WHAT IS an effective way to save for retirement?

Superannuation is one of the most tax-effective ways to save for retirement. The generous tax concessions applied to superannuation, coupled with regular contributions, can lead to long-term financial independence and day-to-day peace of mind when you retire.

Growing your superannuation

For most people, your employer pays a regular amount into a superannuation account on your behalf. This is called the 'superannuation guarantee'. You can also grow your superannuation by making extra contributions.

Over your working life, your superannuation benefits from compounding returns. This is where investment returns are generated on the returns you've already earned. Making extra contributions makes the most of this snowballing effect.

There are two main contribution types:

- Concessional contributions – using money that is yet to be taxed, such as your pre-tax salary, or
- Non-concessional contributions – using money that has already been taxed, such as savings in the bank.

There are caps on the amount of contributions you can make each financial year. Be sure to monitor your contributions each year, as the annual caps are subject to change, and excess contributions may result in you paying extra tax.

For more information, visit www.ato.gov.au and search 'Contribution caps'. You can also refer to the **'What are the limits on superannuation contributions?'** fact sheet or speak to your financial adviser.

Why superannuation is a tax-effective way of investing

To illustrate the tax effective nature of superannuation, compare:

- Using an effective salary sacrifice arrangement with your employer to forego $10,000 of your pre-tax salary. This amount is automatically added to superannuation as a concessional contribution, or
- Investing $10,000 of your salary after it is paid by your employer.

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	Salary sacrifice into super	Investing in personal name using after tax income
Gross income available to put towards retirement savings	$10,000	$10,000
PAYG tax @ MTR 39%*	$0	-$3,900
Contributions tax	-$1,500	$0
Net amount invested	$8,500	$6,100
Tax on future earnings	15%	Marginal tax rate

By investing in superannuation, you are $2,400 better off as the net amount invested is $8,500 in comparison to $6,100.

Additionally, future earnings inside superannuation are taxed at only 15%. If your marginal tax rate is 39% (including Medicare Levy), this means investing in superannuation leaves you 24% better off and you can take advantage of compounding returns.

Extra savings for retirees

Where a member over age 60 has rolled their superannuation to commence a pension, investment earnings supporting the pension account are generally not taxed; withdrawals and pension payments are also tax-free.

As the earnings of these products are not subject to tax, there is a cap on how much you can have in this type of product at any time. Currently, the cap (known as the general transfer balance cap) is $1.9 million (this figure can vary based on your personal circumstances).

Please note, due to indexation the Total Super Balance cap will increase to $2,000,000 from 1 July 2025.

*Assumes 39% marginal tax rate including Medicare Levy.

Managing your superannuation

How your superannuation grows also depends on your choice of superannuation fund and how it is invested.

There are many different types of superannuation funds. Understanding what makes up each of these categories can help you find a fund that best suits you. Some of the most common are summarised in the following table.

Types of fund	
Retail Fund	Offers the widest range of investment options. Generally, anyone can join as it isn't aligned to a specific industry. Offers various insurance products through the fund.
Industry Fund	May have an association with a specific industry; however, may still allow anyone to join as a personal member. Number of investment options available is usually smaller than retail funds.
Corporate Super Fund	Set up by an employer for its employees. Membership is usually restricted to current and former employees. May run as an industry fund or a retail fund. Group insurance is often negotiated by the employer with the trustee on behalf of its employees. Sometimes there may be concessions on administration fees, or discounts on insurance premiums for members of a corporate plan.
Self Managed Super Fund (SMSF)	Can have up to six members. Each member must also be a trustee of the fund (or a director of a corporate trustee). Members are generally responsible for the investment strategy, running of the fund, and ensuring that the fund is run in accordance with superannuation and tax legislation.

Continued

Types of fund	*Continued*
Small APRA Fund (SAF)	Similar to an SMSF, a SAF can have up to six members. It also offers its members greater freedom and flexibility than a retail or industry super fund. Unlike an SMSF, members of a SAF aren't trustees; a professional trustee takes full responsibility for running the fund, including undertaking all legislative responsibilities, risk management, and administration tasks. While generally more expensive than an SMSF, SAFs may be a good option for people who: • Are planning to live overseas for an extended period of time (generally two years or more). • Are bankrupt. Bankrupt individuals cannot be trustees of an SMSF, nor can they delegate trustee duties to a representative, but they can be members of a SAF. • Want greater control of their investments, without the burden of trustee responsibility.
Defined Benefit Fund	Offered to public sector employees or large corporations. Many are now closed to new members. In a defined benefit fund, your retirement benefit is generally determined using a formula which can consider your age, final salary at retirement, and the years of service you've had with your employer. Your final benefits are not reliant on investment returns and are generally guaranteed by the fund. In contrast, other funds generate a retirement benefit based on your contributions and investment returns of the fund.

Accessing your superannuation

You cannot access your superannuation until you satisfy a condition of release. The most common conditions of release are where you:

- Have reached your preservation age and permanently retire (i.e. do not intend to work again for more than 10 hours in any week). The preservation age has gradually increased since 1 July 2015 and is now set at age 60.
- Ceased an employment arrangement on or after the age of 60, and
- Attain 65 years of age (even if you are still working).

There are also special circumstances where at least a part of your superannuation can be released before reaching preservation age. These include permanent or temporary incapacity, severe financial hardship and compassionate grounds to name a few.

For more information, visit www.ato.gov.au and search 'Condition of release'.

Benefits and risks of investing in superannuation

Superannuation offers a range of benefits as outlined below:

- **Potentially reducing your income tax** – with a salary sacrifice agreement with your employer, your contribution is taxed at 15% instead of the marginal tax rate you'd normally pay based on your salary. You may also be able to claim a tax deduction for other contributions you make.
- **Reduced tax on investment earnings** – when you invest outside of superannuation, any income earnt is taxed at your marginal tax rate. Within superannuation, the investment earnings on your accumulated superannuation are generally taxed at a lower rate of 15%.
- **Diversification** – superannuation is usually invested in a broad range of investment assets (shares, property, bonds, cash etc), meaning it is generally well diversified and has less risk than investing in a single asset class, such as shares or property alone.
- **Cheaper insurance cover** – as superannuation funds can negotiate group discounts on insurance premiums, they can pass these savings onto members. While the cover offered by superannuation funds is generally basic in nature, it can be cost effective in comparison to insurance owned outside of superannuation. Another advantage to having insurance inside superannuation is that premiums are automatically deducted from your superannuation and not payable from your cashflow directly.

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- **Protecting your assets from bankruptcy** – if your superannuation is held in a regulated fund, bankruptcy will not impact your retirement savings. Money withdrawn from your superannuation after bankruptcy could be protected also. Any funds that are withdrawn from your superannuation prior to bankruptcy are an asset of the bankrupt estate.
- **Tax-free income when you retire** – if you satisfy a condition of release after turning age 60, you can typically access your superannuation without paying tax.
- **Beneficial social security assessment** – if you are in receipt of an income support payment from Centrelink or Department of Veteran's Affairs (DVA), superannuation in accumulation phase is not counted under the income and assets test until you are Age Pension age.
- **Access the Government co-contribution** – if you're a low to middle income earner and you make non-concessional contributions, you can boost your superannuation with a government co-contribution.

  For more details, visit www.ato.gov.au and search 'Government co-contribution'. You can also refer to the **'What is the Government Co-contribution?**' fact sheet.
- **Simple ongoing management** – depending on your fund type, your superannuation can be managed with minimal or no effort from you, because your superannuation fund trustee manages these investments on your behalf,.

However, these benefits need to be considered alongside the following risks:

- **Fund performance** – How your superannuation fund performs relies on the expertise of those employed to manage the investments. While superannuation funds endeavour to maximise returns for members in line with stipulated investment guidelines, there is a risk that investment managers may underperform the market.
- **Fees** – Being with a superannuation fund that charges high fees can lead to your superannuation balance being eroded. It's important to regularly review the fees charged by your superannuation fund to determine whether it is competitive in comparison to other funds in the market.
- **Liquidity** – your superannuation can only be accessed after a condition of release is met. If you contribute to superannuation and later change your mind, you may not be able to access these amounts.
- **Contribution caps** – there is a limit on the amount you can contribute each year. Exceeding these caps can result in extra tax.
- **Cap on tax-free earnings** – if you satisfy a condition of release after turning age 60, you can typically access your superannuation without paying tax. At this time, you can rollover your superannuation to commence a pension. This is known as the 'retirement phase' of superannuation. As the earnings on assets that support your pension are not subject to tax, there is a cap on how much you can have in the 'retirement phase' of superannuation at any time. Currently, the cap is $1.9 million.
- **Balance erosion from insurance premiums** – if you purchase insurance inside superannuation, your retirement savings can erode over time. The cover will automatically lapse if the balance of your account is insufficient to cover premiums.

Other strategies to grow your superannuation

Claiming a tax deduction for personal contributions to superannuation

For similar benefits to salary sacrifice, you may be able to claim a tax deduction for contributions you make to superannuation. This reduces your taxable income, and you only pay tax at 15 percent on the contribution, potentially increasing the amount that you have available to invest.

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The low-income superannuation tax offset

For low-income earners, the low-income superannuation tax offset (LISTO) may refund the 15 percent superannuation contribution tax. You must have an adjusted taxable income of less than $37,000 p.a. to qualify. The maximum LISTO paid is $500, equal to 15 percent of concessional contributions up to $3,333. LISTO is paid into your superannuation account.

For more information, visit www.ato.gov.au and search 'low-income superannuation tax offset'.

The Government co-contribution

If you are a low to middle income earner and you make a personal after-tax contribution to superannuation you may be eligible for a Government co-contribution. The maximum Government co-contribution is $500, payable at a rate of 50 cents for every $1 of eligible contributions that you make. The maximum eligible contribution is $1,000.

The co-contribution reduces by 3.333 cents for every dollar that your adjusted taxable income exceeds $45,400, with no co-contribution payable when your income reaches $60,400.

For more information, visit www.ato.gov.au and search 'Co-contribution.' You can also refer to the **'What is the Government Co-contribution?'** fact sheet.

Spouse contributions to superannuation

If you make after-tax superannuation contributions on behalf of a low-income earning spouse, you may be eligible for a tax offset up to $540. This is an 18% offset on the first $3,000 of contributions. To qualify, your spouse needs to earn less than $40,000. This reduces your tax payable.

For more information, visit www.ato.gov.au and search 'Spouse tax offset.' You can also refer to the **'What are spouse contributions?'** fact sheet.

Split contributions to a spouse

Contribution splitting to a spouse is a long-term strategy to even out the superannuation balances between spouses, which may help to maximise the combined total of superannuation savings that can be transferred to retirement phase income streams in the future. For more information, visit www.ato.gov.au and search 'Contribution splitting.' You can also refer to **'What is contribution splitting?'** fact sheet.

Downsizer contributions

If you are age 60 or over, you are able to contribute up to $300,000 of the sale proceeds of your principal residence without meeting an age or work test.

For more information, visit www.ato.gov.au and search 'Downsizer contributions.' You can also refer to **'What is a downsizer contribution?'** fact sheet.

Speak to your financial adviser about the other conditions that apply to be able to use these strategies to maximise your superannuation.

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Case study

Fei's salary is $70,000 and she is 30 years old.

On top of the 11.5% superannuation guarantee her employer pays each year, she speaks to her financial adviser about additional superannuation contributions of up to $5,000. She understands that maximising her superannuation is important however her current priority is to reduce her tax payable.

Her financial adviser compares whether Fei should make a:

- Concessional contribution by entering into a $5,000 p.a. salary sacrifice arrangement with Fei's employer, or
- Non-concessional contribution using Fei's existing after-tax savings.

While the salary sacrifice arrangement is $750 worse off in terms of the net amount contributed to superannuation for the year, her adviser explains that it produces the highest tax saving.

By entering a salary sacrifice arrangement with her employer, Fei can reduce her tax payable by $1,750 compared to making a non-concessional contribution using her existing savings.

Her adviser also confirms Fei is below the annual concessional cap for the financial year and will not pay extra tax by entering into a salary sacrifice arrangement with her employer.

If Fei continues her salary sacrifice arrangement, she could end up with an additional $235,845 in superannuation at age 67.

Annual salary and tax details	Concessional contribution	Non- concessional contribution
Gross salary	$70,000	$70,000
Concessional contribution (salary sacrifice)	-$5,000	$0
Taxable income	$65,000	$70,000
PAYG tax	-$12,867	-$14,617
Non-concessional contribution (after-tax savings)	$0	-$5,000
Net take home pay	$52,133	$50,383
Superannuation contributions		
Concessional contribution (superannuation guarantee)	$8,050	$8,050
Concessional contribution (salary sacrifice)	$5,000	$0
After-tax contributions	$0	$5,000
Contributions tax	-$1,958	-$1,208
Net contributions	$11,092	$11,842
Net take-take home pay and net superannuation contributions	$63,225	$62,225

Based on 2024-25 tax rates. Superannuation guarantee of 11.5% and 15% contributions tax.

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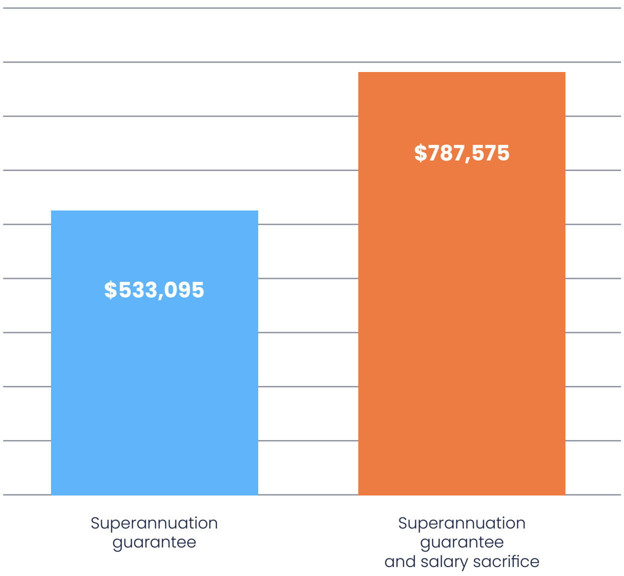

These results were generated using the MoneySmart, Superannuation Calculator available at www.moneysmart.gov.au . Visited 24/02/25. Inputs for a 30 year old, earning $70,000,

$50,000 starting superannuation balance, superannuation guarantee of 11.5%, retirement age of 67, $5,000 salary sacrifice, default fees of $74 pa admin fees, default investment option (7.5% pa investment return, 7% pa tax on earning, 0.85% pa investment fees).

Superannuation Pros:

- Potential to reduce your income tax
- Reduce tax on investment earnings
- Diversification
- Can offer cheaper insurance
- Protect your assets in bankruptcy
- Generate tax-free income when you retire
- Beneficial social security assessment
- Access to Government co-contribution
- Simple ongoing management

Superannuation Cons:

- Relies on long term fund performance
- Fees apply and vary depending on the fund
- Cannot be accessed until a condition of release is met
- There are limits on contributions, the total amount of superannuation you can have and the total amount of 'retirement phase' pensions
- Rules are complex and subject to change.