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All about salary sacrificing into superannuation

Salary sacrifice, by definition, is to give up some of today's pay to receive a before-tax benefit to the same value.

While you can choose to salary sacrifice into a laptop, car or other work and lifestyle items, there are also options that can provide long-term benefits – such as salary sacrificing into superannuation (super).

What are the benefits of salary sacrificing into super?

Salary sacrificing into super is one of the more popular and tax-effective ways to increase your retirement savings.

Not only will you increase the amount of money you have to fund your retirement, but because the amount you sacrifice is deducted from your assessable income, you may also be able to reduce your income tax liability.

So, instead of paying tax at your marginal rate on the money you earn, which can be as high as 46.5%, when you salary-sacrifice your pay to super it becomes a taxable contribution. Because super is treated with tax concessions, this means that the contribution itself, plus any future income earned from your investment, will generally be taxed at a maximum rate of 15%.

Are there any restrictions on this strategy?

Because of the generous tax concessions on super, the government has placed some restrictions on concessional contributions – including superannuation guarantee, salary sacrifice and personal concessional contributions. While your employer can contribute to super on your behalf and claim a tax deduction for an unlimited amount, if your personal concessional contributions exceed $50,000 in a year, you'll be subject to a tax rate of 31.5% (in addition to the 15% tax paid by the super fund) on the excess. However, you are allowed to withdraw money from your super fund to pay this tax bill.

Between now and 30 June 2012, people aged 50 or older will be granted a higher concessional contribution limit of $100,000 (instead of $50,000) before excess tax is charged. The $100,000 limit applies for each year you're over 50 until 30 June 2012, when it reverts back to $50,000.

Other things to consider

Salary-sacrifice is a strategy best used by those who can afford to forgo the liquid income.

Super is a long-term investment, so if you think you may need to access

these particular funds before retirement, salary-sacrifice into super may not be the best strategy for you.

For example, some younger people may benefit more from paying off non-deductible debt (such as your home loan) instead.

Generally, salary-sacrificed funds will have been taxed at 15% and once you retire you can access the funds tax-free and pay off outstanding debts. Make sure your employer's processes can support your decision to salary-sacrifice, and it's a good idea to have a written agreement with your employer before making the contributions.

Case study

Sandra is an auditor for a 'top five' accounting firm. Having just received a salary increase of $10,000, she decided to start planning for her retirement and put the increased amount into superannuation.

Sandra knew there were two options for her to contribute to her superannuation.

Option 1: She could arrange to salary sacrifice $10,000 of her

In this issue ...

- All about salary sacrificing into superannuation
- Counting the cost of divorce
- Hitting the jackpot
- Keeping your contents safe

annual salary (in pre-tax dollars) into her superannuation plan.

OR

Option 2: She could make additional personal contributions (up to $10,000) to her superannuation fund at any time during the year, after income tax was deducted from her pay.

Let's look at the two options:

Option 1: Salary sacrifice	$
Gross contribution	+ 10,000
Contribution tax 15%	– 1,500
Net super investment	= 8,500
Assume 8% interest on investments	+ 680
15% tax on earnings	– 102
Investment after 1 year	$9,078

Option 2: Personal (after tax) contribution	$
Gross salary amount	+ 10,000
Income tax @ 46.5%*	– 4,650
Net income to invest in super	= 5,350
Assume 8% interest on investments	+ 428
15% tax on earnings	– 64
Investment after 1 year	$5,714

*Including Medicare levy and assume top marginal tax rate.

As you can see, in Sandra's case, salary sacrifice is certainly the most effective option, with an increased superannuation benefit of $3,364 after one year. Of course, everyone's situation is different and it's important to seek professional financial advice in order to determine what's best for your particular circumstance.

Seek professional advice

For more information about salary sacrificing into superannuation, speak to your financial adviser.

Counting the cost of divorce

Divorce inevitably has an emotional and financial toll and in the aftermath it's rare for either party to emerge in a financially better position.

What was once a two-income household moving to a single-income household or losing the full contribution of the main breadwinner will take its toll on the family's finances.

Research by the Australian Institute of Family Studies shows that long after the heartache of separation has eased, it can still cause strain on a family's finances. On average, divorced people are less likely to own their home, have lower levels of per capita assets, less superannuation (super) and are more reliant on income support than married people.

Divorce is likely to have an impact on living standards and wealth accumulation for both parties.

Financial considerations

The following checklist provides a guide to the things that should be considered at the time of divorce.

1. Super can be an issue after divorce, particularly for women who took time out of the workforce during the marriage to have children. Super can be treated as an asset and split as part of the settlement. However there are many complex tax issues related to splitting super so it's wise to seek professional financial advice.
2. Estate planning should be revisited after divorce and a new Will should be prepared. In most states in Australia, any gift you made to a former spouse will usually be revoked on divorce, but the rest of the Will still holds. You should also note that if you die while separated but are not yet divorced, your soon-to-be ex-spouse would still be a beneficiary of your Will.
3. Life insurance policies should also be reviewed to ensure they reflect your new living situation.

4. If you're a single parent, check with your adviser whether you qualify for Government benefits e.g. sole parent benefits.

Once the divorce settlement has been completed, you'll better understand what assets you have, which makes it a good time to review your personal finances and set goals for the future.

If you've received a lump-sum as part of a divorce settlement, you may want to consider investing it to provide an income in the future. Your financial adviser can help you decide which investment best suits your new circumstances and financial needs.

To help you get your finances in order, one of the first things you should do is prepare a budget which will help determine whether you'll have sufficient income to live on. Often during the first two years following a separation, the finances for both individuals will be very tight. However, with a sound budget in place it can be easier to get through this time and establish a solid footing for future financial wellbeing.

Once the budget is under control, future savings and investment opportunities will be easier to identify and implement.

For further information about securing your financial future in the event of a divorce, speak to your financial adviser.

Hitting the jackpot

If you dropped $20 on the street and a big gust of wind blew it further down the street, you'd chase after it. Yet it is surprising the number of people who have lost money through forgotten bank accounts, superannuation (super) accounts, deceased estates, share dividends and unpresented cheques.

In 2006 there was $204 million lying unclaimed in accounts around Australia. Nearly 161,000 bank, building society and credit union accounts have been forgotten and all these accounts have more than $500 in them.

Bank accounts

If there is more than $500 in an account, and it has not been accessed for seven years, the money is transferred to the Federal Government and held by the Australian Securities and Investment Commission (ASIC) in consolidated revenue.

The best way to find lost accounts is to go to ASIC's web site www.fido.gov.au/unclaimedmoney and do a search. If your name comes up, you can apply to your local bank branch to get the money.

Records for savings bank accounts go back to 1989. Some trading bank accounts go back to 1959 and credit unions and building society records go back to 2000. There is no fee to use the web site and you get back money that belongs to you.

It's important to note that ASIC is responsible for unclaimed money held by banks, building societies, credit unions, friendly societies, insurance policies and company shares.

Super

The Australian Taxation Office (ATO) estimates lost super at around $9.7 billion.

If you've moved house or changed jobs frequently, you may have lost track of your super or your old super fund/s may have lost track of you. To help you locate your old super accounts, the Government provides a free **SuperSeeker** service where you can find your super. Simply call **13 28 65** with your Tax File Number to request a search or visit **www.ato.gov.au/superseeker**

In Australia, complying super funds (funds which meet Government requirements) are required by law to notify the ATO of 'lost members'. A lost member occurs where two written communications are returned to the super fund unclaimed. Lost members' details are given to the ATO and their account balance is held by the super fund until claimed, or it is transferred to an Eligible Rollover Fund (ERF).

ERFs are special funds set up to look after the super monies of lost members. They must protect the account balances of all their members from being eroded by fees and charges, whenever the account balance is below $1,000.

Your super fund will list contact details for its chosen ERF in the annual report that it sends to you so that you can keep track of your benefit and contact the ERF if necessary.

Consolidating your super

Do you have other smaller super accounts, perhaps from a legacy of past jobs that you have simply forgotten about?

If so you could be paying unnecessary administration fees on each of these accounts, which is eating into your retirement savings. So it makes sense to consolidate your super into one super account, saving on management fees, decreasing the amount of paperwork you receive and boosting your super savings.

Your financial adviser can help

If you need help locating your lost super or consolidating various super accounts, speak to your financial adviser. They can help ensure your super savings are in the best possible shape to provide you with a financially secure retirement.

Keeping your contents safe

Where do you hide your valuables? Research by insurance provider Artog found almost half of all Australians hide their valuables in the bottom of their underwear drawer. The freezer was the place of choice for 11 per cent of people and 20 per cent thought under the bed was a safe place for valuable items.

Even more worrying was the finding that 54 per cent of those surveyed admitted they could easily break into their own house without a key. Perhaps not realising that if they can do it, so could somebody else.

NRMA Claims data reveals most burglaries happen when people are away from their home. Not surprisingly perhaps, they also found you can significantly reduce the risk of having your home burgled if you get to know your neighbours.

Of people who do know their neighbours, 88 per cent said they would take action if they saw someone suspicious on their neighbour's property.

Burglary rates are almost three times higher in Australia's cities than in country areas and the research found that around a fifth of city dwellers surveyed did not know their neighbours. Surprisingly the percentage of people who didn't know their neighbours was higher among people living in close proximity to their neighbours such as flats or apartments, and those aged between 25 and 34, groups who also experience particularly high rates of burglaries.

Research in other countries supports the finding that friendly neighbours can be a great form of home security. In a UK survey by Barclays, 97 per cent of respondents said they were willing to keep an eye on their neighbour's property while they were away, and 74 per cent said they would call the police if they saw anything suspicious.

The survey indicated trustworthy neighbours who know each other well not only keep an eye on things but help out in other ways:

- 93 per cent keep an eye on their house;
- 57 per cent put out/collect the rubbish;
- 57 per cent collect their mail;
- 46 per cent collect their newspapers;
- 40 per cent feed their pet(s);
- 38 per cent maintain the garden;
- 32 per cent make their house look 'lived in'; and
- 14 per cent mow their lawn.

Although it should be noted that vigilant neighbours should not be used as a substitute for home insurance.

The NRMA and NSW Police offer the following ways to help keep your property secure:

- lock the house every time you go out;
- don't leave packaging for expensive items in view (e.g. in the driveway waiting for garbage collection);
- keep your home looking lived in when you're not there – open blinds, use timer switches on lights and have your mail collected;
- never leave a message on your answering machine saying you are not home;
- mark your driver's licence number and the state in which you live on the back of all electronic valuables;
- keep your car keys somewhere safe in your home as burglars will steal a vehicle if the opportunity presents; and
- thieves also target gardens, garages and garden sheds for valuable belongings. Items stolen can include lawn mowers, edge trimmers, power tools, bicycles, sporting gear and outdoor furniture.

No matter how vigilant you are it doesn't hurt to have plans in place should something unexpected happen. Not only to protect your home or contents but also your ability to earn an income and your family's ability to continue their lifestyle should anything happen to you. Do you have insurance or risk management strategies in your financial plan?

For more information about incorporating insurance or risk management strategies into your financial plan speak with your financial adviser.

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