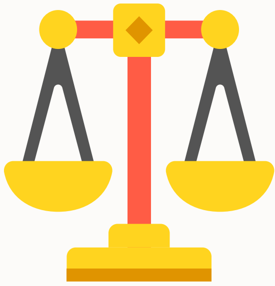
SUPER INFO

SUMMER 2017

METROPOLITAN FIRE SERVICE SOUTH AUSTRALIA

What's inside:



Super rules passed

Superannuation customers will face a raft of new rules from 1 July 2017 after the Federal Government has successfully passed its superannuation changes into law.

The tax concessions offered by super remain generous and the final reform package, approved by the Senate on 23 November, is in-line with the Government's stated aim of ensuring the superannuation system is fair, flexible and fit for purpose. Following is an overview of the new rules.

Pension balances capped at $1.6 million

From 1 July 2017, there will be a $1.6 million transfer cap on the total amount of superannuation you can transfer into the tax-free retirement phase. Future earnings on balances in the retirement phase will not be capped or restricted.

Savings beyond $1.6 million can remain in an accumulation account, where earnings are taxed at 15 per cent.

Existing retirees will have to bring their pension balances under $1.6 million before 1 July 2017

The transfer balance cap will be indexed in line with CPI, so the cap is forecast to be about $1.7 million in 2020–21.

There are alternative ways to supplement your retirement savings and you may wish to speak to a financial adviser who can help you review your options.

Non-concessional contributions cap cut to $100,000

From 1 July 2017, the annual non-concessional contributions cap will be reduced to $100,000, down from the current cap of $180,000.

Individuals with a balance of more than $1.6 million will no longer be eligible to make non-concessional contributions.

As is currently the case, those under age 65 will be able to bring forward 3 years of non-concessional contributions.

This policy replaces the proposed $500,000 lifetime cap on non-concessional contributions announced in the 2016–17 Budget.

Concessional contributions cap cut to $25k

Annual limits on before-tax contributions will be cut to $25,000 for everyone from 1 July 2017. This is reduced from the current cap of $30,000 for most workers and $35,000 for those aged over 50.

Concessional contributions include the Superannuation Guarantee from your employer, salary sacrifice contributions and any contributions that you claim as a tax deduction.

If you are a defined benefit member, instead of Superannuation Guarantee contributions your concessional contributions are calculated as a notional amount of 14.4% of your superannuation salary, plus any voluntary salary sacrifice contributions and

contributions you claim as a tax deduction. Speak to the Manager on 08 8204 3826 for more information.

The new limits don't come into effect until 1 July 2017 so there's still time to take advantage of the existing, more generous limits.

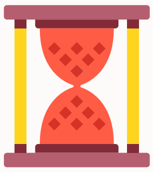
It is generally suggested that you speak to a licensed financial adviser before changing your contribution strategy.

More super tax on high-incomes

People with adjusted taxable income of over $250,000, including any concessional contributions, will pay 30% tax on their concessional contributions from 1 July 2017.

At the moment only those with an adjusted taxable income of more than $300,000 pay the higher rate of 30%.

The higher tax rate will only kick in if your adjusted taxable income exceeds $250,000. Even at the higher rate, super still offers a discount of about 17% compared to the highest marginal tax rate.



There is a short window of opportunity for those earning $250,000–$300,000 a year to top up their super balance at the lower contributions tax rate of 15%. Speak to a financial adviser before changing your contribution strategy.

Catch-up concessional contributions

Those with account balances of $500,000 or less will be able to rollover up to five years of unused concessional caps. This measure has been delayed by one year and will now come into effect on 1 July 2018.

The measure is designed to help those who take time out of work, whose income varies considerably from one year to the next, or whose circumstances have changed and are in a position to increase their contributions to superannuation.

If you're not in a position to make concessional contributions of up to $25,000 a year, you may be able to take advantage of the carryover rules when your income is higher. Speak to a financial adviser before changing your contribution strategy.

Legislating the objective of superannuation

The Government will legislate to define the primary objective of the superannuation system: "to provide income in retirement to substitute or supplement the Age Pension".

The Government says the move will deliver stability by providing an "anchor" for future superannuation reforms.

Introducing the Low Income Superannuation Tax Offset (LISTO)

From 1 July 2017, the Government will replace the Low Income Superannuation Contribution (LISC) with the Low Income Superannuation Tax Offset (LISTO).

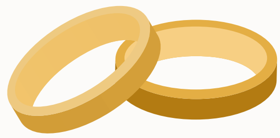
The LISTO effectively refunds the tax paid on concessional contributions by individuals with adjusted taxable income of up to $37,000 – up to a cap of $500.

Widening access to concessional contributions

From 1 July 2017, the Government will allow all individuals under the age of 65, and those aged 65 to 74 who meet the work test, to claim a tax deduction for personal contributions to eligible superannuation funds up to the concessional contributions cap.

Currently, an income tax deduction for personal superannuation contributions is only available to people who earn less than 10 per cent of their income from salary or wages.

Extending the spouse tax offset



The Government will make the current spouse tax offset available to more couples so they can support each other in saving for retirement.

Currently, a tax offset of up to $540 is available for individuals who make superannuation contributions to their spouses with incomes up to $13,800. Under the new rules the offset will be extended to those whose recipient spouses earn up to $40,000.

The spouse receiving the contribution must be under age 70 and meet a work test if they are aged between 65 and 69.

Transition to retirement changes

The Government will remove the tax exempt status of income from assets supporting a transition pension. However, transfers to a transition pension will not count towards the pension transfer cap, as they don't benefit from tax-free earnings.

Individuals will also no longer be allowed to treat certain superannuation income stream payments as a lump sum for tax purposes.

Abolishing anti-detriment payments

From 1 July 2017, the Government will remove the anti-detriment provision which allows superannuation funds to claim a tax deduction if they pay an additional amount on top of a death benefit paid to eligible dependants. This effectively means that funds will no longer pay this additional amount.

Should I maximise my contributions or pay off my mortgage?

Paying off the mortgage on your home as fast as possible is often a sound financial strategy. But if you're a member of a defined benefit scheme such as the SA Metropolitan Fire Service Superannuation Scheme (SAMFSSS), it can make better financial sense to maximise your scheme benefit by making additional contributions to your accumulation account.

This is because the potential benefits from your scheme could be greater than the interest savings you can achieve by reducing your mortgage. And if you use a salary sacrifice arrangement to contribute to your scheme there may also be significant tax advantages:

- You'll reduce your overall tax bill as super contributions are only taxed at 15%.
- Investment earnings in super are taxed at a maximum of 15%.
- Accessing your super after you turn 60 provides tax-free income or lump sum withdrawals.

What about other types of debt?

Debt such as credit cards and personal loans can have a much higher interest rate than your mortgage. It's expensive debt. Generally, your priority should be to pay off this more expensive debt before making additional payments on your mortgage or contributions to your scheme.

Think about when you will need your money

Once you contribute money to your super, you generally can't access it again until you reach your preservation age (between 55 and 60) depending on when you were born) and retire.

Consider your short term and long-term financial needs before making any decisions.

Each person's situation is different so seek professional advice before making any decisions about your money. A Financial Planner can assess your options and provide recommendations based on your individual circumstances.

Death benefits – federal government abolishes anti-detriment payments

As advised in the Autumn 2011 Super Info, effective 14th April 2011 the Trustee of the Scheme introduced "anti-detriment" payments. This meant that, in addition to any benefit paid from the Scheme upon your death, an additional amount known as an "anti-detriment" payment could be paid under certain circumstances.

Anti-detriment payments were available because the Federal Government provided a tax deduction to super funds relating to payments of death benefits. The Scheme chose to pass the benefit of that tax deduction on to beneficiaries when paying a death benefit, by way of an extra anti-detriment payment.

The Government has now decided to remove the anti-detriment provisions. This means that after 1 July 2017 it will no longer be possible for the Scheme to pay the additional anti-detriment payments on top of the normal death benefit paid by the Scheme. Please note that the death benefits available from the Scheme, as quoted to you on your Benefit Statements and through the website, are unaltered.

Please contact the Manager if you have any questions.

$uper Ideas to $ave

Finding the time to devote to saving should be front of mind and not a chore, say financial expert

If your calendar is like most, it's pretty full; juggling work, family and friends, maintaining a home, paying the bills. Studying your superannuation arrangements is the last thing you have time for. One in five women say 'lack of time' keeps them from sorting their super; and its having a huge impact on women's retirement savings.

One in five women say 'lack of time' keeps them from sorting their super; and its having a huge impact on women's retirement savings.

According to Association of Superannuation Funds of Australia about 90 per cent of women will retire with inadequate savings to fund their retirement. One in three women will retire with no super at all.

Mercer financial adviser Helen Angwin says it is paramount all people, regardless of age, understand and manage their own finances to prepare for future needs. And, it all starts with budgeting and knowing the value of a dollar.

"Cash flow is the cornerstone of wealth creation so set yourself a budget; you need to have surplus income to start saving," she says. "Recreational spending is OK but things like travel, cars, electronic goods, clothing and dining out should be kept in check. Don't splurge."

Angwin says income is just as important as budgeting and women in particular need to ensure they receive pay commensurate with their position when building their career and setting ongoing savings targets.

"Too many women accept lower pay relative to their male counterparts," she says. "Be assertive and request pay commensurate with your position. When you do get a pay rise, consider it as an opportunity to save more. We get used to living on the same level of income so a pay rise can be used to divert to savings."

Her top tip for a savings plan is to start small with a set, achievable target. Salary sacrificing small amounts of your pay throughout your working life is second on the list to help build your retirement savings.

"Achievable goals will give you positive reinforcement when you actually get there, whereas onerous savings targets will lead to disenchantment and mean you do not follow through with saving," she says. "Start salary sacrificing $1,000 a year – about $20 a week – and build this slowly over time. It is the tortoise who wins the super race, not the hare."

As for the big ticket item in life – buying a home – always consult experts for the best financial deal, and be disciplined in saving for the deposit and paying off the mortgage. Flatmates, she says, are one way to help repay the mortgage sooner. A person should be just as disciplined in selling a bricks and mortar asset, especially when negotiating a property settlement.

"If you are negotiating a property settlement in a divorce, seek financial advice," Helen says. "Women are often inclined to take the life style assets, such as the home or car and maintenance payments, rather than the investment assets of super, shares and investment properties.

"In the long term this can lead to lower returns and circumscribed situations."

Finally, Angwin says, women need to make time now to ensure a stable financial future.

"Put time aside each week to engage with and understand your finances; educate yourself about tax, super and investments," she says. "It's not hard to take responsibility for your own finances, but it does require a bit of your time."

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