

# How much super is enough?

Have you ever thought about what level of income you would like when you retire? Do you know how much super you need to provide that income? What are the chances your employer will provide enough? Should you contribute more now?

Whilst Australian employers are required by law to contribute 9% of each employee's salary to superannuation, will this be enough to live off in retirement? Just how much super do you need to retire and should you be contributing more now? The answer is going to be different according to each person's circumstances and will depend on your:

- ⊗ desired retirement age
- ⊗ desired retirement income and
- ⊗ current superannuation balance.

Whilst Future Wealth Planners have software to analyse current assets and provide estimates of how much income is needed, here is an example that may assist you when looking at your own retirement situation.

Helen is 41 years old and currently earns \$62,000 per annum. She'd like to retire at age 62 with an annual income of \$30,000 (in today's dollars.) She currently has \$56,500 in a superannuation fund, but will her compulsory contributions be enough? Helen's life expectancy at the age of 62 is a further 23.71 years. To generate an annual income of \$30,000 (after tax and in today's dollars) by drawing the minimum legislated amount from an allocated pension that will last to her until her statistical life expectancy of 85.7 years and beyond, Helen will need superannuation assets of around \$953,000 from her retirement at age 62. However, assuming standard employer contributions of 9%, Helen's superannuation will have grown to just \$591,000 by her desired retirement age of 62.

Scenario	Helen
Current age	41
Current income	\$62 000 p.a.
Desired retirement age	62
Desired retirement income (after tax)	\$30,000 pa (in today's dollars)
Desired retirement income (after tax)	\$50,500 pa (in future dollars)

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Scenario	Helen
Super balance on retirement	\$591,000
Balanced required	\$953,000
Shortfall	\$362,000

### How to make up the shortfall

Helen will need to save more than just her employer contributions in order to reach her retirement goals. She can do this by investing in her superannuation or just plain investing (e.g. managed fund). If Helen chose to salary sacrifice \$6,800 pa (or \$568.33 per month) into her superannuation each year, she should be able to make up the shortfall and reach her goal (a retirement income of \$30,000 pa). By comparison, if she were to invest the same amount (after allowing for tax) in a no superannuation investment, she would still fall a long way short of her goal. In fact, Helen would need to save a further \$114,000 outside of the super system to achieve the same result; the reason for the difference is the lower amount of tax payable on superannuation earnings.





Investment Type	Non-super	Super
Savings amount pa	\$4,672	\$6,800
Investment return pa	8.2%	8.2%
Tax on income	31.5%*	15%**
After tax investment return pa	5.617%	6.97%
Additional savings at retirement	\$202,000	\$316,000

\* Marginal rate of tax including Medicare Levy

\*\* Super fund tax rate

#### Ways to make more contributions to super

**Undeducted contributions:** By adding after tax amounts to your existing superannuation fund right now, you benefit by paying only 15% tax on the earnings of that investment. Alternatively, you can make regular contributions – that is fortnightly, monthly or quarterly – from your bank account.

**Government Co-contributions:** The government has introduced a scheme in which lower to middle income earners who make personal contributions to superannuation could receive the benefit of a government co-contribution into their superannuation account. The government has increased the co-contribution from \$1 to \$1.50 for every \$1 of personal contributions an eligible person makes to their superannuation fund.

The maximum government co-contribution of \$1,500 will be available to all employees with incomes below \$28,000 pa who make personal contributions. Above this amount, the maximum co-contribution will reduce by five cents for each dollar of income to phase out completely at an income of \$58,000 pa and above.

**Spouse contributions:** There is no limit to the amount you can contribute to super on behalf of your spouse and there are some special incentives for those with a low income earning spouse. If your spouse earns less than \$13,800 pa you are eligible to receive a cash rebate of up to \$540 (18%) on the first \$3,000 contribution you make on your spouse's behalf.

**Salary sacrifice:** Salary sacrificing allows you to redirect part of your pre-tax salary, or in this case, your extra income, into superannuation instead of paying personal income tax rates. Salary sacrificing remains one of the most tax effective ways to save for your retirement as did Helen to achieve her retirement goals.

**Self-employed?:** One of the disadvantages of being self-employed is not having your employer put contributions into superannuation, and so you have to be responsible for looking after your own retirement. As a result, self-employed people can claim a tax deduction for their own superannuation contributions.

If you are self-employed, you can claim a full deduction for the first \$5,000 and then 75% of all contributions above \$5,000 up to your prescribed limited as set out below. Beyond these amounts, contributions can still be made, however no tax deduction is available.

The Maximum Deductible Contribution (MDC) prescribed age based limit for 2005/06 is set out in the table below:

Age in years	MDC limit	Personal contribution required to get MDC
Under age 35	\$14,603	\$17,804
Age 35-49	\$40,560	\$52,413
Age 50 +	\$100,587	\$132,449