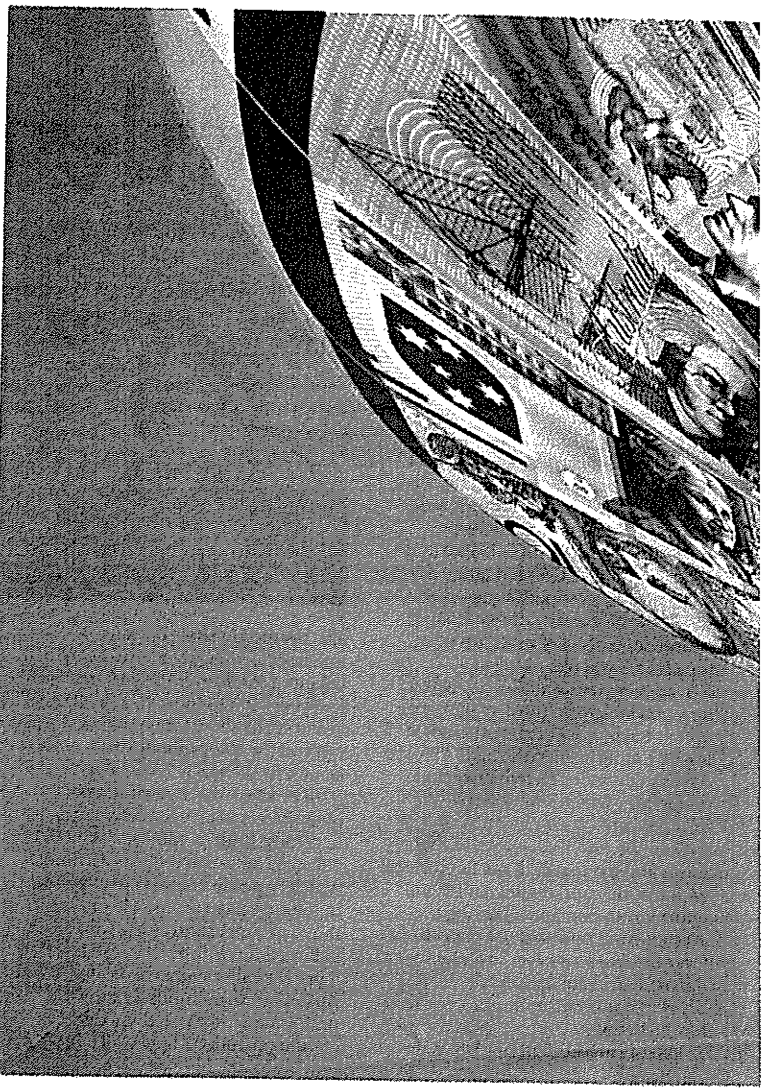
# Ways to lift your super savings



Relying on compulsory contributions alone will not provide a comfortable retirement, writes **John Collett.**

Having enough money in retirement will not only give you the freedom to enjoy some of life's more pleasurable luxuries, it will also liberate you from the drudgery of work and the misery of financial worries.

But bumbling along with compulsory super contributions alone is not going to be enough to ensure this lifestyle for baby boomers whose retirement years are on the horizon.

Terrible investment returns during the past few years and only having the benefit of compulsory super contributions for part of their working life means most are in a tight spot.

While most have never changed their asset allocation, the executive director of Dixon Advisory, Nerida Cole, says those who have done best since the onset of the global financial crisis changed their asset allocation to better protect their capital and produce a more stable income stream.

Smarter asset allocation can add 1 per cent or 2 per cent a year to returns, she says. That might not sound like much but an extra 1 per cent a year over 10 years can add tens of thousands of dollars to retirement savings, Cole says.

The most recent national figures released for the ASFA Retirement Standard show that a home-owning couple looking to achieve a comfortable retirement needs about $55,000 a year.

Assuming the couple receives a part age pension, the lump sum needed to fund that income from age 65 is $510,000. For a single person, about $40,000 a year is needed, or a lump sum of $430,000.

"Most people spend more time planning their next holiday than they do their retirement," the chief executive officer of the Association of Superannuation Funds of Australia, Pauline Vamos, says. "The message for anyone worried about their retirement savings is to plan ahead."

Many people, especially those on higher incomes, would want to save more, as the definition of a "comfortable" retirement does not allow for too many of life's luxuries.

## SALARY SACRIFICE

Salary sacrifice is the single most-powerful way to accelerate retirement savings. It's when contributions are made from pre-tax pay. For someone on a marginal income-tax rate of 30 per cent, for each dollar of pre-tax pay sacrificed, 85¢ goes into super because of the 15 per cent tax on contributions. If the employee were to receive the dollar in their hand, they would receive only 70¢ because of the 30 per cent income tax.

They are effectively redirecting money from the hands of the tax man into their super. The tax savings are even greater for those on higher marginal income-tax rates and when tax levies such as those for Medicare are taken into account. For those earning less than $37,000 a year, there is no tax advantage from salary sacrificing because they have a marginal tax rate of 15 per cent (or zero for those on less than $6000).

The government has plans, not yet passed by Parliament, to refund the 15 per cent contributions tax from July 1 this year for those earning less than $37,000.

The first step is to do a budget so they can work out how much they can realistically salary sacrifice into super, a director at the Professional Super Advisers, Kevin Smith, says.

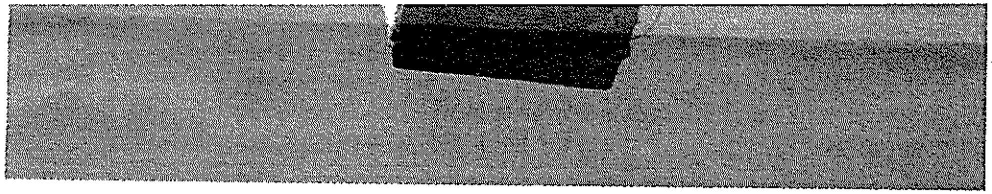
The technical services director at Multiport, Philip La Greca, says a pay rise is a good opportunity to start, or increase, salary-sacrifice contributions.

A director of Strategy Steps, Louise Biti, says lower-income earners should take advantage of the co-contribution scheme this financial year as it will be less generous next financial year.

Under the scheme, the government matches after-tax super contributions dollar for dollar. However, the maximum that can be contributed is $1000 over the financial year for those with a taxable income up to $31,920.

The government contribution reduces to zero at an adjusted taxable income of $61,920.

From July 1 this year, the government plans to lower the matching contribution to 50¢ for each dollar contributed, with a maximum contribution of $500 instead of $1000. The cut-off threshold will be reduced to $46,920.



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|---|---|---|---|---|---|
| Growth (77-90) Index | | -3.8 | 5.4 | -1.3 | 3.4 |

*Interim returns

SOURCE: SUPER RATINGS

**ASSET ALLOCATION**

Having decided to salary sacrifice income into super, the toughest decision is where to invest the money.

Most big super funds have at least a dozen investment options. There will be options that invest in a single asset class, such as Australian shares or fixed interest, and three or four diversified options that spread money across several asset classes.

Default options, where most people have their money, are usually labelled as "balanced" options but have at least half their money in shares. Some balanced options have a much higher exposure to shares.

The median-performing balanced investment option produced a return of minus 1.9 per cent last year and over five years to the end of last year, the median-performing balanced option produced an annual average return of 0.3 per cent.

"Not all balanced funds are the same; you really need to know what is in it," Smith says.

While a high exposure to shares may be appropriate for someone in their 20s or 30s with decades to go until retirement, for someone in their 50s, the exposure to shares may be too high, he says.

SuperRatings data shows "capital stable" options have a five-year average annual return of 3.2 per cent, outperforming the 0.3 per cent return of balanced options during the same period.

Capital stable options are more conservative than balanced options, with higher exposures to defensive assets, such as cash and fixed interest.

Those investing in their funds' Australian shares option would have experienced an average annual return of minus 1.3 per cent over five years and minus 9.6 per cent over one year. International shares options returned an annual average of minus 6.1 per cent over five years and minus 6.7 per cent over one year.

In selecting the best investment option, investors need to work out how much they are likely to need to save, how much investment risk they are prepared to take and how long they have to invest, Smith says.

**DO THE SPLITS**

Most people are not in a position to make significant salary-sacrifice contributions to their super until their children have moved out of home and the mortgage is much smaller or paid off.

The maximum pre-tax income that can be contributed to super for those over 50 is $50,000 for this financial year. The salary-sacrifice cap includes the 9 per cent superannuation guarantee charge. So someone over 50 on an income of $100,000 a year can contribute a maximum of $41,000 of pre-tax pay into their super this financial year.

But from July 1 this year, the government intends to lower the maximum cap on salary-sacrifice contributions to $25,000 to match the cap for under 50s. However, the government also intends to leave the cap at $50,000 for those over-50s who have less than $500,000 in their super.

Industry observers say it's likely the start date for the changes will be delayed. The technical services manager at Super IQ, Fabian Bussoletti, says anyone worried about hitting the caps could consider splitting super contributions with their partner.

Some people are already thinking about splitting as a strategy for keeping their super balances below the $500,000 limit. Bussoletti says even if the rule changes do not eventuate, nothing is likely to be lost by splitting.

Financial planners say there could even be advantages. For example, a split with an older spouse could allow the couple to access tax-free super earlier as no tax is paid on super withdrawals from the age of 60.

Under the splitting rules, only concessional contributions, such as the 9 per cent compulsory super and salary-sacrifice contributions, can be split with a spouse. The rules allow up to 85 per cent of the previous financial year's concessional contributions to be transferred to your spouse's account. Those thinking of splitting have to be careful because there are age limits and other restrictions on who can split.

**TRANSITION TO RETIREMENT**

A popular strategy for the over-55s is called transition to retirement. Pre-tax income is salary sacrificed into super and then some of this is drawn back as a pension. This swaps income tax for the 15 per cent contributions tax on super.

Usually, the strategy is worked so the after-tax income is the same as before the transition-to-retirement strategy was implemented. However, the strategy involves significant costs that are not usually accounted for in brochures promoting the strategy.

For a start, it requires the services of a financial planner and their fees. Further, two superannuation funds are needed – an accumulation fund and a pension fund – and there is a doubling of fees, unless its done inside a self-managed super fund.

Even though the transition-to-retirement rules allow those who are over 55 to employ the strategy, it is most effective for the over-60s because they pay no tax on superannuation withdrawals.

The founder of the consumer website superguide.com.au, Trish Power, says the strategy can be a good one as long as the costs do not outweigh the benefits.