SUPERANNUATION GETTING THE FACTS

For many people, super is one of the best ways to grow your wealth, as it provides significant tax concessions to help you save for retirement.

What is super?
Superannuation is a specialised type of investment designed to help you accumulate a significant level of savings for your retirement.

To encourage you to save for retirement, the Government provides various tax concessions for super investments. For most people, these tax concessions make saving through super more tax-effective than saving outside it, which means their savings may grow faster.

In return for the tax concessions, the Government restricts when and how you can access your super – generally you need to wait until you retire after reaching what is known as your 'preservation age'.

Why is super important?
Australians now have a higher life expectancy than ever before. Current figures show that on reaching the age of 60, the average man will live for another 23 years and the average woman another 26 years.[1]

It is unlikely that the government Age Pension alone will give you the financial freedom you want for the 20 or more years you are likely to spend in retirement. The Age Pension is designed to provide a basic income, but most people want a lot more from their retirement years including overseas travel, dining out, spending more time with their families and enjoying a more relaxed lifestyle.

Growing your super
There are several different types of super contributions; however these can be divided into two main categories:

- concessional (pre-tax) contributions
- non-concessional (after-tax) contributions.

If you are employed, your employer will generally contribute 9.5% of your salary into super for you (known as Super Guarantee or SG contributions).[2]

Proposed Changes
In the 2016 Federal Budget, the following changes to contributions caps were proposed:

- Pre-tax (concessional contributions) cap reducing to $25,000 from 1 July 2017, regardless of age.

After-tax (non-concessional contributions) cap reducing from $180,000 to $100,000, and no more after tax contributions being allowed once your total super balance reaches $1.6 million, from 1 July 2017. Your employer may also agree to 'salary sacrifice'. This is where you agree to give up some of your pre-tax salary in exchange for additional employer contributions into super. You can also make personal contributions to your own super fund (as well as spouse contributions) from your after-tax salary, but these do not attract the lower tax rate of 15%.

Who can contribute to a super fund?
Contributions to a super fund can be made by:

- employers making compulsory SG contributions of 9.5%[2] of earnings for most employees
- employers may also make additional contributions, including under salary sacrifice arrangements
- employees making additional after-tax contributions to a fund of their choice
- a self-employed person
- a spouse contributing to their partner's super fund
- a third party (e.g. relative other than a spouse)
- the Federal Government (government co-contribution or low income super contribution).

If you are under age 65, there is no restriction on your ability to contribute to superannuation. However, those aged 65 to 74[3] will need to satisfy the 'work test' (i.e. be gainfully employed for at least 40 hours during a consecutive 30 day period in the financial year to which the contribution relates). Once aged 75, voluntary super contributions can no longer be made, even if you continue to work.

The good news is that since 1 July 2013, there is no longer a SG upper age limit - which means employers need to make SG payments for all eligible employees, including those aged 70 years or over.

What types of super funds are there?
There are four main types of super funds:

Corporate funds
These are funds that are set up by an employer with a financial institution for their employees and often provide group discounts and special member benefits.

Industry funds
Some of these are open to everyone but if you work in a particular industry or under an industrial award your employer may contribute your SG and other super into an industry fund. These funds often have a limited number of investment options and are usually run by employer associations and unions.

Personal or retail funds
Retail funds are available to all individuals. They often have a large number of investment options which can be tailored to individual needs. These funds are run by financial institutions.

Self-managed super funds (SMSFs)
These are often referred to as 'do it yourself' funds. The trustees/members manage their own super investments. They are responsible for the investment strategy, operation, administration and compliance of the fund.

Your financial adviser can outline the advantages of each and help you decide which type of fund is best for you.

What can super funds invest in?
Superannuation funds hold your money and invest it in different asset classes depending on the type of option you selected when you opened your super account. For example, if you selected a high growth option, your money will primarily be invested in Australian and global shares, with a smaller allocation in low-risk investments such as cash. The mix of investments that is appropriate to your needs will depend on your investment goals, your investment time frame and your attitude towards risk. If you have not selected which investment option you would prefer often a 'default' investment is allocated by the super fund.

Is there a limit to the amount of super you can save?
When considering any super strategy, it's important to assess how much you are contributing to super in any one year. The Government has set annual limits – known as contributions caps.

The annual contributions caps as of 1 July 2016 are:

- $30,000 per financial year (indexed) for pre-tax (concessional) contributions if aged under 49 at 30 June 2016, or $35,000 (non-indexed) if aged 49 or over at 30 June 2016.
- $180,000 pa for after-tax (non-concessional) contributions or $540,000 over a three-year period if you are under 65 any time during the financial year you make the contribution.

Where you make contributions that exceed these contributions caps, additional tax may apply.[4]

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How is super taxed?
Compared to other types of investments, super may be a tax-effective investment over the long term. If you make pre-tax (concessional) contributions to super, they will generally attract a contributions tax of just 15%.

On 1 July 2012, the Government introduced the low income super contribution. This means the Government will put up to $500 extra into your super each year if you earn up to $37,000 pa and have concessional contributions for the year. Best of all, the payment will happen automatically as the Australian Taxation Office (ATO) will work out your eligibility from the tax file number lodged with your super fund. Note that the low income super contribution will no longer apply from 1 July 2017.[5]

Personal contributions made from your after-tax salary will not be taxed when they are contributed or withdrawn. The income earned by your super fund is taxed at a maximum rate of 15%, which could be lower than your marginal rate. The amount of tax you pay on your super when you withdraw will depend on your age and whether you take the money as a lump sum or as an income stream, such as an allocated pension or annuity. All super can be withdrawn tax-free if you are aged 60 or over, whether you take it as a lump sum or as an income stream.[6] If you begin withdrawing your super before you turn 60, you may have to pay tax on it, although part of your super may be tax-free.

When can you access your super?
The Government places restrictions on when you can withdraw your super – known as 'preservation rules'. These rules ensure your super balance is locked away and continues to grow until you retire or meet a condition of release. This may include reaching your preservation age and choosing to retire, turning 65 or suffering from a terminal medical condition.

Your preservation age will be between 56 and 60 years if you were born after 1 July 1960, depending on your date of birth. You can find out what your preservation age is by visiting ato.gov.au or speaking to your financial adviser.

Things to consider:

- Super is one of the largest investments you will ever make in your lifetime – including your home.
- The tax concessions can make it a great way to save for your retirement.
- Super regulations are changing constantly so it is important to get professional financial advice to plan for a better and more secure lifestyle in retirement.

1 Source: Australian Government Actuary. Australian Life Tables 2010-12.

2 The SG rate is 9.5% until end of financial year 2020/21. After that it will increase gradually each financial year by 0.5% until it reaches 12% on 1 July 2025.

3 However, spouse contributions can no longer be made once the receiving spouse has reached age 70.

4 Interest charges may also apply to the amount of tax payable to cater for timing differences on when the tax is payable.

5 The government has proposed the introduction of a Low Income Superannuation Tax Offset from 1 July 2017 which will operate in a similar manner to the low income super contribution.

6 Applies to taxed funds only i.e. does not apply to untaxed funds such as the Commonwealth Government Sector Super Scheme.

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