



## Paul Clitheroe

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# retiring post-sharemarket falls

Retirement has always been a financial juggling act. But sharemarket falls of around 40% in 2008 have forced plenty of retirees, including those with the best-laid plans, to rethink how they will stretch their money over the next 10, 20, even 30 years.

When sharemarkets cop a hiding, investors are typically advised to sit tight, let markets recover and avoid bailing out of shares that historically have recovered their value over time. But this won't happen overnight – it took six years for the market to recover from the 1987 crash. So in the meantime, retirees and pre-retirees need to explore every avenue available to boost their income.

A sensible first step is to consider work options. Sure, it's not everyone's cup of tea, but shelving plans for an early retirement or looking for part-time work can bring in additional cash while adding to your super through employer contributions. Do note though, employers don't generally have to make super contributions for workers aged 70-plus.

If you're concerned that working could jeopardise your age pension entitlements, bear in mind a couple can earn a combined income of up to \$240 per fortnight and still receive a full age pension, or up to \$2,602 fortnightly to be eligible for at least a part pension.

Working for longer may also mean becoming eligible for the Age Pension Bonus. It's a tax-free lump sum paid to people who stay at work beyond the age at which they're entitled to claim the Pension. You'll need to register with Centrelink and then work a minimum of 960 hours over 12 months. After one year the Bonus is worth around \$1,300, rising to as much as \$34,344 (single's rate) after five years. For more details contact

Centrelink on 13 23 00.

Irrespective of your work plans it's worth a call to Centrelink to check if your age pension entitlements have changed following a fall in investment values. As a guide, a couple who own their home can have up to \$243,500 in financial assets to receive a full-pension, or up to \$873,500 to be eligible for a part-pension. Receiving just a dollar of age pension payments can entitle you to a Pensioner Concession Card, which can save you plenty on phone, rates, power and transport costs.

If you're really strapped for cash, homeowners may want to consider a reverse mortgage. This is a loan secured by your home, with no repayments necessary until you sell up or pass away. You can choose to receive the cash as a regular series of payments or a lump sum or a combination of both – though be aware a lump sum payment may be counted in the assets test, thereby reducing your pension payments.

While a reverse mortgage lets you tap into valuable home equity, the downside is that interest on the loan accrues from day one. If you sell up at a later stage you could find there's far less left in the kitty than you'd hoped for, particularly if you take out a reverse mortgage early in retirement and property values rise slowly or fall.

For instance, let's say a retiree owning a home worth \$400,000 takes out a reverse mortgage for \$96,000 costing 7.7%p.a. with an upfront establishment of \$700 (about the current average). After 10 years the loan plus accumulated interest would have grown to \$208,000. If we assume only modest rises in property values – say 2% annually, the borrower would be left with home equity of \$279,000. A further decade down the track the

loan has blown out to \$449,000 with home equity now down to \$146,000.

Once you've exhausted your home's value, there's often not much else to turn to. So if you're in your sixties, it's worth revisiting your budget or re-arranging your super before depleting precious home equity.

Finally, rethink the notion of leaving everything you can behind for the kids. I'm sure no adult child would begrudge their parent a decent retirement – even if it means leaving behind a smaller estate.

### Paul's tips

- ~ It could take years for a nest egg to recover from last year's sharemarket losses, so seniors need to explore every available option to boost their income.
- ~ Think about working for longer or taking on part-time work. A couple can still earn up to \$2,602 each fortnight to receive at least a part pension.
- ~ Working an extra five years past retirement age could make you eligible for the Pension Bonus Scheme – a lump sum tax-free bonus worth around \$34,000 after five years.
- ~ A drop in the value of your investments makes it worth revisiting your eligibility for the age pension.
- ~ Reverse mortgages are a possible solution to the asset rich/cash poor dilemma but mounting interest charges will eat into your home equity.
- ~ Do not take on a reverse mortgage without seeking independent legal advice.

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