

No time like now to boost your super



Noel Whittaker

Increased employer contributions to come will not make the difference that salary sacrificing can achieve today.

SUPERANNUATION balances will get a boost now that Assistant Treasurer Bill Shorten has confirmed that employer contributions are going to be raised from 9 per cent to 12 per cent.

It won't be popular with employers as it means more costs for them, and it won't do much for older workers as it will take nine years to be fully implemented.

Compulsory contributions will rise to 9.25 per cent in the 2013-2014 year, and slowly increase until the full 12 per cent will be paid in 2019-2020.

There is also a move to make the employer contributions compulsory to age 75 in lieu of the present age of 69.

This will have about as much effect as making vet care free for dogs over 15; most of the few employees working after 70

now are in a position to use salary sacrifice. It is available until age 75 already.

It's a wake-up call to those aged between 40 and 54 now that they will be hit with a double-whammy.

They will not qualify for the aged pension until age 67, yet won't have time for the increased employer contributions to benefit them to the maximum.

To make matters worse, it's odds on that most of them will live to over 90. This means they have to stay at work until 67 and, while doing so, accumulate enough money to see them through for more than 20 years.

Living longer than your money is certainly a frightening prospect,

especially when it is obvious that employer superannuation alone will be insufficient for most Australians.

This is why it is vital to start using strategies now to boost your finances.

One of the best is salary sacrifice. If you earn between \$37,700 and \$80,000 your marginal tax rate is 31.5 per cent, which means that a \$10,000 pay rise taken in hand will lose \$3150, leaving you with only \$6850.

That same \$10,000 salary sacrificed to super would lose only \$1500, leaving you with \$8500 – that's 24 per cent more.

But the benefits don't stop there. The earnings on the \$6850 in your own name will be taxed at 31.5 per cent, whereas the earnings on the \$8500 in super will be taxed at only 15 per cent.

It is important to act, and the quicker you do so the less you will need to invest.

The person who salary sacrifices has more money working for them, it will be earning a higher after-tax rate of return, and there is no risk of it being frittered away because the money can't be touched until they reach their preservation age.

Let me take you through a case study to show you how powerful, and necessary, extra contributions can be.

A person is 53, earns \$80,000 a year, has \$150,000 in super, all contributed by the employer.

Their partner does not work. They intend to work for 14 years then go on the age pension at age 67.

They estimate they will

need \$4000 a month in today's dollars when they retire (if inflation is 3 per cent a year). To achieve this goal they will need to accumulate \$932,000 if they live to age 92.

If their employer superannuation earns 8 per cent and their income increases by 3 per cent a year, they should have only \$622,000 in their employer fund at age 67 – well short of their target.

Option one is to do nothing and hope that the age pension will be sufficient then to make up the shortfall in their finances.

A better one, if they can afford it, is to salary sacrifice \$1176 a month which would provide the additional \$310,000 needed.

Alternatively their partner could seek part-time work. If they earned only \$25,000 a year, the deficiency could be made up by relying on the employer

contribution, plus \$1000 non-concessional contribution to get the co-contribution, and salary sacrifice of only \$9000 a year.

Yes, it is important to act, and the quicker you do so the less you will need to invest. Fortunately we have the best superannuation system in the world to make it easier.

Noel Whittaker is a co-founder of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noelwhit@gmail.com



Q I am 18 and contribute to my own super. I have been contributing to my own super since I was around 15. Currently I am a trainee and contribute \$78 a fortnight into my super, which is 12 per cent of my annual income. Once my income changes I will put more in. I am just wanting to know am I doing a good thing for my retirement? I want to retire young.

A Congratulations on a wonderful attitude to finance. While superannuation offers major tax advantages you cannot access your superannuation under the

current rules for 42 years and there are bound to be many changes to the rules in that time. These may well raise the age at which you can access it. I suggest you rely on the employer contribution and do your investing outside the superannuation system so you don't lose access to your money.

Q I am 64 years old, earn \$60,000 a year and salary sacrifice \$1700 a month into super. I have \$88,000 in an online bank account that pays a healthy interest rate and also have shares to the value of \$25,000. Should I move my money from online banking

into super or is it a case of getting on the train too late?

A You are at the perfect age to put money into super because once you reach 65 you will not be able to contribute unless you pass the work test that involves working at least 40 hours in a year over 30 consecutive days.

The benefits of super are that earnings are taxed at only 15 per cent and when you start the account-based pension, the fund will be from a tax-free fund.

Send your questions to noelwhit@gmail.com

Winding up in a fix as variable rates continue to fall

By LESLEY PARKER

THE rush of borrowers towards fixed-rate loans at a time when official interest rates have started to fall has Australia's credit ombudsman worried.

With one interest rate cut in the bag, Ombudsman Raj Venga has urged borrowers to carefully consider the implications of locking in a home loan rate – in particular, the possible “break cost” if they discharge the loan early to refinance or sell.

Housing finance data released last week showed that fixed-rate loans jumped from 5.6 per cent of all loans in August to 7.9 per cent in September as unusually cheap fixed rates enticed borrowers.

But Venga, who handles complaints about non-bank lenders, says although fixed rates are often seen as a way of reducing the risk of rising interest rates, “borrowers should be aware that they may incur substantial break costs in a falling interest rate environment.”

In the past, fixed-rate loans have resulted in a spike in complaints when variable rates later drop significantly and people try to refinance.

While exit fees have been banned on variable-rate loans, lenders can still charge break costs on a fixed-rate loan to recover the amount they'll lose if the borrower leaves early.

If rates are falling and the

financier has to re-lend the money at a lower rate, they're entitled to recompense. The more rates fall, the higher the break cost.

“Break costs can and do sometimes run into tens of thousands of dollars,” Venga says.

They might be payable if the loan is refinanced or discharged within the fixed-rate period, possibly because the property is being sold; if additional funds are sought, which would require the existing loan to be discharged; and if a lump-sum repayment is made during the fixed-rate period (though some lenders allow you to prepay up to \$10,000).

Before signing a contract, borrowers should seek advice on how any break costs would be



calculated, Venga says. If you're already on a fixed-rate loan and are thinking about refinancing, ask first for an indicative payout figure, making sure that this includes any break cost.

Remember that this payout

figure might change if you don't act straight away.

Those who fixed in August and September won't have cause for regret yet. The typical fixed rate was 6.6 per cent to 7 per cent then and even after the recent rate cut the average big-four variable rate is 7.55 per cent – though some people qualify for discounts of 0.5 to one percentage points.

But those who locked in about 8 per cent in November 2007 – when fixed-rate loans hit a record 24 per cent of all borrowing – know how costly it can be if you need to break a loan early when rates are falling.

A year after they fixed, the global financial crisis hit and rates plummeted, sending break costs soaring.

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