CLIENT ALERT

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SUPER SHORTFALL FOR WOMEN: TAKE CONTROL WITH SOME SIMPLE STEPS

How can superannuation be considered universal when it appears to discriminate against half the working population? With recent changes to the eligibility rules for spouse/partner contributions to super (brought in on 1 July 2017) it seems that policy makers are waking up to the shortfall in women's superannuation. We look at some of the key causes that may affect you, and what actions you should consider taking in relation to your super.

It may not be the super system itself that is unfair to women, but rather that it doesn't extend to "unpaid" or temporary/casual work, including domestic work mostly undertaken by women, or seek to cover those in less formal working roles. Whatever the cause, a disparity exists: A recent 2017 survey by HILDA (Household, Income and Labour Dynamics in Australia) found that women retire with an average super balance of $230,907 compared to men, who, on average, retire with double this amount. One in three women is heading towards retirement with no super, or a very small fund. There are a number of factors that contribute to this shortfall, notably the gender pay gap, and the reality that women are far more likely to spend time out of work in comparison to men, to work part-time, to bring up children, or to care for elderly or sick relatives. The

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based on income from full-time, dependable employment.

In addition to this, women tend to live longer than men, meaning that planning and looking after their super is essential.

Are you a woman aware of a shortfall in your super? Have you reviewed your super recently? If so now might be a good time to look at some practical strategies to boost your super, whatever your age.

START SUPER EARLY

Even if you don't have much capacity to put aside extra money for retirement, there is still a lot you can do to maximise your retirement benefits. No matter how small, compounding savings over a long-term horizon can produce substantial benefits.

If you can, plan early because having an adequate amount in your super by retirement age (current retirement age in Australia is 65, rising to 67 by July 2023) is dependent on growth of the fund over time. The earlier you start saving in super, the longer time your fund will have to accumulate. Saving for retirement is tax-effective via super as there is a lower rate of tax charged on super contributions, and from the age of 60 you can withdraw your super without paying tax.

Your employer should contribute 9.5% of your salary or wages to super if you are in full-time employment, or even part-time employment. An employer will usually select a default fund on your behalf, but you can choose your own nominated fund if you wish.

FIND LOST SUPER

part-time basis or you have moved house, changed your name, or lived overseas. You can check this and track your entire super from your MyGov account.

KNOW YOUR SUPER, GROW YOUR SUPER

It may be difficult to keep up with detail of changes made to super, but it's critical that you know the value of your own super as a starting point. Once you have located what super you have, you can check your balance/s, how much is being contributed, what investments are being made and any insurance that is in place. You can also add to your fund by making additional payments, either through salary sacrifice made directly from your employer, or by my making your own non-concessional contributions (after-tax super contributions).

TIME OUT?

If you take time off to care for someone or to have a child, keep in mind that this will affect your super. You can use the career break super calculator to work out how taking time off will affect your super balance. If at all possible it is worth continuing to pay into your super while you are not working.

Individuals with total super balances less than $500,000 can make additional concessional contributions for unused cap amounts from the previous five years, starting from 1 July 2018. This will be a handy measure for those with a capacity to make "catch-up" contributions to boost their super.

SPOUSAL/PARTNER CONTRIBUTIONS

A tax offset of 18% up to $540 is currently available for any individual, married or de facto partner, contributing super on behalf of a recipient spouse/partner whose income is up to $37,000. Eligibility rules were extended from 1 July 2017 by the Government to increase this amount from $10,800. However, this offset is gradually reduced from income above $37,000 and disappears completely at under 70 and if aged 65 to 69 must meet a work test.

A Government co-contribution up to $500 is also available for individuals with total incomes up to $36,813 for 2017–2018 (phasing down for incomes up to $51,813).

CONSOLIDATE

While you can often choose the fund into which super is paid, you may already have more than one super fund. Look into consolidating your current super funds if this is the case because contributing to one super fund, rather than many different ones, will mean you spend less on fees (as each super has an administration fee). It is also is easier to keep track of one fund. Key things to consider when choosing a fund are the long-term average returns of that fund and the fees that are charged – make sure you are comfortable with both. Before switching funds, it is also important to consider any insurance implications. Some funds require new members to undergo a medical test before insurance benefits are granted, while other funds may automatically offer transferring members insurance under a group life policy.

SELF MANAGED SUPER FUNDS: GET ADVICE

You may not be in a job where your employer pays your super, or you might want to manage your own super fund. If so, you could consider a self-managed super fund (SMSF). This is a legal structure (regulated by the ATO) with the specific purpose of providing for your retirement. There are similar rules and restrictions to ordinary super funds so it is important to seek advice about whether an SMSF would suit your situation, how to set up your own fund and investment strategy going forward.

Contact our office to discuss your circumstances and find out how we can or put you in touch with those who can.

FIRST HOME SUPER SAVER SCHEME: LAY FOUNDATIONS AND PLAN TO BENEFIT

Even if you avoid café brunches and keep a close eye on your everyday spending, saving a deposit to buy your first home can be a challenge. The First Home Super Saver Scheme, announced in the 2017–2018 Federal Budget, proposes using the superannuation system to help Australians build their home deposits. The government has now released draft legislation to lay the scheme's foundations – let's take a look at the assistance on offer and how it would work if this draft becomes law.

The proposed First Home Super Saver Scheme (FHSSS) will allow people to make voluntary superannuation contributions from 1 July 2017 and later withdraw them, starting from 1 July 2018, to use for a first home deposit.
For many people, the FHSSS will effectively operate to provide a 15% tax saving on money channelled via superannuation for a first home purchase. While the potential tax savings of the scheme will only make a small dent in the major funding required for a home purchase, the assistance on offer should not be ignored by those who can benefit.

A person with assessable income above $52,000 who has the capacity to salary sacrifice the yearly maximum of $15,000 as a FHSSS contribution can achieve a respectable tax benefit, because they will save 17.5% in tax (plus Medicare levy) on the way into super, and only pay 2.5% (plus Medicare levy) on the FHSSS released amount. On the other hand, given that people with taxable incomes below $37,000 have a marginal tax rate of 19% (plus Medicare levy), the tax savings of the FHSSS are diminished for these low-income earners.

So, the greatest tax benefit of the scheme will be for people earning between $52,000 and $102,000 who can salary sacrifice $15,000 and stay on the 32.5% marginal tax rate (income between $37,000 and $87,000). Those with an income above $102,000 can achieve a 22% savings in tax (plus Medicare levy) on the way into super, but will pay 7% (plus Medicare levy) on the FHSS released amount.

WHAT'S INCLUDED?

Individuals would be able to contribute up to $15,000 per year (and $30,000 in total) to their super for the purpose of a first home deposit. Employees may use salary sacrifice arrangements to make pre-tax contributions, but you should keep in mind that any FHSSS amounts you contribute would still count towards your yearly concessional contributions cap. The cap from 1 July 2017 is $25,000 – that is, your pre-tax contributions of up to $25,000 (including the mandatory super guarantee and any you make under the FHSSS) are taxed at a "concessional" rate of 15%. Higher tax rates apply if you exceed the cap.

Importantly, the scheme won't allow you to withdraw money that you already had in super before 1 July 2017, and any FHSSS amounts you contribute would only be available for release from 1 July 2018.

WHO'S ELIGIBLE?

To be eligible to use the FHSSS you would need to be at least 18 years old, have not used the scheme before and have never owned real property in Australia.

If you're eligible to use the FHSSS, you wouldn't be disqualified just because you were buying a home with someone else (such as your spouse) who wasn't a first home buyer.

HOW WOULD IT WORK?

apply to the ATO, giving a declaration of your eligibility to buy or build a residence. The ATO would issue a determination and release authority specifying the maximum amount to be withdrawn, then estimate and withhold an amount of tax and release your deposit to you.

The maximum withdrawal amount would be 85% of your pre-tax (concessional) contributions.

Concessional contribution amounts and associated earnings withdrawn from your super under the FHSSS would count as part of your taxable income, although a 30% tax offset would apply.

Amounts released from super under the FHSSS would be excluded from the social security means tests and co-contribution income test.

After the release of your FHSSS amount, you would have 12 months to sign a contract to buy or build residential premises, and 28 days after the contract signing to notify the ATO. Your purchase could include buying vacant land to build on and occupy as your residence.

You would then need to occupy the residence as soon as practicable, and for at least six months of the first year after it becomes practicable to do so. For example, if you bought a house-and-land package, you would need to occupy the house for at least six months in the first 12 months after it is built.

IMPORTANT CONSIDERATIONS

If you're saving for your first home and think the FHSSS might be for you, there are a range of factors to consider.

closely at your fund's investment strategy and be aware of the risks involved with adding the money for your home purchase to your superannuation.

While the legislation is yet to be finalised, it is important to start planning now, as any salary sacrificing to your super will need to be prospective. The various potential taxing points in the scheme also mean that your personal finances and circumstances may affect whether using it to save your deposit would give you a useful tax saving.

Want to know more? **Contact us** to discuss the latest super changes and your home deposit savings plan.

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