

# “Retire on your own terms”

As the novelist C. S. Lewis once observed, “You are never too old to set another goal or to dream a new dream.”

Retirement should be the start of a new chapter in your life – perhaps the most exciting of all. The big question, of course, is how you pay for it without a regular pay cheque. A simple way to think about retirement income is by splitting your needs into two parts:

Regular income – the money you will need each month to pay regular living expenses, like your housing, food and health care costs.

Discretionary income – your pocket money to spend on the good things in life, like travel, restaurants and trips to the theatre. These funds also cover life’s nasty surprises, like car repairs, blocked pipes and leaking roofs (hopefully not at the same time).

Let’s use this framework to look at the retirement income options you have.

## **Regular income requirements**

These are the sorts of expenses you are already paying every month – unfortunately most of them will continue when you retire. Council rates, utility bills, groceries, health care and phone bills all fit into this category. When you’re working you cover these sorts of expenses with your employment income, but what happens when you retire? The answer lies in generating a regular retirement income stream. Here are some options to consider:

### **Account-based Pensions**

Once eligible, you can transfer all or part of your super to an account-based pension and choose how much you receive as regular income payments. There are compelling tax benefits because investment earnings on your assets supporting this income stay within the super system. This means they are tax free, and for most people aged 60 or above, the income payments you receive are also free of tax.

### **Annuities**

An annuity is a product you can buy from an insurance company using your super or other savings. Annuities give you a set income for a defined period or for the rest of your life, depending on the product you choose. If you use your super to buy an annuity, income payments receive the same tax treatment as an account-based pension. Another advantage is reliability – you receive a guaranteed payment regardless of market performance or interest rate changes. On the downside, you have less control because you cannot choose where your money is invested, and you don’t have the flexibility to withdraw if you need extra cash.

### **Part-time work**

Many of our clients love their work and choose to reduce their hours, or work part-time, in the early stages of retirement. Continuing work helps you to stay active mentally and continue to socialise with colleagues – but there are also financial advantages. You will receive income payments every month – money you can rely on for regular expenses. When you are still earning a salary you can continue to contribute to your super, rather than having to draw down on the balance. This could make a big difference to the value of your nest egg when you eventually retire.

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## The pocket money you deserve

So you’ve taken care of life’s essential expenses with a retirement (or semi-retirement) income stream. What about extra money to treat yourself to the finer things in life? The secret to retirement pocket money is quick access to cash. The financial term for this is liquidity – cash is the most liquid asset while investments like real estate are considered illiquid, as it is very hard to sell just one room of a house.

### Term deposits

With a term deposit, your money is invested for a fixed period and you receive an agreed rate of interest for the term of your investment. It’s a popular way to earn money for life’s pleasures – and emergencies – because the cash you receive is easy to access, it’s liquid. Another benefit is the safety of a term deposit because your original investment is returned at the end of the term.

### Dividend investing

When you buy shares in a company you are entitled to a share in the company’s profits or earnings. Companies pay a dividend to shareholders as a way of sharing profits – usually twice a year. You can use these cash dividends as pocket money for discretionary spending in retirement. By holding the shares for a length of time, the value of your underlying investment is also likely to grow.

The potential for better returns through share investing comes with additional risk. It is important to spread risk by diversifying your investments – across industries and also beyond our borders to global markets.

### Bringing it all together

There is no shortage of options for your retirement income – the secret is in combining the best of them in a tax effective way based on your individual circumstances. We strongly recommend you start thinking about your retirement income now and seek financial advice early. You’ve spent your life building your nest egg – don’t let it fall from the tree.



Source: Perpetual