

Superannuation



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This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes account of your individual circumstances and objectives. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice.

As legislation may change, you should ensure that you have the most recent version of this document.

How to read this document

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important that you understand how these issues will impact on you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SoA) which sets out the details of the advice and how it will meet your goals and objectives.

This document provides some additional information to help you understand the financial planning concepts discussed in the SoA in relation to **Superannuation**. It is very important that you read this document to help you understand the benefits of the strategies recommended to you, and the associated costs and risks. Please also ensure that you refer to the Product Disclosure Statement (PDS) provided to you for any of the insurance covers recommended in the SoA.

Please contact your Adviser if you do not understand anything, or need further information or clarification.

Superannuation

The last thing on many people's minds as they juggle career, family and mortgage commitments is superannuation. After all, retirement is a fair way off if you're in your 30s or 40s and you've got more pressing financial concerns. But organising your super strategy as early as possible could make a substantial difference to your lifestyle in retirement.

The following pages can help you understand how super could work for you and help you set and reach your financial retirement goals.

Superannuation has been specifically designed and endorsed by the Federal Government as the preferred way to save for your retirement, and has concessional taxation benefits that make it particularly attractive.

Why Invest in Superannuation

Superannuation is one of the simplest and most tax-effective ways of saving for your retirement. And saving for retirement is now more important than ever because:

- we're living longer
- we're an aging population
- many retirees do not have adequate savings to help fund their retirement

The combination of these factors puts pressure on Government funding in two important areas: healthcare, and the age pension. With fewer people working and paying taxes to support these schemes, there is less public money to support more people. As a consequence, the government provides significant tax incentives to encourage workers to use superannuation to save for retirement. Ensuring you have adequate superannuation may be the difference between a comfortable retirement and one fraught with financial concerns.

Food for thought:

- **You are likely to be in retirement for longer than any generation**
A 55-year old woman's life expectancy is now 85.5. With an average retirement age of 60, that's over 25 years spent in retirement. Have you thought about how much money you might need in your retirement?
- **You might need more money than you think**
The Westpac – ASFA Retirement Standard figures for the December 2009 quarter show that for a comfortable lifestyle in retirement, a single person requires \$38,611 a year and a couple, \$51,727. The means-tested government pension falls far short of this benchmark and is unlikely to provide you with enough funds to enjoy the lifestyle you desire in retirement.
- **Your employer super payments may not be enough to meet your retirement goals**
The current 9.25% superannuation guarantee paid by employers is insufficient to fund a comfortable retirement, according to research commissioned by the Investment and Financial Services Association (IFSA).

Superannuation can be a tax effective way of building wealth for your retirement. The taxation rates imposed on superannuation funds are as follows:

- Contributions Tax is a maximum of 15%.
- Investment income is taxed at a maximum of 15%.
- Capital Gains are taxed at a maximum of 15%. If the asset has been owned by the superannuation fund for more than 12 months the maximum rate of capital gains tax is 10%.
- When an income stream is commenced upon retirement, the tax rate imposed on income and capital gains in the pension account is reduced to zero. Pension payments are also tax free for those aged over 60. For those aged between 55 and 60, pension payments (less any tax free amount) will be taxable and receive a 15% tax offset.

These superannuation tax rates are in contrast to your personal marginal tax rate, which could be considerably higher. Your adviser can provide you with further information in relation to personal tax rates.

Types of Superannuation Funds

Defined Benefit Fund

In a Defined Benefit Fund your retirement benefits are usually determined by factors such as your age, final salary at retirement, and how many years of service you had with your employer. Your final benefits are not reliant on investment returns and are generally guaranteed by the fund.

Accumulation Fund

An Accumulation Fund accumulates contributions and earnings to provide a benefit for you. Your final retirement benefit is therefore dependent on the amount of contributions made and the earning rate of the fund.

Accumulation Funds provide greater control over the selection of investment options, as well as greater transparency of the fund's administration. In contrast to Defined Benefit Funds, investment returns are *not* guaranteed. As a result, the investment balance of an Accumulation Fund can go up and down with movements in investment markets.

How do I contribute to my super?

There are four main types of superannuation contributions to cater for different people and employment types. Money can be invested in super from a number of sources:

Employer contributions

These are compulsory contributions your employer is required to make on your behalf in accordance with the Superannuation Guarantee Act. As of 1 July 2013, the minimum contribution level is 9.25% of your salary, however, in 2010 the Government announced this amount would increase incrementally every year until it reached 12 per cent in 2019/2020.

Employee contributions

In addition to your compulsory employer contributions, you can also make additional voluntary contributions to your super. When you contribute additional amounts (beyond the compulsory 9.25% contribution), these contributions are known as "employee" contributions.

Self-employment contributions

If you are self-employed you can also make superannuation contributions which may be deductible up to certain limits.

Spouse contributions

You can also make after tax contributions on behalf of a spouse, under certain criteria. An increase tax rebate may be available, depending on the income of the spouse.

Types of Superannuation Contributions

Contributions to the superannuation system are split into two broad groups, concessional contributions and non-concessional contributions. Limits apply to the amount of contributions (both concessional and non-concessional).

Concessional Contributions

Concessional contributions are generally contributions made by or for individuals that are deductible to the contributor and are assessable in the hands of the superannuation fund, such as superannuation guarantee, salary sacrifice and personal deductible contributions.

Concessional contributions are taxed at a maximum of 15% and form part of the taxable component of your superannuation benefit.

Concessional contributions made in excess of the annual limit are charged penalty taxes, and so for most people should be avoided.

Your financial planner can explain more about the types of contributions that fall into this category and the limits that apply to you.

Factors to be aware of

- Concessional contributions will be taxed at 15%.
- Concessional contributions in **excess** of the Concessional limits will be taxed an additional 31.5%. This tax will be applied to the individual, not the fund. The individual will receive an Excess Contributions Tax Assessment from the Australian Tax Office, and must ensure the liability is paid within 21 days.
- Any contributions in excess of the concessional limit will be counted towards the person's non-concessional cap.

Non-Concessional Contributions

Non-Concessional contributions include contributions to the fund such as personal after-tax contributions and spouse contributions. These contributions are not taxed (provided they are within the annual limit) and form part of the tax-free component of your superannuation benefit.

Non-Concessional contributions made in excess of the annual limit are charged penalty taxes, and so for most people should be avoided. This limit is indexed in line with the Concessional contribution limit.

Individuals under age 65 (at the commencement of the relevant financial year) are able to bring forward two years of non-concessional contributions, enabling them to contribute up to 3 years of contributions in one year, with no further contributions in the next two years. The year in which the 3 year cap is initially triggered determines the value that can be contributed during the 3 year period.

Your financial adviser can explain more about the types of contributions that fall into this category and the limits that apply to you.

Factors to be aware of

- Contributions in **excess** of the Non-Concessional limits will be taxed at the **highest marginal tax rate** plus Medicare Levy. This tax will be applied to the individual, not the fund. The individual will receive an Excess Contributions Tax Assessment from the Australian Tax Office, and must ensure the liability is paid within 21 days.
- Individuals aged 65 to 74 are unable to bring forward non-concessional contributions.
- Individuals aged 75 and over are not able to make non-concessional contributions.

Taxation of Superannuation Withdrawals

Depending on the classification of your superannuation benefits, you may be able to withdraw (cash out) part of your superannuation benefits.

When you withdraw funds from superannuation, you may incur lump sum tax, depending on your age at the time of the withdrawal, the total amount withdrawn, and the superannuation component from which the funds are taken.

Outlined below is the tax treatment of superannuation withdrawals, based on an individual's age at the time of withdrawal and in some cases the total amount withdrawn and superannuation component.

Withdrawals over Age 60

For individuals aged 60 and over, superannuation withdrawals made from taxed superannuation funds are tax-free and are non-assessable, non-exempt income.

Withdrawals under Age 60

Depending on your personal circumstances and the components that make up your superannuation benefit, tax may be payable.

When can I access my super?

Because superannuation is designed to support you in your retirement, there are some restrictions on accessing your super savings. The Commonwealth Government requires that certain super entitlements are 'preserved'. These entitlements must remain in a regulated superannuation fund, deferred annuity, retirement savings account, or approved deposit facility, until one of the following events occur:

- You reach age 65.
- You reach age 60 and cease a gainful employment.
- You permanently retire on, or after, your preservation age (see table below).
- You reach preservation age (see table below) and commence a non-commutable income stream (there is no requirement to cease a gainful employment).
- You cease gainful employment and your preserved benefits are less than \$200.
- You encounter severe financial hardship established to the satisfaction of the Trustee based on specific guidelines.
- APRA approves early release on compassionate grounds.
- You are an eligible temporary resident who departs Australia permanently.
- You suffer permanent, or temporary, incapacity established to the satisfaction of the Trustee.
- You die.

Date of birth Preservation age	Preservation age
Before 1 July 1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
On or after 1 July 1964	60

What options do I have when I retire?

There are several options available to you once you are eligible to receive your superannuation benefit. While it's one thing to have a lump sum of money saved for your retirement, it's another to have a regular cash flow to meet ongoing expenses throughout your retirement years.

Some ways you can achieve an income stream are:

- By withdrawing your super as a lump sum and investing those funds in income-bearing investments.
- Keeping your super benefit within the superannuation system and drawing a regular income from those savings (i.e. a pension or annuity).
- Keeping your super benefit within the superannuation system and drawing ad hoc lump sums when required.
- Qualifying for social security, age pensions, service pensions or other benefits.
- A combination of the above.

Tax Advantages of Super

To assist you in providing for your future, the Government has made super one of the most tax effective ways of saving for your retirement. So while you can invest in shares, managed funds, investment properties and cash, both inside and outside super, there are substantial differences in the taxation of super and non-super investments.

Investments taxed outside super

Most investments held outside super are taxed at two main points: when the money you invest is earned and on the investment earnings. Both the money earned to invest and the earnings from the investments you held outside the super system are taxed at your marginal tax rate – which can be up to 46.5% (including Medicare levy). When the assets are sold, the proceeds are also subject to capital gains tax.

Investments taxed inside super

Most super investments are taxed at two main points: on contributions and on earnings. Both the contributions you make to super – either in the form of employer superannuation payments, or member salary sacrifice – and earnings made within super are taxed at a maximum rate of just 15%. When your super assets are sold, the proceeds are also subject to capital gains tax, however, the capital gain tax will be lower than it is for non-super assets and in some cases there may be no tax payable at all (if in pension phase).

So if your income is taxed at more than 15% and you invest in super, your return will usually be better than a similar investment outside super that is taxed at your marginal rate. The concessional tax rate of super is designed to encourage long-term investment and financial independence in retirement. The higher your marginal tax rate, the more tax effective it is for you to invest in super.

How much is enough?

Working out how much you will need to fund your retirement may not be easy but a general rule of thumb suggests you need approximately 60% of your pre-retirement income each year to maintain your current lifestyle in retirement. If you want to improve your standard of living in retirement, you'll possibly need more.

Remember that when you've retired you may save money on work-related costs, but basic living expenses will be the same, and you may even choose to spend more on your leisure activities and interests.

Longer term, be aware of rising health and medical costs, as well as the impact of inflation on your savings. Thus maximising your superannuation can be an important factor in your investment strategy.

Although super is one of the most tax effective ways of saving, unfortunately, compulsory super contributions (those made by your employer) alone may not provide for your lifestyle in retirement.

Boost your super

It's amazing the difference a small annual contribution can make if you start early. Regular contributions, combined with compound earnings – the ability to earn interest on your interest – can significantly boost your eventual retirement nest egg.

There are many strategies that can potentially boost your super savings. These include:

- **Government co-contributions** – Take advantage of the Government's incentive and you could turn every \$1 invested into super into as much as \$1.50 (conditions apply). The co-contribution is 50% of eligible personal contributions up to a maximum of \$500. This amount is reduced by 3.333 cents for each dollar by which total income exceeds the lower income threshold. For this financial year the lower income threshold is \$31,920 and the higher income threshold is \$61,920. For further detailed information, please go to the ATO web site, www.ato.gov.au
- **Salary sacrifice** – Grow your super and minimise your tax at the same time by allocating more of your pre-tax salary to go straight into your super.
- **Converting assets to super** – By selling your assets and paying the proceeds into your super, you may be able to benefit from favourable tax treatment.
- **Concessional contributions** – You can allocate up to \$25,000 a year to your super at a concessional rate.
- **Spouse contributions** – Reduce your tax by making contributions to your spouse's super if they are a low income earner.
- **Consolidating your super** – If you've ever had more than one job, it's likely you have more than one super account. Consolidating could make a real difference to your end balance, plus lower your fees and be easier to manage.

Salary sacrifice: is it for you?

Salary sacrifice means regular amounts are deducted from your salary before tax is paid at your marginal rate. This is a prime example of what is commonly known as 'salary packaging.'

While salary sacrifice has been traditionally used for benefits such as cars, car parking and health insurance, more and more people are using it as a tax effective way to make additional contributions to their superannuation. Your employer can contribute more to your super than the 9.25% required by the Government using a 'salary sacrifice' arrangement.

These super contributions are also tax deductible for your employer. There are, however, limits to the amount which can be contributed each year and not all employers offer this arrangement, so it's worth speaking to your employer when negotiating or reviewing your salary.

Personal contributions

You can supplement your super savings by making contributions from your after tax salary. You can make contributions at any time during your working life, and take advantage of the lower tax rates applicable to super.

This is very tax effective as returns on super investments are usually taxed at a lower rate (15%) compared to marginal tax rates on other investment income, which can be as high as 46.5%.

Before you commit to contributing independently to a super fund, you should consider the following:

- the age you'd like to retire
- the number of years until you retire
- the lifestyle you'd like to lead in retirement
- the level of income you'll need
- your current savings

Spouse contributions

Another good way to boost your family's super savings is to make after-tax contributions to your spouse's super fund. This can help you and your spouse with your joint retirement savings.

You may be eligible to claim an 18% tax offset on the contributions made up to \$3,000 if your spouse's assessable income and reportable fringe benefits is less than \$10,800 per annum – or is non-working. The maximum rebate allowed is \$540. As there are tax rules that dictate who can make spouse contributions, it is worthwhile seeking professional advice before using this super saving strategy.

Consolidation

Changing jobs or even working casually may mean that you have more than one super account, each with small amounts. You might be able to combine these small amounts into a single account in one fund, potentially saving on administration fees as well as simplifying your super for easier tracking.

For amounts of less than \$200, superannuation law will allow you to take the money when you terminate your employment. You may have to pay tax if you take the money or you can roll it over into the super fund offered by your new employer.

For amounts of less than \$1,000, special rules apply concerning the level of administration fees that are deducted from your account.

Finding lost super

Often people lose track of their super funds, especially when frequently changing jobs. If you have lost track of your super from a previous employer, the Australian Taxation Office has a Lost Members Register.

Simply visit www.ato.gov.au or ring the Superannuation Help Line on 131 020.

Your life after work

How has retirement changed over the years?

That was then...

It all used to be so different.

After many decades of service – usually with the same company – it was time for the farewell bash, the gold watch and thanks for the memories.

Retirement was short, retirees' expectations were minimal and the age pension almost universal. As recently as 1968, the average Australian could only expect to live until the age of 71.

For the lucky few with sufficient capital to fund their own retirement, traditional post-employment investment strategies were pretty straightforward. Avoid the sharemarket, move your investments to safety-first defensive assets and live off the interest.

...this is now...

Fast forward to the present day and the picture has changed drastically. Medical advances and healthier lifestyles mean that life expectancy is now at 82 and rising – indeed, for a couple reaching the age of 65, there's a 50% chance that one of you will live beyond the age of 92.

This means new retirees can look forward to 30 years or more of retirement. And at the same time, the onus is shifting towards individuals taking personal responsibility for planning their own retirement.

...and this is the future

Over the next 40 years the number of people aged over 65 will almost triple, from 2.8 million today to around 7.2 million in 2047 – that's from around 13% of the population to over 25%.

As more baby boomers head towards retirement, more people will move from accumulating assets to unlocking their capital in order to provide a regular and sustainable income to fund their lifestyle in retirement. The income will either supplement their salary as they transition from full-time employment or deliver a reliable income for those who have retired.

The combination of increased longevity, changing demographics and rising expectations is creating new challenges for investors to ensure their retirement savings last the distance.