

Accelerating your retirement savings

Australians are retiring younger and living longer. At the same time, our population is aging, placing increasing pressure on publicly funded pensions.

In this environment, it's more important than ever to ensure you have adequate savings to support a comfortable lifestyle in retirement.

In this case study example*, we discover how you can use a Colonial Margin Loan to accelerate your retirement savings and create wealth faster:



“Margin lending helped us harness rising property prices to boost our retirement savings — without borrowing against our house”

Introducing Thomas and Katrine

In their mid 40s, Thomas and Katrine are in the prime of life. Their careers are flourishing. Thomas, the Communications Manager for a large financial services company, is managing an enlarged department after a merger, while Katrine has just been appointed Deputy Headmaster of the school where she has been teaching for the last six years. With their house paid off, and their oldest son leaving home to start university, new opportunities are opening up before them.

At the same time, Thomas and Katrine are also starting to look ahead to retirement. Ideally, they'd like to retire at 60, rather than 65.

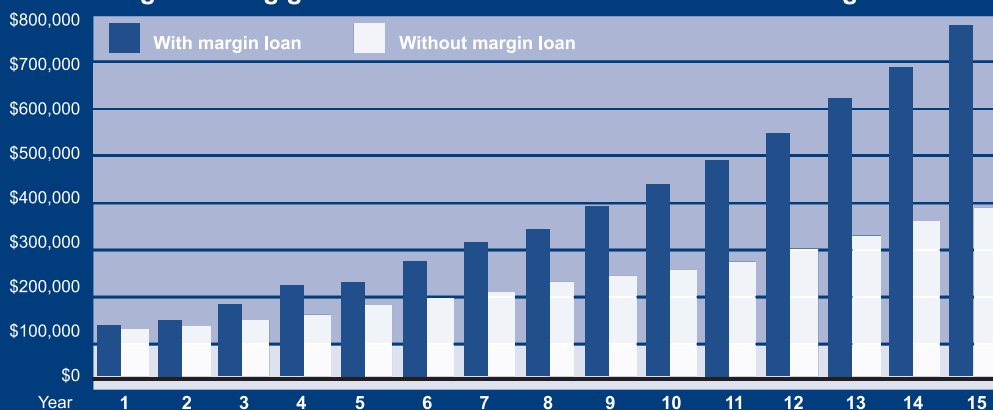
Unfortunately, when they consider their combined superannuation savings, the future doesn't look quite so rosy. Thomas and Katrine both entered the workforce long before Superannuation Guarantee legislation was introduced, and Katrine spent a number of years off work while raising their two children.

As a result, their accumulated superannuation savings aren't sufficient to satisfy their preferred lifestyle in retirement. So how can they boost their retirement savings without making too many sacrifices?

The problem

Having paid off their house, Thomas and Katrine are now in a position to increase their superannuation contributions. However, they are concerned that super alone will not be enough — particularly if they want to retire early. Consequently, they would like to develop a portfolio of other investments they can draw on when they retire. One option is to borrow for investment purposes, but they are reluctant to offer their home as security.

Margin lending gives Thomas and Katrine's retirement savings a boost



Assumptions: This graph compares the potential return on Thomas and Katrine's investment with and without a margin loan. The calculations show the net proceeds of each strategy after loan and interest costs have been paid. It assumes an average annual return of 9% with dividends reinvested, a marginal tax rate of 48.5%, including medicare levy, an average annual margin loan interest rate of 8% and excludes brokerage and any other fees. This example is for illustrative purposes only and the affects of individual tax situations have not been taken into account.



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The strategy

Thomas and Katrine's adviser recommends that they use a line of credit to access the equity in their home, then boost their investment capital using a Colonial Margin Loan. Their borrowings can then be used to invest in a portfolio of shares and managed funds.

This is one way that, Thomas and Katrine can harness the equity in their home. By investing with a margin loan, they can significantly boost their returns if their investments are successful.

Thomas and Katrine's preferred retirement age gives them a long-term investment time-frame, which is beneficial when implementing a margin loan strategy. Thomas and Katrine's house has been valued at \$500,000, giving them the capacity to redraw equity to a maximum of \$400,000. However, their adviser recommends that they redraw a relatively conservative \$100,000 in equity before borrowing an additional \$200,000 with their margin loan. That gives them total investment capital of \$300,000.

The result

On the basis of the above assumptions, after 15 years, Thomas and Katrine's margin lending strategy could significantly accelerate their retirement savings, giving them net proceeds of \$769,145 after their loan, borrowing costs and tax have been paid. That compares to net proceeds of \$364,248 if they had simply re-drawn \$100,000 in equity and invested without a margin loan. By using a margin loan, Thomas and Katrine could give their retirement savings the boost they need to retire early and in comfort.

Who should use this strategy?

This strategy may be suitable for home owners who would like to build a portfolio in preparation for retirement. If you have a secure regular income and are willing to tolerate some risk in order to achieve high returns, then this strategy could be for you.

Getting the right advice

Margin lending is not without its risks. Most importantly, while margin lending multiplies your profits when you invest successfully, it can also multiply your losses if your investments do not prosper and may require the input of further capital or equity in the case of a margin call. That's why it's important to get the right advice to ensure a margin loan is appropriate for your particular situation. Your adviser can help you construct a personalised margin loan strategy that takes advantage of the benefits while minimising the risks.

Did you know?

> Research conducted by the Association of Superannuation Funds of Australia (ASFA) in 2004 found that seven out of ten Australians recognise that 9% compulsory super is not enough to provide an adequate retirement income.

> ASFA estimates that an average income earner receiving superannuation guarantee contributions at a rate of 9% over 30 years will only accumulate enough superannuation savings for a retirement income of \$19,800 per annum, including a part pension.¹

> Detailed studies and surveys of expenditure patterns in retirement conducted by ASFA have found that to live a 'comfortable' lifestyle in retirement, a couple would need \$43,350 annually and a single person would need \$32,800.²

¹ ASFA Fact Sheet #5, "An Adequate Retirement Income?", January 2004 ² ASFA Retirement Living Standard, February 2004



How margin lending helped Thomas and Katrine

Thomas and Katrine have discovered what many successful investors already know — that margin lending has significant benefits. Here are just a few:

Maximising your opportunities >

When you invest successfully, a margin loan multiplies your returns, enabling you to build your portfolio faster.

Diversification >

By borrowing to invest, you can spread your investments further. A larger investment enables you to spread your money across more shares or managed funds, reducing risk and increasing opportunities for profit.

Liquidity >

When you use a margin loan to invest in shares, you can move in and out of your investment cheaply and quickly, so you can access funds in response to your changing needs.

Tax effectiveness >

Depending on your personal financial situation, margin lending may help you maximise the after-tax return from your investments.

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