AON MASTER TRUST

Introduction to super

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SUPER RATINGS

SUPERRATINGS PLATINUM SUPER 2012

5 YEAR PLATINUM PERFORMANCE 2007–2012

heron PARTNERSHIP

2012 Quality Star Rating

The information in this document is general in nature. Your personal objectives, financial situation or needs were not taken into account when preparing this information. You may want to seek independent advice before making any decisions about your super. If you do not have a financial adviser but would like to be put in touch with one, call us on 1300 880 588 or email contactaon@pillar.com.au.

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WHAT IS SUPERANNUATION

Superannuation is a long-term investment with tax advantages that encourage people to fund their own retirement rather than rely on the age pension.

There are three stages of the super life cycle.

Stage 1

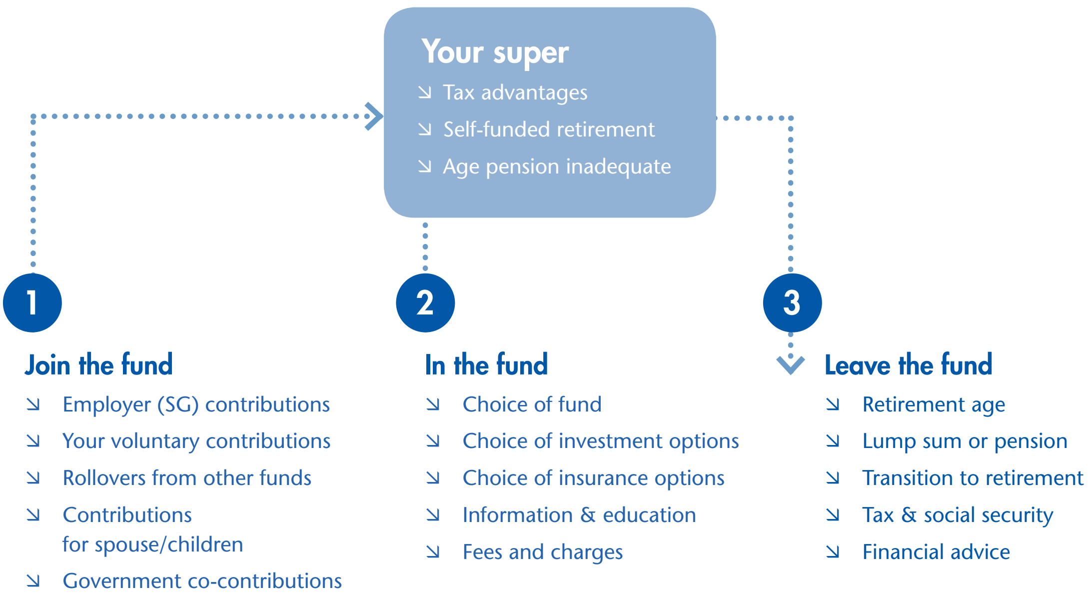
Is when you join a fund. Your employer is legally required to pay the equivalent of 9% of your salary into super, and you can top this up with your own voluntary contributions. You can also transfer or roll over money from other super funds and make contributions on behalf of your spouse and your children.

Stage 2

Of super is when you are invested in the fund. You'll probably be offered a choice of benefits and the fund will provide information that explains what they offer. Make sure you understand what these choices are and see a qualified financial adviser if you need help. You'll receive regular reports and updates from the fund, including a breakdown of the fees deducted from your account.

Stage 3

Is when you leave the fund. The government doesn't allow you to withdraw your super until retirement, which for most people is between 55 and 60. You can take the money as either a lump sum or a pension. There are many taxation and social security issues to consider when you retire so the best thing to do is to see a professional financial adviser and talk over the best strategy for your situation.



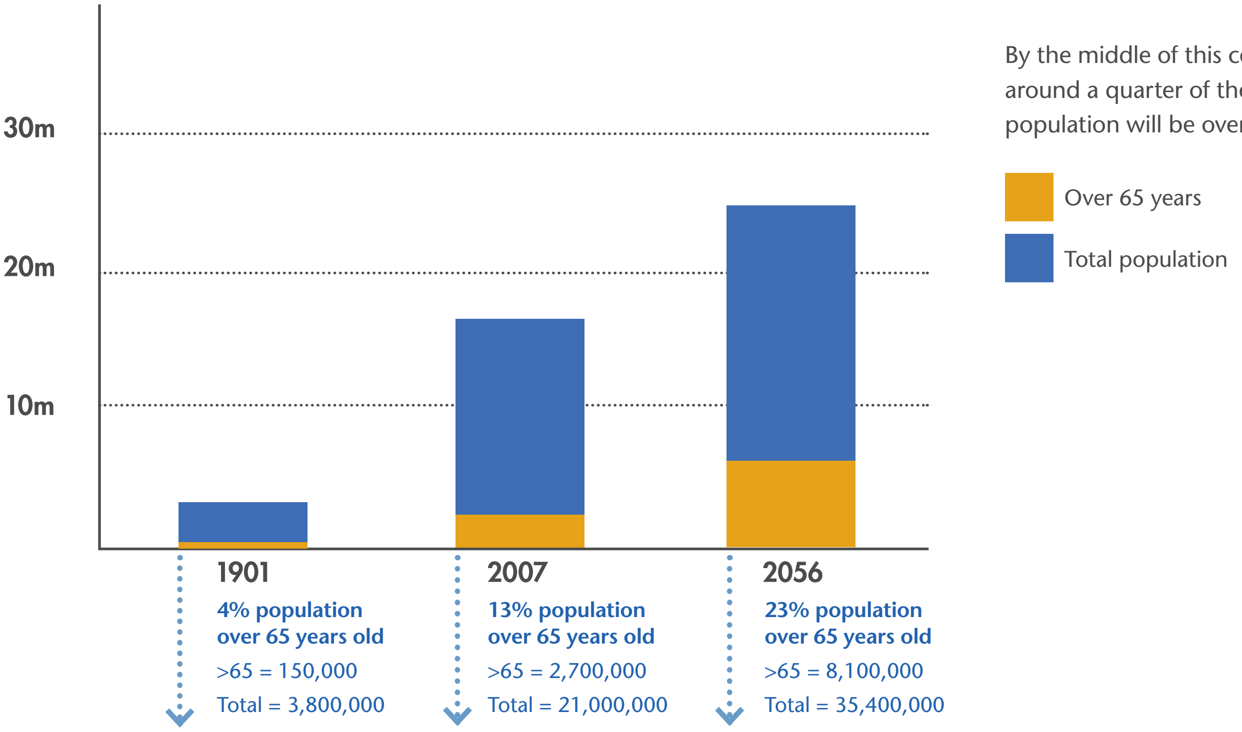
WHY WE NEED COMPULSORY SUPER

Compulsory super is the Government's answer to our ageing population.

An ageing population means less people working (and less people paying taxes) to support people in retirement.

The number of Australians over 65 has been climbing steadily and by the middle of this century, almost 25% of the population will be over 65! The Government can't afford to pay the pension to that many people, which means that your income in retirement must come from whatever you've saved while you were working.

This is where super comes in.



By the middle of this century, around a quarter of the population will be over 65.

Source: ABS Population Projections Australia 2006 to 2101 (figures rounded down to nearest 100,000)

ESTABLISH GOALS AND TIMEFRAMES

Super is just ONE part of a broader financial plan.

The first step in any financial plan is to establish goals and a timeframe. Group the goals into categories and rank them in order of importance. The timeframe for your goals should help you decide the best way to save. For example, if you're saving for a new car and you need the money soon, you might choose a bank account or a cash management trust.

On the other hand, if you're saving for longer-term goals like education or retirement, you can afford to invest more money in longer-term investments like property and shares.

	1 to 3 year short-term goals	3 to 5 year medium-term goals	Over 5 years long-term goals
Replace the car	$	$	$
Renovate the house	$	$	$
Pay school fees	$	$	$
Overseas holiday	$	$	$
Weddings for kids	$	$	$
Deposit for investment	$	$	$
Deposit for first home	$	$	$
Pay off home loan	$	$	$
Plan for retirement	$	$	$
(superannuation)	$	$	$
Total amounts to meet your goals	**$**	**$**	**$**

HOW MUCH SUPER IS ENOUGH?

Everyone's circumstances are different but there are some useful guidelines to help you decide how much super you'll need.

One general rule of thumb says that you need around two-thirds of your current salary to fund a comfortable retirement. In other words, if your current salary is $60,000, you will probably need an annual income in retirement of about $40,000 before tax.

The table gives you an idea of how much you have to contribute monthly to super to have a yearly retirement income of $40,000. For example, if you are 45 with 20 years to retirement and currently have $10,000 in superannuation, you'll need to save around $1,700 a month to fund a retirement income of $40,000.

There are many ways to calculate or estimate how much money you'll need in retirement so the best thing to do is talk to a licensed financial adviser about your personal circumstances and your income needs. You can also use the retirement income calculator on our website to get an indicative guideline.

Assumptions used in creating the table:

- Calculations based on a person with current salary of $60,000 pa looking for a benefit of approximately two-thirds of salary a year.
- Investment return of 7% pa after fees and tax.
- Salary growth 3% pa.
- Contributions paid monthly in advance, net of tax.
- Member will retire and receive payments annually in advance at age 65 with life expectancy of 16.21 years.

Current age	Years to retirement	Monthly contribution if your current super balance is				
		Nil	$10,000	$25,000	$50,000	$100,000
35	30	$1,023	$958	$861	$698	$372
40	25	$1,318	$1,249	$1,145	$972	$625
45	20	$1,754	$1,678	$1,564	$1,373	$992
50	15	$2,469	$2,380	$2,247	$2,026	$1,582
55	10	$3,874	$3,759	$3,586	$3,298	$2,723

EARLY START + GOOD RETURN = BIG DIFFERENCE

The earlier you start saving, whether it's through superannuation or some other type of investment, the easier it will be to achieve your financial goals.

Take Peter and Paul, for example.

Peter starts saving $20 a week from the age of 25. He earns 7% after tax and accumulates over $214,000 by age 65.

Paul, on the other hand, doesn't start saving until he's 35. He also saves $20 a week and earns 7% but by age 65, he only has $101,000, less than half Peter's amount.

Mary is the smartest of them all

Not only does she start early, but she also manages to earn slightly more than the others. She earns 9% from age 25 and accumulates a hefty $366,000 by age 65.

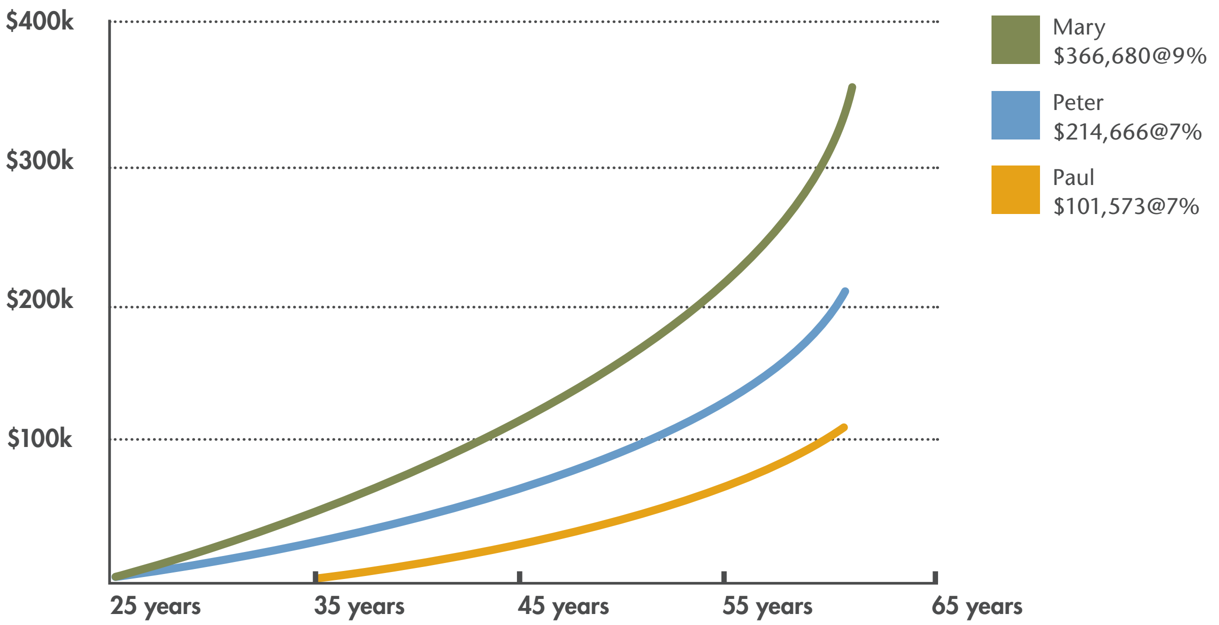
So the moral of the story is don't delay, and get the best return you can—without taking on too much risk.

Important!

- Don't delay
- Get the best return you can, without excess risk
- See the notes for assumptions used in creating this graph (below).

Assumptions used in creating the graph:

- Everyone allocated contributions of $20 (net of tax and fees) at the start of the week.
- Investment returns are net of tax and fees.
- Excludes any Government co-contributions that may apply.



TAX ADVANTAGES OF SUPER

To encourage people to save for their retirement using superannuation, the government has given superannuation certain tax advantages.

The income from your superannuation investment is taxed at a maximum of 15%. Income earned outside superannuation is taxed at your marginal tax rate which can be as much as 45% plus the 1.5% Medicare levy.

PAYG income tax rates 2011/2012 financial year	
Taxable income $	**Tax payable**
0–6,000	Nil
6,001–37,000	15% for each $1 over $6,000
37,001–80,000	$4,650 + 30c for each $1 over $37,000
80,000–180,000	$17,550 + 37c for each $1 over $80,000
180,001 +	$54,550 + 45c for each $1 over $180,000
Tax payable excludes the Medicare levy of 1.5% and the low income tax offset.	

In addition, lump sum superannuation benefits and pensions paid at or after age 60 are tax free.

Let's look at the difference this can make to your savings.

Say you had a lump sum of $25,000 to invest in either a superannuation or non-superannuation investment. Both earn a 7% return before tax. After 30 years, the superannuation investment will grow to almost $142,000.

On the other hand, the best you can expect from the non-super investment is around $137,000, and that's if you're on the lowest marginal tax rate of 16.5% (including the Medicare levy). As your marginal tax rate increases, the value of your investment decreases to around HALF the amount available in super if you're on the top marginal tax rate!

Value of $25,000 invested for 30 years @ 7% pa before tax					
Super		**Non-super**			
Year	Tax rate on earnings	Marginal tax rate on earnings			
	15%	16.5%	31.5%	38.5%	46.5%
30	$141,569	$137,420	$101,896	$88,531	$75,328
Marginal tax rates include the Medicare levy of 1.5%.					

INCENTIVES TO SAVE THROUGH SUPER

There are a number of good reasons to invest in superannuation quite aside from the lower tax on the fund's earnings.

For example:

Salary sacrifice

You may be able to make salary sacrifice or pre-tax contributions to superannuation. This reduces your taxable pay, meaning more take-home pay for the same amount going into super when compared with making after-tax contributions.

Insurance cover

Most super funds offer insurance benefits and the premiums may be better than those available outside super.

Government co-contribution

You may qualify for the Government's co-contribution, whereby the Government contributes $1 for every $1 you contribute from your after-tax pay, up to a maximum of $1,000.

Spouse contributions

You can also make contributions on behalf of your spouse. Not only does this boost the amount you are jointly saving for retirement, but you may also reduce your tax bill by qualifying for a rebate.

Tax-free benefits

Lump sum superannuation and pension benefits taken at or over age 60 are tax-free.

Talk to a qualified financial adviser about superannuation strategies that are appropriate for your particular situation.

What	How it works	Incentive
Salary sacrifice	Employer makes contributions to super from before-tax pay	More take-home pay, but same amount into super as with after-tax contributions.
Insurance	Most funds offer death, TPD and income protection	Premiums may be discounted and payable from pre-tax dollars
Co-contribution	Government may match $1,000 member contributions with $1,000 co-contribution	More money invested in your super fund
Spouse contributions	Make payments into a separate account on behalf of spouse	An 18% rebate may apply
Tax-free lump sum and pension benefits	Tax-free from age 60	More money for your retirement

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