Making the Most of Your Super

For many people, super is one of the best ways to accumulate wealth. The Government provides tax benefits to encourage people to fund their own retirement. With more Australians living longer, you may spend more time in retirement than you will working - which is good...so long as you've got the income.

What is superannuation?

While superannuation offers one of the biggest opportunities to secure your financial future, it really is just another form of savings. The main differences are that you:

- May be able to receive some powerful tax benefits on your super money, and
- Usually cannot access the money until you reach preservation age.

There are various ways to accumulate money in super:

- If you're employed, your employer will generally make some contributions for you each year, based on your salary.
- You can also make personal contributions if you choose to from either your:
  - before tax salary (like salary sacrifice contributions by arranging with your employer to pay some of your salary into your super), or
  - after tax salary (this type of personal contribution may make you eligible for an additional Government co-contribution).
- Your spouse may contribute to your super on your behalf too (and then may be eligible for the spouse contribution offset) or split their contributions with you.

Why save for retirement?

With an ageing population and our average life expectancy increasing, it's now unlikely that the Government will be able to adequately provide for everyone in retirement.

But even if the Government can, ask yourself if you would be able to live on social security.

Why super is so important?

Tax benefits available from super can impact on how long your money will last in retirement. Put simply, these benefits mean that money invested in super can last many years longer for you in retirement than if it was invested in the same way, outside super.

How much super is enough?

Working out how much money you'll need to access in retirement is a personal decision. Not only is the amount of money you need dependent upon your own lifestyle choices, but you may have a range of income options in retirement which may supplement your super, such as part-time work or payments from other investments.

The rules on contributing to super

There are rules on when a super fund may accept your contributions. The following super strategies assume that you and your spouse:

- Are under age 65[1].
- Have supplied your TFN to the fund[2].
- Meet contribution eligibility restrictions.
- Regardless of age, from the 2017/18 Financial Year onwards, may contribute up to $25,000 per annum in before tax concessional contributions.
- Contribute less than $300,000 over 3 years in after tax non-concessional contributions.

Otherwise you'll need to review these rules in more detail and consider seeking advice on whether you can use these strategies and if there are any additional taxation consequences that may apply to you.

Super contribution strategies

The best way to contribute to super can vary depending on your age, your employment status and in some cases your income level. If you're employed, it is more than likely your employer is already making some contributions on your behalf. You can also top up your super. Here are four super strategies to consider:

1. Salary sacrificing:

You may 'sacrifice' some or all of your gross salary (before tax income) and instead have your employer pay it into your super for you. This is called salary sacrifice. This can be tax effective as you pay a maximum 15% tax on the contributions below the contribution caps (as opposed to up to 49% outside super). This could also save you tax on your income because salary sacrificing reduces your taxable income. You may even move into a lower tax bracket. For example, if you were to 'sacrifice' $5,000 a year, the table below illustrates the major effect that the tax differences may have on your investment. The 'financial benefit' column shows the difference between investing this money in a super and non-super investment.

The Benefits of Salary Sacrifice

Salary Sacrificed	Other Investment non super (assuming individual tax rate of 32.5%) $5,000	Contribution to Super (15% contribution tax payable) $5,000	Financial Benefit
After Tax	$3,375	$4,250	$875
Plus 7.7% return	$260	$327	$67
Minus tax on returns	$84	$49	$35
Financial position after year 1	$3,551	$4,528	$977
Financial position after year 20 (post tax)	$152,294	$223,205	$70,911

The individual tax rate of 32.5% does not include the Medicare levy of 2%. This table is for illustrative purposes only and is based on assumptions. A change to one or more of the assumptions and your personal circumstances will produce different results. This table illustrates the financial benefit in salary sacrificing to super compared to investing outside super using the following assumptions: From age 40 to age 60, the investor makes a $5,000pa investment, indexed to inflation at 3% pa, from their after-tax salary each year or as a salary sacrifice contribution to super each year without exceeding the concessional contributions cap. Both investments inside and outside super earn a return of 7.7% pa net of fees but before taxes. Outside super, the investor is taxed on investment earnings at the marginal tax rate of 32.5%. Super earnings are taxed at 15%. All figures are in today's dollars.

2. Self-employed contributions:

If you're self-employed and make contributions to super, you may be able to claim a tax deduction on these contributions. The tax deduction on the full amount will be subject to 15% tax on entry to the fund. There's no limit to the amount you can claim as a tax deduction. However, there are contribution caps which determine the rate on your contributions. You should discuss your situation with your financial planner or appropriately authorised accountant before deciding how much to claim.

In addition to tax deductible (concessional) contributions you can also make after-tax (non-concessional) contributions. You cannot claim a tax deduction for your non-concessional contributions but equally they are not taxed at 15% on entry to the super fund. Non-concessional contributions are subject to caps also. If you exceed these caps, the excess amounts will be taxed at 49%.

3. Spouse contributions:

Another tax concession, regardless of your employment status, is a spouse contribution offset, which may be available if you make contributions to your spouse's super. A spouse contribution is an after tax contribution that is invested into a complying super fund held in your spouse's name. By contributing to your spouse's super you can potentially receive a tax offset of up to $540 per year, with a tax offset being more powerful than a deduction. A tax payer may be able to claim this 18% rebate on up to $3,000 of spouse contributions on your tax return if:

- You live together on a permanent basis.
- You did not claim a tax deduction for the contributions.
- Both you and your spouse were Australian residents when the contributions were made.
- Your spouse's assessable income plus reportable fringe benefits plus reportable super contributions is less than $13,800*. (The full $540 offset is payable if you contribute $3,000 for a spouse who earns less than $10,800. If your spouse earns more than this, the offset reduces and cuts out when your spouse's income reaches $13,800).

4. Government co-contributions:

If you earn less than $51,813* per year, the Government may add to the contributions you make from your after-tax pay. This is called a co-contribution.

*including assessable income, fringe benefits and super contributions in 2017/18.

How much will I get?

How much you'll receive depends on your income. For every dollar you contribute from your after-tax income, the Government will put in 50 cents, up to a maximum of $500.

Total income*	Co-contribution available	Your contribution
$36,813 or less	$500	$1,000
$41,813	$333	$1,000
$46,813	$166	$1,000
$51,813 or more	$0	

If you're eligible, the Government will pay the co-contribution directly into your super account after you've put in your tax return for the financial year in which you made the contribution.

For example, if you add to your super before 30 June, your super fund will receive your Government co-contribution after you and the super fund have lodged a tax return for the relevant financial year.

When can I access my super?

You generally can't access your super until after you reach preservation age and declare retirement. This age is set by the Government. Currently, the preservation age is 56 but this is gradually increasing to 60 as outlined in the following table.

Date of Birth	New preservation age (years)
Before 1.7.1961	56
1.7.1961 - 30.6.1962	57
1.7.1962 - 30.6.1963	58
1.7.1963 - 30.6.1964	59
After 30.6.1964	60

Other ways* you may be able to access your benefit include:

- Commencing a pre-retirement pension after reaching preservation age
- Turning age 65
- Financial hardship*
- Compassionate grounds*
- Permanent incapacity*
- A terminal medical condition* or
- Death.

How is super taxed?

Depending on your age, super may be taxed at three stages: when it comes into the fund (super contributions), when it is in the fund (investment earnings) and when it leaves the fund (super benefits). You may think that this sounds like a lot of tax, but in many cases, super is still the most tax effective way for wage earners to invest. There are also many rules surrounding these taxes and many factors which will impact the amount of tax you pay.

Tax on contributions

Your employer and salary sacrifice contributions will generally have contributions tax of 15% deducted as long as your contributions are below the concessional contribution caps. For most wage earners, this rate is likely to be lower than the marginal tax rates they pay.

Tax on investment earnings

Income which is earned in the fund (investment earnings) is taxed at a maximum rate of 15%. Compare this to your individual marginal tax rate for investment earnings outside super.

Tax on super benefits

The amount of tax you pay on your super benefits depends on the type of super benefit, your age and whether you choose to receive your benefits as a lump sum or pension. The amount of tax will also depend on the tax components that make up your benefit.[#]

RJS Wealth Management

Retirement is a complex area; please seek advice from a planning expert prior to implementing strategies to grow your wealth.

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1. If you are aged between 65 and 74 you must meet the work test to be allowed to make salary sacrifice contributions. This work test required you to have worked at least 40 hours within 30 consecutive days in a financial year prior to making the contribution. Generally, a super fund can't accept super contributions when you reach age 75, or 71 for spouse contributions.

2. It is not compulsory for you to quote your TFN to the fund, if you don't, your before-tax contributions are taxed an additional TFN tax of 34% and your after-tax contributions may be refunded to you, less taxes, fees, costs, insurance premiums and reduced or increased for market movements.

3. Your before-tax concessional contributions count toward your concessional cap. Contributions which exceed the concessional (before-tax) contributions cap are included in your assessable income and taxed at your marginal tax rate. These are also included in your non-concessional contributions cap (see footnote 4). Your concessional cap for the 2017/18 financial year and onwards is $25,000 per annum, regardless of age.

4. Your non-concessional contributions count towards your non-concessional cap. You will pay an additional 49% excess contributions tax on contributions in excess of the non-concessional cap.

   Your non-concessional cap for the 2017/18 financial year, if you're:

   - under age 65 is $300,000* over 3 years, or
   - age 65 and over is $100,000*pa

   * These caps may be indexed in future years.

There are different arrangements for temporary residents. These super benefits relate to Australian and New Zealand citizens or Australian permanent residents only.

* Provided specific arrangements and conditions are met. Eligibility conditions apply.

^ This only applies to taxed funds. Different rates apply to untaxed funds, such as public sector funds.

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