

Salary sacrifice contributions to super for defined benefit members

This fact sheet explains how you can arrange to contribute to your defined benefit superannuation account under a salary sacrifice arrangement with your employer. This assumes that your employer allows for this arrangement and that your membership allows you to make membership contributions via salary sacrifice.

As a defined benefit member you may be required or have the option to make member contributions to your fund as part of your membership. The required contributions are either prescribed by the fund rules or are set at a rate elected by you. They can be in the form of after-tax contributions or before-tax contributions via salary sacrifice.

How you can start making salary sacrifice contributions

Salary sacrifice contributions usually start within one to two pay periods after your request is processed.

You can make your change online via the secure Members Online area of our website, at esssuper.com.au.

You need your member number and a password to log in to Members Online. If you're not registered you can do so online.

If you prefer to use a form, you can download a Change of Contribution Rate Percentage form available via Forms & Transactions section of our website.

Example

Adrian is a member of the ESSS DB Fund, earns \$70,000 a year, and has elected to contribute member (non-concessional) contributions at the rate of 7% of his salary to super. He has the 7.0% contribution deducted from his after-tax salary and contributed to the fund. The equivalent salary sacrifice (concessional) contribution under the ESSS DB Fund is 8.3% (this amount is higher to reflect the 15% contribution tax).

This table is a simple example to demonstrate the difference between salary sacrifice (concessional) contributions and after-tax (non-concessional) contributions to super. This example also assumes that Adrian is a resident Australian taxpayer and that 2018/19 income tax rates will apply.

	Not Salary Sacrificing Contributions	Salary Sacrifice Contributions
Gross annual salary	\$70,000	\$70,000
Contribution Percentage	7.0%	8.30%
Salary Sacrificed Contributions	N/A	\$5,810
Gross income for tax purposes	\$70,000	\$64,190
Income tax	\$13,767	\$11,842
Medicare Levy (2.0%)	\$1,400	\$1,284
Net pay after tax	\$54,833	\$51,064
Post-Tax Contribution	\$4,900	N/A
Your take home pay	\$49,933	\$51,064

In this example by salary sacrificing his member contributions instead of paying them after tax has been deducted, despite making the same net contribution to super, Adrian's take home pay has increased by \$1,131 per year (around \$43 per fortnight). This has had no impact on his defined benefit entitlements and his super grows at the same rate regardless of which way he contributes.

Contribution rates

The rate at which you contribute to your defined benefit fund under a salary sacrifice arrangement is slightly higher than the rate at which you contribute from your after-tax salary.

Because salary sacrifice contributions are paid by your employer, they are classified as concessional contributions and attract the 15% contributions tax which is deducted from your super account.

If you are a high income earner and earn \$250,000 p.a. or more you may also be required to pay an additional 15% in tax on any concessional contributions paid on your behalf. This also includes amounts "notionally" contributed in respect of your defined benefit by your employer. We recommend you consult a suitably qualified financial adviser before proceeding to enter into a salary sacrifice arrangement with your employer.

Salary sacrifice contributions attract the 15% contributions tax and therefore the member's contributions have to be increased to allow for this amount to be deducted in order to maintain the same level of benefit. As a result, salary sacrifice rates are generally 15% higher to accommodate the contributions tax in the fund.

Not all members are able to increase or decrease their member contribution rate. If you're unsure what you can contribute, call us for more information.

If you choose to make salary sacrifice contributions to the fund, you must make all your contributions either before or after tax – but not both. This means that if you elect to make contributions by salary sacrifice, you must continue to do so until you revoke this decision with your employer and revert to making after-tax contributions.

Your contribution rate options (expressed as a percentage) depend on your ESSSuper membership. Rather than nominate your own figure, you have a range of options according to the fund you are a member of (see table below).

ESSS DB Fund		Transport Scheme		New Scheme		SERB Scheme		Revised Scheme	
After tax	Before tax	After tax	Before tax	After tax	Before tax	After tax	Before tax	After tax	Before tax
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	5.9%	Aged under 40 last birthday	
3.0%	3.6%	2.5%	3.0%	3.0%	3.6%			8.5%	10.0%
5.0%	5.9%	5.0%	5.9%	5.0%	5.9%			Aged 40 – 49 last birthday	
6.0%	7.1%	7.5%	8.9%	7.0%	8.3%			9.0%	10.6%
7.0%	8.3%							Aged 50 or over	
8.0%	9.5%							9.5%	11.2%

Contributing to super outside your defined benefit fund

If you already contribute at the maximum rate for your defined benefit membership, you can only make additional contributions to super by contributing to another superannuation account or fund. ESSSuper's Accumulation Plan account can be used as a top up account for members who want to keep all their super with us, top up their benefit or purchase extra insurance.

To see if this product suits you, read our *Accumulation Plan Product Disclosure Statement* available at esssuper.com.au

Things to consider

Contributing to super via a salary sacrifice arrangement may sound attractive, but there are factors you need to check before making a decision.

Try our Salary Sacrifice Calculator at esssuper.com.au/calculators to see how it affects you.

Concessional contribution cap

Salary sacrifice contributions are concessional contributions and are therefore subject to the concessional contributions cap of \$25,000 per annum.

Concessional contributions include:

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

If you make contributions in excess of the concessional contributions cap, excess contributions are taxed at your marginal rate plus penalty interest. 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.

Contributions tax

Salary sacrifice contributions are taxed at 15%. This tax is deducted by the fund rather than by your employer.

Lump sum tax

Salary sacrifice contributions form part of the lump sum taxed component and may be taxed at a higher rate if you withdraw your benefit before age 60. Once you turn 60, taxed benefits taken from super are tax-free.

For more information about lump sum tax please see the *Accumulation Plan Product Disclosure Statement* incorporated guide "How super is taxed" available at esssuper.com.au or by calling our Member Service Centre.

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*, available at esssuper.com.au.

Some things you need to know

ESSS Defined Benefit Fund members can switch between after-tax and before-tax contributions once per month. They can only change their contribution percentage once per calendar year.

State super, New & Transport Scheme members are able to change from after-tax to before-tax contributions once a month. You may also change your contribution rate during the year. How often and when depends on your membership type. Call the Member Service Centre or visit esssuper.com.au for details.

State super Revised & SERB Scheme Members are able to change from after-tax to before-tax contributions once a month.

Member contributions you choose to pay while on leave without pay can't be made via salary sacrifice.

Note: If an election form is received in time to be processed by the 14th of the month, the new rate will take effect from the start of the next month. Otherwise it will be the start of the following month.

Choosing to salary sacrifice

A salary sacrifice arrangement may not be suitable for you and will depend on a number of different factors including your marginal rate of tax, your employment arrangements, your eligibility for the government co-contribution and a number of other personal financial matters.

See how salary sacrificing could work for you by trying our salary sacrificing calculator at esssuper.com.au/calculators

We recommend you consult a suitably qualified financial adviser before proceeding to enter into a salary sacrifice arrangement with your employer.

How you can start making salary sacrifice contributions

Salary sacrifice contributions usually start within one to two pay periods after your request is processed.

ESSS Defined Benefit Fund members

You must complete a *Change of Contribution Rate Percentage (E120) form* available via Forms & Transactions section of our website.

New and Revised, Transport Scheme members

You can complete a *Change of contribution rate percentage (S201) form* via the Forms & Transactions section of our website.

Revised and SERB Scheme members

You can also make your change online via the secure Members Online area of our website, at esssuper.com.au

You need your member number and a password to log in to Members Online. If you're not registered you can do so online.

Learn more

If you have questions about salary sacrificing, call our Member Service Centre on 1300 650 161 (emergency services members) or 1300 655 476 (state super members).

We look forward to hearing from you!

