Superannuation
what you need to know

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 rules provide 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 rules restrict 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 many 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.

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 Super Guarantee (SG) and other super into an industry fund. These funds can have a limited number of investment options in some cases 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.

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.

Concessional contributions

Concessional contributions are those that are generally taxed concessionally at just 15% (rather than your marginal tax rate) and include:

- Compulsory employer contributions, for example Super Guarantee contributions which generally involves your employer contributing 9.5% of your salary to super for you[2].
- Voluntary employer contributions, for example salary sacrifice contributions where you agree with your employer to give up some of your

future pre-tax salary in return for extra employer contributions.

- Personal contributions for which you claim an income tax-deduction[3].

Non-concessional contributions

Non-concessional contributions are those made from money that has already been taxed at your marginal tax rate and include:

- Personal contributions for which you do not claim a tax deduction
- Eligible contributions made by your spouse into your super account.

Are there limits to how much I can contribute?

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, and additional tax may apply where you exceed the caps[4].

The contributions caps for the 2016-17 financial year are:

- $30,000 (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 for after-tax (non-concessional) contributions or $540,000 over a three-year bring forward period if you are under 65 any time during the financial year you make the contribution.

Contributions caps change substantially from 1 July 2017, as follows:

- The pre-tax (concessional) contributions cap reduces to $25,000, regardless of age.
- The after-tax (non-concessional) contributions cap reduces from $180,000 to $100,000. The three year bring forward will still be available for eligible people but will reduce to $300,000. In addition:
    - Your non-concessional cap reduces to Nil once your total super balance (just before the start of the year) is $1.6 million or more.
    - The cap you have available under the bring forward rule will reduce once your total super balance (just before the start of the year) is $1.4 million or more.
    - If you trigger a bring forward rule in 2015-16 or 2016-17 but do not use all of your cap by 30 June 2017, transitional rules will reduce the remaining cap you have available.

Am I eligible to make super contributions?

If you are under age 65, there is no restriction on your ability to contribute to superannuation. However, those aged 65 to 74[5] 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[5].

Compulsory contributions (e.g. Super Guarantee) can be made at any time regardless of your age.

Is there a limit to the amount of super you can save?

While contributions caps limit the level of contributions you can make to super each year before additional tax applies, there is no limit to the amount of superannuation you can accumulate through your working life.

However, from 1 July 2017, there is a 'transfer balance cap' of $1.6 million on how much of your superannuation you can use in retirement to commence retirement phase income streams (earnings on assets supporting these income streams are tax free). Any superannuation above your transfer balance cap can remain in the accumulation phase of super, or be withdrawn from the super system.

How is super taxed?[6]

Compared to other types of investments, super may be a tax-effective investment over the long term. Depending on your situation, tax may apply when you contribute, on investment earnings in your fund, and when you withdraw benefits from super.

Contributions

If you make pre-tax (concessional) contributions to super, they will generally attract a contributions tax of just 15%[7]. A government low income super tax offset[8] of up to $500 extra into your super each year applies if you earn up to $37,000 pa and have made concessional contributions in 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.

After tax contributions are not taxed when received by your fund as they have already been subject to income tax in your hands.

Contributions that exceed your caps may be subject to additional tax[4].

Investment earnings

While in accumulation phase, earnings on the investments in your super fund are taxed at a maximum rate of 15%, which could be lower than your marginal tax rate.

If you commence a retirement phase income stream from your super in the future, earnings on the investments in your income stream are tax-free.[9]

Withdrawals

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 account based 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. If you begin withdrawing your super before you turn 60, you may have to pay tax on the amount you withdraw, 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 meet an eligible condition of release. Conditions of release include:

- Permanently retiring after reaching your preservation age
- Ceasing a gainful employment arrangement after age 60
- Reaching age 65
- Death
- Becoming permanently incapacitated or terminally ill
- Commencing a pre-retirement pension upon reaching your preservation age.

Your preservation age will be between 55 and 60, 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
- 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 Prior to 1 July 2017, in order to make a personal tax-deducible contribution, you must have not been an employee during the year or have less than 10% of your total income attributable to employment. From 1 July 2017, this eligibility test is removed so that all eligible contributors can make personal tax-deductible contributions to super.

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

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

6 The tax rules discussed in this fact file apply to taxed funds only and do not apply to untaxed funds such as the Commonwealth Government Sector Super Scheme.

7 If your total income (including your concessional contributions) exceeds $250,000, you will need to pay an additional 15% tax on part or all of your concessional contributions. Prior to 1 July 2017, this income threshold is $300,000.

8 Prior to 1 July 2017, a low income super contribution of up to $500 applies in place of the low income super tax offset.

9 Transition to retirement income streams are subject to 15% tax on earnings

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Speak to us for more information

If you have any questions, please speak to your Red Diamond Wealth Pty Ltd Financial Adviser.

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