How to make super savings last your whole retirement

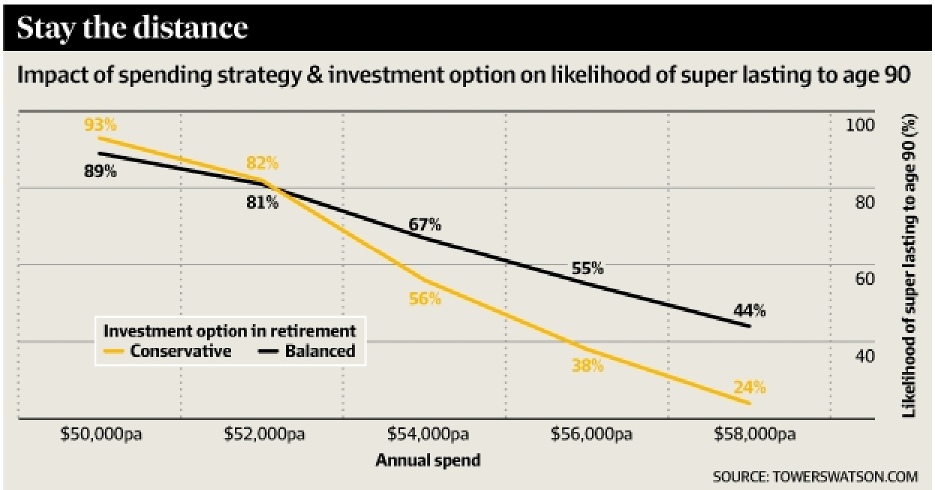
It's not just how you invest in retirement that's important; keeping an eye on spending is vital too.

by **Duncan Hughes**

Retirement savers facing lower returns from their superannuation funds need not dramatically increase their risk exposure. Rather, experts say, once retired they need to trim their spending and maintain exposure to shares.

The Australian Financial Review asked retirement experts to show how retirement savings might be best invested during retirement to boost savings and income.

The calculations are based on a couple, both 65, with a lump sum of $500,000, who own their own home or apartment and don't have any extravagances that might dramatically impact spending.



Their savings will have to last 25 years since there there's a 70 per cent chance that one of them will live to 90, according to the latest actuarial tables.

Towers Watson, a super advisory group, has provided two investment strategies – one balanced and the other conservative – to show how the couple could make their savings last for 25 years.

The strategies involve different asset allocations. These are structured portfolios of securities designed for long-term growth. Growth portfolios normally contain a high percentage of stocks and minimum amounts of cash equivalents and low-risk securities. They can range from moderate, balanced and growth through to high growth.

By investing in a balanced (70 per cent equities, 30 per cent cash) portfolio, this couple is expected to be able to spend about $58,000 a year, which includes the age pension after applying the means test.

Under this scenario, there is about a 44 per cent chance their super will last until the age of 90.

But if this couple spent less each year – $52,000 – they would have an 80 per cent chance of stretching their savings to 90.

This would also be the case if they adopted the second strategy (still on the lower annual spend) and took a conservative approach (30 per cent equities, 70 per cent cash). However, they would be heavily reliant on the age pension and would have 20 per cent less cash left over at 90. "More than half of their income in retirement, assuming they gradually draw down their savings over 25 years to 90, will come from the age pension," says Andrew Boal, managing director of Towers Watson.

"The level of spending for a 90-year-old is expected to be about 10 per cent lower than for a 70-year-old, which provides a good opportunity for a retiree approaching, say 80, to purchase some form of lifetime annuity to provide some form of guaranteed income in later life to top up the age pension," says Boal.

Other investment strategies are provided by GM Atchison Consultants, an investment advisory group, which we asked to provide returns exceeding the consumer price index by 2.5 per cent and 3.5 per cent over 10 years.

A medium-risk portfolio generating 2.5 per cent over CPI would be divided equally between equities and cash. About 25 per cent is in Australian equities, 10 per cent in property and 15 per cent in international equities. There's also about 40 per cent in fixed interest and 10 per cent in cash.

The higher-risk portfolio – to generate 3.5 per cent above CPI – has 70 per cent equities, with the Australian exposure up to about 40 per cent.

"By raising your risk profile you can achieve higher returns," general manager Kev Toohey says.

GM's strategies have a 66 per cent chance of achieving the investment target.

SPEND WISELY

There are plenty of investment and lifestyle options for an investor coming up to retirement whose superannuation nest egg is smaller than expected.

"One of the biggest factors determining a person's ability to achieve retirement success is how much they spend each year and investing appropriately during retirement to meet income goals," Boal says.

The answer to the question about how to invest retirement savings depends upon the amount of superannuation, spending plans, risk tolerance and other savings.

"Staying invested in growth assets during retirement produces a better outcome than de-risking, either gradually through a life-cyle or target fund," says Boal about maintaining an investment strategy rather than using a fund that automatically transitions from equity-based to savings products in the lead-up to retirement.

He recommends a strategy that navigates between investment risk (caused by uncertainty and volatile markets, particularly from a run of poor returns close to retirement) and running out of money (caused by either living longer than expected or spending too much).

Leading research institutions provide contrasting snapshots of the average Australian Baby Boomer in the transition period between work and retirement.

According to the Australian National University, the average Boomer household by the time they retire has run up debts equivalent to their retirement nest eggs on property for their children, school fees, credit cards and overseas holidays. Rather than seeing their super as an investment to be nurtured over 25 years of retirement, they are anticipating a lump sum on retirement and spending the equivalent in their working lives.

Their strategy is to spend the nest egg and then visit Centrelink to arrange access to the age pension, according to ANU analysis.

The Productivity Commission takes another view by concluding that retirees are frugal and concerned about how to make their lump sum last for as long as possible.

Luck, good health and the ability to adjust to changing circumstances will determine whether those approaching retirement delay stopping work, boost their super contributions or supplement their retirement income with part-time work.

Delaying retirement for two years can boost super balances by up to 10 per cent at retirement, according to analysis by the Productivity Commission.

Those with a few years until retirement might increase contributions, which is particularly attractive for higher marginal rate taxpayers whose contributions are taxed at 15 per cent.

Many retirees top up their retirement budgets with part-time work, which could be a great way to remain active and fit and offers opportunities to explore career options postponed during a working life.