In short, yes. There are significant tax savings available, and any contribution to super you can afford to make today will improve your final super benefit and your lifestyle in retirement.

Salary sacrifice is a simple concept. It’s an arrangement with your employer where you redirect part of your before tax salary into a super fund. It means reducing your take home pay so that you can benefit from extra contributions into your super.

Salary sacrifice works for two reasons. There’s the potential for significant tax savings in the short, medium and long terms, however, it’s the discipline of saving that will have the most impact on your super benefits at retirement.

**Tax savings**

The immediate benefit is the potential to reduce your overall tax bill. That’s because these super contributions are taxed at a rate of 15%, which is lower than the normal income tax rate for amounts you earn that are more than $18,200 per year. If you usually pay tax at higher marginal rates then the potential tax savings increase significantly.

The initial tax savings are only part of the story. The tax rate on earnings within the super environment is also low. The maximum tax rate on earnings inside super is 15% a year and this can be reduced with imputation or franking credits. Capital gains in the fund are taxed at just 10%.

And when it comes time to access your benefit from age 60, the income and capital from your super benefit is tax free.

**Long-term savings**

However, the real benefit of salary sacrifice strategies is the ability to harness the tax savings and increase your level of long-term savings. If you’re a member of a defined benefit scheme, any increase in your personal contributions has the ability to increase the exit benefits you receive under your scheme formula.

If you’re not a defined benefit scheme member, then your contributions will generally be invested in diversified investment strategies which will compound over time.

**Government Co-contribution**

You should also make sure that you’re taking advantage of any available Government Co-contributions. If your income is $48,516 per year or less, then you should consider making an after tax contribution of up to $1,000 with the purpose of receiving the co-contribution of up to $500 paid to your super fund by the Government.
What should you be aware of?

The biggest risk is waiting too long to get started. You should also keep in mind that salary sacrifice will reduce your take-home pay and that once contributions are made to super, they become “preserved”. Generally, this means that you can’t access these funds as a lump sum until you permanently retire after your preservation age (55 if you are born before 1960 and up to 60 if born afterwards).

There are certain limits on the amount that can be salary sacrificed each year. The ‘before tax’ or ‘concessional’ contributions limit is $25,000 in any one financial year if you are under 60, or $35,000 if you are 59 or older on 30 June 2013.

Concessional contributions include all employer contributions, including payments made under the superannuation guarantee and salary sacrifice. If you’re a member of a defined benefit scheme, a notional amount will be calculated to determine your employer’s concessional contributions using a formula.

However, there are special conditions for defined benefit members. If you’re salary sacrificing your member contributions to your scheme, then even if you exceed the cap, you’re deemed to be within it. If you’re a member of SASS, it’s possible to lose access to this special protection. If you increase your contributions into a higher benefit category on or after 1 April 2010 and you are a member of SASS, you should call us on 1800 620 305 before you start salary sacrificing.

Of course, if you’re contributing to another super fund, then the defined benefit protection does not apply to the second fund, and it’s possible to exceed the contributions cap.

However, in most cases, making salary sacrifice contributions to super is a good idea. There are initial tax savings, and you will enjoy higher retirement benefits down the track.

The important thing is getting started. You should speak with your employer’s payroll department to make the arrangements.

To find out more about how we can help you now and in the future call your member service team on 1800 620 305

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