Retirement Planning & Superannuation

Retirement planning is about making sure you accumulate assets during your working life to provide you with an income that you would like in your retirement. Superannuation is just one of those assets. You might have rental properties, share portfolios or cash that will form part of your assets at retirement.

A common misconception is that Superannuation is a different type of investment when in fact there is nothing that you can't invest in within superannuation that you might invest in outside of superannuation. The difference between superannuation and other investments is how its treated under the tax act. There are tax benefits in putting money into super and also in holding assets in super. It just so happens that Super is one of the most tax effective assets that you can have. Superannuation allows you to accumulate assets in a low tax environment which becomes a no tax environment once you retire. Its that good that Government has placed a cap on how much you can get into superannuation.

The following table shows the current and future contribution caps and the limits that apply when making a contribution to superannuation. Contributions are split into two types. Concessional contributions are those where someone, like an employer is claiming the contribution as a tax deduction. This includes salary sacrifice and compulsory employer contributions. These contributions are taxed at 15% when they go into the super fund.

The second type of contributions is non- concessional where no tax deduction is being claimed and there is no tax taken out of the contribution. There are additional taxes imposed if you exceed these contributions.

Rate/Threshold	2013/14	2014/15
Concessional contributions cap	$25,000 or $35,000 (age 59+ on 30 June 2013)	$30,000 or $35,000 (age 49+ on 30 June 2014)
Non-concessional contributions cap	$150,000* (annual) $450,000 (over 3 years)	$180,000 (annual) $540,000 (over 3 years)

IOOF Technical update 05/03/14

Making additional contributions via a salary sacrifice can be a tax effective strategy to build your superannuation assets. If you are over age 55 then a Transition to Retirement strategy may be beneficial as a way to build your retirement savings while still maintaining your income. You should seek professional advice as to whether this is appropriate for your circumstances.

The below figures, are provided by The Association of Superannuation Funds of Australia and indicate that a comfortable life style in retirement would require an annual income of $57,665 for a couple who own their own home. Their figures go one to indicate that you would require a balance in superannuation at age 65 of $510,000 in today's dollars to provide that income in conjunction with the Aged pension from Centrelink. I would suggest that this is the bear minimum and the amount of assets required to fund a comfortable life style in retirement should be greater than that. The following ASFA site has a useful superannuation projector which you can use to model your own retirement and standard of living. http://www.superguru.com.au/

Budgets for various households and living standards (December quarter 2013)

	Modest lifestyle – single	Modest lifestyle – couple	Comfortable lifestyle – single	Comfortable lifestyle – couple
Housing – ongoing only	$63.40	$60.86	$73.48	$85.18
Energy	$42.98	$57.09	$43.62	$59.16
Food	$75.64	$156.69	$108.06	$194.51
Clothing	$17.96	$29.15	$38.87	$58.30
Household goods and services	$26.57	$36.03	$74.75	$87.57
Health	$38.59	$74.48	$76.56	$135.12
Transport	$95.78	$98.49	$142.73	$145.44
Leisure	$73.93	$110.14	$224.03	$307.01
Communications	$9.61	$16.82	$26.41	$33.61
Total per week	$444.46	$639.74	$808.51	$1,105.91
Total per year	**$23,175**	**$33,358**	**$42,158**	**$57,665**

The figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures.

ASFA Retirement Standard December 2013

Retirement savings need to support either a comfortable or modest retirement standard

Table: Lump sum retirement benefits after 30 years in a taxed fund

Tax treatment and contribution level	Wage of $30,000	Wage of $50,000	Wage of $100,000
9% contributions and investment earnings taxed at current rates	$110,000	$183,000	$366,000
Lump sum if contributions made at the rate of 12% of salary	$146,000	$244,000	$487,000
Lump sum needed to support comfortable lifestyle for a couple (assumes receipt of part Age Pension)	$510,000	$510,000	$510,000
Lump sum needed to support comfortable lifestyle for a single person (assumes receipt of part Age Pension)	$430,000	$430,000	$430,000

All figures in today's dollars (using 3.75% AWE as a deflator), investment earning rate of 7% assumed. Annual expenditures needed for a comfortable lifestyle are as at December 2013 $42,158 for a single, $57,665 for a couple.

ASFA Retirement Standard December 2013

There is no magic number as to "How much is enough". But it is important to plan your retirement and have a strategy in place to make sure that you accumulate enough assets inside or out of superannuation to give you a comfortable retirement. That strategy might be about how much you contribute to superannuation or how that superannuation is invested. Planning that strategy might then determine how long you work for and when you might be in a position to retire. Retirement will happen , what sort of retirement you have will depend on how well you have planned for it.

<u>Disclaimer-</u> *This should be considered as general advice and you should not act on this advice without seeking professional assistance from a suitably qualified Financial Planner who can plan a strategy that best suits your situation.*

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