goldhurst
WEALTH MANAGEMENT

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.

Superannuation 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 retirement savings.

Employers must typically pay superannuation contributions on behalf of their employees. You can also choose to add money into superannuation 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 47%. 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 $20 a week into your super (after tax) for the next 30 years, your super account could end up over $50,000* better off at retirement than someone who relies solely on their employer's minimum contributions. For many people that's more than enough to cover a year's worth of retirement.

* The projections in this example have been developed using the AMP MySuper Simulator and based on various assumptions including but not limited to: Individual aged 35 earning $50,000 p.a., moderately aggressive investment mix, result shown in today's dollars.

How can you invest in superannuation?

If you are an employee, your employer must typically pay superannuation contributions on your behalf.

These contributions are called 'superannuation guarantee' (SG), and are compulsory for most employees.

If you are eligible for superannuation guarantee, your employer's compulsory contributions must be equivalent to at least 9.50% of your gross salary. For example, if you earn $40,000 a year, your employer must put at least $3,800 a year – or $950 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 can claim a tax deduction for personal contributions.

Personal contributions

You can add your own pre-tax 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.

If your employer doesn't offer salary sacrifice or you are self-employed you can still make personal contributions to super and claim a tax deduction. The contributions are then treated as before tax (concessional) contributions.

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 typically 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 $250,000 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 claim a tax deduction.

2. Non tax-deductible (or 'after tax'), 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 2018-19 financial year (without penalty) is $25,000.

Concessional contributions over this cap will be taxed at your marginal tax rate less a 15% tax offset, plus an excess contributions charge (and interest charge, calculated by the ATO).

The amount of all non tax deductible contributions that can be made without penalty to super in any one year is $100,000. However, if you are under 65 years of age, two years' worth of contributions can be brought forward to allow for a contribution of up to $300,000. Non tax deductible contributions can only be made provided that the person's total super balance (ie what you have in accumulation and pension phase) does not exceed $1.6m – as measured on 30 June of the previous financial year.

When making contributions to your super fund, keep in mind that you can only transfer a maximum of $1.6 million into pension phase. Additional amounts will need to stay in an accumulation account or be withdrawn from super.

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 'transition to retirement pensions', or TRIPS, provide you with a regular payment and cannot be cashed as a lump sum.

However, if you select a TRIPallocated 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 are eligible to access the money in your super fund, you need to consider the tax consequences.

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?

Perhaps the main difference between SMSFs 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 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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