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Get ready to buy your yacht

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Want a retirement that's more than just 'comfortable'? It depends on what you do today.

Rather than hoping just to get by, use your super now to make your dreams real, writes Nigel Bowen.

"Lots of people can afford to buy a yacht when they retire – it's just a matter of whether they can then use it just for sailing or have to live on it," says ANZ Wealth's Patrick Clarke.

To make sure it's just for sailing, your investment into super may need to be an active priority throughout your working life. Though that just means it needs some periodic attention from you.

(For the record, a modest second-hand yacht starts at about $140,000.)

It's not uncommon for people of working age to think about how they could achieve the lavish lifestyle to which they would like to become accustomed. But they don't often extend that to when work commitments and the demands of raising a family have ceased.

So here's a short list of some of the ways Australians may be able to achieve the kind of yacht-buying retirement that dreams are made of:

- consolidate multiple super funds into one
- eliminate unnecessary insurance in your super
- make voluntary contributions to super
- actively choose your super investment option
- sell investment properties at retirement
- sell a large home and downsize at retirement.

From comfortable to extra comfortable

The Association of Superannuation Funds of Australia (ASFA) hasn't calculated what is required to fund an extravagant dotage. It has, however, looked into what's needed for a comfortable one.

“A comfortable retirement lifestyle is one that enables an older, healthy retirees to be involved in a broad range of leisure and recreational activities,” says the association’s interim chief executive officer Jim Minto.

“It provides a good standard of living. One that includes the purchase of household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, domestic, and occasionally, international holiday travel.”

Excluding their residence, ASFA estimates (http://www.superannuation.asn.au/media/media-releases/2015/media-release-18-august-2015) that a couple will need total household assets for investment of $640,000 to have a comfortable retirement, which will yield an annual income of $59,236. (A single person needs $545,000 to be in the same position.)

Presently, only around 30 per cent of couples and 20 per cent of singles are enjoying this level of retirement.

If you’re aspiring to an extra-comfortable retirement, the kind where you’ve got a million dollars or more in your super account and have an annual income of at least $75,000 a year, then listen up: only around 1.5 per cent of Australian retirees are currently in this position.

If you aspire to yacht ownership (or similar luxury asset), a modest second-hand yacht starts at about $140,000. If you’re looking at one of the 5000 to 7000 superyachts in existence around the world, prices start at a few million dollars and go up to $700 million.

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What to do to live the dream

“Given compulsory superannuation was only introduced in 1992 and started off at 3 per cent, different generations find themselves in different positions,” notes Patrick Clarke, head of product development and platform strategy at ANZ Wealth.

“On average, older Australians have smaller super balances but are better off in terms of property assets.”

On the other hand, most 30-something Australians should be in a better position when it comes to their super as they’ve been paying around a tenth of their income into super since they got their first job.

Those on the other side of 40 can also hope for a prosperous lifestyle later in life. But there’s no getting around the fact they’ll almost certainly need to take a more proactive approach to achieve it.

He suggests Australians check they’re not victims of super leakage. They also may need to consider consolidating their super funds so they aren’t paying lots of different fees and check they don’t have a lot of unneeded insurance through their super funds that’s causing them to pay unnecessarily high premiums.

After checking for leakage, it’s time to move onto investment strategies.

“People may not realise that within their superannuation they can opt for more or less risky investment options,” notes Clarke. “Especially if they have at least 10 years until retirement and the ability to recover from a downturn, it’s worth them considering employing a more aggressive investment strategy to chase higher returns.”

Naturally this depends on your risk tolerance, other personal circumstances, needs and objectives.

“If the proposed superannuation changes capping lifetime contributions come into effect, a small proportion of Australians may need to consider putting their money into things such as managed funds, direct equities or an investment property [outside of super],” Clarke says. “But for most of those over 50, putting any extra money available into super can be a tax-effective choice.”

“If people sell a large family home, and possibly an investment property or two as well, they may realise a substantial amount of equity that could be used to fund an enjoyable retirement.”

Clarke is pointing out that the surging property market of recent decades means many Baby Boomers and Gen Xers may be able to look forward to a well-to-do retirement, even if their super balance appears anaemic: if they can access the capital they’ve built up in property and the property market remains buoyant.

But don’t just rely on that: Australian Bureau of Statistics data shows only one in 30 Australian households have an investment property. So make sure your investment into super is an active priority throughout your working life.

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