ZURICH

Changes to superannuation

from 1 July 2007

The Government's plan to simplify superannuation is now law with changes generally applying from 1 July 2007. These reforms have been implemented to help streamline and make superannuation easier to understand, and to provide people with more choice regarding their superannuation arrangements.

It is important to note, however, that these changes can potentially affect:

- when you might wish to retire;
- whether you want to make a large after-tax contribution in the 2006/07 financial year (as you can't do the same next financial year);
- whether you need to change your salary sacrifice arrangements next financial year due to contribution caps;
- whether you need to provide your tax file number to your superannuation fund to avoid extra taxation and/or to ensure you are able to make after-tax contributions; and
- the payment of pension benefits to an adult child upon your death.

This flyer has been prepared to highlight the changes to you and to assist you in determining if they have an immediate impact on your retirement plans. We strongly recommend you speak to your financial adviser who will be able to provide specific advice after taking into consideration your individual situation.

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Changes – at a glance

- Subject to any applicable work test (if you are between ages 65 and 75), up to $1m of non-concessional contributions (eg. undeducted contributions) can be made between 10 May 2006 and 30 June 2007;
- Age based limits will be replaced with streamlined contribution rules and reasonable benefit limits (RBLs) (which are the amount of benefits that are concessionally taxed) will be abolished;
- From 1 July 2007, there will be a $150,000 annual limit on non-concessional contributions (eg. undeducted contributions). Those aged less than 65 can make up to $450,000 of non-concessional contributions in a financial year by bringing forward future limits, however they cannot exceed $450,000 over the 3 year period;
- The self employed will be able to claim a full deduction for personal contributions to superannuation and the Government co-contribution scheme will be extended to the self employed;
- Individuals will have greater flexibility as to how and when to draw down on their superannuation in retirement;
- Superannuation benefits paid from a taxed fund will be tax free for people aged 60 and over;
- To help improve incentives to save, the pension assets test taper rate will be halved to $1.50 per fortnight for every $1,000 of assets above the assets test free area.

Making Contributions

1. Concessional contributions (employer/pre-tax):

At the moment, the amount of tax deductible contributions that can be contributed on your behalf by your employer or contributions made by eligible persons (including self employed persons) is restricted by Age Based Limits. From 1 July 2007 the Age Based Limits will be replaced by the concessional contributions cap. The table below details the pre 1 July 2007 Age Based Limits and the post 1 July 2007 concessional contributions cap.

Age	Before 1 July 2007 Maximum deductible contribution limit for the financial year 2006/2007	From 1 July 2007 Maximum deductible contribution limit for the financial year 2007/2008
Under 35	$15,260 p.a.	$50,000 p.a.*
35 to 49	$42,385 p.a.	$50,000 p.a.*
50 to 74	$105,113 p.a.	$100,000 p.a.# up to 30 June 2012, $50,000 p.a.* thereafter

* This limit will apply for 2007/08 financial year and will increase periodically in increments of $5,000.

This limit will not be indexed. This higher threshold applies to those 50 or older during the transitional period. Members who turn 50 during the transitional period will be eligible to use this higher threshold in the year they turn 50 until the end of the transitional period.

If your total before-tax contributions exceed the limit, you will be taxed on the excess at the top marginal tax rate (plus Medicare levy) which is currently 46.5%.

2. Non-concessional contributions (personal/after-tax):

Prior to 10 May 2006 and if eligible to contribute, you were able to contribute an unlimited amount of your own money after tax at any time to your super. From 1 July 2007 the maximum non-concessional contribution that can be made is three times the concessional contribution cap. For the 2007/08 financial year this will mean the non-concessional contribution cap will be $150,000.

For after-tax contributions made between 10 May 2006 and 30 June 2007, a transitional $1 million limit applies.

Members under age 65 have the option of bringing forward future cap amounts to the current financial year. This measure allows up to $450,000 to be contributed in one or more financial years by bringing forward up to three years of the non-concessional contributions cap. After attaining age 65 a maximum non-concessional contribution of $150,000 can be made each financial year provided you satisfy the work test (as described on page 5).

Note: The Government co-contributions will not count towards your non-concessional contribution cap.

Small business sale proceeds up to a lifetime limit of $1 million (effective 1 July 2007) will not count towards your non concessional contribution cap if:

- You satisfy the conditions for the eligible small business CGT concessions under the tax law;
- You notify us that the contribution is sourced from eligible small business sale proceeds;
- the contribution is made no later than:
  1. 30 days after the receipt of the proceeds; or
  2. the day your tax return is required to be lodged for the year in which the sale occurred;

  whichever is the later.

Certain types of personal injury settlements or structured settlements will not be counted towards your non-concessional contributions cap if they are contributed into the Fund within 90 days of the:

- payment being received; or
- structured settlement; or
- order coming into effect

whichever is the later.

3. Self-employed persons/persons not receiving employer superannuation

From 1 July 2007, the rules of only being able to claim up to the first $5,000 of a contribution plus 75% of the balance (up to the Age Based Limits) will be abolished. The good news is that from 1 July 2007 an eligible person (including self-employed persons), will be able to claim a full deduction for concessional contributions (subject to maximum limits as detailed on the previous page).

Such persons will also no longer be excluded from receiving the Government co-contribution (subject to them meeting the existing eligibility criteria).

Note: Self employed persons will be able to claim a deduction for a superannuation contribution made subject to the Trustee receiving an annual advice from the member. This notification must be made by the earlier of either the time you lodge your income tax return, or the end of the following financial year after the contribution was made. You will not be able to vary the notice after this time.

4. Tax file numbers

The changes to superannuation also require you to provide your Tax File Number (TFN) to the Trustee in order to make non-concessional (post-tax) contributions and/or to avoid paying excessive tax on employer (concessional) contributions.

Effective 1 July 2007, if the Trustee has not been informed of your TFN:

- Any employer contributions will be taxed at the highest marginal tax rate (plus the Medicare Levy) currently 46.5%*.
- Any other type of contribution including non-concessional contributions cannot be accepted by the Fund.

* A threshold of $1,000 applies to superannuation accounts opened prior to 1 July 2007 before tax at the highest marginal tax rate is levied.

Please note that if you propose to transfer or cash your benefits in the fund and the benefit (if any) which will remain in your account after such transfer or cashing is less than the tax liability payable because you have not provided your TFN, we will withhold an amount of the benefit being cashed or transferred which is sufficient to satisfy the tax liability.

What do you need to do?

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To avoid paying more tax than you need to, and to ensure you are able to make personal contributions whenever you wish, you should consider providing Zurich with your TFN.

You can provide Zurich with your TFN by:

Phone:	Call our Client Service Centre on 131 551
Mail / Email:	Complete the enclosed TFN Notification form and return it to Zurich at **Locked Bag 994, North Sydney NSW 2060** or email it to **client.service@zurich.com.au**.

Employment Termination Payments

From 1 July 2007 employer eligible termination payments (to be called "employment termination payments") will not be able to be rolled into super except under the transitional arrangements specified below.

Transitional arrangements will apply to employment termination payments received between 1 July 2007 and 30 June 2012. You will still be able to roll over this payment to a super fund if the employment termination payment is specified in your employment contract on or before 10 May 2006.

The rollover of employment termination payments to superannuation funds under $1million do not count towards any of the contribution caps that apply to regular superannuation contributions from 1 July 2007. Amounts comprising the taxable component of an employment termination payment rolled over in excess of $1million are counted towards the concessional contribution cap and may be taxed at 46.5%.

Please note that the taxable component of any employment termination payments rolled into super (ie. amounts up to the $1 million cap) will be taxed at 15% upon it being received into the Fund.

Of course these transitional employment termination payments can be received directly by you in cash as well.

If you're not eligible for the transitional rules, you will only be able to receive an employment termination payment as cash from 1 July 2007 and a less generous tax treatment may apply to cash payments.

When contributions can be made

The table below summarises when a superannuation fund may accept contributions in respect of an individual from 1 July 2007.

Age of Member	Employer Contributions or Personal Deductible Contributions (Concessional Contributions)	Personal Contributions (Undeducted) (Non-concessional Contributions)	Spouse Contributions (Non-Concessional Contributions)
Under age 65	Compulsory Employer Contributions (eg SG or industrial award) OR Voluntary Employer Contributions OR Personal Deductible Contributions May be accepted regardless of number of hours member worked during the year.	May be accepted regardless of number of hours member worked during the year. *(Superannuation funds will only be able to accept non-concessional contributions for or on behalf of a member, if the member's TFN has been quoted to the fund and where the non-concessional contributions cap is not exceeded.)*	May be accepted regardless of number of hours the spouse worked during the year. There is no age limit or employment test for the person making the contribution.
65 – 69	Compulsory Employer Contributions (eg SG or industrial award) OR Voluntary Employer Contributions OR Personal Deductible Contributions May be accepted where the member is gainfully employed on at least a part-time basis (minimum of 40 hours of gainful employment in a consecutive period of 30 days in the financial year in which the contribution is made).	May be accepted where the member is gainfully employed on at least a part-time basis (minimum of 40 hours of gainful employment in a consecutive period of 30 days in the financial year in which the contribution is made). *(Superannuation funds will only be able to accept non-concessional contributions for or on behalf of a member, if the member's TFN has been quoted to the fund and where the non-concessional contributions cap is not exceeded.)*	May be accepted where the spouse is gainfully employed on at least a part-time basis (minimum of 40 hours of gainful employment in a consecutive period of 30 days in the financial year in which the contribution is made). There is no age limit or employment test for the person making the contribution.
70 – 28th day after end of month in which member attains 75	Compulsory Employer Contributions (eg industrial award) OR Voluntary Employer Contributions OR Personal Deductible Contributions May be accepted where the member is gainfully employed on at least a part-time basis (minimum of 40 hours of gainful employment in a consecutive period of 30 days in the financial year in which the contribution is made).	May be accepted where the member is gainfully employed on at least a part-time basis (minimum of 40 hours of gainful employment in a consecutive period of 30 days in the financial year in which the contribution is made). (Superannuation funds will only be able to accept non-concessional contributions for or on behalf of a member, if the member's TFN has been quoted to the fund and where the non-concessional contributions cap is not exceeded.)	No spouse contributions permitted.
Over Age 75	Compulsory Employer Contributions (eg industrial award)	No personal contributions permitted.	No spouse contributions permitted.

Retirement and your super

Accessing your superannuation

Previously superannuation funds were required to pay benefits to members who were:

- over age 65 – 74 and did not meet the work test; or
- 75 years of age or older (regardless of their work status).

Effective 10 May 2006, these requirements (known as the compulsory cashing rules) were abolished. This means that there will be no forced payment of benefits out of superannuation funds after age 65. You are allowed to take your benefit as a lump sum or regular income stream or keep the benefits in a superannuation fund indefinitely, taking out as little or as much of the benefits as you choose (subject to minimum requirements imposed by a Fund and required minimum pension payments).

Upon your death it is still a requirement to pay out your superannuation benefit.

Removal of Reasonable Benefit Limits (RBLs)

Currently superannuation benefits which exceed the RBLs are deemed to be excessive and are taxed at the top marginal tax rate plus Medicare (46.5%) if received as a lump sum amount. If an excessive benefit was used to commence an income stream, a person was not eligible to receive the 15% pension tax offset. From 1 July, 2007 RBLs will be removed which means you cannot have an excessive benefit regardless of the amount and therefore members will no longer be subject to excess benefits tax or penalties.

Pension payments

Under the current legislation, it is a requirement that allocated pension payments be made each year in between a minimum and maximum amount. From 1 July 2007 members will only need to make sure payments are in line with the minimum annual amounts.

The minimum annual payment amount that you can draw each year from your account-based pension is calculated using the following formula:

Account balance x percentage factor

The percentage factors are based on your age at 1 July each year or, with regard to the initial percentage factor, on the date when you first invest in the account-based pension.

Age	% of account balance
Under 65	4
65-74	5
75-79	6
80-84	7
85-89	9
90-94	11
95+	14

From 20 September 2007 any newly established allocated pension (called an account based pension) will not be able to utilise the minimum and maximum payment factors presently used for the calculation of allocated pension payments and will be required to use the minimum factors stated in the table above.

Any allocated pensions commenced between 1 July 2007 and 19 September 2007 will have the option to use the presently used minimum and maximum factors to determine pension payments or the minimum payment factors stipulated above.

Tax on withdrawals

Superannuation is seen by many as a good investment because it is tax effective and is specifically designed to help you save for your retirement. However, the tax considerations of superannuation are currently complex and have to take into account a number of factors, including whether there was a "pre-July 1983" component, the amount of undeducted contributions, the Reasonable Benefit Limit (RBL), any CGT exempt components, non-qualifying components and invalidity components.

From 1 July 2007, the existing eight superannuation components will be reduced to two – tax-free and taxable. The tax treatment of withdrawals will be as follows:

	Prior to age 60	Age 60 +
Lump sum	**Tax-free component:** Tax Free (The tax-free component comprises the former pre-July 1983 component (converted into a fixed amount at 30 June 2007), the CGT exempt component, the post-June 1994 invalidity component, the concessional component and undeducted contributions.) **Taxable component (taxed):** Under age 55: maximum 20% plus the Medicare levy Aged 55 – 59: Up to low-rate cap amount*: Tax free Balance: maximum 15% plus the Medicare levy (The **taxable** component comprises the former post-June 1983 component and the non-qualifying component.) * Low-rate cap amount will be $140,000 for 2007/08 and will be indexed to Average Weekly Ordinary Time Earnings (AWOTE) in increments of $5,000 (rounded down to the nearest $5,000 increment).	Total Lump sum: Tax free
Pension payments	**Tax-free component:** Tax Free **Taxable component (paid from taxed fund)** Under age 55: Taxable at marginal rate* Aged 55 – 59: Taxable at marginal rate, less 15% pension offset *(Note: Zurich will withhold the tax from your payments on a Pay As You Go (PAYG) basis, in a similar fashion to salary and wages. At the end of each financial year, we will send you a PAYG payment summary to include in your annual tax return.)* * Some individuals under 55 may also be eligible for a 15% pension tax offset if the pension is paid due to permanent incapacity or from the death of a member.	Total pension payment: Tax free

Proportional drawdown of benefits: When any part payment of a superannuation benefit is made, the benefits will be considered to include both the tax-free and taxable components with the relevant portions of each reflecting the proportions such components make up of the total benefit. The amount of tax-free and taxable components for an income stream is determined at commencement. Therefore it will no longer be possible to "stream" components in taking benefits by taking for example just the Tax-free component as opposed to the Taxable component. Prior to 1 July 2007 the undeducted component of a lump sum benefit is able to be drawn down to the exclusion of other components.

Calculation of Tax-free component for pension commenced prior to 1 July 2007: Please note that in relation to a pension your Tax-free component from 1 July 2007 will depend on whether you commenced the pension prior to or after 1 July 2007. Also if after 1 July 2007 you take part of your pensions as a lump sum or you rollover into a new pension, you are 60 or over or you die and you commenced the pension prior to 1 July 2007 the Tax-free component of your pension will be recalculated. You should consider seeking specific financial advice about this if you are affected by this change and wish to have more information. The calculation of the Tax-free component for a pension commenced before 1 July 1994 may also be specifically affected by these changes and accordingly it may be worthwhile for such members to seek financial advice prior to 1 July 2007 to decide how to deal with the changes.

Note that the superannuation preservation age isn't changing. The preservation age is already legislated to increase from 55 to 60 between the years 2015 and 2025. People will still be able to access superannuation benefits before the age of 60, although they will be taxed on their benefits under new simplified rules.

Other changes

Tax on Lump Sum Death Benefits

Lump sum death benefit payments will be tax free if paid to a tax dependant. Tax dependants can be a current spouse, child under 18, a person financially dependent on the deceased or someone with whom you have an 'interdependency relationship'. Two people generally have an 'interdependency relationship' if they have a close personal relationship, they live together, and one or each of them provide the other with financial and domestic support and personal care.

The taxable component of a lump sum paid to a tax non-dependant will be taxed at 15% plus Medicare Levy. Any untaxed component of a lump sum (including where the benefit includes life insurance proceeds) will be taxed at 30% plus Medicare Levy.

Tax on Death Benefit paid as a Pension

The taxation of a death benefit paid as a reversionary pension will depend on the age of the primary and reversionary beneficiary. The pension will only be taxed if both the member at death and the reversionary pensioner are both under 60 in which case it will be taxed at the reversionary pensioner's marginal tax rate (less any tax free amount and pension tax offset). Otherwise it will be tax free. Where the pension is taxable it will become tax free when the reversionary pensioner attains 60 years of age.

Death benefits will be able to be paid as a pension to a dependant if the member dies before commencing a pension. These pensions will be taxed in the same way as a reversionary pension.

Death benefits will be able to be paid as a pension to a dependant child under 18 or a child 18 – 24 if the child remained financially dependent on you. When the child turns 25 the balance in the pension account will have to be paid as a lump sum (tax free) unless the child is permanently disabled in which case the pension may continue to be paid indefinitely.

Pensions will also no longer be able to be paid to the legal personal representative of a deceased member's estate from 1 July 2007.

Binding death benefit nominations

Two categories of binding death benefit nominations offered by the Zurich Master Superannuation Fund refer to the Pension RBL. As RBLs are being abolished from 1 July 2007, these nominations will become invalid from that date. Zurich will be writing to each member affected by this separately.

Assets test

From 20 September 2007 the pension 'assets test' taper rate will be halved to $1.50 per fortnight for every $1,000 of assets above the assets test free area. This means you may be able to have more in assets and still be entitled to a full or part age pension.

Unclaimed money

Currently unclaimed money in the fund is paid to the NSW Office of State Revenue. From 1 July 2007 unclaimed money will be paid to the Australian Taxation Office and under the changes we now must not have been able to contact you for at least 5 years before your superannuation is categorised as unclaimed monies (amongst other conditions).

Spouse Contributions Splitting

Under the Simplified Superannuation legislation undeducted contributions made from 5 April 2007 will now not be able to be split with a spouse. Undeducted contributions made before this date will however still be able to be split. Also contributions-splitting will from 1 July 2007 be subject to the contribution caps and any amounts split will be treated as a taxable component by the receiving spouse.

Further information

The Treasury website simplersuper.treasury.gov.au has much more information on the changes. A licensed financial planner will also be able to provide you with further information on these changes.

Because change happenz™

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