

Understanding how the concessional contribution cap applies to Accumulation 2 members

Warning:

Please note the changes to superannuation announced in the 2009/10 Federal Budget are yet to be enacted into law. The information provided in this fact sheet reflects our current understanding of the proposed changes as at 15 June 2009. Once the legislation is enacted more details will become available and the following information may change.

Background

On 1 July 2009, the concessional contributions cap for the 2009/10 financial year reduces to \$25,000 for those members under the age of 50, and \$50,000 for members aged 50 or above.

Concessional contribution caps and tax rates

The concessional contributions cap limits the amount of employer and salary sacrifice contributions that can be made to a member's superannuation account each financial year before hefty taxes apply.

The first \$25,000 (for those under age 50) or \$50,000 (for those age 50 or above) of concessional contributions made into your super each financial year (in total across all super the funds you have) is taxed at a concessional rate of 15%.

Concessional (before-tax) contributions include:

- all contributions made by an employer for an employee, including the 14% or 17% employer contribution made to your account
- any member contributions that are made under a salary sacrifice arrangement
- any personal contributions that are claimed as a tax deduction (where you are eligible to claim), and
- the taxable component of a directed termination payment in excess of \$1 million.

Please note if you split your contributions with your spouse, the full amount of the original contributions still counts towards your concessional contributions cap.

Any amounts over your concessional contribution cap will be taxed an additional 31.5% (including the Medicare levy) – a tax of 46.5% in total. The excess contributions can remain in your account, but, once the Australian Taxation Office has issued an assessment notice, you must pay any additional tax due. The amount of this additional tax may be withdrawn from any accumulation super balance you have. Alternatively, it may be paid for from your income or savings outside of super or from a combination of these options.

The excess contributions are also counted towards your non-concessional cap where they might incur a further 46.5% tax (including the Medicare levy) if your non-concessional (after-tax) contribution cap is exceeded.

The revised caps could have a significant impact on your superannuation and retirement savings so its important to understand both the implications of the cap and what you can do to minimise its impact on you.

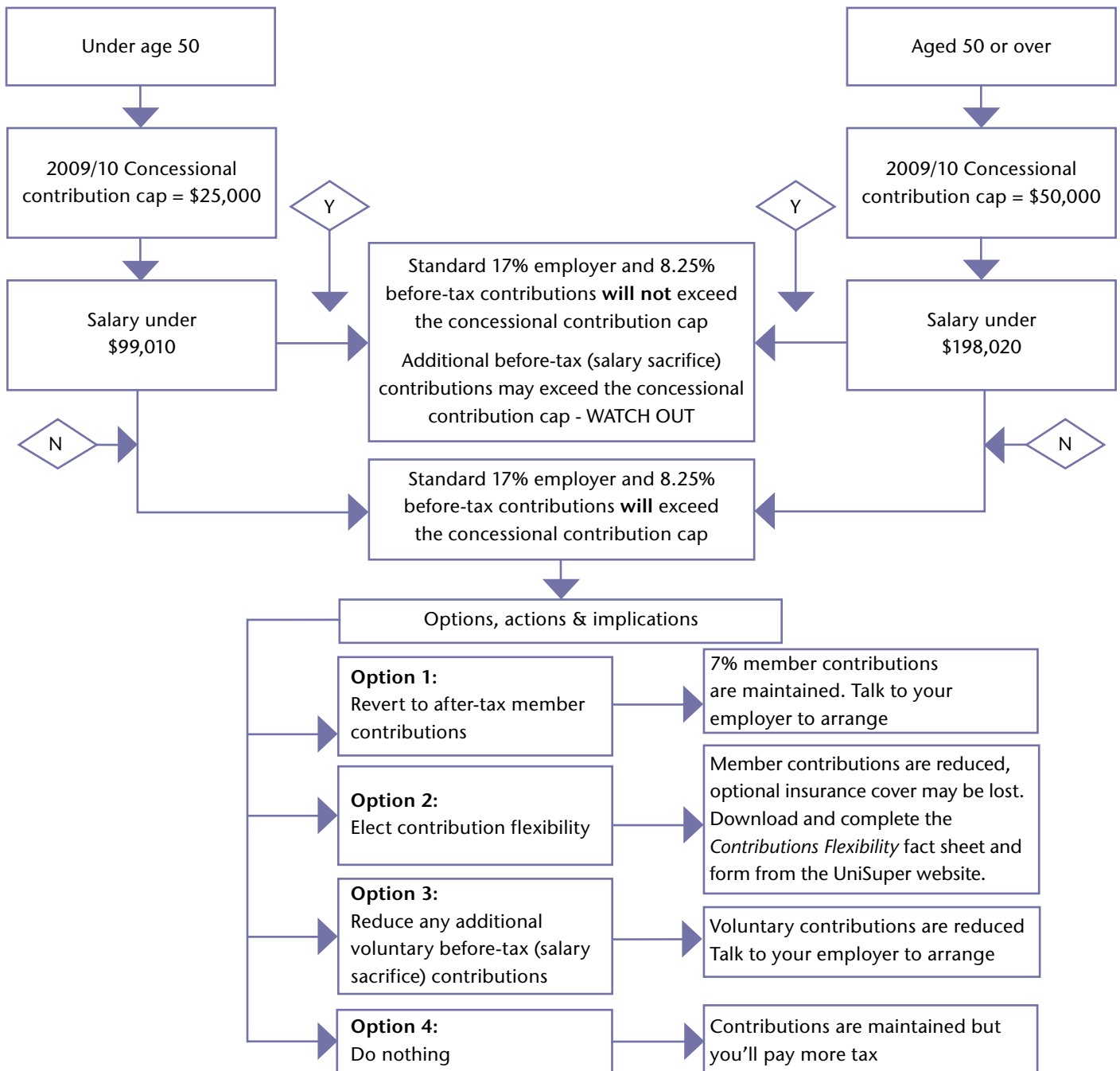
Please note all salary figures are quoted in this fact sheet as being the level at which the concessional contribution cap thresholds will be reached and assume that no additional voluntary before-tax contributions are being made.

Accumulation 2 members

Accumulation 2 members on relatively high incomes could potentially be the hardest hit by the revised concessional contribution caps due to the level of employer and member contributions made as standard.

Indeed for the 2009/10 financial year, a member aged 49 or below can only earn \$99,010 before they reach the cap, assuming a 17% employer and 7% standard member contributions are made via salary sacrifice (8.25% before-tax). This salary figure increases to \$198,020 for those members aged 50 or over.

There are alternatives for those members who are affected by the cap though.



Your options explained

Option 1: Switch to after-tax member contributions

You may elect to make your member contributions after-tax rather than on a before-tax (salary sacrifice) basis. If you were to do this the amount you could effectively earn in the 2009/10 financial year before you reach the concessional contribution cap increases from \$99,010 to \$147,060 for a member aged under 50, (and from \$198,200 to \$294,120 for those aged 50 or above).

This change can also be made without impacting your future retirement savings as the standard 7% member contributions are still maintained.

There are limits on the amount you can contribute on an after-tax basis though. You are limited to \$150,000 of after-tax or non-concessional contributions each financial year. If you are under 65 you will be able to average this over a three-year period.

For example, you can contribute up to \$450,000 of after-tax contributions in a single financial year. After that you can't make any further contributions for the following two financial years, unless you are prepared to pay the tax penalty (46.5% including Medicare levy) for exceeding the cap.

To switch your contributions to an after-tax basis simply talk to your payroll or superannuation officer.

Option 2: Reduce your member contribution using contribution flexibility

Using the contribution flexibility option, you could elect to reduce your standard member contributions to one of the following levels. This may help ensure that your before-tax (concessional) contributions fall below the cap.

Before-tax contribution level
5.25%
4.7%
3.5%
2.4%
1.2%
0%

Please note, if you reduce your contributions there will be a reduction on your ultimate retirement savings. Before deciding to reduce your standard member contributions, UniSuper recommends that you do a thorough assessment of your retirement income goal and the savings that will be needed to fund it, as well as your personal savings habits, financial situation and insurance needs.

If you reduce your standard member contributions you may also no longer be eligible to purchase optional insurance cover.

To reduce your member contributions, download and complete the relevant *Contribution flexibility* fact sheet and form from the UniSuper website. These documents can be found under the *How my Account works* section of the Forms & brochures area.

Option 3: Reduce your additional voluntary before-tax contributions

If you are making additional voluntary contributions on a before-tax basis, you may wish to reduce the level of these contributions to ensure that you remain below the cap. Alternatively you could switch to paying these contributions on an after-tax basis. Talk to your payroll or superannuation officer to arrange this.

Summary

If you are concerned about how the reduced concessional contribution cap may affect you, please call UniSuper or seek financial advice from a licensed financial adviser before making any decisions in relation to your super.



Find out more www.unisuper.com.au enquiry@unisuper.com.au 1800 331 685

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