



Building Wealth for Retirement

Description

Use an investment property to build wealth for retirement

CASE STUDY – JOHN & JAN

- John, 42 years old, income \$100,000
- Jan, 41 years old, income \$45,000
- 2 dependent children aged 10 & 8
- Mortgage \$180,000
- Combined Superannuation Balance \$250,000



GOAL

John and Jan wish to retire in 15 years on a combined annual income of \$60,000pa in today's dollars.

ANALYSIS

It was determined that the estimated future worth of \$60,000 in 15 years time would be \$96,238 based on inflation of 3%.

The assets required to produce a \$96,238 income (with a 6%pa return), would be \$1,603,967. Based on their current superannuation balance, the anticipated shortfall to achieve John & Jan's goal would be \$367,660, assuming the following:

- John and Jan pay off their mortgage over the next 15 years, so there will be no outstanding debt
- Their superannuation balance will grow to \$1,236,306 (assuming capital and income growth of 9%pa and superannuation contributions of 9%pa)

STRATEGY

Purchase an investment property to 'bridge the gap' and provide John and Jan with an early and comfortable retirement.

- Purchase an off-the-plan \$500,000 investment property with a rental return of \$480 per week and interest rate of 7%
- The running costs would be approximately \$100 per week after tax (based on a 38.5% marginal tax rate)
- Hold the property for 15 years, then sell the property
- Based on 7%pa capital growth, the value of the property will increase to \$1,379,515 providing \$877,515 in equity (less Capital Gains Tax)

OUTCOME

In 15 years, the sale of the investment property will provide net proceeds of \$661,980 (this covers the anticipated shortfall of \$367,660).

John and Jan have now achieved their goal of an early retirement at ages 57 and 56 respectively, on a total income of \$60,000pa.