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BY WEALTH ADVISER

Introduction: The Impact of Debt on Retirement Wellbeing

For many Australians, the vision of retirement conjures up images of relaxation, freedom, and well-earned peace of mind. Yet, for an increasing number of retirees, the reality includes an unwelcome companion: debt. While many Aussies will carry some debt into retirement, the good news is, there are a number of things you could do now while you've still got time on your side and earning an income. The growing prevalence of retirees carrying mortgages, personal loans, or credit cards into retirement is a pressing concern, often leading to stress, reduced lifestyle choices, and even the necessity to delay retirement itself.

Recent research confirms this trend: 28% of Australians approaching retirement (aged 50 to 64) hold a mortgage, while 14% of current retirees still have mortgage debt. The psychological and practical implications are significant. As one expert notes, a lot of us get caught up in the day-to-day, and don't set aside the time to plan for retirement properly - so

BEFORE YOU GET STARTED

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we wake up one day with the prospect of facing either a voluntary or an involuntary retirement. With this in mind, reducing or eliminating debt before retirement should be a central goal for anyone seeking a secure and enjoyable later life.

Step One: Getting Organised and Knowing Your Numbers

The journey to a debt-free retirement begins with a clear-eyed appraisal of your current financial situation. Work out what debts you have and what they total. Compare what you earn, owe and spend and consider where you might be able to cut back. This means taking stock of every credit card, personal loan, mortgage, and outstanding bill.

A comprehensive budget is your foundational tool. According to MoneySmart, the first critical step is to know what you owe. List all debts, specifying balances, interest rates, and minimum repayments. From there, track income and expenses, identifying areas for savings that can be redirected to debt elimination.

Financial advisers and reputable online tools can provide budget planners and calculators to make this process more manageable. Early and honest budgeting—ideally started a decade or more before retirement—gives time for small changes to achieve meaningful results. As one adviser notes, preparing a budget 10 to 15 years ahead of retirement means you can really understand your complete financial picture.

Step Two: Prioritising and Managing Debt Repayments

Once every liability is visible, it's time to develop an effective repayment plan. Look into whether you could benefit from rolling your debts into one loan... Shop around for providers with lower interest rates and no annual fees. Debt consolidation—merging multiple debts into a single, lower-interest product—can save on interest and simplify repayments.

Prioritisation is key. Start with bad debt, such as credit cards and payday loans, which carry the highest interest rates. The “snowball” method, endorsed by ASIC’s MoneySmart, involves paying off the smallest debts first for a psychological boost, while always meeting minimum payments on all accounts. The quickest—and most motivating—way to get out of debt is the snowball method. You start small, and pay off your debts one by one.

Where possible, negotiate with creditors for better terms or seek hardship assistance if paying bills is difficult. Refinancing larger debts like mortgages—especially when interest rates are favourable—can also cut costs in the long run. For secured debts, such as car loans or home equity loans, ensure that repayments are manageable within your pre-retirement income.

Understanding the distinction between good debt (used for appreciating assets) and bad debt (for depreciating or consumable goods) helps in deciding which to target most aggressively for early repayment.

Step Three: Making the Most of Assets and Income

As retirement draws closer, it becomes crucial to maximize all available assets and income streams in service of debt reduction. One often-overlooked strategy is reviewing how cash or savings are allocated: 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?

For homeowners, downsizing to a smaller, more manageable property can unlock equity to retire debts and bolster retirement savings. The Australian government also allows certain downsizers to contribute up to \$300,000 tax-free into super from the sale of the family home, subject to eligibility.

Superannuation offers another avenue: one can consider consolidating multiple super accounts (to reduce fees), adjusting risk profiles as retirement approaches, and assessing the possibility of making extra contributions while still earning. However, using super to pay off debts should be considered carefully. For those who don’t get to choose when they retire, one option is to use a lump sum from your super to reduce or pay off your mortgage. However, research shows that only 15% of Australians plan on taking this option.

Other options include selling investments, using savings or inheritance, or optimising the income-generating potential of assets such as shares or property. Consider seeking advice about “debt recycling,” a strategy where income from investments is used to service investment loans even during retirement—though this requires a careful balancing of risk and reward. Ultimately, aligning asset and income strategies with your risk tolerance and retirement goals is essential.

Step Four: The Value of Professional Advice and Support

Navigating debt reduction as retirement approaches can be complex—emotions, risk tolerance, and regulatory rules all come into play. The good news is, seeking professional advice significantly increases both confidence and positive outcomes. You could also talk to your adviser or use our directory to find one near you.

A qualified adviser can:

- Develop and monitor a viable debt repayment plan
- Identify refinancing and consolidation options
- Optimise superannuation and investment structures
- Keep strategies compliant with changing regulations

- Ensure government benefits and age pension entitlements are factored in

Many providers and community organisations offer direct support for those facing hardship, including phone and online helplines (like the National Debt Helpline), hardship teams at banks, and specialist financial counsellors.

There are considerable psychological benefits as well. Regular check-ins foster accountability, and the right adviser brings clarity when navigating emotionally charged decisions—such as weighing lifestyle sacrifices against financial security. Without financial advice, only 45% of homeowners with a mortgage are confident they will be able to retire debt-free. However, after receiving advice, confidence levels jump to 63%.

Conclusion: A Call to Action for a Debt-Free Retirement

The dream of a carefree retirement is worth defending—but it relies on taking practical steps as early as possible. There is no one-size-fits-all path to eliminating debt before retirement. For some, it will mean early, disciplined budgeting and consolidation; for others, strategic use of assets and professional guidance. The one universal truth is that action—thoughtful, proactive, and sustained—makes all the difference.

As you contemplate your own journey to retirement, consider the power of getting organised, prioritising repayments, making the most of your assets, and seeking the support of a qualified adviser. Breaking the chains of debt before retirement isn't just liberating—it may be the most effective investment you can make for a peaceful and prosperous future in Australia.

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RETHINKING RETIREMENT

HOW MUCH IS ENOUGH FOR A FULFILLING FUTURE?

Nattanan Kanchanaprat/pixabay.com

BY WEALTH ADVISER

Introduction: The Perennial Retirement Question

It is a simple question with an answer we probably don't want to hear. In Australia—a country where superannuation is compulsory—most workers accept that saving for retirement is part of life. Yet, when it comes to the perennial question of “how much is enough?”, the conversation is shadowed by uncertainty, disengagement, and even apathy. Recent AMP research shows that two in three Australians under 40 believe they need more wealth to feel financially confident about retirement, while less than one in twelve feel secure and independent. As Morningstar observes, one downside of the compulsory aspect of super is the evidence that many Australians are disengaged from their own retirement outcomes.

The numbers, rules of thumb, and official standards can seem remote or arbitrary, with many Australians content to trust default super fund settings without deeper exploration of their actual retirement needs. The use of retirement needs calculators and modelling tools, now widely available from super funds and financial institutions, is helping address this by giving individuals a more personal estimate of what they will need and what they will have.

The Standards and Rules of Thumb: How Much Do Australians Really Need?

Australians looking for clarity often turn to guides such as the Association of Superannuation Funds of Australia (ASFA) Retirement Standard. This benchmark provides detailed budgets for “modest” and “comfortable” retirement lifestyles and has been widely adopted by advisers, Government, and industry.

AS OF JUNE 2025, ASFA ESTIMATES FOR RETIREES AGED 65-84 ARE:

	Comfortable lifestyle (homeowners)	Modest lifestyle (homeowners)	Modest lifestyle (renters)
Single (lump sum)	\$595,000	\$100,000	\$385,000
Couple (lump sum)	\$690,000	\$100,000	\$340,000
Single (per year)	\$53,289	\$34,522	\$49,044
Couple (per year)	\$75,319	\$49,992	\$66,296

A “comfortable” lifestyle, according to ASFA and AMP, typically allows for a good standard of living, social activities, health cover, and leisure, including the occasional international trip. Modest budgets cover basic living needs and a few extras, sitting above the Age Pension alone. For renters, “modest” is the primary reference, as the challenge of covering market rents results in significantly higher required savings.

Super Consumers Australia provides alternative lump sum targets, grounded in the actual spending data of current retirees. Their rule-of-thumb targets also distinguish between singles and couples, and between low, medium, and high spending groups. The Age Pension remains pivotal in almost every scenario, especially for low to medium spenders.

A common “rule of thumb” persists: most retirees should aim to replace about 70% of their pre-retirement income. Yet, as seen in these models, the actual lump sum needed is shaped by lifestyle goals, housing status, and access to the pension. A single “magic number” does not fit all.

What the Numbers Miss: Risks, Assumptions, and Human Factors

While helpful, these benchmarks are built on layers of assumption. The classic retirement model presumes steady career-long employment, uninterrupted super contributions, and investment returns that mirror long-term averages. The AMP article highlights how the age at which you retire, your health, partner’s plans, and debts all influence both your balance and your drawdown period. Longevity risk is real: retiring at 65 means planning for a retirement that may last 20-25 years.

In practice, individuals face career breaks, part-time years, market downturns, and periods out of the workforce for family duties. As both Morningstar and Super Consumers Australia caution, “no one number fits every situation—assumptions matter.” Policy improvements (like increasing the super guarantee to 12%) have helped mitigate risk, but they cannot eliminate it for everyone.

For those renting in retirement, research from ASFA, AMP, and others shows a substantially higher risk of financial insecurity. Housing costs remain a key determinant of wellbeing, with renters facing bigger savings requirements and greater risk of poverty.

Uncertainties also affect expenditure. As the Grattan Institute and AMP note, spending typically declines throughout retirement, though health and aged care costs can rise with age. Discounted amenities and pensioner benefits introduce more nuance.

The Real Drivers: Savings Rate, Asset Allocation, and Behaviour

More important than any benchmark is the power of individual behaviour and strategy. Morningstar’s projections show that compulsory super guarantee contributions invested in a balanced fund may only replace 50-63% of pre-retirement income—below many benchmarks. AMP’s calculators and case studies provide similar stories: the hypothetical “Mac”, aiming for a comfortable retirement, finds his projected savings fall short of anticipated needs by up to ten years—a wakeup call that many share.

Asset allocation is a critical factor—those who leave a higher proportion in growth-oriented investments over time gain considerable compounding benefits. Even a small increase in annual return (as demonstrated by shifting from balanced to high-growth options) can translate into tens of thousands of dollars more in retirement. Likewise, controlling fees, minimising unnecessary trading, and appropriately managing tax have a strong cumulative effect.

AMP’s Lifetime solutions—such as the Super Lifetime Boost—illustrate a practical response to the interplay of investment returns and social security eligibility. By structuring part of the pension within a Lifetime Pension product, clients can benefit from more favourable asset test treatment for Age Pension purposes, effectively boosting retirement income for longer.

Lack of confidence, inertia, and poor financial literacy are ongoing challenges, as shown by AMP’s research into Australians’ retirement readiness. Tools like calculators and simulators can help, but education and proactive advice are just as essential for making sound choices over time.

Beyond the Maths: Flexibility, Resilience, and Living Well

Planning for retirement is not just about arithmetic or chasing a “right number”; it is about building in resilience, flexibility, and life satisfaction. Saving and investing not only protect against the known risks but offer a payoff if

circumstances are favourable—anything saved above the minimum can provide freedom, comfort, or extra options later in life.

Successful retirees adapt as conditions change—spending more in early retirement, reducing needs later, exploring gradual work transitions, or leveraging Government age pension when appropriate. AMP’s modelling highlights the benefits of acting early: making even small changes (reviewing investment mix, increasing contributions, or using salary sacrifice) sooner can dramatically affect outcomes.

Practical strategies include:

- Saving above the guaranteed minimum, especially when young or able.
- Adjusting investments as your risk tolerance or circumstances change.
- Incorporating potential inheritance, sale of property, or downsizing into plans.
- Exploring innovative products (such as AMP’s Lifetime solutions) to extend or stabilise retirement income.
- Factoring in health, family needs, and likely spending patterns on leisure and essentials.

A fulfilling retirement isn’t just about hitting a number—it’s about maintaining options, independence, and the ability to respond to life’s surprises with security and dignity.

Conclusion

Rethinking retirement means moving beyond the “magic number” toward a practical, adaptable, and personal

approach. Use industry benchmarks as a guide, but never as the sole determinant. By starting early, seeking advice, using available calculators and tools, and acting on knowledge throughout one’s career, Australians give themselves the best chance not just to survive—but to thrive and enjoy life in retirement, whatever it may bring.

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NAVIGATING DEEMING RATES

STRATEGIES FOR BUILDING WEALTH AND SECURITY IN RETIREMENT

BY WEALTH ADVISER

Introduction: What Are Deeming Rates—and Why Should You Care?

Retirement security is a top priority for every Australian planning their later years. One of the most important but often overlooked rules influencing how much Age Pension you receive is the Government's "deeming rate." With changes to those rates coming in September 2025, taking the time to understand what they mean can make a real difference to your financial wellbeing.

Deeming rates are how the Government estimates the income earned from your savings and investments for the purpose of the Age Pension income test. Rather than checking the exact return on every account or asset, a standard rate is "deemed" across almost all financial assets. This process streamlines assessments, yet has practical consequences—especially as the rules change. The upcoming increase marks the end of a multi-year freeze and will impact retirees across Australia, making now the perfect time to get informed.

How Deeming Rates Work: Simple Rules, Big Implications

Deeming rates apply to a range of financial assets such as savings accounts, term deposits, listed shares, managed

funds, superannuation (in certain circumstances), some account-based pensions, and bonds. The family home is excluded.

From 20 September 2025, there will be two main rates:

- The lower rate will rise to 0.75% (up from 0.25%), applied to the first \$64,200 of assets for singles and \$106,200 for couples.
- The higher rate will move to 2.75% (up from 2.25%), applied to asset value above those thresholds.

This means, for example, if a single retiree has \$100,000 in savings and investments, the first \$64,200 is "deemed" to earn 0.75%, and the remaining \$35,800 at 2.75%. The total "deemed income" is added to other income streams (such as part-time work), and if it exceeds the income test free area, the pension is reduced.

The policy aims for fairness by treating all retirees similarly, regardless of where or how their money is invested. If your assets earn more than the deeming rate, you'll keep the excess—if they earn less, the Government still uses the deemed figure.

Why Are Deeming Rates Changing in 2025?

For the past several years, deeming rates have been frozen, even as interest rates and the broader economy shifted dramatically due to the pandemic. This freeze protected Age

For retirees with modest financial assets, the change in rates might have only a minimal effect. However, those with significant savings or close to the pension cut-off could see their Age Pension reduced—sometimes by as much as \$13 per fortnight for each extra \$1,000 of income over the threshold.

Pensioners from increases in the cost of living and ensured their assessed incomes remained lower than actual returns for many.

From September 2025, rates are rising to more closely match current market conditions and returns available on savings and investments. This change means more income will be assessed for many retirees, which may reduce part or full Age Pension amounts—though the Government is also increasing pension payments to help offset rising living costs.

The Impact on Your Age Pension

How much retirees are affected depends on the size of their savings and investments, and how close they are to the income or asset test thresholds.

For retirees with modest financial assets, the change in rates might have only a minimal effect. However, those with significant savings or close to the pension cut-off could see their Age Pension reduced—sometimes by as much as \$13 per fortnight for each extra \$1,000 of income over the threshold.

To help offset these impacts, Age Pension rates themselves are increasing. From September 2025, the maximum rate for singles will increase by about \$30 per fortnight, and for couples by \$44.80 per fortnight. These boosts will apply automatically, but may not fully offset higher “deemed” incomes for everyone.

Practical Examples

Let's see how the new rules could change things for two common situations:

Example 1: Single Retiree

- Has \$80,000 in savings and investments.
- Under the new rates, their first \$64,200 is deemed at 0.75%, and the remaining \$15,800 at 2.75%.
- The resulting deemed income is added to any other income for the pension means test.

Example 2: Couple

- Joint assets of \$120,000.
- First \$106,200 deemed at 0.75%, remaining \$13,800 at 2.75%.
- Both are assessed on their share, and the couple's combined pension may be reduced if their income (real or deemed) is above the couple's free area.

Why Does the Government Use Deeming Rates?

Deeming rates offer several advantages:

- They simplify pension assessments and reduce paper-work for retirees.
- They reward prudent investing—if you earn above the deeming rate, you keep the difference.
- They ensure the system is fair by avoiding case-by-case assessments—and limit opportunities for manipulation.

However, there are downsides. When real returns are low, some may find they're assessed as “earning” more than they actually receive. Others may see more of their income sheltered under the deeming system than would be possible if assessed individually.

Who is Most Affected—And Is the System Fair?

Not everyone is impacted equally. Those with investments that consistently outperform the deemed rate are effectively rewarded, while conservative investors may feel penalised. Still, simplicity and fairness were the aims of this reform in 1996, and feedback from pensioners is considered during major changes.

The most significant impacts in 2025 will be for:

- Retirees with large financial asset holdings, especially if close to the income test caps for pension eligibility.
- Anyone depending on the minimum Age Pension whose deemed income now exceeds the threshold.
- Those with low-yield or defensive portfolios that may not keep pace with the increased deeming rate.

Overall, while the system isn't perfect for everyone, it's designed to give clear rules and treat similar cases alike.

What Can Retirees Do? Practical Steps to Stay on Track

With change comes opportunity. There are steps every retiree—or soon-to-be retiree—can take to maximise Age Pension and retirement income:

1. Review Your Financial Assets

Catalogue all relevant accounts and investments. Online calculators (such as from AMP, SuperGuide, and Services Australia) can help estimate new “deemed” income and potential pension amounts.

2. Update Your Details with Centrelink

Ensure all information is current—especially if you've re-

cently closed, opened, or changed investments. Accurate asset reporting ensures you receive what you're owed.

3. **Consider Your Investment Strategy**

While chasing returns just to beat the deeming rate isn't always wise, a professional adviser can help you identify products (like annuities or special account-based pensions such as AMP's Super Lifetime Boost) that may optimise your pension entitlement.

4. **Factor in the Age Pension Increase**

Calculate how much of the September 2025 pension increase will be offset by higher deemed income, and adjust your retirement budget if necessary.

5. **Plan Ahead if Not Yet Retired**

Even if you're planning for retirement in a few years, familiarise yourself with asset and income test rules now and model different scenarios for your superannuation or investment holdings.

6. **Seek Quality Advice**

Every retiree's situation is unique. A trusted adviser can help you navigate changing policy, understand the full impact of new rules, and take action proactively.

Coping with Future Changes

The only certainty in retirement planning is change. Governments adjust rules, economic conditions shift, and personal circumstances evolve. Keeping informed, planning

ahead, and regularly reviewing strategies with an adviser can help you preserve wealth and peace of mind no matter how deeming, pensions, or other rules move in the years ahead.

Remember, the Age Pension is just one part of your financial future. Whether you're aiming to maximise entitlements or simply avoid nasty surprises, a little preparation can go a long way.

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Q&A: Ask a Question

Question 1

My friend told me that when she moved her super into pension phase, she stopped paying tax on her investment earnings. How does that work?

Superannuation has two main phases: accumulation and pension. In the accumulation phase, which most people are in while they're still working, investment earnings are taxed at 15%. Once you reach retirement and transfer your super into an account-based pension, those earnings within the retirement phase become tax-free. This can make a significant difference to how long your money lasts, because your balance is no longer being reduced by ongoing tax on earnings.

There is, however, a limit to how much can be transferred into this tax-free phase. The transfer balance cap is currently \$2 million per person. Any amounts above this cap must remain in accumulation, where earnings are still taxed at 15%. Structuring your super effectively between these phases can help maximise your retirement income and minimise tax. Your financial adviser can help you manage this transition and ensure your super is working as efficiently as possible.

Question 2

I heard that account-based pensions are treated differently by Centrelink under the income and assets tests. How are they assessed under current rules?

Account-based pensions are treated in specific ways under Centrelink's means tests. For the assets test, the balance of your account-based pension is included as an asset and valued at its latest market or account value. For the income test, if your account-based pension commenced on or after 1 January 2015, the payments you receive are generally assessed under the deeming rules rather than being assessed

based on actual payments. This means Centrelink assumes your pension balance generates income at set deeming rates, rather than focusing on how much you withdraw.

Deeming rates are set to a fixed percentage by the Federal Government based on prevailing financial conditions including things like interest rates and broader economic conditions.

If your pension started prior to 1 January 2015 and you were receiving an income support payment continuously since that date, you may retain "grandfathered" treatment, which allows for actual pension payments, less a deductible amount, to be assessed. But for most newer pensions, deeming applies, meaning the drawdowns you make don't directly affect the assessment, it's your balance that matters.

A financial adviser can help you work out how your pension is treated under these tests, compare potential income outcomes, and plan drawdowns or asset structures to optimise your Centrelink entitlements under current rules.

Question 3

If I plan to leave money to my grandchildren, would it be better to do that through my super or my estate?

Superannuation is not automatically part of your estate when you pass away. Instead, it is paid as a death benefit, either directly to dependants or via your estate if directed that way. Dependants for superannuation purposes include a spouse, children under 18, or anyone financially dependent on you. Grandchildren are generally not treated as dependants unless they were financially reliant on you. This means that if you want to leave money to grandchildren, the super benefit usually needs to be paid to your estate first, and then distributed according to your will.

There can also be tax implications. Death benefits paid to non-dependants, including adult children and grandchildren, may be taxed, reducing the overall inheritance they receive. Careful planning can help reduce this impact and ensure your wishes are carried out efficiently. A financial adviser can work alongside your solicitor or estate planner to help you decide the best structure for leaving assets to your grandchildren.