

# Superannuation – Superannuation

Using superannuation as a savings vehicle may be a tax-effective way to help you increase your savings to meet your retirement goals.

## Types of superannuation funds

There are many types of superannuation funds. Some of the most common are summarised below.

### Retail and Industry funds

Generally, anyone can join a retail fund. A retail fund usually doesn't have any particular alignment to an industry and many are run by investment companies and banks. An industry fund may have an association with a specific industry however many also allow anyone to join as a personal member.

### Self-managed super funds

A self-managed super fund (SMSF) is often referred to as a 'Do it yourself' fund. An SMSF can have up to six members. Generally, each member also has to be a trustee of the fund (or a director of a corporate trustee). This means that the members of the fund are generally responsible for running the SMSF, and ensuring that the fund is run in accordance with superannuation and tax legislation. This can be a significant responsibility.

An SMSF may facilitate a broader range of investment opportunities and control over retirement savings. However, this flexibility and control can come at the cost of requiring considerable time, effort and knowledge of financial and legal matters.

Refer to the Self-Managed Super Understanding Series documents for further information.

### Corporate funds

An employer may establish a corporate fund or 'employer plan' for their employees. Often, an employer plan is simply a branch of a retail or industry fund. Sometimes there may be concessions on administration and administration fees, or discounts on insurance premiums for members of corporate plans. However, when a member of an employer plan ceases working for that particular employer, sometimes membership can be transferred to the fund's 'personal division'. It is important to understand what benefits and concessions may alter or cease at that time.

### Defined benefit funds

Defined benefit funds were mainly offered by public sector employees or large corporations. Many are now closed to new members.

Unlike an ordinary fund, where the value of the retirement benefit is broadly determined by the value of contributions and investment returns, in a defined benefit fund, 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.

## How it works

Superannuation is a savings vehicle designed to help you save for retirement. Superannuation funds that comply with Australian law receive generous tax concessions which provide an incentive for you to save for your own retirement. Your account balance generally consists of contributions from your employer, your own personal contributions and earnings from investments.

Most superannuation funds will allow you to select how your money is invested and will usually offer a selection of investments based on local shares, property and or fixed interest. As different asset classes offer different levels of risk, it's important to choose wisely and get advice to help you determine what is right for you.

## Contributions

Eligibility to contribute to superannuation is based on your age. Anyone under the age of 67 is eligible to contribute, but from age 67-74 you must meet a work test or be eligible to apply the work test exemption (see below) for any contributions other than those your employer is obliged to make on your behalf or downsizer contributions. Once you reach age 75, contributions generally cannot be made unless the contributions are mandated employer contributions required under an agreement or award.

Age	Requirement
Under age 67	No restrictions.
67 – 74	Meet the work test or be eligible for the work test exemption to apply (see below).
75 or over	Only mandated employer contributions (such as SG) and downsizer contributions can be made.

The 'work test' requires that you have worked at least 40 hours over a consecutive 30-day period in the financial year the contribution is made. The work test exemption provides a one-year relief from the work test for recent retirees. It is available if:

- you met the work test in the financial year immediately prior
- your total superannuation balance is less than \$300,000 as at the prior 30 June, and
- you have not previously utilised the exemption (i.e. the exemption can only be applied once in your lifetime).

Contributions to superannuation are split into categories with caps applying to each category. The most commonly used caps are the concessional contribution cap and the non-concessional contribution cap. A CGT cap is also available to small business owners who sell eligible business assets.

The caps are intended to limit the amount of tax concessions relating to superannuation and to encourage people to save for retirement over a lifetime rather than only in the few years prior to retirement. Contribution caps are indexed periodically.

## Concessional contributions

Your annual concessional contribution cap is \$27,500 (applies in the 2021/22 financial year and may be subject to indexation).

Concessional contributions include:

- Contributions made for you by your employer (e.g. superannuation guarantee contributions)
- Salary sacrifice contributions
- Personal contributions for which a deduction has been claimed (personal deductible contributions), and
- Certain other amounts.

If you exceed your concessional contribution cap, excess contributions are taxed at your marginal tax rate, less the 15% tax already deducted within the fund. You can elect to withdraw the excess from superannuation. If you don't make this election the amount of the excess contribution is also counted towards the non-concessional contributions cap.

### **Personal Deductible Contributions**

You will also have the option of making concessional contributions directly to your fund by making a personal super contribution and claiming a tax deduction for the contribution. A personal deductible contribution will count towards your concessional contribution cap. There are a number of important steps that must be followed for a personal deductible contribution to be valid.

Generally, the outcome achieved by making a personal deductible contribution is similar to when you make salary sacrifice contributions. It will be important to consider which method is most appropriate for you. For employees, salary sacrifice may be an appropriate option due to its relative simplicity.

### **Catch up Concessional Contributions**

Since 1 July 2018, you are able to accrue your unused concessional contributions and carry these amounts forward which may enable you to make concessional contributions in excess of the annual cap in subsequent years. Amounts are carried forward on a five-year rolling basis before they expire. As the regime only applies to unused amounts accrued since 1 July 2018, you're only able to use unused amount since that time. To make use of carried forward concessional contributions, your superannuation balance cannot exceed \$500,000 on the 30 June of the previous financial year.

### **Concessional contribution tax for high income earners**

If your 'income' from certain sources exceeds \$250,000 (threshold applies in the 2021/22 financial year), some or all of your concessional contributions within the concessional cap are subject to an additional 15% tax. 'Income' for this purpose includes:

- taxable income (including the net amount on which family trust distribution tax has been paid)
- reportable fringe benefits
- total net investment loss (including net financial investment loss and net rental property loss)
- concessional contributions within your cap.

The additional 15% tax applies to any concessional contributions (within your cap) that result in your income exceeding the \$250,000 threshold during a financial year.

## Non-concessional contributions

Non-concessional contributions generally consist of contributions from after-tax income, such as personal contributions (for which you don't claim a tax deduction) and spouse contributions.

The annual non-concessional contribution cap for the 2021/22 financial year is \$110,000. If you are under age 67 on 1 July in a financial year you may be able to trigger the 'bring-forward' rule to make larger contributions.

The 'bring-forward' rule effectively allows you to bring forward up to an additional two years' worth of non-concessional cap and add it to the current year's cap. If eligible, you may be able to contribute up to \$330,000 over the three-year period. The total amount you're eligible to contribute under the bring-forward rule depends on your total super balance. These rules are complex and you should seek further advice to understand how this applies to you.

The bring-forward rule is automatically triggered if you're eligible and make non-concessional contributions in a financial year that exceed your annual non-concessional limit. Once triggered, your non-concessional contribution cap will not be indexed for the next two years. In addition, you must have total superannuation savings of less than \$1.7 million at 30 June to be eligible to make any non-concessional contributions in the following year.

If you exceed your non-concessional contribution cap, you can choose to have the excess contributions and associated earnings (as calculated by the Australian Tax Office) refunded with penalty tax only applied to the earnings. If not withdrawn, the excess contributions are taxed at the highest marginal tax rate plus Medicare levy. The tax payable must be withdrawn from superannuation.

## Conditions of release

To access your superannuation account balance, you first need to meet a condition of release.

You will automatically meet a condition of release once you turn age 65. Prior to age 65, you can meet a condition of release if you (a) cease a gainful employment arrangement after having turned age 60 (even if you are still working in another job), or (b) permanently retire after having reached your preservation age.

Your preservation age is based on your date of birth, as shown in the following table:

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

In very limited circumstances a condition of release may be met before age 65 or retirement. These circumstances include being temporarily or permanently disabled, being in severe financial hardship or on compassionate grounds (e.g. to pay for medical costs).

## Benefits

These may include:

- Contributions into superannuation may be tax-effective, particularly if made under a salary sacrifice arrangement or if the contributions are tax deductible, because the contributions are effectively being made with pre-tax money.
- The after-tax rate of return inside superannuation may be higher when compared to investing outside superannuation. This is because earnings inside superannuation are taxed at a maximum rate of just 15%, whereas earnings from non-superannuation investments are generally taxed at your marginal tax rate plus Medicare levy, which could be as high as 47%. This may help your savings to grow faster.
- Superannuation money is tax-free if withdrawn after age 60 (unless withdrawn from an untaxed fund).
- Superannuation may be used to provide a tax-effective income stream in retirement.

## Risks, consequences and other important things to consider

These may include:

- It is important that you keep track of your superannuation contributions to ensure you don't exceed your contribution caps.
- Superannuation may not provide a better after-tax rate of return than non-superannuation investments if your marginal tax rate is less than 15%.
- All contributions to superannuation are preserved (i.e. you will not have access to these funds) until you meet a condition of release, such as retirement after you reach preservation age.
- The total amount of superannuation money used to start certain super income streams (broadly where you have met a full condition of release) is subject to a lifetime 'transfer balance cap'. In the 2021/22 financial year the general transfer balance cap is \$1.7 million. You may have a personal transfer balance cap of between \$1.6 million to \$1.7 million if you commenced a retirement phase super income stream prior to 1 July 2021. You can retain excess amounts in your accumulation accounts where tax at 15% continues to apply to investment earnings. Generally, death benefit pensions that you receive because of the death of another person will also count towards your limit.
- Fees may be charged for your superannuation contributions and on transfers between funds. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.
- The Government may change superannuation legislation in the future.

Version: 3.1

Issue date: 22 July 2021

### Important information:

This document has been prepared by Actuate Alliance Services Pty Ltd (ABN 40 083 233 925, AFSL 240959) ('Actuate'), a member of the IOOF ('IOOF') group of companies ('IOOF Group'), for use and distribution by representatives and authorised representatives of Actuate, Godfrey Pembroke Group Pty Limited, Consultum Financial Advisers Pty Ltd, Bridges Financial Services Pty Limited trading as MLC Advice and Australian Financial Services Licensees with whom any IOOF Group member has a commercial services agreement.

Information in this document is of a general nature only and does not take into account your objectives, financial situation or needs. You should seek personal financial, tax, legal and such other advice as necessary or appropriate before relying on the information in this document or making any financial investment, insurance or other decision. If this document is

provided to you in conjunction with a Statement of Advice ('SOA'), any personal financial advice relevant to the financial planning concept/strategy referred to in this document will be contained in that SOA.

Information in this document reflects our understanding of relevant regulatory requirements and laws etc as at the date of issue, which may be subject to change. While care has been taken in preparing this document, no liability is accepted by Actuate or any member of the IOOF Group, nor their agents or employees for any loss arising from any reliance on this document.

If any financial product is referred to in this document, you should consider the relevant PDS or other disclosure material before making an investment decision in relation to that financial product.