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Current Issues in Superannuation

A member perspective

- This presentation has been prepared without taking into account any of your objectives, financial situation or needs. You must therefore assess whether it is appropriate, in light of your own individual objectives, financial situation or needs, to act upon this advice.
- You should ensure you obtain a Product Disclosure Statement for the Fund prior to making any decisions in respect to your membership of the Fund.

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What does Superannuation mean to you?

- Different Ideas / Attitudes.
- Primary Retirement Savings Vehicle for many people.
- Many Legislative Changes.
- All too difficult or complex.

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Why should you have Superannuation?

- Tax Advantages.
- Longer Life expectancies and early retirement.
- Compulsory – superannuation guarantee.

Topics for today

- Contributing to your Super
- Spouse Accounts
- Transition to Retirement Pensions AND
- The Market Downturn & your Superannuation

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Contributing to your Super

- Two choices – Member After Tax Contributions and Member Pre-Tax Contributions (Salary Sacrifice).

- Depending on your individual circumstances, one option may be of greater advantage to you than another.

Member After Tax Contributions

- Contributions made from after-tax salary.
- No contribution tax deducted when invested in the Super fund.
- May be eligible for the Government Super Co-contribution.

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Government Super Co-contribution

- Contributions must be from after-tax income.
- Can only receive a co-contribution if 10% of your total income is from eligible employment, running a business or a combination of both.
- Co-contribution of $1.50 for each $1 you contribute, to a maximum of $1,500.

Government Super Co-contribution

- Full co-contribution if adjusted taxable income less than $30,342.

- Reduction in co-contribution between $30,342 and $60,342 of 5 cents for every dollar earned over $30,342.

- Automatically allocated to your super.

Super Co-Contributions Table

And your income is:	If your personal super contribution is: $1,000	$800	$500	$200
	Your Super Co-contribution will be:			
$30,342 or less	$1,500	$1,200	$750	$300
$32,342	$1,400	$1,200	$750	$300
$36,342	$1,200	$1,200	$750	$300
$38,342	$1,100	$1,100	$750	$300
$44,342	$800	$800	$750	$300
$46,342	$700	$700	$700	$300
$54,342	$300	$300	$300	$300
$56,342	$200	$200	$200	$200
$60,342	$0	$0	$0	$0

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Member Pre-Tax Contributions (Salary Sacrifice).

- Pre-tax contributions in lieu of gross salary.
- Can result in reduction in tax paid.
- More money invested in retirement.

After Tax vs. Salary Sacrifice, Gross Income $30,342
Super Contributions $3,000

	Contribute to Super (after-tax)	Contribute to Super (pre-tax)
Gross Income	30,342	30,342
Salary Sacrifice Amount	0	-3,000
Adjusted Gross Income	30,342	27,342
Less Tax and Medicare	-2,920	-2,411
Net Income	27,422	24,931
After-tax super contribution	3,000	0
Final Net Income	24,422	24,931
Gross Amount into super	3,000	3,000
Government co-contribution	1,500	0
Less contribution tax	0	-450
Net amount into super	4,500	2,550
Value achieved		
Final Net Income	24,422	24,931
Net amount into super	4,500	2,550
Total Net Income	28,922	27,481

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After Tax vs. Salary Sacrifice, Gross Income $60,342
Super Contributions $3,000

	Contribute to Super (after-tax)	Contribute to Super (pre-tax)
Gross Income	60,342	60,342
Salary Sacrifice Amount	0	-3,000
Adjusted Gross Income	60,342	57,342
Less Tax and Medicare	-13,007	-11,956
Net Income	47,335	45,386
After-tax super contribution	3,000	0
Final Net Income	44,335	45,386
Gross Amount into super	3,000	3,000
Government co-contribution	0	0
Less contribution tax	0	-450
Net amount into super	3,000	2,550
Value achieved		
Final Net Income	44,335	45,386
Net amount into super	3,000	2,550
Total Net Income	47,335	47,936

After Tax vs. Salary Sacrifice, Gross Income $100,000
Super Contributions $3,000

	Contribute to Super (after-tax)	Contribute to Super (pre-tax)
Gross Income	100,000	100,000
Salary Sacrifice Amount	0	-3,000
Adjusted Gross Income	100,000	97,000
Less Tax and Medicare	-27,500	-26,255
Net Income	72,500	70,745
After-tax super contribution	3,000	0
Final Net Income	69,500	70,745
Gross Amount into super	3,000	3,000
Government co-contribution	0	0
Less contribution tax	0	-450
Net amount into super	3,000	2,550
Value achieved		
Final Net Income	69,500	70,745
Net amount into super	3,000	2,550
Total Net Income	72,500	73,295

Spouse Accounts

- A member may claim an 18% tax offset on Super Contributions of up to $3000 on behalf of a low income or non-working spouse.
- Maximum Offset payable is $540 on a contribution of $3000 where your spouse receives a total of $10,800 or less in assessable income.
- A reduced tax offset is payable for spouses earning up to a total of $13800. The maximum contribution level is reduced by $1 for every dollar a spouse earns over $10800.

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Transition to Retirement Pensions (TRAPS)

- Work less or save more super – for the same income!
- A Transition to Retirement Pension is a regular income you can draw using your super savings once you reach your preservation age (55 if you were born before 1 July 1960), while you continue to work.

TRAPS (Continued)

- **Work less for the same income** - You could reduce your employment hours and supplement your reduced salary with income generated from a Transition to Retirement Allocated Pension.

- **Save more super without reducing your income** - You could make salary sacrifice contributions to your super and supplement your reduced salary with income generated from a Transition to Retirement Allocated Pension. This strategy may be a tax effective way to enhance your super savings in the long term whilst enabling you to maintain your current income level.

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TRAPS – An example

- Meet Fred. He is 60 years old, has reached preservation age and is considering his future. He's deciding when to retire and wants to know his options.

- Fred's decision depends on two factors: His financial situation and capacity to fund retirement & his lifestyle goals such as what he wants to do leading up to and in retirement.

- Fred earns $65,000 per annum plus the 'super guarantee' (SG) of 9% ($5,850). He is debt-free and needs $32,000 a year for living expenses and currently has superannuation of $290,000.

- What can Fred do?

Fred works less for the same income

- Fred decides to reduce his hours from full-time (five days a week) to part-time (three days a week). Therefore, his salary reduces to $39,000 and he still receives 9% SG ($3,510).
- Fred's super is $290,000. He is able to commence a TRAP.
- Fred is required to withdraw a minimum annual pension amount based on his age. He is, however, entitled to receive more if he wishes. In this case he opts to receive $16,470 per annum.
- On a regular salary of $65,000 Fred's take home pay is $50,525.
- With Fred working 3 days a week and his TRAP paying $16,470 his take home 'pay' is still $50,525.
- Even though he has reduced his hours, his cash flow remains almost the same. Also, Fred is still contributing to his super.

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Fred saves more super without reducing his income

- Fred recognises the benefits of super. He knows 'salary sacrificed' amounts, which qualify as concessional contributions, are taxed at 15% on receipt by his super fund and that earnings on super funds are taxed at a maximum of 15% rather than his 'marginal tax rate' of 30%.

- While Fred decides to continue working full-time he is thinking about salary sacrificing to boost his nest egg. But he may commence a 'non-commutable allocated pension' to supplement his income.

- This flexible combination may provide overall tax savings which allow Fred to build more retirement money in the long term.

The Market Downturn & your Superannuation

- If your super balance has decreased this year, you might be feeling a bit shaken. You're not alone.
- Investment markets worldwide have taken a significant downturn this year, and because super is invested in the markets, nearly everyone's super has been affected.
- The important thing is not to lose heart. Negative returns are something you should expect from super from time to time. There are still lots of reasons to feel good about your super.

The Market Downturn & your Superannuation

- Remember that super is still tax-effective
- Investing isn't just about returns. Other factors are also important, such as tax-effectiveness.
- Super offers tax advantages in three ways: on contributions as they are paid into super, on investment returns, and when a super payout is taken after the age of 60.
- These tax advantages mean that you can get more 'bang for your buck' with super.

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The Market Downturn & your Superannuation

- Keep your eye on the long-term game
- It's vital to keep this market downturn in perspective as it's only a small part of the larger context.
- One-year investment returns can distort the true picture of how your super is performing.
- Check out the three, five and even ten year returns for your investment option, and you'll get a clearer indication of its performance

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The Market Downturn & your Superannuation

- Take comfort from history - when markets get shaky, history provides some reassurance.
- Downturns have inevitably been followed by recovery. This cycle has been repeated over and over again. Over the past 15 years, there have been several significant downward adjustments, which have always been followed by a recovery. For example:
- 1997 Asian crisis – resulted in a 10% market slide in a single month but recovered value a year later.
- 2001, September 11 – global slowdown, corporate scandals and September 11 triggered a 12% slide over three months.

The Market Downturn & your Superannuation

- Don't try to time the markets – changing investment strategies during times of downturn can prove risky.
- Research has actually shown that investors who attempt to time the markets by frequently switching investments generally perform badly over the long term.
- And finally………

The Market Downturn & your Superannuation

- PLAN, PLAN, PLAN.
- The old adage “failing to plan is planning to fail” holds very true for super.
- The best way to manage your super is to formulate a solid retirement savings plan and stick with it. You should only need to depart from it if your circumstances change.
- See a licensed or appropriately authorised financial adviser to create a plan that’s tailor-made for you.

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Questions ?

Important notice

- This advice has been prepared without taking into account any of your objectives, financial situation or needs. You must therefore assess whether it is appropriate, in light of your own individual objectives, financial situation or needs, to act upon this advice.
- You should ensure you obtain a copy of the Fund's Product Disclosure Statement in respect or obtain advice from a licensed financial adviser prior to making any decision in respect to your membership of the Fund.