Money Mechanics

Strategic Financial Advice

Understanding Superannuation

Create Wealth through Understanding

www.moneymechanics.com.au

About Us

Scott Malcolm is director and principal consultant of Money Mechanics, a specialist Financial Life Planning firm in the areas of Superannuation, Wealth Creation and Education services.

Our life planning process brings together technical expertise and the human touch to create a solution tailored towards your overall life goals. We choose to not take upfront or ongoing commission on financial products, to provide our clients with a clear fixed fee for advice structure that isn't tied to any product providers.

Money Mechanics believes in the value of education and financial literacy. There is an array of jargon in the financial world and we aim to demystify this through conducting regular education programs.

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Notice: While we have checked everything within this booklet, no person should rely on the contents without first making their own inquiries or obtaining advice from a qualified person regarding their personal circumstances

The Financial Planning Process

The following diagram represents the financial planning process and should be viewed as a fluid approach as things change in your life.

The following areas are explored when you look at your financial planning needs including:

Your Goals for Life – The who, what, where and when? The why's are your values.

Your Cash Matters – What you earn and where it goes. Without surplus resources, you cannot successfully invest.

The next areas may have financial product consequences, your product strategy will depend on what you are trying to achieve, your age, and knowledge and understanding of investments. What may seem a risk to one person is an opportunity to another.

Your Wealth Creation Structures and Strategy – These include PAYG, Salary Sacrifice, Company, Family Trust, Partnership, Borrowed Funds.

Your Superannuation – Your ability to sustain a lifestyle without the need to work – defined benefits, accumulation, self managed super and retail or industry super funds can be a product solution.

Your Back Up Plan – These are your estate planning and protection strategies such as insurance, wills, power of attorney and testamentary trusts which can be product solutions.

What is Superannuation?

Definition*:*

Superannuation is a taxation strategy to provide a long term or lifetime retirement investment solution. For most Australians, superannuation combined with the family home, makes up the largest part of their assets. Yet, how much time do we spend researching the purchase of our home compared to that of investment in superannuation?

If you haven't spent time getting to know your Super, and understanding your benefits so you can enjoy retirement with peace of mind.

Note, your superannuation is a separate trust and sits outside of your estate plan and wills so you need to ensure you have your benefit nominations in place.

Some questions to think about when it comes to your current superannuation arrangements:

- What do you know about your current super?
- How is it invested?
- Do you know how much superannuation you need to fund your retirement?
- Do you know how tax works in superannuation and how to work with this?

Some golden rules:

1. Understand the fund you are in – Investments, Fees, and benefit options.
2. Be realistic about your retirement lifestyle requirements. What do you need to 'be comfortable'?
3. Your spending habits will change in retirement as you have more 'time'. Make sure you plan for this.
4. Don't leave your superannuation planning too late.

Taxation Around Superannuation

Superannuation is a taxation strategy and set of legislation, the most adjusted and changed legislation in Australia. There are three main areas where tax is charged on your superannuation.

1. Contributions (money going in)

Concessional (taxable) generally a received taxation benefit outside of the fund. (eg Salary sacrificed, employer, super guarantee contributions (SGC).

Maximum limit on these is $25,000 per annum (under 50) and there is a $50,000 limit for those over age 50 after 2012 as long as super balance is under $500,000.

These are taxed at 15% on the way in.

Non-Concessional (tax free) are generally paid from after tax money. (eg personal contributions including government defined benefit employee contribution).

Maximum limit on these is $150,000 per annum, individuals under age 65 can bring forward 2 years worth of contributions to make a total of $450,000 for 3 year period.

These are taxed at 0% on the way in.

Acceptance of Contributions

< 65 No restrictions apply
65 – 74 At time of contribution must have worked at least 40 hours within 30 consecutive days.
<75 Only mandated employer contributions allowed.
Spouse – receiving spouse is <65 or aged between 65 and 69 and meets the work test discussed above.

2. Tax while in Super

a) For accumulation Phase a 15% tax rate applies
b) For Pension Phase a 0% tax rate applies

*1 July 2017 Transition To Retirement (TTR) no longer tax free earnings on assets funding this strategy and Transfer Balance Cap of $1.6M Applies ($1.7M from 1 July 2021)

3. Tax on Benefit Payments

Tax payable based on the age of the recipient of the benefit. The type of benefit is either lump sum or income payments and the **taxable** and **tax-free** components within the fund.

a) Lump Sum

> 60 taxed element is tax free (0%) untaxed element 15% (up to $1,045,000 cap).

Between Preservation Age and 60 taxed element is tax free up to $145,000 (2008 AWOTE indexed) lump sum limit and 15% on balance over this limit. Untaxed is taxed at 15% up to $145,000 limit and 30% up to $1,045,000 cap).

Under Preservation Age taxed element is taxed at 20% and untaxed is taxed at 30% up to $145,000 (2008 AWOTE indexed) lump sum limit.

b) Income Payments

> 60 tax free
Under 60 dependant on the % **taxable** and **tax free** components. In basic terms tax free is not taxed and taxable is added to marginal tax rates.

Preservation Ages
Before 1 July 1960 – 55 Years
1 July 1960 – 30 June 1961 – 56 Years
1 July 1961 – 30 June 1962 – 57 Years
1 July 1962 – 30 June 1963 – 58 Years
1 July 1963 – 30 June 1964 – 59 Years
On or after 1 July 1964 – 60 Years

Recap on why you Invest?

Before starting any investment, you should look at the context as to why you are investing. There are several types of investments and ways to invest that can provide you with a financial return over time. It is important to understand why you are investing before you enter an investment market or product.

Most people invest for the desire to become more financially secure. This is where some people succeed. You should define what financial security means to you before you start the investment process.

We use the following five-step process to develop investment strategies for clients:

1. **Clarify your motivators and goals for life.** Break these goals into three buckets:
    a. Short Term (0 - 2 years)
    b. Medium Term (2 – 5 years)
    c. Long Term (5 – 7 years Plus)

2. **Understand yourself**
    a. Your risk tolerance and any obstacles
    b. Your habits and attitudes around money
    c. Your ethics and morals around investment
    d. How much you are willing to lose and want to gain
    e. Do you need advice, or do you want to D-I-Y?

3. **What tax strategy and whose name to invest in?**
    a. Superannuation
    b. Company Structure
    c. Trusts
    d. PAYG – Joint tenants / tenants in common
    e. Use of Other People's Money / Gearing

4. **Investment Product Selection**
    a. What is the current state of the market?
    b. Research the Investment Product
    c. What is your stop loss strategy?
    d. What is your target price / exit strategy?

5. **Regular review process in place**

What types of superannuation accounts have you heard of before in the media, advertising, Internet, the ones that you have memberships in?

Types of Superannuation

There are generally four types of superannuation funds in Australia. These include Industry Funds, Defined Benefit Funds, Retail Super Funds (or what I call semi managed super funds) and Self-Managed Super Funds (SMSF).

1. Industry Funds

These are usually funds that were created by employers and trade unions for the benefits of their members. Usually, the fund is for a particular industry such as the Australian Government Employees Superannuation Trust (AGEST) and Motor Traders Association of Australia Super (MTAA). Most of these funds are now public offer funds, so can accept contributions and member applications from people in all sectors. Usually, the fees in these schemes are low and the investment options are limited to only a few (10 – 15 choices).

2. Defined Benefit Funds

Your retirement benefit in a defined benefit fund is calculated by a formula rather than a return on an investment. Most defined benefit funds fall into two categories:

a) Public Sector Superannuation Schemes

These are usually restricted to government employees and some older company funds such as BHP, Commonwealth Bank and Qantas.

b) Corporate Superannuation Funds

Usually, the older corporate super funds have defined benefit members. The more modern ones are accumulation funds

3. Retail Super Funds (Semi Managed Super Funds)

Usually, these are funds offered by life insurance companies, banks and investment managers. These often have a large menu of investment options, some with 300+ investment options but for this added choice you often pay additional fees.

I call these semi managed funds as you have the benefit of managing the fund investment strategy without having to be a trustee for the fund.

4. Self-Managed Superannuation Funds

If it's a fund with four or less members and are often called 'do-it-yourself' super schemes. These types of funds allow you to be the trustee of the fund that means you are responsible for meeting the trustee obligations and have direct control over the investment choices. Self-managed superannuation funds also add a further layer of strategy options with regards to estate planning, reserving, and borrowing to invest within the fund. Additional information can be found from the Australian Taxation Office (www.ato.gov.au).

As a general rule of thumb, you should have a minimum of $150,000 in superannuation before looking at this as an option based on the fixed accounting and audit costs. They can be suitable for people with less than this in their super fund if there is a large insurance benefit in place.

Trustee Structure for a Self-Managed Super Fund

A self-managed superannuation fund (SMSF) can either have a corporate trustee or individual trustees.

A SMSF can have up to four members, and generally speaking, the members must be the same as the individual trustees (or the same as the directors of a corporate trustee).

For administration ease, succession and estate planning we generally recommend that a SMSF have a corporate trustee, rather than individual trustees. The major disadvantage of a corporate trustee is the up-front and ongoing costs of establishing the company that are paid to ASIC. However, the strategic flexibility and benefits for longer term administration, estate and succession planning outweigh the costs.

To summarise the differences between each type of trusteeship we have prepared the following:

Corporate Trustee	Individual Trustees
Succession Planning A company cannot die. Therefore, a corporate trustee can make control of an SMSF more certain in the circumstances of the death or incapacity of a member.	**Succession Planning** If the SMSF has individual trustees, then timely action must be taken upon the death of a member to ensure the trustee/member rules are satisfied.
Change of Membership When members are admitted to, or cease, membership of the SMSF, all that is required is that the person becomes, or ceases to be, a director of the corporate trustee. The corporate trustee does not change as a result. Therefore, title to all the assets of the SMSF remains in the name of the corporate trustee.	**Change of Membership** To introduce a new member to a SMSF with individual trustees requires that person to become a trustee. As trust assets must be held in the names of the trustees, this will require the title to all assets to be transferred to the new trustees when a member is admitted to or exits the fund.

Lump sums and pensions	Pension Power
A SMSF with a corporate trustee can pay benefits either as pensions or as lump sums.	The SMSF and SIS rules require that pensions be paid by an individual trustees super fund. A lump sum can only be paid by commuting the pension that requires added paperwork.
Sole member fund You can have a SMSF where one individual is both the sole member and the sole director.	**Sole member fund** A sole member SMSF must have two individual trustees.
Asset protection As companies are subject to limited liability, a corporate trustee will provide greater protection.	**Asset protection** If an individual trustee suffers any liability, the trustee's personal assets may be exposed.
Estate planning A corporate trustee ensures greater flexibility for estate planning, as the trustee does not change as a result of the death of a member.	**Estate Planning** The death of a member requires a change of trustee, and this gives rise to considerable administrative work and costs at an inopportune time.

Be aware that the trustee can be changed at any time throughout the life of the SMSF however this can be a process that requires additional administration.

Reserve Accounts in Self-Managed Super Funds

Reserves have always been strong strategic devices for Self-Managed Super Funds (SMSF). In the past they have been used to minimise the impact of the superannuation surcharge and manage reasonable benefit limits (RBLs) in one way or another. With RBLs now abolished, much of the strategic reasoning behind traditional SMSF reserving has faded into obsolescence. However, all is not lost with reserves – Simpler Super brings reserves specifically into play in a SMSF.

The superannuation laws authorise the trustee to establish one or more reserve accounts for the fund. A reserve in a SMSF is simply an amount or an asset or assets in the fund to which no member is presently entitled. In old superannuation talk, it was an amount that was not vested in any member account until the happening of a specific event. Say the member is turning the age of 65, retiring, becoming permanently incapacitated or commonly, on the death of a member. In modern day SMSF, the trustee of a fund may create a surplus, out of the earnings of a fund and allocate it to a reserve.

When a specific event happens, the trustee may allocate from a reserve to a member account or to a member’s dependent beneficiaries.

Examples of some reserve accounts that may be created under the Superannuation Laws include:

- **A Pension Reserve** – where current superannuation pension liabilities such as a guarantee to pay an agreed rate of return on a pension may be met.
- **An Anti-Detriment Reserve** - where a bonus or additional payment is made directly from the fund to a dependant of a deceased member or the deceased member's legal estate to compensate the deceased member's estate for any contributions tax paid by the deceased member.
- **A General Reserve** – where the trustee can allocate earnings of the fund - from this reserve the trustee can populate other reserve accounts or make member superannuation benefit payments.
- **A Self-Insurance Reserve** – where the trustee can fund temporary and permanent incapacity payments to members as well as death benefit payments to dependents and/or the legal estate of deceased members.
- **An Expense Reserve Account** – where the trustee can use the reserve account to fund general and specific expenses of the fund.
- **An In-House Assets Reserve Account** - where the trustee can use the funds to lend to members, related parties, acquire artwork, and any other activity that would be classified as an in-house asset and allows the trustee to monitor the 5% threshold; and
- **A Contributions Reserve Account** – for short term warehousing of contributions for a term no greater than 28 days after the end of the month in which the contribution was made.

The Importance of the Trustee Deed

As the Trustee Deed documents the rules of the fund and how the fund can operate it is important to ensure that your Trust Deed has capacity to allow for reserving strategies. If your deed does not have clauses to enact a reserving strategy it can be updated to achieve this strategic outcome.

A Case Study – The Power of SMSF Reserves

The Smith Family SMSF has two members – George and Janet Smith with George's member's balance sitting at $500,000 and Janet's - $450,000. In the last income year, the trustee earned $50,000 on its investments. Normally the trustee of the fund allocates these earnings to George and Janet's member's account on a fair and reasonable basis.

However, this year the trustee has decided to implement a reserving policy in the fund. Instead of allocating earnings to fund members, the trustee instead decides to allocate the $50,000 to an anti-detriment reserve in the fund.

Having done the sums, the trustee determines that the current 'anti-detriment' benefit payable to George's dependents to compensate them for the trustee paying taxes on contributions made on behalf of George is $75,000.

This amount may be built up for a number of years from earnings of the fund set aside or come from an insurance policy payout that could create this reserve on the death of a member.

If George dies suddenly and the fund has the capacity to pay the $75,000 'anti-detriment' benefit from the reserve, then the trustee of the fund will be entitled to a tax deduction.

This deduction is calculated as follows = $75,000 / SMSF tax rate (0.15) = $500,000

This tax deduction can be used to offset any current capital gains, assessable income as well as future capital gains, assessable income and contributions tax of the fund - a great strategic tax initiative for the remaining members of the fund including his spouse Janet and any children that may join the fund before or after George's death.
Investment reserves can be used to smooth annual returns of a fund to maintain some consistency in volatile markets. These types of strategies require a collaborative approach with a need for advice from all your qualified advisers.

Borrowing to Invest within Super

Recent changes to superannuation legislation now allow self-managed superannuation funds (SMSF) to borrow funds to acquire residential and or commercial property to support and enhance their investment strategies.

How does it work?

Your SMSF borrows funds to acquire residential and / or commercial property and a separate trust is established to hold legal ownership of the property on behalf of your SMSF.

The SMSF takes out the loan (this may require a personal guarantee from the Trustees by the Lender) and uses cash to pay the deposit and meet legal costs and stamp duty. The SMSF then manages the property in the same way as you would any other real estate investment.

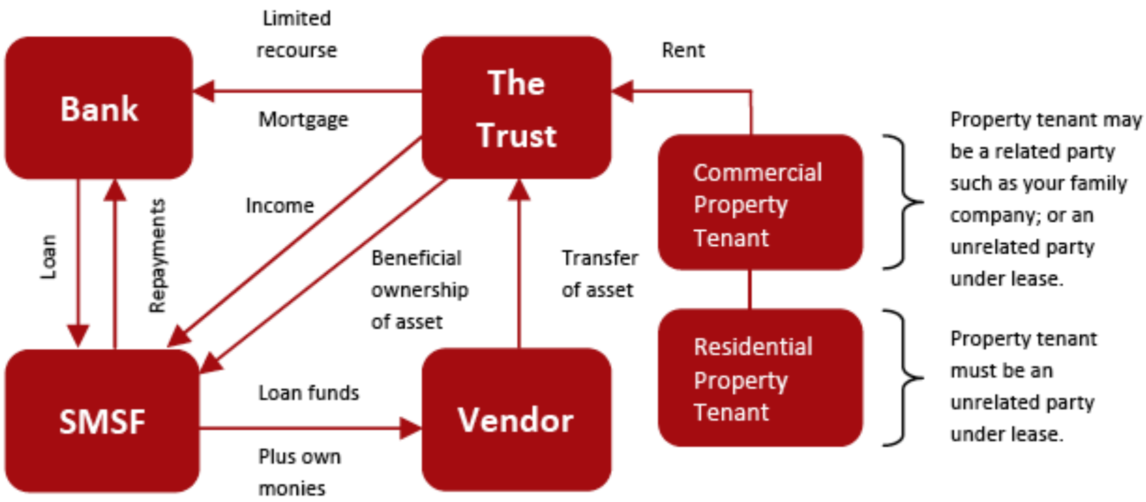
The loan is a limited recourse loan, and the property is used as security. In the event of a loan default, the lender only has recourse to the property in question. They cannot claim any other assets of the SMSF.

The property is leased from the SMSF on commercial terms. Lease payments and other income enable the SMSF to meet the loan repayments and expenses associated with the property.

When the loan is repaid, legal ownership of the property can be transferred from the trust to your SMSF.

How is it Structured?

The bank may require a personal guarantee from the Trustees of the Superannuation Fund to enact the loan agreement and provide the limited recourse borrowings.



What are the benefits?

- **Accelerate wealth accumulation** – use leveraging to enhance to reduce the cost of the money and enhance the returns within your fund.
- **Asset diversification** – diversify your SMSF investments through the acquisition of property.
- **Negative gearing benefits / reduced contributions tax within the fund** – the trust can offset loan interest and expenses against rental income this can result in contributions tax offsets.
- **Income tax benefits** – concessional tax rate apply for income after expenses (15% for member accounts in accumulation phase).
- **Limited recourse borrowings** – lender only has recourse to the property and not any other assets within the SMSF.
- **Reduction of Capital Gains with the SMSF** – the capital gains on the property can be reduced to 10% if held for more than 12 months and the fund is in accumulation phase. If the fund is in the pension phase this could be reduced to 0% tax.

What are the risks?

There are several risks associated with investment and some specifically linked to property investment. Some of these risks can be mitigated or managed through insurance or risk management strategy. A number of risks to consider are:

- **Leveraging Risk** – With any borrowing strategy there is the risk of the asset going down in value.
- **Interest Rate Risk** – Interest rates move up and down overtime and are dependent on several factors such as inflation rate, reserve bank rate and the rate which the banks charge to consumers.
- **Property becoming vacant or being damaged** – You should review your needs for general insurances to protect the asset.

Is this strategy for you?

If you are considering borrowing money to invest in property you should also consider:

- **Is an SMSF a suitable structure for you?** Consider if you have the time, skills and or ability and desire to pay for professional advice.
- **Is property investment a suitable strategy and does it fit with the investment strategy of the fund?** You also need to consider if this offers sufficient diversification.
- **Is the purpose of the SMSF and its investments strictly for retirement benefits only?** It is important to know that the use of assets owned by a SMSF for personal use including real property is against the superannuation laws unless it is business real property (BRP).
- **Timeframe –** are you willing to invest for a medium to long term time frame 5 years plus.

How to work out the right structure for you?

There are several superannuation structures with the three main choices investors have with regards to these are detailed below and as an investor **you need to be comfortable with the benefits and limitations of the structure you are in.**

Industry Superannuation Fund	Semi Managed (Retail) Superannuation Fund	Self-Managed Superannuation Fund
Trusteeship The Trustee is the industry fund provider who acts to protect the interest for the superannuation fund members.	**Trusteeship** The Trustee is the Master fund or WRAP account provider who acts to protect the interest for all the super fund members.	**Trusteeship** You act in the capacity of trustee and must ensure annual reporting, audit and compliance is completed and reported to the ATO.
Membership Each member is required to have a separate member account.	**Membership** Each member is required to have a separate member account. But can Pool the accounts for a fee reduction across family groups.	**Membership** A SMSF can have no more than four members and the investment strategy for members can be pooled.
Reserves You have no control over the use of reserving strategies within this fund.	**Reserves** You have no control over the use of reserving strategies within this fund.	**Reserves** You have the ability to create reserve accounts for the fund to smooth returns, manage death benefit and anti-detriment payments.

Investment Options The investment options are normally limited to a mix of up to 15 different options of managed investments. These are usually in Cash, Fixed Interest, Shares, international Shares and property funds that you have no direct control over.	**Investment Options** Normally limited to a mix of up to 500 options of direct and managed investments. Usually in Cash, Fixed Interest, Shares and property funds. As a member of the fund you can have direct control over what you invest.	**Investment Options** Investment options almost unlimited as long as they meet the sole purpose test and are documented in the fund investment strategy. You can invest into direct equities, listed managed investments, GOLD and other commodities as well as ***unlisted property*** investments.
Transaction Costs No transaction costs to buy or switch investments or to withdraw funds. No direct share trading available	**Transaction Costs** No transaction costs to withdraw funds or to buy managed investments share trading fees apply Check the brokerage costs per share trade.	**Transaction Costs** No transaction costs to buy or switch investments or to withdraw funds. Check the brokerage per share trade.
Ability to start benefits Request sent to the provider can be actioned up to 28 days after receipt of application for benefit payment.	**Ability to start benefits** Request sent to the provider can be actioned up to 28 days after receipt of application for benefit payment.	**Ability to start benefits** You control the bank account so if you are able to access the funds under the super laws you can make payment quickly and simply.
Estate Planning Limited Estate Planning ability within the industry style funds. You can nominate a binding nomination for beneficiaries however have limited ability and choice as to how the estate proceeds are paid out of the fund.	**Estate Planning** Limited Estate Planning ability within the Master-trust / WRAP style funds. You can nominate a binding nomination for beneficiaries however have limited ability and choice as to how the estate proceeds are paid out of the fund.	**Estate Planning** You can nominate a binding nomination for beneficiaries and choose how the estate proceeds are paid (income stream or pension benefit). Fund can be an intergenerational wealth tool to pass funds or taxation benefits to future generations.

Determining your goals first, will assist with determining the right structure for you. The next step is to develop an investment strategy which will document and outline the approach on ***how*** to achieve your goals.

Recap of Money Behaviours Associated with Values and Attitudes:

(Adapted from Syble Solomon's Money Habitudes www.moneyhabitudes.com)

The decision will also be linked to your values and what is important to you and how you save, invest and potentially feel comfortable using debt. Use the following as a guide.

	Selfless	Free Spirit	Security
Earn	Would prefer to work for a company or organisation that shares their values. May not consider jobs that are financially rewarding even within those settings. May give a lot of time to volunteering even when it means sacrificing pay or not accepting a different job.	May be more interested in having flexibility and freedom than the job itself. Making a long-term commitment to a job or career goal may be difficult. May be dependent on others for money or to get their basic needs met.	Steady worker. Stable salary and benefits. May limit self to only accepting secure positions. May stay in a job or career that is secure instead of accepting or looking for new opportunities and potentially a higher salary. If one needs employment, may either accept the first job just to have the security or may not accept any job until it has every benefit and provides long-term security.
Spend	Spending is typically limited to things that are practical and pragmatic. Non-necessities, luxury items and lavish celebrations are judged harshly. Prefers to spend money to help others, support a cause or charity or give to people who need help. Giving is the priority.	It's easy to spend on things that make life easier, bring personal joy and make life better for other people. There usually is no plan and it's easy to just go along with whatever is happening.	May just do without and avoid spending money whenever possible. May save so much, there is not enough left to spend on necessities or extras. May buy what is less expensive instead of what is really wanted. May sacrifice quality for a cheaper price. Cannot enjoy spending on anything considered frivolous. May not offer to pick up the tab or share expenses even when it would be appropriate.
Save	Saving is okay for pragmatic reasons so they can care for themselves and their families and not be a burden on others. Savings to amass wealth is not appealing.	Not a priority. Money just comes and goes. There's not a commitment to saving for future goals. Most successful if saving is deducted automatically from the paycheck and bills are on an automatic payment plan.	Typically saves as much as possible, even if it means doing without. May keep money somewhere so it is accessible. May not put it in a bank or make investments so it doesn't earn interest and grow. Will know where every penny is.
InveSt	Investing to amass money is not a priority. It is acceptable to provide security so they are not dependent or so they can leave a legacy to their children, faith or cause. They would be more likely to be interested in socially responsible investing or putting money into a project that will benefit others.	Not a priority because there's a lack of interest in money and a sense of not wanting to make commitments or be responsible for taking care of investments.	May not invest. Wants to keep money accessible and risk-free. More likely to have a savings account, and real estate. Any stocks would be in blue chip companies with strong reputations.
GIve	They give a lot away can easily be preyed upon by individuals with a good story, conmen with a good pitch for worthy cause and by legitimate charities and faith organisations that they believe in but give beyond their means.	Quick to share, including money, without consideration of consequences.	Doesn't give easily or make donations without securitizing how the money will be used. Sets aside a fixed amount for giving. More likely to give if there is a tax break or a practical payback like membership with discounts. Not likely to give if solicited often or promised impractical or expensive gifts.
Debt	Typically they do not go into debt, but may if they see someone's needs as greater than their own and want to help out.	Can have debt from not paying attention to how much money there is and not being responsible about paying bills on time. Easy to overdraw an account by not keeping track of transactions such as ATM withdrawals.	Not likely to be in debt. Doesn't tolerate debt well. May not own or use a credit card and if it is used will pay it off each month. May put off a purchase until it can be totally paid for. May not tolerate a mortgage and continue to rent even when it would make financial sense to buy a house.

	Status	Spontaneous	Targeted Goals
EaRn	May take a position that is risky, not satisfying or pay less for the perks and title.	May jump from job to job or take a job without carefully considering the downsides. Prefers a job that has few routine demands and has diverse challenges. May be attracted by the pay or the challenge without carefully comparing the whole picture.	Likely to research a job and ask questions about benefits, know the going market wage for their job and negotiate their salary. More apt to weigh benefits and costs with potential when considering a job change. Takes calculated risks when seeking a job.
Spend	May spend more on how things will look than shopping by value. May be influenced by the latest trends the tastes of someone they admire. May typically pay for others, give expensive gifts and donate generously without regard to what is realistic given his or her financial situation. May do without necessities for appearances.	May spend very freely. If something appeals to them or if it appears to be a good deal, they will buy it whether they need it or not and whether or not they can afford it. Frequently spent in response to emotional triggers (upset, angry, celebrating, sad, etc) Easily taken in by advertisers who offer minimal monthly payment without researching the final cost.	Usually spends money on items and activities that reflect their values. Can easily distinguish between wants and needs.
Save	May sacrifice saving for other priorities especially if there is the possibility for a reward or recognition later.	Other things take the money intended for saving so there's no follow through even with the best intentions. Most successful if saving is deducted automatically from the paycheck and bills are on an automatic payment plan.	Usually has a savings plan for routine costs, unexpected costs and discretionary money to allow for spontaneous fun and opportunities. Look to the future to plan predictable expenses: retirement, education, housing, medical costs, etc.
InveSt	May be influenced by people they aspire to impress. May be more prone to want investments that look or sound impressive.	Well planned investing is not a priority and may take the time to carefully consider options and information. May easily be taken in by an investment that sounds too good to be true and are willing to take the risk if the person sounds credible. Easily swayed by a good salesperson.	Have diverse investments for balance. Gathers information from different sources and considers them before making an investment. Takes an active role in investing and following the investment overtime.
GIve	Tend to give more publicaly – making donations where their name will be listed or read or they receive something which can be displayed. Give to organisations respected by people they want to influence or impress.	An easy touch for telesales people, especially if they make their request in person or on the phone and get the personal hook. Even if they do have a plan for giving to certain charities or people regularly, they spontaneously give more when asked.	Plans a reasonable amount of money to be donated to selected charities. Does not spontaneously give to causes or people who solicit throughout the year unless that is part of the plan.
Debt	More likely to be in debt. Frequently overspend to get the latest, best or most impressive items for themselves and their families. If there is a hobby or particular interest, difficult to pass on any items or expenses connected to it. Spend more money on others' for gifts, meals and treating them. Hard to accept being treated or gifted without responding in kind plus.	Very high risk for being in debt. They tend to act before they think whether something is needed, can be afforded and adds value. Since credit cards make it easy to respond spontaneously, high debt is not unusual. This may be one of many, addictive behaviours.	Debt is usually related to long-term investments like a house mortgage or education. More savvy people may have debt so their money can be invested at a higher rate of return. Typically pays with credit cards in full every month.

Superannuation Strategies

Before looking at different strategy options you need to first determine how much you will need in retirement.

As a basic rule of thumb if you need $1,000 per week net (after tax) you will need about $1,000,000 in assets. **This assumption here is an income rate of return of 5.2% per annum (as an achievable average long-term rate of return).** If you are a member of a defined benefit scheme (eg CSS, PSS, DFRDB or MSBS) you need to first work out an estimate of your superannuation benefits. After you work this estimate out you can then determine if you will have enough from your defined benefit superannuation. Any shortfall will need to be met from other means.

Exercise: Calculate how much superannuation savings you will need.

Determine your income requirement = $______________p/a

(use your net (after tax) take home pay if you are not sure and convert into annual net income figure) **divide this number by 5.2 and multiply by 100**

= $____ estimated lump sum required.

**** YOU WILL NEED THIS NUMBER FOR THE NEXT EXERCISE**

What amounts of regular investment do you need to make to achieve the above lump sum goal? The table below makes the calculation a little easier, assuming some different rates of return, time frames and taking into account inflation.

Years to Retirement	Assumed Rate of Return (after inflation)						
	2%	4%	6%	8%	10%	12%	14%
5	5.3	5.6	6.0	6.3	6.7	7.1	7.5
10	11.2	12.5	14.0	15.7	17.5	19.7	22.0
15	17.6	20.8	24.7	29.3	35.0	41.8	50.0
20	24.8	31.0	39.0	49.4	63.0	80.7	103.8
25	32.7	43.3	58.2	79.0	108.1	149.3	207.3
30	41.3	58.3	83.8	122.3	180.9	270.3	406.7
35	51.0	76.6	118.1	186.1	298.1	483.5	790.7
40	61.6	98.8	164.1	279.8	486.9	859.1	1529.9

This table was adapted from Barbara Smith & Dr Ed Koken's "Superannuation in a nutshell"

Look at the first column to determine the number of years till you retire. i.e **25 years**, now look along that column to determine the rate of return, for **8%** per annum the **figure is 78.95**. Take your required capital amount and divide it by this number. Eg $1,000,000 / 78.95 = $12,666.25. This is the annual investment amount you need to pay into super to achieve the outcome.

Exercise:

Your capital requirement = $_______________________ (A)

Estimate of years to retirement = ___________________ (B)

Estimated rate of return from your fund = ____________ (C)

Factor from table above = _________________________ (D)

Required amount to put into super each year = (A) / (D)=

Now you know how much you need in superannuation, what strategies are around to get it in there?

Salary Sacrifice to Super

Salary sacrifice is a term used to describe benefits that replace cash salary and wages. Only future income can be structured into a salary sacrifice arrangement and your employer must offer this to you as an entitlement option. Your employer can make an arrangement with you to contribute part of your salary to superannuation instead of receiving this as salary and wages. The tax savings occur based on the difference in your marginal tax rate and the superannuation tax rate of 15%.

Individual Tax Rates

2008 / 2009	Tax Payable (Resident)
$0 - $6,000	Nil
$6,001 – $37,000	15%
$37,001 - $80,000	$4,200 + 30%
$80,001 - $180,000	$18,000 + 37%
$180,001 -	$58,000 + 45%

The above shows the current individual tax rates, if you are earning under $37,000 per annum you pay the same marginal rate if you receive the income or if you salary sacrifice. Some people use this as a guide to manage their overall tax position but you should seek personal advice prior to implementing such a strategy.

Superannuation Choice

Since 1 July 2005, many employees have been able to choose the superannuation fund that will receive their superannuation contributions under the superannuation guarantee (SGC). Choosing a superannuation fund was also extended in July 2006 to include employees working for corporations under former state awards and there is now choice for Government employees in defined benefit schemes.

It is important to make an informed decision about your superannuation choice as there maybe benefits that you lose if you change or switch funds. The following worksheet is available online at www.fido.gov.au to assist in doing a comparison.

	Current fund	Comparison Fund #1	Comparison Fund #2
Fund name			
Any extra super benefits?			
Extra employer contributions?			
Redundancy benefits?			
Fees and costs			
Management costs for your investment option as % of your total account			
Amount of any additional dollar-based management costs			
Contribution fee, as % of each contribution*			
Withdrawal fee, as % of each amount withdrawn*			
Termination fee, as % of your total account on closing it*			
Service fees, for example, switching fee, adviser service fee			
Insurance			
Automatic cover or subject to medical questionnaire or exam?			
Life insurance: $ cost per year for the amount of cover you want or cost of compulsory cover			
Total and permanent disability: $ cost per year for the amount of cover you want or cost of compulsory cover			
Salary continuance or temporary disability cover for up to 2 years: $ cost per year for the amount of cover you want			
Any relevant restrictions, for example, age limits, dangerous jobs, maternity leave			
Investment options			
At least one growth and one conservative option? Yes/No			
Enough options for you? Yes/No			
Investment performance			
% each year, based on average *5-year* performance of your investment option			
Other services and features you need			
Insert relevant details			

* You may be able to negotiate lower fees

Superannuation Co-contribution

The federal government has an initiative to encourage lower income earners to increase their superannuation savings. For those on incomes less than $30,342 per annum (including reportable fringe benefits) if a **non-concessional** (personal) contribution to a superannuation fund you are entitled to a $1.50 contribution from the government for every dollar contributed up to $1,000. The maximum co-contribution ($1,500) reduces by 5 cents in every dollar over $30,342. No co-contribution will be paid once assessable income plus reportable fringe benefits equals $60,342.

Spouse contributing splitting

Superannuation contributions splitting means that people can split certain superannuation contributions with their spouse or partner. It means that single income families can share their superannuation benefits in a similar way to dual income families. People can split contributions to an account held by their partner, either within the same fund or to a different fund. The receiving spouse must be a person who is either married to the applicant, or lives with them on a genuine domestic basis.

Superannuation Contribution – Spouse Tax Offset

If your spouse earns less than $13,800 per annum you may be entitled to a spouse contribution tax offset if you make a contribution to super on behalf of your spouse up to $3,000.

Thinking back to our goals

- In regards to retirement, what do you want to achieve?
- Based on the above what changes can you make **TODAY** to start the process of focusing on your goals in light of your values?
- What areas do you need to up skill in or gain more understanding or knowledge about?

Glossary of Financial Terms

Annual percentage rate - The rate at which interest is charged over a yearly period in respect of money that is owed.

Bankruptcy - A legal process that people go through when they can not pay their debts. A bankrupt person gives control of most of the debts and assets to a bankruptcy trustee. The trustee decides which (if any) of the assets can be sold to pay off the debts.

Comparison rate - The interest rate on a loan that includes interest and most (but not all) fees and charges for the loan. For example, if a bank advertises an interest rate for a home loan of 5.49%pa, the comparison rate (once fees and charges have been included) might actually be 6.75%pa.

Compound interest - Interest earned on money that is invested over a period of time that is added to the original amount invested (the principal) and interest is then paid on the entire amount. Over a long time compound interest can be a good way to increase your savings.

Creditor - Someone who is owed money.

Debts (liabilities) - A debt is money that is owed. Another name for a debt is a liability.

Debtor - Someone who owes money.

Debt to Equity Ratio - This is the amount of the loan compared to the value of the property or asset purchased with the loan funds, expressed as a percentage. For example, a loan of $400,000 to buy a property worth $500,000 results in a debt to equity of 80%. Also known as Loan to Value Ratio (LVR).

Equity - Equity can mean shares in a company or an equity position in a property. For example, owning equity in a company is having an ownership interest in a company.

Expenses - The amount it costs you for your everyday living including food, transport, housing, clothing and entertainment.

Fixed interest - An annual percentage rate, or an interest rate that does not change for a specified fixed period.

Income - The amount of money you earn, such as wages and salaries, rental income, interest and government allowances. For a business or a company, income is equal to revenue less expenses.

Interest only - An 'interest only' loan means that your repayments only go towards repaying the interest for a specified period, rather than repaying the principal amount of the loan. For example, paying your loan "interest only" means that the principal balance stays the same.

Managed funds - An investment fund that pools together money that has been contributed by many investors for the purposes of investing the total amount in different investments such as shares, listed property trusts, bonds and cash.

Net worth - Your assets less how much you owe on your assets is your net worth. In order to meet basic needs and life events, an increase in your net worth should be a basic financial goal of most people.

Offset account - A bank account that is linked to a nominated home or residential investment loan. The balance of the offset account reduces the amount of interest payable on your linked loan.

Per annum (pa) - This means for the year.

Principal - For an investment, the principal is the amount of money invested. For a loan, the principal is the amount of the loan (the face value of the loan) upon which interest is then calculated and charged.

Power of Attorney - operates in circumstances where you may be suffering from either a temporary or permanent legal disability and are unable to make decisions for yourself.

Simple interest - Interest is paid on a set principal only and not re-invested.

Superannuation - An employer is required to contribute a proportion of a person's salary or wage to a superannuation fund on behalf of the employee. The money in the superannuation fund is invested with the aim of generating returns for retirement.

Term deposit - A banking product that offers a slightly higher annual percentage rate than savings accounts payable on the amount invested. A term deposit has a fixed term (which can vary) during which the amount invested cannot be accessed.

Trust – An agreement to hold an asset for another person usually called a beneficiary.

Trust Deed - A document, which explains how, a trust has been set up and the rules involved in its operation.

Trust account - An account that is usually used by lawyers, accountants and other professionals such as stockbrokers to identify and control their clients' money.

Variable interest - A type of interest where the rate may go up and/or down during the term of the loan.

Will - A legal document stating how you wish your possessions to be distributed after your death.

Further Resources

Government Agencies

Australian Securities and Investment Commission (ASIC)

Consumer protection regulator for financial services.
Phone: 1300 300 630 Web: www.fido.gov.au or www.understandingmoney.gov.au

Australian Taxation Office (ATO)

Can provide information on taxation and superannuation matters.
Personal Tax: 13 28 61 Business: 13 28 66
Superannuation: 13 10 20 Super Seeker (lost super): 13 28 65
Web: www.ato.gov.au

Centrelink

Provides information on various government payments for students, unemployed and retirees.

Employment services 13 28 50	Youth and Students 13 24 90
Retirement services 13 23 00	Financial Information services 13 63 57
Web: www.centrelink.gov.au	

Financial Counselling

The following contacts provide a financial counselling service, or can refer you to an appropriate service in your state or territory. These services are free and confidential.

ACT	Care Financial Counselling Service	02 6257 1788
NSW	Credit and Debt Hotline	1800 808 488
NT	Anglicare (Darwin)	08 8985 0000
QLD	Financial Counsellors Association	07 3321 3192
SA	Unitingcare Wesley Adelaide Inc	08 8202 5180
TAS	Anglicare Financial Counselling	1800 243 232
VIC	Financial and Consumer Rights	1800 134 139
WA	Financial Counsellors Resources	08 9221 9411

Superannuation and Retirement

National Information centre on retirement investments (NICRI)
Provides free information for people planning to retire or those facing redundancy.
Phone: 1800 020 110 Web: www.nicri.org.au

Superannuation Complaints Service
Deals with complaints about superannuation services and annuity providers.
Phone: 1300 780 808 Web: www.sct.gov.au

Financial Products and Services
Financial Planning Association (FPA)
Find a financial planner in your area, some educational brochures.
Phone: 1800 626 393 Web: www.fpa.asn.au

Self Managed Super Fund Professional Association (SPAA)
Find a specialist SMSF adviser in your area.
Phone: (08) 8212 5999 Web: www.spaa.asn.au

Australian Securities Exchange (ASX)
Provides share market information and investor education.
Phone: 1300 300 279 Web: www.asx.com.au

CPA Australia
Represents both accountants and licensed financial planners.
Phone: 1300 737 373 Web: www.cpaaustralia.com.au

Financial Ombudsman Service
Provides accessible, fair and independent dispute resolution.
Phone: 1300 780 808 Web: www.fos.org.au

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