31 May 2017

Countdown to 1 July 2017

(super and pension changes and what they mean for you)

australianethical super

Hello!

We wanted to make sure you knew about the new rules that will apply to your super or your pension from 1 July 2017. Here's a snapshot of the changes, but it's a good idea to talk to your tax or financial adviser about what these changes may mean for you.

1. A $1.6 million cap on transfers to pension
2. Changes to transition to retirement and pension rules
3. Last chance to use the $540,000 post-tax contribution cap
4. Cap on pre-tax contributions reducing to $25,000 for everyone
5. Tax deductions for personal contributions regardless of your work situation
6. Additional super tax on high earners
7. Do you earn less than $37,000 a year?
8. Do you or your spouse (or partner) earn less than $40,000 a year?
9. Changes to our fees, not up not down, just different
10. Changes to asset allocations and the risk labels of some our investment options
11. Budget 2017 super proposals

We are here to help

There's a lot of information in this guide, but these really are the biggest changes to super in a long time. So if you need help:

- Call us on **1300 134 337** or send an email to **members@australianethical.com.au**.
- Talk to your tax or financial adviser.
- And if you don't have an adviser, there are contacts for **Ethical Advisers** on our website.

1 A $1.6 million cap on transfers to pension

From 1 July 2017, there is a new $1.6 million cap ('transfer cap') on the amount that can be transferred from your super into a tax-free pension account in the retirement phase where earnings are tax free. If you start a pension for the first time on or after 1 July 2017, the cap only applies to the amount you transfer. The transfer cap will be indexed in line with CPI, so will grow over time and is forecast to be $1.7 million by 2020-21.

Action: If you already have a pension balance over $1.6 million you will need to reduce your pension balance to $1.6 million or less **before 1 July 2017**. You can do this by rolling the excess money back into an accumulation account (i.e. super) or by withdrawing the extra funds. If your account value at 1 July 2017 is between $1.6 and $1.7 million, then you will have six months to reduce your pension balance without penalty.

If you have a pension account with us and you go over the transfer cap, the Australian Taxation Office (ATO) may issue us an instruction to roll your excess money back to a MySuper accumulation account for you in Australian Ethical Super. You will also be taxed on the notional earnings from your pension assets above the cap. The excess transfer balance tax rate is 15% for the 2017-18 year and the first assessment in the 2018-19 year. The tax rate is 30% for the second and subsequent assessments in the 2018-19 year and later years.

The transfer cap applies to the transfer balance if you start a pension from 1 July 2017, or the account balance if you have an existing pension at 1 July 2017. So if your pension account grows over time (through investment returns for example) to more than $1.6 million, you won't exceed your cap. Depending on your circumstances, different rules may apply. Please refer to the **ATO website** for more information.

Tip: Remember this transfer cap applies to the overall balance across all of your pension accounts with different super funds. It's easier to track your super balance if you roll it into one account. You may also save a bit on fees. If you'd like to combine all your super accounts into Australian Ethical Super please use the simple **online tool** on our website.

2 Changes to transition to retirement and pension rules

If you are using a 'transition to retirement' strategy to supplement your income while you are still working, from 1 July 2017 earnings from the assets that support your transition to retirement income stream will be **taxed at 15%** in the fund (currently these earnings are tax free).

Also from 1 July, you will no longer be able to treat certain super income stream payments (including transition to retirement payments) as lump sums for tax purposes. These changes will apply to both existing and new transition to retirement arrangements.

Action: The Balanced (pension) investment option will no longer be available for transition to retirement pensions. If you have a transition to retirement pension with Australian Ethical Super and some or all of your investment is in the Balanced (pension) investment option, your investment will be switched to the Balanced (accumulation) investment option on 1 July 2017, unless you advise us to switch to another pension investment option. This investment option has a similar risk/return profile to Balanced (pension) but with a higher allocation to growth assets. This may be a good time to review your investment strategy and decide if it is right for you.

Tip: These changes are quite technical, so if you are retired or starting to plan for your retirement it's a good idea to talk to your tax or financial adviser to understand what these changes may mean for you.

3 Last chance to use the $540,000 cap

Currently, if you are under 65 years of age you can make after tax contributions into your super of up to $180,000 a year. After tax contributions often come from inheritances, redundancy payments, or the sale of a property or other asset. If you want to contribute more than this in a year, you can 'bring forward three years' worth of caps (up to $540,000 in 2016-17). Note that if you have triggered the bring forward period in 2015-16 or 2016-17, but have not contributed the full bring forward amount before 30 June 2017, transitional arrangements will apply. So you'll be able to contribute amounts after 1 July 2017 that reflect the reduced annual contribution caps. See the **ATO website** for more details.

From 1 July 2017 however, the annual cap will be **reduced to $100,000** (from $180,000). After 1 July 2017 you will still be able to bring forward three years' worth of caps. The maximum bring forward amount will be limited to **$300,000** (rather than $540,000). If your balance at the end of the 2016-17 financial year exceeds the bring forward amount, the bring forward period will be reduced.

Importantly, if you have $1.6 million or more in the Australian Ethical Retail Superannuation Fund, the fund cannot accept additional after-tax contributions. If you have reached your $1.6 million transfer cap across all super accounts you hold, any non-concessional contributions you make will be treated as excess non-concessional contributions. For more information on these changes please go to the **ATO website**.

4 Cap on pre-tax contributions reducing to $25,000 for everyone

Each year you can make concessional or pre-tax contributions to your super up to a certain cap. These include the 9.5% of your salary (Super Guarantee) that is paid by your employer and any other amount you choose to sacrifice out of your salary. You have until 30 June 2017 to contribute up to $30,000 if you are under 49 years of age and $35,000 if you are 50 or older. After 1 July 2017, the annual cap reduces to **$25,000 for everyone**.

5 Tax deductions for personal contributions regardless of your work situation

From 1 July 2017, those under the age of 65, and those aged 65 to 74 who meet the work test, will be able to claim a tax deduction for personal contributions to super up to the concessional contributions cap of $25,000. Previously, this kind of deduction was only available to people who were mostly self-employed and earned less than 10% of their income from salary or wages.

By submitting to us a *notice of intention to claim a deduction for personal super contributions* (available from the **ATO website**), you can have some or all of your after-tax contributions treated as before-tax contributions. Before submitting your notice, there are important things you should consider, such as whether you are eligible to claim a deduction and if you will exceed the contribution caps. There are also time limits to claiming a deduction. Refer to the ATO for further information.

6 Additional super tax on high earners

Currently, if you have income and concessional super contributions (including the 9.5% Super Guarantee paid by your employer) greater than $300,000, you pay additional tax. This is known as Division 293 tax and is calculated by the ATO when your tax return is completed.

From 1 July 2017, the government will **lower the Division 293 income threshold to $250,000**. If your income and pre-tax super exceed the threshold of $250,000, you will have an additional 15% tax imposed on the amount over $250,000.

You may for example, earn $240,000 and have concessional contributions of $20,000 which take you over the threshold, or you may earn more than $250,000. Either way you will receive a Division 293 assessment from the ATO which charges an additional 15% on the amount over $250,000. You can pay your tax bill out of your super balance or personally.

Tip: If you're close to the new $250,000 threshold, it's probably a good idea to talk to your tax or financial adviser to understand your options.

7 Do you earn less than $37,000 a year?

If you have adjusted taxable income of up to $37,000, from 1 July 2017, the Low Income Superannuation Tax Offset (LISTO)[1] will refund up to $500 of the tax paid on concessional super contributions.

The LISTO refund will be equal to 15% of your pre-tax super contributions for an income year, up to $500. The refund will be paid automatically into your super account.

[1] Replaces the Low Income Superannuation Contribution from 1 July 2017.

8 Do you or your spouse[2] earn less than $40,000 a year?

Currently, if your spouse is not working or earning less than $10,800 a year, you can contribute up to $3,000 to their super and receive an 18% tax offset ($540). The tax offset amount gradually reduces for income above $10,800 and completely phases out when the income reaches $13,800. You can contribute more than $3,000 if you wish, but you won't receive the spouse contribution tax offset on anything above $3,000.

From the 2017-18 tax year, your spouse[2] can earn up to **$37,000 a year** and this same benefit will apply. The offset reduces as your spouse's income increases above $37,000 a year and completely phases out at $40,000. The maximum offset is $540.

If your spouse has after-tax contributions in excess of the non-concessional cap for the year or had a total super balance on 30 June of the previous year that is equal to or exceeds the general transfer cap (initially $1.6 million) you will not be eligible for a tax offset for spouse contributions.

Tip: For many couples, particularly those with part-time work patterns, this change may provide opportunities to build retirement savings together. If you are the spouse earning less than $40,000 a year, your spouse can **contribute** to your Australian Ethical Super account.

For more information on these and other changes to the super system, please have a look at the special section on the **ATO website** or speak to your adviser. For a list of **Ethical Advisers** please refer to our website.

[2] ('Spouse' includes de facto and married couples.) Spouse must be under 65 years of age, or between 65 and 75 years of age and must meet a work test.

9 Changes to our fees, not up not down, just different

New fees and costs disclosure requirements mean that we must now disclose our fees and costs differently. You'll see this new disclosure format in our new PDS which will go live on 1 July 2017. It's important you know that this new disclosure format hasn't changed the cost of your investment, it's just a different way of setting out the same fees and costs.

As a result of the new disclosure requirements, we have reclassified some costs previously classified as 'investment fees' as 'indirect cost ratio'.

Also, because of changes to the definition, the 'indirect cost ratio' has changed from 0% for all investment options to an estimated range of 0% and 0.15% for the 2017-2018 year, depending on the investment option you are invested in.

As you can see from the table below, the total fee for most investment options is the same or even a little less. In saying this, the Smaller Companies investment option total fee has increased, because the change to the definition of 'indirect costs ratio' now captures the brokerage costs incurred by that investment option (although, you should note that these costs are not new costs, they are just presented differently).

	Before 1 July 2017			From 1 July 2017		
	Investment Fee % p.a.	Indirect Cost Ratio % p.a.	Total# % p.a.	Investment Fee % p.a.	Indirect Cost Ratio % p.a.	Total# % p.a.
Defensive	0.50	0	0.50	0.50	0	0.50
Conservative	0.65	0	0.65	0.63	0.02	0.65
Balanced (accumulation)	0.72	0	0.72	0.64	0.08	0.72
Balanced (pension)	0.75	0	0.75	0.67	0.08	0.75
Growth	1.20	0	1.20	1.05	0.15	1.20
Advocacy	1.30	0	1.30	1.30	0	1.30
International Shares	1.40	0	1.40	1.40	0	1.40
Smaller Companies	1.25	0	1.25	1.25	0.07*	1.32

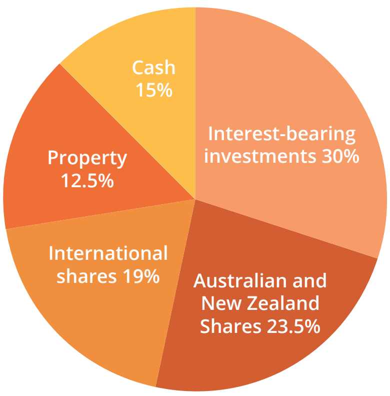
Additional fees and costs continue to apply. You should read the PDS and Additional Information Booklet available on our website from 1 July 2017.

*The brokerage costs for Smaller Companies are now included in the Indirect Cost Ratio. These are not new costs. The fee and costs in this section are inclusive of GST.

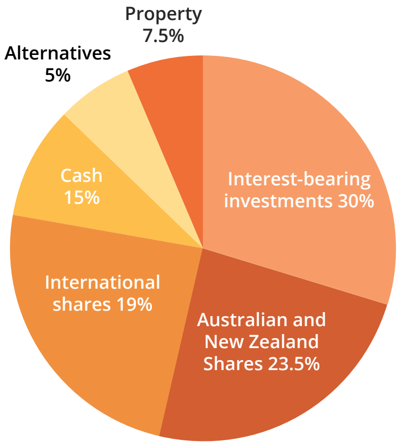
10 Changes to asset allocations and risk labels of some our investment options

The asset allocation for our **Balanced (pension)** investment option has been further diversified by allowing for alternatives and international fixed interest (as part of interest-bearing investments). The chart below illustrates the changes in strategic asset allocation from 1 July 2017. The investment option's risk profile has changed from Medium to Medium–High.

Until 30 June 2017



From 1 July 2017



The **risk levels** for the Growth investment option and the Smaller Companies investment option will change from Medium–High to High and High to Very High respectively. There has been no change to the asset allocation of these funds, however our stress-testing of these funds suggests an increased possibility of negative annual returns over the projected 20-year timeframe.

If you are using a transition to retirement strategy, then any investments in the Balanced (pension) investment option will be invested in the Balanced (accumulation) investment option from 1 July 2017.

11 Budget 2017 super proposals

On 9 May 2017 the Federal Budget proposed a number of measures that should help first home buyers or those moving towards retirement. Of course, the details on how this will work are still being worked through and both Houses of Parliament need to pass legislation before it can take effect.

If all goes to plan, from 1 July this year first-home buyers will be able to make voluntary contributions of up to $15,000 a year ($30,000 in total over their lifetime). These contributions will be taxed at 15%. These contributions and deemed earnings can be withdrawn from 1 July 2018 onwards and put towards a home deposit. Withdrawals are taxed at marginal tax rates less a 30% offset. Each partner in a couple can contribute this amount.

Any contributions under this scheme need to be made within the super caps. In 2017-18, the total concessional (before-tax) contributions cannot exceed $25,000.

The scheme will be administered by the ATO. They will determine the amount of contributions that can be released and instruct superannuation funds to make these payments accordingly.

If you are aged 65 or over, then from 1 July 2018, the Government will allow you to make an after-tax contribution into your super of up to $300,000 from the proceeds of selling your home. To qualify it will need to be your principal place of residence and owned for the past 10 or more years. If you are in a couple then both of you will be able to take advantage of this measure for the same home (up to $600,000).

The contribution from your home proceeds will be in addition to the non-concessional contributions currently allowed under existing rules and caps, so will be exempt from the existing age test, work test and the new $1.6 million balance test for making non-concessional contributions. The sale proceeds contributed to super will remain subject to the Age Pension assets test.

Got questions?

We're here to help. Call us on **1300 134 337** or send an email to **members@australianethical.com.au**.

We're in the office Monday – Friday 8am to 8pm AEST.

1300 134 337

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No company in the Australian Ethical Group* guarantees the performance of any fund or the return of an investor's capital. The information contained in this document is believed to be accurate at the time of compilation.

Interests in the Australian Ethical Retail Superannuation Fund (ABN 49 633 667 743) are offered by Australian Ethical Investment Ltd (ABN 47 003 188 930, AFSL 229949) and issued by the Trustee of the Fund, Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733, USI AET0100AU)

* Australian Ethical Group means Australian Ethical Limited ACN 003 188 930 and its subsidiaries.