COCUS professional services pty Itd

More than your accountant, Your wealth creation partner!

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.

Disclaimer: Information contained herein is general property investment advice and does not take into account individual situations, needs or goals. It should not be relied upon and persons should satisfy themselves through independent means that any decisions based on this material are appropriate. We recommend that you consult with your Adviser who will be able to make a recommendation based on your specific circumstances.