INSIDE

SEPTEMBER 2023

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Intergenerational Report 2023 at a glance

Five major forces that will shape the Australian economy over the coming decades are population ageing, expanded use of digital and data technology, climate change and the net zero transformation, rising demand for care and support services, and increased geopolitical risk and fragmentation.

Australia's future prosperity will be influenced by how well we manage and maximise these shifts underway in the economy. The Government is acting to repair the budget, build the skills and capabilities of our workforce, foster a more dynamic and productive economy, broaden opportunity, and strengthen national and regional security. The Government is also investing in care and support services and positioning Australia to make the most of the opportunities from the net zero and digital transformations.

The economy in 40 years

The economy is projected to be around two and a half times larger and real incomes around 50 per cent higher by 2062–63.

But, like other advanced economies, our economy is projected to grow at a slower rate over the next 40 years than in the past, at an average of 2.2 per cent a year.

Population

Australians are expected to live longer and spend more years in full health.

Australia's population is projected to grow more slowly over the next 40 years – at an average of 1.1 per cent a year, compared to 1.4 per cent over the past 40 years.

The population is projected to reach 40.5 million in 2062–63, similar to projections in the 2021 IGR.

Migration will continue to contribute to population growth but is projected to fall as a share of the population.

Australia's population will continue to age over the next 40 years. The number of Australians aged 65 and over will more than double and the number aged 85 and over will more than triple.

The number of centenarians is expected to increase six-fold. Nevertheless, Australia's population is expected to remain younger than most advanced economies.

Participation

More people are participating in paid work than ever before and the labour force participation rate is near record highs.

But as the population continues to age over the next 40 years, the overall participation rate is projected to decline gradually from 66.6 percent to 63.8 per cent in 2062–63.

Average hours worked is also expected to decline slightly. The gender gap in participation is expected to continue to narrow. Further broadening labour market opportunities can increase overall participation and contribute to a more inclusive workforce.

Productivity

Productivity growth is assumed to grow at 1.2 per cent a year, around the average of the past 20 years. The future path of productivity is not a foregone conclusion and will be influenced by decisions taken by governments, businesses, and investors, and the big shifts underway in the global and domestic economy.

Our changing industrial base

The ageing population, adoption of new technologies, net zero transformation, growing demand for care and support services, and geopolitical uncertainty are changing the composition of our economy.

The ageing population will reinforce the trend towards a services-based economy, with the care and support sector and its workforce potentially doubling over the next 40 years.

Digitalisation will change how we work, raising productivity, improving workplace safety and providing us with the agility we need to face the challenges of the future.

The net zero transformation will see global demand for some exports decline, while creating new markets and opportunities for our industries. Critical minerals could become key exports for Australia as the world transitions to net zero. Australia is already the world's largest producer of lithium, supplying more than half of all global production. Global demand for lithium could be more than eight times higher in 40 years time.

Climate change will have profound impacts on the economy and society. It will affect where and how Australians choose to live and work, food and energy security and our environment. The Government is taking strong action to respond to these challenges and position Australia to maximise opportunities from the global net zero transformation.

The budget in 40 years

Recent actions by the Government have improved the fiscal outlook and mean we are better placed to sustain essential services and meet future challenges. But there are growing pressures on the budget.

Long-term spending pressures

The five main spending pressures of health, aged care, the National Disability Insurance Scheme, defence, and debt interest payments are projected to rise from around one-third to around one-half of all government spending.

Total government spending is projected to rise by 3.8 percentage points of GDP over the next 40 years. Demographic ageing causes around 40 percent of this increase.

Consistent with past IGRs, total income support and education payments are projected to continue to grow in real terms per person but decline as a share of GDP as the population ages.

Spending on age and service pensions is projected to fall as a share of GDP despite the ageing population, with superannuation increasingly funding people's retirement.

Changing revenue base

Consistent with past IGRs, tax as a share of the economy is assumed to be constant over the long run. But structural changes to the economy will put pressure on the revenue base over the coming decades.

Decarbonisation of the transport industry and changing consumer preferences are expected to erode revenue from fuel and tobacco excise. Global demand for emissions-intensive commodities, and reliance on them as a source of revenue, is also likely to decline.

The budget balance

The Government is gradually rebuilding fiscal buffers. The budget is in surplus for the first time in 15 years in 2022–23, and gross debt as a share of GDP is projected to decline over the coming decades.

However, growing spending pressures are projected to result in deficits remaining in future years. After declining to 22.5 percent of GDP in 2048–49, gross debt is projected to reach 32.1 per cent of GDP by 2062–63. This is lower than projected in the 2021 IGR.

The Government has taken steps to improve the fiscal position and rebuild fiscal buffers, through banking most tax revenue upgrades, finding savings and reprioritising spending, and making measured improvements to the tax system. These actions have supported a stronger fiscal outlook compared to the 2021 IGR.

What you need to know about the 2023 Intergenerational Report

The 2023 Intergenerational report has been handed down by the Government with climate change, aged care and the economy front of mind. Here's what you need to know.

In 40 years, the Australian economy is projected to be around two and a half times larger than it is today and workers can expect incomes 50% higher.

But with an ageing population, a rising demand for care services and the continuing challenge of climate change, there are plenty of obstacles to overcome.

The 2023 Intergenerational Report was handed down by Treasurer Jim Chalmers on Thursday, outlining projections for the outlook of the economy to 2062-63. The economy is projected to grow by an average of 2.2% per year in real terms over the next 40 years compared to 3.1% over the past 40 years.

According to the government, there are five major forces that "will influence the future path and structure of our economy" over the coming four decades: population ageing, technological and digital transformation, climate change and the net zero transformation, rising demand for aged care and support services, and geopolitical risk and fragmentation.

Here are some other takeaways:

Life expectancy

While Australia's population will grow more slowly over the next 40 years, in 2062-63 it is projected to reach 40.5 million. Life expectancy is projected to increase, from 81.3 years for men and 85.2 years for women in 2022-23, to 87 years for men and 89.5 years for women by 2062-63.

Australia's population is ageing as a result of longer life expectancies and low fertility rates. The median age is expected to increase to 43.1 years, from 38.5 years in 2022-23. By 2062-63, the number of people aged 65 and older will more than double. The number aged 85 and older will more than triple.

Superannuation

Spending on Age and Service Pensions is projected to fall from 2.3%, to 2.0% of GDP in 2062-63 despite the ageing population, with superannuation increasingly funding retirements.

However, the report says the cost of superannuation concessions will increase, driven by earnings on the larger superannuation balances held by Australians.

Home ownership

The report asserts recent trends in home ownership rates - home ownership fell by 18 percentage points from 1981 to 2021 for those aged between 30 and 34, for example - and mortgage debt, present a fiscal risk to Age Pension spending in the future and may impact patterns of how superannuation is drawn down.

Workforce participation

As the population ages over the next 40 years, the overall participation rate is projected to decline gradually, from 66.6% in 2022-23 to 63.8% by 2062-63, as older people tend to work less.

The gender gap in participation is expected to continue to narrow, with men's participation predicted to be seven percentage points higher than women in 2062-63.

Care sector

The report forecasts the care and support workforce would have to double in size to meet the demand of an ageing population by 2050.

"This presents strong future job opportunities, but is a workforce planning challenge," the report says.

"Appropriate skills and training pathways, plus wages that reflect the value of care work appropriately, will be critical to encourage workers to join and stay in the care and support sector."

Climate change

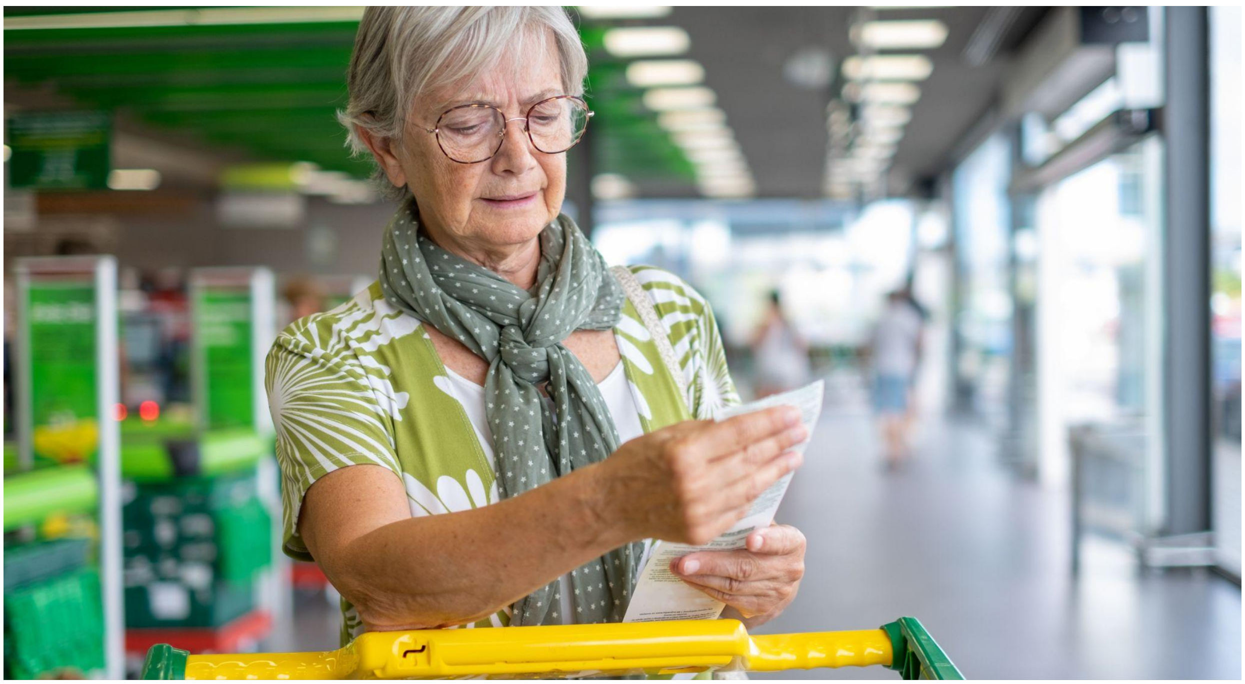
Climate change will have a significant impact on the economy but will also create growth opportunities, the report says. "With abundant wind, sun and open spaces Australia also has the potential to generate green energy more cheaply than many countries".

While global demand for Australian coal exports will decline, the report outlines how Australia has some of the world's largest reserves of minerals such as lithium, cobalt and rare earth elements to export.

"These, in combination with traditional strengths such as iron and aluminium are some of the essential ingredients in global emissions reduction as inputs for electric vehicles, batteries and renewable energy generation technologies," the report says.

Sources:
https://www.moneymag.com.au/intergenerational-report-what-you-need-to-know
https://www.moneymag.com.au/seven-unofficial-indictors-that-could-help-make-sense-of-the-economy
https://www.moneymag.com.au/medicare-style-levy-wrong-way-fund-aged-care
https://www.moneymag.com.au/paul-clitheroe-savings
https://www.moneymag.com.au/generation-worried-cant-afford-retirement

---



Why many retirees are underspending

After accumulating superannuation savings over multiple decades, many retirees are fearful of spending too much.

When it comes to life in retirement, many Australians are probably being more frugal than they need to be. And that's largely built around a fear of running out of their retirement savings before they die – an outcome that's known as longevity risk.

Giving people the confidence to spend more of their accumulated savings in retirement is likely to remain a challenge for individuals over time, and for Federal Governments in terms of how much budget funding to allocate towards the Age Pension.

The just-released *Intergenerational Report 2023* discusses longevity risk in detail, projecting that average life expectancies will continue to rise over time, reaching 87.0 years for men and 89.5 years for women by 2062-63.

Meanwhile, it projects that the proportion of people with accounts in the retirement phase, from which they are drawing a superannuation pension, will increase from 8% currently to 19% over the next 40 years.

"Longevity risk – the risk of outliving savings – is a key concern for retirees in deciding how to draw down their superannuation, consequently, most retirees draw down at the legislated minimum drawdown rates," the report notes.

"This results in many retirees leaving a significant proportion of their balance unspent, for example, a single retiree drawing down at the minimum rates would be expected to still have a quarter of their retirement assets at death."

The 2020 Retirement Income Review included projections from Treasury that outstanding superannuation death benefits could increase from around $17 billion in 2019 to just under $130 billion in 2059, assuming there's no change in how retirees draw down their superannuation balances.

How much is enough?

Retirees continue to face significant cost pressures on their household budgets due to historically high consumer price inflation.

The Association of Superannuation Funds Australia (ASFA) recently reported that the annual expenditure needed to reach ASFA's comfortable retirement standard had hit a record high in the June quarter of $70,806 per year for couples, and $50,207 for singles. The expenditure needed to reach ASFA's modest retirement standard was $45,947 for couples and $31,867 for singles.

Vanguard's recently released *How Australia Retires* study of over 1,800 working and retired Australians, released in May 2023, found that broad uncertainty over how much money will be enough to fund one's retirement is a key factor in overall retirement confidence.

"Most people rely on the Government for protection against longevity risk through the Age Pension, which provides a safety net for retirees who outlive their savings," according to the *Intergenerational Report 2023.*

"Well-designed superannuation retirement products can assist retirees to make decisions to help smooth consumption over retirement – aligning income needs with expenditure needs – and draw down on their balances efficiently. This would also enable decision making early in retirement."

Planning and retirement confidence

Vanguard's *How Australia Retires* research has found that having high retirement confidence is not dependent on age or income, but rather on having a plan.

More than half (52%) of the people we surveyed who presented themselves as being highly confident about their retirement readiness feel that they know what they need to do to achieve the retirement outcome they desire and are optimistic about this phase of their life.

They are relatively likely to use budgets and prioritise their savings. Of the participants who received professional financial advice, 44% indicated they were extremely or very confident in funding their retirement.

And, of the Australians who have never sought any professional advice, only 25% indicated they were extremely or very confident in being able to fund their retirement. Furthermore, those who had not sought professional advice or sought only the assistance of family and friends tended to have less comprehensive retirement plans.

The recent thematic review of the retirement income covenant by the Australian Prudential Regulation Authority (APRA) and the Australian Securities & Investments Commission (ASIC) into how super trustees are helping members enhance retirement outcomes concluded that more needs to be done to improve superannuation member outcomes in retirement.

"There is evidence that a high proportion of the superannuation benefits of many members in the Australian community remain unspent over the retirement phase," the review found. "This suggests the Australian community needs assistance to use their superannuation benefits for retirement income."

The Federal Government is expected to issue a discussion paper in the coming weeks that will focus on retirement income strategies and financial advice.

Source:
https://www.vanguard.com.au/personal/learn/smart-investing/retirement/why-many-retirees-are-underspending
https://treasury.gov.au/sites/default/files/2023-08/p2023-435150.pdf
https://treasury.gov.au/publication/p2020-100554
https://aemdam.assets.vgdynamic.info/assets/intl/australia/shared/documents/resources/Vanguard-How-Australia-Retires-May-2023.pdf
https://download.asic.gov.au/media/z3shktv1/rep766_published-18-july-2023.pdf

---

The generation most worried they can't afford to retire

Despite over 30 years of compulsory Superannuation Guarantee, two-thirds of Australians fear they won't have enough money to last through retirement.

A study commissioned by Findex and conducted by YouGov, investigating Australians' readiness for retirement and the impact of professional financial advice, revealed a concerning trend; as Australians approach retirement, their confidence in having adequate funds drops.

Over half of the Baby Boomers and 38% of Gen X participants reported a lack of confidence, compared to just 31% of Millennials.

Findex co-chief executive Matt Games says, "This paints the picture that most Aussies have adopted a 'kick it down the road' mentality to retirement. But when the time eventually comes, they're faced with the reality that their existing savings and superannuation balance are insufficient in this economic climate."

The ASFA Retirement Standard suggests that retirees need more than $500,000 in their super balance, far exceeding the average Australian super balance for early 60s retirees - $356,000 for men and $288,000 for women.

Adding to this bleak outlook, Findex's study also unearthed a widespread lack of financial literacy, with half of all Australians expressing doubt about their knowledge of the financial resources required for a comfortable retirement.

Meanwhile, while most (80%) of Australians believe that professional financial advice could benefit them, only 30% have sought it. Surprisingly, the research found that as participants got closer to retirement, they were less likely to consider financial advice.

Emphasising the importance of financial advice, Games says "the time to access advice is now", regardless of the nearness to retirement.

"Seeking professional financial advice should be viewed as good life hygiene like scheduling a dental check-up with a qualified dentist," he says.

"With the cost of living continuing to increase and Australians living longer, the reality for most people - particularly women - is not doing anything today will cost you.

"Most Aussies simply won't have the funds they need to live a comfortable retirement if they don't take a proactive approach to secure their financial future."

Despite this, there seems to be hurdles to seeking advice, with the perception of high costs being the main barrier.

Dispelling this misconception, Findex head of investment relations Mathew Swieconek says, "A financial adviser doesn't only provide guidance on investment strategies that align with your goals and risk tolerance.

"They provide behavioural coaching, asset allocation research and management and tax savvy planning - areas that DIY investors can often overlook and can add enormous value to wealth creation over time.

"Quantifying this, our projections demonstrate the value of advice where Aussies stand to gain 8% to 29% in benefits depending on the age they start."

Sources:

https://www.moneymag.com.au/generation-worried-cant-afford-retirement

https://www.moneymag.com.au/seeking-fire-documentary-sbs-early-retirement

https://www.moneymag.com.au/how-women-boost-superannuation

https://www.moneymag.com.au/should-more-young-australians-be-topping-up-their-super

Transferring wealth to the next generation

Inheritance planning, particularly the future division of wealth and the intended treatment of assets, should be openly discussed at the family level.

The next 20 to 30 years will see the biggest intergenerational wealth handover in history.

In what is widely referred to as the "great wealth transfer", tens of trillions of dollars of assets worldwide are expected to be shifted from the estates of 'Baby Boomers' (people born between 1944 and 1964) to their children and other heirs.

A research paper released by the Productivity Commission in late 2021 noted that around $3.5 trillion of assets will likely change hands in Australia alone by 2050.

This will mostly be in the form of residential property, unspent superannuation funds, and other investment assets that are bequeathed to family beneficiaries.

Inherited assets currently total around $120 billion per year in Australia, and this figure is expected to quadruple to almost $500 billion per year over the next 25 years.

The large increase reflects the expectation that property values will increase significantly from where they are now over the longer term, as they've done in the past.

Assessing the impacts

Of course, the transfer of accumulated wealth from one generation to the next is nothing new. It's been the norm throughout human history.

But will the record transfer of wealth that's destined to take place over the next few decades be different from past ones? By sheer volume and value, there's no doubt it will be.

In the United States, a study undertaken by research group Cerulli Associates in 2022 estimated that a massive US$84.4 trillion of personal wealth will be transferred in that country by 2045, comprising US$72 trillion in assets being shifted to heirs and a further US$11.9 trillion in donations to charities.

A big question for many researchers and economists is whether this looming mega intergenerational wealth transfer will have a greater economic and social impact across generations than previous ones have, and will it thereby exacerbate wealth inequality?

Also, how will governments respond to tackle wealth inequality and, at the same time, capitalise on potential revenue raising opportunities via taxes?

In Australia's case, the Productivity Commission found that while inheritances and gifts in Australia have more than doubled since 2002, wealth transfers are actually reducing some measures of relative wealth inequality.

That's because, on average, inheritances generally represent a small amount relative to the accumulated wealth of beneficiaries (who are often close to retirement age themselves) by the time they receive an inheritance.

Government approaches

To a large extent, the policy approaches taken by governments and tax authorities have a large impact on either reducing or increasing wealth inequality.

There are differing schools of thought on how governments should approach inheritances in general, especially in terms of so-called death taxes designed to capture revenue when accumulated assets are passed on to beneficiaries.

Inheritance taxes exist in many countries, including in the United Kingdom and in various states of the United States.

There are neither inheritance or wealth taxes in Australia as such. If you inherit a property and later sell it, you may be exempt from future capital gains tax (CGT). That's subject to a range of conditions around inherited property and CGT exemptions, which are outlined on the Australian Tax Office's website.

Planning for inheritances

Inheritance planning, unlike succession planning within a business, is an area that's rarely discussed at the family level.

Most families regard subjects such as death and the future division of wealth as unpleasant, and potentially sensitive when multiple heirs are involved.

But there's a lot to be said for having open discussions within your family about the intended treatment of assets and future inheritances.

Creating a valid will, and specifically documenting how you want your assets to be managed and divided after your death, should be a key step in the inheritance planning process.

Residential real estate and superannuation, which combined make up more than three quarters of total household assets, are the largest components of most inheritances.

Treasury estimates that assuming there's no change in how most retirees draw down their superannuation balances, superannuation death benefits will increase from around $17 billion to just under $130 billion by 2059.

Ensuring that any superannuation you have left over at the time of your death is distributed according to your wishes requires you to complete a binding death benefit nomination provided by your super fund.
It's important to be aware of any potential tax implications relating to inherited superannuation and other financial assets.
Estate planning can be complex. Consulting a professional adviser to help you and your intended beneficiaries map out an inheritance framework based around your circumstances, and who can also identify issues such as potential tax liabilities around inherited assets, is a prudent step.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/life-events/transferring-wealth-to-the-next-generation
https://www.pc.gov.au/research/completed/wealth-transfers/wealth-transfers.pdf
https://www.cerulli.com/press-releases/cerulli-anticipates-84-trillion-in-wealth-transfers-through-2045
https://www.ato.gov.au/Individuals/Capital-gains-tax/Inherited-assets-and-capital-gains-tax/Inherited-property-and-CGT/

September 2023 Age Pension payment rates revealed

Millions of age pensioners will soon breathe a little easier after Services Australia today revealed the 20 September Age Pension payment rates.

The three official indicators that determine the rate of any increase: the Consumer Price Index (CPI), the Pensioner and Beneficiary Living Cost Increase (PBLCI) and the Male Total Average Weekly Earnings (MTAWE).

The PBLCI for the six months leading up to June is sitting at 3.25 percent. The June CPI increase was 2.2 per cent. That means the new pension payments are based on the PBLCI.

Government payments are indexed in March and September to keep pace with rising cost-of-living. In total, about 4.7 million Australians will receive increased payments when the indexation takes effect on 20 September.

The single rate of the Age Pension, with supplements, will increase by $32.70 per fortnight – from $1064 to $1096.70. The rate for each member of a couple, with supplements, will increase by $24.70 per fortnight – from $802 to $826.70.

The Age Pension disqualifying limits have also increased.

For a single person, the limit has lifted from $2332 per fortnight to $2397.40 – an increase of $65.40. The new limit for couples combined is $3666.80 – an increase of $98.40. For illness-separated couples, the new limit is $4746.80 – an increase of $130.80.

Increases to the JobSeeker rate and Commonwealth Rent Assistance have already been locked in and will also take effect from 20 September.

The Australian Institute of Health and Welfare (AIHW) estimates that one in 83 Australians aged 65 and over receive a JobSeeker payment. So, around 30,300 older Aussies will receive a boost to their income.

Australians receiving Commonwealth Rent Assistance – a payment widely criticised as being no longer fit for purpose given huge rent rises across the country – will increase by $27.60 per fortnight for singles – from $157.20 to $184.80.

Each member of a couple will receive an extra $26 per fortnight with the allowance rising from $148 per fortnight to $174.

INSIDE

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Estate Planning is not just for retirement

Many people think that Estate Planning is only for people who are close to retirement, especially if we fall into the trap of thinking that Estate Planning is just about getting a will. But did you know that Estate Planning addresses key protection strategies whilst you're still alive? It doesn't matter who you are, Estate Planning is for everyone.

What are the key pillars of Estate Planning?

Estate Planning is all about making sure that you get the choice as to what happens to you and your assets – whether that's if you need someone to make decisions on your behalf, or you pass away and your estate needs to be divided up.

1. Advance Care Directive

Should something happen to you, and you are unable to communicate decisions about your medical care and treatment, an advance care directive allows you to:

- Give other people directions about any future health care you may need,
- Make your wishes about the type(s) of treatment you want (and don't want) known to medical professionals and,
- Appoint someone you trust to make decisions about health care on your behalf.

As long as the directive is valid, it must be followed and cannot be overridden by medical professionals or family members.

2. Power of Attorney

A Power of Attorney allows a person who you nominate to make financial and legal decisions on your behalf if you lose capacity as a result of illness, injury or disability.

They can help ensure important financial and legal matters are handled without delay if you can't manage them yourself – for example, paying your bills, managing your bank accounts, managing your investments and buying and selling property.

3. A Valid Will

Whereas the first two pillars ensure that important matters are handled in accordance with your wishes if you're incapacitated, a will ensures that those same matters are handled in accordance with your wishes after your death. A will gives you the best chance of ensuring that your assets go where you want them to.

If you die without a valid will:

- The public trustee will determine how your estate is to be distributed, which can take a lot of time and consultation with related parties.
- If you have a complex estate, children from different relationships, or are separated but have a new partner, this could lead to legal proceedings, infighting amongst relatives and your assets being distributed against your wishes.

4. Superannuation

When you pass away, your superannuation is distributed to the person(s) you have nominated in the fund's death benefit nomination. However, this may not be binding on the super fund, and if you haven't nominated a beneficiary this could result in a lengthy process as the super fund trustee needs to decide who gets the money.

Superannuation is also not automatically included as part of your estate. The best way to ensure your super is distributed in accordance with your wishes is to nominate your legal personal representative. Your Executor will then be required to distribute your super according to your Will.

An estate plan gives you choice and control

Whilst growing your wealth is one part of a great financial plan, protecting your wealth in the event of your incapacity or death is just as important. Ensuring that your estate plan is in order gives you choice and control in how your affairs and assets will be handled, which in turn benefits both you and your loved ones. If you would like to explore your estate planning options, contact us to get started.

INSIDE

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

The Pillars of Retirement Income

While older Australians are reportedly among the wealthiest retirees in the world, much of their wealth is tied up in their family home, leaving many to worry about how they will find the money to pay for their day-to-day expenses when they stop work.

This fear is made worse by estimates from the Association of Superannuation Funds of Australia that the minimum cost of a comfortable retirement for a single person in Australia is roughly $50,000 a year, while for couples, it's $70,482.

During the past two decades, Australians have been able to rely on the so-called 'Three Pillars of Retirement Funding'. These include the age pension funded by the Federal Government, compulsory superannuation and voluntary savings.

However, a recent 'Household Capital: Your Life Choices' survey, published by research house MorningStar, showed 85 per cent of all retiree respondents are unaware of these three potential sources of income through retirement.

This is significant given that preparation for retirement should start at least ten years before your planned retirement date to optimise your financial situation.

But what exactly does that all mean, and why?

Most retirees understand the concept of the age pension:

- that it is asset-tested and income-tested;
- that once you qualify for it, it will likely be paid to you for life;
- that it is indexed for inflation; and
- has no risk associated with it.

It is a fantastic safety net for all Australians, providing them with a regular, if modest, income throughout their retirement.

Any other assets you hold or inherit through retirement can further boost this income. However, the more assets you own, the smaller your pension entitlements will become until you are not eligible for any age benefits.

This is where it is crucial to start planning early.

For many Australians, the full potential of superannuation is yet to be seen, given that compulsory superannuation only really spread through the community some twenty years ago, and many older Australians still have relatively modest superannuation balances.

Superannuation, though, still remains a central pillar of retirement planning, as once a private pension commences from your superannuation account all the assets supporting that pension, in terms of capital gains and income, become tax-free. The income paid from your super account is also tax-free.

The biggest issue for retirees, however, is that strict rules surround when you can contribute to super and how much you can contribute when you do make these super contributions.

Most Australians are familiar with the superannuation contributions their employer makes on their behalf, and some understand what is involved with salary sacrificing and how this can be used to reduce their annual tax bill.

Fewer, though, understand they can contribute up to an extra $110,000 annually to super with after-tax dollars. And if they downsize their family home, they can contribute $300,000 over and above their other contribution limits.

These rules are essential because, as many retirees are learning, if in retirement their only assets are their home and their savings within super, then they may never need to lodge a tax return or pay tax again.

This can be a big issue for retirees looking to hold assets outside of super, such as investment property or other savings, and who are hoping to use these assets to help support themselves through retirement.

Without adequate planning in the years leading up to retirement, they may find they cannot squeeze these savings into superannuation, or at least not as quickly as they hoped, and they end up paying needless tax bills.

As a result, it has never been more important to plan for your retirement as early as possible and obtain sound financial advice on how to structure your finances in retirement, as the penalties for getting it wrong can be significant.

Sources:

https://treasury.gov.au/ "Retirement Income Covenant", Household Capital, August 2021.

https://treasury.gov.au/ "Retirement Income Review Final Report", The Australian Government the Treasury, July 2020.

https://www.superannuation.asn.au/ "ASFA Retirement Standard Summary", The Association of Superannuation Funds of Australia (ASFA), March 2023.

https://www.firstlinks.com.au/ "Solutions to unite the three pillars of retirement funding", Joshua Funder, Firstlinks, 8 December 2021.