Boomers keep on working

The GFC was the final nail in the coffin for retiring at age 55. Each year working beyond age 55 extends retirement capital by three years, writes **Lesley Parker**.

There was a time when retirees in investment ads were wrinkle-free and carefree. They were living the dream of retiring at 55, cavorting on the beach or riding rickshaws in exotic locales.

But the reality looks vastly different for ageing baby boomers. These days, the ads feature grim-faced retirees talking about protecting their income.

GFC

Even before the global financial crisis, the rosy picture being painted relied on a number of assumptions proving correct – not the least of which was the boomers having enough years in the superannuation system to accumulate the sort of sum needed to retire early.

The GFC was probably just the final nail in the coffin of retirement at 55.

An academic at the University of Sydney, Michael Rafferty, who is embarking on a four-year study of retirement after winning an Australian Research Council fellowship, says there was a period when the retirement age was falling and some people were able to stop work at 55.

But that was in the days of defined benefit pension schemes, which guarantee a certain income upon retirement, and when parents had a life expectancy of 75 and could still leave their 55-year-old offspring a useful inheritance.

Today, most Australians are in defined-contribution schemes where they – not employers – carry the risk that investment losses will erode retirement savings.

At the same time, their parents are living longer and requiring more health and residential care, meaning an inheritance will come later, if at all. High house prices may leave boomers still in debt at 55 or even 65.

"We were retiring earlier and earlier until about 10 years ago, and then things started to roll backwards," Rafferty says.

"While people used to look forward to retirement as a time to hook up the caravan, now it's something they worry about. Fluctuating balances mean you can't make solid plans any more."

WORK LONGER

A recent survey of retirement intentions by the Australian Bureau of Statistics found the average age of retirement for those who'd left work in the previous five years was 61.4.

What's more, 13 per cent of survey respondents aged 45-plus said they thought they'd never retire – something Rafferty describes as "a significant social change inside a generation".

The Ipac Securities national manager for advice development, John Dani, says: "The brutal fact is most people are significantly undersaved at age 55 to be able to maintain their desired lifestyle in retirement."

Even 60 can involve a bit of a reality check considering your money is likely to have to last another 25 years, Dani says. That's if you live the average life expectancy, and one in five Australians now aged 65 will live to 97, he says.

"This generation of baby boomer retirees will probably be one of the first facing the very real possibility of actually outliving their funds because of increased longevity," he says.

Cheery. So what to do?

The good news is that people who start planning early enough – at least five years out from their target retirement date, Dani says – have a number of options. For a start, not accessing your retirement savings quite as early has a dramatic impact, Dani says.

A rule of thumb is that for every year someone works beyond 55, they extend their retirement capital by about three years, he says. That's because of the double benefit of not drawing on the funds you've accumulated so far, while adding more on top as your employer continues paying the super guarantee.

So, while at 55 you'd need about $850,000 to generate an income of $25,000 a year to age 85, at 65 you'd need just $555,000 to reach the same goal.

Turning it around the other way, a director of the technical advice firm Strategy Steps, Louise Biti, says someone who has $400,000 in retirement savings at age 55 – closer to the truth, but still above average – can expect only a "modest" lifestyle in retirement if they retire then. And that's if they manage an average return of about 7 per cent on their investments.

Work until 70, however, and they'll have enough for a "comfortable" retirement on $44,000 a year until they reach the age of 90 (see table, right).

AND SAVE MORE

Biti says you can get an even better outcome by topping up your compulsory super with voluntary contributions in combination with working longer.

That same 55 year old could bring a "comfortable" retirement a few years forward if they salary sacrifice $500 a month into super.

Preferably, they'd start salary sacrificing from an even younger age. "The earlier you start, the less you have to put aside to get the same impact," Biti says. "You can save smaller amounts to get to the same place."

The question is whether you're prepared to trade off lifestyle now for lifestyle later. Biti warns, however, that putting off until tomorrow what you can do today has its risks. Adverse changes in employment or health could wipe out the opportunity to contribute more later.

If you don't want to continue to work full time, don't go cold turkey but instead continue working part time or on a contract basis.

The retirement researcher and author, Jill Weeks, says she has spoken to many people whose plans took a hit in the wake of the GFC and their experience suggests that transitioning out of work is better than making a sharp break.

"Once you pull the pin, it can be quite difficult to get back in," Weeks says.

Biti looks back to periods when people calculated they were able to retire in an environment where market interest rates were 14 per cent, figuring that "even if they fall to, gee, 9 per cent, I'm OK".

"Suddenly rates go down to 2 per cent to 3 per cent and they're in a lot of trouble," she says.

GET PROTECTION

One of the big risks is that your retirement will coincide with a sharp market downturn.

Dani says people should protect their savings by putting in place some form of protection.

There's a range of guarantee options available these days, the cost of which can be viewed as a premium to buy at least some insurance against the downside, he says.

And don't wait until the day you retire to adjust your asset allocation to a more conservative stance, he says.

"It's not about putting everything in cash or everything in growth.

"It's about being prudent so you're not forced to crystallise losses on the growth portion of your super."

Some people may want to consider the possibility – not necessarily immediately – of downsizing the family home to release money, Dani says.

"Some people may still decide to retire, understanding that their capital may erode quickly, and at some point in time they may need to seriously look at releasing capital from their home by

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Lynda Roberts doesn't see an end in sight – just as well she loves her job

Lynda Roberts's story will be familiar to many women nearing retirement age. Rearing a child and then working for herself means she has only small amounts of super in multiple accounts. Divorce at 55 left her with a house but also a mortgage.

"I've got minimal super – I wouldn't have enough to provide a basic wage," Roberts says.

It's just as well she loves her job as a real estate agent, a career she recently picked up again after a 24-year break.

Now 60, she decided three years ago to go back into real estate. "I'll be working until I drop," she says. "And you know what, I'm glad. I love my job.

"I don't see a problem working for the next 10 years – I don't feel 60."


Back in harness ... Lynda Roberts returned to the real estate industry after 24 years.

Can't rely on super alone

Musician and businesswoman Sally Arnold, 61, says the global financial crisis wiped off about a third of the value of the blue-chip shares in her DIY super fund. This, combined with the fact that she still has a mortgage – "a challenge at my age" – means retirement isn't in sight.

Arnold, a former professional flautist, is founder of Corporate Creative Directions, which brings techniques used in the creative arts into workplaces and boardrooms.

She set up her own super fund after she left paid employment 15 years ago. She she says it was bubbling along nicely for many years before the GFC.

Still, as an eternal optimist, she says this setback has only made her more focused on her business and organising her finances.

"I know I can't rely on super."

Photo: Michael Clayton-Jones

Retire later, save more

To illustrate the difference retiring later and saving more can make, we asked Louise Biti of Strategy Steps to look at two scenarios: the impact if a 55-year-old kept working, and the impact if they kept working and topped up their compulsory super with a further $500 a month.

Biti assumed the 55-year-old earns $100,000 a year and has $400,000 in the balanced option of their super fund. She also applied the assumptions used in ASIC'S moneysmart retirement calculator (moneysmart.gov.au/tools-and-resources/calculators-and-tools/retirement-planner) of a 7.5 per cent investment return on average before retirement and 6.5 per cent after retirement, along with a life expectancy of 90. The ASFA Retirement Standard suggests a single person needs about $22,000 for a "modest" retirement but just more than $40,000 a year for a "comfortable" lifestyle.

$400,000 IN SUPER AT 55: IMPACT OF WORKING LONGER AND EARNING $100,000 A YEAR

RETIREMENT AGE	RETIREMENT INCOME ($ pa)	CONTRIBUTING TO SUPER ($)*
55	25,000	25,000
60	30,100	30,800
65	36,000	37,600
70	44,000	47,000

*Compulsory super plus salary sacrifice of $500 a month.
SOURCE: STRATEGY STEPS, MONEYSMART.GOV.AU