Even with moving goal posts, super is simply worth it

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Australia really deserves the moniker Down Under. We're this little mixed-up, backward, first-world-like, paradise island that's not easy to get to from anywhere.

We are light years from our major trading partners, which occasionally gives us shipping pains. People are desperate to get here but we've got boat people pains.

We've got the climate and lifestyle for the galaxy's greatest retirement. But then, when it comes to funding our long old 'n' grey years, we have . . . Australia's myopic superannuation system.

Holy crud.

Isn't it ironic, that Australians have to fund their ever-lengthening retirements on superannuation strategies based on rules that seem to change, on average, every full moon? Seriously.

This Government has made significant changes to super more than once a year. In some years, they changed the same rule a couple of times. I'm not kidding.

Almost every year, it got harder to get money into super. In this financial year, it is harder to get money INTO super than it has ever been.

How do you plan the longest investment of your life if the rules keep changing?

It's not just the Government. The Opposition has flagged another bunch of changes.

So, is super still a good investment? The answer is yes.

Huh? Simple really. Super is unlikely to ever be taxed as heavily as regular income.

That is, if average workers earn $10,000 in their own name, they lose $3400 of that in tax. (Higher income earners will lose up to $4650 in tax.)

However, earn $10,000 in super and you'll pay no more than $1500 in tax.

Now, compound that money over 30 years. Why 30 years? Because super is an investment that starts at age 20 and is designed to run out at about age 85 or 90. So 30 years will cover us for this example.

Let's assume an after-fees earning rate of 7 per cent, that earnings outside super continue to be taxed at 34 per cent and earnings inside super are taxed at 15 per cent.

And let's also assume that people understand the need to put away for their retirement. It's just a matter of whether they do that inside or outside super.

The $6400 earned outside super will turn into about $23,830 after 30 years. The $8500 earned inside super will turn into $48,130.

Yes, more than double. That's the benefit of the lower tax rate in super. That, in a nutshell, is super's main upside. Another is a tax-free income after age 60.

Super's major downside?

You can't touch your money until you're at least 60 (there are special rules allowing slightly earlier, partial, access for those born before mid-1964).

But not having access to a portion of your financial wealth until 60 is not disastrous. You'll still be working and earning an income. And you don't put absolutely everything in super.

The premise of superannuation is that governments want us to reduce our reliance on the old-age pension. In order to do that, they need to encourage people to put away for their retirement.

By getting employers to pay a portion of wages into an employees' super fund, and then restricting access to that money until old age, they can make some adjustments to how much they need to tax the population, across the ages, to provide those pensions. That's the theory.

It's only now that the baby boomers are retiring that that theory starts to be tested. But it will take several more decades for the true benefits to be really evident.

But no one likes making investments when the rules aren't clear. The problem is that governments can't help themselves when it comes to super.

Sadly, on that front, don't hold your breath that things will change.

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Paradise: We've got the climate for the galaxy's greatest retirement.

To take advantage of the superannuation co-contribution you need to ensure:

- you made non-concessional contribution into your SMSF
- your SMSF is a complying superannuation fund
- you received at least 10% of your income from employment or from carrying on a business
- you lodged your personal income tax return
- you are less than 71 years of age
- you do not hold an eligible temporary resident visa
- your income is less than the higher SCC threshold of $46,920 (if the new proposal becomes law) or $61,920 (if the new proposal does not become law)

To be eligible for the low-income superannuation contribution you need to ensure:

- you made concessional contributions into your SMSF
- your SMSF is a complying fund
- you received at least 10% of your income from employment or from carrying on a business
- you do not hold an eligible temporary resident visa
- your adjusted taxable income does not exceed $37,000
- the amount of LISC calculated is $20 or more

Risk-free nest egg

DIY super

There are two ways for low income earners to boost super savings without taking any risk. One is through the superannuation co-contribution and the other is the low income super contribution.

If you satisfy certain conditions, you can top up your super with government money under these Federal Government schemes. You must act quickly, however, as the cut off date is June 28.

The superannuation co-contribution was introduced in the 2003-04 financial year. Then, for those who qualified, the Government would contribute $1.50 for every $1 contributed for those who contributed $1000.

This meant if you deposited $1000 or more into your self-managed super fund, the Government would deposit $1500 if your income was less than $27,500.

This $1.50 for every $1 was increased to $3 for one year in 2006 as a special bonus.

Then in 2010 it was reduced to $1 for $1. There is legislation before parliament to reduce the government contribution to 50¢ for every $1 personally contributed.

Even though the government contribution has been reduced, it is still worth having if you can get it. Now, regardless of the government contribution being reduced, SCC is still worth taking advantage of if you can. It's not often the Government gives out money.

If your income is $31,290 or lower, you will be entitled to the full 50¢ for every $1 under the proposed law or $1 for every $1 under the existing rules.

If your income is $61,920 or more you are not entitled to receive the super co-contribution. The new rules stop that payment at $46,920.

The maximum amount that the Government will contribute is $500 under the proposed law or $1000 under the existing law. If your income is between lower and upper thresholds (at the moment, between $31,290 and $61,920) the government co-contribution is reduced by 3.33¢ for every dollar your income is above the lower threshold.

Your self-managed super fund does not have to pay tax on either your contribution or the government co-contribution. The super co-contribution is not included as income on your tax return.

If you earn less than $37,000 a year, you may be eligible for the low income super contribution (LISC) on your concessional contributions. A concessional contribution is a contribution you deposited into your SMSF and claimed as a tax deduction, an employer's superannuation guarantee contribution or your salary sacrificed superannuation contribution paid into your self-managed fund.

So the Government will return the 15 per cent contributions tax paid by your self-managed fund — but only up to $500 a year. For example, if you deposit a $4000 concessional contribution into your self-managed fund, usually your fund would need to pay $600 — the 15 per cent tax. In this example, the Government would repay $500 to your self-managed fund.

Under the present rules the Government does not pay the low income super contribution (LISC) if it is less than $20. This will be changed.

LISC started on July 1, so this is the first financial year that it is payable. LISC is paid into your SMSF. You can apply for LISC to be paid directly to you if you have reached your preservation age and are retired or you are 65 or older.

You can get a direct payment form from the Australian Taxation Office. LISC is treated as a tax-free component of any super benefit. If you act before June 28, you may be entitled to both the co-contribution on your non-concessional contribution and the LISC on your concessional contribution.

Monica Rule is the author of "The Self Managed Super Handbook – Superannuation Law for Self Managed Superannuation Funds in plain English" www.sunshinepress.com.au