Planning for Retirement

Cruelty Free Super is delighted to sponsor this excellent mini-ebook on Superannuation (from ***Pink Investments***). We are in the business of promoting principles-based investing and in our experience this theme resonates with women around the globe. Indeed 74% of the investors in our Australian cruelly free superannuation fund are women so we are therefore proud to be associated with anything that supports the process of embedding financial empowerment for women.

If you would like to learn a little more about the completely unique **Cruelty Free Super** approach to responsible investment which is good for animals, people and planet please go to **www.crueltyfreesuper.com.au.** or email me direct via **lee@crueltyfreesuper.com.au.** We hope you will take the time to find out why our proposition is so attractive to women and look forward to you joining a group of investors who are putting their money where their principles take them.

Contents

Welcome

This mini e-book on Superannuation is an extract from the main e-book on financial investment by Pink Investments. We believe it will help you to understand and formulate a successful plan for a secure and satisfying retirement.

Please remember that this e-book is merely a taste of how healthy financial investment and your future retirement can be achieved. If you find this mini e-book to be of guidance than please consider reading the remaining chapters that the main e-book provides. Chapters within the main e-book include professional and helpful information regarding:

- Managing Debt
- Investment
- Insurance
- Understanding Tax, and
- Mortgages.

Best Wishes

Yvonne Jenkins.

Director: Ethical Financial Services Ltd.

Planning for Retirement

Many of our grandmothers and great grandmothers saw the institution of marriage as their pension. Many were heavily reliant on a government pension. Thankfully this is rarely the case today. However, there are still a worrying number of elderly women living on or near the poverty line.

Women still tend to have much less in their retirement pot than men. The Australian Bureau of Statistic's Survey of income and housing estimates the average retirement payouts in early 2008 were just $73,000 for women, compared to $155,000 for men.

This disparity is mainly due to the fact that, on average, women earn less than men. Women also tend to have more breaks in our careers and we live longer.

On average women live 7 years longer than men.

Women still earn only about 76% of what men earn. Lower wages translate into lower Superannuation benefits, as well as smaller government benefits.

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Government Pensions

With the increasing burden on funding government pensions many people are aware that they cannot rely solely on the government to provide a comfortable retirement.

In Australia the pension is $670.90 (single per fortnight) or for a couple $505.70 each per fortnight (effective March 20th 2011). The amount you receive will depend on an assets & income test. These amounts will hardly allow you to live the high life in retirement! You cannot rely on government benefits to live comfortably in retirement

Recent changes to age pension **assets test** rules mean more people may be eligible for a part age pension and any associated concessions.

It is clear that many women need to look to additional sources to help build their retirement nest eggs.

Planning for Retirement

Superannuation

No one expects you to understand everything about superannuation. Hundreds of choices and changing legislation make it hard to keep up to date.

You do not need to get embroiled in understanding all the details of superannuation legislation. The rules vary from country to country, but the fundamentals remain the same. **Whether they are called retirement plans, pension plans or superannuation plans they are all essentially long- term, tax efficient savings plans.**

Superannuation is a tax advantaged place to save and invest for your retirement. Apart from tax deductions available on contributions, earnings in the fund are taxed at a reduced rate of 15 %. This is instead of at your marginal tax rate which could be up to 48.5 % (including the Medicare levy).

For the five years 2007-08 through to 2011-12, the maximum contribution an individual (aged 50+) will be able to make to superannuation at the concessional tax rate of 15% will be $100,000.

This will be reduced in 2012-13 to $50,000. Deductible contributions above these limits will be taxed at the top marginal rate. These transitional arrangements allow people planning to retire in the immediate future to continue to make larger contributions at concessional rates.

Most capital gains in super are also taxed at a reduced rate of 10%. Your retirement benefit will also be subject to concessional rates of tax once you retire.

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Superannuation

Normally you have access to your Super (preserved benefit) on retirement once you have passed your ‘preservation age’. This is generally when you turn 55 but it can be up to age 60 if you were born after 30 June 1964. You need to have stopped work if you are under age 65 and to have permanently retired from the workforce if you are under age 60. However, you will have to wait until age 65 if you are a spouse who has never worked.

The recent introduction of ‘transition to retirement’ rules mean you can access your super from the preservation age as a non-commutable income stream and continue to work.

Superannuation guarantee

In most cases, you join a superannuation fund as soon as you are employed. This is because, by law, your employer must pay contributions into a fund on your behalf.

Under the current 'superannuation guarantee', your employer must pay in 9% of your earnings. For example, if you earn $50,000 a year that is an extra $4,500. But, don’t rely on superannuation guarantee (SG) contributions alone to provide for your retirement. They won’t be enough.

Millions of women employees are able to choose which fund will receive their employer's superannuation guarantee contributions. But few women actually exercise this right. If you are eligible to choose, your employer will give you a **standard choice form**. You don't have to choose if you don't want to. However, if you do nothing, your employer will pay their contributions into a fund they choose. Make sure you understand the fund your employer has chosen. Compare the benefits and costs with at least two other funds; such as an industry or a retail fund.

TIP: Your employer or you can pay extra money into super at any time.

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Types of Super Funds

Corporate funds

These are open to people working for a particular employer or corporation. Employers may run their own plan or run it through an investment manager or a master trust.

Industry funds

These are open to people in a particular industry or under a particular industrial award. Some industry funds are open to anyone.

In Australia company schemes are either Defined benefit Superannuation or Accumulation Superannuation.

Generally, if you are eligible to join any of these schemes, then do so. For most women, the company scheme will be the best way of boosting your income in retirement.

Defined benefit superannuation

Defined benefit Superannuation is typically offered by public sector employers and some larger private companies. With this type of scheme your super benefits are calculated by a formula, as a proportion of your final salary. It is dependent upon the number of years you have worked for the company.

The advantages of this type of scheme are its certainties. These certainties include:

- You know that if you work for a set number of years, you will be entitled to a certain level of retirement income.

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Types of Super Funds

- You do not have to worry about stock market movements, because you will obtain the promised retirement income, irrespective of how well the super fund is invested.
- You will generally have to pay a percentage of your salary into the scheme, which is taken from your gross salary. In return your employer will bear all the investment risk.

Take time to read your company scheme booklet. It will outline the maximum retirement benefits payable and any entitlements to a tax free lump sum, life cover or suchlike.

Who controls your super?

Trustees run your fund. By law, they must act honestly and prudently, and make decisions in the best interests of all members.

Often trustees hire professionals to invest the fund's money and to look after fund assets, membership records and other tasks. Trustees still remain responsible, and if they fail in their duties, courts or government agencies can remove them.

The downside to this type of scheme includes:

- Some women are unable to build up enough years of service to get adequate benefits in retirement.
- The costs of running a defined benefits scheme have blown out of all proportion in the last decade, because retirees are living to older ages. Over the years the various stock market down turns have exposed huge funding black holes at major multi national companies.
- Because of the increased funding costs, many companies are changing from defined benefit schemes to defined contribution schemes.

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Types of Super Funds

Accumulation superannuation

With this type of scheme, your final benefits are determined by the amount of money paid in by you and your employer plus the investment earnings of the fund.

The performance of the underlying fund is critical to what you will receive on retirement. It is therefore very important to take an interest in the investment funds on offer and select funds appropriate to your risk profile and time horizon.

Take time to learn about the different funds and their risk profiles.

Superannuation is a long term investment. Use your fund choice and select the right funds as the markets change. This can make a huge difference to the value of your fund at retirement.

If you are a moderate or high income earner you might consider salary sacrifice to make additional contributions to super. Depending on your personal circumstances, this can be a tax effective strategy.

Who controls your super?

Trustees run your fund. By law, they must act honestly and prudently, and make decisions in the best interests of all members.

Often, the trustees hire professionals to invest the fund's money and to look after fund assets, membership records and other tasks. Trustees still remain responsible, and if they fail in their duties, courts or government agencies can remove them.

Accumulation superannuation is becoming increasingly common. They are easier to understand and more flexible than defined benefits schemes. However, your end benefits are less predictable. What you receive at retirement will largely depend on investment performance.

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Types of Super Funds

Another unpredictable factor is when your super fund is turned into pension income. At retirement your pension pot will be used to purchase an annuity, which pays you a lifetime regular income. Annuity rates vary from year to year, according to factors such as interest rates and the fixed interest market.

As you can see with an accumulation superannuation scheme, you have to take more responsibility than with a defined benefits scheme.

Personal superannuation

If you don't have access to a company superannuation plan, then there are alternate personal super vehicles available. Retail funds are open to the public and are run by financial institutions.

All personal super plans work on the same principles as defined contribution/accumulation schemes. Your contributions are invested in your selected assets or funds to build up a pot that can be used to buy a lifetime income on retirement.

The benefits you derive from a personal super plan will depend on the amount of contributions made, the charges for running the plan and the performance of selected investments. It will also depend on the annuity rates at the time you convert your fund into a regular income stream.

With any personal super plan you must be disciplined about making adequate contributions. Be proactive and keep your investment decisions in line with your risk profile.

Personal super plans offer a tax efficient way of saving for the long term; particularly for women who are either self employed or working on a casual basis.

Don't be put off by all the jargon surrounding these plans. Remember, they are basically tax efficient long-term savings plans.

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Types of Super Funds

If you are self-employed, you can decide if you want to join and contribute to a fund.

If you are self-employed you may get a tax deduction for the first $5,000 of your personal super contributions, plus 75% of your contributions over $5,000. Yet, depending on your age, there is a limit to the amount you can claim each financial year.

If you are not currently employed, or never have been employed, you can still join and contribute to a fund up to age 65.

If you are self-employed or not employed, you can decide how much to pay in.

For the very cautious, superannuation can also be paid into a **retirement savings account**. This is a special deposit account with banks or other deposit-taking institutions. This may not be the best long term strategy but it is another option for those who are adverse to stock market investments.

Self-managed (DIY) superannuation funds

The benefits

There are numerous benefits to having your own self-managed super fund. Here are just a few:

- Minimum tax payable on earnings from a super fund can be 0%.
- Self-managed super funds are allowed to control the timing of disposal of assets. For example:
  Imagine you acquire an asset today and it appreciates over time by X %. When you retire, you can roll it over to your allocated or complying pension, and you will pay 0% tax on the **realised** capital gain of that asset. This means that if it goes into an approved plan, you pay no tax when it is rolled into it.

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Types of Super Funds

- In most cases DIY Super Funds' assets are protected from bankruptcy.
- DIY Super Funds' assets can invest up to 100% of the funds total assets in **Business Real Property**. This means that fund members can use the money from the DIY Super Fund to obtain a real estate property for their own business. Super Funds allow for tax-deductible insurance premiums.

Type of Policy

Death/disability policy: Deduction = 100% of premiums

Whole of life policy: Deduction = 30% of premiums

Endowment policy: Deduction = 10% of premiums

A DIY Super Fund can invest in Australia and internationally in:

- Share market,
- Money market
- Futures, Bonds,
- Derivatives such as call and put options,
- Warrants,
- WRAP Accounts,
- Real estate,
- Film industry,
- Art collections (*),

There are no minimum contributions limits and no restriction on frequency of contributions to a DIY Super Fund.

- Stamps and coins collections (*),
- Jewellery (*),
- Precious metals (*),
- Precious stones (*).

Note: * **Arms Length** and **Sole Purpose Test** applies. Assets have to be insured and placed in a safe deposit.

A DIY Super Fund can also:

- Invest in or with other Super Funds, Fund Managers and Master Trusts.
- Bank with any bank
- Use any share trading institution.
- Have insurance with any insurance company.
- Go to any financial planner, accountant or tax planner.

A DIY Super Fund can use your Super Money to pay for the administrative costs incurred in the managing of your DIY Super Fund.

If you wish to set up your own fund it may be useful to consult with a professional adviser before committing. This is important because there are a number of trust laws and legislative requirements relating to setting up a self managed superannuation fund.

Many accountants, solicitors and superannuation specialists have packages and ‘kits’ available which simplify the process.

Planning for Retirement

Types of Super Funds

Is DIY Super Right For You?

Here are 4 key questions to help you decide if self managed super is right for you.

Question 1: Is the fund strictly for retirement benefits only?

The assets and money in your fund are strictly for retirement benefits only, not to run a business or to benefit you or anyone else outside the fund.

The personal use of holiday homes, art to decorate your house, and your golf club membership almost certainly won't comply.

Question 2: Do you have the time and skills?

'Self managed' super means you do the work. Before you start, make sure that you have the time to manage your own super. Many people find it hard enough keeping up with their current super.

Work out an investment strategy. You must select and manage investments well enough so they grow in value and meet your fund's investment objectives. Some assets may need to be insured.

You must be a trustee of your own fund. Even if you get help, you remain legally responsible. Ensure the fund is correctly structured, keeps meticulous records, and meets all reporting requirements.

Question 3: Will the benefits be worth the costs?

It is the general consensus that you need around $200,000 in super to make the costs of an SMSF (self managed super fund) worthwhile. The fund may have difficulty earning enough to make set-up and running costs worthwhile with less than this amount,

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Types of Super Funds

SMSFs can typically cost around $1,500 to run each year, often more. Running costs include audit and regular reporting requirements.

Question 4: How will switching to a self managed fund affect your current super?

Changing funds means changing benefits, services and fees. Make sure you don't leave yourself without life cover or other important insurances.

Licensed advisers are trained to consider your personal situation and to recommend a suitable product for you. By using a licensed business, you get extra protection if anything goes wrong.

Tax agents or accountants can help you set up a SMSF. But, unless they are also a licensed financial advisory, they must not advise you on which super fund best suits you or which investments should be in your fund. (Some accountancy businesses do hold these licenses, but many do not.)

Planning for Retirement

Factors Affecting Your Super

There are common factors that affect the size of your retirement fund. Firstly, there is the amount being contributed. Secondly, some women may only have their employer's contributions going into their superannuation fund and opt to invest additional savings in non-retirement investments.

If you invest additional savings into your superannuation fund you can take advantage of the tax concessions available. In most cases you will need to make your own contributions in order to get anywhere near enough to retire on.

The secret to making a better financial future for you is planning and waiting. It may not sound exciting, but you stand to gain some of the biggest paybacks you'll ever experience.

Compound interest is the key

The sooner you start contributing to your retirement savings, the greater the compounding effect on your investment long-term. You can earn interest on your interest, or growth on growth. Your retirement savings will grow exponentially over the long term.

The following example illustrates the point:

Sarah and Mary are 65 years old. They worked for the same company for 35 years and both invested in the same retirement fund.

Sarah started investing at age 30. She invested $1,000 each year for ten years and earned 8% per year. Then she stopped contributing, but her investment continued to earn an 8% annual return. At the end of the period her $10,000 investment was worth $107,148.

Mary didn't start saving until age 40 and then invested $1,000 each year for 25 years. She also earned 8% per year. At the end of the period, her $25,000 investment was worth $78,954.

As you can see, although Sarah contributed to her investment for 15 fewer years than Mary and invested $15,000 less, she accumulated $28,194 more than Mary, simply because she started investing ten years earlier.

Planning for Retirement

Factors Affecting Your Super

Earning interest on interest is a very effective and simple way of increasing your retirement pot. One simple compounding rule can eliminate years of worry. It can provide a clear goal in your financial life, and set your future course.

The rule of compound interest:

Your money will double every seven years if it compounds at the stock market's average rate of return (nearly 11% p.a) over its lifetime.

Compound Interest is definitely your friend when it comes to long-term savings!

Your contributions

Consider how long you will be working or able to contribute to your retirement savings. Will you take time off to have children? Will you travel and work abroad; in which case you may not be contributing to a retirement plan. You may take time out to pursue a different career, undertake study, set up your own business, or take a reduction in salary. Many women take on the role of carers for elderly or sick relative. All these factors will affect your retirement funding.

How are your super savings invested?

Many women do not take enough interest in their retirement savings, until they actually approach retirement. By then it is too late to make any significant difference to the size of your savings. Because retirement savings are tied up and out of our reach for a long time, this doesn't mean that you cannot have control over *how* the money is invested.

Your superannuation plan may be your biggest asset after your home. It is therefore very important to be proactive. The amount you save will dictate the type of lifestyle you will have in retirement. Many super funds offer a choice of investment options.

Planning for Retirement

Factors Affecting Your Super

You should now be familiar with the various asset classes. This will stand you in good stead when choosing how best to invest your retirement savings. The alternatives range from conservative to aggressive. The amount of return you receive will be based on the approach you choose, be it conservative to aggressive.

As with any investment, there is a trade-off between risk and reward (investment performance). Before investing you should know what your risk tolerance and time horizon is. Women tend to be more conservative investors than men.

Being overly conservative over the long term can have a devastating impact on the growth of your retirement pot.

Your first impulse may be to protect the value of your savings by picking a relatively conservative investment. But consider that you may have to rely on your retirement fund for another 20-30 years, once retired. This a long time. It may be worth considering a less conservative investment mix, such as shares, listed property and bonds. These will have a better chance of outpacing inflation and providing a higher return.

Having time out of the workforce has a dramatic impact on our ability to save for retirement.

Maximise your retirement savings

Superannuation plans are an excellent vehicle for accumulating long-term wealth. There are a number of factors that will help you maximize your retirement savings:

Start young

When you are in your 20's and 30's it is hard to think about abstract subjects such as pensions and superannuation. However, the sooner you start saving the better. Establish a routine of saving regularly as soon as possible. This will become a habit and should continue throughout your life.

Planning for Retirement

Factors Affecting Your Super

Contribute your own money to retirement savings

Contribute your own money over and above what is being funded by your employer. In most countries there are Tax incentives for doing this; either in the form of Tax deductions or Tax rebates.

Make the best of the investment options

Be proactive and regularly review how your retirement funds are growing. As other investments, you may wish to change your asset allocation. Invest in assets that are appropriate for your risk tolerance and time horizon.

Consolidate your retirement funds

If you move from employer to employer, you will have preserved benefits accrued across various funds. Roll over (or consolidate) these benefits into one plan. It is usually more cost effective and easier to keep track of; but be wary of any exit fees that may be payable.

Be realistic!

I have yet to meet a woman who says she has too much money in retirement! Be realistic about how much you will need to live an active and comfortable retirement. **Remember you will have more time to spend money when you are retired.**

How much should you be saving?

Some women will be able to live well off a modest amount, whilst others will never seem to have quite enough! There are all sorts of formulas that you can use. Realistically it boils down to what you can afford to save. Save consistently over a long period of time.

Top up your regular savings with lump sums whenever you can.

Planning for Retirement

Retirement Strategies

Your retirement strategy will change, as you get closer to retirement. Consider these strategies from age 20 to age 65.

Age 20's - The carefree years

- Have fun
- Go to college/university
- Retirement is a long way off
- Get into the routine of regular saving. Try to contribute 10% of your salary into a super plan (this can include your employer's contributions).

Age 30 - 35 - Life Is a Breeze

- This is the ideal time to fund a super account. Try to contribute 15% of your salary into a super plan (this can include your employer's contributions).
- Concentrate on paying off college/university loans as soon as possible.
- Buy a home and strive to pay it off. Do not get involved in the refinancing game!
- Your car should be paid off and well maintained.
- Your debt-free thinking should be sinking in.

Age 40 - 45 - Getting Serious about retirement funding

- If you haven't started a super account, **start now**! Try to contribute 20% of your salary into a super plan (this can include your employer contributions).
- Your career is moving.
- Return to studying? - do it now, **only** if it is affordable.

Planning for Retirement

Retirement Strategies

- Help your kids? This is your last chance.
- Get you health insurance benefits in order.
- Your savings are geared up, and you're paying off your home.

Age 50 - 55 - The Plot Thickens

- Aggressively fund your superannuation account. Try to contribute 25% of your salary into a super plan (this can include your employer contributions).
- Review your social security benefits.
- Research health care possibilities before age 65.
- Your house should be at least half paid off. You should have no loans.
- Fund a supplemental retirement and a savings account.

Age 65 - Enjoy your leisure time

- Stay debt-free
- Enjoy traveling
- Have fun with your grandchildren
- Avoid the scam artist
- Try some new crafts
- Review your investments regularly. Try to contribute 30% of your salary into a super plan (if you are still working).

Planning for Retirement

Living in Retirement

For most women, living well in retirement is living in comfort and security. It means being able to manage your money in your own time, without any worry or inconvenience.

How much money is enough?

The difficult thing about managing your money in retirement is making sure it doesn't run out before you do!

There are 4 main variables to consider:

1. How much money do you have?

If you have already retired you won't have much control over this factor.

2. What rate of return will you get?

Most retired women want their money in safe investments. In most cases this means you may have to accept lower returns than when you had a higher risk profile. However, safer investments are wise. **At this time of life you can't afford to lose any of your capital.**

3. How much do you need to live on?

This may require careful budgeting but it is one variable you have the most control over. If, in the early days, you set a realistic budget you shouldn't need to scrimp and save later on.

4. How long will it need to last?

This is the great unknown! This situation is generally more critical for women than for men. Over the next 40 years, the number of women over 85 is expected to triple or quadruple in developed countries. 75% of these women will be single, divorced or widowed!

Planning for Retirement

Living in Retirement

Investing when you are retired usually has two purposes:

- To provide you with a regular reliable income
- To generate some capital growth, so that your money is protected against inflation and does not run out before you do!

Don't Outlive Your Assets!

Recently the concept of funding retirement out of capital has become more acceptable. For a long time the idea that you should preserve your capital was a ‘sacred’ ideal.

However, nowadays people are less likely to moderate their life style in retirement simply to pass on capital to their children. There is a growing acceptance that you will ‘erode’ some of your capital before you die.

Once you reach retirement and wish to start taking your income, there are a number of steps you will need to undertake:

- You should obtain details of the retirement pot you have built up from your Super provider. This will explain any tax free cash entitlement you are eligible for and the annuity options you have.
- Do you need the tax free cash or do you use the whole of your Super pot to convert to a regular lifetime income?
- Then you need to go about getting the best annuity deal. This is critical because it will determine how much income you receive for the rest of your life. There is often a big difference between the best and worst annuity rates available.

If in doubt seek professional advice.

Planning for Retirement:

What are Annuities?

In simple terms, an annuity is a contract between you and an insurance company. In exchange for getting your hard-earned cash today, the insurance company agrees to pay you an income for a specified period or for your life. Those payments may start at a set date in the future or they may start on the day you buy the contract.

If the payments are delayed until the future, you have what is called a **deferred annuity**. If the payments start immediately, you have an **immediate annuity**.

Upon retirement most people will buy an immediate annuity. On the day you buy it you pay for it with a lump sum. In exchange for your lump sum you will receive a regular income stream. The amount of income you get depends upon your age, sex and interest rates at the time the annuity is bought.

Unfortunately, as women live longer than men, the annuity rates we get are not as favourable. In a low interest rate environment annuity rates are less attractive than when interest rates are high.

There are **term certain annuities** or **lifetime annuities**. If you opt for a **traditional lifetime annuity**, you would want to be in good health and have longevity in your family genes. This is because if you die soon after buying the annuity the annuity dies with you!

A **term certain annuity** is when payments are guaranteed for a fixed term; typically 10 years. If you die within this period your beneficiaries will continue to receive the income payments until the end of the term.

In the past there were few choices when it came to annuities. But today as people are living longer there is the need for some potential for capital growth. Hence annuities come in a number of varieties:

Fixed Annuities

As the name implies, a **fixed annuity** provides a locked-in, guaranteed rate of return on the investment *and* a fixed, stable income in its payout phase. As such it provides a steady retirement income. However, this steady return can and will be eroded by inflation. There are options available (at a price)whereby you can have your annuity payments increase by 3% to 5% per year.

If you select the **indexed option**, your income payments will initially be lower than a fixed payment. Yet, over time the payments will steadily increase at the specified rate. For those expecting to live a long life, the added cost of this feature might be worth the price.

Variable Annuities

Variable Annuities is probably the most popular form of annuity at the moment. A variable annuity (or **allocated annuity**) allows the purchaser to decide how to invest the money within a range of managed fund/ insurance fund options offered by the insurance company. Companies will typically offer a selection of share, bond, and money market sub-accounts. So, like a managed fund and unlike the fixed annuity, the returns of the variable annuity are not stable, and will vary along with the markets.

While this variability does carry downside risk, it does afford the annuity buyer the ability to participate in the potentially greater returns of the stock market. As the stock market rises, so does income derived from an investment in an equity sub-account. Conversely, as the market declines, so will income.

The advantage of this type of annuity is that, over the long-term, a variable annuity invested in an equity sub-account should provide a much better protection against inflation.

Planning for Retirement:
What are Annuities?

Equity-index Annuity

An equity-index annuity is a recent innovation in the insurance industry. It is a type of a fixed annuity contract which is tied to a stock index. It provides the opportunity to earn better returns than those in a traditional fixed annuity, but less than those of a direct investment in the market itself.

In this type of contract, the insurance company invests in a mix of bonds and stock options. These are designed to give a targeted participation rate on the return of a particular index (e.g., the S&P 500 Index).

For example: the insurance company may give you 90% of the growth in the S&P 500 index plus the guarantee that you won't lose your money. You have gained exposure to the stock market, but with none of the risk that you will lose your money.

While the purchaser has no choice in the investment itself, they are able to participate, to a degree, in stock market gains during a rising market. If stocks fall, then the contract guarantees a minimum return; typically 3%. Because of that guarantee, the equity-index annuity has less downward volatility than the variable annuity.

Like it or not, funding your own super for retirement is now a necessity, not a luxury. Start saving early and once again let compounding interest work it's magic.

Phased retirement and income drawdown

Phased retirement and income drawdown are both ways to control the income you get from your retirement fund whilst leaving the fund fully invested. In most cases this facility is only available for personal superannuation plans.

There are many decisions to be made once you hit retirement. Annuities are a complex subject and there are various tax implications (depending on where you live). These should be fully explored before you make any decisions. This is a time when it may well be wise to seek professional advice in this area.

Planning for Retirement:

Inheritance Tax Planning

Statistics show that women live longer than men. As such, married women tend to inherit the family assets. Therefore, they often have to make provision for mitigating estate/inheritance tax.

When a loved partner dies, women's worlds can go haywire. Many have no idea where their partner's financial papers were kept. Worse still, if they died intestate (meaning they didn't have a will), then sorting out their estate can be a nightmare.

No one wants to think about losing a partner and many of us dodge the discussion of death. The simple task of writing a will is often avoided.

If you are not prepared, the onslaught of paperwork that will hit you after your partner's death may be overwhelming. It is traumatic even when you are prepared.

A helpful to-do list:

- Get a grip on your assets. Gather copies of your joint tax records for the past five years, records of both you and your partner's retirement plans. Collate all insurance, bank and brokerage accounts, including the deed to your house. Bundle documents in one big file that you can keep in a safe, but accessible, place.
- Obtain death certificates. You'll need to make multiple copies of your partner's death certificate to send to credit card companies, your mortgage lender, and insurers to verify the death.
- File a claim for benefits. Notify your partner's employer. Enquire about any benefits owed to you, such as pension income, life insurance and health insurance coverage. Enquire about employee benefits (the human resource department can direct you). You may need to talk to more than one employer if your partner retained benefits in previous employer's plans. Find out about settlement options. Some super plans ask you to choose between a lump sum payment and annuitised payments. Annuitised payments are made monthly or annually.

Planning for Retirement:

Inheritance Tax Planning

- File insurance claims. Alert your partner's life insurance company and file a claim. Your insurance agent or broker should have all the policy information you will need and be able to help you obtain the necessary forms.

- Notify government offices. Centrelink will need to be informed. You should also contact your Roads & Traffic Authority, to change their car registration to your name.

- Contact financial services providers. Any joint accounts should be transferred to an account in your name. (You will need a copy of the death certificate to do this.) In many cases, you can re-negotiate the terms of any outstanding loans with your bank. If your partner had a brokerage account, ask their stock broker to give you a value on their account at the time of your partner's death.

Put your money somewhere safe. This is not the time to be taking hot share tips from anyone!

- Update your insurance policies. If your partner worked for a company, check what cover they had. Also update any life or disability insurance policies.

- Most financial advisers recommend that you refrain from investing any lump sum insurance or pension payout for at least six months, post your partner's death. Put any cash into a high interest bank or building society account, until you are able to make informed decisions on longer term investments.

- Compile a budget that works. Decide how best to allocate your new income. Take into account the current and future needs of you and your family.

Planning for Retirement:

Inheritance Tax Planning

- Calculate your total assets (including your investment accounts, income, and life insurance payouts). Now, subtract what you owe on your mortgage, credit cards, outstanding loans and any tax liabilities. Ascertain much income do you have and how much you spend each month. Determine which bills *must* be paid and which are optional; such as a gym membership. Once this is done then you have your budget priorities in place.

- Take it slow. After you have sorted the 'must-do list', take a break. Don't feel pressured to make big financial decisions. Once you feel ready to take action, consult a financial adviser to help you develop a short-term and long-term investment plan.

What is inheritance tax?

There is no inheritance tax in Australia however assets acquired from the estate may become subject to Capital Gains Tax. If you inherit an asset as a beneficiary of the estate of a person who died on or after 20 September 1985, you must keep specific records.

If the asset was acquired by the deceased person before 20th September 1985, you need to know the market value of the asset at the date of the person's death including any costs incurred by the executor or trustee. This calculated amount is what the asset is taken to have cost you. If the executor or trustee has a valuation of the asset, request a copy of that valuation report. Otherwise you will need to get your own valuation.

If the asset you inherit was acquired by the deceased person on or after 20 September 1985, you need to know full details of all relevant costs incurred. Request those details from the executor or trustee. Even if you inherit the deceased's family home, you must keep records of costs paid by the deceased. This is in case you are not able to claim a full exemption for the house after you inherit it. This means that in some cases you may still have a partial tax liability.

Planning for Retirement:
Reducing Tax Liabilities

Make a will

It is amazing how many people do not make a will. If you die intestate (without a will) it can cause a lot of anguish for the family. Without a will your estate can be disposed of in a way you would not have wished.

Anyone with an estate, a spouse or partner, children, or a family must make a will. What's more it needs to be clear, current and valid.

Use Trusts

It is possible to use certain trusts to minimize inheritance tax. The principle is, that your assets are put into trust for the benefit of your children or grandchildren. This then reduces the number of assets that will be liable for inheritance tax.

A **power of attorney** can also be useful. This gives someone you trust the ability to act on your behalf. By nominating a person you trust can alleviate situation where you may be incapacitated and unable to sign documents.

Please note: The use of trusts and power of attorney should only be considered after taking expert advice.

There are many legitimate ways of reducing your inheritance tax liability. If you put the effort into an effective estate planning strategy your beneficiaries should not have to pay unnecessary tax.