



# Finding a life balance

A couple tell Susan Hely about their retirement plans

**NAMES:** Stephen & Sandra Bourke

**PROFILE:** 53 and 51, almost empty nesters

**QUESTION:** Should we downsize and how?

**SOLUTION:** Boost super; build a granny flat

Stephen and Sandra Bourke are almost empty nesters. Their two daughters, 24 and 25, have moved out of home but they are paying one daughter's tuition fees so she does not have HECS debt when she qualifies. "We are supporting her as much as possible," says Sandra. "She will live with us for six months when she comes home from study, and repay the loan." They contributed to their other daughter's wedding costs and they are guarantors for their two daughters' houses.

Stephen and Sandra both work fulltime. Stephen has changed from working in technology to tour guide. He works for two companies – he would like to buy a small tour bus and start his own business. Sandra believes she could be a grandmother in several years and would like to help look after the grandchildren. This could mean cutting her five working days to three a week.

The Bourkes' home is paid off. Should they downsize or keep the house so they always have room for their family?

Their house is on a large block – they could convert it into two flats and rent one out. "We could redraw from funds in our mortgage account to finance the conversion if the council approved it." There's room for a small house at the back. Sandra thinks they could rent out the house and live in the small one.

Sandra says they haven't really thought about how much they will need in their retirement. They would like to have around \$50,000 to \$60,000 a year. They have some super but what should be their strategy going forward so that they reach their retirement goals? They have health insurance but would they be better off just paying for hospital cover and putting money aside for extras?



## Boost your super



### SAM HENDERSON

**Sam Henderson is CEO of the fee-for-service, independently owned Henderson Maxwell which specialises in superannuation, investment management and retirement planning.**

One of the biggest issues in people's lives is balancing lifestyle decisions with financial decisions. Human nature dictates that we want to earn the most income for the minimum effort, while retiring comfortably. Superannuation is definitely the way forward for retirement savings – no question. So let's have a look at Steve and Sandra's situation and how they can use super to boost their retirement savings by more than 500%.

Financially, it might be best if they both keep their current jobs and incomes and salary sacrifice \$30,000 or more a year (\$15,000 each) into super while taking advantage of a reduced co-contribution by putting \$1000 each into super as a non-concessional contribution for a part contribution benefit.

They should immediately ask the bank to

release them as security against their daughters' home loans, as this is a significant and avoidable risk to their plans.

They should ensure that they have around \$500,000 of life insurance, coupled with income protection insurance.

The girls should also have like insurances. As the property prices have risen and the loan to value ratios reduced, the bank should be open to such a suggestion.

They should maintain their health insurance, although shopping around for a better deal is recommended. I'd also recommend updating their Wills and Powers of Attorney and ensuring their binding nomination forms are up to date in their super funds.

I'd recommend leaving the \$40,000 in ING for now, but consider making a non-conces-

sional contribution to super with part of it and leaving the balance for emergency purposes. It depends on what their level of comfort is.

A more aggressive approach could be to establish a self-managed super fund and purchase an investment property, with the salary sacrificing repaying the debt in a highly tax-effective manner.

will increase their superannuation balance significantly and reduce their tax. After 2012 all concessional contributions will be reduced to \$25,000 (you are still able to contribute \$150,000 a year or \$450,000 in a lump sum of non-concessional contributions).

By assuming a 7% return on their funds, which is achievable even if they invest in cash

**"I'd also consider a transition to retirement pension for each of them"**

The property could be on the south coast and cashed out of the super fund at age 65 or retirement and then used to live in as the retirement residence.

It could not be used by the family until it is cashed out of the fund (the strategy is dependent on super laws staying equal).

I'd also consider a transition to retirement pension for each of them at age 55 to increase salary sacrifice and cash flow. This

at the moment, they would have more than \$1.4 million in super and the ability to draw around \$70,000 a year tax free.

If we add a lifestyle overview with changing jobs and reduced hours the above strategy will be placed at significant risk, but that is what life's balance is all about and the price to pay for a perceivably better lifestyle.

We never know how long we have on the planet and we all want to make the most of it.

# Build a granny flat

PAUL DO



**Paul Do wrote *I Buy Houses: The Property Investor's Handbook*, one of the best-selling real estate investing books in 2009 as featured in *Money*. [www.ibhb.com.au](http://www.ibhb.com.au).**

Sandra thinks they might need an income of \$50,000 to \$60,000 a year in retirement. Because the Bourkes are in their early 50s, they can't adopt an aggressive investment policy because they don't have much time to recover from a large loss.

Yield: The value of their house is around that of a median-priced house in Sydney. They would need two median-priced investment properties fully paid off, in addition to their home, if they want to fund their retirement with real estate. Here's why. Rental yields on median houses and apartments in Sydney are around 4% to 6%. If they owned two investment properties outright worth a total \$1 million, on average the properties would earn around 5% or \$50,000 a year before costs. However, acquiring two investment properties outright before retirement is not feasible. Fortunately, it's not necessary either.

The NSW government recently made it much easier to build a granny flat, so converting their house into two flats, or building a detached dwelling at the back and renting out the house, is a cost-effective alternative because the land comes free. For example, if they borrowed \$100,000 to build a granny flat they could rent their house out for around \$400 a week or \$20,000 a year. This could pay off the granny flat by the time they retire.

Spread: Assets are concentrated in real estate, so they should consider diversifying into other asset classes through their super.

Time: Steven and Sandra have over 10 years to retirement, and can expect to live another 20 years or more after retirement, so the income needs to last at least this long.

Magnification (or leverage): Another way to make use of the equity is to take out a reserve mortgage to supplement their income.

Tax: They might also be entitled to some age pension. They should consider building their super because it is concessional tax and treated in the pension means tests.