

## Retire on the Pension with \$88K



Earlier this year the Australian Bureau of Statistics released the stats on Australia's weekly earnings. Full-time adult average weekly ordinary time earnings amounted to \$1,748.40. Times that by 52 and you get \$90,918.80.

It's an interesting number because recently a group called Super Consumers Australia put out some figures suggesting a single homeowner could potentially retire on the age pension plus a lump sum of \$88,000, without their living conditions deteriorating.

It was another one of those studies that has some credibility, but has something outlandish embedded, like the \$88,000 figure, so it can launch thousands of media articles filled with terms like "previous thinking challenged", "new analysis suggests" and "experts say". The media seriously reported on the \$88k figure at the same time they're doing regular stories about retirees struggling with the cost of living.

Let's delve into some real-life issues around this. Before we do, as we manage investors' money there are always accusations of financial advisers wanting people to save more because it keeps them in business. We'll say this, we don't deal with hypothetical people, living hypothetical lives. Most "how much do you need to retire" studies amount to spreadsheet living. We deal with real people, living real lives. We engage in detailed financial modelling, but our ongoing experience with real people is very informative.

### **Can You Retire on Less?**

Absolutely. If you consume very little and are meticulous with spending, then yes, you can retire on much less. However, hardcore minimalism isn't for most people. There are certain expectations they have; these will be accompanied by reality. We all want to be serenaded by beautiful lullabies that tell us how easy it will be and how little we'll need but living costs money.

When these stories come out, they're often framed around the types of retirements we want or expect. It may be the luxury retirement, the average retirement, or the budget retirement. In the luxury option they use examples like if you want an overseas trip each year, to eat out on a regular basis or buy clothes on a regular basis, which signals they're thinking about stock image retirements that are fantasy more than reality. Retirees do holiday overseas and eat out, but what's truly costly in life?

Things you don't expect and aren't prepared for. In real life, people encounter problems. One of the best ways to deal with problems is having resources at your disposal.

### **The Homeowner Furphy**

Retirement stories always make the point that if you're a homeowner you'll spend less and you'll need less savings. From a cashflow perspective, that's true. Council rates, water and insurance are universally acknowledged, but these are less costly than having to send money to a landlord on a weekly or monthly basis. Yet owning a home isn't a free ride. It still costs money. While you're not making scheduled payments, there will be unexpected hits.

The oven, the heater, the hot water cylinder, the fence is falling down, or the letterbox has rusted out. Maybe the roots from your favourite tree have encroached on your pipes and your toilet isn't flushing. It's uncanny how often a retiree will come back to us after just withdrawing money to replace or fix something and say "yeah, something else blew up!"

These are just the small and obvious things homeowners may encounter. Longevity is a good thing, but it also means your house may see 30 plus years of wear and tear during your retirement. Roofs. Windows. Doors. Paint. Loose mortar. Rotting boards. Alternatively, you're going to move into an apartment? There are the annual strata fees and depending on how well constructed (or old) the building is, the special strata assessment is always a possibility.

Are these worst-case scenarios?

We've had non-clients come in for meetings. They may have expensive homes, but very little in the way of liquid assets and primarily rely on the pension. They're in the unnerving position of being unable to do the maintenance on their home and wondering what to do. Remember that average weekly earnings figure? It's not just materials. Tradespeople cost money and retirees often aren't physically able to do the work themselves. The options become quite limited. Reverse mortgage or sell.

It's magical thinking that leaves people in bad positions.

## **Boredom & Restlessness**

The job's gone or the business or farm is sold. What now? Some retirees can find themselves a little lost in retirement and the easiest way to attempt to fill the void is with spending. It's not our job to tell anyone how to spend their money, but we will point out the impact of various decisions on financial projections.

"Can I buy an \$80,000 caravan?"

We've received that question over the phone from a caravan and boat show. It's why the caravan salesman sees us as their mortal enemy. Occasionally, there's a realisation the big new caravan then needs a new 4WD to tow it. We're not saying don't buy a caravan or boat. Life is for living, and retirement certainly should be for living and enjoying yourself, but spontaneity is a little more complicated in retirement.

Boat, caravan, the new 4WD to tow the caravan, feeling like a new kitchen/bathroom? Ideally these should be planned for, acquired and/or completed pre-retirement. However, if someone has more savings, they also have more room to experiment, if they're struggling to adapt to retirement.

## **Health & Mobility**

There could be various challenges here, but mobility issues could arise further into retirement and pose financial questions. If someone plans to stay in their existing home and it's not perfectly flat, or has more than one story, there's the prospect for ramps, rails, and residential lifts. Transport can be an issue if core strength and flexibility isn't what it was. Some retirees have commented it's now much easier to get in and out of an SUV that's higher up than a car lower to the ground.

## **Women**

For some time, we've been reminded women have less super than men and how that's a bad thing because they have to rely on others. True. They do lag and they do need more. There's no end to the suggestions of how government and employers can help women on this front. Now we supposedly learn that a single person can retire on a pittance, which is at odds with calls to increase women's super-balances. This latest stunt suggesting \$88k will see someone through only undermines strategies to increase women's super-balances. Just an example of what happens when the media wastes their time pursuing silly stories.

The accumulation of knowledge through dealing with retirees for several decades tells us it's better to have more resources than not. It's why there are calls to help women increase super balances. The age pension exists kind of like a shock absorber when balances go below certain levels, and yes, it's good for cashflow, but once you've got fewer of your own resources to draw upon, it means less choice and less ability to deal with challenges. Self-reliance is a good thing, and as retirees find out, financial resources are quite useful when you're no longer in the workforce.

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