

Bridging the gap

Salary Sacrifice

Salary Sacrifice is when your employer pays part of your before-tax salary into your super.

Topping up your superannuation with salary sacrifice contributions may also provide you with tax savings right now by lowering your taxable income level.

You can salary sacrifice as much – or as little – as you like. But there are certain conditions that could affect the amount you choose to salary sacrifice[^].

Salary sacrifice works best when your marginal income tax rate is more than 15%. If you earn less than \$35,000 p.a., your income and super tax rates may be the same, so salary sacrifice may not give you an added advantage.

Instead, making after-tax super contributions may be better for you because you may be eligible for a Government Co-contribution of up to \$1,000 in 2011/2012.

For more information please visit our website: qiec.com.au - members - grow your super - Salary Sacrifice.

Government co-contribution

You may have heard of the Government Co-Contribution but you might not know what it is. It's really quite simple.

If your gross income* is \$31,920 or less in the 2011/12 financial year and you contribute \$1,000 (after tax) into your QIEC Super account, the Government will match your contribution by

100%. That's an additional \$1,000 into your super account.

Where your total income* is over \$31,920, the co-contribution payable will reduce by 3.333 cents for each dollar your income* is over \$31,920. It will reduce to zero at an income* of \$61,920.

Certain requirements do apply for this scheme, so it's best you read the QIEC Super Co-Contribution Fact Sheet on our website for more information: qiec.com.au - members - grow your super - Government Co-contribution.

Spouse contributions

Contributing to your spouse's super might make sense if your spouse has a low income or does not work at all. By making a spouse contribution, you can receive a tax rebate of up to \$540 each financial year.

Conditions apply so please visit our website: qiec.com.au - members - grow your super - Spouse Contributions.

Contribution Splitting

Contribution Splitting is where your spouse can transfer up to 85 per cent of his/her past year's concessional contributions to your account (or vice versa) – this can help to keep yours and your partner's super accounts even.

Conditions apply so please visit our website: qiec.com.au - members - grow your super - Contribution Splitting.

*Income is defined as assessable income plus reportable fringe benefits plus reportable employer superannuation contributions (RESG). RESG is generally superannuation contributions which you have asked your employer to make as salary sacrifice (before tax) or additional employer contributions (in addition to Superannuation Guarantee or award contributions) paid on your behalf as part of a remuneration package. Consult your employer to identify your likely RESG for the financial year. ^ Before-tax contributions count towards your concessional contributions cap. Any contributions over the cap may be subject to extra tax.

Is it coming up to your 10 year anniversary?

Once you have been a member of QIEC Super for 10 years continuously, you may be eligible to apply to QIEC Super to receive 1 additional unit of Death insurance cover.

Best of all, there is no need to provide medical evidence. That's right - no health tests!

This cover is provided at the same premium rate as any existing Death insurance cover you already have.

If at the time of application, you have unit based insurance cover, you will receive an

additional unit of Death cover.

If you have fixed amount insurance cover, you will receive the equivalent value of one additional unit of cover as at your current age.

You are eligible to take advantage of this offer once you have been a member of QIEC Super for 10 continuous years, and have not already taken advantage of the extra cover available at a 'Key Life Event'.

*For more information on QIEC Super's Key Life Event offer, please see the QIEC Super Insurance Guide available on our website.

How can I apply for the extra cover?

To take advantage of this offer, you will need to apply for the cover within 120 days of the event occurring.

For example, if you joined QIEC Super in December 2001, and have been a member continuously, you will be eligible to apply to QIEC Super to receive this cover from December 2011.

Please call QIEC Super on 1300 360 507 for more information.



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inside

Access your Money

Transition to Retirement Pension

Mind The Gap

The SUPER gender gap.

"My dream retirement is seeing my children financially secure and having \$1.00 more than I could spend. Financial peace of mind."

Mona Baker
QIEC Super Member

noted ✓

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qiec
super
first in our class

MIND THE GAP

Access your money

Did you know that when you reach age 55 you can get hold of a slice of your super while you are still working?

MIND THE GAP

The SUPER gender gap

With average retirement payouts in the region of \$136,000 for men and only \$63,000 for women¹ it is clear that when it comes to retirement savings, there is a distinct 'gender gap'.

Throw into the bargain that women have longer life expectancies than men² and it can be argued that women need more savings than men to fund a comfortable retirement.

Why the gap?

Super was designed for people who have a full working life, not those who take extended periods out of the workforce.

A 2011 study from the Australian Institute of Superannuation Trustees (AIST) found that four out of five of the women in the study took a career break during their lives to raise children, the average length of the break being 13 years. The outcome was, that of the women in the survey who had super, only 6 per cent said their money lasted more than 10 years; 43 per cent said it lasted less than one year³.

Let's look at the numbers: If you leave the workforce at age 35 for 10 years and you're a professional woman earning \$80,000, you're actually giving up

"They're (Women) missing out on contributions and compounding interest and it absolutely kills their super"

The chief executive of AIST, Fiona Reynolds⁷

over \$380,000 in super, compounded over 30 years, earning just 7.5 per cent investment earnings⁴.

In addition to career breaks, Australian women (statistically speaking) earn less than Australian men. In August 2010, the Australian gender pay gap was 16.9%⁵. Plus, women are more likely to undertake part-time or casual work which reduces their ability to earn and contribute to their retirement savings (in 2008/09 85% of men worked full time compared with 55% of women⁶).

Please read the article "Bridging the Gap" in this newsletter for hints on how to bridge the super gap.

¹The Association of Superannuation Funds of Australia Limited, Retirement savings update (2008), www.superannuation.asn.au/Reports/default.aspx, figures from 2005-06 financial year. ²<http://www.aihw.gov.au/life-expectancy-how-australia-compares/> ³http://www.aist.asn.au/media/74552/2011_superpoor_but_surviving_web.pdf Superpoor, but surviving, experiences of Australian women in retirement. AIST 2011. ⁴Assumptions: the figures provided assume the member had an opening balance of \$50,000 at age 35 and an ongoing salary of \$80,000 until age 65. The results do not take any fees, tax or inflation into account. The results allow for an SG contribution rate of 9% employer SG contributions and that no contributions are made during the 10 year break from employment. The results allow for a 7.5% investment return. During the 10 year break the balance of the members account continues to earn an investment return of 7.5%. ⁵<http://www.moneywise.gov.au/tools-and-resources/calculators-and-tools/superannuation-calculator> ⁶Equal Opportunity for Women in the Workplace Agency, Pay Equity Statistics, Australian Government, 2010. ⁷http://www.eowa.gov.au/Pay_Equity/Files/PE_STATS.pdf Year Book Australia 2009 - 10 ⁸Men were more likely than women to work full time (85% compared with 55%) <http://www.abs.gov.au/AUSSTATS/abs@.nsl/lookup/D1627ABE11C4B12CCA2573700169C6A> ⁹<http://www.theage.com.au/money/super-and-funds/unequal-opportunity-20110705-1g2f.html>

You can do this by switching on a super pension known as a Transition to Retirement Pension. You may well be thinking, "why would I want to draw a pension while I'm still working?"

To help answer that question, let's start by taking a quick look at what one of these pensions has to offer. By the way if you haven't hit that age 55 target yet, don't hoist the white surrender flag! Keep reading because this information may be really helpful looking down the track.

People kicking off a transition to retirement pension basically fall into two camps:

1. those who are continuing to work full-time and wish to give their super savings a boost; and
2. those who want to ease into retirement by switching to part-time employment.

Ok let's take the first camp. You may be wondering how someone can boost their super account when they are actually pulling money out via a pension. The answer in two words is "tax savings".

In a nutshell, you are taking advantage of the tax rules (legally). The trick is to reduce your employment income and top it up with a super pension so you end up with the same take-home pay. By doing this you can save a nice chunk of tax which in effect is recycled back into your super account. Note that this strategy won't work if you are a tax payer with a personal tax rate of 15% (or less).

This all makes more sense if we look at an example. We don't want to bore you with heaps of technical detail in this example so we'll give you the summarised version of what happens when Barry takes out a transition to retirement pension. He plans to keep working full-time for some years. His current super balance is \$200,000.

Barry - aged 55

	Current arrangement	New arrangement
Gross annual salary	\$60,000	\$60,000
Salary sacrifice to super	\$0	\$23,000
Income for tax purposes	\$60,000	\$37,000
Income tax	\$12,450	\$5,205
Net employment income	\$47,550	\$31,795
Plus net pension income [*]	\$0	\$15,760
Total net income (take-home pay)	\$47,550	\$47,555

Outcome for Barry:

So the upshot is that Barry's super account is being boosted by **\$3,550 per annum** at nil cost to Barry. It is all coming from effective tax planning.

^{*}Salary Sacrifice contributions are subject to 15% contributions tax when received by the Fund. Check with your employer if they allow Salary Sacrifice contributions. Salary Sacrifice contributions count towards your concessional contributions cap. Contributions in excess of the cap may be subject to extra tax.

[^]There is a minimum annual pension depending on your age, this minimum is reduced by 25% for the 2011/2012 financial year. A maximum annual pension amount also applies which is 10% of your account balance.

[†]Not taking fees and tax into consideration

Now let's turn our mind back to our second category of people - those who want to ease into retirement by switching from full-time to part-time employment. By combining income from part-time employment with the income from the super pension, you can end up with the same take home pay.

Carol has decided to move to part-time work. She wants to slice her weekly hours by one third but keep the same take home pay. Her current super balance is \$200,000.

Carol - aged 60

	Current arrangement	New arrangement
Gross annual salary	\$60,000	\$40,000
Income tax	\$12,450	\$6,150
Net employment income	\$47,550	\$33,850
Plus super pension (tax free)	\$0	\$13,700
Total net income	\$47,550	\$47,550

Outcome for Carol:

- She has a more relaxed lifestyle because of her reduced working hours.
- Her combined (net) after-tax income is \$47,550 p.a. which is the same as she was taking home when working full time.
- She is drawing a modest pension of \$13,700 p.a. from her super account.
- If her super account earns an average of just 7.5% p.a.* those earnings will cover quite a big chunk of the transition to retirement pension without eating into the account balance too much.

It's important to note that you cannot make lump sum withdrawals from a transition to retirement pension. When you do decide to retire from work, you can switch to a normal (account based) pension which has the following advantages:

- there is no maximum annual pension limit; and
- you can make lump sum withdrawals from that account (in addition to pension payments).

Want to check out how one of these pensions may work for you? Please contact us on 1300 360 507.

The income tax rates used in the above examples are for the 2011/12 financial year and do not have regard to any flood levy impacts. Investment earnings can also be negative, in line with movements in the value of the Fund's investments, in which case the interest applied will be negative.

Certain conditions do apply. For more information please refer to the QIEC Super Pension PDS - available at qiec.com.au