MyLife
Managing Your Lifestyle
Income & Future Expenses

Focus on Superannuation

Here are the facts: If you would prefer the Caribbean to the caravan park for your annual holiday in retirement, then it is probably worth while doing a health check of your super.

Call 03 9017 4114 or
email admin@mylife.com.au

How much will you need for a comfortable retirement?

How much you need to enjoy a comfortable lifestyle in retirement will depend on several factors such as your life expectancy, your accumulated assets and your expectations.

Recent studies show that a single person who owns their own home will need $40,407 per year to have a comfortable standard of living (to enjoy leisure and recreational activities and occasional international travel, to maintain a reasonable car, clothes and electronic equipment).

If you were to spend 25 years in retirement, then this means that you will need $1,010,175 in super, and that's before considering inflation.

If you are thinking of relying on the age pension, then you may be surprised to learn that it provides just $18,077.80 p.a. for a single** which is well below the $40,407 p.a. needed for a comfortable retirement.

But your employer pays super into your account. Isn't that enough?

Your employer pays 9% of your salary into your super account, but this is probably not going to be enough.

The Association of Superannuation Funds of Australia (ASFA) suggests 12-15% of salary over 30 years as a minimum savings target (however this percentage will need to be increased if you have any time out of the workforce, such as maternity leave).# To achieve these levels, you will need to make additional contributions to your super account.

When should you start to put extra into your super?

The simple answer is - the sooner the better. This is because the earlier you start the more you can take advantage of the benefits of compound interest (earning interest on your interest).

Even just a few extra dollars put into your account each week can make a huge difference to your end benefit.

Chances are your employer contributions are not going to be enough and you may need to look at making additional contributions.

The good news is that if you start early, even minimal personal contributions will make a significant difference to your retirement purse, due to the benefits of compound interest.

*'How much do you need to spend to have a comfortable standard of living in retirement?' - commissioned by Westpac from the Association of Superannuation Funds of Australia ('ASFA'), December 2011
**Centrelink, 20 March 2012.
'An adequate retirement income?' - ASFA, 2012. www.superannuation.asn.au/resources/retirement-standard

Case Study

Let's have a look at Sarah and Andrew:

Sarah is 30 and decides to save $2000 a year for the next 10 years and then stops contributing. In total, Sarah contributes $20,000.

Andrew is 40 and saves $2,000 each year for the next 25 years. In total, Andrew contributes $50,000.

So who do you think will accumulate the most money for their retirement at age 65?

The answer is Sarah. Sarah's contributions were made at a younger age than Andrew's, so her money has had much longer to benefit from investment earnings and the power of compound interest.

Over the 35 year period (until her retirement at age 65) Sarah's $20,000 grew to $160,000, while Andrew's $50,000 only increased to $135,000 over a 25 year period (until his retirement at 65).

Note: the graph assumes earnings on the investments are 7.00% p.a. after tax and fees.

This is an example only - the difference in value may be greater or lesser depending on the rate of earnings per annum.

The message is simple.
The earlier you start investing, the more you can use investment earnings and compound interest to your advantage and the easier it becomes to achieve your financial goals.

What is the difference between pre and post-tax contributions?

Personal contributions to your superannuation can be made:

- from your pre-tax salary (this is called salary sacrifice); and
- from your post-tax salary.

Different taxation rules apply to each method of contribution and depending on your financial situation one may be better for you.

Salary Sacrifice

Salary sacrifice is when you arrange with your employer to contribute part of your pre-tax salary toward your super.

This has advantages - it reduces your taxable income (meaning you will pay less tax) whilst boosting your retirement savings.

In addition, salary sacrifice contributions are taxed at just 15%, which can be great news for higher income earners (who may have personal income tax rates of up to 45% plus the Medicare levy).

Post tax contributions

Voluntary contributions that you make from your post-tax earnings are not subject to any additional tax when they enter or leave the fund (because you have already paid tax on these amounts). In addition, your post-tax contributions may also attract a Co-contribution from the Federal Government. A reward for your contributions from the Government.

If you earn less than $46,920 a year, and make post-tax personal contributions to your super, then the Government will help boost your account with a Co-contribution of up to $500 per year.

For every dollar of personal post-tax contributions you make to your super account, the Government will match it up to 50 cents, to a maximum of $500 per year if you earn $31,920 per year or less. The maximum Co-contribution reduces by five cents per dollar of income over $31,920 p.a. and phases out altogether when your income reaches $46,920 or more p.a.

Who can make personal contributions?

Government regulations specify who can make personal contributions into their own super account.

Aged less than 65	There are no restrictions, you can make personal contributions regardless of work status.
Aged between 65 and 74	Personal contributions can be made if you have worked at least 40hours over 30 consecutive days during the financial year in which contributions are made.
Aged 75 and over	Personal contributions are not allowed.

To find out more about your Superannuation options, contact MyLife Financial Planning today on 03 9017 4114.