Investing in super for a comfortable retirement

Fact sheet

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Growing your wealth by investing in super is a smart way to boost your savings for a comfortable retirement.

What is superannuation?

Superannuation, or super as it is often known, is a tax effective way of investing for your retirement. Generally speaking, it is compulsory for many employers to contribute 9.5% of an employee's salary into super. However, compulsory super contributions may not be enough to fund a comfortable retirement. You could also grow your super by making your own contributions. Small amounts can make a big difference over time, and there are also other incentives you might be able to access.

What are the benefits of super?

For most, investing in super can be a tax effective way to save for retirement. The overall tax paid on your super investment is generally less than other more traditional forms of investing, such as personally held assets. This table compares investing in and out of super:

Non-super investment	Super investment
Initial contribution	**Initial contribution**
Paid from after-tax income. Tax is payable on income at marginal tax rates of up to 49%, but for most people it will be 34.5% or 39% plus a 2% Medicare levy.	In general, a 15% tax applies on concessional contributions to super including compulsory super and salary sacrifice contributions. No additional taxes are levied if you contribute existing savings. You may also be eligible for a tax offset or government contribution.
During investment	**During accumulation phase**
Generally, earnings are treated as income and taxed at your marginal tax rate each year when you lodge your tax return.	Earnings are taxed at 15%, with the tax deducted from your super account balance.
On withdrawal	**On withdrawal**
Generally, capital gains tax may be payable on gains at your marginal tax rate (50% discount applies where an asset has been held for at least 12 months).	For people 60 years of age and over who receive super benefits from a taxed source, payment of a benefit as a lump sum or income stream (such as a pension) are generally tax free.

So what does this mean for you?

You generally may pay lower tax on your earnings when you invest in super, which means you have more money than if you had invested in non-super investments. Additionally, the savings achieved are multiplied over a long period by the 'magic of compounding'. Compounding is when the return on your money goes back into your investment – so you earn returns on your returns.

The end result is your super investment may grow at a greater rate than a non-super investment.

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Diversification is an important way of managing the risks associated with investing and involves spreading your money across different asset classes to provide more consistent overall returns.

Are there any pitfalls when investing in super?

Super generally has more restrictions than non-super investments. The two main ones are:

- usually, you can't access your money until you've reached age 65 or your preservation age (between age 55 and 60, depending on your date of birth) and have retired and
- there are limits to how much you can contribute to super. (Refer to Contributions Caps fact sheet).

How does your super fund invest its assets?

Most super funds offer a range of investment options, but you can generally divide them into four basic categories or asset classes:

- shares
- property
- fixed interest (also called bonds)
- cash.

When offered as an investment choice in a super fund these are sometimes referred to as 'specialist' or single sector options. Super funds also offer 'diversified' investment options that contain a mix of the different asset classes. The names given to these options can differ from fund to fund, but the name usually reflects how much risk the option exposes the investor to. For example, a conservative option will generally contain mostly cash and fixed interest, while at the other end of the scale, a higher risk option will generally contain mostly shares, usually from Australia and overseas.

What types of super funds are there?

There are several different kinds of super funds, but the main ones are:

- **employer/corporate/staff funds** – established by an employer for the benefit of its employees. Many employer super plans are outsourced to larger super providers (called corporate master trusts) which offer a broad range of investment choices and other features.
- **personal funds** – as the name implies, you join as an individual through a super provider. There are many available and most will offer a good range of investment choices and other features.
- **industry funds** – originally set up for people working in a particular industry, e.g. builders or health care.
- **self-managed super funds (SMSFs)** – also called 'Do It Yourself' funds. These can have up to four members and are generally used by people with larger amounts in super or by family groups. You will need to have an interest in running a super fund as all members are also trustees of the fund. As a SMSF trustee, you are ultimately responsible for running the fund and control the investments. You can also pay a professional, such as an accountant or a specialist provider to help with the fund's administration.

Switching funds

If you are thinking about moving your super to another fund, it is important to fully understand the features of your existing fund, as well as the fund you are switching to. You should also check what you may be giving up if you switch funds. For instance, some people have given up generous insurance benefits upon leaving their employer fund and cannot get an equivalent level of cover in their new fund, or find it costs them a lot more to do so.

There may also be fees or taxation issues to consider when switching funds, so you should speak to a qualified financial planner.

Would you like more information? Contact your Financial Adviser who can provide you with information to help you make a decision that is right for you.

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