

## An introduction to Superannuation

### What is Super?

Basically, super is the money you save during your working life for retirement. As it is likely to be your major source of retirement income, it's an investment for your future.

Super is a tax effective environment for your money; the account is held in your name, and both you and your employer can deposit money into your account. Your money will attract investment earnings, and when you reach your 'preservation age', you are able to start drawing on these funds.

Super is a tax effective way to invest in your future, because of the many tax benefits. Investment earnings are taxed at a concessional rate within super, compared to investment earnings outside of super. To add further benefit, if commencing an income stream, your super benefits are generally received tax free from age 60.

### Why do I need to invest in super?

Many Australians will not have enough super to support the lifestyle they want to lead in retirement. The first AMP Superannuation Adequacy Index, Australia's largest ever statistical analysis of Australia's retirement readiness, found that more than 3.5 million (or 33 per cent) of workers are falling behind where they need to be in preparation for retirement. The Index recommends that retirees will need 65% of their pre-retirement salary per annum to maintain an adequate living standard in retirement.

### Does everyone get superannuation from their employer?

The superannuation guarantee (SG), introduced in 1992, covers full-time, part-time and casual employees.

Generally, if you are aged 18 or older and get paid \$450 or more in a month, your employer must pay superannuation into a superannuation account for you. If you work less than 30 hours a week, and you are either under 18 years of age or the work is wholly or principally of a domestic or private nature, your employer is not required to pay superannuation for you.

If you are paid under an award, it may be part of the award agreement that your employer pays superannuation for you, even if you earn less than \$450 a month.

### Self employed and superannuation

Those that are self-employed are not covered by the Superannuation Guarantee. **26% of the self employed have no super. A further 53% of the self employed have superannuation balances of less than \$40,000<sup>1</sup>.**

Tip: it's a good idea if you are self-employed to consider contributing a minimum of 9% (ideally up to 12%) of your income to superannuation.

### Is it enough?

If you receive only the SG over your lifetime, it's likely that you won't have enough to retire on. At 9% over a 40-year period, you will have a yearly retirement income of about 53% of your pre-retirement income - well short of the 65% target for an adequate retirement<sup>2</sup>.

Unfortunately, most people will not have the benefit of 40 years of SG contributions, with interruptions while you start a family, breaks when switching between jobs and so on. So it's important to consider making voluntary contributions to take advantage of the opportunities offered by the super system. Industry research has found that **contributions of 12 per cent or more of salary are required by a household to achieve a 'comfortable' lifestyle in retirement<sup>3</sup>.**

If you're one of these workers, there's still time to boost your super. The more super you save now, the more money you will have to enjoy your retirement.

### Boosting your Super

#### Voluntary contributions

- contribute pre-tax income via an arrangement known as salary sacrifice (employees)
- contribute pre-tax income via personal deductible contributions (self-employed)
- contribute money from your take-home pay (post-tax)

#### Government co-contribution

If you earn less than \$31,920 and up to \$61,920 (in 2009/10 financial year) and make a personal after-tax contribution to super, you may be eligible to receive the government co-contribution, which is when the government puts additional money into your super account, up to \$1 for every \$1 you put in yourself (up to a maximum of \$1,000).

### This fact sheet explains...

- What is super?
- Why do I need to invest in super?
- Does everyone get super from their employer?
- Self-employed and superannuation
- Is it enough?
- Boosting your super
- Types of superannuation contributions
- Tax on superannuation
- When can I access my super?
- Super case studies

## Boosting your Super continued

### Consolidation of superannuation

Throughout our working lives it's unlikely that we will remain with the one employer until retirement. Consequently, as we change employment, it's likely we will accumulate several superannuation plans. Having a number of superannuation plans result in: additional fees, difficultly keeping track of your funds and maintaining a suitable investment strategy. This is not the best scenario for your retirement savings. Consider one portable fund where possible to easily manage your retirement savings.

### Lost Super

Track down any "lost" super you may have accumulated from past jobs by going to the Australian Tax Office's website at [www.ato.gov.au/superseeker](http://www.ato.gov.au/superseeker).

### Investing your funds

Most super funds offer a wide range of investment choices for you to invest your money for your long term needs. These can range from a conservative to more aggressive approach. The more conservative options offer lower risk, modest return and are often suitable for short terms. Higher risk options may potentially generate higher returns, however are prone to fluctuating returns and as such are often better suited to longer time frames. The choice of your investment option can make a big impact on your long term savings, so consider it wisely.

## Types of superannuation contributions

### Employer/ Salary Sacrifice/ personal deductible contributions (concessional)

Employer contributions, including SG, and personal deductible contributions are taxed at 15% as they enter your super account.

Salary sacrifice allows you to give up some of your pre-tax income in order to be concessionally taxed at 15% rather than as ordinary income at your marginal tax rate.

These contributions are known as "concessional contributions" and are limited to \$25,000pa. If you're 50 or over, you are able to contribute up to \$50,000pa until 30 June 2012. Any contributions in excess of these levels will attract an excess contributions tax of 31.5% and will also count towards your non-concessional contributions cap.

### Voluntary after-tax contributions (non-concessional)

You can make contributions using your take home income, known as "non concessional contributions", up to age 75 if you meet the work test after turning age 65. Your money is not taxed as it enters the fund. You are permitted to make contributions of up to \$150,000pa or \$450,000 over a 3 year period if under age 65 at any time during the financial year. Contributions exceeding these caps will attract a penalty tax of 46.5%.

#### Superannuation contribution limits

concessional		
	2009-2012	2012 onwards
under 50	\$25,000 p/a	
over 50	\$50,000 p/a	
all		\$25,000
non-concessional		
	2009-2010	2010 onwards
under 65	\$150,000 p/a or \$450,000 over 3 years	calculated as six times the level of the (indexed) concessional cap
over 65	\$150,000 p/a max.	

## Tax on superannuation

Earnings in superannuation are concessionally taxed at a maximum rate of 15%, which is paid by the super fund. This can be reduced by imputation credits, insurance premiums and other deductions to the fund (depending on the underlying investments).

Capital gains within superannuation receive a 1/3 discount upon sale of the asset, provided the asset has been held for more than 12 months. This effectively means they are taxed at a maximum of 10%.

When you convert your super to a pension, **all** earnings on your investment assets will be tax free.

This compares favourably to investments held outside of super as illustrated in the table below.

	Individual	Company	Super	Pension
Income	up to 46.5%	30%	15%	0
Growth* (< 12 months)	up to 46.5%	30%	15%	0
Growth* (> 12 months)	up to 23.25%	30%	10%	0

\*Taxed upon sale of the asset

## When can I access my super?

### Preservation age

You generally need to reach your "preservation age" in order to access your super. When you reach this age, you have a couple of ways to access your super:

1. You can fully retire and access your money as a lump sum, as an income stream, or a combination of both
2. If you are not fully retired, you can access your super fund in the form of a "transition to retirement" income stream.

At age 65, you are able to access all of your super money, regardless of your employment status. However, you do not have to withdraw your super, and are permitted to keep your money in super for as long as you like.

#### Preservation age

The age at which you can access your super

date of birth	preservation age
Before 1 July 1960	55 years
1 July 1960 - 30 June 1961	56 years
1 July 1961 - 30 June 1962	57 years
1 July 1962 - 30 June 1963	58 years
1 July 1963 - 30 June 1964	59 years
After 30 June 1964	60 years

### Accessing your super before preservation age

There are limited circumstances where you may be able to access your super earlier than your preservation age. These circumstances include death, disability and financial hardship.



## Meet Bob

### Current situation

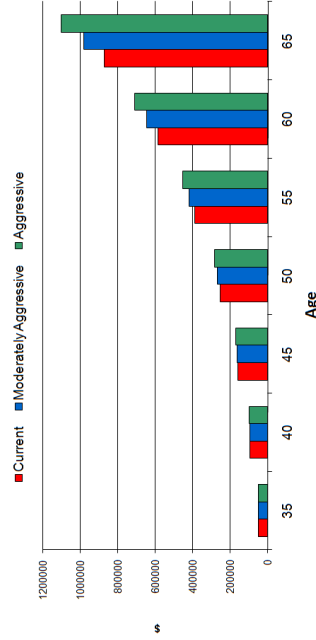
Bob is 35, earns \$50,000 and has a superannuation balance of \$50,000. Bob's employer contributes \$4,500 to his superannuation annually as a Superannuation Guarantee contribution. Bob's superannuation is currently invested in a balanced portfolio.

### Bob's scenario 1 - change in risk profile

In this scenario we look at the outcome on Bob's superannuation balance of doing nothing (Balanced risk profile) versus changing to a Moderately Aggressive or Aggressive risk profile.

### Bob's superannuation balance after 30 years

	Balance	Gain
<b>current</b>	\$873,021	
<b>mod. aggressive</b>	\$981,378	\$108,357
<b>aggressive</b>	\$1,103,804	\$230,783



**Bob is \$230,783 better off after 30 years just by changing his risk profile from balanced to aggressive.**

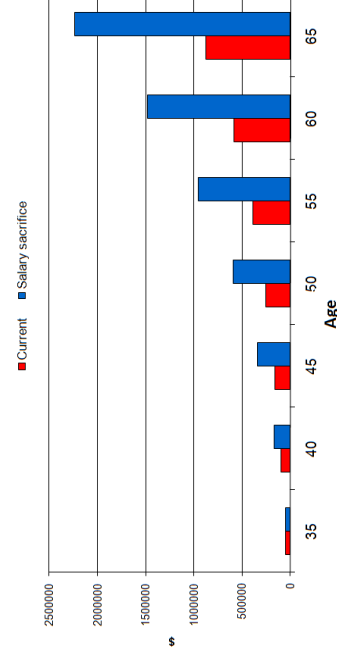
### Bob's scenario 2 - salary sacrifice only

In this scenario Bob salary sacrifices \$15,000 per annum to his superannuation as concessional contributions in addition to his employer's Superannuation Guarantee contributions.

	Assessible income	\$35,000
Super balance	\$50,000	
Risk profile	Balanced	
Contributions:		
SG (employer)	\$4,500	
Concessional	\$15,000	
<b>Total</b>	<b>\$19,500</b>	
<b>Net contributions</b>	<b>\$16,575</b>	

### Bob's superannuation balance after 30 years

	Balance	Gain
<b>current</b>	\$873,021	
<b>salary sacrifice</b>	\$2,240,254	\$1,367,233



**Bob is \$1,367,233 better off after 30 years by implementing a salary sacrificing strategy.**



## Meet Sally

### Current situation

Sally is 35, earns \$30,000 and has a superannuation balance of \$50,000. Sally's employer contributes \$2,700 to her superannuation annually as a Superannuation Guarantee contribution. Sally's superannuation is currently invested in a balanced portfolio.

### Sally's scenario 1 - government co-contribution

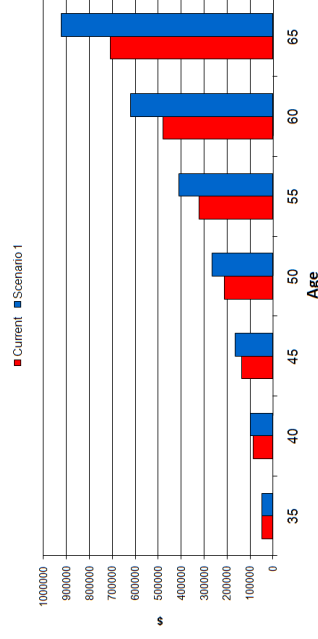
In this scenario Sally contributes \$1,000 per annum to her superannuation as non-concessional contributions in addition to her employer's Superannuation Guarantee contributions.

Contributions:	
SG (employer)	\$2,700
Non- Concessional	\$1,000
Govt. Co-cont.	\$1,000
<b>Total</b>	<b>\$4,700</b>
<b>Net contributions</b>	<b>\$4,295</b>

^ assumes maximum co-contribution is constant at \$1,000 per annum - does not factor in legislation to increase contribution in the future.

### Sally's superannuation balance after 30 years

	Balance	Gain
<b>current</b>	\$708,953	
<b>co-contribution</b>	\$923,421	\$214,468



**Sally is \$214,468 better off after 30 years by contributing \$1,000 per annum to her superannuation to benefit from the government's co-contribution.**



**What you need to know**

AWOTE and CPI 0%. Return on a Balanced portfolio is 7.70%. Return on a Moderately Aggressive portfolio is 8.20%. Return on an Aggressive portfolio is 8.70%. The returns in the case studies are not guaranteed and are used for illustration purposes only.

<sup>1</sup> Source - Association of Superannuation Funds of Australia Limited, The self-employed and saving for retirement ASFA Research Report, June 2008

<sup>2</sup> Source - AMP, A bird's eye view of super - [www.amp.com.au](http://www.amp.com.au)

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