Beginner's Guide to Superannuation

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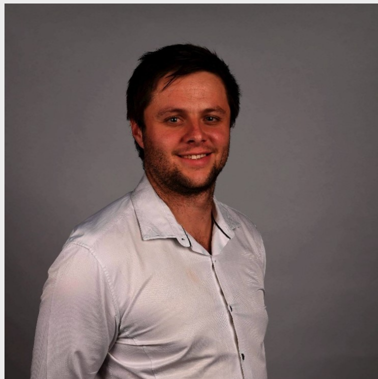
Introduction

Superannuation, or super as most people call it, is a cornerstone of most people's personal financial management. Apart from their own home, for many people superannuation comprises their entire personal wealth.

Super is also a form of compulsory saving for employees and a form of tax-advantaged saving for all working people, whether they be employees or self-employed.

In this guide, we introduce the basics of superannuation: what super is for, how money gets into super, how it is managed when it gets there, how it can be used both while it is in the fund and when it is paid out, and we include some particular comments about women and super.

Please feel free to pass this guide on to any other person who you think would find it beneficial. And, if you would like to discuss your own super situation, please do not hesitate to contact us.



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The question isn't at what age I want to retire, it's at what income.

George Foreman

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What is super?

Super, or superannuation as it is more formally known, is a long term savings arrangement designed to assist individuals to accumulate wealth to enable them to fund their own retirement and therefore reduce their reliance on government services such as the age pension.

Versions of super existing in other parts of the world. Australia's superannuation system as it currently exists took form in 1983, when the then Hawke Labor government reached an 'Accord' with trade unions such that the unions agreed to forego direct pay increases in return for the introduction of compulsory super contributions for their members. Initially, employers were obliged to contribute an amount equal to 3% of their employees' salary or wages into a super fund on that employees' behalf.

The system was expanded in 1992 to cover all Australian employees. This system became known as the 'Superannuation Guarantee' and it is still in place today. The introduction of compulsory super came as demographic analysts realised that the Australian population was ageing and this would place a substantial strain on government provided retirement benefits (that is, the old age pension).

The changes have had a positive effect – something that is often overlooked as super and its place in public policy is often politicised. But there is **evidence to suggest** that Australia is comparatively well-placed, in world terms, to cope with the ageing of its population (this ageing is also being experienced in other developed economies).

Legally, super is a financial product as defined by the Corporations Act of 2001. For most people, it provides one or both of two potential purposes: it is a wealth-creation vehicle and a life-insurance vehicle.

The basic idea of a super product is that it is a form of savings to which access is restricted. That is, the money saved into super can only be withdrawn under certain circumstances. By restricting access, the idea is that the assets held within a super fund are more likely to be available for the individual (typically referred to as a member of the fund) when he or she retires. Given that employers must make contributions on employee's behalf, super is effectively forced saving.

A special note about self-employment and super

Advisers with self-employed clients should pay particular note of a **piece of research produced by the Australian Super Funds Association** ('ASFA'). In 2012, ASFA found that 25% of self-employed people had no super at all. For self-employed people, super is simply too easy to overlook. Superannuation is not compulsory for self-employed people (it is compulsory that they pay it on behalf of their employees), which means that many businesses prefer instead to use all cash generated from their business to meet the expenses of the business and their day-to-day financial needs. Superannuation becomes something they will attend to 'next year.'

Too many small business owners consider the business itself to be 'our super.' This is a mistake and can seriously compromise wealth creation and the retirement lifestyle of these business owners.

Regulation of super

Fittingly, given its importance to most people, Australia's super system is well-regulated.

The Reserve Bank of Australia (RBA) has the central responsibility for ensuring the stability of Australia's financial system. The retirement system is regulated by the Australian Tax Office (ATO), the Australian Securities & Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

Australian Tax Office (ATO)

The ATO is the federal government's main revenue collection office and its main role is to administer the taxation and super systems. In particular it administers the super contributions, earnings and benefit payment rules. The ATO is also responsible for the regulation of self-managed super funds (SMSFs). The main responsibility here is to ensure that the SMSFs comply with the Superannuation Industry (Supervision) Act ("SIS Act") and to ensure that the funds are not used for unauthorised purposes.

Australian Securities & Investment Commissions (ASIC)

ASIC is primarily responsible for the regulation of companies, financial service organisations and professionals who advise on investments, super, insurance and credit. They contribute to Australia's economic reputation and wellbeing by ensuring that Australia's financial markets are fair and transparent, supported by confident and informed investors and consumers.

In relation to the super industry, ASIC is responsible for licensing, complaints and disputes, product disclosure statements and member reporting.

Australian Prudential Regulation Authority (APRA)

APRA is the prudential regulator for the financial services industry. Its role is to develop and enforce the prudential framework for insurance companies, super funds and other financial institutions.

APRA supervises all super funds (except for SMSFs), approved deposit funds (ADIs) and pooled super trust which are regulated under the SIS Act. They are typically large funds with thousands of members.

Department of Human Services (DHS)

The DHS assesses applications for early release of super funds on compassionate grounds.

Getting Money into super – contributions

When money is placed into superannuation, this is known as a 'contribution.' There are two types of contribution: concessional and non-concessional.

Concessional contributions

Concessional contributions are 'before tax' contributions, meaning that they are made using income that is yet to be taxed. They include employer contributions (also known as super guarantee contributions or SGC), salary sacrifice contributions and any other contributions which a member has effectively claimed a tax deduction for. The term 'before-tax' means that the member does not pay tax on the contributions before they are sent to the super fund.

Once they arrive in the fund, these contributions are generally taxed at 15%. Contributions on behalf of high income earners who have an adjusted taxable income in excess of $300,000 per annum are taxed at a higher rate of 30%. The income limit will fall from $300,000 to $250,000 **from 1 July 2017**.

To illustrate how this works, think of an employee earning $70,000 a year. Under the superannuation guarantee rules, her employer has to make a contribution worth 9.5% of her salary into super. This equates to $6,650. The employer pays this full amount directly into super. This is unlike the $70,000 paid to the employee, as the employer has to deduct the employee's tax from that money.

Once the $6,650 is received in the super fund, the fund must pay tax of 15% on that amount. This leaves $5,652 in the fund.

Concessional contributions are taxed at a flat rate of 15%. This is less than the amount of tax that the employee would have paid had she received the extra $6,650 as salary. Her personal marginal tax rate is 32%, meaning that she would have paid $2,128 had the super contributions been paid as salary instead. This lesser tax rate within super is designed to encourage use of super, as well as to ensure that there is a greater level of savings in the individual's hands when he or she retires. The fact that the contributions are subject to what is, usually, a lower rate of tax is one of the reasons that the contributions are described as 'concessional.'

Employers are allowed to claim a tax deduction for amounts paid into super as concessional contributions. This is the same as what happens when an employer pays wages or salaries to the employee – the employer gets a tax deduction, and the recipient (the employee in the case of wages or salaries) pays tax.

Until 30 June 2017, individual super fund members can only claim a tax deduction for a concessional contribution if they are self-employed, substantially self-employed or not employed, and meet the '10% rule.' The 10% rule states that a contribution is only deductible if less than 10% of the

member's assessable income comes from employment sources other than self-employment (eg salaries, fringe benefits, termination payments). That is, a person with a full-time job as an employee and a part time job that is self-employed could not claim a deduction if they want to make personal concessional contributions.

This changes from 1 July 2017, from which time all **members of super funds** can claim a tax deduction for contributions up to the concessional contributions cap, provided they flag their intention to do so with the recipient fund.

Until 30 June 2017, there are limits on the amount of concessional contributions that can be made each year, depending on the age of the member. For members under the age of 50, the current cap for the 2015/16 financial year is $30,000 and for members over the age of 50 the cap is $35,000.

From 1 July 2017, the annual cap will change to be **$25,000 for all people**. However, for people with superannuation balances below $500,000, they will effectively be able to **average this annual contribution out** over a five year period. This means that if a member makes a contribution in one year of, say, $10,000, then he or she can make a concessional contribution in the second year of $40,000, such that the average across the two years is $25,000 per year. Basically, the cap becomes $125,000 over five years, but the average level of contribution cannot exceed $25,000 during the five year period. (That is, you cannot receive $125,000 in contributions in the first of the five years and then not receive any in the second to fifth years).

Contributions in excess of these caps will be taxed at the member's marginal tax rate and included in the member's non-concessional cap (see below), unless the member elects to withdraw the excess funds. The member can elect to withdraw up to 85% of the excess funds.

Until 30 June 2017, there are also age limits on what type of contributions the super fund can accept. There is no age limit for a fund to receive Superannuation Guarantee Charge ('SGC') payments, however after the age of 65 members need to meet a "work test" to be able to make voluntary concessional contributions. After age 75 the only concessional contributions that can be made into the fund are SGC payments.

From 1 July 2017, people aged between 65 and 75 will **no longer need to meet the work test**.

The work test

To satisfy the "work test" the member must be gainfully employed on a part-time basis during the financial year for at least 40 hours in a period of not more than 30 consecutive days. "Gainfully employed" means that the member is employed, self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation or form of employment.

This test will no longer apply after 30 June 2017.

Non-concessional contributions

NON-CONCESSIONAL CONTRIBUTIONS ARE NOT TAXED GOING INTO THE SUPER FUND, AND THEY FORM PART OF WHAT IS KNOWN AS THE 'TAX FREE ELEMENT' WITHIN THE FUND.

Non-concessional contributions are 'after-tax' contributions which a member can elect to personally contribute. These contributions are not taxed going into the super fund, and they form part of what is known as the 'tax free element' within the fund. Members do not receive a tax deduction for these contributions.

The idea is that the money used to make the contribution has either already been taxed or would not be subject to tax outside of super, and that it would therefore be unfair to impose a tax within the super fund. For example, a person may decide to sell their home and downgrade to a cheaper one. Let's say they sell for $750,000 and buy a new place for $600,000. As the family home is tax-exempt, the remaining $150,000 is not subject to tax. If the person wants to put that money into their super fund, they can do so using a non-concessional contribution, so that the super fund does not have to pay 15% tax when the money arrives in the fund.

The idea is that people should be encouraged to put their money into super, where it is kept to help fund their retirement.

There are limits on the amount of non-concessional contributions that can be made. Up until 3 May 2016, the cap was $180,000 for a given financial year. Members who were under the age of 65 could use the "bring forward" rules to contribute 3 years' worth of non-concessional contributions (i.e. $180,000 x 3 = $540,000). If a member was under the age of 65 and they contribute an amount in excess of $180,000 they will automatically trigger the "bring forward" rules.

This all changed with the 2016 Federal Budget (3 May 2016). As of that night, **there is a lifetime cap**. The cap is the greater of: non-concessional contributions that had already been made as of May 3 2016, or $500,000. As of 3 May 2016, the Government stated that only 1% of people had made contributions of greater than $500,000. This means that, for the vast majority of people, the cap is $500,000.

Contributions that exceed the allowable cap will be taxed at the current highest marginal tax rate of 49%, and earning on the excess contributions will be taxed at the member's marginal tax rate. The trustee of the fund is required to return the excess contributions to the member.

Until 1 2017, there are also age limits for non-concessional contributions. Once a member reaches age 65 they must meet the "work test" to be able to make non-concessional contributions. Once a member reaches age 75 the fund cannot accept any further non-concessional contributions. **This work test will be removed from 1 July 2017**.

Contribution splitting

You may have heard the term ‘contribution splitting.’ A member is permitted to split certain contributions between themselves and their spouse by transferring the contributions they have made from their super account to their spouse’s account. The purpose of this rule recognises that (typically) female spouses have restricted work patterns compared to male spouses. Women often take time off work to have children and raise the family, which prevents them from accumulating significant funds in their super account. This concession is designed to recognise and address this imbalance.

The rules allow for up to 85% of a concessional contribution (that is, the amount that is left after tax) made in the previous financial year to be transferred to the spouse’s account. The funds that are transferred to the spouse are treated as a ‘rollover’ and not as a contribution, and so they do not get taxed again in the hands of the recipient.

As the funds were initially a concessional contribution, the funds will be an entirely taxable component and form a part of the recipient spouse’s taxed element in their fund.

While splitting was first introduced to allow for a non or low-earning spouse to effectively be superannuated, it is often used for more pragmatic reasons. There is no rule that benefits need to flow in a particular way (for example, from the member with a higher balance to a member with a lower balance). So, one common strategy is for a younger partner to split his or her contributions to an older spouse. The benefit here is that the money will generally become available sooner by doing this.

An alternative is to split contributions in such a way as to maximise Centrelink entitlements. This might mean deliberately minimising the super balance of one or the other spouse.

Managing money in superannuation

Having received either concessional or non-concessional contributions, the super fund then combines the contributions held on behalf of all other members of the fund and invests them. These contributions are invested by the super fund for the benefit of the members. The investment returns derived from these contributions are then added to the account of each member and are available as benefits for the member when they become eligible to withdraw their money.

In addition to making investments on behalf of members, a super fund can also purchase certain forms of life insurance for its members. Superannuation funds use contributions made on behalf of members to either purchase or provide an insurance policy. Any benefit payments are then paid to the member or the member’s beneficiaries in the event that the insured event occurs.

All super funds are managed by one or more 'trustees.' As the name suggests, these people manage the money within the super fund 'on trust' for the benefit of the members.

You may have heard of a form of super fund called a self-managed super fund (SMSF). In an SMSF, the members of the fund are also the trustees of the fund, meaning that the members look after their own retirement money.

Conditions of release

The overall purpose of a super fund is to accumulate, manage and grow assets on behalf of the member, to eventually provide benefits once the member meets a condition of release.

The conditions of release are:

- The member has reached the age of 65;
- The member has reached their preservation age and retires;
- The member has reached their preservation age and begins a transition to retirement income stream;
- The member ceases an employment arrangement on or after the age of 60;
- The member has died.

Members can also access their super in other special circumstances, including:

- Termination of gainful employment;
- Permanent incapacity;
- Temporary incapacity;
- Severe financial hardship;
- Compassionate grounds;
- Terminal medical condition.

The trustee of the super fund must ensure that the member has met a condition of release before any funds can be released to the member. Funds that are released to a member who has not met a condition of release are treated as ordinary income and taxed at the member's marginal tax rate (i.e the funds are not treated as super benefits). This is particularly important if a member is also a trustee of a self-managed super fund, as there are significant penalties that apply to a trustee that releases funds when a condition of release is not met.

Once funds have been contributed to the super fund, they can be freely transferred tax free between complying super funds.

Types of accounts

Within a superannuation fund, an individual's benefits are held in their 'account.' There are different types of accounts that super benefits can be held in:

Accumulation account

This is the most common type of fund which member contributions are made into and earnings are held. Like an ordinary bank account, the member's benefits will accumulate in the fund. The value of the accumulation account will be equal to the member contributions and earning, minus any fees and tax payable. The investment risk is carried by the member.

Defined benefit account

A defined benefit account is a super fund which the final benefit that is to be received by the member is defined by the member's salary at a particular date and a specified amount or conversion factor. The employer's contributions to these accounts are not allocated to an individual member, rather the funds are pooled from which all the member's benefits are paid.

The investment risk for funding the benefit is carried by the employer sponsor. These type of accounts are being phased out in favour of accumulation style accounts, to pass back the investment risk to the member.

Pension account

A pension account is a super account that is started from a lump sum transferred generally from an accumulation account. They can only be set up once the member has reached their preservation age. Based on the member's age, a minimum percentage must be withdrawn every year as a pension payment. The advantage of the pension account is that there is no tax payable on earnings or capital gains on benefits held within this account.

Obtaining life insurance through super

In addition to providing for a member's retirement, benefits in super funds can be used to purchase certain types of life insurance (sometimes known more generally as 'risk insurance').

Many, if not all, managed super funds offer various forms of life insurance. Given the generally-tax advantaged nature of super, these forms of life insurance can often be cheaper to the member. What's more, if the person wanting insurance is already a member of a particular fund, the new policy can be relatively easy to establish.

As a general proposition, premiums for total and permanent disability (TPD) cover and death cover are not deductible in the hands of individuals paying directly for these types of insurance. That is, if a person purchases these policies directly, the person cannot offset that premium against their income when calculating their tax liability.

However, if the policy is held by the person's super fund the member effectively receives a tax benefit. This is because the contributions that were paid into the fund to finance the insurance premiums are taxed at just 15%. This means that to pay an insurance premium of $100 within a super fund, the client needs only to have earned $117 pre-tax and contributed this amount the super fund (15% of $117 is $17). If the client has a personal marginal tax rate of 30%, by contrast, then that

client will need to earn $142 pre-tax in order to pay the $100 premium in their own name (30% of $142 is $42).

Frequently, an even greater benefit falls to members whose personal income (ie their money outside of super) has many demands on it. This is because premiums paid out of super benefits do not impact on day-to-day cash flow. In many cases, people are seeking insurance precisely because there are various demands on their personal income. Parents of dependent children are probably the largest group here. Raising children is expensive, and parents are frequently also trying to do things like pay off home loans as well. To be able to access important life insurance in a way that does not make any demands on today's cash situation is an appealing prospect.

Super funds can be used to obtain the most common forms of risk insurance: life cover, TPD or income protection. As this ebook is a guide for super, we will not go into risk insurance in too much detail. But please be aware that these insurances can often be obtained within super, and paying for them in this way is often the most cost-effective way of doing so.

Types of super fund

There are several forms of super fund available to Australian people. The following table shows the relative size of each sector within the super industry, and details how the 30 million member accounts within Australia are divided.

The table was developed by the **Association of Superannuation Funds of Australia.**

Overview

Type of fund	Total assets ($billion)	No. of funds	No. of accts (June 15)
Corporate	54	32	0.3 million
Industry	447	43	11.3 million
Public sector	353	39	3.5 million
Retail	532	142	13.8 million
Funds with less than 5 members	592	574,682	1.1 million
Balance of statutory funds	55		
Total	**2,032**		**30.0 million**

Source: APRA Statistics – Mar quarter 2016 and APRA annual statistics for no. of accounts

Industry funds

Industry funds arose from an agreement between the Australian Council of Trade Unions (ACTU) and the Hawke government in 1983. The idea was simple: the government would legislate for mandatory employee contributions for the previously un-superannuated union members, and the unions would establish super funds to receive these contributions. (And the unions would not go on strike.)

These early union funds were not for profit and adopted a "members-first" orientation which manifested in low costs and no commissions. Over time they grew, widened their membership criteria, and became more efficient, but never lost their members-first orientation.

The funds tended to developed for members of particular industries. There was a fund for health industry employees, a fund for building industry employees, a fund for public servants, etc. The funds came to be known as 'industry funds.'

Industry super funds are generally suitable to clients who do not have enough super, or the inclination, for a SMSF. They are generally the most cost effective fund for this kind of member due to low fees. Most have several investment options, the range of which will therefore suit most clients.

Other than low fees (and higher potential net returns that go with them) the additional favourable features of industry super accounts include:

- very cheap life universal life insurance (often known as 'default cover');
- extra life insurance which can be arranged at low cost;
- they usually have 5-15 investment options, which will match most client's preferences; and
- most funds are accumulation funds, at least for new members.

Retail funds

Retail funds are commercial funds which are run for profit, often by service providers such as insurance companies, banks, fund managers and investment companies. They are open to the public and provide administrative and investment services to their members for a fee.

Retail funds generally have higher fees than industry funds, which some argue are offset by potentially higher returns and greater flexibility. They generally have pre-mixed investment options, as well as more flexible investment options where the member can construct their portfolio. They also typically offer tax-effective life insurances.

Self-managed super funds

A SMSF is a small fund which has fewer than five members. Each of the members will usually be a trustee, either in their own name or as a director of the trustee company. It is a 'do-it-yourself' fund where the trustee formulates the investment strategy and has direct control over the investments.

SMSFs will generally be more cost effective for individuals who have large balances. This is because the administration and audit fees are mostly-fixed. That is, the costs of administering and auditing the fund do not vary according to the amount held within the fund. This is distinct from other funds,

such as industry and retail funds, who typically charge a percentage of the balance for the administration fee.

Other types of funds

Public sector funds

Public sector funds are established by an Act of Parliament for government employees only. The liability for the benefits can be funded, unfunded or partially funded. The profits of the fund are put back into the fund for the benefit of all members. Long term members will generally have defined benefit funds, however most new members will have accumulation accounts.

Trish Power defines a defined benefit super fund as "a super fund that pays a final super benefit based on a formula that takes into account [the member's] final salary and the number of years that [the member works] for [the] company or government department."

Public sector funds have relatively low fees as the costs are subsidised by the government. The members are not always able to select investment options and the member must satisfy specific conditions to maximise the final benefit.

Corporate funds

Corporate funds are employer sponsored funds that offer membership to company employers. They are generally arranged under a master trust or fund which is provided by a retail financial institution. Generally, each fund will have access to a wide range investment options and insurances.

The fees are often subsidised by the employer and some employers offer automatic insurances through group cover.

Retirement savings accounts

A retirement savings account (RSA) is owned and run by the member. They are primarily used by individuals with low balances. Banks, credit unions, building societies and insurances companies are allowed to provide these accounts.

RSAs are simple, low cost and low risk savings accounts which are invested wholly in cash. They are not designed for large balances (although there are no restrictions on how much can be contributed to an account) or for long term investing.

Master fund/trust and wrap accounts

Master funds/trusts are generally run by the large financial institutions and offer a range of super management services. Wrap accounts act as a custodial service to provide a range of investment options under one administration account.

The costs are comparatively high compared to other super funds, particularly if the member is not using all of the available features. These types of accounts are usually used by individuals who want control over their investments but do not want the responsibilities of a SMSF.

Moving money from one fund to another

This is known as a 'rollover.' A rollover does not trigger a tax charge, as the money was either taxed when it arrived in the original fund (concessional contributions) or was not subject to tax (non-concessional contributions).

The benefits of rollovers – why they should sometimes be done

Rolling over super benefits can create problems, which are discussed below. Given this, it makes sense that a rollover would only take place where there are clear benefits to doing so. There are, of course, times when such a change is clearly in your best interests and should occur.

Typically, the features that see one fund being selected over another include:

Coverage of insurance policies available within the fund

This is a very significant factor in determining whether one fund is better than another. The starting point should always be that a fund whose insurance policy has the best coverage is a preferred fund. Once this has been established, then other factors such as price can be included in the calculation. But the starting point should always be coverage.

It is like when you go shopping. Shopping at Kmart is cheaper, but it only makes sense if the product is at least as good as the more expensive one elsewhere.

Price.

Everything else being equal, lower price is a benefit to members. Typically, super funds charge clients a mix of set administrative fees, which tend to be flat, and percentage-based management fees, which vary according to the amount of benefits within the fund and also according to the investment strategy being implemented.

Most super funds invest in the same or similar investment markets. Therefore, for a given allocation between growth and conservative assets, most super funds achieve similar investment results. Attaining a lower price for the management of these investments can make good sense.

When it comes to the cost of risk insurance being provided within a fund, price can again be a guide. But we do urge some caution here: when comparing two or more policies the lower premium is only a benefit if the policies are the same (or the cheaper one is better). It is not so simple as to say that lower price is always better.

To understand this, think about what the insurer is doing: it is setting a premium at a level that it thinks will allow it to pay out all claims and still make a profit. If an insurer is setting lower premiums, then it is either (i) more efficient; (ii) prepared to accept a lower profit; or – very importantly – (iii) anticipating paying out fewer claims.

If an insurer is calculating that it will face fewer claims, this may indicate that its policy is more restrictive. If the relatively lower expected claims lead to lower prices, then the cheapest policy is not necessarily the best. This is especially the case if the policy is so restrictive that a client has a greater chance of having a claim refused.

Administrative Ease.

Because employers often use different super funds for their members, many people end up with benefits in more than one fund. It can make sense to consolidate benefits into one preferred fund. Doing so means that the member only has to keep track of one fund, not several.

As well as administrative ease, consolidating funds often reduces the overall level of fees paid by the member. This is especially the case for the 'flat fees' typically payable within most funds. As the name suggests, flat fees are payable irrespective of the level of benefits within the fund. This means that two funds lead to two sets of flat fees, and so on, whereas one fund will only incur one set of flat fees, regardless of the balance within the fund.

The risks of a rollover – things to be aware of

Loss of ancillary benefits

This is the main risk rolling money out of one fund and into another. Superannuation funds are supposed to be managed for the **sole purpose** of providing retirement benefits to the members of the fund. These retirement benefits are often referred to as the core benefits of a fund.

That said, the super rules also allows a super fund to provide 'ancillary benefits' to its members. These ancillary benefits include risk insurances, especially **death** and **TPD** benefits.

As a result, many managed super funds provide risk insurance benefits to members. This is often done on a **default** basis, where all members who meet certain thresholds are entitled to stated levels of insurance. The premiums for these insurances are deducted from member balances.

When a member rolls their superannuation benefits out of a given fund, they will lose access to any ancillary benefits being made available through that fund.

When a member rolls their superannuation benefits into a given fund, they will gain access to any ancillary benefits being made available to that fund.

The main risk of switching from one fund to another is that the new fund might not provide the same level of ancillary benefits as the one that is being closed. For risk insurance benefits, this may mean that the member loses some or all of their insurance cover.

This raises the prospect of an insurance event happening for which the member has become non-insured due to the change of fund.

Many super funds provide what is known as default insurance cover. This is cover that every member automatically gets. This cover does not continue if the member rolls over out of the fund.

What this means, of course, is that a decision to rollover super funds often becomes a decision to change default insurance providers. You can read more about the risks of changing insurance policies – and especially the risks inherent in doing so – **in this article on our AFSL's website**.

Women's Superannuation

The experience of women in the super stakes deserves special comment.

Women are seriously under-represented in the super stakes. The reasons for this are quite obvious: women spend less time in the paid workforce, due to being primarily responsible for child-care and experiencing earlier retirement ages. Women usually have lower incomes than their male counterparts. They are also less likely to regard themselves as being responsible for their own retirement planning and more likely to spend their incomes on current consumption for themselves and their families.

The Australian Bureau of Statistics (ABS) says 49% of women expect super to be their main retirement income, compared to 56% of men; 18% of women expect to rely on their partner's income, compared to just 4% for men; and 27% of women expect the old age pension to be their only retire income, whereas it's just 25% for men.

The OECD estimates that Australian men are in the paid workforce for 38 years before retirement, which is almost twice the women's equivalent of 20 years. There are also significant differences in pay rates (in 2012 women were paid on average only 82.4% of male salaries).

But super is probably more important for women than it is for men, since women live longer, and are increasing less likely to be married or otherwise part of a family economic unit in the future.

The 2001 study, '**Women and Superannuation in the 21st Century: Poverty or Plenty?**' by the National Centre for Social and Economic Modelling at the University of Canberra, has found that unless there is complete equality in the labour force roles women's super will remain lower than men's due to lower female earnings and different workforce participation.

The study found that in 1993 women's average accumulated super was only $9,647, less than half of the average accumulated super of men. By 2030 the average woman's super nest egg will increase nine-fold to $89,591 in 1999 dollars, but it will still only be 70% of men's.

The study found that 10% of women aged 55 to 64 will have accumulated less than $27,300 in super by the time they contemplate retirement (which, at the time, was likely to occur in 2010). This is

obviously far too little. But it is still a vast improvement over the 2000 picture, when the bottom 10% of women considering retirement had super nest eggs of less than $3,850.

More recently, the Australian Industry Super Group report that **women typically have 47% less in super than men do at retirement, and that almost 30% of women over the age of 65 live below the poverty line**. These findings mean that the majority of women are vulnerable to living below the comfortable or 'plenty' level in retirement. While most women will have some super due to the introduction of the Superannuation Guarantee Contribution in 1992, the amounts are not likely to take the average women from 'near poverty' to 'plenty'. Most people feel 60% of pre-retirement income is required to live comfortably in retirement, and the projected amounts, combined with a full or partial age pension, will still not achieve this level.

The problem is particularly pronounced for women in the 40 plus group. Most have little or no super and the high costs of raising families in the next ten years or so means for most the situation will not change before age 50. At age 50 most women have less than ten years of equivalent full time work ahead of them. By then it's usually too late to make too large a dint in the problem.

The federal government has tried to balance the gender super bias with special rules for spouse contributions, contribution transfers and co-contributions.

It is critical that younger women do not repeat the mistakes of their predecessors, by not compensating for their systemic disadvantage with additional super contributions in their younger years. Women's contributions should start as soon as possible and should be as much as possible. The earlier the snowball starts, the greater it becomes. Women should not assume they will share someone else's super in retirement: it may work out that way, but it may not. Under-superannuated older women will be over represented in the ranks of the poor in twenty years' time, as they are now.

The Legal Stuff

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