Make your super count

A guide to super contributions

Contents

Salary sacrifice 2
Taxes on your super 6
Super Co-contributions 14
Spouse contributions 16
What's best for you? 18
Preservation 20
Super limits 21
Make your super count 23

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With the growing demands of an ageing population, forever tightening welfare benefits, and greater concessions given to self-funded retirees, the need to maximise your super to ensure a comfortable retirement is very important.

For these same reasons, the Federal Government offers numerous tax incentives for those who make extra super contributions and this means that super is now one of the most attractive ways to build your long-term savings.

Extra contributions to super can be made with before-tax or after-tax dollars, or a blend of the two. The way in which you make those contributions will determine whether you are eligible for any additional concessions or tax benefits.

This booklet outlines the things you should consider when making super contributions, and it explains the super saving opportunities that are available. This will help you make an informed decision and choose the best option, or a blend of options, that suit your circumstances.

As always, we can assist you with any questions you may have about the different ways you can contribute to your super.

It's your super, so make the most of it!

Salary sacrifice

What is salary sacrifice?

Salary sacrifice is an arrangement with your employer*, where you agree to receive part of your gross salary as a benefit rather than as salary. The value of this benefit is paid from your gross salary i.e. before tax. This means that your gross salary is reduced by the cost of the benefit before tax is calculated.

*Please note that your employer may have restrictions on the amount you can salary sacrifice and/or the frequency that you can change your election.

Tax savings with salary sacrifice

The most popular form of salary sacrifice is contributing an amount into super from your gross salary and there are a number of tax benefits in doing this.

Firstly, sacrificing some of your salary into super reduces your taxable salary. As a result, you may pay less tax.

Secondly, while no income tax is levied on the contribution amount sacrificed out of your salary, tax is levied on this amount when it enters the super fund. This tax rate is 15%, which may be lower than your marginal income tax rate.

Is salary sacrifice for you?

It is important to remember that salary sacrifice will reduce your 'take home' pay. However, depending on your level of income, salary sacrifice can be a very tax-effective way to contribute to your super.

Incentives for low and middle income earners and the availability of rebates in relation to 'spouse' contributions, though, means that salary sacrifice may not always be the most tax efficient method to contribute to super.

Further, there is a limit on the amount of before-tax contributions (called concessional contributions) that can be made in each financial year. Refer to the 'Super limits' section on page 21 and 22 for full details.

What's best for you will therefore depend on your particular circumstances. So carefully consider the information outlined in this booklet and seek advice before making any final decisions. You should get specialist financial planning advice before making any decisions to salary sacrifice into super.

To start this process off, what you can do first is consider your marginal tax rate, as this can be a significant factor in determining any potential tax savings through salary sacrifice.

The 2011/12 normal marginal tax rates are listed on the next page.

Consider your marginal tax rate

The table below shows the normal marginal tax rates applying at different levels of income (e.g. salary and wages) for the 2011/12 financial year.

Income level 2011/12	Tax rate*
Below $6,000	0%
Between $6,001 and $37,000	15%
Between $37,001 and $80,000	30%
Between $80,001 and $180,000	37%
$180,001+	45%

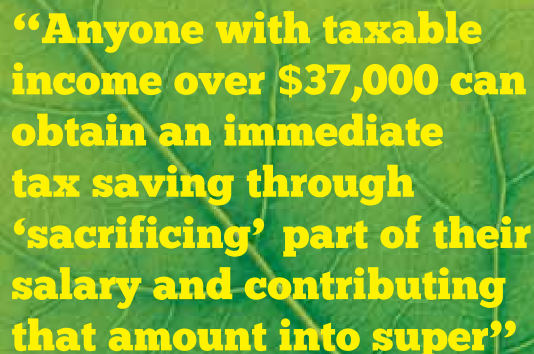
*The Medicare levy of 1.5% is usually payable in addition to the above tax rates.

The government has also introduced a Temporary Flood & Cyclone Reconstruction Levy (flood levy) applying to taxable income for the 2011-12 year only, for people with a taxable income over $50,000.

Put simply, anyone with taxable income over $37,000 can obtain an immediate tax saving through 'sacrificing' part of their salary and contributing that amount into super - because their marginal tax rate is higher than the 15% tax on super contributions.

However, there could be some tax considerations if you plan to access your super before you reach the age of 60 and this is discussed in some detail in the next section 'Taxes on your super'.

Someone earning less than $37,000 could also benefit due to Medicare levy savings because the Medicare levy is not paid on any salary sacrificed contributions to super.



Taxes on your super

Contributions tax

There is a 15% tax on certain contributions as they are paid into super. All employer contributions (including salary sacrifice contributions) attract this tax. Contributions deducted from your salary after tax (i.e. not salary sacrificed) do not attract this tax because you have already paid income tax on them. These types of after-tax contributions are referred to as either personal contributions or non-concessional contributions.

Less tax on investment earnings in super

One of the big attractions of investing money into super is that your investment earnings are taxed at a maximum rate of 15%, which is lower than personal tax rates for incomes over $37,000.

Investment returns to our members are reflected at after tax rates and after allowing for all of the allowable tax concessions relevant to superannuation investments.

Withdrawing your super

Most people cannot access their super until retirement after age 55 (if you were born prior to 1 July 1960), increasing to age 60 (if you were born after 30 June 1964).

After age 60, super withdrawals are tax-free. For people under 60 there will be two components of a super benefit - a tax-free and a taxable component. Only the part of the taxable component in excess of the tax-free limit* will be taxable. If you are aged 55-59, this rate is 15%; if you are under 55 it is 20%. These tax rates do not include the Medicare Levy which will also be payable.

It is important that you seek financial planning advice before accessing your super.

* For 2011/12 this limit is $165,000 and is indexed.

"Seek financial planning advice before you access your super"

Super salary sacrifice example

Consider the difference if you make salary sacrifice contributions, as opposed to making after-tax contributions.

Take your time when reviewing this ready reckoner and if you have any questions call Member Services for assistance. Remember to take into account your own marginal tax rate.

Super salary sacrifice ready reckoner			
So, you want to contribute an extra $100 per week to your super. Here's how it could work if your marginal tax rate* is:	**30%**	**37%**	**45%**
To invest $100 after tax into your super, it would actually cost you this much in gross income:	$142.86	$158.73	$181.82
Because this is the amount of tax you would have to pay at your normal marginal rate:	$42.86	$58.73	$81.82
Which would give you $100 after tax into your super account:	$100.00	$100.00	$100.00
But if you made the same contribution with before tax money via salary sacrifice:	$142.86	$158.73	$181.82
You'd only be taxed at 15%:	($21.43)	($23.81)	($27.27)
Making a total net contribution to super of:	$121.43	$134.92	$154.55
The extra amount going into your super account each week (compared to the after-tax $100 contribution) is:	$21.43	$34.92	$54.55
Which translates annually into:	**$1,114.36**	**$1,815.84**	**$2,836.60**

* Ignores Medicare levy.

Let's consider two examples using the ready reckoner from the previous page…

Jenny

Jenny is a member of the Retirement Scheme, but has been contributing an additional $100 (after tax) a week as a 'top-up' contribution for some time. Jenny earns $40,000 p.a., which puts her in the 30% marginal tax bracket.

When Jenny realised she could change this contribution and make some of it by salary sacrifice, she was not sure if it was worth the fuss. In fact, she thought that after the 'contributions' tax it wasn't worth it.

However, it is definitely worth it. When looking at her $100 contribution, Jenny has had to earn $142.86 (see table on page 9 at 30% marginal tax rate) before tax to have the $100 left after tax.

If Jenny contributes the entire $142.86 (equivalent to her $100 after tax) from her gross pay instead, two things happen:

- Her after-tax pay doesn't change because it is the same as $100 from her after-tax pay.
- Even more goes into her super.

Even after the tax on the contribution, the amount going into Jenny's super is $121.43, which is $21.43 more than if she kept contributing $100 after tax. More importantly, it hasn't cost Jenny another cent to increase her super savings by just over $20 a week.

Super salary sacrifice ready reckoner Jenny		
Jenny's marginal tax rate* is:	30%	
	Weekly	**Yearly**
Previously, she made $100 in **after-tax** contributions to super each week, giving her:	$100.00	$5,200.00
She had already paid tax on that $100 of:	$42.86	$2,228.72
So, to put $100 into her super, it has actually cost her:	$142.86	$7,428.72
But if Jenny contributed the entire **before-tax** amount to her super via salary sacrifice:	$142.86	$7,428.72
She would only be taxed at 15%:	($21.43)	($1,114.36)
Making her new total contribution:	$121.43	$6,314.36
The extra benefit to Jenny's super is:	$21.43	$1,114.36

* Ignores Medicare levy.

Dave

Dave is five years from retirement. After talking to his financial planner, Dave realises he needs to invest more into his super.

As the kids and the mortgage have gone, Dave works out he can afford to put $200 extra per week into his super from his salary of $60,000. Dave considers contributing this amount from his net pay (after tax), which means the $200 a week would come to a total of $10,400 for the year.

Dave's financial planner, however, suggests that he should contribute the money by salary sacrifice, rather than from his after-tax pay, as he will end up with a larger amount put away each year for his retirement.

Let's look at why Dave will be able to invest more in his super using salary sacrifice.

Firstly, Dave's financial planner recommends that he should 'gross up' the $200 a week contribution. In other words, as he is making the contribution with before-tax dollars, he should use that tax saving to contribute more towards his super. It will make no difference to the amount of money he is taking out of his weekly pay (he will be minus $200 a week with either option), but it will mean more money goes into his super account due to the tax savings.

On his salary, Dave's marginal tax rate is 30%. That means – referring to the 'Super salary sacrifice ready reckoner' on page 9 – that he can make a 'before-tax equivalent' contribution of $285.72 ($142.86 for $100 = $285.72 for $200). Allowing for 15% tax on the contribution, Dave still has $242.86 ($285.72 less 15% tax) going into his super each week or $42.86 extra invested each week.

The table below takes you through the process.

Super salary sacrifice ready reckoner Dave

Dave's marginal tax rate* is:	30%	
	Weekly	**Yearly**
If Dave had made $200 in after-tax contributions to super each week, it would give him:	$200.00	$10,400.00
He would have already paid tax on that $200.00 of:	$85.72	$4,457.44
So to put $200 into his super, it would have actually cost him:	$285.72	$14,857.44
But if Dave contributed the entire before-tax amount to his super via salary sacrifice:	$285.72	$14,857.44
He would only be taxed at 15%:	($42.86)	($2,228.62)
Making his new total contribution:	$242.86	$12,628.72
The extra benefit to Dave's super is:	$42.86	$2,228.72

* Ignores Medicare levy.

Super Co-contributions

The Super Co-contribution is an initiative whereby the Federal Government will contribute up to $1 for every $1 you personally contribute (in after-tax dollars) to your super, subject to a maximum of $1,000 a year. This maximum starts reducing once your assessable income exceeds $31,920 and reduces to zero once your income reaches $61,920.

For instance, a person earning $40,000 a year can receive a maximum Co-contribution of $731 provided they have made a personal contribution of $731. See the table below for more examples.

To be eligible, you need to:

- Make after-tax contributions to a complying super scheme
- Have assessable income less than $61,920 before tax in the year you are seeking Co-contributions
- Have 10% or more of your total income from eligible employment, running a business or a combination of both
- Be less than 71 years of age
- Be a permanent resident of Australia and
- Lodge an income tax return.

The following contributions are not eligible to receive a Co-contribution:

- Super Guarantee (9% compulsory super paid by your employer contributions)
- Salary sacrifice contributions
- Contributions for which a tax deduction is eligible to be claimed
- Spouse contributions.

Self-employed people can also claim a full deduction for their super contributions as well as a Co-contribution in respect of any eligible after-tax contributions.

The critical message in relation to the Super Co-contribution is that you should first maximise your entitlement to any Co-contribution that may be available before looking at other ways to contribute to super. This is because your eligible personal contributions will attract a 100% matching contribution from the Government.

That is, the Government matches your contribution (up to the limits) and then you receive investment earnings on the whole amount.

Co-contribution examples

Assessable income	$31,920	$35,000	$40,000	$45,000	$50,000	$55,000	$61,920
Maximum personal contribution* (after tax)	$1,000	$897	$731	$564	$397	$231	$0
Government Super Co-contribution	$1,000	$897	$731	$564	$397	$231	$0

* Maximum amount that is counted for the Government's Super Co-contribution based on income level. Contributions exceeding this amount will not attract any further Co-contribution.

Spouse contributions

You may be entitled to a tax concession from the Federal Government if you make an **after-tax** contribution into your spouse's super account.

Spouse rebate

If you make eligible spouse* contributions to super on behalf of your partner, you can claim a tax rebate (also called a tax offset) of 18% on the contributions, up to a maximum contribution of $3,000 p.a. This is provided your spouse receives $10,800 or less in assessable income, reportable fringe benefits and reportable employer super contributions for that year.

This means that where your spouse is receiving less than this amount, and you make contributions of $3,000 or more, you can achieve the maximum rebate of $540 (18% of $3,000). The contributions eligible for the rebate reduce by $1 for each $1 of assessable income and reportable fringe benefits above $10,800 per annum. The rebate is not available if your spouse's income reaches $13,800 per annum.

Further eligibility requirements for claiming the spouse rebate are that the super contribution must be:

- Made with after-tax money
- Made on behalf of a spouse who is under age 65 and an Australian resident.

Contributions can also be made between the ages of 65 and 70, provided your spouse passes the 'work test' (gainfully employed for 40 hours over 30 consecutive days), within the financial year.

As spouse contributions are made from after-tax money, they retain their tax-free nature and are available on retirement tax-free subject to 'Preservation' rules (see page 20).

* Please note that in order to be entitled to the rebate, one must have a spouse that qualifies as a 'spouse' within the meaning of that term in the tax law. A 'spouse' for this purpose includes legal partners, de-facto partners, and same sex partners.

"You may be entitled to a tax concession if you make an after-tax contribution into your spouse's super account".

What's best for you?

Salary sacrifice vs Co-contributions vs Spouse contributions

So far we've explained how salary sacrifice works for the super contributions. We've outlined the incentives for low and middle income earners, and the availability of rebates in relation to 'spouse' contributions.

Taking all these into account we will now compare the different options available to you if you consider you have the equivalent of $100 after tax to invest in super.

Example

What do I get in my super for the equivalent of a $100 after-tax contribution?

The table below illustrates what result you would get for each type of contribution with an equivalent of a $100 after-tax contribution to super. In each case it assumes you are eligible for the maximum entitlement to rebates and/or the Co-contribution on that $100. The table shows that the type of super contribution that has the greatest value largely depends on your marginal tax rate (remember, you can check your marginal tax rate on page 4).

For example, if you are eligible for the Super Co-contribution, this is clearly going to be the best option for you. But it is very important to remember that there is a limit to the amount of Super Co-contribution available. Once the maximum Super Co-contribution is reached, it is worth considering an alternative type of contribution.

Consider your options carefully and ask us for help if you still have any questions. We're here to help you.

Marginal tax rate*	15%	30%	37%	45%
1. Co-contribution example: If I make a $100 after-tax contribution to my super and I'm eligible for Co-contribution entitlements, this will provide a total net benefit of:	$200.00[1]	$200.00[1]	$100.00[2]	$100.00[2]
2. Salary sacrifice example: If I reduce my after-tax salary by $100 and use this to contribute to super via salary sacrifice[3], in net figures it will give me:	$100.00	$121.43	$134.92	$154.55
3. Spouse contributions example: If I contribute $100 after-tax to a spouse account[4], this will provide a total net benefit of:	$118.00	$118.00	$118.00	$118.00

*Ignores Medicare levy.

1 Co-contributions are available for those with an income up to $61,920 but entitlement starts reducing after income exceeds $31,920.

2 At the level of income required to be paying this rate of tax, there is no Co-contribution available—see Super Co-contributions section of this booklet for more information.

3 This is because salary sacrifice contributions to super attract only 15% tax.

4 Assumes the full rate of spouse contribution rebate (offset)—see Spouse Contributions section of this booklet. The rebate ($18) isn't added to the super account but is given as a reduction in the contributing spouse's tax. So, the amount of $118 represents the $100 payment to your spouse's account plus the $18 rebate to you, the contributor.

Preservation

There are restrictions on when and how you may access your super. Generally, you cannot access your super benefits until retirement on or after your preservation age. The preservation age is 55 years for those born before 1 July 1960, increasing to age 60 for those born after 30 June 1964.

In the case where you make spouse contributions, and where your spouse has never been employed before age 65, all contributions and investment earnings are preserved until age 65. Where your spouse has been gainfully employed at any time, the benefit arising from the spouse contributions is only accessible when your spouse retires after they have attained their preservation age. Depending on your spouse's date of birth, this will be between age 55 to 60.

Super limits

When making either before-tax or after-tax contributions to super, be aware that the Federal Government has imposed a number of limits to the amount of contributions you can make.

Before-tax contributions

In the past, the size of before-tax contributions you or your employer could make to your super was limited by your age. Now there are no age based limits. In fact, you are now allowed to make before-tax contributions to super until you turn 75 (although the Superannuation Guarantee only applies up until age 70).

Any before-tax contributions you or your employer make up to $25,000* a year will be taxed at 15%. Any amount over $25,000 will be taxed at an additional 30% plus the Medicare levy.

If you are aged 50 or older or you turn 50 between 1 July 2010 and 30 June 2012, you may benefit from transitional arrangements which allow you to make before-tax contributions of up to $50,000 (at the 15% tax rate) each financial year until 30 June 2012.

From 1 July 2012, this arrangement only applies for people with super balances less than $500,000. This cap will not be indexed in the strictest case, but will remain $25,000 above the general concessional cap.

* This amount is indexed to Average Weekly Ordinary Time Earnings (AWOTE) but will only increase in $5,000 increments.

After-tax contributions

After-tax contributions to super are limited to $150,000* per year if you are:

- 64 years old or younger, or
- 65 years to 74 years old and satisfy the work test (that you work for 40 hours during a consecutive 30 day period each financial year a contribution is made).

If you are younger than 65, you can also average out these contributions to a limit of $450,000 over three years (i.e. bring forward your limit for the next two years). For example, a person under age 65 can make up to $450,000 of contributions in the 2011/12 financial year, but then would not be able to make further after-tax contributions until the 2014/15 financial year. Any contributions you make within these limits will not attract tax when you withdraw them from super. Any contributions above the limit will be taxed at the top marginal tax rate plus the Medicare levy (despite having already been taxed).

* This amount will be linked to and capped at 6 times the concessional contribution limit.

Make your super count

Super splitting

Super splitting allows for all or part of your contributions to be effectively transferred to your spouse's name without any tax affecting the transfer. Splitting super contributions with your spouse can be a tax-effective strategy if one or both of you expect to start receiving super benefits before age 60.

You may also prefer to split super with your spouse for personal reasons. It's important to note, however, that after-tax (non-concessional) contributions cannot be split with your spouse, although you can split your before-tax (concessional) contributions.

As always, you should seek financial advice to determine what options will best suit your circumstances.

Avoid unnecessary tax

Under superannuation law, if you haven't provided your Tax File Number (TFN) to your super fund by 30 June of each financial year, all your concessional contributions (i.e. before-tax contributions) that exceed $1,000 will be taxed at the top marginal tax rate, plus the Medicare levy. For accounts established after 1 July 2007, the $1,000 threshold does not apply and you cannot even make after-tax contributions at all unless you have disclosed your TFN.

So make your super count by supplying your TFN to your super fund today and avoid paying too much tax.

Consolidate your super

Do you have money lying around in more than one super fund? One of the easiest ways to make your super count is to consolidate these into a single account.

This is because most super funds will charge you both a fixed and variable fee to manage your savings. Over the years, these costs add up and eat into your savings and could cost you thousands of dollars by the time you retire. You also lose out on the compounded returns that this money could have earned if it was invested over the years.

To find out how to consolidate your super, contact our Member Services team who will help you fill out a 'transfer-in authority' form. See the back cover for contact details.

Contact details

If you have any questions or would like more information about LGS:

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Offices in Lismore, Orange, Parramatta, Tamworth and Wagga Wagga are available by appointment only.

Bookings are essential. Phone 1300 369 901 to make an appointment.

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