

4. What is Superannuation?

What is superannuation?

Superannuation is an investment designed to provide money for your retirement. Most people start superannuation when they start work because their employer has to pay contributions. You can choose to top up the funds out of your own pocket. If you are self-employed you can choose whether or not to have superannuation.

Your superannuation can grow to be a significant asset over your working life. You benefit from saving regularly over many years, your superannuation fund makes the savings work for you by investing them, and your money is generally taxed more lightly than other forms of investment. Your superannuation fund may also offer life insurance cover and disability insurance.

Types of superannuation

There are two basic kinds of superannuation fund:

- **Accumulation funds** – your retirement benefit depends on how much you accumulate over your working life, which will be the money paid in plus investment earnings less expenses.
- **Defined benefit funds** – the value of your retirement benefit is defined by a set formula which, for example, may take into account your length of service and age at retirement. Defined benefit funds are common in the public sector. They are also used by some large companies.

Different types of fund are available within these basic forms:

Employer contributions

Your employer will pay superannuation contributions on your behalf unless you are exempt or you are self-employed. This contribution is called the Superannuation Guarantee. It is compulsory for most employees.

If you are eligible for the Superannuation Guarantee, your employer's compulsory contributions must be equivalent to at least **9% of your earnings**. For example, if you earn \$40,000 a year, your employer will put at least \$3,600 a year – or \$300 a month – into your superannuation. Some employers may contribute more to your superannuation, but this depends on the terms of your employment.

You can find out more about the Superannuation Guarantee from the Australian Taxation Office. You can also add your own money to your employer's contributions. You may be able to do this through what is called salary sacrificing. This means that you choose to take less salary and have your employer contribute the amount you don't take added to your superannuation. As the salary you sacrifice comes off your gross salary, before you pay tax, you may be able to save tax this way. This tax saving comes about because, for most people, the tax saved on the forgone salary exceeds the tax that is paid when the equivalent amount is contributed to your superannuation.

Personal contributions

You can also choose to make personal contributions to your superannuation from your net income after tax. If you do, you may be eligible for the Government Co-contribution which the Australian Taxation Office calculates and pays, based on your tax return and information received from your superannuation fund.

If you are self-employed, you can have superannuation and you may be entitled to a tax deduction for your contributions.

References:

Understanding Money - <http://www.understandingmoney.gov.au/content/consumer/financialliteracy/superannuation/>

It is also possible to contribute to your spouse or partner's superannuation and you may be able to claim a tax offset if they earn nothing or have a low income. There is a lot to think about if you are considering making personal contributions to your own or your spouse or partner's superannuation. It pays to find out as much as you can about the tax implications. You may even want to ask a financial expert for advice.

When can you get your superannuation?

You generally cannot receive benefits from your superannuation fund until you retire and reach what the law calls your 'preservation age'.

Date of birth	Preservation age
After June 1964	60
July 1963 - June 1964	59
July 1962 - June 1963	58
July 1961 - June 1962	57
July 1960 - June 1961	56
Before July 1960	55

The law does allow people to get their superannuation earlier in some circumstances. These include cases where a person suffers permanent incapacity for work, in some cases of severe financial hardship, or on 'compassionate grounds'. You can find out more from your superannuation fund.

Can you get your superannuation and continue to work?

If you have reached your preservation age, your fund can let you draw on your superannuation without having to retire permanently from the workforce. This means you could continue working part-time and use part of your superannuation to supplement your income, instead of leaving the workforce altogether.

If you choose to keep working, you will have to receive your superannuation as a particular type of pension. These pensions, known as 'complying' pensions and 'allocated' pensions, will generally not be 'commutable'. Broadly speaking, this means you won't be able to stop the pension and cash it out as a lump sum.

However, if you select a 'non-commutable' allocated pension, you will be allowed to take a lump sum once you retire or reach age 65. Or you can stop the pension and put your benefits back into your superannuation fund, for example if you decide to go back to full-time work.

What will you get when you retire?

If you are in a defined benefit fund, your final superannuation balance will generally depend on how long you have been in the fund, how old you are when you retire and your final salary.

If you are in an accumulation fund, your final superannuation balance will depend on how much you and your employers have contributed, whether or not contributions stopped at any time when you were between jobs, and the returns your fund earned on investments and the tax paid.

When you retire, you can choose how you take your benefit.

Most superannuation funds will offer you a lump sum, a pension, or a mixture of both. It pays to find out as much as you can about tax and government benefits before you make a final decision.

Keep track of your superannuation

Even if retirement is some years away, it pays to know as much as you can about your superannuation.

References:

Understanding Money - <http://www.understandingmoney.gov.au/content/consumer/financialliteracy/superannuation/>

- Ask your employer for details of the superannuation fund you belong to.
- Your fund should send you annual statements that show you how much are being contributed on your behalf, how your money is being invested and how it performed during the year.
- Make sure your fund has your contact details – they can't send you a statement if you move without telling them.
- Read your statement. If you don't understand it, ring up and ask questions.

If you have had several previous jobs, you may belong to a number of funds. If you haven't kept old statements and can't remember where all your superannuation is, the Australian Taxation Office can help you find it.

It's worth trying to work out what your final benefit will be. If your statement doesn't tell you, you may be able to ask your fund. There are also calculators available on the internet to help you.

It pays to think about whether you will have enough superannuation to live on when you retire. If you are concerned about how much you will have, you may need to think about making extra contributions. It may pay to talk to a financial expert about your situation and likely future needs.

Super choices

While most people start out in the superannuation fund offered by their employer, you generally have the right to choose to switch to another fund. You don't have to change funds if you don't want to but you do have the right to shop around. You will find that funds differ in important features that are described in the Product Disclosure Statements. The key things to look for are:

- Fees and charges
- Death and disability benefits and insurance premiums
- Investment strategies and performance
- Fund features and services.

The Australian Securities and Investments Commission have information about comparing superannuation funds, including calculators that show the impact of fees and charges on your final payout.

If you have moved jobs, you may belong to more than one superannuation fund. It generally saves time and money to keep your superannuation in as few accounts as possible. You may think about moving your funds when you change jobs if your current fund is not available with your new employer. However, you could be charged fees if you move accounts – such as termination fees from the old fund and contribution fees for the new one – so make sure that you do your homework.

Some people consider moving their superannuation investments if their fund declares a negative return, or they may be interested in a fund that has had a strong earnings result. Take care when making decisions, and consider the performance of funds over five years or more. There is no guarantee that a fund that performs well in one year will perform well the next year.

For more information please go to:

<http://www.understandingmoney.gov.au/content/consumer/financialliteracy/superannuation/>

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