
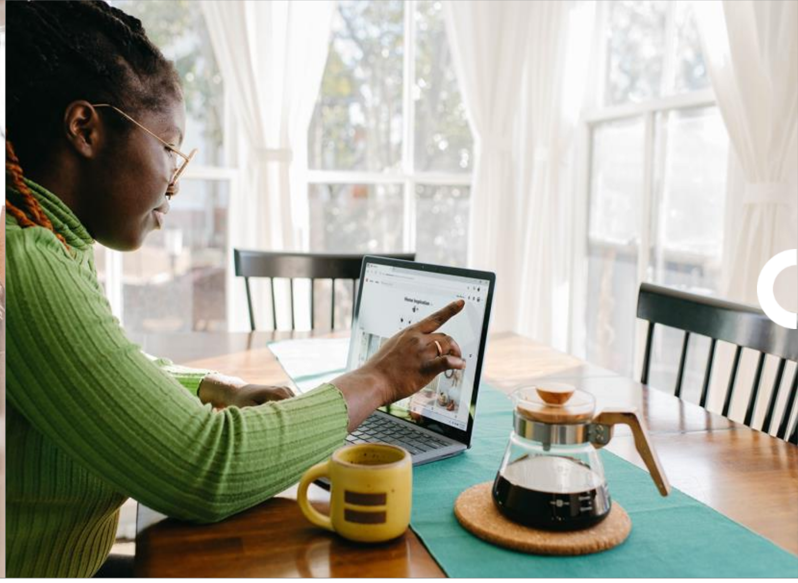

What is superannuation in Australia

Life is always changing and at times we can tend to be focused on the 'here and now'. For some, retirement may be too far away to think about now. For others, it may be a lot closer than we think. Regardless of your timeframe, it is worthwhile to consider the future, as a little forward planning can make a big difference.

What is Superannuation and why do we have it?

The Australian superannuation system is widely known as one of the best in the world. Becoming compulsory in 1992 it has developed into a key asset in retirement for all Australians.

Superannuation (commonly referred to as 'super') is part of your wages and is money paid into an account for your retirement. Your employer puts a percentage of your before tax income into super which is then invested. This is called the 'Superannuation Guarantee' and is typically 11% of your wages or ordinary time earnings. The SG rate will continue to increase by 0.50% each year until it reaches 12% in 2026.

Super provides you with an income to live on when you retire from work. Most people contribute to their super from their very first job and keep contributing until they retire. The money is invested in a super account of your choice.

There are lots of different types of super funds which have different product features, costs and insurance. Since 2005 you have been able to choose which super fund you would like your contributions to go to. Super fund products are regulated by APRA and have certain terms and conditions which must be adhered to under superannuation law.

In Australia there is a three-pillar approach to retirement income:

- compulsory employer contributions to superannuation funds;
- voluntary contributions to superannuation funds and other investments; and
- if insufficient, a safety net consisting of a means-tested government-funded age pension.

You must leave your super in your account until you reach retirement age or meet certain requirements set by the government.

Your super is invested in different assets such as cash, Australian and/or international property and shares and other alternative assets. The income is reinvested in your super fund and earns more income. This is called compounding and greatly increases your final super payout.

The government encourages super savings by offering tax concessions within super that are not available if you chose to invest outside of super. In addition, no tax is charged for most people when they retire at age 60 and take their super as a lump sum or income stream/pension.

Superannuation is your money – take care of it.

Super is your money, and you have control over what happens to it, within certain limits. This starts with choosing a super fund, which is like a savings or investment account.

The more super you can accumulate during your working life, the more comfortable your standard of living will be when you retire. Your super balance may also determine how soon you can retire or if you need to keep working longer.

For most people, the government age pension is not sufficient on its own to provide a comfortable standard of living so we need to ensure we nurture our super and think of it as our very own savings – we just can't spend it yet.

Super Fund Choice

Within the first 28 days of employment your employer is required to obtain your super choice in writing and will provide you with a superannuation standard choice form. You are free to choose which super fund your contributions are paid to. If you do not provide this choice your employer is required to pay into your 'stapled super fund' – generally your last or active super fund and they will be required to obtain these details from the Australian Taxation Office (ATO).

Your employer may also have their own nominated super fund (called a default fund) which is specific to the company. Employer default funds may provide certain benefits for their employees such as reduced fees and tailored insurance benefits and premiums rates.

It is important to think about the options available to you when you join a new employer and choose a suitable super fund for you.

Choosing a super fund

When choosing a super fund, you should consider the following[1]:

- Fees – All super funds charge fees, generally the lower the fee, the better
- Insurance – Compare premium rates, amount of cover and exclusions or definitions that may affect you
- Investment options – Consider the various investment options available when comparing super funds
- Performance – Compare the investment performance of super funds over the last 5-7 years, ensure that you compare similar options against each other. Choose an investment option that suits your risk profile and needs.
- Services – Super funds may offer additional services, consider these and any additional fees attached

The ATO also has a YourSuper comparison tool that can help you compare the various MySuper products when you are considering super fund options. You can access this tool through your MyGov account.

Types of investment options

Super funds invest your money to grow your retirement savings over your working life. Your super fund will invest your super in different types of assets such as cash, bonds, Australian and International shares and property. Most super funds will create a portfolio of these assets into an investment option with varying degrees of risk. If you do not choose where to invest your money, the super fund will choose one for you – called the default investment option.

Risk and Return

Some assets, such as cash, fixed interest or bonds offer the potential for lower returns over time but are less risky. Other assets such as shares and property are the opposite in that they offer greater potential for higher returns but also a higher chance of loss. You might hear the saying 'The lower the risk, the lower the return. The higher the risk, the higher the return'.

Not everyone is comfortable with lots of risk and so it is important that you choose an investment option which is based on your needs and your risk profile.

Someone who has a long time to invest may have more appetite for risk as you can't touch your retirement savings for a long time so you may go through a few investment cycles to gain higher returns however as you approach retirement age, you are closer to withdrawing your super and you want to be sure about the amount of super you will have especially if you super is your biggest retirement asset.

Manage your super

Keep an eye on your super by checking your statements and logging into your online account. It is important that you periodically review your superannuation account, your chosen investment option and insurances. Super funds usually communicate important changes in their statements and online so it helps to keep you on top of important information.

If you haven't already done so, create a myGov account and link it to the ATO so you can see all your super accounts including any you have lost track of. You can also consolidate super accounts here but make sure you consider any insurances within your super accounts as once you rollover you will lose any attached insurances.

[1] https://moneysmart.gov.au/how-super-works/choosing-a-super-fund

When can you access super?

It is important to remember that superannuation is for the purpose of retirement. Any employer contributions and any extra contributions which you make will be locked away until you meet a condition of release – generally retirement.

There are certain limited circumstances where an individual would be allowed early access to their super. These mainly being through severe financial hardship, specific medical conditions, or the First Home Super Saver Scheme. To be able to qualify under any of these situations, specific conditions would need to be met.

Can I contribute more into super if I want to?

Superannuation can be one of the most tax effective ways to build your retirement savings and there are a range of strategies you can consider boosting your super.

You might like to consider:

- Consolidating your super
- Salary Sacrificing
- Making after tax contributions
- The government co-contribution
- Spouse contributions

When considering any super strategy, it is important to assess how much you are contributing to super in any one year. The Government has set annual limits – known as contributions caps, and additional tax may apply where you exceed the caps.

The contributions caps for the 2023–2024 financial year are:

- A concessional (before tax) contributions cap of $27,500 per financial year.
- A non-concessional contributions cap (after tax) of 110,000 per financial year, or up to $330,000 over a three– year period (known as the bring–forward rule) if you are under age 75 any time during a financial year.

For further information on any of the above, please contact Lifestyle Financial Services on 1300 349 188 or email us on contact@yourlifestyle.com.au.

Additional information:

https://www.superguru.com.au/

For more information, please contact us.

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contact@yourlifestyle.com.au
yourlifestyle.com.au

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