Thinking ahead: super tips

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In most cases, our first paycheck kicks off our accumulation of super, but often people don't pay that much attention to their super until much later.

Super may not be the first thing you think of each day but how much you have saved when you retire will make the difference to how you live in retirement – will it be holidaying in Australia in a caravan park or abroad in some exotic resort!

Figuring out how much you need for your retirement is not a simple calculation, particularly at an early age. It will depend on a diverse range of factors such as your anticipated lifestyle, personal circumstances, whether you retire with debt and what medical costs may be required.

According to ASIC's Moneysmart retirement planner, a home-owner couple retiring today at age 65 and living to 86, need around $570,000 in superannuation (and other savings) to generate the current ASFA 'comfortable' living annual income of approximately $58,000. A single person would require a lump sum of around $480,000.

In summary think ahead – when your pay check stops being received because you have retired, how will you replace it?

Key issues 20-30 years old

Unfortunately many younger people don't see super as a priority as they perceive their retirement is too far away. The potential sting in the tail is that when you're older, it may be too late to boost your super. Here's some tips to increase your financial comfort in later years.

Consolidate your super

On average Australians have balances with three or more super funds. Consolidating your super can reduce fees and makes it easier to keep track of your super. The Australian Taxation Office's SuperSeeker website can help you view all of your super accounts, find lost super, and/or transfer your super to your preferred super fund.

It's worth having a look. You could be one of the six million lost and ATO-held accounts with a total value of just under $17 billion!

Tip *If you move address let your super fund know; failing to do so is the single biggest reason why super gets 'lost'.*

Starting extra contributions early

One of the most significant factors in how much you save is time. The longer you are invested in the market, the more your savings will grow over that longer timeframe. This is referred to as compound interest, meaning that the earlier you start contributing to super, the more you will save over time. For example, investing $2,000 a year for 35 years is likely to result in higher savings than investing $5,000 a year for 20 years. And the key reason is the positive effect of compound interest.

It should be noted that there are limits on the amount of contributions you can pay into super. For example since 1 July 2014, individuals up to age 50 can contribute up to $30,000 of concessional contributions (being superannuation guarantee, salary sacrifice and/or personal tax deductible contributions). For people over age 50, the same limit is $35,000.

Tip *Every time you get a pay rise increase your super savings. For example if you get a 3% pay rise, take 2% as extra salary and increase your super contributions by 1%.*

Key issues 30 - 40 years old

If you decide not to focus much of your attention on your super in your younger years, when you are 30-40 years this is the time to get focused.

For many this is the decade when people buy their first home,

get married and/or have kids, so putting more money into super may seem like a big ask. It's quite likely that you will now have debts, such as a mortgage, and your lifestyle depends on a stable income.

Once again, even small additional amounts paid into super can make a big difference over the longer term.

You're also young enough to invest your super into more growth oriented investments (e.g. shares or property) that have offered a higher return over the longer term, albeit that they may experience short-term periods of higher volatility. If you retire at age 65, you are still likely to have at least twenty years to ride out these short-term periods of volatility.

Home loan vs super

Australians do have a love affair with real estate and home ownership is high compared to many other countries. While owning our own home is a top priority for many of us, there are significant tax concessions afforded to super making it one of the most effective ways to build wealth for retirement. Super also helps you diversify your savings across a more diverse range of asset classes, compared to property with the family home.

It is important to keep in mind that to use your home to fund retirement you would need to sell it or to purchase a financial product such as a reverse mortgage.

Tip *While purchasing and paying off your home is certainly an important objective, it is equally important to plan and prepare for retirement life by building wealth outside the family home.*

Insurance and beneficiaries

Most people would not ever forget to insure their cars and home and contents, but many forget about insuring their and their family's financial security from not being able to work due to illness, injury or even death.

You should consider whether your insurance is sufficient for your particular needs. If your circumstances change (e.g. new dependants or more debt) it might be worth thinking about whether you should increase your insurance. Your annual super statement will tell you whether you have insurance.

Most super funds offer life and total and permanent disablement insurance that can be tailored to meet the varying needs of members.

Tip *Have you made a beneficiary nomination for your super account? You are able to advise your super fund of the beneficiary(ies) to whom you want your super and any insurance paid upon death.*

Direct investing

A growing number of super funds offer a direct investment option which gives members more control over how their super is invested.

For example, with legalsuper's direct investment option ('DIO') members can invest a proportion of their super in their choice of shares/securities in the S&P/ASX300 Index, a range of listed investment companies, exchange traded funds and term deposits.

For some members, investing in the DIO will be more attractive than setting up a self-managed super fund thereby avoiding additional costs and compliance obligations.

Tip *Don't worry if direct investing is not for you. In fact for most people it's not. Instead your super fund will likely provide a number of other investment options in which the super fund will do the managing for you.*

Choosing the right investment option

Making an investment choice that best meets your needs starts with awareness and engagement. However, on average around 80% of Australians are invested in a default investment option. The default investment option is where your super is invested if you have not made your own choice. It is an investment option designed by your super fund to be suitable for most members. Most default investment options are based on a 'Balanced' asset allocation. SuperRatings categorises a 'Balanced' investment option as one that is comprised between 60% and 76% growth assets (i.e. shares and property) and between 24% and 40% in defensive assets (i.e. cash and fixed interest).

Generally, growth assets are expected to out-perform defensive assets over the long-term, however their return will also be subject to higher variability or volatility.

Your investment needs will change over time so it is wise to periodically check that your super fund is performing to meet your particular needs and that the investment option in which you are invested remains appropriate for your long term retirement needs.

For example, if you are 30 years old and you are likely to be working for many years before you retire, an investment option with more risk (e.g. one invested more in growth assets) is expected to generate higher returns over longer time-periods and may be suitable. However, if you are nearing retirement your focus is more likely to be on protecting your accumulated savings from fluctuations in the market. In this case, you may prefer to choose an investment option that includes a higher allocation to defensive assets.

Tip *Be aware of the investment options your super fund provides. Remember that you are likely to be working for about 40 years, with perhaps a similar period of time in retirement. Therefore the way your super is invested will very significantly influence how much your super grows.*

Salary sacrifice

One very tax effective way for employees to make additional contributions is through salary sacrificing, whereby the government allows you to 'sacrifice' part of your salary (such that it is not subject to tax in your hands) and have it instead paid directly into super where, for most people, it is taxed at the concessional rate of 15%.

Depending on your personal circumstances, saving through super can be more tax effective than saving the same amount outside super. Contributing from your gross (pre-tax) salary or 'salary-sacrificing' can be an easy and tax effective way to accumulate retirement wealth.

You pay income tax only on income you actually receive, so you do not pay income tax on income that you decide to salary sacrifice into super. For example every dollar you earn between $37,001 and $80,000 is taxed at 32.5%. However, every dollar in the same income range salary sacrificed into your super account is taxed at just 15%. That means every $100 in gross income equates to $67.50 in your pocket or $85 in super.

If you are self-employed then you can benefit from the same tax advantages by making personal contributions that are tax-deductible.

Even a relatively small amount per month can still have a significant impact on the long term retirement savings you accumulate. For example, the cost of a pair of shoes (say $160) per month can add an extra $225,000 to your retirement savings[1].

If you decide to increase your contributions, be sure to check that you do not exceed the superannuation contribution cap.

Tip *In the $100 example above, the $85 invested in super is 24% higher than the $67.50 that instead would have been paid into the person's pocket. So when considering whether to start salary sacrifice contributions, remember there are not too many investments earning an automatic 24% return!*

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Formed over 25 years ago, legalsuper now manages in excess of $2.5 billion on behalf of Judges, Barristers, Lawyers, Conveyancers and the support staff and management at legal practices across Australia.

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Conclusion

This article sets out a number of areas you can further explore about your super. Most super funds' website will provide a range of online calculations and tools to help you engage with your super and evaluate your progress with accumulating wealth. I would encourage you to access these tools on a periodic basis. Why not once quarter go to your super fund's website and use the various tools or if it's is easier, just give your fund a call, that's why you pay fees!

Better still – Law Society members can liaise directly with experienced legalsuper representative Colin Kerr. You can email Colin at **ckerr@legalsuper.com.au.**

(Endnotes)

1. Based on a 30 year old woman investigating this monthly amount into a moderate fund and assuming 5% growth over 35 years.