PLANNING FOR RETIREMENT

BROADENING FINANCIAL UNDERSTANDING

Australian Bankers' Association Inc.

AUSTRALIAN BANKERS' ASSOCIATION INC.

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Important Note

This booklet gives information of a general nature and is not intended to be relied on by readers as advice in any particular matter. We suggest you consult your financial adviser on how this information may apply to your own circumstances.

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UNDERSTANDING RETIREMENT

Retirement used to be considered the final stage of your life, but now retirement is often the beginning of another stage of your life – one that should bring you happiness and peace.

Perhaps it's a time for traveling to places you never had the chance to visit, or for indulging in hobbies you never had time for. Maybe you see it as an opportunity to spend longer hours with family and friends. Probably, it's a combination of all these things.

What retirement should not be, is a time of worrying about whether you can afford those trips or hobbies, or worse still, whether you can afford to live comfortably.

Like it or not, money is just as important in retirement as it is during your working life – perhaps even more so, as you no longer derive a regular income from employment. But that's not to suggest your income stops. On the contrary, you are now likely to get income from a number of sources including superannuation, government assistance, and private savings and investments.

The good news is that by planning ahead, you can ensure that you are well placed financially to have the lifestyle you want and enjoy the final stage of your life. By carefully considering your goals, and thinking about the financial resources you will require to achieve them, you can put in place an appropriate financial plan to give yourself the best chance of success.

The great thing about having a well-thought out plan for the future is that it allows you to enjoy today, secure in the knowledge that you are providing for your later years. It's about striking a balance between living in the present and preparing for the future.

As in many other countries, in Australia there is a lot of help along the way in saving and investing for retirement. For example, there is favourable taxation treatment of funds invested in superannuation, and employers are required to contribute on your behalf to your super. You may also be eligible for financial assistance from the Government.

This booklet is intended for people of all ages and stages of life. Whether you are still many years from retirement, are approaching retirement, or are already retired, this booklet is designed to help you take the necessary steps.

We will look at how you can estimate your financial needs in retirement, and ways to work out how you can be sure you have enough money when you get there. We will consider where the money will come from, and the strategies you can implement to give you the best results.

Finally, there is guidance on where to go for more information, and finding financial advice you can trust.

RETIREMENT BASICS

THE GOLDEN YEARS ARE LASTING LONGER

Many people underestimate the number of years they will spend in retirement. In fact, depending on the age you retire at, it is quite possible that you will spend more years in retirement than you do in the workforce.

Life expectancies have increased significantly over the years. For example, from the beginning of the 20th century to the end, life expectancy at birth increased by 21.4 years for males and 23.3 years for females[1].

The table (right) shows life expectancy figures according to your sex and current age[2].

So for example, a 55 year-old man today has a life expectancy of around 26.7 years, giving a total life expectancy of 81.7 years. Whereas a 55 year-old woman today has a life expectancy of around 30.4 years, giving a total life expectancy of 85.4 years.

What is clear from these figures, if we did not already know it simply from looking around, is that Australians are living longer and longer. The retirement stage of your life may well number many years.

This gives you extra time to do all the things you are looking forward to – but it also means that your money has to last longer, making effective financial planning more important than ever.

[1] Source: Australian Institute of Health and Welfare.
[2] Source: Australian Bureau of Statistics. *Life Tables, Australia, 2004-2006*. November 2007.

Did you know?

Life expectancy is not a maximum figure. It's an average – meaning that there is around a 50% chance that you will live longer than the specified age.

	CURRENT AGE	YEARS LIFE EXPECTANCY
WOMEN	55	30.4
	60	25.8
	65	21.5
MEN	55	26.7
	60	22.3
	65	18.3

Source: Australian Bureau of Statistics. www.abs.gov.au

WHAT LIFESTAGE ARE YOU AT?

There is no universal financial plan to suit everyone. The plan that is right for you may not be appropriate for your neighbour or friend. And the plan that is right for you today is likely to need modification over the years.

The plan you develop should take into account your stage of life, and your changing priorities and circumstances as you grow older. You need to be flexible enough to fine-tune your approach as things change.

Some periods of your life may involve significant expenses. Your earning capacity is also likely to vary over time. Unfortunately, the times of heavy expenses may not necessarily coincide with the times you are earning the most money!

Following is a brief description of the primary life stages many of us will pass through, and consideration of some of the things we may focus on at each stage.

Where do you fit in?

YOUNG SINGLES

At this stage, finances may be quite low on your priority list. Income may be low to moderate, and your focus is unlikely to be on providing for your retirement, which is still many years away. Perhaps you are renting, or still living with your parents. Spare money may be put towards travel or generally enjoying life.

YOUNG COUPLES

By this time, earnings capacity is likely to have increased, and with no children to provide for, there is the possibility to save and invest. You may be taking the opportunity to travel before settling down, or perhaps you are putting money aside as a deposit on a house or apartment, or investing in shares.

YOUNG FAMILIES

With the arrival of children, money may have become tight. It is possible that you are now a single income family – at a time when expenses are likely to have risen. Your focus may be on paying off a mortgage, and providing for the extra costs involved in having children. After these commitments, there may be little spare to invest for other purposes. Fortunately, however, the earnings capacity of this age group is usually relatively strong.

OLDER FAMILIES WITH SCHOOL AGE CHILDREN

The good news is that this is the stage where your earnings capacity is likely to be at its peak. If both parents are working that may mean a strong income stream. However, this is also a period of heavy expenses. Education costs may be taking a significant portion of the monthly income, and living expenses are likely to be high. For some families, the house will be paid off, offering the chance to put funds towards building financial security. For others, there may be some way to go, and the focus may be on reducing the mortgage as fast as possible.

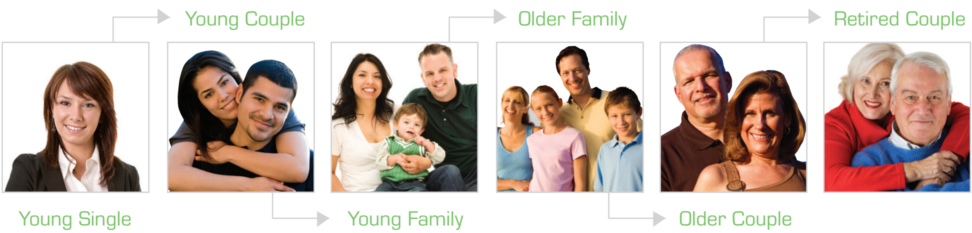
COUPLES WHOSE CHILDREN HAVE LEFT HOME, OR ARE FINANCIALLY INDEPENDENT

This stage may feel like something of a relief – at least financially. The costs of raising a family are in the past, and hopefully the mortgage has now been paid off. Earnings capacity is still likely to be strong, and at this time you have the opportunity to consolidate your position and structure your finances for approaching retirement.

IN RETIREMENT

In this stage, if all has gone to plan, finances should not be a cause for concern, but rather a source of security. Income may come from a range of sources, including superannuation, Government pensions, and private savings and investments. Your day-to-day living expenses are likely to be lower than they were during your working life, although health-related spending may increase. Your focus, hopefully, will be on the things you would like to be doing, such as travel, hobbies and spending time with family and friends.

Note: This 'life stage' cycle may not describe us all, however, whether you are a single parent or an older single or a defacto couple or a couple without children, we all go through different stages that require us to think about our living costs, savings capacity and life and financial goals.



PREPARING EARLY

Clearly, as you move through some or all of these life stages, your financial circumstances can change significantly. At times you may have little money left over to save or invest for the future, at other times you may have the opportunity to set yourself up well for later years.

The main thing is to make a start as early as possible, and have a plan in place that makes you feel like you are getting closer to your life and financial goals.

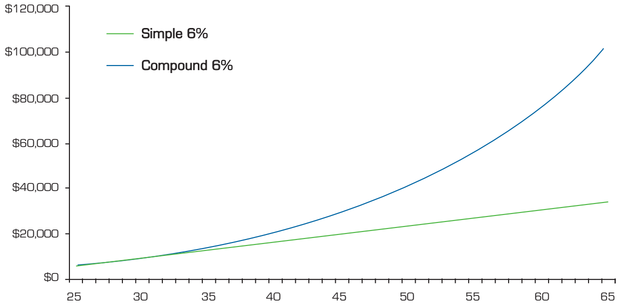
When you are young, you probably do not give too much thought to retirement as it is so far away. But this length of time actually works in your favour, as it gives any money you lock away the chance to compound.

'Compounding' is the process by which an investment increases in value by ever-greater amounts each year, assuming interest paid on those investments is reinvested. While the interest rate itself may not change, the amount of interest grows as it is being earned on a larger sum.

For example, assume at the age of 25 you invest $10,000 in an account paying 6% interest annually. By the time you reach the age of 65, and without having contributed additional funds, that amount will have grown to $102,857 (See Chart 1). If a higher return of 8% is assumed, your deposit will have grown to $217,245 (See Chart 2). And if you contributed $5,000 additional funds annually (roughly $100 per week) into the account paying 6% interest, the amount will have grown to $867,667, and paying 8% interest, the amount will have grown to $1,512,528 (See Chart 3).

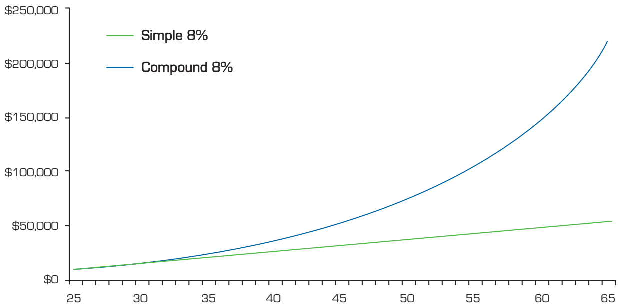
What these charts show is that while it may require considerable discipline to invest funds for a time many years away, the benefits of doing so can be substantial. The earlier you start to plan and save, the greater the benefits for you later.

Chart 1: Amount invested $10,000: Compound vs Simple Interest



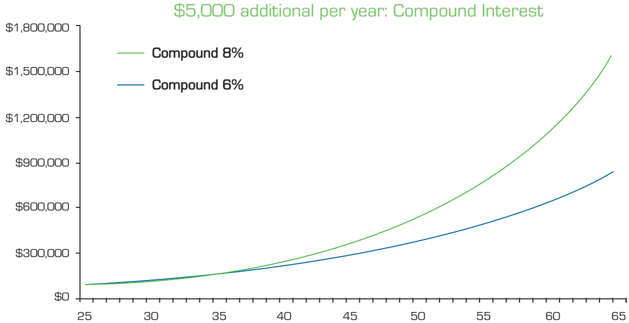
NOTE: Taxation and fees or charges are not taken into account. Figures are not adjusted for inflation.

Chart 2: Amount invested $10,000: Compound vs Simple Interest



NOTE: Taxation and fees or charges are not taken into account. Figures are not adjusted for inflation.

Chart 3: Amount invested $10,000 with $5,000 additional per year: Compound Interest



NOTE: Taxation and fees or charges are not taken into account. Figures are not adjusted for inflation.

HOW MUCH IS ENOUGH?

One of the most important parts of preparing early is working out how much money you will need in retirement.

There is a range of views on how much is enough. Some advisers nominate a percentage of your pre-retirement income as the best measure – for example, some suggest that 60-80% of pre-retirement income is what you should aim for to have a comfortable lifestyle in retirement.

Such an approach may not suit everyone. There is something to be said for going through the process of estimating your actual expenses, rather then relying on a rule of thumb that doesn't take into account your particular circumstances.

There are really three steps to this process:

1. Consider what your expenses are likely to be in your retirement years.
2. Estimate how much money you need to have in order to fund those expenses.
3. Work out what you need to do between now and the time you retire to ensure that you have the amount you come up with in step 2.

In simple terms, it means coming up with a budget for retirement, and then making sure you have enough financial resources to meet that budget.

STEP 1: ESTIMATING YOUR RETIREMENT EXPENSES

The retirement income that you need will depend on the lifestyle you want.

The age pension is seen as the basic amount you can survive on in retirement. A modest lifestyle is better than the lifestyle the age pension can support, but still only able to cover fairly basic activities. A comfortable lifestyle "enables an older, healthy retiree to have a broad range of leisure activities and a good standard of living in retirement".

The Westpac ASFA Retirement Standard estimates that to maintain a comfortable lifestyle, singles currently need to spend $36,607 a year, and couples $48,962. To maintain a modest lifestyle, singles need to spend $18,920 a year, and couples $26,531. These figures assume that you own your own home[3].

Your own budget will depend largely, of course, on how you plan to spend your retirement. If your planned retirement includes regular overseas trips, eating out and hobbies that involve significant expense, you will clearly need more than someone who is looking forward to spending most of their time gardening and reading.

In drawing up a budget to suit your own circumstances, you will need to consider expenses such as:

- Housing expenses (e.g. furniture and other contents, appliances, repairs, insurance)
- Food and water
- Energy (e.g. electricity, gas)
- Telecommunications (e.g. telephone, Internet connection)
- Health care (e.g. medical and dental services, medicines, health insurance)
- Transport (e.g. motor vehicle expenses, public transport)
- Personal expenses (e.g. clothes and shoes, hair and beauty, sundries)
- Travel and holidays
- Entertainment and leisure (e.g. magazines, newspapers, books, going out to restaurants or to the movies, sporting activities)
- Other expenses (e.g. gifts, hobbies, pet care).

Don't forget to take into account one-off expenses, such as buying a new car or paying for alterations to your home.

To get a better understanding of your financial position you will need to gather your financial records and statements, including tax return, personal bills, bank account statement, credit card statement, superannuation account statement and other investment records.

The figures you come up with will be in today's dollars. Given that it may be many years until you retire, those amounts need to be adjusted for inflation. Whether you are doing this manually, or using an expenses calculator, you will need to nominate an annual inflation rate to apply to today's dollars. You can use the current inflation rate, or if you want to be conservative, apply a higher rate to allow for the possibility that inflation increases over the period until your retirement.

Preparing a budget can be confusing if you haven't done one before. For more information, see the ABA booklet 'Smarter Money' which sets out in detail how to put a budget together – it is available on the ABA website www.bankers.asn.au.

TIP

Many websites offer examples of expense budgets for retired singles and couples, and also calculators which you can use to arrive at a figure for your particular circumstances.

These calculators prompt you to enter amounts for the various categories of expense, and then do the calculations for you. One such calculator is available on ASIC's FIDO website, go to www.fido.asic.gov.au. If you need more assistance in estimating your likely expenses, a financial adviser can help you.

[3] Source: *Westpac ASFA Retirement Standard*. December 2007.
http://www.westpac.com.au/internet/publish.nsf/Content/PBIS+Retirement
or http://www.superannuation.asn.au/RS/default.aspx

STEP 2: WORKING OUT THE FUNDS YOU NEED

Once you have arrived at the figure you think you will need to spend annually to maintain your desired lifestyle, the next step is to work out how much you will require at the point of retirement in order to fund those expenses.

Again, there are different ways to estimate this figure.

The Australian Securities and Investments Commission (ASIC) suggests that as a rough guide, you should multiply the annual income you want at age 55 by 19; at age 60, by 17; and at age 65, by 14.

So, for example, if you want a retirement income of $36,000 per year, and assuming you may have to support yourself until the age of 85, the amount you would need to have saved at the time you retired would be as shown in Table 1.

Another way to estimate the figure you will need is to look at different amounts of accumulated superannuation, and consider how long that amount will last you, taking into account how much you draw each year, and the rate of return earned on your super.

For example, if you assume your super funds return 4% per annum, the length of time your funds will last is approximately as shown in Table 2.

If you assume that your super funds will earn an annual return of 8%, the figures change significantly, as shown in Table 3.

You can see that the assumptions you make have a big impact on the result. Estimating how much money you will need is more of an art than a science. It is, however, important to go through the process, and play with variables such as the investment returns you expect on your funds, and the amount you think you will be spending once you get to retirement.

STEP 3: GETTING THERE

Once you have calculated the amount you need at retirement, the final step is to put together a plan for making sure you accumulate that amount.

There are websites with tools and online calculators to help you do this. However, the advice of a licensed financial adviser may be invaluable at this stage.

You will need to take into account factors including:

- Your current age
- The age you intend to retire at
- The amount you presently have saved
- The rate of return you expect on your savings and investments
- Your current salary
- How much you are currently putting into superannuation
- The rate of inflation

Using these variables, an online calculator or your financial adviser will be able to tell you whether your current rate of saving and investing is likely to get you to your desired goal at retirement age.

If the answer is no, you will need to rethink your current savings and investment strategy, your intended retirement age, or both. Your financial adviser can guide you as to how much extra you need to be putting into superannuation or other investments to give yourself the best chance of reaching your required retirement income.

Perhaps your adviser will suggest salary sacrificing, if you are not already doing so, or increasing the amount, if you are already sacrificing. It may be that you did not realise you are eligible for the Federal Government's Super Co-contribution. Or perhaps you already have investments, but you may be better off structuring them differently to maximise your returns over the years until retirement.

Once you have methodically been through these three steps, you should have a clear picture of where you are now, where you want to be come retirement time, and what you have to do to get there.

TIP

In doing your calculations, it's best to err on the conservative side. Don't overestimate the rate of investment returns you expect, nor underestimate the amount you think you'll need for living expenses once you retire. That way you can be confident you are putting a reasonable plan in place.

Table 1:

YOU ARE RETIRING NOW AT AGE	MULTIPLY INCOME BY	ESTIMATED SAVINGS NEEDED
55	19	$684,000
60	17	$612,000
65	14	$504,000

NOTE: Assuming current market rates for buying a retirement income pension product, with your retirement savings earning 6% after costs.

Source: Australian Securities and Investments Commission (ASIC). www.fido.asic.gov.au

Table 2:

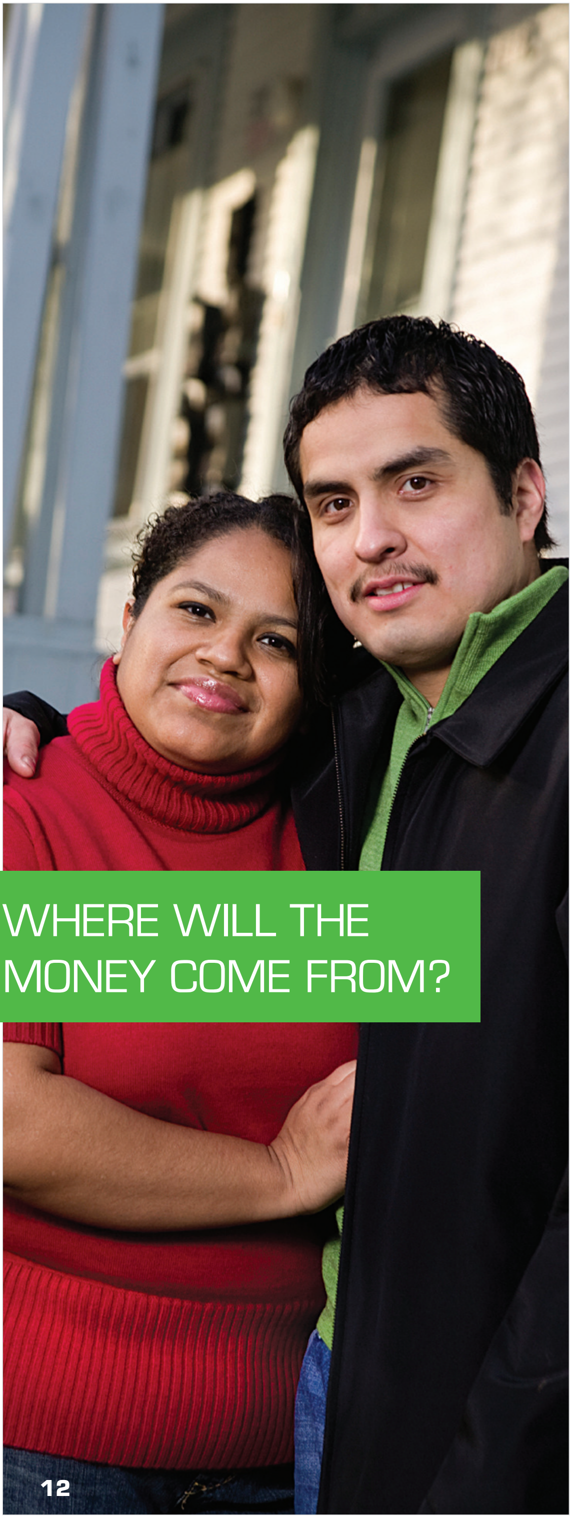
AMOUNT DRAWN ANNUALLY	AMOUNT OF SUPER AVAILABLE AT RETIREMENT			
	$250,000	**$500,000**	**$750,000**	**$1,000,000**
$25,000	12 years	39 years	50+ years	50+ years
$50,000	5 years	12 years	22 years	39 years
$75,000	3 years	7 years	12 years	18 years
$100,000	2 years	5 years	8 years	12 years
$125,000	2 years	4 years	6 years	9 years

NOTE: Taxation and fees or charges are not taken into account. Figures are not adjusted for inflation.

Table 3:

AMOUNT DRAWN ANNUALLY	AMOUNT OF SUPER AVAILABLE AT RETIREMENT			
	$250,000	**$500,000**	**$750,000**	**$1,000,000**
$25,000	19 years	50+ years	50+ years	50+ years
$50,000	6 years	19 years	50+ years	50+ years
$75,000	3 years	9 years	19 years	50+ years
$100,000	2 years	6 years	11 years	19 years
$125,000	2 years	4 years	8 years	12 years

NOTE: Taxation and fees or charges are not taken into account. Figures are not adjusted for inflation.



WHERE WILL THE MONEY COME FROM?

When you have worked out how much money you think you will need in retirement, the next obvious question is 'Where will the money come from?'

Federal Government policy identifies three pillars of Australia's retirement income system. They are:

- a taxpayer funded means-tested age pension
- compulsory employer superannuation contributions, and
- voluntary personal superannuation contributions and other private savings.

Government policy is to encourage individuals to build up assets in the form of superannuation and private savings, so as to reduce reliance on the age pension in retirement.

The age pension is designed as a "safety net" for those who have insufficient resources to fund their own retirement. If reliance on the age pension is not reduced, as Australia's population ages and the proportion of retirees increases, the burden on taxpayers required to support retirees will become unsustainable.

You should also consider that the age pension alone is enough to support only a very basic standard of living. It is therefore in your interests to be as financially self-sufficent as possible.

GOVERNMENT PENSION

Your eligibility to receive the age pension will depend on your age and your financial circumstances. Be aware that the amount you receive from the age pension may well be considerably less than you are used to living on during your working life.

To be eligible, you must be of a certain age. Men must be over 65 years old, while the qualifying age for women depends on your date of birth. As of 2008, women must be a minimum of 63 years old. The qualifying age for women is gradually being increased, and by 2014 will be the same as for men.

How much you receive under the age pension depends on whether you are single or a couple. The following table shows the maximum rates, as at June 2008.

The age pension is generally subject to an income test and an assets test. The Government calculates the rate of payment under both the income and the assets tests, and applies the test that results in the lower rate.

If you are eligible to receive a full or partial pension, the Government makes the payment into your bank account fortnightly.

For information about the age pension, go to www.centrelink.gov.au or contact the Centrelink Financial Information Service.

STATUS	MAXIMUM PENSION RATE PER FORTNIGHT
Single	$546.80*
Couple	$456.80* (each)

NOTE: *This payment includes a pension supplement that is currently: single $18.80, couples $15.80 each. Couples separated due to ill health receive $18.80 each.

Source: Centrelink. www.centrelink.gov.au

Did you know?

In addition to the age pension, you may also be eligible for additional payments, such as pharmaceutical allowance, rent assistance, telephone allowance or utilities allowance.

TIP

If possible, it's worth organising your finances to try to qualify for the pension. Even if it is a part pension worth only a few dollars a fortnight, receiving the pension gives you access to other important benefits, such as concession and health care cards. Your financial adviser will be able to provide you advice on whether you can structure your finances to achieve this.

It's also important to keep up to date with the rules about government assistance. Legislation can change over time, and a change in the rules may affect you for the better – or the worse.

SUPERANNUATION

Superannuation is an investment you make by putting money aside during your working life specifically to provide for yourself financially in retirement. Legislation prevents you accessing these savings until you reach a certain age specified by the Federal Government (known as the 'preservation age'), unless there are exceptional circumstances.

WHY HAVE SUPER?

The importance of superannuation, both to you as an individual, and to the country as a whole, cannot be overstated. Australia's population is ageing, with the proportion of the population over age 65 increasing steadily[4]. If all retirees were to rely solely on the age pension, the Australian tax system would come under enormous pressure.

For this reason, the Government has taken measures to encourage you to save and invest for retirement. Taxation concessions are offered on contributions made to super funds, and the earnings of super funds also receive favourable taxation treatment. The tax rate applying to contributions to super funds, and to investment returns made within the fund is 15%.

In addition, employers are required to contribute on your behalf to your nominated super fund. Currently, your employer must pay 9% of your salary into your nominated super fund. While the superannuation guarantee has done a lot to boost the retirement savings of investors, most experts advise that you will need to put aside more than the compulsory 9% in order to provide for a comfortable lifestyle in retirement.

[4] According to the Intergenerational Report published by the Federal Government in 2007, there are now five people of working age for every person aged 65 and over, but by 2047 that will fall to just 2.4.

HOW MUCH CAN BE CONTRIBUTED?

There are limits on the amount of concessional contributions you can make to super in a given year. For taxpayers up to the age of 75, there is an annual contribution limit of $50,000. Concessional contributions include employer contributions (including salary sacrifice amounts) and personal contributions claimed as a tax deduction by a self-employed person. A transitional period applies up until 2012, allowing employers a deduction of up to $100,000 for employees aged 50 and over.

Non-concessional contributions are contributions you make to super out of your after-tax income. You can make these contributions either for yourself or on behalf of your spouse. Because they are paid out of after-tax income, non-concessional contributions are not subject to the 15% contributions tax.

There is a limit of $150,000 per year on the amount of non-concessional contributions you can make to your super account. However, as long as you are under the age of 65, you can bring forward two years of contributions, and make contributions up to $450,000. In these circumstances, no further contributions will be allowed for the following two year period.

HOW CAN I MAKE ADDITIONAL CONTRIBUTIONS?

You can make pre-tax contributions. 'Salary sacrifice' is a strategy where you choose to take less in the form of take-home pay, and your employer contributes the pre-tax amount into your super fund. The benefit of this is that any amount salary sacrificed is taxed at 15% on the way into your fund, rather than at your marginal tax rate, had you taken it as income.

You can also make contributions to your super from your after-tax income, in which case there will be no tax paid on the contribution into the super fund.

Depending on your income, you may be eligible for the Federal Government's Super Co-contribution, in which the Government pays additional funds into your super account.

The Federal Government's Super Co-contribution is an initiative to help low to middle income earners save for their retirement. If you are eligible, the Government will match your personal super contribution with a co-contribution up to certain limits.

If your total income for co-contribution purposes is $28,980 or less, the Government puts in $1.50 for every dollar you put into your super account from your after-tax income, up to a maximum co-contribution of $1,500 a year. The maximum amount of co-contributions is reduced by 5 cents for each dollar your total income is over $28,980, and cuts out completely if your total income is $58,980 or more.

For more information on the Federal Government's Super Co-contribution, go to www.ato.gov.au/super.

Superannuation is a complex area. For more information, see the ABA booklet 'Smarter Super' which sets out in detail how superannuation works – it is available on the ABA website www.bankers.asn.au.

PRIVATE SAVINGS AND INVESTMENTS

The third possible source of income in retirement is from savings and investments that are not in the form of superannuation. These are assets you have built up over your working life, such as cash, shares, investment property, or interest bearing investments.

Many people will have accumulated such investments over time alongside their superannuation. While they do not receive the favourable taxation treatment that superannuation enjoys, there are no restrictions on accessing these investments pre-retirement. Once retirement arrives, the income from any private savings and investments can supplement the income stream or payment from your super fund.

Did you know?

Generally, you are not able to withdraw any of your super until you reach your 'preservation age'. Your preservation age depends on when you were born (see table below).

DATE OF BIRTH	PRESERVATION AGE
Before 1 July 1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
After 30 June 1964	60

PUTTING TOGETHER YOUR FINANCIAL PLAN

Planning for retirement is part of a broader 'life' and financial plan.

After all, as well as ensuring that you provide for yourself financially in retirement, you want to be able to enjoy life along the way. Reaching your goals in life will be a lot easier if you have a plan that makes sure you have the necessary financial resources at the right time.

And remember, starting your plan as early as possible means you give yourself the best chance of achieving your life and financial goals.

So what should be the important elements of your financial plan?

DEALING WITH THE UNEXPECTED

However you decide to invest your money, it is wise always to have an amount available in case of emergency.

Financial and personal circumstances can change unexpectedly, resulting in financial stress. For example, a family member may have a serious accident or develop health problems that require expensive treatment. Or you may be unfortunate enough to lose your job unexpectedly. At such times, it is important to have funds available for use.

These funds can still be earning money for you, but the main thing is that they should be kept in the form of 'liquid assets'. By this we mean that the asset can be quickly converted into cash without any price discount. An example of a liquid asset would be money held in a bank savings account.

Did you know?

As a rule of thumb, many financial advisers recommend you have enough money held in liquid assets to cover three to six months' living expenses.

However, even saving a small buffer means you have got money to use in emergencies.

Try to build up an 'emergency fund' which will give you access to money should the need arise, such as your car breaks down or you become ill and are unable to work.

Think about putting this money into a high interest savings account.

INSURANCE

The focus in financial planning tends to be on building wealth and investing for the future. Just as important, however, is having measures in place to protect yourself from risk – namely the risk of loss as a result of something unforeseen happening. These measures are usually in the form of insurance.

Most of us are familiar with certain forms of insurance, and routinely pay to protect ourselves from certain risks. Insurances you are probably already paying include:

- building insurance
- home contents insurance
- car insurance
- health insurance.

While you may not enjoy paying your premiums, the security of having insurance cover is important. The risks of a house burning down, having a car accident, or being burgled are risks most people have considered, and protect themselves against.

However, there are other events which may have just as drastic an impact (if not more), but for which many people have no protection in place.

For example, have you considered these questions:

- If you became physically incapacitated and were unable to work, how would you cope financially?
- What would happen to your family/dependents in the case of your death?
- How would you cope if your partner/spouse became very ill or died?

Such events can have a devastating effect on a family's financial circumstances, and protecting yourself against the risk of something like this is also an important part of financial planning.

BENEFITS OF INSURANCE

Even if you never need your insurance, having the appropriate covers in place gives you peace of mind. Insurance:

- Helps you manage the unexpected and stay financially stable
- Protects you against having to pay the full cost of a loss
- Means you do not have to draw on your savings or investments, or borrow money, or ask others for financial assistance, or sell assets to pay outstanding debts and day-to-day living expenses
- Helps provide for your family or other dependents in the event of your death
- Gives you confidence that you and your family will be taken care of in times of need.

TIP

It's possible you may already have term life insurance through your superannuation fund. Often you are automatically accepted for basic cover, so it's worth checking with your fund to find out the amount of cover you could have. A rule of thumb some experts apply is that full-time workers in their mid 30s with young children should have at least 10 times their taxable earnings in cover.

TYPES OF INSURANCE

Some of the insurances you may consider include:

- Term life insurance – protects your family and other dependents in the event of your death. Upon your death, your dependents receive a lump sum payment, which they can use to service outstanding debts and pay for ongoing living costs. While you cannot usually claim a tax deduction for the premiums you pay, the benefit your dependents receive is tax-free.
- Income protection insurance – protects you in the event you become unable to work for a period of time as the result of illness, or injury caused by an accident. In these circumstances you would be provided with a monthly income stream, which usually is up to 75% of your normal gross income. This form of insurance is particularly advisable if you are a professional, are self-employed, or own a small business. Premiums paid for income protection insurance are generally tax deductible, but the payments received are considered income and are subject to tax.
- Trauma insurance (sometimes called critical illness insurance) – protects you in the event you are diagnosed with a life threatening illness or injury, such as cancer or a stroke. The financial consequences of such illness or injury can be serious, and trauma insurance is designed to help you financially while you recover. Trauma insurance gives you a tax-free lump sum payment, which you can use in any way you see fit, for example to pay medical bills, or make modifications to your home.
- Total and permanent disability insurance (TPD) – gives you a lump sum payment if you are totally and permanently disabled before you retire, and unable to work again, or unable to work in your usual occupation. TPD can often be bought in conjunction with term life insurance, or alternatively can be purchased as a standalone product.

For more information on insurance, see the ABA booklet 'Smarter Insurance' – it is available on the ABA website www.bankers.asn.au.

Did you know?

Some people think that income protection insurance is expensive. However, over your entire working life you could earn around $2.3 million*. Your income earning capacity is probably your largest asset – isn't it worth insuring?

* Based on full-time adult average weekly ordinary times earnings as at May 2008, multiplied by 40 years of continuous employment

Source: Australian Bureau of Statistics

INVESTMENT STRATEGY

Superannuation should be a fundamental part of your financial plan, but it is not the only thing to think about.

While super may be the main source of your retirement funds, you do not have access to it until you reach a certain age. It is advisable to build up other private savings and investments that you can draw on in the years before your super becomes available. Once you reach your retirement, those investments will provide you with additional funds.

Also, you should think of superannuation not as a stand-alone investment, but as an essential part of your overall investment strategy. Another important part of your investment strategy is selecting how your funds are invested within your retirement income product (see page 22).

Some of the things you should think about in developing your broader financial plan include:

- What are your short, medium and long term financial goals? It's good to make your goals specific, for example 'Pay off the mortgage within ten years' or 'Save for an overseas holiday every five years'.
- What is your 'risk profile'? How would you describe your attitude to risk – conservative, aggressive?
- Are you after capital growth or income, or a combination?

The answers to some of these questions will probably depend largely on what life stage you are at. If you are relatively young, and earning a reliable income, capital growth is likely to be a priority. With a long time to go to retirement, you can afford to be aggressive, and focus on building on your assets. As you near retirement, your focus may shift from building your capital to preserving it. At this time, your approach may become more conservative.

Did you know?

Once you are no longer working, deriving income from your investments is likely to be a priority. This will influence the sort of investments you put your money into.

Remember, though, that you may have many years in retirement, and while income is important, it's also important that the value of your investments is not eroded by inflation.

Most financial advisers recommend that even in retirement you should have a portion of your money invested for growth. This consideration is relevant to the investment strategy and asset allocation you select for your retirement income product after you have retired.

WHAT SHOULD I INCLUDE IN MY FINANCIAL PLAN?

- Where the money you are investing will come from. Will you invest only money you have saved, or do you plan to borrow to invest? Can you make contributions to your investments on a regular basis?
- How you will spread your investments among the main asset classes. It's always wise to diversify your investments, and spread your funds among assets, such as cash, shares, investment property and interest bearing investments. That way, if one asset class underperforms for a period of time, the effect on your overall investments is reduced.

TIP

Reviewing your investment strategy regularly will ensure that it continues to match your personal circumstances and financial situation.

As your personal circumstances change you may need to:

- alter the mix of your investments
- adjust the balance of income versus capital growth producing investments
- modify your goals if you want to stick to investments that are appropriate to your tolerance to risk
- reassess your investments and change the time horizon of your investments.

TIP

Reviewing your will on a regular basis will ensure that it continues to reflect your wishes. This is particularly the case when your family or financial circumstances change significantly, for example you may get divorced, and possibly remarry. It's possible that the people you want to benefit from your estate, or the amount you wish them to receive, may change. Making sure your will is up to date will help avoid complications after your death.

- The balance you strike between risk and reward. There is a fundamental relationship between an investment's return and its risk. Your overall investment portfolio should contain a mixture of low risk/low return investments (such as cash deposits and interest bearing investments) and higher risk investments that offer the potential for higher returns (such as shares). How you weight your portfolio will depend on your individual goals and circumstances.
- The time frame of your investments. Some investments, such as residential property, have a relatively long investment cycle. If your time frame is short, then committing your funds to an investment with a long cycle may not be appropriate.

Putting together a financial plan can seem daunting. The ABA booklet 'Smarter Investing' can give you some useful tips – it is available on the ABA website www.bankers.asn.au. You should also consider talking to a licensed financial adviser, your accountant or your bank.

ESTATE PLANNING

This booklet so far has been primarily about providing for yourself financially in retirement. It is also important to consider what will happen to your assets once you die, and how you will pass on your estate to your beneficiaries. This area is broadly known as 'estate planning'.

An effective estate plan means that your assets are distributed in a financially efficient and tax effective manner, and that your intentions are clearly set out, reducing the likelihood of argument amongst your beneficiaries.

The central document to estate planning is the will. Your will sets out how you want your assets distributed after your death, and nominates who you want to act as executor(s) of your estate, and as guardian of any children you may have who are still minors.

It is natural if you are still young not to consider anything to do with your death, but really, anyone over the age of 18 who has accumulated assets should have a will. If you die intestate (without a will) your assets may be distributed in a way you would not have chosen. In these circumstances, a court-appointed administrator will distribute your assets according to a legislative formula.

It is generally best to have your will drawn up for you by a lawyer, or by another professional, such as a trustee company. A will can be a very simple document, or it may be more complex depending on your financial and family circumstances, for example if you have a business, or if you have children from more than one relationship.

It is important that your will is legally enforceable and is correctly drawn up to accurately express your wishes.

In the context of estate planning, it is advisable to have measures in place in the unfortunate event that you become physically or mentally unable to make your own decisions.

A power of attorney is a document that gives the nominated person the authority to make certain decisions, take certain legal actions and act on your behalf. For example, if you were to have a serious accident that rendered you incapable of making necessary financial decisions, the authorised person would make those decisions for you.

There are different types of powers of attorney, including general power of attorney, enduring power of attorney, and enduring power of guardianship. Some powers of attorney enable the authorised person to make financial decisions, whereas others relate to decisions about medical treatment and lifestyle. One important distinction between a general power of attorney and an enduring power of attorney, is that the latter remains valid if you become mentally incompetent. For example, an attorney appointed under an enduring power of attorney can make financial decisions for you (such as selling your house or operating your bank account) in the event of you losing, at some time in the future, the capacity to make those decisions for yourself.

Clearly, the person you choose has significant power and responsibility, so you should choose someone you trust to make decisions that would reflect your wishes. This could be a trusted family member, family friend, or an adviser such as your lawyer or accountant. Whomever you choose, you need to feel confident that they know your wishes, and would make decisions consistent with them.

For more information on powers of attorney, contact the relevant body in your State or Territory – for example, the Office of the Public Advocate.

Note: A power of attorney is different from a will. Your will specifies how your assets are distributed on your death, whereas a power of attorney gives someone authority to make decisions while you are still alive.

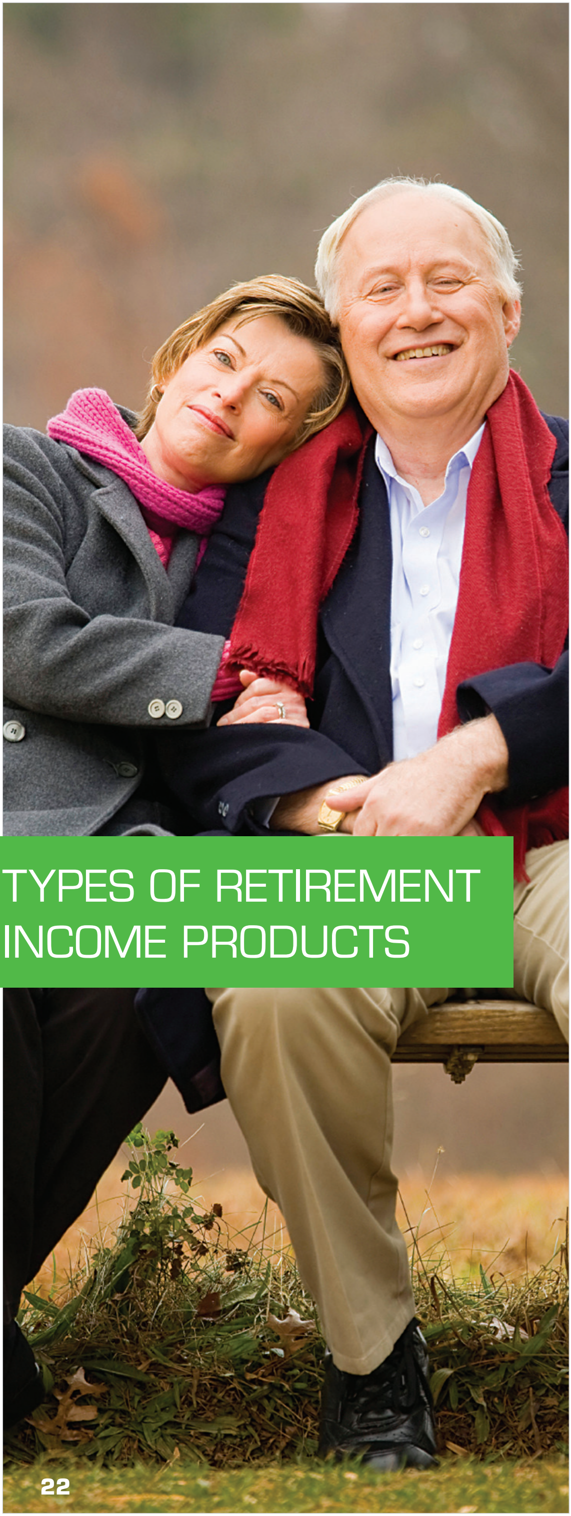
Estate planning can be complex, and expert advice is usually well worth the cost. You can speak to a specialist estate planner, your lawyer or your accountant.

Did you know?

Taxation considerations are important in estate planning. How you pass your assets on to your beneficiaries can have significant taxation ramifications. Whether your beneficiaries are classified as dependents also matters. For example, assets you hold in superannuation will not be taxed if they are left to a dependent. If, on the other hand, the beneficiary is not a dependent, those assets will generally be subject to tax. Non-superannuation assets, however, may not incur tax, even if passed on to non-dependents.

RETIREMENT PLAN CHECKLIST

- Do you have an 'emergency fund'?
- Do you have insurance to protect your income?
- Do you have insurance in the event you became physically incapacitated?
- Do you have insurance to protect your family in the event of your death?
- Do you have a financial plan in place?
- Are your investments diversified into several asset classes?
- Have you and your financial adviser reviewed your investments recently?
- Do your investments provide you with the appropriate mix of growth and income?
- Have you and your financial adviser assessed your retirement income product options?
- Have you written a will?
- Have you reviewed your will recently?
- Do you have a power of attorney in place?
- Do you have a 'to do list'?



TYPES OF RETIREMENT INCOME PRODUCTS

When you reach retirement, you have a choice of how you will take the funds you have accumulated over your working life.

You might choose to:

- Access your super as a lump sum payment, or
- Roll it over to a pension or annuity product which will provide you with an income stream, or
- A combination of the two.

Up until the age of 60, you will pay tax on any pension you draw, but you will receive a 15% tax rebate. For many people, once you reach the age of 60, funds withdrawn from your super are tax-free, whether you take them as a lump sum, or in the form of a regular income.

There are tax benefits in place to encourage you to convert your super into a retirement income stream. For example, if you convert your accumulated super into a pension or annuity product, there is no tax on the earnings from the assets supporting the pension/annuity.

Compare this to taking your super as a lump sum and investing it outside the super environment, in which case earnings on those investments would be taxed at your marginal tax rate.

There is a range of products to choose from that provide you with an income stream. These include:

- account-based pensions and annuities
- lifetime pensions and annuities
- life expectancy pensions and annuities, and
- fixed term pensions and annuities.

In each case, you take the money you have accumulated and buy, from either a superannuation fund or a life insurance company, the particular product.

ACCOUNT-BASED PENSIONS AND ANNUITIES

With an account-based pension or annuity (previously known as an allocated pension), you must withdraw at least a specified minimum amount each year, while there is no maximum specified. You can choose how your funds are invested, from a range of investment options, each carrying different levels of risk and potential returns. Income is paid to you until the money runs out.

One of the features of this type of product is that you are exposed to the investment risk of the market(s) your funds are invested in. This gives you the potential to benefit in strong markets, but also exposes you to the risk of market downturns.

An advantage of the account-based pension or annuity is that you have the flexibility to access your money when you need it, as there is no maximum you can withdraw in a year.

A disadvantage is that you have less certainty – you don't know how long your money will last, and the level of your payments is not guaranteed. Your account is affected by the return the fund makes, and of course by how much you withdraw along the way.

Did you know?

The difference between a pension and an annuity. A pension is purchased from a superannuation fund, and can only be paid for using money paid out from a superannuation fund or retirement savings account (RSA). An annuity is bought from a life insurance company with money from a super fund or, in some cases, other savings.

GUARANTEED INCOME PENSIONS AND ANNUITIES

Guaranteed income pensions or annuities pay you a fixed income for the term of the product. Many have the option of increasing payments in line with inflation. You are not generally able to access your money (over and above the income stream) during the life of the product.

These products can broadly be separated into those that run for a fixed length of time, such as life expectancy and fixed term pensions and annuities, and lifetime products, where the income stream is paid to you until you die.

In the case of a life expectancy pension or annuity, income is paid to you for a term that lies between your life expectancy at the time of purchase, and the life expectancy that would apply if you were 5 years younger.

A fixed term pension or annuity, as the name suggests, provides you with an income for a specified length of time.

Some of these products return all of your original investment at the end of the term. Others return part or none of it, but the income you receive throughout the term of the product will be higher.

TIP

It's important when you convert your super into an income stream that you make sure to include beneficiary details in the application form. For example, you can nominate a 'reversionary beneficiary', which means the remaining money is then payable as an income stream to that beneficiary upon your death. Some pensions also offer access to lump sum payments upon your death. The selection of a beneficiary gives certainty, as benefits are paid to an individual rather than to your estate.

TIP

Terminology between different financial institutions can vary. Products described using similar words may have quite different features, or similar products may be labelled differently. In evaluating the various offerings, make sure you are comparing like with like.

A financial institution must generally produce a Product Disclosure Statement (PDS) for any financial product it issues. The PDS contains information to help you assess the product's features, benefits, risks and fees. Be sure to read the PDS of any retirement income product you are considering so you can make an informed decision.

WHICH RETIREMENT INCOME PRODUCT IS RIGHT FOR YOU?

Choosing between these products can be difficult. There is a balance to be struck between the security of a guaranteed, fixed income stream, and making sure that your earnings keep pace with rising living costs.

Products such as lifetime or life expectancy pensions and annuities give you the security of a fixed income. However, this security comes at a cost – you're likely to pay more than you would for a non-guaranteed product, such as an account-based pension.

An account-based pension exposes you to varying market returns. If markets perform poorly over a few years, you may find your money does not last as long as you had hoped. If markets do well, you will benefit from increased returns. The holder of a product that pays a fixed income will not benefit from strong market performance.

Of course, it is possible to buy more than one retirement income product. You could consider using part of your accumulated super to buy a guaranteed income stream, and part to invest in a product that gives you exposure to market performance.

REVERSE MORTGAGES

Another option to consider, if you own your own home, is a reverse mortgage (also sometimes known as equity release). The idea behind a reverse mortgage is that it unlocks some of the money you have tied up in your house.

A reverse mortgage is a loan secured against your home. You can take the money in the form of a lump sum, or as an income stream, or even as a line of credit.

Interest is charged on the money you have withdrawn, but you are not required to make regular repayments. Instead, when the loan ends, for example on your death, it must be repaid, usually from the proceeds of the sale of the house.

You usually need to be over the age of 60, and own your own home, to qualify for a reverse mortgage. In most cases you will be able to borrow between 15% and 40% of the value of your house. The amount depends on how old you are – the older you are, the more you can borrow (as the shorter the duration of the loan is likely to be).

Some advantages with reverse mortgages:

- You decide how you access your money – regular income, lump sum, or a combination of both.
- No repayments are needed as long as you continue to live in your home.
- You retain ownership of your house, and are able to live there.

Some disadvantages with reverse mortgages:

- The interest rate is usually higher than the rate on a normal variable loan.
- As you are not making repayments, interest compounds over the life of the loan, and the amount you owe can rise faster than you expect.
- The lender will require you to maintain the property to a certain standard. As you grow older, this obligation may become a burden.
- A reverse mortgage may affect your eligibility to receive the age pension or affect your tax position.
- After paying back the loan, it is possible you may not have enough money to pay for aged care accommodation or to leave an inheritance.

You should consider how important it is to you that when you die, you are able to pass something on to your family, or other beneficiaries. Using a reverse mortgage as a source of funds means that you may significantly diminish the amount you are able to leave to your beneficiaries.

Before you take out a reverse mortgage, you should consider talking to a licensed financial adviser, your lawyer or your bank or other lender. Make sure you understand how the product works and what it will cost. You may have alternative options, such as to rent part of your home, 'downsize' and move to a cheaper home, or sell your home to your family.

For more information on reverse mortgages and how your age pension and tax position may be affected, there are a number of Government agencies that can assist, including Centrelink, Australian Taxation Office, and the Australian Securities and Investments Commission (ASIC).

Did you know?

With some reverse mortgages, a fixed percentage of the value of the property is protected so it cannot be used to repay the debt. Some providers of reverse mortgages offer a 'no negative equity' guarantee, which means that you will not have to repay more than the value of your home. It's strongly suggested that you only take a reverse mortgage with such a guarantee.

SOME THINGS TO WATCH OUT FOR WITH A REVERSE MORTGAGE

- Interest rate – the interest rate charged on a reverse mortgage will often be higher than the rate charged on a normal variable loan.
- Compounding debt – as you are not making regular repayments, effectively you will be charged 'interest on interest'. This compounding effect can mean that your debt rises faster than you might expect.
- Property value – as your property changes in value, the equity will alter. If your property increases in value, so will the equity, whereas if your property decreases in value, so will the equity you have in your home.
- Negative equity – if you live long enough, the amount you owe the lender may be more than the value of the property, meaning you have 'negative equity'. In this unfortunate circumstance, you will have to find funds from elsewhere to help repay the loan.
- Buying and selling – transferring your mortgage to another home may involve extra costs, or may not be possible if you have a reverse mortgage. There could be restrictions on transferring the reverse mortgage if you decide to move, which means you may have to take out a new mortgage on the new property. There could be a shortfall between the value of your new home and the remaining value in your current home.

TIP

Before taking out a reverse mortgage, ask yourself:

- How much will it cost?
- How will the product affect your estate when you die?
- Do you have a 'no negative equity' guarantee?
- Are there any special conditions in the contract that if breached could mean you lose the 'no negative equity' guarantee?
- Do you have alternative options?
- Have you discussed taking out a reverse mortgage with your family?

THE TRANSITION TO RETIREMENT

So now the moment has arrived, and you are considering entering retirement.

At this point, the plans implemented through your working life have hopefully set you up for a worry-free retirement, and you are well-placed to enjoy your 'golden years'.

There are, however, still things to think about. The adjustment from 'working' to 'retired' can be a radical change. You may have worked full time for 40 years or more, and the idea of suddenly not working may be unfamiliar, even daunting.

Aside from the obvious financial implications of no longer receiving a salary or wage, the move into retirement represents a fairly drastic change of lifestyle. You need to consider not just how your finances will change, but also how you will handle your new lifestyle.

What will you do with your time, now that you have so much more of it free?

ACTIVATING YOUR 'TO DO LIST'

Retirement gives you the chance to enjoy many of the things you may not have had time for up to now. The freedom can be a great opportunity, but you should also think about how you will spend your time. The sense of purpose that your work has given you will need to be provided by something else in retirement.

The workplace will no longer be a venue for daily social interaction, and you may miss that aspect of work. Putting some thought into how you will spend your time will reduce the risk of boredom and loneliness in retirement.

Retirement also gives you the chance to spend more time with your partner – in fact it's likely that you will be spending most of your time together. For most people that will be one of the great benefits of retirement, but for any relationship, being together all the time can be a challenge. It is worth sitting down together to discuss your 'to do list' and plan how you will enjoy that extra time.

There are a number of different ways you can make the transition into retirement. Some people retire at the earliest possible age, finishing work one day and entering full retirement the next.

Others prefer to make the move gradually, perhaps moving to part-time employment for a few years before stopping work altogether. Not only does this mean you will continue to receive a salary or wage, it also means that you can continue to benefit from the social aspects of a job. Of course, your decision is likely to depend on how much you enjoy your job, and whether continuing on a part-time basis is an option.

DECIDING WHERE TO LIVE

An important decision is where you will live. The options include staying on in your family home, downsizing and moving into a smaller or cheaper home, moving in with family or friends, and moving into a retirement village or nursing home.

This is not an easy decision. It may depend partly on your health. Staying in your own home, or even moving to a smaller place of your own, requires you to be reasonably independent. Later on, you may want to have the security of the facilities offered by a retirement village or nursing home. This is especially so if you do not have family and friends close by.

Financial considerations also play a part. A move will involve expenses such as estate agent fees, legal fees and removalists' costs. The purchase of a new place will also involve transaction costs, such as stamp duty and legal fees. If you are considering moving into a retirement village or nursing home, you will need to research the facility charges, and factor them into your budget.

Finally, think about the sort of life you want to live. Some people love the independence of living in their own home, and may have an emotional attachment to that home as a result of having lived there for many years. Others enjoy the community feel of living in a facility with others at a similar life stage.

CONTACTING THE GOVERNMENT

One of the most important things to do is to contact the Government to determine whether you are eligible for the age pension or other government assistance.

As previously explained, your eligibility for the age pension will depend on a number of things, including your age, how much you have accumulated in assets, and your income.

You should consider taking advice on whether it is possible to structure your retirement finances so that you can receive at least a part pension.

ACCESSING YOUR SUPER

Assuming you have reached your 'preservation age', you have a choice:

- You might decide you are not ready to retire just yet, and keep working and building your superannuation assets, or
- You may choose to retire, and finance your lifestyle from your super and other investments, or
- You could continue to work part-time and possibly draw on your super in the form of a pre-retirement pension.

Assuming you decide to draw on the funds you have accumulated in super, you need to consider in what form you will take those funds.

It is possible to take your super as a lump sum, however, there are significant tax benefits in converting your super into an income stream (see page 22). Not only is the income you receive tax-free (assuming you have reached the age of 60), but there is also no tax on the earnings from the assets generating the income stream. If you are between 55 and 60, the income stream will be taxed, but a 15% tax rebate will apply.

PRE-RETIREMENT PENSIONS

Continuing to work part-time and also drawing on your super in the form of a pre-retirement pension can be the best of both worlds, giving you great financial flexibility. Generally, though, you are unable to take your super as a lump sum during this period – it must be taken as an income stream.

It is possible during this time to continue to contribute pre-tax income to your super. You can do this as long as you have a job, and are aged between 55 and 74.

You might question why you would both draw income from, and at the same time, make contributions to your super. The answer is in the tax benefits.

If you salary sacrifice into your super fund, the tax paid on those contributions is 15%, instead of your marginal tax rate, which may be as high as 46.5%. Secondly, drawing a pension means that the income your super is earning is tax-free. Finally, if you are 60 or over, the pension you receive is tax-free.

The rules for accessing your superannuation are complicated, and the wrong decision can have significant consequences. You should consider getting professional advice from a licensed financial adviser.

Did you know?

Once you take your money from the super environment, the concessional tax treatment that super receives is no longer available on those funds. If you draw down a lump sum and invest it outside of super, income generated by those investments will be taxed at your marginal tax rate.

REVIEWING YOUR FINANCIAL PLAN

Hopefully your carefully planned investment strategy has you well placed to enjoy all the benefits of retirement.

You should still be sure to regularly review your investments. Your investing profile will have changed since your working days, and you need to be sure that your investments match your changed circumstances.

The focus naturally tends to be on superannuation, but retirement finances are not just about superannuation. You may well be deriving income from savings and investments outside of super, and possibly also Government benefits. Keep an eye on how those investments are performing, and that the mix of investments continues to meet your needs.

GETTING EXPERT ADVICE

A financial adviser can help you devise and put in place a financial plan that suits your personal circumstances and financial situation. Take the time to find an adviser who meets your needs, and make sure the adviser is licensed to provide financial advice to you.

Some places to go for advice include:

- A financial adviser. The law requires financial advisers to be licensed to provide financial product advice. You should only deal with an adviser licensed by ASIC. A licensed financial adviser must consider your investment objectives, financial situation and needs before giving you financial advice. This gives you confidence that the products and strategies recommended to you should be suitable. Good advice from an experienced, well-informed financial adviser can help you save money, focus on your short and long term financial goals and identify investments appropriate to those goals.
- Your bank. This can be a good place to start when you are first considering your investment options. Your bank will have people you can talk to and information about the choices available.
- An accountant. They can discuss the taxation aspects of investing, and help you to structure your investments in a tax effective way. Depending on the investments you choose, you may decide to use an accountant to help with ongoing personal income tax.
- A lawyer. They can discuss the legal aspects of retirement, and help you to put in place the necessary arrangements, such as powers of attorney, will, and your estate plan.

Regardless of the advice you take, you should still try to inform yourself as well as possible about your retirement options. It is important to assume responsibility for your own retirement planning as well as taking guidance from professionals.

WHERE TO GO FOR MORE INFO

Government websites that are useful sources of information include:

www.fido.asic.gov.au
ASIC's FIDO website provides 'financial tips and safety checks' and information about financial matters, including superannuation and retirement income products.
Or call 1300 300 630.

www.understandingmoney.gov.au
For money basics and a life stages approach to understanding money, including retirement.
Call 1800 236 235 for a free hard copy of their handbook 'Understanding Money'.

www.fahcsia.gov.au/seniors
For information to help retirees to make the best use of savings and investments to maintain their standard of living.

www.centrelink.gov.au
The Centrelink Financial Information Service provides information about government payments and information services. Or call 13 23 00.

www.ato.gov.au/super
For insights into key superannuation topics as well as access to the SuperSeeker facility to find lost super.

www.simplersuper.treasury.gov.au
For information on the changes to superannuation designed to make it simpler, including changes that took effect in July and September 2007.
Or call 13 10 20.

Some other websites that provide useful information include:

www.nicri.org.au
The National Information Centre on Retirement Investments (NICRI) is a free, independent, confidential service, which aims to improve the level and quality of investment information provided to people with modest savings who are investing for retirement or facing redundancy.

www.bankers.asn.au
The Australian Bankers' Association (ABA) publishes a range of booklets as part of its financial literacy program. These booklets can be downloaded from the ABA website or call 1800 009 180 for a free hard copy.

The websites of the major banks, fund managers and other financial services businesses provide information on planning for retirement.

Many financial service providers' websites include tools and online calculators that can help you to estimate expenses, and calculate how much you need to fund your retirement. You should check out these online calculators to assist you to better understand your money and retirement income needs.

Many financial service providers also offer free retirement planning seminars. These seminars provide an overview of the things you need to consider when planning for your retirement. You should contact your bank to see if they have a seminar available in your area.

GLOSSARY OF TERMS

Account-based pension/annuity
A pension/annuity arrangement where the holder regularly withdraws a minimum amount, and can also access their capital. The holder has a choice in how the funds are invested. The pension/annuity continues until death or until the funds run out.

Accumulation (sometimes called defined contribution)
A fund where the benefit a member receives is the total of defined contributions to the fund plus earnings on those contributions, minus tax, fees and other charges. Most new superannuation funds are accumulation funds. Members carry the investment risk.

Age pension
Income provided by the Government to individuals of a certain age who meet certain tests, such as the income test and assets test.

Annuity
A product bought from a life insurance company to provide an income stream in retirement.

Asset
An asset can be a physical asset, such as property, or a financial asset, such as bonds or shares. There are four main asset classes for investment products – cash, shares, fixed interest and property.

Australian Securities and Investments Commission (ASIC)
The independent Australian Government body that enforces and regulates company and financial services laws in Australia to protect consumers, investors and creditors. ASIC reports to the Commonwealth Parliament, the Treasurer and the Minister for Superannuation and Corporate Law.

Benefit
The amount of money in a superannuation fund or RSA which the member is entitled upon reaching 'preservation age' and meeting certain conditions of release.

Contribution
The monies put into a superannuation fund or RSA by an employer or an individual.

Co-contribution
An amount contributed to your superannuation account by the Government that you may be eligible for when you make an after-tax contribution to your super. Eligibility depends on your income level.

Compound interest
Interest calculated not only on the initial principal amount, but also on the accumulated interest. Compound interest is different to simple interest which is only calculated as a percentage of the principal amount, not on the interest accrued. Compounding is where the value of an investment increases exponentially over time.

Defined benefit
A fund where the benefit is calculated based on a formula which takes into account the person's years of employment and salary at retirement. The employer or the sponsor of the fund carries the investment risk, not the member.

Diversification
An investment technique that spreads investments over different assets, asset classes or investment managers, in order to reduce the total risk of your investment portfolio. The rationale is that a portfolio of different investments will, on average, provide a higher return and lower risk than any individual investment within your portfolio.

Dividend
A payment made to the shareholders of a company out of profits made by the company.

Equity
The difference between what you owe and the value (on today's market) of what you own. Negative equity means you owe more than the total value of what you own.

Executor
The person you nominate in your will to carry out the provisions of the will.

Financial adviser (also called a financial planner)
A financial adviser provides individuals with advice on suitable forms of investments, including superannuation. A licensed financial adviser is obliged under the law to act in the interests of their client when making recommendations to the client.

Fixed term annuity/pension
An annuity/pension that provides a regular income stream for a defined period. In some cases, you will receive your initial capital back at the end of the term.

Gearing
Borrowing money to use to buy investments.

Income
Money you receive in the form of your salary or wages, interest from bank accounts, dividends from shares, and rent from an investment property.

Inflation
The increase in the prices of goods and services in the economy.

Insurance
Insurance provides financial protection against a future possible event. Insurance involves payment of money (the premium) in exchange for the insurance cover. The terms under which benefits are paid are specified in the policy document.

Interest
The price of money. The price a bank or other lender charges for the money it lends you, or the return you get for the money you lend someone else.

Investment
Using your money to make it grow, for example, by buying property or shares.

Investment choice
The ability of a member of a super fund to select investment options from within the fund.

Investment strategy (sometimes called an investment style)
A method of managing allocation of assets within an investment portfolio reflecting the risk profile of the investor. For example, a 'balanced' investment technique aims to balance the risk and return of the investment and is suitable for investors with a longer time horizon.

Liquidity
The ability to convert an asset into cash quickly and without any price discount.

Managed fund
A type of investment that pools the assets of many investors into a single fund. Usually the investors have a common investment objective and strategy. Managed funds include property trusts, share funds and cash management trusts.

Pension
A product bought from a superannuation fund to provide an income stream in retirement.
See also 'age pension'.

Personal contribution
The amount that you voluntarily contribute to your superannuation fund from your take home pay. This is in addition to the compulsory contributions your employer makes on your behalf. It is sometimes called private superannuation.

Portfolio
A collection of investments owned by the one investor.

Premium
The regular payment made to an insurer in exchange for its promise of protection and help against unexpected events. Generally, the higher the risk of loss, theft, damage, destruction or injury, the higher the insurance premium.

Preservation age
The age at which a member of a superannuation fund is able to access preserved benefits, so long as they meet certain conditions of release.

RSA (Retirement Savings Account)
An alternative superannuation product which is offered by banks, building societies, credit unions, life insurance companies and prescribed financial institutions (RSA providers). RSAs are capital guaranteed.

Return
The amount of money your investment earns.

Reverse mortgage
A loan you take out that is secured against your home. You can take the money in the form of a lump sum, or as an income stream, or even as a line of credit. Interest is charged, but you are not required to make regular repayments. When the loan ends, for example on your death, it must be repaid, usually from the proceeds of the sale of the house.

Risk
The possibility that your investment may fall in value or earn less than expected.

Risk profile
Your tolerance to investment risk. Potential return rises with an increase in risk. Investments with low risk (lower levels of volatility or uncertainty) are usually associated with lower returns, whereas investments with higher risk are associated with potentially higher returns.

Salary sacrifice
An arrangement between an employer and their employee where the employee sacrifices pre-tax salary and wages into their superannuation fund. Sacrificed contributions are subject to 15% tax in the fund.

Savings (deposit) account
An account often used to save money, perhaps for a holiday or Christmas spending, or to build an 'emergency fund'. Depending on the account, if you have a balance above a minimum level you may be rewarded with higher rates of interest. Some savings accounts have a monthly fee with a limit on withdrawals.

Superannuation
An investment which operates by putting aside money during your working life so you have a payment or income stream upon retirement. Superannuation funds that meet prescribed Government standards are eligible for tax concessions.

Term deposit
An account that offers a higher rate of interest, but locks your money away for a set period.

Will
A legal document that instructs the executors you nominate on matters to do with your estate, such as how to distribute your property and assets upon your death.

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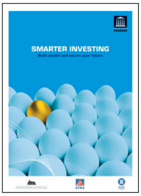

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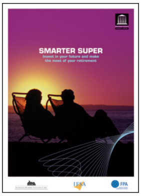

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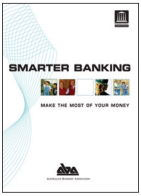

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The ABA is an industry association that represents Australia's banks.

The banking industry is committed to helping Australians better understand financial services to make more informed choices when it comes to managing money and every day finances.

The ABA website has a Financial Literacy Info Centre which provides information on managing your money, ways of banking, banking products and services, and protecting your money and banking information.

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