

# Understanding superannuation

Version 5.3



This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to **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 into account the circumstances and objectives of an individual. 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 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 you understand how these issues will impact 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 you read this document to help you understand the benefits of the strategies recommended to you and the associated costs and risks.

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

## Superannuation

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

### Why invest in superannuation?

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

- contributions tax at up to 15% for individuals. This increases to 30% for those earning \$250,000 or above in 2018/19. 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%
- where a retirement income stream is commenced, the tax rate on income and capital gains in the pension account reduce to zero (this will arise in cases including where you are 65 or if you have met the superannuation definition of retirement). A lifetime cap, called the transfer balance cap, applies to the total amount that you can transfer to commence a retirement phase pension. This limit is currently \$1.6 million and may be indexed in the future. Penalties will apply for excess transfer amounts. When you reach your 'preservation age' (see below) and start a transition to retirement pension, earnings within the pension will be taxed at a maximum of 15%. Earnings will be taxed at 0% once you meet a full condition of release, including reaching age 65 or meeting the superannuation definition of retirement.

- Pension payments are tax free for those aged over 60 for pensions paid from a taxed superannuation fund. For those aged between preservation age and 60, pension payments from a taxed superannuation fund (less any tax free amount) will be taxed at your personal marginal tax rate but 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 or registered tax agent can provide you with further information in relation to personal tax rates.

### When can I access my superannuation?

Superannuation benefits are restricted in that they generally cannot be accessed until the owner reaches their preservation age and has retired or, has reached age 65. Your preservation age is dependent on your date of birth.

Date of birth	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
After 30 June 1964	60



## 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 less any expenses such as tax and fees.

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.

There is no limit to the amount that you can hold in an accumulation fund.

## Types of superannuation contributions

Contributions to the superannuation system are generally split into two broad groups; concessional contributions and non-concessional contributions. Limits apply to the amount of contributions (both concessional and non-concessional). If you're eligible, there are some other types of contributions that you may be able to make, where the amount contributed doesn't count towards either of these caps.

## Concessional contributions

Concessional contributions are generally contributions made by or for an individual that are generally tax deductible to the contributor and are assessable as income in the hands of the superannuation fund.

Concessional contributions include superannuation guarantee contributions made for you by an employer, salary sacrifice and personal deductible contributions. Concessional contributions 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. The limit is indexed to Average Weekly Ordinary Time Earnings (AWOTE).

From 1 July 2018, if you don't fully utilise your concessional cap in a financial year, you may be eligible to 'carry forward' your unused cap amount for up to 5 years. This could enable you to make a larger concessional contribution in a future financial year. You need to meet certain criteria to be eligible. To make a catch up contribution, you must have a 'total super balance' (which broadly includes all accumulation and pension balances) of less than \$500,000 as at the prior 30 June.

### Be aware

- Concessional contributions will be taxed at 15% (or at 30% for individuals with income from certain sources of \$250,000 or above).
- Concessional contributions in **excess** of the concessional limits will be added to the individual's assessable income and taxed at the individual's marginal tax rate). An additional contributions charge will also be payable.
- Eligibility for concessional contributions over age 65 is based on a work test which requires you to be gainfully employed for 40 hours over a period of 30 consecutive days during the financial year in which the contributions are made.
- Any contributions in excess of the concessional limit will be counted towards the person's non-concessional cap unless the person elects to have the excess concessional contributions refunded, rather than retaining them in superannuation.
- From age 75, only employer contributions can be accepted which are required to be made under legislation (e.g. Superannuation Guarantee).
- The rules that relate to 'catch-up contributions' are complex, and you should seek advice before making any concessional contributions that we haven't addressed in our advice.

## 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 may be charged significant penalty taxes and so for most people should be avoided. This limit is indexed in line with the concessional contribution limit.

Excess non-concessional contributions may be withdrawn from superannuation, along with associated earnings on these amounts, after the Australian Taxation Office has made a determination and provided an election form. If you make the election to withdraw, you will not be subject to penalty tax on the excess non-concessional contributions however you will be subject to tax on the associated earnings- see 'Be aware' below.

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

Since 1 July 2017, your total superannuation balance must be less than \$1.6 million (subject to indexation) on the prior 30 June to be eligible to make non-concessional contributions. This rule also applies to each financial year during a bring forward period, to determine whether you're eligible to make any additional contributions within your available bring forward balance.

### Be aware

- Contributions in **excess** of the non-concessional limits which are retained in superannuation will be taxed at the **highest marginal tax rate** plus Medicare levy. This tax will be applied to the individual, not the superannuation 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.
- You can elect to withdraw an excess non-concessional contribution and the associated earnings instead of retaining the amount in superannuation. You must do so within 60 days of the date of issue of the determination sent by the ATO. The associated earnings will be included in your assessable income and taxed at your marginal tax rate. Beyond this time frame, you will not be able to withdraw, meaning the excess contribution will be retained in superannuation and subject to penalty tax at 47%.
- Associated earnings on excess non-concessional contributions are determined by the ATO using a formula and will not reflect actual fund earnings.
- Eligibility to make non-concessional contributions from age 65 – 74 is based on a work test which requires you to be gainfully employed for 40 hours over a period of 30 consecutive days during the financial year in which the contributions are made. This is in addition to the requirement that your total superannuation balance is below \$1.6 million on the prior 30 June.
- Individuals aged 65 to 74 (on 1 July of a financial year) are unable to bring forward non-concessional contributions.
- Individuals aged 75 and over are not able to make non-concessional contributions.

Additional limitations will apply when determining the total amount of non-concessional contributions that you can make if your total superannuation balance is between \$1.4 million and \$1.6 million on the prior 30 June.

## 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. This is based on payments being made from a taxed superannuation fund.

### 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.

## Death benefits

Any lump sum superannuation benefits paid to a beneficiary considered a tax dependant are tax free. A tax dependant includes a spouse, former spouse, a child under the age of 18, a financial dependant or interdependent. Payments from a death benefit income stream received by a tax dependant who is under age 60 will be subject to concessional rates of tax on the taxable component if the deceased was also aged under 60 at the time of death. If the deceased or beneficiary is over age 60, the income payments are tax-free.

If your life insurance is held inside your superannuation account, the proceeds will be paid into your account and also form part of your superannuation death benefit. This can result in an untaxed element being created. The untaxed element attracts a higher rate of tax on lump sums paid to a non-tax dependant. If you choose to rollover the death benefit and life insurance proceeds (paid due to death) to another fund, tax may also be payable upon rollover.

Payments to non-tax dependant beneficiaries may incur tax depending on the components that make up your superannuation benefit.

Generally, death benefits are also assessed against the transfer balance cap.



