

# Guide: How Much Do I Need to Retire?

Many Australians struggle to estimate the assets required for a secure retirement, as needs vary greatly. The steps below can guide you in planning the retirement savings needed to maintain your lifestyle and cover post-retirement expenses.

## 1. Define Retirement Vision and Timing

Define and document your retirement vision and your ideal timeline.

### i. Retirement Goals

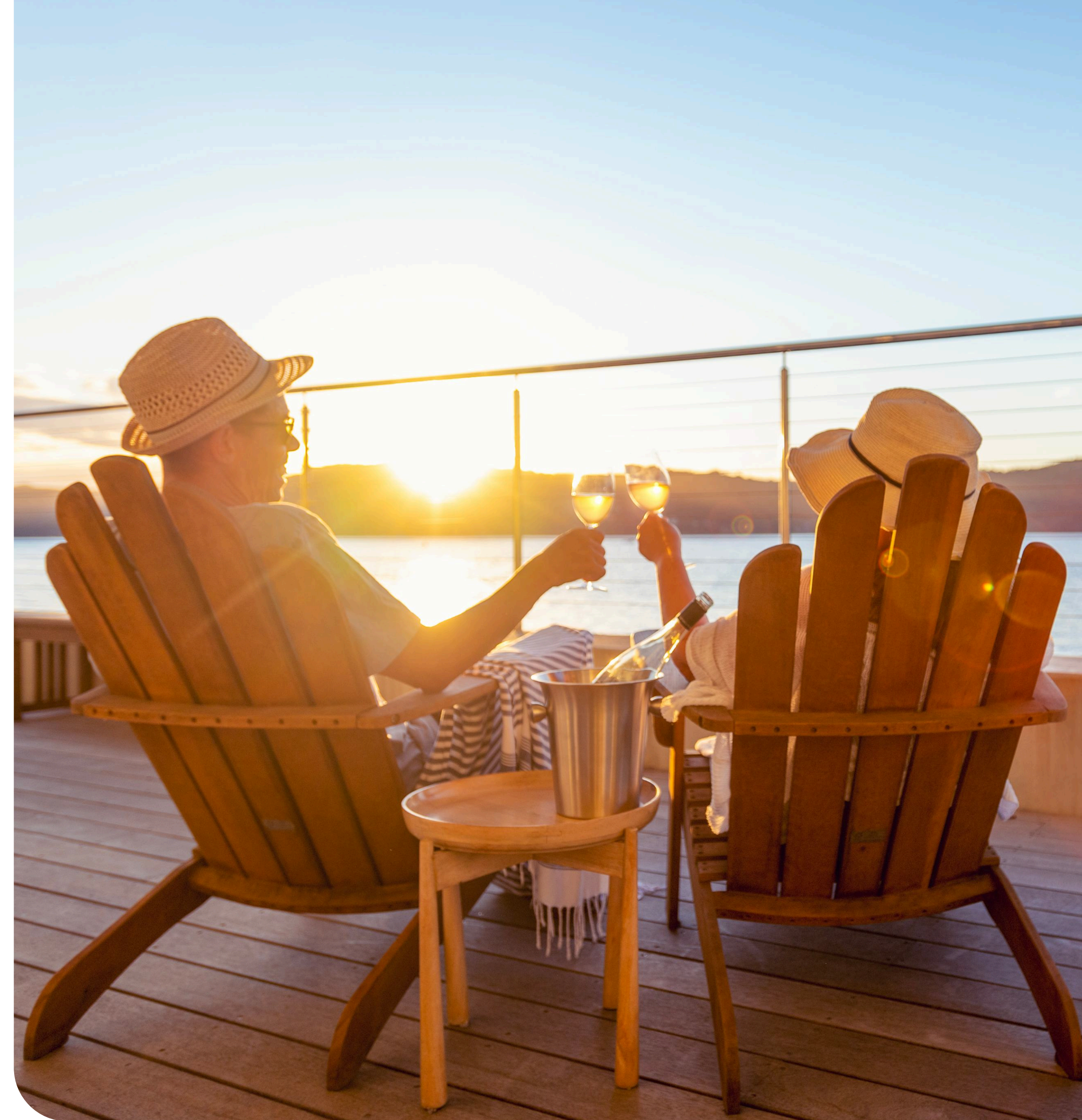
Start by visualising your life after work. Decide when you'd like to retire and factor in life expectancy, considering a gradual transition out of work, if desired. The goals you prioritised during your Wealth Maximiser session will help with this.

### ii. Daily Life

Imagine where you'll live and how you'd like to spend your days. Balance aspiration with practicality, focusing on what matters most—family, travel, hobbies, or a peaceful lifestyle.

### iii. Major Activities

Capture major activities that will cost significant amounts like travel (domestic or international), expensive hobbies (owning a boat, golfing) and leisure pursuits.





2. Determine Your Retirement Lifestyle

i. Establish Your Retirement Type

After reflecting on your retirement goals and timing, determine which lifestyle (retirement type) category fits best: modest, comfortable, affluent, or high net worth. For many Australians, a "comfortable" retirement is both suitable and achievable with proper planning.

Retirement Type

	Retirement Type	Explanation
1	Modest	Covers basic needs like housing, food, and healthcare, with little room for extras, relying mainly on social security or pensions.
2	Comfortable	Allows for basic needs and some discretionary spending, with occasional travel and hobbies, supported by a mix of super, social security, and pensions.
3	Affluent	Offers financial freedom for frequent and overseas travel and higher-quality living and dining, funded by significant savings, super, investments, and possibly rental income.
4	High Net Worth	Enables a luxury lifestyle with multiple properties and high-end services, supported by diversified investments, super, real estate, and business ventures.

ii. Determine Your Savings Needs

It’s now time to determine your target retirement savings amount using the table below. Simply identify the savings level that suits you, based on your retirement type and whether you are likely to be single or in a relationship (couple). We have deliberately kept these calculations simple to give you an idea of how to start to calculate what you may need. We have not taken into account any social security benefits you may be eligible for or considered any aged care needs that may be required down the track.

Typical Retirement Incomes and Savings Needs

Retirement Type	Single Annual Income Needs (A)	Single Savings Needs Total (25xA)	Couple Annual Income Needs (B)	Couple Savings Needs Total (25xB)
1. Modest	\$32,000-\$35,000	\$0.8M	\$47,000-\$50,000	\$1.2M
2. Comfortable	\$51,000-\$55,000	\$1.3M	\$72,000-\$75,000	\$1.8M
3. Affluent	\$120,000-\$150,000	\$3.4M	\$140,000-\$160,000	\$3.8M
4. High Net Worth	\$200,000+	\$5.0M	\$250,000+	\$6.3M
		These figures have been simplified to capture the median range of annual income		These figures have been simplified to capture the median range of annual income

Sources & Logic

The table above has been developed by the Wealth Maximiser team using various sources and is intended for guidance only. The key sources include:

- 1. **ASFA:** For more detailed information on retirement lifestyles and cost calculations, visit the Association of Superannuation Funds of Australia's (ASFA) website or consult resources such as Moneysmart.
- 2. **AFR:** Information on retirement savings requirements is sourced from Duncan Hughes's article in the Australian Financial Review (AFR), dated October 13, 2023, titled "About 3000 Australians retire every week and the most pressing question for many is: have I saved enough?" It includes financial consultancy BDO's analysis suggesting that a lump sum between \$2.5 million and \$3 million may be necessary for an affluent retirement lifestyle, as well as insights from Aspire Retire Financial Services on annual expenditures for those with high-end retirement goals.
- 3. **Bengen:** The following two rules were established by William Bengen in 1994 and are used as a guideline to calculate savings needs and for safe annual withdrawals from retirement accounts.
  - 4% Rule: Withdraw 4% of your savings annually to maintain income for a 30-year retirement, preserving your principal balance.
  - 25x Rule: Calculate savings by multiplying your desired annual income by 25. For instance, to earn \$40,000 annually, you need to save \$1million.
- 4. **Residence:** Retirement savings exclude value of principal residence

Note: Figures are in today's dollars (FY25), with no inflation consideration. It is important to acknowledge that these amounts will likely increase due to inflation each year.



3. Adjust Accordingly

Now that you've determined your target retirement savings, make sure to adjust this amount according to relevant factors below:

i. Age

For those over 75, consider using a 20 x savings goal multiplier (rather than 25x) to account for a shorter period in retirement.

ii. Consider legacy

Determine if you would like to leave an inheritance to family members or make bequests to charities, and what amount this would be.

iii. Adjust for Inflation

Years to Retirement	Inflation Multiplier
5	1.16 x
10	1.34 x
15	1.56 x
20	1.81 x
30	2.43 x

While this might seem like a lot, remember that as inflation increases, asset values also generally increase - so you can expect that any quality investments you currently have should appreciate over time, depending on market fluctuations.

iv. Adjust for Centrelink Age Pension Entitlements:

Check if you qualify for the Centrelink Age Pension by evaluating your income and assets, and how it may affect your future entitlements in retirement.

- Complete the Income test for Centrelink Age Pension entitlements: [Income Test](#)
- Complete the Asset test for Centrelink Age Pension entitlements: [Asset Test](#)

Remember that the cut-off limits are revised in March and September each year.

Following these steps will give you a clearer idea of your retirement savings needs.





# Worked Examples

## Example 1: John and Mary Planning a Comfortable Retirement

### 1. Define Retirement Vision and Timing

- **Retirement Goals:** John and Mary plan to retire at 65, expecting to live into their mid-90s. They envision a gradual transition from work, shifting to part-time before fully retiring.
- **Daily Life:** They plan to stay in their current home in Melbourne and wish to maintain an active, socially engaged lifestyle with frequent visits to cultural events and local attractions.
- **Activities:** They want to travel domestically, explore new hobbies like pottery, and volunteer at local community centres.

### 2. Determine Your Retirement Lifestyle

- **Retirement Type:** Comfortable
- **Income Needs:** Based on their desired lifestyle, they estimate needing around \$75,000 annually as a couple – after referring to the “Typical Retirement Income and Savings Needs” table in section 2ii above.
- **Savings Needs:** Applying the 25 x Rule, they need to save about \$1.8 million (25 x \$75,000).

### 3. Adjust Accordingly

- **Adjust for Age:** Given their current age of 50, they have 15 years to achieve their savings goal.
- **Considering a legacy:** They decide to save an additional \$200,000 to leave behind for their children, adjusting their total savings goal to \$2.0 million.
- **Adjust for Centrelink Age Pension Entitlements:** It is important to consider if John and Mary will likely be eligible for the Age Pension when they turn Age Pension Age (currently 67 years). Depending on their assets and income at the time, they may be eligible to receive a part or full pension payment. For the purposes of this case study, it is assumed they will not meet the Asset Test, as a couple who owns their own home with additional assets (excluding their home) exceeding \$1,045,500. Hence John and Mary are not eligible. This may change in the later stages of their retirement and therefore it is important to be across the cut-off limits which are revised in March and September each year.
- These figures are effective 20 September 2024, check this link for current income rates and thresholds: [Services Australia – How much pension you can get](#).
- **Adjust for Inflation:** John and Mary’s saving needs =  $(\$1.8\text{M} + \$0.2\text{M}) \times 1.56\% = \$3.1\text{M}$  in 15 years time.\*

By approaching your retirement planning through these steps, you can set a realistic retirement date that aligns with both your financial capabilities and lifestyle aspirations.

## Example 2: Alice Planning an Affluent Retirement

### 1. Define Retirement Vision and Timing

- **Retirement Goals:** Alice, a single woman, plans to retire at 60 and expects to live until 90. She wants a complete break from work upon retirement.
- **Daily Life:** Alice plans to move from Sydney to a quieter coastal town where she can enjoy the beach and mild climate.
- **Activities:** She looks forward to international travel, particularly in Europe, and taking up sailing.

### 2. Determine Your Retirement Lifestyle

- **Retirement Type:** Affluent
- **Income Needs:** Alice estimates she will need about \$120,000 annually - after referring to the “Typical Retirement Income and Savings Needs” table in section 2ii above.
- **Savings Needs:** Applying the 25 x rule, Alice calculates she needs \$3 million in savings (25 x \$120,000).

### 3. Adjust Accordingly

- **Adjust for Age:** Alice starts planning at 45, giving her 15 years to meet her financial goal.
- **Consider Legacy:** She also wants to leave a substantial legacy of \$500,000 for her nieces and nephews, bringing her total savings target to \$3.5 million.
- **Adjust for Centrelink Age Pension Entitlements:** It is important to consider if Alice will likely be eligible for the Age Pension when she turns Age Pension Age (currently 67 years). Depending on her assets and income at the time, she may be eligible to receive a part or full pension payment. For the purposes of this case study, it is assumed Alice will not meet the Asset Test as she is a single homeowner with total assets (excluding her home) exceeding \$695,000. Hence Alice is not eligible. This may change in the later stages of her retirement and therefore it is important to be across the cut-off limits which are revised in March and September each year.
- These figures are effective 20 September 2024, check this link for current income rates and thresholds: [Services Australia – How much pension you can get](#).
- **Adjust for Inflation:** Alice’s saving needs =  $(\$3.0\text{M} + \$0.5\text{M}) \times 1.56\% = \$5.5\text{M}$  in 15 years time.\*



# How much do you need to retire?

Use the worksheet on this page to estimate how much you may need to retire.



**Worksheet:** You can estimate the amount you need to retire by following this calculation:

1. Determine your retirement lifestyle

**What is your preferred retirement type?**  
(Refer to section 2i)

**What are your single or couple annual income needs?** (Refer to section 2ii)

**Are you leaving a financial legacy?**  
(Refer to section 3ii)

Retirement type

Income needs (\$)

X25 =

Savings needs (\$)

Financial legacy (\$)

2. Determine Centrelink Age Pension Entitlements

**Are you entitled to Centrelink Age Pension Entitlements?** (Refer to section 3iv)

Age Pension Entitlement p.a (\$)

X25 =

Total Age Pension Entitlement (\$)

3. Determine how much inflation to apply

Take your preferred retirement age

Retirement Age

Subtract your current age

Current Age

How many years to reach your savings needs goal

Years left to save

Inflation Multiplier % (Refer to section 3iii)

Inflation Multiplier %

4. Estimate how much you need to retire

Savings needs (\$)

Financial legacy (\$)

Total Age Pension Entitlement (\$)

Inflation Multiplier %

How much I need to retire (\$)

( +  - ) x  =