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 (RESC). RESC 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 RESC for the financial year. ^ Before-tax contributions count towards your concessional contributions cap. Any contributions over the cap may be subject to extra tax.

We realise there are other priorities in life but please read the article "The most powerful force in the Universe?" in this newsletter which shows the difference even a small amount of money can make.

Is your life changing?

Perhaps your insurance should as well...

QIEC Super members are eligible to apply for an additional unit of Death insurance cover at certain key life events:

- Marriage;
- Birth or adoption of a child; or
- A new mortgage.

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.

This option can be exercised only once. This means that if you have applied for an extra unit of Death insurance cover in the event of a marriage or birth of a child, you will not be eligible to apply for an extra unit of Death insurance cover when applying for a home mortgage or under the Rewarding Loyalty option*.

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 and provide evidence of the event.

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

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

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inside

"My dream retirement is to have enough money to live comfortably, spend time with family, travel and help others in need."

Kirsty Gore
QIEC Super Member

noted✓

MEMBER NEWS // SPRING 2011

qiec super
first in our class

MIND THE GAP

The SUPER gender gap

With average retirement payouts in the region of $136,000 for men and only $63,000 for women[1] 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 men[2] 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 year[3].

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 over $380,000 in super, compounded over 30 years, earning just 7.5 per cent investment earnings[4].

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

The chief executive of AIST, Fiona Reynolds[7]

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 women[6]).

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

[1](The 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/ [3]http://www.aist.asn.au/media/74552/2011_superpoor_but_surviving_web.pdf Super-poor, but surviving, experiences of Australian women in retirement. AIST 2011 [4] Assumptions: 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%. http://www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/superannuation-calculator [5]Equal Opportunity for Women in the Workplace Agency. Pay Equity Statistics. Australian Government, 2010. http://www.eowa.gov.au/Pay_Equity/Files/PE_STATS.pdf [6]Year Book Australia 2009 – 10 "Men were more likely than women to work full time (85% compared with 55%) http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/D1627ABE11C4B12CCA25773700169C6A." [7] http://www.theage.com.au/money/super-and-funds/unequal-opportunity-20110705-1gzif.html

The most powerful force in the universe?

Heard of a bloke named Albert Einstein?

There's a good chance you have but what in the world does this famous character have to do with super? After all, super wasn't even invented in the early 1900s when Einstein was making his name as the father of modern physics. Ok that's true but this man, who has become known as one of the world's greatest intellects, made the observation that "the most powerful force in the universe is compound interest". That's where the link to super savings comes into play.

Compound interest arises when interest is added to the principal, so that from that moment on, the interest that has been added also itself earns interest. Compound interest plays a big part in helping to build up your super savings bucket so you can enjoy your retirement even more. Because your super is generally locked up until you hit that magical retirement day, compound interest has the opportunity to do its best work i.e. to put its "powerful force" into play.

The earlier you start tipping money into your super account the more time compound interest will have to weave its magic. The compulsory super put in by your employers throughout your working life will build up nicely with the compound interest super charger kicking your retirement savings along. But, if you throw in some extra money out of your own pocket, this will really put the compound interest engine into overdrive. Your top-up super could either come from your regular pay packet or as a lump sum hit when you have some spare cash.

Now let's look at an example to see how compound interest does its stuff for your super.

David is 43 years of age and has been in the workforce for over 20 years. He already has $80,000 in his super account. Even if no more money went into that account, it would grow to around $435,000 by the time he reaches 65. This assumes average investment earnings of 8% per annum. Although we haven't taken the effect of inflation into account, this simple example really does demonstrate the power of compound interest. But David's super account will actually look a lot healthier than this because there will be extra money flowing into his account over the period of his working life. This will include the 9% compulsory employer super contributions along with any top-up money he puts in himself.

We'll say David is currently earning $70,000 per annum and that his pay increases by an average of 3% per annum (based on normal pay rises and some promotions) over the years up to his retirement at age 65. David's super is placed in a balanced fund. After allowing for fees and tax, the investment earnings on his account averages a bit under 7.5%^ per annum.

Compound interest arises when interest is added to the principal, so that from that moment on, the interest that has been added also itself earns interest

The table below outlines how much David will end up with in his account based on two different situations. The first is where just the 9% compulsory employer super is going into his account. Then we look at what difference it makes when he tips in an extra 3% from his before-tax pay to give his account an extra boost.

David's super account

Account balance at age 43	$80,000
Salary at age 43	$70,000 per annum
Net rate of interest (investment earnings)	7.5% per annum (rounded)
Salary growth	3% per annum (rounded)
Account balance at age 65 with 9% super	**$700,000***
Account balance at age 65 with 12% super	**$820,000***

You can see at a glance how much David has benefited by making the modest top up contributions to his super – just 3% of his pay.

So that's how it has panned out for David. Your actual retirement nest egg will vary depending on how much goes into your super account and the interest rate over your working life. But whatever way you look at it, Einstein is correct about the power of compound interest so let it weave its magic for you!

*Note: These amounts are in 2033 dollar values – not adjusted for inflation.

Before-tax contributions count towards your concessional contributions cap. Any contributions over the cap may be subject to extra tax. 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. ^Median return for a Balanced option for the financial year to 30 June 2011, according to SuperRatings (AFSL No. 311880).