Keeping in Touch

May 2017

The latest super reforms: how will they affect you?

Upcoming legislative reforms to superannuation are complex and may affect people in different ways. Here's a description of some of the changes and potential strategies to boost your superannuation.

The Australian Government will make a number of changes to our superannuation system from 1 July 2017. Before these changes kick in, it's a good idea to look at what they are and how they may affect you.

As these changes are complex, consulting a financial adviser is a great step to gaining clarity and confidence about the future of your super how to take control of your retirement.

So, what are the changes?
The aim of the upcoming reforms is to make the superannuation system more sustainable as our population ages. One change is a new cap on the amount of super savings you can transfer to a superannuation retirement account. If your super income streams are valued at more than $1.6 million on 30 June 2017, then you may need to transfer the excess to an accumulation account or take a lump sum.

The Government will also reduce the cap on annual pre-tax contributions to super, such as via employer contributions, salary sacrifice, the Superannuation Guarantee and personal deductible super contributions. The new cap will be $25,000 for everybody.

When it comes to after-tax super contributions, you'll only be able to add up to $100,000 each year – or up to $300,000 if you're eligible to use the bring-forward provisions. However, you won't be able to make non-concessional contributions if your total superannuation balance(s) exceeds $1.6 million (indexed) by the end of the previous financial year.

The Government has also reduced the Division 293 income threshold, over which high income earners pay an additional 15% on concessional contributions. The new threshold will be $250,000, reduced from $300,000.

In good news, more individuals are eligible to claim tax deductions on personal contributions to eligible super funds. Now, anyone who is less than 65 years old – or between 65 and 74 and who meets certain requirements – is eligible to claim. The Treasury estimates that this will benefit approximately 800,000 Australians.

And, if you're contributing super for a spouse who earns up to $40,000, you may be eligible for a spouse contribution tax offset of up to $540.

This is only a glimpse of the reforms about to come into effect, and there's still the 2017 May Budget to keep in mind, which may introduce other changes. It is important to discuss the new legislation in more detail with an expert and learn how it may impact your unique situation.

Strategies to boost your super
Many individuals approaching retirement may feel troubled by significant superannuation reforms. However, there are many strategies available that may help protect your super, ensure it continues to grow, or make it better suit your lifestyle.

For example, if you're not looking to reduce your work hours any time soon but are at preservation age, you may be able to boost your super via a transition to retirement (TTR) pension.

You may be able to increase your pre-tax contributions through salary sacrifice, for example, and substitute some of your take-home pay with income from a TTR pension. Due to the reforms, you may even be eligible for a tax deduction on your personal contributions.

If you are planning to reduce your work hours, you may be concerned about how you'll maintain your lifestyle on the reduced pay, and how this may affect your super. However, if you've reached preservation age, you may be able to use the income from a TTR pension to supplement your reduced take home pay.

This means you may be able to maintain the same lifestyle even though you're working fewer hours. But keep in mind that from 1 July 2017, earnings from assets that support TTR income streams will be taxed at a maximum of 15%. A financial adviser can explain how this may affect your retirement plans.

Seek advice
While you can't control legislation changes, you can seek advice from a financial adviser on how you can gain from the changes and protect your nest egg. From enhancing your lifestyle as you approach retirement to boosting your personal super contributions – there are many paths to the retirement you want.

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