Super for singles

PRINT EDITION: 14 Nov 2011

Debra Cleveland

More Australians are approaching retirement as single households and, without extra income from a spouse or life partner, the task of funding their retirements will prove much harder.

Figures from the Australian Bureau of Statistics reveal a rise of almost 82 per cent in single people aged between 50 and 60 compared with 10 years previously.

Costly fallacy

These include individuals who are divorced, widowed or who have never married. In 2006, they numbered 740,112, compared with 407,022 in 1996. It's a fallacy that these people will need only half the income of a couple in retirement.

To attain a modest lifestyle, a couple would need an annual income of $31,519 while a single person would need $21,476 – almost 70 per cent of the couple's budget, according to the Association of Superannuation Funds of Australia.

To achieve a more comfortable lifestyle, a couple would need $54,954 a year while a single person would need $40,121 – almost 73 per cent of the couple's budget.

Sense of foreboding

A recent survey of Australians over the age of 40 shows that most single people understand their position. The survey by research company Investment Trends showed that while 41 per cent of those married or living with a partner were positive about the prospect of retirement, only 28 per cent of those who were single felt the same way.

Among this group, 27 per cent say they will have to continue working in retirement, compared with 11 per cent of those with partners, says Investment Trends senior analyst Recep Peker.

Planning is key to getting ahead and it's important to start early, say advisers. Start with the basics, suggests Carra Wealth Management founder Andrew Carra. If people don't yet have an annual budget, they should set it up and analyse individual expenses.

Healthy option ... cutting back on luxuries can boost your retirement savings. **Sylvia Liber**

KEY POINTS

- Planning is key to getting ahead – and it's important to start early. If you don't have an annual budget, set one up and analyse individual expenses.
- People without children have more spare time and so spend more on discretionary items. Cut back on these luxuries and redirect the money to savings
- Work out how much money you can salary-sacrifice into super to maximise tax savings. If you have a mortgage you should work out how to pay the loan off faster
- Keep an emergency cash fund to avoid spending retirement capital on unexpected events earlier in life. The fund can be used if income is lost due to unemployment or illness.

The next step is to work out how much money can be salary-sacrificed into super to maximise tax savings. If people have a mortgage they should work out how to pay the loan off faster.

Higher debt burden

McPhail HLG Financial Planning financial adviser Anne Graham, says: "Singles find it more difficult to purchase first homes and are usually paying a mortgage with one income and this means they may be retiring with more debt than couples."

It is important to think strategically. Some organisations such as hospitals or not-for-profit organisations offer the ability to pay a mortgage by salary sacrificing pretax salary. Think about renting out a room or buying property jointly with others.

It could be worth considering if it's worth taking on more investment risk by borrowing money to increase capital gains. Such a strategy will also increase capital losses if it backfires, so should not be considered lightly.

Change of direction

Graham says people without children typically have more spare time and thus spend more on discretionary items.

It’s a good idea to cut back on these luxuries and redirect the money to savings. People with children should work hard to stick to budget and savings strategies.

“Singles with kids find it difficult to save for retirement and tend to put it off – even older singles tend to spend funds on adult kids when it jeopardises their own retirement plans,” Graham says.

Remember to keep an emergency cash fund to avoid spending retirement capital on unexpected events earlier in life. The fund can be used if income is lost due to unemployment or illness, says Graham, and income protection insurance is also a good idea.

Carra says cover is cheaper over the long term if you set up so-called level premiums rather than stepped payments which increase with age.

Older singles should consider a power of attorney, which gives someone else the ability to make medical and money decisions on their behalf if they’re unable to do so.

Your furry friends

Estate planning should also be a priority, for example, super can’t automatically be left to parents or siblings, says Graham. But it can be left to an estate in which case a will stating this needs to be set up. What happens to pets should also be planned for – one option is to appoint a caregiver and provide funds to cover any costs.

An AMP.NATSEM retirement report offers sobering reading: among those aged 65 and older, total annual family income for couples was $45,500. For lone males it was $25,700 and for single females it was $22,400.

Smart Investor

Related News

Topics Personal Investment