

Options for non-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.

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.

Who is this fact sheet 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. If you're not sure if this applies to your membership, please call us on **1800 331 685**.

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) component	<ul style="list-style-type: none"> → 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 	<p>Read and complete the <i>Default member contributions fact sheet and form</i></p> <p>You can download this from unisuper.com.au</p>
2. Revert to after-tax member contributions to your defined benefit (DB) rather than before-tax (salary sacrifice)	<ul style="list-style-type: none"> → 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	<ul style="list-style-type: none"> → Voluntary before-tax contributions are reduced 	Talk to your employer to arrange
4. Do nothing	<ul style="list-style-type: none"> → 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.

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

Case study: Bob

MEMBER PROFILE FOR 2019-20 FINANCIAL YEAR

Joined DBD	13 May 2009
Age	48 years
Member contribution rate (<i>before tax</i>)	8.25% (<i>maximum default member contribution</i>)
Employer contribution rate	17% (<i>14% to the DBD; 3% to an accumulation component</i>)
Superannuation salary at 1 July 2019	\$200,000 p.a.
NTC new entrant rate ²	13% - from 1 January 2015
2019-20 concessional contribution threshold (<i>before tax</i>) ³	\$25,000

The following calculation, applying the NTC formula, will apply for the 2019-20 financial year:

NTC to the defined benefit component 1.2 x (13% x \$200,000 x 365/365 - 0)	\$31,200
Employer contributions to accumulation component (<i>before tax</i>) 3% of \$200,000	\$6,000
Total concessional contributions counting towards the 2019-20 concessional contributions cap \$31,200 + \$6,000	\$37,200
Bob's excess concessional contributions \$37,200 - \$25,000	\$12,200 ⁴ (<i>Bob has exceeded his concessional contributions cap and the excess will be added to his assessable income.</i>)

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 would 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 when you became a member of UniSuper's DBD, 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.

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 2019-20 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 2019-20 financial year.

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, read the following:

...➤ *Default member contributions fact sheet and form.*

CASE STUDY: REDUCTION OF DEFAULT MEMBER CONTRIBUTIONS

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 Bob's employer is making 17% super contributions). 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 x (13% x \$200,000 x 365/365 - 0)	\$31,200
Employer contributions to accumulation component (before-tax) 0% of \$200,000	\$0
Total concessional contributions counting towards the 2019-20 concessional contributions cap	\$31,200
Bob's excess concessional contributions \$31,200 - \$25,000	\$6,200 <i>(Bob has exceeded his concessional contributions cap and the excess will be added to his assessable income.)</i>

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.

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: BOB REVERTS TO AFTER-TAX CONTRIBUTIONS

Assume Bob 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, his NTC new entrant rate will remain the same, but the after-tax contributions are deducted from his NTC. This means the following calculation would apply:

NTC to the defined benefit component $1.2 \times [(13\% \times \\$200,000 \times 365/365) - (7\% \times \\$200,000 \times 365/365)]$	\$14,400
Employer contributions to accumulation component (before-tax) $3\% \times \\$200,000$	\$6,000
Total concessional contributions counting towards the 2019-20 concessional contributions cap of \$25,000⁵	\$20,400
Bob's excess concessional contributions $\\$20,400 - \\$25,000$	\$0 (Bob will not be liable to pay extra tax, because his excess concessional contributions do not exceed the \$25,000 concessional contributions cap.)

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. Talk to your payroll or superannuation officer to arrange this.

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 concessional tax, 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 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 on-campus 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.

⁵ The concessional contributions cap for the 2019-20 financial year is \$25,000.

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 2019 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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