Financial **Focus**

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Welcome to Financial Focus. I hope you enjoy the articles and find them interesting and informative. If you have any feedback, questions, or would like to review your financial plan, please feel free to contact me.

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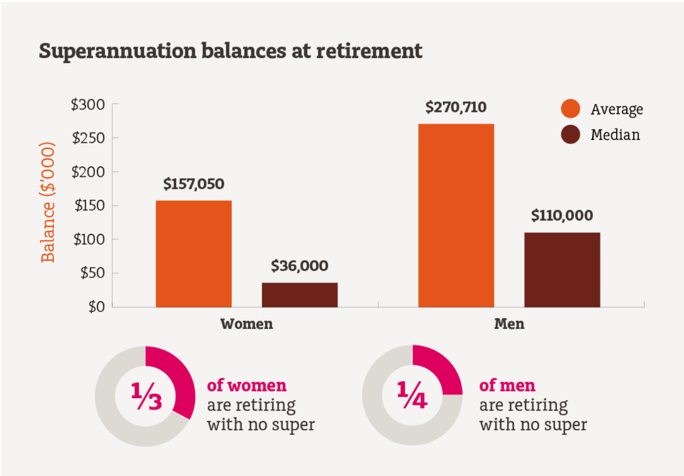
Narrowing the retirement savings gap

Tips to consider to help women avoid a potential shortfall in retirement savings.

The financial wellbeing of women in retirement is a significant and growing concern, as women still lag substantially when it comes to retirement balances. On average, a woman retires with $157,050, while a man's average balance is 72% more, at $270,710[1]. So why is this? And what can women do now to change their outcome in retirement?



Source - bar and pie charts: 'Superannuation account balances by age and gender', Association of Superannuation Funds of Australia, October 2017.

It's not just the gender pay gap

While most people immediately point to the gender pay gap, there's a need to look deeper. Research shows that many women put the needs of others before their own: a lot of women are primary carers for children[2] and, in 70% of cases, women are the primary carers for aging parents[3]. Inevitably this means more women are working part time – currently 46% of working women do – and this impacts their retirement savings pool[4]. Often the woman's long-term financial wellbeing is not considered when the decision to work part-time is made.

Retirement literacy is also an important issue to consider. A recent study in the US found women have lower retirement literacy rates than men[5]. In Australia, a government report found women are generally highly confident in their ability with money, especially when it comes to budgeting, saving, dealing with credit and managing debt, however they're less confident than men when it comes to more complex issues like investing, understanding financial language and ensuring enough money for retirement[6]. More education is needed to support people in their planning.

And, once they're in retirement, women tend to live longer than men[7]. This means their money needs to last longer. Cognitive research shows that women tend to invest more conservatively than men[8]. While investing conservatively is beneficial in preserving retirement savings, it can have an impact on funds that need to grow to help meet the increasing costs of a retirement lifestyle.

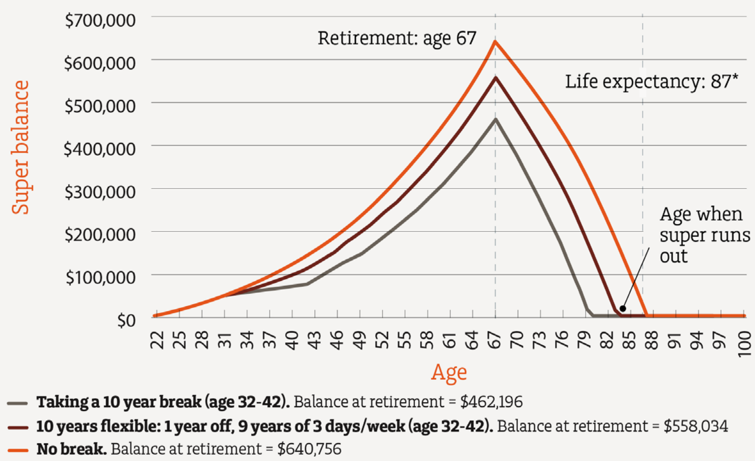
Case study: the impact of taking time out

When women decide to take time-off or work part-time, the conversation is usually about the impact this will have on the household budget. Rarely do women look at the impact this will have on their superannuation balances.

To help illustrate the impact, let's look at three different scenarios a woman may face in her working life: 1. taking a 10 year break from the workplace to look after children full time; 2. Working flexibly for 10 years, for the equivalent of 3 days a week; 3. Not taking any time-out.

The chart above compares her super account balance at retirement and the age at which her retirement savings will run out.

Taking time out from the workplace: the impact on super



Source: NAB Asset Management Services Limited. For illustrative purposes only. Amounts are shown in today's dollars: the person starts working at age 22 and retires at 67. Initial salary $50,000 pa, 1% salary increase pa. Salary increases during the time off work. 9.5% pa of salary contributed to super. Retirement income is $47,000 pa. The assumed fund average return is 4.5% pa. When on leave for 10 years, no super is contributed. When working flexibly, salary is calculated at 60%, during ages 32-42. No Age Pension received. Insurance premiums haven't been taken into account, super taxes have. Other investments are not taken into account. Do not rely on this chart to make decisions about your retirement.*The life expectancy of a 67 year old woman today is 87 years. Source: Based on Australian Bureau of Statistics data, Life Tables, States, Territories and Australia, 2014-2016. Catalogue no. 3302.0.55.001.

Lower or no super contributions over the ten year period means there's less capital to grow, which has a huge impact on two of the super balances at retirement, which will then run out faster in retirement (unless spending reduces).

Today, many companies offer paid parental leave, on top of any government payments. Some businesses also continue to contribute to super during periods of parental leave, which can have a big impact on your balance over the longer-term. These types of incentives are important to consider when assessing potential employers.

Single women have more to consider

While the factors discussed result in sub-optimal retirement outcomes for women generally, the area of greatest concern is for single women – just one in four can expect to have enough super to reach ASFA's 'Comfortable' standard for retirement income, $545,000[9]. What's more, the superannuation component of retirement income for single females is 32% lower than for single males[10].

Much of this can come down to working part time or taking time out of the workforce. But increasingly we're also seeing the financial impact that a separation or divorce can have on women.

Most people drastically underestimate the impact of a separation, so it's important women plan ahead if they find themselves in that situation. Sadly, St Vincent de Paul found that older women are the fastest growing demographic of homeless in Australia - due to family breakdown or death of a partner. The costs of renting, especially in capital cities is a major issue resulting in homelessness for older women[11].

Practical ways women can improve their financial lives in retirement

There are many things you can do now to improve your lifestyle in retirement:

- If you're leaving the workforce to care for children or a parent, discuss the financial impact with your partner or siblings and consider them contributing to your super. It's worth noting, from 1 July 2017, it's easier to claim the $540 tax offset for spouse super contributions
- Try to contribute more to super while you're still working. The earlier you

start increasing your contributions the greater opportunity for your super to grow. Even small increased contributions make a difference - the returns you earn on your super can in turn earn returns the longer you're invested. Remember, contributions to super, and earnings in super (below thresholds) are concessionally taxed

- Become familiar with your retirement savings. Calculate what your super balance is likely to be at retirement and what that means in terms of how much you will be able to spend in retirement. Online calculators show you how you can improve your retirement income and are available on ASIC's MoneySmart website[4].
- Do a simple retirement budget. Many people over-estimate how much they will really need in retirement. See ASIC's MoneySmart website for a range of super and retirement planning calculators
- Look at all your assets, not just super. Make your money outside of super work hard for your retirement by investing it
- Once you're retired, stay invested. The investment earnings that you will make from 55 onwards, when your super balance is at its highest, will be a significant portion of your overall income in retirement
- If you're assessing potential employers, find out about their parental leave and super incentives
- Speak to a financial adviser. It's widely recognised that people who receive advice report better retirement outcomes and greater peace of mind[12]
- And remember the government funded Age Pension currently covers basic spending needs for retirees that have low super balances subject to assets and income testing rules.

1. 'Superannuation account balances by age and gender', Association of Superannuation Funds of Australia, October 2017
2. Australian Bureau of Statistics, Gender Indicators, Australia, Catalogue no. 4125.0, Jan 2012
3. Australian Bureau of Statistics, Caring in the Community, Australia, Catalogue no. 4436.0 (2012), p 5.
4. Workplace gender equality agency, February 2017: ABS (2017), Labour Force, Australia, January 2017, cat. no. 6202.0
5. RICP Retirement Income Literacy Gender Differences Report, from The American College of Financial Services, July 2017'
6. 'Financial literacy. Women understanding money', Australian Government Financial Literacy Foundation 2008
7. Australian Bureau of Statistics, Life Tables, States, Territories and Australia, 2014-2016. Catalogue no. 3302.0.55.001
8. 'Four ways men and women think differently when it comes to financial decisions', NAB Asset Management, 2016
9. 'ASFA Retirement Standard', Association of Superannuation Funds of Australia – June quarter 2017
10. 'The need to look deeper on the gender gap', Willis Towers Watson, 2016
11. 'Homelessness for older women – the hidden crisis', St Vincent de Paul Society, Media Releases 2016
12. Rice Warner – **www.ricewarner.com/valuing-financial-advice**, September 2015

Plan ahead for the aged care you want

Early planning can take away a lot of the stress and uncertainty that can arise when considering aged care at home or a residential aged care facility.

Know what your options are

The first option that probably comes to mind is a residential aged care facility. These facilities provide accommodation and care depending on your personal needs. Care can range from personal care, such as help with showering and dressing, together with occasional nursing care to continuous nursing care for those with a greater degree of frailty.

What you may not realise, however, is that there are also Home Care Packages that provide access to services that can help you to stay at home for as long as possible. Support services may include cleaning, meal preparation and transport for shopping or appointments.

Start planning early

There are a number of reasons why you should plan ahead and well before the need for aged care is imminent. For example:

- in many cases, the need to move into residential care can be sudden due to a serious illness or injury (eg a stroke, heart attack, or fall), or another unexpected event
- it's not uncommon to find there are significant waitlists for residential care, particularly at the more popular facilities, and
- regardless of whether home or residential aged care is required, if you wait until the last minute to seek advice, you may not be able to minimise the fees you may have to pay and/or maximise the social security benefits you may receive.

Visit local facilities

Whether you currently need residential aged care or not, ideally you should plan to visit a range of facilities in your chosen area as soon as possible and, you may prefer to do this with family members.

Becoming familiar with the alternatives can enable you and your family to have meaningful conversations regarding your options and make more informed lifestyle and financial decisions.

Importantly, we can:

- determine whether care in your preferred facility is affordable, and
- potentially start restructuring your assets to improve your financial position.

Assess affordability

A range of fees may be payable when accessing care services. One of the key payments when moving into residential care is the accommodation payment. This payment:

- is subject to certain limits
- can be paid as a lump sum, in regular instalments, or a combination of a lump sum and regular instalments, and
- is published on the facilities website and at myagedcare.gov.au for potential residents to consider.

The published amount will vary between facilities and, as a general rule, it will be higher for newer places because of the money recently outlaid on building or improving the accommodation, and for facilities in more affluent suburbs.

It's therefore important to ensure you will have sufficient assets to pay the accommodation payment required to secure yourself a spot in your facility of choice when the time comes, as well as cover the ongoing aged care fees and your living expenses.

How can we help?

There are a range of strategies that can be used to reduce aged care fees. However, caution needs to be exercised to ensure you have enough money to afford the care you'd want. We can help you to address this complex issue.

We can also assist in many other ways. This includes helping to address your estate planning needs, in conjunction with your lawyer.

Super choices for employees

If you earn most of your income from employment, you may want to make personal deductible contributions – instead of, or in addition to, salary sacrifice.

Super options

Since 1 July 2017, employees have been able to claim personal super contributions as a tax deduction.

Like salary sacrifice, personal deductible contributions are generally taxed in the super fund at up to 15%[1], instead of your marginal tax rate of up to 47%[2]. So both options can enable you to boost your super balance and reduce your overall tax.

Also both count, along with any superannuation guarantee (SG) contributions you receive from your employer to the concessional contribution cap. This cap is $25,000[3] in 2018/19 and penalties may apply if you exceed it.

Some key differences are that, with personal deductible contributions:

- you don't have to enter into an agreement with your employer
- you can contribute using available capital from a range of sources, such as your after-tax pay, your savings, a windfall or the sale of assets
- you can contribute any time in the financial year, either in regular installments, as a lump sum or both, and
- you can easily increase or decrease the amount you contribute in line with your income and expenses.

Claiming the deduction

To claim a personal super contribution as a tax deduction, there are some very important steps you'll need to follow. First, you'll need to submit a valid 'Notice of Intent' form with your super fund and receive an acknowledgement back from the fund. You also need to make sure this happens before you complete your tax return, start a pension, or withdraw or rollover the money. Otherwise you may not be eligible to claim a deduction for the full amount you want. Other conditions may also apply. For more information, please visit the ATO website at **www.ato.gov.au**

Which option?

Personal deductible contributions could be worth considering if:

- your employer doesn't offer salary sacrifice
- salary sacrifice is available but it reduces other benefits such as SG contributions, holiday pay or leave loading, or
- you want to make a concessional contribution using a bonus or another benefit or entitlement already accrued and you haven't got the right salary sacrifice arrangement in place.[4]

Also, personal deductible contributions might be right for you if you want more control over how much you contribute and when the contributions are made.

Salary sacrifice might, on the other hand, be a better option if you're not the most disciplined saver. With salary sacrifice, the contributions go straight into super from your pre-tax pay before you get a chance to spend the money.

You could even consider using both these options, so you can combine the discipline of salary sacrifice with the flexibility of personal deductible contributions.

For example, you may want to arrange to sacrifice some of your pre-tax salary each pay period and make a personal deductible contribution at the end of the financial year when your cashflow and tax position is clearer.

You could also time the personal deductible contribution in the lead up to 30 June to make the most of the $25,000 concessional contribution cap.

Could you benefit from making personal deductible contributions?

If you're thinking about investing more in super, we can help you decide whether making personal deductible contributions is right for you. We can also look at what else you could be doing to help you achieve the retirement lifestyle you want.

1. Individuals with an income from certain sources above $250,000 pa in 2018/19 will pay an additional 15% tax on concessional super contributions within the cap.
2. Includes Medicare levy.
3. Since 1 July 2018, it may be possible to accrue unused concessional contribution cap amounts for up to five years. Accrued unused cap amounts may then be used from 1 July 2019. Conditions apply. See www.ato.gov.au for more information.
4. This is because an effective salary sacrifice arrangement can only be in respect of benefits or entitlements that you're yet to accrue.

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