ACTIVE SUPER

FACTSHEET

# 2. HOW SUPER WORKS

The information in this document forms part of the Active Super Accumulation Scheme Product Disclosure Statement (PDS) dated 25 May 2021. This fact sheet is dated 25 May 2021. The fact sheet is available free of charge at activesuper.com.au/PDS or you may request a copy from Member Services on 1300 547 873.

## OVERVIEW

This fact sheet summarises how super works, the types of contributions that Active Super accepts and the rules around how these contributions can be made and the circumstances where they may not be accepted. Contributions generally fall into two categories: concessional and non-concessional, which are often referred to as 'pre-tax' and 'post-tax' contributions respectively. Contributions have caps or limits imposed that, if breached, may have significant taxation implications. The contribution caps apply to all contributions made for your benefit to any superannuation fund, regardless of how many superannuation accounts you have. You should monitor contributions made into your accounts as there are taxation consequences for exceeding the caps.

## MEMBER ACCOUNT

In this fact sheet, your account is also referred to as your 'benefit' and is made up as an accumulation of the following:

- initial and subsequent contributions/rollovers
- investment returns (if positive)
- any insurance benefit that may be payable

***less***

- taxes (if applicable)
- fees
- insurance costs (if applicable)
- any withdrawal of benefits

- investment returns (if negative).

## CONTRIBUTIONS

Generally, Active Super accepts Superannuation Guarantee (SG) contributions and other employer, personal and spouse contributions, transfers and rollovers, and any other contributions permitted by superannuation law. Active Super may reject a contribution where it believes acceptance of such a contribution is not permitted.

The following table provides an overview of the different types of contributions and their general tax treatment within superannuation funds:

| CONCESSIONAL (OR PRE-TAX) CONTRIBUTIONS | |
|---|---|
| • Superannuation Guarantee<br>• Additional employer<br>• Award<br>• Self-employed deductible contributions<br>• Salary sacrifice | • Subject to contribution caps (refer below and to page 3).<br>• Generally taxed at 15%.<br>• Taxed at a higher rate if your tax file number (TFN) is not provided. |
| **NON-CONCESSIONAL (OR POST-TAX) CONTRIBUTIONS** | |
| • Personal<br>• Spouse<br>• Concessional contributions that exceed the cap | • Subject to a contribution cap (refer below and to page 4).<br>• Subject to total superannuation balance being less than $1.6 million (refer to page 4).<br>• You must supply Active Super with your TFN for us to accept these contributions.<br>• Contributions are tax free when below the cap amount. |

## CONCESSIONAL CONTRIBUTIONS

Concessional contributions are contributions which are usually paid by your employer as either part of their obligatory requirements or on your behalf out of your pre-tax salary. Concessional contributions are taxed at 15%[1] provided you have supplied Active Super with your TFN.

### Types of concessional contributions

- Compulsory Superannuation Guarantee contributions: Most employees are entitled to a minimum employer contribution known as the Superannuation Guarantee (SG). Currently, the rate of SG is 9.5% of salary (ordinary time earnings).

[1] If your annual income exceeds $250,000 some or all of your concessional contributions may be taxed at 30%.

- Award contributions: These are contributions which are required under an award or agreement secured by your union which may count towards SG. Some contributions can be in addition to SG.
- Additional employer contributions: Additional contributions paid by your employer which could be the result of a salary packaging agreement.
- Salary sacrifice: Amounts nominated by you deducted from your pre-tax salary for the purpose of contributing to superannuation.

### Concessional contributions cap

Under current legislation there is a cap on the amount of concessional contributions that you and/or your employer can make in a financial year.

The standard concessional cap is $25,000 per annum and applies to all members. If you have an account balance of less than $500,000, you can make 'carry-forward' concessional super contributions on a rolling five-year basis from 1 July 2018. Amounts carried forward that have not been used after five years will expire.

Contributions within the cap are taxed at 15%, except if your annual income exceeds $250,000, when some, or all of your concessional contributions may be taxed at 30%.

### Amounts exceeding the concessional contributions cap

If you exceed your concessional cap you may withdraw the excess contributions. The excess contributions are taxed at your marginal rate, to mirror the tax treatment those contributions would have received if you had taken them as salary. An interest charge may also apply in recognition of the fact that the tax on excess contributions is being collected later than your normal income tax on the amount.

If you choose not to withdraw the excess contributions, their value will then count towards your non-concessional cap.

### Non-disclosure of tax file number (TFN)

If we do not have your TFN then:

- Your concessional contributions may be taxed at the highest marginal rate plus Medicare levy, and
- We cannot accept any non-concessional contributions to your account.

## NON-CONCESSIONAL CONTRIBUTIONS

Non-concessional contributions are personal contributions which are paid from after-tax salary or contributions paid on your behalf by your spouse. These contributions are not taxed (if within the cap amount) either when contributed to or withdrawn from super.

These contributions can be made periodically or as single amounts.

### Acceptance of non-concessional contributions

The following conditions need to be satisfied for you to make non-concessional contributions:

- Your TFN must have been supplied to Active Super. If your TFN has not been supplied the contribution cannot be accepted and will be refunded to you.
- Non-concessional contributions can be made at any time or with any frequency until you reach age 67.
- Between ages 67 and 74, you will need to satisfy the work test, which requires that you have worked at least 40 hours in a period of not more than 30 consecutive days during the financial year to which the contributions relate.
- Australians aged 65 years or older are able to make non-concessional (after tax) contributions into their superannuation account of up to $300,000 from the sale of their property if they have owned the property for at least 10 years (refer to *Downsizing contributions* on page 11).
- Recently retired members with a super balance less than $300,000 are exempt from the work test and can make additional contributions for 12 months from the end of the financial year in which they last met the work test.
- Spouse contributions will not be accepted for people aged 75 and over.
- Persons aged 75 and over can no longer make non-concessional contributions.

Contributions in excess of the concessional cap will count towards the non-concessional cap.

### Non-concessional contributions cap

There is a cap on the amount of non-concessional contributions that you can make in a financial year.

Non-concessional contributions are capped at $100,000 (this amount is a multiple of four times the concessional contribution limit) per year. However, those under age 65 can bring forward two years' worth of contributions, giving them a cap of $300,000 over three years, provided that this doesn't bring your total superannuation balance over the general transfer balance cap ($1.6 million for the 2020-2021 financial year).

For example, if you were to contribute $300,000 in the current financial year, for the next two financial years you would not be able to make non-concessional contributions without exceeding the cap.

### Total superannuation balance

From 1 July 2017, a lifetime cap of $1.6 million applies to your total superannuation balance. Your total superannuation balance includes the combined total of all your super and retirement savings accounts. Contributions made to accounts with balances greater than this amount will be deemed to be excess contributions and will be taxed at 47%.

### Amounts exceeding the non-concessional cap

If you have made any non-concessional contributions since 1 July 2013 which exceed the non-concessional cap, they may be withdrawn. If you choose to withdraw the excess contributions plus associated earnings, any investment earnings will be taxed at your marginal tax rate, plus the Medicare levy.

If you choose not to withdraw the excess contributions, they will remain in your super account and be taxed at the top marginal rate, plus the Medicare levy.

## SPOUSE CONTRIBUTIONS

You can make contributions to super on behalf of your spouse. You may also be able to claim a tax rebate[2] (also called a tax offset) of 18% on the contributions, up to a maximum contribution of $3,000 p.a. This is provided your spouse receives $40,000 or less in assessable income, reportable fringe benefits and reportable employer super contributions for that year.

This means that if your spouse is receiving less than this amount, and you make contributions of $3,000 or more, you can achieve the maximum rebate of $540 (18% of $3,000). The contributions eligible for the rebate reduce by $1.00 for each $1.00 of assessable income and reportable fringe benefits above $37,000 p.a. The rebate is not available if your spouse's income reaches $40,000 p.a. or more.

Further eligibility requirements for claiming the spouse rebate are that the super contribution must be:

- made with after-tax money; and
- made on behalf of a receiving spouse who is under age 67 and an Australian resident.

Contributions can also be made on behalf of a receiving spouse who is between the ages of 67 and 74, provided they pass the 'work test' (gainfully employed for at least 40 hours over 30 consecutive days), within the financial year.

As spouse contributions are made from after-tax money, they retain their tax-free nature and are available on retirement tax-free subject to 'preservation rules'.

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[2] Please note that in order to be entitled to the rebate you must have a spouse that qualifies as a 'spouse' within the meaning of that term in the tax law. A 'spouse' for this purpose includes legal partners, de-facto partners, and same sex partners.

## ROLLOVERS AND TRANSFERS IN

The Active Super Accumulation Scheme accepts transfers of benefits from other superannuation funds, including superannuation split amounts resulting from a Family Law settlement or order and superannuation lump sum (SLS) payments.

## GOVERNMENT SUPER CO-CONTRIBUTIONS

The Federal Government makes contributions to the superannuation account of an eligible income earner based on the personal contributions made by the income earner.

To qualify for a co-contribution, you must, in the financial year in which the personal contribution is made:

- make personal non-concessional superannuation contributions to a complying superannuation fund or retirement savings account;
- have a total income (assessable income plus any reportable fringe benefits) of less than $54,837;
- have earned at least 10% of your total income from eligible employment, running a business or a combination of both;
- have a total superannuation balance that is less than the transfer balance cap at the end of 30 June of the previous financial year;
- not have contributed more than your non-concessional contributions cap;
- be a permanent resident of Australia;
- have lodged an income tax return for the financial year in which the contributions were made; and
- be less than 71 years old at the end of the financial year in which the contributions were made.

The Federal Government will contribute up to 50 cents for every one dollar you personally contribute (post-tax) subject to a maximum of $500 per year. This maximum starts reducing once your assessable income exceeds $39,387 and reduces to zero once your income reaches $54,837.

The minimum co-contribution amount paid by the government is $20.

## TAX DEDUCTIBLE PERSONAL CONTRIBUTIONS

You are eligible to contribute personal contributions for which you can claim a tax deduction if you are aged under 75. Individuals who are aged 67 to 74 will need to

meet the work test of being gainfully employed at least 40 hours in a period of not more than 30 consecutive days during the financial year.

You are unable to make personal contributions if you are aged 75 years or over.

A tax deduction may be available on contributions up to the concessional contributions cap for the applicable financial year. To claim a tax deduction, instructions need to be provided to Active Super before:

- you lodge your income tax return;
- the end of the following financial year;
- you request us to split contributions;
- you commence a pension; or
- you roll over to another super fund.

Once these periods have lapsed, you can't claim or amend a tax deduction notice. You must also be a current member of the Active Super Accumulation Scheme to claim a deduction.

## WHEN BENEFITS CAN BE TAKEN

Superannuation is a long-term investment and the Federal Government has placed restrictions on when you can withdraw benefits from your account. These are referred to as 'preservation rules'.

Depending on the preservation components of your benefit (some members may have amounts under different components), you may need to satisfy a 'condition of release' in order to withdraw all or part of your benefit as a lump sum amount.

You are still able to rollover to another superannuation fund regardless of the preservation status of your benefit. However, rolling over to another fund will not alter the preservation status of the benefit.

### Preserved component

This is the amount of your benefit that cannot be cashed unless you meet a condition of release.

The preserved component and any investment earnings on the preserved component cannot be withdrawn from the superannuation environment unless a condition of release is met.

All spouse contributions are classified as preserved.

### Restricted non-preserved component

This component of your benefit can only be withdrawn and taken in cash when you cease employment with an employer who has contributed to Active Super.

Your restricted non-preserved benefit is the amount (if any) that you would have been able to withdraw and take in cash if you had ceased employment and been paid your benefit on 1 July 1999.

Over time your restricted non-preserved benefit stays at the same dollar value except for any restricted non-preserved benefit rolled over from another scheme. While it will continue to accumulate investment earnings, the earnings will be preserved. This amount, plus any unrestricted non-preserved amount, will remain the maximum amount that you will be able to take in cash on ceasing employment with a local government employer.

### Unrestricted non-preserved component

This is the amount of your benefit that you can withdraw and take in cash at any time.

In accordance with the preservation rules, the Trustee also keeps a record of the amount (if any) that you would have been able to withdraw without any restrictions at 1 July 1999.

This amount will only exist when you meet a condition of release or have rolled over an unrestricted non-preserved benefit from another superannuation entity.

### When are preserved benefits payable?

The conditions of release you would need to meet in order to take your total preserved benefit as cash are as follows:

- on permanent retirement from the workforce at or after your 'preservation age' (refer to the 'preservation age' section on page 9);
- on leaving employment on or after age 60;
- on reaching age 65, regardless of whether you are still working;
- on total and permanent incapacity;
- on attaining your preservation age and whilst still employed, taking a transition to retirement pension (note that your benefit components will not change);
- if you entered Australia on an eligible temporary resident visa and you subsequently permanently depart Australia, you can apply for payment of your benefit;
- when the ATO gives Active Super a release authority to pay excess contributions tax to the ATO;
- you terminate employment with a contributing employer and your preserved benefit is less than $200;
- on death; or
- you are suffering from a terminal illness.

You may be eligible to cash all or part of your benefit:

- on the grounds of severe financial hardship, or
- on compassionate grounds (subject to approval by the ATO).

### Preservation of spouse contributions

If the spouse account holder has never been in paid employment, their benefit can generally be paid only when the spouse reaches age 65 or on the spouse's death. Otherwise, normal preservation rules apply.

### No compulsory cashing of benefits

Although you are eligible to cash your preserved benefit on reaching age 65, you are permitted to keep all or part of your benefit in your superannuation account. If you decide to leave your benefit in superannuation, investment earnings on your benefit will continue to be taxed at the tax rates that apply to your account.

### Preservation age

Your preservation age is the age at which you are eligible to access your preserved benefits due to retirement and will depend on your date of birth, as shown below:

| DATE OF BIRTH | PRESERVATION AGE |
|---|---|
| Before 1 July 1960 | 55 years |
| 1 July 1960 – 30 June 1961 | 56 years |
| 1 July 1961 – 30 June 1962 | 57 years |
| 1 July 1962 – 30 June 1963 | 58 years |
| 1 July 1963 – 30 June 1964 | 59 years |
| After 30 June 1964 | 60 years |

## CEASING EMPLOYMENT

If you cease employment with your employer, until we become aware that you have left employment (either you or your employer may advise us of this fact), there will be no change to your account. Once we are advised that you have ceased employment with your employer, or no employer contributions have been received for three months, your account in the employer sponsored division will be transferred to the public offer division. If you are already in the public offer division, there will be no change to your account.

It is important to note that when you cease employment with a local government employer and your account has been transferred to the public offer division, any insurance cover you hold with Active Super will continue (provided premiums are paid and you meet the other terms and conditions of the insurance policy). It is important to make sure that Active Super is advised of changes in your employment.

## WITHDRAWING A BENEFIT

You can withdraw all or part of your benefit as a cash lump sum, a rollover to another complying superannuation entity, or as a combination of both. If you choose to take part of your benefit, a minimum of $5,000 must remain in your account otherwise your withdrawal request will be invalid. We will let you know if this is the case so you can update your request.

It is important to note that your preserved benefit can only be taken as a cash lump sum if you have satisfied a condition of release. You may elect to roll over some or all of your funds to another superannuation entity or approved deposit fund by completing the relevant documentation, which is available at activesuper.com.au or by calling member services on 1300 547 873.

## FIRST HOME SUPER SAVER (FHSS) SCHEME

The FHSS Scheme helps you save money for your first home by making voluntary contributions to Active Super. You may be able to benefit from the tax treatment within super.

If you have never owned property in Australia, you can make concessional (before-tax) and non-concessional (after-tax) contributions to your super:

- Concessional contributions include salary sacrifice contributions and personal contributions for which a tax deduction is claimed. These contributions are taxed at 15%.
- Non-concessional contributions include any personal contributions from after-tax money.

To qualify for the FHSS scheme, you must:

- be at least 18 years old at the time of the withdrawal
- have never owned property in Australia
- have not previously received a FHSS scheme payment.

You can apply to withdraw your voluntary contributions made to super after 1 July 2017 together with deemed earnings to help purchase your first home. This can be done through the ATO via your myGov account.

For full details on the FHSS Scheme including information on how to access your savings, please search for First Home Super Saver Scheme on our website.

## DOWNSIZING CONTRIBUTIONS

On 1 July 2018, the Australian Government introduced the downsizing contributions measure, which means you can contribute some proceeds of the sale of your home into superannuation.

Downsizing allows you to make an after-tax contribution of up to $300,000 into superannuation from the sale of your home, provided it was your main residence. Couples can both contribute this amount towards super up to a maximum of $300,000 each.

For full details on eligibility and how to contribute, please refer to activesuper.com.au/downsizing

## PORTABILITY

Under portability arrangements you may transfer some or all of your benefit to another superannuation entity, regardless of your employment status or whether or not you are able to move funds under superannuation choice arrangements.

If you choose to take part of your benefit under portability, you must leave at least $5,000 in your account, otherwise your withdrawal request will be invalid.

If you are withdrawing all or part of your benefit under portability, you can continue to have contributions paid into your account.

## TOTAL AND PERMANENT DISABLEMENT (TPD)

For the payment of a TPD benefit (not including any insured component), the Trustee must be satisfied that you have left employment on the grounds of total and permanent disablement.

If you have any basic, additional basic or voluntary insurance cover, the insurer must be satisfied that the requirements (as outlined in the policy document) have been met before any insurance benefit can be paid.

For more information on TPD insurance, please refer to the *Insurance in your super* fact sheet, available at activesuper.com.au/PDS or from member services on 1300 547 873.

## FAMILY LAW ACT

The Family Law Act takes account of superannuation entitlements when negotiating settlements resulting from the breakdown of marriages and de facto relationships (including same sex relationship) and for the splitting of those entitlements between the parties involved. The Family Law provisions are complex and you should seek independent legal and financial planning advice with respect to your personal situation. For more information please refer to the *Family Law splits* fact sheet at activesuper.com.au/factsheets

## DO YOU HAVE LOST SUPER?

It is always important to keep Active Super informed of your current postal and email address. If your details change, call member services on 1300 547 873 or you can update your details through Member Online. We can help you track down lost super by using the free search service offered by the Australian Tax Office (ATO). Simply go to supermatch.activesuper.com.au and enter your details.

## WHAT HAPPENS TO YOUR SUPER WHEN YOU DIE?

The rules regarding to whom a death benefit is payable are as follows:

- If you make a valid binding death benefit nomination in favour of your dependant(s) and/or legal personal representative(s), the Trustee must distribute the benefit on your death in accordance with that binding death benefit nomination provided the nomination is still valid, both at the time of your death and at the time of payment.
- Alternatively, the Trustee will, at its discretion, pay the benefit to one or more of your legal personal representatives and/or dependants if:
  a. you have made a binding death benefit nomination notice which is not valid at the time of your death or at the time of your payment, or
  b. you have not made a nomination.

Benefits will be paid to your legal personal representative by way of a lump sum which will form part of your estate. If you die leaving a Will, that lump sum will be distributed according to your Will. If you do not leave a Will and letters of administration for your estate have been taken out, the benefit will be distributed according to law.

Once informed of your death, the Trustee will lodge a claim with its insurer for any insurance proceeds that may be payable.

### What is the definition of a dependant?

A dependant is defined under superannuation law to include:

- your spouse
- your child or children
- financial dependant[3]
- any other person with whom you had an interdependency relationship[4].

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[3] Financial dependant may include any other person who is financially dependent on the member at the relevant time (in the case of a deceased person, at the time of their death). As the common law may change from time to time, we will apply the common law definition of dependant as it applies at the relevant time.

[4] Two persons have an interdependency relationship if they have a close personal relationship, they live together, one or each of them provides the other with financial support and one or each of them provides the other with domestic support and personal care.

Two people have an interdependency relationship if they have a close personal relationship but do not satisfy the other requirements of an interdependency relationship because either or both of them suffer from a disability.

### Can I nominate more than one beneficiary?

Yes, you may nominate a combination of one or more of your dependants, and/or your Legal Personal Representative as your beneficiaries, and you will need to specify the proportion of the benefit that will be paid to each beneficiary.

To be valid, each benefit allocation percentage must have a total allocation equalling 100%.

### How do I make a valid binding death benefit nomination?

To make a binding death benefit nomination you must complete the *Binding death benefit nomination* form available from our website at activesuper.com.au/forms or Member Services and return it to us.

For the Trustee to consider your *Binding death benefit nomination* form to be valid and effective:

- The form must state the proportion of the benefit that will be paid to each such beneficiary with the total allocation equalling 100% of the benefit.
- It must be signed and dated by you in the presence of two witnesses who are at least 18 years old and are not a person nominated on the form. The witnesses must sign and date their declaration on the same date that you sign the form.
- It must have been provided to the Trustee prior to your death.

There are strict legal requirements for a binding nomination to be validly made and to remain valid. You can amend or revoke your nomination at any time. To remain valid, a binding nomination must be confirmed at least every three years.

If you submit a binding death benefit nomination that we identify to be invalid, we will write to you advising that we are unable to accept it. The legal rules about the eligibility of nominated dependants are complex. Eligibility factors can change and vary so, we cannot guarantee that your nominated dependants will be eligible to receive payment of your death benefit at the time payment is to be made. If you are not sure or you need assistance to make your binding death nomination, please contact member services on 1300 547 873.

### When does a valid binding nomination become effective and how long does it last?

If you make a valid binding nomination it becomes effective from the date you and your witnesses sign it.

A binding nomination expires and ceases to have effect three years after being made, replaced or confirmed.

You can amend your nomination at any time by completing the *Binding death benefit nomination* form and returning it to us. It will be valid for three years from the date you and your witnesses sign it.

You can extend your nomination before it expires by completing the *Confirmation of binding death benefit nomination* form and returning it to us, which extends the term for another three years from the date you sign it.

The Trustee must follow a valid binding nomination, regardless of whether your circumstances have changed, so it is important that you keep it up to date.

## INACTIVE LOW BALANCE ACCOUNTS

From 1 July 2019, if your superannuation balance is under $6,000, and has not received a contribution in 16 months, any insurance you hold will be cancelled and your super account must be transferred to the Commissioner of Taxation.

You may hold an Active Super account for various reasons and may not wish your account to be transferred to the Commissioner. To stop your account being transferred you can:

- Make a contribution within 16 months of your last contribution;
- Opt-in to keep your insurance by logging into Member Online, via the Active Super app, or by completing the *Opt-in to insurance cover* form available at activesuper.com.au/forms;
- Make changes to your insurance cover;
- Change your investment option;
- Make a binding death benefit nomination; or
- Write to the Commissioner of Taxation to declare that your account is not an inactive low balance account.

## PUTTING MEMBERS' INTERESTS FIRST (PMIF)

The Federal Government's Putting Members' Interest First (PMIF) legislation, which came into effect on 1 April 2020, changes how funds provide default insurance cover. The legislation aims to ensure members are not paying premiums for insurance cover that may inappropriately erode their retirement savings. From 1 April 2020, in order to receive our Basic insurance cover automatically, new members joining Active Super from 1 April 2020 must:

- Be at least 25 years of age, and
- Have a super balance of at least $6,000 in their super account.

If you want to receive the Basic insurance cover before you become eligible for it automatically, you must elect to opt-in to Basic insurance cover by:

- Completing the *Opt in to insurance cover* form available at activesuper.com.au/forms; or
- Logging into Member Online or
- Via Active Super mobile app.