Your money
Your future

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Super shortfall leaves retirees in the lurch

Saving for retirement can seem like a daunting task when you calculate just how much you need for a comfortable retirement and how long you have to accumulate it.

Add to that the factors outside your control which are liable to affect your savings plan and it is immediately apparent just how precarious saving for retirement can be.

Research by Investment Trends reveals the financial crisis hit retirement savings particularly hard in 2009. Its Retirement Income Report shows a widening gap between Australians' expectations for a comfortable retirement and what their superannuation savings will really deliver.

Of almost 3,000 people surveyed aged 40 or more, 56 per cent said recent volatility had a negative impact on their retirement savings and that they would change their plans as a result – mostly spending less in retirement, working longer, or delaying retirement.

Investment Trends principal Mark Johnston says the gap between retirement dreams and reality has become noticeably bigger as a result of the financial crisis and that investors are being forced to make significant changes to their retirement plans.

According to the report, less than one in 10 people have enough super to reach their goal of a $40,000 minimum annual retirement income. The average income from personal savings by those already retired was less than half that – $19,000 per annum.

The research suggested that those within five to 10 years of retirement had been hardest hit and were now planning to delay retirement by an average of 3.7 years.

The financial crisis has also heightened awareness that compulsory super will not be enough, with 45 per cent of respondents agreeing that the nine per cent Super Guarantee was inadequate to retire on and should be higher.
This concern about retirement savings is reflected in the low super balances of many investors. The median balance for those five to 10 years from retirement was just $71,000 and $141,000 for those one to three years from retirement.

So how much is enough? The general consensus is that retirees will need 60-70 per cent of their annual pre-retirement income to maintain a comfortable standard of living. How much you will need to save depends on your personal circumstances, including how much you already have saved and how long you have until you retire.

Taking control of your finances and planning for your retirement early can give you more flexibility and choice when it comes time to retire. To discuss your particular needs as you approach retirement, please make an appointment with our office today.

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Advice & Answers Financial Planning Pty Ltd
Advice & Answers Financial Services
'your financial advice & answers'
ABN 9602 659 5515

Suite 6
463 Main Street
Mordialloc
Victoria 3195

Charles Ellul CFP DipFp
Certified Financial Planner
Authorised Representative

All correspondence to:
PO Box 5563
Mordialloc
Victoria 3195
Phone: (03) 9580 6463
Fax: (03) 9580 5463
Mobile: 0412 264 606
Email: advice@aafp.com.au
Email: admin@aafp.com.au
Web: www.aafp.com.au

Partner
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Super: the pros and cons of do-it-yourself

Australians are increasingly doing it for themselves when it comes to super.

Self-managed superannuation funds (SMSFs) are the fastest-growing fund type in Australia, with about 410,000 SMSFs representing 772,000 members, or 7 per cent of Australia's total super members.

SMSFs have gone from strength to strength, with each recent month seeing the establishment of around 2,500 new SMSFs. The total value of funds under management increased from $132 billion to $332 billion in the five years to 30 June 2009, an annual growth rate of 20 per cent.

But the complexity of running your own super fund means SMSFs are not for everyone – SMSF members tend to be older, have a higher income and larger super balances.

Before switching to an SMSF it's worth asking:

1 Is the fund strictly for retirement benefits?
2 Do you have the time and skills to run your own super fund?
3 Will the benefits be worth the costs?
4 How will switching affect your current super benefits, services and fees?

The case for

An SMSF can have a maximum of four members, all of whom act as trustees and are responsible for running the fund, investing assets, paying benefits and meeting compliance requirements.

The great advantage of an SMSF is that you're in control. Asset allocation, tax strategies, insurance options and retirement planning – it's all up to you.

Investments

You have great flexibility over where your super is invested, as long as you comply with regulations and the fund is operated for the purpose of building retirement wealth (also known as the sole purpose test).

When planning an investment strategy, you need to consider your objectives, time horizon, risk tolerance and diversification. You can invest in your preferred combination of assets, across all asset classes – cash, fixed interest, property, Australian shares and international shares.

Tax

SMSF trustees are permitted to lodge their tax returns later than some other types of fund, allowing them to invest a greater percentage of funds under management.

Insurance

You can choose from a complete suite of insurance options, including life and trauma insurance.

Retirement

Your investment strategy can incorporate a transition to retirement strategy using a non-commutable allocated pension.

So what can't you do? You can't use an SMSF to fund the purchase of a business, holiday home or golf club membership. Generally, you can't acquire assets from a related party, borrow money or allow in-house assets to exceed five per cent of the total fund assets.

You also need to be wary of schemes to withdraw your super early. The Australian Taxation Office is handing out heavy penalties for those who illegally withdraw from schemes early.

The case against

Costs

SMSFs can be expensive, with the annual costs of running a medium-sized fund estimated at $2,000.

Your fund needs to be substantial enough to make this worthwhile. An SMSF is usually not advisable if the fund assets are likely to be less than $200,000. It's not surprising therefore that the average annual member balance is $454,000 – more than six times the industry average of $70,000.

Administration

Most people find it hard enough keeping up with their current super, let alone running their own fund.

When establishing the fund, you need to draw up a trust deed setting out trustee powers, benefit payments and exit strategy.

You also need to create a separate bank account, keep accurate paperwork, produce annual operating statements, keep copies of annual returns and appoint an approved auditor.

Many SMSF owners choose to outsource some administration functions to reduce the amount of paperwork they need to complete themselves.

Help is at hand

With greater control comes greater responsibility, but the right financial advice and support can make it easier. Fortunately there is more help out there than ever before for Australia's growing number of SMSF enthusiasts.

If you're interested in setting up your own super fund, please contact our office. We can help set your fund's investment strategy based on your investment objectives and individual circumstances.

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