



Paul Clitheroe

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.

how much do you need to retire on?

Most Australians recognise the need to set aside funds for retirement. What's less clear is just how much money we need to support a decent lifestyle in our senior years. It's an issue many of us only address when we're approaching retirement, and by then it can be challenging to build the level of investments needed for your preferred style of living.

There's no single answer to the question of how much you need to retire on. It's a very personal issue, and one that hinges on your likely living expenses.

A good starting point in determining how much money you need to be financially independent in retirement, is to work out an anticipated annual budget.

You will need to think about hobbies, travel, cars, eating out, entertaining, health, clothing and so on. If you plan to own your home, remember to include maintenance, rates, insurance and so on. If you plan to rent, include rent in your costs.

Once you have an annual amount that covers all these outgoings, the next step is to decide at what age you would like to retire, or are financially able to if you want to enjoy a good one.

An example may help here. Let's say you have decided you would

need \$X a year to fund your preferred retirement lifestyle. There's a quick calculation you can do to give you the approximate level of accumulated funds you would need to provide this level of income. You simply multiply the annual income you would like in retirement by 17 if you want to exit the workforce at age 55, multiply it by 15 if you want to retire at age 60, and multiply it by 13 if your proposed retirement is at age 65.

Let's say you decided you would need \$50,000 a year in retirement to give you your preferred lifestyle. Using the formula above, you would need accumulated funds worth approximately \$850,000 to retire in style at age 55; \$750,000 at age 60 and \$650,000 at age 65.

Take your current investment assets and superannuation away from your required amount and this gives you the "shortfall gap". We have now calculated that if you want \$50,000 a year from age 60, you need \$750,000. Let's also say at present you have \$200,000 in super and \$100,000 in equity in an investment property, giving you total funds of \$300,000. In this case you would need to build up another \$450,000.

Many people looking at this figure would wonder how on earth they'll ever save that sort of money. It can be done but the trick is to start early. It also helps to take

advantage of the tax breaks offered by superannuation to boost your retirement savings.

There are some useful online calculators that will show how much money you're likely to accumulate in super for a range of annual contributions. You can find one on the consumer website of our investment watchdog ASIC at www.fido.gov.au. Click on 'Publications and resources'.

If you feel you've left your run a bit late, it's worth remembering that seniors are entitled to some generous tax breaks that let you earn a decent annual income before losing part of your money to tax. And while the age pension is miserly, qualifying for even one dollar of a part pension will entitle you to some handy discounts on utilities and other living costs.

There's a wealth of information of how to save and invest to become financially independent. The FIDO website is excellent, and there is also a range of useful personal finance magazines like Money. Or take a look at my book Making Money.

Paul Clitheroe's 'Making Money' for the week beginning 7 June 2010



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ipac securities limited Level 31 Grosvenor Place 225 George Street Sydney NSW 2000 Australia
Sydney Office Locked Bag 15 Grosvenor Place NSW 1220. DX 10328 Sydney Stock Exchange.
Telephone 02 9373 7000. Facsimile 02 9373 7111. Adviser Services 1800 812 950. Investor Services 1800 624 542.