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Superannuation overview

Superannuation refers to the arrangements which Australians make to have funds available to them in retirement.

Superannuation facts

- Investment earnings are taxed within the super environment at a concessional rate of 15% during accumulation phase and are tax-free during pension phase.
- All superannuation benefits received after age 60 will be tax-free.
- Funds cannot be accessed until a condition of release (such as meeting the individual's preservation age) has been met.

The amount of superannuation benefits an individual holds depends on:

- Employer contributions received.
- Additional contributions made.
- Investment returns on chosen investment options.
- Amount of fees paid.

Investment income and growth increases the level of superannuation benefits and losses reduce the level superannuation benefits held.

Superannuation phases

1. Accumulation phase

In accumulation phase contributions and rollovers are made and an individual's superannuation benefits grow. Benefits are preserved within the superannuation environment.

2. Pension phase

In pension phase a minimum pension must be drawn. The pension assists in meeting an individual's cash flow requirements during retirement.

Preservation of superannuation benefits

All contributions into a superannuation fund will be locked away, or preserved, until an individual is at least age 55 and retired. The preservation age is greater for individuals born after 1 July 1960.

Date of birth	Preservation age
Prior to 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

Investment returns are not guaranteed and depend on the performance of the superannuation funds investment portfolio. There is uncertainty around how long superannuation benefits held within pension phase will last.

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Taxation implications of withdrawing superannuation benefits

Individuals aged 60 and over who have met a condition of release, can receive their superannuation benefits as a lump sum or pension tax-free.

If an individual is aged under 60 benefits will be taxable. When part of a superannuation interest is paid out as either a lump sum or as a pension it will include both a tax-free and a taxable component.

The tax treatment of the taxed portion received when withdrawing superannuation benefits is outlined in the table below:

Taxed fund

Age	Superannuation Lump sum	Superannuation Pension
60 and over	Tax-free	Tax-free
Preservation age to 59	0% up to $230,000[1] 15%* above $230,00[1]	Marginal tax rate* less 15% tax offset
Under preservation age	20%*	Marginal tax rate*

[1]Lifetime cap, indexed annually with AWOTE, rounded down to nearest $5,000.

* Plus Medicare levy.

Untaxed fund

Age	Superannuation Lump sum	Superannuation Pension
60 and over	15%*up to$1,650,000[1] 45%* above $1,650,000[1]	Marginal tax rate* less 10% tax offset
Preservation age to 59	15%* up to $230,000[1] 30%* $230,00[1] to $1,650,000[1] 45%* above $1,650,000[1]	Marginal tax rate* less 15% tax offset
Under preservation age	30%*up to$1,650,000[1] 45%* above $1,650,000[1]	Marginal tax rate*

[1]Lifetime cap, indexed annually with AWOTE, rounded down to nearest $5,000.

* Plus Medicare levy.

Types of superannuation funds

Industry Superannuation Funds

Previously, these once catered to individuals employed in a specific industry but most industry funds are now open for anyone to join.

Industry funds generally have a limited number of investment options where an investment manager has control over how the superannuation benefits within the option are invested. There is also limited transparency and generally no control over the investment portfolio.

Some larger industry funds allow members to select their own investment portfolio from a menu of shares, Exchange Traded Funds and term deposits. However additional fees are incurred to access the investment menu.

Retail Superannuation Funds

These funds are run by banks and other financial institutions and are open to all investors via an administrative platform. The company running the fund charge administration and platform fees to generate an income.

Retail funds generally offer access to a wide range of investments through an investment menu, often running into the hundreds. An investment portfolio can be created using the investment options available on the investment menu.

Self-Managed Superannuation Funds

A Self-Managed Superannuation Fund is a private superannuation fund which provides greater control and flexibility of superannuation benefits.

A Self-Managed Superannuation Fund can have up to six members who are also the Trustees, or Directors of a Corporate Trustee.

A Self-Managed Superannuation Fund must have one of the following trustee structures:

Number of members	Individual Trustees	Corporate Trustee
1 member	Member is one of two individual Trustees and the second Trustee is either: • a relative of the other Trustee; or • not an employee of the other Trustee.	Member is the sole Director of the Trustee company, or one of two directors where the member is either: • a relative of the other Director or • not an employee of the other Director.
2 – 6 members	Each member of the fund is a Trustee.	Each member of the fund is a Director of the Trustee company.

A Self-Managed Superannuation Fund provides greater investment flexibility as many different investment types, including direct real estate and collectable assets, subject to investment rules contained within the Superannuation Industry (Supervision) Act and Regulations, can be held within this structure.

A Self-Managed Superannuation Fund can also provide additional estate planning strategies and documentation to be put in place with an individual's chosen Estate planning solicitor, which aren't available through retail or industry superannuation funds.

The Trustees or Directors of the Corporate Trustee of a Self-Managed Superannuation Fund are personally liable for the actions of the Self-Managed Superannuation Fund. They must ensure the fund complies with the Superannuation Industry (Supervision) Act and Regulations.

The Trustees or Directors of the Corporate Trustee of a Self-Managed Superannuation Fund are required to:

- Maintain the fund for the sole purpose of providing retirement benefits to SMSF members, or to their dependants if a member dies before retirement.
- Accept contributions and pay benefits (pension or lump sums) to members and their beneficiaries in accordance with superannuation and taxation laws and the SMSF trust deed.
- Value the fund's assets at market value for the preparation of financial accounts and statements.
- Have the financial accounts and statements for the SMSF audited each year by an approved SMSF auditor.
- Meet the reporting and administration obligations imposed by the Australian Taxation Office (ATO).
- Prepare an investment strategy detailing the fund's investment objectives and types of investments the fund can hold and ensure the investment portfolio with the fund complies with the investment strategy.
- Regularly review the investment strategy to ensure it remains appropriate.
- Consider whether risk insurance cover should be held for each member of the fund.

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