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5 super changes – and what you need to know about them

The Federal Government's reforms to superannuation are now in effect, with new rules having commenced from 1 July 2017. It's important to understand how these changes could affect your financial strategy and retirement plans.

In the 2016 Federal Budget, the government proposed a wide range of reforms to Australia's superannuation system. In fact, these are the most significant changes to super of the last 10 years. Although not all the proposals have been legislated, some significant ones were passed by parliament late last year and are now in effect.

Here's a breakdown of five of the most important changes.

1. Non-concessional contributions

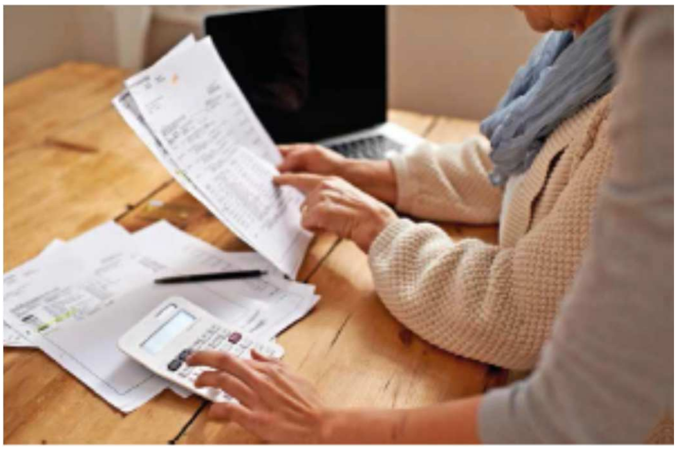
There's a limit to how much you can put into your super through after-tax or 'non-concessional' contributions each financial year.

Prior to 1 July, the non-concessional cap was $180,000 per year, or if you were under 65, you could also apply the 'bring-forward' rule to make up to three years' worth of non-concessional contributions ($540,000) at any time during a three-year period.

From 1 July, non-concessional contributions are now capped at $100,000 a year – or $300,000 over three years under the bring forward rule. If these contributions are a key part of your super strategy, you should speak to your financial adviser about how this limit may affect you.

If you'd already triggered the 'bring-forward' rule in the 2015-16 or 2016-17 years but hadn't used up all of your $540,000 cap by 1 July 2017, your remaining cap for the 3 years period will be reassessed down to take into account the reduced annual cap.

Also, from 1 July onwards once you have saved $1.6 million in super you won't be able to make non-concessional contributions any more. In addition, your ability to bring forward contributions will also be restricted once your total super savings exceed $1.4 million. So it's worth planning ahead to make sure you don't go over the limit.



If you're between 65 and 74, you'll still need to work at least 40 hours during a 30-day period before you can make non-concessional contributions for that financial year. And once you turn 75, you can generally no longer make voluntary super contributions.

2. Concessional contributions

Concessional contributions are the amounts you put into super before tax has been taken out. They include Super Guarantee from your employer and any extra amounts salary sacrificed into super.

As of 1 July 2017, the concessional cap has gone down to $25,000 across the board for everyone, regardless of your age. Previously this cap was $30,000 or $35,000, depending on your age.

If you're between 65 and 74, you'll still need to work at least 40 hours during a 30-day period before you can make concessional contributions for that financial year. And once you turn 75, your super fund will generally only accept compulsory contributions from an employer.

From 1 July 2018 onwards, if you don't use the whole concessional cap in one financial year, the unused amount can be carried forward to the next year if your total super balance is less than $500,000.

So, for example, if you only make concessional contributions of $20,000 in the 2018-19 year, then you will be able to carry forward your $5,000 of unused cap to the following financial year – bringing your total cap for that year up to $30,000. You can keep bringing forward your unused caps each year for up to five years.

High income earners should also note the change to how concessional contributions are taxed. Most people's concessional super contributions are taxed at 15%, but if your total income (including your concessional super contributions) exceeds $250,000, part or all of your concessional contributions will now be taxed at 30%. Previously, this income threshold was $300,000.

3. Transfer balance cap

A new 'transfer balance cap' has been introduced from 1 July, limiting the amount you can transfer to the tax-exempt pension phase of your super. So, if you're planning to retire and set up a pension from your super to draw an income stream, you can only use a maximum of $1.6 million to do so.

And this cap doesn't just include the starting value of new pensions. Even if you were already drawing a pension as an income stream at 30 June 2017, you'll need to make sure your total balance in the tax-exempt pension phase on that date is not over $1.6 million.

If you exceed your transfer balance cap, you'll have to either withdraw or move any excess amount back into the accumulation phase of your super, where its earnings will be taxed at 15%. If you think you may have breached or are close to this cap, it's important to get your financial adviser's guidance.

4. Transition-to-retirement pensions

As you approach retirement, it's possible to start drawing a pension from your super while you're still working. Once you've reached your 'preservation age' but you're under 65, you can set up an income stream from your super as part of a transition-to-retirement (TTR) strategy. If you're working full-time and salary sacrificing, this can be a tax-effective way to boost your super in your final years of work.

From 1 July, any earnings on the assets that support TTR pensions are no longer exempt from tax. Instead, they are taxed at the same rate as assets in the accumulation phase (up to 15%).

If you're currently using or are thinking about using a TTR pension as part of a strategy to boost your super savings, it's worth asking your financial adviser whether a TTR strategy is still the best option for you or if any changes to your existing strategy are required.

5. Estate planning

A final thing to remember is that any changes to your super strategy may have a knock-on effect for your estate planning.

If you move assets out of the pension phase to stay under the $1.6 million transfer balance cap, then you'll need to think about what will happen to these assets after you pass away.

For example, you might have to put a binding death nomination on money moved back to the accumulation phase, or else update your will to account for any assets you take out of super.

Your financial adviser can review your estate plan while updating your super arrangements, to make sure any changes are accounted for.

Get the right advice

The current super reforms are complex and will affect different people in different ways. So before you make any decisions about your financial strategy, talk to your financial adviser. They'll give you all the guidance you need to make the right decisions about your money.

Speak to us for more information

If you have any questions, please speak to your Roberts & Morrow Financial Planning Financial Adviser.

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