



Women and the super myth

Careful retirement planning is important for all Australians, but it's especially important for women.

The pay disparity between men and women, combined with the different lengths of time each group spends in the workforce, means many women end up with much less super in retirement than their male counterparts.

The ongoing casualisation of many traditionally female jobs and the fact that much unpaid work falls largely to women further compounds the problem.

When a woman takes a break from paid work to raise children or care for family members, she not only forgoes her wages, but also a portion of her retirement savings, as superannuation payments are linked to paid work.

The figures make stark reading. A 30-year-old woman with an annual salary of \$50,000 who takes six years out of the workforce could miss out on \$58,000 in retirement savings by the time she is 65.*

According to the Association of Superannuation Funds of Australia, in 2006 the average superannuation balance for women was half that of men: \$35,520 compared with \$69,050. And the average retirement payout for men is more than double that of women: \$136,000 compared with \$63,000.[†]

The current 9 per cent superannuation guarantee paid by employers is already deemed to be insufficient to fund a comfortable retirement according to the Labor Government which plans to increase compulsory super contributions. This leaves most women reliant on the pension to fund their retirement either in part or in full.

Meanwhile more than half of women in their 60s have no superannuation at all, reflecting lower rates of participation in the workforce and the relatively recent introduction of the superannuation guarantee in 1992.

The problem is increased by the fact that many women believe their partner's superannuation will be enough to cover them both and they don't worry about having a Plan B.

Women need economic independence, regardless of how supportive and generous their partners are, in order to have a sense of control and help them to make their own financial decisions.

Sadly, relying on a partner for support may not be an option for all women. An increasing number of Australians are

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* This example is calculated using ASIC's FIDO Superannuation calculator - <http://www.fido.gov.au/fido/fido.nsf/byheadline/Superannuation+calculator?openDocument> - and based on various assumptions including, but not limited to: an annual salary of \$50,000, six years out of the workforce, super invested for 30 years, a return of 7 per cent pa, with all earnings reinvested, no administration fees or charges deducted, no salary-sacrifice contributions, no after-tax contributions, invested in a balanced portfolio (ie \$232,000 - \$174,000 = \$58,000 is lost super).

† Clare, Ross 2008 'Retirement Savings Update', ASFA 2008 - <http://www.superannuation.asn.au/Reports/default.aspx>, <http://www.superannuation.asn.au/mr080211/default.aspx>



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Women and the super myth continued

affected by relationship breakdowns, with divorce rates rising from 28 per cent to 33 per cent of marriages between 1987 and 2002.[‡]

And women can least afford reductions in their retirement income. Their higher life expectancy – women outlive men by almost four years – means they will need their retirement savings to last for longer.[§]

This means it's even more important for women to look at boosting their super with strategies such as additional contributions, super splitting, spouse contributions and co-contributions.

The more women put into super at an earlier age, the greater the benefit they can accrue from compounding interest.

Using the government's co-contribution scheme is one way women can increase their super savings in their less-productive years. If a woman is earning less than \$61,920 per annum, she may be entitled to a government co-contribution of up to \$1,000 when she makes a personal after-tax contribution of \$1,000 to her super.

Spouse contributions are another option. If a woman takes time out of the workforce and is earning less than \$10,800 in total income, her partner could contribute up to \$3,000 into her superannuation fund and receive a tax offset of 18 per cent, providing a tax saving of up to \$540 each financial year. Where a woman's income is above \$10,800, the offset is calculated on \$3,000 reduced by \$1 for every dollar her income exceeds \$10,800.

Super splitting is another strategy from which some couples can benefit. It may be advantageous for the spouse on the higher marginal tax rate to salary sacrifice or make additional contributions and split part of this off to the spouse on a lower income.



Whatever strategy works best, there is no doubt that early and careful planning can reduce the impact that years spent outside the workforce and pay disparity can have on women's retirement savings. And the sooner you start saving, the greater the benefit in the long run.

‡ ABS 4102.0 Australian Social Trends 2007

§ Superannuation Savings Gap for Women, IFSA / Rice Warner, March 2010 – <http://www.ifsa.com.au/resource-centre/publications.aspx>

Keeping your balance

“Remember that credit is money.” Benjamin Franklin

Remember life without credit cards? It is not so easy to recall or to imagine what it was like before the ‘plastic fantastic’ changed our shopping lives, gave us flexibility in the way we spend our money, and provided chances for spontaneous purchases we did not have before.

But for some people credit cards have also brought fear, trouble and debt.

Yes, you can cut up your cards and remove the temptation but that does not increase your financial discipline. Is there a way to find the right balance so you can retain the benefits of credit cards but still maintain your financial health?

The answer lies in a slightly unexpected direction – by tightly tying your credit card spending in with regular budgeting.

Playing your cards right

Many people are attracted to all the good things about a credit card: ease of use, monthly repayments, reward schemes, and less need to carry cash.

Recent figures from the Reserve Bank of Australia (RBA) show people have reduced cash advances on their cards, no doubt aware this is an expensive loan option.¹ Unfortunately, RBA figures also show that 72.5 per cent of card holders still carry a card balance forward from one month to the next.²

Stepping forward

What are some practical steps to incorporate credit cards into your life while avoiding or managing debt problems?

- 1 Complete a budget and review it regularly – it works.
- 2 Use credit cards to fund personal short-term cash flow imbalances, but never to fund cash flow deficits. If you can't pay off your credit card balance after the interest free period (44 to 55 days from purchase date), you will go backwards. It's that simple. Interest of 20 per cent plus is applied from the purchase date, not the day after the interest free period ends.



- 3 Restructure your debt.

Debt funded by a credit card is expensive, so consider accessing cheaper funds in order to pay off debt, like redrawing equity from your home loan, or taking out a personal loan with a lower interest rate.

Become conscious of linking your card spending with your budget. By joining the two at the hip, you gain the benefits of sustainable shopping but avoid the pitfalls of excessive expensive debt.

Good luck!

Sources

- 1, 2 RBA, Credit and Charge Card Statistics: C1, and Additional Credit Card Statistics. <http://www.rba.gov.au/statistics/tables/index.html>

News bites

Australians third-richest in world

Australian adults are the third-richest in the world, ahead of countries like the United States and United Kingdom, according to a new study.

The Credit Suisse Research Institute's inaugural Global Wealth Report found that the average Australian adult's wealth had soared 211 per cent to US\$321,000 in the past 10 years, as at mid-2010.

Switzerland and Norway emerged as the richest nations in terms of average wealth per adult, followed by Australia and Singapore respectively.

Interestingly, the report found the composition of Australian adults' wealth was heavily skewed towards real property, which forms 64 per cent of total household assets. As such the level of real assets per adult in Australia is now the second highest in the world after Norway.

The report also confirmed that Asia Pacific countries, which now make up the bulk of the world's middle class of emerging consumers, are driving the growth of the world's wealth. China is the third-largest wealth market in the world at US\$16.5 trillion, 35 per cent greater than France, the wealthiest European country.

Back to school – don't miss out on the education tax refund

Getting the kids ready to go back to school can be an expensive time. But did you know the government provides up to \$375 (primary) and \$750 (secondary) per student as a tax refund for back-to-school expenses?

The Education Tax Refund provides up to 50 per cent back on a range of children's education expenses, such as school textbooks, stationery, computers, internet connections and educational software.

To claim the refund, keep the receipts of any education related purchases and use them to calculate your refund as part of your annual tax return.

Figures from the Australian Taxation Office (ATO) reveal that tens of thousands of eligible families did not lodge a claim last year, leaving \$500 million in unclaimed benefits – so make sure you don't miss out in 2011.

Money can't buy you happiness

The British Government plans to introduce a new national happiness index to gauge its population's psychological wellbeing, according to British officials.

A similar initiative is already being investigated by Canada while French president Nicolas Sarkozy announced two years ago that he intended to use happiness levels to help assess the country's economic progress.

Data from several countries has shown that happiness levels remained more or less static, even though disposable income, financial security and GDP has risen substantially since the great post-war expansion of Western economies.

In contrast, in countries such as India, increases in material wealth actually have a positive effect on people's overall wellbeing.

So while money doesn't always buy happiness – especially in the West – being in control of your finances can help ease stress and promote overall wellbeing.

Smart strategies for June 30

With the end of financial year just around the corner, now is the time to review your finances. Putting in place some smart strategies could improve your overall financial position, and allow you to take advantage of a number of opportunities.

Superannuation

Boost your superannuation throughout your lifetime. By salary sacrificing into super, you can reduce your taxable income, while growing your super in a tax-effective environment. You pay just 15% tax on contributions to your super fund from pre-tax salary, and after-tax contributions are not subject to any additional contributions tax. Investment earnings and realised capital gains within the super fund are taxed at a maximum rate of 15%.

Remember that contribution caps do apply, which limit the amount you can contribute each financial year. Those under age 50 can contribute up to \$25,000 each financial year, and those over age 50 can contribute \$50,000 in 2010/11.

The superannuation co-contribution scheme is also a great way to grow your super. The government will match your personal after-tax contributions, up to a maximum of \$1,000 each financial year. If your income

exceeds \$31,920, the Government will contribute a reduced amount, which cuts out when your income reaches \$61,920.

You may also want to help your spouse to grow their super by making a contribution to their super fund. If your spouse receives an income of less than \$13,800 per annum you could be eligible for a tax offset of up to \$540.

Your investment portfolio

Review your investment portfolio to ensure that it's consistent with your asset allocation and risk profile and rebalance if necessary, and check whether you're in a position to utilise any capital gains or losses.

While reviewing your investment portfolio, it's a good idea to think about whose name the investments are to be placed in, so that income can be distributed more evenly, estate planning issues can be considered and retirement funds can be accumulated for the lower earning (or non-working) spouse.



Protect your income

Your income is one of your most important assets, providing you with the means to build your wealth and fund your lifestyle, yet many Australians have not taken steps to protect it. An income protection policy can provide a replacement for up to 75% of your income if you are unable to work as a result of illness or injury. In most cases, the cost of the income protection premium is fully tax deductible.

Some financial strategies could directly impact your tax position, so it's important to discuss with your adviser in conjunction with your registered tax agent.

The O'Brien's story



An outwardly happy family smiles for the camera at Christmas in 2006. This is the family of Chris and Gail O'Brien and their three teenage children. It's the perfect family shot, but on the inside, this was a family in crisis.

Just one month earlier, Professor Chris O'Brien, the respected head and neck surgeon and cancer specialist, and much loved doctor from the popular television series RPA, had been diagnosed with one of the deadliest forms of brain cancer – a glioblastoma multiforme.

At the time, Chris was running a busy and successful medical practice. As well as operating and treating patients with cancers of the head and neck, he was also Director of the Sydney Cancer Centre based at Royal Prince Alfred Hospital. It was almost unthinkable that someone who had devoted their life to treating and saving cancer patients would be struck by the very illness he had spent his career fighting.

Chris was unwell for around a month prior to his diagnosis, experiencing fatigue and general lethargy. The fatigue eventually became overwhelming and he was plagued by headache and nausea. By the time wife Gail took him to Royal Prince Alfred Hospital in late November 2006, he was extremely unwell. The diagnosis was made following a CT scan on admission to the emergency department. It was a brain tumour with a most terrifying reputation, astrocytoma grade 4, also known as glioblastoma multiforme, from which there is only a 1 per cent survival rate and life expectancy of just six months. The diagnosis could not have been much worse.

The O'Brien family was grief stricken. Friends and colleagues were floored. There was an outpouring of concern from the public who had watched Chris on RPA over the previous twelve years. The irony was not lost on anyone: that a dedicated doctor who had spent his life saving the lives of others should himself be diagnosed with the same disease.

Five years before Chris's diagnosis, the O'Brien's recognised that they needed to review their finances and update their life insurance.

After discussing this with their accountant, they were referred to a financial adviser.

Chris and Gail wanted a financial adviser with whom they could develop a relationship built on trust and confidence. "We found the world of risk insurance foreign, confusing and expensive. We certainly understood the importance of having it but we didn't believe we would ever really need it. Sound advice on the best approach to take was what was required" said Gail.

Like many of us, Chris O'Brien had an attitude typical of many Australians, thinking 'it won't happen to me' but their adviser insisted personal risk insurance was a critical part of any financial plan. "Our adviser had such confidence in her ability to work out a structure that was right for us, yet was also sensitive to Chris's aversion to paying high premiums" said Gail.

Their financial adviser worked with them to create a long term plan for wealth and retirement. Importantly a full review of their risk protection needs was conducted and appropriate personal risk insurance was put in place. Not only life insurance, but also insurance to protect in the event of disability or serious illness and take care of business expenses.

According to Gail, "rather than make recommendations and leave it up to us to decide, our adviser was emphatic and positive about what was needed, giving real life scenarios of what had happened to some of her other clients. She displayed enormous common sense and obviously had our interests at heart".

In late 2006 the family were at a cross roads; overnight Chris's income had stopped, but they still had endless costs with a mortgage, school fees, car and business equipment leases and so on. Chris's illness would severely impact the family's ability to continue living as it always had. "A busy medical practice does not shut down overnight just because the doctor is not there. It really is a huge machine which needed to be fed while other arrangements were being made" said Gail.

Although they lived in a lovely home, selling it was simply not an option. "Our family had been thrown into panic by Chris's illness, and selling the only semblance of stability at that time would have made the situation even worse" recalls Gail.

Immediately following Chris's shock diagnosis, Gail contacted their financial adviser, who

provided the necessary assistance to lodge claims and support the family through the process, and ensuring that benefits were paid promptly. "Our adviser offered support and guidance during every step of the claims process. We were never alone to fend for ourselves during this chaotic time", said Gail.

Following diagnosis, it took several months for the initial shock to subside and for Chris to develop a positive mindset to fight the cancer. But, sadly, Chris died on June 4, 2009 at the age of 57, after a valiant two and a half year battle. He was honoured by a State funeral at St Mary's Cathedral in Sydney attended by over 2000 mourners including the Prime Minister, Governor General, dignitaries and many former patients. He was a doctor who had the common touch, a humble man who touched many lives.

Gail and Chris O'Brien's story is one that is all too common, but thankfully they had the financial support to maintain some normality in their lives during Chris's illness and prepare themselves for his inevitable death. Many Australians who experience illness or injury are not so lucky, and without the appropriate cover in place, they and their families face a much more uncertain future.

Gail has reflected on how they family would have got by without the insurance cover and support of their trusted financial adviser. "We were in a state of panic and paralysed by grief. We simply would not have coped if we were not protected financially, and the value of having our adviser there to help was immeasurable".

Chris O'Brien said many times that he regarded his illness as a gift because he was able to leverage off his illness to do good. Chris pioneered a revolution in cancer care in Australia with the establishment of a fully integrated and holistic cancer centre where the treatment of patients is driven by research, uncompromising care is delivered with kindness, and hope is never taken away. The Chris O'Brien Lifehouse at RPA will open its doors to the public in 2013.

Special thanks to Gail O'Brien for her generous contribution to this article.