

Reducing Risk by Improving Your Retirement Savings



Investors structuring their retirement plans tend to be concerned about two major issues, namely:

- **Investment Risk** – the risk that their investment portfolio will suffer significant losses due to a downturn in the financial markets, leaving them with reduced savings.
- **Longevity Risk** – the risk that their savings will run out prior to their death leaving them in the position of having insufficient income to meet their living expenses and having to rely on the age pension.

The global financial crisis has highlighted the reality of these risks.

The following case study considers the option of utilising an investment with a guaranteed fixed rate of return, such as Abacus Diversified Income Fund II (ADIFII), as part of a superannuation portfolio to address these concerns.

Case Study

Melissa is 56 years old and plans to retire in 5 - 7 years. She has a self managed super fund and is keen to boost her super savings, but also wants to maintain her after tax income level to continue her current lifestyle. Currently her only contribution to super is \$6,300 pa that her employer pays under the superannuation guarantee (SG) scheme.

Melissa has the choice to continue with her SG contributions only or, because she is over 55 years of age, she can adopt a transition to retirement (TTR) strategy and commence a pension whilst still working. Under the TTR strategy, as she would be receiving pension payments, she could afford to salary sacrifice more out of her current salary into superannuation without reducing her overall after tax income – as shown in the table below:

● Salary:	\$70,000
● Current super balance:	\$400,000
Investment Assumptions	
● Shares:	
● Income:	3% pa
● Growth:	7% pa
● Total:	10% pa
● Franking Level:	50%
● Fixed Rate Property – ADIFII	
● Distributions:	8% pa
● Growth:	2% pa
● Total:	10% pa
● Investment Period:	7 years

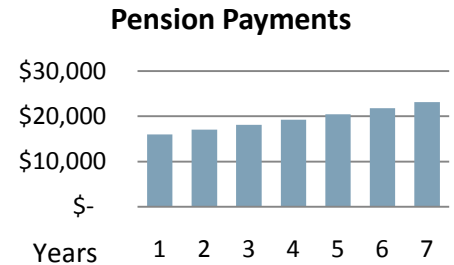
	No TTR Strategy	With TTR Strategy
Salary	\$70,000	\$70,000
Salary Sacrifice	Nil	\$19,500
Net Salary	\$70,000	\$50,500
Account Based Pension	Nil	\$16,000
Taxable Income	\$70,000	\$66,500
Tax Payable (after offsets)	\$15,900	\$12,398
Net Income	\$54,100	\$54,102

In addition to Melissa's SG contributions, she makes concessional contributions of \$19,500 pa. However, she receives a pension payment from her retirement savings of \$16,000 pa. Due to the different tax treatment of the pension payment which attracts a 15% tax offset, the total net income for Melissa remains the same.

Melissa's current superannuation account balance of \$400,000 is rolled into an account based pension, with \$200,000 invested in a direct property fund such as ADIFII which has a guaranteed 8% pa fixed rate distribution. This will provide the income from which to pay the pension. The remaining \$200,000 is invested into a share fund, allowing the investment to grow, thereby boosting Melissa's retirement savings. For comparison purposes, it is assumed that Melissa's current superannuation fund is totally invested in shares. Assume that all share investments return 7% growth and 3% income (total 10%) pa and that for comparability the ADIFII property fund will return income of 8% and growth of 2% (total 10%) pa.

The table below shows that Melissa will improve her retirement savings under the TTR strategy by approx. \$8,000 without any reduction in her after tax income during the 7 year investment period.

	No TTR Strategy	With TTR Strategy
Account Based Pension Balance	Nil	\$615,825
Accumulation Fund Balance	\$841,290	\$233,457
Total Retirement Savings	\$841,290	\$849,282



In addition, as can be seen from the Pension Payments chart, Melissa also receives approx. \$24,000 in additional pension payments over the 7 year period as the minimum pension payment must be 4% of the account balance. If Melissa were to reinvest these additional pension payments back into super, her retirement savings would improve even further. Melissa's total financial benefit from the TTR strategy is approximately \$32,000 without having to reduce her net income.

This strategy will achieve Melissa's objectives of both maintaining her after tax income level and boosting her retirement savings. The increased retirement savings amount will assist in reducing longevity risk, while an investment with a guaranteed fixed rate of return should assist in reducing investment risk.

The Solution

Abacus Diversified Income Fund II Invest with Confidence



A fund that delivers...

- A minimum **8%** pa yield
- with automatic CPI indexation
- and 100% tax deferral in FY2010 and FY2011
- with capital preservation and the potential for capital growth
- with no management fees until 110% of capital is returned
- All underpinned by property assets and underwritten by Abacus Property Group



Disclaimer: The information in this document is general only. Before a person makes an investment decision on the basis of this information, they should determine for themselves or obtain professional advice as to whether this information is appropriate for their particular needs, investment objectives and financial situation.

An offer document for Abacus Diversified Income Fund II dated 24 December 2009 is available from www.abacusproperty.com.au. Anyone considering an investment in Abacus Diversified Income Fund II should consider the offer document in deciding whether to acquire Abacus Diversified Income Fund II securities. Applications can only be accepted for this investment on the application form attached to the offer document. Issuer: Abacus Funds Management Limited ACN 007 415 590; AFSL: 227819.