CASE STUDY

Strategies for retirement

Susan Hely passes on some tactics for a 'triple play'

NAME: Imelda Cooney
STATUS: 56, married with a daughter, 18
QUESTION: Should I set up a transition to retirement account-based pension or keep salary sacrificing? Pay down the mortgage or boost my super with extra payments?
SOLUTION: Pay off your mortgage but – with 10 years to retirement – go flat out to boost your super with salary sacrifice. A transition to retirement account-based pension may save you tax.

Imelda Cooney is typical of many Australian women when it comes to superannuation. She has taken time out of the workforce to be a mother and worked from home for many years. As a result, her super balance is low.

Australian women hold 37% of total super balances, compared with 63% for men, according to the Association of Superannuation Funds of Australia. ASFA says a couple needs a super lump sum of $510,000 and a single person $430,000 to fund a comfortable retirement.

But now with a full-time job that pays a good rate of super above the standard 9%, Imelda is racing to boost her savings. She has been salary sacrificing an extra $1000 a month and her balance has reached $103,000. She plans to work until 65 and is looking at strategies to rev up her super. Imelda has reached the age to access her superannuation savings (currently 55 for those born before July 1, 1960).

A strategy to help pump up Imelda's super is a transition to retirement (TR) account-based pension. She admits her No.1 priority is paying off the mortgage on her family home as it is non-deductible debt. Is she better off salary sacrificing or paying off her mortgage?

Two years ago Imelda and husband Stephen went to a financial planner. They paid $2000 for a plan that included advice to move from low-cost public sector and industry funds with fees averaging 0.7% a year to the Asgard eWRAP super with fees of around 3%, including the planner's fee. The planner recommended 85% of their super money be invested in high-growth assets. But it was the planner's disclosed annual fee of $3300 that really put Imelda off and she left the super where it was.

She would like to help her 18-year-old daughter Lottie set herself up financially.

Maximise your super contributions

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Imelda and Stephen, with your home loan paid down to just $21,000 and being within 10 years of retirement, it is a great time to review how you are saving for your retirement.

Repaying your home loan is typically a good, safe strategy, so you should definitely keep doing this, but don't make it your only savings strategy. At your current rate of repayment, $2000 a month, you will have the loan paid off within a year. If you reduce this to $1000pm it will take almost two years, but the interest cost in lengthening the loan in this way would be less than $1000.

This change leaves you with potentially $2800 a month of after-tax salary you can use to save for your retirement. With $103,000 in super, now is definitely the time to start focusing on boosting this balance. If you want an income in retirement between you of $50,000pa, you will need a combined balance of at least $1 million based on different assumptions to ASFA. If you both plan to keep working over the next nine years (until Imelda is 65), this goal is realistic. You'll both need to have a plan and stick to it.

The starting point of your retirement savings plan should be saving through salary sacrifice, due to the tax advantages it offers. If you can each maximise your salary sacrifice – let's assume $1400 a month for Imelda and $1550 a month for Stephen ($2950 a month total) – your combined after-tax salaries fall by only $2000 a month and you will be boosting your super by $2500 a month ($2950 less 15% super contributions tax) after tax between you.

This strategy saves you $6700pa in tax. Better yet, you could have over $1 million saved by the time you are 65. We assume you earn 6%pa after tax and fees on your super and that both your salaries rise 3%pa over the next nine years.

A word of caution on contribution caps. With the current $25,000 cap on concessional contributions (which includes salary sacrifice, employer contributions and some employer-paid insurance premiums), you should check that this strategy does not put you over the limit. Penalty tax on contributions made over the limit could apply.

Imelda, as you are over your preservation age, you also have the option of starting a transition to retirement income stream. This ability gives you the security that you can access up to 10% of your super balance each year if you need to. However, it will depend

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on the components of your super as to whether it is really worth doing this yet. A transition to retirement income stream does offer the benefit of being a tax-free investment environment, but it will also potentially give you additional taxable income. If you already have sufficient income to maximise salary sacrifice, it may be worth waiting until you are approaching 60 before you do so, as income paid after your 60th birthday from a transition to retirement income stream is tax free.

The best way to help Lottie to set herself up financially is to teach her the importance of some simple financial strategies – spend no more than you earn; only have a credit card if you can pay it off in full each month; save some of what you earn each month.

If she wants a car, and you'd like to help, encourage her to save herself and perhaps offer to match her savings.

Key data omitted form article (edited out!):

- Family earnings after tax: $8,800 pm
- Estimate monthly spending -$5,000 pm
- Leaving a potential $3,800 pm for savings and loan repayments.