FACT SHEET

Introducing Superannuation

Financial Desk
National Seniors Australia

3/26 Bougainville Street
Manuka ACT 2603

Phone 1300 020 110

fid@nationalseniors.com.au

fid.org.au

What is Superannuation?

Superannuation is an investment vehicle for saving during a person's potential working life to provide an income in retirement. With compulsory employer support for most people it is operated under a regulatory system which imposes prudential standards on the industry. Depending on the member's circumstance superannuation may offer taxation benefits.

Contributions

Superannuation contributions fall into two categories:

1 - Concessional

- Award contributions
- Superannuation Guarantee contributions
- Additional voluntary employer contributions
- Salary Sacrifice, subject to employer agreement - effectively an employer contribution
- Tax deductible contributions by self-employed and non-supported persons

2 - Non Concessional

- Personal after tax contributions made by anyone under age 65
- Personal after tax contributions made by eligible persons between the ages of 65 and 75 years subject to meeting a 'work test' (see below)
- Spouse contributions
- Co-contributions

The 'work test' for people 65 and over is being gainfully employed for at least 40 hours within a period of 30 consecutive days during the financial year in which the contribution is made.

Monetary limits (caps) apply for these contributions. Refer to our fact sheet Super Contributions and Caps.

Types of Super Funds

There are two types of funds used in Australia - accumulation funds and defined benefit funds.

Accumulation Funds

Contributions less fees, taxes and insurance premiums (if applicable) are invested to provide a lump sum or deliver an income stream in retirement. It comprises accumulated contributions, insurance benefits (in some cases) and investment earnings net of tax.

The value of the fund can be determined at any given time, relatively simply, by the member and therefore are termed Account Based funds. The member bears all the investment risk with the value of the fund rising or falling subject to investment options chosen and market conditions. Retirement Savings Accounts (RSA) provide a capital guarantee. They are similar to bank accounts investing in cash and/or fixed interest and do not fluctuate in value with market movements. From 1 July 2013 superannuation funds will provide default funds under the 'MySuper' initiative which aims to simplify default superannuation products and improve their transparency and comparability.

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Defined Benefit Funds

Defined Benefit Funds are Non Account Based funds and are usually open only to employees of the fund provider. Several Government and Corporate superannuation funds are defined benefit funds but many are being replaced by accumulation funds.

The end benefit is determined by set criteria taking into account such variables as length of service, member contributions and salary level on retirement. The employer carries the risk of ensuring the promised benefit, based on regular actuarial reviews.

Providers of Super Funds

Superannuation funds or schemes are offered by a wide range of private and Government institutions such as:

- Public sector employers
- Private companies for their employees
- Industry superannuation funds
- Life insurance companies
- Friendly societies
- Independent fund managers
- Financial Institutions (RSA)
- Self Managed Superannuation Funds (SMSF)

Access to Super

Contributions to superannuation made on or after 1 July 1999 are preserved until a condition of release has been satisfied. Common conditions of release include:

- the member reaching age 65;
- being permanently retired from the workforce and of preservation age;
- member over 60 years of age and the arrangement under which they were employed has come to an end (changed);
- compassionate grounds;
- severe financial hardship and
- death.

Persons who have attained their preservation age and remain gainfully employed can commence a non-commutable income stream from their preserved superannuation benefit, subject to specified conditions. These are referred to as Transition to Retirement Pensions (TRP's). Refer to our fact sheets under the superannuation tab at www.fid.org.au

Taxation

A superannuation fund or RSA that meets the standards of the Superannuation Industry (Supervision) (SIS) Act 1993 and chooses to be regulated under that legislation is classed as a complying fund and receives concessional tax treatment.

The taxation of the various components of superannuation and superannuation funds are summarised in our leaflet Superannuation - Tax Considerations

Government Income Support

Superannuation investments in the accumulation phase are exempt assets for Government Income Support (GIS) until the fund member reaches age pension or service pension age.

From 1 July 2009 income (salary) sacrificed into superannuation by people under age pension age will be counted as assessable income for all GIS payments of the person or their partner, as applicable.

Features

Superannuation investments receive taxation and GIS concessions.

Prior to 1 July 2013 accounts with balances less than $1,000 could not be eroded by fees. Following the introduction of 'MySuper' accounts this protection ceased. Consolidation of super accounts and use of MySuper or other low cost accounts should be considered particularly for disengaged or value conscious members.

But Remember...

Superannuation is preserved (inaccessible as a lump sum) until a condition of release is satisfied. A transition to a retirement income stream/pension can be commenced after preservation age.

Investing with safety

Choice of investment options is important as superannuation providers may not guarantee the capital or earnings.

When approaching retirement the continued investment of a superannuation benefit should be planned. If the benefit is to be withdrawn in the near future, consolidation in an investment option with low volatility may be prudent to preserve retirement capital.

It is sensible not to hold all your capital in superannuation. Diversification over markets, products and time is also important.

Further publications on superannuation taxation, components, contributions etc are available from the Financial Information Desk.