Understanding Wealth Accumulation (Superannuation)

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

Important information

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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.

If you do not understand anything or need further clarification, please contact us.

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 10%, provided the asset has been owned by the superannuation fund for at least 12 months.
- 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.

The current annual limit for concessional contributions (from all sources) is $50,000. Concessional contributions made in excess of this limit are charged penalty taxes, and so for most people should be avoided. The $50,000 is indexed to Average Weekly Ordinary Time Earnings (AWOTE) but is only increased in $5,000 increments.

A transitional period from 2007/08 to 2011/12 applies for those 50 years of age and over at any time in a transitional financial year. This transitional limit is $100,000 per person per year and will not be indexed. From the 2012/13 financial year the annual limit for concessional contributions will revert to the indexed $50,000 amount.

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 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.

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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.

The current annual limit is $150,000. Non-Concessional contributions made in excess of this limit are charged penalty taxes, and so for most people should be avoided. This limit is indexed in line with the Concessional contribution limit (i.e. the limit is three times the Concessional limit, thus if the Concessional limit is indexed to $55,000 then the non-concessional would be $165,000).

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 $450,000 in one year, with no further contributions in the next two years. Once triggered, the $450,000 is not indexed.

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

The table below shows the taxation of benefits paid from a taxed superannuation fund to individuals under age 60.

Component	Age	Maximum Tax Rate
Tax free	Any	Tax-free
Taxable	< 55	21.5%[1]
	55 – 59	First $145,000[2] at 0% Excess at 16.5%[1]

1 Includes a Medicare Levy of 1.5%.

2 This Low Rate Cap is current as at 1 July 2008 and applies to the total of all taxable components that are taken as cash at age 55 and over, and is indexed to AWOTE in $5,000 increments. If a benefit includes both tax and untaxed elements, it applies firstly to the taxed element.

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