

Issue 16 – Oct 2007

## When work stops but the bills don't

*Excerpt: Vanguard Investments*

Planning for a comfortable retirement involves being something of a financial juggler because at any one time there are a number of balls in the air.

What return should I project from investment markets? What will the inflation rate be? How will my health be in 10 years?

These are just some of the things that can fundamentally change your financial position in retirement and dictate how long your money will last.

Exhausting all their retirement savings is a major concern for people as they near retirement and for some people it is once they retire and begin drawing down savings accumulated over a working life that spending the money too fast can become a stressful reality.

Unfortunately when we retire the cost of living does not stand still in deference to the fact that the salary has stopped arriving regularly in the bank.

In just the past three years the costs for a retiree on a modest standard of living has increased 8.8% according to the latest findings from the Westpac ASFA Retirement Standard. The cost of basic items accounted for most of the rise with food up 15% while the cost of petrol has jumped 30% in the past three years. The June quarter alone saw the cost of food rise 1.7% while health services also climbed 2.1%. The only good news according to the Westpac ASFA survey was that the price of domestic holidays fell during winter.

What this means is that for a couple with a "modest" lifestyle it is going to cost \$26,154 to pay the bills each year. A couple that wants a comfortable lifestyle will have annual expenses around \$48,300 according to the Westpac ASFA research work.

The definition for a modest lifestyle is defined as "better than the age pension but still only able to afford fairly basic activities".

The "comfortable" lifestyle is meant to support a healthy retiree take part in a range of leisure activities, purchase new household goods, private health insurance, have a reasonable car and enjoy the occasional international holiday.

In practical terms lets look at an example of how long a lump sum of \$200,000 would last you. If your

annual living expenses were \$30,000 - so just a little above Westpac ASFA's modest lifestyle definition - you would fund your retirement for between eight to ten years depending on where your investment return assumptions were on a scale from 6% to 10% a year.

Now for a healthy 65 year old that is not nearly long enough given that the average life expectancy tables suggest you should be planning for 15 to 20 years. The age pension is of course our social safety net at \$438 a fortnight for a couple or \$22,802 a year.

The big challenge for retirees is that an annual income that may see you living comfortably when you first retire will be eroded by inflation so your super has to provide for increasing lifestyle costs.

It is one reason why for most retirees maintaining some level of investment in growth assets makes good sense because long-term capital growth will help replenish the super asset pool.

The other major decision is setting yourself a realistic income figure to live on and being aware that a "fast start" to spending in retirement could dramatically shorten the number of years your savings can fund your desired lifestyle.

*Source: Smart Investing by Robin Bowerman  
Full Article available at: [www.vanguard.com.au](http://www.vanguard.com.au)*

*Need to know about Growth Assets or Capital Growth? Need to know more about planning for Financial Independence? Call IG on 02 4962 5800.*

## MORTGAGE DUTY

We remind readers that the first stamp duty exemption announced by the honourable Michael Costa MP in the 2007 State Budget takes effect on and from 1 September 2007 for mortgages that are made in connection with owner occupied housing.

Mortgage duty will no longer be chargeable in respect of a mortgage if the mortgage secures an advance or advances made from 1 September 2007, for the purpose of owner occupied housing and no other advances.

The second exemption, which takes effect on and from 1 July 2008, is an exemption for mortgages that are made in connection with investment housing. Mortgage duty will not be chargeable in respect for mortgages if the mortgage secures an advance or advances made, from 1 July 2008, for the purpose of investment housing and no other advances.

Stamp duty on leases is abolished on and from 1 January 2008 so clients should think carefully before entering into long term commercial leases if the agreement can be entered into after 1 January 2008.

*Source: McDonald Johnson Lawyers*

*Would you consider postponing the purchase of a property just to avoid paying Mortgage Duty or Stamp Duty? Would you like to know more? For more information on this subject contact Garry Lunn on 02 4962 5800.*

## Changes to Centrelink as from 20/9/2007

As from the 20th September 2007 changes to the assets test will mean that many Australians (approximately 250,000) will now qualify for a part Age Pension.

The beauty of qualifying for even \$1 of age pension will give you discounts on:

- Prescriptions
- Land and Water rates
- Energy Bills
- Public Transport fares
- Vehicle Registration
- Telephone allowance
- At least one free train trip a year

To qualify for the Centrelink Age Pension you are assessed against both the income and asset test. The one that gives you the least pension is the one that will apply.

### What has changed?

The **Income Test** has not changed and to qualify for a pension your income will need to be below the following amounts:

- Single                                 \$37,940 gross per year
- Couple (combined)                 \$63,414 gross per year

*Example: Peter and his wife Julie are both aged over 65. Their combined retirement income is \$58,000 per year. Because their joint income is less than \$63,414, they could be eligible for a payment, if they meet the asset test.*

The **Asset Test** limits have changed. Under the new rules, the value of assets you can have and still get a payment will increase.

The new Asset Limits are:

		Full Pension	Part Pension up to
Single	Homeowner*	\$166,750	\$520,750
Single	Non-Homeowner	\$287,750	\$641,750
Couple (combined)	Homeowner*	\$236,500	\$825,500
Couple (combined)	Non-Homeowner	\$357,750	\$946,500

\* Principal Residence is not included in the assets test.

If you are already receiving a part pension your payments will be adjusted automatically.

If however you do not receive any pension but think that you might following these changes you need to apply though Centrelink.

For those of you who still do not qualify for the Age or Service Pension you might be able to receive the **“Commonwealth Seniors Health Card”**. Eligibility is only income tested (not assets tested) based on the adjusted taxable income levels below.

	Single	Couple (combined)
Annual Income Limit	\$50,000	\$80,000

*If you need help with any Superannuation or other wealth creating strategies, please call Jillian or Donna on 0249 625 814.*

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