Six ways to help reduce your debts before you retire

Carrying debt into retirement is something many Aussies will face, but the good news is there are a number of things you can do now while you've still got time on your side and earning an income.

TAKE SIMPLE STEPS TO MINIMISE WHAT YOU OWE

- Work out your debts and what they total
- Do a comparison of what you earn, owe and spend
- Look into whether you might benefit from rolling your debts into one
- Pay your debts on time to avoid additional charges
- Try to pay the full amount rather than the minimum owing
- Look at whether you can afford to make extra repayments
- Shop around for providers with lower interest rates and no annual fee
- Have a contingency plan, such as an emergency fund, if you can afford to
- If you're experiencing financial hardship, talk to your providers, as most can assess your situation and help you find alternative payment plans.

GET SERIOUS ABOUT HAVING A BUDGET

If you're approaching retirement, you may be prioritising things such as living costs, utility bills, health care and even helping the kids out. With many Aussies looking at a retirement (which in reality, could span a few decades), another thing to give some thought to is recreation and your social life.

A good starting point when it comes to setting up a workable budget, so you can manage these things, is figuring out what money you have coming in, what expenses you have and what you might be able to put aside.

Meanwhile, if you're wondering how much money you'll need generally, the Association of Superannuation Funds of Australia (ASFA) benchmarks the annual budget needed to fund different retirement lifestyles, based on an assumption people own their home and are relatively healthy.

June 2020 figures show individuals and couples, around age 65, looking to retire today would need an annual budget of $43,687 and $61,909 respectively to fund a comfortable lifestyle, or $27,902 and $40,380 respectively to live a modest lifestyle.

CONSIDER WHAT MONEY YOU MIGHT HAVE ACCESS TO

The money you use to fund your life in retirement will likely come from a range of different sources, including the following:

Super – Generally you can start accessing super when you reach your preservation age, which will be between 55 and 60, depending on when you were born. Knowing your super balance is a crucial part of planning for retirement, as it's likely to form a substantial part of your savings.

If you've got more than one super account, there may also be advantages to rolling your accounts into one, such as paying one set of fees, which could save you hundreds of dollars each year. However, there could be other fees and features lost in the process, so make sure you're across everything before you consolidate.

Investments, savings, and inheritance - You may be planning to sell shares or an investment property, or use money you've saved in a savings account or term deposit to contribute to your retirement. An inheritance or proceeds from your family's estate may also help in your later years.

The government's Age Pension - Depending on your circumstances and assets, you could be eligible for a full or part Age Pension from age 65 to 67 onwards (depending on when you were born), or you may not be eligible for government assistance at all.

KNOW WHERE YOUR MONEY IS SITTING AND WHAT IT'S DOING

Having spare money sitting in the one place mightn't be the best thing. For instance, if you've got cash in a transaction account, could you be earning more if it was invested elsewhere, or even placed in an offset account linked to your home loan to reduce what you pay in interest?

Looking at different investment options inside your super could also potentially generate more income. Do keep in mind though that a more conservative approach may be a better option as you get older, as when you're younger, you generally have more time to ride out market highs and lows.

CONSIDER DOWNSIZING YOUR HOME OR REFINANCING

Find out what you need to know about downsizing your home as this could help you top up your retirement savings.

You might also be interested to know that when you reach age 65, you can make a tax-free contribution to your super of up to $300,000 using the proceeds from the sale of your main residence. There will however be potential advantages and rules that you'll want to be across.

Refinancing, whereby you replace your existing home loan with a new one, could also create cost benefits and more financial flexibility.

Remember, your living arrangements in retirement should be based on more than just your finances. Your health, partner, family and what activities you want to pursue once you stop work will play a part.

THINK ABOUT WORKING A BIT LONGER

This could help you to boost your savings as well as your super balance, so that you have a more comfortable lifestyle in retirement. In fact, the main reason most older Aussies said they wanted to stay in the workforce was financial security.

It's also interesting to note, retirement isn't necessarily a one-time event, particularly when it comes to the 45 to 54 and 55 to 59 age groups, with as many as 26.7% returning to employment annually.

Source: AMP Insights

If you have questions around the most effective way to reduce your debts, give Shaun or Vicky from Evans Edwards Financial Advisors | Wealth Creators a call on **4927 4588** to see how they can help you.

We will guide you with a tailored approach that works for your circumstances. Give us a call on 4927 4588 (Rockhampton) or 4939 1766 (Yeppoon) to see how we can help.

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