

## Is super right for you?

Super has always been a great way to invest for retirement, and for many it will be their main source of retirement income. As with anything, there are some disadvantages, so read on to find out whether investing more in super might be right for you.

Because super is the Australian Government's preferred way for us to save for retirement, it has some advantages that investments outside super do not enjoy. These include:

### 1. Super co-contribution for low to middle income earners

If your total income is less than \$61,920 p.a. and you make voluntary contributions to super you could receive the Australian Government's super co-contribution. For example, if you earn less than \$31,920 and put in \$1000 the government will match it with a \$1000 contribution. See our *Co-contribution info sheet* for details.

### 2. Lower tax on investment earnings than most other investments

With most other investments outside super you need to include earnings (e.g. interest, dividends, capital gains, rent etc.) as part of your taxable income each year and pay tax at your marginal tax rate (generally between 30% to 45%). If you invest in super though, you don't need to include these earnings in your tax return. That's because your super fund pays tax on these earnings at a maximum rate of 15% (though in most cases this is lower due to deductions, offsets and credits).

What this means is super savings will generally grow to a much larger amount than the same amount invested in the same way outside super.

### 3. Tax-free benefits once you're over 60

If you take your super as a lump sum or pension once you reach age 60 or over you won't pay any tax. Even if you make lump sum withdrawals between age 55 and 59 the first \$160,000 (2010/11) of the taxable part of your benefit will be tax-free. Any amounts over that will be taxed at 16.5% including the medicare levy.

### 4. Salary sacrificing to reduce your tax while increasing your super

Salary sacrificing involves an agreement between you and your employer for them to contribute a certain amount to your super instead of paying you in cash. Instead of paying tax at your marginal tax rate (generally at least 30%) any salary sacrificed contributions are taxed at 15% on entry to LGsuper and will be tax-free if taken out after you turn 60. See our *Salary sacrifice info sheet* for details.

### 5. Access to income from your super leading up to retirement

You can access your super as a pre-retirement pension after your preservation age, even if you are still working. This allows you to either work part-time or in a lower paid role while topping up your income from super. You don't even have to change your working hours, and once you're age 60 or over income from a pre-retirement pension is tax-free.

### 6. Full tax deduction for the self-employed

If you receive 90% or more of your income from self-employment or another self-funded source such as personal investment activities you are able to claim a full tax deduction on contributions up to \$25,000 p.a. A higher transitional limit of \$50,000 applies if you are over age 50 for the period until 30 June 2012.

Proposed changes from 1 July 2012 will mean over 50s with less than \$500,000 in super will continue to have a \$50,000 limit. Those with \$500,000 or more in super will have a \$25,000 limit.

We recommend you talk to an accountant before claiming a tax deduction. You can also check out our *Tax deduction for voluntary contributions info sheet* for more information.

In return for all of these advantages the government does have some restrictions.

### 1. Limited access to super before retirement

Before you retire, your money is generally required to stay in super unless you take a pre-retirement pension after you reach your preservation age or in circumstances such as total and permanent disability, or severe financial hardship or compassionate grounds (as defined by the Australian Government).

### 2. Limits on the amount you and your employer can contribute

There is a \$25,000 p.a. limit on before-tax contributions, including employer contributions and any salary sacrifice contributions. A higher \$50,000 p.a. transitional limit until 30 June 2012 applies if you are over age 50.

Proposed changes from 1 July 2012 will mean over 50s with less than \$500,000 in super will continue to have a \$50,000 limit. Those with \$500,000 or more in super will have a \$25,000 limit.

After-tax contributions are restricted to \$150,000 p.a. If you are under age 65 you can contribute up to \$450,000 in one financial year but you cannot contribute for the next two financial years.

### 3. Difficulty making contributions after age 65

Because super is designed to fund your retirement, there are restrictions on making contributions after you turn 65. If you are aged between 65 and 74 you can only contribute if you have worked for at least 40 hours in a period of 30 consecutive days during the financial year. Once you turn 75 you are unable to contribute to super.

### Any questions?

LGsuper is here to help. Contact us on 1800 444 396 to talk through your options and have your questions answered.

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