Case Study

Don’t Leave Saving for Retirement Too Late!

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More often than not, when people begin to consider their retirement plans, they usually have a five-year time frame in mind. While five years may seem like a lot of time when thinking about your future working arrangements, given the ever reducing contribution caps over the last few years, this is not a significant amount of time to maximise your retirement savings.

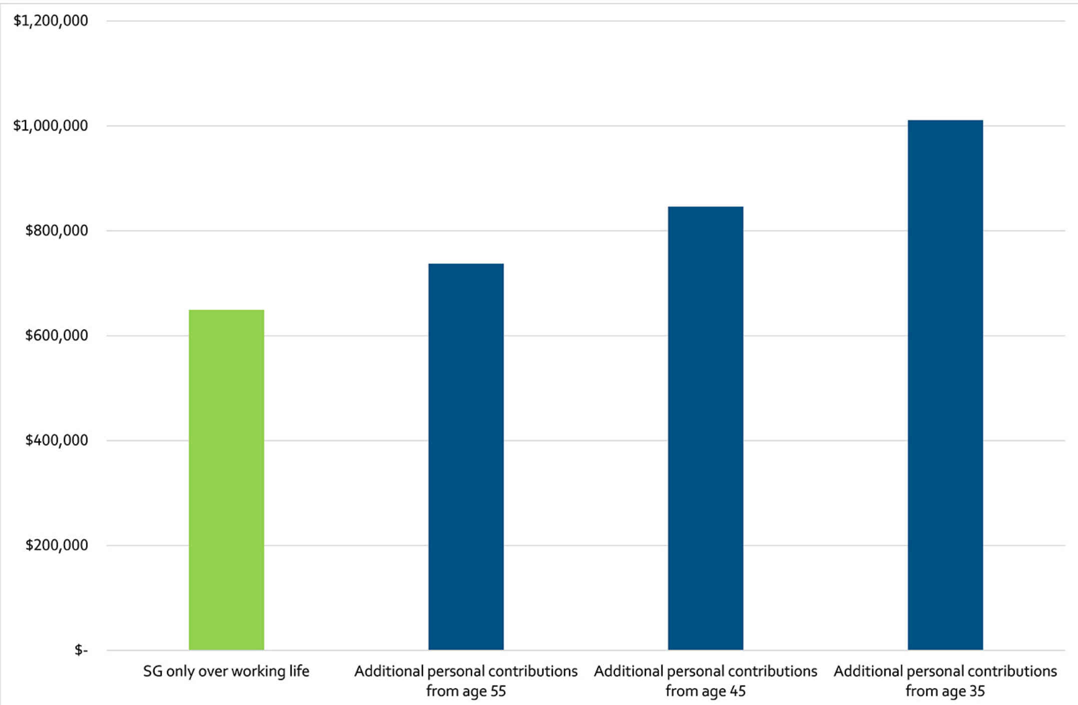
Just four years ago in the financial year beginning 1 July 2014, Australians aged 50 – 59 years could make concessional contributions up to $35,000 per year and non-concessional contributions up to $180,000 per year into superannuation – an annual contribution of up to $215,000. With these contribution caps currently $25,000 and $100,000 respectively, it is more important than ever that people start saving for retirement at an earlier age.

The chart below shows the value of investing an additional $5,000 per year as a non-concessional contribution to superannuation, under four different scenarios:

- Receiving SG (Super Guarantee) contributions only into superannuation over their working life (to age 67)
- Making an additional $5,000 contribution each year from age 55 to 67
- Making an additional $5,000 contribution each year from age 45 to 67
- Making an additional $5,000 contribution each year from age 35 to 67

In constructing the chart, we have assumed the following:

- That the savings are for an individual aged 35 earning an annual salary of $60,000 (receiving SG contributions of $5,700 p.a.)
- An opening balance of $60,000 in super at the start of the current financial year earning an investment return of 7.00% p.a. net of fees and taxes
- The table below shows the estimated balance in present dollar terms, using inflation of 2.75% p.a.



As you can see from the chart above, additional contributions into superannuation will have a significant impact on your superannuation savings at retirement, and the earlier you start, the more significant the effect.

While the exact amount of savings required at retirement is entirely dependent on the individual and their financial goals, as we have seen over the last few years with ever-changing superannuation legislation, it is not enough to wait until your twilight working years before considering your retirement savings. While retirement may seem like an eternity away for younger people with other expenses taking priority, regular superannuation contributions (no matter how small) combined with compounding investment returns have the potential to make a massive difference to your savings at retirement.