



**Making super  
work for you**



Financial Planning

# Why superannuation is so important

The superannuation monies that we are saving for our retirement will increasingly become one of the biggest assets that most of us will accumulate during our working lives.

The amount that we have invested may ultimately determine how we spend the retirement years that so many of us are actively looking forward to: in relative financial comfort, or struggling to make ends meet.

No matter what age you are now, superannuation is an important part of your future financial security.



## Why do I need super?

### Employees

To most of us, super is simply an amount of money (nine per cent of our annual salary) that the Government requires our employers to pay on our behalf.

So, if there's already a Government strategy in place that provides for retirement savings, why do we need to worry about super?

Six out of seven Australians are genuinely looking forward to retirement – a time of no work stress, more free time and travel<sup>1</sup>.

It is estimated that to achieve a comfortable lifestyle in retirement, Australians should aim to achieve a retirement income that equals 60-65 per cent of their gross pre-retirement salary. For example: if your salary prior to retirement is \$50,000 per annum, then you should be aiming for a retirement income of at least \$30,000 per annum.

But, to achieve this target retirement income, many Australians need to save an additional three per cent to five per cent on top of the Superannuation Guarantee rate of nine per cent<sup>2</sup>.

So, a large number of Australians will be disappointed when they reach retirement, unless they do more than rely on current levels of compulsory superannuation<sup>3</sup>.

### Women

Australian women live on average five to six years longer than Australian men<sup>4</sup>, but are far less likely to accumulate sufficient retirement savings. This is largely due to women taking time off from paid employment to raise children or working in part-time or casual positions.

1 AFSA, Report on Community Attitudes to Saving for Retirement, August/September 2001.

2 & 3 IFSA, Retirement Incomes And Long Term Savings, Living Well In An Ageing Society, 2003.

4 ABS, Year Book Australia 2003: Income and Welfare Feature Article – An Ageing Australia.

## **Self-employed**

Many self-employed people invest in their business with the expectation that the profits and goodwill generated will provide for their retirement.

Whilst this is a valid approach, you should also consider the alternatives. For example, super contributions are protected from bankruptcy provisions and enjoy concessional tax rates.\*

## **How much should I contribute?**

Working out exactly how much you should contribute to super can be difficult.

You need to consider:

- the age at which you wish to retire;
- the number of years until you retire;
- the lifestyle you wish to lead;
- the level of income you'll need; and
- your current savings.

Add to those considerations the complexity of the laws governing superannuation and retirement. Gaining expert professional advice is becoming more and more important.

It could also save you thousands of dollars in tax.

## **How can I increase my super savings?**

You can increase your level of super savings by:

- contributing additional amounts through your employer-sponsored fund ('salary sacrificing');
- contributing to a personal super fund; or
- contributing to a self-managed super fund.

## **Salary sacrifice**

To supplement your super savings, you can make voluntary contributions from your after-tax salary or, in the case of salary packaging, from your pre-tax salary.

\* Some conditions do apply. Please contact your financial planner for more information.

## **Personal super funds**

All the major financial services institutions offer a range of super investments that can be tailored to suit your individual needs.

## **Self-managed super funds (SMSF)**

Self-managed super funds are funds that have fewer than five members. They're a popular choice for those with significant amounts of money to invest (over \$200,000) and those who want a greater degree of control over the management of their funds.

A word of caution – the compliance and reporting requirements associated with managing your own super fund can be quite complicated and time consuming. Before committing yourself to this option, seek professional advice.

## **When can I access my super?**

Super's primary aim is to fund your retirement. Consequently, you generally can't access your super until you're at least 55<sup>▲</sup> years old and retired, and have no intentions of rejoining the workforce.

However, in some circumstances, you may be able to access part of your super before you retire, for example, if you change jobs, suffer extreme financial hardship or become disabled.

But, it is important to note that the criteria for accessing superannuation funds prior to retirement are governed by legislation, and are extremely strict.

## **What are my options?**

Depending upon your circumstances, when you receive a super benefit you may be able to cash it in, invest in a pension or annuity, or roll the money to another super fund.

▲ If born before 01/07/1960.

## **What about tax?**

Each of the previous options have different tax implications. The tax also varies depending upon your age, how much you've contributed and how much your employer has contributed on your behalf.

As tax is a complicated area, you should consult your accountant or financial planner to find out how it will affect your retirement savings.

## **How else can I save for my retirement?**

Super is one of the most tax-effective ways of saving for your retirement. However, there are other savings options available.

### **Investments**

There are many investment opportunities in the marketplace. The best investment for you will depend upon your individual circumstances, goals and attitude towards financial risk.

### **Retirement Savings Accounts**

Retirement Savings Accounts (RSAs) are simple, secure, low cost accounts that function like super funds.

You may consider using an RSA if you're nearing retirement, have only a small amount of retirement savings or if you wish to consolidate your super.

However, RSAs are likely to provide lower returns than other super investments. Consequently, they shouldn't be used as long term retirement investments.

## **Legislative changes**

The changes to superannuation legislation over the past few years have been both complex and seemingly never-ending.

Keeping abreast with how these changes effect you individually requires a strong understanding of many areas including superannuation rules, taxation and social security.

Most of us don't have either the time or the expert knowledge to do it ourselves.

**That is why regularly seeking professional financial advice is so important, particularly as you near retirement age.**

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Your financial planner:



Financial Planning

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