



## **Superannuation**

What's so good about super?

With all the fuss the Government makes about superannuation, we sometimes forget that it is just one form of saving. There's nothing stopping you saving outside the superannuation system and you will still have access to the same range of investments including shares, property, unit trusts, bank accounts, term deposits and insurance bonds.

So what are the advantages of super over other forms of investment?

### **Firstly, you know it will be there**

There are two major differences between investing inside or outside the superannuation system. Firstly, if you invest outside the system say, in a bank account, you can withdraw all or part of it at any time. Superannuation savings, however, can generally not be accessed until you retire after the age of 55.

### **Secondly, it's tax advantaged**

The second difference is the tax treatment. A special concessional rate of tax applies to superannuation funds which, in most cases, is much lower than the marginal tax rate you have to pay on the interest earned from a bank account.

### **Thirdly, your employer has to contribute too**

One of the most appealing features of superannuation is employer contributions. In fact, the bulk of your superannuation is probably made up of employer contributions, which means that you're already in a good position for your retirement.

### **How much do you have already?**

Your annual statement will show you the amount you have already contributed to super. Remember that unless you have consolidated your superannuation accounts over the years, each time you started a new job you would have probably started a new superannuation account. It's quite possible that you have multiple amounts in different superannuation funds. If this is the case the best thing you can do is to consolidate your super where possible. This helps you save fees and it's easier to keep track of how your super account is progressing.

### **How much is enough?**

Circumstances will vary greatly among individuals but 75 per cent of your pre-retirement income is the recommended amount.

### **How can you make up the difference?**

Assuming there is a shortfall between the amount you should be contributing to superannuation and the amount you are actually contributing, you probably want to know how to bridge the gap.



There are two answers to this important question. The first is to increase your contributions and the second is to maximise the returns you are receiving from the amount you already have accumulated. A combination of both of these is naturally the best way to ensure your nest egg at retirement will be big enough.

### 1. **Increase your contributions**

The advantage of topping up your superannuation is that you will be saving in a concessional tax environment. At present, for most people the tax paid for super is less than that paid in non-super alternatives. This means that the net returns for your super will be higher.

#### **How to contribute**

There are two ways of putting money into super. Firstly, your employer will contribute an amount on your behalf. This is presently 9 per cent.

The second way of accumulating super is to make contributions of your own. This may be through salary sacrifice or by making undeducted contributions. Salary sacrifice means that you choose to receive less salary and have that amount credited to your super. The advantage of this is that the tax on contributions is paid at the rate of 15 per cent rather than your current tax rate. At the end of the day you increase your investment by paying less tax.

If salary sacrifice arrangements are not available, you will have to pay superannuation contributions with after-tax money. These are called undeducted contributions because they have not, or cannot, be claimed as a tax deduction.

However, if you do make contributions to super from your after-tax income, the Government may match your payment (\$1.50 for every \$1), depending on the level of your assessable income.

### 2. **Increase your returns**

To maximise the return from your superannuation fund, you should contribute to a fund that allows you to choose different types of investments. In this way your super fund will suit your individual risk profile, your needs and your stage of life. If you don't take the time to evaluate the alternatives, you may miss out on some golden growth opportunities.

By ensuring that your money is invested in a way that suits your needs for either growth or for security of your capital, you are maximising your chances of bridging the retirement gap. This is the gap between how much money you have now, and how much you will ultimately need to fund a comfortable retirement.

### **How we can help you:**

#### **Your asset allocation will help determine the quality of your retirement**

There are four major assets into which your super fund can invest: shares, cash, property and



fixed interest. Generally, cash and fixed interest are less volatile assets, while property and shares almost always outperform over the long term.

For example, in the 20 years to 2001, \$10,000 invested exclusively in international shares (assuming interest or growth was reinvested) yielded \$236,997. The same principal invested in property returned \$125,793 while fixed interest grew to just \$99,857. As you would expect cash lagged behind at \$78,532.

So, if you want your super money to work its hardest for you, diversifying your portfolio with a strong weighting to shares might be an option. This could of course depend on your particular risk profile and how near you are to retirement. With such variables able to play a large part in your retirement aspirations, the merit of [seeking professional advice](#) is quickly enhanced. If you would like assistance in contacting a financial adviser, please [click here](#) for a list of specific phone numbers or email [admin@goldfinancial.com.au](mailto:admin@goldfinancial.com.au).