Superannuation traps that target your wealth

ANTHONY KEANE

RECENT rule changes to superannuation have highlighted some of the traps that can seriously sting savers.

In the past 18 months we've seen new super contribution caps, a life insurance overhaul and a crackdown on employers' compulsory payments.

They might lull savers into a false sense of security, but ignoring super means you risk painful penalties – such as getting taxed more than 90 per cent if you contribute too much or missing out on your money altogether. Here's how.

TOO MUCH LIFE INSURANCE

Many Australians are underinsured but other fund members have more life insurance than they need, and miss out on the massive benefit of that foregone money compounding over many years.

Wotherspoon Wealth director Simon Wotherspoon said rule changes last year around inactive and lowbalance super funds helped stop people with several small super accounts from paying unnecessary premiums.

However, an older fund member paying high life insurance premiums even though their mortgage is paid off and their children have finished school is simply wasting that money.

"You don't notice it as much coming out of super than if it's coming out of your own pocket," Mr Wotherspoon said.

EXCESS CONTRIBUTIONS

Australians have a $25,000 cap on the concessional (taxdeductible) contributions they can pump in to super each year. This limit includes compulsory contributions by employers.

There is also a $100,000 annual cap on non-concessional contributions – paid from aftertax money – but both types of contributions now have various bring-forward and catch-up rules.

Confusing? Yes, but the Australian Taxation Office warns that it you contribute over the caps you may have to pay extra tax that "could be as high as 94 per cent in some cases".

Mr Wotherspoon said that tax rate was only for rare cases and where people had breached both caps. "Often people don't understand contribution limits," he said. Financial strategist Theo Marinis said rule changes a few years ago enabled people to unwind excess contributions, but they would still be slugged tax at a marginal tax rate. "If you do exceed it's not as catastrophic as it used to be but administratively it's a pain in the butt," he said.

BAD BOSSES

Rule changes last month stopped bosses from using your salary sacrifice payments to offset their legal requirement to put 9.5 per cent of your wage into your fund, but some bosses

– especially if in financial difficulty themselves – ignore their super obligations.

Protect yourself by checking super fund transactions every six months, and don't rely on your pay slip – it can be wrong.

Super won't go into your fund with every pay and is usually paid quarterly. "Employers are only required to pay it in within 28 days after the end of the quarter," Mr Marinis said.

Financial Strategies (SA) Pty Ltd trading as Marinis Financial Group
T 08 8130 5130 | F 08 8331 9161 | A 49 Beulah Road, NORWOOD SA 5067
E admin@marinisgroup.com.au | W marinisgroup.com.au
ABN 54 083 005 930 5067 | AFSL No: 326403

Disclaimer:

The information in this article is general information only. It is not intended as financial advice and should not be relied upon as such. The information is not, nor is intended to be comprehensive or a substitute for professional advice on specific circumstances. Before making any decision in respect to a financial product, you should seek advice from an appropriately qualified professional on whether the information is appropriate for your particular needs, financial situation and investment objectives.

The information provided is correct at the time of its creation and may not be up to date; please contact Marinis Financial Group for the most up to date information.