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Less speed and better directions for superannuation savers

Caution needed: advisers cite 'middle-aged cyclists in black Lycra' taking on too much risk. **Ken Irwin**


by **Duncan Hughes**

Super fitness and superannuation can be a calamitous combination for many late-middle-aged investors who shift up a financial gear when they should be slowing down, consolidating assets and preparing for retirement, say retirement specialists.

Symptoms of the "middle-aged cyclists in black Lycra" syndrome include embarking on long and gruelling investment strategies better suited to younger investors with more time to recover from any crashes.

"I see too many Baby Boomers careering towards 60 years still pedalling too fast," says Tony Bates, chief executive of Bluepoint Consulting, a financial adviser to wealthy clients.

"They think they are invincible," he says. "But this is not a race about who has the most assets when they die."

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Australians have been bitten by the cycling bug, with cyclists coming in all shapes, sizes and suburbs, ranging from the commuter riders and casual weekend cyclists through to the hipsters with "fixes", or fixed-gear bikes.

But it is often the late-middle-aged, black-Lycra riders who extend their free-wheeling attitudes on the open road to their investment portfolios, financial advisers say.

It's a group that does not appear on any statistical tables but is well known to advisers who often have to pull the pin on peloton plans best suited to a younger generation.

"Negative gearing into property might have proved a successful strategy throughout a Boomer's high-flying career but in your late 50s and early 60s it's time to slow down," Bates says.

"My advice to Boomer clients is to transition slowly into retirement, pedal slower and progressively shift gearing down to zero."

Chris Foster-Ramsay, managing director of Capital Home Loans, a finance brokerage, says those coming up to retirement should be focusing on income and capital growth. "Don't leave it too late to generate alternative income streams," he adds.

Recent academic research cited by fund manager Vanguard Australia found that only one in four retirees decided on their retirement date.

The others said they had been forced or encouraged to leave the workforce for reasons ranging from poor health to difficulties in their workplace.

"The reality is that many of us may not be in control of the decision to stop work," says Robin Bowerman of Vanguard Australia.

"This underlines once again why we should ideally begin saving as early as possible for our eventual retirement – whenever that may be."

TOO LATE TO BORROW

Regulators this week warned again about a growing bubble in Melbourne and Sydney's property markets pricing out a generation of younger wannabe homebuyers.

For many cashed-up Boomers on the cusp of retirement, the temptation might be to buy into a market young house-hunters might not be able to afford. After all, Boomers' careers have coincided with a 40-year property boom.

But the price-earnings ratio for housing in Australian cities is the highest in the world. The cost of the average home is about $1 million and wage growth is not keeping pace, particularly among graduates who are the main source of future demand.

High prices also mean lower rental returns. For example, $1 million invested in Sydney property will pay about $600 a week in taxable rents. The same amount invested in a super fund with a balanced portfolio can pay a tax-free pension of nearly $1000.

"Negative gearing becomes less and less effective as your marginal tax rate lowers," Bates warns about borrowing in the lead-up to retirement.

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"With the possibility of very low tax rates in retirement through generous super arrangements, I am cautioning Boomers against extending their already geared property portfolio if this is at the expense of accumulating super," he says.

There's also the issue of liquidity – being able to access sizeable amounts of cash to pay for a new car, roof or overseas holiday.

"You can't sell the bathroom of your investment property to pay for a new roof," Bowerman adds.

Those coming to retirement need to wind down debt, sell surplus property and maximise contribution caps.

Using the "bring-forward" provisions for after-tax (or non-concessional) contributions would enable a couple to inject $1.44 million into super over two years, says Bates, or $720,000 for an individual.

This is how it would work: in June this year you make an after-tax contribution of $180,000 for this financial year; then in July this year you could contribute $540,000 for the 2016, 2017 and 2018 financial years. The "bring-forward" rules allow you to make contributions for this and the next two years at the same time, as long as no further contributions are made until the fourth year.

The maximum non-concessional contribution for an individual is now $180,000, up from $150,000.

The research cited by Vanguard found that Australia had a retirement savings gap – i.e. the amount of money needed to provide a reasonable retirement – of nearly $730 million, or nearly $67,000 per person.

"Just like the widely reported increase in hospital visits by middle-aged cyclists in Lycra, the risks of injury from pedalling too fast increases exponentially with advancing years," Bates says.

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