

Maximising super using salary sacrifice

Superannuation (super) is setting aside funds during your working life, for use when you stop working. Due to a range of factors, including the fact that it's becoming increasingly difficult for retirees to qualify for the Age Pension, it's important to ensure that you set aside enough funds today to enjoy a comfortable and financially secure retirement in the future.

Whilst the Government's compulsory Employer super contribution for employees, the Superannuation Guarantee, is currently nine per cent, most experts agree that this won't be enough to fund a comfortable lifestyle in retirement.

So what can you do?

Making additional contributions outside of your Employer's contributions is one way to increase your super and help you save for retirement. Possibly the most simple and tax effective way to do this is by 'salary sacrificing' into your super fund.

What is salary sacrifice?

Salary sacrifice refers to an arrangement between an Employer and employee, where the employee sacrifices a component of their salary in return for an equivalent benefit. Commonly used for benefits such as cars, car parking or health benefits, salary sacrifice is now becoming an increasingly popular way for employees to make additional contributions to super.

The benefits of salary sacrifice

- Salary sacrifice allows you to place a component of your pre-tax salary into your super fund, meaning you reduce your taxable income and subsequent income tax burden.
- Super contributions are taxed at 15 per cent in the fund, which is lower than most personal marginal tax rates (up to 47%)*.

* It's important to note that a tax (the superannuation surcharge tax) is payable on certain super contributions if a person's adjusted taxable income (generally taxable income plus surchargeable superannuation contributions plus reportable fringe benefits) exceeds the specified threshold for the relevant year.

Of course, individual circumstances differ and there may be some conditions that you need to be aware of. For example, your employer needs to have the systems in place to be able to offer this facility. Additionally, you must be working in order to make such contributions.

How do personal (after-tax) contributions compare?

It's also possible to make contributions to super from your salary after tax has been paid. This is commonly referred to as personal or after-tax contributions.

Personal (after-tax) contributions also offer some benefits, depending on your individual situation, including:

- There's no tax on the contribution when it's invested into your super or when you retire;
- There's no limit on the amount of after-tax contributions you can make; and
- If your income is less than \$58,000 p.a., personal contributions may attract an additional Government co-contribution to help boost your super savings.

It's also important to note that you will be taxed on investment earnings in the fund.

Let's look at an example to see how personal contributions into super compares with salary sacrifice into super. (See example on the following page).

Example

Sandra is an auditor for a 'top five' accounting firm. Having just received a salary increase of \$10,000, she decided to start planning for her retirement and put the increased amount into super.

Sandra knew there were two options for her to contribute to her super.

Option 1: She could arrange to salary sacrifice \$10,000 of her annual salary (in pre-tax dollars) into her super plan.

OR

Option 2: She could make additional personal contributions (up to \$10,000) to her super fund at any time during the year, after income tax was deducted from her pay.

Let's look at the two options:

Option 1: Salary sacrifice	\$
Gross contribution	+ 10,000
Contribution tax 15%	- 1,500
Net super investment	= 8,500
Assume 8% interest on earnings	+ 680
15% tax on earnings***	- 102
Investment after 1 year	\$9,078

Option 2: Personal (after tax) contributions	\$
Gross salary amount	+ 10,000
Income tax @ 48.5%**	- 4,850
Net income to invest in super	= 5,150
Assume 8% interest on earnings	+ 412
15% tax on earnings***	- 62
Investment after 1 year	\$5,500

**Including Medicare Levy

*** Assumes income is under the surcharge threshold of \$99,710

As you can see, in Sandra's case, salary sacrifice is certainly the most effective option, with an increased super benefit of \$3,578 after one year. Of course, everyone's situation is different and it's important to seek professional financial advice in order to determine what's best for your particular circumstance.

Want more information?

For further information on the benefits of salary sacrificing into super or IOOF's super solution, please contact your financial adviser. Alternatively, call the IOOF Investor Line on 13 13 69 or visit www.ioof.com.au and we'll put you in touch with a qualified financial adviser.

Important note: Salary sacrificing into super may not always be the best option given your particular circumstances. For example, if you're already on a low marginal tax rate or could benefit from the Government co-contribution, after-tax personal contributions may be more appropriate. In addition, salary sacrifice may have the effect of reducing or even eliminating your employer's obligation to put nine per cent of salary into super for you under the compulsory Superannuation Guarantee ('SG'). Under salary sacrificing, your actual salary will reduce and therefore your employer may have to contribute less SG contributions. Also, your salary sacrifice contributions count as employer contributions for the SG and therefore may reduce your employer's obligation further.

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