A guide to a confident retirement

How to start planning for retirement

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Everybody has a different starting point in retirement. Whether you're fortunate enough to retire on your own terms, or if you have to retire earlier or later than expected, a key to retiring with confidence is knowledge.

Money matters

Having financial security and peace of mind is an essential part of a confident retirement. That's why taking you through the steps to develop your spending plan for your retirement income needs is an important part of this guide.

With the bases covered regarding your money, you can use this guide to help create a retirement where you'll feel confident, comfortable and in control.

Who are we?

Challenger is a leading retirement income specialist, and the largest annuity provider in Australia. We manage $25 billion[1] in assets and provide regular income to thousands of people.

Established in 1985, we're here to provide Australians with greater financial security throughout retirement.

Insights to support you throughout retirement

Drawing on our own expertise in money and generating retirement incomes can offer important insights. But learning about the real experiences that retirement can bring comes from actually speaking to retirees.

We recently set about building on our existing research to gain deeper emotional insights into retirement planning and to understand the biggest challenges facing older Australians. By getting to know what matters in retirement and why, we can bring you meaningful tools and resources to help you stay confident during the ups and downs of retirement.

Retirement challenges

Based on our research, we discovered some of the challenges facing retirees today. This guide is part one of a series which has been created to address these challenges, provide answers to some of retirement's big questions and help you navigate change so that you can look forward with confidence.

1 As at 30 September 2024.

Chapter 1: Approaching retirement

This chapter takes you through some important considerations whether you are deciding to retire by choice or by circumstance.

Topic	Useful if…
Are you ready for retirement?	You're unsure when to retire
How long will you spend in retirement?	You're weighing up the impact of retiring sooner rather than later

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Chapter 2: How much will you need?

Being realistic about how much you'll need in retirement will put you in a better position to plan and budget. This chapter provides some guidance on how the numbers could stack up for you.

Topic	Useful if…
How much do you need?	You're unsure about how much you will need to spend to maintain your lifestyle
How much can you safely spend?	You'd like to know how much you can spend with a degree of confidence

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Chapter 3: Your retirement income

Understanding how different investment strategies and income options could help fund your retirement will help you make more informed financial decisions. This chapter is all about making your money work for you.

Topic	Useful if…
Investment options in retirement	You're weighing up where to invest your money
Why investing for retirement is different	You'd like to better understand the unique risks in retirement
Introducing the Age Pension	You're unsure whether you qualify or how much you'll get
Other retirement income options	You'd like a regular income in retirement
5 reasons to consider a lifetime annuity	You're considering an annuity as part of your retirement plan

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Chapter 4: Getting the right advice

Seeking financial advice for the first time can feel daunting. In this chapter we cover how to start your search for an adviser, and what to look for in your perfect match.

Topic	Useful if…
The role of good financial advice	You're unsure whether you need financial advice

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Chapter 1: Approaching retirement

Are you ready for retirement?

If life is what happens when you're making other plans, retirement is no exception. Thanks to health issues, redundancy and family responsibilities you might be saying goodbye to working life before you're good and ready.

If you are in a position to put your plans for retirement into action, health, wealth and happiness are all up there as things to think about. From finances to feelings about leaving work, this chapter is all about the things to keep in mind when planning for life beyond the 9 to 5.

Ready for change?

A job can be more than a way to get paid. When colleagues and career mean more to you than the money, moving on can be tough. If you're expecting retirement to leave a big gap in your life, planning new routines, rewards and friendships will boost your sense of optimism and wellbeing. By thinking about this ahead of time, and even taking steps to explore options, you can feel like you're swapping a positive experience of working life for something even better.

"I retired 3 years ago when I decided I'd had enough of work! I love being retired, it's all about freedom to do what I want, no routine, and not having to be on guard all the time like at work."

Pauline, retired for three years.

The right choice for your health

Whether you love your job or can't wait to retire, your health could force the issue. Depending on the type of work you do, retiring early may become the only option when health problems are in the picture. The same may be true if you need more time to care for a partner in poor health. So it's no wonder the Australian Bureau of Statistics (ABS) reports personal health as the second most common reason for retiring[2].

Two thirds of respondents who proactively chose to retire, had significantly fewer worries (51%) and adjusted better to being retired (44%) compared to those who retired out of necessity (32% and 28% respectively)[3].

2 Australian Bureau of Statistics, Retirement and Retirement Intention, Australia, 2022-23.
3 Macquarie Uni Research | Challenger

Approaching retirement continued

Financially fit for retirement

Macquarie Uni Research showed, "respondents that proactively chose to retire have 51% significantly fewer worries in retirement[4]". Knowing what you'll spend in retirement and where that money will come from can give you confidence that you're financially ready to make the change.

Is part-time work an option?

Continuing with paid work in retirement can be a way to stick with a routine you're comfortable with and make your super last longer. If you're eligible for the Age Pension, it's good to know you can still earn some income without your payments being affected up to a certain level (this is called the income test threshold). There is also the Work Bonus that allows you to earn income up to a certain threshold without reducing your Age Pension. And if you take a break, you can build up your Work Bonus balance and earn more when you start working again.

Visit the Services Australia website for more on the Work Bonus and the latest on eligibility, thresholds and balance limits.

Expectation vs reality

The time when you want to retire and when it actually happens can often be quite different. According to the ABS, 70% of those intending to retire from the workforce indicated that they intend to retire after reaching age 65[5]. But whilst you might be prepared to keep working well into your 60s, there's a significant gap between that expectation and reality. For many people it's a case of being pushed into retirement by circumstance rather than making a carefully planned choice. If we look at when people are actually retiring, the average age at retirement for those retiring in the last five years was 64[5]. Almost half of Australians are making this earlier than anticipated move into retirement due to health issues or redundancy.

Find out more ›

About the different ages you need to consider in retirement.

4 Macquarie Uni Research | Challenger
5 Australian Bureau of Statistics, Retirement and Retirement Intention, Australia 2022 -23.

When is the right time to retire? continued

How long will you spend in retirement?

Freedom from working life can be a positive, even if it happens sooner than expected. But it can create problems for your finances when your time in retirement stretches into several decades.

Australians are living longer due to improvements in medical care and living standards. The average life expectancy has risen in recent years and continues to increase, particularly for people over the age of 65. And unless living longer runs in the family, most people tend to underestimate just how long they'll live.

How many more years are you likely to need to plan for?

Challenger estimates that an Australian male aged 65 could expect to live to 88, while a female aged 65 could expect to live to 90.

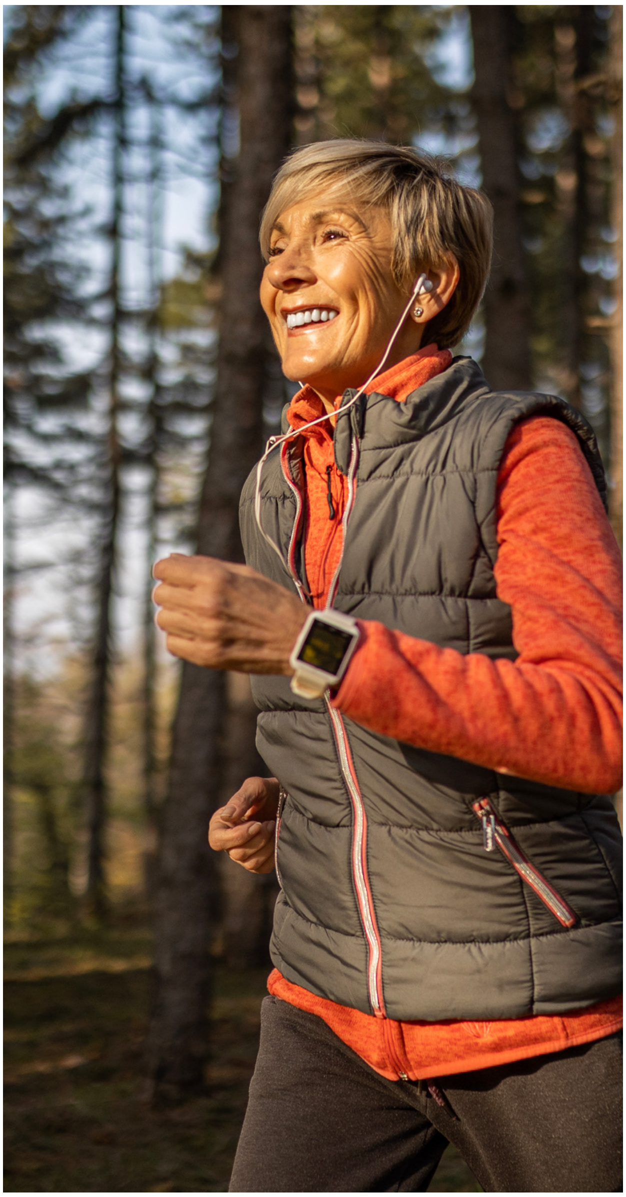
Current age	Male (50% chance)[i]	Female (50% chance)[i]
60	28 years	30 years
65	23 years	25 years
70	18 years	20 years
75	14 years	16 years

i Estimates calculated using Australian Life Tables 2015-2017 with 25-year mortality improvements as provided by the Australian Government Actuary. There is a 50% chance of living for this number of years at these ages.

Of course, this is great news for all the plans you have for life beyond work. But it can put real pressure on your finances. Once you've stopped earning a wage from work, you'll need a different kind of income to cover living costs and turn your plans for retirement into reality.

On page 14 of this guide we'll look at the income strategies and investments available to help protect against the risk of running out of savings later in life. In the next section we'll uncover how much you may need in retirement, and where that money will come from.

With this information in mind, you can make choices that will help you feel more secure about your retirement, no matter how long it might be.



Chapter 2: How much will you need?

The time you'll spend in retirement and the lifestyle you're planning both make a difference to the savings and income you'll need. Being realistic and getting clear about plans for your future can help you figure out the cost of your ideal retirement.

Start with a ballpark estimate

Retirement Standard figures from The Association of Super Funds of Australia (ASFA) make a good starting point for estimating the income you might want or need. By comparing these calculations with your own spending plans, you'll get a rough idea of how your overall spending in retirement could add up.

> "I've always lived on a budget and live comfortably... I still believe in budgeting, wise spending, but I don't feel restricted. People who are retired re-evaluate priorities and where you are willing to spend the money".
>
> Donna, aged 66, retired for two years.

The Retirement Standard estimates the total annual budget for either a comfortable or modest lifestyle for retired singles and couples. Figures are updated each quarter in line with the changing costs of living in retirement and include detailed budget breakdowns for all sorts of living costs. What they don't include is rent or home loan payments. Each estimate assumes an individual or couple live in their own home, mortgage free.

ASFA Retirement Standard figures[i]

	Comfortable lifestyle budget p.a.	Modest lifestyle budget p.a.	Age Pension p.a.[ii]
Couples aged around 65	$73,337.00	$47,731.00	$44,855.20
Single person aged around 65	$52,085.00	$33,134.00	$29,754.40

i Association of Superannuation Funds of Australia (ASFA) – Retirement Standards, June quarter 2024.

ii Maximum Age Pension rates as at Sep 2024, includes Pension Supplement and Energy Supplement.

Comparing comfortable with modest and the Age Pension

A modest lifestyle is considered to be better than simply getting by on the Age Pension alone, but still only allows for the basics. In the table on the next page you can compare what kind of lifestyle a comfortable, moderate, or Age Pension only amount could provide.

How much will you need? continued

The difference between a comfortable, moderate, and Age Pension funded lifestyle[6]

	Comfortable retirement	Modest retirement	Age Pension
	Replace kitchen and bathroom over 20 years	No budget for home improvements. Can do repairs, but can't replace kitchen or bathroom	No budget to fix home problems like a leaky roof
	Better quality and larger number of household items and appliances and higher cost hairdressing	Limited number of household items and appliances and budget haircuts	Less frequent hair cuts or getting a friend to cut your hair
	Can run air conditioning	Need to watch utility costs	Less heating in winter
	Restaurant dining, good range & quality of food	Take out and occasional cheap restaurants	Only club special meals or inexpensive takeaway
	Fast internet connection, big data allowance and large talk and text allowance	Limited talk and text, modest internet data allowance	Very basic phone and internet package
	Good clothes	Reasonable clothes	Basic clothes
	Domestic and occasional overseas holidays	One holiday in Australia or a few short breaks	Even shorter breaks or day trips in your own city
	Top level private health insurance	Basic private health insurance, limited gap payments	No private health insurance
	Owning a reasonable car	Owning a cheaper more basic car	No car or, if you have a car, it will be a struggle to afford repairs
	Take part in a range of regular leisure activities	One leisure activity infrequently, some trips to the cinema or the like	Only taking part in no cost or very low cost leisure activities. Rare trips to the cinema

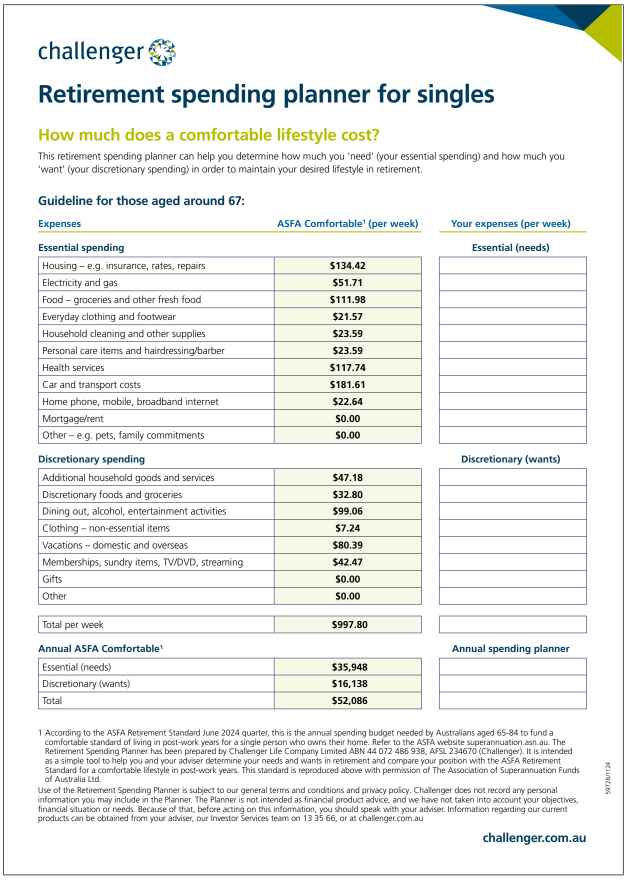
6 ASFA Retirement Standard Summary 2021.

How much will you need? continued

Our retirement spending planners

The retirement you'll be planning for will be as unique as you are. Maybe dining out isn't your thing but you couldn't bear to give up your weekly exercise class. The things you need to make life more comfortable could be quite different from assumptions made for these estimates.

Our online retirement spending planners for singles and couples can help you figure out how much you may 'need' in retirement (essential spending) and how much you 'want' (discretionary spending).



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Retirement spending planner for singles

How much does a comfortable lifestyle cost?

This retirement spending planner can help you determine how much you 'need' (your essential spending) and how much you 'want' (your discretionary spending) in order to maintain your desired lifestyle in retirement.

Guideline for those aged around 67:

Expenses	ASFA Comfortable[1] (per week)	Your expenses (per week)
Essential spending		**Essential (needs)**
Housing – e.g. insurance, rates, repairs	$134.42	
Electricity and gas	$51.71	
Food – groceries and other fresh food	$111.98	
Everyday clothing and footwear	$21.57	
Household cleaning and other supplies	$23.59	
Personal care items and hairdressing/barber	$23.59	
Health services	$117.74	
Car and transport costs	$181.61	
Home phone, mobile, broadband internet	$22.64	
Mortgage/rent	$0.00	
Other – e.g. pets, family commitments	$0.00	
Discretionary spending		**Discretionary (wants)**
Additional household goods and services	$47.18	
Discretionary foods and groceries	$32.80	
Dining out, alcohol, entertainment activities	$99.06	
Clothing – non-essential items	$7.24	
Vacations – domestic and overseas	$80.39	
Memberships, sundry items, TV/DVD, streaming	$42.47	
Gifts	$0.00	
Other	$0.00	
Total per week	$997.80	

Annual ASFA Comfortable[1]		Annual spending planner
Essential (needs)	$35,948	
Discretionary (wants)	$16,138	
Total	$52,086	

1 According to the ASFA Retirement Standard June 2024 quarter, this is the annual spending budget needed by Australians aged 65-84 to fund a comfortable standard of living in post-work years for a single person who owns their home. Refer to the ASFA website superannuation.asn.au. The Retirement Spending Planner has been prepared by Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger). It is intended as a simple tool to help you and your adviser determine your needs and wants in retirement and compare your position with the ASFA Retirement Standard for a comfortable lifestyle in post-work years. This standard is reproduced above with permission of The Association of Superannuation Funds of Australia Ltd.

Use of the Retirement Spending Planner is subject to our general terms and conditions and privacy policy. Challenger does not record any personal information you may include in the Planner. The Planner is not intended as financial product advice, and we have not taken into account your objectives, financial situation or needs. Because of that, before acting on this information, you should speak with your adviser. Information regarding our current products can be obtained from your adviser, our Investor Services team on 13 35 66, or at challenger.com.au

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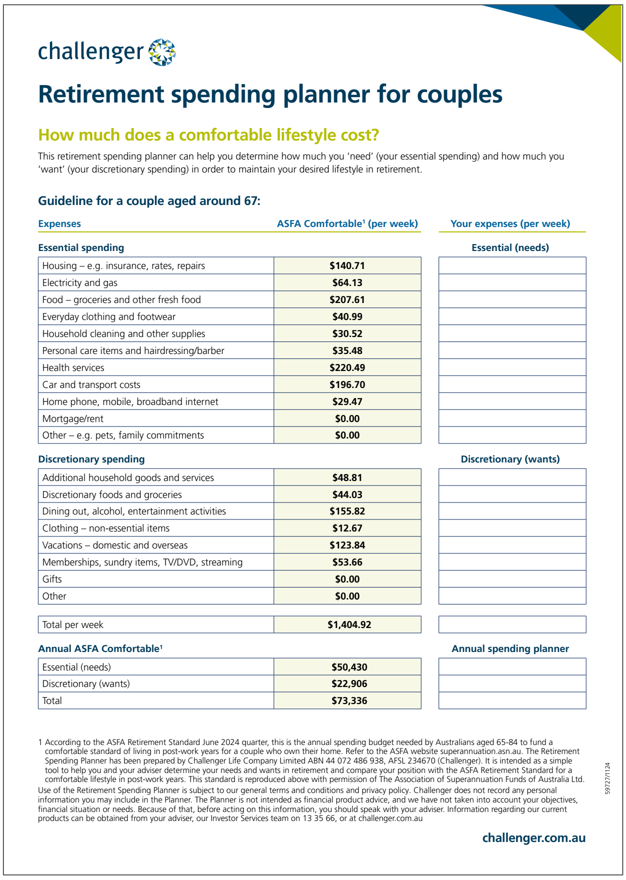

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Retirement spending planner for couples

How much does a comfortable lifestyle cost?

This retirement spending planner can help you determine how much you 'need' (your essential spending) and how much you 'want' (your discretionary spending) in order to maintain your desired lifestyle in retirement.

Guideline for a couple aged around 67:

Expenses	ASFA Comfortable[1] (per week)	Your expenses (per week)
Essential spending		**Essential (needs)**
Housing – e.g. insurance, rates, repairs	$140.71	
Electricity and gas	$64.13	
Food – groceries and other fresh food	$207.61	
Everyday clothing and footwear	$40.99	
Household cleaning and other supplies	$30.52	
Personal care items and hairdressing/barber	$35.48	
Health services	$220.49	
Car and transport costs	$196.70	
Home phone, mobile, broadband internet	$29.47	
Mortgage/rent	$0.00	
Other – e.g. pets, family commitments	$0.00	
Discretionary spending		**Discretionary (wants)**
Additional household goods and services	$48.81	
Discretionary foods and groceries	$44.03	
Dining out, alcohol, entertainment activities	$155.82	
Clothing – non-essential items	$12.67	
Vacations – domestic and overseas	$123.84	
Memberships, sundry items, TV/DVD, streaming	$53.66	
Gifts	$0.00	
Other	$0.00	
Total per week	$1,404.92	

Annual ASFA Comfortable[1]		Annual spending planner
Essential (needs)	$50,430	
Discretionary (wants)	$22,906	
Total	$73,336	

1 According to the ASFA Retirement Standard June 2024 quarter, this is the annual spending budget needed by Australians aged 65-84 to fund a comfortable standard of living in post-work years for a couple who own their home. Refer to the ASFA website superannuation.asn.au. The Retirement Spending Planner has been prepared by Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger). It is intended as a simple tool to help you and your adviser determine your needs and wants in retirement and compare your position with the ASFA Retirement Standard for a comfortable lifestyle in post-work years. This standard is reproduced above with permission of The Association of Superannuation Funds of Australia Ltd.

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How much will you need? continued

How much can you safely spend?

Figuring out how much you'll need to spend in retirement is a good start for your retirement planning. Knowing what you can afford to spend based on the savings you have will also help you by identifying any gaps between your expectations and reality.

Challenger's retirement income model

Challenger's retirement income model is a comprehensive model of retirement developed by our actuaries and supports Challenger's retirement research, as well as our adviser and consumer tools.

This model calculates safe spending rates, taking into account the means tested Age Pension, as well as the three major risks to your retirement income (inflation, market and longevity, see page 16 for more details on these).

By testing 2,000 simulations, we can calculate the degree of confidence that your savings balance could support the level of spending.

The tables on the next page show the 'safety' of different spending rates for couples and singles of different levels of wealth, retiring at age 67 today.

A spending level is considered to be 'safe' if the household has a high degree of confidence that they can continue spending their desired amount for at least as long as both spouses are expected to live (their life expectancy). You may have a different idea of the amount you can safely spend and still have confidence that your savings will last.

How much will you need? continued

Australian safe spending rates for a 67-year-old male (assuming spending keeps pace with inflation)

Total retirement savings[7]	Confidence of being able to spend $50,000 p.a.	Confidence of being able to spend $70,000 p.a.
$200,000	1%	0%
$400,000	79%	0%
$600,000	97%	10%
$800,000	100%	46%
$1,000,000	100%	80%
$1,200,000	100%	94%

Australian safe spending rates for a 67-year-old female (assuming spending keeps pace with inflation)

Total retirement savings[7]	Confidence of being able to spend $50,000 p.a.	Confidence of being able to spend $70,000 p.a.
$200,000	1%	0%
$400,000	74%	0%
$600,000	95%	8%
$800,000	100%	39%
$1,000,000	100%	75%
$1,200,000	100%	91%

Australian safe spending rates for a 67-year-old male and female couple (assuming spending keeps pace with inflation)

Total retirement savings (per person)[7]	Confidence of being able to spend $50,000 p.a.	Confidence of being able to spend $70,000 p.a.
$200,000	100%	32%
$400,000	100%	93%
$600,000	100%	99%
$800,000	100%	100%
$1,000,000	100%	100%
$1,200,000	100%	100%

Not Confident — Confident

Important notice

These results are provided for illustrative purposes only. They are intended to be general information only and have been prepared without taking into account any person's objectives, financial situation or needs. They include calculations based on statements of opinion, forward looking statements, forecasts or predictions based on current expectations about future events and results. Actual results may be materially different from those shown.

Some of the key things to note about the calculations underlying these tables are:

- the total retirement savings is assumed to be invested in an account-based pension and is available to be used to support that level of spending (there is no assumed bequest);
- the life expectancies used to generate longevity scenarios are based on the Australian Life Tables 2015-17 with allowance for the 25-year mortality improvement rates published by the Australian Government Actuary;
- the calculation models 2,000 simulations of retirement for the household and determines in what proportion of those scenarios the spending rate was achievable every year to life expectancy;
- the 2,000 scenarios of investment return and rates of inflation used have been generated by Moody's Analytics using their Scenario Generator;
- asset allocations are based on a 50% growth, 50% defensive asset mix in superannuation, with non-superannuation savings invested in cash;
- no allowance has been made for tax on non-superannuation savings, and all superannuation savings are assumed to be in tax-free retirement phase;
- the Age Pension is allowed for using Centrelink means testing rules applicable from 20 September 2024, i.e. we assume the person is eligible based on residency rules;
- if the minimum pension payment in any particular year, as required under the Superannuation Industry Supervision (SIS) regulations, plus the Age Pension and income earned on any cash balance, exceeds the household's spending, then this is added to the household's non-superannuation cash assets. This cash balance earns interest which is assumed to be available for spending;
- if the minimum pension payment and Age Pension is less than the spending rate then additional drawings are made from superannuation, and then from cash (if available), to fund spending;
- all Centrelink rates, bands and thresholds used are those current as at October 2023. All rates, bands and thresholds are assumed to change in line with inflation each year;
- we have allowed for the following fees and charges:
  - superannuation administrative fees 0.4%
  - superannuation investment fees of 0.8% on growth assets and 0.4% on defensive assets
  - no fees on non-superannuation cash savings

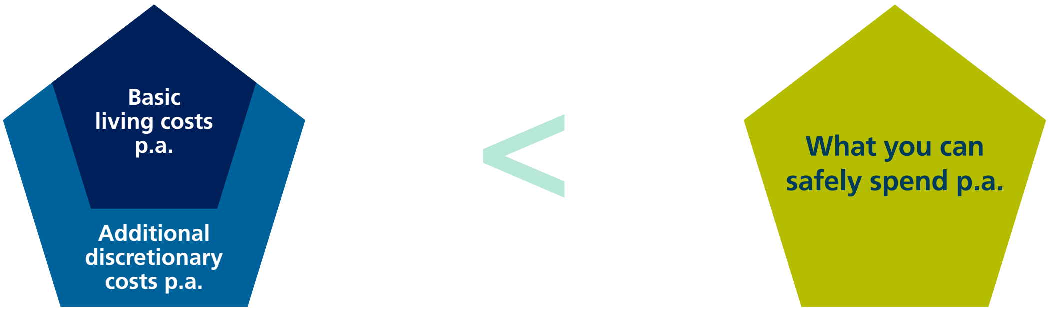
7 Excluding principal residence.

How much will you need? continued

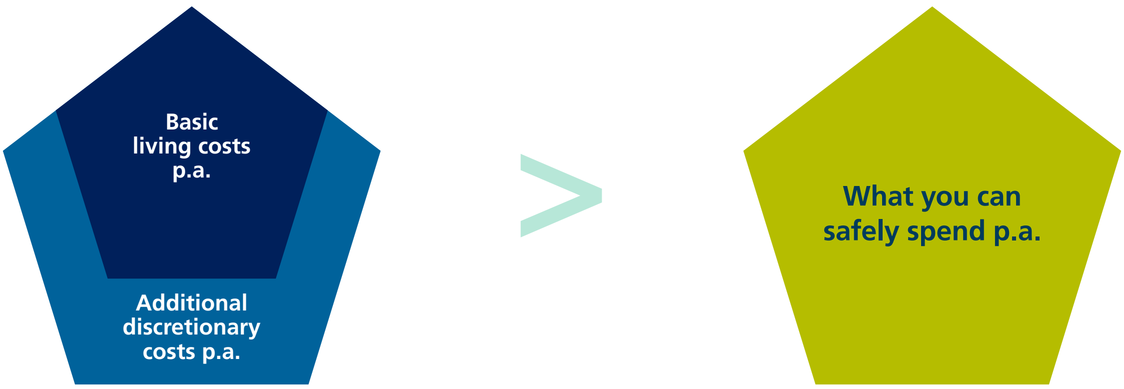
Will you be able to afford your lifestyle in retirement?

Using a retirement spending planner (such as the one shown on page 9) will help you determine how much you 'need' to meet your basic living costs and how much you 'want' to cover discretionary costs in order to maintain your desired lifestyle in retirement. Ideally this should closely match what you can safely spend:

But what if there's a gap between what you think you'll be spending in retirement and what you can safely spend? If your basic living and discretionary costs are less than you can afford to spend, you may be being too conservative and not living the life that you could.



Or if your basic living and discretionary costs are more than you can afford to spend with the required level of confidence, you run the real risk of running out of savings later in life.



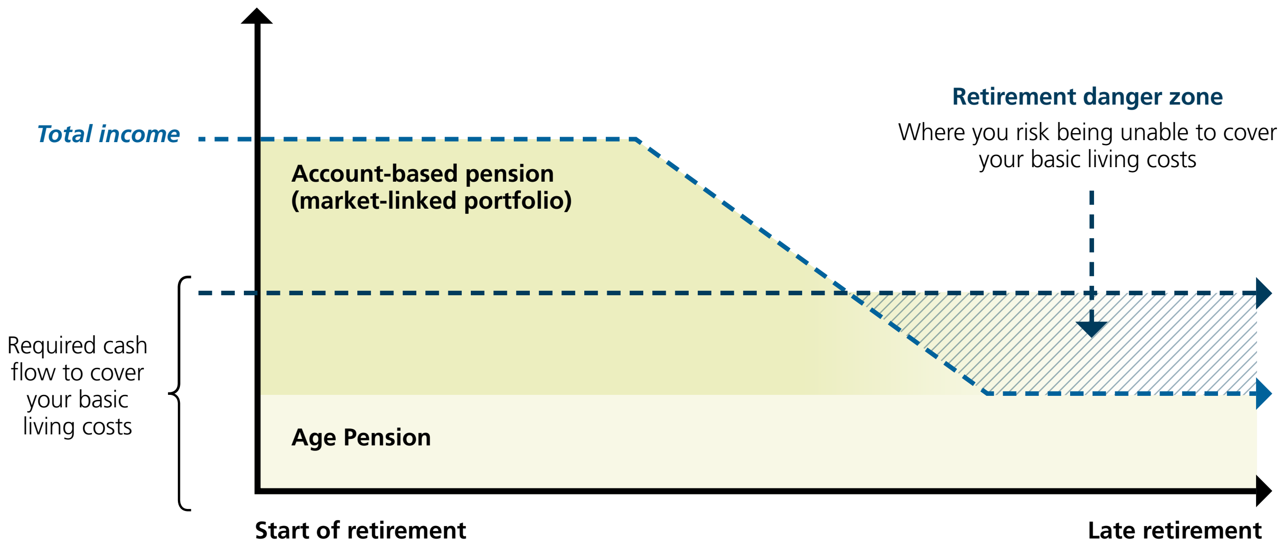
How much will you need? continued

The retirement danger zone

Running out of money later in life is a big concern to many retirees. 88% of those in a 2023 National Seniors Australia Survey[8] indicated that it's important to ensure that their money lasts their lifetime.

In the next section we'll look at some of the investments you can make to ensure you don't run out of income later in retirement. In these later stages of retirement, there are risks that living longer, inflation, and share market volatility (see page 16 for more details on these) can have an impact on your savings and income. If you only invest in market-linked investments, such as via an account-based pension, there is a chance that you'll end up in what is called the 'retirement danger zone'.

As shown below, this is a period later in retirement where you may be unable to continue to cover your basic living costs due to the income from your market-linked account-based pension running out.



This diagram is illustrative only and not to scale. It may include other income sources such as term annuities, term deposits, shares, managed funds and cash.

There are investment products that can help protect against this happening to you. In the next few chapters we'll look at how best to ensure your retirement income lasts as long as you do.

8 National Seniors Australia and Challenger (2023) The cost of living and older Australians' financial wellbeing.

Chapter 3: Your retirement income

Investment options in retirement explained

Getting the balance right between a safe spending rate and having enough income to enjoy retirement takes some careful planning. Investing for a reasonable return is one approach to helping your savings go the distance.

In this chapter we explore some of the different investment options and strategies available, and how you could use these to build a more financially secure and sustainable lifestyle in retirement.

Risk versus return

There's a rule of thumb when it comes to investment risk. Generally speaking, the higher the expected return, the higher the risk involved. But taking on investments with the least possible risk can make it difficult to earn investment returns that keep up with inflation and any rises in living costs.

On the other hand, taking on too much risk could lead to steep falls in the value of your investments. This can have an even bigger impact when you're retired, because you can't expect to replace these losses from your salary or other types of income. Plus, you're relying on your 'nest egg' to provide at least some of your income. When you lose a portion of those savings to risky investments, you have less to spend for the rest of retirement and less to earn returns on over the long term.

Understanding the investments available to you, and their risks, will be crucial to looking forward with confidence in your retirement.

What is an asset class?

An asset class is a group of investments with similar characteristics and laws. They're typically grouped into two broad categories, defensive and growth. Defensive assets offer less opportunity for growth, and generally provide you with income stability and security for your original investment and income. Growth assets carry more risk, and generally provide you with more potential to grow your investment over time.

Here are some of the assets in each category that you might come across when exploring your investment options:

Defensive assets

Defensive assets include investments like cash, term deposits, fixed interest securities, and annuities.

Cash is considered the safest form your money can take but it typically generates the lowest returns. However it can be good to have some cash in a bank account because of the safety it provides and because you can access it right away when you need it.

Term deposits are held for a set period of time with a bank, building society or credit union. The rate of return is fixed, and you can be certain of your income, but you should be prepared to have your capital locked away for the full term. Whilst term deposits offer this security, there is a trade-off. When markets perform strongly, your rate of return will remain fixed and you won't benefit from higher returns.

Fixed interest securities, such as bonds, involve you usually loaning money to a company or entity. You receive regular interest payments and can expect to get back the original sum invested at the end of the term, known as the 'maturity'. The underlying value of the fixed interest security can change with interest rate movements.

Your retirement income continued

Annuities can also be viewed as a type of fixed interest investment. You invest a lump sum with an annuity provider and receive regular payments for either a fixed period or for the rest of your life depending on the type of annuity you choose. As with term deposits, your payment rate will usually remain fixed. So whilst you won't be affected by share market falls, you also won't benefit from higher returns if share markets perform strongly.

Growth assets

Growth assets include investments like property, shares and equities.

Property can provide you with rental income and potential for capital gains. In Australia property prices have generally performed well over the long term. However, property prices are notoriously difficult to predict due to the number of variables that impact them.

Investing in shares means buying a share of ownership in a company, usually on a stock exchange. The value of the shares are generally linked to a company's value and as a shareholder, you can be paid a share of profits as a dividend. Shares are generally considered to be a higher risk asset class as their value tends to be more volatile. You can control the amount of risk you take on by investing in share portfolios that invest in companies that have delivered consistent returns over the long term.

Investment strategies for retirement

Everyone has different investment goals. However, a common objective for many people investing for their retirement is striking a balance between maximising available cash flow and protecting the remaining savings. Your risk appetite will determine which investment strategy is right for you, and according to the Government website MoneySmart[9] may fall into one of the following four types:

1. **Cash:** Invests 100% in deposits with Australian deposit-taking institutions or in a 'capital guaranteed' life insurance policy. This option aims to guarantee your capital and accumulated earnings cannot be reduced by losses on investments.
2. **Conservative:** Invests around 30% in shares and property with the majority in fixed interest and cash. Aims to reduce the risk of loss and therefore accepts a lower return over the long term. There is less chance of having a bad year than in the balanced or growth options below.
3. **Balanced:** Invests around 70% in shares or property, and the rest in fixed interest and cash. Aims for reasonable returns, but less than growth funds to reduce risk of losses in bad years. Those losses usually occur less frequently than in the growth option. You may also be able to invest in a 'moderate' option with around 50% in shares and property.
4. **Growth:** Invests around 85% in shares or property. Aims for higher average returns over the long term. This also means higher losses in bad years than those you would experience with lower risk options. You may also be able to invest in a 'high growth' option with 100% in shares and property.

The importance of diversification

Diversification is a golden rule of investing. Spreading investments across different asset classes can strike a balance between security (defensive assets), and higher investment returns (growth assets). This can reduce your overall investment risk and the impact of significant market downturns, or poor returns from a particular business or sector.

9 https://moneysmart.gov.au/grow-your-super/super-investment-options

Your retirement income continued

Why investing for retirement is different

When accumulating super for retirement, you can afford to be patient. Staying invested when the share market falls isn't as scary when you have plenty of time to wait for your assets to bounce back.

During the years shortly before and after retirement, it's a different story. Your super has likely reached its peak value, so you have the most to lose from a fall in the value of investments.

In this section, we explore why it's important to be aware of three key risks when investing for retirement.

> "One of the problems with spending more money [is that] it depends on how long you live. If I thought I was going to die in five years, then I should spend up big, but for a lot of people we don't know how long we are going to live and that makes us a little bit more cautious"
>
> Jane, aged 65, retired for two years.

Key risks when investing in retirement

1. Longevity

As life expectancies continue to rise in Australia, living off retirement savings for 20-30+ years (see page 6 for how long you may need to plan for) introduces the very real risk of running out of money later in life. This is what is called 'longevity risk'.

Having enough money to give you certainty that it will last for life may mean that you leave a substantial estate behind and force you to live more frugally than required. However, by planning just for your estimated life expectancy, you take on the risk that you could live longer, which might see you spend several years of retirement surviving on the Age Pension alone.

For many, these Age Pension payments may not be enough to fund the lifestyle they had in mind for later in life.

2. Inflation

Inflation is the increasing cost of living over time. Due to how long your retirement could last, there's a good chance the spending power of the income you have now will be reduced by inflation in the future. At an average annual inflation rate of 2.5%, a dollar will be worth roughly half today's value in 25 years. Even this modest annual rise can put you at risk of not having the income you need to cover living costs later in life.

3. Share market performance

Exposure to investments such as shares and property comes with the risk of market volatility. When investments earn negative returns, your retirement savings are falling in value. If you need to make withdrawals from your savings or investments to pay for living expenses, it has a twofold blow for your overall financial position in retirement.

It's important to consider how best to minimise the impact on your savings from market volatility during a 20-30 year+ retirement period.

Another part of market volatility risk is sequencing risk.

Your retirement income continued

What is sequencing risk?

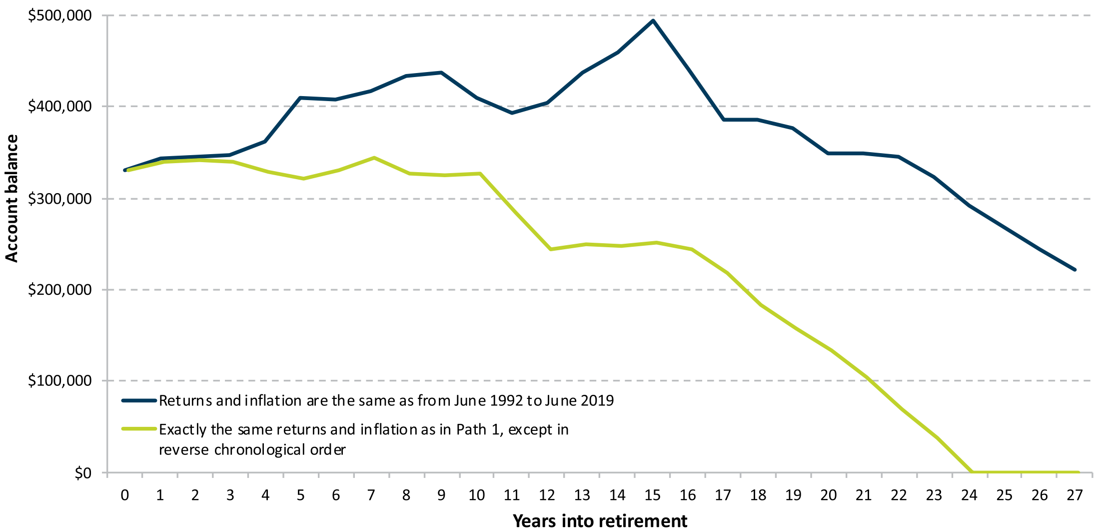
Sequencing risk is the risk that the order and timing of your investment returns is unfavourable, resulting in less money for retirement.

The example shown in the chart below uses a hypothetical investor and is based on historical Australian market performance data for the period 1992 to 2019. It illustrates how sequencing risk can impact retirement outcomes.

The investor illustrated in the chart below retired at the end of 1992 with an investment balance of $350,000. His portfolio was 50% invested in Australian equities and 50% in Australian bonds. Following his retirement, he lived off his retirement savings, drawing $22,530, indexed to inflation, each year.

The retirement capital remaining at the end of each year is shown by the blue line in the chart. The green line shows what would have happened if exactly the same returns were achieved, but in reverse order (i.e. 2019 returns first). If this were the case, the investor's money would have run out.

The consequences of sequencing risk are potentially strongest around the point of retirement. If you have a run of poor market results close to retirement, it can really impact your retirement savings. Before you retire, you might be able to extend your working years to save a bit more (if you're able). But it is much harder to go back to work after you have been retired for many years.



Based on S&P/ASX All Ordinaries Accumulation Index and Australia Commonwealth Bank All Series, All Maturities Index from June 1992

Protecting your income

Diversifying your investments can limit the impact of market risk and inflation on your retirement savings and help safeguard them for future years. However, even with a well-diversified portfolio, your super and Age Pension may not provide you enough income for your whole retirement.

If you'd like the peace of mind that comes with a regular income for life, a lifetime annuity might be a good option for you. See page 19 to learn more about lifetime annuities.

Your retirement income continued

Introducing the Age Pension

In this section you'll find out more about when and how you qualify for an Age Pension and if you qualify, how much you can expect your payments to be.

The Age Pension is an important financial safety net for many older Australians. It's the most common type of pension you can receive from the Government. 43% of retirees relied on Government pension as their main source of personal income when they retired[10].

Am I eligible?

If you have reached Age Pension age, you may be eligible for the Age Pension and other Government benefits in retirement. Australians currently qualify for the Age Pension at 67 years, if they meet the residency requirements.

If you meet the age requirements, you'll usually need to have been an Australian resident for at least 10 years (unless you are subject to an international social security agreement). You'll also need to share information about your finances for Centrelink's income and assets tests. For couples, Centrelink will look at your combined income and assets. The test that results in the lowest pension rate is the one Centrelink will use to determine your entitlements.

Income test

The Centrelink income test generally includes any income you earn from any source, including from your assets in Australia and overseas, including super, shares, account-based pensions, term deposits or managed funds. When assessing income from some investment assets, Centrelink will apply a deemed rate of income. When it comes to earnings from employment or investment properties, Centrelink will generally assess the actual net income you earn.

Assets test

The value of assets you own is also taken into account for your Age Pension claim. For the assets test, Centrelink will count any assets you own, in Australia and overseas. This includes any physical assets, such as a car or caravan, your savings and investments such as shares, investment properties, term deposits, superannuation, part of some annuities and account-based pensions. If you own a property and use it as your place of residence it is typically not assessable under the assets test.

To determine how much some of your assets are worth, Centrelink will look at the current market value. From that figure, Centrelink will generally deduct any debt you hold against each applicable asset.

How much will I get?

If you are eligible for the Age Pension, the amount you're paid depends on your income or assets.

The maximum Age Pension payments you can receive (as at September 2024) are:

	Fortnightly	Annual
Single	$1,144.40	$29,754.40
Couple combined	$1,725.20	$44,855.20

Figures include Pension Supplement and Energy Supplement.

Even if you don't qualify for a full Age Pension, you may be entitled to a part Age Pension and/or access to other payments and benefits, such as the Commonwealth Seniors Health Card, Pensioner Concession Card, Pension Supplement and Rent Assistance. Visit the Services Australia website for more information about the Age Pension rules, eligibility and income and asset tests.

10 Australian Bureau of Statistics, Retirement and Retirement Intention, Australia, 2022-23.

Your retirement income continued

Your other retirement income options

The Age Pension is just one potential source of income in retirement. In this section we cover two ways you can use your super or savings to generate regular payments and enjoy additional financial security in retirement.

Account-based pensions

With an account-based pension you invest your super and receive regular income payments. You can choose how your money is invested, how much to receive as payments (subject to minimum requirements) and your own schedule for receiving payments.

You generally have the opportunity to invest in a range of market-linked assets including growth assets such as shares and also a range of defensive or guaranteed investments. You can generally make lump sum withdrawals at any time.

This means your super and income may be affected by falls in the value of assets in your account-based pension. This can make a difference to how long your super will last, and the income you can access to fund your retirement.

Lifetime annuities

Lifetime annuities provide a regular income for your lifetime in return for a lump sum investment. They can be used as the foundation of your retirement plan. You can use some of the money from your super or savings to invest in a lifetime annuity and receive regular payments for life, regardless of how long you live.

- Payments from lifetime annuities can be linked to yearly changes to inflation.
- Most will offer the flexibility to withdraw and be paid a lump sum if circumstances change within the withdrawal period.
- Some will provide known estate values via guaranteed death benefits.

Find out more › About your retirement income options.

Your retirement income continued

5 reasons to consider a lifetime annuity

If a regular income for life appeals to you then a lifetime annuity may be just what you're looking for to complete your financial plan for retirement. Knowing you have some of your retirement income protected from certain risks can give you peace of mind and help you look forward with confidence.

It's taken decades to save for retirement. Making choices to ensure your income lasts is an important part of planning for your future. How much risk you're comfortable with and having flexible access to your money are just some of the issues to consider when choosing a lifetime annuity as part of your retirement income plan.

> "My Challenger annuity is my safety net - minimal risk and safe income system to offset expenses in retirement. It probably represents a third of our combined portfolio."
>
> James, aged 71, retired for seven years.

1. Enjoy the confidence of regular lifetime income

You can't be sure of how long you're going to live. But there is a way to get an income for life, regardless of how many years that might be.
A lifetime annuity provides a layer of protection in retirement, with regular income for the rest of your life, and for your spouse if you choose. Even if you live longer than you expect to, you'll have no concerns about losing the income from your lifetime annuity – your payments will keep on coming.

2. Complements your other retirement investments and sources of income

Lifetime annuities complement other retirement investments and sources of income, such as a pension from your super and the Age Pension. They provide a lifetime income which can be used as the foundation of your retirement portfolio.

3. Different payment solutions to suit your needs

Lifetime annuities provide different monthly payment solutions to suit your financial circumstances and needs. For income certainty, you can choose CPI indexed or fixed payments. Alternatively, you can choose to have payments linked to changes in the RBA cash rate or investment markets.

4. Flexibility to withdraw if your circumstances change

There is a long period where you can access a lump sum if your circumstances change (unless you ask for this feature to be removed). Bear in mind that a lifetime annuity is designed to be held for life, so you may get less back if you decide to withdraw.

5. An Age Pension boost if you're eligible

Investing in a lifetime annuity may help boost your Age Pension entitlements under the Age Pension asset test rules.

Find out more ›
About lifetime annuities.

Chapter 4: Getting the right advice

The role of good financial advice

Your finances are an essential part of feeling comfortable and confident about your future. So it's worth getting an expert involved in exploring your options and making a plan for a secure income that will have you covered throughout retirement.

Making informed decisions

Sometimes seeking advice is about finding out what you don't know. By discovering the options available for investing and managing your income in retirement, you can understand which choices will suit you best, and why. A financial adviser with expertise in retirement planning is the ideal partner for opening up this world of opportunity and then narrowing it down according to your needs. They can guide you towards the right mix of investment and income options for your retirement.

Getting access to benefits

Your own savings may not be your only source of income in retirement. As well as creating a financial plan for your savings and assets, a financial adviser can also recommend ways to maximise any Government benefits you may be entitled to, such as the Commonwealth Seniors Health Card, Age Pension, and other Centrelink payments.

Keeping you on the right track

Getting financial advice can help you understand the facts and figures about your money in retirement. But it's also about having peace of mind that you're making the most of your savings, so you can afford a comfortable lifestyle for all the years ahead of you. With the benefit of an expert view you can fully understand how the choices you're making now could make a difference to your future. A professional perspective can also help you avoid taking unnecessary risks, as well as making positive decisions that can secure your retirement lifestyle and finances.

> "I had to work really hard at convincing my husband to come to a financial planner with me, he is not interested in retirement at all! When we went, we were both quite shocked to be honest. We knew we hadn't planned specifically, but assumed it would be OK. The adviser suggested an annuity from Challenger. It helps keep the wolf from the door, and I appreciate the regular money coming in. Now we're better planned, with a weekly budget for necessities and a few luxuries."
>
> Julie, aged 68, retired for three years.

Getting the right advice continued

Advice to suit your needs

The type of advice you need depends on your circumstances. Perhaps you just want to know the best time to downsize your home, or what to do with a lump sum you've inherited. Personal financial advice can range from simple advice on one topic to a comprehensive financial plan for your savings, assets and income throughout retirement.

If you're not sure what sort of advice you need, your adviser can make suggestions when they know more about your financial position and your goals for the future.

How to find a financial adviser

There are plenty of financial advisers out there, so how do you go about finding one that's right for you?

A good financial adviser will take the time to get to know you, make sure they understand your lifestyle goals, and put a financial plan in place to help you achieve them.

Here are some ideas to help you choose a financial adviser to help you make the most of your money in retirement:

- **Ask family or friends** – a recommendation from someone you trust means you'll have reassurance that the adviser has a strong track record in delivering good advice and positive outcomes to clients.
- **Online research** – this can be your starting point or a way of finding out more about an adviser you've been referred to. You can explore websites, social media profiles and public ratings of potential advisers.
- **Find a financial adviser tools** – the Financial Advice Association Australia (FAAA) has an online directory at https://faaa.au/ to search for financial advisers. You can filter results by accreditation, languages spoken and their specialty, so you'll know if they're experienced in retirement planning. Challenger can also assist you by providing a list of financial advisers that are experts in retirement income.

Find out more ›

About the questions to consider when looking for a financial adviser.

Who is Challenger?

We are Australia's largest provider of annuities and a life company registered under the *Life Insurance Act* 1995. We provide regular income to thousands of customers and have $25 billion in assets under management (as at 30 September 2024).

Challenger is regulated by the Australian Prudential Regulation Authority (APRA) and we must hold a minimum amount of capital, set by APRA, to ensure that we can meet the payment promises we have made to investors.

Our parent company is Challenger Limited, an investment management firm managing $128 billion in assets (as at 30 September 2024). Established in 1985 and listed on the Australian Securities Exchange (ASX:CGF) in 1987, Challenger Limited is focused on providing Australians with financial security for a better retirement. The regular income we promise to pay Annuity investors is not impacted by any movements in Challenger Limited's share price.

The information in the report has been compiled by the Challenger Retirement Income Research team.

Give us a call on 13 35 66 (from 8am to 6pm AEST, Monday to Friday), email us at info@challenger.com.au, or speak to your financial adviser.

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