5 super changes – and how to prepare for them

The countdown to super reform has begun, with new rules set to take effect on 1 July. If you haven't thought about how your super might be impacted by the changes, now's the time to get ready. Here are some of the more important changes you need to know about.

In last year's Federal Budget, the government proposed a wide range of reforms to Australia's superannuation system. In fact, these are the most significant changes to super of the last 10 years. Although not all the proposals have been legislated, some significant ones were passed by parliament late last year and are due to take effect on 1 July.

Here's a breakdown of five of the most important changes – and what you can do to prepare ahead of them.

1. Non-concessional contributions

There's a limit to how much you can put into your super through after-tax or 'non-concessional' contributions each financial year. This is currently $180,000 per year, and you can only make these types of contributions up to the age of 65 – or 74 if you're still working.

If you're under 65, you can also apply the 'bring-forward' rule. This allows you to make up to three years' worth of non-concessional contributions ($540,000) at any time during a three-year period.

But on 1 July, non-concessional contributions will be capped at $100,000 a year – or $300,000 over three years. If these contributions are a key part of your super strategy, you should speak to your financial adviser about how to make the most of the current caps this financial year.

If you've already triggered the bring-forward rule but haven't used up all of your $540,000 cap yet, your remaining cap will be reassessed down on 1 July to take into account the reduced annual cap.

Also, from 1 July onwards once you have saved $1.6 million in super you won't be able to make non-concessional contributions any more. In addition, your ability to bring forward contributions will also be restricted once your total super savings exceed $1.4 million. So it's worth planning ahead to make sure you don't go over the limit.

2. Concessional contributions

Concessional contributions are the amounts you put into super before tax has been taken out. They include Super Guarantee from your employer and any extra amounts salary sacrificed into super.

At the moment, there are two different caps for concessional contributions before extra tax applies: $30,000 a year if you're under 50 and $35,000 a year if you're aged 50 or over. But on 1 July, the concessional cap will go down to $25,000 across the board for everyone, regardless of your age.

If you're between 65 and 74, you'll still need to work at least 40 hours during a 30-day period before you can make concessional contributions for that financial year. And once you turn 75, your super fund will generally only accept contributions from an employer.

From 1 July 2018 onwards, if you don't use the whole concessional cap in one financial year, the unused amount can be carried forward to the next year if your total super balance is less than $500,000.

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So, for example, if you only make concessional contributions of $20,000 in the 2018-19 year, then you will be able to carry forward your $5,000 of unused cap to the following financial year – bringing your total cap for that year up to $30,000. You can keep bringing forward your unused caps each year for up to five years.

High income earners should also be aware of an upcoming change to how concessional contributions are taxed. Most people's concessional super contributions are taxed at 15%, but if your total income (including your concessional super contributions) exceeds $300,000, part or all of your concessional contributions are taxed at 30% instead. As of 1 July 2017, this threshold will be reduced from $300,000 to $250,000.

3. Transfer balance cap

A new 'transfer balance cap' will be introduced from 1 July, limiting the amount you can have in the tax-exempt pension phase of your super. So, if you're planning to retire and set up a pension from your super to draw an income stream, you can only use a maximum of $1.6 million to do so.

And this cap doesn't just include new pensions. Even if you're already drawing a pension as an income stream, before 30 June you'll need to make sure your total balance in the tax-exempt pension phase isn't over $1.6 million.

If it is, you'll have to either withdraw or move any excess amount back into the accumulation phase of your super, where its earnings will be taxed at 15%. But if you don't do it in time, you'll have to pay a tax penalty and the ATO will make you move the excess anyway. So it's important to get your financial adviser's guidance before 30 June if you think you may be over or getting close to this cap.

4. Transition-to-retirement pensions

As you approach retirement, it's possible to start drawing a pension from your super while you're still working. Once you've reached your 'preservation age' but you're under 65, you can set up a tax-free income stream from your super as part of a transition-to-retirement (TTR) strategy. If you're working full-time and salary sacrificing, this can be a tax-effective way to boost your super in your final years of work.

But from 1 July, any earnings on the assets that support TTR pensions will no longer be exempt from tax. Instead, they'll be taxed at the same rate as assets in the accumulation phase (up to 15%).

If you're currently using or are thinking about using a TTR pension as part of a strategy to boost your super savings, this strategy might not be as beneficial from 1 July. That's why it's worth asking your financial adviser whether a TTR strategy is still the best option for you.

5. Estate planning

A final thing to remember is that any changes to your super strategy may have a knock-on effect for your estate planning.

If you move assets out of the pension phase to stay under the $1.6 million transfer balance cap, then you'll need to think about what will happen to these assets after you pass away.

For example, you might have to put a binding death nomination on money moved back to the accumulation phase, or else update your will to account for any assets you take out of super.

Your financial adviser can review your estate plan while updating your super arrangements, to make sure any changes are accounted for.

Get the right advice

The current super reforms are complex and will affect different people in different ways. So before you make any decisions about your financial strategy, talk to your financial adviser. They'll give you all the guidance you need to make the right decisions about your money.

Speak to us for more information

If you would like to know more, talk to your Count financial adviser. They can give you more detailed information on the best approach for your situation.

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