Podcast 166 – Paying for Retirement in Australia

Learn English while learning about daily life in Australia, with Rob McCormack

Podcast Number 166 – Paying for Retirement in Australia

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Hi,

During their working life, most people don't think much about their retirement. They are too busy working in their job and raising their family. However, as you get older, you start to think more about what it will be like when you retire from full time work. How will you pay for the everyday things needed to live – food, housing, household bills, entertainment, travel and so on? Do you have to live only on your savings? In Australia, we have an Age Pension fortnightly payment for those retirees who are eligible. In addition, we have a special system for retirement saving called Superannuation. In this podcast, I would like to talk a little about these two parts of our retirement system.

If you have listened to my podcast previously, you may know that I am a retired person living in Melbourne. Therefore, you would expect me to know quite a bit about this topic. It's true that I have experienced our retirement system and, with the help of an investment advisor, my wife and I have been able to live comfortably in retirement. One of the main things I have learnt is that the system is complicated. I guess this is true of most pension systems and retirement saving systems around the world. I certainly don't claim to be an expert on our retirement systems in Australia. I will just provide some of the key points in this podcast. If you want further information, you should go to the Australian government's Services Australia website (https://www.servicesaustralia.gov.au/how-much-age-pension-you-can-get?context=22526) and the Australian government's Moneysmart website (https://moneysmart.gov.au/how-super-works).

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First, I will talk about the Age Pension. Once Australians reach 67 years of age, they may be eligible for the Age Pension, paid fortnightly to retirees by the Australian federal government. To receive the Age Pension, you must be an Australian resident and have lived in Australia for at least 10 years.

The maximum Age Pension (in February 2026) is currently

$28,072.20 a year for a single person. For couples, the maximum Age Pension is $42,322.80 a year (combined). Importantly, the Age Pension is means tested. This means that your assets (the things you own) and your personal income (the money you receive) are taken into account in order to decide how much of the Age Pension you will get from the government, up to the maximum listed above. If you own a lot of assets (things) and/or you receive a lot of income (money), then your Age Pension will be reduced. Where your assets and/or your income is above certain limits, then you may not be eligible for any Age Pension at all.

Naturally, many Australians over their working life have been able to buy valuable assets such as investment properties (houses, flats or office buildings), caravans, cars, boats, as well as business assets. Business assets could be a business they own or have a share in. Financial assets are also considered, which can include bank accounts, cash, term deposits and shares on the stock exchange. It’s also important to note however, that the family home, the place where you are living, is not included in this means test. This seems fair to me. After all, your home is not really an investment, it’s a place to live.

As far as income is concerned, the government looks at your income from employment (if you still have a job), any interest you are earning from bank accounts and term deposits or other financial investments (such as an annuity), from dividends if you own shares on the stock exchange, and also from any income you might receive from overseas. The government wants to ensure that the Age Pension only goes to those people who really need it.

The government also looks at how much Superannuation savings you have, when considering how much Age Pension you will get, if any. I’ll talk about Superannuation in the next part of this podcast. However, before I move on to talk about Superannuation, it’s important to note that there are other types of income support for retired people available from the government, such as rent assistance, support for paying household bills such as electricity and also for medical needs. I won’t cover those in this podcast. These are also means tested and further details can be found on the Services Australia website (https://www.servicesaustralia.gov.au/ageing). The whole purpose of the Age Pension and other benefits for retired people is to ensure that they can pay their reasonable living costs in retirement.

Now let’s talk about Superannuation. This is essentially a special saving system where money can be regularly set aside in Superannuation accounts for your retirement, right from the first day you start working as a young person just out of school or university. It is paid every fortnight by your employer into your Superannuation account at a rate of 12% (or more in some cases) of your salary, so that at the end of your working life, you can receive this money (along with all the interest it has earned), either in the form of a regular pension, or as a lump sum to help you pay your living costs in retirement. Note that some employers pay more than 12%.

The concept of saving for your retirement throughout your working life makes so much sense. Twelve percent of your salary every fortnight is quite a large figure, and it is paid by the employer, not by the worker. The worker themselves can also contribute to their superannuation account from their normal salary each fortnight, which will boost the superannuation account even more. Five percent is a typical figure for many workers, meaning a total of 17% of their salary would be paid into superannuation. Over 40 years of working, this will build up to a very large sum at retirement. As a result, it means that these workers will not need an Age Pension payment when they retire, so government spending on the Age Pension is expected to be lower in the future.

Importantly, most people cannot take Superannuation money out of their accounts until they reach the age of 60, and then only if they are retiring. These savings really are for retirement and are generally not to be used during your normal working career.

The rules about the taxation of Superannuation accounts are very complicated and I won't try to explain them here. However, the main thing to note is that money saved within the Superannuation system will be taxed at a much lower rate than money held outside of the superannuation system. In this way, the government is encouraging people to make full use of the Superannuation system for retirement saving. This means it is the best place to save for your retirement.

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Besides paying lower tax, one of the real benefits of superannuation saving is the length of time over which the account grows. The money is invested by the managers of the superannuation accounts into things like shares on the stock market, property investments, large projects and term deposits. These earn income and interest which add to the account total. These amounts are reinvested and in turn earn more income and so it goes on. The interest and income earn more interest and income. In other words, it compounds. Over long periods of time, such as 40 years of working life, it can make the total amount grow to very large amounts. That is why it is taken into account when the government works out how much Age Pension you can get. If you have a large amount of Superannuation, then you can retire comfortably using these savings to pay all your costs in retirement. Then you don’t need the Age Pension. Since the government doesn’t need to pay you an Age Pension, they also win. That’s why I think our Superannuation system is here to stay.

If you have a question or comment to make, please leave it in the comments box at the bottom of this page. Or, you can send me an email at rob@slowenglish.info. I would love to hear from you. Tell me where you live, a little bit about yourself and what you think of my Slow English podcast. I will write back to you, in English of course. If you would like to take a short quiz to see if you have understood this podcast, you will also find it on my website. Goodbye until next time.

Rob

Podcast 166 Quiz - Did you understand the podcast?

You can take the quiz as many times as you like.

Start quiz

Vocabulary

 Play annuity = an investment which pays you a regular amount of money each month

 Play as far as income is concerned = when talking about income, then …..

 Play benefits = advantages, often being a payment

 Play build up = to get bigger

 Play business = an organisation which makes money by making, buying and selling things

 Play certain limits = amounts which you are not allowed to go over, or go higher

 Play claim = to say that you can do something special

 Play combined = together

 Play comfortably = (here) without problems

 Play complicated = difficult to understand

 Play concept = idea

 Play considered = when you think about something when making a decision

 Play contribute = gives

 Play couple = two people who live together

 Play dividends = when you own shares in a company, they will pay you some money each year (called dividends)

 Play eligible = when you are allowed, or have the right, to something (e.g. the Age Pension)

 Play employment = to have a job where you are paid money

 Play encouraging = when you tell somebody to do a certain thing

 Play ensure = to make sure something happens

Play essentially = in summary, the main idea

Play everyday things needed to live = (here) things you need each and every day to live

Play expect = something that you think will happen in the future

Play experienced = when you have done something before

Play expert = a person who knows a lot about a subject or process

Play figure = amount

Play fortnightly = every two weeks

Play held = (here) put into, stored

Play household bills = the cost of your household, for example electricity, water, gas, etc

Play income support = an amount paid to you to help you pay your costs of living

Play invested = put money into something so that it will grow

Play investment = when you pay some money so that it can make more money

Play investment advisor = a person who knows all about a subject who gives advice to others

Play lower = smaller

Play lump sum = a single large amount paid once

Play maximum = the biggest amount you can have

Play medical needs = needs which you have concerning your health

 Play naturally = of course

 Play overseas = in another country which you reach by going over the sea

 Play pension = a regular payment (usually every 2 weeks) made to retired people

 Play previously = at a time earlier than now or today

 Play provide = to give

 Play purpose = the reason for doing something

 Play raising = (here) bringing up your children from birth until they leave home

 Play rate = a fixed amount for each amount of something else, for example 12 for every 100.

 Play reasonable = not too high

 Play reduced = made smaller

 Play regularly = when you receive something many times, something which happens over and over again

 Play reinvested = to be invested again (usually in the same place)

 Play resident = a person who lives in a place

 Play retirement = when you are no longer working at the end of your career

 Play savings = money you have put into an account to keep for the future

 Play stock exchange = a place where you can buy and sell shares in businesses

 Play stock market = the place where you can buy and sell shares in a company

□ Play taken into account = when you think about something when making a decision

□ Play term deposits = a bank account where you must leave the money for a set period (eg 2 years) in order to earn interest

□ Play topic = an idea, a theme, a subject to talk about

□ Play typical = often seen, a normal amount

□ Play valuable = (here) when something is worth a lot of money