Super & Retirement Planning

Superannuation Facts – 2014/5

CURRENT SUPER GUARANTEE CONTRIBUTION RATE IS 9.5% on your Base Salary

Superannuation Tax is 15%
Pension Tax is 0%

Concessional Contribution (maximum limits).

- $30,000 per annum (under the age of 49)
- $35,000 per annum (over the age of 49)
- These contributions are known as Concessional Contributions

Non-Concessional Contributions

- $180,000 per annum
- Rolling $540,000 over 3 Financial Years

Concessional Contributions are your employer contributions, self-employed contributions and any Salary Sacrificing amounts

Non-Concessional Contributions are contributions you make yourself (includes the Government Co-Contribution)

Accessing Super is dependent on your Age (known as Preservation Age)

Date of birth from	To	Preservation Age
	30-June-1960	55
01-July-1960	30-June-1961	56
01-July-1961	30-June-1962	57
01-July-1962	30-June-1963	58
01-July-1963	30-June-1964	59
01-July-1964	and later	60

Super Structures & Platforms

There are 4 Superannuation Structures that are commonly used, each with their advantages:

Industry Super Fund

Examples: Rest, Australian Super, CBus, Hostplus

- Well-known for their low admin fees.
- Limited Investment Options (managed funds)
- No ongoing advice or planning

Employer-Sponsored Plans

- Suitable for larger companies
- You become a member of the business plan
- Limited Investment Options (i.e. managed funds)
- Limited personalised advice or ongoing advice

Retail Super Funds

Examples: Macquarie, BT, Colonial, AXA, AMP, MLC, OnePath

- Generally offered by financial planners/bank financial planners.
- Greater investment options (i.e. funds, shares, term deposits).
- Greater personalised and ongoing advice.

SMSF

- Provided by boutique financial planning firms
- Greater investment options (i.e. funds, shares, term deposits, property, bullion)
- Annual Returns managed by your accountant
- Up to 4 members can pool assets.
- Greater personalised and ongoing advice.
- Fastest growing sector in superannuation.

Strategies to Boost your Super

Government Co-Contribution

- You are entitled to a maximum of $500 Government Co-Contribution should you make a $1,000 Non-Concessional Contribution 'NCC' into a complying super fund.
- If you make a NCC of $800, then you will be entitled to 50% of this amount (i.e. $400 as a Government Co-Contribution).
- Available for individuals with taxable income of $0 - $34,488.
- Reduction of $0.033 for every $1.00 between $34,488 - $49,488.

Example [1] *- John Smith has a taxable income of $25,000 for the 2014/15 Financial Year. In June 2014, John decided to make a contribution of $1,000 into his superannuation fund. As John is eligible for the Government Co-Contribution, John will receive a contribution of $500 into his superannuation fund following the completion of his individual tax returns.*

Example [2] *– In this example, John's taxable income is $40,000. As the Government Co-Contribution was reduced by $181.89 ($40,000 - $34,488 x $0.033) and as such, John receives a contribution of $318.10 in his super fund.*

Salary Sacrificing

Salary Sacrificing is one the most effective ways to boost your superannuation and therefore retirement nest egg. Legislation has restricted the level of contributions over the years and the current tax provisions allow you to contribute to a limit of $30,000 per annum (if you are under the age of 49) and $35,000 per annum (for those aged over 49).

Example *- John Smith (age 50) is currently employed earning a salary of $120,000. Based on the current Superannuation Guarantee Contribution rate of 9.5%, his employer is contributing $11,400 per annum. As part of John's retirement planning over the next 10 years, we have recommended John to salary sacrifice* ***$23,600*** *per annum into his superannuation. Here are the benefits of this strategy:*

Description	Non Salary Sacrificing	Salary Sacrificing
Amount	$23,600	$23,600
Tax	$7,670 (Marginal Tax Rate 32.5%)	$3,540 (15% Super Contribution Tax)
Net Amount	**$15,930**	**$20,060**
Annual Tax Saving		**$4,130**

- *Based on this strategy, John is saving $4,130 per year in tax. Over a 10 year period this equates a total tax saving of $41,300.*
- *In addition, an extra $20,060 per annum will be added into John's super which equates to an additional $200,600 into his superannuation over a 10 year period. This is a powerful way for any individual to boost your superannuation.*

Pension and Transition to Retirement (TTR) Pension

When you reach your preservation age, you have the ability to convert your superannuation assets into the most tax effective entity available in Australia, 'the Pension Phase'.

If you are still working upon reaching this age, taking advantage of this strategy is known as the Transition to Retirement (TTR) Strategy.

Firstly, let me explain the importance of why structuring and filtering your assets into superannuation, then converting to a pension is so important from a tax planning/retirement planning perspective:

Example *- Let's assume John Smith (age 56) has $900,000 of investable assets earning 6% per annum which is currently held in his personal name. The table below highlights the differences in tax treatments should the assets be held in* ***(1)*** *his personal name* ***(2)*** *Superannuation and* ***(3)*** *Pension.*

Asset Ownership	Investment	Income Generated (6%)	Tax Rate	Tax	Net Income
Individual Name	$900,000.00	$ 54,000.00	($18,201-$37,000 @ 19%) above $37,001 @ 32.5%	$ 9,906.00	$ 44,094.00
Superannuation	$900,000.00	$ 54,000.00	15.0%	$ 8,100.00	$ 45,900.00
Pension	$900,000.00	$ 54,000.00	0.0%	$ -	$ 54,000.00
			Annual Tax Savings	$ 9,906.00	

With this particular client, we would strategically advise John, over a 5 year period, to filter assets from his personal name into superannuation and then converting this to a pension. Once completed, this would save John an additional $9,906 in tax per annum. Over a 10 year period, that is an additional $99,060 funds available to John.

Let's now assume John has $900,000 in superannuation versus his personal name and is still currently working. Our strategy advice would be tailored to convert John's superannuation into a pension phase effective immediately. This would reduce the annual tax payable of $8,100 as the superannuation tax rate is 15% versus the pension tax rate of 0%.

Account Base Pension (Minimum & Maximum Factors)

The minimum and maximum draw-down factors apply on the balance of the fund each financial year. Should a pension commence during the course of the financial year, a pro-rata amount will apply.

Age	Minimum	Account Base Pension (ABP)
Under 65	4%	No Maximum
65-74	5%	No Maximum
75-79	6%	No Maximum
80-84	7%	No Maximum
85-89	9%	No Maximum
90-94	11%	No Maximum
95 and over	14%	No Maximum

For example, a client that has $600,000 in pension (age 65) will have a minimum draw down amount of $24,000 per annum.

In addition, there is 'no maximum limit' that applies, so the client has access to withdraw further amounts as an income or as a lump sum payment over the year.

The maximum draw down for the **Transition to Retirement (TTR)** Strategy is 10%.

Investment Strategy

While the previous pages explain the various superannuation structures, platforms and strategies, the other important component to your overall wealth strategy is the performance of your investment portfolio.

By limiting your range of investment choices, this can ultimately impact your investment performance and affect you meeting your retirement objectives.

The table below highlights the level of investment choice and flexibility that is provided under the various superannuation platforms currently available:

Asset Class	Industry Super Funds	Employer-Sponsored Funds	Retail Super Funds	SMSF
Cash Management Accounts				
Term Deposits				
Managed Funds - Limited List				
Managed Funds - Extensive List				
Direct Australian Shares				
Direct International Shares				
Residential Property				
Commercial Property				
Oversees Property				
Bullion - Gold & Silver				
Other Alternatives - Art/Collectibles				

Notes to the Table:

- **SMSF** structures are the fastest growing structure for superannuation. As you can see, financial advisers have the ability to offer a greater range of investment choices.
- **Industry Super Funds** may advertise their low fees, but what price are you really paying with the loss of investment flexibility and therefore ongoing performance.
- **Employer Sponsored Funds** are only designed to ease the administration burden of paying all employees super to one plan. They are protecting their interest versus your interest.
- **Retail Super Funds** provide the most flexibility investment options outside the SMSF. This is the preferred structure before accumulating a sufficient level of super assets for a establishment of your SMSF.

Tailoring a Suitable Investment Strategy

One of the key parts of our advice is tailoring a suitable investment strategy for our clients. Every client is different and the tolerance to risk and appetite to certain asset classes will vary for each client and their current position in life (i.e. young couple, young families, established families, pre-retirement and retirees).

It is also extremely important for ongoing service and advice in understanding the economic fundamentals, the changing economic landscape and its impact to asset pricing. We utilise technical analysis and charting on various markets (including the global markets) in conjunction with the state of the economy to ensure our clients wealth is protected where appropriate.

Establishing the correct super structures is so important. It enables us to provide you with greater investment choice and flexibility in changing economic conditions that will ultimately improve your overall investment performances.

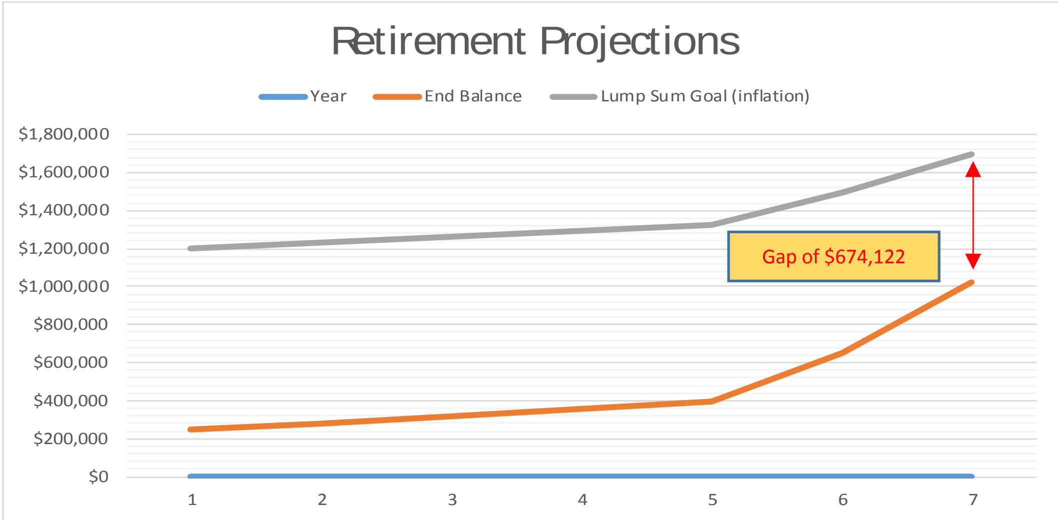
Financial Modelling – Initial Assessment

We use analytics to model your future retirement goals and what strategies we can utilise in obtaining these goals.

Example - John and Mary Smith are both age 50. John currently has $150,000 in superannuation and Mary has $70,000. John is on an annual salary of $120,000 and Mary has an annual salary of $45,000 (with both employers contributing 9.5%). Their retirement goal is to reach $1.2m (in today's dollars) at age 65 to fund their retirement. With inflation of 2.5%, the goal $1.2m equates to a target lump sum of $1.695m. **Will this be achieved?** (For illustrative purposes we have assumed a performance of 7% net of fees).

SUPER & RETIREMENT FORECAST MODELLING

Description	Client 1	Client 2
Current Super Balance	**$ 150,000**	**$ 70,000**
Current Salary	**$ 120,000**	**$ 45,000**
SGC Contribution	9.5%	9.5%
Government Co Contribution	$ -	$ -
Government Co Cont Match	$ -	$ -
Salary Sacrifice	$ -	$ -
Lump Sum Goal (Today)	$ 1,200,000	
Annual Investment Return	7%	
Age	50	50
Years to Retire	15	15
Less Insurance Premiums	$ 1,200	$ 500



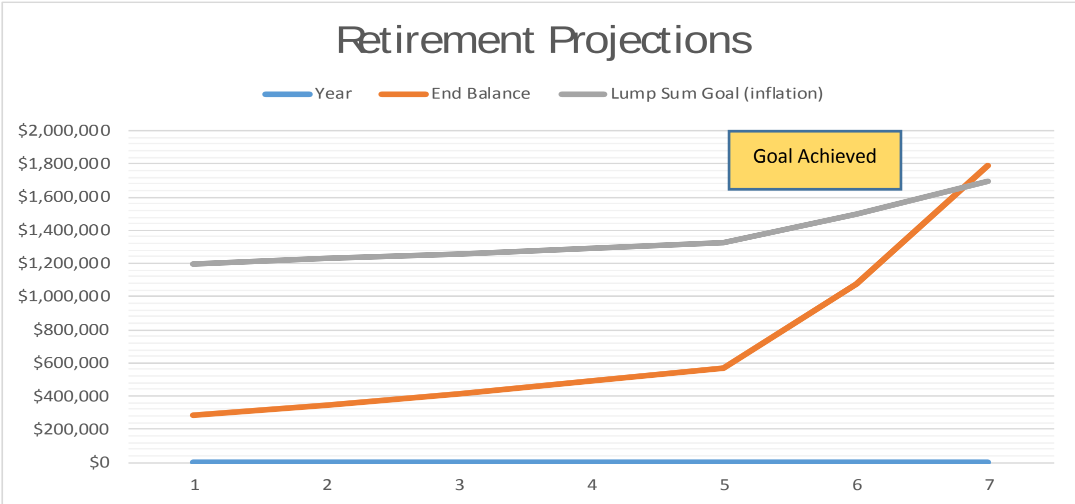
Year	Starting Balance	SGC	Salary Sacrifice	Gov Co Contribution	Less Tax	Less Insurance	Add Performance	End Balance	Lump Sum Goal (inflation)	The Gap
1	$ 220,000	$ 15,675	$ -	$ -	$ 2,351	$ 1,700	$ 16,288	$ 249,611	$1,200,000	$950,389
2	$ 249,611	$ 16,067	$ -	$ -	$ 2,410	$ 1,700	$ 18,386	$ 281,654	$1,230,000	$948,346
3	$ 281,654	$ 16,469	$ -	$ -	$ 2,470	$ 1,700	$ 20,655	$ 316,307	$1,260,750	$944,443
4	$ 316,307	$ 16,880	$ -	$ -	$ 2,532	$ 1,700	$ 23,107	$ 353,763	$1,292,269	$938,506
5	$ 353,763	$ 17,302	$ -	$ -	$ 2,595	$ 1,700	$ 25,757	$ 394,226	$1,324,575	$930,349
10	$ 590,806	$ 19,576	$ -	$ -	$ 2,936	$ 1,700	$ 42,497	$ 649,943	$1,498,636	$848,692
15	$ 935,806	$ 22,148	$ -	$ -	$ 3,322	$ 1,700	$ 66,814	$ 1,021,447	$1,695,569	$674,122

Financial Modelling – Managing the Gap

By running the analytics and determining the shortfall, we are now able to provide appropriate recommendations for our clients in obtaining their retirement goals. In this example below, we provide one strategy recommendation for John to salary sacrifice $23,600 per annum (keeping John within the maximum limit of $35,000) and for Mary to salary sacrifice $10,000 per annum into superannuation. Notwithstanding meeting their retirement objectives, both John and Mary would save approximately $6,800 per annum in tax as part of this salary sacrificing strategy. **Please note: the increase in SGC is due to increases in wage growth of 2.5%.**

SUPER & RETIREMENT FORECAST MODELLING

Description	Client 1	Client 2
Current Super Balance	**$ 150,000**	**$ 70,000**
Current Salary	**$ 120,000**	**$ 45,000**
SGC Contribution	9.5%	9.5%
Government Co Contribution	$ -	$ -
Government Co Cont Match	$ -	$ -
Salary Sacrifice	**$ 23,600**	**$ 10,000**
Lump Sum Goal (Today)	**$ 1,200,000**	
Annual Investment Return	7%	
Age	50	50
Years to Retire	15	15
Less Insurance Premiums	$ 1,200	$ 500



Year	Starting Balance	SGC	Salary Sacrifice	Gov Co Contribution	Less Tax	Less Insurance	Add Performance	End Balance	Lump Sum Goal (inflation)	The Gap
1	$ 220,000	$ 15,675	$ 33,600	$ -	$ 7,391	$ 1,700	$ 18,469	$ 280,352	$1,200,000	$919,648
2	$ 280,352	$ 16,067	$ 33,600	$ -	$ 7,450	$ 1,700	$ 22,719	$ 345,288	$1,230,000	$884,712
3	$ 345,288	$ 16,469	$ 33,600	$ -	$ 7,510	$ 1,700	$ 27,290	$ 415,136	$1,260,750	$845,614
4	$ 415,136	$ 16,880	$ 33,600	$ -	$ 7,572	$ 1,700	$ 32,206	$ 490,251	$1,292,269	$802,018
5	$ 490,251	$ 17,302	$ 33,600	$ -	$ 7,635	$ 1,700	$ 37,492	$ 571,010	$1,324,575	$753,566
10	$ 959,021	$ 19,576	$ 33,600	$ -	$ 7,976	$ 1,700	$ 70,453	$ 1,074,674	$1,498,636	$423,962
15	$ 1,629,030	$ 22,148	$ 33,600	$ -	$ 8,362	$ 1,700	$ 117,521	$ 1,793,937	$1,695,569	$98,368

Disclaimer

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