Be shrewd with your super

NOEL WHITTAKER

It's worth taking time to manage your assets for retirement.

THIS month, expect to receive a most important document – your annual superannuation statement. If you're like most Australians, you'll probably give it a cursory look and then throw it in the too-hard basket until you've got more time to think about it.

Think again. What you decide to do with that document could have a huge effect on your financial future, especially if you are young.

The Intergenerational Report has highlighted the problems we face as the population ages and the number of workers in relation to retirees shrinks. Eligibility for the age pension has already been tightened, and further changes in this area are a certainty.

For starters, let's refresh our minds about the way compounding works. When you invest, the amount you will have at the end of the term depends on the rate you can achieve, and the length of time the money is invested. If the term is short, the rate is of little importance; but if the term is long the rate is critical.

Think about two people, both aged 22, who are earning $40,000 a year and who have $20,000 in super, all contributed by the employer. Let's assume their salary increases by 4 per cent a year, and the employer contribution remains at 9.5 per cent.

If one person ignored the asset allocation in their fund and left it in "capital stable" or "secure", their fund may achieve a return of 4 per cent per annum. At their preservation age, which will be almost certainly be 70 by the time they reach it, their superannuation would be worth just $1.5 million.

If the other person took the time to manage their asset allocation and focused on high growth assets within their super, their fund may well achieve 8 per cent per annum. At age 70 it would be worth $3.6 million. Just managing their affairs to maximise the rate of return may be worth $2.1 million to them when they retire. If your assets are building up, or you are over 40, you should be taking advice on the kind of assets you should hold in super, but for young people it's a no-brainer: choose the highest-growth option that is available.

The next step is to consider what fees are being deducted from your account. You can't dodge the 15 per cent government tax on employer contributions, but one fund may have a much higher account-keeping fee than another.

It is usually tax-effective to have your life and TPD insurance within your fund, as it enables the premiums to be paid from pre-tax dollars. But every dollar taken in insurance premiums from your superannuation account means less money in there to grow.

The big decisions are whether you need life insurance at all, and if you do, whether what you have in the fund is sufficient. If you don't need it, cancel it. If you need more, increase it. Just make sure you make a salary-sacrificed contribution to your super fund to at least cover the insurance premiums. This will maximise the amount of savings available to grow.

Bear in mind that due to a quirk of the calendar, there may be 27 fortnightly pay days for the financial year ending June 2016. If you are salary sacrificing to the maximum, it may be necessary to reduce the fortnightly amount slightly this year to ensure you don't exceed the cap.

It is now August. Probably, you are amazed how quickly the year is going by.

It's a wake-up call to take urgent action to optimise your superannuation – every year you procrastinate means that compound interest has one less year to work its magic.

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Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Q I am trying to achieve maximum growth in my SMSF, and in the past have used salary sacrifice. However, for many years I have been paying after-tax money directly into my SMSF each week. Salary sacrifice is fine if your aim is more take-home pay, but financial columnists rarely mention that this money is taxed at 15 per cent when paid into super. By my calculations the tax difference has a nominal downside, which is easily absorbed, and my contributions are not subject to a 15 per cent reduction. I would be interested in your thoughts on this.

A The 15 per cent contribution tax has been well publicised. You appear to have missed the point that money received in your pay packet is taxed first at your marginal rate, which is at least 34.5 per cent if you earn more than $37,000 a year. Obviously, the higher your tax bracket, the larger the advantage you receive by salary sacrificing.

Q What happens if I retire at age 67, invest $300,000 into an allocated pension and die after only two years – what happens to the money remaining in the fund? Does it go to my estate, or does it continue being paid out but paid to my wife?

A It depends on the written instructions you give to the administrator of your fund when you set up the allocated pension. For example, you could have a binding nomination that requires the proceeds to go to the specified person, or you could treat your wife as a reversionary beneficiary, which means the pension would be continued to be paid to her.

Government must act on gender retirement gap

By **JOHN COLLETT**

The latest MLC Wealth Sentiment Survey of 2100 people shows more than 50 per cent of respondents are concerned they will not have enough to fund their retirement.

No one will be surprised that there is a clear gender gap in the responses with 36 per cent of men and only 27 per cent of women saying they are likely to have saved "enough to retire". Women are retiring on about half the savings of men.

It is just the latest survey to confirm that we have a big problem with gender and retirement savings.

The almost 20 per cent gap between men's and women's pay and the time taken out of the workforce or reduced hours of paid employment for child rearing are behind the difference. It is also about men. Too many seem unwilling to take up a bigger role in taking time out of the paid workforce or reducing their hours to do more of the caring for their children.

An obvious way to help close the gap is to redirect some of the superannuation tax breaks going to high earners, and therefore disproportionately to males, to the lowest paid, mostly women. Tax breaks are going to high earners who do not need the incentive of tax breaks to save for their retirement; they would save anyway.

> A couple of million workers on low incomes, most of them women, are taxed more highly on super contribution than on their income.

It is one of the biggest inequities of all that someone who already has saved enough to afford a very comfortable retirement can keep receiving tax breaks.

Yet, a couple of million workers on low incomes, most of them women, are taxed more highly on super contribution than on their income.

They pay an average rate of income tax on all of their income of less than 15 per cent, yet their compulsory super has a contributions tax of 15 per cent.

That is why the previous Labor government brought in the low income superannuation contribution (LISC).

Under LISC, which was paid for the first time in the 2012-13 year, the government pays up to $500 into their super accounts.

The Coalition wants to get rid of LISC, saying it is too expensive. Yet, somehow, there does not seem to be a problem with the big tax breaks going to the well off. However, as part of a Senate deal with the Palmer United Party and some of crossbenchers last year to secure the repeal of the mining tax, the government was forced to give the LISC a temporary reprieve, until the 2016-17 year.

As far as the Coalition is concerned, beyond June 30, 2017, the LISC is dead.

As well as the LISC, the other great help to women and to lower-income workers in general, would be to resume the gradual increase in compulsory super contributions from 9.5 per cent to 12 per cent.