

Understanding superannuation

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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 15% for individuals. This increases to 30% for those earning \$300,000 or above
- investment income tax at a maximum of 15%
- capital gains tax 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 an income stream is commenced, the tax rate on income and capital gains in the pension account reduce 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 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 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, the owner reaches age 65. A person's preservation age will vary between age 55 and 60 depending on their date of birth (as outlined in the table below).

| 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.

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.

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 tax 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 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).

Be aware

- *Concessional contributions will be taxed at 15% (or at 30% for individuals with income of \$300,000 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 (from 1 July 2013).*
- *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 contributions refunded, rather than retaining them in superannuation.*

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.

Excess non-concessional contributions made after 1 July 2013 may be withdrawn from superannuation, along with associated earnings on these amounts. 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) are able to bring forward 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 three year cap is initially triggered determines the value that can be contributed during the three year period.

Be aware

- *Contributions in **excess** of the non-concessional limits will be taxed at the **highest marginal tax rate** plus Medicare levy and the Budget Deficit Repair Levy (from 1 July 2014- 30 June 2017). 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.*
- *If you elect to withdraw an excess non-concessional contribution and the associated earnings, 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 49%.*
- *Associated earnings on excess non-concessional contributions is determined by the ATO using a formula, and will not reflect actual fund earnings.*
- *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.

Death benefits

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

Anti detriment payments

Some superannuation funds make anti detriment payments as part of a lump sum death benefit paid to eligible beneficiaries.

The payment is broadly designed to restore the deceased's death benefit to what it would have been if a 'contributions tax' had not been paid on the taxable contributions. The superannuation fund can claim any payment as a tax deduction.

An anti detriment amount can only be paid to:

- a spouse or former spouse
- a child of any age, or
- the estate if the fund trustee is reasonably satisfied the ultimate beneficiaries are one or more of the above

Not all beneficiaries who are eligible to receive a superannuation death benefit will qualify for an anti detriment payment and vice versa.