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10 SUPER STRATEGIES REVEALED

Expert Tips to Boost Your Super

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This ebook is designed to be your handy guide to maximising your superannuation. We have 10 practical tips for you below - some for all ages, some specifically suited for the over 60s.

There's a lot to think about when it comes to your super - we hope this book helps to simplify things and gets you thinking about how to take advantage of various strategies to make sure you're setting yourself up for a comfortable retirement.

About the authors:

Shane Lawler and Chris Strano have more than 30 years' experience in financial planning between them. They are passionate about providing cost-effective retirement planning to everyday Australians. They have spent countless hours designing Toro Wealth as an affordable, conflict-free financial planning service which they are confident rivals the advice-quality of any firm Australia-wide.

Shane has run his own financial planning practice for more than a decade and is renowned for the very personal service he provides to his clients, which he executes with professionalism and integrity. He has helped hundreds of people establish retirement plans, giving them comfort and confidence in achieving their retirement income objectives.

Shane is currently the *Principal* and *Senior Financial Planner* for Toro Wealth.

Chris has held various positions within the industry including financial planner, paraplanner and technical strategist, as well as representing the SMSF Association as a sitting committee member. His whole career to date has focused on assisting pre and post-retirees, with a keen focus on superannuation, retirement planning and SMSFs.

Chris is currently the *Senior Technical & Strategy Specialist* for Toro Wealth.

Both Shane and Chris are well-educated with various industry and tertiary qualifications.

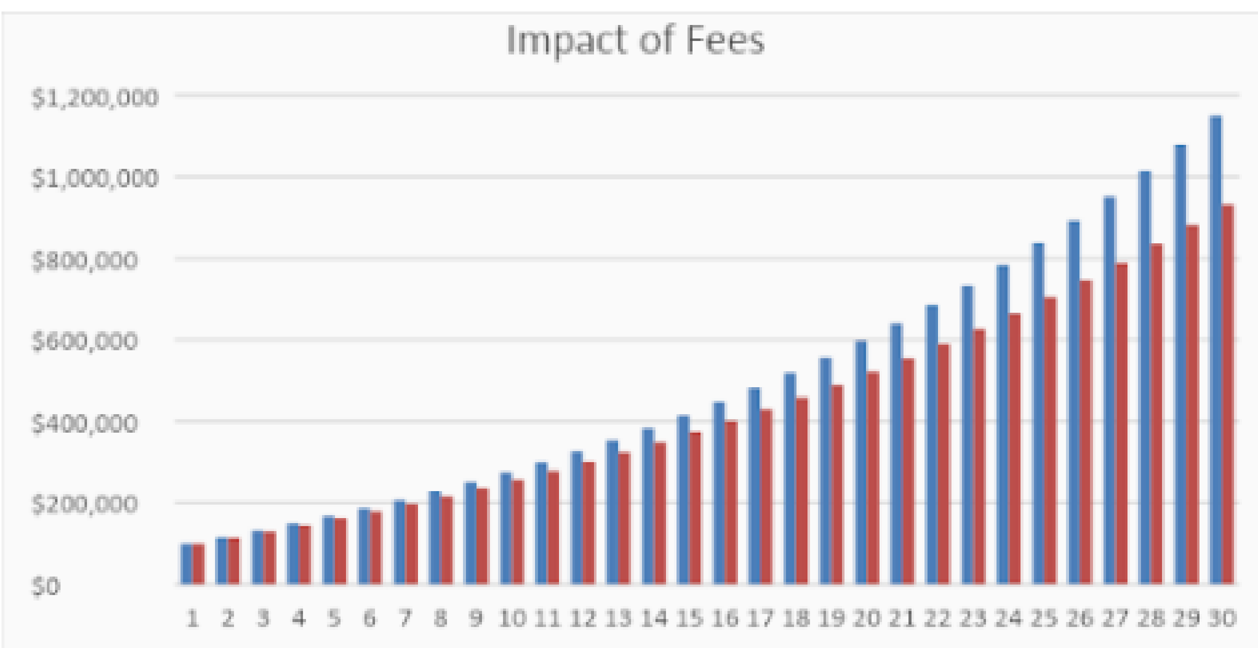
TIP 1: FEES

Relevant to:	All ages
Key takeout:	Higher fees rarely mean better returns
Interesting fact:	Think about this; if you see your super fund advertising on TV, they are actually using money from your personal super balance to pay for the advertising! It's the only access to money they have.

Fees. This is very, very important because the level of fees you pay within super can significantly impact your super balance.

Take this example. If you were paying fees within your super account equal to 1.5% (common) of your account balance, compared to 0.5% of your account balance, the chart below illustrates the impact it could have over 30 years with a starting balance of $100,000, based on a gross investment return of 6% p.a. and regular contributions of $10,000 p.a.

That's a difference of around a quarter of a million dollars over 30 years!



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Now, here is an important tip. There are a number of super funds out there implying that they charge low fees through their advertising campaigns. You've no doubt seen the ads on TV. And it's true, many of these types of funds do have a fair pricing structure and some of them are great super funds. However, when you get past the fluff of how many awards they've won and read the finer details, not all of them are cracked up to what they say they are. In fact, some of them are quite expensive despite being portrayed as low-cost.

Personally, we are very big fans of low-cost super funds and portfolios. Our belief is that you should be paying around 0.5% in total product fees. Several studies have been conducted and concluded that paying higher investment management fees usually results in lower investment returns.

Every super fund must have what's called a Product Disclosure Statement (PDS) which outlines all of the fees. Make sure you understand ALL of the fees you are paying, including investment fees, to get the full picture of what your super is costing you.

Check out what fees you are paying and remember, there are many very low-cost super funds out there... not just the ones advertised on TV.

TIP 2: DEATH BENEFITS TAX

Relevant to:	Over 60s
Key takeout:	Two simple transactions will reduce potential tax by tens of thousands of dollars.
Interesting fact:	If you leave $300,000 worth of super to your adult children, they will lose up to $50,000 of this in tax without this strategy.

Our second tip is a recontribution strategy. The main benefit of this strategy is a way of significantly reducing death benefits tax for the eventual beneficiaries of your super or pension savings.

For example, if you pass away and your remaining balance of $300,000 was paid to adult children over 18, up to $51,000 in death benefits tax could be payable by them, leaving them with only $249,000 after all is said and done – the tax office keeps the rest. If your balance is higher, the tax will be even higher.

Despite the massive reduction in death benefits tax that a recontribution strategy can provide, we see this strategy as being much more important than simply reducing death benefits tax.

What people tend to forget is that the government changes super rules every single year. It wasn't too long ago when everyone, regardless of age, had their superannuation pension income assessed at their marginal tax rate.

These days, super pension income is generally tax-free if you are over age 60.

But what's to say that the rules won't change back and pension income will become taxable once again for people over 60?

This could have a huge impact on retirees who figured all of their income was going to be tax free over 60. Might need to rethink those annual holidays!

However, a recontribution strategy, which converts taxable components to tax-free components can not only eliminate death benefits tax but can make you look like a genius if the government begins taxing pension income over age 60 once again, which is definitely possible scenario. A recontribution strategy can ensure you always receive tax-free income from your super.

Here's how it works. Provided you have unrestricted access to your super by meeting a full condition of release, you can make a lump-sum withdrawal from your super fund and immediately recontribute it back into super as a non-concessional contribution. A non-concessional contribution counts towards the tax-free component of your super and can always be withdrawn tax-free, even when paid as a death benefit.

It really is that simple. You do, however, need to be mindful of any tax that might be payable on the withdrawal. And don't think that just because you are under age 60 that you can't withdraw super tax-free, because the lump sum low rate cap can solve that.

You also need to consider your personal contributions caps. You don't want to withdraw more from super than you can contribute straight back in, otherwise, you risk being stuck with more savings outside of super.

Here's an example of how a recontribution strategy can work. Let's say you have a super balance of $700,000 consisting completely of the taxable component. Let's also assume that you are 61 and retired.

If you had not made any non-concessional contributions in the current financial year (nor used the bring-forward rule in the previous two financial years), you could withdraw $300,000 from your super account tax-free and recontribute it back into super immediately as a non-concessional contribution, using the bring-forward rule.

Your $700,000 will now consist of $400,000 taxable component and $300,000 tax-free component, immediately reducing potential death benefits tax by $51,000 and also significantly protecting you against any future changes to tax on income streams.

This is such a simple strategy, but as we always say, you need to be careful that you implement it correctly because getting it wrong could be costly.

TIP 3: TTR STRATEGY

Relevant to:	Over 60s
Key takeout:	Contribute to super to reduce your personal taxable income, then top up with tax-free super income.
Interesting fact:	If you earn $50,000 p.a. this will boost your super by more than $2,000 every year.

A transition to retirement strategy is a strategy that became popular when the government decided to allow Australians to have partial access to their super while they were still working in the hope that they would continue working for longer, even if only at reduced hours.

This brought into play a little loophole where you can reduce your tax by having partial access to your super, even if you are still working full time and don't actually need to access your super.

The government has since slightly amended the rules to reduce the attractiveness of this loophole, but it is still beneficial in most cases if you know how to structure it correctly.

Here's how it can work. Let's say you have a salary of $80,000. On this you would pay around $18,067 in personal income tax, giving you a net income of $61,933 which you then use to cover your personal lifestyle expenses.

However, depending on your age and your super balance, you could salary sacrifice, say, $15,000 into super and only pay personal income tax of $12,867, then draw a tax-free income of $9,800 from super to give you the same net income of $61,933.

The $5,200 difference, being the difference between the amount contributed to super and the amount withdrawn from super, simply stays in your super account! It's money for jam.

There is some super contributions tax paid from your super of $2,250 that reduces the actual financial benefit, but it's still effectively free money to the tune of $2,950 each year.

	No TTR Strategy	TTR Strategy
Salary	$80,000	$80,000
Salary Sacrifice	-	($15,000)
TTR Pension Income	-	$9,800
Total Income	$80,000	$65,000
Tax on Income	$18,067	$12,867
Tax on Salary Sacrifice	-	$2,250
Total Tax	$18,067	$15,117
Net Income	$61,933	$61,933
Reduction in Tax		**$2,950**

This is a perfectly legal loophole that you should definitely consider if you are nearing retirement.

TIP 4: MAXIMISE CENTRELINK

Relevant to:	Couples, with one member over Age Pension age
Key takeout:	Hide some super in your (younger) spouse's super account and immediately get Age Pension.
Interesting fact:	A married (homeowner) couple will get some Age Pension if they have less than $860,000 in investment assets. A married (non-homeowner) couple will get some Age Pension if they have less than $1,070,000 in investment assets.

This tip is for those of you who will be eligible for Age Pension payments.

If you are a member of a couple, where one of you is over Age Pension age and the other isn't, then this strategy is for you.

When you are under Age Pension age, any savings in a super accumulation account is exempt from assessment. Therefore, it is sometimes best to hold as much of your family wealth in the accumulation account of the person under age pension age. This effectively hides it from Centrelink assessment.

You want to make sure you have just enough savings in the older partners' pension account to cover expenses until the second partner also reaches Age Pension age. This can maximise your Age Pension payment and could even make you eligible for payments when you otherwise wouldn't qualify.

Now, as always, you need to set this up properly. You can't simply swing a few hundred grand from Bob's super over to Cheryl's. It needs to be withdrawn and recontributed, which means you need to be mindful of any tax implications on withdrawal and contribution caps.

Also, you want to compare the benefit of increased Age Pension payments against the potential earnings tax savings if Cheryl was to start an account-based pension prior to Age Pension age.

This is another strategy that can be worth thousands in Age Pension payments each year that you never knew you could get.

The same concept applies to DVA Service Pension recipients.

TIP 5: RECONTRIBUTION STRATEGY

Relevant to:	People over super preservation age and about to make a large super contribution.
Key takeout:	Keep your super tax components separate for big tax savings.
Interesting fact:	You can have two super pension accounts and this is why you should.

Your super balance is made up of taxable and tax-free components. Many people make large contributions to super just before they retire, either from an inheritance, a sale of an investment property or simply from other savings they have in their own name. In this case, it's often best to keep your upcoming contribution separate, so it doesn't become contaminated with your existing balance.

If you are intending on making a large lump sum non-concessional contribution to super just before retirement, you should think about how this might affect your tax components.

Stay with us here, because it could save you a ton of tax.

Let's say you have $600,000 in super which is made up completely of the taxable component and you have just sold an investment property and want to contribute the net proceeds of $300,000 into super as a non-concessional contribution.

If you simply contributed the $300,000 in and combined it with the $600,000, then used that total amount to start a pension, your pension would be classified as a 33.33% tax-free pension, because 1/3rd of your balance is made up of the tax-free component.

All withdrawals from the account would need to be made proportionality from each component and all earnings would be allocated proportionately to each component. If you were to pass away, regardless of your balance, 2/3rds of your balance would be assessed for death benefits tax if paid to a non-tax dependant such as an adult child or sibling.

In this instance, a more prudent strategy might be to start an income stream with the $600,000 existing balance prior to making the contribution and call this the *100% taxable pension* and then make the $300,000 contribution, start a second pension, and call this the *tax-free pension*. Because remember, all earnings and withdrawals are proportionate, so the 100% taxable pension will always remain taxable and the 100% tax-free pension will always be tax-free.

Then, you want to only draw the minimum required income from the tax-free pension to preserve it and any extra income you need from the taxable pension, especially if you need any lump sums for holidays, or renos, etc. By doing this, you are preserving the savings in the tax-free pension as much as possible.

While your overall balance will be the same in both scenarios, this strategy ensures your taxable component declines at a faster rate than the tax-free component, reducing potential death benefits tax and protecting against possible changes to the taxation of income streams.

Again, a very simple strategy with some great tax benefits.

TIP 6: HOME DOWNSIZING

Relevant to:	Over 65s
Key takeout:	Get more savings into your super pension tax haven for more income throughout retirement.
Interesting fact:	You might lose some Age Pension income, but tax-free earnings on $300,000 should make up for it.

If you don't think you have enough super for retirement, you might want to consider the home downsizing option. This is a super rule designed to encourage retirees to downsize their home and achieve a higher income through retirement.

Basically, if you are over age 65 and have owned your home for longer than 10 years, you can downsize into a smaller home and contribute up to $300,000 per person of the excess into super. This can really boost your retirement savings and allow you to have more in the tax-free drawdown phase of superannuation.

For example, if you sell a home for $1M and buy a new home for $700,000, the leftover $300,000 can be contributed to super. Better yet, this amount won't count towards the standard contributions caps and will form part of your tax-free component. You also don't need to meet the standard work-test for over 65s to make this contribution. And, it doesn't matter how much you already have in super.

You can see how this strategy could tie in quite nicely with the recontribution strategy mentioned earlier about keeping tax components separate.

You do of course need to be mindful of how this might affect any Centrelink benefits, but don't get too caught up in Age Pension payments. While Age Pension is a great way to supplement income and it's true that your working life has contributed well to our society, try not to get fixated on making sure you scrape for every dollar of Age Pension, because in many cases your money can work better by receiving tax free earnings when invested in an account-based pension, compared to leaving it tied up in your home.

Also, the Age Pension or your eligibility for it might not be around forever, so it's often best to look at all of your options objectively before deciding on your retirement strategy.

TIP 7: INVESTMENTS

Relevant to:	All ages
Key takeout:	Choose an investment strategy that suits you and stick with it.
Interesting fact:	Despite knowing they shouldn't buy high and sell low, thousands of Australians continue to do this due to fear and greed, which ultimately destroys their retirement nest egg.

Contact your super fund to see how your super is invested. If you haven't chosen an investment option, your super provider may have already chosen for you and simply invested your savings in their default investment option, which might not be best for you.

If you're comfortable with an aggressive investment strategy intended on achieving higher long-term returns, then you will want to choose an investment option with a high allocation to growth assets such as shares and property. But remember, this option will usually have high highs and low lows each year. The trick is to not panic sell when your balance falls dramatically. If you've got a solid, diversified investment strategy with quality investments, large fluctuations shouldn't bother you.

If you prefer a more conservative strategy so your balance remains more stable with modest returns each year, then you should opt for a portfolio with a higher allocation to defensive style assets such as cash and fixed interest. However, keep in mind that when everyone is making big gains during a bull run, your balance will be lagging behind. But at least it won't fall as hard when the market crashes. The trick here is not to get caught up in the hysteria and switch to an aggressive investment option towards the end of a bull run after markets have been going up and up... because we all know what goes up... must come down.

In very simplistic terms, to give you 'ballpark' figures, an aggressive portfolio will usually provide average long-term returns of around 9% p.a. Now, notice I said average. Some years it can be much, much higher and some years much lower.

A conservative portfolio, on the other hand, should provide average returns of around 4% p.a. Some years it will be a little higher and some years a little lower, but the variance between the good years and the bad years won't be as high as an aggressive portfolio.

If you prefer, there is always the option of investing somewhere in between an aggressive and conservative portfolio for a bit of balance between the two.

TIP 8: SALARY SACRIFICE

Relevant to:	Everyone – particularly those nearing retirement.
Key takeout:	Salary sacrificing will boost your super considerably in two ways: big tax savings and compounded investment returns.
Interesting fact:	Salary sacrificing or deductible super contributions are the only way you receive a tax deduction without spending a cent.

We're often asked if salary sacrificing into super is a good thing. It can be and, again, it depends on what you're trying to achieve. Either way, it will always be better than spending it.

If you're nearing retirement and looking to build your savings, there is no better time to tighten the spending belt and focus on building your super through salary sacrifice contributions, because the tax benefits, coupled with compounded investment returns, will give you a much more comfortable retirement.

Salary sacrificing can reduce your tax considerably. This is because any amount salary sacrificed into super is not taxed at your individual tax rate. It goes straight into your super account from your employer. Contributions tax is payable on salary sacrifice contributions, but it's usually at a lower rate than your individual tax rate if you've structured it correctly.

The only downside of salary sacrifice is that once it's been contributed to super, you can't touch it until you're retired.

Salary sacrificing is also great if you have insurance within super, because you are essentially paying your insurance premiums with pre-tax income, as opposed to paying for premiums out of your personal bank account once income tax has already been paid.

Now, we can hear all you self-employed people out there saying, "what if don't have an employer?". Well, that's okay because you can make personal deductible contributions, which is basically the same as salary sacrificing. Personal deductible contributions are contributions that you make from your bank account to your super account and then claim a personal tax deduction for the total amount contributed, so it has the same net effect as salary sacrificing. In fact, even employees can make personal concessional contributions if they prefer, rather than, or in addition to salary sacrifice contributions.

It's important to remember that there are limits to how much you can contribute to super, so make sure you stay within the contribution caps each financial year.

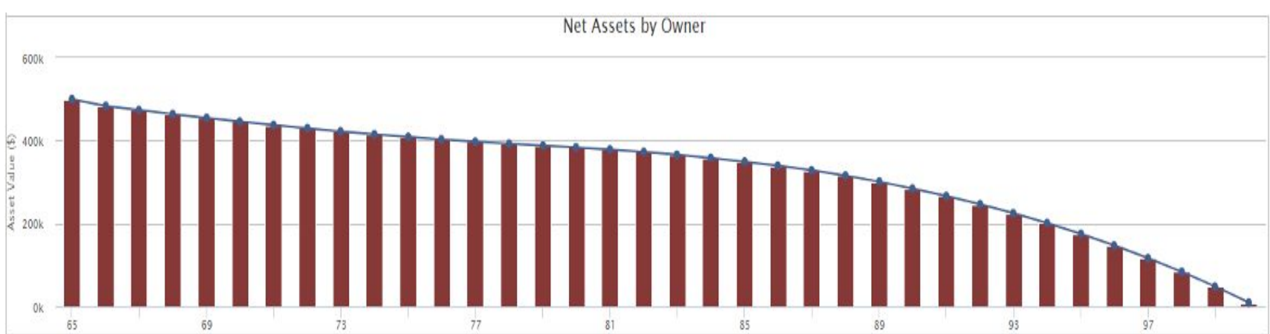
TIP 9: RETIREMENT INCOME

Relevant to:	Everyone – particularly those nearing retirement.
Key takeout:	Calculating how much you need for retirement gives you confidence in exactly when you can retire and how much you will need in retirement.
Interesting fact:	Replacing your regular work-related salary with a regular 'salary' from your super will make the transition into retirement seamless. The only difference is, you don't need to work.

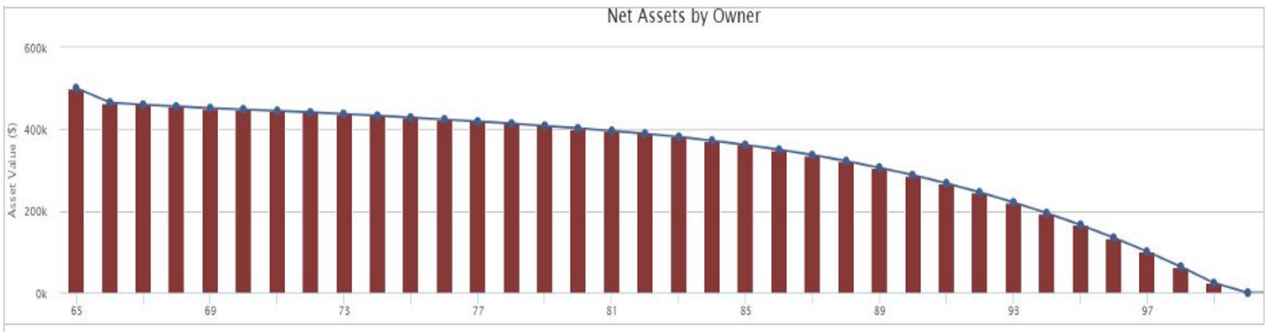
The most common question we are asked is "how much do I need for retirement?".

Well, let's try to simplify this right down and assume you're retired at age 65.

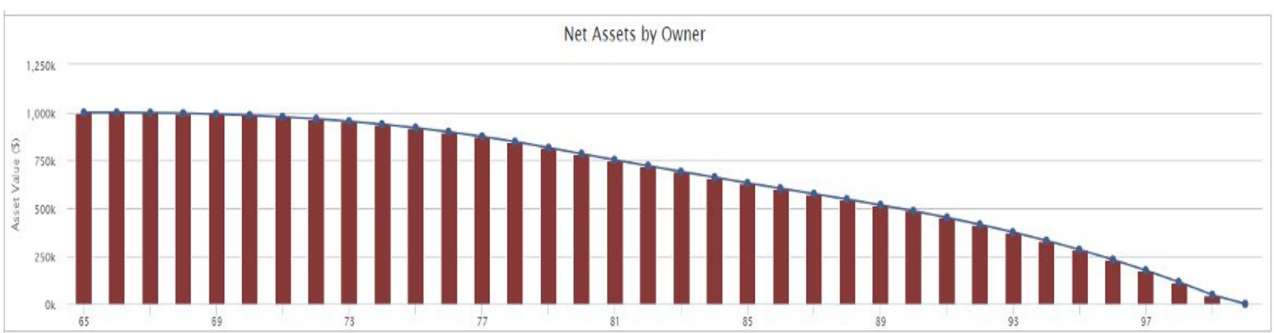
If you are a single person with $500,000 in super and eligible for the Age Pension, you could cover retirement expenses of around $47,000 each year in today's dollars – that means increasing with inflation – until age 100.



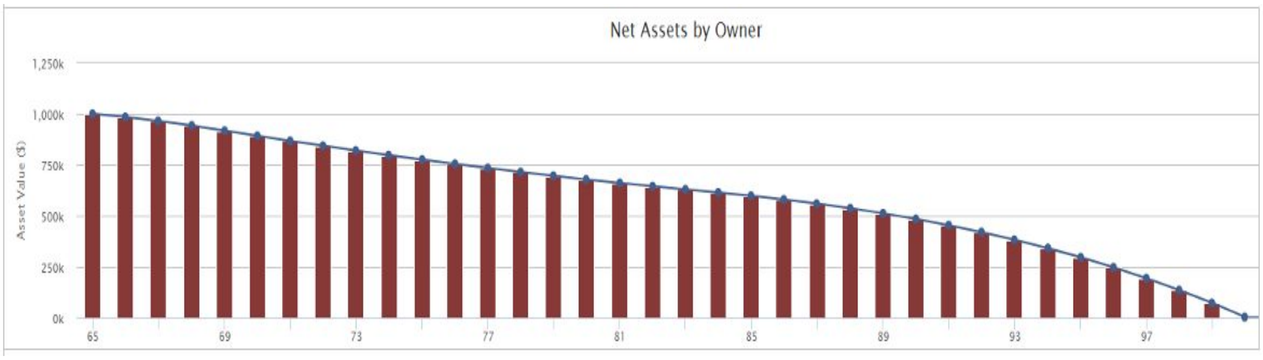
If you are a couple with $500,000 in super combined and eligible for the Age Pension, you could receive an income of around $65,000 each year combined in today's dollars – that means increasing with inflation – until age 100.



If you are a single person with $1,000,000 in super and eligible for the Age Pension, you could receive an income of around $62,000 each year in today's dollars – that means increasing with inflation – until age 100.



If you are a couple with $1,000,000 in super combined and eligible for the Age Pension, you could receive an income of around $78,000 each year combined in today's dollars – that means increasing with inflation – until age 100.



Anywhere in between those amounts or even above, you can kind of guestimate, based on those numbers.

You might even want to have a play with [this retirement calculator created by ASIC's MoneySmart] (click to be taken to the website.)

TIP 10: SUPER CO-CONTRIBUTION

Relevant to:	Everyone
Key takeout:	The super co-contribution gives you a guaranteed 50% return.
Interesting fact:	If you made a $1,000 contribution into super every year for 30-years and received the co-contribution each year, you would have turned $30,000 into $170,000 (based on an 8% net return).

The superannuation co-contribution is an under-rated savings strategy. It gives you a guaranteed 50% return on your money with absolutely no risk.

Here's how it works. If you make a $1,000 non-concessional contribution from your personal bank account into superannuation, the Government will make a co-contribution into your account of up to $500. You can do this every single year.

You don't even need to apply for it. All you need to do is lodge your tax return at the end of each year and ensure your super fund has your tax file number. The ATO will then calculate your benefit and pay it directly into your account.

To be eligible for the super co-contribution, you need to meet these conditions:

- Have total income between $38,564 and $53,564 (these are the 2019/2020 thresholds)
- Ensure 10% or more of your total income comes from employment-related activities
- Be less than 71 years old at the end of the financial year the contribution is made
- Not hold a temporary visa at any time during the financial year (unless you're an NZ citizen)
- Have a total superannuation balance of less than $1.6 million.
- Have not exceeded the non-concessional contribution cap.

If you earn less than the lower threshold, you can receive the full $500 co-contribution amount. You will receive a part co-contribution if you contribute less than $1,000.

If you earn between the lower and upper threshold, you will receive a part co-contribution based on the amount you contribute and your actual income amount.

If you earn above the upper threshold, you will not receive the super co-contribution.

This is a top-notch super savings strategy, particularly for spouses working part-time or on a lower income.

That’s it from us...

We hope you have enjoyed the content within this ebook and are inspired to make your retirement savings work better for you.

Superannuation Law, Tax Law and Estate Law are complex. Implementation of any of the tips within this book requires a good understanding of the relevant legislation and its application.

For this reason, we set up our most recent joint venture, Toro Wealth, allowing us to provide one-on-one advice to people just like you.

At Toro Wealth, we spend every day developing and maintaining affordable, personalised retirement plans for our clients. We are specialists in this area.

If you are not entirely confident implementing the tips within this ebook yourself, or are looking to review your retirement plan, we strongly encourage you to discuss this with your financial planner, or **contact us on 1300 447 599 for an obligation-free 15-minute consultation** to see if we can assist you.

Kind Regards,

Shane Lawler and Chris Strano

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