Super – do you have enough?

Super is one of the most tax-effective ways of saving for retirement. The question is, how will you make sure you have enough?

Planning for a secure financial future is important

Australia's population is ageing rapidly. In 1967 Australians aged 65 and above made up 11.9 per cent of the population. By 2006 the level had risen to 13.3 per cent. And here's a glimpse into the future – the Australian Bureau of Statistics forecasts that in 2047 it will be 25 per cent – in other words, about one retiree for every 2.4 Australians of working age*. Kind of scary!

Not only are we an ageing population, we're also living longer. Life expectancies for both men and women have increased, and this means that we now need to plan for at least 20 years in retirement. The problem is, there's a significant difference between what we expect from our retirement and what most of us will actually be able to afford.

For most people the Superannuation Guarantee (9% of your salary) will probably not be enough to support you comfortably in your retirement. If this sounds like you, it's not too late to start planning for a secure financial future.

What do I need to know about super?

Super is one of the most tax-effective ways of saving for your retirement. The maximum rate of tax you'll pay on your earnings in your super fund is 15% and you're not charged tax on withdrawals from super once you turn 60, whereas earnings on your normal savings outside super are taxed at your marginal tax rate, which can be anywhere up to 46.5% including Medicare levy.

While you can shift your super between super funds, just remember contributions to super are almost always compulsorily preserved. This means that you generally can't withdraw the funds until you are over 55 (increasing to age 60 if you were born after 1 July 1964) and meet a condition of release.

What's the best way to make sure I have enough super to retire?

Start saving today! Even a few dollars a week can make a big difference to the sum of money available to you when you retire. Basically, the sooner you start saving, the more time your money has to grow.

When you invest regularly, no matter how little you put away, you'll enjoy the effects of compounding. Compounding happens when you re-invest income earned on your savings, so you earn money on both your initial capital and income you have already earned.

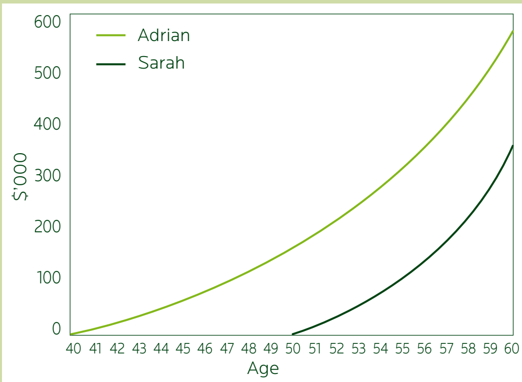
So it's much better to start investing small amounts today than wait until you can invest a larger amount. The best way to do this is to arrange a direct debit from your pay or bank account. Successfully investing requires you to regularly maintain your investment plan.

*Intergeneration Report 2007 published by the Australian Government.

Case study

Let's say Adrian and Sarah are both aged 40 and are thinking about plans for their retirement. Adrian decides to invest $1,000 per month for the next 20 years and Sarah decides to invest $2,000 a month, but doesn't start her saving plan until she turns 50. They both want to retire at age 60 and it's assumed that their investment will generate 8% per annum after tax.

The graph shows that even though Adrian and Sarah both invested $240,000 in the end, Adrian's savings are larger because of an extra 10 years of compound earnings.



Simple steps to success

If you're thinking about changing super funds, you should consider the following:

1. Consolidate your super

You can sometimes save on administration costs if you have your entire super in one fund. If you've got super in a number of different accounts, consolidate them to save on administration costs.

2. Top up regularly

Making contributions to super can be a tax-effective method of saving, although additional tax is charged if you exceed the allowable contribution amount. If you earn less that $61,920 you may be eligible for a Government co-contribution which will make your contribution even more effective. Speak to your financial adviser for details.

3. Take up insurance via your super

In certain circumstances, you may get better rates if you take out your insurance through your super account.

4. 'Best of breed' investment options

You should be able to access a 'best-of-breed', performance-based investment menu – ensuring that you achieve a portfolio of investments suitable for your needs.

5. Stay informed and up-to-date

You should expect to be able to access your account information online and on the phone 24 hours a day, seven days a week.

Things you should consider

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. This publication doesn't take into account your personal objectives, financial situation or needs. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.

Your financial adviser can give you a copy of the relevant Product Disclosure Statement for any financial product you are considering and you should read this document carefully before making any investment decision.

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