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RETIREMENT GOALS

Part-time work keeps super pile healthy

Working part time in your early retirement years can beef up your nest egg by $184,000. **Matt McCarney** explains

Recent volatility on global sharemarkets will be a trigger for many to review the strategy and asset allocation of their superannuation fund.

It may even be a catalyst to consider the age of retirement and the likelihood of having sufficient assets to meet retirement income goals.

One of the hottest topics in financial markets last year was the search for yield.

A substantial fall in the cash rate over the past two years because of slower domestic economic growth and subdued inflation has significantly reduced returns available on cash.

Cash is now barely keeping pace with inflation and, with strong positive returns for many superannuation investors since 2009, the incentive for investors to reduce cash levels and increase weightings to growth assets such as shares is higher.

Lower interest rates encourage those who are able to take on more risk. Strong growth in lending and house prices over the past 12 months is evidence of this flowing through to the economy.

> Working longer than initially planned can provide more certainty, security and flexibility in retirement.

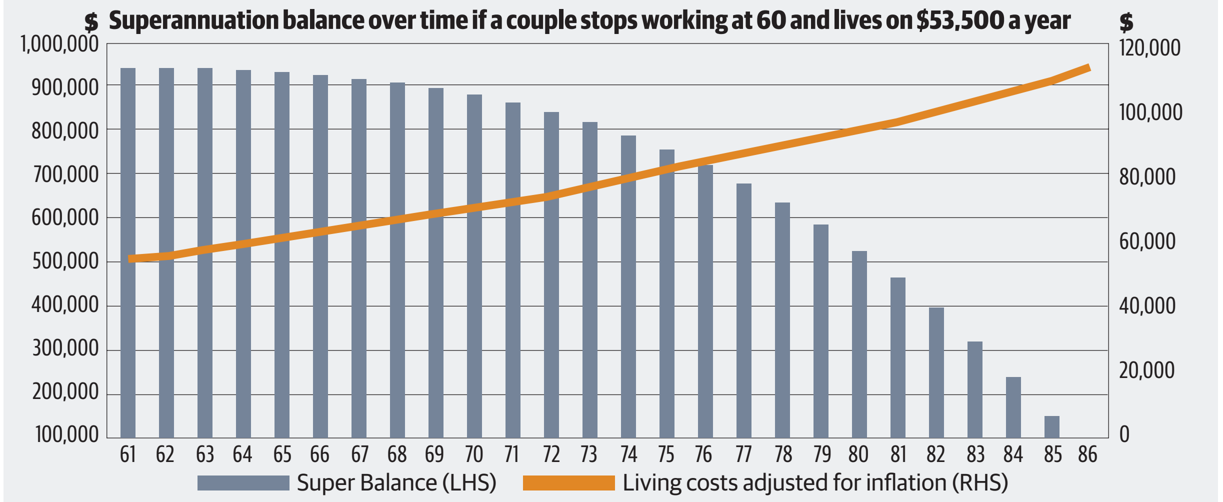
However, this is not a suitable course of action for everyone.

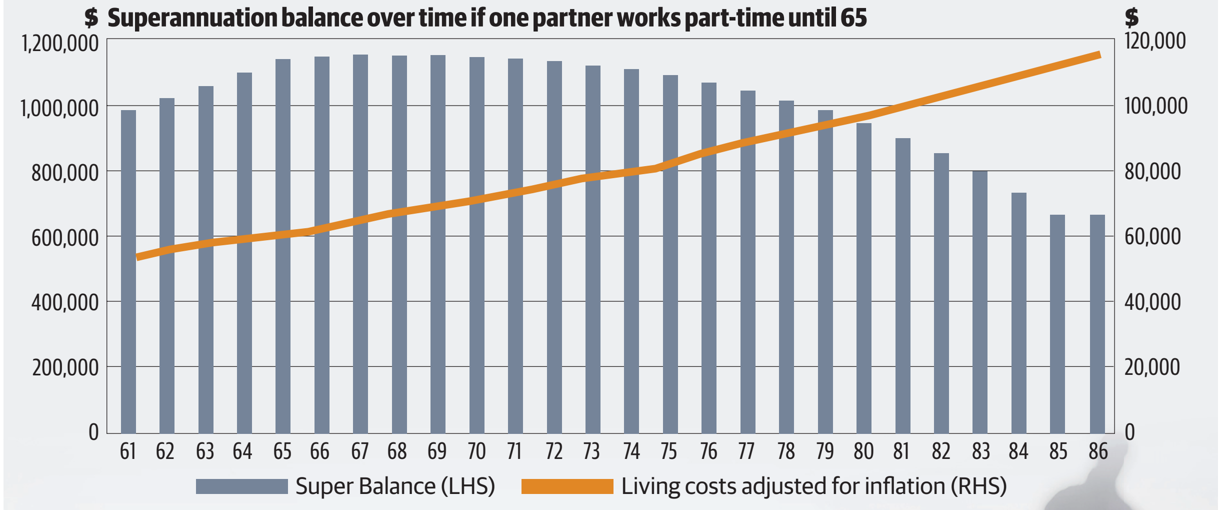
At face value, dividend yields exceed the returns on cash but this is no guide to the total return an investment generates.

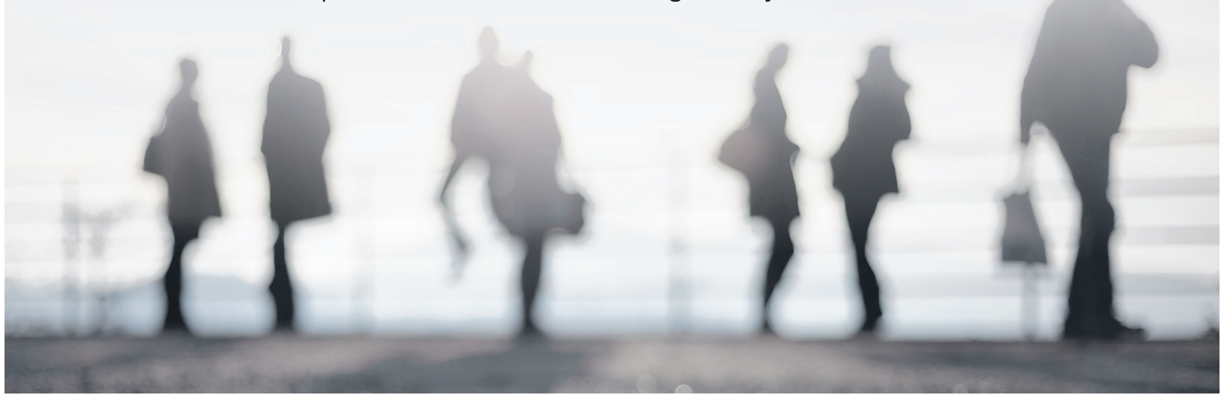
Asset allocations still greatly depend on where you are in your stage of life and movements in the cash rate should not materially change this. For instance, it may be appropriate to take more investment risk in your younger years to ensure the purchasing power of your capital is not eroded by inflation. Conversely, taking unnecessary risks with your super funds later in life increases the chances of incurring capital losses and you do not want to be in a position where you cannot recover from your losses.

Other solutions to deal with lower returns on cash may need to be considered, such as working longer, a longer transition to retirement and possible adjustments of future spending plans.

WHY IT PAYS TO WORK LONGER







Working longer than initially planned can provide more certainty, security and flexibility in retirement.

Take John and Jenny for example, who plan to retire at age 60. They hope to generate an income of around $53,500 a year after tax in retirement (a Westpac/ASFA Retirement Standard Report in 2010 estimated that couples need about $53,456 a year to retire comfortably).

If John and Jenny reach their respective life expectancy, 83 years for John and 86 for Jenny, they would more than likely outlive their retirement nest egg.

This assumes their super fund generates an after-fee return of 6 per cent a year and an inflation rate of 3 per cent a year. Centrelink age pension entitlements have not been included for the purpose of this analysis.

The life expectancy figures are based on averages and John and Jenny would be wise to plan for life beyond Jenny's 86th birthday.

To provide a greater probability of reaching their retirement goals, John decides to continue to work part-time from age 60 to 65. He works three days a week and earns $31,200 a year. By working part-time for an additional five years, John and Jenny increase the likelihood of meeting their retirement income objectives.

Their super balance is estimated to be around $184,000 more at age 65. By supplementing their super pension (from age 60) with part-time work, John and Jenny retire with a greater balance.

The bigger balance generates more income and enables them to better cope with the volatility of investment markets and deal with an economic environment in which cash rates remain low.

Matt McCarney is a financial adviser and executive director at Vantage Wealth Management

Efficiency drive equals no more cheques in the mail

DIY super

Monica Rule

Self-managed superannuation fund trustees must prepare for new ways to receive members' super — from July 1 they will no longer be able to take cheques.

A new super law requires employers to make super contributions for their employees into SMSFs electronically.

Employers with 20 or more employees must comply but those with less than 20 employees have an extra year, the start of July 2015, to comply. The law does not apply to SMSFs with related parties as employers. A related party includes members of the SMSF and relatives of members, business partners and associated companies and trusts.

The change is designed to improve the quality of super records, allow the use of tax file numbers to identify members, improve rollover transactions between super funds and standardise the process for making contributions.

It requires affected employers to make super contributions for their employees by submitting payments using the new Data and Payment Standards. The payments must be recorded electronically using a prescribed format. It means employer contributions made by cheques or other paper formats are no longer acceptable.

In my opinion, our super system needs this new law as there are more than 180 different payroll systems used by different super funds and the processes are complex, time-consuming, expensive and lead to members being incorrectly enrolled in super funds — which results in unwanted multiple accounts.

The new requirement will provide a minimum standardised format for all super funds and will reduce manual processing, improve data quality, reduce errors, lower costs, require less preparation time and provide faster receipt of contributions for members. It will mean better information about the amount and timing of payments made for employees. Improved data matching will reduce the number of lost super accounts and members with multiple accounts having to pay duplicate fees and premiums.

SMSFs that receive super contributions from unrelated employers will need to contact their employers and provide them with an electronic service address (different to an email address) for the delivery of contribution messages.

The information that needs to be provided is:

- the SMSF's Australian Business Number;
- the SMSF's bank account details; and
- an electronic service address for receipt of a contribution data message.

SMSFs will need to provide this information to their unrelated employers by May 31 to meet the July 1 deadline.

SMSF trustees will need to ensure their SMSF's bank account is able to receive electronic contributions and contribution messages with information about the payments in the new electronic format. To receive contribution messages electronically, trustees need an electronic service delivery address. The Australian Taxation Office has published a register of messaging solution providers on its website to help SMSF trustees get an electronic service address.

The tax office list includes Australia Post, which provides a service that allows SMSFs to receive messages from employers and other super funds. It has a special offer that expires at the end of May.

SMSFs that fail to comply with the new electronic standard will not be able to receive super contributions from unrelated employers and rollovers from retail super funds and face tax office penalties of up to $3400 for non-compliance. The tax office can also issue a direction to an SMSF trustee to address the contravention.

Unrelated employers who don't receive the required information from SMSFs before the July 1 deadline will be required to remit employees' super contributions to the company's default super fund instead of the employees' SMSF, resulting in delays for members receiving their super contributions. I would therefore encourage trustees to look into the new Data and Payment Standards without delay to avoid any inconvenience.

Monica Rule worked for the Australian Taxation Office for 28 years and is the author of The Self-Managed Super Handbook – Superannuation Law for Self Managed Superannuation Funds in Plain English www.monicarule.com.au