Lutheran Super
You're valued

Grow your super

At Lutheran Super, we want to encourage you to save towards your retirement. This fact sheet will help you to understand both the 'benefits' and the 'how to' of salary sacrifice in relation to your Lutheran Super account.

Boost your super with salary sacrifice

Salary sacrifice is an arrangement between you and your employer, whereby you give instructions to payroll to direct part of your pay into super on a regular basis.

Salary sacrificing is a simple and effective way of boosting your super and saving for retirement. It also comes with excellent tax advantages.

By salary sacrificing, you can make additional contributions to your super before you pay tax. You can reduce your taxable income and increase your super balance at the same time.

Even the smallest amount today can make a big difference to your tomorrow. The earlier you start contributing extra to super, the sooner you can see the benefits of compounding investment returns.

Tax effective

Putting some of your before-tax salary into super is an effective way of growing your retirement savings, because the 'sacrificed' amount goes directly into super. These contributions are generally taxed at a rate of only 15%, instead of at your marginal rate.

If you earn between $37,001 and $87,000 a year, you pay up to 34.5% income tax (which includes the 2% Medicare levy). So if you contribute before-tax money to super, you pay a much lower tax rate on that amount. Salary sacrificing makes sense if your normal income tax rate is higher than 15%. Table 1 shows the marginal tax rates based on income.

Table 1: Marginal tax rates

Income	Marginal tax rate[1]	Tax on this income[1]
0 – $18,200	0%	Nil
$18,201 – $37,000	19%	19c for each $1 over $18,200
$37,001 – $87,000	32.5%	$3,572 plus 32.5c for each $1 over $37,000
$87,001 – $180,000	37%	$19,822 plus 37c for each $1 over $87,000
$180,001 and over	45%	$54,232 plus 45c for each $1 over $180,000

[1] The above rates do not include the Medicare levy of 2%.

Once these additional contributions are within the super environment, they will continue to be invested, in line with your selected investment options, with your Lutheran Super account.

The good news is the earnings from your super fund are tax favourable. As investment earnings are taxed at no more than 15% (unless you earn more than $250,000 a year), this compounding effect adds up over time.

Your payroll officer will automatically adjust your PAYG earnings in line with the amount you choose to salary sacrifice into super. This way, when it comes to tax time, relevant PAYG tax adjustments have already been taken into account.

You do not have to declare the investment earnings on your super in your personal income tax return each year. Instead, your super fund reports the earnings and deducts tax at a maximum of 15% (30% tax may apply if you earn above $250,000 a year). This generally compares favourably to the tax that would apply to investment earnings outside of super.

How much can you salary sacrifice?

There are limits on how much you can contribute to your super on a concessional (before-tax) basis.

From 1 July 2017, the annual cap is $25,000 for everyone, regardless of your age. You must be aware that your annual concessional cap is based on the total of any Employer and salary sacrifice contributions made for you each financial year.

From 1 July 2018, if you have a total super balance of less than $500,000, you will be able to carry forward any unused part of your concessional contributions cap in 2018/19 (and future income years) for up to five years. After five years, any unused part of your cap will expire.

From 1 July 2017, you will generally be able to claim a tax deduction for after-tax personal contributions, and these contributions will count as concessional contributions.

Excess concessional contributions are included in your assessable income and taxed at your marginal tax rate, although you'll get a tax offset to allow for the 15% contributions tax.

However, you can elect to withdraw up to 85% of any excess concessional contributions from your super.

Keep an eye on your contributions cap

It's up to you to make sure you don't go over your contribution caps.

When tracking your total contributions, it's important to know when your employer pays contributions to your super fund around the end of financial year so you don't inadvertently go over the cap. If your contributions for the last quarter of the financial year are paid in July, be aware that these will count to your next year's cap.

In addition to calling the Lutheran Super Helpline, once you have online access to your Lutheran Super account, you can check how you are tracking towards your financial year annual cap: **www.lutheransuper.com.au>Contributions>Annual-contribution-caps**

How to set it up

Speak to your payroll or HR department to set up a salary sacrifice arrangement today. You'll need to tell them how much you want taken out each pay cycle, as either a 'percentage figure' or a 'dollar amount'.

Often your payroll officer will have a form for you to fill out, also reminding you that it is your responsibility not to exceed your annual concessional contribution cap.

How much is enough?

It depends on your personal situation and how much you can afford to salary sacrifice. Remember though, even the smallest amount can make a difference. Table 2 shows what making salary sacrifice contributions could look like for someone earning $60,000 a year.

Keep in mind that you generally won't be able access any money you salary sacrifice into super until you reach what is known as your "preservation age" – it is essentially "locked away" or "preserved" until you reach this age.

Table 2: Weekly contributions, tax savings and retirement outcomes

Set aside from weekly take-home pay	Tell your employer to take out pre-tax	Income tax savings for retirement[2]	Bonus super at retirement[2]
$25	$38	$7,706	$59,256
$50	$76	$15,413	$118,513
$75	$115	$23,327	$179,328
$100	$153	$31,034	$238,585

Assumptions

[2] Assuming a marginal tax rate of 34.5% on personal income (that is, 32.5% plus 2% Medicare levy). The amounts shown in Table 2 are not predictions of actual outcomes as returns are likely to vary over time. Actual dollar values are used with no adjustment for the effect of inflation. The projected outcomes apply the following assumptions over 20 years: before tax contributions per week as shown, investment return of 5.61% per annum (after tax) paid in arrears. Starting age 45 and retirement age 65. Differences in returns (which may be positive or negative), and fees will alter the outcome. This example also assumes concessional contribution limits have not been exceeded. Current at 1 March 2017. The example shown may not apply to your own situation, so we recommend that you consider your options carefully and seek financial advice about salary sacrifice. Salary sacrifice arrangements are subject to employer approval.

Your preservation age and accessing your super

Your preservation age is the age at which you can access your superannuation benefits. Your preservation age is different to your Age Pension age, allowing you to access some or all of your super beforehand.

Preservation age is at least 55 and can be up to 60 years of age, depending on your date of birth. Anyone born before 1 July 1960 has a preservation age of 55 years. If you were born on or after 1 July 1964, then your preservation age is 60 years.

After reaching your preservation age while you're still working, you can access between 4% and 10% of your accumulated balance by establishing a Transition to Retirement Income stream. If you retire or reach age 65, your full balance may be accessed.

It's always a good idea to get advice

There are a lot of things to consider when making a decision about salary sacrificing into super, and in some cases, it may not be the most appropriate strategy for you.

If you have any questions, or would like to know how salary sacrificing can work for you, feel free to speak with our Lutheran Super Helpline on **1800 635 796**. You can also get advice from a financial advice over the phone at no cost about making contributions to your super.

For more information, visit **www.lutheransuper.com.au**

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