Superannuation

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PART 1

Rolling over your superannuation:
How to do it and WHY you should do it

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Introduction

Superannuation is vitally important for retirement. Although the day when your superannuation funds are needed can be in the distant future, it is just as important to maintain your superannuation fund as you would any other investment to make your retirement easier to plan when that distant future is no longer that distant!

Each working Australian has an average of three superannuation accounts[1], and arguably the biggest wealth creation issue facing individuals is multiple and lost superannuation accounts. That's why it's so important to know you should be keeping track of your superannuation and not losing any With more frequent changes in occupation; All the ads telling you to claim your lost super are there for a very good reason: Your hard earned money risks being lost in the ether, where there are over 3 million lost superannuation accounts accounting for more than $17-billion in lost funds.[2]

FACT: *The Australian Government can claim lost superannuation and absorb it into general revenue meaning that your hard earned superannuation may be lost forever[3]!*

Whether it's because of complacency, or a misperception that rolling superannuation accounts is too difficult; keeping your superannuation in check can literally mean thousands of extra dollars when you retire.

So, how do I find my lost super then?

Finding lost superannuation can sometimes be difficult, however when you follow these simple steps, tracking down your lost super accounts becomes much easier.

1. Make a list of all the employers you have worked with, what year and if known a possible super fund they contributed into. You can also contact prior employers and ask for details.

2. Contact your current superannuation fund and ask for details of any prior accounts that have rolled in.

3. Conduct a 'lost superannuation search' via the Australian Tax Offices' SuperSeeker service and contact those lost funds directly to consolidate into a single account.

4. Cross reference the details provided by your current fund and the SuperSeeker service with your list of employers to see which employer or funds are missing from your current account.

5. Contact any other possible superannuation funds and ask if you have any dormant accounts.

Think you have lost superannuation accounts, but have no matches on the ATO SuperSeeker site?

Historically data records at superannuation funds have in some cases been incomplete or not transferred from employer to superannuation fund accurately. If you're having no luck with records on the Superseeker service, try these hints;

- If you have been married or changed your name, try using your maiden or previous name when utilising the SuperSeeker service

- Try using a middle name or if you use a name different to your legal name, then try using that

If these steps still do not work, you can write to the ATO using the Searching for Lost Super form and request a more thorough search.

Sometimes it can take up to 5 years for 'lost superannuation accounts' to show up on the ATO website, so make a habit of checking each year, a good time is when you are doing your tax return, to see if you have had any updated accounts register with the ATO[4].

Many financial advisers and superannuation comparison firms offer low cost superannuation services to assist people to find and consolidate lost superannuation. With additional resources available, many of these firms are able to conduct searches and consolidate funds for you much more quickly.

Creditworld has partnered with Primoris Financial to assist people find and consolidate lost superannuation. Enquire now to find your lost superannuation and to compare over 50 superannuation funds to find the right one for you.

Keeping track of your superannuation accounts and ensuring that they do not become lost will ensure you reap the full benefits of the money that you have earned. Consolidating your lost or small superannuation accounts may also save you money on fees and will allow you to invest properly for your retirement so that that you have consolidated the maximum possible amount to invest for your retirement..

Finding the right super fund

How do I choose one super fund to rollover my other benefits? What types are there and what are the differences?

Take a little time to pick the right fund for you. Superannuation is an investment, and as with any other investment, good research and due diligence will help you avoid bad choices and may mean you end up with more money to spend when you retire. Setting yourself up with a better fund could mean you can grow your nest egg quite significantly.

There are a number of things to consider when choosing a superannuation fund to consolidate into;

Types of Superannuation Funds

When choosing a superannuation fund to consolidate into, you need to ensure you are invested in a suitable type of superannuation fund. There are different types of superannuation available depending on the needs of the investor;

Employer (Corporate) Superannuation
This type of fund is established and sponsored by the employer. The larger the employer, normally the greater the benefits (for example lower fees, more insurance, greater investment choice), however these benefits normally only last while a person remains employed by that company. On leaving the employer, the member is normally automatically moved out of the employer superannuation fund into a personal superannuation fund. People looking for a longer term superannuation solution or looking to avoid losing superannuation, may not be suited to these options.

Industry Superannuation Funds
Industry Superannuation Funds were originally set up specifically for certain industries; but in recent years many have opened to the general public. The Industry Superannuation sector is generally categorised by more 'simple' accounts with less investment choice, limited insurance options and generally a smaller range of services than what's offered by other funds. Industry Superannuation funds may offer lower product fees and are generally suited to investors who want a simple method of superannuation and do not require additional services.

Retail Superannuation Funds

Retail Superannuation funds including 'Master Trusts' and 'Wrap Accounts,' are generally offered by the major financial institutions. Retail superannuation funds are normally aligned to the individual and not an employer or industry and as such can normally be transferred between employers and without needing to alter the options and investments within the account. Historically retail superannuation funds were priced higher than industry superannuation funds, however it is not uncommon for retail funds to be priced on par or offer lower fee structures compared to industry superannuation funds. Retail superannuation funds generally offer a wider range of investment choice (in some cases up to 600 different investments!) and often have access to more flexible insurance options. The additional features offered by most retail superannuation funds can provide people more flexibility in their retirement savings.

Self Managed Superannuation Funds (SMSF)

Self Managed Superannuation Funds offer the most flexible manner of saving for retirement. As a member of a SMSF you often also act as the 'trustee' of that fund and assume the responsibilities of managing the fund for the other members (often family). Self Managed Superannuation funds allow you to invest in any asset permitted under relevant superannuation legislation and are generally recommended for more investment savvy individuals with more than $200,000 in superannuation balance5. With the added flexibility, operating a SMSF is no easy task and as such on-going taxation, legal and financial advice is generally recommended to ensure that the on-going obligations of the SMSF are maintained.

What exactly should I look for in my superannuation fund?

Investment Choice

When choosing a superannuation fund to consolidate into, investment choice is paramount as it drives the returns that will ultimately one day support retirement. By utilising a fund that offers a wide range of investment choice, including investments that take advantage of different management styles and asset classes; wider investment choice allows an investor to both diversify their investments and reducing the risk within their superannuation fund.

Superannuation funds that offer limited investment choice can in some cases, during prolonged periods of poor performance, motivate investors to change superannuation funds altogether rather than simply alter the investment choice. Frequent fund changes can be just as damaging as it can result in lost insurance, fund features and may impair the performance of investment returns.

FACT: *Beware of generic superannuation fund return statistics as they rarely compare like for like investments. Investing according to your tolerance to investment risk and your needs in retirement, comparing investments that are alike and utilizing independent investment research may provide better investment outcomes.*

Insurance Options

The majority of life insurance is purchased via superannuation6 and in a lot of circumstances, insurance is the biggest cost within a superannuation fund. Insurance in superannuation varies significantly and it is important not only to look at the cost of the insurance, but the terms of the policy. It is common for superannuation funds to offer insurance based on 'pre-existing condition' clauses; excluding claims based on prior events for a certain period of time (or at all!). It is also common for some superannuation funds to stop providing cover for people when they leave an employer.

By utilising a superannuation fund that offers multiple insurance policy options (some funds allow you to use insurance from other companies!), flexible coverage options and the ability to maintain the policy regardless of the employment situation; personalised insurance options allows proper insurance planning and can prevent you and your family finding out you are uninsured when you thought you were covered.

Fees

Fees are one of the most commonly compared variables within a superannuation fund and rarely compared on like – for – like terms. Fee's among superannuation funds vary both on the level of fees charged, the number of fees charged and the manner in which they are charged. Being able to accurately determine fees paid within the fund and the purpose of those fees, builds confidence in a fund. Investing in a superannuation fund that offers an easy fee structure may help determine if that superannuation fund offers true value for money. It is not uncommon for the more competitive superannuation funds to charge one product fee only.

Ancillary Options

Superannuation funds offer a range of less known ancillary options and features, for example 'Anti-Detriment' payments, UK Pension Rollovers and Spouse Contribution Splits to name a few. It can be difficult to determine which features may be required in the future, but by comparing the options available will allow a person to better determine which fund would better suit their needs in the future.

> ***Fact:*** *Some employees covered under certain awards or Enterprise Bargaining Agreements are unable to 'choose' their superannuation. Before investigating your superannuation options, check with your employer if you have 'Superannuation Choice.'*

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How much can I save when I consolidate my super?

A commonly asked question is does all this really make a difference? It can! Let's look at an example of a common situation: Person A has 3 superannuation funds, an industry fund, an employer fund and a personal retail fund.

Based on fees alone they could see the following between the three accounts;

Investment cost	Industry Superannuation Fund	Employer Superannuation Fund	Retail Superannuation Fund
Investment Cost	0.62%	1.31%	0.70%
Administration Fee (p.a.)	$52.00	$77	NIL
Asset Fee	0.10%	NIL	NIL
Investment Choice Fee	$13	NIL	NIL
Member Protection Fee	0.06%	0.20%	NIL
Withdrawal Fee	$25	NIL	NIL
% Equiv Fee on a balance of $50,000	**$25**	**1.66%**	**0.70%**
Total $ Fee on a balance of $50,000	**$455**	**$832**	**$350**

The difference between the most expensive fund and the most competitive fund is $482. The way that the different funds charge their fees is also very different, with 2 of the 3 superannuation funds charging multiple fees that are ultimately for the same reason.

Taking this example and assuming a 5% return on that $482 per annum fee difference, this results in an extra $25,787 over a 25 year period!

PART 2

Superannuation for the under 35's

Choosing one fund

Why is it important to choose one fund now? What impact do co-contributions have?

Superannuation Funds can be considered as not too different from a typical bank account. Both share a common feature of holding savings for a period of time. Like bank accounts, superannuation funds also charge for the service.

One of the main reasons to try to maintain a single superannuation fund is to reduce reoccurring fees that are charged from most accounts. There are on average 3 superannuation accounts for every working Australian; if each of these accounts charged $200 per year, for example, then a 30 year old with three accounts would pay an extra $14,000 in fees over their working life, simply by having extra superannuation accounts!

One account works best

Having one superannuation account helps you save for retirement and may direct the full value of contributions into a single investment strategy. Superannuation is intended to reduce the burden on the public purse and as retirees are expected to have reduced access to aged pensions into the future, there are a number of incentives available to encourage people to save for retirement.

Co-Contribution

In the 2012/13 Financial Year, individuals who earn under $31,920 per annum, a superannuation contribution 'top-up' is made when an after tax contribution is made. For every dollar contributed up to $500 (Financial Year 2012/13) made, the government will match that contribution. There are some other criteria that need to be met to be eligible for the co-contribution, but an extra $500 per annum is one of the most effective ways to boost superannuation. For those who earn over $31,920, there is still a portion of the co-contribution available to individuals who earn up to $46,920.

Concessional Contributions

A concessional contribution is a contribution made to superannuation where the individual has claimed a tax deduction. For employees, a salary sacrificing arrangement into superannuation can direct extra amounts 'pre-tax' into a nominated superannuation fund. Certain self-employed can also contribute 'pre-tax' by informing the superannuation fund to the contribution type, although conditions apply. Concessional contributions generally reduce your taxable income by the value of the extra contribution, so they offer you the benefit of saving more and reducing tax! There is a cap on the maximum amount that can be contributed in this manner of $25,000 per annum, which includes mandatory employer contributions and other contributions so it is important to seek help with this strategy..

Superannuation and tax

To further encourage you to build a savings fund for retirement, superannuation has been designed to be one of the lowest taxed investment vehicles, making it that much more attractive for most people to invest in.

For any complying superannuation fund and where the contributing individual earns less than $300,000; the maximum tax rate applied is 15%. This applies to contributions made and earnings within the fund. For assets held longer than 12 months, the tax rate applied to Capital Gains is effectively 10%! In reality, with deductions within the fund like insurance, the actual tax rate applied is generally lower.

***Fact:** Capital Gains Tax liabilities for personal investors are charged at the investors marginal tax rates. With the difference between personal capital gains tax and superannuation capital gains tax an investor on the highest marginal tax rate can effectively save over 36.5 cents in every dollar!*

When is the time to start contributing extra funds to superannuation? How much is appropriate?

Although it is mandatory for an employer to contribute 9% into superannuation for most employees, with this rate increasing to 12% by 2020, it is widely considered that this is not enough for the average person to have enough capital at retirement. There are limits on how much can be contributed to superannuation, however there are no longer any limits to what can be taken out of superannuation tax free at the age of 60. The earlier a person starts planning for retirement and adjusting contributions to reflect, the easier it will be to achieve their retirement goals. Let's look at an example for a 30 year old employee earning $70,000 per annum with $40,000 in superannuation invested with a 50% allocation to growth assets (e.g. shares);

With mandatory contributions only, and with a longer term net return of 6%, the investor can expect to have around $432,209 in today's dollars in superannuation at age 65. With this balance the investor can also expect to fund an on-going income of around $28,707* until age 85.

If this same investor reduces their after tax income by $12 per week by salary sacrificing $1,000 per annum into superannuation; it will increase their retirement balance by an extra $51,672* and will increase the retirement income available to around $32,139*!

$12 per week is by no means a stretch, if this investor wanted to reach a retirement income of $40,000 a year until the age of 85 using superannuation contributions alone, they would need a retirement balance of just over $600,000*. Although this sounds like a big figure, using the same assumptions, to contribute enough into superannuation to reach this target, you only need to reduce your after tax income by $42 per week7!

It is vitally important to make extra contributions into your superannuation fund at the earliest possible time. The longer you leave it, the more you may need to contribute to reach your goals! In addition to contributing earlier, you can make adjustments easier in response to investment returns and your changing requirements.

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