

Super Activity 3

Years 7-10

WHAT DO I NEED TO DO ABOUT SUPER?

Fact sheet

Find out how you can actively manage your super to ensure a comfortable retirement. You can keep track of your super, access the government's co-contribution and access information to make decisions throughout your life to retirement.

GETTING STARTED

- Check that you are eligible for super by going to the ATO or MoneySmart websites.**

Refer to these websites to assist you:

www.ato.gov.au

www.moneysmart.gov.au

- Check what super fund your super contributions will be paid into.**

In many jobs, your employer is required by law to allow you to choose either the employer's nominated fund or your own preferred super fund. They must give you a **standard choice form** to choose your fund. This form is also available from the ATO website at www.ato.gov.au.

- Choose a complying fund that is best for you.**

You will usually be able to choose where you want your employer to pay your super. If you have the choice, it is important to choose a fund that is best for your situation. Make sure your super fund is a complying fund, one which complies with certain rules set by the government.

Read the **product disclosure statement** (PDS) issued by a super fund to all new members.

The product disclosure statement lists all the features and benefits of the fund, and the fees and costs they charge.

Some other factors that might influence your decision are considered in Activity 3: **How do I choose a super fund?**

- Make sure you include your tax file number (TFN) on your standard choice form.**

When you start work, your employer will give you a **tax file number** declaration form to complete. Your employer will use the completed form to pass on your TFN to the super fund they pay your super into. It isn't compulsory for you to provide your TFN to your fund, but if you don't provide it:

- ▶ your fund is liable to pay extra income tax on contributions your employer makes for you (including salary sacrificed contributions) and may take this extra money out of your super account
- ▶ your fund must not accept any member contributions and you will miss out on super co-contributions even if you're otherwise eligible.

You can check if your super fund has your TFN by looking at the statements they send you. If your statements show that your TFN is not held by your fund, you should contact them. The super fund needs to know this so that your super account receives the correct tax treatment and other benefits. This also makes it easier to keep track of your super over your lifetime.

- Check if you are receiving the correct amount of super from your employer.**

Use the [employer contributions calculator](#) on the *MoneySmart* website or the ATO's [estimate my super tool](#) on the ATO website as a guide.

If you think your employer isn't paying the correct super guarantee contributions, you can follow the steps below:

1. Check you are entitled to super guarantee before taking any further steps.
2. Use the Estimate my super tool on the ATO website to see how much super guarantee your employer should be paying. Print the report if the calculator shows you have not received the right amount of super into your fund.
3. Confirm how much super guarantee you have received by checking super fund statements, contacting your super fund, or checking your myGov account.
4. Show the report to your employer.
5. If the matter is not resolved, you can lodge an enquiry with the ATO.

Check your super statements regularly.

You should also check the statements from your super fund regularly to be sure your employer is paying the correct amount into the right fund. Try to resolve any errors with your employer or the ATO as soon as possible; the longer these issues are left hanging, the greater the risk of an unfavourable outcome for you. Make sure your super fund has your current address so they can keep in touch with you.

Investigate the benefits of the Australian government contribution.

When an eligible person makes extra (after-tax) super payments, the Australian government can make a 'co-contribution' in their super fund or retirement savings account. The amount of the government co-contribution, up to a maximum of \$500, depends on the amount they contribute and their income.

This scheme relies on information contained in your tax return and on information provided by your super fund. Find more information about government super contributions from the ATO website or the *MoneySmart* website.

Combine (consolidate) different super accounts.

Over your lifetime, you will probably work in a number of jobs, including casual and part-time jobs. If super has been paid into your various employer-nominated funds, you could end up with super in a number of accounts in various super funds. It is usually better if these amounts are combined into one, so you pay only one set of fees and costs. This means you can keep track of your super more easily and help maximise how much money you will have to live on when you retire.

Before **combining super funds**, find out if a fund will charge you to close your account with them and whether you'll lose any other benefits. Your fund may also insure you against death, illness or an accident. If you choose to leave your current fund you may lose any insurance entitlements you may have: this is especially important if you have a pre-existing medical condition. Make sure you get an appropriate level of insurance in your chosen fund. You may also consider which fund or account is suitable from a **risk/rate of return** point of view. To maximise your investment and understand the risks it may be worthwhile seeking appropriate independent professional advice.

For more information on choosing a fund go to moneysmart.gov.au and search "choosing a super fund".

Find lost and unclaimed super.

Generally super can become 'lost' if you change your job, address or name and forget to tell your super fund. The ATO has a lost member register of people who have been reported by their super funds as lost. Usually, the super fund that reports you as a lost member continues to hold onto the money.

To protect your lost super from fees, super funds may be required to transfer your money to the ATO. This is known as unclaimed super and is held by the ATO for you to claim at any time.

A myGov account allows individuals to view all their super accounts including 'Lost' and 'Unclaimed' super and consolidate by transferring their super to an existing fund account or making a direct claim for payment (where eligible).

Monitor your super account.

The level of fees charged and the *rate of return* on your funds can make a very big difference to the amount built up in your super fund when you retire.

Plan retirement.

Deciding when and how to take your superannuation is a complex decision, as there are many tax and welfare implications. You can seek advice from someone who can help, such as a financial advisor or other qualified professional.

Set up a myGov account.

Use your myGov account to:

- ▶ see a list of all your super accounts and request a transfer of your super from one account to another
- ▶ look for lost or ATO-held super as well as view all your super accounts
- ▶ request a transfer of any lost or ATO-held super into your preferred super account.

Find out more on the ATO website at: www.ato.gov.au by searching 'how to create a myGov account'.

**If you change jobs,
consider keeping the
same superannuation
account.**

Super Activity 3: What do I need to do about super?

Years 7-10

TASK 1 THE GOVERNMENT SUPER CO-CONTRIBUTION

Worksheet

YOU WILL:

- ▶ interpret information about super
- ▶ identify the costs and benefits of personal super contributions
- ▶ calculate compound interest
- ▶ describe the mutual roles of government and individuals in growing super

YOU WILL NEED:

- ▶ *Fact sheet: What do I need to do about super?*
- ▶ *Answer sheet: Task 1 –The government super co-contribution*
- ▶ *MoneySmart compound interest calculator: go to moneysmart.gov.au and search 'compound interest calculator'.*

Find out about the government super co-contribution scheme, its positives and negatives, and who is eligible.

Income thresholds

There are two co-contribution income thresholds:

- ▶ a lower threshold (\$37,697 for 2018–19)
- ▶ a higher threshold (\$52,697 for 2018–19).

If you earn \$37,697 or less (for the 2018/2019 year), the federal government pays \$0.50 (50 cents) for every dollar you contribute to your super fund in after-tax dollars, up to a maximum of \$500 a year.

For example, if you make a \$1000 non-concessional contribution and your income is less than \$37,697 (for the 2018/2019 year), then your super fund account receives a \$500 tax-free contribution from the Government. If you make a \$600 contribution, the Government pays \$300 into your super fund.

If your total income is between the two thresholds, your maximum entitlement will reduce progressively as your income rises. You will not receive any co-contribution if your income is equal to or greater than the higher threshold.

APPLY YOUR KNOWLEDGE

Use your knowledge about the government super co-contribution scheme to work out the advantages and disadvantages for Susie, Alim and the government.

Susie

When Susie was 16, she worked regularly at her part-time job in a hardware store. Susie's father was keen for her to develop the habit of saving. He suggested that Susie put \$10 each week from her wage into a super fund. Her father promised that if Susie saved regularly from 1 July so that she had \$500 by mid-June the next year, her parents would give her \$500 to contribute to her account, bringing the total to \$1,000.

Susie considered whether this was worthwhile. Susie's father explained that if she had \$1,000 in the account by the end of the tax year, the government would deposit a further \$500 into her account.

Susie decided to give it a go. She saved \$500 each financial year and her parents matched her savings. Each year she was able to obtain the maximum government super co-contribution amount. When Susie left school and took up a three-year apprenticeship with a wage of \$32,000 to \$35,000 each year, she decided to make the effort to keep adding to her super. In fact, Susie expects to have accumulated a lot of super savings (from herself, her parents and the government) within five years. By that time, Susie will decide whether she wants to continue this saving. If she doesn't, she will be able to leave her savings in the account to grow at compound interest until she retires.

1. Over five years, while working part-time then earning apprentice wages, how much super co-contribution will Susie have gained from the government if her personal contributions are over \$1,000 a year?

2. Use the compound interest calculator on the MoneySmart website (www.moneysmart.gov.au) to calculate how much the \$1500 a year super contribution will be worth in 5 years. To do this, assume the \$1500 is paid annually, interest is calculated annually and the interest rate is 8%. (note that the answer to this question and question 3 ignore the fees charged by super funds. The reality is that the money accumulated would reduce substantially over time unless more contributions are made to the fund).

3. What difference would a contribution of \$1500 a year to super make over:
 - a. 20 years _____
 - b. 30 years _____
 - c. 40 years? _____
4. What would inhibit Susie from gaining all or part of the government super co-contribution?

Complete a cost benefit analysis

5. Susie is young and her income is low. What are the costs and benefits of Susie adding personal contributions to her super over the next 5 years? Use evidence (facts and calculations) to justify your analysis.

Costs of personal contributions	Benefits of personal contributions

6. **Conclusion:** Is maximising the government super co-contribution an effective financial strategy for for Susie? Justify your conclusion.

Alim

Alim, aged 18, is studying to be a doctor at university. He lives at home with his mother, who earns a modest salary but believes that super is important. She is encouraging Alim to study hard and minimise working hours, so that he can graduate without delay and earn a good income. Therefore, he is working casually for only 10 hours per week at the university's IT department, repairing and maintaining laptops.

Alim has worked for 10 months at the university, earning \$2,400 in the last three months, and he expects to continue earning the same. Alim's mother has advised him to make voluntary contributions to super. Alim feels that he can just afford to add \$15 a week as a personal contribution to super. It's not a lot but he and his mother have seen the power of compound interest in his mother's super account over time.

7. How much government super co-contribution will Alim receive after one year of employment?
-
8. Assuming no interest was paid, what was the balance of Alim's super account after one year of employment?
-
9. **Calculate** how much Alim's small super amount (\$1170) will grow over 30 years. The super fund pays interest on Alim's balance monthly. His fund earns 8% per year. Instructions on how to calculate compound interest is shown in the *Instruction Sheet: How to calculate compound interest*. (note that the answer to this question ignores the fees charged by super funds. The reality is that the money accumulated would reduce substantially over time unless more contributions are made to the fund).

10. If Alim increased his super contribution by \$5 a week, how much government super co-contribution would Alim receive after one year of employment?
-
11. Assuming no interest was paid, what would be the balance of Alim's super account after one year of employment?
-
12. Assuming Alim pays no further superannuation into this super fund, **calculate** how much his super balance of \$1,540 will grow over 30 years. The super fund pays interest on Alim's balance monthly. His fund earns 8% per year. Instructions on how to calculate compound interest is shown in the *Instruction Sheet: How to calculate compound interest*. (note that the answer to this question ignores the fees charged by super funds. The reality is that the money accumulated would reduce substantially over time unless more contributions are made to the fund).

13. **Conclusion:** Is maximising the super co-contribution an effective financial strategy for Alim? Justify your conclusion.
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-
-

INSTRUCTION SHEET: HOW TO CALCULATE COMPOUND INTEREST

The formula for calculating compound interest is $A = P \times (1 + r)^t$

'A' is the accrued amount – that is the end amount of your investment

'P' is the principal, i.e. the starting amount

'r' is the percentage interest rate converted to a decimal rate (e.g. 2% is 0.02 or 2/100)

't' is the number of time periods (for example, 5 years or 60 months) – NOTE THAT THIS IS EXPRESSED AS A POWER

Example 1 - Annual compounding

Work out what \$2,000 will grow to over 2 years for an investment or savings that grows at 8% per annum compounding **annually**.

Imagine that the interest is paid annually (in reality the interest compounds monthly).

$$A = \$2000 (P) \times (1+0.08)^2$$

$$A = \$2,000 \times (1.08)^2$$

$$A = \$2,000 \times 1.1664$$

$$A = \$2,333$$

Example 2 - Monthly compounding

Work out what \$5,000 will grow to over 2 years for an investment or savings that grow at 8% per annum compounding **monthly**.

First you need to divide the annual interest rate by 12, which is $0.08/12 = .0067$

Second you need to calculate the number of time periods ('t') in months, which is 24.

$$A = \$5,000 \times (1+.0067)$$

$$A = \$5,000 \times (1.0067)^{24}$$

$$A = \$5,000 \times 1.1738$$

$$A = \$5,869$$

Using a scientific calculator to calculate to the power

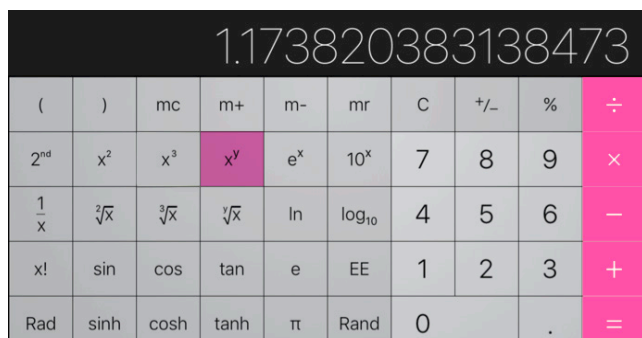
Enter the base of the expression you want to calculate. For example, if you wanted to compute 1.0067 raised to the power of 24, you would enter "1.0067."

Press the exponent key on the calculator, usually "^" or "y^x" or "x^y" depending on your calculator. The function for a calculator on a smart phone is highlighted in Figure 1.

Enter the power in your expression. Continuing the example, to compute 1.0067 raised to the power of 24, you would enter "24."

To recap:

1. Enter the number you want to calculate to the power (1.0067).
2. Press the exponent key on the calculator (highlighted in Figure 1 below)
3. Enter the power in your expression (24).
4. You may have to press equal to reveal your answer.



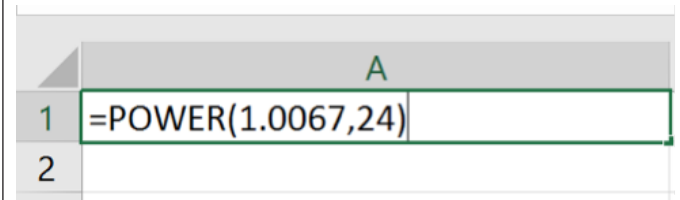
Using Excel to calculate to the power

The formula in Excel is:

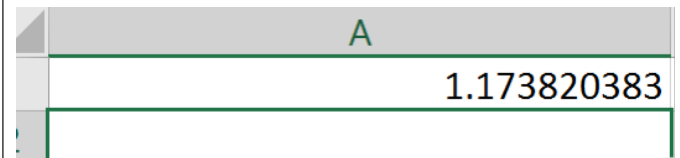
=POWER(x,y)

Where x = the number you want to calculate to the power

Where y = the power in your expression



When you have entered your data, press enter to reveal the answer.



MAKE THE CONNECTION

14. Why do you think the government chooses to contribute money to an individuals' super?

15. Write a paragraph that links the role of both the ATO and an individual in growing the individual's super. Use the word "mutual".

Super Activity 3: What do I need to do about super?

Years 7-10

TASK 2 CONSOLIDATING YOUR FUNDS

Worksheet

YOU WILL:

- ▶ consider the impact on super growth when funds are consolidated
- ▶ represent data to model scenarios for analysis and evaluation
- ▶ develop advice for young people about super

YOU WILL NEED:

- ▶ Fact sheet: What do I need to do about super?

WHAT HAPPENS WHEN YOU HAVE SUPER IN A NUMBER OF FUNDS? COMPARE HOW MULTIPLE FUNDS CAN AFFECT YOUR EARNINGS.

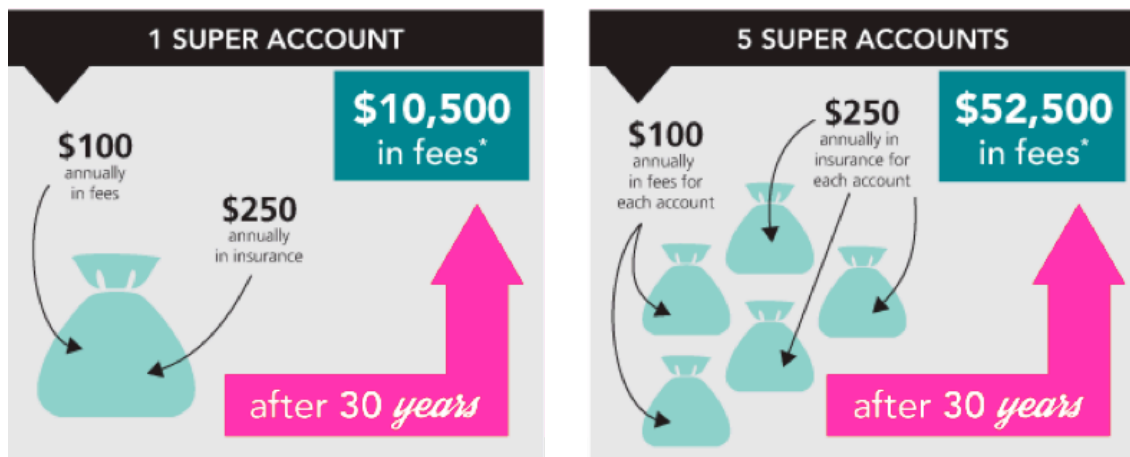
Scenario: Emily

Emily began her first fulltime job one year ago. Her annual salary is \$70,000 and her employer contributes \$127 a week to super. Before then she worked as a casual waitress and part-time singer. Emily had not thought about super until her friend showed her a graphic (Table 1) which she found on the MoneySmart website.

Table 1

The difference consolidating super accounts can make

according to the
ASIC MoneySmart superannuation calculator



Locating super information

Emily realised that she may have multiple super funds from her three jobs. She used the myGov website to locate her super funds. She then researched her contributions and fees and recorded the details in a table:

