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Monthly Information Newsletter – Tax & Super

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Why super can help save for your retirement

Superannuation is an investment vehicle specifically designed to help you save for retirement - this is one of the key reasons why you should take an interest in your superannuation.

Whether you're employed, self-employed or even nearing retirement, it's never too late to build up your superannuation to boost your retirement savings.

Concessional tax environment

Superannuation provides tax concessions on superannuation contributions and earnings. Generally speaking, any contribution that your employer makes (up to certain contribution caps) and any investment earnings on your superannuation balance are taxed at a maximum of 15%.

This rate in most cases will be lower than an individual's personal marginal tax rate. This can mean more of your money goes towards your retirement than if you were to invest outside of superannuation.

Compounding interest can boost your savings

Making small financial sacrifices and contributing to superannuation over the years is key to long-term wealth.

This long-term growth is due to the power of compound interest.

Superannuation uses compounding interest to grow your balance which will help you in retirement. If you're an employee, your employer will pay 10% of your salary/wages into superannuation in 2021/22 (increasing to 10.5% in 2022/23) that will use compounding interest to grow until you reach retirement.

To boost the amount you'll have saved at retirement, you may want to consider making additional contributions through salary sacrificing or making personal after-tax contributions to superannuation.

One of the reasons for making additional contributions to your superannuation is the potential for investment growth, combined with the power of compounding returns. It is surprising how putting away small, yet regular amounts can increase your overall balance substantially over time.

For example, consider a $50,000 superannuation balance earning 6% interest annually. Assuming no regular contributions are made, after 15 years the $50,000 superannuation balance will have reached $122,705. This means the initial superannuation balance has more than doubled through the power of compounding interest. If we now assume a $100 per month after-tax contribution is made to superannuation, the same $50,000 superannuation balance will increase to $151,787 in 15 years' time. That's an extra $29,082 due to extra contributions, investment growth and compounding interest.

Locked away until retirement

One of the main features of superannuation is that you typically can't access your money until you reach age 65 or when you retire after reaching your preservation age (between 55 and 60 depending on your date of birth). You may however be able to access your superannuation earlier in limited circumstances, such as should you become permanently disabled or suffer severe financial hardship.

Considering superannuation is not generally available during your working life, it means it will be preserved and remain invested in the background and will generate a valuable source of funds for you to live on in retirement.

Provides an income for your retirement

As you approach retirement, you may want to wind down your working hours/days and use your superannuation to supplement your income through a 'transition to retirement' (TTR) pension.

Once you reach age 65 or advise your superannuation fund that you've retired permanently, your TTR pension will automatically convert to an account-based pension (ABP).

An ABP is a regular income stream bought with money from your superannuation fund and allows you to enjoy a regular income in retirement. Furthermore, since your money remains within the superannuation system, your ABP continues to be invested and benefits from ongoing tax concessions. For example, investment earnings of an ABP are tax free and once you turn 60, your ABP payments will also be tax free.

Alternatively, if you don't want to commence an ABP using your superannuation, you can also choose to take any accumulated superannuation benefits you have as a lump sum payment/s.

Final thoughts

Superannuation is your money, so it pays to take an active interest in your superannuation during your working years.

Remember, by making regular superannuation contributions over the course of your working life and ensuring your money is invested properly will lead to greater savings that can help fund the lifestyle you want in retirement.