WEST**BUSINESS**

The West Australian August 22, 2016

SECURING YOUR FUTURE

A YOUR MONEY special

FINANCIAL PLANNING Week 2016
22-28 August
Dare to Dream

THE **ESSENTIAL GUIDE** TO SAFEGUARD YOUR FINANCES

GET ON TRACK FOR RETIREMENT

- How much super is enough?
- Making sense of the pension
- What type of retiree are you?
- Unlock your home's value
- Is DIY super right for you?
- When to panic about your nest egg

A warm welcome

There are many aspects of your retirement years the Securing Your Future team can't help you with.

We can't do anything about the dicky knees, erratic tickers or overly enthusiastic bladders which at some point will do their best to disrupt your retirement plans.

And you are on your own when it comes to having the grandkids lumped on you with ever-increasing frequency.

What we can do is demystify the retirement industry, and that's no small job because, as anyone who has ever read a superannuation statement or tried to get through to Centrelink knows, the finances of retirement can be quite bewildering.

We hope that if you spend a bit of time going through these pages you will feel a little more on top of your golden years.

At the very least, we hope we will shine a light on the things you don't know and afford you the chance to do some more research or get some advice.

Making the right financial decisions as you close in on your retirement is crucially important to a stress-free life after work. It's even more important to make the right calls when you are actually retired — the absence of a regular wage seems to magnify errors of financial judgment!

Ben Harvey
Group Business Editor
West Australian Newspapers

Meet the advice team behind Securing Your Future 2016

Back row: Ben Harvey (Group Business Editor, West Australian Newspapers), John Cameron (Black Swan Event Financial Planning), Brenton Jones (Future Wealth Planners), Brad Martin (Blueprint Wealth), Ben Devenish (Shadforth Financial Group)
Front row: Julia Schortinghuis (Lighthouse Capital), David Andrew (Capital Partners), Kelly Pillay (KLI Accountants & Wealth Managers)

WESTBUSINESS The West Australian

SECURING YOUR FUTURE

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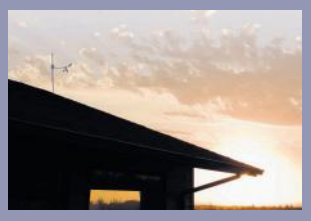
14 
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FINANCIAL PLANNING Week 2016
22-28 August
Dare to Dream

Build a better financial future

Dare to make your dreams a reality, says *Dante De Gori*

As chief executive officer of the Financial Planning Association of Australia, I deeply believe in the power of financial advice as a catalyst for unlocking dreams, and ultimately, happiness.

Our 16th Financial Planning Week is all about dreaming; dreaming about what the future could hold if we overcame the common barriers to financial success.

These barriers might be fear, self-doubt, apathy or lack of planning, for example.

Our research shows that we are dreaming more as a nation, but where we fall short is turning those dreams into reality.

It is commonly assumed that financial planners solve money problems.

In contrast, financial planning is about so much more than this.

A financial planner can help bring your dreams to life, identify your life goals and aspirations — and put in place a financial plan to get you there.

A financial planner can also empower you with the financial knowledge to truly take control of your future.

This is just as important, no matter who you are, or what life stage you're at.

In many ways, a financial planner plays a similar role to a personal trainer.

The accountability and structure is what can make the difference between a dream, and a dream that becomes a reality.

If your dreams currently feel out of your grasp, talk to a professional financial planner about the steps you can take.

You might just be surprised at what's possible.

Visit fpa.com.au to find a financial planner near you.

Dante De Gori is chief executive of the Financial Planning Association of Australia

> WHERE WE FALL SHORT IS TURNING THOSE DREAMS INTO REALITY.

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Monday, August 22, 2016

How much super will be

Working out how big a pot you need hinges on the answers to five queries, says *David Andrew*

If you do a Google search for "how much is enough in retirement?" you will get almost 85 million results.

So if you've been wondering how much is enough for your retirement, you're not alone.

The answer will depend on your circumstances and expectations.

In attempting to answer this question, we need to understand the five big questions for retirement.

1. How much are you hoping to spend in retirement?
2. How much can you save?
3. How much investment risk do you want to take?
4. When are you planning to retire?
5. How much do you want to leave behind?

For many years, finance researchers have suggested drawing down 4 per cent of your portfolio a year is a safe withdrawal rate.

If a retiree invested in a balanced portfolio of 50 per cent shares and 50 per cent bonds, and drew down 4 per cent of their portfolio each year, they could reasonably expect their assets to last 30 years, or so the argument went. Using the 4 per cent rule, a retirement income of $50,000 a year would require capital at retirement of $1.250 million and there would be an expectation the money would last your entire lifetime.

The Association of Superannuation Funds of Australia publishes a standard benchmark for singles and couples to live modestly and comfortably in retirement.

Currently ASFA suggests a couple would need $34,226 to live modestly and $59,236 to live comfortably, although if your retirement plans extend to things like regular international travel, helping children and regular vehicle upgrades, then clearly you will need more.

In Australia we enjoy a generous social security system in the form of the age pension.

Just how long the system will remain generous, is another matter.

For those retiring in the next five to 10 years, there is a reasonable chance the retirement pension system will remain viable, but the state of our national finances does raise questions about the sustainability of the system.

Under the current rules, a retired couple with over $1 million in assets can still receive a part-pension, although the eligibility rules become tougher from January 1, 2017 when the assets test for a homeowner couple will reduce to $823,000.

To illustrate how generous the system is, let's take the example of John and Ruth, who own their family home and have $350,000 in superannuation and savings. Let's say they draw $14,000 from an account-based pension each year, their age pension payment would see them achieve a retirement income of over $45,000 each year.

So let's consider the how much question for 50-year-olds planning for their retirement some time after 2030.

The much-maligned 2014 Federal Budget papers outlined the Government's funding problem in highlighting the rapid increase in the proportion of the Australian population aged over 65.

This growth in the over 65s points to tougher eligibility requirements for age pension benefits, meaning today's 50-year-olds are likely to be retiring at closer to 70, and may not enjoy the benefits retirees do today.

While it's good to know the pension is there as a backup, many Australians are not planning on using it, simply because they have an expectation of a higher income in retirement, and are prepared to save enough to achieve this result. This group is broadly referred to as the self-funded retirees.

For this group, how much you will need mainly depends on how much and for how long you will be drawing on your investment pool — the earlier you retire, the larger your capital base needs to be, while continued work, even on a part-time basis, will stretch out your drawdown.

For self-funded retirees, the prospect of running out of money is usually the biggest concern. Managing your capital to minimise the possibility of errors, and ensuring your wealth is not eroded by inflation, become the two most important areas to consider.

Superannuation will probably be the ideal structure for you because the tax benefits are considerable and will stretch your wealth further.

When we invest for retirement we are making decisions that need to pass the test of time.

A retiree aged 65 is likely to live for 20 years and perhaps as long as 30, so they will need a long-term investment plan.

The only problem is investment markets can be uncertain. This is where the amount you draw down from your portfolio each year will help you deal with market uncertainty.

Let's say you invest half your portfolio in a diversified portfolio of global and Australian shares, and the balance in cash and fixed interest invest-


David Andrew

> UNDER THE CURRENT RULES, A RETIRED COUPLE WITH OVER $1 MILLION IN ASSETS CAN STILL RECEIVE A PART-PENSION, ALTHOUGH THE ELIGIBILITY RULES BECOME TOUGHER FROM JANUARY 1, 2017.

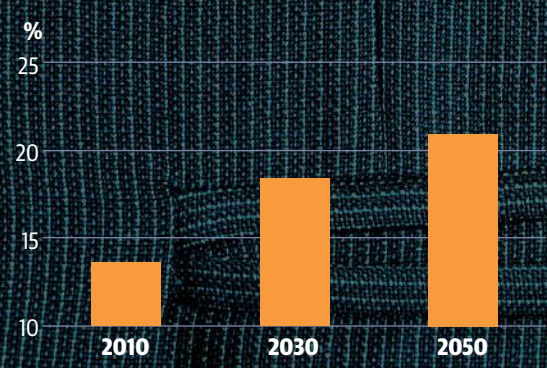
POCKET CHANGE

ASFA RETIREMENT STANDARD

	Annual living costs	Weekly living costs
Couple - modest	$34,226	$656
Couple - comfortable	$59,236	$1136
Single - modest	$23,797	$456
Single - comfortable	$43,184	$828

AGEING AUSSIES

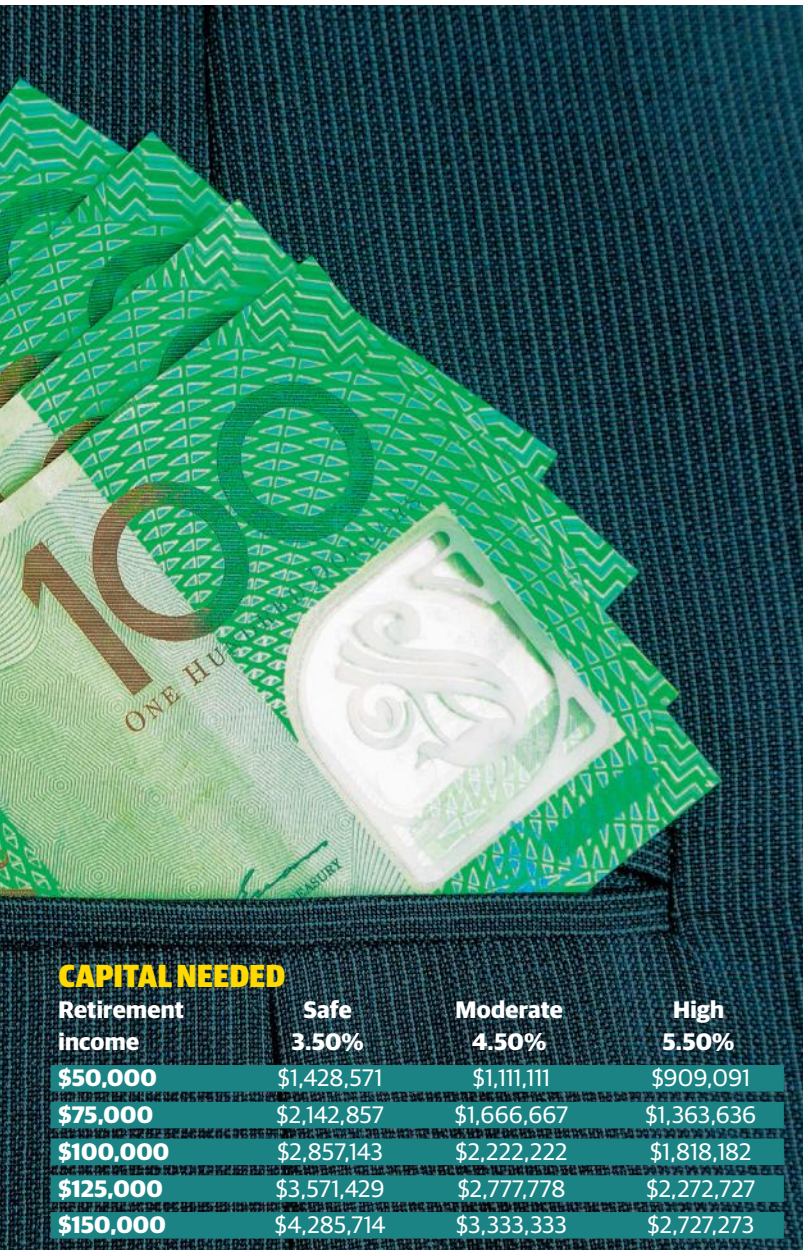
People aged 55 and over as a proportion of Australians (2010-2050)



AGE PENSION ASSETS-TEST FREE AREA

	Homeowner		Non-homeowner	
	Until June 2016	Jan 2017	Until Jun 2016	Jan 2017
Single	$205,500	$250,000	$354,500	$450,000
Couple	$291,500	$375,000	$440,500	$575,000

enough?



CAPITAL NEEDED

Retirement income	Safe 3.50%	Moderate 4.50%	High 5.50%
$50,000	$1,428,571	$1,111,111	$909,091
$75,000	$2,142,857	$1,666,667	$1,363,636
$100,000	$2,857,143	$2,222,222	$1,818,182
$125,000	$3,571,429	$2,777,778	$2,272,727
$150,000	$4,285,714	$3,333,333	$2,727,273

ments. Significant market events like the 1987 stock market crash and the global financial crisis can have a big impact on your retirement, so the possibility of an event like this needs to be factored in.

This is where the idea of a drawdown rate is important.

Let's say you want a retirement income of $75,000 each year.

An annual drawdown. of 3.5 per cent is considered safe, which means your portfolio would need to be just over $2 million, but you will be able to withstand most economic downturns and market shocks during your lifetime.

A safe drawdown means you will sleep well at night, but you will need a bigger portfolio to provide the safety you need.

A moderate portfolio drawdown of 4.5 per cent each year means you need less capital to fund your $75,000 annual lifestyle, but you may be more susceptible to an economic downturn or market shock.

A higher drawdown again of 5.5 per cent each year would suggest you may need even less capital to fund your lifestyle, but your portfolio and your lifestyle will be far more susceptible to a market downturn.

Finding the right level of investment risk and the right level of drawdown will depend on your risk tolerance and the concern you may have about running short of funds during your lifetime.

The final factor we can't ignore is we do tend to need less money as we get older. Past the age of 80, we tend to travel less and spend less on lifestyle expenditure.

Spending more in the early years while we're healthier and physically active makes sense so it's a matter of finding the balance between spending for today and ensuring there's enough for tomorrow.

David Andrew is managing director of Capital Partners

Acronym soup easier with a healthy serving of RAM

According to the last set of figures from the Australian Government actuary, a man turning 65 this year and wanting to retire has a statistical life expectancy of about 18.5 years and a woman nearly 22.

For those people who are currently saving and investing for their retirement, these statistics present a very real challenge because they are directly linked to knowing how much they will need to enjoy a financially secure retirement.

The problem in determining how much is enough begins with the answer; it depends.

It is with the above in mind many people might find it very helpful to have some principles and easy-to-understand mathematical measures to use as a guide in accumulating and later dispersing funds for their retirement.

When considering a superannuation fund retirement portfolio most people have no problem understanding that it is likely to last longer if the rate of withdrawal is lower.

However, there are other aspects of a retirement portfolio that may not be quite so easy to understand.

High on the list of those considerations is the issue of portfolio design: How have different portfolios behaved in the past? So let's think about this a bit more.

THE RETIREMENT ACCOUNT MULTIPLE

First among the key principles in the mathematics of retirement portfolios is the retirement account multiple.

RAM is simply the size of the superannuation account balance at retirement as a multiple of the retiree-to-be's final year of salary.

Let's look at Tony who has a final year salary of $100,000 and a superannuation account balance of $700,000. Tony has a RAM of 7.

This is a critical number to know because once we know the RAM, calculating Tony's income replacement ratio is straightforward: RAM x withdrawal rate = income replacement ratio.

If Tony multiplies his RAM number by an initial withdrawal rate of 5 per cent per annum it produces the following equation: 7 x 5 = 35 per cent income replacement.

In other words, if Tony withdraws 5 per cent of the $700,000, which is $35,000; $35,000 is 35 per cent of his final year's salary of $100,000.

In the above example it is clear to see that Tony's income replacement in retirement (as a percentage of the final year's salary) is simply a mathematical relationship between his RAM and the chosen withdrawal rate percentage.

Next comes the really tricky part: how best to invest Tony's superannuation so that he does not run out of money. If financial security in retirement for Tony is defined as having his superannuation fund survive (not run out of money) for at least 18.5 years, there can be no doubt that in today's low-interest rate environment his portfolio will have to include growth-orientated investments such as shares and property.

Let's say that Tony has selected an income replacement ratio of 50 per cent for his retirement.

Because Tony has a RAM of 7, he will need to implement an initial withdrawal rate of 7 per cent per annum to create a 49 per cent income replacement ratio (7 x 7 per cent = 49 per cent income replacement ratio).

What is equally important to understand is that if Tony had a RAM of 10, he would only need a 5 per cent withdrawal rate to produce the 50 per cent income replacement ratio he desired.

This in turn means that his superannuation retirement portfolio can afford to have a lower level of growth-orientated investments.

In the above example you can see the luxury of using a lower withdrawal rate is created by having a big RAM.

Brenton Jones is principal client adviser at Future Wealth Planners

Brenton Jones

The West Australian
Monday, August 22, 2016

The rules that dictate what you get back

Julia Schortinghuis explains who gets the age pension

Like all things Centrelink, determining eligibility for the age pension is complex. From January 1, additional changes are going to add to this complexity. It is important to remember that the age pension has been designed as a safety net for those without sufficient resources to provide for an adequate retirement. To ensure the right people are supported, it is means tested.

Retirees aged 65 (gradually increasing to age 67 depending on your date of birth) and over may be eligible for a part or full age pension.

Situation	Fortnightly entitlement	Annual entitlement
Couple	$658.70 each	$34,252
Single	$873.90	$22,721

*If you are a non-homeowner, you may be eligible for rent assistance.

How does it work?

The rate of age pension is different for couples and singles, home owners and non-home owners. Different thresholds apply for each of these situations.

There are two tests — the assets test and income test. Whichever test results in the lower pension payment to you, this is the test that determines your entitlement.

The assets test

The value of your assets (not including your home) are tallied and counted against an asset threshold. If your assets are over the relevant threshold, your pension payment will be reduced by $1.50 for every $1000 of assets over that threshold limit.

This reduction is known as the taper rate, which is changing from January 1, 2017. More on that later.

Assets include cash, term deposits, superannuation, account-based pensions, annuities, shares or other investments, household and personal effects such as household contents, cars, caravans and boats.

Julia Schortinghuis

> OVERSTATING ASSETS IS A COMMON TRAP WHICH REDUCES THE PENSION.

Centrelink asset test limits for FULL age pension

Situation	Homeowners	Non-homeowners
Single	$209,000	$360,500
Couple (combined)	$296,500	$448,000

*Assets below these limits qualify you for full age pension – subject to the income test

Centrelink cut-off limits for PART age pension

Situation	Homeowners	Non-homeowners
Single	$791,750	$943,250
Couple (combined)	$1,175,000	$1,326,500
Illness separated (couple combined)	$1,462,000	$1,613,500

*Assets above these limits will disqualify you from part age pension.

Note that it is the market value of these assets that are counted, which for items like cars, are generally much lower than the insured value. Overstating assets is a common trap which reduces the pension you receive. When valuing things like household contents, base the value as if you put the items on the street verge to be sold today — you wouldn't get much.

Some assets are not counted, with the main asset being your home, provided you reside in it. If your partner is under age pension qualification age and their superannuation is not in pension phase, it also is not counted.

The income test

In this test, any income from employment, pensions, annuities, trust distributions or money deemed to be earned from investments are included.

Exceeding the fortnightly income limit will see your age pension reduced by 50¢ for every $1 over the limit, until you reach the disqualification limit for a part pension. If you have an old-style insurance policy known as an endowment policy, it may be exempt. Get advice before redeeming this kind of asset as accumulated bonuses may be treated as income. If you have reached pension age but continue to work, you may still qualify for a part or even full age pension under the work bonus scheme, depending on your income. The first $250 of fortnightly income derived from employment is excluded under the income test. If your work is sporadic, you can "bank" any unused amount up to $6500, which can then be used to reduce your income.

Centrelink income test limits for pensions

Situation	For full pension/ allowance (per fortnight)	For part pension (per fortnight)
Single	up to $164	less than $1911.80
Couple (combined)	up to $292	less than $2926.80
Illness separated (couple combined)	up to $292	less than $3787.60

What's changing?

Recently, the Government introduced changes to the asset test thresholds, which will take effect from January 1. The lower asset limit for the full age pension has been lifted and the upper asset limit for part pension has been lowered.

Importantly, the taper rate, which currently reduces the pension you receive under the assets test by $1.50 for every $1000 over the lower threshold, is increasing to $3 for every $1000 over the threshold.

This is the reason why many will see a significant reduction in their entitlements.

About 120,000 Australians are anticipated to be better off under the Government's changes.

Conversely, more than 300,000 will have at least part of their pension cut.

CHANGES

January 1, 2017: Assets test thresholds

Assets Test thresholds above which age pension entitlements start to reduce will be increased

Homeowners	Current thresholds indexed	New thresholds	Change
Single	$210,500	$250,000	$39,500
Couple	$298,500	$375,000	$76,500
Non-homeowners			
Single	$363,000	$450,000	$87,000
Couple	$451,000	$575,000	$124,000

IMPACT

January 1, 2017: Assets test taper rate

Assets test taper rate will be increased from $1.50 per fortnight per $1000 to $3 per $1000 above the assets test thresholds

Assets test upper thresholds (above which age pension reduced to zero) reduced

Homeowners	Current upper thresholds (indexed)	New upper thresholds	Change
Single	$804,500	$547,000	($257,500)
Couple	$1,194,000	$823,000	($371,000)
Non-homeowner			
Single	$957,000	$747,000	($210,000)
Couple	$1,346,500	$1,023,000	($323,500)

If you are unsure of your situation, we would advise you to see a financial planner to help you better understand the impact on your eligibility so you can better plan and manage any impact to your cash flow.

Further implications

As announced with the Federal Budget changes, people who lose their pension entirely as a result of the changes, will automatically receive the Commonwealth Seniors Health Card, or a Health Care Card for those under age pension age.

Importantly, they will be exempt from the usual income test requirements for these cards indefinitely.

These cards provide access to Medicare bulk billing and less expensive pharmaceuticals.

Julia Schortinghuis is director of Lighthouse Capital.

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The West Australian
Monday, August 22, 2016

Pump up your pension

Mike Dowling has 6 tips to boost income

Boosting your pension could mean you can afford Moet instead of cleanskin sparkling.

There's less than six months to go before the new year, which means only six months before changes to the assets test go into effect. This could mean a not-so-happy new year for age pension recipients whose rate of payment is determined by the assets test.

While the changes that take effect on January 1 will result in some age pension recipients receiving an increase in their fortnightly payment, the majority will start the year with a reduced or removed age pension, crimping their disposable income.

If you're going to be affected by the changes, is there anything you can do between now and January to minimise the impact? Yes, there is.

Get your Centrelink in order

Make sure Centrelink is assessing the correct values for assets that tend to depreciate in value. Centrelink assesses at their net market value, which it regards as the amount a person would expect to receive if they sold the asset on the open market, less any valid debts or encumbrances. For such assets as household contents, motor vehicles, boats and caravans, Centrelink will usually accept your reasonable estimate. Sources such as redbook.com.au can be great reference tools to work out the current market values of assets like your car and caravan. When estimating the market value of your household contents, be realistic. Keep in mind how much you would pay for second-hand goods being sold at a garage sale on a bitterly cold Sunday morning in winter.

Mike Dowling

Get your house in order

Fixtures and fittings within your home are not assessable assets. If there's anything around the home that needs to be repaired or replaced, think about getting that work done now.

> FIXTURES AND FITTINGS WITHIN YOUR HOME ARE NOT ASSESSABLE ASSETS. IF THERE'S ANYTHING AROUND THE HOME THAT NEEDS TO BE REPAIRED GET THAT WORK DONE NOW.

Get your personal affairs in order

Relieve financial stress from your loved ones at a time when they will least be able to cope with it by pre-paying for your funeral, investing in funeral bonds or purchasing your burial plot. Any amount used to purchase a pre-paid funeral or burial plot may be exempt under the assets test as longs as certain conditions are met. Funds invested in a funeral bond of a value up to $12,250 for a single person or $12,250 each for a couple in individual funeral bonds may be exempt under the assets test. As always, caveat emptor applies when making a decision to purchase a service in advance. There are a number of funeral bond providers in the market so it's best to consult a financial adviser before making a decision to go down this path.

Consider the use of long-term annuities

This point relates to annuities with payment terms greater than five years. Centrelink will initially base its assessment of the income stream's asset value on its purchase price and will reduce it every six or 12 months by the amount of the purchase price that has been returned to you. If the income stream provides for a return of capital at the end of its payment term (called a residual capital value), Centrelink will not assess an asset value lower than this amount. This could be an attractive option to take in our current environment of low interest rates. It can be difficult to work out what type of annuity is right for you, so make sure you discuss your requirements with a financial adviser before doing so.

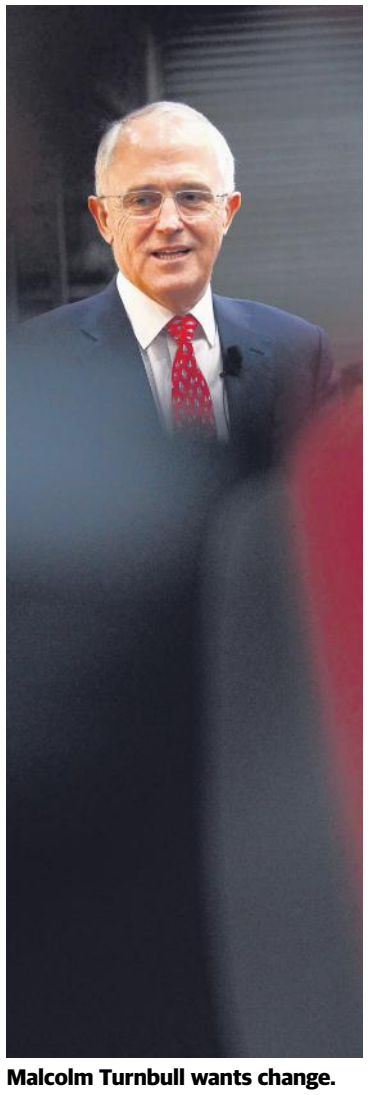
Use your spouse

If you are lucky enough to have a partner under pension qualifying age (born after July 1, 1952), then holding funds in the accumulation phase within their super may be worthwhile. However, there are a number of factors to consider before using this strategy, such as your overall cash flow, the tax rate on investment earnings within their super account and potential restrictions on access. So make sure you discuss your position with a financial adviser to work out whether this is a good decision for you.

Lastly, consider your charitable donation and gifting program

You are able to gift up to $10,000 per financial year without Centrelink penalising you. Beware though — an overall limit of $30,000 in gifts over a rolling five-year period applies.

Mike Dowling is an adviser with Shadforth Financial Group



Malcolm Turnbull wants change.

The election and your super

Canberra has plans for your nest egg, warns *Wayne Leggett*

With the coalition winning 30 Senate seats to Labor's 26, getting any legislation passed will likely rely on the support of the Greens and/or Nick, Jacqui, Derryn and Pauline.

This makes it difficult to speculate on the likelihood of the new superannuation measures proposed in the most recent Federal Budget actually becoming law.

Since the election, the coalition has acknowledged that the unpopularity of some of these proposals may have been reflected at the polls.

Expect some watering down, but let's analyse what was proposed in the Budget and how it could impact on your superannuation and retirement plans.

Lifetime cap on non-concessional (after-tax) contributions
Prior to Budget night, there was an annual cap of $180,000, with some provision for combining up to three years of this cap into a single transaction for those under age 65. The cap is now $500,000 in total.

All NCC made from July 1, 2007 included in the $500,000 cap
This means many people will have already utilised or exceeded this new cap. Those who have done so are to be allowed to retain these funds in super.

Reduction of concessional contribution cap
It was proposed in the Budget that, effective from July 1, 2017, the present annual cap on these contributions of $35,000 for those aged 50 and above, and $30,000 for those under 50, will drop to $25,000.

Cap on allowable balance in pension phase
While previously the only caps on entitlement were on contributions, it has been proposed that a maximum of $1.6 million be allowed to be retained in a pension account. Any excess must be either withdrawn or rolled back to the accumulation (super) account.

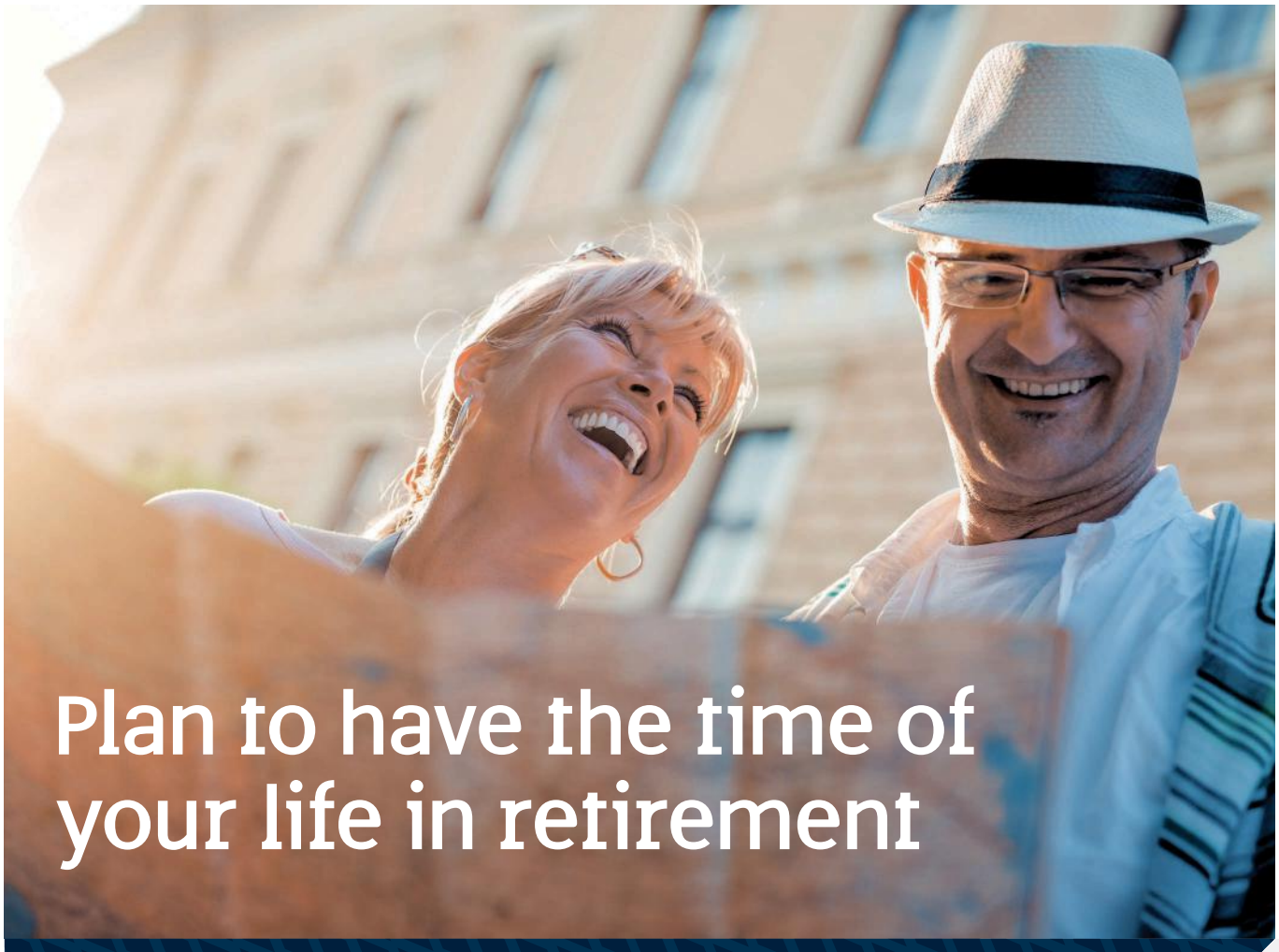
Change to the work test
Under present rules, those 65 and over have to pass a work test to be eligible to contribute to super. As of July 1, 2017, this work test will no longer apply for those aged between 65 and 74.

Concessional contributions not restricted to employers or self-employed
As of July 1, 2017, all contributions to super, up to the $25,000 annual cap, can be treated as concessional, even if made as a personal contribution by the member.

Catch-up provisions for those who have not reached their annual CC cap
Effective from July 1, 2017, members eligible to contribute with account balances of less than $500,000 will be allowed to make catch-up contributions on any unused component of the annual $25,000 cap on a rolling five-year basis.

Reduction of the (Division 293) income threshold triggering double taxation of concessional contributions
As of July 1, 2017, the threshold for income plus concessional super contributions, at which the rate of contributions tax increases from the standard 15 per cent to 30 per cent, will reduce from the present $300,000 to $250,000.

Wayne Leggett is director at Paramount Financial Services Group.



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The West Australian
Monday, August 22, 2016

What type of retiree are you?

People fall into three main groups when they finally stop working, says *Ben Devenish*

Depending on how much you have saved for your retirement, it is likely you fall into one of three types of retirees. The financial planning strategies that suit you will differ based on which group you are in.

Understanding the type of retiree you are can help when you sit down to review your financial situation.

An easy way to estimate this is to think about how much you will need to spend each year in retirement.

Let's assume you'll have $50,000 per year and that your retirement savings earns four per cent per year. In this scenario, if you accumulated $350,000 in retirement savings you will earn $14,000 per year, meaning your retirement savings are reduced by $36,000 per year.

Depending on interest rates and investment conditions, your retirement savings will only last around 10 years.

However, based on current life expectancy, a 65-year-old man will live to 84 and a woman to 87, leaving you with at least 10 years to survive with no retirement savings.

Let's look at financial planning strategies you could use to help you through retirement.

Retiree type 1: under $350,000 in investments

Issues: You might become desperate to earn a higher return so your money doesn't dwindle as quickly, but the danger is the potentially devastating consequences of taking excessive risk.

Strategy: Instead of taking more investment risk, you could think about downsizing the family home, managing your cashflow and working out how the age pension can help.

Retiree type 2: $350,000 to $850,000 in investments

Issues: You should ensure you are taking enough risk, using the right assets and correctly structuring your investments.

Be forward thinking in terms of tax and age pension planning.

In this low interest rate and high tax-offset environment, personal tax may not be an issue.

However, if tax offsets are reduced and interest rates increase you may find yourself paying tax and regretting earlier decisions not to use strategies such as account-based pensions.

Strategies: Balance the use of your super pension with private investments to optimise your tax outcomes.

Then ensure a measured approach to taking investment market exposure versus earning interest on cash at the bank.

You should rebalance on a regular basis, bearing in mind your propensity for market exposure as this is a more reliable approach than trying to pick sharemarket winners.

Retiree type 3: $850,000 and over in investments

Issues: If you are in this group, then review your investments and ensure you are getting the best out of them. A sense of "we have plenty to last us" can bring about apathy. In this rapidly changing world of tax, government concessions, technology and investment strategies, you may be missing some important opportunities.

Strategies: Review your super and non-super investments to ensure you are getting the outcomes you seek. This could include simply pressuring your bank for a better deposit rate, making sure your managed investments are cost-effective and ensuring you have adequate diversification in your investments.

> **YOU COULD THINK ABOUT DOWNSIZING THE FAMILY HOME.**

Don't set and forget

Financial planning is important for everyone across all types of retirees. In the current complex environment where the rules surrounding the age pension, investment, tax and estate planning are constantly evolving, it is vital that you review what strategies you are using to manage your financial health in retirement. If you haven't reviewed your finances for some time, there will no doubt be improvements that can be found.

Ben Devenish is Shadforth Financial Group principal

Don't try to predict your golden years

Belinda von Knoll says you should not assume things about life after you quit work

One of the most enjoyable parts of my job is talking to clients about what they would like to do when they retire.

However, over the years it has become apparent that many people do not spend a lot of time thinking about what they will do in retirement, beyond not having to go to work any more.

While you need to consider your finances in retirement, there is more to retirement planning than the question "do I have enough money to retire?"

As a starting point, here are seven assumptions about retirement that are important to consider.

I will play golf /tennis/netball every day.
How will you spend your time when you are not working?

What activities are you looking forward to? Can you do them every day or do you need other options?

Start finding new activities to incorporate into your life before you retire to help avoid the sudden onset of long hours to fill without knowing what to do with yourself.

I will travel every year and go to all the places I have always wanted to see.
Have you sat down with the significant others in your life and discussed what their idea of the perfect holiday is?

Are you in agreement or do they have other ideas?

If they do have other ideas, how can you compromise to achieve what you both want?

Sit down now and start the conversation to avoid surprises later.

I will spend more time with my partner.
Does your partner want to spend more time with you or do they have other activities in their lives?

If the latter is the case, what's the plan to make this work?

Have the conversation now and work out what you will do together and individually and plan what other activities you'll do with friends and acquaintances.

I will do all the things I have always dreamed of doing.
What are the things you always dreamed of doing?

How will you make them actually happen? Work out the first thing you want to do and what the first step will be — start the plan now.

Having goals and dreams can make life more exciting, but only if you have a plan to achieve them. Otherwise, they can become hollow dreams.

I will no longer have to work and I will not miss it.
Are you sure? What was the area of your job you found the most enjoyable, and how will you replicate getting the same mental fulfilment in retirement?

Start networking with your business acquaintances and friends to explore your options — volunteering or being on a board can provide a sense of purpose in retirement.

I will be fit and healthy and live happily ever after.
Money cannot buy health and there is no point in working hard to achieve your financial goals if you are not able to enjoy retirement because you are ill.

Obviously some health issues are beyond your control but what about the ones you can control? Can you start leading a healthier lifestyle? What can you do now to improve your health or make any health issues more manageable?

I will be remembered when I am gone.
How will you be remembered? What is the legacy you want to leave and how will you achieve this? Can you start your own charity or make a bequest to one? Do you want to make a difference in other ways? Work out what steps you need to take to make a difference.

Belinda von Knoll is an adviser with Shadforth Financial Group

> DOES YOUR PARTNER WANT TO SPEND MORE TIME WITH YOU OR DO THEY HAVE OTHER ACTIVITIES IN THEIR LIVES?

Belinda von Knoll

The West Australian
Monday, August 22, 2016

Back to school for the

Don't know your work test from your concessional contribution? *Greg Major* explains the basics.

Account-based pension
When a super fund member retires they typically convert their super account into an account-based pension. This means that they begin to draw an income stream that pays them regularly to support their lifestyle expenses but the value of their account can still fluctuate with changes in the underlying value of their assets. Under current rules, income earned by assets supporting an account-based pension is tax free but proposed government changes will see the tax-free component limited to an account value of $1.6 million if legislated.

Concessional contributions
These are typically the "tax deductible" contributions you make to your super fund, usually either in the form of salary-sacrifice contributions or superannuation guarantee obligations for employees or personal contributions for self-employed individuals who claim a tax deduction for those contributions. Under the proposed changes to superannuation, the limit on concessional contributions would reduce to $25,000 per year but the age limit on contributions would increase to 75 without the need to meet a "work test".

Condition of release
A situation or event that has occurred can allow you to access your preserved benefits inside your superannuation account, and variously include reaching age 65, leaving employment after age 60, suffering a terminal medical condition, being totally disabled or reaching your preservation age and commencing a transition-to-retirement income stream. There are several other possibilities but the above mentioned are the more common ones.

Death benefit nomination
A nomination made by the owner of a superannuation fund informs the trustee of the fund where the proceeds of the fund are to be distributed in the event of the death of the superannuant. A "binding" death benefit nomination is the most effective as it compels the trustee to direct payment to the specified eligible beneficiary or beneficiaries. However, binding death benefit nominations can lapse after three years. The advantage of having a death benefit nomination in place is that the proceeds can be paid out quickly to the beneficiary without having to go into the estate and waiting for probate to occur.

> THE PRESERVATION AGE WAS TRADITIONALLY AGE 55, BUT LEGISLATION HAS BEEN PASSED WHICH IS MOVING THAT AGE GRADUALLY HIGHER OVER TIME.

Income protection insurance
Unlike death or disability insurance which pay a lump sum, income protection pays you a proportion of your salary if you are unable to work to help you meet your ongoing living expenses. For many people, their most important "asset" is their ability to earn an income, so income protection insurance is a key component of their risk protection strategy.

Non-concessional contribution
A type of personal contribution against which a tax deduction cannot be claimed and is therefore often referred to as an "after tax" contribution. Proposed legislation by the government will limit the lifetime contributions of these amounts to $500,000, which some argue will limit the degree to which individuals will now be able to use superannuation as an effective retirement savings vehicle. Under current legislation, an eligible individual may contribute up to $180,000 per year.

Personal contribution
For employed individuals these amounts are usually those that are contributed from your "after-tax" income (i.e. non-concessional contributions) and are therefore neither salary sacrifice nor

basics of retirement

superannuation guarantee contributions. Previously it wasn't possible for most employed individuals to make a tax-deductible personal contribution; although under the proposed superannuation changes by the government, an individual would be able to make a personal deductible contribution from July 1, 2017.

Preservation age
This is the minimum age at which you can possibly access your super without restriction, i.e. gain access to your "preserved" benefits. The preservation age was traditionally 55 but legislation has been passed which is moving that age gradually higher over time, such that for people born after June 1964 the preservation age is now 60.

Salary sacrifice
Salary sacrifice is a general term under which an employee forgoes the payment of salary for payment in kind. One common example is novated leases for motor vehicles, which is a type of salary sacrifice. In the superannuation world, salary sacrifice means foregoing salary for which the employer makes a contribution on your behalf to your super fund. By foregoing the salary, you are effectively making a "tax deductible" contribution to your super account.

Superannuation guarantee
Superannuation guarantee is a requirement upon employers to provide a minimum level of superannuation support for employees by contributing a percentage of their ordinary-time earnings into their superannuation account every quarter. The current contribution rate increased to 9.5 per cent as of July 1, 2014, and will remain at that level until June 30, 2021, and then increase by 0.5 per cent each year until it reaches 12 per cent.

Transition to retirement
This is a form of income stream that can be structured from your superannuation account once you have reached your preservation age which allows you to receive a pension while still working. Proposed changes to the workings of TTR will make this once quite tax-effective mechanism for working people aged 60-65 less attractive if passed. Where the assets supporting a TTR are currently not taxed on earnings, the Government's proposed legislation would see those taxed at 15 per cent.

Work test
People who are aged over 65 (and under age 74) and want to contribute to super must meet a "work test". The work test requires that the individual must have worked for at least 40 hours over 30 consecutive days in the financial year that they wish to make the super contribution. If the individual meets the work test, then they are eligible to make any type of contribution.

Greg Major is an adviser with Blueprint Wealth

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The West Australian
Monday, August 22, 2016

Housing options open

Make the family home work, says *Kelly Pillay*

The Australian dream has always been about owning property. But as more Australians reach retirement, the question is being asked, how can we utilise our most valuable assets, the family home?

What kind of lifestyle you want, where you want to live and how your mobility may reduce in the future all need to be taken into account.

These then need to be balanced against the cost of having the lifestyle you want and how this affects your income and expenses. Any restructure will usually affect both your age pension entitlements and personal estate plan. You need to consider how much you wish to leave for your children/grandchildren and how much you want to use during your lifetime.

> AS YOUR MOBILITY NEEDS CHANGE WITH AGE, YOUR CURRENT HOME MAY NO LONGER BE SUITABLE.

Downsizing

In your early retirement years, the burden of maintaining a large principal residence becomes apparent. The kids have left home and you want to travel but a large property is hard to maintain.

Downsizing is costly and something you really want to only do once. Real estate agent fees are usually between 2-2.5 per cent and stamp duty on a new premise will be upwards of $20,000.

That being said, releasing capital that can be invested will increase the amount of income you have available for lifestyle. The downside is that the additional capital released will generally result in a reduction in the age pension.

Renovations

As your mobility needs change with age, your current home may no longer be suitable for you. However, many of us have an emotional attachment to our homes and would rather stay, or you may be living in an area you love, and are reluctant to leave.

In this case, renovations can be undertaken to ensure safety in bathrooms and kitchens and ease of access for future mobility. Simple amendments to your home can be made from $10,000 to $25,000. Maintaining equity in the family home with little other assets will often maximise your age pension entitlement, as the family home is not counted in the age pension asset test.

Retirement village

On average, a property in a retirement village costs about 90 per cent of the median house price in the area it is located, and in some cases you are not required to pay stamp duty. This makes the entry cost smaller than purchasing a similar home outside a village.

However, you usually pay a "deferred management fee" when you leave.

This fee is calculated on the amount of your initial purchase price and your length of residency, and is usually capped.

In addition, residents are required to pay a management fee towards the running of the village. Average monthly fees are $280-$500 and are used to fund shared resources and the upkeep of common areas within the village.

In considering this option, you must compare the total cost of the deferred management fee and maintenance fees over your lifetime against the social aspects and care benefits a retirement village provides.

Kelly Pillay is director of KLI Accountants & Wealth Managers

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Two ways to unlock the wealth in your property

Pension loan scheme

The PLS is open to people of pension age who have equity in Australian real estate that they can use as security for a loan to the Commonwealth Government. The PLS allows those on a part-pension to top it up to the full rate. If you are not eligible for any pension, the PLS allows you to receive fortnightly payments equivalent to the full rate. To be eligible, the person must receive no pension or a reduced rate of pension because of the income or assets test. It is not available to those receiving the full rate of age pension. Compound interest is charged on the loan and it is normally repaid if the home is sold or from the person's estate after their death. This is a little-known option, which is used in circumstances where an individual owns property that they either do not want to sell or if the property is unable to be sold.

Reverse mortgage

A reverse mortgage allows you to borrow up to 25 per cent of the value of your property, with interest on the borrowed amount capitalised into the loan. Current reverse mortgage interest rates are around 6.5 per cent. Upon your death, the bank will sell the home, clear the debt and return the remaining amount to your estate. If the reverse mortgage is drawn down over time and used to fund your living expenses, it will have no effect on your entitlement to an age pension. You need to understand the effect that compound interest has on your lending, as it is possible for the full value of the house to be absorbed by the reverse mortgage, with little to no money remaining for children and grandchildren through your estate.

If you are trying to work out what to do with your principal residence, deciding on which option to use can be both confusing and stressful. It's important to get a clear picture of what options are available to you, so that you can make the most out of one of your most valuable assets.

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The West Australian
Monday, August 22, 2016

Are you ready to DIY with SMSF?

Renovating a house yourself is hard, so think hard about DIY super, warns *Troy MacMillan*

Have you ever thought, 'Wow! Tradespeople charge an arm and a leg. I'm going to renovate the bathroom myself!' only to find the process a lot more complicated, time-consuming and (potentially) costly than you actually thought it would be? If you haven't, unless you have some skill and experience in the required trades, this will almost certainly be the case if you ever decide to DIY. A similar philosophy could be taken to managing your own superannuation savings by creating a self-managed super fund (SMSF).

With that in mind, here are six questions to ask yourself before creating an SMSF:

Do you have any investment experience?
As already mentioned, experience in the required skills makes any DIY project quicker and easier to complete and is more likely to save you money. You may not be a financial planner, but if you have managed other investments, such as shares and property over an extended period, SMSF management may well be something you are confident you can do. Also keep in mind that you can use a professional to advise on managing the fund. Just because it is self-managed, doesn't mean you have to do everything yourself.

Will you put in the time to manage your fund?
Like any DIY project, the prospect of saving money generally comes at a cost of your time. The more experience you have in investing and fund management the less time it will take. But to get the best results you should take the time to regularly monitor the markets you are investing in as well as spending time on administrative tasks. In a managed fund your money is put into a large pot and spread over a wide number of investments, reducing the risk significantly (generally a portfolio of 30 different

shares is considered fully diversified). With a smaller investment pot, and potentially a less diverse portfolio, managing that portfolio well becomes more important — and potentially more time-consuming.

Will an SMSF save money?
Many costs associated with an SMSF are fixed, while many managed funds charge a percentage of the fund

Common mistakes for trustees

Andrea Slattery on the pitfalls of managing your own nest egg

In the last Mercer index, which rates global superannuation schemes, Australia came third. In the last seven years that this authoritative index has published its findings, it has always placed Australian in the top four. The fact is we have a highly regulated, secure and well-performing superannuation system.

But with regulation comes complexity, and with that the increased likelihood of falling foul of the law. This is particularly germane for SMSF trustees who directly manage their funds. There is a growing army of specialists to advise trustees on how to avoid these pitfalls but the ultimate responsibility still rests with trustees.

The reality is that the vast majority of trustee mistakes result from ignorance or a lack of up-to-date knowledge, not malfeasance, and as such could be greatly minimised with good advice and better trustee education.

So what are some of the more common mistakes?

Sole purpose test
This test lies at the core of SMSF compliance. As the title suggests it simply says a fund needs to be maintained for the "sole purpose" of providing retirement and/or death benefits to fund members (or dependants if a member dies before retirement). However, some trustees still believe SMSF assets can have other uses. They can't and the ATO will penalise you for doing so. Some of the following mistakes flow from failing to understand the importance of the Sole Purpose Test.

Member loans: A good example of how fund members can transgress the Sole Purpose Test. Many small business people have SMSFs and wrongly believe they can tap their superannuation to prop up their business in tough times. The rationale is that it's their money so what's the harm with giving themselves a short-term loan. Well, there are no occasions where an SMSF can loan money to fund members and funds that do so can face penalties or be deemed non-compliant by the ATO and lose all concessional tax benefits.

Exceeding contribution caps
Trustees must not exceed their concessional and non-concessional contribution caps. The ATO takes a more benign view than previously, with any excess concessional contributions being taxed at the marginal tax rate. Currently concessional caps are $30,000 a year or $35,000 for fund members aged 49 or over. Non-concessional contributions have a yearly cap of $180,000 for members 65 or over but under 75, or $540,000 over a three-year period for members under 65. However, the Government proposed in the last budget to limit the concessional cap to $25,000 and a life-time limit of $500,000 for non-concessional contributions from July 1, 2017.

Insurance transfer and cover
Life insurance bought via a SMSF (superannuation laws require trustees to consider insurance for fund members when drafting the investment strategy) requires the owner to be the trustee of the super fund. If the policy owner is an individual this can be a breach of the legislation. Caution is also required when transferring existing insurance policies into a new SMSF. The insurer must be notified so they can adjust the policy details.

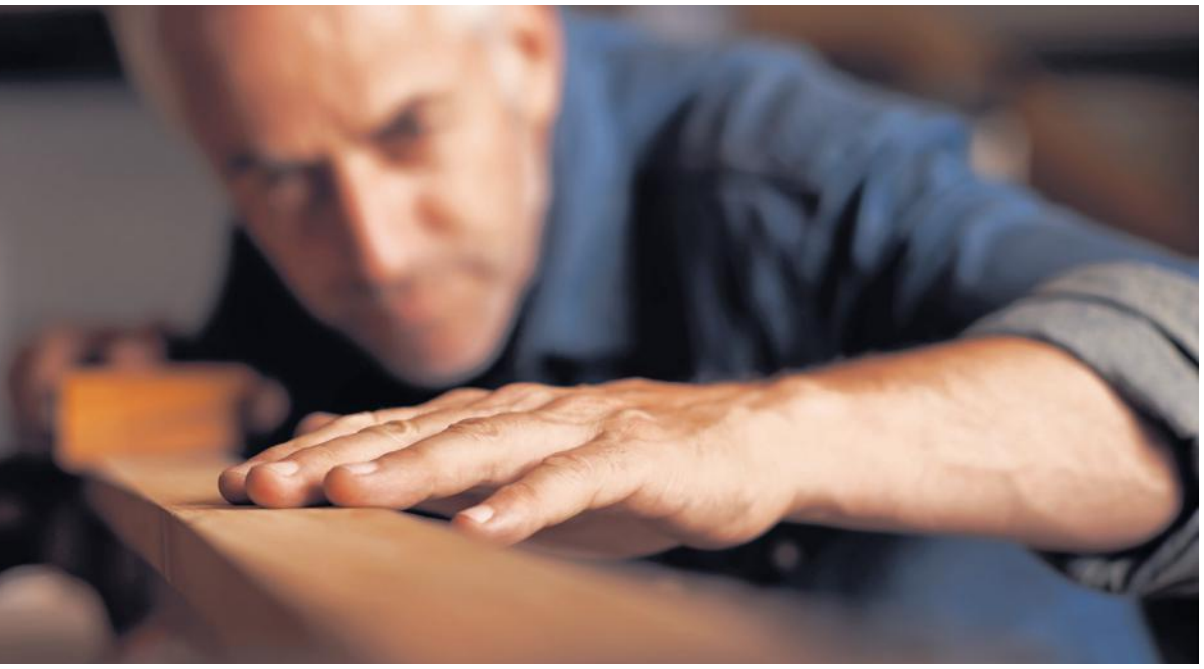
Choose the right partner
Don't set up an SMSF with someone unless you're in a long-term relationship. It may seem a little bizarre to think people would set up a fund with someone who isn't a lifetime partner but they sometimes do. If the assets are just cash and shares, unwinding it is not such a problem. But when the assets are illiquid, such as property, then it can become time-consuming and expensive to wind up the fund.

Get the paperwork right: sloppy paperwork will come back to haunt trustees, especially if the ATO decides to take an "interest" in your fund. It's imperative trustees have the time and knowledge to ensure all their paperwork is complete and up to date. If not, they need to get professional help to ensure their fund is compliant at all times.

The property trap
An SMSF can't buy a residential property for fund members to live in, or even use as a holiday home. Business property is the exception to this rule, provided the transaction is done at market value and is documented. SMSFs can borrow using limited recourse borrowing arrangements (LRBAs) but they must comply with very specific legal requirements. Getting professional advice from an SMSF specialist is strongly recommended before entering into an LRBA. While trustees are allowed to maintain a property, it can't be improved.

Arm's length investing: the ATO takes a dim view of SMSFs that acquire assets at "mate's rates". As a rule all assets must be bought at the market price.

Andrea Slattery is chief executive of the SMSF Association



value, meaning a low fund balance costs you less in fees. An SMSF is generally not considered economical until your fund balance exceeds around $250,000. Anything less than that and you are missing one of the main benefits.

Can you become a trustee?
If you create an SMSF, you will be classified as a trustee of the fund and responsible for its management; however, you will not be able to be a trustee if you are under 18 years of age, an undisclosed bankrupt, are mentally incapacitated or have been convicted of certain crimes.

Are you aware of the legal ramifications if you mismanage the fund?
So you have determined that you can become a trustee, but do you want to? Mismanaging your SMSF can result in penalties to both yourself and your fund— anywhere from a few hundred dollars up to disqualification as a trustee and many thousands of dollars which the trustee needs to pay themselves, not out of the SMSF's funds. So it is worth becoming extremely familiar with the responsibilities and reporting obligations of a trustee before deciding to become one. Visit ato.gov.au for more information about penalties.

Are you aware of the tax implications if your fund is non-compliant?
Superannuation is designed to encourage people to put money aside for retirement. The main incentive is the low tax rate of 15 per cent on most superannuation contributions. The same tax rates apply to SMSF and managed funds; however, if your fund is non-compliant, it could be penalised at the maximum tax rate (currently 49 per cent) every year that it remains so. In the first year, it will also be assessed on the market value of all its assets and any contributions not already part of the taxable income of the fund (basically you will lose almost half of your whole fund's value).

Will you put in the time to manage your fund?
No this isn't a typo, there really are only six questions, it's just that this one is worth asking yourself twice. Now that you are aware of everything that's involved in creating and managing an SMSF, take the time to weigh the amount of money you are likely to save against the amount of time it will take to save it. If your hourly rate is likely to be less than the minimum wage, maybe it is worth using an expert.

Now, this article gives the impression that you would need to be crazy to create an SMSF (in which case you wouldn't be able to, according to point four above), but the reality is that SMSFs are the fastest-growing superannuation sector in Australia, with close to 600,000 funds controlling approximately $600 billion.

That being the case, there must be some pretty compelling reasons to create and manage your own fund.

The main benefits are the substantial savings you can make once your fund gets over that $250,000 mark, and the flexibility and additional control over your financial future that comes with managing your funds, your way. This piece is simply designed to encourage you to take the time to fully consider all the aspects involved with managing an SMSF lest you become a DIY disaster.

Troy MacMillan is an adviser with and founder of TWD

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The West Australian
Monday, August 22, 2016

Facing a risky business

Investing is all about weighing risk and return, says *Brad Martin*

Tom Cruise in the 1983 hit film Risky Business.

For many people, when they think about investment strategy their main consideration is how they can make the most amount from their money. In reality, one of the most important decisions to make when it comes to investing is how much risk you're willing to take to get a return.

Considering the amount of risk you are willing to take will then influence the potential return (or loss) that you can set yourself up for. Everyone wants to maximise their return but what risks are you willing to take to get there?

Traditionally, when it comes to investing for retirement or in superannuation, young people are willing to take more risks and as they get closer to retirement age they become more conservative.

This basic principle is based on time. How much time do you have before you need or are able to access your money? Do you have time for your portfolio to recover after a market downturn?

Another question to consider is what returns do you need to achieve your lifestyle goals in retirement?

If your portfolio is able to generate stable returns, without taking a lot of risk, then it may make sense to look at lower-risk options. Taking less risky options may bring the benefit of reducing your financial stress.

Risk varies from person to person but it is generally accepted that a riskier portfolio tends to contain a greater number of shares and property investments. A lot of people consider blue-chip shares and property as safe investments.

However, both have the ability to go up and down significantly in value over a 12-month period. Defensive assets include investments such as cash and bonds — both government and corporate bonds.

People who choose an aggressive risk profile will have a growth portfolio of Australian and international shares with some property. A balanced portfolio can be misinterpreted as a 50-50 split between growth and defensive assets, although it is more likely a 70 per cent split to growth assets.

Conservative portfolios will have a 70 per cent tilt to defensive assets with some having a smaller amount of growth assets. According to a Lonsec Investment Outlook Report published in June, over the past 20 years, a typical balanced portfolio has made an average return of 8.44 per cent a year, whereas the conservative portfolio has made 7.06 per cent. Those differences may not sound that great but, compounded over 20 years on a $100,000 investment, they create a difference of about $114,000.

In the current environment, because interest rates have fallen, some conservative investors have lowered their sights on their return objectives. Interestingly, it is the growth part of their portfolios which is really struggling to perform with total returns from equity markets in the past year at only around 2 per cent, whereas bond market returns have been quite strong at around 7 per cent.

Those who have been brave enough to invest in the Australian REIT market have seen their money grow by 24 per cent in the past year. These figures demonstrate that even in " sideways" equities markets, asset classes with different risk profiles may perform quite differently, hence understanding risk and how to combine it in your portfolio is paramount to long-term success.

Many superannuation funds will automatically reduce your risk level as you get closer to retirement age if you have not advised them otherwise. You need to be aware of this and consider if this is right for you.

When considering the type of Investment strategy that is applicable for you, it is important to think about the amount of risk you are willing to take, the returns that you are looking for and also the timeframe you have for your investment.

This will help you consider an investment strategy that is right for your personal profile as well as your stage in life. Getting personal advice to help you consider the investments you should be taking is one way to help you manage risk and get the returns that you are after.

Brad Martin

OVER THE PAST 20 YEARS, A TYPICAL BALANCED PORTFOLIO MADE AN AVERAGE RETURN OF 8.44 PER CENT A YEAR, WHEREAS THE CONSERVATIVE PORTFOLIO HAS MADE 7.06 PER CENT.

Brad Martin is an adviser at Blueprint Wealth

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Sequencing and retirement income

John Cameron

When quoting returns for different asset classes, the investment industry mostly uses long-term averages.

However, this approach masks some unfortunate truths which can have big impacts on investors, particularly retirees. The extent to which annual returns differ, and the "sequence" in which returns are achieved, can have a big impact.

Somebody retiring in 1969 or 1970, and taking an indexed income of 5 per cent per annum of the account balance, would have done best by investing in cash. Then, after 25 years they would still have most of their capital left, even after allowing for inflation.

Fast-forward to our post-GFC world and it is almost the mirror opposite of the situation in the 1970s.

In the 1970s and 1980s, inflation and interest rates were high and the sharemarket suffered a major fall of about 50 per cent.

People relying on shares for their income needed to draw bigger amounts to keep up with inflation. This entailed selling more shares at lower prices. They were broke after 15 years.

By contrast, cash and fixed interest provided good income. The 10-year Australian Government bond topped out at 16.5 per cent in August, 1982.

Now we have the opposite — record-low interest rates, low inflation verging on deflation, and low growth.

So, where to look? Firstly, it is helpful to break the return sources down into its separate components of growth and income.

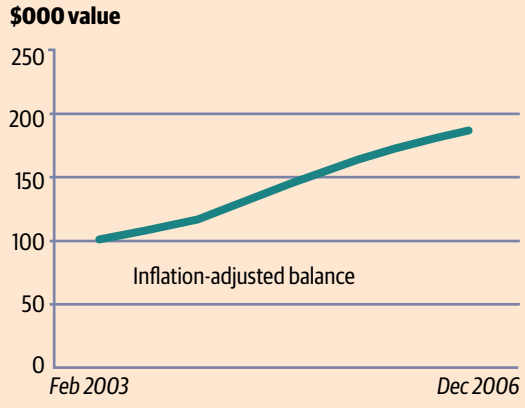
When we do this, we find that dividends still provide a good level of income and have done better than term deposits since the late 1990s.

Finally, whatever strategy you adopt, be ready to change if there are fundamental changes to the global economic and financial scene.

John Cameron is principal of Black Swan Event Financial Planning

RETIRED FEBRUARY 2003

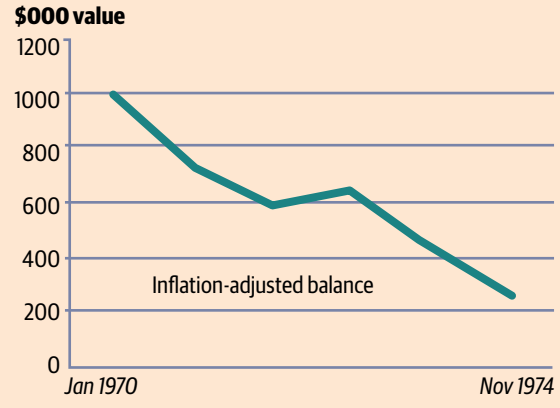
Money into Australian shares, account balance after



Income 5% of initial balance increasing by inflation

RETIRED JANUARY 1970

Money into Australian shares, account balance after income



Income 5% of initial balance increasing by inflation

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Mickey still on job

Mickey Danker is among the growing number of West Australians who choose to work past retirement age. At 84, Mr Danker is the concierge at Joondalup's Sisters Supa IGA.

"I make sure the shoppers feel at home and make sure they get a decent trolley," he said. "I also do a bit of maintenance on the trolleys."

Mr Danker started work at IGA in 2008. He works two days a week for three hours each day, down from five days a week and four hours a day when he first started.

In his younger days, he was a fitter and turner. Mr Danker does not have plans to retire from his supermarket gig.

"I really enjoy it. I enjoy meeting people and socialising," he said.

He works on Tuesdays and Fridays, when pensioners are eligible for a discount.

Claire Tyrrell

Sisters Supa IGA concierge Mickey Danker is one of a growing number of older workers.

Extra graft can pay off after work

Working for three extra years could boost your nest egg by a third, writes *Kelly Pillay*

The lead-up to retirement is supposed to be something to look forward to, and an opportunity to plan for life after work. But if you're uncertain about whether or not your retirement assets are going to last, it can feel like a looming deadline.

There are a number of options to help extend the life of your super, without missing out on the holidays and other experiences you've been dreaming about.

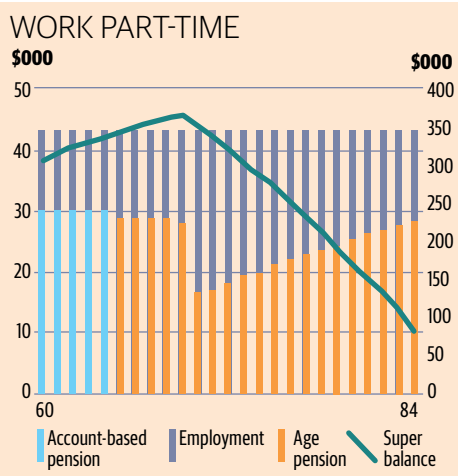
Take the example of Jane, who is a 61-year-old earning $60,000 a year. She would like to retire now but only has $300,000 in superannuation. If she was to retire tomorrow, Jane would require income of $42,000 per annum to ensure a comfortable retirement.

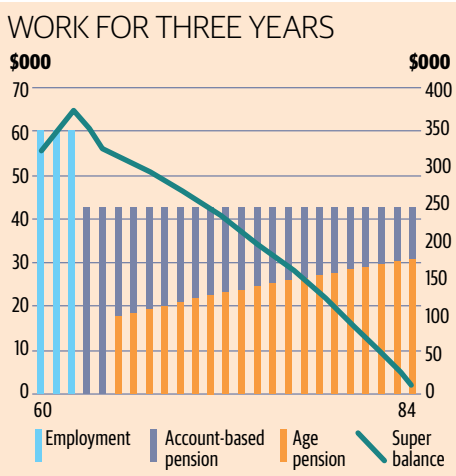
Assuming an average rate of return, we can estimate that Jane's money will last until she reaches age 71. This puts her well short of the average female life expectancy of 83 and will see her rely on the age pension. People in this position feel pressured to stay at work.

If Jane was to continue working for another three years, she would build a larger superannuation balance and reduce the period over which she would rely on her super.

As you can see in the table above, this would result in a significantly longer period of income through retirement.

Jane's situation is not uncommon — 40 per cent of men and 35 per cent of women are now delaying retirement because of fears around financial security. Research currently being conducted by Boston University indicates that continuing to





work for three years past your planned retirement age can boost your retirement savings by more than 30 per cent.

Alternatively, we are seeing more people consider gradual retirement, allowing them to take the big holidays and follow their passion while still keeping their hand in the game and ensuring their capital lasts a lifetime.

In this situation, Jane could extend the life of her superannuation by continuing to work part-time for a longer period. This would give her an immediate lifestyle benefit without having to push through working full-time for another few years.

By reducing her working hours, Jane will experience a shortfall in income. To make up this shortfall, she will commence a transition-to-retirement (TTR) income stream from her super.

A TTR is a type of pension that allows an individual over a certain age to draw an income from their super fund of up to 10 per cent of their account balance annually. The TTR will be used to supplement Jane's income each year until she retires fully at age 70.

The benefit of the combination of TTR pension and part-time work is that her superannuation balance continues to grow because of the lower drawn-down amount in those first years.

Furthermore, Jane's capital is not exhausted, providing some protection from adverse markets or giving her a little extra to spend.

If Jane retires now, her capital will likely be exhausted by age 71.

If she works full-time for three more years, her capital could last until she is 84.

A small amount of part-time work in combination with a TTR pension makes a significant difference to the quality of Jane's retirement.

Kelly Pillay is director of KLI Accountants & Wealth Managers

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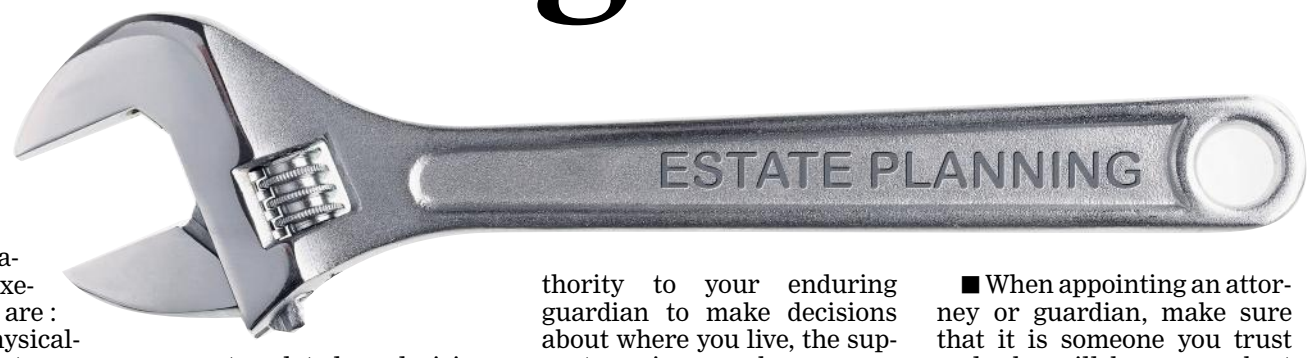
The West Australian

Estate planning toolkit

Raymond Pecotic explains the three keys to preparing for the inevitable



Enduring power of attorney (EPA)

An EPA is a legal document by which you appoint a trusted person or persons (an enduring attorney) to make financial and property decisions on your behalf. Two situations in which an executed EPA are handy are :

■ When you are physically unable to attend to your financial or property-related affairs. For example, you may be out of the country and require someone to pay your bills and expenses and manage your investments.

■ If for any reason you lose legal capacity (i.e. the ability to understand and enter into formal agreements) and can no longer make financial or property-related decisions yourself. Unlike a "regular" power of attorney, an EPA will continue even after you lose legal capacity.

> MAKE SURE IT IS SOMEONE WHO WILL HAVE YOUR BEST INTERESTS IN MIND.

Enduring power of guardianship (EPG)

An EPG is a legal document by which you appoint someone (an enduring guardian) to make personal, lifestyle or treatment decisions on your behalf in the event you become unable to make such decisions yourself. An EPG comes into effect if you are unable to make reasonable judgements with respect to yourself. For example, if you enter into a coma because of an accident, the EPG would provide authority to your enduring guardian to make decisions about where you live, the support services you have access to and medical treatment.

Advanced health directives (AHD)

This provides some degree of control in the decisions regarding your medical and health care treatment, including medical, surgical, dental, palliative care and life-sustaining measures. An AHD comes into effect if you are unable to make reasonable judgments about your medical care treatment at the time the treatment is required.

Estate planning tips

■ If you are over 18 and have full legal capacity consider executing an EPA, EPG and /or an AHD.

■ When appointing an attorney or guardian, make sure that it is someone you trust and who will have your best interests in mind.

■ You can limit the scope of the decision-making authority in an EPA or EPG.

■ Review your EPA, EPG and AHD regularly. As your circumstances change, and as medical practice and technology changes (in the case of AHDs), your EPA, EPG and AHD should also be updated.

■ Consult a financial adviser when considering your estate planning.

■ Seek legal advice when preparing wills, EPAs, EPGs and AHDs.

Raymond Pecotic is managing director of Empire Financial Group

Richard Gordon
Masters of Business (Fin and Econ), DFPP, CFP

Richard Gordon has a wealth of experience in international finance. He becamse a financial adviser so he could work more with people and apply his skills in a more meaningful way.

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If you answered NO to any of these questions, let one of us buy you a coffee and give you an educated second opinion.

John Cameron
B.Econ, B.Comm, MBA, CFP

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The 5 mistakes made with wills

Patrick Canion

It's human nature to procrastinate when making your will. Who wants to think about their own demise? But getting a will professionally prepared (not one of those cheap will kits) is critical to ensure the right assets get to the right people, at the right time, paying as little tax as possible.

1. What is actually in my estate?
You'd be surprised what may or may not be in your estate. If your home is in joint names with your spouse, it won't be part of your estate. If your insurance policy is owned by someone else (including in your super), that won't be part of your estate either. Unless you specifically say so, your super won't be either. This could be a good or bad thing but the starting point is understanding what exactly you can bequeath and planning accordingly.

2. Choosing the wrong executor
You can choose any adult to be your executor, even one of your beneficiaries — but do you really want dear Aunt Wendy to have the burden of implementing an important legal document? Your estate represents the financial value of your life's work, so your loved ones will thank you for appointing a lawyer or trustee to do this. After all, that's probably what they will decide is best after you are gone anyway — executors can decline to act.

3. Making specific gifts
Giving away specific family heirlooms is fine but, beyond that, it is much better to give portions or shares of your overall estate. While you are alive, valuations change, and assets are bought and sold. If you specifically list these (e.g. the holiday house down south goes to your daughter, the life insurance policy goes to your son) and things have changed at the time of your passing, your beneficiaries may receive a far different cut than you planned. Proportions fix this and the executor can always still hand over a specific asset in lieu of cash.

4. Not updating a will after marriage or divorce
Both of these events revoke a will, and if you die intestate (with no valid will) your assets are split up according to a government formula. But if you are getting divorced, don't wait till it gets through the courts, as separation doesn't affect your will. Why do you want the person you just left to inherit all your assets?

5. Thinking of the worst case
The main reason why people put off making a will is that it requires you to think of terrible scenarios. What if you outlive your kids — does their share of your estate go to their spouse or to your children? What if you and your spouse/beneficiary die within a short period of each other? While you can't rule from the grave, a properly drafted will can take account of these scenarios.

Patrick Canion is chief executive of ipac WA

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