



Superannuation

Overview of superannuation

Aon Hewitt Financial Education Series

Superannuation is an investment structure that enjoys special taxation treatment to encourage people to provide for their retirement. Most investments held by an individual, whether they are Cash, Fixed Interest, Property or Shares, can also be held within the superannuation structure.

What can I invest in?

Most superannuation funds offer a wide range of investment options, but there are four main asset classes you can invest your superannuation into:

- Cash
- Fixed Interest (Domestic and International)
- Shares (Domestic and International)
- Property.

You can invest into one of the above asset classes or a mixture, and your financial adviser can discuss this with you.

What are the advantages of investing in superannuation?

The advantage of superannuation is that investment earnings are taxed at a maximum of 15%, compared to investments held in your personal name which can be taxed at up to the highest marginal tax rate of 45% (including Medicare levy). In addition, if you convert your superannuation into an account based pension (also known as a retirement income stream) this tax reduces to 0%.

What are the disadvantages of investing in superannuation?

The main disadvantage of investing into superannuation is that the Australian Government has strict rules about when you can access your money, as it is designed to fund your retirement. In most cases, the earliest you can access your superannuation is when you reach your preservation age.

How is superannuation taxed?

Initial investment

15% contributions tax applies to compulsory Superannuation Guarantee Contributions (SGC) which is 9.5% in the current financial year, salary sacrifice, and personal deductible contributions (contributions of which a tax deduction is claimed). If you invest after tax money there is no contributions tax payable.

You may also be eligible for a tax rebate, tax deduction, Low Income Superannuation Contribution or the Government co-contribution.

From 1 July 2012, individuals with income, using the adjusted definition set by the Australian Taxation Office, above \$300,000 will be required to pay 30% contributions tax on concessional contributions, as opposed to the standard 15%.

Investment earnings

Investment earnings are taxed at a maximum of 15% with the tax being paid from your account balance.

Once your superannuation funds are converted into an income stream, earnings are tax-free.

Capital growth

Capital gains are taxed at a maximum of 15% with the tax being paid from your account balance. Capital Gains Tax within superannuation may be eligible for a 1/3rd discount, reducing the tax to 10% if the investment is held for longer than 12 months.

Once your superannuation funds are converted into an income stream, capital gains are tax-free.

On withdrawal

Most people will be able to access their superannuation as either a lump sum or pension tax free after age 60.

Tax may be payable if your superannuation is taken before age 60. Please refer to the 'Withdrawing from Superannuation' fact sheet under the Superannuation Financial Education Series for more information.