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The webinar will begin shortly

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Morningstar retirement bootcamp

Webinar 1 - Retirement spending: How to estimate retirement spending and the basics of a safe withdrawal rate.

Webinar 2 - Creating a plan for retirement: A step-by-step process for estimating how much you need to retire and a plan to get there. As part of the presentation, we will address retiring early.

Webinar 3 - The transition to retirement: How to successfully navigate this challenging time for your finances and what to do it you don't have enough to retire.

Webinar 4 - How to manage your portfolio in retirement: Asset allocation in retirement including an income strategy for retirement and the bucket method.

Learning objectives

1. Understand the technical aspects of transitioning to retirement including different types of super accounts and ways to boost your super
2. Learn about approaches to take if your portfolio can't support your desired retirement outcome

Next week we will cover different approaches to asset allocation and preparing your portfolio for retirement. This session will include bucket portfolios, living off dividends and a traditional glide path.

Super account definitions

Accumulation account: This is a super account where employer contributions, concessional contributions and non-concessional contributions are invested. Every eligible working age Australian has an accumulation account. Capital gains and income is taxed at 15%.

TTR income account: This is a super account that can be used during the transition to retirement. Capital gains and income is taxed at 15% but there is no tax on withdrawals.

Account based pension: A super account that is used to fund retirement withdrawals. It can be established after an individual reaches the preservation age and is subject to a transfer balance cap of $1.9m (indexed). There are no taxes on capital gains, income or withdrawals. This money can remain invested and super funds generally offer the same options. The following conditions must be met to start an account-based pension:

1. Reach preservation age and permanently retire
2. Cease employment after the age of 60 even if later return to work
3. Age 65 or over even if not retired

Super rules

Preservation age

Date of birth	Preservation age (years)
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

Minimum percentage required withdrawal

Age on 1 July or if commenced in the financial year the commencement date	Minimum %* of account balance you must withdraw each year
Under 65	4%
65 to 74	5%
75 to 79	6%
80 to 84	7%
85 to 89	9%
90 to 94	11%
95+	14%

* The minimum may be subject to change from time to time at the discretion of the Government. For more information go to ato.gov.au

Are you paying unnecessary taxes?

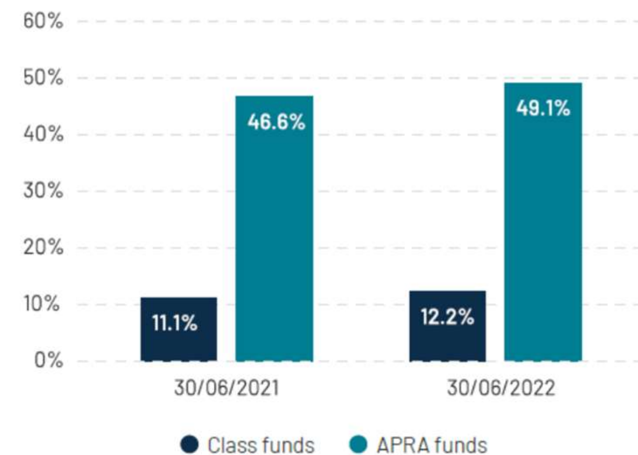
Liam Shorte of Sonas Wealth described this phenomenon as follows:

"From experience, the biggest reason is that people who have not received advice think you cannot move in to pension phase until you stop working.

The second biggest reason is that those working often put it in the too hard basket as they have enough from employment income to meet their living expenses and just leave super until they need it as they do not understand or know about the tax benefits of pension phase.

No matter how many letters the industry funds send them, if they don't open the letters or feel it is advertising, they just ignore the call to action.

Last year I took over a client who was 84 and finally retired, closing his business, and had super that he was told 20 years ago he could access when he stopped working and so he never did anything about it until he actually retired!"



Boosting super savings

The **concessional (before tax) contribution** limit for super for the financial year beginning July 1, 2024, is $30,000. Most working Australians will save on tax as pre-tax contributions will be taxed at 15% instead of the marginal tax rate. You may also be able to carry forward unused portions of your before-tax contribution cap over a rolling five-year period. If eligible, you'll need to have:

- a total super balance of less than $500,000 across all your super accounts, at 30 June of the previous financial year
- contributed less than the before-tax contributions cap from up to five previous years (but not before the 2018–19 financial year).

You can generally contribute up to $120,000 in **non-concessional (after-tax) contributions** each financial year (as of the 2024-25 financial year) without having to pay extra tax.

- Your total super balance, as at 30 June of the previous financial year with the total amount varying based on your account balances (currently between $1.6 and $1.9 million).
- If there are excess before-tax contributions in your super, they count towards your after-tax contributions cap as well.

Transition to retirement account

A transition to retirement ("TTR") account is a mechanism to ***supplement your income with reduced work hours*** or ***boost your super and save on tax while working full time***.

How TTR works

1. An individual reaches preservation age
2. An account based pension is established and some (but not all) assets are transferred up to $1.9m
3. No tax is paid on capital gains or income earned by assets in an account based pension for people transitioning to retirement or in retirement

Date of birth	Preservation age (years)
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

Transition to retirement account: Case study 1

Penny wants to ***supplement income while reducing work hours***

How TTR works

1. Penny reaches preservation of 60 and wants to work 5 more years at 3 days a week.
2. She currently earns $100,000 a year including super and her take home pay annually after taxes and super contributions is $70,198.
3. At 3 days a week she will earn $60,000 a year including super and her take pay annually after taxes and super is $45,996.
4. She can transfer a portion of her super balance to TTR income account to make up for the shortfall of $24,202 annually which reduces her yearly taxes by $11,672.65 while continuing to make $6,188.34 (after tax) in annual super contributions.

Transition to retirement account: Case study 2

Maverick wants to ***boost his income and save on tax while working full time***

How TTR works

1. Maverick reaches preservation of 60 and establishes TTR income account.
2. He currently earns $100,000 a year including super and his take home pay annually after taxes and super contributions is $70,198 with super contributions of $10,312.90 (after tax).
3. Maverick maxes out his $30,000 concessional contributions to super which results in additional after-tax super savings of $16,733 a year and take-home pay of $56,811.
4. He transfers assets into account based pension to cover the annual cash flow short fall of $13,387.
5. He saves $6,300 annually in taxes while maintaining the same standard of living and increasing super savings.

A tax professional should be consulted before embarking on this plan

What if you don't have enough to retire?

The following steps can be taken if there is a shortfall between your super balance and your retirement needs

1. Grow your portfolio as much as possible by ensuring that your asset allocation is aligned with your risk capacity
2. Explore a flexible withdrawal rate
3. Consider an annuity

Flexible withdrawal rate

The purpose of a flexible withdrawal strategy is to make retirement savings last longer and increase the amount that can be withdrawn in decent market conditions.

Method 1: Forgoing inflation adjustments following annual portfolio loss

This method, advocated by (among others) T. Rowe Price, begins with the base case of fixed real withdrawals throughout a 30-year time horizon. However, to preserve assets following down markets, the retiree skips the inflation adjustment for the year following a year in which the portfolio has declined in value. This might seem like a modest step, but the cuts in real spending, while small, are cumulative. That is, the effects of such cuts ripple into the future, as these changes permanently reduce the retiree's spending pattern.

Method 2: Required minimum distributions ("RMD")

This is the same framework that underpins required minimum distributions for super accounts as dictated by the ATO. In its simplest form, the RMD method is portfolio value divided by life expectancy. This method is inherently "safe" and designed to ensure that a retiree will never deplete the portfolio because the withdrawal amount is always a percentage of the remaining balance. However, an RMD system incorporates two key variables for retirement-spending plans: remaining life expectancy and remaining portfolio value. While changes in life expectancy are gradual, the fact that the remaining portfolio value can change significantly from year to year adds substantial volatility to cash flows.

Flexible withdrawal rate

Method 3: Guardrails

Originally developed by financial planner Jonathan Guyton and computer scientist William Klinger, the guardrails method sets an initial withdrawal percentage, then adjusts subsequent withdrawals annually based on portfolio performance and the previous withdrawal percentage. The guardrails attempt to deliver sufficient—but not overly high—raises in upward-trending markets while adjusting downward after market losses. In upward-trending markets, in which the portfolio performs well and the new withdrawal percentage (adjusted for inflation) falls below 20% of its initial level, the withdrawal increases by the inflation adjustment plus another 10%.

Method 4: Spending declines in line with historical data

We also tested a strategy that incorporates the average decline in spending that occurs over the retirement life cycle. In past studies, we incorporated this spending pattern by assuming that the hypothetical retirees did not adjust their annual withdrawals by the full amount of inflation but instead by 1 percentage point less than the annual inflation rate.

In this year's study, we further refined this method by incorporating more specific patterns observable in retiree spending at various life stages. Research from the Employee Benefits Research Institute4 demonstrates that inflation-adjusted household spending has historically fallen by 19% from age 65 to 75, 34% from age 65 to 85, and 52% from age 65 to 95. We adjusted the annual spending numbers to match up with these longer-term declines. To reflect this, Method 4 assumes that real retirement spending declines by 1.9 percentage points per year between age 65 and 75; 1.5 percentage points per year between 75 and 85; and 1.8 percentage points per year between 85 and 95.

Flexible withdrawal rate

The purpose of a flexible withdrawal strategy is to make retirement savings last longer and increase the amount that can be withdrawn in decent market conditions.

Method	Starting safe withdrawal rate %	Lifetime withdrawal rate %
Base case	4.00%	4.00%
Forgo inflation adjustment	4.40%	4.10%
RMD	4.40%	5.40%
Guardrails	5.20%	4.80%
Actual spending	5.00%	3.90%

Depicts a 40% stock / 60% bond portfolio with a 90% success rate

Annuity

The following is the current rates for an immediate lifetime annuity with full inflation protection from Challenger based on age. There are various available products and terms and conditions should be reviewed prior to getting an annuity.

Age	Women implied withdrawal rate	Men implied withdrawal rate
65	4.764%	5.062%
70	5.424%	5.839%
75	6.364%	6.871%
80	7.835%	8.556%