Fact sheet

Options for non-grandfathered DBD members at risk of exceeding the concessional contributions cap

What this fact sheet does

This fact sheet is intended to be read in conjunction with the following fact sheet that is relevant for you:

- *The concessional contributions cap and notional taxed contributions (NTCs) for DBD members receiving 17% employer contributions*
- *The concessional contributions cap and notional taxed contributions (NTCs) for DBD members receiving 14% employer contributions*

Please refer to these documents if you wish to clarify any of the terms in this fact sheet and to determine your NTC new entrant rate.

Who is it for?

This fact sheet is for UniSuper members who joined the Defined Benefit Division (DBD) after 12 May 2009, or have otherwise lost grandfathering. If grandfathering rules apply to you, refer to the *Options for grandfathered DBD members at risk of exceeding the concessional contributions cap* fact sheet.

Your options at a glance

If you are likely to exceed your concessional contributions cap and don't want to pay extra tax you have a number of options to consider.

Option	What are the implications?	What action is required?
Elect to reduce standard member contributions under contribution flexibility arrangements	• Standard member contributions are reduced • Your insurance cover may be affected, particularly where you do not have an accumulation component from which the premium can be paid* • Your defined benefit entitlement is generally scaled back in proportion to your reduced standard member contributions over time • Your death and terminal medical condition benefit is generally reduced • Your decision to reduce your standard member contributions is irrevocable	Read and complete the *Contributions flexibility fact sheet and application form.* You can download this from the unisuper.com website
Revert to after-tax member contributions	• 7% member contributions are maintained • You may pay more tax on your salary	Talk to your employer to arrange
Reduce any additional voluntary before-tax (salary sacrifice) contributions	• Voluntary before-tax contributions are reduced	Talk to your employer to arrange
Do nothing	• Contributions maintained • You will pay excess contributions tax	Nothing

* refer to your relevant product disclosure statement for more information.

UniSuper

What are Notional Taxed Contributions (NTCs)?

Calculating the annual Notional Taxed Contributions (NTC) amount

To determine the Notional Taxed Contribution amount for a financial year, UniSuper uses the following formula:[1]

$$1.2 \times \left(\text{New entrant rate} \times \text{Superannuation salary at start of financial year} \times \frac{\text{Days in NTC category}}{365} - \text{Any after-tax contributions} \right)$$

Superannuation salary at start of financial year: Adjusted for any period of part-time work

Any after-tax contributions: made to the DBD component

[1] The NTC amount determined using the above formula could be further increased in some cases – including where your superannuation salary is increased by a non-arm's length amount, or the rules of the fund are changed resulting in an increase in the value of your retirement benefit.

Case Study: Bob

Member profile for 2012/13 financial year	
Joined DBD	13 May 2009
Age	40 years
Member contribution rate (before tax)	8.25% (maximum standard member contribution)
Employer contribution rate	17% (14% to the DBD; 3% to an accumulation component)
Superannuation salary at 1 July 2012	$170, 000 p.a.
NTC new entrant rate	14%
2012/13 concessional contribution threshold (before tax)	$25, 000

The following calculation, applying the NTC formula, will apply for the 2012/13 financial year:

NTC to the defined benefit component 1.2 (14% x $170, 000 - 0)	$28, 560
Employer contributions to accumulation component (before tax) 3% of $170, 000	$5, 100
Total concessional contributions **counting towards the 2012/13 concessional contributions cap** $28, 560 + $5, 100	$33, 660
Bob's excess concessional contributions $33, 660 - $25, 000	$8, 660 Bob will need to pay an extra 31.5% in tax on this amount.

How can I manage this issue?

While you generally can't influence the amount of concessional contributions your employer makes on your behalf, you should regularly review your own contributions to super. UniSuper recommends you do this as part of a thorough assessment of your retirement savings goals, as well as your financial situation, personal savings habits, and insurance needs. We encourage you seek financial advice on this complex topic.

Your options explained

Option 1: Elect to reduce standard member contributions under contribution flexibility arrangements

You could use the contribution flexibility option to reduce your standard member contributions. This may effectively lower your concessional contributions and any additional 3% employer contributions may be redirected to your defined benefit component. If you are receiving no other concessional contributions this option may reduce the additional tax payable.

Whether, and by how much, your NTCs could be reduced by electing to reduce your standard member contributions depends on when you became a member of UniSuper's DBD, the level of employer contributions made to your DBD component, whether your standard member contributions are made before tax or after tax, and the extent to which you reduce the level of your standard member contributions.

Before deciding to reduce your standard member contributions, UniSuper recommends seeking financial advice. This is a complex decision and there will be a reduction in your ultimate retirement savings and inbuilt benefits. Also, if you reduce your standard member contributions your insurance cover may be affected, particularly where you do not have an accumulation component from which the premium can be paid.

For more information on contribution flexibility, refer to the following fact sheets:

- *Contribution flexibility fact sheet – 17% contributions*
- *Contribution flexibility fact sheet – 14% contributions*

CASE STUDY: Contribution flexibility undertaken

Assume Bob reduces his before-tax member contributions to 5.25% p.a. In this scenario, the 3% additional employer contributions that would otherwise go towards Bob's accumulation component are redirected to his defined benefit component. As full defined benefit entitlements are maintained at this contribution level, his NTC new entrant rate remains the same. The following calculation would apply:

NTC to the defined benefit component **1.2 (14% x $170, 000 - 0)**	$28, 560
Before-tax employer contributions to accumulation component **0% of $170, 000**	$0
Total concessional contributions **counting towards the 2012/13 concessional contributions cap**	$28, 560
Bob's excess concessional contributions **$28, 560 - $25, 000**	$3, 560 Bob will need to pay an extra 31.5% in tax on this amount.

Option 2: Revert to after-tax member contributions

You may elect to make your member contributions on an after-tax basis rather than on a before-tax (salary sacrifice) basis.

In this case, your salary could be approximately $219, 250 before the concessional contributions cap is reached.

Please note you are limited to $150, 000 of after-tax (non-concessional) contributions each financial year. If you are aged below 65 you will be able to average this over a three-year period – so, $450, 000 of after-tax non-concessional contributions over three financial years.

For example, if you are under 65 you can contribute up to $450, 000 in a single year. After that you can't make any further contributions for the following two financial years unless you are prepared to pay the non-concessional contributions tax penalty (46.5%) for exceeding the cap.

CASE STUDY: Bob reverts to after-tax contributions

Assume Bob reverts to making after-tax member contributions of 7% (rather than salary sacrifice of 8.25%).

As full defined benefit entitlements are maintained at this contribution level, his NTC new entrant rates will remain the same, however the non-concessional contributions are deducted from his NTC. This means the following calculation would apply:

NTC to the defined benefit component **1.2 (14% x $170, 000 – 7% x $170, 000)**	$14, 280
Before-tax employer contributions to accumulation component **3% x $170, 000**	$5, 100
Total concessional contributions **counting towards the 2012/13 concessional contributions cap of $25, 000**	$19, 380
Bob's excess concessional contributions	$0 Bob will not be liable to pay an extra 31.5% tax, because his excess concessional contributions do not exceed the $25, 000 concessional contributions cap.

Important note

Salary sacrificing your superannuation contributions normally reduces the amount of income tax you have to pay, so deciding to switch to after-tax contributions could therefore increase tax payable on your salary.

This option would maintain your final superannuation benefit as the standard 7% member contributions are maintained.

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

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

Option 4: Do nothing

If you don't mind paying the extra tax, you don't need to do anything. Remember, once money is contributed to super, it can remain in super. Superannuation earnings and withdrawals will still be concessionally taxed, but the caps will operate to limit the amount you can contribute to super at concessional tax rates.

Where can I get help?

- To see your personal NTC amount log into MemberOnline (the secure part of our website) and visit the NTC area under the My Account tab.
- You can call us on **1800 331 685** for general advice and to ask any questions you may have about concessional contributions caps, NTCs, contribution flexibility, or super in general.
- Before making any decision about the options available to manage your concessional contributions, we strongly recommend that you consult a qualified financial adviser. You can speak to UniSuper Advice for personal advice that takes your specific financial goals and needs into account. For more information visit **www.unisuper.com.au/advice**, or call UniSuper Advice on **1300 331 685**.

This information is of a general nature only and includes general advice. It has been prepared without taking into account your individual objectives, financial situation or needs. Before making any decision in relation to your UniSuper membership, you should consider your personal circumstances, the relevant product disclosure statement for your membership category and whether to consult a licensed financial adviser.

This information is current as at July 2012 and is based on our understanding of legislation at that date. Information is subject to change. To the extent that this fact sheet contains information which is inconsistent with the UniSuper Trust Deed and Regulations (together the Trust Deed), the Trust Deed will prevail.

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UniSuper: ABN 91 385 943 850
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Date: July 2012 UNIS000F89 0712