



Closing the super savings gap

While as a nation we collectively face a large retirement savings gap, there are a number of smart things you could consider doing to help make sure your future financial security isn't at risk.

The savings gap

Most Australians are financially unprepared for retirement, partly because we are living longer than ever before and we have higher expectations of our retirement lifestyle.

Research conducted by Rice Warner Actuaries reveals that Australia has a shortfall in super of close to \$1 trillion¹.

What's more, the Association of Superannuation Funds of Australia (ASFA) says the average couple needs at least \$510,000 to fund a comfortable retirement, while a single person needs at least \$430,000 (both calculations assume receipt of part Age Pension)².

If you're relying on your employer compulsory super contributions alone to meet this retirement goal, you could be in for a nasty surprise. According to ASFA, if you're earning \$50,000 a year, your lump sum benefit after 30 years of employer contributions would be just \$183,000 (assuming 9% super guarantee contributions, investment earnings of 7% and current tax rates).²

While the gradual increase in the super guarantee rate to 12% by 2025 will go some way towards closing this gap, it's unlikely to be enough².

¹ Rice Warner Actuaries, 'Longevity Savings Gap', Sep 2012.

² ASFA Retirement Standard, Sept 2014.

Strategies to help close the gap

1. Set your target

The first step in closing the super gap is to understand how much you will need to create the retirement you want. While this may seem obvious, research by Investment Trends shows that 68% of Australians haven't set a target for their retirement savings or income³. A simple way to estimate how much you'll need to save is by using a superannuation calculator such as the one at www.mlc.com.au/SuperannuationCalculator/.⁴

2. Sacrifice some of your salary

Making regular contributions from your pre-tax salary into your super is a simple way to help boost your retirement funds. The amount you sacrifice into super will generally be taxed at 15%, or 30% if you earn over \$300,000. But this is likely to be less than the marginal tax rate you pay on your salary, which is currently up to 49%.

3. Consider co-contributions

For people earning up to \$49,488 a year (before tax), making an after-tax payment to your super could make you eligible for a Government co-contribution of up to \$500 — effectively boosting the value of your contribution.

4. Contribute to your spouse's super

When one partner takes time off to care for children or elderly parents, they lose the benefit of regular super contributions, adding to the super gap. To help counter this, the Government offers a tax rebate of up to \$540 when you contribute up to \$3,000 into your spouse's super, provided they earn less than \$13,800 in the year.

5. Make a lump sum contribution

For many people who receive a lump sum, whether it is a bonus, an inheritance or a redundancy payout for instance, their first thought is to put it on the mortgage. But depending on your circumstances, you may be better off putting it into super, or using it to supplement your income and increasing your pre-tax contributions.

Get the right advice

The best strategies for you will depend on your personal circumstances, including how much tax you pay. You should also be aware that other eligibility requirements may also apply in relation to each of the above strategies, and that there are caps (or limits) on how much you can contribute to super before penalty tax rates apply. So before you decide how to close your super gap, you should talk to a financial adviser to find out what's right for you.

To find out more about the information in this article contact Rick Maggi on 9382 8885.

³ Investment Trends, November 2011 Retirement Income Report.

⁴ This calculator is prepared by MLC Nominees Pty Ltd ABN 90 000 000 402 (AFSL number 230694) and you should refer to the 'Superannuation Calculator Disclaimer' available on the website before using this calculator.

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