KP Financial Planning

# Prepare for Life

Winter 2024

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# Living your best life IN RETIREMENT

**If you're nearing retirement age, it's likely you're wondering if you will have enough saved to give up work and take it easy, particularly as cost-of-living increases hit some of the basic expenses such as energy, insurance, food and health costs.**

Fortunately, someone has already worked out what you might need.

The Association of Superannuation Funds in Australia (ASFA) updates its Retirement Standard each quarter, which provides a breakdown of expenses for two types of lifestyles: modest and comfortable.[i]

Based on our average life expectancy – for women it is just over 85 years and men 81 – if you are about to retire at say age 67, you will have between 14 and 18 years in retirement, on average and depending on your gender.[ii]

ASFA finds that a couple needs $47,387 a year to live a modest lifestyle and $72,663 to live a comfortable lifestyle. That's equal to $902 a week and $1,387 respectively.

The figure is of course lower for a single person – $32,915 for a modest lifestyle ($628 a week) or $51,630 ($986) for a comfortable lifestyle.[iii]

What does that add up to? ASFA estimates that, for a modest lifestyle, a single person or a couple would need savings of $100,000 at retirement age, while for a comfortable lifestyle, a couple would need at least $690,000.[iv]

A modest lifestyle means being able to afford everyday expenses such as basic health insurance, communication, clothing and household goods but not going overboard.

The difference between a modest and a comfortable lifestyle can be significant. For example, there is no room in a modest budget to update a kitchen or a bathroom; similarly overseas holidays are not an option.

The rule of thumb for a comfortable retirement is an estimated 70 per cent of your current annual income.[v] (The reason you need less is that you no longer need to commute to work and you don't need to buy work clothes.)

## Building your nest egg

So how can you build up a sufficient nest egg to provide for a good life in retirement? There are three main sources: superannuation, pension and investments/savings.

Superannuation has the key advantage that the money in your pension is tax free in retirement.

Your superannuation pension can be augmented with the government's Aged Pension either from the moment you retire or later when your original nest egg diminishes.

Your income and assets will be taken into account if you apply for the Age Pension but even if you receive a pension from your super fund, you may still be eligible for a part Age Pension. You may also be eligible for rent assistance and a Health Care Card, which provides concessions on medicines.[vi]

## Money keeps growing

It's also important to remember that the amount you accumulate up to retirement will still be generating an income, whether its rentals from investment properties or merely the growth in the value of your share investments and the accumulation of money from any dividends paid.

You can also continue to add to your superannuation by, for instance, selling your family home and downsizing, as long as you have lived in the home for more than 10 years.

If you are single, $300,000 can go into your super when you downsize and $600,000 if you are a couple. This figure is independent of any other superannuation caps.[vii]

***Planning for a good life in retirement often requires just that – planning. If you would like to discuss how retirement will work for you, then give us a call.***

i Retirement Standard - Association of Superannuation Funds of Australia
ii Life expectancy, 2020 - 2022 | Australian Bureau of Statistics (abs.gov.au)
iii https://www.superannuation.asn.au/media-release/retiree-budgets-continue-to-face-significant-cost-pressures/#:~:text=The%20ASFA%20Retirement%20Standard%20December,to%20around%203.5%20per%20cent.
iv https://www.superannuation.asn.au/resources/retirement-standard/
v https://www.gesb.wa.gov.au/members/retirement/how-retirement-works/cost-of-living-in-retirement
vi Assets test for Age Pension - Age Pension - Services Australia
vii Downsizer super contributions | Australian Taxation Office (ato.gov.au)

# Caught IN THE middle:

# HELP FOR THE SANDWICH GENERATION

If you are feeling a bit like the meat in the sandwich you are not alone. The 'sandwich generation' is a growing social phenomenon that impacts people from all walks of life, describing those at a stage of their lives where they are caring for their offspring as well as their elderly parents.

The phenomenon is gathering momentum as we are tending to live longer and have kids later. It even encompasses royalty – Prince William has been dealing with a sick father while juggling school aged kids (as well as a partner dealing with serious health issues).

## A growing phenomenon

The number of people forming part of the sandwich generation has grown since the term was first coined in the 1980's. It is estimated that as many as 5% of Australians are currently juggling caring responsibilities which has implications for family dynamics, incomes, retirement and even the economy.[i]

Like many other countries, the number of older Australians is growing both in number and as a percentage of the population. By 2026, more than 22 percent of Australians will be aged over 65 - up from 16 percent in 2020.[ii] It is also becoming more common for aging parents to rely on their adult children for assistance when living independently becomes challenging.

The other piece of bread in the sandwich is that as a society we are caring for kids later in life. The median age of all women giving birth increased by three years over two decades.[iii]

And with young people staying in the family home well into their twenties, we are certainly supporting our children for longer. Even after the kids leave the nest, it's also common for parents to become involved in looking after grandchildren.

## Taking its toll on carers

While we want to support our loved ones, when that support is required constantly and intensively for both parts of the family, it can mean that something has to give and that 'something' is often the carer's well-being.

Even if you are not part of the sandwich generation but being squeezed at either end – caring for kids or parents, acting as a primary care-giver often requires you to provide physical, emotional, and financial support. It's common to feel it take a toll on your own emotional and physical health, and sometimes your finances as you sacrifice some of your savings or paid work to help your loved ones.

### Support for caregivers

It can be difficult to acknowledge you need assistance but there are a number of ways you can access help.

#### Deciding what to get help with

It can feel like there is not enough hours in the day and that's overwhelming. Try to think about what you really need to do and where your time is best spent and consider if you can get assistance with tasks or duties you don't have to do. This may mean outsourcing things like buying a healthy meal instead of cooking or getting a hand with gardening or lawn mowing.

Think about what others could assist with to lighten and share your load.

#### Accessing support

There are also support networks out there that exist to take off some of the pressure. Reach out to local support networks via Carers Australia for help identifying mainstream and community supports.

You or your loved ones may also be entitled to government support, under the *National Disability Insurance Scheme* (NDIS) or *My Aged Care*. These programs provide funding and resources to help pay for essential care; from domestic assistance with cleaning and cooking, to home modifications, to 24-hour care for those who require more support.

#### The importance of self-care

It's vital to take some time out for yourself and make your own wellbeing a priority. Don't feel that it's selfish to take care of your own needs as that's an essential part of being a carer. Resources like respite care and getting support when needed is an important gateway to self-care.

#### Managing your finances

Caregiving can put financial pressure on the whole household and has the potential to impact retirement savings. The assistance of a trusted professional can help, and we are here if you need a hand.

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i https://info.careforfamily.com.au/blog/sandwich-generation

ii https://www.sydney.edu.au/news-opinion/news/2023/10/09/confronting-ageing-the-talk-australia-has-to-have.html

iii https://www.abs.gov.au/ausstats/abs@.nsf/2f762f95845417aeca25706c00834efa/b130815d4b2de356ca2570ec000c1c60!OpenDocument

# Markets love certainty, but what happens next?

Financial markets can be like finely tuned racehorses, poised to gallop ahead under ideal conditions but often highly reactive to unexpected events.

It's often said that the markets love certainty. Investors feel more confident when economic conditions are stable and predictable.

But certainty in financial conditions is never a sure thing. Uncertainty is always just around the corner with the possibility of changes in interest rates, new laws or regulations, upheavals in overseas markets, a breakdown in Australia's relationship with a major trading partner, and wars and political instability.

As a result, stability and predictability are most often fleeting with peaks and troughs in prices inevitable.

Look at the past few years. Between 2020 and 2022, we were dealing with the side effects of COVID-19 on the economy and markets. Since 2022, interest rate rises, increases in the cost of living and conflicts in Ukraine and the Middle East have caused further market volatility.

This year, global political stability may be affecting markets with almost 50 per cent of the world's population due to head to the polls to choose new governments including the United States, India, Russia, South Korea and the European Union.[i] Interest rate movements in Australia and overseas are another focus.

In this dynamic environment, investors find themselves grappling with crucial decisions about how to safeguard and optimise their portfolios.

It could be useful to know that making hasty decisions, reacting quickly to the latest event, may not be the best move.

Consider the performance of various assets classes over 24 years. If you had invested $10,000 in a basket of Australian shares on 1 February 2000, for example, your portfolio would have been worth $67,717 at 31 January 2024, delivering a return of 8.3 per cent each year.[ii] The same amount invested in international shares over the period would have provided a 5.4 per cent annual return with your portfolio then at $35,373.

US investment advisers Dimensional have calculated the risk to a portfolio of being out of the market for even a short period.

An investment of US$1,000 in 1998 of stocks that make up the Russell 3000 Index, a broad US stock benchmark in 1998, would have turned into US$6,356 for the 25 years to 31 December 2022. But if you had decided to sell up during the best week, before later reinvesting, the value would have dropped to US$5,304. Miss the three best months, which ended June 22, 2020, and the total return dwindles to US$4,480.[iii]

In other words, reacting to events by quickly selling up can have an unwelcome effect on your portfolio.

Trying to time the market by identifying the best and worst days to buy and sell is almost impossible. Investing for the long-term in a well-diversified portfolio can better suit some investors.

Historically, long-term investors who have weathered short-term storms have been rewarded.[iv] Markets have shown they tend to recover over time, and a diversified portfolio allows investors to capture the upside when conditions improve.

And there's a bonus. The compounding effect of returns over an extended period can significantly enhance the overall performance of a portfolio if they are reinvested.

## Why diversify?

Different asset classes – such as shares, bonds and cash – perform differently at different times.

By diversifying investments across different asset classes, regions and companies, can work towards reducing the effect of a poorly performing asset on the overall portfolio, providing a buffer against volatility and lowering risk.

Appreciating the lessons learned from the past while also understanding that past performance may not predict future performance, is a helpful way of navigating the uncertainties of the global markets.

***We can help you stay committed to a robust investment strategy, design a portfolio that meets your objectives and help navigate the complexities of the markets. Reach out to us to help you invest confidently.***

i The Ultimate Election Year: All the Elections Around the World in 2024 - Elections Around the World in 2024 | TIME
ii https://insights.vanguard.com.au/VolatilityIndexChart/ui/retail.html
iii What Happens When You Fail at Market Timing | Dimensional
iv Vanguard Index Volatility Charts

We hope you enjoyed our quarterly newsletter Prepare for Life.

Please contact our office if you would like to discuss anything in this edition.

**Greg Roberts**

**Damien Roberts**

KPFP
KP Financial Planning

Suite 9, 11 Barber Street, Kalamunda WA 6076
P 08 9293 3855
E contactus@kpfp.com.au
www.kpfinancialplanning.com.au