

Downsizing tips and observations

Most people are not aware of some of the surprising statistics such as:

1. 92 years of age – is the current life expectancy of most people entering retirement today.

You have a 50% probability of living past 90.

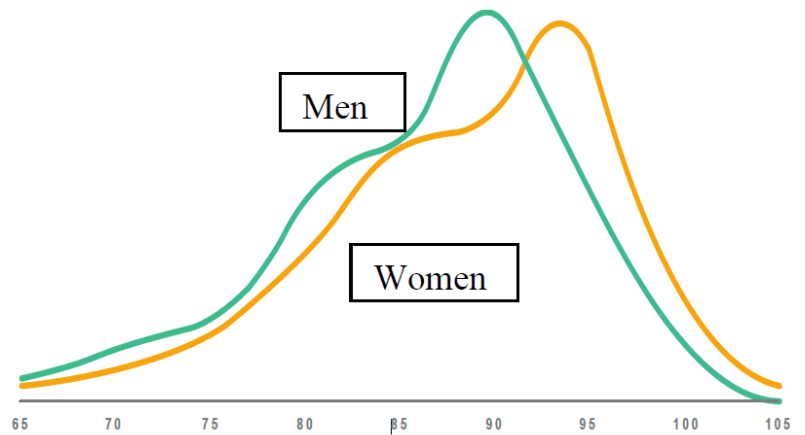
This is 50% higher than 70 years ago.

2. 1 in 2 Australians – underestimate their life expectancy.

3. 1 in 2 will outlive - their retirement savings by 5yrs.

4. 1 in 4 will outlive – their retirement funds by 10 yrs.

Information & chart from Mercer consulting



Over the past 12 months I have done a number of downsizing seminars and considered the situation of quite a few prospective “downsizers” at the same time. Most people have taken retirement already – while some are in the process of leaving full time work and downsizing simultaneously.

My observations are:

- Generally, and often the downsized property can cost more than you originally anticipated. Leaving less for you to contribute to your savings or Superannuation.
- Additionally, the property market is softening, so you might not get the funds from your existing home. The gap could be smaller than you anticipated. Keep this in mind as part of your budgeting.
- The government has passed legislation so as of July 2018 you can contribute up to \$300,000 each (if you are retired over 65, without relying on the work test) to Superannuation and convert this to a tax-free pension.

Houses sold after 1 July 2018 are eligible for consideration, if the home has been owned for 10 years or more by at least one person

- People are usually unaware of what the income return on their Superannuation or Allocated Pensions could be, or should be.

- There are a wide variety of investment returns, which people either live with or make do, without investigating options to improve returns.

Don't plan to drop another few hundred thousand dollars into the same investments without reviewing your options.

As a conservative investor in retirement you should have been getting about 6% pa. in the last 3 years – enough to tread water while drawing down 5% pa. from your investments – with the balance of your fund either static or growing slightly.

If you haven't met this target then you need to reconsider your options.

- Most people underestimate the potential of their investment funds and the options available to them to juggle for a better return, particularly fixed interest funds. That's the area of speciality where a good adviser can really add value.
- Additional funds from the downsizing exercise may affect your Centrelink benefits – so understand the cost / benefit of the exercise. Usually it is still worthwhile proceeding – particularly if your funds are invested in the most optimum manner possible.
- However, it is very worthwhile knowing the full outcome of the exercise in advance.

Have a good understanding of your total real living expenses, including trips away, hobbies, and all the likely leisure costs – such as going out for dinner, take away meals, Christmas splurge etc.

- Be aware that as you get older inflation for services and items that relate to old age can be higher than inflation on items for teenagers and young adults. An older person's cost of living can rise faster than someone in their 30's.
- The commonly accepted income target for a couple to live comfortably is \$60,000 p.a
- Various studies have reinforced this with similar estimates, around the same figure.
- When talking to a real estate agent before you appoint them, find out what really needs to be done around the place before selling and what can be left for the buyer to do. Expensive renovations just prior to a sale can be "over investing" and the sale price not necessarily reflective of the intrinsic value of the home plus the recent renovations.
- The standard sale process now is to de-clutter like mad and even store or dispose of furniture you will not use later. Hiring fresh new items – turning your house into a showroom.

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