

Superannuation

Superannuation is important because it may be your only means of financial support in retirement.

A basic retirement versus a great retirement

Wouldn't you like to enjoy your future without having to worry about money? Unfortunately most people have a huge shortfall in their retirement savings: the average Australian's superannuation balance is just \$63,000*, not much considering a comfortable retirement can cost up to \$38,403# pa for a single person and \$51,437# pa for a couple.

Your employer's compulsory 9% Superannuation Guarantee (SG) contributions are unlikely to give you a comfortable retirement. But if you start contributing to your super now you can make more of your retirement later.



* Australia's exploding DIY funds, Eureka report, February 2007

ASFA Retirement Living survey - September Quarter 2009

Super tax advantages

Superannuation is one of the most tax effective ways to save for your future.

Your contributions are taxed at up to 15% which is much lower than most of the marginal tax rates. The tax paid on the fund earnings again is only up to 15% instead of up to 45% on other investment earnings outside of super. If your super is then taken as a lump sum or converted to a retirement income stream there are further tax concessions.

Because of the concessional tax treatment enjoyed by super, there are limits on how much you can contribute each year.

Firstly, there are two types of contributions you can make to super; concessional (or pre-tax) contributions and non-concessional (or after tax) contributions.

Concessional contributions

Concessional contributions are made with pre-tax money and are limited to \$25,000 per person per year. This type of contribution includes the Superannuation Guarantee (SG) contributions made by your employer on your behalf (usually equal to 9% of your salary) and any additional salary sacrifice contributions you choose to make.

The Government announced the new reduced limit for concessional contributions in the 2009 Federal Budget. It's important to remember that concessional contributions include SG, any personal deductible contributions or any salary sacrifice contributions you make. It will be important to monitor how much you contribute under these arrangements; if you exceed the new limit, you could incur penalty tax.

If you are 50 or over (or from the year you turn 50) transitional arrangements are in place until 30 June 2012 that allow you to contribute up to \$50,000 per person per year – that's double the usual limit.

Non-concessional contributions

Non-concessional contributions are those made with after tax money and for the 2009/10 year, you can contribute up to \$150,000 per person per year.

The earlier you start contributing more to your super, the better. The super rules mean you can no longer play 'catch up' as you near retirement. Instead, it's important to start making the most of your annual limits and there are a number of strategies that can help you do that.

Triple the amount you can contribute in one year

By utilising the 'bring forward' provisions, anyone under the age of 65 can bring forward two years' contribution limits and contribute up to \$450,000 in one year (or \$900,000 for a couple), even if you are not working. So if you are coming into a sum of money, why not consider contributing it to super?

Receive a Super Co-contribution from the Government

If you earn less than \$61,920, you may be eligible to receive a co-contribution from the Government. For every dollar you contribute to super, the Government will match it with a co-contribution of \$1.00, up to a maximum of \$1,000. The co-contribution reduces by 3.33 cents for every dollar of income over \$31,920 pa and phases out completely at \$61,920 pa.

Salary sacrifice isn't really a sacrifice at all

If your employer permits it, a salary sacrifice strategy allows you to 'sacrifice' some of your salary to your super. The benefits of this are twofold:

- Firstly, your salary reduces by the amount you contribute to super, so you could end up paying less in tax and, depending on how much you contribute, you could even drop down a tax bracket
- Super contributions are taxed concessionally at up to just 15% compared to your marginal rate, so you end up paying less in tax twice!

It's important to note that from 1 July 2009, any contributions you make under a salary sacrifice arrangement will be included as assessable income for the purposes of Centrelink eligibility.

Access your super while you are still working

As long as you have reached your 'preservation age', a transition to retirement pension allows you to access your super while you are still working and can be used in one of two ways: either to give your super one last blast before you retire or to help you ease into retirement sooner.

By using some or all of your super to purchase a transition to retirement pension you can then make salary sacrifice contributions to your super and use the pension income to supplement your reduced salary. With the reduced contribution limits, it will be important to monitor the level of contributions you make.

Alternatively, if you are wanting to reduce your working hours and ease into retirement, you could simply use the transition to retirement pension income to supplement your reduced salary. It's important to understand that this strategy will reduce your superannuation balance.

Contribute on behalf of your spouse

If you have a non working or low income earning spouse, you could contribute to super on their behalf and receive a generous tax rebate.

Your super, your choice

It is beneficial to understand where and how your super is invested because you do have a choice.

Eligible employees can choose the super fund to which their employer's compulsory SG contributions are made. With 'choice of fund', you may no longer need to change funds when you change employers.

Investing super wisely

It is also important to ensure your super is invested in line with your personal circumstances and objectives, including your risk profile, performance objectives and investment timeframe. Rather than simply investing in the default fund, you can select the way your super is invested. If your super is primarily in cash or other conservative investments you may be missing out on higher returns that could be generated from a larger allocation to growth investments (such as shares). If you have a longer time over which to invest you may like to consider more growth oriented investments.

In 2009, interest rates hit a 40 year low which is certainly advantageous from a debt perspective, but not so advantageous from an investment perspective. Super is a long term investment and in times of downturn, it's important to remember the fundamentals of investing; share markets are cyclical and eventually value will be restored. History has shown that shares have the potential to outperform all other asset classes over the long term. Although shares have declined in value during the global financial crisis, it's also a time when opportunities may arise. Learn about the fundamentals of investing so you can make the most of your super investment, rather than missing out on opportunities.

A Bridges financial planner can help you implement an investment strategy for your super that not only meets your appetite for risk, but one that will also help you achieve your long term goals.

Consolidate your super

Do you have more than one super account, perhaps from changing jobs over the years? Consolidating your multiple accounts could save you money in fees and charges.

If you want to find out more about how to make the most of your super, make an appointment with a Bridges financial planner – your initial consultation is complimentary and obligation-free.

Small super funds

If you want more control over your super and you have a balance of at least \$250,000 to invest, there are two small super fund options you can consider – either a self-managed superannuation fund (SMSF) or a Small APRA Fund (or SAF). However, it's important to remember that with more control generally comes more responsibility.

Self-managed super funds (SMSF)

Self managed superannuation is a vehicle that gives you freedom of investment choice allowing you to take greater control of your retirement.

An SMSF, also known as a DIY fund, is a super fund with four or less members, where each member of the fund is a trustee or the director of a corporate trustee. Each trustee therefore controls the investment of their contributions and the payment of their benefits.

Over the last decade, the growth in SMSFs has been phenomenal and is one of the fastest growing segments of the superannuation industry. The impetus for this growth is threefold: the desire for more control by fund members, the advent of Super Choice and the increased focus on retirement planning. There are now over 400,000 self managed super funds registered with the ATO which hold in excess of \$326 billion in assets. Over 1,500 new funds are being established each month.

Whether an SMSF is suitable will depend on your circumstances.

Part of the attractiveness of SMSFs is that they give you access to a large variety of investments not typically available through other superannuation funds. For example, you can invest in private assets such as artwork.

They also provide a way for family members (as the trustees) to combine their retirement savings in the one fund.

If you have your own business, an SMSF can be attractive because you can roll your business property into the fund.

However, the changing legislation for SMSFs can be complex. Obtaining financial advice can help you understand what is required.

It is also important to note that an SMSF may involve a lot more administrative work for you and the compliance requirements can be onerous. You also need to ensure that the costs of running your SMSF do not outweigh the returns.

There are many things to consider before setting up an SMSF including:

- understanding how an SMSF differs from other super funds
- the roles and responsibilities of the trustees
- the establishment process for an SMSF
- how the fund is structured and what investments are permitted.

Small APRA Funds (SAFs)

Like an SMSF, a SAF gives you freedom of investment choice but, unlike an SMSF, you don't have to shoulder the burden of compliance – a professional trustee does that for you.

A Bridges financial planner can explain these options to you in more detail and recommend a strategy that is appropriate for you.