THE IRISH 30

Financial Wellbeing Part 2
Superannuation

Monday 1st March at 7pm

Important Information

The information contained in this presentation are general statements and should be relied upon as a guide only, as your individual circumstances can be quite different. This presentation has been prepared without taking into account your objectives, financial situation or needs and because of this you should consider the appropriateness of any statements made, to your situation , before taking any action.

You should seek advice about how the relevant laws impact on your particular circumstances before making a decision based on this material.

If any financial product has been mentioned, you should obtain and read a copy of the relevant Product Disclosure Statement and consider the information contained within that statement in regards to your personal circumstances, before making any decision about whether to acquire the product.

Superannuation - what is it?

Language

In Australia, Super is short for Superannuation and is the same as a Pension in Ireland/UK.

In Australia/Ire/UK a Pension is income in retirement from a Super or Pension account

What is Super? What is a Pension?

Basically, they are a savings mechanism for our retirement, which can be state backed or private/employer backed.

- State backed - i.e. Old Aged Pension/ State Pension is paid for by the department of social welfare out of current taxation. It requires a large pool of workers to pay tax so that benefits can be paid.
- Private saving is encouraged by Governments to reduce the burden on Old Aged Pension state backed benefits.

Individual vs the Government

- Private Super/Pension is ultimately owned and controlled by the individual via Trustees who look after your money until plan reaches regulated time frames.
- Aged Pension is controlled by the Government of the day, so there is no pot of money with your name on it. Generally unfunded so paid for by general taxation.

<u>Both can and are manipulated by Governments to meet their political aims.</u>

For Example

- Gradual increasing of old age pension from 65 to 67/68, reduction of benefits payable using indexation from RPI to CPI.
- Terminology changing from right to benefit
- UK – removal of tax credits in pension funds.
- UK - banning of transferring out of unfunded public sector pensions in 2015 eg NHS, Teachers & Civil Service.
- Australia– changing in retirement ages; changes in deeming rates & centrelink payments

Backstory

Australia	Ireland and The UK
1908 Invalid and Old Age Pensions Act	1908 Old Age Pensions Act
First payment made in 1909	First payment on New Years Day 1909
Aged 65+	Aged 70+ with annual incomes of 31 pounds 10s or less

There is a lot of similarity in the beginning
due to the closeness of the social and political backgrounds.

The Irish Times.

The Irish Times wrote that there seemed to be a lot of young looking 70 year old Irish men and women at the time – mainly because nobody had birth certs so there was no way to prove your age. A claimant was asked to tell where they were on the night of “Oiche na Gaoithe Moire” (Night of the Big Wind) in 1839!!
At that time only 1 in 4 people lived to 70.
Over time reduced to 65 and now is slowly heading back to the original age!

State Pension

State Pension	Australia	Ireland	UK
Known As	Aged Pension	Old age Pension	State Pension
Means Tested	Yes Income & Assets Test	No Can have additional income with no impact	No Can have additional income with no impact
Current Age	65 – 67	66	67
Contributory	No	Yes	Yes
Eligibility – Contributions	N/A	520 payments = 10 yrs	10 yrs minimum National Insurance Contributions
Eligibility – Residence	Min 10 yrs before claim	Contribution based not residence	Contribution based not residence
Voluntary Contributions allowed	N/A	Yes – subject to certain timeframes	Yes – subject to certain criteria
Max Payment* **Excl Supplements** **Single Person Comparison** **AUD $1** **Euro €0.65** **GBP £0.56**	Single – $860.60 FN / $22,375.60 PA Couple – $648.70 FN each $16,866.20 PA each $33,732.40 PA Combined $ 16,866.20 € 10,953.25 £ 9,471.82	Single €248.30 pw €12,911.60 PA $19,881.73 €12,911.60 £11,165.31	New State Pension – Single £175.20 PW / £9,110.40 PA Basic State Pension – Single £134.25 PW / £6,981 PA $16,222.62 €10,535.29 £ 9,110.40
ID Required	TFN	PRSI	National Insurance Number
Government	servicesaustralia.gov.au	www.citizensinformation.ie	www.gov.uk
Taxable	Yes	Yes -In Ireland & Australia	Yes - In UK & Australia
Other benefits payable	Yes Travel Energy	Yes Medical Card Fuel Allowance	Yes
Bilateral Social Security Agreement in place	Yes	Yes	Yes
Death Benefits	None	None	None

Australia is means tested so it is linked to your total assets & income less the value of your home.

Irish & UK state & private pensions may impact on the value of your Australian Aged Pension

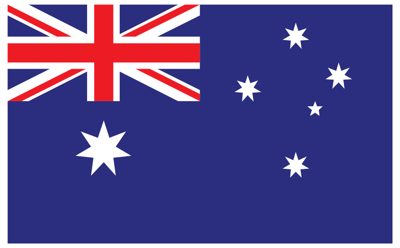
Brexit –does not seem to be affecting pension rights between Ireland & UK due to the Common Travel Area set up in 1924

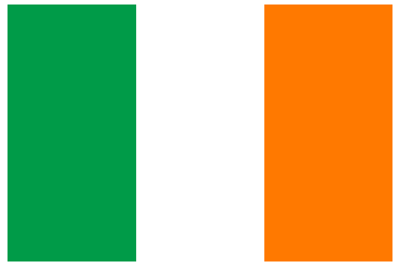
Commonalities – State backed pensions

- Paid for life.
- Linked to inflation.
- Not linked to investment returns.
- Apply via social security dept eg Dept of Social Protection – Ireland, Dept of Work & Pensions UK & Centrelink in Australia
- Complicated like most government payments.
- Generally minimal engagement once set up and running.
- Earliest payment is 66 + likely to move higher, 67 in UK & Australia & likely to increase.
- Homes are not assessed for any payments.

Differences of State backed Pensions - Ireland & UK to Australia

- Means testing – the better off you are in Australia the smaller your aged pension will be
- Income & Assets tests are used to qualify what your pension income will be & claimants are mandated to update Centrelink if there are any changes to circumstances.





Further information and handy websites

· https://www.myagedcare.gov.au/
· https://www.gov.uk/new-state-pension/
· https://www.pensionsadvisoryservice.org.uk/about-pensions/the-state-pension/claiming-state-pension
· https://www.nhsbsa.nhs.uk/nhs-pensions
· https://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/older_and_retired_people/
· https://www.pensionsauthority.ie/en/
· https://www.servicesaustralia.gov.au/individuals/subjects/age-pension-and-planning-your-retirement

Private Pensions

Private Pensions- Ireland and The UK	
Personal Pension	UK & Ireland; very similar to Super in Australia. Taken out with an insurance company/bank and money invested until retirement. Access is restricted until retirement age. Reasonable investment choice, fees dependant on the provider eg Stakeholder in the UK
Public Sector	Generally defined benefit schemes where the value is determined by the number of years worked in the scheme and the salary at time of retirement or leading up to retirement. Examples – NHS Pension Scheme, Teachers Pension & Civil Service Pension Scheme
Defined Benefit	Defined Benefit – can be private or public; 1/60 or 1/80. Value at retirement is determined by number of years worked & salary at retirement or leading up to retirement.
Self Invested Personal Pension	Self Invested Personal Pension – similar to a SMSF in Australia, except not allowed to invest in residential property

UK members now have auto enrolment which is similar to Australian Super system in that the employer and employee are mandated to pay into a pension plan however member can opt out.

NB – UK Pension Members
No longer allowed to transfer Public Sector pensions to Australia as they are unfunded
No longer allowed to transfer Defined Benefit pensions to Australia under 55

Private Pensions- Australia

Employer Funded	Employer pays the cost of the scheme and contributions for members, minimal cost to the members/ employees, low cost & fees and sometimes have a range of benefits attached. Retirement age written into the scheme.
Industry Fund	Low to mid cost, can be restricted to certain industries; not for profit so profits returned to members. Some of the larger Australian Industry funds are largest in the world.
Retail Fund	Low to high cost; generally much more investment choice for those who wish to get involved more in the investment decisions. Can buy shares, Exchange Traded Funds, Real Estate Investment Trusts & Limited Investment Companies. For profit companies.
Self Managed Super Funds	members are in total control, generally higher cost (depending on total size) as requires an accountant & annual audit, fully open investment strategy so not restricted in any area. Enables the members to buy property both residential and commercial even bitcoin. Popular with business owners.
Defined Benefits	based on the number of years & contributions paid in. not very common anymore
Public Sector	limited to state or federal employees, limited investment choice, low fees and sometimes higher contributions from employers – eg 17.5% rather than 9.5% with PSSAP

Common Points - Private

- Same principle applies, earlier you start, better off you should be.
- Same investment assets; Shares, Commercial Property, Fixed Interest & Cash
- Can have generous tax breaks; on contributions, earnings growth and on receipt of the value at retirement.
- Proceeds are usually linked to accumulation of savings over time linked to assets such as shares/property/cash & fixed interest. The higher the contributions and higher the investment returns the higher the capital value at retirement. This value needs to last your lifetime in retirement as you take an income ever year.
- Restricted access – usually not allowed to touch until retirement age however this is lower than State Pension age. Previously Ireland & UK was 50 & Australia was 55 but all moving to 60, depending on what the scheme is.
- Australia has some decent hardship rules to fall back on if times are very financially tough
- Fund value can be paid to estate or next of kin on death
- Generally proceeds can be invested in retirement to help maintain standard of living eg Annuity or Drawdown

Differences - Ireland & UK vs Australia

- Fees- more costly in Ireland, generally cheaper in Australia & then UK
- Access before retirement is very limited in Ireland & UK, however Australia has some decent hardship rules to fall back on if times are very tough eg Covid Super release
- Tax – Ireland/UK get tax relief on the way in and growth is tax free; Australia is taxed at 15% on growth and contributions.
- Tax Free Cash – nominally 25% in Ireland/UK but 100% in Australia at retirement but taxable to non-dependants so best to seek financial or legal advice
- Income may be taxable in Ireland/UK but tax free in Australia
- Death - Tax on proceeds in Australia if Non SIS Act Dependants are nominated as beneficiaries
- Death –Inheritance Tax in Ireland, Generally tax free in the UK if Binding Nomination form used so bypasses the estate
- Complex area that is likely to require advice in country where scheme is located
- Default Insurance sometimes without any underwriting is available via an Industry Super which is not generally available in Ireland & UK personal pensions

	Australia	Ireland	UK
Known as	Super	Pension	Pension
Open age	Any	Any	Any
Contributions	$25,000 Concessional Contributions (CC) incl Employer Contributions $100,000 Non-Concessional Contributions (NCC) Can utilise previous year allowances and claim personal deductions reducing income tax	Based on Age, Salary & Net Relevant Earnings E.g., Jim, 42 earns €50k 25% of €50k = €12,500 Includes Employer Contributions	100% of earnings up to £40,000 (annual Allowance) Can use 3 yrs carried forward allowances up to £120,000 in some cases
Employer Contributions	Yes – Mandated at 9.5%, rising to 12% E.g., $100,000 salary = $9,500 from employer Leaves allowance of $15,000	No – at Employer Discretion	Yes – Auto-enrolment, both employer & employee pay in. Total 8% 3% Employer & 5% Employee
Tax	Contributions – 15% going in. Earnings – 15% on Growth	Tax relief applied at highest rate of income tax. E.g. €100 Contribution will cost €60 at 40% tax bracket. Growth = Tax Free	Tax relief applied at highest rate of income tax. E.g. £100 Contribution will cost £60 at 40% tax bracket. Growth = Tax Free
Tax in Retirement	Income - 0%	Lump Sum – Tax free Income taxable at marginal rate	Lump Sum – Tax free Income taxable at marginal rate
Fees	Can be very low; generally 1%pa But have seen under 0.5%pa	Generally high 1% +	Can be very low; generally 1%pa or lower
Investment Choice	All assets Incl Residential Property in SMSF	All assets Excl Residential Property	All assets Excl Residential Property
Access	Limited to retirement age unless hardship applied for (Covid Excl)	None	None
Death Benefits	Tax free to SIS Act Dependants Taxable to Non SIS Act Dependants	Potential for Inheritance Tax	Under 75 – Tax Free 75+ at beneficiary marginal rate

Key Websites for further information

https://www.superannuation.asn.au/ ·
https://www.industrysuper.com/
https://moneysmart.gov.au/grow-your-super
https://www.ato.gov.au/super/ ·

What do I need to live on in retirement; how much is enough?

Your Super can be used to top up the Aged Pension – it is common to have both
How much Super you have will be based on; Fees, Your Age, Salary & Contributions, Current Balance & your Investment Strategy

Current life expectancy in Australia: Men – 86, Women - 90

Category	**Savings Required at Retirement**
Couple – Comfortable lifestyle @ $62,083 pa	$640,000
Single – Comfortable lifestyle @ $43,901 pa	$545,000

As noted by ASFA Retirement Standard website www.superannuation.asn.au

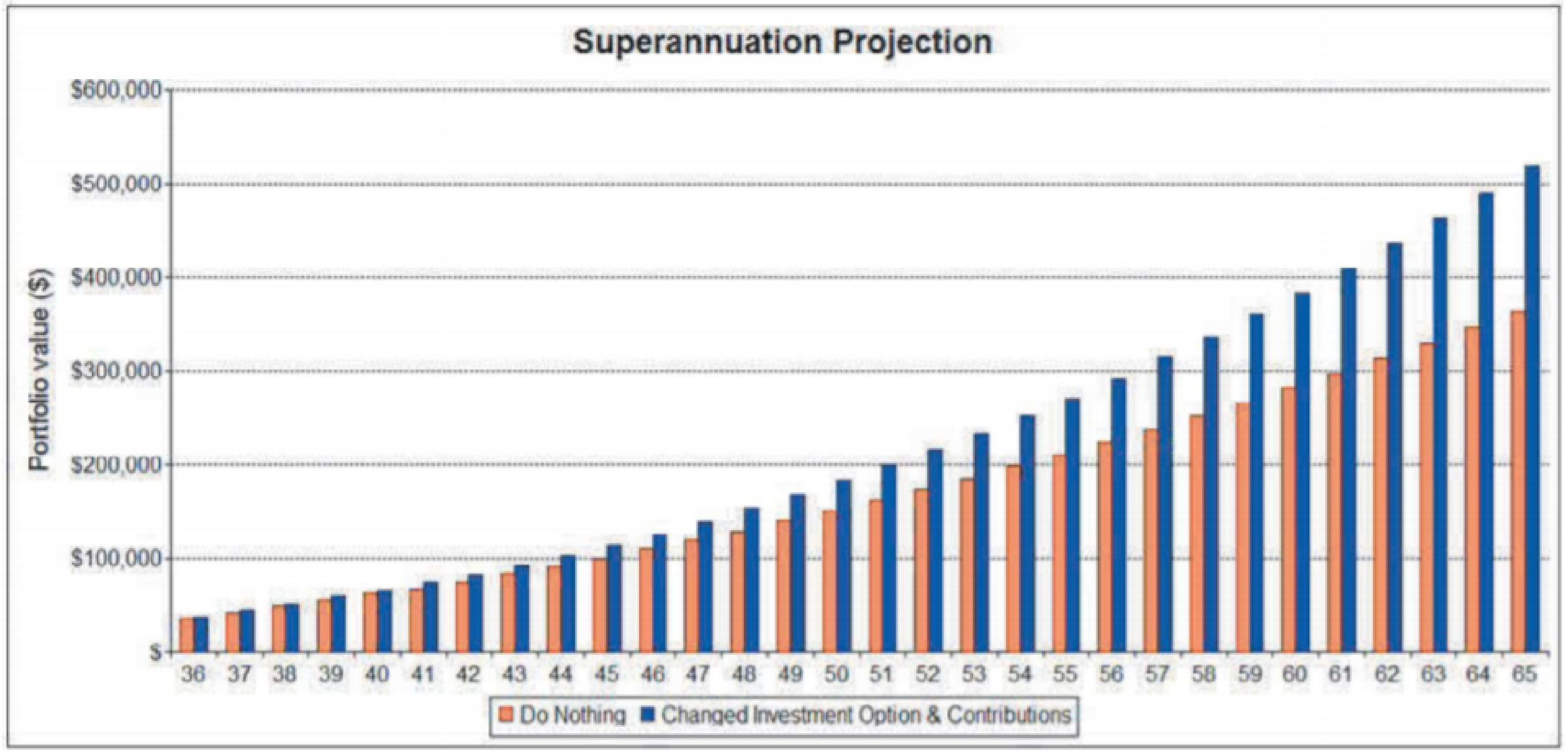
Ways to increase my Super value for retirement

- Salary Sacrifice
- Employer pays normal contribution of 9.5% & Employee pays an amount from gross salary to top it up. More money is saved for retirement and income tax is saved.
- Caution – must ensure lifestyle is not affected by contributions in, no point in increasing credit card bill to fund retirement! Complete income/expenditure analysis first.

Karen earns $90,000 before tax, excluding her employer's super contribution. Karen reaches an agreement with her employer to redirect $10,000 of her pay into salary sacrifice contributions. Under the terms of the agreement, Karen's employer will maintain her pre-salary sacrifice SG contribution of 9.5%.

Karen's income	**Pre-salary sacrifice**	**With salary sacrifice**
Salary calculations		
Gross income	$90,000	$90,000
less salary sacrifice to super	$0	$10,000
less tax + Medicare levy	$22,732	$19,147
Net pay	**$67,268**	**$60,853**
Super calculations		
Employer super contribution (9.5%)	$8,550	$8,550
plus salary sacrifice	$0	$10,000
less contributions tax (15%)	$1,282	$2,782
Net super contribution	**$7,268**	**$15,768**

Comparison of projected super balance over 30 years



*Income tax in the example is based on the 2016/17 tax year

Super/Pension Top tips

- **Tax-deductible contributions -** Similar to Salary sacrifice except not done through your employer, contribution is added on tax return with after tax money.

- **Change Super Investment Strategy & increase investment risk -** It is possible to change investments within most if not all Super providers, if your attitude to risk can tolerate it. This is a simple immediate way to potentially increase the growth outlook for your Super investments.

  **Caution – increasing investment risk can increase volatility & lead to a lower capital value at retirement. Past performance is not guide to future performance etc!*

- **Reduce fee; Consolidate multiple Super accounts -** Always a good idea to consolidate multiple accounts and save on admin and investment fees as these eat into the investment returns.

- **Check your Super Product Disclosure Statement** to make sure you are not being charged higher fees than necessary – if more than 1% ask questions

  **Caution – ensure you do not need any insurance within the super before it is rolled over*

- **Find Lost Super –** check MyGov, use TFN. Just in case you have a super from years ago you had forgotten about.
  Currently over $20 Bn in lost super (June 2019)

- **Review Insurance within the Super -** Is it needed, is it cost effective? Income Protection is a great insurance but it receives a higher tax deduction outside of Super than inside

- **Government Co Contributions -** Low to middle income earners who make an after tax contribution - the government may add a contribution up to $500, depending on your income & contribution made. Paid once tax return is completed and generally into the Super fund.

  *Caution – remember once a contribution is in Super it is generally not accessible until a condition of release is applied, eg retirement or age 65

- **Non Concessional Contributions -** After tax payments from bank account up to $100,000 pa, if not used in previous 2 yrs can be rolled in making a total of $300,000

- **Spouse Contributions -** Where spouse A pays into Super for benefit of spouse B up to $3,000. Can claim tax offset up to $540.

- **Downsizing Contribution -** If you have lived in your home for more than 10 yrs & are over 65 it is possible to add $300,000 per person in Super, regardless if retired or working. Has to be completed within 90 days of settlement.

In retirement – ways to increase Aged Pension

- Build up Super, don't leave surplus cash/assets outside of Super, see above
- Pay down debt – reduce bank balance & increase pension. Pay off $50,000 can increase pension by $3,900 pa
- Correct asset valuations – don't over value cars, contents & share values. Update regularly to ensure max entitlements are received.
  Eg Contents $10,000 second hand value not $50,000 insured value.
- Pre-pay funeral/ purchase a funeral bond – beware limits
- Pre-pay holidays & expenses in advance
- Gift -$10,000 pa to a max of $30,000 over 5 yrs rolling period.
- Investment loans on investment not on home
- Work bonus possible to earn $300 pf pp = $15,600 pa per couple. Not counted towards income test