

Super Savings!

Not sure why you need to bother with superannuation? Read on to find out!

What exactly is superannuation and why is it necessary?

Superannuation is simply a long-term savings plan, designed to provide you with an income once you reach retirement age and/or stop working.

While many countries, including Australia and New Zealand, currently have retirement pension payments available for residents once they reach a set age (usually 65 years old) and are no longer required to work. However, these generally represent only a percentage (usually 60-75 per cent) of the average weekly wage.

This is where superannuation comes in handy, by providing an extra income source to allow you a better standard of living during retirement... to bridge the gap between your annual pension income and the actual income you would prefer to receive.

It is possible to survive in either country on the aged pension alone, but depending on your personal circumstances, you could find it quite difficult to maintain your lifestyle, and might have to adjust to a more frugal existence.

In the future, with the predicted expansion of the ageing population, it is likely that retirement pensions will be less readily available to the average citizen. This is where superannuation will play a primary role in retirement income.

Am I eligible for superannuation payments made by my employer?

Again, this can vary from country to country and company to company.

In Australia, for instance, a law known as the Superannuation Guarantee is in place to ensure all employers make compulsory superannuation payments for their employees.

Australian employers must currently pay a minimum of nine per cent of an employee's earning base to a complying superannuation fund (or a retirement savings account) at least four times per year (once per quarter).

Generally, if you are aged between 18 and 70 and earn more than \$450 in a calendar month (whether you work full time, part time, or casually in Australia), your employer should be making superannuation payments on your behalf.

It is a personal choice if you wish to also make superannuation payments of your own, but it's worthwhile considering any special incentives (such as salary sacrifice superannuation payments, or dollar matching schemes) offered by your employer.

In New Zealand, while it's not currently mandatory for employers to make superannuation payments for their workers, many companies now provide access to superannuation schemes and may make payments on behalf of their employees as part of their salaries or as extra bonuses.

Check with your human resources department if you are unsure of your company's policy.

From July 1, New Zealand workers will also have access to a new voluntary work-based retirement savings initiative known as the Kiwisaver scheme.

Through this scheme, employees can save either four per cent or eight per cent of their before-tax wages, with employers responsible for automatically deducting such payments on their behalf. Although this payment is taken out of the employee's actual wage, employers can choose to contribute part or all of an employee's payment as an extra incentive.

Sources: Australian Taxation Office at www.ato.gov.au; The Association of Superannuation Funds of Australia at www.superannuation.asn.au; www.sorted.org.nz; and www.kiwisaver.govt.nz.



“Money isn't everything, but it sure keeps you in touch with your children!”

J. Paul Getty.

Ask The Expert

How do I work out if I will have enough superannuation with which to retire?

Tim Rogers, of Wealth By Design, replies:

“While there is no easy answer to this question, to gain some insight into what your retirement may cost (in today's dollars) follow these six steps^:

1. Estimate how much income you will need each year in retirement to cover your general living expenses. For example: \$30,000 p.a.
2. Decide when you would like to retire: age 55, 60, or 65. Example: 60.
3. Multiply the income required by the number that matches your preferred retirement age. Example: $21 \times \$30,000 = \$630,000$.

Retirement age: 55 60 65

Multiplier*: 23 21 10

4. Estimate how much money you will need for any significant lump sum retirement expenses (such as a holiday, new car, or boat). Example: \$50,000.
5. Decide how much money you would like to leave as an inheritance. Example: \$100,000.

6. Add up the amounts in steps 3, 4, and 5 to estimate the total retirement savings required. Example: \$780,000.

“Because these figures are in today's dollars, keep in mind that the actual amount of money you may need for retirement could be significantly higher due to the impact of inflation.”

“If you are really serious about having a plan to reach your retirement goals, you should seek advice from a licensed financial planner.”

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* Assumes that you earn a rate of return of 3% p.a. after tax and inflation and need an income for your day-to-day living expenses over a period equivalent to an average life expectancy at each of these ages plus ten years.

^Source: MLC

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