FEBRUARY, 2024

NEWSLETTER

How to Discover Your Perfect Retirement Age

Retirement is not just a milestone – it's a major life transition that requires careful consideration and planning. For many Australians, deciding when to hang up the work boots and embrace the leisure of retirement is a decision that brings both excitement and anxiety. The perfect retirement age is very personal, influenced by financial readiness, health, lifestyle desires and other factors.

Understanding the Legal Landscape

In Australia, there is no mandated retirement age, but there are critical ages to consider when planning for retirement. The preservation age is particularly important, as it determines when you can legally access your superannuation funds.

If you were born from 1 July 1963-30 June 1964, your preservation age is 59. If you were born earlier, you can already use your super. Those born after 30 June 1964 must wait until they turn 60.

You can access your super benefits once you have reached your preservation age and met one of the following conditions of release:

- retiring from the workforce
- beginning a transition-to-retirement income stream or pension. This is a way you can access your super while winding back your working hours
- ceasing an employment arrangement after you reach 60 (even if you get a job with another employer)
- turning 65 (even if you continue working).

Just to confuse matters, your preservation age differs from the Age Pension eligibility age. The Age Pension eligibility age depends on your date of birth. From 1 July 2023, the eligibility age has increased to 67. The preservation age for all Australians is therefore much lower than the Age Pension eligibility age.

Transitioning to Retirement

For those not quite ready to leave the workforce, a transition to retirement (TTR) strategy offers some middle ground. This allows individuals who have reached their preservation age to draw an income stream from their super while continuing to work. This strategy can have tax advantages, especially for those aged 60 and over, who pay no tax on their TTR pension payments. However, those between 55 and 59 years of age face taxation at a rate of 15 per cent.

It's not just about the numbers. A TTR strategy can also provide psychological benefits, easing you into retirement and allowing you to adjust to a new lifestyle gradually.

How Much Money Do You Need to Retire Comfortably?

Determining how much you need for a comfortable retirement is a complex equation. The Association of Superannuation Funds Australia (ASFA) provides quarterly estimates of the expenditure required for a comfortable or modest lifestyle. As of September 2023:

- for those aged between 65 to 84, the annual budget to live a comfortable lifestyle is $71,723.56 for couples and $50,981.27 for singles
- for a modest lifestyle in the same age bracket, the budget is $46,620.05 for couples and $32,417.48 for singles
- similarly, for those aged around 85, the estimated annual budget for a comfortable lifestyle is $65,554.96 for couples and $47,338.04 for singles. For a modest lifestyle, the budget is $42,978.78 for couples and $30,034.80 for singles.

These figures may be daunting, especially considering the pressures of high consumer price inflation. But these are just guidelines, and your personal needs and goals may differ.

Role of Planning and Advice

Recent studies highlight the importance of confidence and planning in retirement readiness. Those with a clear plan and who actively manage their finances tend to be more confident about their retirement prospects. Professional financial advice can significantly affect this confidence, with those receiving advice more likely to feel secure in their ability to fund their retirement.

Conversely, those without professional advice or who rely solely on family and friends for guidance often have less comprehensive retirement plans. This underscores the value of seeking expert advice tailored to your unique circumstances.

Finding Your Perfect Retirement Age

So, when is the perfect age to retire? The truth is, there's no one-size-fits-all answer. It's a deeply personal decision that depends on your financial situation, health, lifestyle preferences and how you envision your retirement years.

Here are some steps to help you find your perfect retirement age:

1. Assess your financial health: Review your superannuation, savings, debts and other financial resources. Consider how these will support your desired lifestyle in retirement.

2. Consider your health: Your physical and mental health can significantly affect when you retire and how you will spend your retirement years.

3. Reflect on your lifestyle goals: What do you want to do in retirement? Travel, pursue hobbies, volunteer? Your goals will influence how much money you'll need.

4. Seek professional advice: A licensed financial planner can help you navigate the complexities of retirement planning and tailor a strategy to your needs.

5. Plan for the long term: With increasing life expectancies, ensure your retirement plan is sustainable for potentially 20-30 years or more.

6. Stay flexible: Be prepared to adjust your plans as circumstances change. Retirement planning is an ongoing process, not a one-time decision.

Have you found your perfect retirement age, or are you still pondering the decision? Want help? If so call for an obligation free consultation with Accountplan's experienced Financial Planning team on 07 3883 8999.

Source: Your Life Choices

ATO Sets Debt Collector Loose on 150,000 Taxpayers

The ATO will refer up to 150,000 taxpayers to Recoveriescorp, a debt recovery agency, before the end of June in "decisive and swift" action to recover millions owed by those "with the capacity to pay".

In its first post-pandemic use of an external debt agent, it said taxpayers with outstanding income, activity or superannuation amounts – or their accountants – could expect contact from Recoveriescorp that could be verified with a phone call.

The referrals began on 29 January and marked the first time it had employed Recoveriescorp, which was the only debt collection agency being used.

"Over the last few years there has been an increase in collectable tax and super debt," the tax office said. "We are actively addressing this by taking decisive and swift action with those clients choosing not to engage and who purposefully avoid their payment obligations."

"Our expectation is that taxpayers with the capacity to pay should do so on time and in full, and there won't be concessions available for these taxpayers. Don't wait for the ATO to chase overdue debts."

The ATO's website said it would follow up overdue debt letters with pre-referral warning notices and if a taxpayer failed to respond, that would be the trigger to alert the external debt collection agency.

"If taxpayers haven't responded to the pre-referral warning letter or engaged with the ATO to repay their debt, they are likely to be referred."

"Taxpayers with active income tax, activity statements or unpaid super debts may be referred to the external collection agency. The expectation is that between 100,000 to 150,000 referrals will be made to the end of this financial year."

Overdue debts incurred the general interest charge, currently set at the highest level in more than a decade with an annual rate of 11.38 per cent. Credits, refunds and debts on hold would be used to offset the debt where they were available.

The ATO said help was on hand for those in genuine need.

"The external collection agency will focus on providing support to taxpayers to pay their debt in full, or where they are unable to pay in full, to assist with establishing a tailored payment plan," it said.

"If a taxpayer is experiencing serious financial hardship or a personal crisis, the ATO can provide additional support."

The office declined to specify the amount of debt owed by the 150,000 taxpayers or give an indication of its recovery target.

Reviving the use of a debt collection agency adds to the ATO's armoury that includes director penalty notices and, where a debt exceeds $100,000, referral to a credit ratings agency such as CreditorWatch.

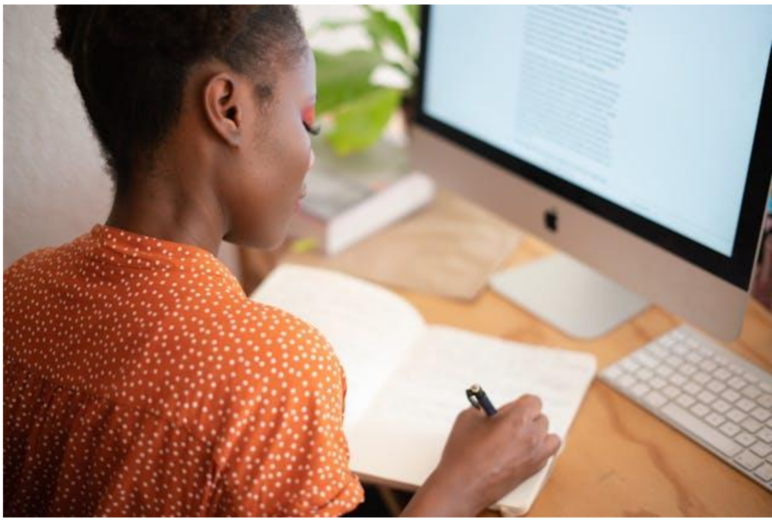
Source: Accountants Daily

Interest Rate Watch

There has been plenty discussed in the media of late regarding interest rates, particularly on the back of recent news that inflation is now well and truly falling from it's peak and heading toward the Reserve Bank's target band of 2-3%. We also saw a rise in unemployment.

This month the Reserve Bank left the cash rate on hold, but was understandably reluctant to make any strong signals or forecasts about the future direction of rates, nor when they might move. I say understandably because we had a change in RBA Governor on the back of her predecessor making forecasts that ultimately proved to be way off the mark.

Nonetheless we have had a raft of economists and commentators throwing in their 2 bobs worth and it makes for interesting reading. At one end of the scale we have a small few commentators left advocating for another rate rise to ensure inflation down even faster. At the other end of the scale we have commentators claiming that should the RBA not start cutting rates by May 2024 it may be too late to save Australia's economy from entering a recession.



The opinions that matter most to Home borrowers such as myself are the Banks. In this case **all of Australia's Big 4 Banks** forecast that rates will hold as they are till later in 2024 before falling. They do however have differing opinions on the extent and speed of the rates cuts:

- **NAB** forecast a 1.25% cut from December 2024 to December 2025.
- **CBA** forecast a 1.50% cut from September 2024 to September 2025.
- **Westpac** forecast a 1.25% cut from September 2024 to September 2025.
- **ANZ** forecast a 0.75% cut from December 2024 to mid 2025.

What we have seen in response is some cautious downward movement in fixed rates, which are effectively a peek into the banking sector's predictions and forecasts on future movements to the cash rate.

1 Year Fixed Rates - it is unsurprising to see there has been little downward movement given the prevalent view that rates may not begin to fall for another 9-12mths. There are a couple of lenders who have made cuts but these are likely a market share pitch as opposed to any real opinion on the official cash rate.

2 Year Fixed Rates - we have seen some modest cuts with most lenders 2yr fixed offerings now sitting between 0.10% to 0.35% below their corresponding 1 year offering.

3 Year Fixed Rates – is the band that we have seen some real movement, and competition. We have a number of lenders who have come out aggressively with 5.99% 3 year fixed offerings. I take this to be combination of market share

4 and 5 Year Fixed Rates – at this range, lenders have already started to build in upward rate movement risk due to the time frame involved, so right now the reductions are not quite as obvious as those for 3 years.

So what does this tell us?

Whilst the consensus amongst the lenders is overwhelmingly that rates have peaked, the fact we have differences of opinion as to the pace and timing of rate cuts, would suggest that we may not see meaningful falls to fixed rates across the board just yet. That is at least until the market has more certainty around the RBA's movements.

The next meeting of the RBA is mid-March and should we see another fall in inflation, yet alone another rise in unemployment, it would not surprise to see not only the forecasts revised, again, but a reaction in fixed rate offerings – most likely in the 2-4 year fixed rate band.

Want to better understand interest rate options and potential strategies? Accountplan's Mick Doyle has almost 40 years in the Australian finance industry, quality guidance is just a call away on 07 3883 8999.

Source: Mick Doyle, Accountplan

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