



MAKING SURE YOUR GOLDEN YEARS ARE THE BEST

Like most developed countries in the world, Australia is experiencing a dramatic increase in 'grey heads'. Those over age 65 currently comprise 13 percent of the population, with just five people of working age to fund each of these potential retirees. By 2050 this ratio will reduce to 2.7 as the total proportion of the population over 65 reaches 23 percent.

This means the significant increase in possible age pensions will need to be paid for by fewer and fewer tax payers, forcing more individuals to fund their own retirement. It also raises a couple of key questions: How much do we need to save for retirement? And what provisions do we need to make to meet health care costs?

Measuring retirement savings and longevity

If you've ever pondered how much money you will need in retirement, you'll be aware that there's no easy answer. Among other things, it depends on how long you will live, how much income you wish to draw, and the returns on your portfolio during this time.

To assist this process, the newly formed Australian Institute for Population Ageing Research (part of the University of NSW) has put together a Longevity Index. This index helps you to estimate the capital required for each \$1 of retirement income you need.

As at June 2009, the index showed the following values (rounded) for men and women of various ages. It assumes that cost of living increases by the official inflation rate (CPI) and that funds are invested in government bonds.

Retirement Age	Male	Female
55	21	22
60	20	21
65	19	20
70	17	18

To apply this index to your situation, decide how much annual income you wish to live on, let's say \$40,000. If you are a 60 year old man, just multiply that amount by the relative index value (20) and you will need \$800,000 invested. By comparison, a female of the same age is expected to live slightly longer, and requires a slightly higher level of retirement capital—\$840,000.

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What about the cost of health care?

The cost of living longer is not only linked to the number of years in retirement. Better detection and treatment of breast cancer, for example, is reducing the number of deaths from this disease. Now, 87% of women diagnosed with breast cancer will survive more than five years—an increase of 15% in the past couple of decades.

But this also comes at a cost. It's not uncommon for cancer treatment to set patients back up to \$50,000 per year, and that's on top of any lost income from the time a patient or carer spends off work. With a rebate from the Pharmaceutical Benefits Scheme (PBS) not always available, these health-related costs add another sobering dimension to our longevity as a nation.

There are so many issues to consider when thinking about your retirement years. Speak to your adviser about how you can secure your future in retirement through a combination of adequate retirement savings and appropriate insurance cover.

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