

Tech Q&A – Using retirement income GAP analysis to enhance contribution strategy during the accumulation phase

Question

Ringo is currently aged 45. He earns \$75,000 p.a. in salary and currently salary sacrifices an additional \$5,000 on top of the 9% SG. He has \$200,000 in superannuation. Ringo has suggested that he would like to have a net income in retirement of \$60,000 to age 95. Assuming an annual earnings rate of 8.5%, inflation rate of 3%, and a total annual super fund fee of 1.6% p.a., will Ringo's current contribution strategy achieve this goal?

Answer

Twilight within Midwinter's Reasonable Basis quickly highlights that maintaining Ringo's existing contribution strategy will provide Ringo with a superannuation balance at age 65 of \$779,038. However, this only allows him to draw a net income of \$60,000 to age 76. In order to maintain a net income of \$60,000 in retirement to age 95, Ringo would need a super balance at age 65 of just over \$1.6 million. In order to achieve this balance Ringo would need to salary sacrifice \$30,000 p.a. over the next 20 years.

Twilight empowers financial advisers with ability to show their clients the need to enhance their super benefits at retirement through additional contributions and strategy, or alternatively reduce their retirement income expectations. In this scenario, Ringo might be unlikely to afford to make such large contributions over the next 20 years but he will definitely be looking to alleviate his current position through effective advice.