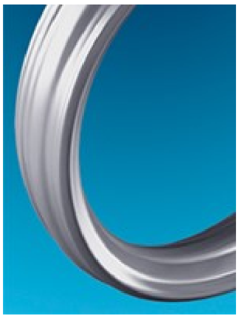
FEELING SUPER?



PERPETUAL PRIVATE INSIGHTS
21/05/2018

If you earned a dollar for every article about changes to superannuation over the past year, you wouldn't have to worry about your super. You'd have enough to retire on.

There's been no shortage of commentary – but are Australians better informed or just more confused?

We wanted to know the answer. So we asked 2,700 Australians how they felt about their super, as part of Perpetual's *How Do You Feel?* project.

The finding we found most surprising related to tax – less than 10 per cent of the people surveyed recognised how tax effective super could be.

We dug a little deeper and looked at those Australians who identified as being financially secure. What was their view on super? On balance, they recognised that super was a good safety net for their retirement and felt comfortable with their level of savings. Did they understand how tax effective it could be? Not always.

A super place for your retirement savings

We think it is worth reminding people that despite all of the changes, the super system is still the most tax effective way to save for retirement. Here are two BIG reasons why:

1. All investment earnings from super are taxed at a maximum rate of 15 cents in the dollar. Outside the super system, your earnings can be taxed as high as 47 cents in the dollar. So ask yourself the question - for every dollar you earn, would you

prefer having 85 cents or as little as 53 cents working for you?
2. The benefits of super extend beyond the low tax rate on investment earnings. You'll pay no tax on the money you take out, either as a lump sum or an income stream, after the age of 60.

Super is still a highly tax effective savings vehicle for your retirement. The catch is that the government has made it more difficult to get your money **into** the super system. That's the crux of all the legislative changes – setting limits on the amount of money you can contribute.

Not so super - legislative changes

Here are some of the changes that could catch you out and leave you with a nasty tax bill:

- The amount you can contribute to super before tax (includes salary sacrifice and employer contributions) is $27,500.
- The amount you can contribute after-tax has changed to $110k per annum.
- Once your super balance hits $1.7m you can't make any additional after-tax contributions.
- If your income (with some modifications) is greater than $250k, an additional 15% tax on concessional contributions is payable.

What does this mean for you?

The changes to super have two consequences for people approaching retirement:

1. **More risk** – if you are making super contributions above the new limits you may receive a nasty tax bill.

2. **Tighter caps** – the new rules mean you can't cram money into super late in life – you need to plan ahead and contribute over the longer term.

If stricter contribution limits affect you, now is the time to speak to an expert who can help you implement the tax and super strategy that suits you.

Options worth thinking about

Two options you may want to consider:

1. **Utilising the 'bring-forward' rule to expedite your super contributions**
   As at 1 July 2021, if you are under the age of 67 and have less than $1.7m in super, you may be able to bring-forward up to three years' worth of non-concessional contributions into your super. So instead of contributing a maximum of $110,000 in one year, you may be able to bring forward your contributions for the next few years and invest up to $330,000 into your super. That's $330,000 which will be taxed at a maximum of 15 cents in the dollar, rather than the marginal rate of up to 47 cents in the dollar.

2. **Putting your surplus income in alternative investment structures such as a family discretionary trust or insurance and investment bonds**
   These two structures are back in vogue. Whilst not as tax effective as super they may be the next best thing. Also, they can be more flexible than super for people who wish to access their money before their superannuation preservation age.

This article has been updated to reflect the latest super legislation changes which came into effect from 1 July 2021.