SUPERMATTERS

SUPERANNUATION STRATEGIES FOR YOU AND YOUR BUSINESS

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Annuity - What is it? How does it work?

Investing in an annuity can provide you with an additional income stream during retirement.

An annuity is essentially a product that can be purchased using money from your superannuation (or savings). You can purchase an annuity from super funds or life insurance companies by paying a lump sum. You determine how often you receive the payments, and the amount depends on the lump sum amount you initially put in.

Why should you opt for an annuity?

Annuities are quite flexible. You determine the amount you put into your annuity. This gives you flexibility to decide whether you receive payments for a set period of time, or for a lifetime.

Annuities are not impacted by market fluctuations like super funds are. You will continue to receive steady payments for as long as you have chosen.

Finally, if you plan your annuity to last a lifetime, then you know for sure that it cannot deplete. You will continue to receive consistent and steady payments for as long as you live. This provides security that superannuation or account-based pensions cannot provide - super funds can be exhausted before death, annuities cannot.

Why should you not opt for an annuity?

For most individuals, the biggest issue with annuities is that they are fixed. Although market-linked investments are riskier, it also means that there is scope to make more money from them compared to fixed-return investments. Therefore, individuals may prefer opting for the riskier option which has the potential to yield a higher return compared to a low-risk but stable return income.

You cannot withdraw lump sum payments from your annuities unless you withdraw the annuity altogether - in which case, you will not receive the full amount. This is restrictive for times when you may need a large sum of money for emergencies.

Although your money lasts for a lifetime, any leftover money doesn't necessarily go to your dependents. The specifications for this depend on the company you purchase your annuity from.

Finally, you don't decide where the money from your annuity is invested. Those who want to support ethical and sustainable companies might find themselves restricted.

You may opt for an annuity if you have money set aside for emergencies and want the security of stable payments for the rest of your life.

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Factors to take into consideration for your super

It is important to pay attention to the details of your super fund to make sure that you get the best out of it for your retirement.

Whether you are choosing your super for the first time, or thinking about changing your super because you're unhappy with it, the following are factors to take into account.

Determine if your super fund is underperforming

The government is making this much easier for you. Under the new changes proposed in the budget, MySuper products will undergo an annual performance test. If a fund is underperforming then they will need to inform their customers, and if they continue to underperform two years in a row, then the super fund will be unable to take on new customers. Before this scheme entirely rolls out, you should try to look at the long-term performance of a superfund and how it compares to other ones.

Fees

The fees for different super funds can depend on the returns that they will provide. For example, if a super fund has higher growth investment options and higher returns, then they will have higher fees. You should evaluate whether you are willing to pay higher fees or if this disproportionately impacts your current income.

Insurance cover

If you are changing your super, consider any insurance linked to your fund. You might lose this cover if you switch. On the other hand, when choosing your super, ask whether you will have insurance benefits.

Super for self-employed individuals

It is not necessary for you to pay super to yourself, but it might help you feel more secure about your finances during retirement.

Contributions you make to your super will only be taxed at 15%. Depending on which tax bracket you fit into, this might be a concession compared to your usual tax rates. Additionally, investing your super will most likely yield a higher return than if you put your money into a bank savings account.

You may be able to contribute to your pre-existing super fund after becoming self-employed. All you need to do is provide the fund your tax file number (TFN) so that your contributions can be added to the fund. Alternatively, you can choose a new fund.

There are two ways you can contribute to the fund which are dependent on how you receive income:

- Wage: Make regular transfers to the super fund from your pre-tax income
- Income from business revenue: Transfer lump sum amounts when there is sufficient cash flow

If you make contributions to the super fund from your pre-tax income, then you can claim tax deductions for them. Your overall taxable income is reduced as well. Make sure you complete a 'Notice of intent to claim' so that you receive this deduction.

There are limits to the amount of money you can contribute to your super every financial year:

- Up to $25,000 in concessional contributions (from pre-tax income, so you can claim a deduction)
- Up to $100,000 in non-concessional contributions (from after-tax income)

As an example, employers contribute a minimum of 9.5% of an employee's earnings to their super - if you are not sure how much to contribute, this could be a starting point.

If you are a low income earner, then you may meet the eligibility criteria to receive government super contributions.

Although it may be difficult to make super contributions when self-employed, consider starting off the process so that when you are in your retirement period, you have some financial security.

Investing in property through SMSFs

Borrowing through SMSF allows you to invest in residential and commercial property.

Residential

You, any trustee, or anyone related to a trustee cannot live in any residential property purchased through an SMSF. You cannot purchase a holiday home and live there during the summer nor can you purchase a property and then rent it to a trustee. Additionally, an existing residential property cannot be put into an SMSF - not via fund purchasing and not by contributing to it within the cap limits.

Commercial

Investing in commercial property through an SMSF has more advantages than investing in residential properties does. Compared to the rigidity of rules regarding residential property investment, commercial property investment through SMSFs is flexible. Commercial properties can be sold to an SMSF by its members, can be leased to SMSF trustees, or used by an individual or business related to them. However, there are additional considerations which trustees need to take into account.

Further, the property must still satisfy the function of an SMSF, which is to provide retirement benefits for its members.

The details surrounding purchasing of property through SMSF can be rigid and confusing. However, by conducting research and identifying the best option for you, this can be an effective investment.