

Investment

PLAN NOW
AND WATCH
IT GROW

Education Booklet

HANDY TIPS
+ STRATEGIES

A few handy tips to help enjoy life after work.

Planning for the future is a major step in achieving the life you want in retirement.

If you haven't started planning yet, now is the time.

A note from your adviser

What does retirement mean to you?

Some people have a clear vision of what they'll be doing in retirement. Others will not give it a second thought until they are forced to retire! Whatever your thoughts, one question remains:

Have you started planning yet?

You should start planning now to make sure you can support and enjoy the type of lifestyle you want in retirement. To give you a bit more help we have put together this booklet to help guide you through the process.

There are 7 main areas that you should explore when planning your retirement:

- 1. How much will you need in retirement?**
- 2. Your super**
- 3. Your home**
- 4. The age pension**
- 5. Planning for the unexpected**
- 6. Working part time**
- 7. Financial advice**

1. How much will you need in retirement?

The amount needed for retirement is very subjective and will be different for most people. As an easy guide look at your present income and ask if this is an appropriate amount. Be realistic as you don't want a savings goal that is not achievable. Nor do you want to leave yourself short of funds at retirement.

Hopefully by retirement you have no debts so the net income you receive will be spent on living expenses and additional spending (eg holiday). You may also need an emergency fund and/or a lump sum.

To decide how much income and access to cash you need, consider the following questions:

- Will you need to upgrade your car?
- Will you need to upgrade whitegoods (eg fridge, washing machine etc)?
- Do you want to go on holidays and how often?
- What will you do in your spare time?
- Do you want to leave some money for your family in the event of your death?
- Are you happy receiving the age pension only?
- Do you want to go out frequently?
- Do you need additional funds for health?

When you have determined the appropriate amount of income that you need each year and any additional lump sum amounts, the next step is to plan for how long you will be in retirement.

The Government releases life expectancy figures on a regular basis. The most recent figures¹ estimate that the life expectancy for a person aged 65 is nearly 18 years for males and approximately 21 years for females. It is a good idea to add on a few extra years as generally life expectancy has been increasing and when you retire it could be higher even still. Also regardless of general life expectancies you could be a very healthy person and could live to 100 or more!

Estimate how much you'll need in retirement

Step 1

Multiply the number of years you'll be in retirement by the income you want each year

\$

Step 2

Do you need an emergency fund?

\$

Step 3

Add Step 1 and 2

\$

This will give you a rough idea of the money you may need to fund your retirement – also remember that it doesn't include inflation or investment earnings! Speak to a financial adviser to refine this amount even further.

Are you on track?

To determine if you are on track to meet your retirement needs some basic calculations should be done – preferably by a financial adviser. A financial adviser will also have the necessary tools and knowledge to:

- help you determine if you will have enough savings to meet your goals,
- see if your goals are realistic; and
- recommend strategies so you can enjoy the lifestyle you want in retirement.

To give you a general guide to see if you are on track, ASIC has released two calculators (Retirement Planner and Superannuation Calculator) which can be accessed on its website:

<http://www.fido.asic.gov.au/fido/fido.nsf/byheadline/Superannuation+calculator?openDocument>

Before you go to the website, find the most recent super statement for your account so you know how much super you presently have.

Tip – Go to the ASIC website and use their Super Calculators to see how much you'll have in retirement and if it's enough for you.

2. Your super

For most people super plays a large part in their retirement. 87%² of the workforce now has some form of super coverage. It's a great way to save as it is taxed at a low rate and generally can't be spent before you retire!

The first thing you should do is store all of your super paperwork in one place. Have a look at the most recent statement of your fund and see what benefits you have.

If you need to save more for your retirement you should speak to your financial adviser about the following super strategies:

- i. Salary sacrifice
- ii. Government Co-contribution
- iii. Ensure your investment strategy is right for your situation
- iv. Consolidate your super
- v. Find your lost super
- vi. Choose a fund that is right for you

i. Salary sacrifice – Save tax!

Salary sacrifice means giving up future gross salary or wages and telling your employer to contribute the sacrificed amount into your super account. This can work well as you can reduce your assessable income for taxation purposes. This in turn increases your employment benefits, as the salary that is sacrificed to super will usually be taxed at 15% compared to up to 45% plus Medicare Levy if you received it in the form of salary.

If this sounds appealing to you, you should talk to your employer to see if they will allow you to salary sacrifice part of your pre-tax salary towards super. You should also speak to a financial adviser to see if this strategy is right for your situation.

ii. Government Co-contribution – get extra money from the Government!

You may be eligible for the Government Co-contribution when you make a personal (after-tax) contribution to your super. The Government will pay up to \$1.50 for every \$1.00 you contribute, up to a maximum of \$1,500. For incomes above \$28,980* the co-contribution reduces by 5 cents for every additional dollar earned until it cuts out completely at \$58,980*.

To be eligible you generally need to:

- Make a personal (after-tax) contribution to super;
- Not be a temporary resident;
- Earn less than \$58,980* (assessable income plus reportable fringe benefits);
- Earn 10% or more of your income from eligible employment, carrying on a business or a combination of both;
- Lodge an income tax return for the year you have earned your income; and
- Be under 71 years of age at the end of the financial year.

The amount of the co-contribution varies according to your total income and the amount of your super contribution. The following table illustrates the co-contribution payable in different situations.

* These figures are for the 2007/2008 financial year.

The co-contribution has been available since July 2003. In the first three years over 2.7 million co-contribution payments have been paid worth approximately \$2 billion.

Make sure you don't miss out – see if you're eligible too!

Tip – From 1 July 2007, self employed people may be eligible for the co-contribution payment.

INVESTMENT

If your personal super contribution is:

	\$1,000	\$800	\$500	\$200
And your income is:	Your Super Co-contribution will be:			
\$28,980 or less	\$1,500	\$1,200	\$750	\$300
\$30,980	\$1,400	\$1,200	\$750	\$300
\$32,980	\$1,300	\$1,200	\$750	\$300
\$34,980	\$1,200	\$1,200	\$750	\$300
\$36,980	\$1,100	\$1,100	\$750	\$300
\$38,980	\$1,000	\$1,000	\$750	\$300
\$40,980	\$900	\$900	\$750	\$300
\$42,980	\$800	\$800	\$750	\$300
\$44,980	\$700	\$700	\$700	\$300
\$46,980	\$600	\$600	\$600	\$300
\$48,980	\$500	\$500	\$500	\$300
\$50,980	\$400	\$400	\$400	\$300
\$52,980	\$300	\$300	\$300	\$300
\$54,980	\$200	\$200	\$200	\$200
\$56,980	\$100	\$100	\$100	\$100
\$58,980	\$0	\$0	\$0	\$0

The co-contribution is a great opportunity for those that are eligible. If you think you're eligible, you should speak to a financial adviser to find out how you can get started.

iii. Ensure your investment strategy is right for your situation – let your money work for you!

In your super fund you may be able to choose from a range of investment options. As retirement may still be a while away it is important that you choose the investment option suited to you. Many super funds have default investment options that apply if you don't choose an investment option. You should look at the other investment options the fund has to offer, as being in the default investment option may not be right for you.

It can often be confusing selecting an investment option, so you should speak to a financial adviser so they can ensure that you get the best out of your super.

iv. Consolidate your super – get rid of the confusion.

On average, most Australians hold three super accounts. This means:

- three sets of fees;
- three sets of paperwork; and
- three sets of hassle!

To make things easier for you, it may be worthwhile to consider consolidating your super accounts.

Speak to a financial adviser today to see if this approach is right for you.

Tip – consolidate all of your super accounts into one and see if you can claim any lost super.

v. Find your lost super – you may have money you didn't know existed!

The ATO has a "Lost Member Register" that lists all of the lost super accounts. To access the register you can visit:

http://www.ato.gov.au/super/pathway.asp?pc=001/007/014&mfp=001&mnu=4456#001_007_014 or call 13 28 65 (available 24 hours a day 7 days a week).

The only information you may need to supply is your name, date of birth and tax file number.

vi. Choose a fund that is right for you

Since 1 July 2005, many people have been able to choose the fund that will receive their employer Superannuation Guarantee payments. This has given people the ability to choose their own super fund if they were not happy with the super fund which was chosen by the employer. It's important to note that if you are eligible to choose you don't have to elect to make a choice.

You may be eligible to choose a fund if you:

- are under a federal award;
- are not under an award;
- are covered by a 'notional agreement preserving state award' under the WorkChoices changes (effective 1 July 2006); and
- are part of an Australian Workplace Agreement (AWA) or are under an award or certified agreement that has no super provisions.

If you are eligible to choose a fund make sure you look carefully at the fund that your employer has chosen to see if it is the right fund for you. Your financial adviser will be able to help you to determine if you are eligible to choose another fund and more importantly if you need to.

What can you do with your super when you retire?

When you retire you have a few choices in relation to your super:

- you can withdraw the entire amount;
- you can keep your super in the super fund;
- you can transfer the amount into a pension; or
- you can do a combination of the choices above.

It's a good idea to speak to a financial adviser about your choices as there can be some tax to pay when you use your super. For example, you may pay tax on the withdrawal and you also may pay tax when you receive income payments from the pension if you are under age 60.

Tip – If you are 60 and over you can withdraw your super and receive pension payments TAX FREE (for payments from a taxed source).

3. Your home

For many people their home is their greatest asset. When people retire they often consider downsizing and moving to a new home. This can free up some assets especially if the house you move to is worth less than your current home. Therefore this can be a practical way to increase your funds for retirement.

For people that don't wish to move from their home and do not have enough funds for retirement they could consider the option of a reverse mortgage. Reverse mortgages allow older people to borrow money by mortgaging their home, without having to pay back either the amount borrowed or the interest due until they leave their home or die.

There are real risks associated with reverse mortgages and care needs to be taken to ensure that it is suitable for you. Speak to a financial adviser to see if this approach is appropriate for you.

Tips

- try to have your mortgage paid off by the time you retire.
- can you use the assets in your home to fund your retirement?





4. The age pension

The age pension can come in handy when you retire as it can pay approximately \$13,800³ each year! Along with the pension you may also be eligible for rent assistance (if you are renting) and you'll also receive a pensioner concession card.

The benefits of the pensioner concession card can vary between states but it can offer some of the following savings:

- reduced cost of medicines through the Pharmaceutical Benefits Scheme
- reduction in property and water rates
- reduction in energy bills
- a telephone allowance
- reduced cost of public transport
- discounted motor vehicle registration

Not all people will receive the full amount of the age pension. You might have a medium level of assets or income and you may be entitled to receive a part pension. Regardless of how much you are eligible to receive – something is better than nothing!

You may be able to receive the age pension when you are of “pension age”. For men this is 65 and for women the pension age depends on their date of birth as outlined in the table below:

Date of Birth	Qualification Age
1 July 1935 to 31 December 1936	60.5
1 January 1937 to 30 June 1938	61
1 July 1938 to 31 December 1939	61.5
1 January 1940 to 30 June 1941	62
1 July 1941 to 31 December 1942	62.5
1 January 1943 to 30 June 1944	63
1 July 1944 to 31 December 1945	63.5
1 January 1946 to 30 June 1947	64
1 July 1947 to 31 December 1948	64.5
1 January 1949 and later	65

Not everyone will be entitled to receive the age pension. Apart from age there is also a means test which you have to pass. The means test consists of an income test and assets test. Centrelink calculates the amount of age pension you are entitled to receive under each test. Then they will pay you the lowest rate calculated under either the income test or the assets test. For example, if the Income Test had you receiving the full age pension and the Assets Test had you receiving \$300 per fortnight you would receive the lower amount of \$300 per fortnight.

The amounts that you are able to earn (ie the income test) and the amount of assets you are able to own (ie the assets test) are outlined in the tables below.

Income Test

Family situation	For full pension (per fortnight)	For part pension (per fortnight)
Single	up to \$132 ⁴	less than \$1459.25 ⁴
Couple (combined)	up to \$232 ⁴	less than \$2439.00 ⁴

To explain the income test, if you are single you are able to earn up to \$132 each fortnight and still receive the full age pension. When your income exceeds \$1,459.25 in a fortnight you will not be able to receive the age pension. If your income falls within the two amounts you'll receive a part age pension under this test.

Assets Test for Homeowners

Family situation	For full pension	For part pension
Single	up to \$166 750 ⁴	less than \$343 750 ⁴
Couple (combined)	up to \$236 500 ⁴	less than \$531 000 ⁴

Assets Test for Non-homeowners

Family situation	For full pension	For part pension
Single	up to \$287 750 ⁴	less than \$464 750 ⁴
Couple (combined)	up to \$357 500 ⁴	less than \$652 000 ⁴

The assets test is the last means test and as you can see from the tables above it depends on your family situation and whether you own your own home.

If you own your home you have a smaller amount of allowable assets you are able to have – which is quite fair as the home you own and live in will generally not count as an asset. To give you an example of how the assets test works, if you owned your own home (ie you are a homeowner) and you and your husband/wife were applying for an age pension, as a couple you would be able to have assets of \$236,500 and still receive the full age pension. If your assets (as a couple) exceeded \$531,000 you would not be able to receive any age pension. If you have assets within these two amounts you'll be eligible for a part age pension under this test.

When you are at the stage where you need more information about the age pension, speak to a financial adviser or call the Centrelink Retirement Services on 13 23 00.

Important News

On 20 September 2007 the pension taper rate will be halved from \$3.00 to \$1.50 for every \$1000 of assets above the assets test free areas. This means the maximum amount of assets you can have and still get a pension will increase.

5. Planning for the unexpected

Part of planning for your retirement involves making sure that your affairs are in order should you become sick and unable to take care of yourself or if you die. It can be a bit of a morbid topic but having your affairs in order gives you peace of mind that your family and your wishes will be taken into account.

There are a few things you should consider, all of which are very important:

- **Personal insurance – do you have enough to protect you?**
- **Do you have a will?**
- **Do you have a power of attorney?**
- **Have you organised who your super will go to in the event of your death?**

Personal insurance

Personal insurance covers events such as death, total and permanent disability, critical medical events (eg heart disease, cancer, multiple sclerosis etc) and serious injury or sickness that prevents you from working.

You should see if you have adequate personal insurance cover.

If something happened to you would you and your family be able to make ends meet? What would happen to your children? It's very important to mention personal insurance as you want to be able to keep the wealth that you have accumulated so far so you can have a healthy retirement and enjoy the fruits of your labour.

You may have some insurance in your super fund, although you should check the amount as for many people it isn't enough. So you can make sure you aren't exposed you should speak to a financial adviser to make sure you are adequately covered. And it need not be expensive – it could cost just a few dollars a day – not much for peace of mind!

Wills

A will is a legal document that enables you to appoint a person (ie an executor) to carry out your wishes and to dispose of your assets in the event of your death. A will is an important document which should be kept in a safe place. Often the will is kept with a solicitor or at the very least in one place with all of your important paperwork. If you have older children they should know the whereabouts of the will as they may start the process in the event of your death.

If you don't have a will you can lose control over who will receive your assets in the event of your death. Without the guide of a will your assets will be distributed according to state laws which may not give you the result you wanted. A will can also be used to guide the appointment of guardians for your children.

Having a will constructed does not have to cost a lot of money. You should arrange to see a solicitor or speak to one of the government agencies listed below:

Government Agency	Contact Details	
The Public Trustee of NSW	1300 364 103	www.pt.nsw.gov.au
State Trustees (Victoria)	(03) 9667 6444	www.statetrustees.com.au
The Public Trustee for the ACT	(02) 6207 9800	www.publictrustee.act.gov.au
The Public Trustee Tasmania	1800 068 784	www.publictrustee.tas.gov.au
The Public Trustee of Queensland	(07) 3213 9288	www.pt.qld.gov.au
The Public Trustee of South Australia	(08) 8226 9200	www.publictrustee.sa.on.net
Office of the Public Trustee NT	(08) 8999 7271	www.trustee.nt.gov.au
Public Trust Office – Wills (WA)	1800 642 777	www.justice.wa.gov.au

You should also give a bit of thought to who you wish to nominate as the executor of your estate. As the job can be complex and is quite onerous the executor should be:

- honest;
- likely to out-live you and be alive when the youngest beneficiary will become entitled to possession of the assets; and
- able to fulfil the duties of the job.

Power of Attorney

Powers of attorney protect the living. They are legal documents that allow you to appoint a person (eg an agent) to act on your behalf. There are different types of powers of attorney, but an enduring power of attorney allows you to appoint someone to take care of your affairs when you are unable to do so yourself. Some tasks that the agent may perform include:

- paying your bills
- managing your investment portfolio
- deciding about your daily care

For this reason it is very important to choose an agent wisely (if you choose to do so at all) as if you lose mental capacity and have an enduring power of attorney you can not revoke it. So the agent will continue to manage your day to day affairs. Attributes that you should look for in your agent include:

- someone you can trust;
- someone who understands your wishes; and
- someone who is competent and has time to fulfil their duties.

What is the alternative? If you do not have an enduring power of attorney and you lose mental capacity, the State will appoint someone to manage your day to affairs. The person appointed may not be favourable to you.

Your super

Thought should be given to who will receive the proceeds of your super account in the event of your death. In many cases it will be possible to pay your super to more than one person – eg half to your husband and half to your children.

When you are thinking of who your super should go to, it is worthwhile to consider the tax implications. Your super will be tax free if paid to the following people:

- your spouse
- your defacto
- your children provided they are under 18
- people that are financially dependent on you
- someone that you have an “interdependency relationship” with

People have an interdependency relationship if:

- they have a close personal relationship;
- they live together;
- one or each of them provides the other with financial support; and
- one or each of them provides the other with domestic support and personal care.

An example of a relationship that may meet having an interdependency relationship is a same sex relationship and family members living together (eg two elderly sisters). This is provided that the relationship meets the previous criteria.

If your super is paid to anyone who falls outside of the previous categories it will probably be taxed. One type of person that would fall outside of the list is children who are aged 18 and over who are not financially dependent on you or do not have an interdependency relationship with you. In some cases they could lose up to 30% in tax. What this can do is erode the amount of inheritance that you can pass on.

You should speak to a financial adviser about who should receive your super to ensure that the payment doesn't get lugged with tax. It is quite easy just make an appointment and you can get peace of mind knowing that your affairs are in order in a tax effective way.

A few simple questions to ask yourself.

Do you have a will?

Is it current?

Do you need a power of attorney?

Who is getting your super?

6. Working part time

The transition to retirement can go a couple of ways. You can either choose to work full time until you retire or you can work on a part time basis a few years before you retire completely. For those people that wish to transition to part time employment there is one thing you should ask yourself –

Can I afford to work part time?

Working part time has some consequences from a financial perspective. While these may not all directly affect you, they are worth exploring:

- You will be earning less income – will that provide enough money to live on or will you need to use some of your savings?
- If you are using your savings to supplement your reduced income will you have enough left for retirement?
- As you will be receiving a reduced income your compulsory super that your employer pays may also decrease.
- Will your insurance offered by your super fund change as your employment is now part time?

When you answer these questions it will either confirm that part time work will be appropriate for you or you may find that you need to continue full time employment so your retirement is more comfortable.

If part time employment is the path for you, there is a good opportunity that you can take advantage of. The Government has changed super laws so now it's possible for you to access your super if you are 55 and are still working (on a part time or full time basis). If you use this provision you need to take your super in the form of a "non commutable" pension or annuity or a transition to retirement pension or annuity. A non commutable pension or annuity is one you generally can't withdraw from and where it pays you income. The pension will give you an amount of income each year which could supplement your income if you are working part time.

There are also opportunities to use this new provision and also reduce your tax if you are working full time and are at least 55. It involves you continuing full time work and salary sacrificing some or all of your income into super (this is if your employer allows you to do this). At the same time you could convert your super into a non commutable pension which would provide you with an income.

You might be wondering what you could stand to gain by structuring your income this way. There are four main advantages:

- You could save tax on the income that you salary sacrifice (as super salary sacrifice is only taxed at 15% as opposed to your marginal rate of tax which could be as high as 30%, 40% or 45%).
- The super that you convert to a pension will enjoy a tax rate of zero. This means that all investment earnings in your pension will be tax free!
- If you are 55–59 part of each pension payment made may be tax free and the remaining part may attract a 15% tax offset.
- pension payments may be tax free when you are aged 60 and over

If you manage to save tax from this strategy you could consider using it to retire debt or for other investments outside of super.

Are you at least 55 and working? Do you want to talk about saving tax – if so you should speak to a financial adviser as it may be possible!

7. Financial advice

It is very important to speak to a financial adviser when you are in the process of planning for your retirement as they can make the process very easy. Advisers that specialise in retirement planning see many clients that have very different needs. Based on your needs a financial adviser would be able to tailor a retirement plan to suit you.

You should start to think of retirement as early as possible and not leave it to the last minute. So do yourself favour and contact a financial adviser today so they can start working to ensure that you have the best retirement possible.

1. Australian Life Expectancy Tables 2000 – 2002.
2. The Association of Superannuation Funds of Australia Limited – How fair is Super – January 2004.
3. This rate is for singles and is valid from 1 July 2007 and is subject to change.
4. These rates are valid from 1 July 2007 and are subject to change.

Handy Contacts

If you want to conduct your own research about super and planning for retirement there are some handy contacts in the table below.

	How they can help	Contact Details
Australian Securities & Investments Commission (ASIC)	Free financial tips and calculators	1300 300 630 www.fido.asic.gov.au
Australian Taxation Office (ATO) – Super Help Line	Free fact sheets and calculators	13 10 20 www.ato.gov.au
Centrelink Financial Information Service	Free fact sheets and seminars	13 23 00 (fact sheets) 13 63 57 (seminars) www.centrelink.gov.au
Investment & Financial Services Association (IFSA)	Free fact sheets	www.ifsa.com.au
National Information Centre on Retirement Investments (NICRI)	Free fact sheets	1800 020 110 www.nicri.org.au
The Association of Superannuation Funds of Australia Ltd	Free fact sheets and superannuation dictionary	www.asfa.asn.au



TOWER Australia Limited ABN 70 050 109 450 AFSL No. 237848 Dated: 1 July 2007

The information contained in this document is for general information only and does not constitute financial or investment advice, taxation advice or recommendation, nor should it be relied on as such. You are advised to seek your own professional advice tailored to your individual investment objectives, financial situation and particular needs.

To the extent permissible by law, TOWER Australia Limited (TOWER) disclaims all liability arising out of any access to the information or use of information available in this document.

T3435/E002