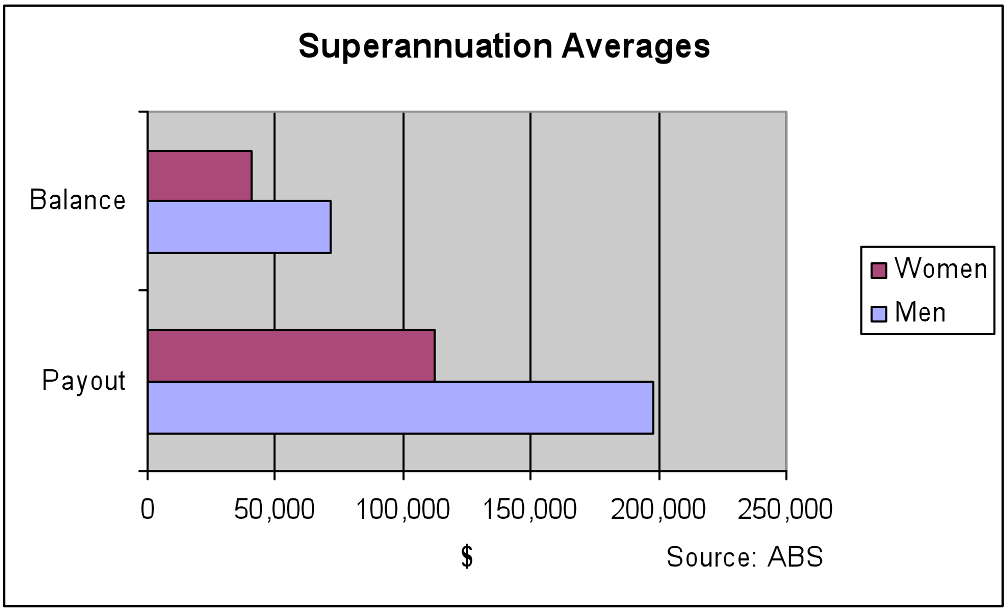
Women and Superannuation

In Melbourne on 20 October 2011, **Sue Schlesinger** from MTAA Super joined a discussion led by Pauline Taylor, Finance and Economics Consultant on why women have so much less superannuation than men and what they can do to close the gap. The group included Gen Ys right through to retirees so a broad range of matters were discussed.

According to the ABS, the average superannuation balance for women is $40,475, just over half that for men which is $71, 645. The average payout for women at retirement is also just over half the male level, at $112,600 compared with $198,000 for men.



In addition, women only hold 34% of account balances, compared with 66% held by men.

Women have less superannuation than men because:

- our system is based on continuous full time employment in paid work;
- women have uneven work patterns;
- nearly half working women are part time and many are on contract (superannuation is not paid for those below $450 per month);
- women earn less and incentives favour those on higher incomes;
- divorce impacts more;
- women have high levels of disengagement with superannuation and low levels of trust with financiers;
- they usually have significant family responsibilities and

– often have more conservative attitudes to risk

Women need to give more consideration to superannuation than men because they live longer – about 4-5 years. Actuaries Rice Warner have calculated that a young woman working today and retiring at 67 will need to save 13% more than a young man. If she has a career break of 5 years she needs to save 26% more. Women are more likely to be on the aged pension – accounting for around 70% of aged pensioners.

How can women build their super and save more for retirement?

Learning more about the options and strategies available is a good start. The Australian Government's new *MoneSsmart* website www.moneysmart.gov.au has a great deal of information including calculators and a special section for women.

Choice of Fund

Most people are free to choose their super fund. There are many industry funds available (you do not have to belong to the industry), as well as retail funds i.e. those offered by financiers or you can establish your own self-managed super fund. If you are switching from one fund to another always check what insurance is provided and how this might be affected by switching.

Comparing funds and fees

Some agencies such as Super Ratings compare fund performance and fees. More information is on www.superratings.com.au. You can also use the calculators on the *MoneySmart* website to compare different options.

Choice of Investments

Most people are in the default option in their superannuation fund which is where they are placed by their employer if they have not specified a choice. Funds usually allow people to switch their investment options and recent market volatility has prompted many people to convert to the cash option. However, this means that losses are crystallised because when you sell after a sudden fall in the market, you are selling your investments at a reduced price. If you hold on, you have only made a "paper" loss not a "real" loss and any recovery in the market will increase your investment. Superannuation is for the long term, so you should think about the short term cost of switching. It is important to discuss your risk profile and your time frame (i.e. years to retirement) with your financial adviser or super fund in order to establish what type of investment option suits you.

My super – new default option

The Government's new Stronger Super system "MySuper" is scheduled to start in 2013. It is designed to provide a low cost option for people who do not wish to be actively engaged in their superannuation decisions.

Track down lost super

If you have had a number of different jobs you may have several super accounts and some you have forgotten about. It is in your interests to find these and consolidate them into one fund – not only does this make it easier to manage your super but it also means that you reduce your overall fees. Sometimes small super balances can be eaten up by fees and you can lose your savings.

Self- managed super funds (DIY Super)

If you wish to be actively involved in your superannuation and have more flexibility, you may wish to establish a self- managed superannuation fund. Administration costs (tax returns, record keeping) mean that it is only worthwhile to set up a self-managed fund if your superannuation is at least $300,000. Even then you need to be confident enough to manage your own investments.

Personal contributions

You can increase your superannuation by making personal contributions on top of the compulsory 9% contributed by your employer. There are two types of personal contributions: concessional contributions and non-concessional contributions. It is important to note that the Government has placed limits on these contributions.

Concessional contributions are before tax and if you are an employee, concessional contributions include the superannuation guarantee contributions an employer makes on your behalf and any pre-tax earnings that you choose to salary sacrifice into your fund. If you are under 50, these must be less than $25,000 per year or you will incur a penalty. All concessional contributions are taxed at 15%. Bonuses and benefits paid by your employer count towards your concessional contributions cap.

Effective from 1 July 2012, eligible Australians over 50 will be able to contribute $25,000 more per year than other workers if their account balance is less than $500,000. This will help many women who have had to defer their superannuation contributions, often for family reasons and therefore have low superannuation accounts. On the other hand, if your super balance is approaching this level, you could consider splitting contributions with a spouse/partner to ensure that your account remains below $500,000.

Non-concessional contributions are after tax and people under 65 can make additional contributions of up to $450,000 over a three year period. These non-concessional contributions are not taxed when they enter your superannuation.

Co-contribution

Under the superannuation co-contribution scheme, the government provides a matching contribution for contributions you make to super out of after tax income. (Non-concessional contributions). The matching contribution is up to $1,000 for people with incomes of up to $31,920 in 2010/11, with the amount phasing down for incomes up to $61,920. See link to ATO website to check your eligibility: www.ato.gov.au.

Salary sacrificing
By contributing your pre-tax salary to super, you can reduce your taxable income.
Note that some employers apply the 9% to the reduced amount i.e. after salary sacrifice. This is legal but not usual so you should check with you employer to see how your super is calculated. If your employer is applying the contribution rate to the lower amount, think about whether you are prepared to accept this. You may wish to raise the matter at your next salary review.

Transition to retirement
A useful strategy to build your superannuation late in life is by transitioning to a Transition to Retirement (TTR) pension in your super fund. This allows you to add to your superannuation in a tax effective manner. Once you have reached your preservation age (55 if born before 1 July 1960) you can access your super in the form of a pension and at the same time salary sacrifice to build your super. You can use the pension to maintain your take home pay which will be reduced when you salary sacrifice to super. However, you pay less tax because by putting some of your pre-tax salary into super you are reducing your taxable income and you pay only 15% tax on the contributions. Once you turn 60 you do not pay tax on your pension income. This strategy works best if your marginal tax rate is over 30%: if you are already on the lowest tax rate i.e. earning less than $37,000 then salary sacrificing brings no benefit. More information is on the *MoneySmart* website mentioned above.

Spouse contributions
A person can be eligible for a $540 tax refund by making contributions of at least $3,000 on behalf of a spouse if the spouse earns less than $10,800

Split contributions
A higher earning spouse/defacto can split super contributions with the lower earning partner, thus giving the higher earner a tax benefit and the lower earner a super benefit.

Superannuation and small business
Self-employed people or those receiving less than 10% of their assessable income from employment are eligible for a tax deduction for any personal contributions made to their super, subject to limits.

If you are self-employed, concessional contributions are the amount of pre-tax earnings you divert to your fund each year. You may be able to claim a deduction for personal contributions even if you receive some income as an employee; however, you must satisfy the "maximum earnings as an employee" condition. Under this condition, less than 10% of the total of the following must be in respect of your employment activities:

- your assessable income for the income year
- your reportable fringe benefits for the income year
- the total of your reportable employer super contributions for the income year.

If you wish to claim a tax deduction for your personal super contributions, you need to write to your super fund in the approved form "Notice of Intent to claim a deduction for personal super contributions".

The amount you contribute and claim as a deduction will count towards your excess contribution caps. More details are on the tax office website:
http://www.ato.gov.au/content/00120268.htm

Accessing super

Generally you cannot access your super until you reach retirement age. However if you encounter extreme financial hardship or have a severe illness you can apply to access your super early.

Transferring funds overseas

The Temporary Business (Long stay) subclass 457 visa allows overseas skilled workers to be sponsored by employers to fill positions in need in Australia for up to 4 years. Australian tax law requires employers to withhold income tax from employees' salary and send the withheld money to the Australian Tax Office. In most cases, the employer must pay superannuation contributions of 9% of the salary to a complying super fund. If your visa has expired and you have left Australia since 1 July 2002 you can claim any superannuation acquired in Australia. For more information see www.immi.gov.allforms/superannuation.