MEAT INDUSTRY EMPLOYEES' SUPERANNUATION FUND

How much super do you need?

Understanding how much money you need to put into super now can ensure you don't get left short in retirement.

Welcome to the Autumn 2007 edition of the MIESF Newsletter.

In this issue we look at:

- How much superannuation do you need for a comfortable retirement?
- Changes to the rules of the Fund
- Legislative changes proposed in the May 2006 Budget

How much will I need in retirement?

How much money you need in retirement depends on the level of income you want during your retirement years and the number of years that you'll be relying on these funds. The higher the income you want, and the longer you need it, the more money you'll have to save before retirement. If you plan to retire at 60 and you are male, you should plan for your retirement funds to last at least 20 years, longer if you're a female.

According to the Australian Government Actuary, 2000-02 Australian Life Tables, a 60 year old man has a life expectancy of another 21.7 years, and a 60 year old woman has a life expectancy of another 25.4 years.

Many financial advisers suggest that for a home owning couple, an annual retirement income of around $30,000 will be needed to maintain a modest standard of living in retirement.

Of course, your own financial needs in retirement will depend on your own particular circumstances.

The graph (over page) illustrates how long two different amounts of retirement savings will last for a couple, depending on two illustrative rates of investment earnings. The chart shows how important it is to make sure you have enough to last through your retirement, as well as making sure that it is invested effectively to give a good return over time.

This graph shows an account balance of $250,000 or $350,000 at age 60 and draw downs of $30,000 per year. It shows investment earnings of 4% and 8% per annum.

In practice this couple would receive most of the age pension if this was their main asset apart from a home. The pension payments could replace some of the draw downs after age 65 and extend the period that the retirement savings last. The age pension payments could also compensate for inflation or finance a better standard of living.

So the most important thing to remember is to start thinking about your savings today. Regardless of your age and how long you have until retirement, the more you save now, even small amounts, the greater amount you will have in your final benefit.

This article is intended to give a brief overview of some important superannuation issues, but should not be relied upon as advice, or take the place of professional advice. Before you make any decisions about your superannuation, you should speak to your accountant or financial adviser, who is best placed to provide advice on your individual situation.

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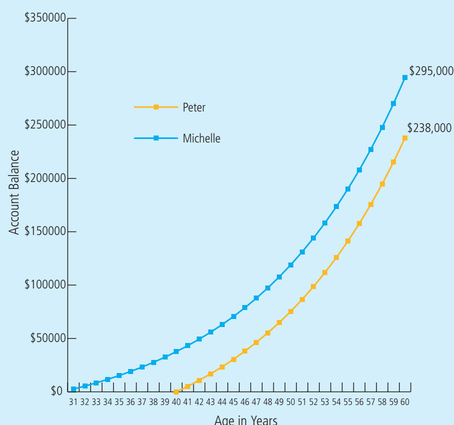
Start saving sooner rather than later

Making contributions to super sooner rather than later means investment earnings on your savings compound over time - giving you a return on the earnings and on the amount invested. The longer your money stays invested in your super fund, the more compound earnings are added to make your account grow faster.

The graph (below) illustrates the growth of two employees' super account balances over time and highlights the benefits of investing early. Michelle's savings have grown well in excess of those of her fellow worker Peter, even though Michelle contributed $25,000 less than Peter.

This graph shows Michelle contributing $2,500 per year from age 30 to age 60 (i.e. $75,000) and Peter contributing $5,000 per year from age 40 to age 60 (i.e. $100,000).



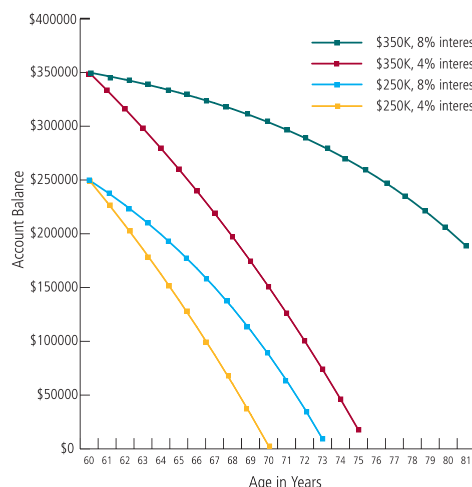
Assumptions:

- Both investors retire at age 60.
- The amounts contributed are after -tax and they earn 8% per annum after -tax and fees. Results will vary if different amounts are contributed or if the investment return is higher or lower than 8% per annum.

Notes:

- The graph shows only the contributions made by Michelle and Peter personally, and ignores employer contributions that may be made in respect of them.
- All figures are based on money in today's dollars.
- The graph is provided for illustration purposes only, and does not represent past or anticipated future performance of MIESF or any other superannuation fund.

How much will I need in retirement? *cont. from pg 1*



Assumptions:

- Excludes individual taxation circumstances and any ongoing fees
- No tax is payable on superannuation upon retirement
- Investment income is not subject to tax.

Notes:

- All of the figures are based on money in today's dollars.
- The graph is provided for illustration purposes only and does not represent past or anticipated future performance of MIESF or of any other superannuation fund.

What can I do to grow my super?

Increasing the amount you contribute to superannuation on a regular basis is a great way to increase the amount you will have when you retire. Whilst it is compulsory for your employer to contribute 9% of your salary, most of us are likely to need more than that to live comfortably in retirement. It is generally recommended that Australians should save about 15% of their salary during their working life. That means that most of us have to contribute 6% more than our employer provides.

While this may be more than you can afford at the moment, you can still make a difference by putting a little extra toward your super each payday.

So how do we do this?

After-tax Personal Contributions

These are personal after tax contributions made from your salary after it has had tax deducted. If you are not able to make salary sacrifice contributions or are not in the top tax marginal tax bracket, after-tax contributions can be an effective way of saving for your retirement. In addition, you may receive up to$1,500 extra each year from the Government co-contribution.

Government Co-contributions

If you are making personal after-tax contributions and your "total income" (assessable income plus your reportable fringe benefits) is $28,000 or less and you make after-tax personal contributions of $1,000 or more, you may be eligible to receive up to $1,500 as a Government co-contribution ($1.50 for every $1.00 you contribute). The co-contribution applies at reduced levels for workers with "total income" between $28,000 and $58,000.

Your "total income" may be different to your taxable income. More details are available on the tax office website at www.ato.gov.au/super.

If you fall within the income limits, the first and most tax effective way to grow your super is to make a personal after-tax contribution sufficient to be eligible to receive the maximum Government co-contribution that your "total income" allows. This could add up to $1,500 to your super savings if you contribute $1,000.

Bear in mind, however, that you will need to consider your own circumstances carefully before deciding whether or not to make personal after-tax contributions.

Salary Sacrifice Contributions

Making contributions via salary sacrifice enables you to contribute to super from your gross salary before tax. Unless your taxable income is less than $6,000 per year (in which case you would not pay any income tax) you will benefit from paying only 15% tax on your money going into super rather than your marginal tax rate. So if you salary sacrifice $1,000 extra a year into super, it would give you $850 after tax extra in your super fund.

If you made the $1,000 contribution from your after-tax earnings instead, and your annual taxable income was between $25,000 and $75,000, that $1,000 would have been reduced to $685 by income tax and the Medicare levy.

So by using your $1,000 of income to make a salary sacrifice contribution, your super savings will increase by $850, rather than $685 if you were to make the contribution from after-tax earnings. This applies for most workers, however, higher tax savings apply if your taxable income is more than $75,000 per year. The tax saving for workers with annual taxable incomes below $25,000 is only the 1.5% Medicare levy.

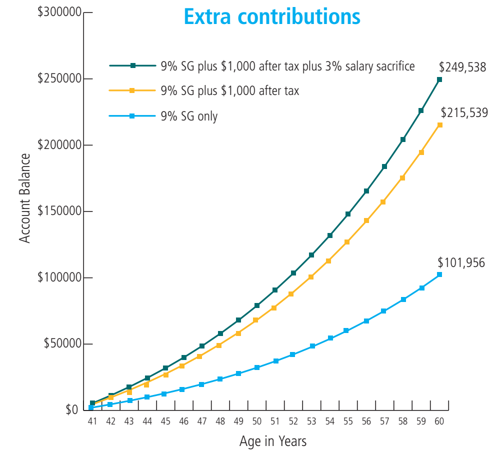
Making salary sacrifice contributions requires the permission of your employer.

Note: These examples are calculated using the marginal tax rates which apply for the 2006-2007 year. Refer to our brochure 'How can I build my super?' for more information about salary sacrifice contributions.

Extra contributions can grow your wealth

The following graph illustrates the impact and benefits of making additional contributions to super over time.

It shows the accumulation of contributions starting at age 40 and ending at age 60 based on $28,000 annual salary.



Assumptions:

- Administration fees and insurance premiums are not taken into consideration.
- The Government co-contribution of $1,500 per year is assumed to be received by the super fund 6 months after the end of each year for the two examples where at least an additional $1,000 is contributed.
- Investment earnings are assumed to be.8% per annum after - tax in the super fund. Results will vary if different amounts are invested or if the investment return is higher or lower than 8% per annum.

Notes:

- All of the figures are based on money in today's dollars.
- The graph is provided for illustration purposes only, and does not represent past or anticipated future performance of MIESF or of any other superannuation fund.

Changes to the Fund's rules

The Trustee has agreed to make the following changes to the rules of MIESF from 1 July 2007.

Transferring your benefit to an Eligible Rollover Fund

Under the current MIESF rules, if

- a member's account balance is less than $1,000 and
- we have not received any employer contributions for three years or more, and
- the member has not responded within 28 days to our correspondence offering to transfer their benefit to a superannuation fund of their choice;

MIESF will transfer the members' benefit to its nominated eligible rollover fund (currently the Australian Eligible Rollover Fund (AERF)).

From 1 July 2007, this process will only occur if the member is aged 40 or more. This means members aged below 40 years will not have their benefit transferred if the above circumstances occur. However, if the member meets all the above when they turn 40 years of age and they are still a member of MIESF, their benefit will automatically be transferred to the eligible rollover fund.

Cessation of death cover at age 65

Under the current MIESF rules, death cover is not available to members:

- between age 65 and 70 if their employer ceased making contributions in respect of them, or
- aged 70 or over.

From 1 July 2007, death cover will not be available to any member who is age 65 or over, regardless of whether employer contributions are being received.

Legislative changes from 1 July 2007

There were a number of changes proposed in last year's Federal Budget. We have outlined below some of the main changes and how they may affect you. At the time of writing this newsletter, only items 1 & 2 had been passed as law. The other items are proposals but are expected to become law in April 2007.

1. Compulsory cashing of benefits

With effect from 10 May 2006 (the day after the budget) the government abolished the compulsory cashing of superannuation benefits. This means that you can keep your benefit in MIESF indefinitely, even if you retire permanently from the workforce. MIESF members can therefore continue to receive the consistent investment returns and low fees they currently enjoy.

2. New limits on contributions

Employer contributions

From 1 July 2007, a cap of $50,000 per year on concessional contributions (which are generally employer and salary sacrifice contributions) will apply. The cap applies per person, irrespective of the number of employers contributing on that person's behalf or the number of funds to which contributions are paid. Contributions received above this cap will be taxed an extra 31.5% (on top of the existing 15% contribution tax).

A transitional cap of $100,000 per person per year will apply for the financial years 2007-2008 to 2011-2012 for members who are aged 50 or more on the last day of a financial year.

Member contributions

From 1 July 2007, a cap of $150,000 per year on member after-tax contributions will apply. Contributions received above this cap will be taxed at 46.5% - there is currently no tax applied to these contributions when they are paid into the Fund.

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Members under age 65 can also bring forward their contributions under these rules so as to contribute up to $450,000 over a three year period.

There are transitional arrangements which enable members to contribute up to $1,000,000 in the period from 10 May 2006 to 30 June 2007.

3. Do we have your Tax File Number

One of the most significant changes introduced relates to tax file numbers (TFNs), and the effect on tax and contributions if you do not provide your TFN to MIESF.

The changes mean that:

- If MIESF does not have your TFN, from 1 July 2007 it will not be able to accept any after tax (personal) contributions from you. The contributions will be returned to you;
- If we do not receive your TFN, and employer or salary sacrifice contributions that we receive on your behalf exceed $1,000 in the 2007-2008 year (or later years), those contributions will be taxed an extra 31.5% (on top of the existing 15% contribution tax). We will need to receive your TFN no later than 30 June 2008 to avoid this extra tax applying in the 2007-2008 year. In some circumstances, if you provide your TFN late, it may be possible for MIESF to claim back the extra tax paid in earlier years.

There are currently 8,000 members whose tax file number we do not have on record. Those members will have received a letter included with this newsletter. For those members to avoid the consequences described above, they will need to complete the form attached to the letter and send it back to MIESF in the enclosed envelope by 30 June 2007.

4. Tax free benefits

From 1 July 2007:

- all pension payments paid by MIESF to members aged 60 or over (including pensions which commenced before 1 July 2007), and
- all lump sum benefits paid to members aged 60 or over will be tax free.

This document contains general information only and should not be relied upon as advice or take the place of professional advice.

The changes to Commonwealth law are extensive and detailed, and regulations which will affect the operation of the changes are yet to be finalised. This newsletter is of a general nature only and, by necessity, it contains only a brief summary of some of the more significant changes. More details regarding the changes can be found at the website maintained by the Federal Government (simplersuper.treasury.gov.au).

5. Age pension arrangements

To make the assets test fairer, it is proposed to reduce the pension assets test taper rate to $1.50 per fortnight for every $1,000 of assets above the relevant threshold from 20 September 2007.

The current assets test exemption for complying income streams will be removed for income streams purchased on or after 20 September 2007 to coincide with the reduction in the assets test taper rate. Pensioners will still be eligible for the 50% asset test exemption for complying income streams purchased before 20 September 2007.

There will be no change to the income test arrangements.

Get more information

If you would like more information about MIESF including a copy of the Product Disclosure Statement.Write to:

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Issued March 2007 by Meat Industry Employees' Superannuation Fund Pty Ltd (ABN 58 005 793 199) (AFSL 239953) as Trustee of the Meat Industry Employees' Superannuation Fund (RSE L0001434).