Put your super to work

A guide to growing your savings and funding your retirement

SUNCORP
Superannuation

Part One
What is super and how does it work?

Super can seem complicated, but in essence it is simply a way of saving money. All you are aiming to do with your super is to grow a pot of money you can live off when you stop working.

How does your super grow?

Three things primarily contribute to the growth of your super.

1. **Employer contributions**
   Super is partly compulsory in that employers must contribute 9.25% of their eligible employees' salary into a super fund.*

2. **Investment returns**
   Your money doesn't sit idle – it's invested. Your account balance will fluctuate, but over time it should grow.

3. **Personal contributions**
   You can put money into your super yourself.

The federal government even helps grow your super by providing tax savings and other incentives along the way.

How does your super fund invest your money?

When you (or your employer) make a payment into your super account, your money is pooled with that of other super investors and buys you a set number of units in the investment option(s) you've chosen. (If you haven't chosen one, your money will be placed in your fund's 'default' option.) How many units you get depends on how much money you invest and the unit price on the day you invest.

These investment options are usually managed on your super fund's behalf by one or more external specialist investment managers.

As well as the growth in value of the underlying assets (for example if share prices go up), any income the investment earns (e.g. dividends from shares or interest on cash deposits) is reinvested to help your savings grow faster.

See page 14 for more about investment options and default funds.

*This will rise to 12% by 2019.

Why is super tax-effective?

One of the best things about super is that you'll almost certainly get hit for less tax than you would by having your savings in a bank account or invested directly in managed funds.

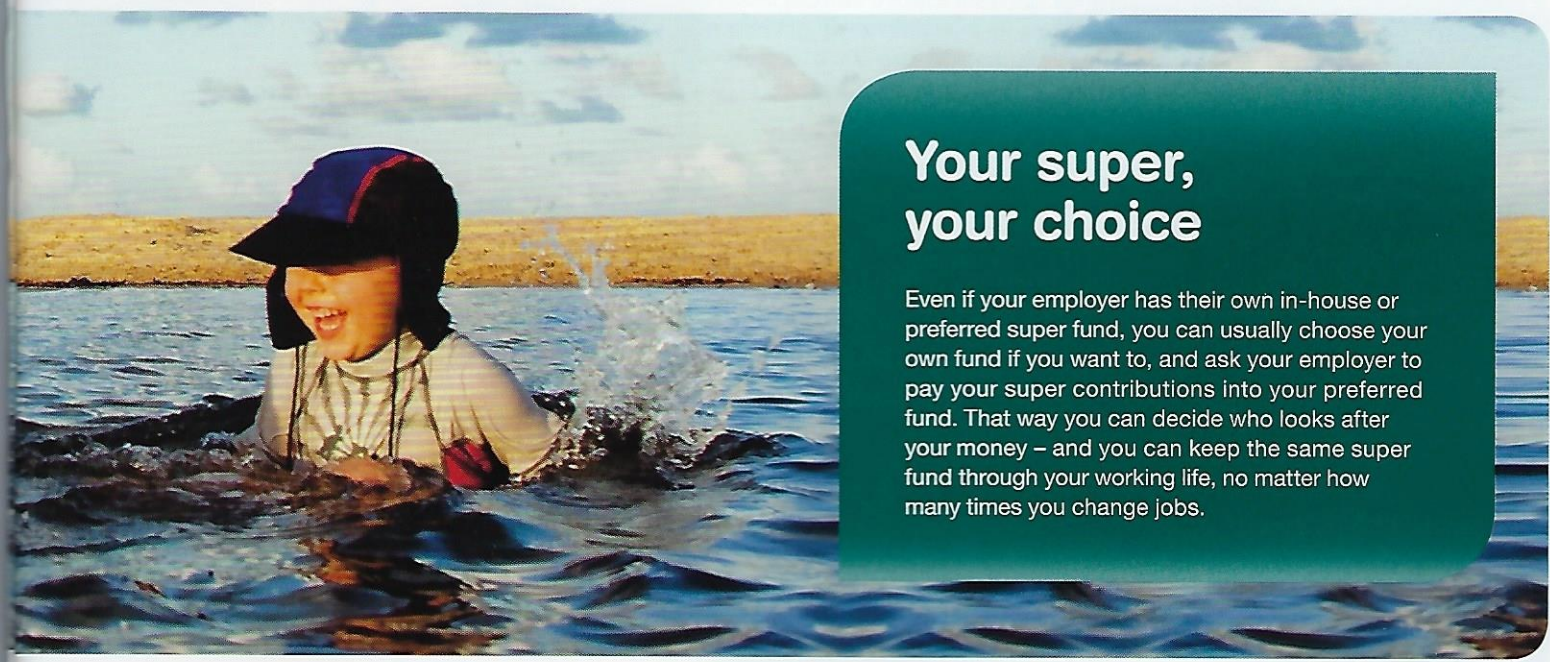
If you've got money in a bank savings account, you pay tax on the interest it earns at whatever your 'marginal tax rate' is. For example, if you earn $60,000 a year, your marginal tax rate is 34% (including the Medicare levy) for the 2013-14 financial year. Inside super, you would pay tax at a maximum of 15% on interest or investment returns.

Super becomes even more tax effective after you've reached the age when you can get access to your super benefits. More on this on page 22.

How is super taxed?

As the table to the right shows, super money is taxed when it's paid into your account, on investment earnings while it's in your account, and (depending on your age and circumstances) when you take it out of your account.

How your super is taxed*	
Contributions (i.e. when you or your employer put money into your account, or if you transfer money from another account – i.e. a 'rollover')	0% on after-tax contributions 15% on before-tax contributions^
On the **investment earnings** on your super money	Up to 15% in a super account 0% in a pension or transition to retirement account†
When you take money out of your account. (You usually have to be over a certain age to do this – at least 55. See page 22.)	For lump sum withdrawals: • 0% if you're aged over 60 • Either 15% or 20% (plus Medicare levy) if you're under 60, depending on your circumstances For withdrawals taken as retirement income streams (e.g. a pension or annuity) the applicable tax rate depends on your age and marginal tax rate.



*This table excludes how super is taxed on excess contributions and when super is paid as a death benefit.

^This tax is 30% if you earn over $300,000 per year from 1 July 2012.

†The government has proposed that from 1 July 2014 earnings over $100,000 a year on investments within a pension or annuity will be taxed at 15%.

Strategy 6 – Choose the right investment option

You can choose between different investment options. This determines what type(s) of assets your super money is invested in, the level of risk involved, and the returns you could expect.

This is one of the most important decisions you should make with your super. Getting this one wrong – for example by having your money invested too conservatively if you're young – could end up costing you literally hundreds of thousands of dollars. If you've left this decision to your employer, you're probably invested in what is called the 'default option'. You shouldn't assume that this is necessarily the best place for your super.

Talk to your financial adviser if you're unsure which investment options are right for you.

The risk – return trade off

The graph below illustrates the relationship between risk and return. Growth assets like shares have the potential to provide higher returns, but they are also the most volatile.

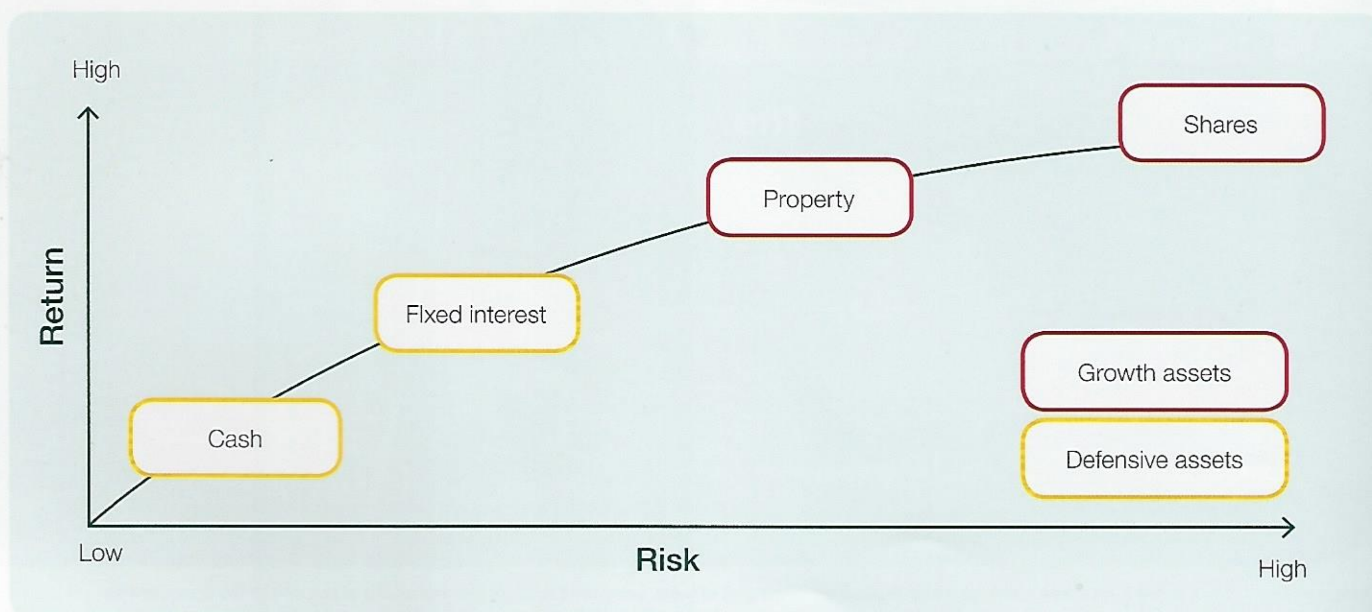
Most super funds offer you a range of investment options to choose from, falling generally into two categories:

- investment options that combine different types of investments (often this are called 'multi-sector' or 'multi-manager' options)
- options that only invest in one type of asset such as Australian shares, listed property, or cash.

Some super funds offer a simple menu of investment options for you to choose from, whereas some might offer over 100. Your financial adviser can help you decide what is likely to suit you best.

Multi-sector investment options are typically defined as follows:

Investment option	Typical investment mix
Secure	Defensive assets only (e.g. cash and fixed interest)
Conservative	Mostly defensive assets with some growth assets (e.g. shares and listed property)
Balanced	A roughly equal mix of defensive and growth assets
Growth	Mostly growth assets with some defensive assets
High Growth	Growth assets only



How do you choose the right investment option?

Your choice of investment portfolio structure could be determined from several factors, including:

- how far from retirement you are
- your planned retirement lifestyle – i.e., the size of the super lump sum you'll need to have saved
- your willingness to invest through volatile markets (i.e. your risk tolerance).

Suncorp's online Risk Profiler at **www.suncorp-online.com.au/riskprofiler** can help you work out which types of investment option might suit you best. You should talk to your financial adviser before making any major decisions.

How to change investment options

Once you've decided (with your adviser's help) to change your investments, switching options is generally very easy. You can usually download a form from your super fund's website – or many funds let you switch investment options via your secure online account, if you have one.

Super strategy in action – choosing investment options

Strategy summary

By switching investment options, Tara could have over $400,000 extra when she retires, and Mark could have over $250,000 extra.

Tara, aged 30, earns $50,000 per year salary and has a super balance of $25,000. Mark, aged 40, earns $75,000 a year and has a super balance of $70,000.

Both Tara and Mark left it to their employers to choose their investment options, and both are invested in the 'default' option – a balanced portfolio that might earn, say, a 6.5% return per year.

The table opposite shows how much extra money a 30-year-old, like Tara, and a 40-year-old, like Mark, potentially stand to eventually gain by switching their investment option from a 'balanced' to a 'growth' option that is likely to earn 8.5% return, albeit with more short-term volatility along the way.*

	Balanced option	Growth option	Extra super savings at age 65
Tara's potential super balance at age 65	$936,907	$1,363,575	$426,667
Mark's potential super balance at age 65	$801,480	$1,069,483	$268,003

*Assumptions: Additional retirement savings are expressed in future dollars and are in reference to extra funds on top of a base scenario. Base scenario is 9.25% Super Guarantee (rising to 12% by 2019-20), 6.5% balanced option return, 8.5% growth option return, no salary sacrifice, no one-off non-concessional contributions, no consolidation of lost super and no career breaks. Contributions are made at the beginning of the year. Earnings are calculated at the end of the year. Indexation is at 3%.

Strategy 7 – Sort out your insurance

Super can do more than just grow your retirement savings. It's also a way of paying for life insurance without stretching your day-to-day expenses.

Most super funds offer the following types of life insurance cover:

- **Life cover** (confusingly, also sometimes called 'death cover') – which pays a lump sum to your family or estate if you die or are diagnosed with a terminal illness.
- **Total & Permanent Disability (TPD)** – which pays a lump sum if you suffer an illness or injury that leaves you totally and permanently disabled.
- **Income Protection (or 'Salary Continuance')** – which pays an ongoing monthly amount if you can't work because of illness or injury.

Most employees have at least a basic level of life insurance in their super fund, and most funds usually let you apply for more.

How to sort out your insurance

To see if you have any insurance in your super and how much cover you've got, check your annual statement, log in to your super account, or just ask your fund. Step two is to consult your adviser about whether you need more insurance protection, and the best means of getting it.

Why hold insurance inside super?

Holding your insurance inside super, instead of arranging it separately, can help you benefit from:

- **Improved cash flow.** As your premiums are funded from your super account, there's no need to dip into your take-home pay.
- **Automatic cover.** Many funds offer automatic acceptance for basic cover, with no need for you to do any medical tests.
- **Cost savings.** Because super funds are collectively insuring lots of people, you potentially get access to cheaper 'group' premiums.

However, there are some potential drawbacks on holding life insurance through super, so you should seek advice about what's right for you.

Converting your super to an income stream

Converting your super account to an income stream is known as 'rolling it over', because you don't touch the money, and it remains in the superannuation environment. This means any interest or investment earnings are tax free.*

For many people, another benefit of taking your super as an income stream is that it's similar to receiving a salary. An amount is paid into your bank account regularly (usually monthly or quarterly) to meet your spending needs, and you have greater control over how long your money will last.

There are two main types of retirement income streams: **allocated pensions** and **annuities.**

Allocated pensions

In a sense, an allocated pension account is like continuing with the super account you had all your working life, except you're now allowed to withdraw money from it. It gives you regular income payments, taken (i.e. 'allocated') from your lump sum super savings.

You can choose how much income to receive each year and can change your payment amounts (within certain limits) or take out a lump sum.^

Your ongoing pension account balance will fluctuate for two reasons:

1. Your savings continue to be invested according to your chosen investment option – so they may continue to grow, depending how your money is invested and how investment markets perform.
2. Your ongoing pension payments or any lump sum withdrawals come directly from your account balance.

For most people, the overall effect of this is that the money in their pension account will gradually decrease over their retirement years, until eventually it runs out completely (assuming they haven't died first).

*The government has proposed that from 1 July 2014 earnings over $100,000 a year on investments within a pension or annuity will be taxed at 15%.

^Between age 55 and 65 the minimum pension you normally have to take is 4% of your account balance. A maximum of 10% will apply if you have a transition to retirement pension (2012-13 rates).

Annuities

An annuity is a type of investment provided by a life insurance company. You 'buy' an annuity with an up-front lump sum, which you provide from part or all of your super savings. The annuity then gives you set income payments over a specified period.

Payments are guaranteed for the life of the annuity, irrespective of what investment markets are doing. Annuities therefore provide greater certainty and security for your capital, but at the same time, your savings won't grow if investment markets are performing well, as they would with an allocated pension account.

Why types of annuities are there?

- **Lifetime annuities,** which pay you an income until you die.
- **Term certain annuities,** which last for a set time, after which they may return some or all of the up-front cost.

Once you have invested in an annuity, the payments you'll receive are fixed and you may not be able to make lump sum withdrawals.

How do you choose between pensions and annuities?

Both allocated pensions and annuities have their advantages and disadvantages, but the good news is you don't necessarily have to choose one or the other.

For example, depending on your circumstances and after consulting your adviser, you could use some of your super lump sum to buy an annuity and the rest to start a pension account.

The government age pension

Knowing if you're likely to qualify for the age pension is an important question in your retirement saving strategy. (Of course, your financial adviser will help you through this process.)

So if you're approaching retirement you should get up to speed on your options for the age pension, rather than leaving it until the day before you retire.

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How much is the age pension?

Not a lot, is the short answer. The age pension pays $404 a week for a single person and $609 for a couple.*

There are three main things Centrelink looks at when assessing your pension eligibility.

1. Age and residency
2. Your income
3. Your assets

1. Age and residency

The qualifying age is 65 years for men and 64.5 years for women. (From 1 July 2017 the qualifying age for men and women will progressively increase to age 67 by 1 July 2023.)

Generally, you must live in Australia and have done so for at least ten years, including at least one continuous period of five years or more.

2. Your income

Because age pension eligibility is 'means tested', how much you earn can affect your entitlement to a pension.^

	Entitlement to full pension (lower threshold)	No pension entitlement (upper threshold)
Single	If you earn up to $156 per fortnight	If you earn over $1,773 per fortnight
Couple	If you earn up to $276 per fortnight	If you earn over $2,714 per fortnight

Types of income Centrelink takes into account include:

- gross employment earnings
- overseas income
- income streams and superannuation pensions
- rent from real estate or business investments
- income from financial investments.

Retirement income stream products, such as allocated pensions and annuities, may provide favourable treatment under the Centrelink income test†, and you may be able to work part time without affecting your age pension. Under the government's Work Bonus, the first $250 of employment income you earn each fortnight is not counted as income.

*As at 1 July 2013. Includes a pension supplement of $61.20 and a clean energy supplement of $13.50 for a single person and a pension supplement of $46.10 and a clean energy supplement of $10.20 for each member of a couple.

^Every $1 over the lower threshold reduces the maximum entitlement by 50 cents (single) or 25 cents (each member of a couple.) There are separate thresholds for illness-separated couples. These figures may be higher if you get Rent Assistance.

†The government has proposed that from 1 January 2015 account-based income streams will be treated like other financial investments and assessed under the same rules for age pension eligibility. However, this will only apply to new pensions or annuities after 1 January 2015 – so current pensioners won't be affected, unless they change products.