shadforth Financial Group

Super funds

1 July 2019 (updated annually)

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 which is designed to help you to save money during your working life to support your lifestyle in retirement.

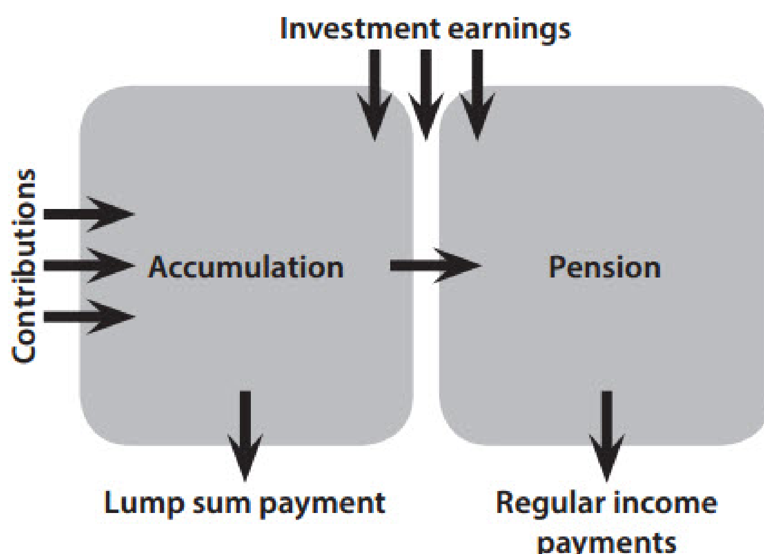
Contributions made to your superannuation accumulate during your working life and are invested in a range of investment assets, such as cash, fixed interest, shares, property and alternative investments.

The type of assets into which investments are made will depend on 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 when you have reached 57 years of age and have permanently retired from the workforce, you will be able to:

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



Superannuation contributions

Contributions will generally be made by either yourself, your spouse and/or your employer.

As an employee, under the superannuation guarantee legislation (SG) or an industrial award, your employer will usually be required to make superannuation contributions on your behalf equal to 9.5 per cent of your annual wage or salary.

In addition to these SG contributions, you may also be able to make additional salary sacrifice contributions.

As outlined in the table below, the rate of SG contributions will increase gradually to 12 per cent by 1 July 2025.

Financial year	Rate (%)
2015/16 – 2020/21	9.5
2021/22	10.0
2022/23	10.5
2023/24	11.0
2024/25	11.5
2025/26 onwards	12.0

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

<table>
<tr><th>Your age</th><th>SG or Industrial award contribution</th><th>Salary sacrifice contribution</th><th>Personal contribution</th><th>Spouse contribution</th></tr>
<tr><td>Under 65</td><td>✔</td><td>✔</td><td>✔</td><td>✔</td></tr>
<tr><td>65 to 69</td><td>✔</td><td colspan="3">If gainfully employed for 40 hours during any 30 day period in the current financial year or meets the work test[1]. For spouse contributions, the work test is dependent on the recipient spouse.</td></tr>
<tr><td>70 to 74</td><td>✔</td><td colspan="2">If gainfully employed for 40 hours during any 30 day period in the current year or meets the work test[1]</td><td>✘</td></tr>
<tr><td>75 and over</td><td>✔</td><td>✘^</td><td>✘^</td><td>✘</td></tr>
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1. A work test exemption allows personal and employer contributions to be accepted where the client has met the work test in the previous financial year and their total super balance is below $300,000 as at 30 June in the prior year (one use only).
^ Able to receive contributions within 28 days of the following month of turning age 75, if gainfully employed for 40 hours during any 30 day period in the financial year.

Tax treatment of contributions

Concessional contributions

Concessional contributions are pre-tax contributions made under the SG, an industrial award or as part of a salary sacrifice strategy and are taxed at the concessional rate of a maximum of 15 per cent. Because of this concessional tax treatment, your employer will be able to claim these contributions as a tax deduction, which is identical to the deduction that they can claim on any amount paid to you as salary.

Similarly, you will be able to claim your personal contributions as a deduction against your assessable

income to reduce your personal income tax.

Total income is your assessable income plus reportable fringe benefits, plus salary sacrifice contributions.

The following example compares the net benefit from a salary taxed at 32.5 per cent (excluding Medicare levy) compared with a salary sacrifice contribution to your super.

	Salary	Salary sacrifice contribution to super
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 of up to $500 via a low income super tax offset. 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 tax offset, you must make concessional contributions during the year and you:

- must have adjusted taxable income that 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)

Note: the low income superannuation contribution also applies if you are self-employed, make personal deductible contributions into superannuation and satisfy the above eligibility criteria.

Non-concessional contributions

Contributions which you or your spouse make into your super for which a deduction is not claimed are called non-concessional contributions. In other words, contributions made with after-tax money. These types of contributions will not be subject to any tax as long as the level of contributions you make remain within the non-concessional contributions cap.

There may be times when your non-concessional contribution will attract additional benefits.

- If you make a non-concessional contribution and you earn an income of less than $53,564 [1], then the Government will make a co-contribution on your behalf.
- 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 $40,000, you may be able to claim a tax offset of up to $540. The amount of the tax offset you will receive will depend on the amount of your contribution and the amount of income your spouse has earned during the year.

Excess contributions

Although the Government provides tax incentives to encourage people to contribute more to their super, there is a limit on the amount you can contribute each year before penalty tax is imposed.

Individuals now have the option of withdrawing excess non-concessional contributions made from 1 July 2013 (and associated earnings) with these earnings to be taxed at the individual's marginal tax rate.

The concessional contributions cap is $25,000 a year.

The non-concessional contributions cap is $100,000 per year for those who have less than $1,600,000 in total super. Under the 'bring forward' rules, however, you can bring forward up to an additional two years' worth of non-concessional contribution caps and contribute up to $300,000 to your super in one year. To utilise the 'bring forward' provisions, you must be aged 64 or under on the first day of the financial year in which the contribution will be made and have a total super balance less than $1,400,000.

Between 65 and 74 you're limited to $100,000 per annum.

When you reach age 75, non-concessional contributions to your super are no longer permitted.

If you exceed either of your contributions cap, any excess contributions you make to super may be subject to your marginal tax rate plus an imposed charge.

Superannuation benefits

Preservation

Superannuation is designed to help you build an investment portfolio which you can use to support your lifestyle in retirement. As a result, the Government has put in place a system of 'preservation' to ensure that your superannuation savings can not generally be accessed until you have met a 'condition of release'.

Non preserved benefits

Contributions made to a superannuation fund prior to 1 July 1999 may be classified as either unrestricted non-preserved or restricted benefits. You may be able to withdraw these benefits before 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, a 'condition of release' will first be met when you reach your preservation age and permanently retire from the workforce. If you are born after 1 July 1960, your preservation age will be later as indicated in the table below.

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 met.

In some cases, you may be eligible to withdraw part of your benefits (ie unrestricted non preserved benefits) prior to meeting one of these conditions of release.

Condition of release	Income stream (ie pension or annuity)	Lump sum withdrawal
Reaching your 'preservation age' while you are still working (ie transition to retirement)	✔	✘
Reaching your 'preservation age' and permanently retiring from the workforce	✔	✔
Change of employers after reaching 60 years of age	✔	✔
Reaching 65 years of age	✔	✔
Terminal medical condition	✘	✔
Death	Refer to the 'Estate Planning' section	
Permanent incapacity	✔	✔
Temporary incapacity	✔ During the period of the incapacity only[2]	✘
Severe financial hardship	✘	✔ One payment per year of up to $10,000 (gross)
Compassionate grounds	✘	✔

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 the capital gains will be taxed at up to15 per cent if in the accumulation accounts and transition to retirement pension accounts. For gains on assets held over 12 months, only 2/3 of the gain will be assessable. If the fund has capital losses or has incurred tax deductible expenses, the trustee can use these items to further reduce the tax paid by the fund. If earnings are generated in a retirement pension account there is no tax payable.

Taxing of superannuation benefits

When you receive a benefit, the amount that you will be taxed, will depend on:

- the type of benefit received (ie 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 the following components:

- a tax-free component
- a taxable component (taxed element), and
- a taxable 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. If the benefit is received as a result of incapacity or death, lower tax rates may apply.

To find out more about the tax treatment of incapacity benefits, please speak to your financial adviser. To find out more about how your super benefit will be treated in the event of your death, please refer to the estate planning section overleaf. There may also be additional taxes payable if your income from non account based pensions (such as defined benefit income streams) exceeds $100,000 per annum.

Age	Type of benefit	Tax rate payable		
		Tax-free component	**Taxable component (taxed element)**	**Taxable component (untaxed element)**
Under preservation age	Lump sum	0%	22%	• 32% on first $1,515,000 • 47% on remainder
	Income stream	0%	Your marginal rate	Your marginal rate
Between preservation age and age 59	Lump sum	0%	• 0% on first $210,000 • 17% on remainder	• 17% on first $210,000 • 32% on $210,000 – $1,515,000 • 47% on remainder
	Income stream	0%	Your marginal rate less 15% tax offset	Your marginal rate
Age 60 and over	Lump sum	0%	0%	• 17% on first $1,515,000 • 47% on remainder
	Income stream	0%	0%	Your marginal rate less 10% tax offset

Note: tax rate payable includes the Medicare levy of 2%

Estate planning

If a balance remains in your super 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 on the relationship that the beneficiary had with you immediately before your death as illustrated in the table below.

Beneficiary	Type of benefit
Spouse or partner (including same sex partners)	Pension income or lump sum
Child over 18 and not financially dependent upon you	Lump sum only
A child • under the age of 18 years • aged between 18 years and 25 years and financially dependent on you, or • aged 18 years or older and suffers from a (prescribed) disability	Pension income or lump sum[3]
A financial dependant or someone who had an interdependency relationship with you as at the date of death	Pension income or lump sum
Your estate to be dealt with under your Will	Lump sum only

It is important to understand the following:

- A super death benefit cannot be paid to a beneficiary who does not fall into one of these categories (eg a parent) unless they are financially dependent on you or in an interdependency relationship with you.
- Unlike most other assets, the recipient of your super death benefit is not determined under the terms and conditions of your Will. Instead the beneficiary of any remaining balance will be decided by either:
  - the nomination contained in your valid binding death benefit nomination form
  - the trustees of the superannuation fund, or
  - the terms and conditions of the trust deed of the superannuation fund.

Tax treatment of death benefits

The tax rates that apply to a death benefit paid to a beneficiary will depend on 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, as well as the age 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 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.

Benefit paid as a lump sum

Beneficiary	Tax-free component	Taxable component	Untaxed-taxable component
• Spouse or partner • Child under 18 years • Financial dependant • In an interdependent relationship	0%	0%	0%
Any other eligible dependant	0%	Taxed at 17%*	Taxed at 32%*

* Including 2% Medical levy

Benefit paid as pension

Your age at death	The age of the beneficiary or the deceased at date of death	Tax-free component	Taxable component	Untaxed-taxable component
Under age 60	Under age 60	0%	Their marginal tax rate less 15% tax offset until their 60th birthday, then tax-free	Marginal tax rate (no tax offset)
	Aged 60 or over	0%	0%	Marginal tax rate (with 10% tax offset)
Aged 60 or over	Any age	0%	0%	Marginal tax rate (with 10% tax offset)

A taxable component -untaxed element is generated when life insurance is included within the lump sum death benefit (assuming the trustee has claimed a deduction for the premium).

Centrelink assessment

Centrelink and the DVA will disregard your superannuation balance under both the income and assets tests until you reach the age 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, which are deemed to earn income.

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 choose to do with the money may affect the rate of your pension or allowance.

For example, if the money was used to purchase an income stream prior to 1 January 2015, then the applicable income and assets test assessment would apply.

If the money was placed in a bank account, or an income stream (such as an account-based pension) after 1 January 2015, it would be assessed as an asset and income would be determined using the deeming rules.

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1 Assessable income for tax purposes, includes reportable fringe benefits and reportable employer super contributions (such as salary sacrifice contributions into superannuation).
2 Can only be funded via an income protection policy.
3 The pension must be commuted as tax-free lump sum by age 25 unless the child suffers from a (prescribed) disability.

For more information please contact your Shadforth financial adviser.

This is general advice only and does not take into account your financial circumstances, needs and objectives. Before making any decision based on this document, you should assess your own circumstances or seek advice from a financial planner and seek tax advice from a registered tax agent. Please obtain and consider the PDS before making any decision about whether to acquire a financial product. Information is current at the date of issue and may change.