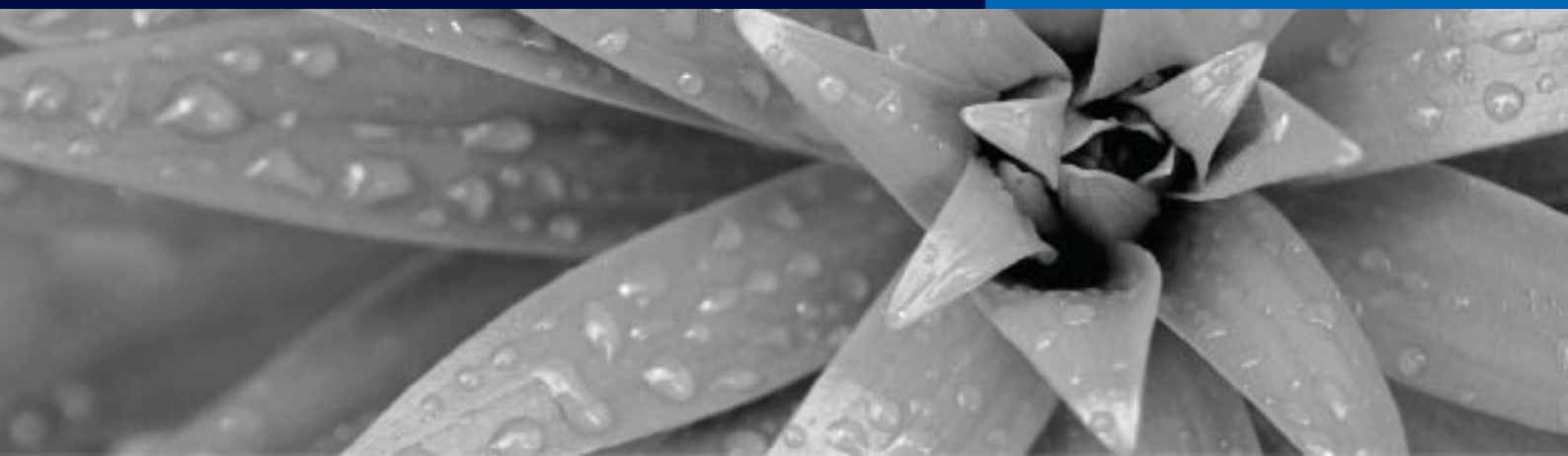


# Investing in your future

## 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 super assets.

Employers must 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 superannuation include:

- Contributions made to super may attract a tax deduction or tax offset.
- Investment earnings are taxed at a maximum of 15 per cent, rather than your marginal tax rate of up to 46.5 per cent. Capital gains are taxed at a maximum rate of 15 per cent.
- 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 superannuation 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 \$62,000\* 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 31.5%, earnings rate of 7%, 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 superannuation fund. Contributions can be made by you, your spouse, or your employer. There is a wide range of superannuation 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 will generally be required to 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 per cent of your gross salary. For example, if you earn \$40,000 a year, your employer must put at least \$3,600 a year – or \$900 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 superannuation 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 superannuation comes off your gross salary, and may result in a tax saving. This tax saving comes about because, for most 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.

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 superannuation contributions taxed?

Contributions are generally broken down into two categories:

1. Tax-deductible, also known as concessional contributions. Tax of 15 per cent will be deducted from the contribution as it enters the fund. 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 any one financial year depends on your age. If you are:

- Under age 50 at the end of the financial year: the cap is \$25,000.
- Over age 50 at the end of the financial year: the cap is \$50,000 until 2011/12, then \$25,000 (indexed) in the 2012/13 and future financial years. The government has proposed that, from 1 July 2012, the concessional contributions cap for individuals who are 50 years of age or more will remain at \$50,000 per annum where their super balance is below \$500,000. However, this change has not been legislated.

The amount of all non tax-deductible contributions that can be made to superannuation in any one year is \$150,000. 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 superannuation?

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 or permanent incapacity.

## Can you access your superannuation 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 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).

## Superannuation withdrawals

Once you have determined that 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 superannuation component from which the withdrawal is taken.

## Managing your own superannuation fund

A self-managed superannuation fund (SMSF) has the same purpose as other super funds – to provide retirement benefits for its members. Like all super funds, an SMSF is a trust. A trust is a legal arrangement where assets are managed by a person, a group of people, or a company, for the benefit of other people.

### How is an SMSF different?


The main difference between a self-managed fund 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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