LLOYDS PRIVATE WEALTH

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Superannuation

This document contains factual and general information only to assist you in understanding financial planning concepts. It is designed to be used in conjunction with a Statement of Advice.

Superannuation is money that is put aside and saved while you are working so you can enjoy a regular income later in life once you retire. Superannuation can be complex and the rules are always changing which is why it's important you seek advice from your financial adviser.

This guide covers some of the essential things to know about superannuation (super) including:

- Types of superannuation funds
- Key superannuation considerations
- Superannuation strategies
- First Home Super Saver Scheme
- Downsizer contributions
- Lump sum withdrawal from super
- Re-contribution strategy
- Superannuation death benefit nominations

Types of superannuation funds

There are two types of superannuation funds: accumulation and defined benefit. The majority of retail, industry and Self-Managed Superannuation Funds are accumulation funds.

Accumlutation benefits

An accumulation fund repays contributions together with whatever investment income has been achieved. This means that the final benefit paid depends on the amount of contributions (less tax and fees) and the performance return generated from investing those contributions. You, rather than your employer, take the risk of poor investment performance.

Defined benefits

A defined benefit account is part of a superannuation fund that pays a final superannuation benefit based on a formula which usually takes into account your final salary and the number of years that you work for your company or government department. Each Defined Benefit Scheme has specific tax, funding and retirement conditions that need to be considered. While accumulation superannuation fund members are exposed to market fluctuations and other risks associated with investments, a defined benefit fund pays a set benefit based on a formula, often a multiple of your final average salary over the three years before retirement. The investment performance of the fund does not affect the benefit paid. The employer takes the risk of the investment performance of the fund. Defined benefits schemes are usually public service superannuation funds or company schemes, although there are fewer of these generous schemes offered today. Defined benefit funds can provide very generous pension arrangements.

Key superannuation considerations

There are four key things that you should know about superannuation:

- Types of contributions (concessional and non-concessional contributions)
- How much you can contribute (contribution caps)
- How earnings will be taxed (investment earnings)
- When you can access your superannuation benefits (preservation rules).

The following table outlines what type of contributions are available to you, the current contribution caps and how tax is applied to both contributions going into your fund and investment earnings.

Classification	Concessional contributions (before tax income)	Non-concessional contributions (after tax income)
Main types of contributors	All employer contributions including • Super Guarantee (SG) contributions1 • Salary Sacrifice contributions Personal contributions where a tax deduction is claimed	Personal contributions for which no tax deduction is claimed Excess concessional contributions Spouse contributions (counted towards receiving spouse's cap) Contributions made on behalf of a child under age 18 by anyone other than the child's employer Up to 100% of an overseas super transfer to an Australian super fund
Maximum amount able to be contributed (contribution caps)	2021-22 $27,500 pa You are able to carry forward any unused concessional cap for up to five years and use this additional cap if your total superannuation balance is less than $500,000.	$110,000pa Or $330,000 over a 3 year period (provided the member is under 67 on 1 July in the year of contribution)^ You must have a total super balance of less than $1.7million to make non concessional contributions.
Tax on contributors going into the fund	15%*	0%
Tax on amounts contributed over the cap	Your Marginal Tax Rate plus an interest charge	Highest marginal tax rate plus Medicare unless the excess is withdrawn. If excess withdrawn, associated earnings are taxed at your marginal tax rate.
Tax on investment earnings within the super fund	15%	15%

SG contribution is superannuation guarantee contribution made by the employer on behalf of the member and it is currently 10% of salary. *Individuals with income exceeding $250,000 will be subject to an additional 15% on any non-excessive concessional contributions. These contributions will effectively be taxed at 30%

Excess concessional contributions

It is important that your total concessional contributions for the current year do not exceed the maximum limits. Any excess will be taxed at your marginal tax rate plus an excess concessional contributions tax interest charge. You can elect to have all of the excess and 85% of the earnings of the excess contribution released from superannuation however you will still be required to pay tax on the excess at your marginal rate. If you do not have the excess contribution refunded, this will count towards your non-concessional contributions cap.

Excess concessional contributions

It is important that your total concessional contributions for the current year do not exceed the maximum limits. Any excess will be taxed at your marginal tax rate. You can elect to have up to 85% of the excess contribution released from superannuation however you will still be required to pay tax on the excess at your marginal tax rate. If you do not have the excess contribution refunded, this will count towards your non-concessional contributions cap.

Excess non-concessional contributions

If you exceed the non-concessional contribution caps you can choose to either pay the excess contributions tax or withdraw the excess contributions. If you choose to withdraw the excess contributions any associated earnings will be taxed at your marginal tax rate. If you choose to leave the excess contributions in the fund these will be taxed at the top marginal tax rate plus Medicare Levy.

Investment earnings

All investment earnings within superannuation are taxed at 15%, until you convert to a retirement income stream such as an account based pension where earnings will be tax free up to the transfer balance cap which is currently $1.7 million. This can be significantly lower than your marginal tax rates and an excellent reason for investing in superannuation.

Preservation of superannuation benefits

Preservation is designed to ensure that superannuation benefits are used only for retirement. Hence strict conditions must usually be met before access to preserved funds is granted. Your superannuation funds will be compulsorily locked away, or preserved until you meet a condition of release, some of which are outlined below:

- You attain the age 65
- You are on or over your preservation age and permanently retire
- You cease an employment arrangement after turning 60
- You commence a Transition to Retirement pension after reaching preservation age
- You become permanently or temporarily incapacitated
- You suffer severe financial hardship or require funds on compassionate grounds.

Ask your financial adviser to explain the preservation rules as applicable to you.

Superannuation strategies

Salary sacrifice

If you wish to contribute more to your superannuation, it may be preferable to arrange for your employer to make these additional contributions on your behalf as part of your salary package. This method of contributing to superannuation is known as 'salary sacrifice' and ensures you are contributing in a tax effective manner as these contributions are made from pre-tax income. Under this arrangement, you forgo or 'sacrifice' part of your salary in return for superannuation contributions. contributions tax of 15% will apply. An additional 15% tax may be payable if your total annual income (including non-excessive concessional contributions) exceeds $250,000. An effective salary sacrifice arrangement must be made prior to earning the income you will sacrifice. There is no obligation by the employer to offer a salary sacrifice arrangement. However, if your employer does not provide this option, you have the alternative to make personal contributions to superannuation and claim a tax deduction which will result in the same benefits as a salary sacrifice strategy. It is important to confirm with your employer whether any employment benefits will be impacted before salary sacrificing. Impacts may include a reduction in:

- Personal insurances provided by your employer or employer superannuation fund
- Termination payments, bonuses and other employment benefits.

Transition to Retirement (TTR) pension

Upon reaching preservation age, you can access your superannuation using a TTR pension while you are still working. This pension could be used to reduce your work hours while still retaining the same take home income or you could contribute more to superannuation via a salary sacrifice arrangement or tax deductible contributions while receiving tax-effective income from your pension to supplement your reduced income. Pension payments received from a TTR pension are concessionally taxed. If you are 60 or over, pension payments are tax free. While under 60, the taxable component of your pension payments is added to your assessable income, however a 15% tax offset applies.

Minimum standard percentage factor	Maximum percentage factor
4%	10%

* For the 2019/20, 2020/21 and 2021/22 years, the Government has reduced the minimum pension rate to 2%.

While you are not able to make lump sum withdrawals from your TTR pension, you can roll back to superannuation at any time.

Government co-contribution

The co-contribution is a scheme where the Government makes additional contributions for low income earners who make personal after-tax contributions into their super. The maximum co-contribution is $500 and is available if you earn $41,112 or less (for the 2021-22 year). For every dollar of your assessable income, reportable fringe benefits and reportable employer super contributions that is over $41,112, the maximum co-contribution is reduced by 3.33 cents and phases out completely at an income of $56,112.

In addition to the income test, to be eligible for the co-contribution, the tax payer must satisfy the following conditions:

- They make personal contributions into a complying superannuation fund
- At least 10% of their total income for the year comes from employment related activities (i.e. work as an employee or from carrying on a business)
- They were less than 71 years of age at the end of the financial year of contribution
- They did not hold a temporary visa during the year
- They lodge an income tax return at the end of the year.

Spouse contributions

You can make non-concessional contributions to superannuation on behalf of your spouse and receive a tax offset of up to $540 if:

- You are both Australian residents when the contributions are made
- You do not claim a tax deduction for the contribution
- Your spouse's assessable income plus reportable fringe benefits and reportable employer super contributions is less than $40,000 (noting that to receive the maximum $540 tax offset, income needs to be less than $37,000) and
- The spouse is under age 75 and
- If the spouse is aged 67 but less than 75. He/she meets the work test of 40 hours in 30 consecutive days in that financial year or meets the work text exemption.

The tax offset needs to be claimed when you lodge your tax return; check with your accountant at tax assessment time to see if you are eligible. Spouse contributions are not taxable contributions when received by the fund, they are treated as non-concessional contributions and count towards the receiving spouse's non concessional cap.

Superannuation contribution splitting

Superannuation contribution splitting allows a member of a superannuation fund to transfer their employer and/or personal tax deductible superannuation contributions into their spouse's superannuation account. Only the eligible contributions from the current or previous financial year can be split and superannuation funds are not required to provide super splitting - it is a voluntary feature.
To be eligible for superannuation contribution splitting, the spouse needs to be:

- Less than preservation age; or
- Between preservation age and 65 and have not permanently retired from the work force; or
- Aged less than 65 and never gainfully employed.

The following table shows the super splitting limits that apply.

Type of splittable contribution	Percentage of contribution that can be split (the lesser of)
Taxed contributions	• 85% of the concessional contributions for the financial year; and • the concessional contributions cap (of the member, not the spouse) for that financial year; and • the taxable (taxed) component of the member's superannuation benefit if they withdrew completely from the fund.
Untaxed employer contributions	• the amount of untaxed employer contributions made in the financial year and • the concessional contributions cap (of the member, not the spouse) for the financial year; and • the taxable (untaxed) component of the member's superannuation benefit if they withdrew completely from the fund.

First Home Super Saver Scheme (FHSSS)

The FHSSS allows individuals to effectively save for their first home inside superannuation. From 1 July 2017, voluntary contributions can be made of up to $15,000 per year and $30,000 in total into your superannuation account and you will be able to withdraw these contributions, plus deemed associated earnings, when you are ready to buy or build your first home. The Government claims that this could boost house deposit savings by up to 30 per cent compared to saving through a standard bank account given the tax benefitsof using pre-tax dollars for contributions, the low 15% tax on earnings within superannuation and the potential for higher returns in superannuation funds relative to standard deposit accounts.

To be eligible for the FHSSS, you must be over 18 years of age and have never owned any type of property in Australia. However, if you are purchasing a property with another person who has previously owned property,
the FHSSS is still available as it is an individual test. The Australian Taxation Office (ATO) administers the Scheme and are the body that will advise how much superannuation can be released after taking into account contributions tax. This release can be requested when you have a contract to buy or build your first home within the next 12 months. Generally, withdrawals will be taxed at your marginal tax rate and a 30 per cent tax offset will apply. If you are withdrawing non-concessional (after-tax) contributions, no tax will apply to these amounts. Importantly, withdrawals will not be assessable by Centrelink orthe Department of Veterans' Affairs and there will be no impact on payments such as Family Tax Benefits.

Downsizer contributions

Australians aged 65 and over who sell the family home to free up equity to fund their retirement are able to make an additional contribution of up to $300,000 into superannuation. Both members of a couple can take advantage of this rule for the same home, resulting in a total possible contribution of $600,000 per couple. This measure applies where the contract for the sale of the home is entered into (exchanged) on or after 1 July 2018.

Contributions made under this legislation will not count towards other superannuation caps. Additionally, no work test or age restrictions apply but you must have owned your home for at least 10 years and it must have been your principal residence at some stage.

It's important to be aware that you may risk losing some or all of your Age Pension. While the family home is exempt from the Asset Test, the $300,000 you contribute to super as a result of downsizing will be an assessable asset. This may impact your pension entitlements.

To be eligible to make a downsizer contribution, there is no requirement to purchase a new home. This may provide retirement planning opportunities that were not previously available to those over 65 years of age and retired.

Lump sum superannuation withdrawal

A superannuation withdrawal is when you redeem money as a lump sum from your superannuation account. Once the components of the superannuation withdrawal have been determined (i.e. tax free or taxable component), the applicable tax rate (if any) must be applied. This rate depends on your age at the time the benefits are received and whether they are paid from a taxed or untaxed fund.

Component	Tax treatment
Tax-free	Tax-free
Taxable- taxed element	• Under preservation age: 20% plus Medicare Levy • Preservation age to 59: First $225,000 tax free and the balance at 15% plus Medicare Levy • 60 and over: Tax free
Taxable- untaxed element	• Under preservation age: • First $1,615,000 at 30% plus Medicare Levy and balance at 45% plus Medicare Levy • Preservation age to 59: First $225,000 at 15% plus Medicare Levy, $225,000 - $1,615,000 at 30% plus Medicare Levy and the balance at 45% plus Medicare Levy • 60 and over: First $1,615,000 at 15% plus Medicare Levy and the balance at 45% plus Medicare Levy

Re-contribution strategy

The re-contribution strategy involves withdrawing a lump sum (normally to the low rate cap if you are under age 60) from your superannuation and re-contributing the funds back into superannuation as a non-concessional contribution. This effectively converts taxable amounts into tax free amounts within your super fund which can be beneficial for those starting an income stream before the age of 60.

This strategy can also be an estate planning tool if it is likely that your superannuation benefits will be inherited by non-tax dependants, including adult children or those not financially dependent on you. By increasing the tax free amount, less tax will be payable by your non-tax dependants when they receive your super benefits in the future.

This strategy can only be employed if you meet a condition of release to access your superannuation benefits and are also eligible to contribute into superannuation. If you are below age 60, you are able to receive only the first $225,000 (Low Rate Cap for 2021/22 tax year) of taxable component at a concessional tax rate.

Re-contribution is more beneficial if you are aged 60 and over as you are able to withdraw your superannuation benefits tax free. The non-concessional cap for the 2021/22 tax year is $110,000 per annum or up to $330,000 averaged over a three year period if you are under age 67. If you are aged 67 and over on 1 July of the financial year, your non-concessional contribution cap is limited to $110,000 per annum.

Superannuation death benefit nominations

Your superannuation savings usually do not form part of the assets that are distributed via your Will. Therefore, unless you make a nomination, the Trustee of your superannuation fund uses their discretion to determine to whom to distribute death benefits.

Non-Binding nomination	Will be considered by the Trustee who ultimately determines the final outcome but they do not have to pay the funds to the nominated beneficiary
Binding Nomination	Is considered an instruction to the Trustee and they must pay the funds to nominated person
Lasping	Lapsing nominations need to be renewed every 3 years
Non Lapsing	Do not need to be renewed. But it is important they are reviewed if they are binding

If you own a retirement income stream such as an account based pension, you may also have the option to nominate a reversionary beneficiary who will automatically receive a continuation of your income stream in the event of your death.

Other considerations

- ou need to consider, the tax implications of leaving your superannuation death benefit to a dependant,
- a non-dependant or your estate for general distribution to beneficiaries. Dependent and non-dependent recipients of your superannuation death benefits are treated differently for tax purposes.
- The Trustee of your superannuation fund is the owner of any insurance policy held inside superannuation. In the event of a claim, the insurance payment will be added to your superannuation balance. Unless a Binding Nomination is made, the Trustee will decide whom to pay all the benefits to, in accordance with the trust deed and superannuation law.
- Nominations are especially important if you have multiple beneficiaries (e.g. from previous marriages) who may have a claim on your superannuation death benefit.

The table below details the tax payable if your superannuation death benefits are paid as a lump sum:

Recipient	Superannuation Component	Tax Treatment
Tax dependent	Tax-free	Tax-free
	Taxable (taxed & untaxed element)	Tax-free
Non tax dependent	Tax-free	Tax-free
	Taxable-taxed element	15% plus Medicare Levy
	Taxable-untaxed element	30% plus Medicare Levy

Want more on this topic visit the Australian Government website Money Smart https://www.moneysmart.gov.au/

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