EVERYTHING YOU WANTED TO KNOW ABOUT $UPER

Priority1

Plan today, enjoy tomorrow

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Everything you wanted to know about super

Investing in your future

The government regularly reminds us that each Australian must take responsibility for funding their future. Regardless of when you will be able to access your super, or when you choose to stop working, you need to be aware of how your superannuation is being managed and if the final balance will be sufficient when you're ready to retire… and for the years beyond.

As a super fund member it is your responsibility to manage your contributions (over and above your employer's contributions), regardless of whether they are being invested into a retail fund, industry fund or your own self-managed fund.

Superannuation is a tax structure but it should be treated like a valuable financial asset. The fundamental principles of financial planning prescribe that individual tailoring, based on your needs, objectives and personal circumstances, is paramount to ensuring you have enough money to enjoy your later years.

It's a recipe for disaster to think that once you have established a superannuation account and your employer's contributions are flowing in, you can forget about it for the rest of your working life. Financial markets will change, your own financial position will change, and your objectives and plans may change, so it's crucial that you review your super regularly.

Additionally, it's foolish to believe that a "one size fits all" approach with no personal advice on contribution levels or transfer issues will help you achieve your goals.

The amount of money in your super fund when you want to access it will determine what type of retirement **you** will enjoy. So, it is **you**, nobody else, who must take responsibility for determining what your needs are and work towards meeting them. That could mean making increased contributions after a certain age to bolster your savings or deciding who your beneficiaries will be if you don't make it that far.

These are critical issues that you should take the time to discuss with us. Superannuation is your investment in **your** future… individual advice and tailoring is essential.

Superannuation and new cars are very similar!

Superannuation can be one of the most baffling topics when it comes to managing our finances so let's relate looking for the right fund to something that might be more enjoyable - buying a new car. What do you look for?

Size and speed

The engine of growth in super is the investments you choose. At one extreme, you can select "vintage car" investments that will be slow and steady. At the other extreme, you can choose supercharged V8 investments to take you faster (but sometimes give you a few hairy moments going around corners!).

If you're young, high-speed investments might be appealing. For the more mature, "steady as she goes" might be the way to travel. You can have a super fund where you do everything yourself or you can leave the maintenance to the professionals.

Safety features

Whilst you want your car to "go" you also want it to stop and be safe. You will want good brakes and seat belts and air bags. There are some risks you can never completely avoid in your car such as the actions of other drivers.

With super, you might reduce the risks by diversifying your investments or arranging life insurance in your super fund. Insurance can be for a basic amount or can be increased to cover all of your needs. There are some types of insurance that cannot be placed in your super fund such as trauma cover and health insurance.

Trusted name

Many people look for a well-known name when buying a car. There is a feeling of safety buying from an established dealer because they have their reputation to consider if things go wrong.

With super, you want this same degree of safety knowing a reliable and established organisation is behind the fund. You want it to be managed well and to comply with all of the rules and regulations. You expect consistent and trustworthy administration and for the manager to continually improve their services. You want the key people in the organisation to make wise decisions about your investments.

Education

The more sophisticated your new car the more assistance you need to ensure you use it properly. Many motorists seldom read the handbook until something goes wrong. If you are buying a 4WD you may look for driving courses, booklets and videos explaining how the vehicle operates compared to a normal car.

In a super fund, you may expect nothing more than an annual report and personal statement telling you how much you have accumulated. On the other hand, you may value newsletters, educational seminars and online access to your account. You may prefer to use a financial planner to help customise the fund to your needs.

Price

When buying a car, you might decide to trade in your old model or sell it privately for a better price. You will be concerned about how much you will have to outlay to drive your new car away. But it doesn't stop there. Once you are driving, you need to consider fuel consumption, spare parts and maintenance costs. The costs will depend on how you drive and how you use your vehicle.

For super, there are the same complexities to consider. Will there be a cost to leave your existing fund? What would the changeover cost be? The running costs will depend on how you use the fund – more complex investment options and more insurance will increase costs, whilst staying with standard options will be cheaper but may not meet your needs.

Optional extras

Many vehicles now include standard features that were once optional extras, but you can still choose colours and accessories such as a tow bar, roof racks and so on.

Super is the same. For instance, you may be able to nominate who gets your super when you die. Membership of some funds may qualify you for special deals like access to home loans or discount travel.

While you may only be concerned with accumulating money in super now, in the future you will want to access it. This could be in the form of lump sum or pension withdrawals. The nearer you are to retirement, the more important it is to select a fund that will serve you well when you start to draw an income.

Making the change

Buying a new car is not something most of us do every day and it should be the same with changing super funds. It is a human foible that we tend to focus on short-term issues rather than the more important long-term outcomes. Buying a car is much more exciting and immediately rewarding than planning for your future.

Super choice provides an incentive to consider all of your financial needs and ensure your fund is working for you.

And finally, you wouldn't buy your new car from a dodgy dealer, so don't rely on any old advice on your super. Always consult a professional financial adviser who specialises in this area.

Taking control of your superannuation

A popular choice for managing superannuation is to take personal control via a self-managed superannuation fund (SMSF).

Although membership is limited to a maximum of four people per fund, the Australian Tax Office (ATO) reports there are over half a million SMSFs, representing more than a million members. It estimates the value of assets held within SMSFs is more than $670 billion!

So, what's the attraction? Below are some key advantages of managing your own super:

Control

All members of the fund are also trustees and are therefore responsible for all decisions. They are required to manage the fund in accordance with current superannuation laws.

Flexibility

Trustees can seek the assistance of administrators and licensed advisers to help them meet and maintain their legal responsibilities in the running of their fund, or they can do it all themselves.

Investment choice

A much wider range of investments is available to trustees than may otherwise be offered by retail or industry funds. This allows maximum flexibility in investment selection, especially for geared investments, certain types of land holdings and personal use assets like artwork and collectibles. There are, however, strict rules that govern how personal use assets and collectibles held in SMSFs are stored.

Direct property

An SMSF can invest in direct property, whereas retail funds usually cannot. In addition, a business property owned outside superannuation may be transferred into an SMSF. For many self-employed people, having their SMSF own their business premises can make financial sense.

Cost savings

SMSF fees are usually fixed whereas retail super funds are charged as a percentage of the account balance. So for accounts over $250,000, it may be more cost effective to establish an SMSF than to use a retail fund.

Taxation

SMSFs can allow trustees to take a more tailored approach to managing taxation, especially when it comes to capital gains tax.

Insurance

SMSFs can hold life, temporary and permanent disability insurance on their members. This can be a tax-effective way of managing both the cost of the insurance and any future insurance payouts.

Estate planning

The trust deed for an SMSF may allow for binding death benefit nominations. A will can be challenged in court, but under a properly executed binding death benefit nomination, trustees must pay a death benefit as directed. This can provide greater certainty in the distribution of assets.

It is clear that many people find the ability to manage their retirement nest eggs highly rewarding, despite the detailed legal responsibilities attached.

Although there are many aspects to consider when converting your super funds to an SMSF, the added choices, flexibility and cost effectiveness may outweigh the additional time taken for administrative purposes.

Please contact us if you would like some guidance to help you determine if managing your own super might be right for you.

GET YOUR SUPER TOGETHER AND SAVE

If you have had different jobs with different employers over your working career you will probably have superannuation accounts in many different funds. Apart from the time it takes to keep track of these accounts, there are three more serious concerns of which you should be aware.

INVESTMENT STRATEGY

Choosing the right investments for your situation is critical to maximising your retirement nest egg. Super is for the long term and just 1% extra in returns every year can make a significant difference. For example, if you were earning $70,000 per annum and your fund was receiving only the 9.5%pa superannuation guarantee contributions, you could have $288,000[1] after 20 years if the fund consistently earned 7%pa. If it earned just 1%pa more, you could have $326,000[2], over $38,000 more!

REPORTS AND FEES

More than one fund means you receive multiple annual reports and statements either by post or to your inbox. Apart from being a nuisance, the big danger is that your super will be eroded by fees.

LOST BILLIONS

An inactive account is one that has not been accessed or contributed to in the past 12 months and the super fund cannot locate the account owner. Superannuation held in inactive accounts with balances less than $6,000 is transferred into the federal government's consolidated revenue account. As there are billions of dollars held in inactive accounts, this is a huge windfall for the government, but does any of this money belong to you?

You can easily find out if you have any lost super by using your MyGov account and linking to the ATO. If there is lost super showing, follow the instructions on the MyGov service to claim it. If you don't have a MyGov account you can download a form from **www.ato.gov.au** and submit it to instigate a search. Or you can use any of the private services available to locate your super.

INSURANCE

When preparing to consolidate your super funds, make sure you look at any insurance that might be included in these funds. Don't leave yourself vulnerable without sufficient cover. Talk to us about this before you close any accounts.

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[1] zero initial investment, $6,650 pa regular contribution over 20 years [a flat 9.5% of $70k as SG], with a 7% rate of return;

[2] Same assumptions except 8% pa rate of return.

All calculations do not take into account inflation, tax or fees/charges.

The 'what, why and how' of contributing to super

Despite frequent changes to its governing rules, superannuation remains, for most people, a tax-effective environment in which to save for retirement. Here's a quick Q&A on the what, why and how of contributing to superannuation from this point on.

Why should I contribute to super?

Some super contributions and the investment earnings within super funds are taxed at 15%. As this is lower than the marginal tax rate for people earning more than $18,200 per annum, less tax is paid on the money going into super than if it was paid to you as normal income. The higher your marginal tax rate, the greater the benefit.

What types of contributions can I make?

Concessional contributions. These are contributions on which you or your employer has claimed a tax deduction. They are taxed at 15% within the super fund. If you earn more than $250,000 per annum you will be taxed an additional 15% on the concessional contributions above this threshold. Concessional contributions include:

- Compulsory employer (Superannuation Guarantee) contributions. Your employer must pay 9.5% on top of your ordinary time earnings to your super fund when you earn more than $450 per month.
- Salary sacrificed contributions made from your pre-tax income.
- Personal contributions on which you claim a tax deduction.

Low Income Superannuation Tax Offset (which is actually a refund) on the tax you've paid on contributions. It applies if you earn less than $37,000 per annum and is capped at $500. This is paid to your super fund and prevents your super contributions from being taxed at a higher rate than your normal income.

Cap: $25,000 per annum. The unused portion can be carried forward and used in future years if your total super balance is under $500,000.

Non-concessional contributions. Contributions on which a tax deduction has not been claimed, including:

- Personal contributions on which you do not claim a tax deduction, for example those in excess of the concessional cap or you are seeking a government co-contribution.
- Spouse contributions. These can generate a tax offset of up to $540 if your spouse earns less than $40,000 per annum.

- Government co-contributions. Worth up to $500, co-contributions are available if your taxable income is less than $51,813 per annum and you make a non-concessional contribution.

Caps: $100,000 per annum, or $300,000 if a further two years of contributions are brought forward.

Note: you cannot make non-concessional contributions if your total superannuation balance exceeds the general transfer balance cap (the amount that can be transferred to pension phase), currently $1.6 million.

WHO CAN CONTRIBUTE TO SUPER?

You can make personal contributions to super if:

- you are under 65 years of age;
- you are aged between 65 and 75 and were gainfully employed (including self-employed) for at least 40 hours over 30 consecutive days during the financial year.

You can claim a tax deduction for these contributions, but make sure you don't exceed the $25,000 annual cap for concessional contributions from all sources; or the $100,000 cap on non-concessional contributions.

Spouse and government co-contributions can only be received up to age 70 provided you pass the work test.

You are eligible for mandated employer contributions, including Super Guarantee payments, regardless of your age.

GET IT RIGHT

A successful super contribution strategy can mean the difference between looking forward to retirement and dreading it. Super is a complex area and further rules apply in some situations. Getting things wrong can be costly so talk to us and get the right advice on the best ways to boost your super.

IT'S NOT REALLY A SACRIFICE

If you are earning more than you need to live comfortably, salary sacrificing may be an attractive option to reduce your tax, boost your superannuation and prepare for a more comfortable retirement later on.

Salary sacrificing simply involves having part of your salary paid into a superannuation fund by your employer rather than receiving it as income. These contributions are not included as part of your assessable income, reducing your income tax burden.

However, you can't have it all your own way.

Salary sacrificing is such an attractive strategy but beware of exceeding the concessional contributions cap which will negate any tax benefits. Staying under your applicable limit will mean salary sacrificed contributions attract only a 15% contributions tax. This is significantly less than you would pay in income tax if you received it as income.

CASE STUDY

Karen is promoted to a more senior role and her annual salary increases from $70,000 to $80,000 per annum. Her employer offers her the option of having the additional remuneration paid direct into her superannuation (salary sacrifice) or receiving it as income, which she could then contribute into superannuation if she wishes.

The following table compares the different outcomes of the two strategies including the first year's earnings on the contribution.

	Without Salary Sacrifice	With Salary Sacrifice
Additional remuneration	$10,000	$10,000
Less: salary sacrifice	-	$10,000
Additional assessable income	$10,000	-
Less: Income tax (32.5%)	$3,250	-
Less: Medicare levy	$200	-
Additional income after tax	$6,550	-
Personal contribution into superannuation	$6,550	-

Less: Superannuation contributions tax (15%)	-	$1,500
Net contribution into superannuation	$6,550	$8,500
Earnings on additional superannuation (7%)	$230	$298
Less: tax on superannuation earnings (15%)	$35	$45
Superannuation earnings after tax	$195	$253
Benefits:		
Additional income (inc. superannuation earnings)	$10,230	$10,298
Total tax	$3,485	$1,545
Total boost to superannuation	$6,745	$8,753

There is an obvious win-win for Karen by sacrificing the additional remuneration to super – she pays less tax and increases her superannuation balance by a larger amount.

You will also need to have a formal agreement in place with your employer. And importantly, you won't be able to access the money until you retire. Depending on your year of birth you may have to wait until you turn 60 before you can access these funds.

If you want to take advantage of saving tax through salary sacrificing to super, firstly speak to your employer and then talk to us to help you set up an effective arrangement to maximise your benefits in both the short and long term.

PROTECT YOURSELF THROUGH SUPERANNUATION

The attractiveness of superannuation as an investment and savings vehicle is well known. As we mentioned earlier, although the federal government places limits on the amount of tax-effective contributions we can make, the ability to structure insurance arrangements through super remains.

HOW DOES INSURANCE THROUGH SUPER WORK?

The types of insurances considered here are limited to those that relate to a person's life. Specifically, it includes cover for death, total and permanent disability and temporary disability/illness (income protection).

Rather than owning one of these policies directly, you may be able to arrange for it to be owned by your super fund on your behalf. The flow of premiums and claim payments is shown in the diagram below.

SUPERANNUATION OR PERSONAL OWNERSHIP ... WHAT'S BEST?

The fact that you *can* hold insurance through your super fund doesn't mean that in all cases you *should*. Everyone's situation is different and it is crucial to seek good advice.

Here are a few key issues to consider:

- *Cash flow:* Having your super fund pay your premiums can free up some of your cash for other pressing needs. But don't forget that the super fund deducts the premium from your account, so you'll eventually pay for it through a lower retirement benefit.
- *Flexibility:* Your super fund probably offers one insurer only and the beneficiaries of the policy are limited to those allowed under superannuation laws. Personally held policies allow you to shop around for the best deal, and you have more flexibility to choose who to leave the money to.
- *Tax:* Super funds can claim a deduction for premiums on death and permanent disability insurance held for their members (usually not available for these policies when held personally). However, tax issues are more likely to arise when these benefits are paid through a super fund in the event of claim.

On the other hand, income protection insurance premiums are deductible when the policy is either held directly or in a super fund. If your marginal tax rate is higher than a super fund's, then the tax benefit will be greater if the policy is held personally.

- *Premium rates:* Your super fund may have arranged "group insurance" rates that are cheaper than individual policies. Also, some insurers have "automatic acceptance" limits through super policies that give you access to a certain level of cover without medical checks.
- *Payment rules:* When claiming on insurance through a super fund, it is necessary to meet the insurer's policy rules as well as the super fund's rules and relevant legislative requirements. This is particularly important for disability and critical illness policies, as the money may be tied up in super until you retire depending on your super fund's rules. Lump sum payments paid from a TPD policy held within a super fund cannot be made to the beneficiary unless and until that person satisfies a condition of release as defined in the legislation. This all but rules out the use of 'own occupation' TPD policies within super.

In some cases, it can be wise to have some insurance inside super and some outside. The best option for you will depend on your personal circumstances, so talk to us when considering any changes to your insurance arrangements.

PRESERVED BUT NOT FORGOTTEN

It is important to be aware of exactly when and how you can access your super, and what you can do in the meantime to make sure it is working to your advantage.

PRESERVED UNTIL WHEN?

The super rules state that you can't generally get your hands on your benefit until you meet at least one of a list of conditions. Most of these are based on your age and personal situation, and sometimes the type of benefit you can receive is limited.

Here is a summary of the most common situations that allow access to super benefits:

√ √ = lump sum or pension access
√= pension only
x = withdrawals not permitted

	Age			
Personal situation	Under Preservation Age	55* or more	60 or more	65 or more
Death or permanent disability	√ √	√ √	√ √	√ √
Retirement	x	√ √	√ √	√ √
Change jobs	x	x	√ √	√ √
None of the above (ie. still working full-time)	x	√	√	√ √

* the "preservation age" gradually increases from 55 to 60 for people born after 1960.

Note that these rules are the minimum preservation standards contained in superannuation law. Some super funds will apply *more restrictions* on access to your benefits; a common example is for an employer fund to deny access while you are still employed with that employer (regardless of age).

It's your money, don't forget about it

Most people who own an investment property can see the value in periodically checking up on its general condition. They know that if the fixtures and fittings are holding up, the tenants are paying on time and the local area is booming, these factors assist in achieving the highest possible rent as well as eventual capital gain upon sale.

A similar approach to your super – even when funds are 'preserved' for a long time – can also be of considerable value to you. Remember that you usually have some degree of control over preserved benefits, such as choice of the types of underlying investments (from defensive to aggressive and many in between), the level of life insurance you have through the fund, and maybe the ability to choose who should receive the death benefits paid from the fund.

These elements of control vary greatly from one super fund to the next, so the best option is to seek professional advice to ensure your super is working for your future.

Who gets your super?

Who decides what happens to your superannuation savings when you die?

You may think that you do, but that isn't always the case. The ultimate decision may be made by someone you don't even know – the trustee of your superannuation fund. Let's look at how you can have greater control.

Binding death benefit nominations

The most certain way to direct payment of your superannuation death benefit is by making a binding death benefit nomination. The nominated beneficiaries must be 'dependants' – a spouse, de facto spouse, child or financial dependant – or a legal personal representative (ie. the executor or administrator of a deceased estate.)

If the nomination has been properly signed and witnessed, and is still current at the date of death, then the trustees of the superannuation fund **must** pay the death benefit to the nominated beneficiaries.

Unlike wills, valid binding superannuation nominations are unlikely to be overturned by a court, so they provide great certainty. It is up to the trustees of each superannuation fund to decide whether or not to allow binding nominations, so they aren't available to everyone.

Although some funds offer non-lapsing binding death benefit nominations, most are only valid for three years, so it's important to check yours and ensure it remains up-to-date.

Trustee's discretion

The trustee is under a legal obligation to pay a death benefit to the member's dependants, and in most cases benefits will be paid in a way that is consistent with the wishes of the deceased member. However, it is possible the trustee may recognise a wider range of dependants than the member would have liked – including a separated spouse.

In some cases, the member's preferred beneficiary may not meet the legal definition of a dependant. This may apply to parents. In the absence of any dependants and a legal personal representative, the trustee may exercise their discretion, and pay the benefit to a non-dependant.

While dependants receive lump-sum death benefits tax free, the rate of tax payable by non-dependants can vary from nil to 30% depending on the components of the superannuation payment.

Superannuation pensions

The situation is a little different if the member has already retired and is drawing a superannuation pension. With pensions, it is common to nominate a

surviving spouse as a reversionary beneficiary. This means the pension payments will continue to be paid to the nominee, either until their death, or until the funds run out. If the reversionary beneficiary dies, any remaining balance is then paid out as a lump sum death benefit according to the type of nomination they have made.

GOOD ADVICE REQUIRED

Increasing levels of wealth being held via superannuation and the nomination of beneficiaries should be made in the context of a comprehensive estate plan. This includes taking into account the way superannuation death benefits are taxed when paid to different types of beneficiary. We can help you make the right decision for you.

How can we help?

The rules that govern superannuation in Australia are complex to say the least. It doesn't matter if you have a million dollars or just ten thousand sitting in super, it's crucial to seek professional advice on the best way to manage it to suit your personal circumstances.

Retirement might be four years, or forty, away. The time to start focusing on how your super will work harder for you is now.

Contact us to make a free, no-obligation appointment and you can talk to us about superannuation plus all other aspects of financial management.

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Why? Because the information does not take into account your individual objectives, financial situation or needs. It is strongly recommended that you do not act on any information contained before seeking personalised advice from a licensed financial adviser.

We are suitably qualified to discuss everything covered in this publication and encourage you to contact us if you have further questions about this material.

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