Superannuation Reform Guide

Your guide to the 2016-17 Federal Superannuation Reforms

From 1 July 2017, a range of super reforms announced in the 2016 Federal Budget will take effect. These may impact your retirement strategy and possibly the contributions you make into superannuation.

As legislation and rules continue to change, it's important to regularly review your plans to ensure you stay on track to achieving the retirement lifestyle you want while avoiding any adverse outcomes such as exceeding the new contribution caps. The changes cover the following areas:

- Concessional superannuation contributions
- Non-concessional contributions
- Superannuation benefits
- Transition to retirement pensions

Super Reform Check List

If you answer yes to any of the questions below we recommend that you book an appointment with CABEL Financial to determine which key opportunities are available to you to maximise your financial position.

- Are you looking at making a lump sum contribution into super?
- Have you made an after-tax super contribution in the last three years?
- Is your superannuation balance over $1.6 million?
- Do you currently have a transition to retirement pension?
- Do you have assets held personally that you will utilise in retirement?
- Does your spouse have a substantially smaller super balance than yourself?

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Key opportunities surrounding these reforms

Before 1 July 2017
Maximise non-concessional contributions
Maximise concessional contributions

From 1 July 2017
Personal deductible contributions expanded to employees
Make spouse super contributions
Make 'catch-up' concessional contributions

Concessional Contribution Changes

From July 1 2017, Concessional contributions include employer contributions (such as the superannuation guarantee and contributions made under a salary sacrifice arrangement), as well as personal contributions claimed as a tax deduction.

- The annual cap on concessional super contributions will reduce from $30,000 or $35,000 (depending on age) to $25,000.
- If you don't completely utilise your concessional contribution cap in a financial year, from 1 July 2018 you will be able to accrue the unused amounts for up to five years. From 1 July 2019, you will be able to make additional concessional contributions on top of the normal annual cap using these unused amounts provided your total superannuation balance is less than $500,000.
- It will be possible to make personal tax deductible super contributions up to your concessional cap regardless of your employment status.
- An additional 15% tax on concessional contributions will be payable by people with defined incomes greater than $250,000 (currently $300,000).

Non-Concessional Contribution Changes

Non-concessional contributions include personal contributions made to super from your after-tax pay or savings and super contributions received from your spouse.

- The annual cap on non-concessional contributions will reduce from $180,000 to $100,000.
- Transitional' rules will apply if you made non-concessional contributions totalling more than $180,000 in 2015/16 or 2016/17.
- The maximum non-concessional contributions that can be made over three years, by bringing forward up to two years' worth of future contributions, will reduce from $540,000 to $300,000.
- Non-concessional contributions will not be able to be made if you have a total superannuation balance over $1.6 million.
- The annual cut-out income threshold that determines eligibility for the spouse contribution tax offset will be increased from $13,800 to $40,000.

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Changes to superannuation benefits

- A lifetime limit of $1.6 million (subject to indexation) will apply to the amount of superannuation that can be transferred into 'retirement phase' accounts. This limit applies to existing pensions and those commenced after 1 July 2017.
- Tax paid on earnings from investments held in 'transition to retirement' pensions will increase from 0% to a maximum of 15%.
- Capital gains tax relief may be available when converting money held in the retirement phase back into the accumulation phase to meet either of the above two requirements.

Transition to Retirement Pensions

The super reforms impact transition to retirement pensions and the role they could play in pre-retirement planning. What's a transition to retirement pension? A transition to retirement (TTR) pension is a pension that has started with superannuation money when you have reached your preservation age, but have not yet retired. These pensions can provide a tax-effective source of income to supplement income from employment or self-employment in the lead-up to retirement.

Many people have implemented a strategy whereby they have:

- Arranged with their employer to contribute part of their pre-tax salary directly into super (via salary sacrifice) or made personal deductible super contributions
- Transferred some of their existing super in a TTR pension, and
- Used the regular payments from the TTR pension to replace the cashflow used to make the extra super contributions.

Using this strategy provides the potential to build a bigger retirement nest egg without reducing current income.

The super reforms that could impact this strategy from 1 July 2017 include:

- The reduction in the annual cap on concessional (pre-tax) super contributions from $35,000 or $30,000 (depending on age) to $25,000, and
- The increase in the tax paid on earnings on investments held in TTR pensions from 0% to a maximum of 15%.

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To achieve the retirement lifestyle you want it's important to regularly review your plans to stay on track.

From 1 July 2017, it's anticipated this strategy will remain effective for some people, but for others it may not be viable.

You should speak with CABEL Financial, who can help you assess whether this strategy remains suitable. It is important to consider the changes as your super fund may be eligible for capital gains tax relief depending on steps you take prior to 1 July 2017.

Top up your income when cutting back work.

Despite the super reforms, a TTR pension can still be effectively used to replace reduced income if you plan to scale back your working hours.

For example, if you plan to cut back your working week from five to three days, you may be able to start a TTR pension and draw enough income to compensate for the two days you won't be working. By doing this, you're likely to pay less tax on the income you receive from the TTR pension than you do on your salary or business income.

This is because the taxable income payments from a TTR pension attract a 15% tax offset between preservation age and 59, and the income payments are tax-free at age 60 or over.

Your Financial Planner

Jessica Waller, Financial Planning Partner has been involved in the provision of financial advice since 2007.

Jessica maintains a high level of enthusiasm about providing the right financial advice and is passionate about helping her clients achieve what is important to them.

She holds a Bachelor of Economics and an Advanced Diploma in Financial Services and is an accredited Self Managed Super Fund specialist.

She is highly skilled in the areas of superannuation and personal protection planning and works closely with her diverse client base to assist them in building wealth and achieving their goals.

Contact Jessica at CABEL Financial- 02 8071 0306

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