

Understanding Wealth Accumulation (Superannuation)



This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to wealth accumulation (superannuation).

This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice.

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 that you understand how these issues will impact on 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 **wealth accumulation (superannuation)**.

It is very important that 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.

Understanding Wealth Accumulation (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 are as follows:

- Contributions Tax is a maximum of 15%.
- Investment income is taxed at a maximum of 15%.
- Capital Gains are taxed 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%.
- When an income stream is commenced upon retirement, the tax rate imposed on income and capital gains in the pension account is reduced 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 taxable and receive a 15% tax offset.

These superannuation tax rates are in contrast to your personal marginal tax rate, which could be considerably higher. Your financial planner 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

Your financial planner can provide you with more information in relation to the preservation status of your benefits.

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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 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 are taxed at a maximum of 15% and 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).

Your financial planner can explain more about the types of contributions that fall into this category and the limits that apply to you.

Factors to be aware of:

- Concessional contributions will be taxed at 15%.
- Concessional contributions in **excess** of the Concessional limits will be taxed an additional 31.5%. 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.
- Any contributions in excess of the concessional limit will be counted towards the person's non-concessional cap.

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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.

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 3 years of contributions in one year, with no further contributions in the next two years. The year in which the 3 year cap is initially triggered determines the value that can be contributed during the 3 year period.

Your financial planner can explain more about the types of contributions that fall into this category and the limits that apply to you.

Factors to be aware of:

- Contributions in **excess** of the Non-Concessional limits will be taxed at the **highest marginal tax rate** plus Medicare Levy. 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.
- 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.