FactFile

Superannuation Funds

Creating your investment portfolio by making contributions to a superannuation fund can be one of the most effective ways to save for your retirement.

What is a superannuation fund?

A superannuation fund is a long term investment account which is designed to assist you to save money during your working life to support your lifestyle in retirement.

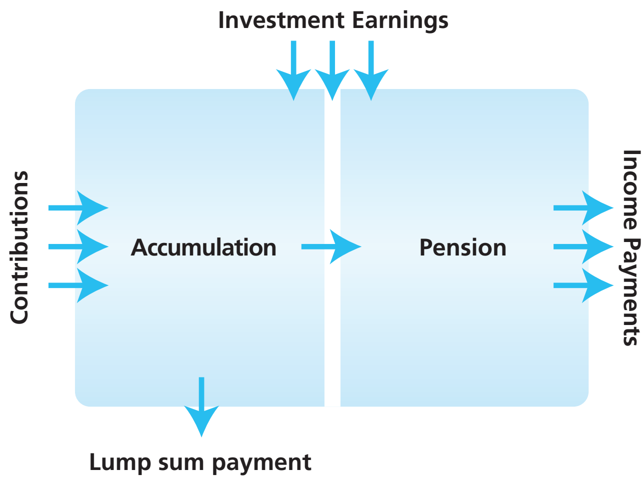
Contributions are made to your superannuation account and accumulated during your working life, to be invested in a range of investment assets, such as cash, fixed interest, shares, property, and alternative investments.

The type of assets into which investments are made will depend upon the investment strategy of your fund.

Profits from these investments, both income and capital growth, are added to your contributions to increase the value of your superannuation.

Once you have met a 'condition of release', generally at when you have reached 55 years of age and have permanently retired from the workforce, you will be able to:

- withdraw your accumulated superannuation from your fund as a lump sum, or
- roll your superannuation across to a pension account and commence to receive income payments.



Superannuation contributions

Contributions into your superannuation account will generally be made by either yourself, your spouse or your employer.

If you are an employee, your employer will usually be required to make superannuation contributions into your superannuation account equal to at least 9% of your annual wage or salary under the Superannuation Guarantee (SG) or under an industrial award.

In addition to these SG contributions, you may also be able to salary sacrifice additional contributions into your superannuation account.

From 1 July 2013, the rate of superannuation contributions (as shown in the following table) will increase gradually to 12% at 1 July 2019.

Year	Rate (%)
2013-14	9.25
2014-15	9.50
2015-16	10.00
2016-17	10.50
2017-18	11.00
2018-19	11.50
2019-20	12.00

In order for any superannuation contributions to be accepted into your account, you must meet certain age and work requirements.

Your age	Contribution Type			
	SG or Industrial Award	Salary sacrifice	Personal	Spouse
Under 65	✔	✔	✔	✔
65 to 69	✔	If gainfully employed for 40 hours during any 30 day period in the current financial year		
70 to 74	✔	If gainfully employed for 40 hours during any 30 day period in the current financial year		✘
75 and over	✘*	✘	✘	✘

* From 1 July 2013, the superannuation age limit of age 75 will be abolished.

Tax treatment of contributions

Concessional contributions

Where a contribution is made under the SG or an award or is a salary sacrificed contribution, your employer will be able to claim the contributions as a tax deduction. This tax deduction is identical to the deduction that your employer can claim on any amount paid to you as salary.

Likewise if you are either self employed or less than 10% of your annual income comes from gainful employment, you will be able to claim your personal contributions as a deduction against your assessable income to reduce your personal income tax.

When these contributions are invested into your superannuation account, the trustee of the fund will deduct tax from the contribution at the rate of 15%.

Despite this 15% contributions tax, it can be quite tax effective to receive part of your salary as a salary sacrifice into superannuation.

The following example compares the net benefit from salary taxed at 31.5% compared with a salary sacrificed superannuation contribution.

	Salary	Superannuation contribution
Gross payment	$1,000	$1,000
Tax rate	32.5%	15%
Tax payable	$325	$150
Net benefit	$675	$850

From 1 July 2012, employees who have adjusted taxable income up to $37,000 will receive a refund of contributions tax via a low income super contribution. This will ensure that employees will be no worse off when receiving superannuation guarantee contributions from their employer.

To be eligible for the low income super contribution, you must have concessional contributions for the year and you:

- must have adjusted taxable income does not exceed $37,000 (non indexed).
- are not a holder of a temporary resident visa (New Zealand citizens in Australia do not hold a temporary resident visa and are as such, eligible for the payment).
- must satisfy an income test in which 10% or more of their total income s derived from employment (or a business if self employed).

Note: the low income superannuation contribution also applies to self employed people who make personal deductible contributions into superannuation and satisfy the above eligibility criteria.

Non-concessional contributions

Contributions which you or your spouse make into your superannuation account for which a deduction is not claimed are called non-concessional contributions. These contributions will not be subject to any tax when invested into a superannuation fund if you remain within the non-concessional contribution cap (see the section on Excessive Contributions for more details).

There may be times when your non-concessional contribution into a superannuation fund will attract additional benefits.

- If you make a non-concessional contribution into your superannuation account and your earn income of less than $46,920[1] the government will make an additional contribution into your account.

  The amount of government co-contribution you will receive will depend on the amount that you have contributed and the amount of income you have earned during the year.
- If you make a non-concessional contribution into your spouse's superannuation account and their annual income is less than $13,800, you may be able to claim a tax offset of up to $540 as a result of that contribution.

  The amount of the government tax offset you will receive will depend on the amount that you contributed and the amount of income your spouse has earned during the year.

[1] Assessable income for tax purposes, reportable fringe benefits and reportable employer super contributions (such as salary sacrifice contributions into superannuation).

Excessive contributions

Although the Government provides tax incentives to encourage people to contribute to their superannuation fund, they do limit the amount that can be contributed each year without a penalty tax being imposed. These limits are known as contribution caps.

If you exceed your concessional or non-concessional cap, you may be subject to additional tax of up to 46.5% of your excessive contributions.

You should always check with your financial adviser if you think that more than $25,000 of concessional contributions or $150,000 (or up to $450,000 over a three year period using the bring forward rule) of non-concessional contributions will be made into superannuation for you in any one financial year.

The bring forward rule: Those aged 64 or under at the start of a financial year could use the three year bring forward rule and contribute up to $450,000. **Important:** The 3 year bring forward rule cannot be used if you are over age 65 (ie age 65 as at 1 July of the relevant financial year). After age 75, no non-concessional contributions are possible.

This will help to ensure you will not be exposed to the penalty tax as a result of exceeding your contributions limits.

Superannuation benefits

Preservation

Superannuation is designed to assist you to build an investment portfolio which you can use to support your lifestyle in retirement.

To encourage you to contribute to your superannuation fund, the Government offers a number of tax concessions on superannuation savings.

But the Government has also put in place a system of 'preservation' to ensure that normally you cannot withdraw your superannuation savings until you have met a 'condition of release'.

Restricted and Unpreserved benefits

Contributions made to a superannuation fund prior to 1 July 1999 may be classified as restricted or unpreserved benefits.

You may be able to withdraw these benefits prior to meeting one of the 'conditions of release' shown below. This can be a complicated area and your financial adviser will be able to discuss with you whether any of your benefits fall into these categories.

Preservation age

For many people, a 'condition of release' will first be met when they are over their preservation age and permanently retired from the workforce.

Most people will reach their preservation age when they turn 55 years of age.

However for any person born after 1 July 1960 their preservation age will be later.

Date of birth	Preservation age
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
1 July 1964 – or later	60

Conditions of release

The following table provides a guide to the most common 'conditions of release' and the type of benefits that you can receive once each of these conditions has been meet.

In some cases you may be eligible to withdraw part of your benefits (i.e. unpreserved or restricted benefits) prior to meeting one of these conditions of release.

Condition of release	Income stream (i.e. pension or annuity)	Lump sum withdrawal
Reaching your 'preservation age' (i.e. transition to retirement)	✔	✘
Permanently retired after reaching 55 years of age	✔	✔
Change of employers after reaching 60 years of age	✔	✔
Reaching 65 years of age	✔	✔
Terminal medical condition	✔	✔
Death	Refer to the 'Estate Planning' section of this brochure	
Permanent incapacity	✔	✔
Temporary incapacity	✔ During the period of the incapacity only[1]	✘
Severe financial hardship	✘	✔ One payment per year of up to $10,000
Compassionate grounds	✘	✔

[1] Can only be funded via an income protection policy

Investment earnings and insurance

Accumulation account

When a contribution is made to a superannuation fund, the amount of contribution remaining after any contributions tax has been removed will generally be used by the trustee of the fund to purchase either:

- investment assets and/or
- an insurance policy which will fund the payment of a benefit to you, your family members, or your estate if you were to die or become severely disabled while you are a member of the fund.

Tax treatment of investment earnings

As these assets produce income and realise capital gains, all of this income and 2/3rds of the capital gain will be taxed at 15%. If the fund has capital losses or has incurred tax deductible expenses, the trustee can use these items to reduce the tax paid by the fund further.

Taxing of superannuation benefits

The amount that you, or at your death your beneficiary, will be taxed on in respect of any lump sum withdrawals of income payments that are paid from your superannuation fund will depend upon a number of factors:

- the type of benefit received (i.e. lump sum or income stream)
- your age when the benefit was paid, and
- the condition of release which was met.

In addition, each benefit will usually contain one or more of three components; an untaxed component, a taxed component – taxed element, a taxed component – untaxed element

The amount of each component that forms your benefit will also affect the amount of tax you will pay.

The table below outlines the tax payable on most types of benefits.

Where the benefit is received as a result of incapacity or death, lower tax rates may apply.

The following Estate Planning section outlines how any remaining superannuation benefit will be treated at the time of your death.

For details on the taxation of incapacity benefits, please consult your financial adviser.

		Tax rate payable		
Age when benefit received	**Type of benefit**	**Untaxed component**	**Taxable component – taxed element**	**Taxable component – is untaxed element**
Under preservation age	Lump sum	0%	21.5%	• 31.5% on first $175,000 • 46.5% on remainder
	Income stream	0%	You marginal rate	Your marginal rate
Preservation age to age 59	Lump sum	0%	0% on first $175,000	• 16.5% on the remainder
			• 16.5% on first $175,000	• 31.5% on first $1,255,000 • 46.5% on remainder
	Income stream	0%	Your marginal rate less 15%	Your marginal rate
Age 60 and over	Lump sum	0%	0%	• 16.5% on first $175.000 • 46.5% on remainder
	Income stream	0%	0%	Your marginal rate less 10%

Note: 'Your marginal rate' includes the Medicare levy

Estate Planning

If a balance remains in your superannuation account at the time of your death, death benefits may be paid to your beneficiaries or your estate.

Types of beneficiaries

The type of benefit which can be paid will depend upon the relationship that the beneficiary had with you immediately prior to your death, see below table.

It is important to understand that:

- A death benefit cannot be paid from superannuation account to a beneficiary who does not fall into one of the categories shown above (e.g. a parent) unless they are financially dependant upon you or in an interdependency relationship with you.
- Unlike most other assets, the recipient of your superannuation death benefit is not determined under the terms and conditions of your Will. Instead the beneficiary of any remaining account balance will be decided by either:
  - Your nomination contained within you valid Binding Death Benefit Nomination Form,
  - The trustees of your superannuation fund in which your account based pension resides, or
  - The terms and conditions of the Trust Deed of the superannuation fund.

Beneficiary	Type of Benefit
Spouse or partner (including same sex partners)	Pension income or lump sum
Child over 18 and financially dependent upon you	Lump sum only
A child • under the age of 18 years; • aged between 18 years and 25 years and is financially dependent on you; or • is aged 18 years or older and suffers from a (prescribed) disability.	Pension income or lump sum[2]
Financial dependant or had a interdependent relationship with you	Pension income or lump sum
Your estate to be dealt with under your Will	Lump sum only

[2] The pension must be commuted as a tax-free lump sum by age 25 unless the child suffers from a (prescribed) disability.

Tax treatment of death benefits

The tax rates that apply to a death benefit paid to a beneficiary will depend upon a number of factors, including:

- The relationship you had with the beneficiary,
- Whether the benefit is paid as a lump sum or income stream, and
- Your age at death, and that of your beneficiary at the date they become entitled to the benefit.

Your beneficiary should consult with their financial adviser prior to receiving a death benefit from a superannuation fund to ensure that the benefit is received in the most appropriate form.

Consideration should be given not only to any tax payable, but also the future needs of the beneficiary.

Tax treatment of benefits paid as lump sums

Beneficiary	Tax-free component	Taxable component
• Spouse or partner • Child under 18 years of age • Financial dependant • In an interdependent relationship	0%	0%
Any other eligible dependant	0%	Taxed at 16.5%

Tax treatment of death benefits paid as pension income

Your age at death	The age of your beneficiary at benefit payment	Tax-free component	Taxable component
Under age 60	Under age 60	0%	Their marginal tax rate less 15% tax offset until their 60th birthday, then tax free.
	Aged 60 or over	0%	0%
Aged 60 or over	Any age	0%	0%

Social Security assessment

Centrelink and the DVA will disregard your superannuation balance under both the Income and Assets Tests until you reach pension age.

Once either you or your partner has reached age pension age your superannuation investments will generally be:

- included as assets under the assets test, and
- regarded as financial investments, are added to the value of other financial investments and deemed to calculate income from all financial investments.

Lump sum withdrawals

The amount of benefit you withdraw as a lump sum is not treated as income under the Income Test. However, what you do with the money may affect the rate of your pension or allowance.

For example, if the money were used to purchase an income stream, then the applicable income and assets test assessment would apply.

If the money were placed in a bank type account, it would be assessed as an asset and income determined using the deeming rules.

Note: All rates and thresholds shown in this document are applicable for the 2012/13 financial year. Rates and thresholds may be indexed each year.

AUS Financial Advisers Pty Ltd

Consultum Financial Advisers

David Mac Manus
CFP®, Dip FP
Senior Financial Adviser | Director
Risk Insurance Specialist
Authorised Representative

AUS Financial Advisers Pty Ltd
Level 8, 350 Collins Street, Melbourne VIC 3000
Shop 4, 22-40 Bath Lane, Bendigo VIC 3550

P 1300 610 660 | F 03 5441 2112 | M 0467 485 058
E david@ausfinancialadvisers.com.au | W www.ausfinancialadvisers.com.au

David Mac Manus and AUS Financial Advisers Pty Ltd are Authorised Representatives of Consultum Financial Advisers Pty Ltd.

Consultum Financial Advisers

CFAAUS0009 07/2012