SUPER INFO

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What's inside:

Life is more than money

"It's the elephant in the retirement room: what am I going to do each day and where am I going to hide?" - Sean Cummins

Financial planner Sean Cummins gets into the nitty gritty of retirement … and discovers there really is more to it than you initially think.

Getting your finances right is an important part of retirement planning; it lets you know what you can afford how you'll pay for it.

But a healthy asset base and regular income is only part of the picture; the rest is how you intend to live your life day-to-day and manage your relationships now that you'll be spending a lot more time at home.

It's the elephant in the retirement room: what am I going to do each day and where am I going to hide?

YOUR PURPOSE

For most, if not all, work does more than provide an income. It is a social outlet and offers a sense of purpose, which may not be easily replicated at home. According to a national survey of older workers, more than 70 per cent of Australians are willing to work beyond 60, many for non-financial reasons such as personal enjoyment, a sense of accomplishment, freedom and independence.

If you're leaving work behind, you need to know how you'll replace the positives.

YOUR MARRIAGE

You've spent the past 20, 30, maybe even 40 years away from each other 9-10 hours per day 5-6 days per week. You've lived together – and happily so – but you haven't lived together all the time. That's going to take some getting used to and having a plan in place – from just talking through your individual expectations to organising formal post-retirement counselling – will make it that much easier. A strategy for living through a typical day post-work is important for you as an individual and as part of a couple.

YOUR KIDS

They are now 30ish, educated and living their own life but your work as a parent is probably far from over, particularly if they're children of their own. According to the Australian Bureau of Statistics, grandparents provide child care for almost one-third of children of children with two working parents. Is providing childcare part of your retirement plan? If not, you might want to deal with those expectations before they catch you napping in your easy chair.

THE CONCLUSION

The non-financials of retirement need as much planning and forward thinking as the financial side and ironically, it can be even more difficult to think about while you're still working.

But if you're really ready to pull the pin, you'll lay the groundwork for your new life before packing up your desk for the final time.

10 quick points on super reform

This is a quick snapshot of the proposed superannuation changes announced by the Government (as at 10.08am Friday 16 September 2016, that is.)

1. The Government is legislating an objective of superannuation against which all changes will be measured. Broadly, the primary objective of super is to supplement or replace the age pension. This objective has some problems, including that super funds currently pay out on events unrelated to pensions, they pay out lump sums and they pay money to beneficiaries other than the superannuation fund member.
2. Income on account balances paying a pension up to maximum of $1.6 million will be tax-exempt. Any income from assets above that will be taxed in a fund at 15% or the excess can be taken out.
3. If taxable income is above $250,000 pa, the tax rate is 30% on contributions to a super fund, not the usual 15%.
4. Non concessional contributions will be capped at $100,000 pa or $300,000 over any three-year period before age 65, and once there is $1.6 million in a fund, no more non-concessional contributions can be made.
5. If income is less than $37,000 pa the Government will refund the contribution tax to the fund.
6. Concessional contributions will be capped at $25,000.
7. One spouse can contribute up to $3000 to the other spouse's super account whose income is less than $40,000, and the first spouse gets an 18% tax offset on what they have contributed.
8. Income on deferred annuities will be tax exempt.
9. Extra payments made by funds on the death of a member will not be tax deductible.
10. Fund income supporting a pension while a person is working will be taxable at 15% not 0%.

All these changes commence from 1 July 2017.

Retirement Benefit

When can I retire?

You are eligible for a retirement benefit once you have reached age 50, or after completion of 30 years' service. The normal retirement age for the Scheme is age 60.

How is my retirement benefit calculated?

You will receive a lump sum benefit calculated as your "Final Average Salary" multiplied by your "Benefit Multiple" plus your Accumulation Benefit.

Your "Benefit Multiple" is calculated as the sum of:

1. 19.5% times your period of contributory Scheme membership to the later of age 55 and the completion of 30 years contributory Scheme membership, plus
2. 10.75% times your remaining years of contributory Scheme membership to your actual date of retirement or age 60,

A maximum "Benefit Multiple" of 8.0 applies in calculating the benefit.

Contributory Scheme membership is measured in years and complete months from the date you joined the Scheme. Any period of unpaid leave will not count in calculating your benefit multiple.

The benefit multiples detailed above may decrease in the event the investment return plus the existing level of member and employer contributions are insufficient to ensure the ongoing financial position of the Scheme.

You will be notified should there be any adjustment to your future benefits or the level of compulsory Defined Benefit contributions you make to the Scheme.

On retirement (whether before or after age 60) you can request the trustee keep all or part of your benefit in the Scheme (subject to superannuation legislation). The trustee may set special terms and conditions on the benefit.

How will my retirement benefit in the Scheme be invested?

Effective from the date you ceased service your retirement benefit will be allocated with investment earnings as follows:

- Your defined benefit derived portion will be invested in the Cash investment option. You may subsequently choose an alternative investment option if you decide to keep your benefit in the Parked Benefits section.
- Your accumulation derived portion will continue to be allocated with investment earnings applicable to your chosen investment option, which may be positive or negative.

Examples:

1. John joined the Scheme at age 22 and retires after 38 years' membership at age 60. He will be required to contribute 5.8% of after-tax superannuation salary or 6.82% of before tax superannuation salary (as he is 23 next birthday when joining the Scheme.

   John's "Final Average Salary" is $90,000. John's "Benefit Multiple" will be calculated as:

(i) 19.5% x 33 years (period to age 55) = 6.435

plus

(ii) 10.75% x 5 years = 0.538

John's "Benefit Multiple" is 6.973

John's retirement benefit at age 60 would be: 6.973 x $90,000 = $627,570

plus his Accumulation Benefit.

(iii) If John retires at age 50, his "Benefit Multiple" would be:

19.5% x 28 years = 5.46

Therefore, John's retirement benefit at age 50 assuming his Final Average Salary is $90,000 would be:

5.46 x $65,000 = $491,400

plus his Accumulation Benefit.

What if I retire after age 60?

If you retire from employment after age 60 your benefit is calculated as:

The greater of A or B as follows:

A The greater of:

(i) Your Benefit Multiple as at age 60, multiplied by your "Final Average Salary" at your actual date of retirement,

or

(ii) Your Benefit Multiple calculated to the date of your actual retirement after age 60 (with a maximum multiple of 8.0) multiplied by your "Final Average Salary" at age 60

B The balance of your Late Retirement Account calculated as:

(i) your Benefit Multiple at age 60 multiplied by your "Final Average Salary" at age 60, **plus**

(ii) investment earnings on (i) above based on the unit price movement of the Conservative investment option which may be positive or negative, **plus**

(iii) the balance of your post age 60 Superannuation Guarantee account which is an employer contribution of 9.5% of Superannuation Salary less an allowance for 15% contribution tax and administration expenses plus investment earnings based on unit price movements of the Conservative investment option.

PLUS

C The balance of your Accumulation Benefit.

How will my over age 60 retirement benefit in the Scheme be invested?

Effective from the date you ceased service your retirement benefit will be allocated with investment earnings as follows:

- Your defined benefit derived portion will be invested in the Cash investment option. You may subsequently choose an alternative investment option if you decide to keep your benefit in the Parked Benefits section.
- Your accumulation derived portion will continue to be allocated with investment earnings applicable to your chosen investment option, which may be positive or negative.

For more information, refer to the Manager.

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