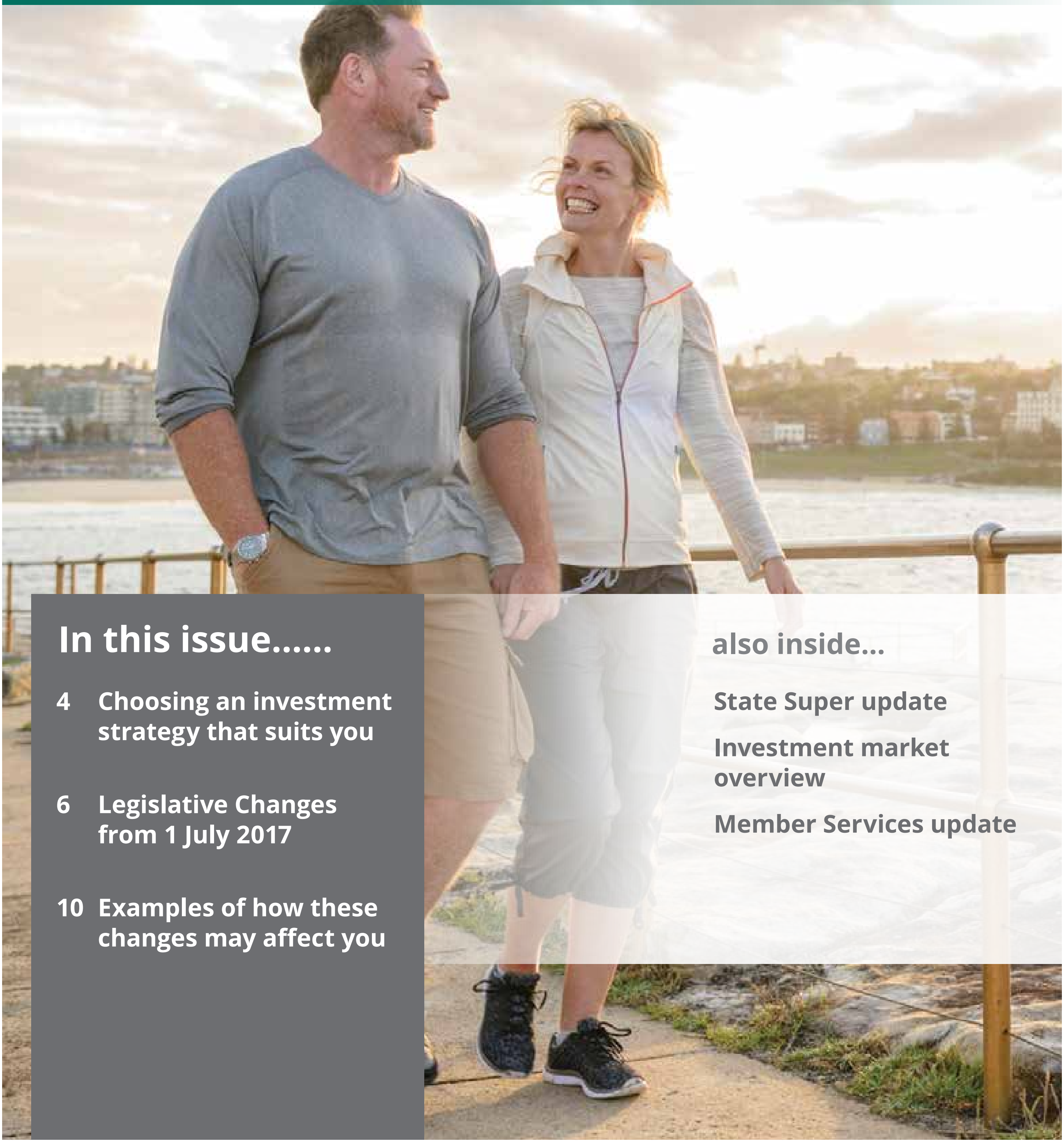
STATE SUPER
SAS Trustee Corporation

APRIL 2017

superVIEWS

Keeping members super informed

SASS
State Authorities Superannuation Scheme



In this issue……

also inside...

State Super update

Keeping you informed of latest news and updates to State Super

JP Morgan selected as preferred custodian

Following a successful joint project between NSW Treasury, NSW Treasury Corporation (TCorp), Insurance and Care NSW (icare) and SAS Trustee Corporation (State Super), JP Morgan has been selected as the preferred custodian of the combined investment funds of the three NSW Government agencies. JP Morgan was selected on the basis of compelling commercial, contractual and capability considerations.

JP Morgan is State Super's current custodian and will also continue to provide State Super with custodial services related to member funded assets.

Pillar Administration sold to Mercer Australia

In December 2016, then NSW Treasurer Gladys Berejiklian, announced the sale of Pillar Administration to Mercer Australia.

Pillar has been State Super's administration service provider for many years and also provides other member services including our contact centre and interview service. Mercer and its leadership team also has a strong track record in superannuation administration services in Australia with expertise in defined benefit, defined contribution and hybrid fund administration.

Pillar are committed to innovation and excellence and we look forward to continuing to work closely with the Pillar team and the new team from Mercer, in providing superior services to members.

The name of Pillar Administration has now changed to Mercer Administration Services (Australia) Pty Limited (ABN 48 616 275 980). In addition, our Member Interview Service in Sydney will be moving to Mercer offices in Barangaroo in the second half of this year and the website will have more details as we near the time of the move.

Legislative changes from 1 July 2017

In the Commonwealth Government's May 2016 budget, numerous reforms affecting superannuation were proposed. Legislation for most of these measures was introduced into Parliament on 9 November 2016 and passed through both houses of Parliament on 23 November 2016.

These changes are designed to improve the fairness, sustainability, flexibility and integrity of the superannuation system.

In this issue, we provide information on the key changes to superannuation, such as the introduction of a $1.6 million transfer balance cap on the total amount of superannuation savings that can be transferred from a concessionally-taxed 'accumulation account' to a tax-free 'retirement account'. We also look via examples at how you are likely to be affected.

The Commonwealth Government has updated and released several consumer fact sheets about these changes and they can be found on the Treasury department's, superannuation reforms page.

State Super will continue to work with both the Commonwealth and State Governments and provide any further updates to the legislation changes on the State Super website – **statesuper.nsw.gov.au**

Keep an eye on the news!

These and other State Super updates and announcements are provided to members as they become available via the State Super website. Visit the Latest News section at www.statesuper.nsw.gov.au.

Investment market overview

Domestic doldrums

2016 presented continuing challenges in business conditions domestically. Coupled with a lethargic unemployment rate, wage growth and inflation, The Reserve Bank (RBA) moved to further ease monetary policy, down to an unprecedented 1.5%.

Looking at the year ahead, growth, business investment and inflationary expectations are likely to continue to be mediocre. On the plus side the decrease in mining investment seems to be bottoming out, commodity prices and volumes are looking more robust and the continued weakening of the Australian Dollar is helping our services sector to export competitively. The RBA still has room to again cut rates, if they feel further stimulation is needed.

Where will Trump take us?

Prior to Trump's surprise victory, indicators in the U.S. last year were encouraging, including some buoyancy in manufacturing and services and pick-ups in employment, inflation and wages. The positives allowed the Federal Reserve to increase rates by the end of the year, but they will remain cautious about overplaying their hand by increasing rates too rapidly.

So how will the Trump agenda shape the year ahead? His fiscal stimulus agenda, combined with tax cuts may have unpredictable repercussions economically and on markets. Any radical policy making may be tempered by the political need to gain congressional cooperation and the need to maintain mutually beneficial trade policies with trading partners.

The Chinese growth challenge

In the last couple of years all eyes have been on China's struggle to keep its impressive growth rate propped up. There is an obvious willingness by the authorities to provide the stimulation to keep it above 6%. The feared 'hard landing' is still a risk for this global powerhouse as the economy continues to transition toward greater reliance on domestic demand. While monetary conditions have tightened recently, the government will be striving to balance the need to stimulate growth with a need to keep a lid on the considerable levels of business and household debt.

Tumultuous times in Europe

Conditions are still patchy in the Eurozone, with modest pick-ups in France and Germany, while the Mediterranean states continue to struggle. Monetary conditions have continued to ease as a stimulus, but expectations are that growth will still lag behind other regions around the globe.

Politically, populist parties are looking to make gains in elections in France, Germany, Italy and the Netherlands. Fears of a breakup of the European Union in the wake of Brexit seem to be reducing, however the French election will be a key test in the first half of 2017.

How will markets be impacted?

Despite all the upheavals politically in 2016 and the volatility within the year, the markets seemed to weather the storm and it ended up a reasonable year for investors. A late flourish in Australian equities of over 4% in December, resulted in well over 11% return for the year. It was a similar story in developed markets around the globe. This gives a useful lesson for investors with longer time horizons to hold their nerve through short term fluctuations and resist a flight to cash after some political uncertainties. Markets can be surprisingly resilient in the wake of such shocks.

Despite the uncertainties ahead for this year, global recession fears have eased, monetary conditions are still favourable and growth prospects are moderately positive in many regions. Markets are generally not over-valued either, so all this seems to suggest that 2017 has scope for markets to again provide sound returns.

Choosing an investment strategy that suits you

When we think about the concept of saving, our first thought may be about what we are putting aside for our next holiday or major purchase. Having a short-term goal in mind usually makes us very conscious of where we put our money and what interest rate we are getting. When it comes to our superannuation, however, the timescales involved can often result in us feeling less engaged about how our money is invested and what return it's achieving.

Your super is your money

The reality is that your superannuation is just as much your money as the money you have in a bank account. It can easily be the largest financial asset we have and the choices we make on the way it is invested can have major consequences on outcomes.

For those in accumulation funds or hybrid accumulation/defined benefit funds, (such as SASS), your fund offers a wide variety of investment choices, giving you the ability to match an investment strategy to suit your time horizon and appetite for risk. Your choices matter and can make a big difference to the result achieved.

What investment choices do I have?

For those components of your super where you have investment choice (such as SASS personal account and the employer-financed part of your SASS benefit), you have four profoundly contrasting strategies to choose from, namely Growth, Balanced, Conservative and Cash. Each strategy invests in distinctly different combinations of asset types, each has different objectives on the returns it aims to achieve and each is designed to suit a variety of investor time horizons and personal preferences for taking or avoiding risk.

Let's take the **Growth Strategy** as an example of how this works in practice. It targets a higher level of investment performance than the other three strategies and consequently it invests predominantly in growth oriented assets. The proportions of each asset class it holds fall within prescribed ranges, which includes:

- **34.0% - 66.0%** in Australian and international shares
- **26.0% - 42.0%** in alternative growth assets such as property, and
- **10.0% - 32.0%** in fixed interest and cash.

The actual percentages held at any point in time will vary depending on market conditions and the assessment of our investment management team.

> "The first aspect to consider when making your choice of strategy is simply to consider your personal "comfort level" with the idea of taking any risk on your investment."

What about the other funds?

The Balanced Strategy offers a somewhat lower level of risk with asset ranges of

- **28.0% - 48.0%** in shares
- **18.0% - 34.0%** in alternative growth assets and
- **26.0% - 46.0%** in fixed interest and cash.

The Conservative Strategy mix reflects another step down in risk, with

- **12.0% - 28.0%** in shares
- **13.0% - 29.0%** in alternative growth assets and
- **51.0% - 67.0%** in fixed interest and cash.

Lastly, the **Cash Strategy** offers a minimal level of risk with

- **100%** of funds invested in cash and cash equivalents (e.g. term deposits).

How do I choose a Strategy to suit me?

The first aspect to consider when making your choice of strategy is simply to consider your personal "comfort level" with the idea of taking any risk on your investment. For some, the idea of fluctuating values in their super will have them lying awake at night with worry. If that is the case then it may be best to lean toward the Cash or Conservative strategies. At the other end of the scale, some may be happy to live with high investment risk. Most of us will generally fall somewhere in between these two extremes.

The other major factor in your decision should be the amount of time you have to invest. A younger person may have decades to wait until retirement and therefore is less impacted by the higher level of short term risks in the Growth or Balanced strategy, while someone who is very close to retirement may be ill advised to put all their funds in the Growth strategy.

Each of the four strategies has a suggested "time horizon" that reflects the level of inherent risk. This ranges from 10+ years for the Growth Strategy, down to 3 years or less for the Cash Strategy.

One important feature to note is that you have flexibility to spread your super across more than one strategy and you can switch your mix at any time to suit your changing circumstances. To check which member investment choice strategy you're invested in refer to your most recent Annual Benefit Statement or log in to your member account via the secure member's area on State Super's website **statesuper.nsw.gov.au**

Getting help

If you want personalised guidance on what strategy will suit you, the financial planning team at StatePlus are ready to help. They can review your situation and help you make sound decisions on your investment mix, as well as wider financial planning issues, such as insurance and retirement income planning.

Legislative changes from 1 July 2017

Background

In the Commonwealth Government's May 2016 Budget, numerous reforms affecting superannuation were proposed. Legislation for most of these measures was introduced into Parliament on 9 November 2016 and was passed through both houses of Parliament on 23 November 2016.

Below is a summary of the key changes to superannuation. The Commonwealth Government has updated and released consumer fact sheets on these matters, which are referred to throughout this article and can be viewed and downloaded online at www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/Superannuation-Reforms.

There is also a defined benefit Treasury superannuation fact sheet, Fact Sheet 05 '*Changes to defined benefit schemes*', which explains in more detail some of the specifics relating to defined benefit funds.

$1.6 million cap on money you can put into the retirement phase

Retirees and pre-retirees with retirement funds in the region of $1.6 million or more should be looking at their retirement strategy to make sure they comply with the new rules.

What are the new rules?

From 1 July 2017, the Commonwealth Government will introduce a $1.6 million transfer balance cap on the total amount of superannuation savings that can be transferred from the concessionally taxed accumulation phase of superannuation to the tax-free retirement phase of superannuation.

The transfer balance cap is set at $1.6 million for 2017/18 and will be indexed in line with CPI in increments of $100,000. If you exceed the transfer balance cap you will need to either transfer the excess back to an accumulation super account, withdraw the excess amount from super altogether, or in the case of a capped defined benefit pension, include half the excess pension amount in your taxable income. The transfer balance cap applies to both existing retirees, as well as individuals who start a new pension in the future. **If you think you might currently exceed the new $1.6 million cap, it's important you take action before 30 June 2017**.

What happens if you currently have a pension?

The new rules also apply to people already receiving a superannuation pension. The value of your existing superannuation pension(s) as at 30 June 2017 will count towards the transfer balance cap. You need to include the combined value of all defined benefit and account based pensions you receive. **Defined benefit pensions which place restrictions on exchanging the pension for a lump sum are treated differently from account based pensions. Members receiving or entitled to receive a State Super pension should read the section below about how the transfer balance cap applies to State Super defined benefit pensions.**

Transitional arrangements will apply to support individuals with existing account based pensions which take them over the $1.6 million transfer balance cap. These arrangements will apply for transfer balances above $1.6 million but at or below $1.7 million – individuals will have 6 months from 1 July 2017 to remedy the breach. If they comply, no further penalty is applicable.

If the total balance is over $1.7 million, then penalty tax will be applied to excess transfer balance earnings from 1 July 2017.

How do I calculate the transfer value of my SASS pension?

Gross fortnightly pension ÷ 14 × 365 = annual pension amount

Annual pension amount × 16 = Transfer balance value

You are not affected if; -

- the only superannuation income stream/s you receive at 1/7/2017 is a State Super pension (including any pension you receive as the result of the death of your spouse) that totals less than $100,000 per annum ($3,835.60 per fortnight). Part years are calculated on a pro rata basis.
- the combination of the value of your State Super pension/s (calculated based on the formula above) plus the balance of any account based pension account at 1/7/2017 totals less than $1.6 million.
- if the only income stream/s you receive are from account based or allocated pension/s, and the total of all balances in your account/s at 1/7/2017, plus any balances you subsequently transfer to an account based pension are less than $1.6 million.

What happens if you breach the transfer balance cap?

If you exceed the transfer balance cap you will need to either transfer the excess, along with excess transfer balance earnings, back to an accumulation super account or withdraw that amount from superannuation altogether. A first breach of this requirement will have the associated earnings or excess transfer balance earnings taxed at 15%. However, from 2018/19 if you breach the transfer balance cap again, the excess transfer balance earnings will be taxed at a more punitive rate of 30%.

How can you make sure you stay within the transfer balance cap?

Each person receiving a pension will have a personal transfer balance account administered by the ATO, reflecting the total amount currently transferred into retirement phase. The balance of this account will need to remain below your $1.6 million transfer balance cap.

When does the 'balance' amount change?

It will change in the following circumstances:

- When an income stream is commenced, a credit is added to the client's personal transfer balance account.
- When a commutation is made (roll-over, roll-back or cash-out), a debit is made against the account.
- If a commutation is made to give effect to a family law split, a debit is made against the account.
- Pension payments do not count as a debit (only commutations).
- Investment gains do not count as a credit and investment losses do not count as a debit.

For example, if you start an account based pension in 2017/18 with a balance of $1.6 million and in 2018/19 due to a positive net growth (after pension payments) the balance has increased to $1.65 million you will not be subject to excess earnings tax.

It's worth noting that your 'personal' cap is fixed when you first commence an income stream (or at 1 July 2017 if you are already receiving a pension/s). This fixed value is the maximum you can use. So, for example, if you start an account based pension with $1.6 million in 2017/18 you can't later add any additional amounts when the transfer balance cap is indexed to a higher figure in future years. If you start an account based pension with a balance of $1.4 million in 2017/18 only the remaining unused portion of the balance cap ($200,000) will be indexed to CPI.

See Treasury Fact Sheet 02 *'Introducing a $1.6 million transfer balance cap'*.

continued overleaf

Leglislation update - continued

continued from overleaf

How the transfer balance cap applies to State Super defined benefit pensions

Special rules will apply for defined benefit pensions which have commutation restrictions such as those paid by State Super. Where these pensions are given a capital value of over $1.6 million, members will not be required to commute (exchange) the excess amount of their pension to a lump sum and remove it from the retirement phase of superannuation.

To calculate the capital value of your State Super pension, divide your gross fortnightly pension by 14, then multiply by 365 which will give you your annual pension amount, which is then multiplied by 16.

So, a defined benefit pension that pays $100,000 per annum would exhaust the transfer balance cap in the 2017/18 financial year.

However in order to maintain a similar taxation outcome, pension payments above $100,000 per annum will become subject to income tax. For defined benefit pensions paid to members aged 60 years and over, such as those paid from State Super, 50% of pension payments over $100,000 per annum will be included in the recipient's assessable income and will be subject to income tax at marginal tax rates. Members under age 60 receiving a death (spouse) benefit pension will also be subject to these arrangements in relation to any part of their combined pension over $100,000 per annum Part years are calculated on a pro rata basis.

If members have additional funds in a non-defined benefit superannuation retirement account (referred to as a retirement account for the remainder of this article) it is the combination of the valuation of their defined benefit pension and the balance of all other retirement accounts which need to be valued at under $1.6 million. If the combined value is above the transfer balance cap, the member will be required to either withdraw the excess from their retirement account or transfer the excess funds back into the accumulation phase where earnings will be subject to 15% superannuation tax.

The value of a State Super pension for this purpose will be 16 times the annual pension amount paid.

The transfer balance cap will be indexed in $100,000 increments in line with the consumer price index. The $100,000 per annum pension payment threshold will be indexed proportionately with the transfer balance cap.

Further information about the taxation arrangements is available in Treasury's defined benefit Fact Sheet 05 *'Changes to defined benefit schemes'*.

Individuals who believe they may be affected by this new measure should consider seeking financial advice.

Annual non-concessional cap reduced to $100,000

The annual non-concessional contribution cap will be lowered from 1 July 2017 to $100,000 per annum (or $300,000 over 3 years if under age 65). This replaces current non-concessional arrangements which allow individuals to make contributions up to $180,000 per annum (or $540,000 over 3 years if under age 65).

Non-concessional contributions up to $100,000 per annum are permitted provided an individual's total superannuation balance is less than $1.6 million. Members with balances of $1.6 million or more who are required to or wish to make non-concessional contributions under scheme rules are permitted to do so but will have zero cap space. These contributions will become excess non-concessional contributions.

Members with excess non-concessional contributions will need to withdraw an offsetting amount from either an accumulation account to avoid the 47% excess contributions tax, even if that excess has been caused solely by contributions into the defined benefit account. Therefore, a person who has no remaining funds to withdraw the excess from will be subject to excess contributions tax of 47%.

See Treasury Fact Sheet 04 *'Annual non-concessional contributions cap'*.

Individuals who believe they may be affected by this new measure should consider seeking financial advice, in particular, how excess contributions tax could be mitigated by salary sacrifice arrangements available in the State Super Schemes.

"Special rules will apply for defined benefit pensions which have commutation restrictions such as those paid by State Super..."

Annual concessional contribution cap reduced to $25,000

From 1 July 2017, the annual concessional contributions cap has been lowered from $30,000 for those aged under 50, or $35,000 for those over 50 to $25,000 for all individuals. The cap will be indexed in line with wages growth.

Members of defined benefit schemes will be permitted to make additional concessional contributions to accumulation schemes provided the notional employer contribution amounts and any salary sacrifice amounts made by or on behalf of defined benefit members do not exceed the $25,000 concessional contributions cap.

See Treasury Fact Sheet 03 '*Reforming the taxation of concessional contributions*'.

The existing concessional contribution cap protection for most SASS members will continue to apply.

Refer to SASS Fact Sheet 16 *'Concessional Contributions Cap'* for further information regarding the concessional contribution cap protection.

30% concessional contribution tax for those with incomes of $250,000 or more (Division 293 tax)

Individuals with incomes over $250,000 will be required to pay an additional 15% tax on their super contributions from 1 July 2017. The threshold was previously $300,000. To be liable for a total of 30% tax, a person would need to have at least $250,000 in combined income and uncapped concessional superannuation contributions annually.

See Treasury Fact Sheet 03 *'Reforming the taxation of concessional contributions'*

> "From 1 July 2017, anyone under 75 will be able to claim an income tax deduction for personal superannuation contributions to an eligible fund, up to the new $25,000 concessional contribution cap."

Low income tax offset retained

A tax offset that provides a super savings boost of up to $500 a year for those earning up to $37,000 has been retained. The Low Income Superannuation Tax Offset will replace the existing Low Income Superannuation Contribution (LISC) from 1 July 2017.

See Treasury Fact Sheet 06 *'Supporting Australians to save for their retirement by introducing the low income superannuation tax offset'*

More people able to claim super tax deduction on voluntary contributions

From 1 July 2017, anyone under 75 will be able to claim an income tax deduction for personal superannuation contributions to an eligible fund, up to the new $25,000 concessional contribution cap. Previously, many self-employed people were unable to claim a deduction on their personal superannuation contributions, and not everyone had access to salary sacrificing arrangements. These amounts will count towards the individual's concessional contributions cap, and will be subject to the 15% contributions tax.

State Super is currently examining whether this measure will be included within the rules of the State Super Schemes.

See Treasury Fact Sheet 07 *'Improving access to concessional contributions'*.

New catch-up measure for those with balances of $500,000 or less

From 1 July 2018, people with a total superannuation balance of $500,000 or less will be able to rollover their unused concessional cap amounts (now set at $25,000 per year) for a period of 5 years. This measure means, those who qualify, can make super contributions over $25,000 in some years, where they have unused caps over the 5 year period. The measure has been designed to provide more flexibility for those who can make extra contributions in some years and assist those who have taken career breaks to make additional "catch up" contributions when they return to the workforce.

See Treasury Fact Sheet 08 *'Allowing catch up concessional contributions'*.

continued overleaf

Leglislation update - continued

continued from overleaf

Extension of the spouse tax offset

From 1 July 2017, the eligibility rules for claiming the tax offset for superannuation contributions partners make on behalf of their low income spouses will be extended. The current 18% tax offset of up to $540 will be available for any individual, whether married or de facto (including of the same sex), contributing to a recipient spouse whose income is up to $37,000. This is an increase from the current $10,800 income level. As is currently the case, the offset is gradually reduced for income above this level and completely phases out at an income level above $40,000. Individuals under age 75 will be able to make contributions on behalf of their spouse who is under age 75.

If the spouse receiving the contribution has a retirement account balance which exceeds the $1.6 million transfer balance cap or their non-concessional contribution cap has been exceeded then no tax offset will be available.

See Treasury Fact Sheet 09 '*Extending the spouse tax offset*'

Changes to Transition to Retirement (TTR)

Effective 1 July 2017, the tax-exempt status of income from assets supporting transition to retirement income streams will be removed. This means that the earnings tax in TTR pensions will be 15%. This change will apply irrespective of when the transition to retirement income stream commenced. Individuals will no longer be allowed to treat certain superannuation income stream payments as lump sums for tax minimisation purposes. Individuals with a TTR pension should consider seeking financial advice.

See Treasury Fact Sheet *11 'Improve integrity of transition to retirement income streams'*

Anti-detriment payments to cease

From 1 July 2017, anti-detriment payments will cease. State Super rules currently provide for anti-detriment payments on the death of a contributing or deferred member. After 1 July 2017, the State Super rules will be changed so these payments will no longer apply.

How these changes may affect you?

Making concessional (pre-tax) contributions under the new rules

Provided your employer agrees, your compulsory personal contributions to SASS can be made:

- Entirely from your pre-tax salary
- Entirely from your after-tax salary
- From a combination of pre-tax and after-tax salary.

SASS has a special pre-tax contribution limit assessment for most members that means if you, or your employer on your behalf, are contributing to SASS only, you will not exceed the contribution limit regardless of the amount you contribute. Some members of SASS have lost this special protection, please check the Membership Details section of your annual statement to see if you are one of these. If you make contributions to a separate super fund (in addition to SASS) you will need to make sure you stay within the annual limit set by the government.

Note: Contributions made to cover insurance policies within superannuation for emergency services employees which are separate to SASS, are also counted towards the concessional contribution cap.

Benefits of salary sacrifice

A salary sacrifice contribution is paid from your pre-tax salary (at your request) to your superannuation scheme. Making personal contributions from your pre-tax salary provides the potential for significant tax savings in the short, medium and long-term (as long as you stay within the annual contribution limit set by the government). It is the discipline of saving that will have the most impact on your super benefits at retirement.

What's changed?

The annual limits have been reduced from $30,000 for people under 50 and $35,000 for people 50 or older to $25,000 for all individuals. If you breach the limit, you will start paying your marginal tax rate on any other amounts you contribute (not the 15% concessional tax rate), plus an interest penalty.

Staying within the limits - Jan

What contributions is Jan currently making?

- Jan is 50 and is a contributing member of SASS on a superable salary of $90,000 per annum.
- Jan has elected to contribute at the maximum level of 9% of her superable salary.
- Her 9% of salary is measured in after-tax contributions, however, as Jan has elected to pay her contribution pre-tax (salary sacrifice), the contributions are grossed up, which equals 10.59% of her pre-tax income.
- Jan's pre-tax contribution is $9,529 per annum.
- Her Basic Benefit entitlement is $66,000.
- Jan has an additional superannuation benefit separate to SASS totalling $20,000, which she no longer contributes to.

Will the reduced pre-tax contribution cap impact Jan?

- Jan's personal pre-tax contribution to SASS is $9,529.
- When added to the notional amount counted for her employer's contribution to SASS of $8,640 (9.6% of superable salary), the total concessional contributions to SASS are $18,169.
- As the total is less than the cap allowed ($25,000), SASS reports $18,169 to the ATO.
- Jan is not currently contributing pre-tax contributions to her separate scheme so the scheme does not report any concessional contributions to the ATO.
- The total reported to the ATO is $18,169.

Jan remains under the new concessional cap of $25,000. Jan has the opportunity to make additional pre-tax contributions to maximise her use of the concessional contribution limit.

Staying within the limits - Jack

What contributions is Jack currently making?

- Jack is 54 and is a contributing member of SASS on a superable salary of $180,000 per annum.
- Jack has elected to contribute 6% of his superable salary to SASS.
- His 6% of salary is measured in after-tax contributions, however, as Jack has elected to pay his contribution pre-tax (salary sacrifice), the contributions are grossed up, which equals 7.06% of his pre-tax income.
- The pre-tax contribution is $12,706 per annum.

Will the reduced pre-tax contribution cap impact Jack?

- Jack's personal pre-tax contribution to SASS is $12,706.
- When added to a notional amount counted for his employer's contribution to SASS of $17,280 (9.6% of superable salary), the total concessional contributions to SASS are $29,986.
- The total exceeds the cap allowed ($25,000).
- Jack checks the special protection status of his SASS contribution cap in the Membership Details section of his 2015-2016 SASS statement.
- If Jack retains the special protection of the SASS contributions cap, special conditions mean that only the amount up to the cap ($25,000) is reported to the ATO for his SASS contributions.
- If Jack is no longer protected by the special SASS contributions cap, the actual total in concessional contributions to SASS ($29,986) is reported to the ATO.
- Jack is not contributing pre-tax contributions to any separate schemes so no other concessional contributions are reported to the ATO.

If Jack retains the special protection of the SASS concessional contributions cap, the total reported to the ATO is $25,000. Jack remains within the new concessional contribution cap of $25,000 although he has used the total available to him. He is unable to make additional pre-tax contributions to another super fund without exceeding the cap.

If Jack is no longer protected by the special SASS concessional contributions cap, the total reported to the ATO is $29,986. Jack exceeds the new concessional contribution cap of $25,000. As he is unable to remove excessive contributions from the SASS benefit, he will have an excess of $4,986 and be liable for tax at his marginal taxation rate on the excessive amount plus a notional interest penalty on that amount.

continued overleaf

Leglislation update - continued

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If your earnings plus pre-tax superannuation contributions exceed $250,000 in a year (Division 293 tax)

Currently, individuals with a combined annual income including concessional contributions (uncapped) of $300,000 per annum or more are subject to an additional 15% tax on their concessional contributions in excess of the $300,000 threshold. From 1 July 2017, this threshold will fall to $250,000.

Note: You could also find yourself in this situation if you receive a lump sum that puts your total income for the year over the $250,000 threshold. This could happen for example if you receive a lump sum payout of your unused leave, an ETP portion of a redundancy payout, or sell an investment property.

Making non-concessional (after-tax) contributions under the new rules

After-tax contributions are known as 'non-concessional contributions' because you don't receive a tax deduction. Currently you can contribute up to $180,000 in after-tax money to your super per year.

What's changed?

The after-tax contributions limit will drop to $100,000 per annum and can only be contributed if you have less than $1.6 million in super.

Making after-tax contributions - Jack

What contribution is Jack currently making?

Jack's Basic Benefit entitlement is $133,000.

Jack has separate superannuation benefit in addition to SASS totalling $100,000 and arranges for $5,200 after-tax contributions per annum to be contributed to that benefit.

Can Jack continue to make after-tax contributions within the non-concessional contribution cap?

New rules within superannuation mean that if a person has accrued more than $1.6 million in superannuation (balance), any after-tax contributions will be treated as excessive, and the excessive amount should be withdrawn from superannuation. In this case, notional earnings on the excessive amount will also be taxed at marginal tax rates. However, if the excessive amount is not withdrawn or can't be withdrawn, i.e. after-tax contributions to a defined benefit scheme, the amount will attract a penalty tax of 47%.

Jack's SASS benefit is assessed at the 'Withdrawal' benefit value before he reaches the earliest retirement age (58). The withdrawal value of Jack's SASS benefit is identified as $560,000. When added to his Basic Benefit ($133,000) plus his additional superannuation holding ($100,000), his "balance" is identified as $793,000. Jack remains under the "balance" cap. He can continue to make after-tax contributions without penalty.

Note: Once Jack reaches early voluntary retirement age (age 58), the value of his retirement benefit, which is likely to be much higher than his Withdrawal benefit, will be counted towards the balance cap.

Will the reduced after-tax contribution cap impact Jack?

Jack's superannuation "balance" is below the cap of $1.6 million so he retains the use of non-concessional caps. He is contributing $5,200 after-tax per year so remains well within the new cap of $100,000 per annum. Jack can make further after-tax contributions to take advantage of the higher contribution limit of $180,000 before the rules change on 1 July 2017.

Will Jack be able to claim the after-tax contributions as a tax deduction?

No, Jack has already used the concessional contribution (pre-tax) limit so cannot claim any further contributions as concessional.

If you don't contribute for a few years

From 1 July 2018, you can make 'catch-up' contributions at the concessional tax rate of 15% if you:

- haven't made contributions for up to five years
- have less than $500,000 in super
- have unused concessional cap amounts.

Making contributions to a spouses' super under the new rules

What's changed?

The spouse income threshold to be eligible to claim a tax offset for making a superannuation contribution on behalf of a spouse, has increased from $10,800 to $37,000. The change to the threshold means that if your partner earns less than $40,000, and you make a spouse contribution to their super of up to $3,000, you are eligible for an 18% tax offset of the contribution of up to $540.

Making contributions to a spouses' super – Jack

Jack's partner earns $35,000 per annum and has $25,000 in superannuation.

Can Jack now claim a tax deduction for contributions he makes to his spouse's super?

Yes. From 1 July 2017, the amount a spouse can earn before their partner is no longer able to claim a tax deduction for making a superannuation contribution on their behalf, will increase to $40,000 per annum This means that Jack could make a contribution to his partner's superannuation of up to $3,000 per annum after tax and be eligible to claim up to the maximum rebate of $540 per annum Jack's spouse must also satisfy the contribution limits and have less than $1.6 million in their superannuation "balance".

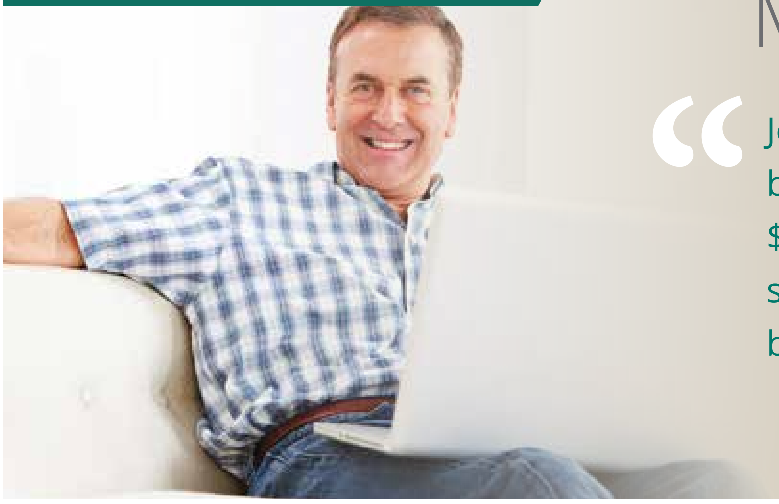
How much tax-free income will I be allowed when I retire?

What's changed?

From 1 July 2017, a limit of $1.6 million will be placed on the amount of superannuation that can be transferred to the tax-free retirement income phase of superannuation, including the notional value of defined benefit pensions.

Note: If you are a SASS member who is entitled take a lifetime pension from SASS please contact State Super on 1300 300 095 or visit the State Super website for further information about how your pension will be valued.

Tax-free retirement income - John



Meet John...

> "John is 62 and has an account based pension with a balance of $1.7 million and an accumulation superannuation fund with a balance of $60,000."

- John's account based pension will be assessed under the new "transfer balance cap".
- The value of his account based pension ($1.7 million) exceeds the transfer balance cap by $100,000 so John will be required to remove the excessive amount from the retirement income phase before 30 June to avoid penalty.
- John may rollover the excessive retirement income phase amount ($100,000) from the account based pension account to his accumulation superannuation fund^ which would result in $160,000 in the accumulation phase of superannuation. There is no limit to the amount he can retain in the accumulation phase of superannuation.
- John now needs to consider his "total superannuation balance" which is the total amount an individual is deemed to have in superannuation (accumulation & retirement income phase) on and from 1 July 2017. After 1 July 2017, John's total superannuation balance will exceed $1.6 million ($1.6 million in retirement phase + $160,000 in accumulation phase). John will not be able to make further after-tax contributions to superannuation.

Before-tax contributions (salary sacrifice, superannuation guarantee, concessional contributions) will continue to be allowed.

^Using the concessional taxation environment of accumulation superannuation may not be the most tax effective option so John should seek financial advice regarding his options.

continued overleaf

Leglislation update - continued

continued from overleaf

Tax-free retirement income - Dorothy

Meet Dorothy...

"Dorothy is 63 and has an account based pension with a current balance of $600,000 and a small accumulation superannuation fund with a balance of $20,000."

- The value of Dorothy's account based pension ($600,000) remains under the transfer balance cap of $1.6 million by $1 million so Dorothy can still transfer further amounts to the tax-free retirement income phase of superannuation.
- Dorothy now needs to consider her "total superannuation balance" which is the amount an individual is deemed to have in superannuation (accumulation & retirement income phase) on and from 1 July 2017. After 1 July 2017, her total superannuation balance will be well below the total superannuation balance of $1.6 million ($600,000 in retirement phase + $20,000 in accumulation phase^) so Dorothy will continue to be able to make after-tax contributions to superannuation within the applicable limits.

Note: Dorothy can contribute significantly more before 1 July 2017 than she will be allowed to after 1 July 2017.

Before-tax contributions (salary sacrifice, superannuation guarantee, concessional contributions) will continue to be allowed.

^Using the concessional taxation environment of accumulation superannuation may not be the most tax effective option for Dorothy. She should seek financial advice regarding her options.

Need advice?

StatePlus, formerly known as State Super Financial Services provides a wide range of financial planning advice to current and former public sector employees and their families.

To book an obligation free appointment, call 1800 620 305 or visit www.stateplus.com.au

For future updates to the legislative changes to Superannuation, visit the State Super website at statesuper.nsw.gov.au

We recommend seeking professional financial advice about your options and what impact these measures may have on your retirement.

Member Services update

STATE SUPER
SAS Trustee Corporation

Thank you for your feedback

We would like to say thank you to all our members who provided feedback as a part of our 2016 annual member satisfaction survey, which was conducted during November and December last year. We received very positive results in all areas of service delivery and when compared to the broader superannuation industry, our results sit well above the industry standard. The comments, insights and ideas that we receive from our members have become an integral part of our future planning and will help us continue to identify ways to improve the services we provide to you.

Seminars

State Super seminars are presented by qualified financial planners from StatePlus who can help you understand how to maximise your superannuation and plan for your future.

Our seminars will help you to:

- learn more about your scheme – how it works, what your choices are and how to make the most of your benefits
- understand how and when the decisions you make about your employment and superannuation can affect your retirement benefits
- understand Centrelink rules and the benefits you could be eligible for
- find out how a financial plan can help you make the most of your super.

To make a booking to attend one of our seminars call **1800 620 305** or go to **www.statesuper.nsw.gov.au/seminarsass,** where you can view dates and locations for seminars at a time and place that is convenient for you.

Welcome to the new State Super website

Our new look website launched on 3 February 2017.

While it looks different, it's easy to get around and offers you more features, including:

- **New retirement roadmap** –to help you prepare for retirement and access your State Super benefits we've developed a brand new section which pinpoints where you're at on your journey and directs you to relevant information. It also guides you to information when unexpected detours (for example redundancy or divorce) occur along the way.
- **Salary sacrifice calculators** –find out the difference salary sacrificing your contributions to SASS can make to the amount of tax you pay and the amount of income you take home.
- **Investment section revamp** – gauge what type of investor you are, with our new investor profile survey. We're also improving how we display investment performance figures so they are easier for you to compare and understand.

So take a look! All the information that you're used to seeing including fact sheets, forms, information about the financial planning services available to you and the latest news from State Super is still there, just easier to find!

We'd love to receive your feedback and suggestions

Keep an eye out for the user feedback questionnaire on the new website, which will help us ensure the State Super website continues to develop and meet your needs. You can also email your feedback and suggestions to us via the contact details below.

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Contact us

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SUPERANNUATION REFORMS

Legislation to implement the Government's superannuation reforms passed the Parliament on 23 November 2016. The superannuation reform package was announced in the 2016-17 Budget and amended following consultation. The changes improve the fairness, sustainability, flexibility and integrity of the superannuation system.

On 9 November 2016, the Government introduced the *Superannuation (Objective) Bill 2016*, which will enshrine the objective of superannuation in legislation. It sets out a clear objective for superannuation: 'to provide income in retirement to substitute or supplement the Age Pension', which guided the superannuation changes. The Objective Bill is being considered by the Economics Legislative Committee, which is due to report on 14 February 2017.

This website explains the Government's reforms to the superannuation system. Most measures will take effect from 1 July 2017. Better targeted tax concessions will make the superannuation system more sustainable as the population ages and fiscal pressures increase. Savings also enable reforms that allow the system to work better for all Australians and increase its flexibility to align with the changing work–life patterns of modern Australia.

A series of factsheets relating to the Superannuation Reforms are available.

What superannuation tax rules will change?

Impact of superannuation reforms

Consultation

Public consultation on three tranches of draft legislation and explanatory material was conducted between 7 September and 23 October 2016.

A total of 156 submissions were received. 60 submissions were received on tranche 1, 69 on tranche 2 and 27 on tranche 3. Consultation roundtables were held in Melbourne, Sydney and Canberra on 5 October 2016, 6 October 2016 and 18 October 2016.

2016–17 Budget and related superannuation reforms include:

- Legislating the objective of superannuation
- Introducing a $1.6 million superannuation transfer balance cap
- Reforming the taxation of concessional superannuation contributions
- Lowering the annual non–concessional contributions cap
- Introducing the Low Income Superannuation Tax Offset (LISTO)
- Improving access to concessional contributions
- Allowing catch–up concessional contributions
- Extending the spouse tax offset

- Removing barriers to innovation in retirement income stream products
- Improving the integrity of transition to retirement income streams (TRIS)
- Abolishing the anti–detriment rule
- Streamlining administrative processes

Legislating the objective of superannuation

What is it?

- To enhance stability in the superannuation system, the Government will legislate that the primary objective of the superannuation system is “to provide income in retirement to substitute or supplement the Age Pension”.

How does it work?

- From 1 July 2017, a statement of compatibility must be prepared for any Bill or regulation relating to superannuation which sets out how the proposed legislation or regulation is consistent with the objective of superannuation. This will ensure that all proposed changes to superannuation in the future are better aligned with the objective of the superannuation system.
- The Government has also identified subsidiary objectives to support the primary objective of the superannuation system. The subsidiary objectives provide a framework for assessing the compatibility of a Bill or regulation with the objective of the superannuation system.
- The Financial System Inquiry recommended the Government seek broad agreement and legislate the primary objective of the superannuation system.

Who is affected?

- The objective of superannuation has been an important anchor for the superannuation reforms the Government announced in the 2016–17 Budget and on 15 September 2016.

Introducing the transfer balance cap

A factsheet is available on this topic.

What is it?

- From 1 July 2017, there will be a $1.6 million transfer balance cap on the total amount of accumulated superannuation an individual can transfer into the tax–free retirement phase. Subsequent earnings on balances in the retirement phase will not be capped or restricted.
- Savings beyond this can remain in an accumulation account (where earnings are taxed at 15 per cent) or outside the superannuation system.
- Transitional arrangements will apply. People already retired with balances below $1.7 million on 30 June 2017 will have 6 months from 1 July 2017 to bring their retirement phase balances under $1.6 million.
- The transfer balance cap will be indexed and will grow in line with CPI, meaning the cap will be around $1.7 million in 2020–21.

How does it work?

- Agnes, 62, retires on 1 November 2017. Her accumulated superannuation balance is $2 million. Agnes can transfer $1.6 million into a retirement phase account. The remaining $400,000 can remain in an accumulation account where earnings will be taxed at 15 per cent.
- Alternatively, Agnes may choose to remove all or part of the extra $400,000 from

superannuation.

- Subsequent earnings on balances in the retirement phase will not be capped or restricted. The minimum drawdown will apply.

Who is affected?

- Less than one per cent of Australia's superannuation account holders will be affected by the transfer balance cap.
- A balance of $1.6 million is approximately twice the level of assets at which a single homeowner currently loses entitlement to the Age Pension.
- The average balance for a 60–year old is expected to be $240,000 in 2017–18.

Reforming the taxation of concessional superannuation contributions

A factsheet is available on this topic.

What is it?

- From 1 July 2017, the threshold at which high income earners pay additional contributions tax (Division 293) will be lowered from $300,000 to $250,000.
- The Government will also reduce the annual cap on concessional (before–tax) superannuation contributions to $25,000 (currently $30,000 for those aged under 49 at the end of the previous financial year and $35,000 otherwise).

How does it work?

- In 2017–18, Madeline earns $260,000 in salary and wages. In the same year she has concessional superannuation contributions of $30,000. Madeline's fund will pay 15 per cent tax on these contributions. Madeline will pay an additional 15 per cent tax on $25,000 of the concessional contributions, resulting in these amounts effectively being taxed at 30 per cent.
- The $5,000 of contributions in excess of the cap will be treated as income taxed at her marginal rate. Madeline pays $1,600 income tax on her excess contribution. Madeline can choose to leave this excess in her superannuation (as a non–concessional contribution) or remove it from super.

Who is affected?

- Around 1 per cent of Australia's superannuation account holders will be affected by the reduced Division 293 threshold.
- Around 3.5 per cent of Australia's superannuation account holders will be affected by the lower annual concessional contributions cap.

Lowering the annual non–concessional contributions cap

A factsheet is available on this topic.

What is it?

- From 1 July 2017, the Government will lower the annual non–concessional contributions cap to $100,000 and will introduce a new constraint such that individuals with a balance of $1.6 million or more will no longer be eligible to make non–concessional contributions. As is currently the case, individuals under age 65 will be eligible to bring forward up to 3 years of non–concessional contributions.
- This is in place of the $500,000 lifetime non–concessional contributions cap

announced in the 2016–17 Budget.

How does it work?

- The $1.6 million eligibility threshold will be based on an individual's balance as at 30 June the previous year. This means if the individual's balance at the start of the financial year (the contribution year) is $1.6 million or more they will not be able to make any further non–concessional contributions. Individuals with balances close to $1.6 million will only be able to access the number of years of bring forward to take their balance up to $1.6 million.
- Transitional arrangements will apply. If an individual has not fully used their non–concessional bring forward before 1 July 2017, the remaining bring forward amount will be reassessed on 1 July 2017 to reflect the new annual caps.
- Individuals aged between 65 and 74 will be eligible to make annual non–concessional contributions of $100,000 if they meet the work test (that is they work 40 hours within a 30 day period each income year). As per current arrangements, they will not be able to access the three year bring forward of contributions.

Who is affected?

- This measure is expected to affect less than 1 per cent of fund members.

Introducing the Low Income Superannuation Tax Offset (LISTO)

A factsheet is available on this topic.

What is it?

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

How does it work?

- The LISTO effectively refunds the tax paid on concessional contributions by individuals with a taxable income of up to $37,000 – up to a cap of $500.
- This avoids the situation where low income earners pay more tax on contributions to superannuation than on their take home pay.
- The amount of the LISTO that an individual is eligible for will be paid into the individual's superannuation account.

Who is affected?

- It is estimated that around 3.1 million low income earners will benefit from the LISTO, including around 1.9 million women.

Improving access to concessional contributions

A factsheet is available on this topic.

What is it?

- 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.

How does it work?

- 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. This limits the ability for people in certain work arrangements to benefit from concessional contributions to their superannuation. Under the new arrangements, more individuals will be able to make concessional personal contributions up to the annual cap.
- Chris has started his own online merchandise business but continue to work part-time at an accounting firm earning $10,000 as his business is growing. His business earns $80,000 in his first year and he would like to contribute $15,000 of his $90,000 income to his superannuation. He currently could not claim a tax deduction for any personal contributions. Under the changes, Chris could claim a tax deduction for his $15,000 of superannuation contributions.

Who is affected?

- This reform will benefit individuals who are partially self–employed and partially wage and salary earners – such as self–employed contractors, individuals employed by small businesses or freelancers – and individuals whose employers do not offer salary sacrifice arrangements.
- Around 800,000 working Australians are expected to benefit from this measure.

Allowing catch–up concessional contributions

A factsheet is available on this topic.

What is it?

- From 1 July 2018, the Government will help people 'catch–up' their superannuation contributions by allowing individuals with a total superannuation balance of less than $500,000 just before the beginning of a financial year to carry forward unused concessional cap space (for up to 5 years) to use if they have the capacity and choose to do so.

How does it work?

- Cassandra has a superannuation balance of $200,000 but did not make any concessional superannuation contributions in 2018–19 as she took time off work to care for her child. In 2019–20 she has the ability to contribute $50,000 in concessional (before-tax) contributions into superannuation ($25,000 under the annual concessional cap and $25,000 from her unused 2018–19 concessional cap which she can carry forward).

Who is affected?

- In 2019–20, this will help around 230,000 Australians who take time out of work, whose income varies considerably from one year to the next, or who find their circumstances have changed (e.g. mortgage payments or school fees have ceased) and are in a position to increase their contributions to superannuation.
- Individuals aged 65 to 74 who meet the work test will be eligible to access these new arrangements.

Extending the spouse tax offset

A factsheet is available on this topic.

What is it?

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

How does it work?

- Currently, a tax offset of up to $540 is available for individuals who make superannuation contributions to their spouses with incomes up to $10,800. The Government will allow more people to access the offset by extending eligibility to those whose recipient spouses earn up to $40,000.
- There are no changes to the current aged based contribution rules. The spouse receiving the contribution must be under age 70 and meet a work test if they are aged 65 to 69.

Who is affected?

- It's estimated that an additional 5,000 Australian families are expected to make use of this opportunity which will mostly benefit women who are more likely to be the lower income earner in families and have lower superannuation balances.

Removing barriers to innovation in retirement income stream products

A factsheet is available on this topic.

What is it?

- From 1 July 2017, the Government will extend the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self–annuitisation products.

How does it work?

- Extending the tax exemption to deferred or pooled income stream products will encourage providers to offer a wider range of products. This will provide more flexibility and choice for retirees and help them to manage consumption and risk in retirement better – particularly longevity risk, to avoid people outliving their savings.

Who is affected?

- Retirees wanting more flexibility and choice in retirement products will benefit from this change.

Improving the integrity of transition to retirement income streams

A factsheet is available on this topic.

What is it?

- The Government will remove the tax exempt status of income from assets supporting TRIS. These earnings will now be taxed concessionally at 15 per cent. Individuals will also no longer be allowed to treat certain superannuation income stream payments as a lump sum for tax purposes.
- This will help ensure that TRIS are fit for purpose and not used as a tax minimisation strategy.

How does it work?

- Sebastian is 57 years old and has reduced his working hours. As a result, his earnings fall from $80,000 to $60,000. Sebastian commences a TRIS that pays him $20,000 per year. Currently, Sebastian pays tax on his income ($60,000) but his superannuation fund pays no tax on the earnings on assets supporting his

TRIS. Under the Government's changes, the earnings on Sebastian's superannuation assets supporting TRIS will be taxed at 15 per cent.

- The tax treatment of income streams in the hands of the individual will not be changed. For most individuals this will mean they are tax free, or taxed at the individual's marginal tax rate less a 15 per cent offset.

Who is affected?

- Around 110,000 people will be affected by these changes.

Abolishing the anti–detriment rule

What is it?

- From 1 July 2017, the Government will remove the anti-detriment provision which allows superannuation funds to claim a tax deduction for a portion of the death benefits paid to eligible dependants. This provision is outdated and inconsistent with other parts of the tax law.

How does it work?

- An anti-detriment payment is an amount that can be included when a lump sum death benefit is paid to a dependant. The payment represents a refund of the 15 per cent tax on contributions that has been paid by the deceased member over their lifetime.
- Superannuation funds will no longer be able to claim a tax deduction for anti–detriment payments made to eligible dependants.

Who is affected?

- This change will provide consistent treatment of death benefits across all superannuation funds. Lump sum death benefits paid to eligible dependants will continue to be tax free.

Streamlining administrative processes

What is it?

- From 1 July 2017, the Government will:
    - clarify that the Commissioner of Taxation can issue taxpayers with a single notice for all of their tax liabilities in a financial year;
    - remove the compulsory obligation for superannuation providers to calculate an end benefit cap for certain defined benefit members; and
    - align the objection rights that apply to discretionary decisions made by the Commissioner in respect of non-concessional contributions with the objection rights that apply to discretionary decisions in respect of concessional contributions.
- From 1 July 2018, the Government will replace the existing release authority arrangements with standardised timeframes and processes, and introduce a default process for individuals who do not make an election (or who wish to undertake the default process) when dealing with all release amounts from superannuation.

How does it work?

- A single notice will make it less confusing and easier for taxpayers to seek advice on all of their tax liabilities at the one time. In determining whether an individual's notices should be combined, the Commissioner of Taxation (the Commissioner) will take into account the benefits to the taxpayer from consolidating them.

- Superannuation providers will only be required to calculate an end benefit cap for certain defined benefit members when they become entitled to an end benefit when an individual has a deferred Division 293 tax liability with the ATO. This measure also removes the need for individuals with defined benefit superannuation interests to provide the Commissioner with an individual end benefit notice.
- Aligning the objection rights corrects an inconsistency in the law to ensure that individuals have the same objection rights when they disagree with a discretionary decision made by the Commissioner in respect of non-concessional contributions as they currently do for discretionary decisions made by the Commissioner in respect of concessional contributions.
- Changes to the release authority regime introduce a common framework for the release of amounts from superannuation in relation to excess contributions to superannuation, tax liabilities related to these contributions and Division 293 tax (excluding amounts relating to Division 293 tax debt account discharge liabilities). Amounts can still be released from superannuation in similar circumstances as they were previously, but this occurs under a common simplified framework for both individuals and superannuation providers.

Who is affected?

- These measures reduce the compliance burden on taxpayers and superannuation providers and improves efficiency in the superannuation system.
- Aligning the objection rights ensures procedural fairness for individuals when dealing with the Commissioner.

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Legislating the objective of superannuation

What is it?

- To enhance stability in the superannuation system, the Government will legislate that the primary objective of the superannuation system is “to provide income in retirement to substitute or supplement the Age Pension”.

How does it work?

- From 1 July 2017, a statement of compatibility must be prepared for any Bill or regulation relating to superannuation which sets out how the proposed legislation or regulation is consistent with the objective of superannuation. This will ensure that all proposed changes to superannuation in the future are better aligned with the objective of the superannuation system.
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- Transitional arrangements will apply. People already retired with balances below $1.7 million on 30 June 2017 will have 6 months from 1 July 2017 to bring their retirement phase balances under $1.6 million.
- The transfer balance cap will be indexed and will grow in line with CPI, meaning the cap will be around $1.7 million in 2020–21.

How does it work?

- Agnes, 62, retires on 1 November 2017. Her accumulated superannuation balance is $2 million. Agnes can transfer $1.6 million into a retirement phase account. The remaining $400,000 can remain in an accumulation account where earnings will be taxed at 15 per cent.
- Alternatively, Agnes may choose to remove all or part of the extra $400,000 from

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How does it work?

- In 2017–18, Madeline earns $260,000 in salary and wages. In the same year she has concessional superannuation contributions of $30,000. Madeline's fund will pay 15 per cent tax on these contributions. Madeline will pay an additional 15 per cent tax on $25,000 of the concessional contributions, resulting in these amounts effectively being taxed at 30 per cent.
- The $5,000 of contributions in excess of the cap will be treated as income taxed at her marginal rate. Madeline pays $1,600 income tax on her excess contribution. Madeline can choose to leave this excess in her superannuation (as a non–concessional contribution) or remove it from super.

Who is affected?

- Around 1 per cent of Australia's superannuation account holders will be affected by the reduced Division 293 threshold.
- Around 3.5 per cent of Australia's superannuation account holders will be affected by the lower annual concessional contributions cap.

Lowering the annual non–concessional contributions cap

A factsheet is available on this topic.

What is it?

- From 1 July 2017, the Government will lower the annual non–concessional contributions cap to $100,000 and will introduce a new constraint such that individuals with a balance of $1.6 million or more will no longer be eligible to make non–concessional contributions. As is currently the case, individuals under age 65 will be eligible to bring forward up to 3 years of non–concessional contributions.
- This is in place of the $500,000 lifetime non–concessional contributions cap

announced in the 2016–17 Budget.

How does it work?

- The $1.6 million eligibility threshold will be based on an individual's balance as at 30 June the previous year. This means if the individual's balance at the start of the financial year (the contribution year) is $1.6 million or more they will not be able to make any further non–concessional contributions. Individuals with balances close to $1.6 million will only be able to access the number of years of bring forward to take their balance up to $1.6 million.
- Transitional arrangements will apply. If an individual has not fully used their non–concessional bring forward before 1 July 2017, the remaining bring forward amount will be reassessed on 1 July 2017 to reflect the new annual caps.
- Individuals aged between 65 and 74 will be eligible to make annual non–concessional contributions of $100,000 if they meet the work test (that is they work 40 hours within a 30 day period each income year). As per current arrangements, they will not be able to access the three year bring forward of contributions.

Who is affected?

- This measure is expected to affect less than 1 per cent of fund members.

Introducing the Low Income Superannuation Tax Offset (LISTO)

A factsheet is available on this topic.

What is it?

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

How does it work?

- The LISTO effectively refunds the tax paid on concessional contributions by individuals with a taxable income of up to $37,000 – up to a cap of $500.
- This avoids the situation where low income earners pay more tax on contributions to superannuation than on their take home pay.
- The amount of the LISTO that an individual is eligible for will be paid into the individual's superannuation account.

Who is affected?

- It is estimated that around 3.1 million low income earners will benefit from the LISTO, including around 1.9 million women.

Improving access to concessional contributions

A factsheet is available on this topic.

What is it?

- 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.

How does it work?

- 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. This limits the ability for people in certain work arrangements to benefit from concessional contributions to their superannuation. Under the new arrangements, more individuals will be able to make concessional personal contributions up to the annual cap.
- Chris has started his own online merchandise business but continue to work part-time at an accounting firm earning $10,000 as his business is growing. His business earns $80,000 in his first year and he would like to contribute $15,000 of his $90,000 income to his superannuation. He currently could not claim a tax deduction for any personal contributions. Under the changes, Chris could claim a tax deduction for his $15,000 of superannuation contributions.

Who is affected?

- This reform will benefit individuals who are partially self–employed and partially wage and salary earners – such as self–employed contractors, individuals employed by small businesses or freelancers – and individuals whose employers do not offer salary sacrifice arrangements.
- Around 800,000 working Australians are expected to benefit from this measure.

Allowing catch–up concessional contributions

A factsheet is available on this topic.

What is it?

- From 1 July 2018, the Government will help people ‘catch–up’ their superannuation contributions by allowing individuals with a total superannuation balance of less than $500,000 just before the beginning of a financial year to carry forward unused concessional cap space (for up to 5 years) to use if they have the capacity and choose to do so.

How does it work?

- Cassandra has a superannuation balance of $200,000 but did not make any concessional superannuation contributions in 2018–19 as she took time off work to care for her child. In 2019–20 she has the ability to contribute $50,000 in concessional (before-tax) contributions into superannuation ($25,000 under the annual concessional cap and $25,000 from her unused 2018–19 concessional cap which she can carry forward).

Who is affected?

- In 2019–20, this will help around 230,000 Australians who take time out of work, whose income varies considerably from one year to the next, or who find their circumstances have changed (e.g. mortgage payments or school fees have ceased) and are in a position to increase their contributions to superannuation.
- Individuals aged 65 to 74 who meet the work test will be eligible to access these new arrangements.

Extending the spouse tax offset

A factsheet is available on this topic.

What is it?

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

How does it work?

- Currently, a tax offset of up to $540 is available for individuals who make superannuation contributions to their spouses with incomes up to $10,800. The Government will allow more people to access the offset by extending eligibility to those whose recipient spouses earn up to $40,000.
- There are no changes to the current aged based contribution rules. The spouse receiving the contribution must be under age 70 and meet a work test if they are aged 65 to 69.

Who is affected?

- It's estimated that an additional 5,000 Australian families are expected to make use of this opportunity which will mostly benefit women who are more likely to be the lower income earner in families and have lower superannuation balances.

Removing barriers to innovation in retirement income stream products

A factsheet is available on this topic.

What is it?

- From 1 July 2017, the Government will extend the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self–annuitisation products.

How does it work?

- Extending the tax exemption to deferred or pooled income stream products will encourage providers to offer a wider range of products. This will provide more flexibility and choice for retirees and help them to manage consumption and risk in retirement better – particularly longevity risk, to avoid people outliving their savings.

Who is affected?

- Retirees wanting more flexibility and choice in retirement products will benefit from this change.

Improving the integrity of transition to retirement income streams

A factsheet is available on this topic.

What is it?

- The Government will remove the tax exempt status of income from assets supporting TRIS. These earnings will now be taxed concessionally at 15 per cent. Individuals will also no longer be allowed to treat certain superannuation income stream payments as a lump sum for tax purposes.
- This will help ensure that TRIS are fit for purpose and not used as a tax minimisation strategy.

How does it work?

- Sebastian is 57 years old and has reduced his working hours. As a result, his earnings fall from $80,000 to $60,000. Sebastian commences a TRIS that pays him $20,000 per year. Currently, Sebastian pays tax on his income ($60,000) but his superannuation fund pays no tax on the earnings on assets supporting his

TRIS. Under the Government's changes, the earnings on Sebastian's superannuation assets supporting TRIS will be taxed at 15 per cent.

- The tax treatment of income streams in the hands of the individual will not be changed. For most individuals this will mean they are tax free, or taxed at the individual's marginal tax rate less a 15 per cent offset.

Who is affected?

- Around 110,000 people will be affected by these changes.

Abolishing the anti–detriment rule

What is it?

- From 1 July 2017, the Government will remove the anti-detriment provision which allows superannuation funds to claim a tax deduction for a portion of the death benefits paid to eligible dependants. This provision is outdated and inconsistent with other parts of the tax law.

How does it work?

- An anti-detriment payment is an amount that can be included when a lump sum death benefit is paid to a dependant. The payment represents a refund of the 15 per cent tax on contributions that has been paid by the deceased member over their lifetime.
- Superannuation funds will no longer be able to claim a tax deduction for anti–detriment payments made to eligible dependants.

Who is affected?

- This change will provide consistent treatment of death benefits across all superannuation funds. Lump sum death benefits paid to eligible dependants will continue to be tax free.

Streamlining administrative processes

What is it?

- From 1 July 2017, the Government will:
  - clarify that the Commissioner of Taxation can issue taxpayers with a single notice for all of their tax liabilities in a financial year;
  - remove the compulsory obligation for superannuation providers to calculate an end benefit cap for certain defined benefit members; and
  - align the objection rights that apply to discretionary decisions made by the Commissioner in respect of non-concessional contributions with the objection rights that apply to discretionary decisions in respect of concessional contributions.
- From 1 July 2018, the Government will replace the existing release authority arrangements with standardised timeframes and processes, and introduce a default process for individuals who do not make an election (or who wish to undertake the default process) when dealing with all release amounts from superannuation.

How does it work?

- A single notice will make it less confusing and easier for taxpayers to seek advice on all of their tax liabilities at the one time. In determining whether an individual's notices should be combined, the Commissioner of Taxation (the Commissioner) will take into account the benefits to the taxpayer from consolidating them.

- Superannuation providers will only be required to calculate an end benefit cap for certain defined benefit members when they become entitled to an end benefit when an individual has a deferred Division 293 tax liability with the ATO. This measure also removes the need for individuals with defined benefit superannuation interests to provide the Commissioner with an individual end benefit notice.
- Aligning the objection rights corrects an inconsistency in the law to ensure that individuals have the same objection rights when they disagree with a discretionary decision made by the Commissioner in respect of non–concessional contributions as they currently do for discretionary decisions made by the Commissioner in respect of concessional contributions.
- Changes to the release authority regime introduce a common framework for the release of amounts from superannuation in relation to excess contributions to superannuation, tax liabilities related to these contributions and Division 293 tax (excluding amounts relating to Division 293 tax debt account discharge liabilities). Amounts can still be released from superannuation in similar circumstances as they were previously, but this occurs under a common simplified framework for both individuals and superannuation providers.

Who is affected?

- These measures reduce the compliance burden on taxpayers and superannuation providers and improves efficiency in the superannuation system.
- Aligning the objection rights ensures procedural fairness for individuals when dealing with the Commissioner.

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