



Superannuation

For many people, super is one of the best ways to grow your wealth, as it provides significant tax concessions to help you save for retirement.

What is super?

Superannuation is a specialised type of investment structure designed to help you accumulate a significant level of savings for your retirement.

To encourage you to save for retirement, the rules provide various tax concessions for super investments. For most people, these tax concessions make saving through super more tax-effective than saving outside it, which means their savings may grow faster.

In return for the tax concessions, the rules restrict when and how you can access your super – generally you need to wait until you retire after reaching what is known as your 'preservation age'. Your preservation age will be between 55 and 60, depending on your date of birth. You can find out what your preservation age is by visiting ato.gov.au or speaking to your financial adviser.

Why is super important?

Australians now have a higher life expectancy than ever before. Current figures show that on reaching the age of 60, the average man will live for another 28 years and the average woman another 30 years¹.

It is unlikely that the government Age Pension alone will give you the financial freedom you want for the 25 or more years you are likely to spend in retirement. The Age Pension is designed to provide a basic income, but many people want a lot more from their retirement years including overseas travel, dining out, spending more time with their families and enjoying a more relaxed lifestyle.

What types of super funds are there?

There are four main types of super funds:

Corporate funds

These are funds that are set up by an employer with a financial institution for their employees and often provide group discounts and special member benefits.

Industry funds

Some of these are open to everyone but if you work in a particular industry or under an industrial award your employer may contribute your Super Guarantee (SG) and other super into an industry fund. These funds can have a limited number of investment options in some

cases and are usually run by employer associations and unions.

Personal or retail funds

Retail funds are available to all individuals. They often have a large number of investment options which can be tailored to individual needs. These funds are run by financial institutions.

Self-managed super funds (SMSFs)

These are often referred to as 'do it yourself' funds. The trustees/members manage their own super investments. They are responsible for the investment strategy, operation, administration and compliance of the fund.

Your financial adviser can outline the advantages of each and help you decide which type of super fund is best for you.

What can super funds invest in?

Superannuation funds hold your money and invest it in different asset classes depending on the type of option you selected when you opened your super account. For example, if you selected a high growth option, your money will primarily be invested in Australian and global shares, with a smaller allocation in low-risk investments such as cash. The mix of investments that is appropriate to your needs will depend on your investment goals, your investment time frame and your attitude towards risk. If you have not selected which investment option you would prefer often a 'default' investment is allocated by the super fund.

Growing your super

There are several different types of super contributions. Two of the main tax categories of contributions are:

- concessional (pre-tax) contributions
- non-concessional (after-tax) contributions.

Concessional contributions

Concessional contributions are those that are generally taxed concessional at just 15% (rather than your marginal tax rate) and include:

- Compulsory employer contributions, for example Super Guarantee contributions which

generally involves your employer contributing 11.5% of your salary to super for you².

- Voluntary employer contributions, for example, salary sacrifice contributions where you agree with your employer to give up some of your future pre-tax salary in return for extra employer contributions.
- Personal contributions for which you claim an income tax deduction.

Non-concessional contributions

Non-concessional contributions are those made from money that has already been taxed at your marginal tax rate and include:

- Personal contributions for which you do not claim a tax deduction
- Eligible contributions made by your spouse into your super account.

Are there limits to how much I can contribute?

When considering any super strategy, it's important to assess how much you are contributing to super in any one year. The Government has set annual limits – known as contributions caps, and additional tax may apply where you exceed the caps.

The contributions caps for the 2024/25 financial year are:

- A concessional contributions cap of \$30,000 per financial year
- Any amount of the concessional contributions cap you do not use in a financial year since 1 July 2018 onwards, may accrue for the following five financial years and be used to increase the concessional contributions cap in financial years from 1 July 2019 onwards. To be eligible to increase your concessional contributions cap in this way, you must have a total super balance³ of less than \$500,000 just before the start of the financial year.

For example, if you made no concessional contributions in 2019-20 when the concessional contributions cap was \$25,000, you may contribute an extra \$25,000 in total before 30 June 2025, on top of the 2024-25 concessional contributions cap, if your total super balance is less than \$500,000 at the end of the previous financial year.

- A non-concessional contributions cap of \$120,000 per financial year, or up to \$360,000 over a three-year period (known as the bring-

forward rule) if you are under age 75 any time during a financial year⁴. In addition:

- Your non-concessional cap reduces to Nil once your total super balance (just before the start of the year) is \$1.9 million or more.
- The cap you have available under the bring-forward rule will reduce once your total super balance (just before the start of the year) is \$1.66 million or more.

Am I eligible to make super contributions?

If you are under age 75, except for tax-deductible super contributions, there is no restriction on your ability to contribute to superannuation.

Those aged 67 to 74 will need to satisfy the 'work test' (i.e. be gainfully employed for at least 40 hours during a consecutive 30 day period in the financial year to which the contribution relates), or meet the work test exemption, for tax-deductible personal super contributions.

If you are age 67-74 and do not meet the work test, you may be able to make tax-deductible super contributions using the work test exemption if:

- you met the work test in the previous financial year, and
- your total superannuation balance at the end of the previous year is less than \$300,000, and
- you have not made use of the work test exemption in a previous financial year.

If you are age 55 or over (no upper limit), you may also be able to make a downsizer contribution after selling your home. The ATO has more information on the webpage *Downsizer contributions for individuals*.

Once aged 75, voluntary super contributions, other than downsizer contributions, can generally no longer be made, even if you continue to work.

Compulsory contributions (e.g. Super Guarantee) can be made at any time regardless of your age.

Is there a limit to the amount of super you can save?

While contributions caps limit the level of contributions you can make to super each year before additional tax applies, there is no limit to the amount of superannuation you can accumulate through your working life.

However, there is a 'transfer balance cap' of up to \$1.9 million on how much of your superannuation you can use in retirement to commence retirement phase income streams⁵ (earnings on assets supporting these income streams are tax free). Any superannuation above your transfer balance cap can remain in the accumulation phase of super, or be withdrawn from the super system.

How is super taxed?⁶

Compared to other types of investments, super may be a tax-effective investment over the long term.

Depending on your situation, tax may apply when you make concessional contributions, on investment earnings in your fund, and when you withdraw benefits from super.

Contributions

If you make pre-tax (concessional) contributions to super, they will generally attract a contributions tax of just 15% though an additional tax of 15% may apply to higher income earners⁷. A government low income super tax offset (LISTO) contribution of 15% of your concessional contributions, up to a maximum LISTO contribution of \$500 may apply if your adjusted taxable income is \$37,000 pa or less and you have made concessional contributions in the year.

Non-concessional contributions are not taxed when received by your fund as they have already been subject to income tax in your hands.

Contributions that exceed your caps may be subject to additional tax.

Investment earnings

While in accumulation phase, or a transition to retirement income stream (where you are under age 65 and a full condition of release has not been met), earnings on the investments in your super fund are taxed at a maximum rate of 15%, which could be lower than your marginal tax rate.

If you commence a retirement phase income stream from your super in the future, earnings on the investments in your income stream are tax-free.

Withdrawals

The amount of tax you pay on your super when you withdraw will depend on your age and whether you take the money as a lump sum or as an income stream, such as an account based pension or annuity.

Generally, all super in a taxed fund can be withdrawn tax-free if you are aged 60 or over, whether you take it as a lump sum or as an income stream⁸. If you begin withdrawing your super before you turn 60, you may have to pay tax on the amount you withdraw.

When can you access your super?

The Government places restrictions on when you can withdraw your super – known as ‘preservation rules’. These rules ensure your super balance is locked away and continues to grow until you meet an eligible condition of release. Conditions of release include:

- Permanently retiring after reaching your preservation age

- Ceasing a gainful employment arrangement after age 60
- Reaching age 65
- Death
- Becoming permanently incapacitated or terminally ill
- Commencing a transition to retirement income stream upon reaching your preservation age.

Your preservation age will be between 55 and 60, depending on your date of birth. You can find out what your preservation age is by visiting ato.gov.au or speaking to your financial adviser.

Super housing measures

First home super saver scheme

Since 1 July 2017, you can make additional pre-tax or after tax voluntary contributions to super to save for your first home. As super is concessionally taxed, saving through super may allow you to save for your first home more quickly.

You can contribute up to \$15,000 pa (\$50,000 in total, across all years) in voluntary contributions under the scheme. From 1 July 2018, you can then withdraw⁹ the contributed amounts plus a deemed earnings amount to help fund the purchase of your first home (this amount includes 100% of eligible after-tax (non-concessional) contributions, 85% of eligible pre-tax (concessional) contributions, and associated earnings calculated on these contributions). Amounts withdrawn (excluding after tax contributions) form part of your assessable income but provide you with a 30% non-refundable tax offset.

For further information about the First Home Super Saver Scheme, please refer to ato.gov.au – [Downsizer super contributions](#)

Downsizer contributions

Since 1 July 2018, if you sell your principal home¹⁰ you may be able to make a super contribution of an amount equal to all or part of the capital proceeds received from the sale, up to \$300,000. These contributions are known as downsizer contributions and are not subject to normal contribution eligibility criteria such as having to meet a work test and don't count towards other contribution caps. However, it will count towards your total super balance, and where you move these amounts into retirement phase, they will also count towards your transfer balance cap.

If you are thinking of selling your home, this measure allows you to contribute up to \$300,000 (\$600,000 combined for a couple) into the concessionally taxed superannuation environment. The contribution will be tax free when received by your fund, although it will be

assessable under the social security assets test and generally deemed under the social security income test.

To be eligible to make a downsizer contribution, your principal home must have been owned by you and / or your spouse for at least 10 years, and you must have not made a downsizer contribution from the sale of another home in the past. From 1 January 2023, you must also be age 55 and older.

Please note, there are a number of additional eligibility requirements that will also need to be met.

For further information about downsizer contributions, please refer to ato.gov.au.

Things to consider:

- Super is one of the largest investments you will ever make in your lifetime.
- The tax concessions can make it a great way to save for your retirement.
- Super regulations are changing constantly so it is important to get professional financial advice to plan for a better and more secure lifestyle in retirement.

- 1 Australian Government Actuary. Australian Life Tables 2020-22 with 25-year improvement factors.
- 2 The SG rate is 11.5% until end of financial year 2024/25. After that it will increase gradually each financial year by 0.5% until it reaches 12% on 1 July 2025.
- 3 Total super balance is broadly the total of all your superannuation accounts, whether in the accumulation or pension phase.
- 4 Voluntary contributions can be made up until 28 days after the end of the month you turn age 75.
- 5 Retirement phase income streams include account based pensions and most superannuation income streams, but exclude transition to retirement income streams where a full condition of release has not been met.
- 6 The tax rules discussed in this fact file apply to taxed funds only and do not apply to untaxed funds (untaxed funds include certain government superannuation schemes).
- 7 If your total income (including your concessional contributions) for Division 293 purposes exceeds \$250,000, you will need to pay an additional 15% tax on part or all of your concessional contributions.
- 8 If you receive income from a capped defined benefit income stream of more than \$118,750 in the financial year, additional tax may apply.
- 9 The FHSS scheme requires you to request and receive a FHSS determination from the ATO before ownership of the property transfers to you. If you do not do this you will be ineligible to request a determination under the scheme.
- 10 Applies where the exchange of contracts occurs on or after 1 July 2018.

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