

Investing in your future

Superannuation in plain English

What is superannuation?

Superannuation, or 'super', is a way to save money for your future. It is important to understand how much super you'll need, and how to best manage the money for your retirement.

Through super you can hold a wide range of investments such as shares, property and cash.

Super is attractive because it receives favourable tax treatment, both when you are working and once you have retired. The government offers these tax savings to encourage you to build your super assets.

Employers must pay super contributions on behalf of their employees. You can also choose to add money into super out of your own pocket. If you are self-employed, you can choose whether to contribute to superannuation.



The tax benefits of super include:

- Contributions made to super may attract a tax deduction, Government co-contribution or tax offset.
- Investment earnings are taxed at a maximum of 15%, rather than your marginal tax rate of up to 46.5%. Capital gains are taxed at a maximum rate of 15%.
- Your super benefit can be paid as a tax-free pension or lump sum when you reach 60 and satisfy the criteria to access your funds.

How much super will you need?

The amount of money you will need in retirement varies from person to person, and depends on:

- the kind of lifestyle you want
- other income options in retirement (such as part-time work or payments from other investments) that will supplement your super, and
- the age at which you would like to retire.

The sooner, the better

If you were to contribute just \$25 a week into your super (after tax) for the next 30 years, your super account could end up \$66,000* better off at retirement than someone who relies solely on their employer's minimum contributions. That's more than enough to cover a year's worth of retirement.

*The projections in this example are based on various assumptions, including but not limited to: Result shown in today's dollars, marginal tax rate of 34%, earnings rate of 7% p.a after tax, inflation of 2.5%, no change in tax rates, no indexation of salary, no tax offsets taken into account, no ongoing administrative fees included, does not take into account end benefit tax.

How can you invest in superannuation?

You invest into super by contributing money into a super fund. Contributions can be made by you, your spouse, or your employer. There is a wide range of super funds to suit your individual needs, and we can help determine which one is right for you.

Employer contributions

If you are an employee, your employer must pay superannuation contributions on your behalf. These contributions are called 'superannuation guarantee', and are compulsory for most employees.

If you are eligible for superannuation guarantee, your employer's compulsory contributions must be equivalent to at least 9.25% of your gross salary. For example, if you earn \$40,000 a year, your employer must put at least \$3,700 a year – or \$925 per quarter – into your superannuation account. Some employers may contribute more to your superannuation, depending on the terms of your employment.

If you are self-employed, you do not receive superannuation guarantee contributions but you may be eligible to claim a tax deduction for personal contributions.

Personal contributions

You can add your own money to your employer's contributions to increase your superannuation savings through 'salary sacrifice'. The contribution is made by your employer who pays part of your salary to your super fund, instead of paying it to you. You tell your employer how much you want to sacrifice and choose to take less salary.

The amount you elect to sacrifice to super comes off your gross salary, and may result in a tax saving. This tax saving comes about because, for many people, the tax saved on the forgone salary exceeds the tax that is paid when the equivalent amount is contributed to superannuation.

You can also choose to make personal contributions to your super from your after-tax income, which may even attract a Government co-contribution, depending on how much you earn.

It is also possible to contribute to your spouse or partner's superannuation. This type of contribution may entitle you to a tax offset, depending on how much your spouse earns.



How are super contributions taxed?

Contributions are generally broken down into two categories:

1. Tax-deductible, also known as concessional contributions. Generally speaking, tax of 15% will be deducted from the contribution as it enters the fund. Individuals who have income and concessional contributions (including SG, salary sacrifice, personal deductible etc) exceeding a combined \$300,000 annual threshold will generally have to pay an additional 15% tax on their concessional contributions. This includes employer contributions and any contributions for which you can claim a tax deduction.
2. Non tax-deductible, known as non-concessional contributions. No tax is deducted from the contribution upon entry to the fund, provided that your contributions are within specified limits.

The amount of all tax-deductible contributions that can be made in the 2013/14 financial year depends on your age. If you were:

- Under age 59 at the end of the 2012/13 financial year: the cap is \$25,000
- Age 59 or over at the end of the 2012/13 financial year: the cap is \$35,000

Concessional contributions over this cap will be taxed at your marginal tax rate (plus an interest charge, calculated by the ATO). The amount of all non tax-deductible contributions that can be made to super in any one year is \$150,00.

However, if you are under 65 years of age, this can be averaged over three years to allow for a contribution of up to \$450,000.

When can you access your super?

Generally, you can only access your super when you permanently retire from the workforce, and also reach a minimum age set by law, called your 'preservation age'. Other conditions of release apply, for example reaching age 65.

Can you access your super and continue to work?

If you have reached your preservation age, your fund can let you draw on your superannuation without having to retire permanently from the workforce. This means you could continue working part-time and use some of your superannuation to supplement your income,

instead of leaving the workforce altogether.

If you choose to keep working, you will have to receive your superannuation as a particular type of pension. These pensions, known as 'non-commutable' pensions, provide you with a regular payment and cannot be cashed as a lump sum.

However, if you select a non-commutable allocated pension, you will be allowed to take a lump sum once you retire or reach 65 years of age. You can also stop the pension and put your benefits back into your superannuation fund (for example, if you decide to go back to full-time work).

Super withdrawals

Once you can access your super benefits, you need to consider the tax consequences associated with accessing your money.

The amount of tax you pay depends on your age at the time of the withdrawal, the amount you take out and the super component from which the withdrawal is taken.

Managing your own super fund

A self-managed superannuation fund (SMSF) has the same purpose as other super funds – to provide retirement benefits for its members.

How is an SMSF different?

The main difference between a and other types of super funds is the control of the fund. All super funds are controlled by a trustee, but in the case of industry funds, employer funds or personal funds, the trustee is an institution or large entity, such as a company. With an SMSF, the trustees are the members of the fund.

Perhaps the most influential difference with an SMSF is that you have greater control over the investment of your super savings. This is because you are making the investment decisions.

Would an SMSF suit you?

An SMSF is not for everyone. It provides additional control to its members, but it is important to remember that with the additional control comes added responsibility. An SMSF is only appropriate if you have the time, the desire, and the expertise to manage your super affairs correctly.

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