First Home Super Saver Scheme

ESSSuper
Emergency Services & State Super

Saving the deposit for your first home is challenging. The new government First Home Super Saver Scheme aims to make it easier, by allowing you to save within super. It could be the key that helps unlock the door to your first home.

What is the First Home Super Saver Scheme?

In a nutshell, the Scheme is designed to help you boost savings towards a first home by allowing you to build a deposit via your super. It could increase the savings you put towards a deposit by around 30%, compared to saving through a standard bank account[1].

1. Australian Tax Office Fact Sheet 1.4, Reducing Pressure on Housing Affordability.

What does it mean?

If you're planning to buy your first home, you can make pre or post-tax contributions to super to save for a house deposit. SG contributions made by an employer cannot be released under this measure - only voluntary contributions made by a member. Although the Scheme doesn't apply to your ESSSuper Defined Benefit Fund, you can use the ESSSuper Accumulation Plan if you are a member.

Non-Concessional Contributions – You can make post-tax contributions within this scheme. While the funds released from these post-tax contributions will not be subject to tax – the deemed earnings will be taxed at the member's marginal tax rate, less a 30% offset.

Concessional Contributions – You can also make pre-tax contributions (salary sacrifice), or make personal contributions and claim a tax deduction later.

How do you save more through super?

It's because of the way super is taxed. You can salary sacrifice up to $15,000 a year as long as when combined with any other concessional contribution, you stay under the $25,000 annual concessional contributions cap. Concessional contributions, including salary sacrifice are taxed within super at 15%. Over a minimum of two years an individual can save up to $30,000 toward their deposit. So a couple can withdraw a maximum of $60,000 towards their deposit. These contributions and deemed earnings can be withdrawn anytime from 1 July 2018 onwards to put towards the purchase of a first home.

How do you transfer the savings to a deposit?

When you find a property that you want to buy, you withdraw the savings plus the deemed earnings and contribute them toward your deposit. You'll pay tax on the amount you withdraw at your marginal rate – but it will be discounted by 30%. In other words, if you're on the 37% tax rate, you'll pay just 7 cents tax on every dollar you've saved[2]. And that all goes straight towards your deposit. In order to withdraw these funds members will need to apply to the Australian Taxation Office (ATO) first for the release of the fund. The ATO will instruct ESSSuper how much can be released for a deposit.

2. Source: Sydney Morning Herald, http://www.smh.com.au/money/budget-2017-what-first-home-buyers-should-know-before-investing-in-scott-morrisons-first-home-super-saver-scheme-20170510-gw1q58.html?logout=true

Who is eligible for the Scheme?

You must be aged 18 or over and have not owned property in Australia before[3]. You need to occupy the property for at least 6 of the first 12 months after purchase, or after it's been built. You can apply to the ATO for an extension of 12 months if needed. If you don't purchase a property, you can return the funds to your super, or keep the money and pay a tax penalty that negates any savings advantage.

3. A member may still be able to participate despite having previously owned a home if they have suffered financial hardship.

Does it affect your Defined Benefit?

If you participate in the First Home Super Saver Scheme, and reduce the contribution rate to your DB Fund, it will affect your benefit accrual.

Case study: How Erin makes super savings

Erin, an ESSSuper DB member, earns $70,000 a year and wants to buy her first home. She salary sacrifices $10,000 into a super fund accumulation account. At the same time she reduces her Defined Benefit contribution rate from 7% to 0% to allow for the reduction in income. After 3 years, she asks the ATO to determine how much she can withdraw. They confirm she can withdraw $25,892 to go towards her deposit.

Table 1 – How much Erin saved compared to using a standard bank account

Financial Year	2017-2018	2018-2019	2019-2020
Erin's Annual Salary Sacrifice	$10,000	$10,000	$10,000
Amount available for deposit (post –tax)[4]	$8,212	$16,920	$25,892
Increase in deposit size compared to saving in a standard deposit account[5]	$1,719	$3,851	$6,210

4. The amount available for deposit reflects the total salary sacrifice amount net of 15% contributions tax, plus deemed earnings and net of withdrawal tax that is levied at marginal tax rates less a 30% offset.

5. Source: Budget.gov.au/estimator This assumes a 2% interest rate paid on savings in a deposit account.

Table 2 – The impact of Erin reducing her DB Fund contribution rate

Financial Year	2016-2017	2017-2018 first year contributing to FHSS Scheme	2018-2019	2019-2020
DB Contribution Rate	7%	0%	0%	0%
Accrual Rate (retirement)	25%	8.5%	8.5%	8.5%

As a result of reducing her contribution rate to 0% for 3 years, Erin's retirement accrual has been reduced by 16.5% per annum for 3 years. This means that Erin's retirement multiple may be 0.495 less at the end of the 3 year period than had she maintained her contribution rate during the period. The above is an example only and any reduction in benefits would depend on your specific service history, age at joining the DB fund and final date of retirement.

How do you apply for the Scheme?

The Scheme is run by the ATO. Eligible contributions from 1 July 2017 onwards will count and can be withdrawn from 1 July 2018. Once you are ready to apply for the release of funds for a first home deposit, you will need to make contact with the ATO. The ATO will subsequently provide you with a determination that outlines what can be released under the scheme.

Where can you find out more?

The first step is to check the ATO website at **ato.gov.au/FHSS** to determine if participating in this scheme is the best option for you.

For general advice or information, you can always talk to one of our Member Education Consultants.

If you'd like to discuss your circumstances call our Member Service Centre on 1300 650 161 (Emergency service members) or 1300 655 476 (State super members).

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