Carthills
TAILORED ACCOUNTING
Personal . Commercial . Strategic

Myth BUSTING super

Compulsory superannuation has been around for 26 years, long enough to become a valuable source of retirement income. But even though the vast majority of us have money tucked away in a super account, it's surprising how many myths and misconceptions there are about super.

Some people think of super as just another type of investment, or worry that it's locked up until they're 65, or that it's never going to be enough to retire on so why bother. In the interests of debunking 'fake news', we provide the truth about these common misunderstandings.

Myth #1 – Super is just like any other investment

Super is designed to encourage saving for retirement, by enabling you to invest your savings into assets that are taxed at a lower rate. In fact, super should be considered a tax structure, rather than an asset.

If you're a member of a retail, corporate or industry super fund you can invest in shares, listed property, bonds and cash. If you run your own self-managed super fund you can also invest in direct property.

The big difference between owning assets in and out of super is that the income and capital gains from investments held inside super are taxed at lower rates. As the table below shows, investments held in your own name are generally taxed at your marginal rate, up to 45 per cent plus Medicare Levy.

It's important to keep in mind that during periods of low or negative returns, the value of your investments may fall temporarily irrespective of where you hold them.

Taxation of investments

Asset class	Held in super	Held in own name
Cash	Interest taxed at 15% if you are still working and in accumulation phase, tax free in pension phase*.	Interest taxed at your marginal rate.
Fixed interest	Income taxed at 15% in accumulation phase, tax-free in pension phase*. Capital gains taxed at 15% or 10% if held for more than 12 months. Tax free in pension phase*.	Income tax at your marginal rate. Capital gains taxed at your marginal rate or 50% of your marginal rate if held for more than 12 months.
Shares	Dividends taxed at 15% in accumulation phase. Tax-free in pension phase*. Capital gains taxed at 15%, or 10% if held for more than 12 months. Tax-free in pension phase*.	Dividends taxed at your marginal rate less any franking credits (tax already paid by company). Capital gains taxed at your marginal rate or 50% discount if held more than 12 months.
Property	Rental income taxed as per share dividends. Capital gains as per shares.	Rental income taxed as per share dividends. Capital gains as per shares.

*Tax free if your pension account balance is below $1.6 million.

Myth #2 – I can't get my hands on it till I'm old

It's a common misconception that you can't access your super until you're 65. While it's true that you can withdraw your money from super when you reach 65, whether you're retired or not, that's not the whole story.

The super rules allow you to access your super when you reach preservation age and retire. Preservation age is currently 57 and will increase in increments to 60 for people born from 1 July 1964. This is not the same as the age at which you can receive the Age Pension – currently 65 and six months, rising gradually to 67 in 2023 for people born from 1 January 1957 – which is where a lot of the confusion lies.

Under the transition to retirement rules you can also access part of your super while continuing to work once you have reached preservation age.

More controversially, you can request an early release of your super at any age under compassionate grounds such as severe financial hardship, terminal illness or specific medical conditions. There are mounting concerns about the increasing number of people accessing super for non-life-threatening medical conditions, such as weight loss surgery and IVF.

Not only are early withdrawals taxed, which makes them an expensive form of finance, but they can significantly reduce the amount of money you have left in the kitty for your retirement, which is the 'sole purpose' of super. The Federal Government is currently conducting a review into early releases with the report due for submission in early 2018.[i]

Myth #3 – The Superannuation Guarantee will be plenty to retire on

Your employer's compulsory superannuation guarantee (SG) payments are currently set at a minimum of 9.5 per cent of your gross (pre-tax) salary. Unless you are a high-income earner and in continuous employment until you retire, it's unlikely you will have enough in super to fully fund a comfortable retirement without making additional voluntary contributions.

Older workers who haven't had the benefit of SG payments throughout their working lives and people who spend time out of the workforce to care for children or due to illness or unemployment will need to play catch-up as they near retirement. Meanwhile the self-employed will need to fund their own retirement.

But things aren't as bleak as they may seem. In practice, for most Australians the SG is not their only source of retirement income. People of all ages tend to hold more wealth in their family home and investments held outside super than they do in super. And most retirees still rely on a full or part age pension to supplement their super and other investments.[ii]

Super is not the be all and end all of investing, but it remains the most tax effective home for your retirement savings. If you would like to discuss the tax implication of your investment strategy, don't hesitate to give us a call.

i 'Review of the early release of superannuation', Australian Government, https://treasury.gov.au/consultation/c2017-t246586

ii 'How households save for retirement', Grattan Institute, 2 October 2016, https://grattan.edu.au/news/how-households-save-for-retirement/

Carthills
TAILORED ACCOUNTING
Personal . Commercial . Strategic

Carthills Tailored Accounting

Level 1, 2072 Logan Road
Upper Mount Gravatt QLD 4122

P 07 3849 6392
E advice@carthills.com.au
W www.carthills.com.au