Salary sacrifice contributions for Accumulation Plan members

ESSSuper
Emergency Services & State Super

This fact sheet explains how to make salary sacrifice (before-tax) concessional contributions to the Accumulation Plan for ESSSuper members.

Members of ESSSuper's defined benefit funds may also make salary sacrifice concessional contributions to their fund. Refer to our fact sheet *Salary sacrifice contributions to super for defined benefit members (FS012)*.

How salary sacrifice works

Salary sacrifice is an arrangement where your employer agrees to deduct and make concessional contributions to your super account on your behalf, before pay as you go (PAYG) tax is deducted from your salary. The difference between salary sacrifice (concessional) and after-tax (non-concessional) contributions is the order in which super and tax are taken from your pay.

Salary sacrifice contributions are made from your before-tax salary but are taxed at 15% on entry to your super account. After-tax contributions have already had tax deducted at your marginal tax rate before they are paid to your super.

Salary sacrifice, pre-tax and before-tax contributions all mean the same thing. They are concessional contributions made on your behalf by your employer.

Example*

Adrian earns an annual salary of $70,000. He receives a salary increase of $5,000 but rather than taking this increase as extra salary, Adrian makes an election (subject to agreement with his employer) to salary sacrifice the $5,000 into his Accumulation Plan account with ESSSuper.

The following table is based on income tax rates for the 2021/2022 financial year and compares Adrian's proposed salary sacrifice arrangement with the after-tax contributions into Super.

	After-tax contributions into super	Salary sacrifice into super
Adrian's gross annual salary	$70,000	$70,000
Applicable tax rate payable on contributions	32.5% income tax plus 2.0% Medicare Levy	15% contributions tax
Additional contribution amount deducted from before-tax salary	Nil	$5,000
Less contribution tax of	Nil	$750
Net before-tax contribution to super account	Nil	$4,250
Adrian's taxable salary	$70,000	$65,000
Income tax	$12,137	$10,487
Medicare levy (2%)	$1,400	$1,300
Net pay after tax	$56,463	$53,213
After-tax contribution to super account	$5,000	Nil
Net take home pay	$51,463	$53,213

The table above shows that by electing to have concessional contributions made via salary sacrifice, Adrian has $750 less in his superannuation account but takes home an additional $1,750 in take home pay each year.

Source: ESSSuper salary sacrifice calculator at **esssuper.com.au/calculators**

* This example includes any Low Income Tax Offset (LITO) and/or Low and Middle Income Tax Offset (LAMITO) which may not appear in your payslip. It does not take into account the Low Income Superannuation Tax Offset (LISTO), which replaced the Low Income Superannuation Contribution (LISC) policy, and any other income or tax deductions you may be entitled to.

Things to consider

Subject to agreement with your employer you may elect to put money into your Accumulation Plan account by using salary sacrifice. If you choose to contribute to super the effect of compounding interest, and concessional rates of tax mean that the benefits of salary sacrificing make a real difference to the long-term growth of your retirement savings. Don't forget that your super account is preserved and you cannot get access to this money until you meet a condition of release.

However, there are other impacts when considering salary sacrifice compared with making non-concessional (after-tax) contributions. These include:

Contributions tax

Salary sacrifice contributions are subject to 15% contributions tax (30% for high income earners), whereas non-concessional (after-tax) contributions are not.

Lump sum benefits

Concessional contributions including salary sacrifice contributions may be subject to tax at a higher rate if you withdraw your benefit before reaching age 60. Once you turn 60, all benefits taken from super are tax free.

Between preservation age (see below) and 60, a lump sum has a tax free component and a taxable component. For the 2021/22 financial year, the tax free portion is tax free and up to $225,000 of the taxable component is also tax free. Amounts in excess of $225,000 are taxed at 17.0% on withdrawal.

Component	Tax treatment
Tax free	Tax free
Taxable	If under your preservation age, taxed at 22.0%* Preservation age to under age 60, the first $225,000 is tax free and the balance is taxed at 17.0%*

* Rates shown include the Medicare levy of 2%

Non-concessional (after-tax) contributions form part of the tax free component and are not subject to tax on withdrawal from super. Salary sacrifice concessional contributions form part of the taxable component.

Government super co-contributions

Salary sacrifice concessional contributions are not eligible to receive a co-contribution. You would need to make non-concessional (after-tax) contributions to be eligible for a co-contribution. To learn more, see our fact sheet *Non-concessional (after tax) contributions (FS005)*, available at **esssuper.com.au/publications**

Lower taxable income

Generally, if your income is less than $45,000 p.a. you will not benefit significantly from salary sacrificing contributions to your super account. There is generally no benefit for individuals with no taxable income, or those who have a low tax rate.

Access to salary sacrifice contributions

All contributions paid into super must be "preserved" in accordance with superannuation legislation. Therefore, you cannot withdraw these contributions until you have met a 'condition of release' such as permanent retirement from the workforce after your preservation age - which varies from 55 to 60 depending on your year of birth. Refer to the *Accumulation Plan Product Disclosure Statement (PDS)* available on our website at **esssuper.com.au/pds**, for full details of the preservation of benefits.

Preservation age

Your preservation age is the age at which, if you elect to retire permanently from the workforce, you can access your super.

Birth date	Preservation age
Before 01/07/1960	55
01/07/1960 to 30/06/1961	56
01/07/1961 to 30/06/1962	57
01/07/1962 to 30/06/1963	58
01/07/1963 to 30/06/1964	59
01/07/1964 and after	60

Concessional contributions

Salary sacrifice contributions are concessional contributions and are therefore subject to the concessional contributions cap.

For the 2021/22 financial year, you can contribute a maximum of $27,500.

Concessional contributions are the sum of:

- salary sacrifice contributions to super funds
- employer contributions (including super guarantee) to super
- any notional employer contributions (the rate of employer contributions theoretically necessary to fund benefits in a defined benefit fund).

From 1 July 2019, if you have a total super balance of less than $500,000, you will be able to access the unused portion of your concessional contribution cap to make additional concessional contributions. You will be able to carry forward any unused concessional contributions accumulated from

1 July 2018 on a rolling basis for a period of 5 years. Any portion of the concessional contributions cap not used after 5 years will expire.

If you make contributions in excess of the concessional contributions cap, excess contributions are taxed at your marginal rate. Payment timing (e.g. an extra pay in a year) can take you over the cap, so plan carefully.

Any excess concessional contributions will be regarded as non-concessional contributions.

Who can salary sacrifice?

All eligible ESSSuper defined benefit members and Accumulation Plan members can salary sacrifice into an Accumulation Plan account.

Please note that defined benefit members may also be eligible to salary sacrifice their member contributions into their defined benefit fund (refer to our fact sheet *Salary sacrifice contributions to super for defined benefit members (FS012)*), available at **esssuper.com.au/publications**.

To determine whether salary sacrifice is for you, it may be beneficial to seek personal financial advice. ESSSuper has an arrangement with Link Advice Pty Ltd (AFSL 258145) to provide financial advice to ESSSuper members.[1.]

ESSSuper Financial Advisers are able to provide you with a range of services that take into account your specific financial needs and objectives.

[1] ESSSuper Financial Advisers are authorised representatives of Link Advice Pty Ltd (Link Advice). Link Advice holds a current Australian Financial Services Licence No. 258145 and is responsible for the financial services provided to you by it or its authorised representatives. ESSSuper has an arrangement with Link Advice Pty Ltd to provide financial advice to ESSSuper members. ESSSuper pays Link Advice a fee for this service. Neither the Board, nor the Victorian Government, guarantee or endorse any recommendations made by Link Advice/its authorised representatives, or are responsible for the advice and actions of Link Advice/its authorised representatives.

How you can start making salary sacrifice contributions

If you don't already have an Accumulation Plan account, and you would like to open one, please log into your Members Online account at **esssuper.com.au/login** and navigate to the Account / Open Accumulation Plan menu. The *Accumulation Plan PDS* can be accessed from our website at **esssuper.com.au/pds**. You will also need to talk to your employer/payroll department if you wish to salary sacrifice concessional contributions.

If you wish to make regular contributions to your Accumulation Plan, please visit our website at **esssuper.com.au** to download the *Regular Contributions form (ES151)* which should be completed and forwarded to your employer/payroll department. Some employers will require their own form, so it's best to check with your employer.

Salary sacrifice for DHHS and DET employees

Department of Health & Human Services (DHHS) and Department of Education (DET) school based employees cannot arrange for salary sacrifice deductions via the process outlined above.

All DHHS employees should contact their head office to arrange salary sacrifice deductions from their salary. DET school based employees can arrange for salary sacrifice deductions by completing the information on the **smartsalary.com.au** website.

Learn more

If you have questions or would like more information about salary sacrifice, or our financial advice service, please visit our website at **esssuper.com.au** or call us on 1300 650 161 (emergency services members) or 1300 655 476 (state super members).