WEALTH DOMAIN
FINANCIAL SERVICES

KnowHow

Rebuilding superannuation after early access

22 April 2020

Super savings are for retirement. However, as a result of the financial hardship caused by coronavirus, access to super may be an important way to help you make ends meet at a difficult time. We consider how you can boost and rebuild your retirement savings when your circumstances allow.

Early access to super - important considerations

This is an exceptionally difficult time for many people. Accessing some of your super savings may help you to make ends meet until your circumstances improve. If you're eligible, you may be able to make an application to withdraw up to $10,000 before 30 June 2020 and another application for a second withdrawal of up to $10,000 from 1 July 2020 to 24 September 2020.

Before you do, it's important to consider:

- other benefits and concessions that may be available to you to help make ends meet
- the impact on retirement savings
- the impact on other benefits in super, such as insurance, and
- minimum account balance requirements.

Note: For more information about eligibility and how to apply to access your super early under compassionate ground - coronavirus, please see **'KnowHow: Early access to your super – coronavirus'** and **'How to apply for early super access – coronavirus'.**

The impact of a withdrawal on your future retirement savings will differ based on a number of important variables, including:

- how much you withdraw
- your age and years until retirement
- your investment allocation and future returns
- fees and other account expenses, and
- contributions made to your account.

We provide a **case study** at the end of this article to show the potential impact on retirement savings of withdrawing funds from your super today. The great news is it doesn't have to be a trade-off between the importance of making life work for 'the now' and ensuring you can have the retirement you desire. With some careful consideration and the right mix of strategies, you could get your super back on track when the time is right.

Boosting and rebuilding your savings

While your top priority at the moment is maintaining the cashflow you need to meet ongoing family and lifestyle expenses, there are some great ways that you may be able to boost your retirement savings in the future when your circumstances change.

It may give you some peace of mind to know that you are able to make what might be a necessary decision today to access some of your super savings to assist you and your family at a difficult time, without compromising your retirement. In the future, even small, regular contributions could be important in getting your superannuation savings back on track for retirement as every little bit helps.

Rebuilding superannuation after early access

We have summarised how some of the below strategies could help you to boost your retirement savings between now and retirement. When your circumstances change and you have opportunity to consider rebuilding your retirement savings, think about it as soon as possible. The sooner you start, the more chance you've got to ensure you can get your super savings back on track.

Strategies at a glance

Below is a summary of some of the key contribution strategies available to boost and rebuild your retirement savings. To find out if these strategies are right for you and to understand more about the rules and eligibility conditions, speak to your financial adviser and see **ato.gov.au**.

Strategy	At a high level...	What's the benefit?
Sacrifice pre-tax salary to super	**Who could this work for?** This may be appropriate for those who have sufficient cashflow to divert some of their pre-tax salary to super rather than as take home pay. It doesn't need to be a large amount to start and you can further increase the amount that you contribute in the future once things are really back on track. **Strategy at a glance** If, and when, the time is right, you may be able to arrange for your employer to contribute some of your future pre-tax salary, wages or bonus directly into your super fund. **Some important information** Salary sacrifice contributions count towards the 'concessional contributions' (CC) cap. CCs also include employer contributions and personal contributions claimed as a tax deduction. Breaching the cap may lead to additional tax penalties. For a brief explanation on contributions caps see the	**Savings boost** By making regular additional contributions to super, you're helping build up your account balance again. Don't be afraid to start small if it is all you can commit - even small incremental amounts add up over time. The sooner you can start making even small contributions, the better- the power of compounding returns will have the chance to work harder for you. Salary sacrifice contributions are made from your pre-tax salary which can be a great, disciplined way to save for retirement. However, if your income or expenses aren't consistent or predictable – there are other ways (see 'Make personal contributions and claim a tax deduction' below). **Tax management** Salary sacrifice contributions are generally taxed at the concessional rate of up to 15%[1], rather than your marginal rate which could be up to 47%[2]. Depending on your circumstances, this strategy could therefore reduce the tax you pay on your salary and wages by up to 32%. By paying less tax, you can make a larger investment for your retirement. You could even consider diverting the tax savings to super to boost your savings further. **Find out more** To find out more about the benefits of salary sacrifice, see: ▪ **'Super strategies: Sacrifice pre-tax salary into super'**, and ▪ **ato.gov.au**

1 Individuals with income above $250,000 will pay an additional 15% tax on salary sacrifice and other concessional super contributions within the cap.

2 Includes Medicare Levy.

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Glossary at the end of this document or go to **ato.gov.au**

Strategy	At a high level...	What's the benefit?
Government co-contribution	**Who could this work for?** People who earn[3] less than $53,564 pa[4], and can make personal (after-tax) super contributions of up to $1,000 pa – less than $20 per week. **Strategy at a glance** If you meet the requirements and make personal (after-tax) contributions of up to $1,000 pa, the Government will also contribute up to $500 into your super account. The amount you're entitled to will vary based on your income and the total annual personal contributions that you make. As a general rule, in 2019/20: ▪ the maximum co-contribution of $500 is available if you contribute $1,000 and earn $38,564 or less, and ▪ a reduced amount may be received if you contribute less than $1,000 and/or earn between $38,564 and $53,564. Personal (after-tax) contributions count towards your non-concessional contribution cap. See **Glossary** or visit **ato.gov.au** for further information.	**Savings boost** By making regular additional contributions to super, you're helping build up your account balance again. What's even better is by receiving additional help from the Government, your savings may be boosted even faster. If you're entitled to the maximum co-contribution, this means your super contributions will be increased by $1,500 pa from this strategy alone – and there are other strategies that you may be able to utilise to give your savings an even bigger boost. The earnings on your savings are taxed at 15% rather than your marginal rate which could be up to 47%. **Find out more** To find out more about the Government co-contribution and eligibility rules, see **'Super strategies: Top up your super with help from the Government'** and **ato.gov.au** To help you calculate the amount of Government co-contribution you may be entitled to, see the **'Super co-contribution calculator' on ato.gov.au.**
Make a spouse contribution and receive a tax-offset	**Who could this work for?** Members of a couple, where one spouse earns less than $40,000 pa and there is capacity to make a super contribution on behalf of a spouse. **Strategy at a glance** If you make an after-tax contribution into your spouse's super account and they earn less than $40,000 pa, you may be eligible for a tax offset of up to $540. To qualify for the full offset of $540 in a financial year, you need to contribute $3,000 or more into your spouse's super account and your spouse must earn[5] $37,000 pa or less. A lower tax offset may be available if you contribute less than $3,000 or your spouse earns more than $37,000 pa but less than $40,000 pa. A spouse contribution counts towards your spouse's non-concessional contribution cap	**Savings boost** Spouse contributions can be a great way to grow your super as a couple and to be 'rewarded' via a tax offset for saving for retirement. **Tax management** Not only could you boost your spouse's super, the tax offset could help reduce your income tax. You could use these tax savings to provide an even larger super savings boost, helping to fund additional contribution in the next financial year. **Find out more** To find out more, including important information about eligibility rules, see **'Super strategies: Boost your spouse's super and manage your tax'** and **ato.gov.au**

3 Includes assessable income, reportable fringe benefits and reportable employer super contributions less business deductions. At least 10% of income must be from eligible employment or carrying on a business. Other conditions apply.

4 Threshold applies in 2019/20. From 1 July 2020 this increases to $54,837.

5 Includes assessable income, reportable fringe benefits and reportable employer super contributions.

	and must be within this cap to entitle you to the tax offset. See **Glossary** or visit **ato.gov.au** for further information.	

Strategy	At a high level...	What's the benefit?
Make personal contributions and claim a tax deduction	**Who could this work for?** This might be right for you if you're able to make personal after-tax contributions to super. Unlike salary sacrifice contributions, personal deductible contributions can be made with your take home pay or savings. You can do this regularly, or you could even wait until closer to the end of financial year, which could provide greater flexibility and planning options if you have irregular income or expenses and need to review your circumstances before committing to a regular contribution. **Strategy at a glance** You could make a personal super contribution and claim a tax deduction for the amount, which will also reduce your assessable income. These contributions are treated as CCs and count towards your CC cap. Exceeding your cap may result in significant tax penalties. See **Glossary** or visit **ato.gov.au** for further information.	**Savings boost** By making additional voluntary contributions to super, you're helping to rebuild your account balance. What's more, making tax effective super contributions can be a great way to boost your cashflow even more. **Tax management** Making a personal deductible contribution could help to reduce your assessable income and manage your tax liability. The contribution will generally be taxed in the fund at the concessional rate of up to 15%[6],instead of your marginal tax rate which could be up to 47%[7]. Depending on your circumstances, this strategy could result in a tax saving of up to 32% and enable you to increase your super. You could put some or all of these savings towards making even more super contributions in the following year. It could also help you to manage capital gains tax and if you have unused CCs (see below 'Catch-up concessional contributions) you could make larger contributions and claim an even larger tax deduction. Depending on your circumstances, this may even result in you receiving a tax refund at the end of the year. You could use this tax refund to further boost your retirement savings by making another super contribution in the following year. **Find out more** For more information on personal deductible super contributions, including eligibility rules and important steps you must follow, see: ▪ **'Super Strategies: Make tax deductible super contributions'** ▪ **'Super strategies: Contribute to super, and offset capital gains tax'**, and ▪ you can also visit **ato.gov.au**

6 Individuals with income above $250,000 in 2019/20 will pay an additional 15% tax on personal deductible and other concessional super contributions.
7 Includes Medicare Levy.

Strategy	At a high level...	What's the benefit?
Make catch-up concessional contributions	**Who could this work for?** If you haven't fully utilised your annual concessional contributions (CC) cap since 1 July 2018, you may have accrued 'unused' CCs that could enable you to make larger contributions in a future year. Unused CCs can be carried forward for up to 5 years. **What does it involve?** If you meet the eligibility criteria and have accrued unused concessional contributions, you may be able to top up any employer contributions by making: ▪ personal contributions that you claim a tax deduction for, or ▪ salary sacrifice contributions. You could do this for example: ▪ when you receive a bonus ▪ once you have sufficient cash flow to divert regular pre-tax salary to super ▪ when you receive a refund from your tax return, or ▪ with proceeds of sale from an investment or other asset, or windfall. Depending on your cash flow, financial commitments and personal circumstances, there are a couple of ways that you can make CCs. Your financial adviser can help determine the right fit for you. These contributions are treated as CCs and count towards your CC cap. Exceeding your cap may result in significant tax penalties. Additional information on concessional contributions is in the **Glossary** or visit ato.gov.au	**Savings boost** By making regular additional contributions to super, you're helping build up your account balance again. What's more, making tax-effective super contributions via salary sacrifice or a personal deductible contribution (see below) can be a great way to boost your cashflow even more. **Tax management** CCs are a tax effective way to save for retirement. This means more of your money (after-tax) is invested for you today. If you're able to make even larger CCs by using the catch-up contribution rules, not only is this an even greater boost for your retirement investments, but the tax savings (which you might receive via a refund on your tax return) could be even greater. This could either help with cashflow or provide you with even more capacity to make additional contributions to super in a future financial year. Salary sacrifice contributions are generally taxed at the concessional rate of up to 15%[8], rather than your marginal rate which could be up to 47%[9]. The tax deduction you claim for personal contributions reduces your assessable income and generally provides a tax saving. Also earnings on your super savings are taxed at 15% compared to your marginal tax rate of up to 47%. **Find out more** To find out more about catch up contributions, including eligibility criteria and other important information that you must consider before making super contributions, see ato.gov.au.

Case study – benefits of rebuilding

Greg (50), Peter (40) and Bobby (30) have all recently been impacted by the coronavirus pandemic, having been made redundant or stood down from employment. Each is concerned about the impact that a withdrawal under the temporary coronavirus condition of release will have on their future retirement savings.

8 Individuals with income above $250,000 will pay an additional 15% tax on salary sacrifice and other concessional super contributions within the cap.

9 Includes Medicare Levy.

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Potential impact on future retirement savings

Their financial adviser completes some estimates and projections to show the potential impact that withdrawing the maximum of $20,000 (two $10,000 lump sums) would have at retirement, if no strategies to boost their balance were considered in the future. While their immediate financial needs are significant, they want to understand the impact on their ability to fund retirement in the future to make an informed decision.

Age	Amount accessed early	Reduction in balance at retirement age (65) assuming a net return of 6% pa[10]	Reduction in balance at retirement age (65) assuming a net return of 8% pa[10]
30	$20,000	$134,000	$296,706
40	$20,000	$66,000	$116,969
50	$20,000	$28,000	$43,433

Potential impact on future retirement savings

Given each person's circumstances, their financial adviser suggests to make the withdrawals. However, when the time is right in the future, there are a number of strategies that could be implemented to help get their retirement savings back on track.

Their adviser completes some projections to show the incremental benefit of even small contributions and strategies between now and retirement. The news is good, even after withdrawing the maximum amount of $20,000. With the right advice, each of them should be able to rebuild their super savings. The projections also show that they should be able to save even more for retirement and may even retire with an even larger balance.

Who	Strategies	Super balance at retirement after withdrawal and rebuilding strategies, compared to the projected balance (if no withdrawal and no rebuilding strategies)[11]
Bobby **Age 30** **Salary: $45,000** **Super balance (before withdrawal): $40,000**	**Salary sacrifice:** $20 per week **Personal contribution:** $1,000 per year **Government co-contribution:** Amount varies, based on income limits and thresholds	Approximately +$77,195 better off
Peter **Age 40** **Salary: $80,000** **Super balance (before withdrawal): $120,000**	**Salary sacrifice:** $30 per week **Personal contribution:** $540 using tax refund from spouse contribution tax offset	Approximately +$16,264 better off

[10] Based on a retirement age of 65. Return is net of tax payable by the fund and account fees and other expenses.

[11] Modelling estimates are based on a range of assumptions and individual outcomes may vary. Annual salary increases are in line with assumed rates of CPI. Contributions are unindexed. Investment returns are based on a return rate of 7.77%.

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Greg **Age 50** **Salary: $125,000** **Super balance (before withdrawal): $220,000**	**Salary sacrifice:** $100 per week **Personal deductible contribution:** $1,000 per year using bonus received and any tax refund due	Approximately +$80,508 better off

Glossary

A

Assessable income

Income, including capital gains, you receive before deductions.

C

Capital gains tax (CGT)

A tax on the growth in the value of assets or investments, payable when the gain is realised. If the assets have been held by an individual, trust or super fund for more than 12 months, the capital gain generally receives concessional treatment

Concessional contribution cap

A cap that applies to certain super contributions. These include, but are not limited to:

- personal contributions claimed as a tax deduction, and/or
- contributions from an employer (including salary sacrifice).

Concessional contributions are taxed at the concessional rate of up to 15%. If you're a high income earner (with income for this purpose above $250,000) you will pay an additional 15% on certain concessional contributions you receive.

The current concessional cap is $25,000. If you're eligible, you may be able to carry forward unused concessional contributions to make larger contributions in a future year. You may be able to carry forward unused concessional contributions for up to five years. Eligibility rules apply.

If you exceed the concessional cap, additional tax penalties may apply. See ato.gov.au for more information.

Condition of release

Circumstance upon which you can withdraw your super benefits. This is generally when you reach age 65 or meet the specific 'retirement definition'. In certain circumstances you may be able to access some of your super early if you meet certain other conditions, generally related to hardship. See ato.gov.au for more information.

M

Marginal tax rate

The stepped rate of tax you pay on your taxable income. See ato.gov.au

N

Non-concessional contribution cap

A cap that applies to certain 'after-tax' super contributions. These include, but are not limited to:

- personal after tax contributions, and
- spouse contributions received.

The cap is currently $100,000. However, if you are under age 65 at some point during the financial year, it may be possible to contribute up to $300,000 in 2019/20, provided your total non-concessional contributions in that financial year, the last two proceeding years, and the following two financial years, do not exceed $300,000. If the cap is exceeded, excess contributions may be taxed at the top marginal tax rate of 47% if not removed from the fund.

P

Personal after-tax super contribution

A super contribution made by you from your after-tax pay or savings.

S

Salary sacrifice

An arrangement made with an employer where you forgo part of your pre-tax salary in exchange for receiving certain benefits (eg super contributions).

Spouse contribution

An after-tax super contribution made on behalf of an eligible spouse. If the receiving spouse has income (for this purpose) of less than $40,000, the contributing spouse may be eligible to claim a tax offset of up to $540.

Superannuation Guarantee (SG) contributions

The minimum super contributions an employer is required to make on behalf of eligible employees is 9.5% of ordinary times earnings in (2019/20) up to the maximum super contribution base limit of $55,270 (2019/20) per quarter.

T

Tax deduction

An amount that is deducted from your assessable income before tax is calculated.

Tax offset

An amount deducted from the actual tax you have to pay (eg franking credits).

Taxable income

Income, including capital gains, you receive after allowing for tax deductions.

Next steps

To find out more about how these strategies could work for you or any other issues or concerns you may have, we recommend you contact your financial adviser.

Important information

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