

Contribution caps and the Budget – what does it mean?

The new concessional contribution cap announced in the May budget were passed into law on 1 July 2009. So for the current financial year, the concessional contribution cap is now \$25,000 for those under age 50, and \$50,000 for anyone who is age 50 at any time during this financial year. The sharp end of these changes is that concessional contributions that exceed these caps in the year are effectively taxed at the top marginal rate of 46.5% (15% normal contributions tax and then excess contributions tax of 31.5%). This income tax rate normally only applies to taxable income above \$180,000.

As these caps have effectively halved, and tax penalties apply for breaching them, you may need to review your super contribution arrangements, to ensure you don't exceed these caps.

As a Defined Benefit (DB) member of ESI Super **you have a notional taxed contribution** which effectively represents the amount of the Defined Benefit contributions that count toward your concessional (before tax) contribution cap for the year.

You will be seeing changes to the investment section on our website as it is updated to make it simpler to understand and to give you more detail on your investment.

If you are a full-time employee who:

- is a DB member for the full year (and does not change employers);
- has a superannuation salary at 1 July 2009 of \$80,000;
- is paying your compulsory 5% contribution from before tax salary (i.e. 5.88%); and
- has received no additional or augmented employer contributions related to your Defined Benefit;

you will have a notional taxed contribution amount counted against your concessional cap of either \$10,560 or \$11,520 (depending on your employer) that will count towards your concessional contribution cap of \$25,000 or \$50,000. Therefore, any additional salary sacrifice contributions (including any bonuses or augmentation that may be paid into super as a concessional contribution) need to be monitored relevant to your age based cap.

These numbers change if you are making your 5% contribution from after tax salary (the notional taxed contribution will be lower).

For more information about your concessional contributions, please read the enclosed *Concessional contributions (including notional taxed contributions) for Defined Benefit members* Fact sheet.

How ESI Super can help

We have a calculator available on our website to estimate the amounts that are likely to apply against your concessional contribution cap. To use the calculator you will need the following information:

1. Superannuation salary effective as at 1 July 2009.
2. The percentage of before tax or after tax contributions you have elected to make to meet your DB obligation.
3. Any additional employer contribution that will be credited directly to your account (this does not include the employer contribution made to meet the DB obligation).
4. The percentage and/or dollar amount of any salary sacrifice amount you are making.

If you would like to speak with a financial adviser, give us a call on **1300 363 240** and we can arrange for an adviser to call you back and help you with your queries. General advice or factual information (including an estimate of the calculation) can be given over the phone based on the information provided by you. Should you wish to receive personal advice, that takes into account your own circumstances, this can also be arranged.

Stop press!

ESI is going public offer soon. More information to come in the Spring edition of *ESI Talking*.



Do you have enough super to retire comfortably?

The new contribution caps mean you may have to rethink your super savings strategy.

What do you imagine your retirement will be like? Do you dream of jet setting overseas, exploring Australia, or kicking back and enjoying a lifestyle you didn't have time for while you were working?

Whatever your ideal retirement, you will need significant income generating assets in place to fund it. The new contribution caps set by the Government may mean you can no longer leave your retirement decisions until the last minute.

Boosting your super now, by making your own voluntary contributions, means you may have more money to give you independence after you stop work. Even small, regular additional contributions will make a difference and the earlier

you start, the more you may gain from compounding interest.

Retirement research conducted by Westpac and the Association of Superannuation Funds of Australia (ASFA) for March 2009 shows that a couple needed \$50,771 a year to live comfortably in retirement. The research also shows the couple needed \$27,547 a year for a more 'modest' lifestyle in retirement (see table below for more detail). According to the Henry and Harmer review*, single retirees living alone require an income stream in the range of 64-67% of couple's income.

**A current Federal Government review into Australia's tax system and an investigation into the financial security of seniors.*

The decision to retire permanently largely depends on whether you have the financial resources available to last the rest of your life (which could be over 20 years). You can use our calculator, which is available on our website, to get an idea on how much super you need to have to retire.

Clearly, the more comfortable you want your retirement to be, the more you would have to save. You may want to think about whether your DB super alone will be sufficient for your desired lifestyle, and consider making voluntary contributions to top up your super.

Based on the ASFA / Westpac research into retirement income, a couple needs to have about \$630,000* of superannuation assets to generate income for a comfortable retirement lifestyle.

**This figure does not take inflation into account and assumes a couple owns their own home and receives average investment returns of 8% p.a. over the long term and wish to preserve their capital asset for the long term.*

If you would like help working out how much super you need to suit your desired retirement lifestyle, one of the qualified and experienced financial advisers at ESI Financial Services will be happy to assist you.

Budgets for various households and living standards

| | Modest lifestyle – single (cost per week) | Modest lifestyle – couple (cost per week) | Comfortable lifestyle – single (cost per week) | Comfortable lifestyle – couple (cost per week) |
|----------------------------------|---|---|--|--|
| Housing – ongoing only | \$70.69 | \$73.11 | \$93.91 | \$96.33 |
| Energy | \$12.99 | \$15.47 | \$14.21 | \$16.70 |
| Food | \$70.91 | \$149.24 | \$140.67 | \$198.31 |
| Clothing | \$14.60 | \$25.19 | \$30.83 | \$56.23 |
| Household goods and services | \$49.57 | \$52.50 | \$88.10 | \$93.21 |
| Health | \$13.04 | \$24.57 | \$54.92 | \$108.01 |
| Transport | \$71.51 | \$72.31 | \$109.13 | \$109.93 |
| Leisure | \$44.86 | \$74.27 | \$143.51 | \$206.04 |
| Personal care | \$26.42 | \$41.64 | \$26.42 | \$41.64 |
| Gifts and/or alcohol and tobacco | \$0 | \$0 | \$23.65 | \$47.30 |
| Total per week | \$374.60 | \$528.30 | \$725.36 | \$973.68 |
| Total per year | \$19,553 | \$27,547 | \$37,882 | \$50,771 |

The figures in each case assume that the retiree(s) own their own home. The figures relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. For more information about the Westpac / ASFA research log on to www.superannuation.asn.au/Super-Guru/default.aspx.

Annual Report goes electronic

This year the *Annual Report* will be available on our website – esisuper.com.au in early November. Check the **What's new** section for updates. We are doing our bit to be more environmentally friendly. However, if you would still like a hard copy, just give us a call and we'll send one out to you.



How can I contribute more to super?

You can top up your super to increase your retirement nest egg by making voluntary contributions including lump sums to your ESI Super account. You can also transfer your super in other funds to your ESI Super account. You may avoid paying more fees by consolidating your super. While we would like to see you increase your super contribution, you need to be aware that the Government has placed limits (also called caps) on how much you can contribute to super each financial year.

How do I make my after tax contributions?

To make a contribution to ESI Super just follow the easy steps below:

1. Go to our website esisuper.com.au.
2. Click on **Members – Super – Contribution** and **Making contributions**.
3. Scroll down to the BPAY calculator.
4. Put in your ESI Super member number (on the front page of your *Annual Statement*).

5. Use the biller code and reference number (unique to your membership).

6. Use BPAY over the phone or online with your financial institution to make your payment.

Feel free to give us a call if you need assistance.

Remember, if you are planning to contribute more to your super, you need to keep track of your payments throughout the year and keep an eye on how close they are to your caps.

Managing the downturn

Most of us have been affected by the economic downturn in one way or another, and while the bottom of the current economic cycle seems to have past, economists expect unemployment to rise further. They also predict that interest rates are more likely to increase rather than decrease. This is still a time for prudence in debt and money management. This article is intended as a practical way to help you deal with debt and daily spending decisions.

The following information is derived from education modules available in your Member Online Access via the ESI Super website.

Money saving tips for uncertain times:

- **Resist impulse buying.** Make a shopping list and eat before you shop. We tend to buy more when we are hungry.
- **Look for cheaper prices.** Check advertising for specials and shop just before closing as fresh produce is often reduced.
- **Consider taking your lunch, snacks and drinks to work.** Doing this three days a week can save you up to \$1,500 a year.

→ **Do you know how much you spend on takeaway coffee/tea?** If it's two or more cups a day, making your own could save up to another \$1,500 a year.

→ **Consider pre-paid options for your mobile phone.** This allows you to control usage and costs more effectively.

→ **When you go out for social events,** take a set amount of money with you and leave your cards at home. This allows you to control your money while you are out and not accidentally overspend by shouting the whole pub a round of drinks for example.

→ **Don't go shopping simply for the sake of something to do.** If you don't put yourself in the situation where you will be tempted to spend, it will be a whole lot easier to stick to your budget.

→ **Leave your credit card at home and not in your wallet.** You could even consider getting rid of it or using a debit card instead.

→ **Save on petrol when you can.** Fill your car on cheaper days, for most service stations, Tuesdays are the best and use your petrol discount docket. Every little bit helps!

While you are using the above tips to gain control of your daily spending, don't forget to maintain your insurance cover (have you got enough cover?) and your super contributions. These are two important things to consider for the longer term protection of your family.

→ **Insurance.** Your biggest asset is yourself and your ability to earn income. So it makes a lot of sense to be covered if illness or accidents prevent you from working. You will already have some insurance cover through ESI Super, but it's worth checking that it is enough for your circumstances. Having the right level of insurance cover can ensure that an incapacity is not aggravated by financial stress.

→ **Superannuation.** Check with your employer if you are able to make salary sacrifice contributions to super. The part of your before tax salary that you sacrifice into super is generally taxed at 15%. Income tax on your salary is calculated after these contributions are made, so your annual assessable income is less, which means you may pay less income tax.

For more great money savings tips, log on to your Member Online Access and see our education modules – esisuper.com.au, or talk to our friendly ESI Assist team.

Ask yourself before you buy:

1. Do I need it OR do I just want it?
2. Can I do without it?
3. Would I be better of spending my money in another way?



ESI helping you (A true story)

The following is a true story of how the Life Event program helped one of our members. Names have been changed to protect privacy.

Bill is a member of ESI Super whose wife Joan sadly passed away in 2008. Bill, who was left with two young children, found he needed to borrow money from a relative to pay for Joan's funeral, and he then wished to use his super to repay the money.

Because of the structure of his Defined Benefit account, he was unable to directly withdraw the funds from ESI Super. It seemed that he would have to transfer to the Defined Contribution category. He didn't want to change his account, but it appeared to be his only option.

As part of the ESI Super Life Event assistance program, ESIFS financial adviser Mark Rabius was assigned to help Bill through this difficult time. Mark and Bill found that Joan had an old super account of her own with another super fund. They determined that the insurance proceeds from this policy would be more than enough to repay the relative, enabling Bill to repay his debt and cover some other costs without changing his Defined Benefit arrangement.

Bill didn't need a financial plan. He simply needed someone knowledgeable about the challenges facing him, who could see the situation in a different way and was prepared to help. Having access to such services during a time when thinking clearly can be difficult is something that ESI Super thinks is important.

We would like to thank "Bill" for sharing his experience with us.

Life event support

As an ESI Super member, if you suffer a significant life crisis like Bill, the ESI Super Life Event program provides fully subsidised access to a financial adviser from ESI Financial Services (ESIFS) to talk about your issues, discuss options and if necessary,

provide financial advice. It's ESI Super's way of helping to look after you when you need that little extra support.

All ESIFS team members are tertiary qualified and experienced in providing strategic advice. The service is subsidised for ESI Super members and operates on a competitive fee for advice basis.

As part of its ongoing initiative to provide members with improved services, ESIFS has set up a *life event* service which focuses on helping members to understand their options and the decisions to be made during a time when they have suffered a major traumatic event such as total and permanent disablement, death of a loved one or a natural disaster such as flood and fire.

The ESIFS team understands the impact that a traumatic event can have on you and your family and are well prepared to provide direct assistance when and if such an event occurs.

Under the life event initiative, ESIFS will assign one of its in-house financial advisers to provide you with support during these times. In these special cases, this support may be provided at **no cost**.

Other areas where you can obtain expert advice are:

- Retirement planning
- Estate planning
- Personal insurance
- Complying and Term Certain Annuities
- Self-managed super funds
- Centrelink & Dept. of Veteran Affairs strategies
- Tax effective investments
- Managed funds

For more information on about getting financial advice through ESI Super, contact our friendly ESI Assist team on **1300 363 240** or visit our website – **esisuper.com.au**.



How to contact ESI Super

You can contact ESI Super by either:

Phone: 1300 363 240

Fax: (07) 3229 7523

Email: super@esisuper.com.au

Web: esisuper.com.au

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