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Australian Securities & Investments Commission's financial tips & safety checks

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Your guide to the FIDO super calculator

This guide explains in detail how the calculator works, if you need extra help or want to know why it gives you certain results. It also contains some tips about choices you may be considering.

You may prefer to print this guide and refer to it as needed, instead of reading it all the way through. The guide will also make more sense if you try out various options on the calculator as you read about them.

Along the way, we also explain some important superannuation terms. For more about super, ask FIDO at www.fido.gov.au/super or download or phone for our free super booklet.

What the calculator does

The FIDO super calculator shows the effect on your superannuation of choices you may be able to make about:

- fees and insurance premiums
- extra contributions
- a break in contributions
- changing funds
- switching your investment strategy

Fees and what you contribute are usually the most important choices because they generally have the greatest impact on the amount you receive when you retire.

You can try out 'what ifs' with the calculator, but don't' rely on it to choose a fund. Consider your own circumstances. You might need expert, licensed advice on super or retirement planning.

A model, not a prediction

The calculator lets you test, or model, how your choices may affect your super over the long term.

It cannot predict your final superannuation balance which will depend on:

- your personal circumstances, including unexpected events in your life. The calculator assumes you can make steady, predictable contributions.
- unpredictable external factors you cannot control, such as investment earnings, tax and inflation. The calculator assumes those factors will operate at set, steady rates for as long as you remain in the fund.

Even if events turn out differently from what's assumed, these assumptions are essential so the calculator can show the effect of things you may be able to control, such as deciding to make extra contributions or choosing a low-fee fund.

Your type of fund?

The FIDO super calculator works for the most common type of fund, called an accumulation fund. In this type of fund, the amount of money you get when you retire (your retirement benefit) depends on how much you contribute and how much your fund earns from investing your contributions. The fund divides up its investment earnings and pays your share to your account. If the fund loses money, your share of the loss is deducted from your account.

The fees you pay in these funds should be set out in the fund's product disclosure statement.

The calculator will not work for **defined benefit funds**. In these funds, the money you get when you retire usually depends on how long you have worked for your employer and how much money you are earning from your employer when you retire. FIDO offers other calculators for retirement income stream products.

Where to find information you need for the calculator

You will need:

- your latest member statement (or annual benefit statement) and
- your fund's most up-to-date product disclosure statement or member information booklet (older booklets may be out of date).

Your fund's website may contain the latest version of these documents.

What the calculator assumes

Here we explain the calculator's assumptions. You can use them as they are, or you can change some of them. Even small changes to assumptions can make large changes to the results the calculator produces. In some cases, we suggest an acceptable range, outside which your results may prove unlikely or unrealistic.

The assumptions are described here in the same order and under the same headings as they appear on the calculator, starting on the first worksheet and then moving on to the 'Assumptions' worksheet.

Do you want to compare two funds? If you select this option, you can compare two similar funds side-by-side.

With this option, the calculator will assume both funds receive the **same** contributions and **earn the same** on their investments, so you can compare just the effect of different fees and costs.

If you don't want to make these assumptions, turn off this option and run the calculator twice. (Over the long term, it's probably safer to assume that funds that invest in similar assets in similar proportions will earn similar returns, see 'investment earnings' below.)

Your age and intentions

Intended retirement age The calculator assumes you will retire some time between ages 55 and 75. In special circumstances, such as being unable to work because of permanent invalidity or disablement, you might retire earlier. The calculator is unsuitable for calculating benefits if you retire early.

Do you intend to break from full-time work? You can select an option to break or reduce your contributions. For example, you may take a parenting break during your working life. Although the calculator allows only a single break, you can make it as short or as long as you like. If you expect to take several breaks, add them together to get a rough idea of their impact.

If you expect to work part-time during your break, you can put the percentage hours you expect to work. The calculator will then assume you receive that percentage of your regular salary, and will automatically adjust your employer **and** any extra contributions you make in line with the percentage hours you expect to work.

Your superannuation and income

Superannuation accumulated now Sometimes called your 'account balance', find this information in your latest annual member or benefit statement.

Your gross annual salary Your gross salary means your salary before tax has been deducted, and **excluding** your employer's superannuation contributions.

The calculator assumes that you will earn the same wage or salary until you retire, taking into account set rates of inflation and general rises in wages and salaries (see 'Background assumptions').

In reality, you may start on lower wages, then get promoted to better-paying jobs and later accept lower-paid work, perhaps part-time or in a less demanding full-time job.

Do you make salary sacrifice contributions? 'Salary sacrifice' simply means making extra contributions to super before tax is deducted from your pay. You can put in your salary sacrifice amounts either as a percentage of salary or as a dollar amount.

From 1 July 2007, you may not make pre-tax contributions or 'concessional contributions' that exceed $50,000 each year. This amount includes any employer contributions. (If you're over 50 years of age or turning 50 before 30 June 2012, a transitional period, ending in 2011-12, allows you to contribute up to $100,000 each year. For example, if you turn 50 on 1 January 2010, you will be able to make $100,000 of contributions in the 2010-2011 and 2011-12 financial years.) (See also Background Assumptions.)

The calculator automatically adjusts your pre-tax or concessional contributions so they ***and*** your employer's superannuation guarantee contributions won't exceed the legal limits. You get a pop-up message if this occurs. (In practice, however, it's your own responsibility to avoid exceeding the limit.)

The calculator assumes that you have negotiated with your employer to make these contributions, and that you will keep on making these contributions until you retire.

If you take a break from full time work, the calculator assumes you maintain your salary sacrifice contributions, but reduces them in proportion to the time you are employed during your break, see 'break in contributions'.)

Tips about salary sacrifice

Ensure that salary sacrifice will not reduce the superannuation guarantee contributions your employer must contribute (see 'Superannuation guarantee contributions').

Otherwise, some employers might:

- reduce their superannuation guarantee contribution by the total amount you salary sacrifice, or
- pay a lower superannuation guarantee contribution based on your 'new' salary, which has been reduced by the amount you salary sacrifice.

If your taxable income is less than about $58,000, salary sacrifice contributions may cost you more in tax when you finally leave your fund at retirement. In this case, you may find it better to make after-tax contributions and to receive co-contributions from the government.

If your pre-tax contributions exceed the cap of $50,000 each year, they will be heavily taxed.

Do you make after-tax contributions? You can regularly contribute extra money to super from your after-tax salary or wages (called 'non-concessional contributions'). Your concessional contributions may be put in either as a percentage of salary or as a dollar amount.

From 1 July 2007, you may not make after-tax contributions that exceed $150,000 each year (or alternatively $450,000 in any three year period).

The calculator automatically adjusts your after-tax or 'non-concessional contributions' so that that you won't exceed the legal limit. You will see a pop-up message if this occurs. (In practice, however, it's your own responsibility to avoid exceeding the limit.)

The calculator assumes you will keep on making these contributions until you retire, and doesn't allow for one-off contributions.

If you take a break from full time work, the calculator assumes you maintain your after-tax contributions, but reduces them in proportion with the time you are employed during your break, see 'break in contributions'.

Tips about after-tax contributions

After-tax contributions can still prove tax-effective, because you will not have to pay any contributions tax.

You may be eligible to receive a government co-contribution. If so, the co-contribution is paid automatically by the Australian Taxation Office, based on your tax return and information received from your fund.

Apply the Bring Forward rule? This is a special option if you plan to make large non-concessional contributions, say a few years before you retire.

This option over-rides the calculator's normal restrictions, and takes advantage of your legal right to bring forward 3 year's after-tax or non-concessional contributions into the first year.

Suppose you want to contribute $300,000 at age 57 before you retire at age 60. Tick this option, and enter a $100,000 contribution. Now, the calculator will assume you contribute $300,000 in the first year and then nothing in the second or third year. You get a pop-up warning message if you exceed the $450,000 limit every three years, or if you're not legally able to use this rule.

When you select this option, the calculator makes some simplifying assumptions that may not apply to you, but there are ways to work around them.

- **Aged 63 or 64?** If you plan to retire before age 65, you're allowed to contribute up to a full $450,000 under the Bring Forward rule. However, for 64 year olds, the calculator will allow only one amount of $150,000 to be contributed. For 63 year olds, only $300,000 (2 years' worth) will be allowed. To work around this, increase your account balance by up to $450,000 in the box 'your super accumulated now' and don't select the Bring Forward option. Please note you are not allowed to do this after age 65.
- **Uneven contributions?** For example, using the Bring Forward Rule, you're allowed to contribute $200,000 in year 1, $100,000 in year 2 and nothing in year 3. For simplicity, however, the calculator requires you to enter an annual amount ($100,000 p.a. in this case) and tick the "Bring Forward" box..
- **Retirement more than 3 years away?** The calculator assumes you will keep making these large contributions every three years. If that's not correct, just increase your account balance by no more than $450,000 in the box 'your super accumulated now' and don't select the Bring Forward option.

Tip about the Bring Forward rule

Generally, if you can afford it, bringing forward contributions can build your super faster because your money is invested for longer.

If you are eligible for a co-contribution, you will miss out on co-contributions in every second and third year out of three. In some cases, you may end up with a lower accumulation.

Include the co-contribution if you are eligible? If you select this option, the calculator will add the amount of 'co-contribution' you would receive from the government. There is no contributions tax on government co-contributions.

To be eligible for the co-contribution, you must contribute to your super from after-tax income, and you must receive at least 10% of your income as an employee.

The present maximum co-contribution is $1,500, and it reduces gradually to zero when your income reaches

$58,000. The government co-contribution rates are shown on the 'Assumptions' worksheet.

The calculator assumes that:

- the dollars you receive as a co-contribution amount remain unchanged and will **not** rise in line with community living standards, but
- the income levels that decide if you are eligible for the co-contribution **will** rise in line with community living standards.

Our actuaries consider these assumptions reasonable. However, co-contribution rules will depend on Government policy and Parliament.

The calculator assumes that your gross salary is the same as your taxable income (including reportable fringe benefits). If you receive fringe benefits or other income, the calculator may over-estimate the co-contribution.

Which investment option?

You can often choose how you want your money to be invested. Your choice will affect your returns and investment risk.

The calculator offers five options, four of them based broadly in line with choices commonly offered on the market, and 'other' that you can set for yourself.

When you select an option, the calculator will automatically select the appropriate earnings rate, based on advice from our actuaries, set out in the table below.

Your investment earnings affect how super grows. Generally, by investing for higher expected returns over the long term, there's also a higher risk of suffering a loss in the short term. Nobody guarantees future investment earnings.

Although you cannot control or predict future investment earnings, the calculator assumes an earnings rate to show you the effect of decisions you can control.

If you're comparing two super funds, the calculator assumes they both earn the same.

Investment option	What it roughly means	Earnings rate based on built-in assumptions*
Growth	Invests 70–80% in shares or property. Aims for higher returns over the long term but accepts a higher risk of losses in bad years. A negative annual return is not expected more frequently than once every six years.	8.5% Acceptable range 8%–9%
Balanced	Invests 60–70% in shares or property, the rest in fixed interest and cash. Aims for reasonable returns, but less than growth funds, in order to reduce risk of losses in bad years. A negative annual return is not expected more frequently than once every seven years.	8% Acceptable range 7.5%–8.5%
Capital stable	Invests 60–70% in fixed interest and cash, although some invested in shares or property. Aims to reduce risk of loss and therefore accepts a lower return over the long term. A negative annual return is not expected more frequently than once every ten years.	6% Acceptable range 5.5%–6.5%
Capital guaranteed	By law, invests 100% in deposits with Australian deposit taking institutions or in a capital guaranteed life insurance policy. Guarantees your capital and accumulated earnings cannot be reduced by losses on investments.	5.5% Acceptable range 5%–6%
Other	If you choose an alternative investment strategy, you will need to insert your own earnings rate and consider how often negative returns may be expected. Choose a rate that is reasonable over the long term for the investments you have chosen. You may need professional advice.	0% Unless you choose a rate, the calculator will use zero%

* ASIC obtained professional advice from licensed independent actuaries who consulted a variety of sources including assumptions used by industry groups, leading asset consultants and publicly available survey data about superannuation fund investment strategies. The difference between the return for 'capital stable' and 'capital guaranteed' investment reflects the cost of the guarantee.

What if you move to another fund?

If you have decided to compare two funds, you will activate a side-by-side comparison.

Is there a termination fee for leaving current fund? If you select this box, you must enter the amount transferred after fees. Ask your old fund how much this will be, because termination fees can be calculated in different ways.

Your fund's investment earnings

Your fund's investment earnings affect the growth of your super. Generally, if your fund invests for higher expected returns over the long term, there's also a higher risk of suffering a loss in the short term. Nobody guarantees future investment earnings.

Although you cannot control or predict future investment earnings, the calculator assumes an earnings rate to show you the effect of decisions you can control. (If you're comparing two funds, the calculator assumes they both earn the same, see 'do you want to compare two funds above'.)

Earning rate before management costs and tax? The calculator will automatically show the appropriate earning rate for the investment option you have chosen. You can overwrite this rate if you wish, but we suggest an 'acceptable range' for each option.

Pop-up warning about earning rates This warning appears if your earnings rate may be too high or too low compared with the ranges for 'real returns' set out on the Assumptions worksheet. ('Real returns' take into account the effects of inflation and rising living standards.) Please consider the ranges that may be suitable for your fund or investment strategy, as set out in the table above.

Your fund's fees

The calculator allows you to put in the fees and costs likely to make the greatest impact on your super. Some fees and costs may be left out. Usually, this will not make much difference, but in some cases it could, see 'Fees and costs not included in this calculator'.

You will find the numbers you need for the next five boxes in your fund's latest product disclosure statement (PDS), or possibly on its website or in its latest annual report.

To compare two funds, put your current fund's fees in the left hand section and the other fund in the right hand section.

Management cost (% of accumulation) When you first open the calculator, it shows a percentage management cost set at 0.55%. When taken together with our default '$ per year management fee', this is the rate our actuaries believe is typical for not-for-profit industry superannuation funds. Your fund may charge more or possibly less.

The management cost combines two elements that you may need to add together and which you will find in your fund's product disclosure statement:

- fees and costs for managing your fund's investments or for the particular investment strategy you have chosen. (Funds that offer various strategies may disclose simply a range of fees in one part of their product disclosure statement, but they will usually show a more precise figure for each strategy elsewhere in the document. Use the most precise fee that matches the investment strategy you have chosen.)
- fees and costs for operating or administering the fund.

If these are shown separately, add them together to arrive at the total management cost. If the second element is a flat dollar amount, use the next cell below.

The calculator assumes that the management cost is charged on average midway through the year.

Any extra $ per year management fee When you first open the calculator, it shows a fee of $52 a year, common among industry funds. Many funds may not charge a flat dollar fee each year as part of their management cost, so change this figure if needed.

The calculator assumes this fee will rise in line with community living standards. That might not actually occur, but if the assumption is wrong, it is unlikely to make a significant difference.

Contribution fee (% of contributions) If you pay this fee, which is charged on every contribution you make, the calculator will deduct it before contributions reach your fund.

Insurance premiums ($ per year) The calculator allows you to put in the yearly dollar amount you'll pay in premiums for your death, permanent disability or temporary disability insurance.

It assumes your premiums will rise in line with community living standards. That might not actually occur, but if the assumption is wrong, it is unlikely to make a significant difference.

Some funds charge premiums on a rate-for-age basis, where premiums typically increase with your age, and the amount of your cover stays constant. The calculator will not work in these cases.

Adviser service fee (% of accumulation) Applies only if you have personally agreed to pay your own adviser for extra advice. If your licensed financial adviser receives this service fee out the fund, it is assumed to be deducted before contributions reach the fund.

Tip about costs

A fund that charges higher costs has to earn a higher return just for you to come out even. When comparing funds investing in similar assets, most experts agree that higher costs do not guarantee higher returns. With this option, the calculator will assume that higher costs do not produce higher returns.

Results

Your superannuation accumulation This is your super account balance at your chosen retirement age, using all the assumptions made in the calculator. This amount will be subject to tax when you withdraw it from the fund. The calculator cannot show the amount of tax because it will depend on your personal situation.

The amount is shown in ***today's*** dollars, so you can see the impact of your decisions in the light of conditions today. You can try out different choices and what sort of difference they could make.

Tip about payout figures

Some superannuation funds may give you a projected payout figure in your annual statement that's different from the amount you see on the FIDO calculator.

The figure in your statement will not be in today's dollars. Differences may also arise because of different assumptions, or because of your fund's or your own particular circumstances. These differences may also arise with other superannuation calculators. The FIDO calculator can help you test choices but it cannot predict your final payout.

Accumulation over time The line graph shows how your accumulation grows over time, based on your choices and the calculator's assumptions. If you're comparing two funds, the red dotted line shows your accumulation in the other fund you're considering.

Final accumulation The pie chart shows the relationship between your final super accumulation and the effect of fees and insurance premiums. All funds charge fees and premiums, but their impact may vary. If you're comparing two funds, a second pie chart appears for the other fund you're considering.

Tip about impact of fees

Fees affect your superannuation in two ways:

1 they directly reduce the amount in your superannuation account; and
2 they reduce future earnings on your superannuation account.

If you could avoid fees, or just reduce them, what you saved would go into your superannuation and potentially earn more for your retirement. (The amount that is lost because of fees is sometimes described as 'foregone earnings'.)

This double effect of fees becomes greater the longer you contribute to a fund. The longer you contribute, the greater even small differences in fees can make to your retirement savings. If you contribute only for a few years, and then retire, the effect of fees could be quite small.

Background assumptions

Click on the 'Assumptions' tab at the bottom left of the screen to open the page where you can see important background assumptions that you can change.

Where indicated in this guide, these assumptions were reviewed by independent actuaries. The assumptions reflect today's conditions: they aren't forecasts or promises. You can change these assumptions to see what might happen in different circumstances. We highlight a few situations where you might change what we have assumed.

Superannuation guarantee contributions The calculator assumes that your employer contributes 9% of your gross salary or wages to superannuation, called the 'superannuation guarantee contribution'.

Usually the 9% relates to ordinary time earnings, which could include earnings for hours worked outside the standard working week if these are your normal working hours. You can adjust your 'gross salary' figure to include these earnings.

For simplicity, the calculator assumes your employer pays the full 9% on your salary, no matter how low or high.

In fact, the minimum yearly salary on which your employer must contribute 9% is $5,400, or strictly speaking $450 per month. If you are under 18 years old you must also be working full time. The maximum yearly salary on which your employer must contribute 9% is $140,960 a year, or strictly speaking, $35,240 per quarter (indexed). If your salary is above this point, your employer has to pay is only 9% of $ 140,960, not 9% of your actual salary.

You can change the 9% figure, if you know that your employer contributes more than the minimum amount, or if you are self-employed without any employer contributions.

Earning tax All funds pay tax on what they earn from investing members' money. The calculator assumes that your super fund pays an effective tax rate of 6% tax on its earnings, even though the official tax rate on superannuation fund earnings is 15%. (This is because its tax bill will usually be reduced by franked dividends from Australian shares and other tax deductions.)

You can change the assumed tax rate. An acceptable range for super funds rates can vary quite widely between about 4% and 15%. (For example the high rate could apply to funds invested only in cash). Using figures outside this range may produce unlikely or unrealistic results.

ASIC obtained professional advice about these tax rates from licensed independent actuaries. The actuaries consulted a variety of sources including assumptions used by industry groups, leading asset consultants and publicly available survey data about superannuation fund investment strategies.

Inflation Rises in the costs of living will affect the real purchasing power of your retirement savings and the real value of what your superannuation fund earns.

The calculator assumes inflation will be a steady 2.5% each year.

In the past, Australia has experienced higher and lower rates of inflation, and you can change the assumed inflation rate. An acceptable range for inflation can vary between 2% and 3%. Using figures outside this range may produce unlikely or unrealistic results.

ASIC obtained professional advice about inflation from licensed independent actuaries who consulted a variety of sources including publicly available data.

Rise in community living standards Wages and salaries have tended to grow faster than the cost of living, as our economy grows and people become more productive. The calculator assumes you will decide if your retirement income is adequate by the community standards when you retire, not by those standards today. This approach is supported by our actuaries.

The calculator assumes that community living standards will increase by 1% each year after allowing for inflation. You can change the assumed rate. Our actuaries have advised us that an acceptable range for rises in community standards can vary between 0.5% and 1.5%. Using figures outside this range may produce unlikely or unrealistic results.

ASIC obtained professional advice about living standards from licensed independent actuaries who consulted a variety of sources including publicly available data.

Tax on contributions The calculator assumes that a contributions tax of 15% will apply to all of the money your employer contributes or you contribute by salary sacrifice. You could change this if you want to, but 15% is the correct figure. The calculator assumes that tax is deducted before the money reaches the fund.

Concessional contributions limit If you exceed this limit on contributions from pre-tax earnings, you will have to pay extra tax. The limit is $50,000, indexed from the base year, but only in $5,000 increments, with fractions rounded down. (We also allow for the higher transitional limit for over 50s until 2012.)

Non-concessional contributions limit The limit is $150,000 each year (or alternatively $450,000 in any three year period), set always to be three times the concessional contributions cap. (There are some limited exceptions which the calculator does not take into account.)

Co-contribution calculations These show the current rates at which you may be eligible for government co-contributions, and the rates at which these co-contributions are paid.

Long term investment earnings The white cells control the assumed earning rates for different investment options, and indirectly when a pop-up warning about earnings rates will show on the calculator. ‘Real rate’ means the earnings rate before costs and taxes, adjusted for inflation and rises in community living standards. For example, earnings of 3.5% before costs and taxes will be a real rate of zero, assuming inflation and rising living standards also equal 3.5%.

You can change the assumed earning rates. An acceptable range for each investment option is set out on the table about investment strategies in this guide. Using figures outside this range may produce unlikely or unrealistic results.

ASIC obtained professional advice about living standards from licensed independent actuaries who consulted a variety of sources including publicly available data.

Workings

You can see all the workings laid out step-by-step by clicking the two workings tabs. The final tab, labelled ‘Zero fees’, lets you see what you may accumulate if you paid no fees or insurance premiums, and is used to produce the pie chart(s) on the front page.

Fees and costs not included in the calculator

Termination fees when you leave your fund Some funds may charge ‘termination fees’ when you leave the fund or finally retire. These fees can be calculated in different ways, and so we have not included them in the calculator.

If you’re thinking of changing funds, check your fund’s product disclosure statement to see if and when these fees apply. In some cases they might be more important than usual, for example if you selected a ‘no entry fee’ or ‘nil contribution’ fee option or an option to pay contribution fees later and you leave the fund within a few years of joining.

Buy and sell prices Some funds charge different prices for people buying into the fund than for people selling out of it, often called the ‘buy–sell spread’. This covers transaction costs and ensures that the people changing their super pay the costs, not all members. This can affect you when you join the fund, switch your investment strategy, leave the fund or withdraw part of your money.

We have left out these buy and sell prices, mainly to keep things simple but also because the difference, or ‘spread’, between buy and sell prices changes over time and is usually given only as an estimate or historical figure in the fund’s product disclosure statement.

In some cases, the buy–sell spread can be significant, say more than 1%. If the spread applies each time you contribute to the fund, you could treat the buy–sell spread as a contribution fee and increase the contribution fee by that amount.

Switching fees Some funds may charge a fee if you switch between investment options. The calculator leaves out these fees, because it assumes they will not have much impact on your accumulation. It also assumes that once you have made a choice you will stay in the same investment option for as long as you are in the fund.

Technical note The calculator is an EXCEL spreadsheet. You must 'enable macros'. If your Excel security setting is on 'high', then you may not see the dialog box asking you about this.

All the workings are password 'protected' so you can't easily mess it up.

Editorial note This Guide (v7) refers to version 7 of the FIDO super calculator.■