Snapshot

Time to step up super contributions

Australians are going to have to save a bit harder to build their retirement nest egg, thanks to the recent government decision to postpone increases in compulsory superannuation. This and other changes make it more important than ever to take control of your retirement savings.

As part of the scrapping of the mining tax, the planned increase in the compulsory superannuation guarantee (SG) to 12 per cent has been delayed by six years. As a result, it is proposed that it will stay at 9.5 per cent until 2021 when it will increase by 0.5 per cent a year until reaching 12 per cent in 2025-26.

The other key change is that the $500 Low Income Super Contribution for workers earning less than $37,000 a year will be abolished in 2017.

The aim of this contribution was to create a more even playing field for low-income Australians. Because SG contributions are taxed at the concessional rate of 15 per cent, people on higher marginal income tax rates enjoy an advantage, whereas those on the lowest marginal rate of 19 per cent effectively receive no tax concession.

Additional contributions

As a general rule of thumb, it is suggested that you will need 70 per cent of your final annual income to enjoy a comfortable retirement.

While it has always been the case that anyone aspiring to more than a basic lifestyle in retirement needs to supplement employer contributions with their own savings, the delayed increase in SG payments underlines the importance of doing so.

The changes will leave some people tens of thousands of dollars worse off, but the actual amount depends on your age and financial circumstances.

Take the example of someone aged 20 earning $35,000 a year; assume they get a pay rise at age 30 to $80,000 (in today's dollars) and another at 40 to $150,000. Assume also that their salary is indexed by 3 per cent a year between pay rises.

Factoring in average returns of 7.35 per cent a year, our 20-year-old's balance at 65 would be $594,106 in today's dollars (as the table below shows). Under the original SG timing, it would have been 2.65 per cent higher ($16,222) at $610,328.

But a 40-year-old who had salary sacrificed to build up $250,000 in super and was earning $180,000 indexed at 3 per cent would be 3.47 per cent, or $42,487, worse off at 65.

Low income super contribution

The removal of the $500 contribution will have the bigger impact for low income earners.

SGS Economics estimates that someone who earns $35,000 a year from age 22 to 69 will be 16.7 per cent worse off under the new rules. Only 3.9 per cent of that is due to the SG freeze; the remainder stems from the abolition of the rebate.

Boosting your super

There are several ways to maximise your retirement income.

- **Salary Sacrificing**

  One is through salary sacrificing up to your age-based limit. For those aged under 50, the cap is $30,000 a year including all SG contributions and $35,000 for those 49 or over at June 30 this year.

- **Non-concessional contributions**

  You can also make non-concessional (after-tax) contributions up to $180,000 a year, or $540,000 over a three-year rolling period.

- **Government co-contributions**

  If you earn less than $49,488, then you can benefit from a co-contribution from the government if you make an after-tax contribution to your super. This is worth as much as $500 depending on your actual income and the amount you contribute.

The changes may not make a huge difference to your retirement balance, but they do mean you will have to do more of the heavy lifting yourself.

If you would like to discuss ways to boost your retirement savings, please give us a call.

Impact of delayed SG increases at age 65

Age now	Before changes*	After changes*	Difference*
20	$610,238.00	$594,106.00	$16,222.00
40	$1,223,309.00	$1,180,822.00	$42,487.00

*In today's dollars Source: AMP

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