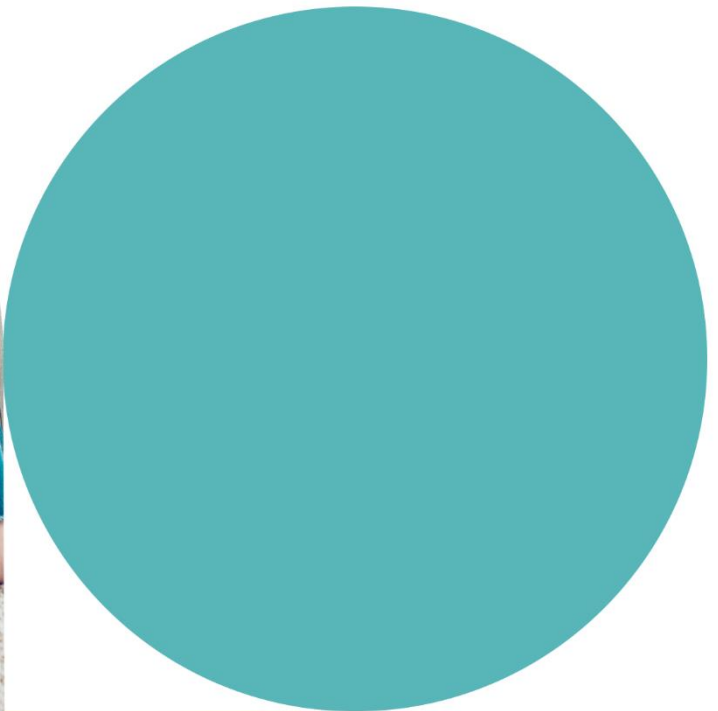




# Superannuation Guide



**Understanding Superannuation and its Benefits**



# Understanding Superannuation and its benefits?

*Superannuation is one of the most tax friendly ways to invest your money for the future, so it goes without saying that we should know a little more about it.*

## Introduction to Superannuation

Superannuation is a savings plan that is designed to provide income for Australians when they reach retirement age. It is a tax-friendly way to invest your money and a feature provided by the government to help supplement or replace the Australian Age Pension. Understanding the basics of superannuation and the different types of funds available can help you make the most of this investment opportunity and secure a financially stable future.

## What is Superannuation?

Superannuation is a combination of your own savings and a portion of your working income, which is allocated to a fund for you to access upon retirement and are ready to enjoy the 'Golden Years'. The Association of Superannuation Funds of Australia (ASFA) estimates that you will need about 67% of your pre-retirement income to maintain your standard of living when you retire. For a couple, this looks something like \$66,725 annually<sup>1</sup>. To reach this target, it is important to understand the different types of superannuation funds and how to make the most of your investment.



<sup>1</sup> <https://www.superannuation.asn.au/media/media-releases/2022/media-release-18-august-2022#:~:text=The%20ASFA%20Retirement%20Standard%20June,respectively%20on%20the%20previous%20quarter>

## What are the Benefits of Superannuation?

Superannuation provides several tax benefits to individuals saving for their retirement. The main benefit is the lower tax rate applied to contributions made to superannuation. In Australia, contributions made to superannuation are taxed at a maximum rate of 15%, which is lower than the marginal tax rate that applies to personal income. This lower tax rate on contributions makes it easier for individuals to accumulate wealth in their superannuation account and receive a higher return on their investments.

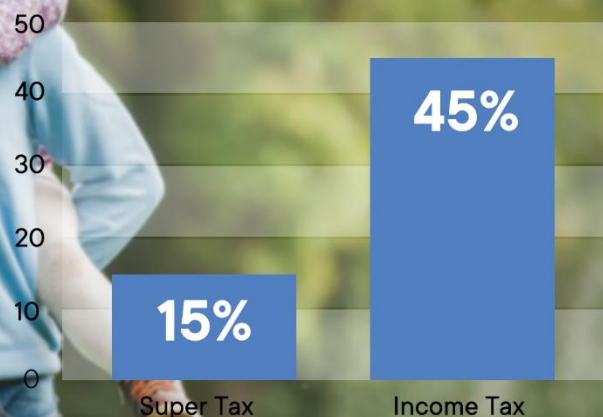
In addition to the lower tax rate on contributions, earnings on superannuation investments are also taxed at a lower rate. Earnings are taxed at a maximum rate of 15% for most superannuation funds. However, for some funds, such as untaxed funds or funds receiving tax-free pensions, earnings may not be taxed at all.

Another tax benefit of superannuation is the tax-free status of withdrawals made from superannuation after an individual reaches preservation age, which is currently between 59 and 60 years of age depending on your date of birth. Additionally, for those who are 60 years of age or over, withdrawals from superannuation are also tax-free, regardless of the source of the contributions once you have met a condition of release (see below).



# SUPER IS SUPER!

You'll only pay **15% tax** on our super contributions, compared to **45%** as a high-income earner.



## Types of Contributions

There are three main types of superannuation contributions: compulsory contributions, voluntary contributions, and salary sacrifice contributions.

### Compulsory Contributions

Compulsory contributions, also known as the Superannuation Guarantee, are made by employers on behalf of their employees. The current minimum contribution rate is 10.5% of an employee's income, with the rate set to increase to 12% by 2025. This amount is deducted from an employee's salary before tax and is paid into their nominated superannuation fund. The funds are invested over a long period of time, with the aim of providing a retirement income for employees.

## Voluntary Contributions

In addition to compulsory contributions, individuals can make additional voluntary contributions to their superannuation accounts. These contributions can be made by individuals themselves or through a combination of personal contributions and contributions made by family members. Voluntary contributions are made after tax and are subject to contribution caps, which limit the amount that can be contributed each financial year. Individuals can claim a tax deduction for personal contributions made within the contribution cap limit.

## Salary Sacrifice Contributions

Salary sacrifice contributions are contributions made by employees that are taken from their pre-tax salary. The amount of the contribution is deducted from the employee's salary before tax, which reduces their taxable income and can result in a lower tax bill. Salary sacrifice contributions are also subject to contribution caps and are counted towards the individual's contribution cap limit.

It is important to note that there are caps on the amount that can be contributed to an individual's superannuation fund each financial year. To make the most of these incentives, it is advisable to speak with a **financial planner** who can guide you on eligibility and other available options.





# Choosing a Superannuation Fund

When it comes to selecting a superannuation fund, you have the option of choosing one that suits your individual needs and financial circumstances. If you do not make a selection your employer will choose a default fund for you. If you are unsure of what superannuation fund is best for you, your financial adviser can provide you with recommendations.

## Types of Superannuation Funds

Superannuation funds come in different forms, each with their own benefits, features, and conditions. It is important to choose a fund that aligns with your personal needs and financial circumstances.

Understanding the different types of superannuation funds can help you make an informed decision.

### Self-Managed Super Funds (SMSFs)

SMSFs are superannuation funds that are set up and managed by the individual. This type of fund offers a high degree of flexibility and control, but it also requires a significant amount of effort and expertise to manage effectively. You will need to have someone who can provide you with advice on how to run it and you will need to put in the time and effort to make sure it is managed well.

### Industry Funds

Industry funds are superannuation funds that are established and managed by industry associations to cater to the needs of employees in specific industries, such as hospitality or construction. These funds are designed to be straightforward, simple and easy to understand, making it convenient for those who may not have a lot of financial experience.

### Retail Funds

Retail funds are generally more flexible, providing individuals with a wider range of investment options and the ability to tailor their portfolios to meet their specific financial goals. They are available to a wider range of individuals, making them a popular choice for those seeking more control over their retirement savings.

### Corporate Funds

Corporate funds are superannuation funds set up by an employer for its employees. They are designed to provide benefits to employees and may offer employer contributions, insurance, and other benefits.

### Public Sector Funds

Public sector funds are superannuation funds that are run by the government for employees in the public sector, such as the military or public service. They offer benefits that are specific to public sector employees and may have different investment options, fees, and conditions compared to other types of superannuation funds.

Choosing the right superannuation fund can have a significant impact on your retirement savings. It is important to seek professional advice and to fully understand the benefits, fees, and conditions of each type of superannuation fund before making a decision.

## Investment Options

When you have money in your super account, you get to choose how to invest it. Different types of investments will give you different results. Here are a few common investment options:

**Shares** (also known as equities) – this means investing in companies that are listed on the stock exchange. You can choose to invest in Australian or international companies. This can give you higher returns in the long run, but there is also a higher risk.

**Bonds** (also known as fixed income) – this is when you lend money to a company or the government. They will pay you back the money with interest over a set amount of time. This type of investment is lower risk.

**Property** - you can invest in property through a trust or by buying it directly. This can give you a steady income through rent and the possibility of making money when you sell the property.

**Cash** - this is when you leave your money in cash and receive returns like a savings account or a term deposit. This is a low risk, low return option.

**Other alternatives** - there are other types of investments like infrastructure, private equity, hedge funds, and commodities. These can be more complicated and harder to move around than other investments.

## Investment Options



When you're deciding how much risk you want to take, it's important to talk to your [financial advisor](#) about your personal situation, how much risk you're comfortable with, and what types of investments you like. This will help you choose a super fund that has the right investment options for you, which can make a big difference in your financial future.

## Government Incentives

The Australian government offers a range of incentives to encourage individuals to save for their retirement. This includes tax benefits for superannuation contributions, matching contributions for low-income earners, and the Low-Income Super Tax Offset (LISTO). The LISTO provides a government contribution of up to \$500 to the super of low-income earners, helping to boost their retirement savings, as they may not have the ability to make significant contributions on their own. Additionally, individuals can also receive contributions from their spouse to help grow their retirement funds. It's important to speak with a financial planner to learn more about the different incentives available and to determine eligibility.

## Bankruptcy Protection

A great feature often overlooked by many is that superannuation funds are regulated by the Australian Prudential Regulation Authority (APRA) and are protected by several bankruptcy protections. Firstly, the superannuation guarantee contributions made by an employer on behalf of their employees are protected from creditors in the event of bankruptcy. Secondly, the Superannuation Industry (Supervision) Act 1993 establishes a trust structure for superannuation funds, which means that the assets of a superannuation fund are held in trust for the benefit of its members and cannot be claimed by creditors in the event of bankruptcy. However, in some cases, such as fraudulent conduct or illegal activities, a court may order the forfeiture of superannuation assets to meet outstanding debts. While these protections are not absolute, they offer a strong level of security for individuals saving for their retirement.

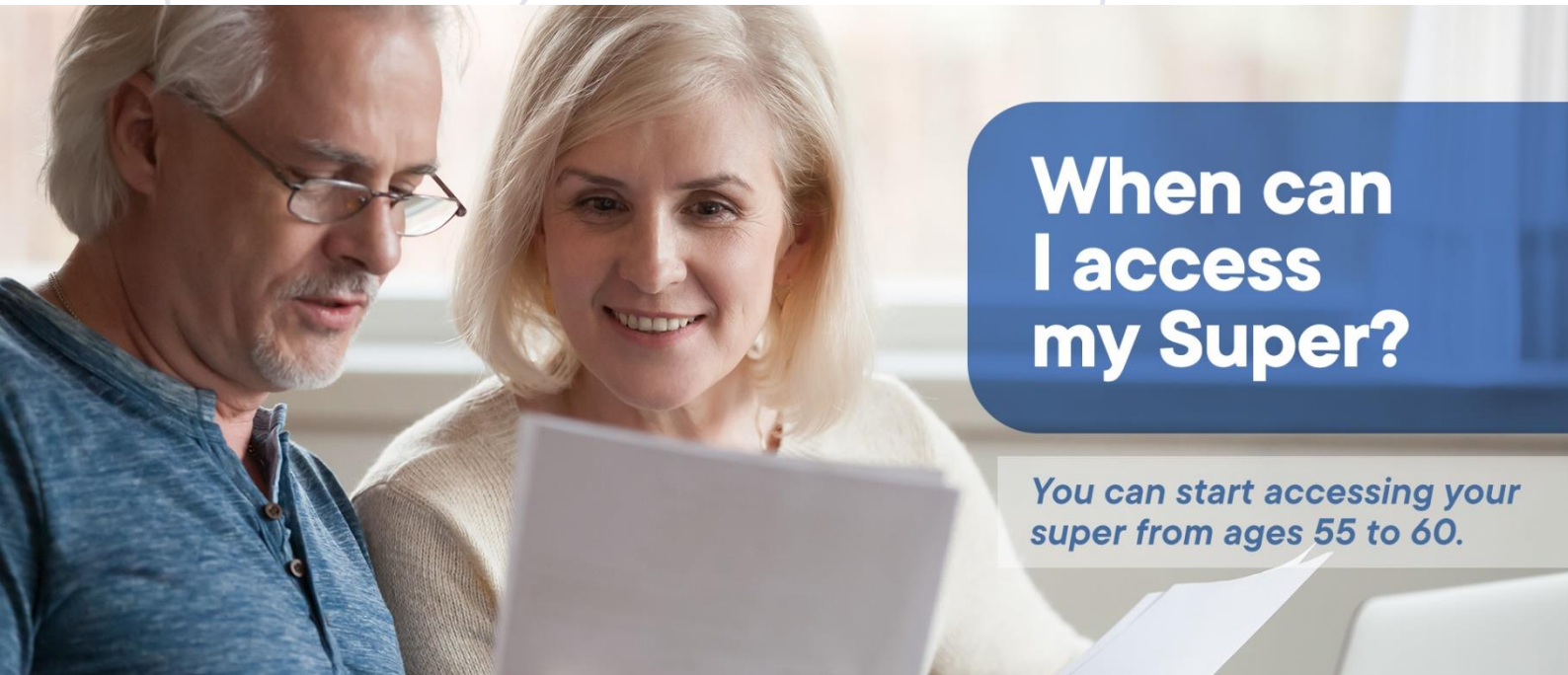




# When Can You Access Your Superannuation

## (Conditions of Release)

The rules and conditions for accessing superannuation benefits in Australia vary based on factors such as age, date of birth, and type of superannuation account. However, in general, you can start accessing your benefits when you reach your preservation age, which ranges from 55 to 60. The conditions of release dictate when and how you can access your superannuation benefits, as it is a compulsory system in Australia and only accessible under specific circumstances.



**When can I access my Super?**

*You can start accessing your super from ages 55 to 60.*

### **Age-Based Release**

One of the most common conditions of release is reaching preservation age. The preservation age varies depending on your date of birth but generally ranges between 55 and 60 years of age. Once you reach your preservation age, you can access your superannuation benefits, either as a lump sum or through an income stream.

### **Retirement**

Retirement is another condition of release, where you can access your superannuation benefits once you have retired from the workforce and reached your preservation age.

### **Serious Illness**

If you are diagnosed with a serious illness and are unable to work, you may be able to access your superannuation benefits on the grounds of compassionate grounds. To be eligible, you must provide medical evidence and meet specific criteria.

## Temporary Residence Outside Australia

If you are temporarily residing outside Australia, you may be able to access your superannuation benefits if you meet specific eligibility criteria. This condition of release allows you to access your benefits while you are overseas and is subject to specific rules and conditions.

## Death

In the event of your death, your superannuation benefits will be paid to your beneficiaries. The payment of death benefits is subject to specific rules and conditions and may be taxed differently, depending on the type of benefit and the beneficiary's age and residency status.

# Accessing Your Superannuation

There are several ways to access your superannuation benefits, including a transition-to-retirement pension, a lump sum payment, and an income stream.

## Transition-to-Retirement Pension

The transition-to-retirement pension allows you to access your superannuation benefits while still working. This option provides a tax-effective source of income that can supplement your salary and reduce the amount of tax you pay on your employment income.

## Lump Sum Payment

A lump sum payment from your superannuation account allows you to receive a one-time payment that can be used to pay off debts, make a large purchase, or invest in another financial product. However, it is important to seek financial advice prior to making this decision as withdrawing a lump sum may have a significant impact on your retirement savings.

## Income Stream

An income stream is a regular payment from your superannuation account designed to provide a source of income during your retirement years. There are several different types of income streams available, including account-based pensions, annuities, and market-linked pensions. Before making a decision on an income stream, it is essential to understand the features, fees, and conditions associated with each type.

# Conclusion

In conclusion, superannuation is a crucial component of retirement planning in Australia. It provides individuals with a means of saving for their future and offers significant tax benefits. The government provides incentives for individuals to contribute to their superannuation funds, which help to ensure that individuals have sufficient funds for their retirement. It is important for individuals to understand their superannuation options, and to make informed decisions about their contributions and investments. By making regular contributions and seeking the advice of a financial adviser, individuals can work towards a secure financial future. Whether an individual is just starting out in their career, or approaching retirement age, superannuation is an investment that should not be overlooked.

## Need Advice?

Seek advice from one of the expert financial advisers at Elliot Watson Financial Planning. **Contact us** for an initial consultation on **02 4038 1623** and find out how we can help you achieve your financial and retirement goals.



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