Understanding how the concessional contribution cap applies to Accumulation 2 members

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 penalty 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 voluntary member contributions that are made under a salary sacrifice arrangement,
• any voluntary member 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% — 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 The amount of this additional tax may be withdrawn from any accumulation super balance you have, it may be paid for from your income or your savings outside of super or from a combination of the above.

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

The concessional contribution cap may have a significant impact on your superannuation and retirement savings so it’s 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 quoted in this fact sheet as being the level at which the concessional contribution cap thresholds will be reached 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 Government’s limit on concessional contributions due to the level of standard employer and member contributions.

For the 2011/12 financial year, a member aged 49 or below can only earn $99,010 before they reach the cap, assuming a 17% employer contribution and 7% standard member contribution 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.

Under age 50

2011/12 Concessional contribution cap = $25,000

Salary under $99,010

Y

17% employer and 8.25% standard member contributions will not exceed the concessional contribution cap

Additional before-tax (concessional) contributions may exceed the concessional contribution cap - WATCH OUT

N

17% employer and 8.25% standard member contributions will exceed the concessional contribution cap

Options, actions & implications

Option 1: Revert to after-tax standard member contributions

7% after-tax member contributions are maintained. Talk to your employer to arrange this.

Option 2: Reduce your standard member contributions

Member contributions are reduced, optional insurance cover may be lost. Download and complete the Contributions Flexibility factsheet and form from the UniSuper website.

Option 3: Reduce any additional voluntary before-tax (salary sacrifice) contributions

Voluntary contributions are reduced Talk to your employer to arrange this.

Option 4: Do nothing

Contributions are maintained but you’ll pay penalty tax.

Aged 50 or over

2011/12 Concessional contribution cap = $50,000

Salary under $198,020

Y

17% employer and 8.25% standard member contributions will exceed the concessional contribution cap

N

Options, actions & implications

Option 1: Revert to after-tax standard member contributions

7% after-tax member contributions are maintained. Talk to your employer to arrange this.

Option 2: Reduce your standard member contributions

Member contributions are reduced, optional insurance cover may be lost. Download and complete the Contributions Flexibility factsheet and form from the UniSuper website.

Option 3: Reduce any additional voluntary before-tax (salary sacrifice) contributions

Voluntary contributions are reduced Talk to your employer to arrange this.

Option 4: Do nothing

Contributions are maintained but you’ll pay penalty tax.
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 2011/12 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 7% standard member contributions are still maintained.

There are limits on the amount you can contribute on an after-tax basis. 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%) for exceeding the cap.

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.

<table>
<thead>
<tr>
<th>Before-tax contribution level</th>
<th>5.25%</th>
<th>4.7%</th>
<th>3.5%</th>
<th>2.4%</th>
<th>1.2%</th>
<th>0%</th>
</tr>
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</table>

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 Factsheet and form from the UniSuper website. These documents can be found under the How my Account works section of the Forms and 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 to ensure that your contributions remain below the cap. Alternatively you could switch to paying these contributions after-tax. Talk to your payroll or superannuation officer to arrange.

Get advice from a licensed financial adviser
If you are concerned about how the reduced concessional contribution cap may affect you, please call UniSuper Advice on 1300 331 685 or seek financial advice from a licensed financial adviser before making any decisions in relation to your superannuation.
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