

# Investing in super for a comfortable retirement

**Growing your wealth by investing in super is one of the best ways to help ensure a comfortable retirement.**

## What is superannuation?

You've worked your whole life and it's finally time to put up your feet and retire. How are you going to pay for your intended lifestyle of leisure? Most Australians fund their retirement from their superannuation. Once you started working you would have started a super account, a tax-effective vehicle enabling you to invest your money and save for retirement. The types of investments available to you in super are the same as those on offer outside super. For example, cash, fixed interest, property, shares and a combination of these investments.

## What are the benefits of super?

For most, the biggest benefit of investing in super is its tax effectiveness. The overall tax paid on your super investment is generally a lot less than other more traditional forms of investing, such as personally held assets. From 1 July 2007, super became even more beneficial by becoming tax-free in retirement. This table compares investing in and out of super:



### Non-super investment

#### Initial Contribution

Paid from after-tax income. Tax would have been payable on income at marginal tax rates of up to 45%, but for most people it will be 30% or 40% plus a 1.5% Medicare Levy

#### During investment

Generally, earnings are treated as income and taxed at your marginal tax rate each year when lodge

#### On withdrawal

Capital gains tax on any gain at marginal tax rate (50% discount applies where an asset has been held for at least 12 months).

### Super-investment

#### Initial contribution

In general, a 15% tax applies on contributions to super including compulsory super and salary sacrifice contributions. No additional taxes are levied if you contribute existing savings.

You may also be eligible for a tax rebate or Government co-contribution.

#### During investment

Earnings taxed at 15% with the tax deducted from your super account balance.

#### On withdrawal

For most people aged 60 and over, who receive super benefits from a taxed source, payment of a benefit as a lump sum or income stream (such as a pension) will be tax-free.

## So what does this mean for you?

You pay less tax at the beginning when you invest in super. You also pay less tax along the way and at the end, which means you will generally have more money than if you had invested in a non-super investment. Additionally, the significant tax-savings achieved are multiplied over a long period by the 'magic of compounding'. Compounding is what happens when the return on your money goes back into your investment and keeps on earning interest – so you earn returns on your returns.

The end result is your super investment will usually grow at a greater rate than its non-super counterpart. Plus, the benefit of paying no tax on super benefits from a taxed source in retirement is hard to surpass!

## Are there any pitfalls when investing in super?

The one key difference between super and other investments, is super has some restrictions. The two main ones are:

- > Usually, you can't access your money until you reach your preservation age (between 55 and 60, depending on your date of birth) and
- > You can't borrow money using your super as collateral.

## How does your super fund invest its assets?

Most super funds offer a range of different investment options, but you can generally divide them into four basic categories. Called asset classes, these include:

- > Shares
- > Property
- > Fixed interest (also called bonds) and
- > Cash.

When offered as an investment choice in a super fund these are sometimes referred to as 'specialist' or single sector options.

Super funds also offer 'diversified' investment options that contain a mix of the different asset classes. The names given to these options can differ from fund to fund, but the name usually reflects how much risk the option exposes the investor to. For example, a conservative option will

contain mostly cash and fixed interest, while at the other end of the scale, a high growth option will contain mostly shares, usually from Australia and overseas. Diversification is an important way of managing the risks associated with investing and involves spreading your money across different asset classes to provide more consistent overall returns.

## What types of super funds are there?

There are several different kinds of super funds, but the main ones are:

- > Employer/corporate/staff funds – these are established by an employer for the benefit of its employees. Many employer super plans are outsourced to larger super providers (called corporate master trusts) which offer a broad range of investment choices and other features.
- > Personal funds – as the name implies, you join as an individual through a super provider. There are many available and most will offer a good range of investment choices and other features.
- > Industry funds – originally set up for people working in a particular industry, e.g. builders or health care.
- > Self-managed super funds – also called 'Do It Yourself' funds. These can have up to four members and are generally used by people with larger amounts in super or by family groups. You will need to have an interest in running a super fund as all members are also trustees of the fund and control the investments etc. Generally people pay a professional such as an accountant or a specialist provider, to help with the funds administration.

It is important to understand the features of your fund and what you may be giving up if you switch funds. For instance, some people have given up generous insurance benefits upon leaving their employer fund and cannot get an equivalent level of coverage in their new fund, or find it costs them a lot more to do so.

## Would you like more information?

Contact your KNM Financial Planner who can provide you with information so you can make the decision that is right for you.