

Now—an easier way to understand superannuation.

A Visual Introduction to Superannuation provides three-dimensional diagrams on key topics in superannuation. View the illustrated workings of superannuation for the first time. More than 40 superannuation topics are presented visually, including:

- Salary sacrifice
- Super Guarantee
- ETPs
- Undeducted contributions
- Complying pensions
- Death benefits
- Rollovers
- RBLs
- Contribution splitting
- Allocated pensions
- Recontribution
- Life insurance

This is a valuable book for all those who need a firm understanding of superannuation.

'...enjoy A Visual Introduction to Superannuation, as it could be the breakthrough you are looking for in securing your future.'

-Justin Langer



Brian Castieau CFP®, BA, BEd is a practising financial adviser and author of *A Visual Introduction to Salary Packaging*. In response to challenges people face in understanding important financial and other concepts, he has developed a simple visual approach as used within this book.



Teddy's House
The Visual Introduction™ series
www.teddyshouse.biz

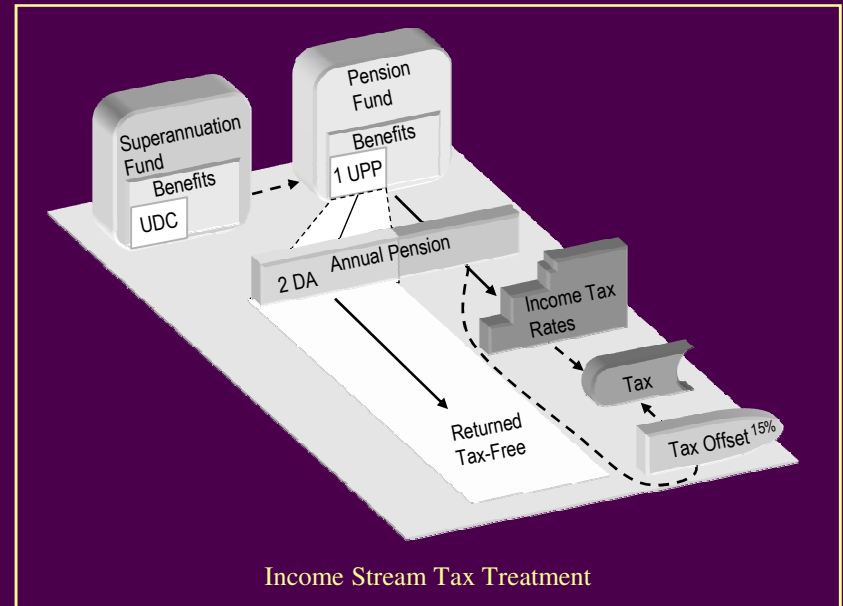
\$29.95



A Visual Introduction to SUPERANNUATION

Brian Castieau

A Visual Introduction™ to SUPER- ANNUATION



Brian Castieau

Foreword by Justin Langer



Foreword

Truth be known, when Brian asked me to write a foreword for his book on superannuation I tried to find a link between his area of expertise, superannuation, and one of my great passions, the game of cricket.

Superannuation and cricket - I just couldn't see it.

But then, as I investigated the subject further I came to realize that like all pursuits in life, the principles of success are similar regardless of the subject.

One of those principles deals with the concept of vision and being able to see the finish line before you take your first step. Ever since I was a young boy my dream or vision was to one day wear the baggy green cap for Australia.

Along the way there were many times when it was easy to lose sight of my dream, but at the same time it was the dream that kept me working hard and making the necessary sacrifices to ensure it became a reality.

The moment the cherished baggy green cap found its way onto my head I realized that every ounce of that hard work and discipline was worth the effort.

Similarly, striving toward perfecting and understanding the basics of my game have helped me achieve any success I may have enjoyed on the cricket field.

The basics of any pursuit are like the foundation of a house. Without a strong foundation, it is impossible to build a house which will stand the test of time and survive the pressures of all the elements.

A Visual Introduction to Superannuation

Every day I read the quote on my wall that says "the pain of discipline is nothing like the pain of disappointment."

If not for this train of thinking I doubt my initial dream would have become a reality and there is no way I could have worked tirelessly on the basics that have helped me survive the various pressures involved with international cricket.

As a father and husband I am also conscious of securing the future for my wife and children. By understanding the benefits of my superannuation, I am certain our future will be bright.

In his excellent book *A Visual Introduction to Superannuation*, Brian helps us understand the basics of superannuation. With his easy to understand diagrams, illustrations and informative writing style, he makes the once mystifying subject of superannuation seem simple and obtainable.

Superannuation, like my baggy green cap, or any goal, is about vision, discipline and understanding the basics. Like all good coaches, Brian makes it look easy by encouraging us to embrace the principles he is passionate about; principles which could help us enjoy a more fruitful and rewarding future.

Good Luck and enjoy *A Visual Introduction to Superannuation*, as it could be the breakthrough you are looking for in securing your future.

Justin Langer

INTRODUCTION

This book offers you the opportunity to gain a deep and lasting understanding of superannuation. Through the use of three-dimensional diagrams the book illustrates important parts of superannuation in a format that is easily understandable—a picture can be more tangible and comprehensible than a page of words. In turn, this increased understanding should boost your confidence with superannuation and your ability to deal with it effectively and responsibly.

What are the benefits of superannuation that make it worth understanding? In a nutshell, its lower rates of taxation allow wealth for retirement to accumulate much more than otherwise. Its other benefits include income tax savings for contributions made via salary sacrifice; enforced savings; asset protection; and providing an exemption from tax on investment earnings when a pension is paid to a member.

Of course, there are strings attached to these advantages. Benefits held within superannuation are not generally accessible until retirement at 55 or later; various taxes apply; and there are limits to contributions and amounts receiving favourable tax treatment. These limits and rules lead some to complain that ‘Super is taxed on the way in, while it’s in there, and on the way out.’ This book reveals that a more accurate statement would be ‘Super is taxed on the way in (*but not always, and then lower than the income tax alternative*), while it’s in there (*yes, but at around 7%*), and on the way out (*not necessarily*).’

As an introduction, this book covers all the basics of the subject. Topics have been necessarily simplified given the constraints of space. This is not a text book or technical reference with complex calculations and multiple references. Readers with those needs are referred to professional journals and specialty publications. Nor does

A Visual Introduction to Superannuation

this book recommend strategies—that is the function of the adviser, who may recommend various elements of superannuation in various ways to achieve a desirable outcome for clients—all as part of a wider financial strategy to achieve a client's goals. The aim of this book, however, is to provide a simple, visual introduction to the superannuation labyrinth.

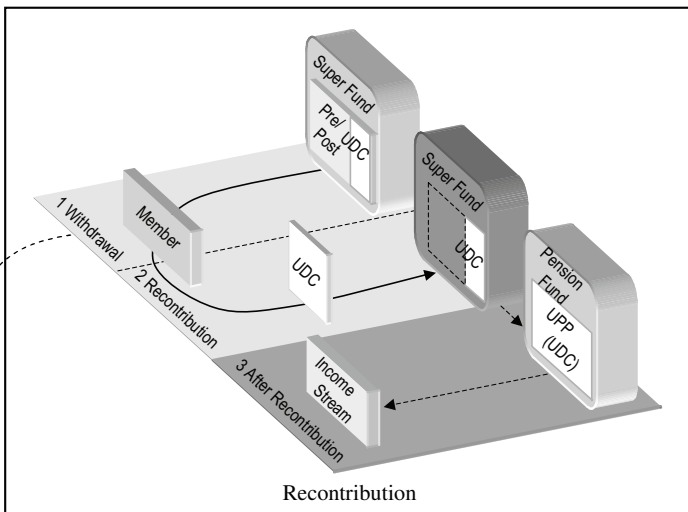
The subject of investment assets held within superannuation are beyond the scope of this book. Nor does it discuss annuities offered by life insurance companies, even though annuities are similar to superannuation pensions.

This book will be beneficial for two key readerships. The first is those who work within the financial services sector such as financial, tax, and legal advisers, trustees, administrators, students, and those in the related fields of human services, media, banking and education. The second group who will gain value from this book are those who have around 10 years or less until retirement, and desire to really understand the operations and opportunities of superannuation. Many of this group have made the effort to understand superannuation, but find the confusing terms hard to understand.

Given the taxation advantages of superannuation, there is a risk of making tax-driven decisions, that may not necessarily be the most appropriate one. Investment decisions should make good financial sense notwithstanding any taxation benefit. However, if alternatives are equal, and one has a greater taxation benefit, then that option may properly be chosen.

Readers may need to adjust their approach to reading for a visual introduction such as this. **Time is required to comprehend a diagram.** This is because a diagram almost compels the reader to understand each part of the diagram, rather than glossing over it. While this process may result in the eye moving slower than it would over a page of text, it results in a sounder and more rapid understanding of the subject.

The diagram on Reconstitution is shown below. The numbered label in the diagram is explained in the corresponding boldface heading below the diagram. That is, the label '1 Withdrawal' in the diagram below is explained at '1 Withdrawal' in the text below it (a dotted arrow shows the connection in this example). The page facing each diagram expands on the topic and provides a case study.



- 1. Withdrawal** An individual makes a lump sum cash withdrawal (a superannuation ETP). The member's fund consists of the ETP ...
- 2. Reconstitution** Using the funds withdrawn, the individual reconstitutes them to their fund as an undeducted contribution.
- 3. After Reconstitution** The individual purchases a pension and commences an income stream. The undeducted contributions...

I encourage everyone to make the effort to understand this important subject. This book aims to show that superannuation is easier to

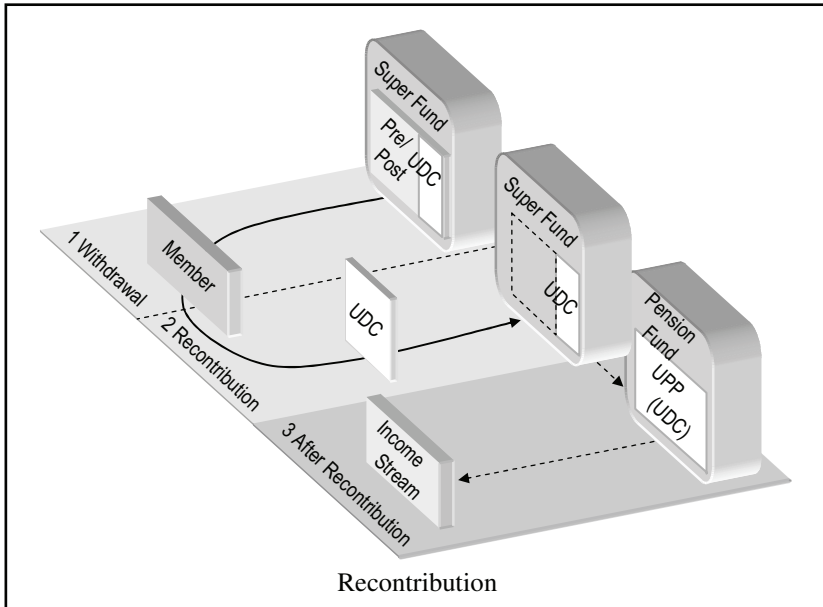
A Visual Introduction to Superannuation

understand than many believe. Let us put aside a natural resistance and fear to anything with many rules, and take the opportunity to learn about the opportunities and benefits that superannuation offers within those rules. As Marie Curie is attributed to have said, ‘Now is the time to understand more, so that we may fear less.’

Brian Castieau

Recontribution

Tax swings and superannuation roundabouts



- 1. Withdrawal** An individual makes a lump sum cash withdrawal (a superannuation ETP). The member's fund consists of the ETP components of Pre-July 1983, Post-June 1983, and undeducted contributions. Any Pre and Post tax (see p.68) is applied.
- 2. Recontribution** Using the funds withdrawn, the individual recontributes them to their fund as an undeducted contribution.
- 3. After Recontribution** The individual purchases a pension and commences an income stream. The undeducted contributions constitute the Undeducted Purchase Price (see p.78). The greater UPP resulting from the recontribution increases the tax-free amount received via an income stream.

The retribution is a frequently used strategy. Its aim is to maximise the tax efficiency of an income stream. The ATO statement in August 2004 (Media Release Nat 04/058) clarified their position on retribution. Part of the release is reproduced below.

Two retribution strategies that will not attract the general anti-avoidance provisions are:

1. A person withdraws an [...] ETP from their super fund and then retributes the same or a similar strategy amount shortly after [...] for the purposes of commencing a superannuation pension. The effect of the strategy is to reduce the assessable portion of the annual pension.
2. Simple variations [of above] where a person commences a pensions in the year or year following that in which the ETP was paid, or where the retribution is made to [another fund].

Another superannuation strategy that also will not attract the general anti-avoidance provisions is where a person makes a large undeducted contribution to their super fund before they receive an ETP. The effect is to reduce the amount payable on the ETP.

Further statements from the ATO may be forthcoming, so retributors should check for the latest ATO statement.

Randall has just retired at 58 and is advised to use the retribution strategy. He has not made any previous lump sum withdrawals and withdraws \$120,000. After funds have cleared from his bank account he retributes the funds as an undeducted contribution. He then purchases a \$250,000 allocated pension. His undeducted purchase price is \$120,000. Based on his life expectancy of 23.34 years, this is returned to him tax free at \$5,141/yr. In the first year, the taxable amount of his pension is \$8,300. Without the retribution it would have been \$13,400.

In Summary—Drawing on Superannuation

- Superannuation benefits may be accessed via lump sum withdrawal, a pension, or both.
- The rules relating to lump sum payments from superannuation funds, and most of those from employers are known as ETPs.
- There are nine types of ETP, their tax rates between 0% - 47%. A range of dollar thresholds also apply.
- A pension fund may pay an allocated pension, term allocated pension, or complying pension (lifetime or life expectancy).
- Undeducted contributions are returned tax-free.
- Superannuation pensions rebate 15% of their taxable portion.

Contents

Foreword	iii
Abbreviations	v
Introduction	1
Part 1 The Structure of Superannuation.....	5
Tax Regimes	6
Superannuation Fund Types	8
Complying and Non-Complying Funds	10
Defined Benefit and Accumulation Funds	12
Phases of Superannuation.....	14
Taxed and Untaxed Funds	16
Benefit Types	18
Dividend Income	20
Part 2 Contributing To Superannuation.....	23
Contribution rules.....	25
Deductible and Undeducted Contributions.....	26
Superannuation Guarantee.....	28
Self-Employed Contributions.....	30
Salary Sacrifice.....	32
Spouse Superannuation Contributions Tax Offset	34
Superannuation Surcharge and Unfunded Funds	36
Government Co-Contribution.....	38
Small Business Retirement Exemption	40
Splitting of Contributions	42
Part 3 Managing Superannuation.....	45
Rollovers	46
Aggregation	48
Reasonable Benefit Limits	50
Pension RBL Tests	52
RBL Amounts of ETPs.....	54
RBL Tax Treatment.....	56
Part 4 Drawing on Superannuation.....	59
Conditions of release	60
Withdrawals from Superannuation.....	62

Eligible Termination Payments	64
Components of ETPs	66
ETP Tax I	68
ETP Tax II	70
Allocated Pensions	72
Complying Pensions	74
Term Allocated Pensions.....	76
Income Stream Tax Treatment	78
Income Stream Tax Offset.....	80
The Return of the 15%	82
Recontribution	84
Part 5 Superannuation and Other Items.....	87
Life Insurance.....	88
Asset Protection.....	90
Superannuation and Social Security.....	92
Income Streams and the Age Pension	94
Marriage Breakdown	96
Deferring Capital Gains.....	98
Binding Beneficiary Nominations	100
Death Benefit ETPs	102
Anti-Detriment Payment	104
Appendices	107
Appendix I Rates and Amounts.....	109
Appendix II Choice of Superannuation Fund.....	111
Appendix III Self-Managed Superannuation Funds	113
Appendix IV Effect of Taxation	115
Appendix V Factors.....	117
Appendix VI Social Security Information.....	119