

Super regrets

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People desperately trying to save for retirement while the government is reducing their scope to save by using tax concessional super could be a major reason why a sizeable number exceed their contribution limits and are then slugged with penalty taxes.

The final years prior to retirement are the most likely time people will save, Investment Trends researcher Tim Cobb says, but he notes that the reduction in contributions limits has made it a lot harder for them.

With further reduction in limits due to come into force next year, this suggests there will be more people in the future who will regret not having saved more throughout their working years.

A survey by Investment Trends has found about half of Australia's retirees wish they had saved more super. When asked what they would change if they could start their working life again, 46 per cent of retirees said they would make extra super contributions, start saving earlier, or save more consistently.

The survey suggests a large number of Australians are poorly prepared for retirement, Cobb says, and that many have unrealistic expectations for their retirement savings. Among those yet to retire, around one in four expect to earn 10 per cent a year on their retirement savings, considerably more than recent returns.

Before retirement, Australians expect on average they will need \$56,000 a year to lead the retirement lifestyle they are looking for. But once they retire they spend on average just \$39,000 a year – about 30 per cent less, according to the survey. Furthermore, their spending declines to an average \$32,000 a year after 10 years in retirement.

Other findings in the survey suggest those in their 40s and 50s underestimate their life expectancy and from there the amount of retirement savings they will need. However, retirees currently in their 80s expect to live to 95 on average, and only one in eight say they are in poor health. This gives them an average of 31 years of retirement — a long time to make their savings last, Cobb says.

On a positive note, those with more super retire earlier, expect to live longer and on average actually do so.

Cobb says while about 47 per cent of retirees say that living in retirement is cheaper than expected, it also seems likely many adjust their lifestyles to fit their means. This is particularly noted by those negatively affected by the global financial crisis, of whom about one-third say they have somewhat less income than before, and one in seven say they have substantially less income.

The Australian Financial Review

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