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SUPERANNUATION DO I HAVE ENOUGH?

Superannuation is one of the most tax-effective ways of saving for retirement. The question is, how will you make sure you have enough?

Planning for a secure financial future is important

The second most difficult decision for many people when planning for their future is deciding to do something. The hardest decision is deciding to do it now. This should however be the easiest decision anyone has to make.

- The earlier you start, the longer you have to invest towards your goals.
- The earlier you start, the lower the amount that you may need to invest on a regular basis

Even if you are close to retirement, it's not too late to start planning – every dollar counts.

Have you started planning for your future?

The benefits of superannuation

There are currently approximately six Australians working for every retiree. By 2020 this will reduce to three. As Australians, it is becoming ever more important that we are not totally reliant upon the government to provide us with a pension upon retirement.

Not only are we an ageing population, we are also living longer.

In fact, the Superannuation Guarantee (9% of your salary) will probably not be enough to support you in your retirement.

What do I need to know about superannuation?

Superannuation is one of the most tax-effective ways of saving for retirement. The maximum rate of tax that you pay on your earnings in your superannuation fund is 15%, whereas earning on your normal savings outside superannuation are taxed at your marginal tax rate, up to 48.5%. While superannuation can be transferred between superannuation funds you should be aware that contributions to superannuation are almost always compulsorily preserved. This means that they generally cannot be withdrawn until you are over 60 (over 55 if you were born before 1 July 1960) and are retired.

What is the best way to make sure I have enough superannuation when I retire?

Start saving straight away. Even a few dollars a week can make a considerable difference to the sum of money available to you when you retire. In short, the sooner you start saving, the faster your money will grow.

When you invest regularly, you will enjoy the effects of compounding. Compounding occurs when income earned on your savings is re-invested, so you earn money on your initial capital as well as on any income you have already earned.

So it is much better to start investing small amounts today than to wait until you can invest a larger amount.

The best way to do this to arrange a direct debit from you pay or bank account into the investment vehicle you have chosen.

Case Study

The benefits of starting your program early can best be explained in an example where two investments plans are compared.

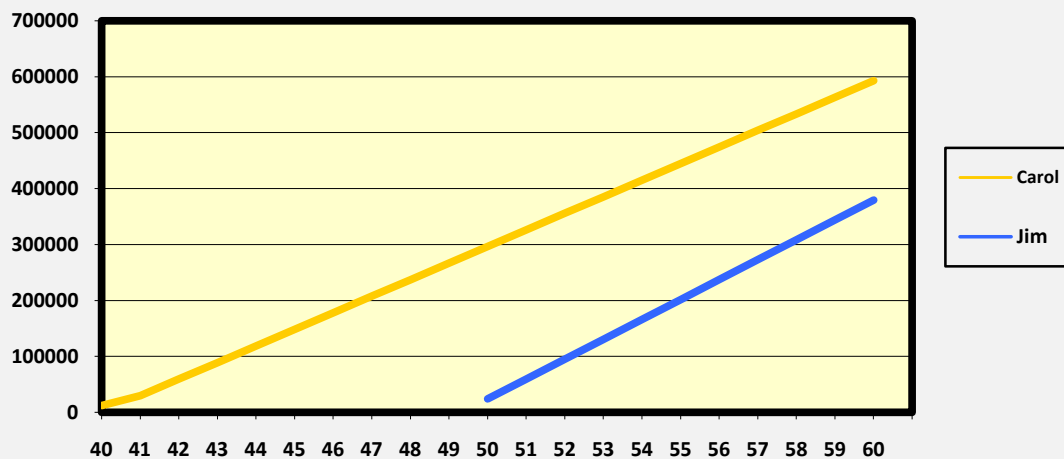
Carol and Jim are both aged 40. Carol decides to invest \$1,000 per month for the next 20 years in preparation for her retirement.

Jim decides to invest \$2,000 a month, but does not commence his program until he reaches 50. They both intend to retire at age 60 and it is assume that their investment will generate 8% per annum after tax.

The graph below shows that even though Carol and Jim both invested \$240,000, Carol's savings are larger because of an extra 10 years of compound interest.

The key to success

Establish your financial goals, develop an investment plan and start saving regularly as soon as you can to make sure that compound interest works for you.



How do I choose a superannuation fund?

You should consider the following:

1. Portability – make sure that if you get a new job, you can invest the contributions from your new employer into the same super fund. This will save you opening another account and paying more fees.
2. Rollover facilities – make sure that when you retire, you can rollover your lump sum into an allocated pension or term allocated pension account.
3. Insurance – You should be able to easily access insurance for death, total and permanent disability and income protection through your superannuation fund.
4. Communication – you should expect to access your account information online and on the phone, 24-hours a day.
5. Fees and charges – these may apply when you make contributions, during the investment phase, and when the money is paid to you. Make sure you are fully aware of all relevant fees on your account.

This publication doesn't take into account your personal objectives, financial situation or needs. It provides a summary only and it shouldn't be considered a comprehensive statement on any matter relied upon as such. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.