Women and Superannuation

Securing your Future

Department for
Community Development
Office for Women's Policy

Minister's Message

Hello and welcome to "*Women and Superannuation - Securing your Future*", a brochure designed to help women better prepare for retirement.

While we may not all be super women, we all deserve an enjoyable and financially comfortable retirement. Yet, statistics predict that a lot of Australian women - regardless of marital status - will retire with insufficient funds, with some living in poverty.

Factors such as lower salaries than men, fewer years spent in the workforce and a lack of understanding about super and how to plan for retirement all contribute to many women retiring on extremely low levels of savings.

This issue of lack of retirement savings for women is of great concern to the WA Government and broader community. And it's one we want to change through raising awareness and providing easily accessible information. That's where this super brochure comes into force!

This brochure is designed to help you:

1. **think about the retirement lifestyle you want;**
2. **work out how much money you'll need in retirement; and**
3. **develop an action plan to help get you there.**

I encourage you to read it and take an active role in securing your financial future today.

Margaret Quirk MLA
Minister for Women's Interests

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STEP 1

Think about the retirement lifestyle you want

Wouldn't it be great if we could use super powers to make our retirement dreams a reality? Whether that dream is to experience intergalactic travel or have paid off your Metropolis apartment!

Thinking about the lifestyle you want in retirement sooner rather than later, will help you to plan financially for where you want to be. To get started, ask yourself some simple questions.

1. When should I hang up my cape?

The age you choose to retire usually depends on your finances, health and your ongoing employment situation. However, having a rough idea will help you work out the amount of savings you need.

If you're going to need your super upon retirement, you should also remember that you can generally only access this money when you've permanently retired and reached your Preservation Age, which is between 55 and 60 years depending on your date of birth.

2. How long do mere mortals live?

Unlike super heroes, we don't live forever. Although, we are living longer. Current life expectancy rates indicate that a woman retiring between the ages of 60 and 65 years can expect to live until about age 86.[1] Naturally, your health, lifestyle and family history all play a part in your actual life expectancy. However, if you assume you'll live for 25 years in retirement, it's even more important to ensure you can manage financially.

True or false?

Most women retire on less than half the superannuation of men: **True**

Reality Check: The increasing incidence of divorce and low remarriage levels for women make it even more necessary for women to build their own retirement savings

Source: *Submission to the Productivity Commission, Dr Diana Olsberg, Director University of New South Wales Research Centre on Ageing and Retirement.*

[1] *ABS, Australian Life Tables, 2000 - 2002.*

STEP 2

Work out how much money you will need

How much money will I need in retirement?

While super heroes don't usually get paid for saving the day, they normally have a day job to keep them in spandex and sequins. The amount of money you'll need in retirement depends on your personal situation. And there are simple ways of working it out:

1. Expenditure worksheet

Firstly, calculate your annual income needs:

1. List all your current expenditure, such as mortgage/rent payments, petrol, bills, etc.
2. Cross off any items that will cease on retirement, such as work travel expenses.
3. Add in new expenses that might arise due to retirement, such as holidays. While some of these expenses may be difficult to calculate accurately, try to be as realistic as possible. Many women are surprised at how much income they're likely to need in retirement.

2. Online calculators

Secondly, estimate the possible amount of super you will have at retirement. If you have access to the internet, you may find the following online calculators useful:

- Australian Investments and Securities Commission (**www.fido.asic.gov.au**)
- Association of Superannuation Funds of Australia (**www.superannuation.asn.au**)

Simply enter your details when prompted and the calculators will either give you an estimate of your account balance at retirement or your likely annual retirement income.

[2] *A "non-commutable income stream" is a pension product that can only be used to provide you with regular income payments and can only be taken in cash under certain conditions.*
[3] *Under proposed new rules, the concessions on complying pension products may be abolished from September 2007, which may result in Age Pension entitlements decreasing.*

Where will my retirement income come from?

Most people generally fund their retirement through two main sources - their super and/or the Commonwealth Government's Age Pension.

Superannuation

Since 1992, it's been compulsory for most employers to make contributions into a super fund on behalf of their employees. So, if you've been employed since this time and earning more than $450 a month, you're likely to have some level of super savings.

To encourage people to save for retirement, the Commonwealth Government also allows you to make personal contributions into your super. These can be regular payments or a one off lump sum amount. (*See Step 3 for more information)*.

Under the "Transition to Retirement" rules, some super funds also allow you to access your super while you're still working to help supplement your income. You need to have reached your Preservation Age and have converted your super into a non-commutable income stream [2] to take advantage of these rules. You should check with your fund to see if they offer this option.

Age Pension

Depending on your income and assets, you may be eligible for a whole or part Age Pension.

If eligible, you may find that your Age Pension entitlement increases if you purchase a complying pension product, such as a Term Allocated Pension upon retirement.[3]

While the Age Pension is increased each financial year, the current fortnightly entitlements are $476.30 (ie $12,383.80 a year) for a single person and $397.70 (ie $10,340.20 a year) for a couple (March 2006).

What if the Age Pension isn't enough?

If this level of annual income alone is not enough to support you comfortably in retirement, you will need to supplement your income with other forms of savings to assist you financially. The following table highlights the lump sum amount you would need today to generate different levels of income:

Lump Sum Amount *(Today's Value)*	Desired Annual Income
$200,000	$10,000
$400,000	$20,000
$600,000	$30,000
$800,000	$40,000

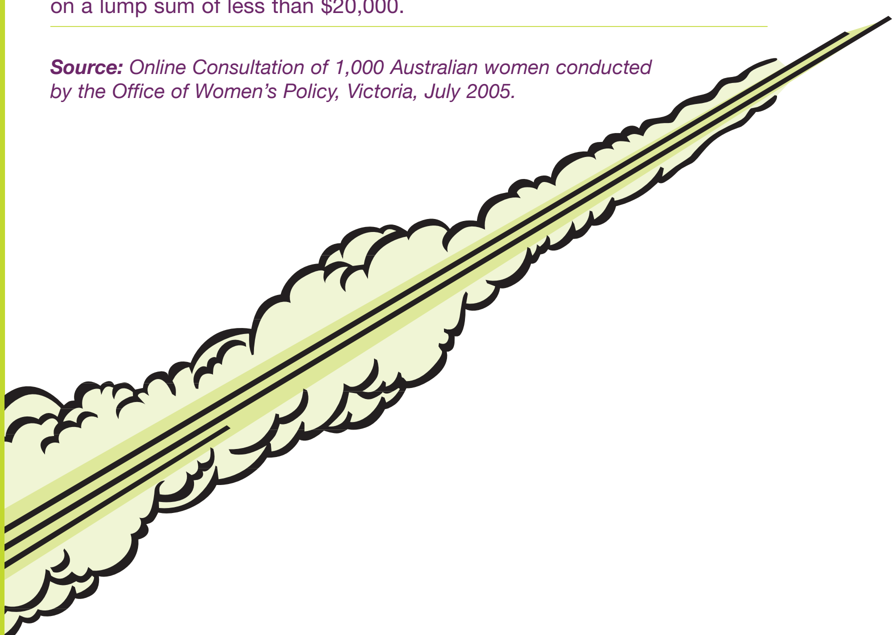
***Source:** Women's Financial Network, 2005. Assumptions: Investment returns of 6.5% pa net of fees and tax, all returns reinvested and inflation of 3% pa.*

Senior Australian Tax Offset

If you've reached Age Pension age[4] or the eligible pension age for a Veterans' Affairs Service Pension[5], you may be entitled for the Senior Australian Tax Offset. This allows you to earn a certain amount of income without paying income tax, the Medicare Levy or the Medicare Levy Surcharge (if applicable). The Offset cuts out over a certain amount, but individuals in this range will still pay less tax.

True or false?
$300,000 in super will allow a retiree to live modestly: **True**
Reality Check: 50% of women who retire in the next 10 years will retire on a lump sum of less than $20,000.

***Source:** Online Consultation of 1,000 Australian women conducted by the Office of Women's Policy, Victoria, July 2005.*



4 *65 years and over for males, 62.5 years and over for females.*
5 *60 years and over for male veterans or war widowers, 57.5 years and over for female veterans or war widows.*

STEP 3

Empower yourself, take action!

How do I put a plan in place?

Developing an action plan to secure your financial future will empower you by keeping you focussed on your goals. Arming yourself with all the information is an important step.

In addition to this brochure, there are free publications which offer easy-to-understand information about super, managing your money and obtaining financial advice. Why not check out the Australian Securities and Investments Commission website (**www.fido.asic.gov.au**) to download copies? Alternatively, you can email them at **infoline@asic.gov.au** or call them on **1300 300 630** to obtain hard copies.

Power up your super

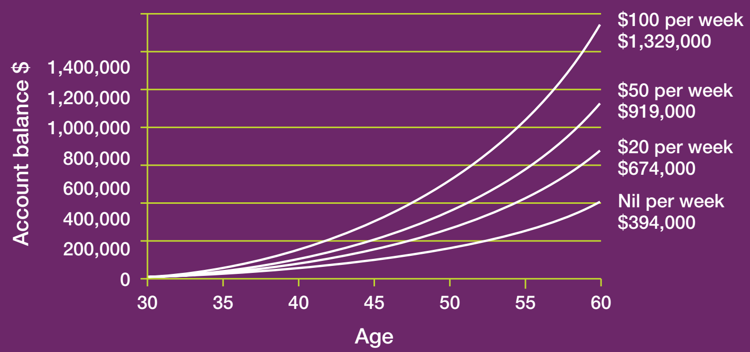
For most people, super will be one of the most tax-effective means of saving for retirement. The main reason for this is that any earnings on your investment are taxed at only 15% within super, compared with your Marginal Tax Rate (which can be as high as 46.5% including the Medicare Levy) outside of super. Speaking with a qualified financial adviser can help you decide which type of investment is best for you *(see section 4. Seek Financial Advice)*.

Here are some simple ways to give your super more punch.

1. Pump up the volume

In addition to your employer's (if applicable) compulsory 9% contribution, making regular personal contributions to your super can help to boost your final account balance. This graph shows four different levels of weekly contribution and the amount you can expect on retirement:

Retirement balance (before tax)



Source: *Mercer HR Consulting. Assumptions: Starting age 30, opening balance of $0, taxable salary $35,000 pa, employer contributions of 9% pa of salary, personal after-tax contributions as shown above, inflation of 4% pa and investment returns of 7.2% pa, net of fees and tax.*

You can make before-tax and after-tax contributions

Personal contributions can be made either through investing your pre-tax salary (ie salary sacrifice contributions) or after-tax dollars (ie undeducted contributions). If you're married or in a de facto relationship, your spouse can also make after-tax contributions into a super fund on your behalf. The type of contribution that's best for you will depend on your level of income and your overall financial affairs. Why not check with your super fund to see which types of contributions you can make?

- **Salary sacrifice contributions**

  Salary sacrificing is an arrangement with your employer to contribute some of your pre-tax salary into your super instead of taking it home as cash. These contributions can be a tax-effective means of paying into your super if you're a higher income earner *(see table below)*, as they don't form part of your taxable income. Therefore, they reduce the amount of income tax you pay. What's more, salary sacrifice contributions will have only 15% tax deducted when they are paid into superannuation and 15% tax plus the Medicare levy deducted at benefit payment time as opposed to your Marginal Tax Rate [6].

[6] *Under proposed new rules, from 1 July 2007 benefits withdrawn from taxed funds after the member turns 60 will not have tax deducted.*

	No Salary Sacrifice	Salary Sacrifice
Gross salary	$70,000	$70,000
Personal contribution	$0	$6,000
Taxable income (a)	$70,000	$64,000
Less tax & Medicare Levy (b)	$17,310	$15,420
After-tax income (a - b)	$52,690	$48,580

Although salary sacrificing reduces your after-tax income, because you pay less tax, you can invest more into your super.

- **After-tax contributions**

  These are also known as additional voluntary contributions and undeducted contributions, as they are additional payments into your super from money that has already been taxed (eg your take home pay). You can make regular contributions or one-off lump sum contributions, through rolling over money from another super fund or transferring in non-super money.

  After-tax contributions tend to be more tax-effective for people on lower incomes, due to Commonwealth Government incentives like the Co-Contribution Scheme *(see the following section)*.

Government Co-Contributions

Realise the power of your hard earned dollar by cashing in on the Government's Co-Contribution Scheme.

If you earn $28,000* or less a year, the Government will contribute $1.50 for every $1.00 of after-tax contributions you make, up to a maximum of $1,500 a year. If you earn more than $28,000* but less than $58,000* a year, the maximum Co-Contribution reduces by five cents for every dollar of income over $28,000.*

To be eligible, you must:

- be under 71 years of age at 30 June each year;
- not be a temporary resident;
- earn less than $58,000;*
- have made personal after-tax contributions into your super;
- have lodged a tax return for the year of income; and
- be earning at least 10% of income from eligible employment, i.e. from an employer. [7]

**Gross assessable income and reportable fringe benefits.*

Spouse contributions and contribution splitting

If you're married or in a de facto relationship, you won't need special powers to gain access to some super benefits, which can help couples build their retirement savings.

[7] *From 1 July 2007, self-employed people will be eligible for the Government Co-Contribution.*

Spouse contributions are after-tax payments made by your spouse into a separate account in your name and can be a tax-effective means of building up your own super account. You don't have to be working for your spouse to contribute and your spouse can make as many contributions as they like.

If your income is less than $10,800 pa, your spouse may also qualify for a maximum tax offset of 18% (ie $540) on contributions of up to $3,000 in that financial year. The offset reduces on a dollar for dollar basis until your income reaches $13,800. When your income exceeds $13,800 the tax offset is no longer available

New rules also allow couples (excluding same sex couples) to split their super contributions once a year after the financial year end. Under the rules, 100% of after-tax, spouse and co-contributions can be shared with a spouse and 85% of employer, salary sacrifice and personal contributions not being claimed as a tax deduction can also be split.

If you're interested in spouse contributions or contribution splitting, check with your super fund to see if they offer these options.

What if I'm self-employed?

Self-employed people can also gain from the power of super. If you work for yourself, you can claim a tax deduction on your first $5,000 of contributions and 75% of contributions over this amount in each financial year.[8] There is no limit to how much you can contribute. However, there are age-based rules *(see table below)* that limit the amount of contributions that you can claim a tax deduction for in each financial year.

For the 2005/06 financial year these Maximum Deductible Contributions [9] are:

Age in Years	Maximum Deductible Contribution
Under 35	$14,603
35 to 49	$40,560
50 and over	$100,587

2. Combine your super

Having more than one super fund can reduce your total account balance, as you're probably paying multiple fees. Merging your accounts can save you money and give you more control over your investment strategy. You may also achieve higher interest on your savings due to the larger amount invested. Your chosen super fund should be able to help you combine your accounts.

However, before you do, check that you won't be charged Termination Fees by your previous fund or lose any valuable insurance. You can usually arrange for insurance with your new fund before leaving your old fund, to ensure you're continually covered.

[8] *From 1 July 2007, contributions less than $50,000 will be fully tax deductible while contributions in excess of $50,000 will be taxed at the top marginal rate (currently 46.5%).*

[9] *Under proposed new rules, the age based Maximum Deductible Contribution limits will be abolished from 1 July 2007 and replaced with a total individual contribution limit of $50,000 that can be taxed concessionally.*

3. Find any lost super

There's currently over $7 billion in unclaimed or lost super waiting to be found, and you don't need X-ray vision to locate it. If you've never instructed your previous super fund to roll over your money when you left your employer, you may find that your money has been transferred to the Lost Members' Register with the Australian Tax Office or to an Eligible Rollover Fund.

If you think you have lost super, you can easily find out by:

1. contacting your previous employer and finding out where your super was invested after you left; or
2. using one of the free online services to find your super, such as the ATO's SuperSeeker website at **www.ato.gov.au** Simply have your Tax File Number handy or call 13 28 65 and follow the voice prompts.

Alternatively, you can visit the AUSfund website at **www.unclaimedsuper.com.au** which requires you to enter your name and date of birth to start your search.

4. Seek financial advice

You don't need to search the globe to find good financial advice. It's in your own back yard. A financial adviser can review your overall financial affairs and advise on the right investments for you. They can also help you understand the best contribution option for you. While financial advisers usually charge a fee for their services, there are ways you can obtain quality advice at a reduced rate or free of charge.

Centrelink has a dedicated Financial Information Service department, which provides independent and free information on retirement. Visit their website at **www.centrelink.gov.au** or call them on **13 23 00** to make an appointment. Many employer super funds also have their own financial advisers, who can often provide advice at lower rates than those available from retail financial advisory firms.

Action plan to take control

1. **Do your homework and find out all the facts.**
2. **Decide when you want to retire.**
3. **Work out the annual income you'll need for the lifestyle you want.**
4. **Check out how you can best grow your super savings today.**
5. **Seek personal advice from an independent and reputable financial adviser.**
6. **Don't set and forget - stay in control of your finances.**

True or false?

50% of women are unsure of their financial prospects in retirement. **True**

Reality Check: Information is power. Find out all the facts now. Seek advice, talk to friends and family, check out websites and take control of your future.

Source: *Lifelong Economic Wellbeing for Women, Obstacles and Opportunities, 2004. A study conducted by the Work and Economic Policy Research Unit, Victoria University and the Access Training and Employment Centre.*

For more information

If you'd like to find out more about securing your future, you may find the following websites useful:

- Information on investing, super, pensions, projection calculators and more: **www.fido.asic.gov.au** or **www.apra.gov.au**
- Lost super: **www.unclaimedsuper.com.au**
- Super Choice: **www.superchoice.gov.au**
- Tax, Co-Contributions and Contribution Splitting: **www.ato.gov.au**
- Age Pension: **www.centrelink.gov.au**

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This document is available on request in alternative formats such as large type, audio tape, computer disk or Braille.

This brochure is based on the Victorian Government's publication 'Making Superannuation Work for You'.

The information contained in this brochure is of a general nature. It should not be relied upon for individual financial advice. The information in this brochure is current at August 2006.