

The information in this document forms part of the NGS Super Member Guide (Product Disclosure Statement) dated 1 March 2012.

Salary Sacrifice

Fact sheet 2
1 March 2012

The minimum employer contribution set out in the Superannuation Guarantee (SG) legislation is currently 9% of your salary*. For many Australians, this is the only amount currently being saved for their future retirement.

**ordinary time earnings - More information is available from the Australian Taxation Office (ATO) website, www.ato.gov.au. Select the Business tab, then Have you paid your super guarantee contributions? Lastly select the ordinary time earnings link.*

Planning to rely on the Age Pension?

The Age Pension provides a safety net for a basic standard of living. It may not be enough to provide you with the kind of lifestyle you want when you stop working. What's more, the Government has recently announced that by 1 July 2023, the Age Pension eligibility age will be increased to 67 years. That means that if after 30 June 2023, you retire at age 65 you'll have to wait two years to start receiving it.

Make sure you have the financial support and comfortable lifestyle you want in retirement: consider topping up your super with extra contributions to boost your super savings.

Salary sacrifice is just one of a number of ways to get started.

Topping up your super using salary sacrifice contributions

Salary sacrifice is a tax-effective way to save for retirement. Putting a regular amount from your pay (or a lump sum from your bonus if you get one) into your super is a great way to grow your super.

If you make a contribution using salary sacrifice, it will only be taxed at the concessional contribution tax rate of 15%, which is quite a bit less than the marginal income tax rate of 30% (plus the Medicare levy of 1.5%) which applies for people on the average income. For people with a higher income (and hence a marginal tax rate of 37% or 45%), the difference is even greater.

Keep your whole situation in mind

Remember, salary sacrifice contributions count towards your income when assessing your eligibility for certain Government benefits, including the co-contribution, baby bonus, spouse contributions tax rebate and a number of other benefits. More information is available from the Australian Taxation Office (ATO) website, www.ato.gov.au.

What's the difference between before- and after-tax contributions?

Before we go into how salary sacrifice contributions work, let's take a quick look at the difference between before- and after-tax contributions.

Before-tax contributions (concessional contributions)

Super contributions made from your pay before income tax is deducted are referred to as before-tax or concessional contributions. These contributions include employer contributions and any salary sacrifice contributions that have been made with your employer's agreement.

Keep in mind that there are annual limits on your before-tax contributions to super: if you're under 50, you have a limit of \$25,000 each year; over 50 you have a limit of \$50,000 each year, but only until 30 June 2012*. The really important thing to

remember is that these limits include the contributions that your employer makes on your behalf so you need to take that into account when considering making additional before-tax contributions, including salary sacrifice contributions. These contributions are taxed at 15% when received by the Fund.

* Members over age 50 with balances under \$500,000 may still have the \$50,000 p.a. limit for before-tax contributions after 30 June 2012, subject to Government legislation.

After-tax contributions (non-concessional contributions)

After-tax contributions are made from money on which you've already paid tax. They might come from your after-tax pay or from other income you've earned elsewhere. These contributions aren't taxed again if you put them into super, but you will pay tax at a rate of 15% on any earnings you make on this money.

The annual limit on after-tax contributions is \$150,000, which is much higher than the limit on before-tax contributions. You can also make after-tax contributions of \$450,000 over a three-year period if you start by making a contribution of more than \$150,000 in a financial year when you're under age 65. This means you average the \$150,000 pa limit over that year and the following two financial years.

What else?

Whether you're considering before-tax or after-tax contributions, remember that:

- Contributions and investment earnings must be preserved. You may need to pay tax if your benefit is paid when you are under age 60, depending on your preservation age.
- We can accept before- or after-tax contributions from you if you are under 65.
- If you are aged between 65 and 74, we can accept your additional contributions provided you are employed on at least a part-time basis (part-time means gainfully employed for at least 40 hours in a period of not more than 30 consecutive days during the same financial year in which the contributions are made). We cannot accept these contributions from you if you are 75 or over.

How do salary sacrifice and after-tax contributions compare?

To get an understanding of the different between after-tax contributions and salary sacrifice contributions, let's take a look at the examples of Dave and Debbie.

Example 1

Dave makes additional contributions

Dave is 53 years of age and has a salary of \$70,000 per year (before any deductions, including tax). He has decided that he would like to boost his retirement savings by making some additional contributions to his superannuation. He knows that he can afford to contribute \$15,000 from his after tax income but would like to know whether he should contribute to his superannuation from before-tax or after-tax income.

Dave's taxation situation would be as follows, depending whether he makes after-tax or before-tax contributions:

After-tax contribution	
Gross salary	\$70,000
Less income tax	\$15,600*
Net income	\$54,400
Less after-tax super contribution	\$15,000
Net income	\$39,400

In this situation, Dave would contribute \$15,000[†] after tax. His assessable income is over the threshold for the co-contribution, so he is not eligible for a co-contribution.

However, if he contributes \$23,100 before tax (which would result in a net contribution of \$19,635 after applying the 15% contributions tax) he would receive the same net income as he does if he makes an after-tax contribution.

Salary sacrifice (before-tax) contribution	
Gross salary	\$70,000
Less salary sacrifice contribution	\$23,100 (before tax)
New taxable income	\$46,900
Less income tax	\$7,500*
Net income	\$39,400

Let's take a look at how these two scenarios differ.

If Dave makes a \$15,000 after-tax contribution, he ends up with \$39,400 of net income. If Dave makes a \$23,100 before tax contribution (\$19,635 after contributions tax), his income tax is reduced from \$15,600 to \$7,500 and he also saves approximately \$4,635 extra in his super while still enjoying the same cash in hand in his pay (net income).

Does Dave get a co-contribution?

Dave's salary sacrifice contributions are included in his assessable income for the co-contribution income test, which means his income is over the co-contribution earning limit. Regardless of whether Dave made an after-tax contribution, he would not qualify for a co-contribution.

Example 2

Debbie makes additional contributions, she's also eligible for a Government co-contribution

Debbie is 37 and has a salary of \$50,000 per year (before any deductions, including tax) and wants to top up her superannuation by making a contribution of \$5,000. She's unsure whether to make this contribution from her before-tax or after-tax salary.

Debbie has the opportunity to put some more money into her super, boosting her retirement savings. She can make a before-tax or after-tax contribution, with the following results:

After-tax contribution	
Gross salary income	\$50,000
Less income tax	\$8,600*
Net disposable income	\$41,400
Less after-tax super contribution	\$5,000
Net income	\$36,400

Debbie contributes \$5,000 from her after-tax income and is also eligible for approximately \$397 in superannuation co-contributions. By making an after-tax contribution, Debbie receives a total super contribution of \$5,397.

Alternatively, if Debbie makes a before-tax contribution of \$7,752 this would result in a net contribution of \$6,589 (after applying the 15% contributions tax) and she would receive the same net income as she does if she makes an after-tax contribution.

Salary sacrifice (before-tax) contribution	
Gross salary income	\$50,000
Less salary sacrifice contribution	\$7,752 (before tax)
New taxable income	\$42,248
Less income tax	\$5,848*
Net disposable income	\$36,400

Let's look at how these two scenarios differ.

If Debbie makes a \$5,000 after-tax contribution she ends up with \$36,400 of net income. If she makes a \$7,752 before-tax contribution (\$6,589 after 15% contributions tax), her income tax is reduced from \$8,600 to \$5,848 and she also saves an extra \$1,192 over the after-tax total super contribution scenario shown above, which includes a Government co-contribution. Her net income in both scenarios is the same.

Debbie may consider making an additional after-tax contribution (on top of the salary sacrifice contribution) of approximately \$397 and then also receive an additional \$397 in Government co-contributions.

The total net contribution Debbie makes to her super account under this scenario would then amount to approximately \$7,383[†], assuming she is able to contribute the extra after-tax amount to receive a payment from the Government co-contribution scheme.

* Based on current marginal tax rates and 1.5% Medicare levy and taking into account the low income tax offset where it applies, but without consideration being made for any other taxable income received, which could affect eligibility for any co-contribution benefit.

† No investment earning assumptions have been made in relation to the calculation of this total contribution.

Further information

If you are thinking about making salary sacrifice contributions, consider obtaining advice from a licensed financial adviser to understand how this works for your personal situation and how you might be able to combine before-tax and after-tax contributions to your advantage. NGS Super offers a financial planning service. To make an appointment or to speak with a planner, call **1300 133 177**.

We also have representatives who can provide you with general advice and explain the options available through NGS Super.

Contact us

Our website is your one-stop shop for information about NGS Super.

You can also contact us via the **contact us** page at www.ngssuper.com.au or call our Customer Service Team on **1300 133 177** between 8.00am and 8.00pm (AEST or AEDT), Monday to Friday.

Important information

This factsheet provides key information for Industry and Personal members of NGS Super. You should consider all the information contained in the Member Guide before making a decision about investing in NGS Super.

The information provided in this fact sheet is general information only and does not take into account your objectives, financial situation or needs. Before making a financial decision, please assess the appropriateness of the information to your individual circumstances and consider seeking professional advice.

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