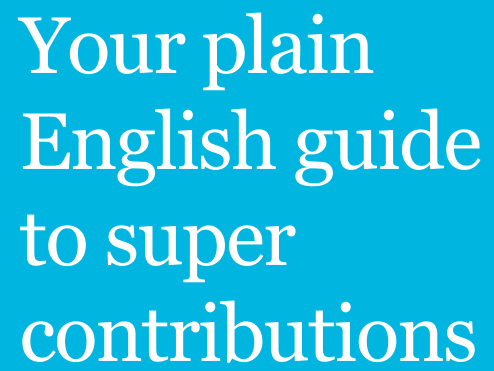
# Your plain English guide to super contributions



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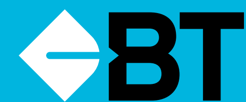
Prepare for the best.



# Taking control of your super and your future

## Why take control of your super?

**Superannuation. While it's probably the most important investment most Australians will ever make, many of us still have little knowledge of how it works, what opportunities it offers for our future and how we can best take advantage.**

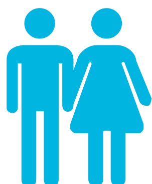
In fact, regardless of compulsory employer contributions of 9.5%, research shows many Australians still don't have enough money to last them throughout retirement, with research suggesting a national shortfall of $727 billion[1]. This means an average retiree has $67,000 less than what they need for an adequate retirement (up to their life expectancy)[1].

But despite all this, many Australians are not taking advantage of the benefits and tax breaks offered by voluntary super contributions.[2]

That's why, we've put together this plain English guide to super contributions – to help you understand technical jargon and legislation, harness the power of voluntary contributions and take control of your super and your future.

**$727 billion**

*Australia has a retirement savings gap of $727 billion.*[1]



*In 2033, men who reach 65 will live to 91 and women to 93.5 So, people born after 1968 will have to consider how to support themselves for around 30 years after retirement.*[3]

**< $67,000**

*An average retiree has $67,000 less than they need for an adequate retirement.*[1]

[1] Rice Warner Retirement Savings Gap research, commissioned by the Financial Services Council, 30 June 2013.

[2] ABS 636.0 Employment Arrangements, Retirement and Superannuation, Aust Apr–July 2007 – Revised 2009. 'Most (95%) employed people aged 15–24 years with super accounts in the accumulation phase do not make personal contributions to super.'

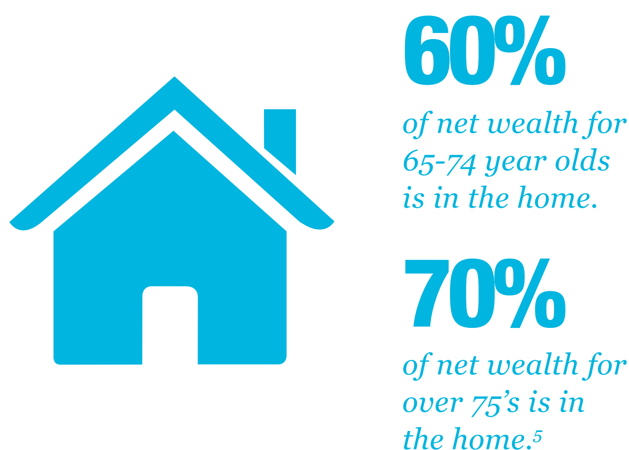
[3] Actuaries Institute, 'Australia's Longevity Tsunami', August 2012, page 6.

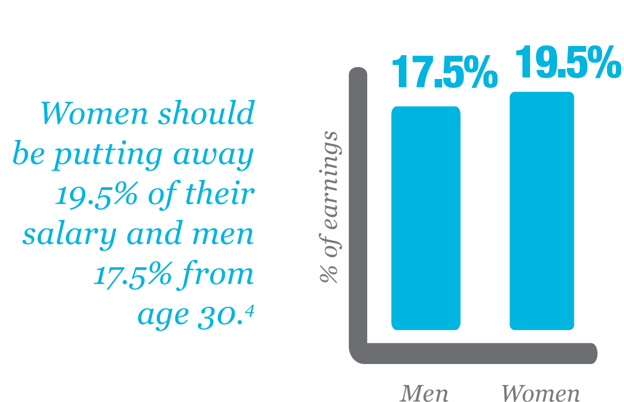
# Why boost your super?

**These days, with people living longer and longer and the cost of living increasing dramatically over time, you can't necessarily rely on your employer's 9.5% contributions to provide you with a comfortable retirement.**

In fact, research shows that for many Australians, the Super Guarantee is grossly inadequate to last them up to their life expectancy. For example, a recent report by Deloitte found that that even for a modest lifestyle in retirement men aged 65 need to have amassed $340,000 and women $370,000[4]. However the average account balance falls alarmingly short, with men aged 60 to 65 having an average account balance of $114,000 and women $94,000[4].

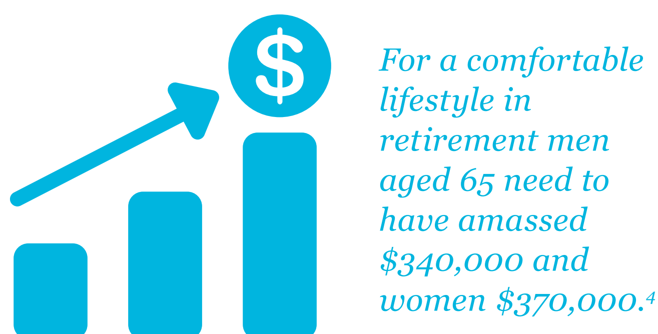
This leaves the majority of us with two options – working well into our golden years (think our seventies and beyond), or boosting super with voluntary contributions from an early age.




Considering the myriad of tax breaks and bonus contributions available for superannuation, boosting super early on makes financial sense for many people. In fact, according to the report, women should be putting away 19.5% of their salary and men 17.5% from age 30.[4]

Of course, whether this is an appropriate solution for you will depend on your unique circumstances and needs. So before you throw all your money into your super fund, look at your finances as a whole and talk to a financial adviser.




[4] Deloitte, Adequacy and the Australian Superannuation System, 2014
[5] HILDA survey 6554.0 2013

# What makes super a good investment?

**While it's clear most of us need to be saving a lot more for our retirement, what makes super a good option? Why not simply save or invest money for our future with a term deposit or a managed fund?**

Unlike other investments, super is subject to a number of tax breaks and benefits, which can make it a particularly attractive way to save for retirement.

For starters, before tax contributions made into super are taxed at just 15%[6] rather than your marginal tax rate. This can result in tax savings for anyone on a higher effective tax rate, and for those in the highest tax bracket, can result in tax savings of up to a whopping 34% (including the Medicare levy of 2%).

The only exception to this rule is if your taxable income is more than $300,000 a year you are also subject to an additional tax of 15% (known as Division 293 tax) taking the total up to 30%. However, making before tax contributions is still effective.

**15%**

*Income earned within super is taxed at just 15% rather than your marginal tax rate.*

*Capital gains tax on assets held for 12 months is taxed at 10%.[6]*

**15%**

**$20,542 p.a.**

*Contributions invested into super are taxed at just 15% delivering tax savings for anyone earning over $20,542 p.a.[6]*

On top of this concessional tax rate on contributions, once inside super your money is also subject to flat rates of income tax and capital gains tax. Any income earned within super is taxed at just 15% rather than your marginal tax rate, while capital gains (on any assets held for over 12 months) are reduced by a third and effectively only taxed at 10%.[6]

Less tax means more of your contributions invested in your future. So even a small tax saving now can make a huge difference when invested over the course of your working life.

[6] ASIC Money Smart web site https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/tax-and-super

# Ways to boost your super

**Fortunately, there are plenty of ways to boost your savings in preparation for retirement, and the sooner you start, the better for your financial future.**

## Salary sacrifice

Salary sacrifice is when you and your employer agree to pay some of your pre-tax salary as an extra contribution to super. While potentially beneficial for adults earning taxable income over $20,542 p.a. (taking into account the low income tax offset), it is a particularly useful strategy for those earning over $37,000 p.a.

The following table shows the percentage of tax you can save through salary sacrificing, depending on your marginal tax bracket.

| TAXABLE INCOME P.A. | TAX RATE | SUPER CONTRIBUTION TAX SAVING |
|---|---|---|
| $0 – $18,200 | Nil | -15% |
| $18,201 – $37,000 | 19% for each $1 over $18,200 (+2% Medicare levy) | Up to 6% |
| $37,001 – $80,000 | 32.5% for each $1 over $37,000 (+2% Medicare levy) | 19.5% |
| $80,001 – $180,000 | 37% for each $1 over $80,000 (+2% Medicare levy) | 24% |
| $180,001+ | 47%[7] for each $1 over $180,000 (+2% Medicare levy) | 34% |

**Remember even the smallest tax savings now can have a huge effect when invested over the course of your working life.**

[7] Includes Temporary Budget Repair Levy

# What are the options for contributions?

## After tax (or non-concessional) contributions

Another way to boost super is to make a contribution to your super with your own after-tax money.

This method of contribution still enjoys the same concessional tax treatment when invested inside super, making it a simple and effective way to boost money for retirement.

Better yet, if you're a low-to-middle income earner and make an after-tax contribution you may be eligible for a Government co-contribution.

## Government co-contributions

The Government co-contribution is designed to assist lower income earners boost super and save for retirement. The basic idea is that if you earn a low income and make an after-tax contribution to super, the Government will make an additional contribution on your behalf.

To be eligible you must have total income less than $49,488 per year (before tax), be under age 71 at the end of the financial year, not hold a temporary visa at any time during the financial year (unless you are a New Zealand citizen or it was a prescribed visa), be a permanent resident of Australia and earn at least 10% or more of your total income from eligible employment, carrying on a business or both. Most importantly, you must make an after-tax contribution to your super fund.

*If you earn a low income and make an after-tax contribution to super, the Government will make an additional contribution on your behalf up to $500.*

How much the Government will match your contribution by, will depend on your level of income, For example, if you earn less than $34,488, the Government will contribute $0.50 for every $1.00 of after-tax contributions you make to your super up to a maximum of $500.

For those who earn more, the Government co-contribution will reduce by 3.33 cents for every dollar you earn over $34,488, until it cuts out completely at $49,488 (for the 2014/2015 year).

The following table shows how much you could be eligible for when making a contribution of $1,000, depending on your income.

| INCOME | YOUR CONTRIBUTION | GOVERNMENT CO-CONTRIBUTION |
|---|---|---|
| $34,488 | $1,000 | $500 |
| $40,000 | $1,000 | $316 |
| $45,000 | $1,000 | $150 |
| $49,488 | $1,000 | $0 |

The Government co-contribution is one of the easiest ways for lower income earners to boost super. After all, where else can you earn up to a 50% return in the first year, just by making an investment?

To find out if you are eligible, talk to your financial adviser or take a look at the co-contribution calculator.

# What are the options for contributions? (continued)

## Self-employed contributions

If you're self-employed, you don't have to make contributions to super, but there are many good reasons to do so. The most important being, if you don't contribute to super, no one's going to do it for you, so you may not have any savings in retirement.

Additionally, there are numerous tax benefits for the self-employed that make super an effective way to save for your future. Not only are you eligible for the Government co-contribution (if you meet the other requirements) but you can also claim a tax deduction on contributions you make up to a limit.

To be eligible you must:

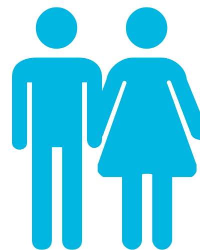
- Be self-employed, substantially self-employed or not employed.
- Earn no more than 10% of your income from employment.

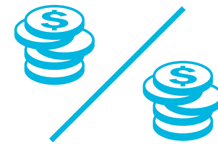
If you're not employed but still derive taxable income from interest, dividends, rent or capital gains for example, you may still be able to make be able claim a tax deduction for personal super contributions.

*If you're self employed you may be able to claim a tax deduction on your super contributions.*

## Spouse contributions

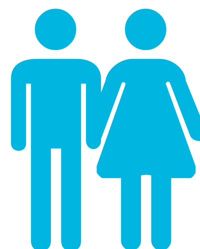
If your spouse doesn't work or earns less than $13,800 (including assessable income, reportable fringe benefits and reportable employer super contributions), you may be able to claim an 18% tax offset on super contributions you make on their behalf up to limit of $3,000. This tax offset can add up to help as much as $540, making it a attractive way to help boost super for your spouse.





*You can split contributions with your spouse.*

Another way you can boost super for your spouse is by contribution splitting. This means splitting up to 85% of your previous year's before-tax contributions with your spouse. When the financial year has finished, simply fill in a form notifying your super fund that you wish to split contributions and they will guide you through the process.



**<$13,800**

*If your spouse earns less than $13,800 p.a. you may be able to claim an 18% tax offset on contributions you make on their behalf.*

# Understand the limits

## Concessional vs non-concessional contributions

You may have heard the terms concessional and non-concessional contributions, or read about them in this document, but what is the difference and why does it matter?

*Concessional contributions are those made with 'before tax money'. Non-concessional contributions are made with 'after tax money'*

Concessional contributions are before tax contributions. They are called concessional contributions as they are subject to a 'concessional' tax rate of 15%.

Non-concessional contributions are after-tax contributions. They don't save you tax upfront like concessional contributions, as they come from your post tax savings, so are referred to as non-concessional contributions. However they are also worthwhile as once invested in super they may save you tax on income and capital gains, and may assist with your eligibility for co-contributions.

The following chart lists examples of of concessional and non-concessional contributions.

| CONCESSIONAL CONTRIBUTIONS (BEFORE-TAX MONEY) | NON-CONCESSIONAL CONTRIBUTIONS (AFTER-TAX MONEY) |
|---|---|
| Employer contributions | After-tax contributions from take home pay |
| Salary sacrifice amounts | Personal contributions (e.g. from an inheritance or sale of business) which you have not claimed a deduction for |
| Personal contributions that are eligible for a tax deduction (for example by someone who is self-employed) | Spouse contributions |

It's important to know the difference between concessional and non-concessional contributions because not only are they subject to different tax treatment but most importantly different contributions caps.

## What are contribution caps?

Because superannuation offers a range of tax benefits, the Government has put limits on the amount you can contribute in a financial year before you pay extra tax. These are contribution caps and they are different for concessional and non-concessional contributions.

The following table shows the concessional (before tax) contributions cap for the 2014/2015 year:

| CONCESSIONAL CONTRIBUTIONS CAP – 2014/2015 | | |
|---|---|---|
| Age | Under 49 years on 30 June 2014 | 49 years or over on 30 June 2014 |
| Concessional contribution cap | $30,000 | $35,000 |

For employees, the concessional cap includes both your employer contributions and any salary sacrificed contributions you have made. While for the self-employed, it includes any personal contributions for which you have claimed a tax deduction.

# Understand the limits (continued)

## Non-concessional cap

The non-concessional (after-tax) contributions cap for 2014/15 is $180,000 (up an extra $30,000 from the year prior). This means you can contribute up to this amount of your take home pay (or other funds that have already been taxed like an inheritance or profits from the sale of a business) to super before paying extra tax.

However, if you're under the age of 65 on 1 July of a financial year, you may be able to contribute up to $540,000 in non-concessional contributions by bringing forward three years contributions to that financial year. This may also be done partially – for example by bringing forward $300,000 and contributing the remaining $240,000 over the following two years, however you will need to meet a work test to contribute after age 65.

Whatever contributions you make to super, staying within these limits is important so you don't end up paying extra tax. Your financial adviser can help you determine which contribution is right for you.

## The sooner, the better

As you can see, no matter what type of contribution you make, super is one of the best ways to save for a comfortable retirement. And the earlier you start, the better.

Not only does contributing early on give you more time to grow your nest egg, but considering there are strict limits on how much you can contribute every year, getting an early start is one of best ways to take advantage of the myriad of tax benefits on offer.

So if you want to ensure you have enough money to last you in retirement and lead the lifestyle you want, talk to your financial adviser today to take control of your future.

*Staying within your contribution limits is important so you don't end up paying extra tax.*

Discuss your super strategy with your financial adviser.

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The Government has set caps on the amount of money you can add to superannuation each year on a concessionally taxed basis. In addition, the government has set a non-concessional contributions cap. For more detail, speak with a financial adviser or visit the ATO website.

Information current as at 1 May 2015.

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