

Savings or super?

Statistics reveal Australians are **saving more**.
The question is, could we be **saving smarter?**

Recent figures released by the Reserve Bank show that Australians are now managing to save 10% of our disposable (take-home) pay. As RBA Governor Glenn Stevens observed, there is “a degree of caution” in consumer spending and borrowing. In fact, our savings rate is the highest it’s been in over 20 years. Believe it or not, in the easy-credit era of the early noughties, our savings rate went as low as minus 2%!

The reasons for the increase in saving are numerous and complex, but include an increase in household income as well as the lingering effects of the GFC. There are indications that our uncharacteristic frugality won’t last – the job market is strengthening, for example – but now is a good time for all of us to consider whether our savings are working as hard as they could be.

In a society where consumer temptation is everywhere, saving money is a real achievement. Most of us have to consciously forego things we enjoy in order to save. The pay-off is that having money in the bank makes us feel more secure, and rightly so. Saving money is almost always better than spending money. Better yet, is **investing** money.

Non-super investments

When it comes to investing, most of us look to term deposits, managed funds or property. Some of these asset classes have the advantage of liquidity (you can sell them easily whenever you need to), but they are not always the most tax-effective investments. This is because some investment vehicles attract tax at three points:

- **Before** you invest, because you’re using income that has already been subject to income tax

- **During** your investment, because you pay tax on the income generated by the investments, and
- **After** you dispose of them, because any capital gain is taxable (albeit it at a discounted rate for some holdings of shares or property).

In contrast, superannuation benefits form a simple and heavily discounted tax regime designed to encourage Australians to save for retirement.

Tax on super

Employer and salary-sacrificed employee contributions are made from your before-tax income and taxed at only 15% on the way into your super, if you stay within contribution limits. Currently, the limit on these ‘concessional contributions’ for people under age 50 is \$25,000 per financial year. (Contributions from after-tax income don’t attract contributions tax until they exceed \$150,000 per year over three years.)

Investment earnings on super are taxed at a maximum rate of 15%. The actual tax rate applied is usually less than 15% once tax deductions, offsets and credits are applied. Tax is deducted from investment earnings by the Fund before earnings are applied to your account.



Once you turn 60, you can withdraw your super as a tax-free lump sum or convert it into a tax-free retirement income stream.

The worked example overleaf shows the difference

Worked example

Dianna is 35 years old. She earns \$65,000 per year and wants to save for retirement. She can save around \$100 of her take home pay per month, and she's tossing up between investing in a managed fund or contributing more to her super. To invest in a managed fund, she will save from her after-tax pay, which has been taxed at her personal tax rate (30%). However, if she saves through her super, she is able to make this payment from her pay before it is taxed, which allows her to save \$130 before-tax, equating to \$100 less in her take home pay.

Let's compare how these two investments would perform over 25 years. For the purposes of this exercise, we'll assume the options both generate investment returns of 7% a year. We'll also assume Dianna reinvests her earnings in the managed trust. Dianna will have to pay income tax on the interest she earns in the managed fund. However, for simplicity, we have assumed that she has paid any tax that applies out of other income.

How to contact us

Visit our website www.ngssuper.com.au, or contact our Customer Service Team or your local relationship manager at any time. We're here to help you.

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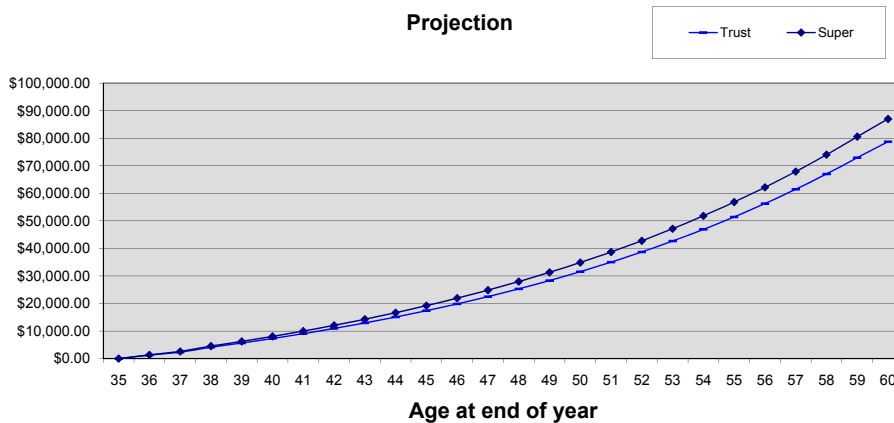
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As you can see, the super fund provides a return of almost \$10,000 more over the long term. If we had factored in management fees, which are usually lower for super funds than managed funds, the difference may have been even more significant.

Of course, when it comes to saving we're not suggesting you put all your eggs in one (superannuation) basket. We all need savings that are accessible at short notice in case of emergency.

When it comes to saving for retirement, however, super is very hard to beat! And with NGS Super here to help, it's easy to take advantage of the attractive tax breaks on offer.

Why not call our Customer Service Team on **1300 133 177** for advice about how making small sacrifices now could help you do big things later. For more detailed advice, you can make an appointment through the Customer Service Team to meet with an NGS financial planner, and the first session is free!

Important information

This is general information only and does not take into account your objectives, financial situation or needs. Before making a financial decision, please assess the appropriateness of the information to your individual circumstances, read the Product Disclosure Statement for any product you may be thinking of acquiring and consider seeking independent advice from a licensed or appropriately authorised financial planner.

