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How worried should I be about running out of money when I stop working?

By Perpetual Asset Management

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It's not unusual to be worried about running out of money when you stop working.

A recent survey of our members found that 37 per cent of respondents approaching retirement were continuing to work because they did not have enough retirement savings. A similar percentage disagreed with the statement that “I have sufficient savings, in combination with any age pensions entitlement, to fund a comfortable retirement”.

While it’s important to acknowledge these fears, it’s worth noting the survey revealed a higher prevalence of these concerns were among members still in the workforce. After full retirement, 86 per cent of respondents either slightly agreed, agreed or strongly agreed that they possessed adequate savings, combined with the age pension, to sustain a comfortable retirement.

Minimum account-based pension payment rates

As we approach retirement, we should prepare ourselves for the transition from accumulating savings to accessing them, such as starting an account-based pension.

During this phase, we should carefully consider the amount and frequency of payments that we would like to receive. With the exception of a transition to retirement income stream, there are no maximum payment amounts. But there are minimum payment requirements that are based on our age.

It’s crucial to note that these payments will continue until the balance is exhausted. Hence, the need to carefully consider the payment rate.

Age range	Percentage of account balance
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95+	14%

How long will my savings last?

The table below provides an estimate of the years your retirement savings may last based on a fixed starting balance, consistent investment returns, and varying annual payment rates.

Take, for instance, a starting balance of $250,000 with a 4 per cent return. An annual payment of $10,000 may keep you covered for a century, while a yearly payout of $40,000 may drain your savings in just seven years.

Starting balance	Investment returns	Annual payment	Years savings may last
$250,000	4%	$10,000	100
$250,000	4%	$20,000	17
$250,000	4%	$30,000	10
$250,000	4%	$40,000	7

Source: Perpetual. Assumes annual payment is spread evenly over the year and the investment return is applied to the average account balance for the year. Minimum pension payment rates are ignored.

The next table provides estimates on how long retirement savings may last, assuming a constant starting balance, annual payment and different rates of investment returns.

As a general rule, the higher your investment returns, the longer your savings will last. But higher investment returns also come with higher risk. It's crucial to find a balance between risk and return that aligns with your individual circumstances and goals.

Starting balance	Annual payment	Investment returns	Years savings should last
$250,000	$20,000	2%	14
$250,000	$20,000	4%	17
$250,000	$20,000	6%	22
$250,000	$20,000	8%	42

Source: Perpetual. Assumes annual payment is spread evenly over the year and the investment return is applied to the average account balance for the year. Minimum pension payment rates are ignored.

It's important to note these tables are just estimates.

They do not account for certain challenges that retirees may face, including sequencing risk and inflation risk.

Sequencing risk can be particularly concerning. A big negative return in the early years of retirement can greatly impact your account balance and future returns.

Inflation risk is also a factor, as the purchasing power of a fixed payment rate can decline over time.

How the Age Pension helps to manage risks to retirement income

Access to the federal government's Age Pension helps manage these risks. While you may not be eligible for the Age Pension when you first retire, eligibility may arise later on.

The Age Pension can help to manage sequencing risk, as payments are not tied to investment market returns, and they may increase if the value of your assets fall. Inflation risk is also addressed, since the pension is indexed to the consumer price index, and longevity risk can be mitigated through ongoing payments for the rest of your life.

Further information

For further information please speak to your financial adviser or call us on 1800 022 033 during business hours (Sydney time).

However, as a more general starting point, you can use the Money Smart calculator to work out:

- How long your account-based pension will last
- How investment returns will affect your pension balance

Read more retirement articles here.

This information has been prepared by Perpetual Superannuation Limited (PSL) ABN 84 008 416 831, AFSL 225246, RSE L0003315 as trustee of the Perpetual's Select Superannuation Fund (ABN 51 068 260 563) and Perpetual WealthFocus Superannuation Fund (ABN 41 772 007 500). It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. Any tax information contained in this article is not tax advice (and should not be relied on as such) and is believed to be accurate at the time of compilation. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any

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