

10 myths of superannuation – understanding them and taking control

Many common misconceptions exist for superannuation – from considering it be a taxation structure to having no control over it. No matter how old you are or at what stage you may be in your working life, you need to ensure you have a solid plan in place to achieve your retirement goals.

Your super fund will most likely be the primary vehicle for achieving your retirement goals since it is a very attractive investment – primarily due to its high tax effectiveness, which improves your ability to accumulate wealth. Before you start using super, it is important to understand the myths surrounding it and taking control of it is essential.

De-mystifying the 10 myths of superannuation

1. It is an investment not a tax structure

A super fund is a trust which is subject to special rules on the taxation and preservation of your accumulated benefits; and can invest into a range of investments and asset classes. Regardless of age, your super is an investment where you can actively choose your investments based on the level of risk and how they fit with your other investments. Remember, it is not just a structure which offers taxation advantages.

2. My money is locked up

Your super is a lifetime investment project starting when you first enter the workforce until death. Even though your account is not accessible until you reach age 65 or a condition of release (eg retirement, death or invalidity), you still have control. Find out more about your choices and control with super by speaking to a financial adviser.

3. I don't have control

You do have control over your super since it is your money. Some people may choose to have a Self Managed Super Fund (SMSF) in order to have more control. However, SMSF comes with more responsibility given your obligation to also be a trustee. Retail super funds could provide you with the same investment options. At the same time, the role of Trustee is completed by a team of professionals with sound knowledge of the super and taxation rules.

4. It will provide for me in retirement

Yes, super will provide for your retirement. However, you need to ask yourself these questions:

- what will be my required level of income in retirement; and
- will I have sufficient super balance at my planned retirement date?

Knowing that you have enough super at retirement will depend upon your own personal circumstances and seeking financial advice to construct a comprehensive retirement planning strategy is essential.

5. It's not my money until I retire

This is most definitely not true. Changing the way that you view your super is essential. It is your money and you do have control over even though you CANNOT spend it at the moment.

6. I don't need to worry about it until I am 50 or older

It is important to know that the longer you plan for your retirement the better chance you will have in achieving your retirement goal/s. You may also want to consider making contributions from a younger age because it will be harder for people (over the age of 50) to tax-effectively contribute large sums of monies into super due to recent legislative changes.

7. I have more control with an SMSF and an SMSF is cheaper

The two main reasons to establish an SMSF are control and cost savings. Is this really true? Based on extensive survey data and modelling, the average cost of running an SMSF is around \$6,500 pa¹. Completing a cost comparison with your current super fund is important. However, it is essential to be aware of all the costs involved before you make the decision to establish an SMSF. A financial planner specialising in SMSFs can assist you with this cost comparison and whether or not an SMSF would be appropriate for you.

8. Transition to Retirement (TTR) is NOT a valid financial strategy

The two main elements of a TTR strategy are:

- salary sacrificing into super; and
- receiving tax effective pension income from a super income stream.

TTR is a valid strategy if you are over age 55 as it can deliver several benefits including boosting your retirement savings plus a multitude of taxation benefits. Find out more about these benefits by speaking to a financial adviser.

9. There is NO opportunity to get a 100 per cent return

The co-contribution is a scheme where the Government pays \$1.00 for every \$1.00 that an eligible person² contributes (up to a maximum) into super. The amount of the co-contribution depends on your assessable income – the less you earn, the more you should get. The maximum co-contribution the Government will pay is \$1,000. The maximum co-contribution is received if your income is less than \$31,920; and a part benefit is provided if income is less than \$61,920. If you are entitled to the maximum co-contribution of \$1,000, you need to make a personal contribution of at least \$1,000. It is not too often you would receive a 100 per cent return on your investment.

10. Insurance through super is inappropriate

Whilst Life and Total & Permanent Disability (TPD) insurance through super have traditionally been a popular tax effective choice, it is also common to have income protection within super. Structuring your insurance within super can provide distinct advantages even though it can be complicated. Your employer super contributions can pay for the insurance cover but this can reduce your eventual retirement savings. This can be alleviated by making additional pre and post tax contributions into super or even qualifying for the co-contribution.

Need more information?

To unlock the secrets of these 10 myths about superannuation, contact your financial adviser. Alternatively, IOOF has a dedicated Client Services Team available from Monday to Friday between 8.30am – 6.00pm. Phone us on **1800 062 963**, email clientservices@ioof.com.au or visit our web site (www.ioof.com.au).

1. Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System: Issues Paper – Super System Review – 14 December 2009

2. Please refer to the full eligibility criteria and associated rules for the co-contribution before making a decision.

General advice warning:

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