Fast Track Wealth Services
FINANCIAL PLANNING

PO Box 2107
CHERMSIDE CENTRE QLD 4032

653 Robinson Road
ASPLEY QLD 4034

T (07) 3263 4123
F (07) 3263 1688

Superannuation

Whether you are in your first job after leaving school or only a few years from retirement, it pays to understand how superannuation works. By the time you are ready to retire, your superannuation could have grown to be one of the largest assets you will have in your life.

Superannuation is your investment in your future. So it is really important that you understand why you need it, what you're entitled to, how you can grow your superannuation and how you can best manage the money for your retirement.

What is superannuation?

Superannuation, or 'super', is a way to save money for your future. Its purpose is to help fund your retirement so you do not have to rely on the social security system to fund your lifestyle.

A common misconception is that super is a type of investment, like cash or shares. In fact, super is the framework into which you invest. Through super you can hold a wide range of investments such as shares, property and cash. Many investments that are held outside of super can also be held within super.

The reason that superannuation is attractive as an investment vehicle is because it receives favourable tax treatment, both when you are working and once you have retired. The government offers these tax savings to encourage you to build your superannuation assets.

The tax benefits of superannuation include:

- Contributions made to super may attract a tax deduction or tax offset
- Investment earnings are taxed at a maximum of 15%, rather than your marginal tax rate. Capital gains are taxed at a maximum rate of 10%.
- Your super benefit can be paid as a tax-free pension or lump sum when you reach 60 and satisfy the criteria to access your funds.

Most people are first exposed to the concept of superannuation when they start work. This is because employers have to pay superannuation contributions on behalf of their employees. Your superannuation does not only grow through contributions made by your employer. You can choose to add money into superannuation out of your own pocket. If you are self-employed, you can choose whether or not to contribute to superannuation.

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How do you invest in superannuation?

You invest into super by contributing money into a superannuation fund. There is a wide range of superannuation funds to suit different requirements and arrangements. The most common types of funds are:

- Employer funds or corporate super plans.
- Industry funds, including those catering for a particular industry, such as the building industry.
- Personal funds. These funds are separate from an employer or industry fund and are run by a fund manager. Personal funds are those you have independently chosen to invest in.
- DIY super funds, otherwise known as self-managed super funds. These funds are set up by an individual or a group of less than five people.

Types of superannuation accounts

Within a superannuation fund, you have your own superannuation account. There are two basic kinds of superannuation accounts. The type of account determines how much money you will have in super at retirement.

Types of super accounts	
Accumulation	• Your retirement benefit depends on how much you contribute and how much it grows or 'accumulates' over your working life. • Your retirement benefit is equal to the amount of money you paid in plus investment earnings less expenses, tax and fees.
Defined benefit	• Your retirement benefit is defined by a set formula of which you are made aware when you join. • The formula may take into account your annual salary, your length of service and your age at retirement, and can differ from fund to fund. • Defined benefit funds are common in the public sector. They are also used by some large companies.

Superannuation contributions

You invest in super by making contributions. Contributions can be made by you or your spouse, or by your employer.

Employer contributions

Superannuation guarantee

If you are an employee, your employer is required to pay superannuation contributions on your behalf. These contributions are called superannuation guarantee. It is compulsory for most employees, unless you are exempt.

If you are eligible for superannuation guarantee, your employer's compulsory contributions must be equivalent to at least 9.5% (2017/18) of your gross salary. For example, if you earn $40,000 a year, your employer must put at least $3,800 a year – or $950 per quarter – into your superannuation account. Some employers may contribute more to your superannuation, but this depends on the terms of your employment.

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If you are self-employed, you do not receive superannuation guarantee contributions but you may be eligible to claim a tax deduction for personal contributions (up to the maximum concessional contribution cap of $25,000).

Salary sacrifice

You can add your own money to your employer's contributions to increase your superannuation savings. You can do this through what is called a 'salary sacrifice' contribution. The contribution is made by your employer who pays part of your salary to your superannuation fund, instead of paying it to you. You tell your employer how much you want to 'sacrifice' and choose to take less salary.

The amount you elect to sacrifice to superannuation comes off your gross salary, before you pay tax, so it may result in a tax saving. This tax saving comes about because, for most people, the tax saved on the forgone salary exceeds the tax that is paid when the equivalent amount is contributed to superannuation.

We have provided an example to help explain salary sacrifice.

The benefits of a salary sacrifice strategy

- You receive a gross salary of $60,000 per year, and you are paid monthly ($5,000 per month gross).
- You have decided, with the help of your financial adviser, that you are going to salary sacrifice $1,000 per month into superannuation.
- Your employer pays $1,000 to your super fund, which then deducts 15% tax ($150). A net deposit of $850 is made into your superannuation account each month.
- Your employer deducts tax from the rest of your salary, based on the Government's marginal tax rates, and pays you the net amount.

The table below compares your original position after salary sacrificing $1,000 to super.

The result is that you are $210 per month better off through a combination of salary and savings, that's because you are putting aside an additional $850 per month or $10,200 per year into super. Over time this will add significantly to your final superannuation balance.

Results	**No salary sacrifice**	**Salary sacrifice of $1,000**
Gross salary	$5,000	$5,000
Taxed salary	$5,000	$4,000
Tax paid on salary (includes Medicare levy and low income tax offset)	$1,012	$652
Net salary	$3,988	$3,348
Gross contribution to superannuation	$0	$1,000
Tax paid on super contribution	$0	$150
Net contribution to super	$0	$850
Total tax paid	$1,012	$802
Total salary paid to you	**$3,988**	**$3,348**
Total super received	**$0**	**$850**
Total benefit to you	**$3,988**	**$4,198**

Personal contributions

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Employer contributions are not the only way for you to build your superannuation. You can choose to make personal contributions to your super from your after-tax income. Depending on the amount of money you earn, making a personal contribution to superannuation may entitle you to a co-contribution from the government.

If you are self-employed, you can also contribute to superannuation by making personal contributions. You may be entitled to a tax deduction for the contributions you make, depending on your individual situation.

It is also possible to contribute to your spouse or partner's superannuation. This type of contribution may entitle you to a tax offset, depending on how much your spouse earns.

How are superannuation contributions taxed?

Contributions are generally broken down into two categories:

- **Tax-deductible** – these are also known as concessional contributions. Tax of 15%[1] will generally be deducted from the contribution as it enters the fund.
- **Non tax-deductible** – these are also known as non-concessional contributions. There will be no tax deducted from the contribution upon entry to the fund, provided that your contributions are within specified limits, and provided your total super balance as at 30 June 2017 is less than $1.6 million.

The tables that follow provide further information about the different types of contributions, how they are taxed, and who may benefit from the contribution.

Tax-deductible contributions	Description	Contribution characteristics
Super guarantee (SG)	• Compulsory contributions • Made by your employer based on a set percentage of your salary	• Automatically forces you to save for your retirement
Salary sacrifice	• Voluntary contribution. • You elect for part of your salary to be paid into superannuation, instead of receiving it as cash	• Reduces your personal income tax • Is deducted automatically from your salary • Results in you generally paying tax at 15 %[1] on contributions and earnings rather than at your marginal tax rate
Self-employed / unsupported person	**Voluntary contribution.** • May entitle you to a tax deduction **Self-employed** • May entitle you to a tax deduction	• Reduces personal income tax • Diversifies wealth outside business • Allows those who are not eligible to receive SG contributions to build up their super savings

There is a limit on how much can be tax-effectively contributed to super as a concessional contribution each year.

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The 15%[1] tax rate will only apply to contributions made within the concessional contributions cap. For all individuals, regardless of age or the person's superannuation balance, a cap of $25,000 p.a. applies. This cap will be indexed in $2,500 increments.

Concessional contributions above the limit for a financial year will be automatically included in the individual's income for that year and taxed at their marginal tax rate, less a 15% tax offset. In addition, an excess concessional contributions interest charge will be payable.

The amount of excess concessional contributions will also be added to your non-concessional contribution limit. However, individuals will have the ability to request for up to 85% of their excess concessional contributions for the financial year to be released from the super fund in order to avoid inadvertently exceeding their non-concessional contribution cap.

[1] Division 293 tax of 15% is imposed on your concessional contributions when your income and concessionally taxed contributions exceed $250,000. The portion of your super concessional contributions above the threshold is subject to the extra Division 293 contributions tax.

Non tax-deductible contributions	Description	Contribution characteristics
Personal contributions	• Made with after-tax money, eg. money in your bank account • Can be made any time until age 65 • Can be made between age 65 and prior to turning age 75 if you are employed for at least 40 hours in 30 consecutive days in the financial year	• Boosts super savings for retirement • Earnings are taxed at 15% • Can be accessed tax free on retirement • Can be a way of investing funds from the sale of an asset, (eg a property) into the super environment
Spouse contributions	• If your spouse earns less than $37,000 and you add to their super you could receive a tax offset of up to $540 (eligibility rules apply) • You can do this each year	• Helps to build super savings if your spouse is out of the workforce • Provides the contributing spouse with a tax offset
Government co-contribution *	• If you earn less than $36,813 per annum and make a contribution to super with after-tax dollars, the government contributes up to $0.50 for every $1 you contribute (up to $500) if you are eligible. **Generally, to qualify for a Government co-contribution, you must:** • Make a personal contribution to your super account • Earn 10% or more of your income as an employee and/or from self-employment, and	• If you earn less than $36,813 the Government will contribute $0.50 for each $1 you contribute, up to a maximum of $500 per annum • If you earn over $36,813, the Government's contribution reduces on a sliding scale • If you earn over $51,813 you are not eligible to receive the Government co-contribution • You do not have to apply to receive the co-contribution. Your eligibility is automatically calculated by the Australian

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Non tax-deductible contributions	Description	Contribution characteristics
	• Earn less than the higher income threshold of $51,813.	Taxation Office when you lodge your tax return.

Generally, personal after tax (non-concessional) contributions will not attract any contributions tax upon entry into a superannuation fund.

In order to avoid paying penalty rates of tax on these contributions, you are limited to $100,000 a year (2017/18), however there is no non-concessional cap available for a financial year (the 'contribution' year) if your total superannuation balance on 30 June in the immediately prior financial year was $1.6 million or more. If you are under age 65 at any stage during the financial year that you make the contribution, you are able to contribute up to $300,000 by bringing forward the next 2 years' worth of limits, but again, no non-concessional cap for a contribution year is available unless your total superannuation balance on 30 June in the immediately financial year was under $1.6 million.

In addition, limitations will also apply to trigger the bring-forward rule for a contribution year where your total superannuation balance on the prior 30 June is at least $1.4 million and under $1.6 million. If you make excess non-concessional contributions they will be taxed at the top marginal tax rate plus Medicare levy. However, you will be allowed to withdraw those excess contributions and 85% of an associated earnings amount – calculated based on a formula. If this option is chosen, no excess contributions tax will be payable and the associated earnings will be taxed at your marginal tax rate, less a 15% tax offset.

The Government co-contribution scheme

Under the Government co-contribution scheme, the Government provides a matching contribution for contributions made into superannuation, by an eligible person, using after-tax income. The matching rate is up to $500 for individuals with total income of up to $36,813 in 2017/19. The maximum cut off income threshold is $51,813.

Financial year	2017/18
The maximum Government contribution	up to $500
Reduction (per dollar of income in excess of the lower threshold)	$0.03333

To be eligible, a person will have a total superannuation balance less than the transfer balance cap on 30 June of the year before the relevant financial year, and the contribution amount made to superannuation must not exceed the non-concessional contributions cap for that year.

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When can I access my superannuation savings?

Generally, you can only get access to your super when you permanently retire from the workforce, and also reach a minimum age set by law. This age is called your 'preservation age'. There are other circumstances in which you may be able to access your superannuation. These include cases where you are permanently incapacitated and cannot work, in some cases of severe financial hardship, or on 'compassionate grounds'.

The table below sets out the minimum age for accessing your superannuation:

Your date of birth	Age to access
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
From 1 July 1964	60

Can I get access to my superannuation and continue to work?

If you have reached your preservation age, your fund can let you draw on your superannuation without having to retire permanently from the workforce. This means you could continue working part time and use part of your superannuation to supplement your income, instead of leaving the workforce altogether.

If you choose to keep working, you will have to receive your superannuation as a particular type of pension. These pensions, known as 'non-commutable' pensions, provide you with a regular payment and cannot be cashed as a lump sum.

However, if you select a 'non-commutable' account based pension, you will be allowed to take a lump sum once you retire or reach age 65. Or you can stop the pension and put your benefits back into your superannuation fund, for example, if you decide to go back to full-time work.

Are there any other restrictions on when I can access my super savings?

The funds in your superannuation account are categorised according to a 'preservation status'. Each of these categories indicates when you can access your funds. There are typically three categories:

Preservation status	
Category	**Can be accessed**
Preserved benefits	• When you reach preservation age and commence a transition to retirement pension (also known as a non-commutable allocated pension) • When you reach preservation age and retire from the workforce • When your employment arrangement ceases after reaching age 60 • In the event of your death or permanent incapacity or terminal illness • If you suffer severe financial hardship • Under compassionate grounds, or • When you reach age 65.
Restricted non-preserved	• For any of the above conditions OR when you terminate employment

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Preservation status	
	with an employer who has contributed to the fund that contains the restricted non-preserved benefit.
Unrestricted non-preserved	• At any time.

Superannuation withdrawals

Once you have determined that you can access your super benefits, you need to consider the taxation consequences associated with accessing your money.

The amount of tax you pay depends on your age at the time of the withdrawal, the amount you take out and the superannuation component from which the withdrawal is taken.

When you, or someone on your behalf, make a superannuation contribution the money is classified based on its tax status. The tax status, or 'component', is determined by the type of contribution and whether any tax has been paid on the money. The component determines how much tax you pay when you withdraw this money from super. There are three different components, tax free, taxable – taxed element, and taxable – untaxed element.

- **Tax-free component**. Tax has already been paid on this money. There will be no further tax on the tax-free component of any withdrawal you make. This component is typically created from after-tax contributions you make into your own account, or contributions made by your spouse.
- **Taxable component** – **taxed element**. Some tax has already been paid on the money, however, further tax may be payable if you withdraw the money before you reach age 60. Salary sacrifice contributions, employer superannuation guarantee contributions, and tax-deductible contributions made by self-employed persons fall into this category.
- **Taxable component** – **untaxed element**. Tax has not already been paid on the money. Some tax will be payable when you withdraw the money, based on your age and the amount you withdraw.

Your annual statement from your superannuation fund provider will outline the components of your superannuation savings. The tables below outline the tax that applies to each component when you make a withdrawal from super.

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Taxed superannuation benefits		
Age at withdrawal	**Tax-free component**	**Taxable component (Element taxed)**
Aged 60 or over	Tax-free	Tax-free
Preservation age but under age 60	Tax-free	First $200,000: 0% Over $200,000: 15%*
Under preservation age	Tax-free	20%*

*Plus Medicare levy

Untaxed superannuation benefits		
Age at withdrawal	**Tax-free component**	**Taxable component (Element taxed)**
Aged 60 or over	Tax-free	First $1,455,000: 15%* Balance: 45%*
Preservation age but under age 60	Tax-free	First $200,000: 15%* $200,000 - $1,455,000: 30%* Balance: 45%*
Under preservation age	Tax-free	First $1,455,000: 30%* Balance: 45%*

*Plus Medicare levy

How much superannuation is enough?

Working out how much money you will need in retirement varies from person to person. There are many things to consider including what kind of lifestyle you require, and other income options in retirement (such as part time work or payments from other investments) which will supplement your super.

Note: The Association of Superannuation Funds of Australia believes a single person needs an annual income of $43,538, and a couple need $59,808 to live comfortably in retirement.

*Source: Association of Superannuation Funds of Australia ASFA Retirement living Standard,
Retirement costs increase: new ASFA Retirement Standard figures December Quarter 2016 for those aged 65

The sooner you start saving for retirement, the better. For example if you start saving at 30, you will need to save $345 a month ($4,140 per annum), and increase this amount by 2.5% every year, to accumulate approximately $600,000 by retirement at age 65. But if you delay this until the age of 50, you'll need to save $1,900 a month ($22,800 per annum) and increase this amount by 2.5% each year to accumulate roughly the same amount of super by age 65.**

**Figures are based on making non-concessional contributions, indexed at 2.5% each year; and earnings of 5.8% pa after fees and before taxes.

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Is your super invested in the right account?

You may have heard of the term 'rollover' but what does it mean? A rollover is simply the act of moving money from one investment to another. This is widely used in situations where a person may have a number of different superannuation funds and wishes to consolidate them.

There may be benefits, which include:

- Being able to keep track of your super
- Being able to choose a product with competitive fees
- Being able to choose a product that has features from which you will benefit
- Combined fees are less when multiple accounts are consolidated.

However, there may be disadvantages, which include:

- It may cost money to rollover
- You may pay entry fees on the new fund even though you already did this in the old fund
- Your employer may not pay your SG contribution into your new fund (this may prevent you from rolling over)
- You may be subject to new fees that were not charged on the old fund
- Ongoing fees may be higher in the new fund
- You may lose existing insurance cover.

Before recommending a rollover, your adviser will establish if there is any benefit to you by showing the advantages or disadvantages of the existing and recommended fund and, by comparing the two in terms of charges etc. It is important to read and understand this.

Options for your superannuation as you get closer to retirement

Your benefits can remain within your super account indefinitely. You can keep these funds in your account, without touching them until your death. However the government provides a number of incentives that mean there are many attractive options that should be considered for your super account such as:

Options for your super	
Access to your super while still working	• If you are aged between 56 and 65 you have the opportunity to draw a transition to retirement income stream from your superannuation savings without having to completely retire.
Draw an income from your superannuation savings when you retire	• When you retire after reaching your preservation age you can convert the money you have saved (up to $1.6 million) to an income stream, known as an 'account-based' or 'allocated' pension. • Our fact sheet on 'Retirement Income Streams' provides further information in this area.
Pension payments and withdrawals after age 60	• If you are 60 or over your pension payments and lump-sum withdrawals are not subject to tax when paid from a taxed fund.

What happens to your superannuation upon death?

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Another benefit of superannuation is that there are numerous options available for your account when you die. These include:

- **Standard nomination (non-binding)**. You can nominate your beneficiaries or have the funds paid to your estate and distributed in accordance with your Will. It is important to be aware that the trustee has the overriding discretion as to whom the funds are paid and how they will be paid, ie as a lump sum or a pension.
- **Binding nomination**. A binding death benefit nomination gives you certainty about who will receive your superannuation benefit when you die and can be lapsing or non-lapsing. Lapsing binding nominations expire every three years and non-lapsing never expire. If you validly nominate a beneficiary your nomination will be binding, meaning that the trustee must pay your benefit to the person(s) you have nominated. This happens as long as your nomination is valid.

You may have ideas about who you would like to receive your super, however care needs to be taken when deciding who to leave your benefit to. Getting this wrong can have significant tax implications.

If your super benefits are paid as a lump sum to a tax dependent, they are received tax free. A tax dependent includes:

- Your spouse
- A child under the age of 18
- A person who is financially dependent on you at the time of your death.

However, if your super is paid as a lump sum to someone not considered a tax dependent when you die, such as an adult child who is not financially reliant on you, the payment can be taxed up to 30% (plus Medicare levy). It's a big difference!

The following table highlights the tax rates that apply.

	Dependant	Non-dependant
Tax-free component	Nil	Nil
Taxable component – taxed element	Nil	15%*
Taxable component – untaxed element	Nil	30%*

*Plus Medicare levy

If this sounds like something you need to explore, or review what you already have, please feel free to fill in the form here: https://www.fasttrackwealth.com.au/contact-us/

Or contact Adam on 07 3263 4123.

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