

Co-contributions

Are you or your spouse eligible for an extra super contribution?

The Government makes a co-contribution to super for each dollar of personal after-tax contributions made by people who meet certain criteria.

You may be eligible if you:

- receive at least 10% of income as an employee (even if no super contributions are paid on your behalf),
- have 'total' income of less than \$61,920, and
- are under age 71 at the end of the financial year in which you make the contribution.

Your 'total income' includes your assessable income, reportable fringe benefits and salary sacrifice. If you earn less than \$31,920 and make a \$1,000 contribution, then you will get the maximum \$1,000* co-contribution. As your 'total income' increases, the amount of co-contribution is reduced. If you earn above the maximum threshold you will not be entitled to a co-contribution.

** Please note: In the 2009 Federal Budget, the Government announced that the maximum co-contribution amount payable will temporarily reduce to \$1,000 from 1 July 2009 to 30 June 2012. The maximum rate will increase to \$1,250 from 1 July 2012 to 30 June 2014, and then increase to \$1,500 from 1 July 2014.*

How do co-contributions work?

Example

Kim earns \$50,000 a year and will receive an annual increase of \$1,000 (pre-tax).

Kim has three options for how she invests this money:

Firstly, she can make a 'salary sacrifice' super contribution (in line with company policy) arranging for her increase to be paid into super from her pre-tax salary. For more information, please refer to our webinar on salary sacrifice.

Secondly, she can take the money as salary, pay tax on it and invest it outside of super.

Thirdly, Kim can make a contribution to super from her after tax salary and, if eligible, receive a super co-contribution from the Government.

Calculating co-contributions

Once Kim receives her annual increase and pays tax on it at her marginal tax rate, the balance is left to contribute to super.

For super co-contribution purposes, Kim's total income includes assessable income (including her increase), any reportable fringe benefits and salary sacrifice contributions to super.

Income	Co-contribution
<\$31,920	\$1,000 (max)*
\$31,920 – \$61,920	Maximum reduced by 3.333 cents for every dollar over \$31,920
\$61,920+	Nil

If Kim made a personal contribution of \$685 to her super, she will receive a co-contribution of \$364.

Kim's after tax contribution	= \$1,000 – (31.5% x \$1000) = \$685
Standard co-contribution calculation	= \$685 x 1.00 = \$685
Maximum co-contribution	= \$1,000 – {(\$51,000 – \$31,920) x 0.03333}
	= \$1,000 – (\$19,080 x 0.03333)
	= \$1,000 – \$636
	= \$364
Actual co-contribution	= \$364

In fact, Kim would only need to contribute \$364 to get a co-contribution of \$364. If Kim only contributed \$200 to super she would only be entitled to a \$200 co-contribution.

Let's look at the options...

Let's re-visit Kim's options for her \$1,000 increase:

Firstly, the salary sacrifice option. After contributions tax of 15% Kim would have \$850 going into her super fund.

Secondly, Kim can take her increase as salary. She would pay income tax on it and have the remainder to invest outside of super.

Finally, Kim can take advantage of the super co-contribution. By taking her after-tax increase and contributing it into her super fund, the Government will pay a co-contribution, which will boost her retirement savings.

Of course, it's important to remember that every dollar invested in super is 'preserved' and cannot be accessed until after you retire and reach your particular preservation age (between 55 and 60, depending on your date of birth).

Comparing the results

	Super cont	Non-super investment	Co-contribution to super
Tax	Taxable income \$50,000 – \$9,600	Taxable income \$51,000 – \$9,915	Taxable income \$51,000 – \$9,915
Take-home pay	\$40,400 plus \$1,000 less 15% tax	\$41,085 includes \$1,000 less 31.5% tax	\$41,085 includes \$1,000 less 31.5% tax
Investment benefit	\$850 <i>Tax may be payable on exit</i>	\$0	\$364 of co-contribution
'Overall benefit'	\$41,250	\$41,085	\$41,449

2009/2010

Includes 1.5% Medicare Levy (does not take into consideration tax off-sets)

When it comes to comparing the overall results of the three different strategies, we can see that, in her current situation, Kim is better off by making an after-tax contribution instead of a pre-tax contribution, and has more money invested for her retirement by utilising co-contributions instead of investing outside of super.

Your co-contribution will be automatically paid into your super account

You don't need to apply for your co-contribution, the money will automatically be paid into your super account.

The process is that you lodge your tax return and your super fund lodges a record of your super contributions by 31 October. The Australian Taxation Office (or ATO) then determines your eligibility for a co-contribution. Once determined, the co-contribution will be paid directly to the superannuation account you made your contribution to (subject to fund rules).

The payment should be made by 30 June of the year following your personal contribution. If not, you should follow it up with the ATO.

How can a financial adviser help you?

The super co-contribution is a helping hand to assist eligible individuals to save for their retirement. However, it's important to remember that contributing to super may not always be the best strategy for your savings, and that the value of investments in super may rise and fall from time to time. If you are unsure, you should seek professional financial planning advice.

A financial adviser will take into account your short-, medium-, and long-term financial goals and your lifestyle needs before recommending appropriate strategies for you.

Let's recap...

The super co-contribution is designed to assist eligible individuals to save for their retirement.

If you are eligible, the Government will match your contribution with a super co-contribution up to certain limits.

Payments will be credited to your main super account during the financial year.

To speak directly with a Mercer financial adviser call 1800 633 403. We have offices located all around Australia. To find a Mercer office, please visit our website at mercerwealthsolutions.com.au

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