Fact Sheet
The value of delaying your retirement

#34

The way you approach retirement and the decisions you make can have a substantial effect not only on your superannuation balance, but also your retirement lifestyle. For example, there can be advantages to delaying your retirement or partially retiring instead of fully retiring. The benefits can include:

> The longer you continue to work, the longer you may be able to add to your super with additional contributions and earnings.

> For every year you can defer drawing on your superannuation account, you will be at least a year older when your super eventually runs out (assuming that your account has positive earnings!).

> The longer your super is invested, the greater the chance investment earnings could add value to your benefit.

Continue to work full-time

The scenario below shows two members with identical situations, except that one retires at age 60, while the other keeps working until age 65. The table is based on the following assumptions:

> Annual salary growth of 4%;

> An annual investment earning rate of 4% net of fees and taxes. (The ASIC website advises that 5.5% is the lowest reasonable long term earning rate assumption for an option with an asset allocation similar to our Conservative option. We've deducted another 1.5% to approximately allow for fees and taxes where applicable);

> An employer contribution rate of 9% p.a;

> They each have a salary of $80,000 and a super balance of $320,000 at age 60; and

> The member who retires at 60 puts all of their super into an Account Based Pension (ABP) and maintains the same net income after tax as the one who continues to work until age 65.

	Working to age 65			Retired at age 60 and drawing an income from an ABP	
Age at start of period	Salary in coming year	Super benefit at start of year	Net income after tax in coming year	ABP income in coming year	ABP balance at start of year
60	$80,000	$320,000	$60,950	$60,950	$320,000
61	$83,200	$339,042	$62,822	$62,822	$270,631
62	$86,528	$359,096	$64,793	$64,793	$217,378
63	$89,989	$380,212	$66,794	$66,794	$159,984
64	$93,589	$401,592	$68,900	$68,900	$98,254
65	$97,332	$423,248	$71,090	$31,906*	$31,906

*The ABP account balance has been exhausted.

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By age 65, if you retired at age 60 and drew down on your ABP, you would have only $31,906 remaining (not even one year's income!). In contrast, if you retired at 65, you would still have $423,248 in your super that you could then use to start an ABP.

Note: For more information on how Account Based Pensions and Transition to Retirement Pensions (TRPs) work, please refer to *Fact Sheets#3* and *3a*.

This is only an example of what may be achieved by working an extra five years and deferring the draw down on your super by the same period. Of course, in an environment of negative or low earnings, the figures would be quite different. Specifically, the retired member's ABP would run out sooner and the working member's super account would be lower. This was demonstrated by the recent global financial crisis.

Continue to work part-time

If continuing to work full-time is not an option for you, perhaps gradually moving into retirement by going part-time is. This can also have a significant impact on your retirement benefit at age 65.

The table below uses the same assumptions as those on page 1, but assumes that instead of retiring at age 60, you change to part-time, working 50% of your previous hours, and draw on your super via a TRP to maintain your net income.

This shows that by age 65, you would still have $229,180 in your TRP and another $17,801 in your super that could then be transferred to an ABP upon full retirement, giving a total ABP value of $246,981.

Although this financial result is not as good as if you worked full-time to age 65, it is still a significantly improved situation if you had of retired fully at 60.

	Income from part-time work				Income from an TRP	
Age at start of period	Salary in the coming year	Super benefit at start of year	Net after tax salary in coming year	Combined net income after tax in coming year	TRP income in coming year	TRP balance at start of the year
60	$40,000	$0	$33,400	$60,950	$27,550	$320,000
61	$41,600	$3,121	$34,646	$62,822	$28,176	$304,699
62	$43,264	$6,492	$35,786	$64,793	$29,007	$288,147
63	$44,995	$10,128	$36,972	$66,794	$29,822	$270,086
64	$46,794	$13,896	$38,204	$68,900	$30,696	$250,471
65	$48,666	$17,801	$39,486	$71,090	$31,604	$229,180

Benefits of investments

By delaying retirement, you may benefit from investment returns over a longer period. With super, as with most investments, the longer the time horizon, the more chance you have of the investment option meeting its objective. The longer time horizons allow you to take a longer term view of investment performance, particularly of growth assets.

The generally accepted principle is that having some exposure to growth assets, does increase the short term volatility and risk, but hopefully provides higher returns in the long run.

For more information on the principles of investing, please refer to our *Fact Sheet Investment Series #1 - Investing in Super*.

What leads to a happy retirement

There are also some non financial considerations that you should take in to account when deciding when to retire and how. For more information, please refer to *Fact Sheet #33 – What leads to a happy retirement*.

Getting advice

The scenarios outlined above are illustrations only. Before you make any decisions about your superannuation or retirement, we recommend you speak to a licensed financial planner. If you would like to speak to an Equipsuper Financial Planner, please call 1800 065 753, or you can visit the Equipsuper Financial Planning (EFP) website www.equipfp.com.au for further information. EFP operates on a fee for service basis. Subject to certain conditions, these fees can be debited from your Equipsuper account.

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