

Retirement is not a foreign country

Superannuation brochures often make retirement look like a foreign country where the locals do nothing but play golf, dine out and travel around the countryside.

When you retire in ten, twenty or thirty years time you may have no mortgage and no dependants to worry about, but you will still have power and water bills, food and clothing expenses, and repairs and maintenance of your home and your car.

So how much will you need to save to enjoy a comfortable retirement?

It's an interesting question as everyone has different expectations. The current Government inquiry into superannuation is wrestling with this very question and it's one we need to consider.

The Westpac ASFA retirement standard

Westpac and the Association of Superannuation Funds of Australia (ASFA) have attempted to answer this question by calculating how much retired couples and singles need to spend each week to live what they describe as a modest or a comfortable lifestyle.

They define a 'modest lifestyle' in retirement as being better than the Age Pension but still only able to afford fairly basic leisure activities.

A 'comfortable lifestyle' enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and enjoy a good standard of living including consumer goods and occasional international holiday travel.

A retired couple with a modest lifestyle needs to allocate almost 50% of their weekly budget to basics such as food,

clothing, transport and energy and they can spend around 14% on leisure.

For a retired couple with a comfortable lifestyle, the basics make up around 40% so they can afford to spend 21% of their weekly budget on leisure.

However for people planning to retire in 20 to 30 years time there are other factors to consider. The affect of climate change on food prices is unknown, but most experts agree that agriculture will be vulnerable to climate change over the long term.



This means that food prices may rise over and above the rate of inflation, putting greater pressure on retirees who already spend around 20% of their retirement income on food.

Based on these calculations most commentators estimate that a home-owning couple would need a super investment of at least \$500,000 to retire now and live a comfortable lifestyle.

For many people, their current super contributions may not be enough to reach this figure and this means they may need to work longer or invest more in their super.

What can you do to boost your retirement savings?

One of the most tax-effective ways to boost your retirement savings is to sacrifice some of your salary and invest the funds in your super.

Salary sacrifice is essentially an arrangement where you receive part of your gross salary as a benefit rather than salary. The benefit is paid from your gross salary, that is,

| | Modest lifestyle Single | Modest lifestyle Couple | Comfortable lifestyle Single | Comfortable lifestyle Couple |
|-----------------------|------------------------------------|------------------------------------|---|---|
| Total per week | \$377.55 | \$531.15 | \$730.70 | \$980.61 |
| Total per year | \$19,686 | \$27,695 | \$38,101 | \$51,132 |

'before tax'.

Salary sacrificing will reduce your take-home pay but because it reduces your taxable salary, you will pay less tax on your income. Your super contribution is however taxed at 15% when it is deposited in your fund but for most people this rate will be lower than their marginal tax rate.

Put simply, if you have a taxable income of over \$35,000 you can obtain an immediate tax saving by sacrificing part of your salary as your current marginal tax rate is 30% compared to the 15% tax on super contributions. The tax savings are even greater for people on higher marginal tax rates.

What are the caps on 'pre-tax' super contributions?

The Federal Government has reduced the caps on 'pre-tax' or concessional super contributions to \$25,000 for this financial year. If you are over 50 years of age, the cap on concessional contributions is currently \$50,000 per annum.

Concessional contributions are contributions which attract the concessional tax rate of 15% and these usually include the compulsory contributions made by your employer on your behalf and any contributions you make to your super before tax.

Of course you can always make super contributions from your after tax salary but there is also a cap of \$150,000 on these non-concessional contributions this financial year.

It's very important to keep within these caps unless you want to pay extra tax on your super contributions.



Getting advice about your super contributions

If you are unsure about how to best manage your super contributions, or if you would like to review your super investment, your first step should be to seek the advice of a qualified financial planner.

A good financial planner will help you plan your contributions and your investment options so you can maximise your super investment.

If you're a member of Local Government Super you can get financial planning advice at no extra cost.

If you would like to speak to a financial planner, please call 1300 369 901.

