

Superannuation Information Kit

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Every effort has been made to ensure the accuracy of the information provided.
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Your Guide to
Superannuation

Dear Constituent

This guide is designed to help you to better understand the superannuation system. It also provides you with a summary of some of the more recent changes to super – particularly Choice of Fund, the co-contribution and Simpler Super which commenced on 1 July 2007.

Labor in the interests of certainty and stability will maintain these changes.

At the back of the guide is a list of contact numbers of organisations that may be able to help you further.

Of course, please call my office on (02) 4228 5899, if you feel I can be of any further assistance in this or any other matter which may be of concern to you.

It is a guide only; superannuation is very complex so full details can be obtained by contacting the numbers provided.

Labor is strongly committed to superannuation as an "add on" to the age pension for most so they can save a nest egg for the future. It was a Labor Government which introduced compulsory superannuation in the late 1980s, currently 9% paid by employers for most employees. It will assist in providing greater financial security and self-reliance in retirement and help deal with the challenges of an ageing population.

A simple and safer superannuation system is crucial for Australia.

Strong regulation to deliver fair fee levels and improved compensation when things go wrong is also needed to protect your superannuation.

Labor will release specific policies to improve the superannuation system in the run up to the 2007 election.

I hope that you find this guide helpful. If you have any suggestions or comments please be sure to let me know.

Yours sincerely



SHARON BIRD MP

Member for Cunningham

Chapter 1

Understanding Super

In this section

- What is superannuation?
- Why is super so important?
- Who gets super?
- Understanding super
- What are super funds?
- How do superannuation funds work?
- What type of benefits do they provide?
- What type of funds are there?
- Fees and charges?

What is superannuation?

Superannuation is a tax-effective way of saving for your retirement as you attract generous tax savings by contributing money to super instead of other savings vehicles. The tax savings varies depending on the marginal tax rate you pay on your income.

Labor is strongly committed to superannuation as an "add on" to the age pension for most so they can save a nest egg for the future to ensure they enjoy a quality of life in retirement.

Labor introduced compulsory superannuation in the late 1980s, then the superannuation guarantee (SG), the biggest reform to super in Australia's history.

Compulsory super means employers pay 9% superannuation for most employees (This adds over \$60 billion to superannuation savings every year). It will assist in providing greater financial security and self-reliance in retirement and help deal with the challenges of an ageing population.

The now Liberal Government, including John Howard, strongly opposed compulsory superannuation.

At the time Labor introduced compulsory super John Howard said:

"That it is not genuine superannuation; it is a disguised deferred pay rise" and "Last night's deal was a classic industrial relations sell-out of the long term national interest".

Without doubt super is the best way to save for your retirement.

Why is superannuation so important?

Having a superannuation nest-egg to supplement your age pension income will help pay for the extras which make life enjoyable and help you maintain your lifestyle in retirement.

The age pension is presently set at 25% of male total average weekly earnings (MTAWE) or approximately \$13,980.20 per year for a single person or \$23,353.20 combined pension for a couple. For many people, that will not be enough to live the way they would like to in retirement. A recent survey revealed 62% of Australians said that they would not have enough for retirement with their current level of savings.

It is important for people to try to save as much as they can for their retirement now.

Who gets super?

Employers generally have to pay superannuation for all employees who earn more than \$450 a month.

Currently, almost 90 per cent of the workforce enjoys the benefit of superannuation contributions made by employers on their behalf under the Superannuation Guarantee (SG).

Before Labor introduced the current superannuation system, fewer than 40 per cent of workers had superannuation, and those workers were mainly high income earners or those in the public service.

A more detailed description of Superannuation Guarantee is given in Chapter 2.

Understanding superannuation

This guide is designed to give you an understanding of superannuation. There are two main stages an individual needs to understand to really appreciate super. As such this guide will explain in detail two stages of super:

- Contribution stage – the rules and ways individuals can contribute to super, the tax advantages and benefits one can gain from contributing to super, the importance of choosing the right super fund for you.
- Retirement stage – when, how and what taxes you pay when you draw down on your superannuation in retirement.

What are Super funds?

Your employer and personal superannuation contributions are paid into an account in a superannuation fund.

It is important to understand the differences between super funds as they can make a big difference to your final benefit payment in retirement.

These are explained in more detail later in this section.

How do superannuation funds work?

When your employer contributes to your superannuation fund your money is pooled with other contributions and managed through a trust.

A board of trustees ensure that your money is being invested wisely and that employers do not use your superannuation for inappropriate investment, for example, to invest in their own company, which could

be a risky investment strategy and not in your long term retirement interests.

Trustees receive special training and must always act in the best interests of the fund members. As superannuation is a long-term investment, trustees generally take a long-term approach to investing your super savings.

Trustees can and do use a number of specialists to help them look after your money.

These specialists are fund managers, asset consultants and investment advisers who help the trustees choose investments which give you a long term return on your superannuation contribution.

The trustees have several important responsibilities under the law including an obligation to invest your money as if it were their own. That means they should not take excessive risks in the investments they make—they should act as if they would be happy to make such investments with their own money.

If they fail in their duties, trustees can be charged with both criminal and civil offences.

Trustees are also responsible for the actions of their specialist advisers. If a fund manager or investment adviser gives bad advice or misuses the funds at their disposal, the trustees can take the adviser to court but the courts may also hold the trustees accountable for any losses to the fund.

If monies are lost due to theft and fraud, the Government can levy a small charge on all other superannuation funds to put back part of your lost superannuation money.

What type of benefits do funds provide?

There are two basic types of benefits: an accumulation or a defined benefit.

An Accumulation Benefit

This is the most common type of superannuation fund in Australia.

Your superannuation is invested by your super fund and you earn interest from the investment. The interest is then added to your total and you receive a lump sum benefit when you retire. At retirement this can be converted all or part to a annuity/pension if you wish.

A Defined Benefit

This is an older style of benefit most commonly provided by corporate and public sector employer funds

When you join the fund you are told how much your savings will be worth when you retire, the fund amount is guaranteed. There is less flexibility with these funds, but usually they provide a greater retirement benefit at the end.

The payment will be a lump sum or pension, or both after a given number of years with an employer.

What types of super funds are there?

There are many different types of superannuation funds and products on the market, including:

- Industry funds
- Employer/corporate funds
- Retail funds
- Retirement Savings Accounts (RSAs)
- Self managed (DIY) funds

Industry Funds

Many industries have established their own super funds for the employees in their particular industry.

These funds are amongst the largest superannuation funds in the country and some are now ‘public offer funds’ meaning that any member of the public can join them. That means that you do not have to work in the specific industry for which the fund was first established to become a member.

Thousands of businesses, large and small, prefer industry super funds as they help cut down on the time and costs of paying employees superannuation contributions into separate superannuation funds.

These funds are managed by equal numbers of employer and employee representatives who are appointed as trustees of the fund.

Industry funds usually have excellent rates of return for members and, most importantly, some of the lowest fees and charges. They do not have to pay commissions to advisors nor do they have to make a profit for shareholders—nearly all of the investment returns on superannuation funds go back to the fund members. They are profit for members.

Many people also want to be able to choose how their money is invested and in response to this most of the industry funds are now allowing members to choose an investment from a range of options.

Employer or Corporate Funds

These are funds established by a particular business, or group of businesses for their employees. Federal and state governments also operate funds for their employees.

These funds are normally old and well established and like industry funds are governed by employer and employee representatives.

Recently many employers have moved to close their funds and transfer their employees to industry or retail funds.

Like industry funds they provide good rates of return and value fees and charges although some small corporate funds can be more expensive.

Retail Funds

Retail funds are established by large financial institutions such as banks and life insurers. These large funds can have smaller trusts set up within them. The shareholders who own the institutions must pay to their shareholders a return; this comes out of the return a member receives.

Businesses can use retail funds to provide a specific superannuation plan for their employees. This saves the business the cost of administering their own fund although it may not necessarily be the best alternative for the employees.

Individuals can also join these funds but most often need to do so through a financial advisor or planner with an added cost of a fee – usually a commission to the advisor or planner.

The total fees are usually higher than industry or employer funds.

Retirement Savings Accounts (RSA)

Banks, building societies and credit unions offer superannuation accounts.

It is important to remember that the banks' main duty is to provide a return to their shareholders, that return comes out of the investment returns that are paid to superannuation customers.

Your money in these retirement savings accounts may be lent for business, home and personal loans. There is no requirement for a balanced portfolio of investments, to provide a mix of high return and security.

As a result, the average rate of return from retirement savings accounts is lower and fees higher than most superannuation funds. RSA are also the only superannuation accounts that do not have trustees managing the funds of members.

Your own Self Managed Superannuation Fund (SMSF) – or Do It Yourself (DIY) super account

There are currently over 350,000 self-managed superannuation funds (SMSF). Individuals can establish their own superannuation fund and operate it themselves, or run it through a financial advisor or accountant. The rules on investment are strict and the costs of doing so usually greater than other types of funds.

Figures released by the Tax Office reveal that total average expenses for funds with:

- Less than \$50,000 pay between 3-6% in fees and charges (average of \$1500 per year),

- Between \$50,000 to \$200,000 pay between 2-3% in fees and charges (average of \$2902 per year)
- Greater than \$300,000 pay between 2-3% (average of \$11,828 per year).

From this data a general principle could be determined: unless you have greater than \$300,000 in your Self Managed Superannuation Fund (SMSF) it may not be worthwhile considering a SMSF as administration fee and charges would be too high.

WARNING:

High fees and charges are not illegal but you should not pay more than around \$100 a year in administration fees and no more than 1 per cent in total fees. Please contact your local Labor Member or Senator if you are.

Fees and Charges

All superannuation funds cost money to run. Some corporate and public sector employers pay these costs for their employees but most super funds levy fees and charges against their members' accounts.

There are three main types of costs to members:

- Administration fees and charges—to cover the cost of maintaining member accounts, processing benefit applications, calculating tax obligations, etc
- Investment fees and charges—paid to investment advisors and managers and often taken away from the net return
- Insurance premiums

These fees are often deducted from a member's balance but many funds—particularly retail funds and master trusts—have entry and exit fees or fees charged on contributions. Funds that offer a range of investment options may charge you for switching between options.

Funds are required to tell you on your statement when fees are deducted but often it is unclear exactly how much these fees are and what they are for.

Labor supported changes that came into effect in 2002 that require funds to provide details of all their fees and charges. There are still some serious problems with the current disclosure rules and the information provided by funds or advisors can be very confusing. You should always read the fine print—especially if you are joining a new fund.

Retail super products are often sold by advisers and agents working on commissions from the provider of the product. Advisers are required to tell you what commissions they are paid. If anyone tries to sell you a super product you should always ask: "*What's in it for them?*"

Chapter 2

Contributing to Super

Key points of new rules as detailed by Treasury

- Concessional deductible contributions to superannuation will be limited to \$50,000 per person per annum. These contributions will be taxed at 15 per cent. This is irrespective of age, although super contributions are not allowed for those 75 and above.

There is a five year transitional period that will apply for people who are aged 50 and above to allow those planning to retire soon to make concessional contributions of \$100,000 a year.

- Employers will be able to claim a full deduction for all contributions to superannuation on behalf of individuals under the age of 75. The Superannuation Guarantee will continue to apply only until age 70.
- The personal deduction eligibility rule will be simplified by making it consistent with the rule that currently applies for the Government co-contribution.
- Personal superannuation contributions from an individual's post-tax income (known as undeducted contributions) will continue not to be taxed when contributed and may be eligible for the Government co-contribution (as currently). These contributions will be limited to \$150,000 per annum.

People under age 65 will be able to bring forward two years of contributions and make a larger contribution of \$450,000.

- All contribution limits in the plan (except those related to transitional arrangements) will be indexed in \$5,000 amounts.

2.1 Compulsory super contributions

In this section

Compulsory super Contributions

- What is Superannuation Guarantee (SG)
- Are you eligible for SG?
- When are your SG payment required
- What if my employer doesn't pay
- What limits apply to SG?
- Is there an age limit on superannuation

What is the superannuation guarantee (SG)?

In the late 1980s the Labor Government introduced a compulsory 3% superannuation payment by employers for all employees.

This compulsory 3% payment has increased to the current 9% compulsory superannuation payment which is known as the Superannuation Guarantee (SG).

The now Liberal Government, including John Howard strongly opposed compulsory superannuation.

At the time Labor introduced compulsory super John Howard said:

"That superannuation deal, which represents all that is rotten with industrial relations in Australia" and "That it is not genuine superannuation; it is a disguised deferred pay rise".

The Superannuation Guarantee is a compulsory employer 9% payment of employee ordinary time earnings for employees, ordinary time earnings include all wage/salary monetary payments including shift allowance and penalty rates but excluding overtime.

The new *WorkChoices* legislation introduced by the Howard Government and the increased use of AWA tends to remove shift allowances and penalty rates and as such can result in lower compulsory employer superannuation payments.

Are you eligible for the superannuation guarantee?

Most employees are entitled to the superannuation guarantee. Your employer must pay you with a 9% SG if you:

- are paid more than \$450 gross in a calendar month
- under 70 years of age

Some exemptions apply where the employer is not required to pay you the SG, they are:

- If you are under 18 years of age and working not more than 30 hours a week
- Employed for domestic or private work for not more than 30 hours a week
- A non-resident employee paid for work done outside Australia
- Temporarily working in Australia for an overseas employer and are covered by a Bilateral Superannuation Agreement. Your overseas employer may apply for a certificate of coverage to receive the exemption
- A resident employee paid for work done outside Australia for a non-resident employer
- Some foreign executives who hold certain visas or entry permits under the *Migration Regulations (1993)* and *Migration Regulations (1994)*

WARNING

Your level of contributions tax will increase from 15% to 46.5% if you have not provided your Tax File Number (TFN) to your superannuation fund.

Currently some 2 to 2.5 million Australians have not provided their TFN to their super fund and will be liable for this higher tax.

Contact your super fund today to give them your TFN!

- A member of the Army Reserve - the Army Reserve is not required to provide superannuation contributions for you
- Receiving salary or wages under the Australian Government Community Development Employment Program

When are your SG payments required to be paid?

Your employer needs to pay your compulsory superannuation payments to a complying superannuation fund or a retirement savings account at least every quarter.

The quarterly payment cut off dates are 28th October, 28th January, 28th April and 28th July, that is your employer has 28 days past the quarterly cut off to make your superannuation payments.

It is advisable for individuals to contact their superannuation fund to confirm this payment has been made.

If payments have not been made then you should in the first instance contact your employer.

Some individual provisions provide for payment monthly.

What if my employer does not pay my SG?

As mentioned you should check with your superannuation fund to confirm if your payments have been made, also you should receive and keep the annual member superannuation statements from your superannuation fund, so you have an accurate record of how much superannuation is being contributed on your behalf.

It is not required by law for an employer to report their superannuation contributions to you, but some may do this.

If you are concerned about your employer's contributions or your super is not paid into your super fund by the due date you should:

- check your last superannuation fund member contributions statement and, if necessary, contact your superannuation fund directly, if not satisfied
- talk to your employer, if still not satisfied
- phone the Tax Office on **13 10 20** to notify them you believe your employer is not making sufficient contributions to your superannuation fund on your behalf.

What limits apply to the superannuation guarantee?

An employer's compulsory superannuation guarantee payment is known as a concessional deductible contribution. The new rules allow a full tax deduction for employers up to the new deductible (pre-tax) contribution limit, which is \$50,000 per annum.

Deductible (pre-tax) contributions include both your employer's contribution plus your salary sacrifice contribution.

A five year transitional period will apply for people who are aged 50 and above to allow concessional contributions of \$100,000 a year.

Is there an age limit on superannuation guarantee?

The Superannuation Guarantee (SG) is only compulsory for employers to pay for employees up to the age of 70.

Employers will be able to claim a full deduction for all contributions to superannuation on behalf of individuals under the age of 75 but it will not be compulsory for them to pay the 9% SG.

2.2 Voluntary super contributions

How can I make voluntary super contributions?

There are three main types of voluntary contributions:

- Salary Sacrifice (Pre-tax) contributions
- After tax contributions
- Contributions for your spouse

Salary sacrifice (Pre-tax) contributions

What are Salary Sacrifice contributions?

Superannuation salary sacrifice is an arrangement by which you agree to forego part of your future salary in return for your employer providing payments of the same value into your superannuation fund.

The salary sacrificed contributions are paid as employer contributions to a complying superannuation fund.

As you have agreed to exchange salary for voluntary deductible pre-tax superannuation contributions there can be generous tax advantages, especially for the higher income wage earner.

For the 2006 – 07 financial year if you earn salary between \$25,001 and \$75,000 you pay 30 cents in the dollar tax and if you earn between \$75,001 and \$150,000 you pay 40 cents in the dollar and any income greater than \$150,000 is taxed at 45 cents in the dollar.

If you choose to salary sacrifice for employer superannuation payments in lieu of salary then you are only taxed by the superannuation contributions tax which is at the rate of 15 cents in the dollar.

This can be a saving of 15, 25 or 30 cents in the dollar depending on your income.

In this section

Salary sacrifice contributions

- What are salary sacrifice contributions
- What pitfalls are associated with salary sacrifice
- Is there a limit to the amount I can salary sacrifice?
- Must your employer offer you salary sacrifice?
- When must your employer make your salary sacrifice payments?

For those on an income of \$25,000 or less are taxed at maximum rate of 15 cents in the dollar and as such gain no benefit from salary sacrificing as their marginal rate of tax is the same as the superannuation contributions tax.

Please refer to after-tax contributions and co-contribution for a better option for those on a lower income.

What pitfalls are associated with Salary Sacrifice?

As salary sacrificing is considered by law as an employer payment this could result in your employer paying less or even nothing towards your super.

It is crucial for you to arrange a firm contractual arrangement between you and your employer, ensuring your employer agrees to pay the 9% superannuation guarantee on your pre-salary sacrifice income, not on the lower post-salary sacrifice income or even worse no payment at all.

An example of this legal but immoral practice is useful in highlighting this problem.

If you have a salary of \$80,000 and you did not elect to salary sacrifice then your employer must make a compulsory 9% superannuation guarantee payment on the \$80,000 (i.e. \$7,200) but if you salary sacrifice in this example \$30,000 then your taxable income is only \$50,000 so your employer can legally pay the 9% compulsory super payment only on the \$50,000 (i.e. \$4,500) even worse as your \$30,000 salary sacrifice payment is considered by law an employer payment if they chose to they would not have to pay a cent, as your \$30,000 salary sacrifice payment is greater than the minimum \$4,500 payment they are required to make and they would be seen to be meeting the current unfair Howard Government laws.

Is there a limit to the amount I can salary sacrifice?

Deductible (pre-tax) contributions include both your employer's compulsory contribution plus your salary sacrifice contribution.

As previously mentioned the new limit on deductible (pre-tax) contributions is \$50,000 per annum.

So your limit for salary sacrificing is the combination of employer compulsory super payments and your salary sacrifice payments must not exceed \$50,000.

Although people aged 50 or over have a five year transitional period to allow concessional contributions of \$100,000 a year.

Must your employer offer you salary sacrifice?

No, it is up to your employer to decide whether they chose to offer you this option.

When must your employer pay salary sacrifice?

Your employer is only required to make these payments annually.

It would be in your best interest to arrange a firm contractual arrangement between you and your employer for a more frequent payment or you may be missing out on significant amount of interest.

Voluntary (After-Tax) Contributions

You can make after tax contributions to your superannuation fund; although you do not gain the tax advantages you would gain by salary sacrifice you do gain access to generous co-contribution payments.

The co-contribution payments are explained in full on the next page.

A decision needs to be made between whether you would benefit more from the tax advantages of salary sacrifice or the government incentive payments of the co-contribution scheme.

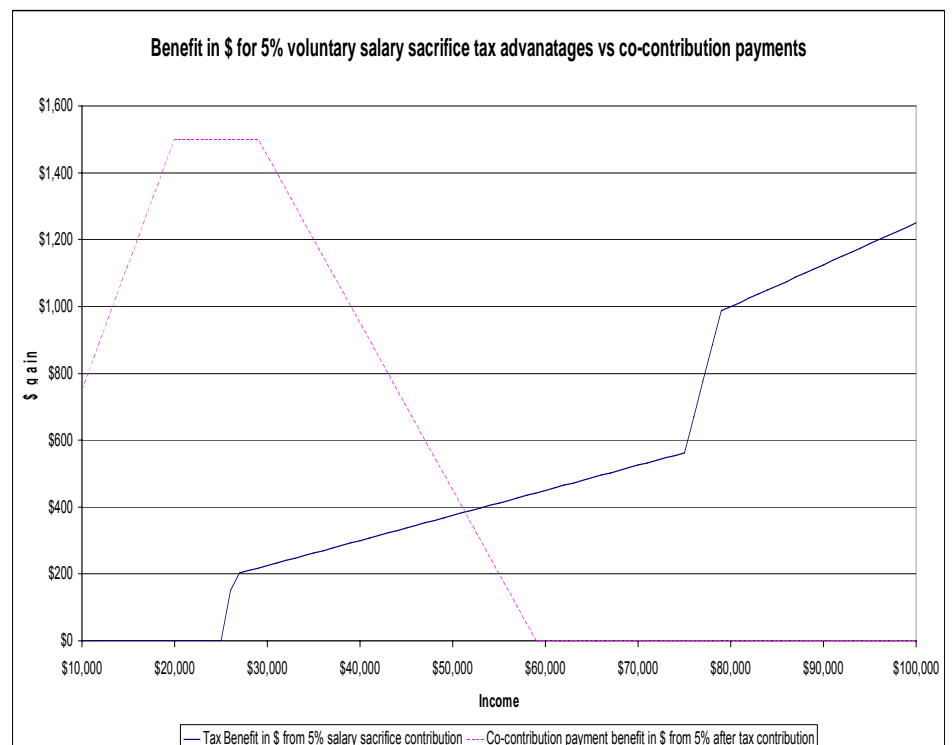
Generally higher income earners gain from tax benefits of salary sacrifice while low and middle income earners gain from co-contribution.

The graph below shows the advantages of voluntary 5% contributions, it compares the tax advantages of salary sacrifice to the co-contribution payments. This graph indicates the cross over point for 5% voluntary contributions is \$52,000, those below this figure who elect to contribute 5% of their income benefit more from co-contribution payments and those above this benefit more from salary sacrifice tax advantages.

In this section

After-tax contributions and the Co-contribution scheme

- What is the co-contribution scheme?
- How does it work?
- The facts on co-contribution as of July 1 2007
- Do I need to apply for the Super Co-contribution?
- When will my Super Co-contribution be paid?



What is the co-contribution scheme?

The co-contribution scheme is an incentive scheme to assist eligible individuals to save for their retirement.

The government will pay \$1.50 for every \$1 contributed up to a maximum voluntary after tax contribution of \$1,000 if an individual is eligible.

It is an attractive incentive to save, individuals who earn below \$28,980 (indexed annually) gain the maximum benefit so by a person placing \$20 a week after tax contribution into super the government will match this with a \$30 payment and so by the end of the year this individual will have \$2,500 in super savings for that one year plus their employer compulsory contributions. For an 18 year old this one year could be worth an extra \$10,000 in superannuation savings when they retire due to the compounding interest.

How does it work?

If your total income is less than \$58,980 (indexed annually) in a year and you make after tax personal superannuation contributions and meet the eligibility criteria, the Government will make a co-contribution.

It means that if your total income for co-contribution purposes is \$28,980 or less in a year of income, the Government will put in one dollar and fifty cents (\$1.50) for every dollar (\$1) you put into your superannuation account, up to a maximum government co-contribution of \$1,500 a year.

Note – your total income may be different to your taxable income.

When your total income is more than \$28,980 but less than \$58,980 in a year of income, your co-contribution will be adjusted based on your total income and how much you personally contribute. For every dollar of income above \$28,980 your co-contribution payment is reduced by 5 cents. The co-contribution phases out completely where your total income is \$58,980 or more.

The facts on co-contribution as of July 1 2007

The lower threshold is the income figure which if you earn below this figure you are entitled to the maximum co-contribution payment. (\$1.50 for every \$1 up to a maximum government payment of \$1,500).

For the current 07/08 financial year this is set at \$28,980 and is now indexed annually.

The upper threshold is the income figure which if you earn above you will no longer be entitled to government co-contribution payments. This will be \$30,000 above the low threshold income figure.

This is \$58,980 in the 07/08 financial year and will rise in line with the indexation of the lower threshold figure.

Chart of co-contribution payments for income levels

	If your personal superannuation contribution is:			
	\$1,000	\$800	\$500	\$200
And your income is:	Your Super Co-contribution will be:			
\$28,980 or less	\$1,500	\$1,200	\$750	\$300
\$30,980	\$1,400	\$1,200	\$750	\$300
\$32,980	\$1,300	\$1,200	\$750	\$300
\$34,980	\$1,200	\$1,200	\$750	\$300
\$36,980	\$1,100	\$1,100	\$750	\$300
\$38,980	\$1,000	\$1,000	\$750	\$300
\$40,980	\$900	\$900	\$750	\$300
\$42,980	\$800	\$800	\$750	\$300
\$44,980	\$700	\$700	\$700	\$300
\$46,980	\$600	\$600	\$600	\$300
\$48,980	\$500	\$500	\$500	\$300
\$50,980	\$400	\$400	\$400	\$300
\$52,980	\$300	\$300	\$300	\$300
\$54,980	\$200	\$200	\$200	\$200
\$56,980	\$100	\$100	\$100	\$100
\$58,980	\$0	\$0	\$0	\$0

Note: White cells indicate \$1.50 payment for \$1 contribution.

Do I need to apply for the Super Co-contribution?

No, you do not need to apply for the co-contribution or fill in any additional forms. If you are eligible all you need to do is make personal after tax superannuation contributions to your superannuation fund and lodge an income tax return.

The Tax Office will then use the information on your income tax return and contribution information received from your superannuation fund to work out whether you are eligible.

If you are the Tax Office will automatically calculate the co-contribution amount and deposit this into the superannuation account your superannuation account.

When will my Super Co-contribution be paid?

Your co-contribution will generally be paid after:

- you have lodged your income tax return, and
- your superannuation fund has lodged a member contributions statement (MCS) for you, and

The Tax Office generally receives the required information from superannuation funds by 31 October following the end of the financial year.

So if you have lodged your tax return before 31 October your co-contribution should be paid to your superannuation account within 60 days. If your payment is paid in the sixty days then you should receive a letter from the Tax Office in January with details that your co-contribution has been paid.

Contributing for your spouse.

You can claim a **superannuation spouse contribution tax offset** of up to \$540 per annum for contributions made on behalf of your spouse where all the following conditions are met:

- both you and your spouse were Australian residents when the contributions were made, and
- you must have made the contributions directly to your spouse's superannuation account
- at the time of making the contributions you and your spouse were not living separately and apart on a permanent basis, and
- the sum of your spouse's assessable income and total reportable fringe benefits amounts was less than \$13,800.

The calculation for the amount of tax offset you can claim is complex and as such an example is given in the left hand side text box. More information can be gained by visiting the Australian Tax Office web site at www.ato.gov.au or phoning the Australian Tax Office on 132861.

In this section

Contributing for your spouse

- Spouse contribution tax offset?
- Super contribution splitting between you and your partner
- Who can split super contributions
- Can all contributions be split?
- Is there a limit that can be split to my spouse?

Note:

The benefits of contribution splitting have been reduced by the removal of the Reasonable Benefits Limit (RBL).

Under the previous rules individuals could double the RBL in a family by contribution splitting. There is no longer an RBL.

Superannuation contribution splitting between you and your partner.

Superannuation contributions splitting allow individuals to split superannuation contributions to their spouse. This allows couples to share their superannuation benefits.

You can split contributions to an account held by your spouse, either within the same fund or to a different fund.

The definition of spouse includes another person who, although not legally married to the person, lives with the person on a genuine domestic basis as the husband or wife of the person.

This does not include inter-dependent or same sex couples.

Who can split superannuation contributions?

You can split superannuation contributions made on or after 1 January 2006 if you are:

- a member of an accumulation style superannuation fund
- an RSA holder; or
- a member of a defined benefit style superannuation fund but you hold an accumulation interest; and
- your superannuation fund offers contributions splitting.

Can all superannuation contributions be split?

Splittable contributions made on or after 1 January 2006 to a complying superannuation fund or RSA may be split to your spouse's superannuation account. The following contributions are splittable contributions:

- Taxed splittable contributions – including taxable contributions under section 274 of the *Income Tax Assessment Act 1936* (ITAA 1936) such as employer contributions and amounts paid by the Tax Office relating to a superannuation guarantee entitlement or from the superannuation holding accounts special account, and also allocated surplus contribution amounts.
- Untaxed splittable contributions –including contributions made by a fund member or another person which are not taxable contributions, such as personal undeducted contributions and super co-contributions.

Is there a limit on the amount that can be split to my spouse?

The maximum splittable amount for any financial year is 85% of taxed splittable contributions and 100% of untaxed splittable contributions.

Since taxable contributions are included in the assessable income of a superannuation fund, the 85% limit on taxed splittable contributions is a simple means of ensuring members can not split more than the amount remaining in their superannuation fund which relates to those taxed splittable contributions. That is the Howard Government has in place a 15% contributions tax and so the maximum you can split is the remainder of your money – 85%.

For the 2005-06 financial year, only splittable contributions made on or after 1 January 2006 may be split. Visit the Tax Office web site for more information on superannuation contributions splitting.

Chapter

3

Choosing a fund

In this section

- "Super Choice" – what is it?
- Am I eligible to choose a fund under the new "Super Choice"?
- When do I get my standard choice form?
- Comparing fees and charges.
- What about Death and Disability insurance?
- Choosing your fund.
- Using the Super Fund Comparison Worksheet to make an informed decision.
- What happens if you don't choose a fund?
- When does the fund I have chosen become my choice fund?
- Employer responsibilities
- Should I roll my superannuation into one account?
- How do I put my super into one account?

"Super Choice" – what is it?

Since the 1st July 2005 most employees are able to choose the super fund their employer pays their superannuation guarantee into.

The new "Super Choice" laws which came into effect on the 1st July 2005 first applied to employees on a Federal award and not those on a State award.

Then on 1st July 2006 the "Super Choice" laws were extended to employees on State award.

Am I eligible to choose a fund under the new "Super Choice"?

From 1 July 2006, employees working for corporations who previously could not choose a fund because they were employed under a state award are now able to do so. These employees are now covered under a Federal workplace agreement called a 'notional agreement preserving state awards'. All employees are now eligible for "Super Choice" except for the following exemptions:

- Commonwealth employees who are members of Comsuper and employees receiving productivity benefit payments above the 9% superannuation guarantee.
- Employees who work under certain Workplace Agreements or Certified Agreements under the *Industrial Relations Act* or *Workplace Relations Act*.
- Defined benefit fund members who would still get retrenchment and retirement benefits if their employer paid future contributions to another fund.

If you are unsure whether you are eligible for "Super Choice" then you should check with your employer to see whether you are affected by any of the above conditions. If you are still unsure then contact the "Super Choice" office by phoning 132 864 or visiting the website www.superchoice.gov.au

When do I get my standard choice form?

Your employer is required to give you a *standard choice form* within 28 days of commencing employment.

Where you as the employee have chosen the default fund and the employer changes the default fund the employer must provide you with a *standard choice form* within 28 days.

WARNING TO EMPLOYEES:

If you choose a fund and if you seek financial advice beware of the total fees and commission that your advisor may charge you.

Even though advice must be documented and fees disclosed, even a small fee of 1% reduces your final savings by 20% over 30 years.

Be very careful!

Where you as an employee have chosen a fund but that fund is no longer an eligible choice fund, your employer must give you a *standard choice form* within 28 days of becoming aware.

Comparing fees and charges

The importance of comparing fees and charges of different funds cannot be overstated.

All superannuation funds charge fees and even a small fee difference of 1% can reduce your final savings by 20% over 30 years.

Fees include management costs, contribution, withdrawal and termination (exit) fees, commissions and other costs such as insurance.

Management costs range from 0.6% to 3% each year depending on the fund you are with. So if you had \$100,000 invested this means the management cost can vary from \$600 to \$3,000.

Industry and Corporate funds generally charge less management fees than retail funds as retail funds often pay commission to financial advisors.

In making your decision you need to look at funds with low management costs but with high growth investments which will give you higher returns on your investment.

To help determine a funds return you need to compare each funds performance over at least the last 5 years. ASIC publishes 5 and 10 year average figures for different investment strategies and these figures can be found at the ASIC website at www.fido.gov.au.

You should request a *product disclosure statement* from the superannuation funds you are considering. The *product disclosure statement* shows all significant fees in a table that allows comparison between funds and should also give a worked example of the fees in real terms.

Another handy tool for comparing superannuation funds and the affect fees have on your final savings amount is the superannuation calculator. Visit the ASIC website at www.fido.gov.au to use this calculator.

What about Death and Disability insurance?

Superannuation funds are required by law (except RSA) to provide Death and Disability insurance which pay benefits if you die or you become permanently disabled.

Where an employer pays to a fund without death and disability insurance they have until 2008 to ensure the fund offers this insurance.

Your fund will usually charge a fee to your account for this insurance unless your employer pays for it.

It is important to compare the cost of this insurance with each fund and whether the fund provides death and disability insurance.

If you do not have this insurance you could find yourself or your family exposed to financial hardship as a result of death or injury.

It is also important to check to see if there are any restrictions or clauses in the insurance contract, such as exempting age, types of employment (dangerous jobs), part time or casual workers and consideration needs to be given to the definition of permanent disability.

Some funds allow you to purchase extra coverage.

Choosing your fund.

Now you have "Super Choice" you need to decide whether to change your super fund or stay with the one you are with.

You should have an understanding of fees and charges, investment strategies and insurance. To aid you in making an informed decision you need to complete the *Super Fund Comparison Worksheet*.

The *Super Fund Comparison Worksheet* has three columns to complete.

The first column is the details of your employer's default fund, the second is of your chosen industry fund and the third is a chosen retail fund.

Once you have completed the details of the three different funds you can then make an informed decision on which fund to choose. Once you have completed this form you may wish to visit the ASIC website and use the superannuation calculator to compare final savings figures upon retirement. The superannuation calculator can be found at www.fido.gov.au.

Super Fund Comparison Worksheet

	Employer's default fund	Industry fund	Retail fund
Fund Name			
Any extra super benefits			
Extra employer contributions?			
Redundancy benefits?			
Fees and costs			
Management costs for your investment as a % of your total account			
Amount of any additional dollar based management costs			
Contribution fee, as % of each contribution			
Withdrawal fee, as % of each withdrawal			
Termination fee, as % of your total account on closing			
Service fees, e.g. switching fee, advisor service fee			
Insurance			
Automatic cover or subject to medical exam Y/N			
Life insurance - \$ cost per year			
Total and permanent disability - \$ cost per year			
Salary continuation or temporary disability cover for up to 2 years - \$ cost per year			
Any relevant restrictions, e.g. age limits, type of employment, classification of permanent disability			

What happens if you don't choose a fund?

If you are a new employee with a business or you are on a state industrial award and therefore eligible for "Super Choice" on the 1st July 2006 and you don't return your form to your employer this means you are not exercising your right to choice.

In this case one of two things can happen:

- If the employee is covered by an award that nominates a fund, then the employer must continue to pay contributions to that fund, in accordance with the award.
- If the employee is **not** covered by an award that nominates a fund, the employer may choose any "eligible choice fund". This is currently any complying fund.

When does the fund I have chosen become my choice fund?

Your employer must start paying your contributions into your choice fund within two months after you have given notice. Remembering employers only need to pay your superannuation payments quarterly.

Employers' responsibilities

Employers must provide standard choice forms and must pay contributions into the fund nominated by the employee provided the documentation is correct.

The employer must keep the forms for inspection by the Tax Office and is not allowed to "advise" the employee on the fund they should join. The employer will need a default fund for those employees who do not make a fund selection.

Should I roll all my superannuation into one account?

Generally it is cost effective to roll all your super accounts into one or as few accounts as possible. Otherwise you could have many individual accounts as you change jobs throughout your life and each of these accounts will charge separate fees.

As mentioned it is important to check with your super funds what termination and contribution fees are charged. If you were contributing to a Retail fund you may be required to pay high termination fees to cover lost ongoing commission for your financial advisor.

How do I put all of my superannuation into one account?

If you tell your different superannuation funds you want to put all your superannuation into one fund, the funds should release your money to the superannuation account you nominate.

One in two Australians have a "lost" super account with a total of \$9.7 billion in lost super monies.

This means higher fees applying across a number of accounts and many simply forget to claim their money when they retire.

Remember if you have two jobs, each employer may be paying your superannuation into different funds.

At the moment if two different employers employ you, in two different industry sectors, your employer does not have to pay your superannuation into your specified fund but if you work under a Federal Award you may be able to choose your fund. If you have any further inquiries about rolling your money over you should contact your superannuation funds.

Chapter 4

Accessing Super in Retirement

In this chapter:

- 4.1 Preservation and Early Release of Super**
- 4.2 Taxation on super lump sum payments**
- 4.3 Taxation on super pension payments**
- 4.4 New pension rules**

4.1 Preservation and Early Release of Super

What is preservation?

Preservation means that your superannuation must stay in your fund until you reach 'preservation age' and retire. When the present superannuation system was introduced, it was decided that Australians could access their money, after they had retired, at age 55.

The preservation age is progressively scaled up to 60. Those born after 30 June 1964 will have their superannuation preserved until age 60.

Persons born	Preservation age
After June 1964	60
July 1963–June 1964	59
July 1962–June 1963	58
July 1961–June 1962	57
July 1960–June 1961	56
Before July 1960	55

In this section

- What is preservation?
- If I am under the preservation age, can I still access my super?
- How do I get early access to my super due to financial hardship?
- Early access to benefits on specified grounds?
- Early release on grounds of permanent incapacity or disability or terminal illness?
- Early release due to mortgage foreclosure?

If I am under the preservation age, can I still access my super?

Yes, but usually only some of it and in very limited circumstances.

Early release of superannuation will only be granted for the following reasons:

- Financial hardship
- specified grounds
- permanent incapacity and disability
- Mortgage foreclosure on primary residence

Gaining early release due to financial hardship

If you have been on Centrelink income support for a period of 26 consecutive weeks or more and you have outstanding bills that you cannot meet repayments, you may seek early release of superannuation due to financial hardship. The maximum allowable payment under this criterion is \$10,000 per annum.

Gaining early release of benefits on specified grounds

Early access to your superannuation on specified grounds can be attempted through the Australian Prudential Regulation Authority (APRA) not through the superannuation fund.

Early release of benefits on specified grounds can be approved for costs associated with:

- Medical treatment
- Bed required due to medical condition
- Mobile chair required due to medical condition
- Modifications to home and motor vehicle due to medical condition

Each of these criteria has conditions that need to be met before early release of benefits can be approved.

For the **medical treatment** criterion you require a letter from a registered medical specialist confirming that your treatment is not readily available through the public health system. The specialist needs to provide an approximate costing of the treatment over the next twelve months.

For the **bed required due to medical condition** criterion you require letters from two doctors. A letter from your general practitioner and a letter from a registered medical specialist confirming the bed is not readily available through the public health system.

For the **mobile chair required for medical condition** criterion you require letters from two doctors. A letter from your general practitioner and a letter from a registered medical specialist confirming the mobile chair is not readily available through the public health system.

For the last criterion, **Modifications to home and motor vehicle due to medical condition** you require a letter from one doctor, either your GP or a registered medical specialist confirming the exact modifications that need to be done to your home or motor vehicle. You will then need a written quotation for the modifications needing to be done on your home and motor vehicle.

It must be remembered that gaining early release of benefits on specified grounds only allows release of funds to meet your expenses for these specified grounds, nothing else.

Gaining early release of benefits on grounds of permanent incapacity or disability

If two doctors can state that an individual is permanently incapacitated or terminally ill they may gain early release of the entire amount of their superannuation benefits.

You must apply through your superannuation fund not APRA for this criterion.

The two independent medical specialists need to complete forms stating that you are permanently incapacitated and will not be able to work again.

Gaining early release due to the threat of mortgage foreclosure on primary residence

If you own your own home but cannot meet the repayments and as a consequence you face foreclosure on your home you can claim early release on these grounds.

You need to contact your superannuation fund in regards to this claim.

Early Release on Specified Compassionate Grounds

The Australian Prudential Regulation Authority (APRA) can approve the early release of some or all of your super on the following grounds.

- A. To pay for medical treatment not covered by the public system for you or your dependants for life threatening illnesses, acute or chronic pain or an acute or chronic mental disturbance.
- B. To pay for transport for you or your dependants to access medical attention for the types of illnesses in A.
- C. Modifications to your home or vehicle because you or your dependant have special needs arising from a severe disability.
- D. Funeral or palliative care for you or you dependant.
- E. Mortgage assistance—this is only to prevent your mortgagor from foreclosing on your home and cannot exceed 3 months repayments and 12 months interest. It does not apply to most business or personal loans.

For A to D you will need to provide bills or estimates of costs to APRA along with doctors' statements—APRA can provide you with more information about these requirements.

4.2 Taxation on lump sum super payments

In this section

- Tax on lump sum benefits paid to those below age 60?
- Calculating the pre-July 1983 component?
- Tax on lump sum benefits paid to those 60 and over in a taxed fund?
- Reporting a super lump sum on a tax return?
- Tax on lump sum death benefits

Key points as listed by Treasury

- Superannuation benefits paid from a **taxed** source either as a lump sum or pension will be tax free when paid to people aged 60 and over.
- Superannuation benefits paid before age 60 will be taxed in a similar manner as they are now.

Note: Tax on superannuation benefits paid from an untaxed source, such as Public Sector Super, is taxed differently - refer to Chapter 6 for more detail.

Tax on lump sum benefits paid to those below age 60

Taxation on lump sum benefits paid to those less than sixty years of age is effectively the same from 1 July 2007 as previous to this date.

Lump sums will have two components — a tax exempt component and a taxable component.

- The exempt component will be tax free. The exempt component will comprise: the pre-July 1983 component, the CGT exempt component, the post-June 1994 invalidity component, the concessional component and undeducted contributions.
- The taxed component (the current post-June 1983 component and the non-qualifying component) will be tax free up to the low-rate threshold and taxed at a maximum rate of 15 per cent above the threshold. For those aged under 55, this component will be taxed at a maximum rate of 20 per cent. This is the same treatment as currently applies to the post-June 1983 component.

Note: The low rate threshold will be set at \$140,000 on 1 July 2007 and indexed to Average Weekly Ordinary Times Earnings (AWOTE) in \$5,000 amounts.

Calculating the pre-July 1983 component

Funds will be required to calculate a pre-July 1983 amount. This will be calculated on the value of the benefits as at 30 June 2007, using the existing legislative formulae, with the lesser amount to be crystallised.

Superannuation funds will have until 30 June 2008 to calculate this amount. Once calculated, this amount will become a fixed component that will not change in the future and will form part of the new exempt component.

There will be no crystallisation of the pre-July 83 component of employer ETP's. The pre-July 83 component will continue to be calculated by the employer upon termination of employment.

Tax on lump sum benefits paid to those 60 and over

From 1 July 2007, lump sum benefits paid from a **taxed** source to an individual aged 60 or over will be tax free.

The Howard Government has neglected to highlight that at least 80% of Australians have not gained from this measure. Only those with superannuation savings greater than \$135,590 would have had to pay the exit tax.

The 2003-04 Australian Bureau of Statistics (ABS) survey of Income and Housing has shown the average balances achieved in 2004 were \$56,400 for men and \$23,900 for women.

Recent estimations by Association of Superannuation Funds Australia (ASFA) show the average retirement payouts in 2006 are likely to have been \$130,000 for men and \$45,000 for women

Reporting super on a tax return

Individuals will not need to include lump sum superannuation benefits and superannuation pensions from a **taxed** fund made after 30 June 2007 in their tax returns.

Tax on lump sum death benefits

Lump sum death benefit payments will be tax free if paid to a dependant.

The definition of dependant will remain as currently defined in the *Income Tax Assessment Act 1936*.

The taxable component of a lump sum paid to a **non-dependant** will be taxed at 15 per cent.

4.3 Taxation on pension super payments

In this section

- Tax on pension benefits paid to those below age 60
- Tax on pension benefits paid to those 60 and over in a taxed fund
- Proportional draw down of benefits
- Tax on pension death benefits

Key points as listed by Treasury

- Superannuation benefits paid from a **taxed** source as a pension will be tax free when paid to people aged 60 and over.
- Superannuation benefits paid before age 60 will be taxed in a similar manner as they are now.

Note: Tax on superannuation benefits paid from an untaxed source, such as Public Sector Super, is taxed differently - refer to Chapter 6 for more detail.

Tax on pension benefits paid to those below 60.

Pension payments for individuals aged under 60 will continue to be taxed under current arrangements, although consistent with the simplification of taxation of lump sum payments, tax will be lower in some cases.

Pensions commenced on or after 1 July 2007, which would currently qualify for a pre-July 1983 component will have this included in the exempt component of the pension. The current arrangements for calculating the deductible amount of a pension will remain for pensions that commenced prior to 1 July 2007.

The full superannuation pension rebate of 15 per cent will apply to all pensions paid from a taxed fund if the individual is aged 55 to 59 years.

Once the pension recipient turns 60, their pension will be tax free.

Reporting —arrangements

Individuals aged under 60 will still be required to report details of lump sums and pensions in their tax return.

Tax on pension benefits paid to those 60 and over

All superannuation pension payments from a **taxed** source will be tax free when paid to individuals aged 60 or over.

This will also apply to pensions which commenced before 1 July 2007.

Proportional drawdown of benefits

From 1 July 2007, when any part payment of a superannuation benefit is made, the benefits will be considered to include both exempt and taxable components with the relevant portions of each reflecting the proportions such components make up of the total benefit.

This will apply to both lump sums and pensions.

Tax on pension death benefits

The taxation of a death benefit paid as a reversionary pension will depend on the age of the primary and reversionary beneficiary.

If the primary beneficiary was aged 60 or over at the time of death, then payments to the reversionary beneficiary will be tax exempt. If the primary beneficiary was under age 60 at the time of death, the pension will continue to be taxed at the reversionary beneficiary's marginal tax rate (less any deductible amount and pension rebate) unless, or until, the reversionary beneficiary is aged 60 or over, in which case it will be tax exempt.

Death benefits will be able to be paid as a pension to a dependant if the member dies before commencing a pension.

These pensions will be taxed in the same way as a reversionary pension.

Death benefits will be able to be paid as a pension to a dependant child, although when the child turns 25 the balance in the fund will have to be paid as a lump sum (tax free) unless the child was permanently disabled.

A pension will not be able to revert or be paid to a non-dependant on death; rather, death benefit payments to non-dependants will have to be made as a lump sum.

4.4 New Pension rules

In this section

- The new pension rules
- Guaranteed lifetime pensions
- Pension payments
- Transition to retirement
- Benefits not withdrawn
- Commutation of complying pensions
- Treatment of existing allocated pensions

Key Points and following information detailed by Treasury

- The rules for when individuals can voluntarily choose to access their superannuation will not change — that is, individuals will still be able to access their superannuation once they reach preservation age and are able to take their benefits, and from age 65 even if they have not retired.
- An individual will not be compelled to draw down their superannuation once they reach a particular age. They will be free to draw on it as and when they want.
- Pensions will continue to receive favourable tax treatment. However, the rules defining a pension will be simplified.
 - If a person chooses to take a pension, they will be able to take out as much as they like when they like, provided a minimum amount is taken each year.

Pensions that meet pre-1 July 2007 rules will be deemed to meet the new minimum standards.

The new pension rules

The new minimum standards for pensions will require:

- payments of a minimum amount to be made at least annually, allowing pensioners to take out as much as they wish above the minimum (including cashing out the whole amount);
- an amount or percentage of the pension cannot be prescribed as being left-over when the pension ceases; and
- that the pension can be transferred only on the death of the pensioner to one of their dependants or cashed as a lump sum to the pensioner's estate.

The payment rules will specify minimum limits only. No maximum will apply, with the exception of pensions which are commenced under the transition to retirement condition of release which are limited to 10 per cent.

Guaranteed lifetime pensions

Guaranteed lifetime pensions provided on an arm's length basis that meet relevant existing requirements will continue to be acceptable.

Pension payments

Individuals will be able to choose the amount they take from their pension each year. A minimum amount will be required to ensure that the capital is generally drawn down over time. The minimum pension payments are set out below.

Indicative minimum annual pension payments

Age	Per cent of account balance
55 — 64	4
65 — 74	5
75 — 84	6
85 — 94	10
95 +	14

Transition to retirement

As a consequence of the new pension rules, the transition to retirement rules will be amended to accommodate pensions that meet the new minimum standards.

From 1 July 2007, **pensions commenced under the transition to retirement condition of release will allow no more than 10 per cent of the account balance (at the start of each year) to be withdrawn in any one year.**

The existing non-commutability rules for pensions purchased under the transition to retirement measure will continue to apply. Pensions commenced prior to 1 July 2007 which complied with the relevant rules for the transition to retirement measure at the time will be deemed to satisfy the proposed requirements.

Benefits not withdrawn

There are no compulsory cashing rules under the new arrangements.

These changes will allow a person to keep their benefits in a fund indefinitely.

Where a person chooses not to draw down on their fund assets as a pension, then earnings on these assets will be subject to tax as assessable income of the fund at 15 per cent.

Commutation of complying pensions

The Government does not intend to increase the ability for people to commute a complying pension.

Treatment of existing allocated pensions

Existing allocated pensioners will be allowed to transfer to the new pension products from 1 July 2007 without the need to commute their existing pension.

This will save these people the potential cost of moving to the new pension if they had to commute their existing pension to commence a new pension.

Chapter 5

Super for the self-employed

In this section

- Age based limit and deduction rules
- Extension of the government co-contribution scheme to the self employed

Key Points as listed by Treasury

- The self-employed will be able to claim a full deduction for all personal superannuation contributions until age 75.
- Eligible self-employed persons will have access to the Government co-contribution scheme.

Age-based limit and deduction rules

From 1 July 2007, the self-employed will be eligible to claim a full deduction for their superannuation contributions up to age 75.

Extension of the Government co-contribution scheme to the self-employed

The co-contribution scheme will be extended to the self-employed, effective from 1 July 2007 provided they satisfy the existing eligibility criteria for the co-contribution.

To provide for the self-employed, income will be determined by adding the assessable income of an individual and then reducing that amount by their expenses incurred in carrying on a business.

Chapter

6

The new rules for untaxed funds

In this section

- Why are they called untaxed funds?
- Tax on pension benefits paid to those 60 and over?
- Why do those in an untaxed fund have to pay tax after 60?
- Tax on lump sum benefit paid to those 60 and over?
- Tax on individuals paid benefits under 60?
- Taxed benefits in untaxed schemes
- Death benefits
- Rollovers to taxed schemes

Why are they called untaxed funds?

Untaxed funds are in main public sector defined benefit schemes.

They are called untaxed funds because employer contributions were not made during the contribution phase of members; they are deferred until retirement stage.

The consequence of the employer not making contributions is that contributions tax was not taken out. (Employer contributions for those in private or taxed schemes are taxed at the rate of 15%).

Key Points as listed by Treasury

- The taxation treatment for lump sum benefit payments from an untaxed source (Public Sector Super) will be:
 - For those aged 60 or over — a rate of 15 per cent will apply to the total of all lump sum payments up to \$1 million and the top marginal tax rate above that amount.
 - For those aged 55 to 59 — a rate of 15 per cent will apply for lump sum payments up to the low rate threshold (\$140,000), 30 per cent above this amount up to the upper threshold (\$1 million) and the top marginal tax rate above that amount.
 - For those aged under 55, a rate of 30 per cent will apply up to the upper threshold (\$1 million) and the top marginal tax rate above this amount.
- Pension payments arising from an untaxed superannuation source to an individual over the age of 60 will be taxed at marginal tax rates with a 10 per cent offset.
- Payments to those below age 60 will be taxed at marginal tax rates without an offset.
- Individuals will still be required to include lump sums and pensions in their tax return.

Tax on pension benefits paid to those 60 and over

Under the new simplified super rules those receiving a superannuation pension from an untaxed scheme will still have to pay tax but will receive a 10% tax offset.

Pension payments will continue to be included in assessable income and taxed at marginal rates. However, pension payments (including where the pension commenced before 1 July 2007) will be eligible for a 10 per cent taxation offset.

The return of contributions which are made towards the pension from the pensioner's own post-tax income and certain other amounts will be tax exempt once the person is aged 60 and above.

Reporting —arrangements

Individuals in an untaxed scheme will still be required to report details of lump sum payments and pensions in their tax return.

Why do those in an untaxed fund have to pay tax after 60

The reasoning the Government has given for this decision is based on Treasury calculations that attempt to find an appropriate figure to balance the tax payments from those in an "untaxed" scheme to those in a "taxed" scheme.

Those in a taxed scheme pay a 15% contributions tax when their employer contributions are paid into their superannuation account whilst those in an untaxed scheme do not as their employer, generally the Federal and State Governments, do not pay contributions until the employee retires.

Hence, the 10 percent tax offset treatment for those in "untaxed" schemes is a Treasury calculation which takes into account members of a taxed scheme having paid a 15 percent contributions tax which has reduced their final balance.

The Howard Government has refused to supply the Treasury formula used to calculate the 10% tax offset as such Labor must take the assurances of the Government that this treatment is just.

Tax on Lump sum benefits paid to those 60 and over

The post-June 1983 untaxed element of a benefit paid from an untaxed source will be taxed at 15 per cent up to \$1 million and the top marginal tax rate above that amount. The \$1 million will apply on a lifetime basis to each member of the fund. It will also be indexed to AWOTE and increase in amounts of \$5,000.

Tax on benefits paid to individuals under 60

Lump sums

For untaxed post-June 1983 elements paid to those aged 55 to 59, a rate of 15 per cent will apply for payments up to the low-rate ETP threshold (\$140,000), a rate of 30 per cent above this amount up to \$1 million and the top marginal tax rate above that amount.

For those aged under 55, a rate of 30 per cent will apply up to \$1 million and the top marginal tax rate above this amount.

Pensions

Pension payments will continue to be included in assessable income and taxed at marginal rates.

Unlike payments for those aged 60 and over, they will not be eligible for the 10 per cent pension offset.

Once the individual turns 60 they will then be eligible for the 10% tax offset.

Reporting

Individuals who receive benefit payments from untaxed schemes will be required to lodge a tax return and report these payments in the return as assessable income.

Taxed benefits in untaxed schemes

Untaxed schemes also pay benefits to members where tax has already been paid.

Contributions such as personal after tax contributions, employer productivity payments and rollovers from other funds have already had tax paid during contribution and as such this portion of your benefits will be tax free if you are aged 60 or over.

The tax rules for taxed benefits for people aged less than 60 will also apply where relevant.

Death benefits

All lump sum death benefit payments will be tax free if paid to a dependant.

For payments to non-dependants (irrespective of their age) the post-June 1983 untaxed element will be taxed at 30 per cent up to \$1 million and the top marginal tax rate above that amount.

The taxation of death benefit payments as a reversionary pension will depend on the age of the primary and reversionary beneficiary.

If the primary beneficiary was aged 60 or over on death, then payments to the reversionary beneficiary will be taxed at marginal tax rates less any deductible amount and less the 10 per cent offset (which will have been the tax treatment applying to the primary beneficiary before death).

If the primary beneficiary was under age 60 at death, the pension will continue to be taxed at the reversionary beneficiary's marginal tax rate (less any deductible amount), unless, or until, the reversionary beneficiary is aged 60 or over, in which case the 10 per cent offset will apply.

A pension will not be able to revert to a non-dependant on death; rather, death benefit payments to non-dependants will have to be made as a lump sum.

Rollovers to taxed schemes

The transferring fund will withhold tax at the top marginal tax rate for amounts above \$1 million. The first \$1 million of the benefit to be transferred will be treated as a taxable contribution by the receiving fund. The remainder will form part of the exempt component in the receiving fund and not be taxed further.

Chapter 7

Asset testing for the age pension

In this section

- What age can I get an aged pension?
- How much money do I receive from an age pension?
- Am I entitled to an age pension?
- What are the income test thresholds?
- What are the asset test thresholds?
- What if my assets are over the full age pension threshold?
- So how will the pension asset test taper rate changes affect me?
- What pensions will this taper rate change affect?
- Abolition of the 50 per cent assets test exemption for 'complying' income streams

Key Points as detailed by Treasury

- The pension assets test taper rate will be halved from 20 September 2007 so that pension recipients only lose \$1.50 per fortnight (rather than \$3) for every \$1,000 of assets above the relevant threshold.
- The assets test exemption for 'complying' income streams will be removed for income streams purchased on or after 20 September 2007.
- There will be no change to the income test arrangements.

What age can I get an aged pension?

You may get Age Pension if you:

- are aged 65 years and over if you are a man, *or*
- are above certain qualifying ages for women (see the ages chart below)

<i>Date of Birth</i>	<i>Qualification Age</i>
1 July 1935 to 31 December 1936	60.5
1 January 1937 to 30 June 1938	61
1 July 1938 to 31 December 1939	61.5
1 January 1940 to 30 June 1941	62
1 July 1941 to 31 December 1942	62.5
1 January 1943 to 30 June 1944	63
1 July 1944 to 31 December 1945	63.5
1 January 1946 to 30 June 1947	64
1 July 1947 to 31 December 1948	64.5
1 January 1949 and later	65

How much money do I receive from the age pension?

The table below shows the current amount for a full age pension for a single and couple (each person)

Status	Maximum Pension Rate Per Fortnight
Single	\$537.70*
Couple	\$449.10* (each)

Am I entitled to an age pension?

To gain a full or part age pension Centrelink determine your eligibility by an Asset and Income test.

To gain a full age pension you must have an income below the full age pension income test threshold and full age pension asset test threshold.

What are the income test thresholds?

Below is the amounts for eligibility under the income test:

Family situation	For full payment (per fortnight)	For part payment (per fortnight)
Single	up to \$132.00	less than \$1490.75
Single plus 1 child	up to \$156.60	less than \$1515.35
Couple (combined)	up to \$232.00	less than \$2492.00
Illness separated couple (combined)	up to \$232.00	less than \$2949.50
Additional children	add \$24.60 per child	

As an example, in the case of a single person you will be eligible for a full age pension if you earn below \$132.00 per fortnight. (remembering you also need to meet the asset test on the next page). The full age pension for a single is \$537.70 per fortnight.

In this example income over \$132.00 reduces the rate of pension payable to a single person by 40 cents in the dollar, cutting out totally at \$1,490.75 per fortnight of income. (a couple reduces by 20 cents in the dollar each) so for the example of a single person earning \$300 per fortnight you would calculate their pension by the formula $\$537.70 - ((\$300 - \$132) \cdot .4) = \470.50 part pension

What are the asset test thresholds?

The current thresholds for the Asset test are listed below and are current from September 20, 2007.

Chart A - Assets Test for Homeowners:

<i>Family situation</i>	<i>For full pension/allowance</i>	<i>For part pension</i>
Single**	up to \$166 750	less than \$529,250
Partnered (combined)	up to \$236 500	less than \$839,500
Illness separated couple (combined)	up to \$236 500	less than \$961,500
One partner eligible (combined)	up to \$236 500	less than \$839,500

Chart B - Assets Test for Non-homeowners:

<i>Family situation</i>	<i>For full pension/allowance</i>	<i>For part pension</i>
Single**	up to \$287 750	less than \$650,250
Partnered (combined)	up to \$357 500	less than \$960,500
Illness separated couple (combined)	up to \$357 500	less than \$1,082,500
One partner eligible	up to \$357 500	less than \$960,500

What if my assets are over the full age pension threshold?

Every \$1,000 in assets over the full age pension asset threshold will reduce your age pension by \$1.50.

As an example the same single person used in the income test example, who is earning \$300 per fortnight, has a home and has assets (excluding the primary residence) of \$400,000. This means this person is (\$400,000 - \$287,750) or \$112,250 over the full age pension asset test threshold.

This will result in their pension being reduced by \$168.75 or $(\$112,500/\$1,000) \times \$1.50$, so they will receive a part age pension of \$368.95.

Note: the rate of payment is calculated under both the income and assets tests. The test that results in the lower rate (or nil rate) will apply.

So in this example this single person would have received \$470.50 part pension by the income test and \$368.95 by the asset test so they will receive the lower figure of \$368.95.

Abolition of the 50 per cent assets test exemption for 'complying' income streams

The 50 per cent assets test exemption for purchased 'complying' income streams was removed from 20 September 2007.

This change will only apply to income stream products purchased on or after 20 September 2007 and will not affect the assets test treatment of income streams purchased before this date.

Pension Income Test

The current income test treatment of superannuation pensions will remain unchanged.

Income streams with a term of greater than five years are assessed under the income test on the basis of the gross annual income from the product reduced by an annual allowance for return of capital.

Income streams with a term of less than five years are assessed under the social security deeming rules.

Chapter

8

Other superannuation issues

In this section

- What do I do with my super when I retire?
- When I retire can I access my super and still work part-time?
- Can I borrow money to buy my own home?
- Who will get my super when I die?
- What if I can't remember where my superannuation is located, or how many funds I have?
- What happens to my super if I get a divorce?
- I don't think my employer is paying my superannuation – what do I do?
- I am a casual worker and I don't think my employer is paying enough super.
- If I have a superannuation problem, who can I talk to?

What do I do with my super when I retire?

Superannuation is for one specific purpose—to improve your income when you retire.

Under the new rules super withdrawals for those over 60 in a "taxed" fund will be tax free.

So when you reach retirement age and you are over 60 you can leave your money in your superannuation account and draw down on this as required, many superannuation funds are developing automatic teller machine (ATM) card type accounts that will provide you with easy access to your funds. The only stipulation on this is that you must withdraw a minimum amount each year. (refer to page 36)

Another option is to buy different types of pension products; you can buy products that will:

- guarantee you a pension of a set amount for a set period of time
- guarantee you a set pension for life
- provide a flexible income but with no guarantees.

When you are nearing retirement, you can also roll your superannuation over into a product which may guarantee you a certain amount of income and/or a specific lump sum.

With all the products on the market there are a number of traps, terms and conditions that you need to be aware of—it may seem difficult and boring, but it really pays to read the fine print.

Before you buy any super product, you need to decide what you or your family need. Do you want a lump sum to pay off your mortgage or do you want a steady income stream which may be indexed to inflation or both?

You should shop around and collect as much information as possible on all of the available products. Your own superannuation fund may have an adviser to help you choose what type of product best suits your needs.

ASIC have a useful brochure on dealing with financial advisors called "*Don't kiss your money goodbye*". To obtain a copy call them on 1300 300 630.

Remember, it is best to think about your retirement income needs well before you near retirement age.

When I retire can I access my super and still work part-time?

An individual is now able to retire from full time work but continue working part time and access some of their super. This is known as "**transition to retirement**".

The transition to retirement measure allows people to access their superannuation benefits, once they reach their preservation age, in the form of a non-commutable income stream, without having to retire or leave their job.

A person's preservation age depends on their date of birth and is explained on page 28 of this information kit.

The new changes from 1 July 2007 mean pensions commenced under the transition to retirement condition of release will allow no more than 10 per cent of the account balance (at the start of each year) to be withdrawn in any one year.

The existing non-commutability rules for pensions purchased under the transition to retirement measure will continue to apply. Pensions commenced prior to 1 July 2007 which complied with the relevant rules for the transition to retirement measure at the time will be deemed to satisfy the proposed requirements.

A non-commutable income stream refers to:

- a non-commutable pension
- a non-commutable allocated pension, or
- a non-commutable allocated annuity.

What is a non-commutable pension?

A non-commutable pension is a pension which meets the standards of a:

- lifetime pension
- life expectancy pension, or
- market linked pension (sometimes marketed as a term allocated pension).

What is a non-commutable annuity?

An annuity is generally a series of payments purchased with a lump sum, usually from a life insurance company.

A non-commutable annuity is an annuity which meets the standards of a:

- lifetime annuity
- life expectancy annuity, or
- market linked annuity (sometimes marketed as a term allocated annuity).

The pensions and annuities listed above are also known as 'complying' pensions and annuities. The Transition to Retirement rules are complex and it would be worth contacting the Tax Office by phoning 131020 for more information.

Can I borrow money to buy my own home?

You cannot borrow your superannuation money to buy a home but many superannuation funds have joined together to provide low fee and low interest home loans.

You may be eligible if your fund is participating.

For more details contact Members Equity on 1800 650 999 or look on their website: www.membersequity.com.au.

Death Benefits

John and his wife Helen have two children. John is a member of a superannuation fund.

He nominates Helen and his children as beneficiaries of his superannuation in the event of this premature death.

Five years later John gets divorced he remarries Kate but he forgets to change his death benefit nomination.

If John dies, Kate may have difficulty accessing John's superannuation—the trustees of his superannuation fund will have to determine where John's superannuation entitlements should go, but they will generally use John's death benefit nomination as a guide.

This is why you should remember to keep your death benefit nomination up to date. This is particularly important in the case of a binding nomination.

Who will get my super when I die?

When you become a member of a superannuation fund you may be asked to nominate who should get your superannuation if you die (see opposite).

It is important to let your superannuation fund know your nomination and if you want to change it.

If you die before accessing your superannuation your Will does not necessarily determine who your superannuation will go to.

Even if your Will nominates someone else, the person named on the membership application may have first claim on the superannuation benefit.

Superannuation fund trustees may also accept binding death benefit nominations from fund members. You should contact your superannuation fund if this is of interest to you.

You should ensure that your membership form is always up to date. If you need to change your nomination, just call your super fund and they will send you a new form.

What if I can't remember where my superannuation is located, or how many funds I have?

In 2005-06 lost super reached \$9.7 billion.

If you have worked at a number of jobs and your employer has paid superannuation into an account on your behalf, you may have several superannuation accounts.

Sometimes, it is hard to keep track of where your monies are held. Your superannuation fund may not know your current address, so you may not have received any statements.

If you think that you might have outstanding superannuation with a fund, but can't remember the name of the fund, there is an easy way to find your outstanding superannuation money.

Just call the **Australian Taxation Office Superannuation Hotline on 13 10 20** and follow the steps to the lost members register.

All superannuation funds are required to report to the ATO when they can't find a superannuation fund member. The ATO keeps a register of names of people who might have 'lost' their superannuation.

You may be surprised by how much of your superannuation is just waiting for you to roll it over into your current fund and save on fees and charges.

What happens to my super if I get a divorce?

Since December 28, 2002, Superannuation assets are split equally on divorce.

This applies to all property settlements after that date. If you believe you may be affected you should seek legal advice.

I don't think my employer is paying my superannuation – what do I do?

Many workers complain that their superannuation is not being paid to their super fund by their employer. If you think that this may be happening to you, you should check with your super fund. If they haven't received your super then you should contact the Australian Taxation Office to let them know.

You need to let the ATO know because they are the only people who can legally pursue your superannuation.

What happens if you haven't heard anything from the ATO or they have not got your money yet?

Unfortunately this is not an uncommon case. At the end of March 2007 there is \$300 million of superannuation owed to workers which has not been paid. It can have a disastrous impact on people's retirement incomes.

Labor believes that the Tax Office should individually follow up every single complaint about missing superannuation.

If you do not think the Tax Office is doing enough then you should contact your Member of Parliament and seek assistance.

Regular payment by employers reduces the amount of lost super and increase the interest earned in your account.

The Liberal Government finally agreed to legislate for quarterly super payments by employers from 1 July, 2003. This followed a long campaign by Labor over many years to achieve this change.

If an employer becomes insolvent, the Liberal Governments Employee Entitlement Protection Scheme does not cover a single cent of unpaid super contributions even though super is a statutory entitlement.

I am a casual worker and I don't think my employer is paying enough super.

Employers are generally required to pay superannuation on all wages paid for "ordinary hours of work".

The meaning of "ordinary hours of work" currently depends on individual awards or employment contracts. In most circumstances all the hours worked by a casual count as ordinary hours of work.

If you are uncertain about whether your employer is paying superannuation for the correct hours worked you should query this with your employer and then speak to the Tax Office.

If I have a superannuation problem, who do I talk to?

If you think that something is wrong with your superannuation you should check it out. Perhaps you have not received a statement from your fund for a period longer than 12 months or maybe you think your employer is not contributing to your fund on your behalf. Maybe you think some of your money is disappearing.

There are a number of people you can call for help:

- Your superannuation fund. If you do not get an answer or a written response in seven days you should call the Australian Prudential Regulation Authority (APRA).
- APRA has a hotline (1300 13 10 60) which you can call to ask questions about, or lodge an application for, early release on compassionate grounds or if you believe your fund is being mismanaged. You may need to write a letter outlining your concerns and providing some information. Remember to keep a copy for yourself.
- The Superannuation Complaints Tribunal (SCT—phone: 1300 780 808) can help settle a range of complaints, particularly those about benefits, insurance or payment of money if you have already complained unsuccessfully to the fund itself.

The Tribunal is not a court of law, but rather a legal body which helps you and your fund negotiate an outcome.

The SCT is suffering from a lack of resources which is causing long delays in resolving complaints. Labor pressured the Government into providing more resources but this still may not be enough to give members a cheap, fast, independent dispute resolution mechanism.

Useful Contacts

Australian Taxation Office (ATO)
Superannuation Hotline
13 10 20
www.ato.gov.au

Australian Prudential Regulation Authority (APRA)
1300 13 10 60
www.apra.gov.au

Superannuation Complaints Tribunal (SCT)
1300 780 808
www.sct.gov.au

Australian Securities and Investments Commission
(ASIC)
1300 300 630
www.asic.gov.au

Centrelink
1800 050 004
www.centrelink.gov.au