

What is an effective way to save for retirement?

For most people, superannuation is the most tax effective way to save for retirement. And, just as importantly, is the most tax effective way to generate a retirement income.

What are the tax advantages of super?

Let's say you decide to invest \$10,000 of your salary. If you invest it via your super fund, from your pre-tax salary, this is how your contribution will be taxed (assuming it is part of a salary sacrifice arrangement):

- Firstly you won't have to pay PAYG tax on the \$10,000 of salary.
- But once in your super fund, tax of 15% will be levied, leaving you with \$8,500 invested.

Compare that to investing your \$10,000 outside of super. In that case, you'll have to pay PAYG tax, leaving you with just \$6,100 (assuming your marginal tax rate is 39% including Medicare Levy) for investment wherever you like.

The earnings generated by the investments outside of super will be taxed at 39% including Medicare Levy.

However, earnings generated by investments in your super fund will be taxed at only 15%.

How much can you invest in super on a tax-effective basis?

Because super is tax advantaged, there is a limit on how much you can invest in super and qualify for a tax deduction. This limit is \$25,000, and it includes your employer's super guarantee contributions.

No tax for retirees in super and aged 60+

Superannuation is even more tax effective for retirees. For most retirees over age 60, there is now no tax on earnings inside the fund and no tax on income or withdrawals (including from account-based pensions).

However, there will be a \$1.6 million cap on money you are allowed in to rollover to start account-based pensions (for 2018/19).



Case study

The tax differential between investing in super and non-super adds up over time.

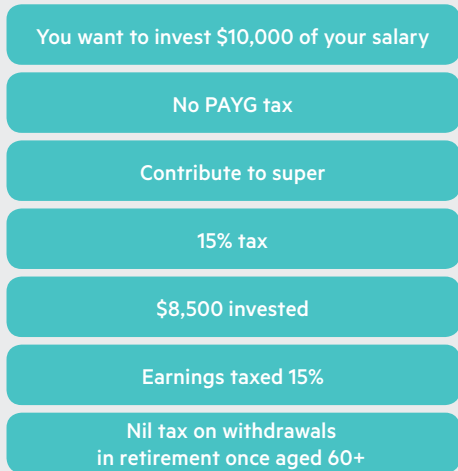
Bob is on a tax rate of 39% and invests \$10,000 into his super before tax annually, indexed at 3% p.a.

If Bob invests his \$10,000 as part of a salary sacrifice agreement (i.e. \$8,500 after contributions tax) and the fund earns 8% p.a. gross, he would accumulate \$135,715 after 10 years, and \$444,412 after 20 years, see Chart 1.

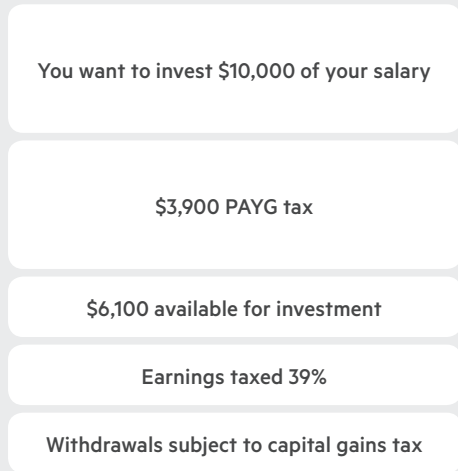
Alternatively, if Bob chooses not to salary sacrifice into his superannuation, he will only have \$6,100 p.a. (indexed) to invest after paying PAYG tax, and he will be paying tax on investment income of 39% (compared to 15% in super). As a result, after 10 years he'll accumulate \$88,567 and \$261,651 after 20 years, assuming an 8% p.a. gross return.* The sole reason for the difference is the preferential tax treatment of superannuation.

Super means you can have more invested^

Salary sacrifice into super

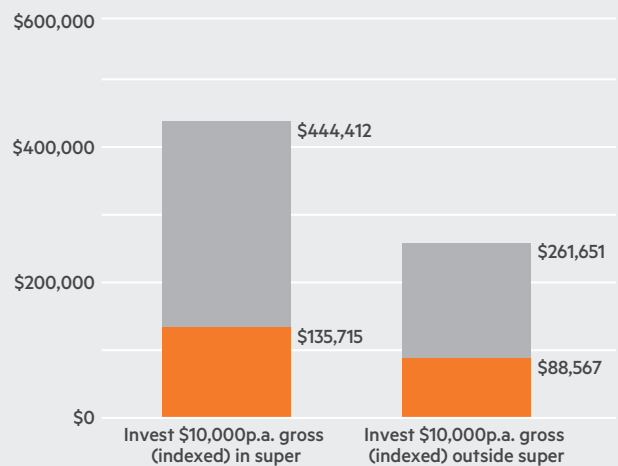


Investing outside of super



^Assumes MTR 37% based on 2018/19 tax and ignores offsets & Medicare levy rates

Chart 1:
An improvement of \$182,760 for retirement*



*Assumes MTR 39%, annual pre-tax investment of \$10,000 indexed at 3% p.a. and annual gross investment amount of 8% p.a.

Other superannuation strategies

Claiming a tax deduction for personal contributions to superannuation

For similar benefits to salary sacrifice, you may be able to claim a tax deduction for contributions you make to superannuation. This reduces your taxable income and you only pay tax at 15% on the contribution, potentially increasing the amount that you have available to invest.

The low-income superannuation tax offset

For low income earners, the low-income superannuation tax offset (LISTO) may refund the 15% superannuation contribution tax. You must have an adjusted taxable income less than \$37,000 p.a. to qualify. The maximum LISTO paid is \$500, equal to 15% of concessional contributions up to \$3,333. LISTO is paid into your superannuation account.

The ATO's reference for LISTO is: <https://www.ato.gov.au/individuals/super/growing-your-super/adding-to-your-super/government-super-contributions/>

The Government co-contribution

If you are a low to middle income earner and you make a personal after-tax contributions to superannuation you may be eligible for a Government co-contribution. The maximum Government co-contribution is \$500, payable at a rate of 50 cents for every \$1 of eligible contributions that you make. The co-contribution reduces by 3.333 cents for every dollar that your adjusted taxable income exceeds \$37,697, with no co-contribution payable when your income reaches \$52,697, (2018/19 figures).



Spouse contributions to superannuation

If you make after-tax superannuation contributions on behalf of a low-income earning spouse, you may be eligible for a tax offset up to \$540. This is an 18% offset on the first \$3,000 of contributions. To qualify, your spouse needs to earn less than \$40,000. This reduces your tax payable.

The link to the ATO website on spouse tax offset is:
<https://www.ato.gov.au/individuals/income-and-deductions/offsets-and-rebates/super-related-tax-offsets/>

Spouse superannuation splitting

Contribution splitting to a spouse is a long-term strategy to even out the superannuation balances between spouses, which may help to maximise the combined total of superannuation savings that can be transferred to retirement phase income streams in the future.

Downsizer contributions

If you are age 65 or over you are able to contribute up to \$300,000 of the sale proceeds of your principal residence without meeting an age or work test.

Speak to your financial adviser about the other conditions that apply to be able to use these strategies to maximise your superannuation.

Superannuation Pros:

- Low tax on contributions
- Low tax on earnings in the fund
- No tax on earnings and capital gains on assets supporting retirement phase income streams (subject to \$1.6 million transfer balance cap).
- Ability to draw a regular income stream at retirement where pension payments are tax free once you are over age 60 (assuming paid from a taxed superannuation fund).
- If you are in receipt of a Centrelink income support payment, superannuation in accumulation phase is not counted under the Centrelink income and assets test until you are Age Pension age

Superannuation Cons:

- Generally you can't withdraw money until you are at least preservation age (age 57-60 depending on your date of birth) and retired.
- Superannuation in accumulation phase is taxed at maximum rate of 15%, which may be lower than your marginal tax rate.
- Limits apply to the contributions you can make and the amount you hold in superannuation
- Rules are complex and subject to change
- Fees would apply to superannuation accounts and vary depending on the fund

Our services



Health

- Health insurance
- Overseas visitors cover
- Dental services
- Chronic disease management
- Hospital in the home



Wealth

- Investments
- Estate planning
- Trust and estate administration services
- Financial planning
- Investment, education and funeral bonds
- Banking and home loans
- General insurance



Living

- Aged care and accommodation
- Personal and business insurance
- Aboriginal home care
- Disability services
- Retirement communities

