

## IN THIS ISSUE

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## CONTRIBUTIONS – WHERE WERE WE?

In the December newsletter, we mentioned that the generally accepted **minimum** contribution required for a comfortable retirement is 15% of salary. That is, your employer contributes at least 9% of your salary and you contribute the rest.

However, those who are closer to retirement should be contributing a lot more.

Our website calculator will give you a better idea of how much to contribute ([www.combined.com.au](http://www.combined.com.au)). Click on Website Access (top right of website screen) and then click on Calculators (halfway down left side of screen). Go to “How much to contribute” and, by inputting your current details and making various assumptions about the future, you can determine how much you should be aiming to contribute.

### A WARNING

However, it can be dangerous to focus upon an amount as being the “right” amount to contribute. This is because any projections of retirement savings and contributions are based upon assumptions about future earning rates, salary growth, inflation and time remaining in the workforce. Unfortunately, the assumptions aren’t always right. For example:

- will there be periods of time when you’re not at work and contributions won’t be paid? e.g. long term illness or serious injury, looking after children, redundancy or dismissal.
- will the investment option you’ve chosen produce the return you’re expecting?
- will the timing of your retirement be by your own choice? (In Australia, the average retirement age is 56 and, for many, it wasn’t their choice to retire.)

For example, let’s say you are age 45 with an annual salary of \$65,000 and you expect to retire at age 65. You already have \$80,000 super and your employer contributes 9% of your salary (\$5,850 pa). You are aiming for an income in retirement of about 60% of salary. How much do you need to contribute to reach that target?

If we assume a future annual inflation rate of 3% and an investment return which averages 8% per annum, then you should contribute 6% of your salary (on top of the employer’s 9%) for the remaining 20 years.

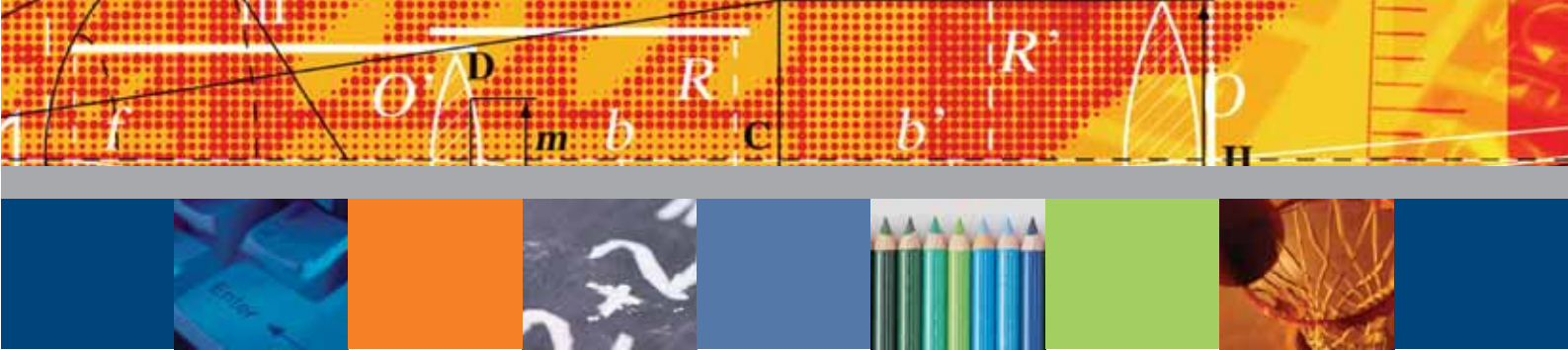
However, if you actually retire at age 60 instead of age 65 (by your choice or otherwise), then you would need to have been contributing 21% of your salary to provide an income of 60% of salary.

You need to have contributed a lot more because you will begin spending the money five years earlier than expected and won’t have those five additional years to build your retirement savings.

Also, if the cost of living (inflation) rises by an average of 4% instead of the assumed 3%, then you would need to have been contributing 30% of your salary each year to age 60 (inflation has actually risen by an average of 3.4% over the past 20 years).

Further, if your investment return averaged 7% pa instead of the assumed 8%, then you would need to have been contributing 39% of your salary each year to age 60.

So, as you can see, whilst a contribution calculator can be helpful as an indicator of an amount you should be aiming to contribute, variations in assumptions about the future can make a huge difference to the result.



## THE TWO GOLDEN RULES OF CONTRIBUTING

As we have shown, it can be dangerous to base your retirement savings on assumptions about the future. Things change – so there are two golden rules of contributing which should be considered:

1. **Contribute as much as you can right now**
2. **Do it now**

## THE VALUE OF STARTING EARLY

Just as paying extra off your mortgage can save you thousands in repayments, paying extra off your retirement can mean the difference between enjoying retirement and just surviving retirement.

The earlier you get started, the better (even if it's only a small amount) and it's never too late to start – even if you're close to retirement.

Let's look at an example. Chris turns 35 and decides that it's time to start saving for retirement rather than just relying on employer contributions. Contributing \$2,000 a year for the next 30 years (\$60,000 in total), Chris will build up an additional \$245,000 by age 65 (assuming an annual return of 8%).

However, if Chris had started contributing at 25 instead of 35, the total amount saved would be only \$20,000 more (i.e. 40 years @ \$2,000 a year = \$80,000 saved) but the additional retirement benefit would be \$560,000 – more than double the amount just by starting 10 years earlier.

To further illustrate the value of an early start, if Chris had contributed \$2,000 a year from age 25 for only 10 years and then stopped contributing at age 35 (having saved only \$20,000), the additional retirement benefit at age 65 would be \$315,000 – \$70,000 more than the \$245,000 that arose if Chris started contributing at 35 and kept contributing for the next 30 years.

**The message is very clear – you need to contribute as much as you can right now (even if it's only a small amount) and you need to start now.**

## BUT SHOULDN'T I PAY OFF MY MORTGAGE FIRST?

This is a question we are often asked. Many financial advisers will tell you that you should concentrate on reducing debt first and then look at your super.

We're not so sure about that. Almost all of the retirees we talk to tell us that they wish they had started saving for retirement earlier and wish that they had contributed more to super.

Nobody ever tells us that they wish they had paid off their mortgage earlier.

Many people believe the "mortgage myth" that it is more beneficial to pay off a home loan because, when you sell the home there is no tax payable and that increases the effective return on your savings.

This may be true if comparing making extra mortgage payments with simply putting the money into a bank account (where you pay tax on interest earnings).

The fact is that the return you achieve by making extra payments on your mortgage is simply the interest rate your mortgage lender is charging.

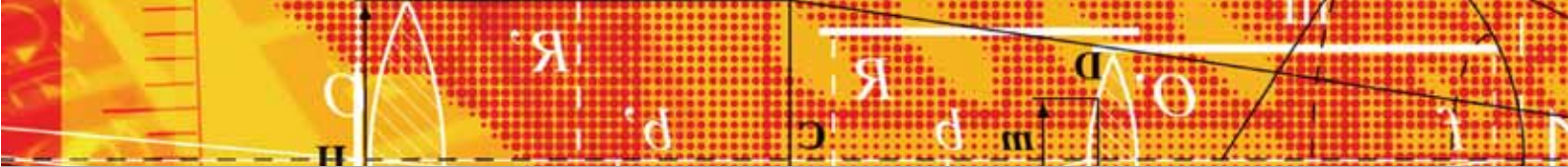
If your home loan rate is 7%, then the return on the extra loan repayments is 7%.

However, this also ignores the fact that any payments you make on a mortgage must be made from after-tax salary. That is, you are taxed **at your highest personal tax rate** before you receive the salary which you use to make extra loan repayments:

Taxable Income	Tax Rate inc. Medicare Levy	Amount you must earn to finish up with \$1,000 after tax is deducted
\$0 - \$6,000	Nil	\$1,000
\$6,001 - \$25,000	16.5%	\$1,198
\$25,001 - \$75,000	31.5%	\$1,460
\$75,001 - \$150,000	41.5%	\$1,709
\$150,000 +	46.5%	\$1,869

Example: If your annual salary is \$65,000, you must earn \$1,460 in salary to end up with \$1,000 after-tax to make extra home loan repayments.

On the other hand, if you ask your employer to reduce your salary by the amount you wish to contribute to superannuation (salary sacrifice), the maximum tax is 15%. This contribution tax is deducted from the amount contributed and is paid by the superannuation fund to the ATO. **Thus, using the above example for a salary of \$65,000, for every \$1,000 you pay off your retirement, you only have to earn \$1,176.**



An alternative way of looking at this example is that, if you are given a \$1,000 pay rise, \$850 of it could be used for paying off your retirement if you contribute the \$1,000 to super by salary sacrifice. However, if you take \$1,000 as salary, only \$685 would be left for paying extra off your mortgage.

**With effect from 1 July 2007, all super benefits paid to you after age 60 are tax-free (whether paid as a lump sum or as an income stream (pension)).**

Thus, the comparison between paying off your home loan and paying off your retirement becomes a direct comparison between:

- the return on each (your mortgage interest rate vs the rate of return from the super fund); and
- how much it costs you to make that payment.

EXAMPLE – let's say that, during the 10 years ended 31 December 2006, you had been given salary increases of \$2,000 each year and that your salary is \$65,000 now. In each of those 10 years, you used \$2,000 of your salary to either:

- make extra home loan repayments using the take-home amount remaining after tax; or
- make salary sacrifice contributions of \$2,000 each year into Combined Fund's Balanced Option.

The results are quite startling. By 31 December 2006:

- you would have reduced your loan by \$16,501; or
- you would have increased your superannuation benefit by \$28,284.

Both examples assume that the payments were made in advance on 1 January each year. Both also use the personal tax rates which were applicable at 1 January each year for the past 10 years in order to determine the amount left of each pay rise after tax had been deducted. Westpac's standard variable loan rates at 1 January each year were used for the comparison.

See "Contribution Alternative 4 – Contribute by Salary Sacrifice" later in this Newsletter for more details.

## **BUT – WHAT ABOUT THE OTHER BENEFITS OF REDUCING HOME LOAN DEBT?**

There can be no question that becoming debt-free or even reducing debt can be very attractive:

- firstly, from a purely emotional point of view, it's nice to know that you own your home outright;
- secondly, any equity you have in your home can be used to borrow money for other purposes.

So, the decision between paying off your mortgage and paying off your retirement shouldn't be totally driven by the fact that paying off your retirement is often more tax-effective.

Instead, why not do both?

There is a lot to be said for making extra super contributions of, say, \$1,000 as well as making extra mortgage repayments of \$1,000 rather than putting \$2,000 into one instead of the other.

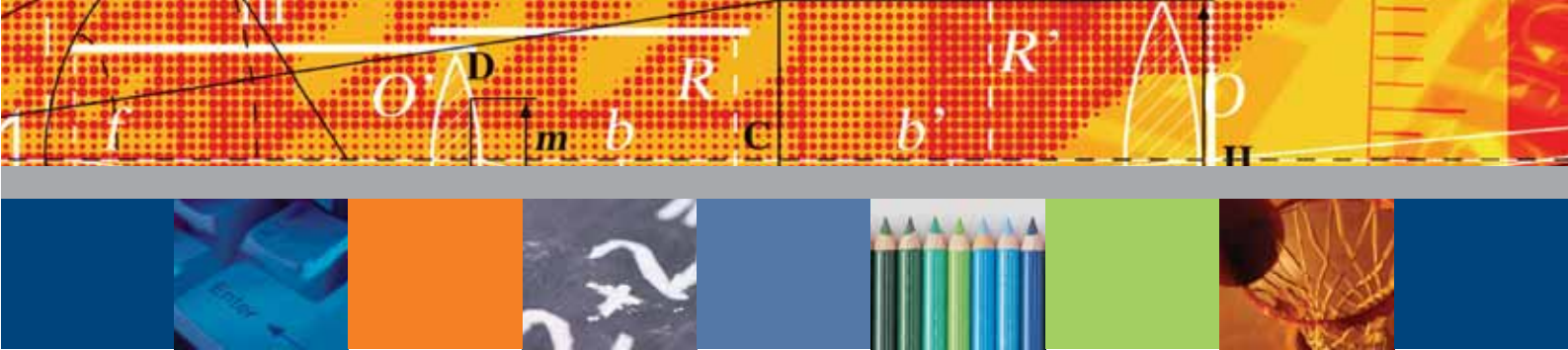
## **OKAY – I'M READY TO BEGIN CONTRIBUTING (OR CONTRIBUTE MORE) TO SUPER. WHAT'S THE BEST WAY TO DO IT?**

Basically, there are four ways to contribute to superannuation:

1. from your after-tax salary with no tax benefits;
2. from your after-tax salary into an account in the name of your spouse to obtain a spouse rebate;
3. from your after-tax salary to obtain a co-contribution from the Government;
4. from your pre-tax salary (salary sacrifice).

**These four options are generally driven by the level of your gross income.**

A fifth method involves arranging your financial affairs so that you are regarded by the Tax Office as being substantially self-employed. You then become eligible to claim after-tax contributions as a personal tax deduction. This can be rather complex and we suggest that you speak to us or to your financial adviser if you wish to pursue this alternative.



### Contribution Alternative 1 – Contribute from After-Tax Salary with no Tax Benefit

In most cases, there are better ways to contribute to super. However, this method especially suits two groups:

- **those who will be over age 60 by 1 July 2007 and who are likely to retire in the short term.** For this group, with the ability to maintain their super account until they die and with unlimited access to their super benefits after retirement, keeping money in other investments outside of superannuation must be reconsidered. For example, why keep money in a bank account on which you pay tax on any interest earned when, by contributing that money to your super fund account, you have unlimited access to it after retirement as an Allocated Pension and will pay no tax on the interest/investment income and can withdraw it tax-free in a lump sum or as an income stream.
- **those who have pre-1983 service, are over age 55 and who will retire before age 60.** For this group, who will still generally pay some tax on their retirement benefits, there can be a significant benefit in making after-tax contributions.

We wrote directly to all members in this group in July last year to provide more information and we are happy to discuss the possibilities further. However, you must act before 30 June 2007.

### Contribution Alternative 2 – Contribute from After-Tax Salary into an Account in the Name of your Spouse

Whether in the paid workforce or not, your spouse may join Combined Fund and contribute to the Fund. If your spouse works for an employer, that employer can contribute to the Fund too.

You may also make after-tax contributions to the Fund on behalf of your spouse. A tax rebate of 18% on up to \$3,000 of such contributions may be available. The maximum rebate of \$540 is available where your spouse's assessable income (including reportable fringe benefits) is \$10,800 or less. The rebate reduces gradually to zero where your spouse's assessable income is \$13,800 or more. The Fund can also provide an insurance benefit in the event of your spouse's death or disablement.

Members wishing to make spouse contributions should ring the Fund Administrator on 1800 200 801 (toll free) and ask for a Spouse Membership Product Disclosure Statement.

Under Contribution Splitting arrangements which commenced on 1 January 2006, you may also arrange for contributions which have been paid to your account to be split with your spouse.

### Contribution Alternative 3 – Contribute from your After-Tax Salary to obtain a Co-contribution from the Government

Only for those whose total annual income (including reportable fringe benefits) is less than \$58,000. See the double-sided circular included with this Newsletter which explains this very attractive gift from the Government.

### Contribution Alternative 4 – Contribute by Salary Sacrifice

As mentioned earlier in this newsletter, if you contribute to superannuation from after-tax salary, the contribution you make will have already been taxed at your highest personal tax rate.

However, if you ask your employer to reduce your salary by the amount of contribution you wish to make and contribute that amount to the super fund on your behalf, you can't be taxed on that amount as salary because you will not receive it as salary.

Instead, it will be taxed in the super fund at 15% and that tax will be deducted from your fund account.

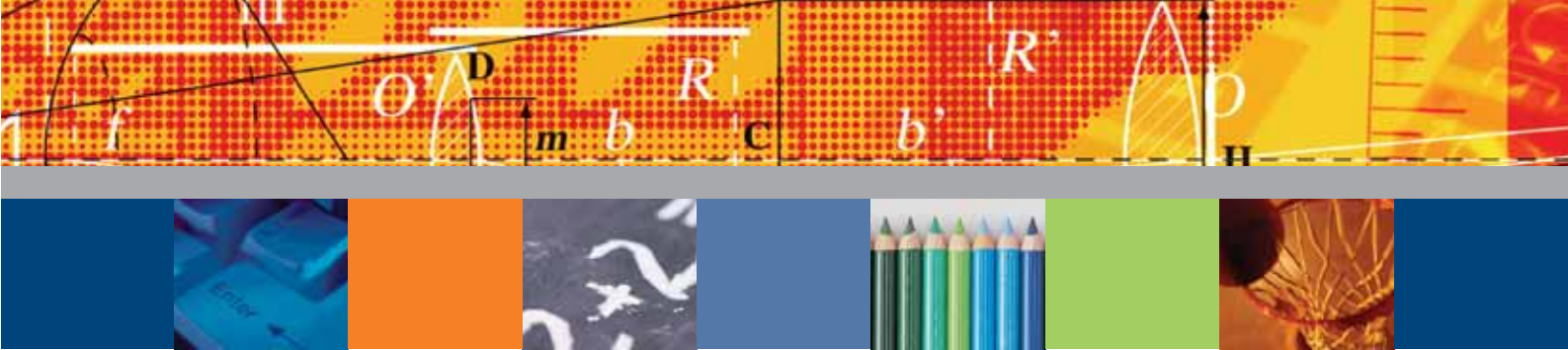
In fact, the tax rate on employer and salary sacrifice contributions won't be as much as 15% because Combined Fund gives you a deduction for administration fees and insurance premiums.

For example, if your annual salary is, say, \$60,000, your employer will contribute \$5,400 (9%). If you contribute, say, \$3,000 by salary sacrifice, then the total contribution of \$8,400 would normally be taxed at 15% i.e. \$1,260. However, in Combined Fund, we deduct the annual administration fee (\$52) first and then deduct any insurance premiums for death and disability cover (let's say \$400 for this example).

Accordingly, the net contribution for tax purposes in this example is  $\$8,400 - \$52 - \$400 = \$7,948$ . 15% of that amount is \$1,192. In other words, the actual tax rate is less than 15% (14.19% for this example).

If your annual taxable income is greater than \$25,000, you are taxed on any excess at 31.5% (including Medicare Levy) up to \$75,000 (see the tax table earlier in this Newsletter). A tax rate of 41.5% applies after \$75,000 and 46.5% applies to any income earned in excess of \$150,000.

So, if you earn more than \$25,000 a year, salary sacrifice can be more tax effective for you than contributing from after-tax salary – because you are taxed at 15% (or less) in the Fund compared to 31.5% or more if you take the money as salary and then contribute.



**However, if you earn less than \$58,000 a year (including Reportable Fringe Benefits, it is advisable to maximise any Government co-contribution entitlements as well as contributing by salary sacrifice.**

If you earn less than \$25,000 a year, the value of salary sacrifice is only marginal because the tax rate is 16.5% between \$6,000 and \$25,000 income (compared to 15% for salary sacrifice contributions).

#### Rules of Thumb for Salary Sacrifice

1. If you earn less than \$25,000 pa, contributions from after-tax salary may be better.
2. If you earn between \$25,000 and \$58,000 pa, a combination of after-tax contributions (for co-contribution purposes) and salary sacrifice contribution works well.
3. If you earn more than \$58,000, salary sacrifice is generally the best way to contribute.

*Tip: Contributing by salary sacrifice reduces your income for tax purposes. The more you reduce your income below \$58,000 by salary sacrifice, the greater your co-contribution entitlement.*

#### ARE THERE ANY RESTRICTIONS ON WHO CAN CONTRIBUTE TO SUPER?

If you are between the ages of 18 and 65, you can make personal contributions to a super fund – whether you are in the paid workforce or not.

Also, in any month that you earn \$450 or more from employment, your employer must contribute at least 9% of your salary to a super fund on your behalf. After age 65, you must generally have worked for at least 40 hours in 30 consecutive days before contributions can be paid by you or an employer.

#### ARE THERE ANY CONTRIBUTION LIMITS?

Prior to the Federal Budget announcements on 9 May 2007, there were no limits on personal contributions. The maximum amount you can contribute personally for the period 10 May 2006 to 30 June 2007 is \$1 million. From 1 July 2007, the maximum personal contribution will be \$150,000 a year or, if you have not attained age 65, the maximum will be \$450,000 if you do not then contribute in each of the following two years.

For the year ending 30 June 2007, the employer contribution limits (including salary sacrifice) are age-based:

Under age 35	\$15,260
35 – 49	\$42,385
50 – 70	\$105,113

However, these limits only apply to employees of tax-paying employers.

For the year commencing 1 July 2007, the maximum employer contribution (including salary sacrifice) for you will be \$50,000. However, if you are over age 50, the maximum will be \$100,000. Any amount received for you in excess of these limits will be taxed at 46.5%.

### EXTENDED LEAVE AND WORKING OVERSEAS

Group insurance policies generally provide 24-hour worldwide cover for insured members.

However, there are some restrictions on cover for those on extended leave without pay and those who travel or work overseas for extended periods:

#### Leave Without Pay

For Fund members on leave without pay (including periods of unpaid maternity or paternity leave), your existing cover will be maintained for up to three months.

If the period of unpaid leave extends beyond three months, cover will only be maintained if the insurer has given its prior written approval.

#### Travelling (But Not Working) Overseas

For Fund members on paid leave, existing cover will be maintained whilst in Australia.

For members on paid leave who travel overseas, your existing cover will be maintained for up to three months.

If the period of paid leave overseas extends beyond three months, cover will only be maintained if the insurer has given its prior written approval.

#### Working Overseas

For Fund members who are Australian residents working overseas, your existing cover will be maintained for up to three months and can generally be maintained for up to three years. However, the insurer's prior written consent is still required if employment overseas exceeds three months.

Cover may also be maintained for non-residents working overseas subject to prior written approval from the insurer.

*Notes: Whilst most overseas destinations will be automatically approved, some may require more consideration by the insurer.*

*If you leave the service of your employer whilst on approved extended leave, your insured benefits can still be maintained in the Fund. However, all insurance cover ceases immediately you transfer your total account balance out of Combined Fund.*

## MEMBER INVESTMENT OPTIONS – UNIT PRICES

The following are the respective Unit Prices and returns for each Investment Option as at 28 February 2007.

Investment Option	Unit Price 28/02/07 \$	Returns – Increase(decrease)	
		Year to 28 Feb 2007 %	3 years to 28 Feb 2007 %
Australian Shares	2.95965	22.45	23.67
International Shares	1.16132	8.70	10.67
Fixed Interest	1.52585	6.15	6.19
Property	2.11896	14.18	12.90
Growth (80/20) Option available since 1 July 2005	1.30435	14.68	N/A
Balanced (70/30)	1.92943	12.87	14.65
Capital Stable (30/70)	1.66736	9.16	9.37
SRI* (74/26)	1.83171	14.59	17.04
Cash	1.40235	5.21	4.90

*\*The Sustainable Responsible Investment (SRI) option follows a balanced approach to investment and, with effect from 1 April 2006, replaced the former Ethical Shares option which had operated on a 100% allocation to shares.*

The unit prices for Combined Fund Allocated Pensions will be higher than those shown above due to the more preferential tax treatment of pension investments.

See our website [www.combinedfund.com.au](http://www.combinedfund.com.au) for more details.

## Index Competition

The winner of our last "Pick the Index" competition was Susan Richardson of Port Melbourne. Susan's prediction was closest to the S&P/ASX300 Index of 5676.5 as at 31 December 2006.

Predictions varied from a low of 5116.8 up to Susan's prediction of 5606.5.

What do you think will happen to the Australian sharemarket between now and 31 May 2007?

To predict the index as at 31 May 2007, complete the details below and fax this page by 30 April 2007 to the Fund Administrator on (03) 9640 0787.

### Combined Fund S&P/ASX300 Index Competition

Name: \_\_\_\_\_

Employer: \_\_\_\_\_

Phone: \_\_\_\_\_

My estimate of the S&P/ASX 300 Index as at 31 May 2007 is:

The winner will receive a voucher for an all-inclusive "Dinner for Two" at a 5 star Restaurant of their choice and a one-year subscription to the Australian Financial Review's "Smart Investor" magazine.

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This Newsletter is intended to provide information and not advice. It should not be relied upon as advice or take the place of professional advice. The Newsletter has been prepared without taking into account your individual objectives, financial situation or needs. Accordingly, before acting on the contents of this Newsletter, you should consider whether it is appropriate to you, having regard to your objectives, financial situation and needs. You should also consider obtaining professional advice from a licensed financial adviser.

Issued by Group Benefits Pty Ltd ABN 83 082 989 142 (Australian Financial Services Licence 239636) on behalf of the Trustee of the Combined Fund.

## UP TO 150% RETURN – GOVERNMENT GUARANTEED

For **eligible employees** who contribute to Combined Fund **from after-tax salary**, the Government will contribute up to \$1500 for the year ending 30 June 2007. Your contribution and the Government's Co-contribution are not subject to contributions tax and are returned to you tax-free at retirement.

An eligible employee is a person:

- Whose assessable (gross) income including reportable fringe benefits is less than \$58,000 for the year ended 30 June 2007;
- Who is less than 71 years old;
- Who does not hold a temporary resident visa; and
- Who earns 10% or more of their income from employment.

The following table shows the amount of personal contribution you need to make to receive the **maximum** co-contribution from the Government.

Your Assessable Income \$	Your Contribution \$	Government Co-Contribution \$
Up to 28,000	1,000	1,500
29,000	967	1,450
30,000	935	1,400
31,000	900	1,350
32,000	867	1,300
33,000	833	1,250
34,000	800	1,200
35,000	767	1,150
36,000	733	1,100
37,000	700	1,050
38,000	667	1,000
39,000	633	950
40,000	600	900
41,000	567	850
42,000	533	800
43,000	500	750
44,000	467	700
45,000	433	650
46,000	400	600
47,000	367	550
48,000	333	500
49,000	300	450
50,000	267	400
51,000	233	350
52,000	200	300
53,000	167	250
54,000	133	200
55,000	100	150
56,000	67	100
57,000	33	50
58,000	Nil	Nil

Example: If your assessable income is \$44,000 pa, you must contribute at least \$467 by 30 June 2007 to obtain the **maximum** co-contribution of \$700 for that level of income.

# HOW TO CLAIM THE 2006/07 GOVERNMENT CO-CONTRIBUTION

- Pay the appropriate personal contribution to Combined Fund prior to 30 June 2007 (**Employer and Salary Sacrifice contributions do not count**).
- Combined Fund will advise the Tax Office of the contribution received from you.
- Lodge your Annual Income Tax Return as soon as possible after 30 June 2007. You do not need to claim the Co-contribution on your tax return.
- The Tax Office will use the income information on your tax return and the contribution details provided by Combined Fund to determine your eligibility for the Co-contribution ie your gross income including reportable fringe benefits must be less than \$58,000 for the year ending 30 June 2007 and at least 10% of that income must come from employment.
- Once the Tax Office has all of the necessary information, it will calculate the amount of the Co-contribution payable on your behalf.
- The Tax Office will then deposit the Co-contribution directly into your account in the Fund.
- If you wish the Co-contribution to be deposited into another complying fund you will need to complete and lodge a separate Superannuation Fund Nomination Form (available from the Tax Office).
- The Tax Office will send you a letter with details of its Co-contribution payment after it has been deposited into your account in the Fund.
- Your Annual Benefit Statement will show the amount of Co-contribution which has been credited to your account.

NB: Even if you lodge your tax return promptly after 30 June 2007, you should not expect the Co-contribution to be deposited into your account by the Government before 31 October 2007 (or even later).

***Prepared by Group Benefits Pty Ltd (AFSL 239636) on behalf of the Trustee of Combined Fund.***

This article is intended to provide information and not advice. It should not be relied upon as advice or take the place of professional advice. The article has been prepared without taking into account your individual objectives, financial situation or needs. Accordingly, before acting on the contents of this document, you should consider whether it is appropriate to you, having regard to your objectives, financial situation and needs. You should also consider obtaining professional advice from a licensed financial adviser.

## **ARE YOU ONE OF OUR 23 ANONYMOUS CONTRIBUTORS?**

**If so, we'd really like to reconnect you with your money!**

Every year, we receive lots of anonymous donations. We know they're intended to be super contributions and, in most cases, we can eventually track down who sent them to us.

However, 23 of these "donations" have us completely stumped.

They are mostly amounts which were directly credited to our Fund bank account by members but some were from employers and one was from a payroll company.

Twenty-two were paid in 2006 and one was paid in 2005.

We assume that some of these "donations" were made in order to qualify for a Government co-contribution. However, until we find out who sent them to us, the co-contribution can't be paid.

In many cases, the amounts appear on our bank statement showing nothing more than the name of the bank branch where the payment was made – no name, no member number or any other identification and the banks haven't been able to provide any helpful information.

### **Is It Yours?**

**Can you help us to reunite these contributions with their owners?**

If you arranged an electronic transfer of a contribution to Combined Fund last year, it should be recorded on the benefit statement we sent to you recently. If it wasn't recorded on that statement, the chances are that you're one of our 23 anonymous donors.

Our accountant, Peter Braun, is very keen to hear from you if you believe that some of your money is gathering dust in our Suspense Account. You can ring him on (03) 9691 2900.

*TIP – if you are sending us a personal contribution, make sure that you give us your name. If you make the contribution by bank transfer, make sure that your bank provides enough information for us to identify that it's your money.*

Prepared by  
Group Benefits Pty Ltd on behalf of the Fund Trustee

March 2007

