

Are you a grower, preserver or spender? SMSFs should think differently about retirement spending, says research

Australia's SMSF retirees should change their thinking about spending their savings to determine the best strategy for retirement, according to new research.

The results are highlighted in a report from SMSF specialist Accurium which has developed a GPS Framework (Grow, Preserve, Spend) to help SMSF retirees set a direction for consumption of their retirement capital.

"This is a new way of thinking about retirement income for SMSFs. As people retire the key question changes from 'Have I saved enough?' to 'How much can I spend from these savings?'" said Accurium General Manager Doug McBirnie. "To answer this question the retiree should consider whether their goal is to Grow, Preserve or Spend their savings over retirement.

"Many SMSF retirees adopt similar financial strategies when it comes to spending but this report highlights that retirees should think differently. The amount they can spend and the appropriate retirement strategy depends on where they sit in the GPS Framework. The financial risks faced are different in each segment and using the GPS Framework provides a guide for retirees when it comes to setting their retirement income strategy.

"At one extreme are people with more than enough who will continue to grow their wealth during retirement. At the other extreme are those who don't have enough to last and will run out of money. In between, are the options of trying to preserve the value of the initial wealth or taking a path that maximises consumption but leaves little or nothing for the next generation."

The Accurium report *A new way of thinking about retirement income for SMSFs* shows that about 25% of SMSF retiree couples are *Growers*, who will increase savings in retirement, 28% are *Preservers* who will retain the majority of the value of their savings, and just over 20% are *Spenders* who will spend most of their savings across their retirement, based on a typical SMSF retirement spending goal of \$80,000 a year. The remaining 26% are at risk of running out of savings during retirement and might need to spend less so that their money lasts as long as they do.

The report suggests that while a simple bucket approach to generating retirement income might be appropriate for the limited risks faced by *Growers*; a more detailed cashflow strategy might be needed for *Preservers* who are more exposed to market timing risks, while *Spenders* need to focus more on managing the risk of outliving their savings and should consider the benefits of an income layering approach to ensure they have enough to continue to meet their needs.

What proportion of SMSF retiree couples are Growers, Preservers and Spenders?

Spending level	Grow	Preserve	Spend	Run out
ASFA Comfortable (\$60,000 p.a.)	38%	35%	18%	9%
SMSF typical (\$80,000 p.a.)	25%	28%	20%	26%
SMSF aspirational (\$100,000 p.a.)	18%	25%	18%	39%

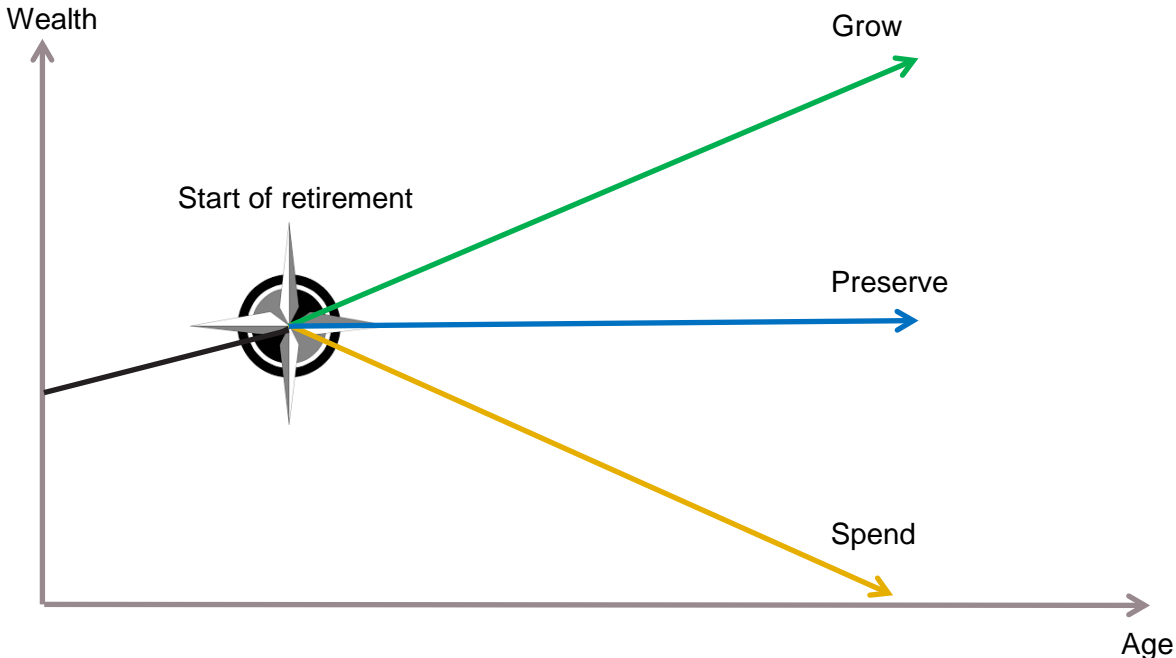
Source: Accurium

How much SMSF retirees can spend and still achieve their retirement goal depends on their level of retirement savings. While 38% are Growers, 35% Preservers and 18% Spenders at \$60,000 a year spending, which correspond to a comfortable level, as defined by the Association of Superannuation Funds of Australia (ASFA) retirement standard, this declines to 18%, 25% and 18% respectively at a more aspirational \$100,000 a year spending level.

Accurium’s research concludes that in retirement it is the level of spending rather than investment returns which is the primary determinant of retirement outcomes.

SMSF balances are typically larger than those of members of other superannuation funds. The median balance at June 2016 for a two-member SMSF at retirement is estimated to be around \$1,137,000. This is about four times the level of an average APRA-regulated household approaching retirement.

GPS Framework: setting a direction for retirement spending



About Accurium

Established in 1980 and now part of the Challenger Limited group, Accurium provides a range of services to self-managed superannuation funds (SMSFs) in, or transitioning to, retirement with the help of accountants and other SMSF practitioners.

Accurium leads the SMSF market for actuarial certificates, placing it in a unique position to provide analysis on SMSFs in the retirement phase. Accurium supports more than 65,000 SMSFs which are paying pensions and thus require an actuarial certificate, giving Accurium access to an unrivalled amount of information on which to undertake research to assist accountants and SMSF practitioners provide quality service to their clients.

Further Enquiry:

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