

Your money Your future



Financial Planning Newsletter - Edition 5, 2011



Live long and prosper

Early planning can help you enjoy the benefits of increased longevity and live the life you want in retirement

Australians are living longer and enjoying more productive retirements than ever before.

Australian men can expect to live until the age of 79, while the average Australian woman lives until 84.^{*} This puts Australia up there with the most advanced societies in the world – our life expectancy is the fourth highest for men and third highest for women.[†]

Getting on top of your superannuation early and formulating a long-term savings plan will see you best placed to prosper in your retirement.

Changing face of retirement...

By 2041, one in five Australians will be over 65 years of age and 7 per cent of the population will be over 80, representing the fastest growing sector of the population.[‡]

As we live longer, many of us are opting to retire earlier than ever. In 2007, the average age of retirement was 47 for women and 58 for men, which means we may end up spending as long retired as we did in the workforce.[§]

And the nature of retirement is changing. It's now a reward for hard work – a chance to develop new hobbies or travel the world. But do you have enough saved to fund your retirement dreams?

...and the workplace

Living longer is set to change the way we work. We are more likely to move between

jobs and opt for multiple career paths during our working lives.

Older workers offer years of experience, valuable skills, and tend to be highly motivated. Companies will need to develop more part-time and contractual positions that suit older people.

An ageing population will also spell public policy challenges. By 2047 there are forecast to be only about 2.4 working-age Australians for each retiree aged 65 and over.[¶]

The government will need to remove any benefit or pension disincentives that act as roadblocks to participation in the workforce, as well as reduce pressure on the public purse by lifting the pension age.

The goal – a comfortable and fulfilling retirement

As we retire earlier and live longer, we will need a bigger retirement nest egg to keep pace with inflation and see us through. In order to achieve a comfortable retirement a couple needs an estimated \$53,565 a year.^{**}

The days of relying on the age pension are long gone and we are increasingly expected to fund our own retirements.

Planning is key. The earlier you start saving, the more likely you are to enjoy a comfortable and fulfilling retirement.



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* http://www.aihw.gov.au/mortality/life_expectancy/trends.cfm

† http://www.aihw.gov.au/mortality/life_expectancy/compares.cfm

‡ <http://www.wesleymission.org.au/publications/ageing/introduction.htm#Australian>

§ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features50March%202009>

¶ <http://www.apf.gov.au/library/pubs/BriefingBook42p/17SocialPolicy-ImmigrationandPopulationAging/Population.htm>

** <http://www.superannuation.asn.au/mr100628/default.aspx>

Read the fine print and protect your family

There are many factors to consider when selecting a superannuation fund:

performance record, administration fees, investment style and many more. But there is one factor you possibly wouldn't think about simply because you did not know it was there. This 'X' factor could make a difference of tens of thousands of dollars to your family's security, at no extra cost to you!

It's a tax deduction called an anti-detriment payment that can be paid out if you die before moving into a superannuation pension phase. Your super fund does not have to pass this tax deduction on to your family even when the Australian Taxation Office (ATO) rules mean your spouse and children are entitled to it.

What is an anti-detriment payment and how does it work?

If any member of a superannuation fund dies before beginning an income stream in retirement and the member's retirement savings are paid out as a lump sum, an anti-



detriment payment is an additional lump sum paid to eligible dependants as a refund of the 15 per cent contributions tax levied against the deceased member's superannuation entitlements during their lifetime.

Consider the following case history. John, born in 1951, began contributing to a super fund in 1989 and died on 1 February 2010, aged 58. He has a superannuation lump-sum death benefit of \$375,000. John is survived by his wife Janet, aged 53, who is the nominated beneficiary. The fund calculates an anti-detriment payment of \$53,800 and includes this in the lump-sum death benefit. Therefore the lump sum paid to Janet will

increase to \$428,800 because of the tax on super contributions refunded as an anti-detriment benefit.

What can you do to maximise your family's security?

The most important thing to remember is that although the anti-detriment payment is a tax concession allowed by the ATO, it is not written into the superannuation legislation. Some funds pay this additional benefit automatically, and some don't make these payments at all, even though the anti-detriment payment costs the fund manager nothing; it is simply passed to the fund as a tax credit by the ATO.

News bites

Retiree cost of living increases

Due to the ongoing rise in the cost of living, retiree incomes need to gain an extra \$600 a year for comfortable living.

The Association of Superannuation Funds of Australia has published a report showing that living costs during retirement increased by 1.3 per cent in the March quarter 2011 from the December quarter 2010.

The largest increase in prices was recorded in Melbourne followed by Sydney and Adelaide. A significant factor to the increase was in the rise of the price of fruit at 14.5 per cent, the price of vegetables rose by 16.0 per cent, and with transportation there was an increase of 2.7 per cent and 8.8 per cent in petrol prices.

To achieve a comfortable lifestyle in retirement, speak to us to ensure that you are on track with your retirement plans.

The Flood Levy – know the rules

The Government has introduced a temporary flood and cyclone reconstruction levy otherwise known as the flood levy to provide additional funding to rebuild essential infrastructure. The levy has been created to help affected communities recover from the floods earlier in 2011.

Individual tax payers who have a taxable income of more than \$50,000 in the 2011/12 financial year will have to pay the flood levy. For individuals earning salary and wages, the flood levy will automatically be included in the tax taken out of their salary and wages by their employer. For individuals who pay instalments towards their expected tax liability, the flood levy will be automatically included in the instalment rate, for example, self-employed individuals and self-funded retirees.

Exempt individuals are those who have a taxable income of less than \$50,000 or fall into an eligible Australian Government Disaster Recovery class.

Individuals entitled to a recovery payment will receive a flood levy exemption declaration form from the Australian Taxation Office (ATO).

Tax rebate for low income earners

The Government recently announced plans for a new measure to help boost the superannuation of lower income earners. If the proposal is approved, individuals earning less than \$37,000 would receive a refund on the 15 per cent superannuation contribution tax, to be directed back into their super.

To be eligible for the payment, an individual must have made or received a concessional contribution to their super fund or retirement savings account and have lodged an income tax return for the relevant year. There will be no age test applied, so this measure allows people of all ages to take advantage.

The Government expects it will add some \$1.75 billion to super accounts and will assist an estimated 3.5 million Australians.

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