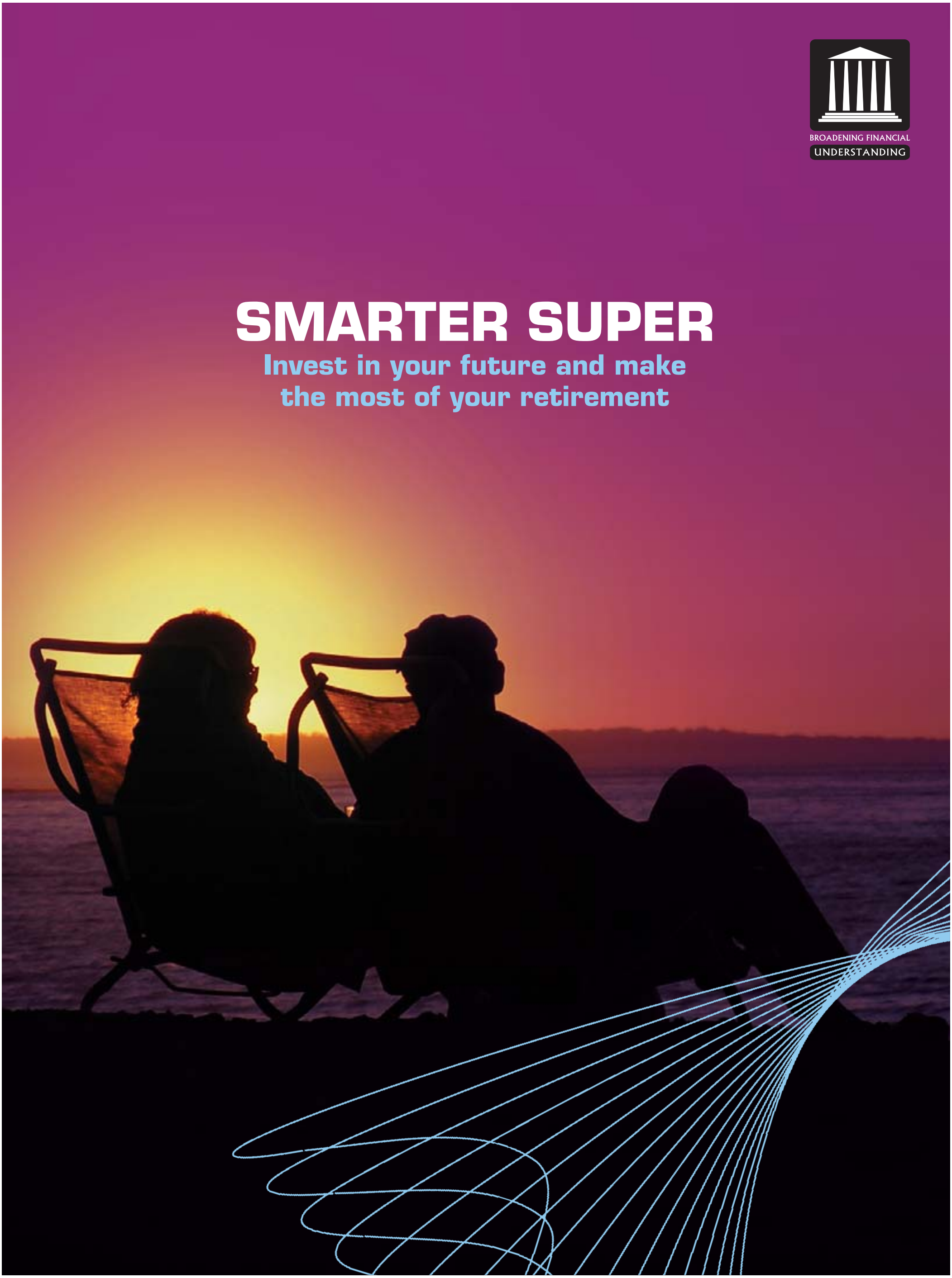
BROADENING FINANCIAL UNDERSTANDING

# SMARTER SUPER

## Invest in your future and make the most of your retirement



Australian Bankers' Association Inc.

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AUSTRALIAN BANKERS' ASSOCIATION INC.

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This booklet is a joint publication of the Australian Bankers' Association (ABA), Financial Planning Association of Australia (FPA) and Investment & Financial Services Association (IFSA).
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### Important note

This booklet provides information of a general nature and is not intended to be relied on by readers as advice in any particular matter. You should consider consulting a financial adviser regarding how this information may apply to your own circumstances.

### Acknowledgements

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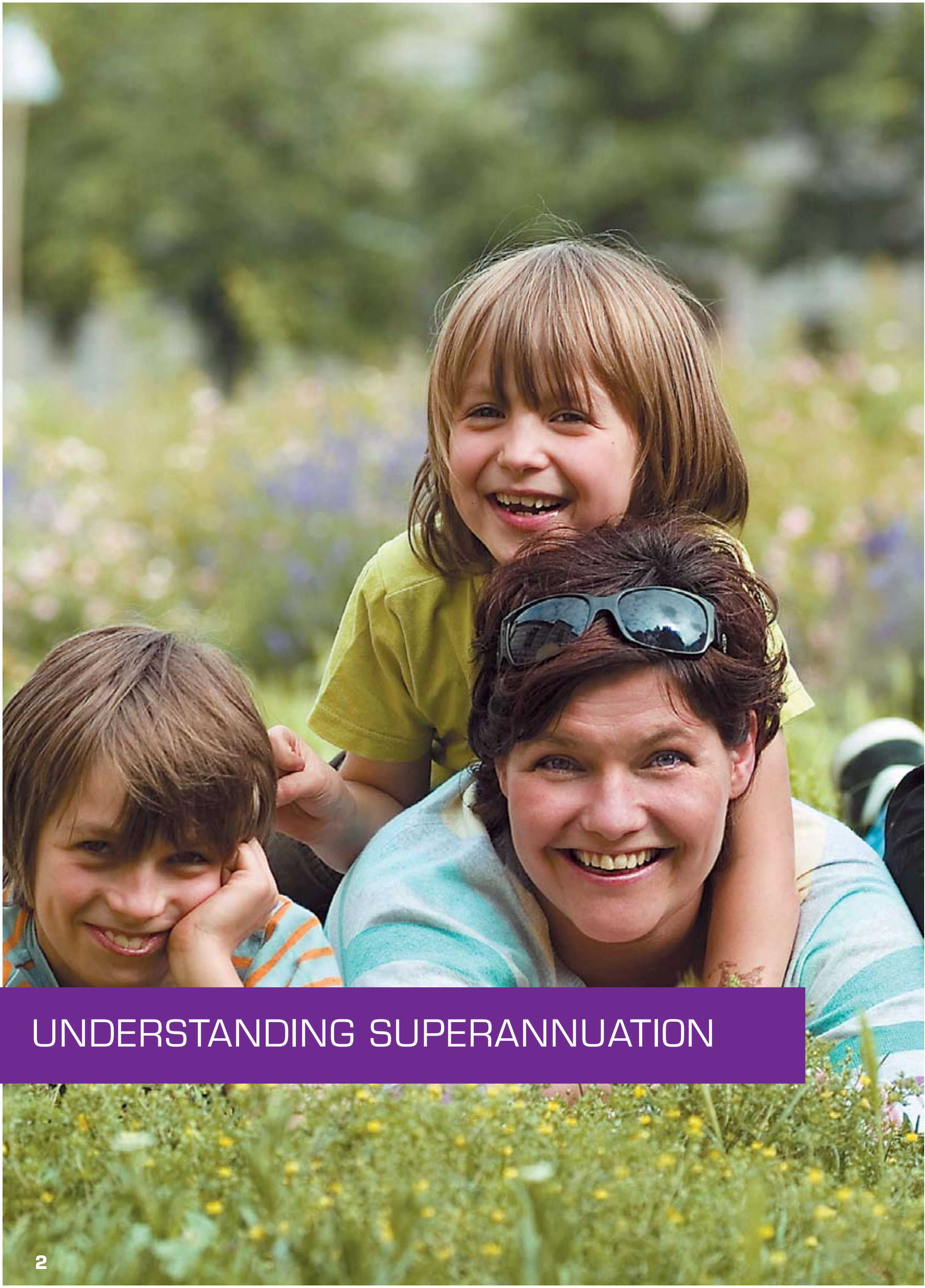


# UNDERSTANDING SUPERANNUATION

# INTRODUCTION

## UNDERSTANDING SUPERANNUATION

If you're like most Australians, superannuation will be one of the most important investments you'll ever have – along with a home and an ability to earn an income.

Not only is it likely to be one of the biggest investments you'll have by dollar value, it will also be the investment you depend on when you no longer work for an income.

Increasing life expectancies mean the superannuation of many Australians will have to last them for a retirement of 20 or 30 years. How much you have in superannuation will influence your standard of living in retirement. So taking an early interest in your super can really pay off.

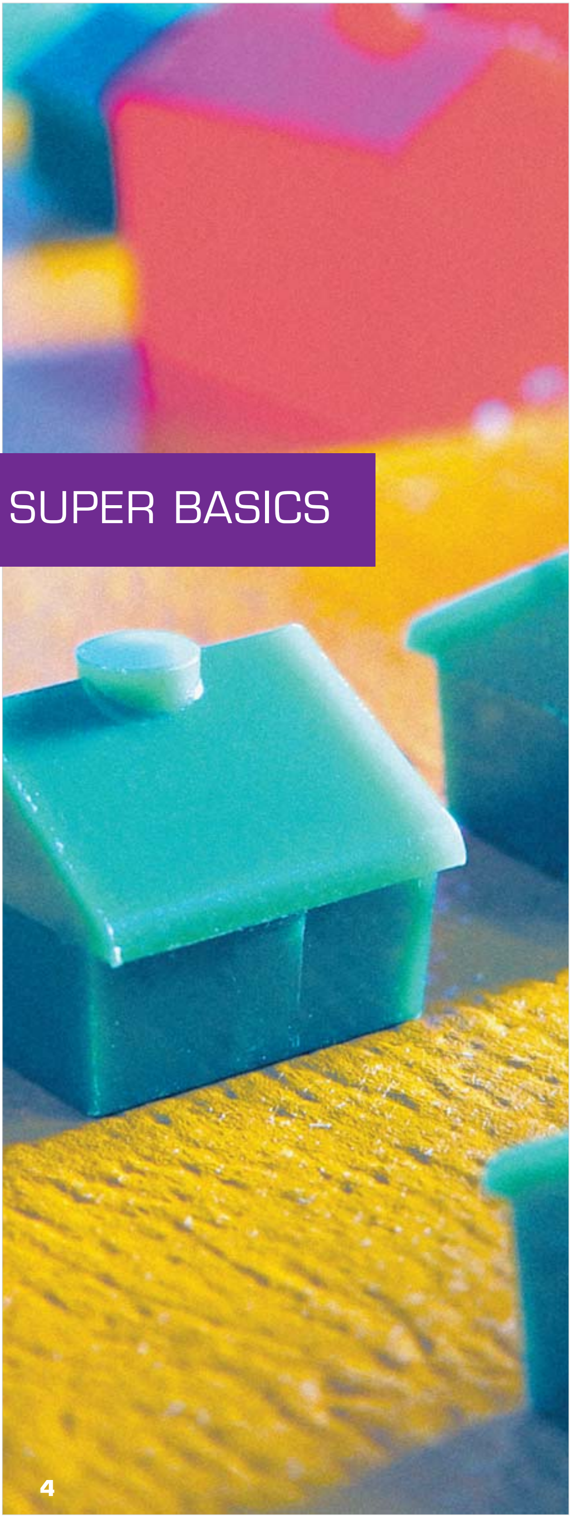
You might think of superannuation as a compulsory way the Government makes people save for their retirement years. It is, but it is also a lot more than this. So don't let the jargon surrounding superannuation and the seemingly complex rules put you off.

Decisions about which super fund and what type of investments you put your money in can make a big difference to how much you have in retirement.

This booklet has been created to help you understand super whatever stage of life you are in, and pick up useful tips to help you get more out of super. You can read about how super works, the types of super funds available and how to boost your super balance.

Start with some of the basics and you'll be surprised how much sense superannuation makes.

Keep in mind that the information in this booklet does not take into account your individual goals, financial situation or needs. The best way to get tailored assistance for your own circumstances is to speak to a licensed financial adviser.



# SUPER BASICS

## WHAT IS SUPERANNUATION?

Superannuation is an investment which operates by putting aside money during your working life so you have savings upon retirement. Your money gradually builds up because once it is in a super fund, generally it must remain in a super fund until you reach a minimum age set by the Government and meet the rules for accessing the benefit.

Superannuation money is invested and the earnings are reinvested in the super fund.

By law, most working Australians generally have 9% of their salary paid by their employer into superannuation. Some employers choose to contribute more than this amount for their employees as a form of added remuneration.

Many employees also choose to put money into super themselves – either from their after-tax income, or they arrange with their employer to take home less money and have some of their salary put pre-tax into superannuation, known as 'salary sacrifice'. Some employees choose to contribute money into their spouse's super fund.

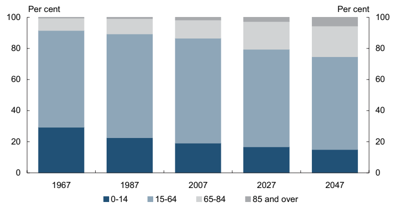
Superannuation is not compulsory for self-employed people, although many do make contributions.

## WHY IS SUPER IMPORTANT?

- Australia's population is ageing: The proportion of the population that has reached retirement age is increasing. There are now five people of working age for every person aged 65 and over, but by 2047 that will reduce to just 2.4. By 2047 a quarter of Australia's population is expected to be aged 65 and over*. That's nearly double the current proportion. It would put incredible pressure on Australia's tax system if all these people were to rely solely on the age pension. That's why the Government encourages people to save for retirement through superannuation by offering tax concessions not available on other forms of saving.
- We are living longer: Better nutrition and medical advances mean we are living longer, healthier lives. Average life expectancy for men is increasing – from 79 today and forecast to be 86 by 2047. Average life expectancy for women is also increasing – from 83 today and forecast to be 90 by 2047*. We continue to lead active lives and expect to do a lot in our retirement – which could last 25 years or more. The age pension alone is unlikely to adequately fund retirement lifestyle expectations.
- Inflation raises prices: Over time, the cost of goods and services rises due to inflation. What might seem a lot in today's dollars won't stretch so far in the years ahead. You need to consider this when looking at your current super balance and thinking about how much you need when you retire. You'll probably need to save more than you expect.

* Intergenerational Report 2007. Commonwealth of Australia. April 2007. This report provides a basis for considering the Australian Government's fiscal outlook over the long-term and the sustainability of economic growth in light of Australia's ageing population and other factors.

**Proportions of total Australian population in different age groups**




Source: Intergenerational Report 2007, Commonwealth of Australia: April 2007.

## WHO MANAGES SUPER?

Your super is held in a separate fund (a trust), managed by a trustee which can be a person or company. The trustee runs the fund and must meet legal standards designed to protect your benefits and guard against fraud or gross mismanagement.

By law, the trustee must act honestly and prudently and make decisions in the best interests of all fund members.

The trustee usually works with other professionals such as investment managers and legal specialists to help operate the fund. Even though these professionals perform roles, such as investing the fund's money and looking after membership records, the trustee still retains legal responsibility for all areas of fund operations. Trustees hold office under the rules of each fund. If they fail in their duties, courts or Government agencies can remove or penalise them.

## TIP

Are you self-employed? From 1 July 2007, you may be eligible to claim a full tax deduction for your super contributions. If you meet the eligibility criteria, you could also be entitled to a co-contribution made by the Government on your personal after-tax contributions. For more information on the Government's Super Co-contribution initiative, see page 20 of this booklet.

TIP

It's a good idea to check with your employer that you are registered as a member of a super fund and that contributions are being made to your super account. This is especially important if you are a casual or part-time employee. Ask your employer the name of the fund they contribute to on your behalf and when they send your contributions.

## ARE YOU ENTITLED TO SUPER?

By law, employees who are paid $450 or more before tax in a month must generally have 9% of their salary or wages contributed to a super fund by their employer, subject to some exemptions. This contribution is known as the Superannuation Guarantee (SG).

For most people, the 9% is based on 'ordinary time earnings' which means earnings for your ordinary hours of work. Some individuals who are independent contractors are also entitled to superannuation.

Employers must pay contributions into a super fund at least every three months. They have 28 days after the end of each quarter to make the payment. If you're not sure whether you're entitled to employer super contributions, speak to your employer or a licensed financial adviser.

## HOW ARE SUPER FUNDS REGULATED?

The Government bodies involved in the regulation of the superannuation industry include:

- Australian Securities and Investments Commission (ASIC): ASIC enforces and regulates company and financial services laws to protect consumers, investors and creditors. ASIC licenses the businesses that may give you financial advice about super or sell you financial products. Among other things, ASIC administers the laws that require super funds to give you the information you need to make an informed decision. It also oversees how super funds deal with consumer complaints.
- Australian Prudential Regulation Authority (APRA): APRA is the prudential regulator of the Australian financial services industry. It supervises most of the superannuation industry as well as banks, credit unions, building societies and insurance companies. APRA's main task is to make sure trustees understand their obligations to manage the benefits under their control prudently and in the interests of members. It is also responsible for licensing of trustees of Registrable Superannuation Entities (RSEs) and registration of RSEs.
- Australian Taxation Office (ATO): The ATO regulates Self-Managed Superannuation Funds (SMSFs), which are funds with less than five members that have been set up and managed by the members themselves. Each member of the fund is a trustee or, if the trustee is set up as a company, each member of the fund is a director of that company. The ATO also oversees the tax rules applying to superannuation.

## WHERE IS YOUR SUPER INVESTED?

Many Australians can choose which fund their compulsory employer superannuation contributions are paid into. For more information on 'Choice of Fund', see page 10 of this booklet.

Most super funds allow you to choose what types of investments your money is put into, known as 'investment choice'. Some funds allow you to choose investment strategies – such as growth or balanced. While others allow you to choose asset classes – such as Australian shares, international shares, fixed interest, cash or property. Some allow you to blend a range of investment options – such as mixing asset classes with different investment techniques that may utilise alternative investments.

If you don't make an investment choice, your money will be invested in the fund's default investment option. This may not be the most appropriate option for you. For more information about investment choice, see page 12 of this booklet.

## WHEN CAN YOU ACCESS YOUR SUPER?

Because super is specifically intended for your retirement, the Government has restrictions on when you can access it, known as your 'preservation age'. This age will vary depending on when you were born.

| Your date of birth | Preservation age (minimum age you are able to access your super) |
|---|---|
| After June 1964 | 60 |
| July 1963–June 1964 | 59 |
| July 1962–June 1963 | 58 |
| July 1961–June 1962 | 57 |
| July 1960–June 1961 | 56 |
| Before July 1960 | 55 |

Previously, you would've had to permanently retire from the workforce to access your super. The 'Transition to Retirement' rules means there is now some flexibility around this requirement. Now you can have access to your super once you have reached your 'preservation age' without having to permanently retire from the workforce. For more information on 'Transition to Retirement', see page 27 of this booklet.

There are some limited circumstances where you might be able to get early access to your super, including severe financial hardship, compassionate grounds, permanent incapacity or death. For more information on early access to super, see page 37 of this booklet.

## FIVE SUPER REASONS

1. It's tax effective: To encourage Australians to save for retirement, the Government provides tax concessions on contributions to super and on investment earnings within super. It also allows people aged 60 and over to take their superannuation benefit tax free – whether they take it as a lump sum or an income stream from a taxed source. These tax advantages maximise your super benefit and may help your money grow faster than it would in non-super investments. For more information on the tax advantages of super, see page 32 of this booklet.
2. Provides the opportunity to grow: Because super is designed to be a long-term investment, earnings on your money are reinvested. This means you earn interest on your interest, known as compounding. The earlier you start to save, the greater the benefits over time, and the more you have in retirement.
3. Opens access to a wide range of investments: Because your super money is pooled with other investors, you can access investments that would generally be reserved for larger 'institutional' investors. You may also be able to combine a wider variety of investment options than would be available to you as an individual investor.
4. It's convenient: Super is a regular form of saving that's generally compulsory and is done for you automatically. Your employer sends your contributions directly to your super fund. And if you've chosen to salary sacrifice to super, because you don't see the money, you're not tempted to spend it. You don't have to do tax paperwork on super – your super fund does it.
5. It usually provides some insurance cover: Many super funds provide their members with 'automatic acceptance' insurance cover. Due to their size, super funds generally access insurance at group rates which can mean lower premiums for members than if they purchased the same insurance individually. There can also be other advantages in terms of cover inclusions and not having to answer health questions or undergo medical tests for basic cover. Most funds also give you the option to take out increased cover if you require. For more information on insurance, see page 22 of this booklet.

## TIP

By law, each super fund must provide a retail investor with an information booklet, known as a Product Disclosure Statement (PDS). The fund's PDS contains information about what the fund offers and how it works, including investment strategies and options, risks and likely returns, fund features and services, fees and costs, death and disability benefits and insurance premiums. A financial adviser will be able to help if you want assistance choosing a fund.

# COMPARING SUPER FUNDS

## STYLES OF SUPER

Broadly speaking, superannuation is structured in one of two styles – defined benefit or accumulation.

- Defined benefit: The benefit to be paid to the member is defined in advance of the member's retirement and is usually calculated based on a formula which takes into account the person's years of employment and salary at retirement. It may be expressed as a proportion – perhaps two thirds or 75% – of the member's salary on retirement, redundancy or resignation. It is generally the employer that carries the investment risk, not the member.
- Accumulation: Members in accumulation arrangements – also known as defined contribution – are entitled to the total of employer and other contributions put into their super accounts, adjusted for investment earnings (positive or negative), less any taxes, fees, charges or other expenses. Members bear the investment risk.

Both styles have a unique set of characteristics that influences the way contributions are made and how any investment gains the fund makes are treated.

Most superannuation funds in Australia are accumulation style. As the accumulation structure has risen in popularity over the past decade or so, the number of defined benefit arrangements has tapered off. Some super funds provide a hybrid of accumulation and defined benefit arrangements.

## TYPES OF SUPER FUNDS

There are five main types of super funds in Australia:

- Public offer funds (also known as 'retail funds') – are open to the public and run by financial institutions. They allow a large volume of people and/or companies to operate their super arrangements as a single group.
- Employer or corporate funds – are open to people working for a particular employer or company and are usually tailored to meet the requirements of the particular company and its employees.
- Public sector funds – are provided by Government for public sector employees.
- Industry funds – are open to people working in a particular industry or under a particular industrial award, although some industry funds are 'public offer' and allow anyone to join.
- Self-Managed Superannuation Funds (SMSFs) – also known as Do It Yourself or DIY funds, these cater for individuals who want to create and operate their own super fund, although they must do so according to strict legal and regulatory requirements. SMSFs have fewer than five members, all of whom must be trustees or alternatively, directors of a corporate trustee. SMSFs are generally unsuitable for people with relatively modest amounts of money to invest or those who don't want to assume responsibility for the trustee role.

## Did you know?

A Retirement Savings Account (RSA) is an alternative to a super fund. It is a type of account offered by banks, building societies, credit unions, life insurance companies and prescribed financial institutions. RSAs guarantee that you'll get back at least what you put in so they tend to invest in conservative investments with returns similar to that of a bank account or term deposit. While they may be suitable for a short time, RSAs may not be appropriate over the longer term. You should speak to a financial adviser to determine whether these products suit your needs.

## TIP

Before choosing a fund, consider your personal circumstances and take some time to understand the rules of the super fund, what benefits are offered and how your super might be affected if you change jobs or working hours. Moving from your current fund to a new fund may not best suit your needs.

TIP

Consider comparing two or more funds side by side by drawing up a table and writing the relevant attributes in columns beside each other so you can make a direct comparison. The "Super Checklist" can assist you to identify the attributes that are the most important to you.

## CHOOSING A FUND

Since July 2005, millions of Australians have been able to choose which fund they would like to direct their compulsory employer superannuation contributions.

Under the Government's 'Choice of Fund' rules you're eligible to choose your super fund unless:

- your super is paid under certain State awards or industrial agreements,
- your super is paid under a Federal workplace agreement (e.g. a collective agreement or Australian Workplace Agreement),
- you're a Federal or State public sector employee excluded from choice by law or special regulations,
- you're in a particular type of 'defined benefit' fund or you've already reached a certain level of benefit in that fund.

Speak to your employer or visit www.superchoice.gov.au if you are unsure whether you are entitled to 'choice of fund'.

Employers with employees entitled to choose their fund must give their employees a choice of fund form when they commence employment, and also allow them to make a choice once every year. To choose a fund you will need to complete the choice form and provide all required details in writing. The fund must comply with the Government's rules on superannuation and your employer must be able to make contributions to that fund.

If you don't want to choose a fund, your employer will contribute your super money into a fund which they choose. This fund may not necessarily be the most appropriate fund for you.

If you do make a choice or are wondering whether you should change your fund, there are several issues worth thinking about. Even though everyone's requirements for a super fund are slightly different, the "Super Checklist" can help you put things into perspective.

## "SUPER CHECKLIST": 10 KEYS TO MAKING AN INFORMED CHOICE OF FUND

1 Types of funds: Each type of super fund can tend to have its own traits which some might perceive as strengths and others as weaknesses. For example, a SMSF to one person might offer autonomy and greater investment flexibility, but to another person, the responsibilities and risks of running a fund might be far too onerous. A retail fund might seem to one person to have too many investment options, while another person sees the fund as particularly attractive because it might provide unique services and flexibility.

2 Product features: Compare the sorts of product features provided by the fund and decide which features are important to you. For example, you might want a fund where you can open an account for your spouse and make spouse contributions or you might want a fund that offers attractive retirement income stream options through pension products.

3 Investment options: Compare the investment options available in the fund. What sort of investment option suits your 'risk profile'? How much flexibility do you want to change your investment choice, tailor your options or blend options? For example, you may want to be quite selective with your investments and have more of your super in a certain asset class, such as Australian shares. This is important if you have other investments as it will help you 'diversify' your investments. Some funds give a lot more choice than others.

4 Contributions: Check whether your employer will contribute more to one particular fund or offer higher benefits in one fund. Check whether you can take advantage of the Government's Super Co-contribution initiative.

5 Insurance: Compare the insurance cover offered by the fund. Does the fund provide 'automatic acceptance' insurance cover up to a certain level? What does it cover you for and at what cost? If you change funds or no longer have an employer contributing on your behalf, what does this mean for your insurance cover? You wouldn't want to find yourself without cover.

6 Fees and costs: There will be a variety of potential fees and charges in each fund. Consider things like the annual administration fee, investment management fees and other fees, such as expense and service fees, which may be payable by you if you want to change investment options, transfer to another fund or roll-over to another super fund and terminate your membership with your current fund. Super funds must show all significant fees in a table in the fund's Product Disclosure Statement (PDS).

7 Investment performance: Since superannuation is a long-term investment, you should examine investment performance over at least a five year time frame. Look at what sort of track record the fund has, although keep in mind that past performance is no guarantee of future performance.

8 Awards or ratings: There are a number of industry associations, research houses and ratings agencies which evaluate super fund activities or rate funds on particular criteria. You might find it worthwhile to hear what others are saying about your potential fund – but you should make sure that any fund rating is comparing 'like with like'.

9 Complying and licensed: Confirm the superannuation provider is adequately licensed and complies with super rules and regulations. If the fund is complying, your money will benefit from tax concessions. Individual funds must be able to provide evidence of whether they are complying. For more information about the super fund, check the Super Fund Lookup service at www.abn.business.gov.au.

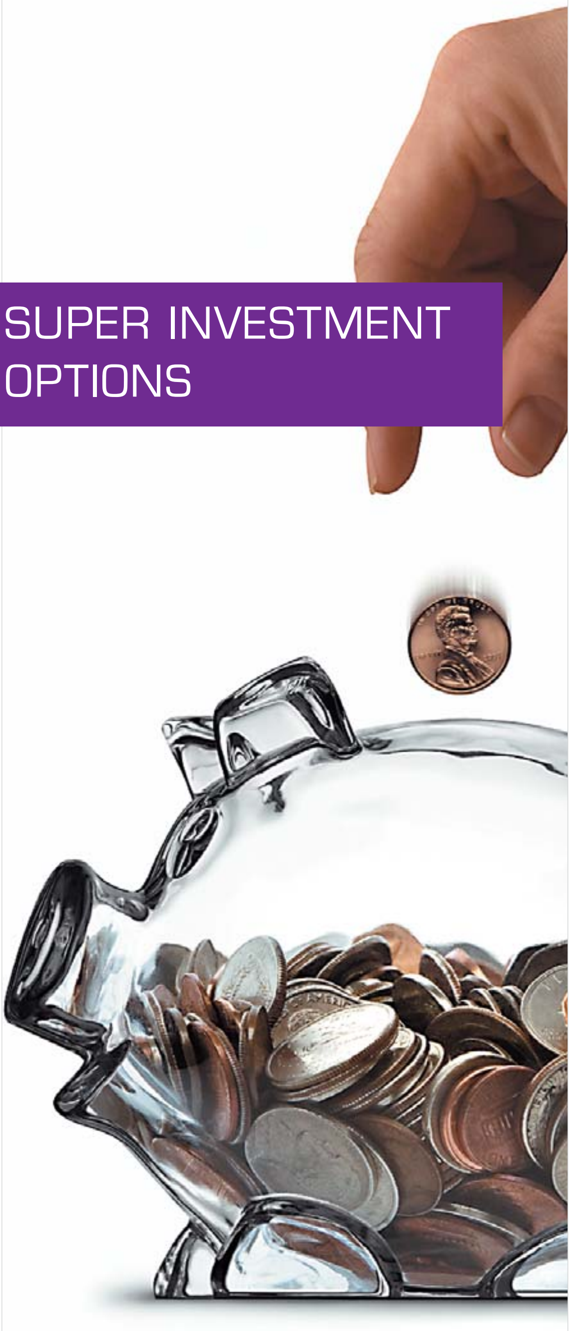
10 Extra benefits: Some funds offer more flexible or extensive member services than others. For example, some funds might offer discounted or free access to financial planning services. Other funds might provide access to other benefits, such as discounted health insurance or home loans. Some funds might offer more extensive Internet-based access and tools. Look at the sorts of services on offer and consider what is attractive or important to you. Would you get value out of a few 'bells and whistles' or would you be happier with a more basic offering?

## Did you know?

The Super Fund Lookup service contains publicly available information about super funds that have an Australian Business Number (ABN). Super Fund Lookup provides:

- Real time data on the status of a super fund and its contact details
- Information on the taxation implications of making investments with a super fund
- Access to further information about super funds.

Super Fund Lookup includes funds regulated by the Australian Taxation Office and Australian Prudential Regulation Authority. It is available at www.abn.business.gov.au.



# SUPER INVESTMENT OPTIONS

## TYPES OF INVESTMENT OPTIONS

Some people think of their superannuation as an asset – actually, superannuation is made up of potentially many different assets.

Most super funds offer some sort of investment choice to members. Put simply, investment choice is selecting the assets in which your superannuation will be invested, such as Australian shares, international shares, fixed interest, cash or property.

Asset classes like cash and fixed interest are sometimes described as conservative investments. They carry less risk in terms of potential volatility in returns and potential for capital loss, but they also offer less potential for high returns. These investments are generally described as low risk/low return.

Shares and property are generally described as growth investments since they offer investors the potential for higher returns. But this potential comes with higher risk. Returns could be volatile in the short-term.

Investment options vary from fund to fund. Some super funds define their investment options in terms of their risk characteristics, such as strategies ranging from growth or aggressive through to conservative or stable. Other funds offer more specialist options, such as strategies that adopt a 'socially responsible investment' approach.

Some funds let members have greater control over selecting types of underlying investments, such as choosing mostly shares. Other funds let you blend options which use different investment techniques, such as utilising alternative investments.

You don't have to make an investment choice. But if you don't, your money will be invested in the fund's default investment option. This investment option may not necessarily be the most appropriate option for you.

## MAKING AN INVESTMENT

Which investment you choose will be influenced by your personal views on 'risk and return'. You might be quite prepared to risk short-term losses for potentially higher long-term returns. Or you might be quite risk averse and be more comfortable with less movement in the value of your investment. Your tolerance to investment risk is known as your 'risk profile'.

One view about investing is when you're young you can afford to take some risk with your investments, but once you get close to retirement you need to become more conservative in your approach. But this view is being challenged by increasing life expectancies. At retirement age, people's money might need to last another 20 or 30 years, which is still a long-term 'investment horizon', so it may not be appropriate to be too conservative.

Placing too much of your super into conservative investments, such as cash, means you face lower risk than growth investments, such as shares, but you may also miss out on opportunities for higher returns. While you are contributing to super this means you could end up with a smaller final superannuation balance. When you are no longer making contributions and are retired, your investment returns may not even keep pace with inflation, meaning in effect your financial position goes backwards.

Your super fund will outline its investment approaches, the strategy behind each, the return it aims for and the risks involved. Taking the time to explore your investment options and making an informed choice could result in a significant boost to your final superannuation balance.

Take a look at the table below to see how much of a difference even 2% in earnings can make over time. Remember, since superannuation will be one of your biggest investments, it could be worthwhile speaking with a financial adviser to help you choose investment options which suit your circumstances.

| Rate of return over 45 years, reinvesting fund earnings | Start | Finish |
|---|---|---|
| 6% | $10,000 | $137,646 |
| 8% | $10,000 | $319,204 |
| *Difference over 45 years | | $181,558 |

* The difference of earnings is before tax, fees and other charges and expenses, and interest is compounded on an annual basis.

## Did you know?

Some people think about super as a single asset, but super is typically made up of a number of 'asset classes'. You might already have investments in some of these asset classes. When choosing an investment option you should think about all your investments and the underlying investments in your super – that way you can see if you have 'diversified' your investments.

## TIP

Before making an investment it is good to have an investment plan. Do your homework and take an active role in preparing your plan.

Your plan should:

- Outline your current financial position and needs
- Identify your financial and life goals
- Identify your 'risk profile'
- Identify investment strategies and options to manage your money.

Your investment plan can also describe how certain investment strategies will achieve your goals and the risks associated with each investment choice. A financial adviser will be able to help you prepare an investment plan and understand how to invest your super in a way identified in your investment plan.

If you're not sure how your super is invested, check with your super fund which investment option your money is invested in. Most funds have simple procedures allowing you to make adjustments to your investment strategy. A small adjustment can make a big difference later.

# KEEPING ON TOP OF YOUR SUPER

Superannuation is important! To get the most out of your super, you need to take more than a 'set and forget' approach to super.

While it is true that superannuation is a long-term investment and it could be dangerous to be too heavily influenced by short-term volatility or to try and time investment markets, it is important you remain proactive with your super.

Even if you do your homework and choose a super fund and an investment option, it doesn't mean this will always remain the best choice for you in the future. It's a good idea to review your superannuation arrangements from time to time. This doesn't necessarily mean you should make a change, but at least see how things are travelling. There are a number of ways you can keep on top of your super.

## MONITORING PERFORMANCE

The performance of the investment option you choose will impact on your final superannuation balance and how much you will have when you retire – so it's important that you make an informed decision about what investment option suits your needs and whether it continues to do so as your needs change.

Performance can be hard to judge, especially because superannuation is a long-term investment. But if you are unhappy with the performance results of your super, it might be because you need to rethink your investment option.

## CHECK YOUR FUND'S ANNUAL REPORT

You can find a lot of answers about how your super fund has performed in the fund's annual report. This includes details about the types of investments the fund made and how each type of investment option performed during the year – it's the closest thing to a report card for your fund. This report will also detail latest developments within the fund, news about superannuation and any new investment opportunities.

## REVIEW YOUR MEMBER STATEMENT

You'll also receive a periodic statement which shows details of your super account. It's important you check the details to ensure they are correct. For example, make sure your employer has contributed the correct amount.

If you don't understand any of the information on your statement, contact your super fund. You have the right to a clear explanation.

Your periodic statement will outline:

- The balance of your super account at the start of the period
- How much your employer contributed during the period
- How much you contributed during the period
- What the fund earned on your money which it invested according to your instructions
- How much the fund charged you for managing your money
- How much insurance cover you have
- What was taken out for Government taxes and charges
- The balance in your super account at the end of the period.

## STAY IN TOUCH WITH YOUR FUND

Check that your super fund has your most up-to-date contact details and let it know if things change.
If you have more than one super fund, make sure each fund has your correct details.

Don't become one of the many Australians who have 'lost' their super. According to the Australian Taxation Office, more than $9.7 billion of superannuation is 'lost'.
If a super fund loses contact with a member – for example, their annual report and/or statement might be returned over a number of consecutive years – the fund might transfer the super to another fund known as an Eligible Rollover Fund or ERF. So not only might you forget about this super money, you might find it hard to track down.

## PROVIDE YOUR TAX FILE NUMBER

If you don't give your super fund your Tax File Number (TFN):

- your fund may not accept your contributions (employer or personal after-tax or spouse contributions) or you may pay an additional 31.5% tax (in addition to the standard 15% contributions tax) on employer contributions, including salary sacrifice and any contributions for which you claim an income tax deduction
- you might miss out on any potential co-contribution made by the Government to your super account.

## NOMINATE YOUR BENEFICIARY

It is also a good idea to provide your super fund with the details of your nominated beneficiary or beneficiaries. These are the people that you want your superannuation benefit to go to if you die. Funds may offer a non-binding or binding nomination facility. For more information on nominating beneficiaries, see page 38 of this booklet.

## TIP

When you're comparing and checking performance, remember:

- Compare 'like with like'. Make sure you are comparing your investment option with investment options that have similar underlying investments.
  Make sure that the performance results being compared relate to the same periods – for example, July to June results would be different from January to December results.
- Take a long-term view. Superannuation is a long-term investment. Performance can fluctuate in the short-term so consider at least a five year time frame when checking performance, as this tends to give more representative results. But keep in mind that past performance is no guarantee of future performance.

# GETTING MORE FROM SUPER

For most of us, superannuation will be our main source of retirement income. Decisions you make now regarding your super can make a considerable difference to what you receive as your final benefit.

There are lots of clever ways you can maximise your super. Some depend on your personal circumstances and may be quite complicated – it's best to speak with a financial adviser.

Here are four relatively simple suggestions to boost your super:

## 1. FIND YOUR LOST SUPER

You may have super in an account that you have forgotten about. The easiest way to search for your lost super is using the Australian Taxation Office's online search tool SuperSeeker at www.ato.gov.au/super. You'll need your tax file number to conduct a search. SuperSeeker looks for any lost super you may have and instantly provides you with potential matches. Being able to find lost super is another reason to give your fund your tax file number, as it provides a valuable link between you and your super. Some funds also run searches for lost super on their members' behalf from time to time.

## 2. CONSOLIDATE YOUR SUPER

If you are like many Australians, you probably have more than one super fund. Perhaps you've accumulated a few fund memberships over the years as you changed jobs or even while you worked part-time. Consider putting your money together in one super fund to streamline your super so you're not receiving several different statements and not paying several sets of fees.

Having fewer points of contact for your super also makes things less complicated. Not only can combining super funds give you more control over your investment strategy and your paperwork, it could also mean there is less chance you'll lose track of your super later on. Most funds have a standard form you can fill out to provide consolidation instructions and they will organise to roll-over your money into your selected fund. Some funds provide consolidation services to assist you.

### Did you know?

Some super funds offer members financial planning seminars or other sources of financial advice to help them maximise their super. Check with your fund to see if this is available and, if so, take advantage of it.

## 3. MAKE ADDITIONAL CONTRIBUTIONS

The compulsory 9% employer contributions to your super might not result in the retirement income you want. Your super balance might seem like a lot of money but once you consider the effects of inflation and the fact your money might need to last you 20 or 30 years in retirement, you might get a bit of a shock. Many people also have longer breaks from the workforce throughout life than they expect, so this limits the size of their superannuation since contributions may stop for a while.

Consider contributing extra money to superannuation, in addition to what your employer puts in. You might also think about making contributions on behalf of a lower-income spouse or a spouse with less super. You can make contributions to superannuation or have contributions made on your behalf until you are aged 65, regardless of whether you are working or not.

Tax advantages of superannuation make it a very attractive way to save for retirement. It's usually more beneficial to invest for retirement through super than to make identical investments outside superannuation. And now there are no limits on the amount of final superannuation benefit you can take on a concessionally taxed basis, the more you have in super, the merrier your retirement. Another reason to gradually put extra into super earlier is there are now caps on how much you can contribute to super each year on a concessionally taxed basis. For more information about contribution caps, see page 19 of this booklet.

So you can't leave it until close to retirement and expect to suddenly contribute a very large amount to your super in one go. For more information on the tax advantages of super, see page 32 of this booklet.

### TIP

Before you consolidate your super or move your super from one fund to another, check whether the fund you are leaving charges any fees and whether you will lose any valuable benefits or insurance cover. Make sure you won't be left without insurance during the transition. For more information, take a look at the 'making an informed choice' tips on page 10 of this booklet.

## TIP

If you are interested in salary sacrificing into super, check if your employer allows it and speak with a financial adviser to see if this strategy is right for your situation. Remember that annual caps apply to what can be put into super on a concessionally taxed basis. For more information about contribution caps, see page 19 of this booklet.

There are two ways you can contribute more to your super:

### After Tax

- You can contribute into a super fund using your money which has been subject to income tax already.

### Before Tax

- You can arrange with your employer to take less in your pay packet in exchange for them putting pre-income tax money into your super. Because super is taxed at less than most marginal tax rates, this 'salary sacrifice' arrangement means you get more money going into super. You could also reduce your income tax.

## A LITTLE SACRIFICE NOW CAN HAVE POTENTIALLY BIG BENEFITS LATER

'Salary sacrificing' is where you choose to give up gross salary or wages and arrange with your employer to contribute the 'sacrificed amount' into your super fund. This may reduce your assessable income for taxation purposes. It will also boost the amount of money you have working for you because when it is put into super it is taxed at only 15%, rather than your marginal tax rate.

## CONTRIBUTING AFTER-TAX

There are compelling reasons to make additional personal contributions to super from your after-tax money.

You might have money available to contribute which is not directly from your pay packet so can't be salary sacrificed. Or your employer might not allow you to salary sacrifice. Or you might want to take advantage of the Government's Super Co-contribution initiative. By making after-tax contributions you could access up to an additional $1,500 a year. By making after-tax contributions on behalf of your low income spouse you could also get an 18% tax offset worth up to $540 a year. For more information about the Government's Super Co-contribution initiative, see page 20 of this booklet, and about spouse contributions, see page 33 of this booklet.

## TIP

Consider asking your employer to put any pay rises, tax cuts or bonuses into your super fund. Because you keep your take home pay the same, there's no compromising on your current lifestyle. This can potentially reduce your income tax and you'll also benefit from the power of compounding on your super balance, giving you more for your retirement. But keep a close eye on your contributions so you don't accidentally go over the contributions cap and have to pay tax on those excess contributions.

## KNOW THE LIMITS

From 1 July 2007, caps apply to the amount of contributions that can be made to superannuation each financial year on a concessionally taxed basis. If you contribute amounts beyond the contribution caps, the excess contributions will effectively be taxed at the top marginal tax rate plus Medicare levy.

- Concessional contributions cap: This cap includes the compulsory 9% employer contributions, employer notional defined benefit contributions, amounts you salary sacrifice, and contributions you make if you are self-employed and claim a tax deduction. Contributions are capped to $50,000* per annum. Under transitional arrangements, if you are at least 50 years of age, the limit is higher at $100,000 per annum until the end of the 2011/12 financial year.
- Non-concessional (after-tax) contributions cap: This cap includes contributions you make yourself using after-tax money. Contributions are capped to $150,000** per annum. If you are less than 65 years of age, you can 'bring forward' another two years worth of non-concessional contributions, allowing you to contribute up to $450,000.

* The $50,000 threshold is indexed to Average Weekly Ordinary Time Earnings (AWOTE) but will only increase once the indexed amount is greater than $5,000.

** This threshold will not be indexed but will remain at three times the level of the cap on concessional contributions and will increase as that cap moves with indexation.

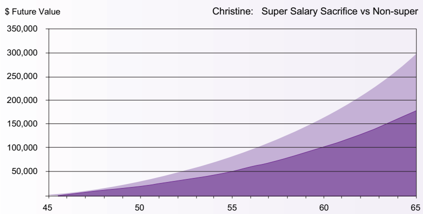
## **CASE STUDY** SALARY SACRIFICE

Christine has decided that from her 45th birthday onwards she will commit to a disciplined savings plan for her retirement. After reviewing her budget, she knows she can commit to saving an additional $3,000 a year from her take home pay packet. Christine already has some money in a super fund, so was thinking of complementing this with making some extra savings outside of superannuation.

Christine talked with her financial adviser about her goals and was surprised to find out she could end up with more than $100,000 extra savings at age 65 if she 'salary sacrifices' into super, rather than puts money into an investment outside of superannuation.

Because Christine is on a marginal tax rate of 41.5%, including the Medicare levy, by arranging with her employer to forgo $3,000 from her take home pay packet, this actually equates to $5,128.21 before tax. So she gets more money working for her in the tax advantaged environment of super.

**Christine's 20-year saving projections**




* Assumptions: Christine has $3,000 per annum after tax to invest in a non-super investment, or $5,128.21 before tax to invest via salary sacrifice to her super fund (assumes a marginal tax rate of 41.5% including Medicare levy).

In both options, investments are made into a balanced fund with after-fees annual returns of 4.38% (24% franked) income and 3.75% growth. The level of contributions increase by an assumed Average Weekly Ordinary Time Earnings (AWOTE) rate of 4.0%pa. Future dollars are discounted into today's terms by an assumed inflation/CPI rate of 2.5%pa.

### CONTRIBUTING LATER IN LIFE

The compulsory 9% employer contributions are only required to be made until age 70 years.

If you are aged under 65 years, you can make contributions to superannuation or have contributions made on your behalf at any time.

From age 65–74 years, those wanting to contribute must have worked at least 40 hours within 30 consecutive days during the same financial year, known as the 'work test'. You must make a new employment declaration for each financial year that you want to contribute. Spouse contributions can only be made on your behalf if you meet the 'work test' and until age 70 years.

Self-employed people and employers contributing for employees can claim a full deduction for super contributions made for themselves or their employees until age 75 years.

Personal after-tax contributions can only be made until age 75 years.

## TIP

Keep in mind that contributions counted towards the annual caps can add up across your different super accounts and across types of contributions. So you need to keep an eye on your concessional and non-concessional contributions to avoid exceeding the caps and therefore avoid the top marginal tax rate plus Medicare levy.

## 4. TAKE ADVANTAGE OF THE CO-CONTRIBUTION

The Government's Super Co-contribution initiative allows you to increase your super by making personal contributions from after-tax money. The income thresholds for the co-contribution are indexed annually.

Based on the figures that apply from 1 July 2007, if you contribute money yourself into super from your after-tax income and earn less than $58,980^, you could be entitled to a co-contribution made by the Government to help grow your super. Whether you are an employee or self-employed, if you meet certain criteria, this co-contribution could be as high as $1,500. This is an annual opportunity so, providing you meet the criteria, you could receive a co-contribution each year.

To be eligible you generally need to:

- Make a personal (after-tax) contribution to superannuation
- Earn less than $58,980^
- Earn 10% or more of your income from carrying on a business, eligible employment or a combination of both
- Lodge an income tax return for the year you have earned your income
- Ensure your super fund has your tax file number
- Be under 71 years of age at the end of the financial year.

If you meet the eligibility criteria and your income is less than $28,980^, then you may receive from the Government $1.50 for every after-tax dollar you contribute to superannuation up to the maximum co-contribution of $1,500. The maximum co-contribution reduces by 5 cents for every dollar you earn over $28,980^, phasing out completely when earning $58,980^ or more each financial year.

^ Income is your assessable income plus reportable fringe benefits. These income levels are for the 2007-08 financial year. The lower threshold is indexed on an annual basis and the higher income threshold will always be the lower threshold + $30,000.

Your co-contribution is payable after:

- you have lodged your income tax return
- your superannuation fund has lodged a member contributions statement for you; and
- the Australian Taxation Office has received any additional information required.

For more information about the Government's Super Co-contribution initiative, see www.ato.gov.au/super.

## Did you know?

Your personal after-tax contributions and the co-contribution made by the Government are not taxed when deposited into your super account or when you withdraw them.

## TIP

As long as you make personal after-tax contributions and meet the eligibility criteria, the co-contribution will be paid in to your super account each year.

The Australian Taxation Office has a calculator to help you work out the co-contribution you could be eligible to receive at www.ato.gov.au/super.

# INSURANCE FOR LIFE

## WHAT ABOUT INSURANCE?

Accidents, serious illness and death can happen to anyone at anytime. Having insurance for these events gives peace of mind that you or your family have some protection from the consequences of the unexpected.

Many super funds offer insurance cover for their members – usually death and Total and Permanent Disability (TPD) and sometimes income protection, as explained in the table below.

| Type of cover | What it provides |
|---|---|
| Death | Your beneficiaries may receive a lump sum payment or income stream upon your death. |
| Total and Permanent Disability (TPD) | You receive a lump sum payment once the insurer has accepted your claim for total and permanent disability. You also need to satisfy a superannuation 'condition of release' which allows you to access the payment. |
| Income protection | You receive an income stream for an agreed period upon confirmation of your inability to work due to temporary disability or illness. |

Accessing insurance cover through a super fund can provide advantages. Some potential advantages include:

- Bulk discount: Insurance cover can be much cheaper due to the bulk discount available to super funds.
- Tax advantages: Because premiums are paid from a member's super account, most of the money in this account will have only been taxed at 15%, rather than marginal tax rates. The money paying the premiums has been taxed less so there's more money to pay for a higher level of cover if desired.
- Convenience: Premiums are usually deducted automatically from a member's super account. This also means the added convenience of not having to deduct money from your household budget to pay for premiums.
- Automatic acceptance: Often members are automatically accepted for basic cover which means they can be protected against death and/or disablement without having to answer health questions or undergo medical tests.

## Did you know?

Life insurance is more affordable than many Australians believe. Securing both death cover and income protection for a 31 year old male, married with two children and earning $75,000pa would cost an average premium of $2.83 per day!*

* IFSA Securing Australians' Financial Wellbeing 2007. Based on TNS Research.

Keep in mind there may be disadvantages of having insurance through a super fund. Some potential disadvantages include:

- Limitations on the level of cover.
- Limitations on benefit periods for income protection insurance.
- Being uninsured. If you move between funds or your employer contributions to the fund cease or for some reason your super account becomes inactive, your insurance cover may lapse without you realising.
- Being overinsured. If you have more than one super fund, check to make sure you are not doubling up on premiums and paying for more cover than you need.
- Delays in payments. There can be delays in payments to beneficiaries while the trustee identifies and resolves any other claims, such as a former partner or children from a previous relationship may be entitled to part of the benefit.

## GETTING THE RIGHT COVER

Many super funds offer 'automatic acceptance' for a basic level of cover for most active members, with an option for members to increase their level of cover. You might be happy with the cover provided by your fund or you might want to consider boosting it with additional cover either through your fund or outside of super. Working out the right level of insurance cover for your personal circumstances will help provide peace of mind to you and your dependants.

As a rule of thumb, full-time workers in their mid 30s with young children need at least 10 times their taxable earnings in cover.

### TIP

As a general rule, insurance can be used to meet the shortfall between your needs and existing savings. Some people take out death cover to pay out their debts and leave some money left over to help their family get back on their feet. It's a good idea to review your insurance needs from time to time to ensure your cover takes into account any life changes. You should consult your financial adviser who can assist you with your insurance planning.

## CHANGING SUPER FUNDS

If you're thinking of changing super funds, be careful because the insurance cover from your old super fund will probably cease. You should ensure you're eligible for insurance at the level of cover required in your new fund before finalising your choice to switch super funds.

Before moving to a new super fund, you should consider:

- Premiums can differ greatly between superannuation funds for the same level of cover. Before you change funds check to see if your new super fund offers insurance cover and make sure you compare what you'll be paying for that cover.
- Be aware that if you decide to purchase insurance outside super you could end up paying more. Because of the bulk discount super funds receive, cover through a super fund is often cheaper than purchasing insurance outside the superannuation system.
- Be aware that you could be uninsured for a time. If you leave one fund and your cover ceases in your old fund, you may be uninsured for a period – particularly if your new fund waits until contributions are received or until a medical test has been

## CASE STUDY INSURANCE

Dylan, 31 and his wife Brenda, 28 were saving for a new house for their growing family. Dylan was very concerned about his family's capacity to cope financially should Brenda or he die. Dylan knew that he had some death cover through his superannuation fund, but he felt that this would not be enough for his family.

Dylan and Brenda decided to speak with a financial adviser. The financial adviser recommended that Dylan increase the sum insured through his superannuation fund to cover their mortgage, personal loan, debts and future expenditure. The financial adviser also recommended that they take out a term life insurance policy on Brenda's life.

Then tragedy struck – Brenda was killed in a car crash, leaving Dylan to bring up two small children on his own. Dylan received a lump sum payment from his wife's insurer, which was enough to buy the family home and make sure that their children had after school child care. Brenda's term life insurance policy gave her family financial security.

completed before cover commences.

- Be aware you could be overinsured. If you have more than one superannuation fund you should check to make sure that you're not paying for more insurance cover than you need.
- Many employer or industry superannuation funds have an option for you to continue your insurance when you leave the fund, known as a 'continuation option'. This option allows you to take out an individual policy on your own life within a specified timeframe, usually 30 days, after leaving the superannuation fund.

For more information about insurance, read 'Smarter Insurance: Protect your assets and secure your future' booklet available as part of this range of publications. Freecall 1800 009 180 for a free copy.

## TIP

Are you underinsured? Underinsurance is when a person pays an insurer a premium for an insurance policy that doesn't cover the financial impact on themselves or their family in the event of accident, serious illness or death. If you are underinsured you and your family may find yourselves in financial difficulty. Not having insurance or enough insurance can erode your savings and investments, deplete your assets or result in a financial crisis. Taking the time to make sure you have adequate insurance means that you're not taken by surprise – at a time when you don't need any more stress in your life.

# RETIREMENT OPTIONS

You've worked hard for many years and are looking forward to your retirement. The idea of never working again might really appeal to you. You might be planning to retire early and pursue your post-career dreams. Or perhaps you want to continue working later in life and just adjust your life-work balance. The 'retire at 60' mentality has changed and people in their 60s and 70s have a lot more options available to them.

## RETIRING EARLY

By law, your superannuation generally can't be accessed until you reach your 'preservation age'. Before you decide to retire early, check whether you can access your superannuation. For more information about your 'preservation age', see page 7 of this booklet.

## TRANSITIONING TO RETIREMENT

Some people don't want to make a sudden break from working full-time to not working at all. Instead, they choose to reduce working hours and keep the stimulation, remuneration and social contact of their job while blending it with the freedom and gentler pace of semi-retirement.

The Government's 'Transition to Retirement' rules make this option more attractive. Once you have reached your 'preservation age' you can access your super and continue to work. For example, you could continue working part-time and use some of your super to supplement your income. The income stream needs to be 'non commutable', which means you can't take lump sums from it while you are still working.

## PLANNING FOR RETIREMENT

Achieving the standard of living you want in retirement isn't likely to happen by accident. Planning your finances in advance can give you a lot more flexibility and choice in retirement.

Putting in place the most appropriate plan for your retirement will be one of the most important financial decisions you'll make. If you're approaching retirement age, it's a good idea to take steps to understand your options.

While super may be a significant source of retirement income, you might also have other potential income sources, such as the age pension, and investments, such as term deposits, shares and rental properties.

Retirement planning can be quite complicated because how you structure your assets and income can have very different tax and social security implications. Clever planning could result in you having to pay less tax and also being able to access age pension entitlements.

## ACCESSING YOUR SUPER

Generally, you won't be able to access your super until you reach your 'preservation age'.

Since May 2006, you are no longer required to withdraw your super or commence an income stream once you reach a particular age. Regardless of your age or employment status, you can leave your money accumulating in your super fund in the tax advantaged environment for as long as you like.

Once you are entitled to access your super you might want to take it as a lump sum or invest in a superannuation pension or annuity to provide you with a regular income stream. Put simply, pensions are available from superannuation funds, whereas annuities are available from life insurance companies.

You might choose to:

- Access your super as a lump sum
- Roll it over to a pension or annuity product and commence a regular income stream
- Leave it accumulating in your super account
- A combination of the above.

## TIP

There could be significant benefits in 'salary sacrificing' income to super while supplementing your income with a super pension – including the potential to pay less tax and accumulate greater superannuation benefits. A financial adviser will be able to help you understand issues involved with 'transitioning to retirement' and whether it is suitable for you.

TIP

Deciding when and how you will utilise your superannuation can be quite complex, as different decisions will have different consequences including tax and social security implications. There are different income stream products available, so shop around to find the product that suits your needs. You should consult your financial adviser who can assist you with your retirement planning.

## SUPER INCOME STREAMS

Choosing to draw on your super through a pension or annuity product can provide you with tax advantages and a regular income. Earnings on assets supporting these pensions and annuities are tax exempt.

There can also be social security advantages by purchasing certain types of these products before 20 September 2007.

Prior to the new rules that commenced on 1 July 2007, there were many income stream options available, each with different features and benefits. Three of the most popular options include:

- Term allocated income streams – provide a fixed percentage of the account balance each year. Income can go up and down depending on market movements.
- Allocated income streams – allow recipients to choose how much income they receive each year between minimum and maximum limits, calculated based on the account balance. Income can go up and down depending on market movements. They provide the added flexibility of being able to make lump sum withdrawals at any time and continue until your money runs out.
- Complying guaranteed income streams – provide a guaranteed amount each year for the guaranteed period.

On 1 July 2007, one simple set of rules replaced the multiple rules for pensions, although providers have a transition period whereby they can continue to offer products based on the rules before 1 July – this is only until 19 September 2007.

Pensions that met the previous rules and were commenced before 1 July 2007 are deemed to meet the new minimum standards:

- Pre-July 2007 complying guaranteed income streams will continue to be acceptable, but the new rules accommodate more traditional guaranteed income stream products.
- Pre-July 2007 allocated pensions are allowed to transfer to new pension products from 1 July 2007 without needing to commute.

New products called 'account based income streams' commenced from 1 July 2007. These income streams must pay a minimum amount at least annually but there will be no maximum, allowing people to draw out as much as they wish, including lump sums – even the entire balance. Upon your death, the unused portion can be transferred to a dependant or cashed as a lump sum to your estate. If you commence an income stream under 'transition to retirement' conditions, a cap of 10% of the account balance will apply as the maximum payment available each year.

From 20 September 2007, the 50% assets test exemption for complying income streams will be removed for income streams commenced from 20 September 2007. Pre-20 September 2007 income streams will not be affected.

### QUALIFYING FOR THE AGE PENSION

Your income and assets need to be below a certain amount to qualify for the age pension. An important part of the retirement planning process is reviewing your financial affairs and making decisions with an understanding of how they impact on any potential social security entitlements.

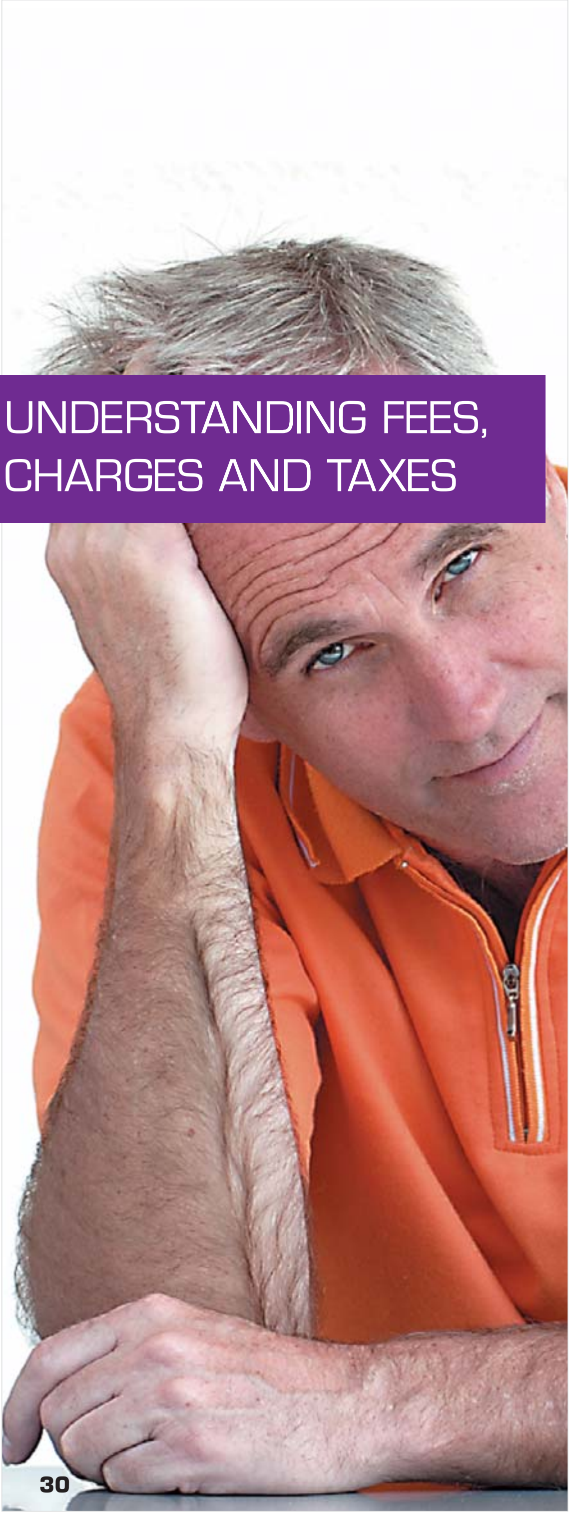
From 20 September 2007, the age pension assets taper halves so recipients only lose $1.50 per fortnight rather than $3 for every $1,000 of assets above the assets test threshold. This may result in more people becoming eligible for age pension payments and many who receive part-pensions may have their payments increased.

The income test also applies and it is the lower amount achieved under the two tests that determines whether the person receives an age pension and if so, how much. For details about qualifying for the age pension, contact Centrelink or consult a financial adviser.

## Did you know?

Significant changes to the rules governing income streams take effect in 2007 – some came into effect on 1 July 2007 and some on 20 September 2007.

For example, term allocated and complying guaranteed income streams can be 50% exempt from the age pension assets test if purchased before 20 September 2007.



# UNDERSTANDING FEES, CHARGES AND TAXES

## FEES AND CHARGES

Fees and charges have a direct impact on the amount of money you have in superannuation. It's important to take the time to understand them before investing in a super fund.

While minimising fees is important, you also need to consider what value you're getting from the fees you're paying. The lowest cost fund will not necessarily be the fund that is most appropriate for your needs. A fund with higher fees might provide you with value-added benefits which can actually help your superannuation be worth more over time. For example, some funds might provide free financial planning services, higher levels of 'automatic acceptance' insurance cover or investment options more appropriate for your needs.

Having said that, small differences in both investment performance and fees can have a substantial impact on your final superannuation balance.

To make it easier for you to understand and compare funds, super funds are required to show their fees and costs in a standard way. In the Product Disclosure Statement (PDS) for a super fund, you will find a table listing all significant fees and costs for the fund.

If you would like to find out more about the impact of fees based on your own circumstances, ASIC's FIDO website has a superannuation calculator to help you compare different fee options at www.fido.asic.gov.au.

This table will show fees such as:

<table>
<tr><th>Type of fee or cost</th><th>Charged for</th><th>Amount</th><th>How & when paid</th></tr>
<tr><td colspan="4">Fees when your money moves in or out of the fund<br>(You may also incur a buy-sell spread when your money moves in or out of the fund)</td></tr>
<tr><td>Establishment fee</td><td>This is the fee to set up your account in the fund.</td><td rowspan="4">(This column could show a dollar amount, a percentage-of-assets based fee, or Not Applicable or Nil)</td><td rowspan="4">(This column could include when the fee will be charged and where it will be deducted from)</td></tr>
<tr><td>Contribution fee</td><td>This is the fee for the initial and every subsequent investment you make to the fund (or that may be made on your behalf e.g. by an employer).</td></tr>
<tr><td>Withdrawal fee</td><td>This is the fee charged for each withdrawal you make from the fund (including any installment payments and your final payment).</td></tr>
<tr><td>Termination fee</td><td>This is the fee when you close your account with the fund.</td></tr>
<tr><td colspan="4">Management costs</td></tr>
<tr><td>Administration costs</td><td colspan="3">These are the fees and costs for operating the fund. They include administration and other fees charged by the product issuer, distribution costs and other expenses incurred in operating the fund.</td></tr>
<tr><td>Investment costs</td><td colspan="3">These are the fees and costs for investing the assets. They include fees charged by the product issuer, fees paid to external investment managers, and other expenses incurred in investing the assets (excluding transaction costs). (The amount you pay for specific investment options may be shown on another page.)</td></tr>
<tr><td colspan="4">Additional service fees</td></tr>
<tr><td>Switching fee</td><td colspan="3">This is the fee for when you switch between investment options. (You may also incur a buy-sell spread when switching between investment options.)</td></tr>
<tr><td>Adviser service fee</td><td colspan="3">This is the fee for extra advice from your adviser about your investment. (An adviser may also be paid other amounts as commission out of one or more of the fees listed above.)</td></tr>
</table>

You might also be charged premiums for your insurance cover. If not included with the above information listing, this information should be detailed elsewhere in the fund's PDS.

## TAX

While tax does apply to superannuation, it is deducted at significantly lower rates than tax on other investments.

Here's a summary of the tax advantages of superannuation:

- Lower tax on contributions: Employer (e.g. the compulsory 9% employer contributions, plus salary sacrifice and additional employer contributions) and any voluntary tax deductible contributions you make which provide you with a personal tax deduction are subject to tax going in the super fund at 15%. This is substantially less than most marginal tax rates. From 1 July 2007, most self-employed people can claim a full tax deduction for their super contributions. Contributions tax is not charged on any personal after-tax (or non-concessional) contributions.
- Tax offsets: If your spouse earns less than $13,800 (total assessable income and reportable fringe benefits) a year you may be able to make contributions into their super account and you receive a tax offset up to $540 a year. For more information on spouse contributions, see page 33 of this booklet.
- Lower tax on investment earnings: Complying super funds are taxed on their investment earnings at a lower rate than most other forms of savings. While the maximum rate of tax on super investment earnings is 15%, the actual tax rate paid by most super funds is usually much lower than this. Earnings on investments supporting a superannuation pension are tax free.
- No tax or lower tax on benefits: If you are aged 60 and over and you are eligible to access your superannuation, benefits paid from a taxed super fund will be tax-free. This applies whether you take your super as an income stream or a lump sum. If you take your super as an income stream, you will not pay tax on the payments from the income stream. If you are less than 60 years of age when you draw on your super, the tax you pay will depend on what basis your contributions were made and whether you take the money as a lump sum or income stream. If you are between 55 and 59 years of age, tax concessions can reduce the amount of tax you have to pay on income streams.

### TIP

Give your super fund your tax file number. This will help you keep track of your money and make sure you pay the lowest rate of tax on your contributions. If you don't this could significantly reduce your retirement savings and could potentially cause your insurance cover to lapse if you aren't able to top up your super account and it has insufficient funds to pay for the insurance. From 1 July 2007, if you start with a new employer and give them a tax file number declaration form, they must pass your tax file number to the super fund they deposit your money.

### SPOUSE CONTRIBUTIONS

Contributing to your spouse's super is beneficial if your spouse has a low income or is not working. You could receive a tax offset of 18% if you contribute up to $3,000 for your spouse – that could mean an extra $540 for you.

Making a contribution on behalf of your spouse helps them build their retirement savings, which is particularly relevant if they are unemployed or temporarily taking time off work.

To qualify, your spouse must be:

- Under 65 years of age, or;
- 65 to 69 years of age and have worked at least 40 hours within 30 consecutive days during the financial year.

To claim the spouse contributions tax offset, both you and your spouse need to be Australian residents for tax purposes.

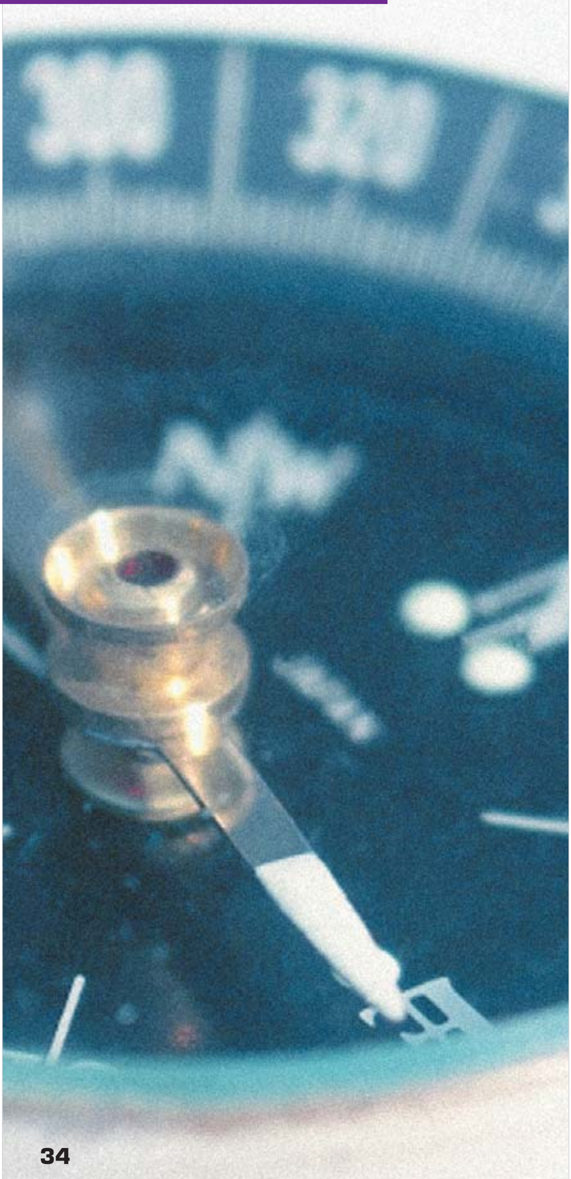
To receive the full offset, your spouse must have an assessable income and reportable fringe benefits of less than $10,800 in the financial year that you make the contribution on their behalf. To qualify for a partial offset, your spouse must have an assessable income and reportable fringe benefits between $10,800 and $13,800.

Your super fund or financial adviser can tell you how to set up an account in your spouse's name and make a contribution for them.

## Did you know?

Most employees make contributions into a taxed super fund. Some employees are in funds that don't pay tax on the contributions, including public servants and some employees of large companies. Benefits paid from untaxed funds are still subject to tax, even if you access your super after age 60 years. If you are unsure if you are in an untaxed super fund, check with your super fund.

# WHERE TO GO FOR MORE INFO



Whether you want to read more about superannuation, get advice from a financial adviser, or make a complaint, there are many sources of help available.

## EASY READS

Some useful sources of information right at your fingertips include:

www.ato.gov.au/super
For insights into key superannuation topics as well as access to the SuperSeeker facility to find lost super.

www.ato.gov.au/bettersuper or
www.simplersuper.treasury.gov.au
For information on the changes to superannuation designed to make it simpler, including changes that took effect on 1 July 2007 and those that take effect from 20 September 2007. Or call the helpline on 13 10 20.

www.superchoice.gov.au
A comprehensive guide to choice of superannuation fund.

www.understandingmoney.gov.au
For money basics and a life stages approach to understanding money. Whether you're buying a mobile phone, having children, have lost a partner, received a windfall or are about to retire, this website provides useful tips.

www.fido.asic.gov.au
ASIC's FIDO website provides 'financial tips and safety checks' and information about financial matters, including superannuation. Or call the infoline on 1300 300 630.

www.centrelink.gov.au
The Centrelink Financial Information Service provides information about government payments and information services.

www.nicri.org.au
The National Information Centre on Retirement Investments is a free, independent, confidential service, which aims to improve the level and quality of investment information provided to people with modest savings who are investing for retirement or facing redundancy.

## GETTING EXPERT ADVICE

Superannuation and retirement planning is a very important part of financial planning. It's quite a challenging area as it involves complicated rules and requires an understanding of investments, taxation and social security.

Expert advice from a professional can help you determine what your short and long-term goals are and identify appropriate strategies to meet them. By law, a licensed financial adviser must comply with legal obligations, including making sure consumers receive honest and competent advice.

For helpful hints about choosing a financial adviser, visit:

- www.fido.asic.gov.au or call the Australian Securities and Investments Commission on 1300 300 630
- www.fpa.asn.au or call the Financial Planning Association of Australia on 1800 626 393.

ASIC, in association with FPA, have published a free booklet Getting Advice: A practical guide to personal financial advice, which contains some useful information about getting professional financial advice.

## LODGING A COMPLAINT

1. If you are not satisfied with how your super fund has handled a particular issue, your first course of action should be to approach your fund. By law, all super funds must have an internal complaints system. You can ask to have the matter addressed through their formal complaints system.

2. If you are not satisfied with your super fund's response or they have not given you a response within a specified timeframe and your complaint is still not resolved, you can then contact the Superannuation Complaints Tribunal (SCT).

This independent body set up by the Federal Government to help resolve complaints can be contacted by calling 1300 780 808, visiting www.sct.gov.au, or by writing to:

The Secretariat
Superannuation Complaints Tribunal
Locked Bag 3060
GPO Melbourne VIC 3001

In addition to the SCT, you can contact the Financial Industry Complaints Service (FICS) on 1300 780 808 or via www.fics.asn.au.

For more information, read ASIC's 'You can complain' brochure available from www.fido.asic.gov.au.

# TIP

A financial adviser can also help integrate superannuation as part of a more holistic approach to financial advice. Some other areas you could consider getting financial advice on include:

- setting financial goals
- budgeting
- saving and investing
- protecting your family with insurance
- accessing Government benefits
- managing tax
- retirement planning
- managing debt
- estate planning
- planning for unforeseen events

# FREQUENTLY ASKED QUESTIONS

## HOW MUCH SUPER IS ENOUGH?

While your superannuation balance might seem like a lot of money, once you take inflation into account and consider that your money might need to last 20 or 30 years in retirement, you might be disappointed to find out how much the compulsory 9% employer contributions will provide you to live on.

Some say a target of 65–70% of a person's pre-retirement income is an appropriate retirement income target. But how much money you will need in superannuation will depend on a number of factors such as what sort of standard of living you expect in retirement, what other sources of funds you'll have to draw on, the health and accommodation expenses you will have in retirement, when you retire and how long you live, and how your money is invested and performs in retirement.

If you plan to withdraw your superannuation before you turn 60 years of age, some tax will apply so this also needs to be taken into consideration as it will lower your benefit.

A financial adviser can help you forecast what sort of superannuation you might need to meet the standard of living you expect in retirement as well as assist you with strategies to achieve this target. Obviously the longer you are in the workforce and having money contributed to super, the greater your retirement savings. And the more money you save now, the more choices and quality of life you will have in retirement.

TIP

There are many calculators on the Internet that can help you work out whether you are likely to have enough super to fund your retirement dreams. A good place to start is ASIC's retirement planner calculators available on www.fido.asic.gov.au. Many super funds also have calculators on their website. You should speak to your financial adviser about your retirement income expectations. You may need to consider making extra contributions.

## CAN YOU ACCESS YOUR SUPER BEFORE YOUR PRESERVATION AGE?

Under superannuation law, generally you are able to access your super when you reach your 'preservation age'.

There are some limited circumstances where you might be able to get access to your super before you reach your 'preservation age', including severe financial hardship, compassionate grounds, permanent incapacity or death.

There are strict controls on early access. For example, even if your fund's rules allow access on compassionate grounds, the Australian Prudential Regulation Authority must also consider your application. In addition to laws restricting early access, individual super funds have their own rules, so check with your super fund for more information.

TIP

Watch out for scams involving early release of your superannuation. Avoid dealing with anyone who asks for fees to gain access to your super before the rules allow. The Australian Securities and Investments Commission and the courts impose heavy penalties for anyone who breaks the law in this way.

## WHAT HAPPENS TO YOUR SUPER IF YOU DIE?

Funds allow you to nominate your beneficiary with a non-binding nomination. Others offer binding death benefit nominations, which generally must be renewed every three years. If your fund offers binding nominations and you have made a valid one, the fund is compelled to follow your nomination.

A non-binding nomination can't compel the fund trustee to pay your death benefits in a certain way. While it can help the trustee decide who your death benefit should be paid to, payment is at the trustee's discretion. The trustee will take into account who would be likely to rely on you financially. Generally, your death benefit – which includes any super money you are entitled to from your fund at the time of your death and any insurance payout as a result of death cover through your super fund – must be paid to your dependants or your estate. If you have no dependants and nobody administering your estate, your fund might be able to consider whether anyone else should receive the benefit. For example, next of kin or any other person with an established close relationship with you. Death benefit payments to non-dependants have to be made as a lump sum.

> # TIP
>
> Nominating your preferred beneficiary or beneficiaries is just as important as having a will. Remember most binding death nominations need to be updated every three years to remain valid. Make sure you update your nomination if your personal circumstances change. For example, you might have children or get divorced.

Under superannuation law, your spouse and children are automatically regarded as dependants. A spouse includes a legally married or de facto spouse. A child includes one born within or outside marriage, an adopted child and may include a stepchild. A dependant can also be any other person who, in the opinion of the trustee, relies on you financially at the time of your death or a person with whom you have an interdependency relationship with. An interdependency relationship is defined as two people (whether or not related by family) who:

- live together; and
- have a close personal relationship; and
- one or each of them provides the other with financial support; and
- one or each of them provides the other with domestic support and personal care.

An interdependency relationship can also exist where there is a close personal relationship between two people who don't satisfy all other criteria for interdependency because either or both of them suffer from a physical, intellectual, psychiatric or other disability.

## HOW ARE DEATH BENEFITS TAXED?

Death benefits receive favourable tax treatment depending on who receives the benefit and how it is paid.

Death benefits paid as a lump sum to your dependants are tax free. Taxation on death benefits paid as a reversionary pension to a dependent or paid as a pension to a dependant if the member dies before commencing a pension depends on the age of the primary and reversionary beneficiary.

Death benefits paid to non-dependants could be taxed. For example, a benefit paid to your children who are aged over 18 years and who are not financially dependent on you. In some cases – such as untaxed funds like money from an insurance payout – up to 30% tax could apply. This could considerably erode the amount of inheritance you can pass on.

You should speak to your super fund, tax adviser or financial adviser for information to help you put the right nomination strategy in place to suit your circumstances.

### Did you know?

A dependent for tax purposes includes your spouse (including defacto spouse) or former spouse; your children aged under 18 years; a person who is wholly or substantially financially dependent on you at the time of your death; and a person who you were in an 'interdependency relationship' at the time of your death.

## WHAT HAPPENS TO SUPER IN DIVORCES AND SEPARATIONS?

The law allows the splitting of superannuation in the event of separation or divorce. It would be treated like any other asset if a marriage breakdown occurred that ultimately led to divorce. It's up to the couple to decide how they would like to divide the funds. If no agreement can be reached, the Family Court will decide how to divide the superannuation, based on circumstances. The law does not cover separating de facto or same sex couples. In the case of this sort of relationship breakdown, these parties would rely on general state property law arrangements.

## GLOSSARY OF TERMS

Accumulation (sometimes called defined contribution) is a fund where the benefit a member receives is the total of defined contributions to the fund plus earnings on those contributions, minus tax, fees and other charges. Most new superannuation funds are accumulation funds. Members carry the investment risk.

AFSL an Australian Financial Services Licence is issued by the Australian Securities and Investments Commission (ASIC) under section 913B of the Corporations Act, which authorises a person who carries out a financial services business to provide financial services, including issuing of a financial product or giving of financial product advice.

Asset can be a physical asset, such as property, or a financial asset, such as a bank balance, a security or a certificate. There are four 'asset classes' for investment products – cash, shares, fixed interest and property.

Australian Securities and Investments Commission (ASIC) is the independent Australian government body, which enforces and regulates company and financial services laws in Australia to protect consumers, investors and creditors. ASIC reports to the Commonwealth Parliament, the Treasurer and the Parliamentary Secretary to the Treasurer.

Automatic acceptance is insurance cover that provides a basic level of cover within your super fund. This means that members don't need to provide medical details to obtain this cover.

Benefit is the amount of money in a superannuation fund or RSA which the member is entitled upon reaching preservation age and meeting certain conditions of release.

Contribution is the monies put into a superannuation fund or RSA by an employer or an individual.

Compound interest is calculated not only on the initial principal amount, but also on the accumulated interest. Compound interest is different to simple interest which is only calculated as a percentage of the principal amount. Compounding is where the value of an investment increases exponentially over time.

Defined benefit is a fund where the benefit is calculated based on a formula which takes into account the person's years of employment and salary at retirement. The employer or the sponsor of the fund carries the investment risk, not the member.

Diversification is an investment technique that spreads investments over different assets, asset classes or investment managers, in order to reduce the total risk of your investment portfolio. The rationale is that a portfolio of different investments will, on average, provide a higher return and lower risk than any individual investment within your portfolio.

Financial adviser (also called a financial planner) provides individuals with advice on suitable forms of investments, including superannuation. A licensed financial adviser is obliged under the law to act in the interests of their client when making recommendations to their client.

FSG (Financial Services Guide) is a document required by the law that is given to a retail client when they are provided a financial service by a holder of an AFSL. The document describes the financial service being given and provides details of who is giving the service.

Inflation is the increase in the prices of goods and services in the economy.

Investment is using your money to make it grow, for example, by buying property or shares.

Investment choice refers to the ability for a member of a super fund to select investment options from within the fund.

Investment manager can be an individual or a firm responsible for making decisions related to any portfolio of investments in accordance with the stated investment objectives of the fund.

Investment strategy (sometimes called an investment style) is a method of managing allocation of assets within an investment portfolio reflecting the 'risk profile' of the investor. For example, a "balanced" investment technique aims to balance the risk and return of the investment and is suitable for investors with a longer time horizon.

Personal contribution is the amount that you voluntarily contribute to your superannuation fund from your take home pay. This is in addition to the compulsory contributions your employer makes on your behalf. It is sometimes called private superannuation.

Preservation age is the age at which a member is able to access preserved benefits, so long as they meet certain conditions of release.

PDS (Product Disclosure Statement) is a document required by the law that is given to a retail client to describe the main features of a financial product being issued or sold.

RSA (Retirement Savings Account) is an alternative superannuation product which is offered by banks, building societies, credit unions, life insurance companies and prescribed financial institutions (RSA providers). RSAs are capital guaranteed.

Return is the amount of money your investment earns.

Risk is the possibility that your investment may fall in value or earn less than expected.

Risk profile is your tolerance to investment risk. Potential return rises with an increase in risk. Investments with low risk (lower levels of volatility or uncertainty) are usually associated with lower returns, whereas investments with higher risk are associated with potentially higher returns.

Salary sacrifice is an arrangement between an employer and their employee where the employee sacrifices pre-tax salary or wages into their superannuation fund. Sacrificed contributions are subject to 15% tax in the fund.

SOA (Statement of Advice) is a document required by the law that is given to a retail client when they are given personal financial advice by a holder of an AFSL or their representative.

Superannuation is an investment which operates by putting aside money during your working life so you have a payment or income stream upon retirement. Superannuation funds that meet prescribed Government standards are eligible for tax concessions.

Superannuation Complaints Tribunal (SCT) is an independent tribunal set up by the Commonwealth Government to deal with complaints about superannuation funds, annuities and deferred annuities and RSAs. For more information, visit www.sct.gov.au.

Superannuation Guarantee (SG) is the minimum amount that an employer is required to contribute to superannuation on behalf of its employees. Generally, employees have 9% of their salary or wages contributed to a super fund by their employer.

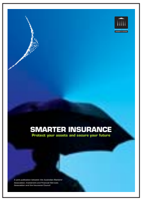
Trustee is a person/company appointed under the terms of the trust deed to make sure that the plan is operated in accordance with the trust deed and in the interest of the beneficiaries, for example, superannuation trustee. Superannuation trustees owe their beneficiaries a fiduciary duty.

Volatility is the relative rate at which the price of an investment moves up or down. If the price of an investment moves up and down rapidly, it is said to have high volatility. Conversely, if the price of the investment never or rarely changes, it is said to have low volatility.

## How to order this booklet

This booklet has been prepared by the Australian Bankers' Association (ABA), Financial Planning Association of Australia (FPA) and Investment & Financial Services Association (IFSA). If you would like to obtain additional copies, please contact the ABA or FPA.

## Other booklets in the ABA's financial literacy booklet series

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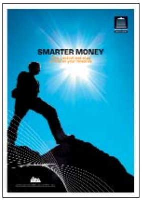


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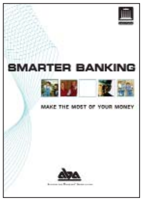


**SMARTER BANKING**
Make the most of your money

## How to order other booklets

The Australian Bankers' Association (ABA) has prepared a number of other financial literacy booklets. If you would like to obtain copies, please contact the ABA.

**Australian Bankers' Association**

The ABA is an industry association that represents Australia's banks. The banking industry is committed to helping Australians better understand financial services to make more informed choices when it comes to managing money and every day finances.

The ABA website has a Financial Literacy Info Centre which provides information on managing your money, ways of banking, banking products and services, and protecting your money and banking information.

CONTACT US

Level 3, 56 Pitt Street
Sydney NSW 2000
**Freecall:** 1800 009 180
**Email:** reception@bankers.asn.au
**Website:** http://www.bankers.asn.au

**Investment & Financial Services Association**

IFSA represents the retail and wholesale superannuation, funds management and life insurance industries. IFSA has over 140 members who are responsible for investing over $1 trillion on behalf of more than ten million Australians. Members' compliance with IFSA Standards and Guidance Notes ensures the promotion of industry best practice.

The IFSA website has a Consumer Information and Fact Sheet section which provides information on investment funds, fees, superannuation and insurance.

CONTACT US

Level 24, 44 Market Street
Sydney NSW 2000
**Tel:** (02) 9299 3022
**Email:** ifsa@ifsa.com.au
**Website:** http://www.ifsa.com.au

**Financial Planning Association of Australia**

The Financial Planning Association of Australia (FPA) is the peak professional body for financial planning in Australia, representing approximately 12,000 individuals and businesses. The FPA and its members strive to improve the financial wellbeing of all Australians. The FPA provides the leadership and professional framework that enable members to deliver quality financial advice to their clients. FPA members include financial planners from a variety of backgrounds and disciplines, including over 5,500 CERTIFIED FINANCIAL PLANNER™ professionals – the 'gold standard' in financial planning. All FPA practitioner members are bound by a code of ethics, high professional standards and must meet continuing professional education requirements.

The FPA consumer website www.goodadvice.com.au provides key facts on financial planning and the value of advice.

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