

A guide to making the right kind of contributions

TelstraSuper

By now you know why you should be contributing to your super.

But what type of contributions should you make to best boost your savings?

In the years before you retire, how you contribute to your super can be just as important as how much you contribute.

Here are the strategies your financial planner can make work for you.

After you have read this fact sheet, find out how contributing will impact your take home pay.



Visit www.telstrasuper.com.au and try our Pre-tax vs post-tax contributions calculator.

What type of contributions are right for you?

Putting in place the right combination of contribution strategies can be complex. Telstra Super Financial Planning can help you work out which strategies are right for you.

All Telstra Super members can meet with a Financial Planner at no additional cost, and planners are available to meet with members in each capital city.

If you have not already done so, call and make an appointment with Telstra Super Financial Planning on **1300 033 166** or email appointments@telstrasuper.com.au

Pre-tax contributions

Making pre-tax contributions to your superannuation can result in significant tax savings. Whether you will benefit from contributing pre-tax will depend on factors such as your Marginal Tax Rate, current level of superannuation entitlement, and personal circumstances.

Strategy 1 – Make pre-tax contributions

The main advantage of making pre-tax contributions to your super is reducing your taxable income. For people on higher incomes, this can boost your super savings while seeing little difference in your take home pay.

And there are other tax benefits: the money you contribute pre-tax is taxed at 15% (up to the pre-tax contribution limit) rather than your Marginal Tax Rate which for most people is higher. Over the long-term these contributions can make a significant impact on your savings for retirement.

Example – Kate takes advantage of pre-tax contributions

Kate's gross income is \$75,000 and she decides to make pre-tax contributions of \$150 a fortnight to her super.

	Additional pre-tax contribution	No additional contributions to super
Gross income	\$75,000	\$75,000
Less pre-tax contribution	\$3,900	\$0
Taxable income	\$71,100	\$75,000
Less income tax (excluding Medicare and Flood Levy)	\$14,880	\$16,050
Take home pay	\$56,220	\$58,950
Additional super savings*	\$3,315	\$0

Kate's take home pay is now only \$105 less per fortnight than when she did not contribute – but her super savings will be boosted by \$3,315 for the year (after contributions tax of 15%).

* After contributions tax of 15%.

† Assumes 15% contributions tax, 1.5% Medicare levy, investment return of 6% compounding monthly, contributions made monthly and *Telstra Super RetireAccess* payments drawn monthly, inflation not taken into account, returns are net of tax and fees. Assumes income tax based on 1 July 2011 rates. Not discounted to today's dollars. Assumes the pre-tax contribution cap reduces to \$25,000 from 1 July 2012.

Strategy 2 – Reduce your tax, maintain your income, have more in retirement

If you are approaching retirement but still working, a Transition to Retirement strategy can help you build your retirement savings while you save on tax and maintain your standard of living.

A Transition to Retirement strategy involves setting up an income stream with your super, 'salary sacrificing' a significant proportion of your salary to your super to boost your retirement balance, while receiving income payments from your income stream in place of your normal salary. In this way you can reduce your income tax, maintain your disposable income, earn tax-free investment returns on your income stream and build your super.

To be eligible for a Transition to Retirement strategy you must have reached preservation age but be under 65, be currently employed and roll over some or all your funds to a retirement income stream such as *Telstra Super RetireAccess*®.

Example - Anne adopts a Transition to Retirement strategy

Anne is 60 and has a current salary of \$80,000 pa. She has \$250,000 in a *Telstra Super* account. Anne plans to work for another five years.

Anne can transfer her super balance into a retirement income stream to provide a more tax-effective income, while continuing to have employer SG contributions and her voluntary pre-tax contributions paid into her super account.

Let us compare Anne's situation with and without a Transition to Retirement strategy†.

	Basic super accrual	Transition to Retirement
Salary	\$80,000	\$80,000
SG contributions	\$7,200	\$7,200
Salary sacrifice contributions	Nil	\$37,982
Contributions tax	\$1,080	\$6,777
Income stream income payments	Nil	\$25,000
Taxable income	\$80,000	\$42,018
Tax on taxable income (excluding Medicare and Flood Levy)	\$18,750	\$5,766
Total annual income after tax	\$61,250	\$61,252
Total super after 5 years	\$360,203	\$393,479

If Anne adopts the Transition to Retirement strategy, after five years she could achieve:

- little change to her net salary;
- an income tax saving of \$39,804 meaning her net tax saving once superannuation contributions tax has been included is \$21,929 which enables her to boost her super by \$33,276; and
- further tax savings and potentially higher investment returns by paying no tax on investment earnings in her *Telstra Super RetireAccess* account.

Post-tax contributions

If you are a lower income earner or you have a non-working spouse, you may be better off making post-tax contributions. This could enable you to take advantage of Government initiatives such as the co-contribution scheme and spouse tax offset, which only apply to post-tax contributions.

Strategy 1 – Access the spouse offset

If you make post-tax contributions on behalf of your spouse you may be eligible for a tax offset of up to \$540*. With this strategy your spouse may be employed or not currently employed at all.

You can claim an 18% tax offset on the first \$3,000 of contributions you make each financial year on your spouse's behalf, provided that their income is \$10,800 or less. You can get a partial offset if their income is over \$10,800 but the offset no longer applies for income over \$13,800.

So, simply by re-directing some contributions, you may be able to access the offset and further boost your savings, while at the same time increasing your spouse's super.

Example – Ray reaps the offset

Cathy works on a casual basis. Her income is \$9,450 a year. Her spouse Ray already contributes \$5,200 a year to his own super, but decides to contribute on Cathy's behalf to access the spouse offset.

Ray reduces his contributions to \$2,200 a year, and re-directs \$3,000 into an account for Cathy. He now receives a tax offset of \$540.



Use our online Spouse tax offset calculator to work out the possible tax offset for contributing to your spouse's account.

Remember, it is not too late to make a difference to the amount you will have for your retirement – if you contribute the right way.

Strategy 2 – Combine co-contributions and spouse contributions

Set up as a super savings boost for low income earners, the Government's co-contribution scheme means you may be eligible to receive contributions of \$1 for every dollar you put into your super as a personal contribution, up to a maximum of \$1,000 a year.

The \$1,000 maximum co-contribution is available for incomes up to \$31,920 for the current financial year. The maximum amount of \$1,000 reduces by 3.333 cents for every dollar of additional income, up to the threshold of \$61,920, when it phases out completely.

If you are a couple approaching retirement and one person is a full-time salary earner and the other a part-time worker, you may be able to boost your super savings further by combining co-contributions with spouse contributions.

This is how it can work: one spouse, generally the full-time worker on a higher salary, makes spouse contributions into their spouse's super. The other spouse makes a personal post-tax contribution to their own super.

The couple can then receive a spouse contribution offset (up to \$540) and up to the maximum \$1,000 co-contribution from the Government.

Example – Cathy cashes in

Following on from the previous example, instead of Ray contributing the entire \$3,000 as a spouse contribution to Cathy's account, Cathy decides to make her own personal post-tax contribution to be eligible for a Government co-contribution of \$1,000 a year. Ray makes a \$2,000 spouse contribution for Cathy.

Spouse contributions only		Spouse contributions and Co-contributions	
Spouse contribution	\$3,000	Spouse contribution	\$2,000
Tax offset (18% of contribution)	\$540	Tax offset (18% of contribution)	\$360
		Personal post-tax contribution	\$1,000
		Government Co-contribution	\$1,000
Total	\$3,540	Total	\$4,360

By combining co-contributions and the spouse offset, the couple has boosted their super investment by \$1,000, and reduced Ray's tax liability by \$360. Compared to using spouse contributions only, the net benefit to the couple is \$820 (\$4,360-\$3,540) for the year, without investing a single cent more – simply by being a little smarter with the structure of their contributions.

* Your spouse must be under 65 years of age and be someone you are presently in a relationship with and with whom you live on a genuine domestic basis as a couple.

Limits on contributing to your super

There are limits to the amount of pre and post-tax contributions you can make to your super. The ATO will monitor your contributions and send you a tax bill if you exceed the limits.

Pre-tax contribution limit

The pre-tax contribution limit for the current financial year is \$25,000 pa per person and will be indexed to Average Weekly Ordinary Time Earnings (AWOTE) but indexation will only take effect once it exceeds the existing cap by \$5,000.

The limit includes:

- employer contributions
- salary sacrifice contributions
- pre-tax contributions made to your spouse under the Contribution Splitting rules, applicable to the contributing spouses's limit
- pre-tax contributions to other super funds

Contributions up to the \$25,000 limit will be subject to 15% contributions tax. Pre-tax contributions in excess of the pre-tax contributions limit will be taxed at 46.5% and will count towards your post-tax contribution limit.

Please note: It is now considered likely that insurance premiums paid indirectly by employers through allocation of surplus or reserves on behalf of their employees will be considered pre-tax contributions and count towards a member's pre-tax contribution limit. To find out if your employer pays your insurance premiums, log into SuperOnline™ at www.telstrasuper.com.au

Transitional arrangements

During the period 1 July 2009 to 30 June 2012 the pre-tax contributions limit for persons aged 50 years and over will be \$50,000 pa per person. The transitional limit will not be indexed but will remain at \$50,000 pa per person throughout the transitional period. You are eligible to use the transitional limit of \$50,000 pa provided you are aged 50 and over at the end of the financial year in which the contribution was made.*

Post-tax contribution limit

The post-tax contribution limit for the current financial year is \$150,000 pa per person and will not be directly indexed but will remain at six times the pre-tax contributions limit, which is indexed.

The limit includes:

- spouse contributions made into your account
- pre-tax contributions in excess of the pre-tax contributions limit
- transfers from overseas.

The limit does not include:

- roll-overs from other super funds
- Government co-contributions
- proceeds from the disposal of eligible small business assets up to an indexed lifetime limit. For further conditions and to find out the current limit visit the ATO website www.ato.gov.au
- proceeds from a settlement for an injury resulting in permanent disablement.

Post-tax contributions in excess of the post-tax contributions limit will be taxed at 46.5%.

If you are under 65 years in the relevant income year, you can bring forward two years of post-tax contributions and make a lump sum contribution of \$450,000 in one financial year. So if you made a \$450,000 contribution during the 2010/2011 financial year, you would not be allowed to make any further post-tax contributions until the 2013/2014 financial year.

If you are 63 or 64 years you are able to bring forward two years contributions without meeting the work test in the subsequent two years.

* In the 2011 Federal Budget, the Government announced the permanent extension of the transitional pre-tax contributions cap for those over 50 with account balances of less than \$500,000.

This information is general advice only and does not take into account your individual objectives, financial situation or needs. Before acting on any advice you should assess whether it is appropriate for you and consider talking to a financial adviser. Before making any decision or acquiring any product, you should obtain and review the product disclosure statement by calling 1300 033 166 or visiting our website at www.telstrasuper.com.au

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