It's time to save hard

Susan Hely gets advice about a couple's plans for retirement

NAME: Don and Margie McGrath
STATUS: Empty nesters
QUESTION: With retirement on the horizon, where is the best place for our savings and which superannuation investment option is suitable for our level of risk?
SOLUTION: It may be time to pull back to a more conservative investment option for your super, but be wary of government bonds. Every 12 to 18 months make non-concessional contributions to Margie's super that can be rolled into a tax-free transition to retirement income stream.

Once your children leave home, there is a window of opportunity to save hard for retirement. In Don and Margie McGrath's case, their three children are all through university and working full time. Don views their own remaining working years as a time to "really set ourselves up". Don, a pilot with Qantas, calculates retirement is about eight to 10 years away. "Our adult children are financially independent but we will happily assist with further educational costs," he says.

Don has diligently contributed to his super, twice opting for super contributions over pay increases. He is curious how much the experts recommend he needs in retirement. The pair, content with a fairly simple lifestyle, are happy to cut expenses on retirement.

Don has switched out of the Qantas defined benefit fund into the accumulation fund so he has total responsibility for the choice of investment. He switched from high growth to balanced, but is it the right option or should he pull back to a more conservative portfolio? He would like to contribute more to his super but is restricted by the cap on contributions, which drops to $25,000 from July this year, so he would like to accumulate savings outside super. Currently he holds some cash in a high-yielding savings account. He is wary of the sharemarket and cashed out his shares in the GFC. He has exposure to the sharemarket through his superannuation. "I'm fairly conservative," he explains. Also with property prices going down, is it time to invest in property?

Susan Hely was a senior writer on investment at The Sydney Morning Herald. *She wrote the best-selling book,* Women & Money

Review your strategies

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Don and Margie, you are in the secure position of being on track to enjoy a comfortable retirement in the next five to 10 years. You are also within months of your super "preservation age" of 55. This magic age opens up some great planning opportunities. I recommend these steps:

Review your investment structure – what is the best investment vehicle for your savings?
At this point in your life, a thorough review of your investment structure is really worthwhile. In this review you should look at the alternatives available to you, comparing tax, fees and access to investment opportunities.

Once you reach "preservation age" later this year, you will have the opportunity to roll your super into lump-sum withdrawals if you have some unrestricted, non-preserved component.

Within grasp of a comfortable retirement, you should consider carefully what sort of risk you want to take with your savings. You should aim to at least keep up with inflation, but you don't need to take a lot of risk to reach a comfortable retirement balance. Pulling back to a more conservative portfolio is worth consideration – although you do need to be conscious of how much you invest in government bonds, given that interest rates all around the world are at historic lows. Term deposits are a safe bet right now.

We recommend you think carefully about borrowing to invest, as

With careful planning your savings should set you up well

a transition to retirement income stream (TRIS). The beauty of this investment structure is that investment earnings are tax-free.

The "catch" with a TRIS for high-income earners is that each year it has to pay you a pension which is included in your taxable income. For someone under 65, the minimum pension that must be paid is currently 3% of the fund balance. This additional income tax could be more than you save in tax on your super investment earnings.

With careful management, this additional income tax can be reduced and potentially eliminated. For instance, there is the opportunity to delay the start date of the TRIS, to also delay the 2018 pension payment until after you turn 60 and, importantly, to make use of tax-free this is a relatively high-risk strategy. Negative gearing sounds attractive as it involves tax savings, but it is still a strategy that entails losing money every year in the hope of making a capital gain. What if property prices stagnate? Or worse, fall? We question whether this is a risk you need to take.

Your ongoing savings strategy
We recommend you accumulate savings in a bank account in Margie's name (she pays little tax) and make non-concessional contributions every 12-18 months to Margie's super, which can then be rolled into a tax-free TRIS. With some careful planning and regular saving, your savings should set you up well for retirement. You will have less than you currently spend but, if you assume your spending will fall in your retirement, you should be able to draw more in the earlier years.

SCOTT HAWKINS

Up to you now

ANDREW REEVE-PARKER

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Don and Margie, exiting a defined contribution plan was a significant decision and the responsibility for generating a sufficient investment return to meet your living expenses in retirement is now your own.

It is important that you implement a robust asset allocation, complemented with appropriate investments, to afford yourselves lifestyle choices in retirement.

I would look to invest about 40% of your available cash in bonds and income securities and 30% in equities and market-neutral or long/short equity managers, as they have the ability to make money in any market environment.

I see no harm in adopting a wait-and-see approach, with up to 30% of your funds remaining in high-interest cash and term deposits. This asset-class allocation could be considered a moderate investor profile.

There are plenty of new investment opportunities coming to market, such as the established listed investment companies with very healthy balance sheets launching convertible bonds and reset preference shares with yields of up to 10%.

Utilising the tax concessions available within superannuation is an important way to protect your wealth from tax and thereby grow your capital base.

Either Don or Margie can contribute your additional savings to a superannuation account, preferably the one who is closer to preservation age.

If it is Don, ensure that you contribute the funds to a new superannuation fund as this will provide you with flexibility to initiate a pension to completely remove tax costs.

You may like to consider converting your existing superannuation to a pension.

The effectiveness of this strategy will depend on the return that you are able to generate as you may end up paying more personal tax than you save by removing the 15% tax on the earnings of your fund that are taxable.

Minimise the risk

PETER KOULIZOS

Peter teaches property and share investment courses at various universities. His recent book is *The Property Professor's Top Australian Suburbs*. www.thepropertyprofessor.net.au.

Comparing shares with the property market, the yields on the sharemarket are higher than they are if you buy property. However, if you look at the risk-adjusted returns, property wins hands down. Considering you are looking to invest for retirement, you should be aiming to minimise your risk.

With property prices on the way down, this is an excellent time to pick up a bargain. Undervalued properties abound, but you need to ensure that the property you buy has the potential for capital growth. There is not much point in buying a cheap property if it is always going to remain cheap.

So far as utilising funds is concerned, I'd suggest you leave your cash in the bank and borrow as much as possible. I imagine that you are on the highest tax bracket and would benefit greatly from negative gearing. However, negative gearing works only if the property increases in value at a greater rate than the losses you make on an annual basis. There is no point in having a negative cash flow of, say, $15,000 a year if the property is not increasing in value by at least this amount on an annual basis.