

Contribution strategies to help grow your super

This Fact Sheet explores the various superannuation contribution options available to help you achieve your retirement savings goal.

Superannuation Guarantee

For many people, their only retirement savings will come from the Superannuation Guarantee (SG) contributions their employer makes.

Current Superannuation Guarantee legislation requires employers to pay 9% of ordinary times earnings (OTE) into a complying super fund for the employee. For many employees OTE is based on their salary and may include commissions, allowances and paid leave. For some employees OTE may be based on your award and in some circumstances can include overtime. If you work under a specific industrial award or agreement, your employer may be obliged to contribute in accordance with that award or agreement.

But will this employer support alone provide for a comfortable retirement?

To answer this, let's consider the case of **Mary**. Mary is 33 years of age and has now spent several years in the workforce. Mary like many young people has not considered making personal contributions to her super.

Based on Mary's age and current salary, if she continues down the path of relying purely on employer Superannuation Guarantee contributions, her projected super account balance is estimated to be approximately \$300,000 at age 65. In effect, this will only generate around 40% of Mary's current annual salary.

With this knowledge, Mary is keen to explore how to save more for her retirement.

The power of compound interest

Before we take a look at the options for growing your super savings, we need to let you know about the importance of compound interest.

When you invest you usually generate returns on the money you invest. Compounding happens when an investment is held for the long term and returns are re-invested – hence you are earning returns on your returns.

For example, if Mary's existing super balance of \$9,000 earns 7% interest, her account balance at the end of the financial year will be \$9,630 (that is the original balance of \$9,000 plus interest of \$630), less any taxes and fees. Any interest Mary earns in the following year will be calculated on her new account balance of \$9,630.

Making extra super contributions earlier in your working life lets you take greater advantage of time and the benefits of compound interest. So, the sooner you start making voluntary contributions to your super, the more opportunity your super may have to grow through contributions and investment returns over time.

Remember that returns can be positive or negative, and past performance should not be used as an indicator of future performance.

How can I grow my super?

You can take an active role in helping to grow your super savings by considering whether to make voluntary personal contributions.

If you are under age 65, you are eligible to contribute to a super fund. If you are between the ages of 65 and 74 you can contribute to super if you have worked at least 40 hours in a continuous 30 day period in that same financial year.

You may have the option to increase your super savings through salary sacrifice (before-tax) contributions, and/or after-tax contributions.

You should check with your employer to see what options are available to you.

Salary sacrifice is where, with employer consent, you forgo some of your salary in exchange for super contributions. Salary sacrifice may offer tax advantages for some people, depending on their personal circumstances. For example, instead of being taxed at a marginal rate of up to 45% plus Medicare Levy, the sacrificed amount is taxed at only 15%. (Further, a tax of up to 15% is payable on earnings by the super fund).

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In Mary's case, if she elected to make a salary sacrifice contribution of \$1,000 into super, after the deduction of 15% contributions tax, she would have an additional \$850 invested in her super account.

An after-tax contribution is where you make a contribution from your personal savings or from your salary or wages on which you've already paid income tax at your marginal tax rate. This can be anything up to 45% plus the Medicare levy.

After-tax contributions aren't taxed when they are contributed to the super fund because you have already paid tax on those contributions. However, the earnings on after-tax contributions are taxed at up to 15%.

By making an after-tax contribution to your super you may even be eligible for the Government's Super Co-contribution.

In Mary's case, if she received a \$1,000 pay rise, she would receive \$685 net after-tax, which she could then invest into super as an after-tax contribution.

We are often asked which option is the best way to contribute, and this depends upon your personal circumstances. In deciding whether making personal contributions is appropriate for you, you need to consider whether you will need money before retirement as contributions to super are essentially "locked away" (or preserved) until retirement. You need to seek financial advice to help determine what is most appropriate for you in your circumstances.

Annual contribution caps

From 1 July 2009, concessional contributions (which include employer SG and salary sacrifice contributions) have been capped at \$25,000 per annum (indexed to AWOTE*).

The ATO monitors these thresholds and if an individual exceeds their \$25,000 threshold then the amount in excess is taxed at 46.5%. This tax is payable by the individual and not the super fund. Those affected are able to elect for their super fund to release monies to pay the tax.

In the event that an individual exceeds their annual limit, the amount in excess will be counted towards their non-concessional contributions cap.

Transitional arrangements exist for those aged 50 and above (until 30 June 2012), and for members of defined benefit super funds a notional contribution will be calculated to assist with monitoring these limits.

Non-concessional contributions (after-tax contributions) are also subject to an annual limit.

* AWOTE – Average Weekly Ordinary Time Earnings

Non-concessional contributions include personal after-tax contributions, spouse contributions and self-employed contributions (where a tax deduction has not been claimed). These contributions have a cap of \$150,000 per annum (indexed to AWOTE).

While an annual cap of \$150,000 applies to these contributions, people aged under 65 are able to bring forward two years of contributions, therefore being able to contribute \$450,000 of contributions in one year.

As with concessional contributions, in the event that an individual makes contributions in excess of the cap, tax of 46.5% applies and is taxed to the individual. Individuals are able to request that their super fund release monies to pay the liability.

Importantly these caps mean that more than ever individuals need to manage and plan their contributions.

Consolidate your super

Another way to assist in the growth of your super is to consolidate your super accounts. You may have other accounts from previous employers which you do not actively contribute to.

By having your super in one place, you:

- will only pay one set of fees,
- can choose the most appropriate investment strategy for all of your retirement savings,
- will receive just one statement, and
- can keep track of your retirement savings much easier.

With this knowledge Mary, who has a super account of \$2,300 invested with her former employer's super fund, decides to roll this amount into her main super account so that she can more easily manage her super.

Before considering a rollover, you should check that it is not going to cost too much to exit the old fund. Also, it can be a good idea to check the insurance cover which you receive under each fund, as the cover provided by one fund may be more favourable than that provided by another.

You should also take a look to see if you have any 'lost super'. If you've changed your address or job in the past and haven't notified your super fund, chances are you may have 'lost' super. According to the ATO, as at 30 June 2008 there were over 5 million lost accounts valued at \$11.9 billion.

You can check for any lost super using the ATO's free 'SuperSeeker' service (ato.gov.au/super or 13 10 20) or by contacting Ausfund (unclaimedsuper.com.au or 1300 361 798).

If you locate any lost super belonging to you, you can then roll it in to your main super account.

In Mary's case, a five minute check online sees her locate \$800 of lost super which she rolls into her main super account.

Are you or your spouse eligible for an extra super contribution?

If you make after-tax contributions and have employment income, you may also be eligible to receive a Government co-contribution based on your income and how much you contribute.

Under this arrangement the Government has agreed to make a co-contribution to super for each dollar of personal after-tax contributions made by people who meet certain criteria.

You may be eligible if you:

- receive at least 10% of income from employment (either as an employee or self-employed – even if no super contributions are paid on your behalf),
- have income of less than \$61,920, where income includes assessable income and reportable fringe benefits, and
- are under age 71 at the end of the financial year in which you make the contribution.

Your income and contribution amount will determine how much of a co-contribution you receive. If you have income of less than \$31,920 and make a \$1,000 contribution, then you will get the maximum \$1,000 co-contribution. As your income increases the amount you get will be reduced. If you earn above the maximum threshold you will not receive a co-contribution.

In our example, Mary's total income is \$45,000. By making a personal after-tax contribution of \$564 for the financial year (which is only \$47 per month), she could be entitled to a co-contribution of \$564 from the Government. In total, this means an extra \$1,128 in her super.

A licensed financial adviser can help you with these decisions

By applying a number of simple strategies, Mary has the ability to help grow her super. This is in addition to the regular SG contributions being made by her employer.

However, there are a number of things to consider when making a decision about your personal contribution strategy. In some cases, making personal contributions to super may not be the most appropriate strategy for you, and it is important that you seek advice from a licensed, or appropriately authorised, financial adviser to find the right strategy for you, based on your personal situation.

A financial adviser will take into account your short, medium and long term financial goals and your lifestyle needs before recommending appropriate strategies for you. Super may be only one part of these strategies.

Let's recap...

So, to summarise:

There are a number of strategies you can use to help grow your super, including:

- making personal contributions to super (either before-tax or after-tax),
- starting a regular contribution plan to take advantage of the power of compound interest,
- keeping all your super in the one place by rolling over any other super accounts,
- tracking down any lost super, and
- considering whether you are eligible for a Government co-contribution.

Importantly, before implementing any changes to your super it is wise to seek advice from a licensed, or appropriately authorised, financial adviser to determine the best strategy for you based on your personal situation.

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