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

The government imposes caps on the amount you can contribute to super each year at concessional tax rates. If you exceed your concessional (before-tax) contributions cap, the Australian Taxation Office (ATO) will assess you for extra tax at your marginal tax rate and will also calculate an interest charge, known as the 'excess concessional contributions charge'.

While you'll be required to pay these taxes personally, you may be able to withdraw up to 85% of excess concessional contributions from your accumulation component. If you're likely to exceed your contributions cap and don't want to pay extra tax, you have a number of options to consider. Excess concessional contributions are also counted towards the non-concessional contributions cap.

Who is this fact sheet for?

This fact sheet is for UniSuper members who joined the Defined Benefit Division (DBD) prior to 12 May 2009 and have not lost grandfathering. If grandfathering rules don't apply to you, refer to the *Options for non-grandfathered DBD members at risk of exceeding the concessional contributions cap* fact sheet. If you're not sure if this applies to your membership, please call us on 1800 331 685.

What this fact sheet covers

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 to clarify any of the terms in this fact sheet and to determine your NTC new entrant rate.

Your options at a glance

OPTION	WHAT ARE THE IMPLICATIONS?	WHAT ACTION IS REQUIRED?
1. Elect to reduce default member contributions to your defined benefit (DB)	• Default member contributions to your DB component are reduced • Your insurance cover may be affected, particularly where you don't have an accumulation component from which the premium can be paid* • Your defined benefit entitlement is generally scaled back in proportion to your reduced default member contributions over time • Your death and terminal medical condition benefit is generally reduced • Your decision to reduce your default member contributions is irreversible • If your employer is contributing 17% super, the 3% that's being paid to your accumulation component will instead be paid to your defined benefit component.	Read and complete the *Default member contribution fact sheet and form* You can download this from **unisuper.com.au**
2. Revert to after-tax member contributions to your defined benefit (DB) rather than before-tax (salary sacrifice)	• 7% default member contributions are maintained to your DB component • You may pay more tax on your salary	Talk to your employer to arrange
3. Reduce any additional voluntary before-tax (salary sacrifice) contributions	• Voluntary before-tax contributions are reduced	Talk to your employer to arrange
4. Do nothing	• Contributions maintained • You may exceed your cap	Nothing

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

What are Notional Taxed Contributions (NTCs)?

Notional taxed contributions are your estimated taxed contributions for your DB component for the financial year.

CALCULATING THE ANNUAL NOTIONAL TAXED CONTRIBUTIONS (NTC) AMOUNT

To determine the NTC amount for a financial year, we use the following formula:

$$1.2 \times \left(\text{NEW ENTRANT RATE} \times \text{SUPERANNUATION SALARY AT START OF FINANCIAL YEAR} \times \frac{\text{DAYS IN NTC CATEGORY*}}{365} - \text{ANY AFTER-TAX CONTRIBUTIONS made to the DB component} \right)$$

* Adjusted for any period of part-time work.

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: Jill

MEMBER PROFILE FOR 2020-21 FINANCIAL YEAR	
Joined DBD	11 May 2009
Age	48 years
Member contribution rate *(before tax)*	8.25% *(maximum default member contribution)*
Employer contribution rate	17% *(14% to the DBD; 3% to an accumulation component)*
Superannuation salary at 1 July 2020	$200,000 p.a.
NTC level new entrant rate[2]	13%
2020-21 concessional contribution threshold (before tax)[3]	$25,000
The following calculation, applying the NTC formula, will apply for the 2020-21 financial year:	
NTC to the defined benefit component 1.2 x (13% x $200,000 x 365/365 - 0)	$31,200
NTC *(equal to cap due to special 'grandfathering' arrangements)*	$25,000
Employer contributions to accumulation component *(before tax)* 3% of $200,000	$6,000
Total concessional contributions counting towards the 2020-21 concessional contributions cap $25,000 + $6,000	$31,000
Jill's excess concessional contributions $31,000 - $25,000	$6,000[4] *The ATO will add this amount to Jill's assessable income and she will have to pay additional tax at her effective marginal tax rate (plus an interest charge) less a tax offset equal to 15% of her excess concessional contributions.*

[2] Please refer to the fact sheets outlined on page one under 'What this fact sheet covers' for how the new entrant rate is determined.
[3] The concessional contributions cap for the 2020-21 financial year is $25,000.
[4] Additional tax of 15% may also be imposed on concessional contributions for those with incomes and relevant contributions over $250,000 for the 2020-21 financial year.

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. We recommend 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 to seek financial advice on this complex topic.

Your options explained

OPTION 1: ELECT TO REDUCE DEFAULT MEMBER CONTRIBUTIONS

You can reduce your default member contributions. This may effectively lower your concessional contributions and any additional 3% employer contributions (if your employer is making 17% super contributions) and will be redirected to your defined benefit component. If you're 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 default member contributions depends on the level of employer contributions made to your DB component, whether your default member contributions are made before tax or after tax, and the extent to which you reduce them.

UniSuper recommends seeking financial advice before making any changes. This is a complex decision and there will be a reduction in your ultimate retirement savings and benefits. Also, if you reduce your default member contributions, your insurance cover may be affected, particularly where you don't have an accumulation component from which the premium can be paid.

Your decision to reduce your default member contribution is irreversible.

For more information on reducing your default member contributions, refer to the *Default member contributions fact sheet and form*.

Case study: Jill

REDUCTION OF DEFAULT MEMBER CONTRIBUTIONS	
Assume Jill reduces her before-tax member contributions to 5.25% p.a. In this scenario, the 3% additional employer contributions that would otherwise go towards Jill's accumulation component are redirected to her defined benefit component (as Jill's employer is making 17% super contributions). As full defined benefit entitlements are maintained at this contribution level, her NTC new entrant rate remains the same. The following calculation would apply:	
NTC to the defined benefit component 1.2 x (13% x $200,000 x 365/365 - 0)	$31,200
NTC *(limited due to special 'grandfathering' arrangements)*	$25,000
Employer contributions to accumulation component *(before tax)* 0% of $200,000	$0
Total concessional contributions counting towards the 2020-21 concessional contributions cap $25,000 + $0	$25,000
Jill's excess concessional contributions $25,000 - $25,000	$0 *(Jill will not exceed the $25,000 concessional contributions cap.)*

OPTION 2: REVERT TO AFTER-TAX MEMBER CONTRIBUTIONS

For your defined benefit member component, you may elect to make your default member contributions on an after-tax basis rather than on a before-tax (salary sacrifice) basis.

If you're covered by the 'grandfathering' arrangements and your NTC is already at the concessional contributions cap, reverting to after-tax contributions may take your NTC below the cap, potentially reducing the amount of other concessional contributions to your accumulation component that exceed the cap.

Please note you're generally limited to $100,000 of non-concessional (after-tax) contributions each financial year -provided your total super balance is below the general transfer balance cap on 30 June of the previous financial year. If you're aged below 65, you may be able to average this over a three-year period – so, possibly up to $300,000 of after-tax non-concessional contributions over three financial years.

For example, if you're under 65 you may be eligible to contribute up to $300,000 of non-concessional contributions in a single year. After that, you can't make any further contributions for the following two financial years.

Important information

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 default 7% member contributions are maintained.

Case study: Jill

JILL REVERTS TO AFTER-TAX CONTRIBUTIONS	
Assume Jill reverts to making after-tax default member contributions of 7% (rather than salary sacrifice of 8.25%). As full defined benefit entitlements are maintained at this contribution level, her NTC new entrant rate remains the same but the after-tax contributions are deducted from her NTC. This means the following calculation would apply:	
NTC to the defined benefit component 1.2 x [(13% x $200,000 x 365/365) - (7% x $200,000 x 365/365)]	$14,400
Employer contributions to accumulation component *(before tax)* 3% x $200,000	$6,000
Total concessional contributions counting towards the 2020-21 concessional contributions cap[5]	$20,400
Jill's excess concessional contributions $20,400 - $25,000	$0 *(Jill will not exceed the $25,000 concessional contributions cap.)*

[5] The concessional contributions cap for the 2020-21 financial year is $25,000.

OPTION 3: REDUCE ANY ADDITIONAL VOLUNTARY BEFORE-TAX (SALARY SACRIFICE) CONTRIBUTIONS

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.

OPTION 4: DO NOTHING

If you don't mind exceeding your concessional contributions cap, you don't need to do anything. Remember, once money is contributed to super, it can remain in super. Super 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.

Rules for excess concessional contributions

Members who make or receive concessional contributions in excess of the cap can make an irrevocable election to have up to 85 per cent of their excess concessional contributions for a financial year released from their super account. An amount released as a result of such an election is not assessable income or exempt income of that individual.

Note: UniSuper will not release excess concessional contributions from the defined benefit component but will release funds from the accumulation component.

Where can I get help?

- To see your personal NTC amount, log in to your account and visit the NTC area under the 'Balances' tab.
- Call us on **1800 331 685** for general information and to ask any questions you may have about concessional contributions caps, NTCs, or super in general.
- Meet with one of our super consultants at your workplace, or at one of our member centres, to discuss your super contributions. Visit **unisuper.com.au/campusbookings**.
- 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 **unisuper.com .au/advice**, or call UniSuper Advice on **1800 823 842**.

Issued by: UniSuper Management Pty Ltd ABN 91 006 961 799, AFSL No. 235907 on behalf of UniSuper Limited the trustee of UniSuper, Level 1, 385 Bourke Street, Melbourne Vic 3000.

Fund: UniSuper, ABN 91 385 943 850
Trustee: UniSuper Limited, ABN 54 006 027 121, AFSL No. 492806
Date: July 2020 UNIS000F88 0720