ngs Super

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An Industry SuperFund

This document forms part of the Product Disclosure Statement dated 29 September 2017

SALARY SACRIFICE AND SAVE

Save a little now,
benefit a whole lot later.

FACT SHEET 2

1 JULY 2018

The minimum employer contribution set out in the Superannuation Guarantee (SG) legislation is currently 9.5%[1] of your salary[2]. For many Australians, this is the only amount being saved for their future retirement.

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 Age Pension eligibility age will be dependent on your birth date as reflected in the below table.

Age Pension age for those born after 30 June 1952	
New Pension age	**Affects people born**
65.5	From 1 July 1952 to 31 Dec 1953
66	From 1 Jan 1954 to 30 June 1955
66.5	From 1 July 1955 to 31 Dec 1956
67	From 1 Jan 1957 onwards

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.

A Transfer Balance Cap (currently $1.6 million) will be applied on the amount of super you can transfer into the retirement phase[3] once you choose to retire. This applies as a total across all your super accounts and not per fund. This cap will be indexed each year.

Whilst it is important to be aware of this transfer balance cap, there continues to be no limit on the amount you can hold in your *Accumulation account* that is concessionally taxed at 15%, regardless of your age.

For more information, you can read our fact sheet ***Fees, costs and tax*** available at **www.ngssuper.com.au/PDS**.

[1] The SG is proposed to increase in subsequent years until the rate reaches 12% by July 2025. For more information, refer to our fact sheet ***Opportunities and limits for super contributions*** on our website at **www.ngssuper.com.au/PDS**.

[2] Ordinary time earnings – More information is available from the Australian Taxation Office (ATO) website, **www.ato.gov.au**.

[3] Retirement phase is where a superannuation income stream or pension is paid, and the earnings are tax free. Please note, *Transition to retirement* income streams are not in the retirement phase.

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 into your super is a great way to grow your super.

If you make a contribution to your super using salary sacrifice, it will only be taxed at the concessional contribution tax rate of 15%[4] when received by the Fund. In contrast, you could pay as high as 47% tax on your take-home pay.

Salary sacrifice contributions will count towards your income when assessing your eligibility for certain Government benefits, including the Government co-contribution. More information is available from the Australian Taxation Office (ATO) website, **www.ato.gov.au**.

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

Concessional (before-tax) contributions

Super contributions made from your pay before income tax is deducted are referred to as before-tax or concessional contributions. These contributions are concessionally taxed at 15%[4] and include:

- employer contributions
- salary sacrifice contributions, and
- personal after-tax contributions for which you claim a tax deduction.

There are limits on the amount that you can contribute each year as concessional contributions. Currently this limit (cap) is $25,000. However, you will now be able to carry-forward any unused amount of your concessional contributions cap if you have a Total Superannuation Balance[5] of less than $500,000 on 30 June of the previous financial year. The first year you will be able to access a higher concessional contributions cap (taking advantage of your unused portion for the previous year) is 2019/20.

Importantly, concessional contributions are counted in the financial year that your super fund receives them – so you need to take that into account when considering making additional contributions.

Non-concessional (after-tax) contributions

After-tax contributions are made from money from which you've already paid tax. They might come from your after-tax pay or from other income you've earned or savings elsewhere. These contributions aren't taxed again if you put them into super, only their investment earnings will be taxed.

The annual limit on after-tax contributions is:

- $100,000 p.a. provided your Total Super Balance[5] is less than $1.6m, or
- $300,000 over a three-year period using the bring-forward rule if you are under age 65 and eligible, or
- $Nil where your Total Super Balance[5] as at 30 June the previous financial year is greater than $1.6m.

If you are aged between 65 and 74, you will:

- need to meet the work test to make an after-tax contribution up to the annual cap amount, and
- not be able to take advantage of the bring-forward rule.

The bring-forward rule and the work test are explained further on the next page.

Note: The 'bring-forward rule' for after-tax contributions is different to the 'carry-forward rule' explained below.

Carry-forward any unused concessional contributions cap

From 1 July 2018, you will be able to 'carry-forward' any unused amount of your concessional contributions cap. You will be able to access your unused concessional contributions cap on a rolling basis for five years. Amounts carried forward that have not been used after five years will expire.

The first year in which you can access unused concessional contributions is 2019/20.

You will only be able to carry-forward your unused concessional contributions cap if your Total Superannuation Balance at the end of 30 June of the previous financial year is less than $500,000.

Example

Kate's employer contributions are $10,000 in 2018/19 and her total superannuation balance at 30 June 2018 is less than $500,000. This leaves an unused amount of the concessional contribution cap of $15,000, which Kate can carry forward for up to five years to increase her concessional contribution cap.

In 2019/20, in addition to her normal $25,000 concessional cap, Kate can use the $15,000 of unused cap from the previous year. Kate's total concessional cap for 2019/20 is $40,000.

[4] For individuals with a combined income exceeding $250,000, a portion of your concessional contributions will be taxed at the rate of 30%. This high income tax threshold will be assessed by the ATO as part of your annual tax return. Combined income refers to the sum of your taxable income plus concessional contributions.

[5] Your Total Superannuation Balance (TSB) is determined on 30 June each year. More details are provided at **www.ato.gov.au**

The bring-forward rule explained

If you are aged 64 or less on 30 June 2018, you can take advantage of the bring-forward rule and contribute up to $300,000 over 3 years provided that:

- your Total Super Balance[5] as at 30 June the previous financial year is not greater than $1.4 million; and
- you can satisfy the work test (working for 40 hours in 30 consecutive days during the financial year) for any contributions made on or after your 65th birthday.

A further constraint on the 3-year bring forward rule is that if your Total Super Balance[5] is close to $1.6m, you will only be able to bring forward the annual cap amount for the number of years that would take your balance to $1.6m. Please see our fact sheet ***Opportunities and limits for super contributions*** for more details.

See table below for further clarification.

Super balance	Contribution and bring forward amount available
$1.3m – less than $1.4m	3 years (3 x $100,000 = $300,000)
$1.4m – less than $1.5m	2 years (2 x $100,000 = $200,000)
$1.5m – less than $1.6m	1 year (1 x $100,000 = $100,000)
$1.6m or more	Nil

How the bring forward rule works

The bring forward rule is triggered if you make an after-tax contribution of $100,001 or greater in the financial year.

For example, based on a person aged 60 with less than $1.3m in super

- you might choose to contribute $250,000 in one year then $50,000 in the next, however in the third year you wouldn't be able to make any after-tax contributions at all as you will exceed the $300,000 limit.
- Alternatively, you might choose to make $300,000 in after-tax contributions in one year and in the following two years no further after-tax contributions would be allowed.

Transitional arrangements could be in place for you if you have triggered the bring-forward rule in 2016/17 but have not fully utilised the bring-forward amount. The amount available will be reduced to reflect the reduced annual contribution caps.

If you are interested in making a large contribution and would like to discuss the timing that would meet your requirements, we have representatives who can provide you with general advice and explain the options available.

Are you saving for your first home?

You can now make contributions to your super account that, if eligible, may be able to be released to purchase your first home. For more details, please see our Information sheet ***First home super saver scheme*** at **www.ngssuper.com.au/PDS**.

What else?

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

- contributions and investment earnings must be preserved[6]
- you may need to pay tax if a benefit is paid to you when you are under age 60
- if you are aged between 65 and 74, we can accept your additional contributions provided you meet the work test
- if you are 75 or over, although we can accept superannuation guarantee contributions from your employer, by law we are unable to accept any voluntary contributions from you with the exception of a Downsizer contribution[7].

It is important to check that your employer 9.5% super guarantee contribution will not be impacted by any salary sacrifice. For most employers it does not – but it's best to check first.

You may also claim a tax deduction for personal contributions (subject to the concessional contribution limit and your eligibility to contribute). You will need to notify us of your intent to claim a tax deduction on the personal contribution prior to any withdrawal from your super account and prior to lodging your tax return. You can do this by completing a ***Notice of intent to claim or vary a deduction for personal super contributions form*** available at **www.ngssuper.com.au/forms**.

[6] Preserved refers to money in your super savings that must be kept in a superannuation fund until a 'condition of release' occurs, for example if you retire after attaining your preservation age or turn 65. Further details can be found in our fact sheet ***Gaining access to your super*** at **www.ngssuper.com.au/PDS**

[7] A Downsizer contribution is a contribution to super from the sale of your home if you are over age 65 and meet the eligibility requirements. Existing contribution caps and restrictions do not apply to a downsizer contribution. Further information can be found in our Information sheet ***Downsizer Contribution*** available at **www.ngssuper.com.au/PDS**

How do before-tax and after-tax contributions compare?

To get an understanding of the difference between after-tax contributions and salary sacrifice contributions (illustrated for the 2018/19 financial year), 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 contribution to his superannuation. He knows that he can afford to contribute approximately $11,500 from his after-tax income but would like to know whether he should contribute this money to his super 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	Before-tax contribution
Gross salary	$70,000	$70,000
Less salary sacrifice contribution	–	$18,350 *(before tax)*
New taxable income	$70,000	$51,650
Less income tax and Medicare Levy	$15,167[8]	$8,611[8]
Net income	$54,833	$43,039
Less after-tax super contribution	$11,794	–
Net income	$43,039	$43,039

In this situation, Dave could:

- contribute $11,794 after tax, or
- contribute $18,350 before tax (which would result in a net contribution of $15,597 after applying the 15% contributions tax).

The net income for both scenarios is the same – $43,039. However, Dave's before-tax contribution provides him with a more favourable outcome as:

- his income tax is reduced from $15,167 to $8,611 and
- he also saves $3,803[9] extra in his super.

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 well over the co-contribution earning limit. Regardless of whether Dave made an after-tax contribution, he would not qualify for a co-contribution.

Low income superannuation tax offset (LISTO)

LISTO provides support for low-income earners to ensure they do not pay more tax on their super contributions than on their take-home pay. You will be eligible for a LISTO contribution to your super fund if your adjusted taxable income is $37,000 or less. The LISTO contribution is equal to 15% of the total before-tax (concessional) contribution for an income year, capped at $500.

[8] Based on current marginal tax rates, 2% Medicare Levy , Low Income Tax Offset and Low and Middle Income Tax Offset, but without consideration being made for any other tax rebates or offsets that you may be eligible for or any other taxable income you may receive, which could affect your eligibility for any Government co-contribution benefit.

[9] No investment earning assumptions have been made in the above calculations.

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Example 2

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

Debbie is 37 and has a salary of $35,000 per year (before any deductions, including tax) and wants to top up her superannuation by making a contribution of $2,000. She's unsure whether to make this contribution to her super from her before-tax or after-tax salary.

Scenario 1 – all after-tax contributions

Debbie contributes $2,000 from her after-tax income and is also eligible for approximately $500 in a Government co-contribution. By making an after-tax contribution, Debbie's contribution to super is $2,500.

After-tax contribution	
Gross salary income	$35,000
Less income tax and Medicare Levy	$3,247
Net disposable income	$31,753
Less after-tax super contribution	$2,000
Net income	$29,753

Scenario 2 – combination of before-tax and after-tax contributions

Alternatively, if Debbie makes an after-tax contribution of $1,000 and a before-tax contribution of $1,266 ($1,076 after applying the 15% contributions tax) she would receive the same net income as she does if she makes only an after-tax contribution. In addition, Debbie will receive the benefit of a Government co-contribution of $500.

Salary sacrifice (before-tax) and after-tax contributions	
Gross salary income	$35,000
Less salary sacrifice contribution	$1,266 (before tax)
New taxable income	$33,734
Less income tax and Medicare Levy	$2,981[9]
Net disposable income	$30,753
Less after-tax super contribution	$1,000
Net income	$29,753

Let's looks at how these two scenarios differ

In scenario 2, Debbie's net income remains the same as scenario 1 but her income tax is reduced from $3,247 to $2,981 (a saving of $266) and she will continue to receive the same Government co-contribution benefit of $500.

Debbie's contribution to super also increases to $2,576 ($1,076 after-tax + $1,000 + $500).

More information?

Contact us

You can contact us at **www.ngssuper.com.au/contact-us** or call us on **1300 133 177** between 8.00am and 8.00pm (AEST or AEDT), Monday to Friday.

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If you are thinking about making extra contributions and want advice on which contribution type you should make (before-tax or after-tax), consider obtaining professional advice to understand how this works for your personal situation.

We offer single-issue advice limited to your NGS Super account at no cost:

- over the phone through our Financial advice Helpline, or
- through our Customer Relationship Managers who may be able to meet face-to-face.

Further, we offer low-cost personal advice through NGS Financial Planning.

To make an appointment phone us on **1300 133 177** or complete the ***Financial planning enquiry form*** on our website at **www.ngssuper.com.au/financial-planning**.

Important information

You should consider all the information contained in the Product Disclosure Statement dated 29 September 2017 and incorporated fact sheets 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.

NGS Financial Planning Pty Ltd, ABN 89 134 620 518, is a corporate authorised representative #394909 of Guideway Financial Services Pty Ltd, ABN 46 156 498 538, AFSL #420367 and offers financial planning services on behalf of NGS Super ABN 73 549 180 515.

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