Superannuation

This document provides some additional information to help you understand the financial planning concepts in relation to superannuation.

1. Why invest in superannuation?

Superannuation can be a tax effective way of building wealth for your retirement. The concessional tax rates relating to super funds are generally lower than the tax rates on personal income and personal capital gains.

- For concessional (tax deductible) contributions where the personal taxable income of the person is below $250,000, the super fund is taxed at 15% on the contribution whereas an individual could be taxed as high as 47% if they retained this income. For Australian taxpayers with a taxable income of $250,000 or more, the tax on concessional contributions will be 30% (still lower than the maximum personal tax rate of 47%).
- Investment income is taxed at a maximum of 15%.
- Realised Capital Gains are taxed at a maximum of 15%. If the asset has been owned by the superannuation fund for more than 12 months the maximum rate of tax on Realised Capital Gains is effectively 10%.
- When a pension (other than a Transition to Retirement Pension) income stream is commenced, the tax rate on income and Realised Capital Gains in the pension account reduce to zero.

  Note an individual cannot have a pension fund balance (including Transition to Retirement Pensions) of greater than $1.6m across all super funds including the capitalised balance of any Defined Benefit Pension.
- Subject to the note below, any benefit payment that can be made from a taxed superannuation fund where the member has reached their 60th birthday is tax free.

  Note special rules regarding taxation of pension payments apply to pension payments from an untaxed fund or pension payments from a taxed fund where the annual pension is $100,000 or more.
- Transition to Retirement Pensions (see Fact Sheet on Transition to Retirement Pensions for more information) earnings are taxed at 15% and Realised Capital Gains will be taxed at a maximum of 15%. If the asset has been owned by the fund for more than 12 months the maximum rate of tax on Realised Capital Gains is 10%.

As mentioned above, these superannuation tax rates are in contrast to your personal marginal tax rate, which could be considerably higher. Your DPM Private Wealth Consultant can provide you with further information in relation to personal tax rates.

2. Types of superannuation funds

Defined Benefit Fund

In a Defined Benefit Fund, your retirement benefits are usually determined by factors such as your age, final salary at retirement, and how many years of service you had with your employer. Your final benefits are not reliant on investment returns and are generally guaranteed by the fund.

Accumulation Fund

An Accumulation Fund accumulates contributions and earnings to provide a benefit for you. Your final retirement benefit is therefore dependent on the amount of contributions made and the earning rate of the fund.

Accumulation Funds provide greater control over the selection of investment options, as well as greater transparency of the fund's administration. In contrast to Defined Benefit Funds, investment returns are not guaranteed. As a result, the investment balance of an Accumulation Fund can go up and down with movements in investment markets.

3. Types of superannuation contributions

Contributions to superannuation are split into two broad groups, concessional contributions and non-concessional contributions. Limits apply to the amount of contributions (both concessional and non-concessional).

Concessional contributions

Concessional contributions are generally contributions made by or for individuals that are deductible to the contributor and are assessable in the hands of the superannuation fund, such as superannuation guarantee, salary sacrifice and personal deductible contributions.

Concessional contributions are taxed at a maximum of 15% (or 30% if the individual's taxable income exceeds $250,000) and form part of the taxable component of your superannuation benefit.

Concessional contributions made in excess of the annual limit are charged penalty taxes, and so for most people should be avoided. The limit is indexed to Average Weekly Ordinary Time Earnings (AWOTE).

Your DPM Private Wealth Consultant can explain more about the types of contributions that fall into this category and the limits that apply to you.

Factors to be aware of:

- Concessional contributions will be taxed at 15% or 30% if the individual's taxable income exceeds $250,000.
- Individuals aged 65 but under age 75, must satisfy a 'work test' to make salary sacrifice or personal deductible concessional super contributions. You must work 40 hours in a 30-day period in the financial year before you make salary sacrifice or personal deductible contributions.
- After age 75, you can only receive compulsory employer Super Guarantee Contributions.
- If you exceed your concessional contribution limit, there are penalties and / or administration procedures you must follow.

Non-concessional contributions

Non-concessional contributions include contributions to the fund such as personal after-tax contributions and spouse contributions. These contributions are not taxed when contributed to the fund and form part of the tax-free component of your superannuation benefit.

Deemed earnings on non-concessional contributions made in excess of the annual limit are charged penalty taxes, and any excess non-concessional contribution amount (along with the deemed interest) must be withdrawn from the fund.

Individuals under age 65 (at the commencement of the relevant financial year) are able to bring forward two years of non-concessional contributions, enabling them to contribute up to 3 years of contributions in one year, with no further contributions in the next two years. The year in which the 3 year cap is initially triggered determines the value that can be contributed during the 3 year period.

Your DPM Private Wealth Consultant can explain more about the types of contributions that fall into this category and the limits that apply to you.

Factors to be aware of:

- From 1 July 2017, eligibility to make a non-concessional contribution will be subject to your total superannuation balance being less than $1.6m.
- Individuals aged 65 but under age 75, must satisfy a 'work test' to make non-concessional super contributions. You must work 40 hours in a 30-day period in the financial year you receive or make concessional contributions.
- Individuals aged 65 to 74 are unable to bring forward non-concessional contributions.
- Individuals aged 75 and over are not able to make non-concessional contributions even if they meet the work test.

4. Where to invest your superannuation funds

Invest through a industry super fund

Industry super funds operate for the benefit of its members with all profits made being returned to members' accounts, rather than paid out to shareholders.

Industry super funds currently look after the superannuation needs of approximately 5 million Australians and offer a low cost superannuation fund for members. They generally charge lower fees than retail superannuation providers and do not have any associations or pay any commissions to financial advisers. An industry super fund usually covers a group of employees in a particular industry or groups of industries.

A potential disadvantage to industry super funds is that the fund offers limited investment options. This can cause difficulty in aligning your investments to your Investment Risk profile and not give you the required exposure to specific asset classes. It can also create a low transparency of underlying investments by not showing where your money is invested. Industry super funds are increasingly trying to adopt the use of direct share investment and more investment options to prevent these problems.

Invest through a Self Managed Super Fund (SMSF)

For individuals seeking to own direct investments within superannuation or gain greater control of their superannuation portfolio, SMSFs can be an attractive alternative.

A SMSF must have between one and four members with no member allowed to be an 'employee' of another member unless related. It also needs to pass the 'Sole Purpose Test' which means that a SMSF is established for the provision of benefits to members upon retirement or the provision of death or ancillary benefits to members.

SMSFs can facilitate:

- Accepting new superannuation contributions
- Housing superannuation funds received from a change in employment
- Paying a retirement income

Advantages of a SMSF include:

- Direct Investment Choice - you can invest directly in your own chosen combination of investments, for example, shares, property, fixed interest investments, managed funds and cash. You may also include business real property (commercial property).
- Access to Wholesale Managed Funds - you may gain the benefit of access to wholesale managed funds where the investment charges are lower than retail managed funds.
- Consolidation - you have the ability to have up to four members in a SMSF. You are therefore able to combine your superannuation benefits into one strategy to reduce ongoing costs and increase the potential for compounding capital growth.
- Tax Planning - you have the ability to reduce taxation liabilities within the fund by selecting a tax effective mix of investments, including franked dividends. Investment earnings are subject to tax at a maximum rate of 15%.
- Estate Planning - SMSFs provide estate planning opportunities where there is more than one member in the fund. A member of a self managed super fund is able to a have a Non-Lapsing Binding Nomination which allows them to specify how their benefits are to be distributed on their death.

Disadvantages of a SMSF include:

- **Cost** – the cost of running an SMSF can be expensive where the fund size has not reached critical mass. A retail fund may be cheaper below a certain level. The Australian Taxation Office suggests an initial superannuation balance of $200,000 for a SMSF to be cost effective.

- **Obligations of trustees** – trustees are bound by law to responsibly manage the super fund for the benefit of the members. The level of effort required to do this can be considerable. Non-compliance can result in severe penalties, increased taxes or in some cases, if severe enough, imprisonment.

- **Significant administrative and compliance tasks** – there are significant administrative and compliance tasks that must be undertaken by the trustees which can be difficult and time consuming. Trustees also need to keep up to date with the relevant legislation to ensure that the fund does not breach any legal or regulatory requirement.

- **Fund performance** – there is a danger that trustees will not give due consideration to an appropriate investment strategy and, accordingly, medium to long term returns may be lower than those achieved from a retail fund.

  Trustees must consider all of the fund members and the dates at which they will retire, and then structure the fund portfolio to help meet the required retirement benefits on these dates. This skill, as well as being able to watch markets, is generally not acquired easily.

Invest through a Wrap Platform provider

A wrap platform is an online service that provides a single point of access with consolidated reporting and simplicity in the management of your portfolio by combining all of your managed funds, shares, insurances and superannuation into one account. A wrap account will generally allow investors to have access to wholesale managed funds which offer lower ongoing management fees, no exit or entry fees and a wider range of investment opportunities, in comparison to retail funds.

All available Investment Products within a Wrap are outlined in an investment menu.

All administration associated with the investments products held is done within the Wrap. This considerably reduces the amount of paperwork required to be completed and increases the time it can take to implement a transaction. All these transactions including dividends, purchases and sales are automatically settled and accurately recorded for you.

Wrap platforms generally charge account administration fees, investment management fees, transaction fees, and establishment / entry fees. The consolidated reporting a Wrap platform provides can assist in preparing many performance documents that assist with portfolio analysis as well as annual tax returns.

5. When can I access my superannuation?

Superannuation benefits are restricted and generally cannot be accessed until the member satisfies a condition of release such as reaching their Preservation Age, ceases employment on or after the age of 60 or the member reaches age 65. A person's Preservation Age will vary between age 55 and 60 depending on their date of birth (as outlined in the table below).

Date of Birth	Preservation Age
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
After 30 June 1964	60

Your DPM Private Wealth Consultant can provide you with more information in relation to the preservation status of your benefits.

6. Taxation of superannuation withdrawals

Depending on the classification of your superannuation benefits, you may be able to withdraw (cash out) part of your superannuation benefits.

When you withdraw funds from superannuation, you may incur lump sum tax, depending on your age at the time of the withdrawal, the total amount withdrawn, and the superannuation component from which the funds are taken.

Outlined below is the tax treatment of superannuation withdrawals, based on an individual's age at the time of withdrawal and in some cases the total amount withdrawn and superannuation component.

Withdrawals under age 60

Depending on your personal circumstances and the components that make up your superannuation benefit, tax may be payable.

Withdrawals over age 60

Withdrawals over age 60 are subject to a retirement provision before they are tax- free. Withdrawals over the age of 65 are tax-free.

Death Benefits

Any superannuation benefits paid to a beneficiary considered a tax dependant are tax free. A tax dependant includes a spouse, former spouse, a child under the age of 18, a financial dependant or interdependent.

Anti Detriment Payments

From 1 July 2017, a super fund will not be able to pay a refund of a member's lifetime superannuation contributions tax payments into a deceased estate, and likewise the super fund will not be able to claim a tax deduction for this payment.