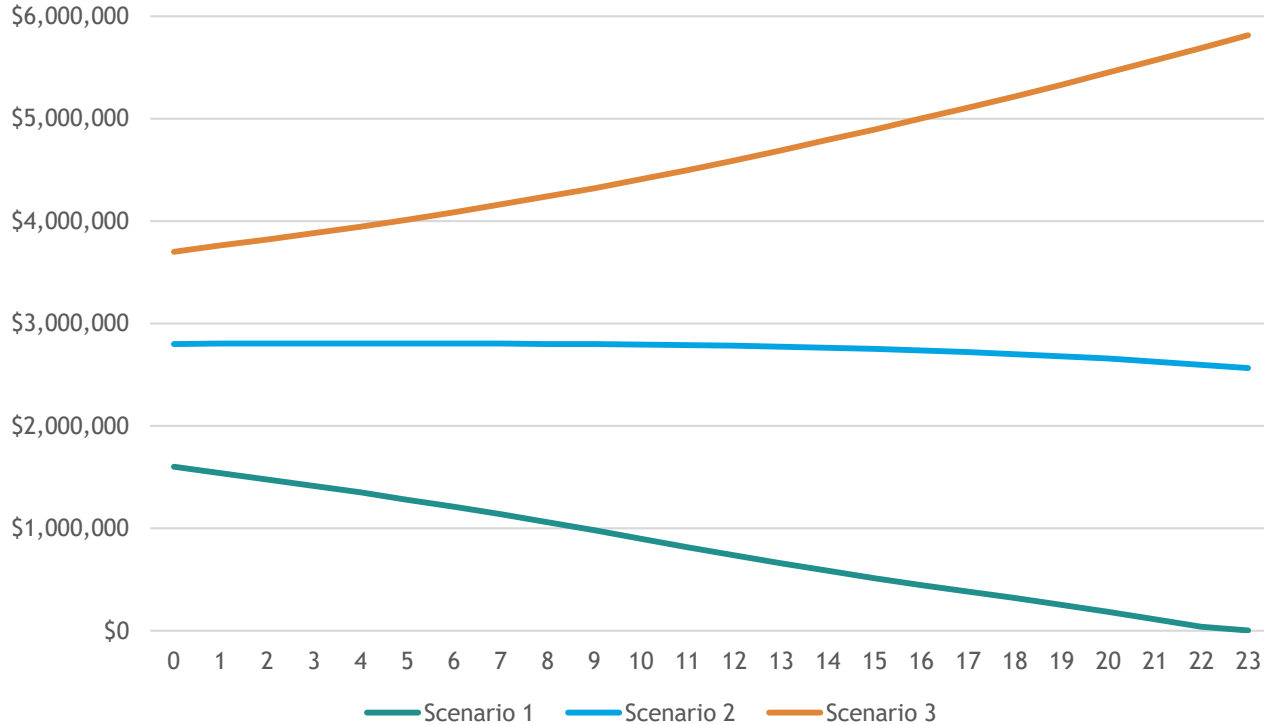
# CASE STUDY 1

## ► Scenario 2

- Expenses are \$120,000 pa
- Wish to grow capital for philanthropic / legacy wishes
- Balance invested in 70% growth / 30% defensive option



# CASE STUDY 1





## CASE STUDY 1

- ▶ The key take out of this case study is that the amount of capital needed to fund retirement is going to vary for every client

## CASE STUDY 2

### ▶ Leonard and Penny

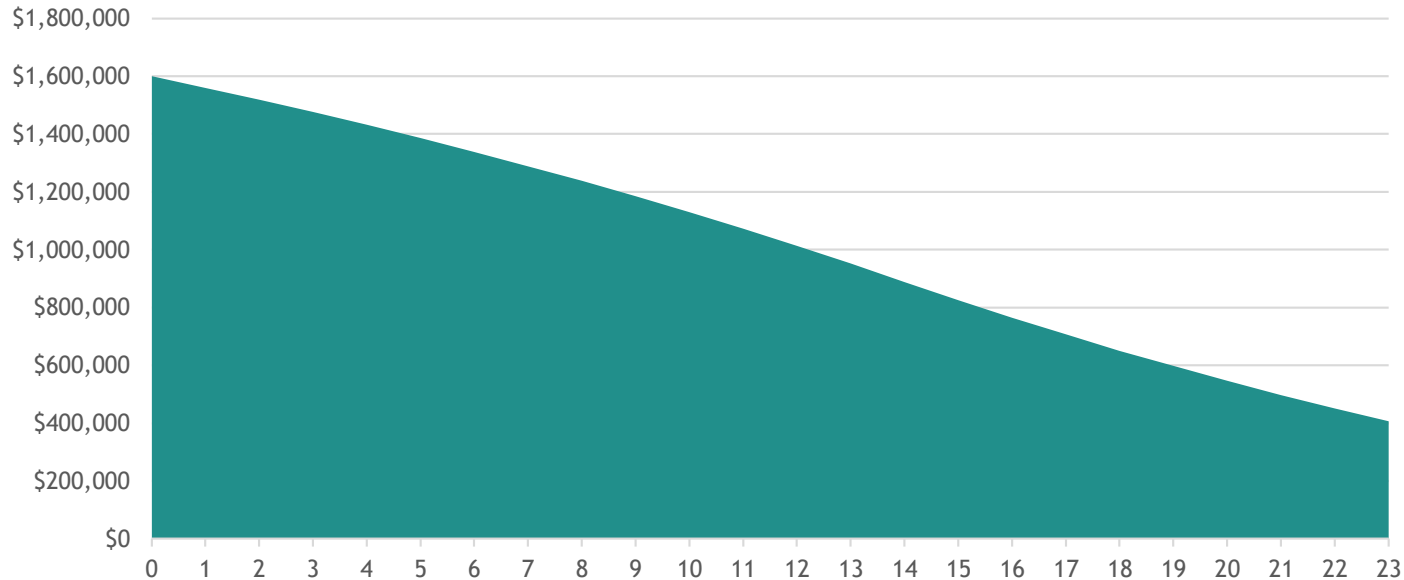
- Both age 65
- Recently retired
- Home owners, no mortgage
- Wish to have retirement income of \$100,000 pa

### ▶ Assumptions

- Life expectancy is 84y for Leonard, 88y for Penny
- Balance of assets held in pension environment and split equally
- Balance invested 50% growth / 50% defensive
- Investment returns of 6.15% pa
- Inflation of 2.5% pa

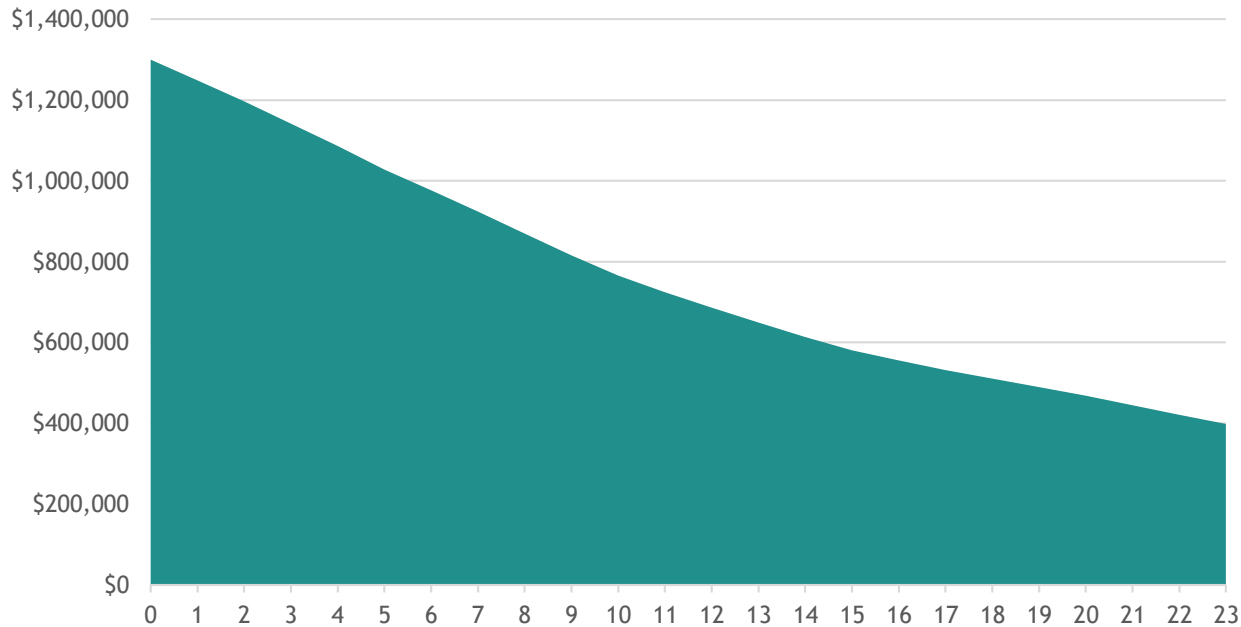
# LEONARD AND PENNY - SCENARIO 1

- ▶ Expenses stay the same at \$100,000 pa increasing with inflation of 2.5% pa
- ▶ In this scenario, Leonard and Penny will need to have an asset base of around \$1,600,000 to fund their retirement



## LEONARD AND PENNY - SCENARIO 2

- ▶ Expenses start at \$100,000 pa increasing with inflation of 2.5% pa
- ▶ However expenses then decrease by 10% every 5 years from age 65
- ▶ In this scenario, Leonard and Penny will need to have an asset base of around \$1,300,000 to fund their retirement



## LEONARD AND PENNY - CONCLUSION

- ▶ The take out from the two scenarios is that Leonard and Penny could have enjoyed life a little more leading up to retirement, rather than saving an extra \$300,000



# HOW TO BROACH THIS SUBJECT WITH YOUR CLIENTS

- ▶ When do you want to be able to retire?
- ▶ Or when do you want choice around working?
- ▶ What type of lifestyle do you want to have in retirement?
- ▶ Do you know how much you will need?
- ▶ Do you know if you can afford it?
- ▶ Will your home be paid off by the time you retire?
- ▶ Will you need to downsize?
- ▶ Do you want to help your children financially e.g. help with a property deposit?

# HOW CAN A FINANCIAL PLANNER HELP

- ▶ Lifestyle, cash flow and pre-retirement planning
- ▶ Superannuation strategies
- ▶ Investment and wealth creation strategies
- ▶ Debt repayment strategies
- ▶ Financial modelling
- ▶ Wealth protection and insurance needs
- ▶ Charitable giving and private ancillary funds
- ▶ Family education and communication
- ▶ Estate and succession planning
- ▶ Portfolio management

# AREAS WE CAN PROVIDE ADVICE ON



# QUESTIONS?



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