

Salary Sacrifice for Retirement Scheme members

What is salary sacrifice?

Salary Sacrifice is where you contribute to your superannuation account from your pre-tax salary. This means that the money is deducted from your salary before any income tax is deducted, thereby reducing the amount of salary that you are paying income tax on, but also potentially reducing the amount that you are paid as your normal 'take home' pay. It is important to note that when you salary sacrifice into super, these contributions are taxed at 15%.

When salary is sacrificed into super, the contributions are preserved in the fund and you cannot access them until you satisfy a condition of release. There are certain advantages and disadvantages to salary sacrificing into superannuation. If you think that this is an option that you would like to pursue, we would advise that you consult a financial planner to see if this option is right for you. As a member, you are able to consult one of our Financial Planners at no extra cost. You should contact Member Services for more information.

How can you make salary sacrifice contributions?

Salary Sacrifice contributions can only be made on your behalf by your employer as a deduction from your pre-tax salary. You will first need to find out if your employer offers employees the option of making salary sacrifice contributions as this is not a mandatory requirement.

If your employer does offer employees the option of making salary sacrifice payments and you would like to contribute this way, you will need to arrange this with your employer. To assist you in this, you can complete the 'Member Contributions' form which is available from the website and give this to your employer. Alternatively, you can check with your employer as they may have their own form for you to complete.

What are your contribution options with salary sacrifice?

As a member of the Retirement Scheme, you may elect to contribute between 1% and 9% of your salary which is referred to as a 'Defined contribution'. This contribution is used to accumulate benefit points on your account which count towards your final benefit. For a more comprehensive explanation, please refer to the PDS available on the website.

You also have the option of contributing additional amounts into your Other Contributions Account which are referred to as 'Optional top up contributions'.

With your employer's agreement, you can make either of these contributions as salary sacrifice contributions or as contributions from your post-tax salary. There is also an option to contribute using a mix of salary sacrifice and post-tax amounts.

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How much can you salary sacrifice?

Because salary sacrifice contributions come from your pre-tax income, they are classed as concessional contributions and therefore are restricted by the concessional contributions cap. Concessional contributions comprise all taxable contributions paid into your account and including any amounts paid by your employer.

The current limit on concessional contributions is \$25,000 p.a. with any amounts in excess of this cap taxed at the highest marginal tax rate plus the Medicare Levy. Amounts in excess of this cap also count towards your non-concessional contributions cap. For members aged 50 before 2012, the concessional cap amount is \$50,000 until 30 June 2012.

What are the implications of salary sacrificing?

Essentially, salary sacrifice can be a tax effective way for low and middle income earners to contribute to super. For members who earn over \$37,000 (where the income tax rate exceeds 15%), there may be a tax saving by salary sacrificing into your super (i.e. you pay 15% tax instead of 30%).

However, while there may be a reduction in the overall amount of tax that you pay, to maintain the same net amount contributed, you may need to increase the amount that is salary sacrificed.

For example; if you previously contributed \$100 from your post-tax salary and now contribute this same amount under a salary sacrifice arrangement, your net contribution will be \$85 after the deduction of tax ($\$100 - (\$100 \times 15\%) = \$85$) instead of \$100. To contribute a net amount of \$100 as a salary sacrifice amount, you would therefore need to contribute \$117.65.

Another thing to consider is the impact this may have on your take home pay. Depending on your pre-tax salary and how much you want to contribute, this may result in a reduction in your post tax amount.

Before making a decision to salary sacrifice into super, you need to consider how it will affect your current financial situation.

Need further information?

For more information about salary sacrificing superannuation contributions, please contact Member Services on 1300 369 901. We can send you a copy of our 'Make your super count' booklet which explores the considerations when making superannuation contributions, and explains the superannuation savings opportunities that are available. This way you can make an informed decision on choosing the best option, or blend of options, to suit your circumstances.