Super eUpdate

FOR ANZ SUPER ADVANTAGE EMPLOYERS | SEPTEMBER 2011

Insurance through super – back to basics

While no one expects the worst, being prepared for sickness or injury can help protect your employees and their loved ones against financial hardship.

Many Australians are underinsured, and some don't have any insurance at all. By offering your employees insurance through superannuation, you are providing them with a simple and tax-effective way to get covered.

Why consider life insurance through super?

It's simple

Offering insurance through your super plan can eliminate some of the barriers and complexities that your employees may face from buying stand-alone insurance.

Depending on the policy, they may be eligible for automatic acceptance, regardless of their state of health. This means they may be able to obtain cover without any medical examination.

It's cost effective

As the primary source of retirement income for most Australians, super attracts a number of tax breaks. This includes tax-effective options for purchasing Death, Total and Permanent Disablement (TPD) Cover and income protection through it. So if you offer your employees insurance through your super plan, they can use their super contributions to pay the premiums instead of using after-tax income to pay for a policy outside of super.

There are a number of other potential financial benefits for your employees:

- They may not have to find extra money to pay for their premiums because these can be paid from their super fund account balance.
- Tax concessions may apply to their premiums which would not have applied to insurance cover outside of super.
- Given the savings, they may be able to top-up any stand-alone insurance policies they have, increasing their overall cover.
- Your employee's dependants (for tax purposes) can receive unrestricted tax-free lump sum payments if your employee, the insured, passes away.
- Premiums via group super can be competitively priced because of the buying power that comes from having a large plan membership.

It's flexible

Where OnePath Life Limited is the plan's insurer, an employee can receive automatic transfer of insurance, and many of the original benefits, when they move from one job to another as long as they meet the relevant criteria. Please refer to your insurance guide for further details.

Case study – insurance through super

Meet Ross

Ross is 37 years old and his salary is $85,000 p.a. He would like to establish life insurance cover for his spouse, Anita, who is listed as the sole beneficiary. Anita meets the requirements to receive a tax-free lump sum payment in the event of Ross' death. Based on Ross' personal details and the recommended lump sum insured, the annual premium for the required level of insurance cover is $1,200.

Let's compare paying for Ross' insurance premium outside super versus inside super:

	Outside super	Inside super
Pre-tax income needed	$1,951	$1,200
Post-tax income needed (38.5% marginal tax rate)	$1,200	$738

If Ross paid the insurance premium outside of super, he would need $1,951 in pre-tax income to cover it.

The benefit of the insurance through super strategy means that Ross only needs $1,200 in pre-tax income to cover the cost of the premium. This effectively means he only ends up paying $738 in post-tax money to achieve the same outcome.

Ross therefore saves $462 on his annual premium cost ($1,200 outside super minus $738 inside super).

Please bear in mind that if any of your employees elect to take out insurance inside super, there may be different rules and timeframes around access to their money in the event of a claim. They should also consider whether the coverage will be sufficient for their insurance needs.

To find out more about insurance through super, speak to your Relationship Manager or financial adviser.

Addressing the problem of underinsurance

Research indicates that Australians are critically underinsured* and while no one likes to be negative or think the worst might happen, the reality is that sickness and injury can affect people of all ages and lifestyles at any time. One in five Australian families will suffer the death of a parent or a serious accident or illness that results in that parent being unable to work. If underinsured, in the event of an accident or illness rendering a parent unable to work, the typical Australian family may lose half or more of their household income.*

To assist members to address the problem of underinsurance, OnePath has reviewed the insurance arrangements for members of ANZ Super Advantage. As a result, in November 2011 ANZ Super Advantage will introduce a default cover of three units of Basic Death and Death and Total and Permanent Disablement life insurance.

*www.lifewise.org.au

ANZ Super Advantage is highly rated

ANZ Super Advantage is highly rated by leading independent consultants and has received the following accolades: The Heron Partnership's 5 Quality Star Rating 2011; Chant West rating of 5 Apples for OptiMix Manage the Manager process and Selecting Super's AAA Quality rating.

For more information visit www.heronpartners.com.au, www.chantwest.com.au and www.selectingsuper.com.au

Have your employees supplied their tax file number?

If you make super contributions for a new employee or contractor who has completed a tax file number (TFN) declaration, their TFN is required to be passed to their super fund.

You must pass on an employee's TFN the first time you make a contribution for them or within 14 days of receiving their TFN declaration, whichever occurs last. It's important to pass on the TFN for a new employee to their fund:

- so that the fund does not return the contribution to you
- to avoid the super fund paying extra tax on employer and salary sacrifice contributions
- to allow the fund to accept non-concessional contributions made by the member or a member's spouse
- so that your employee's fund won't miss out on receiving the Government's super co-contribution payment
- to avoid any penalties that could apply.

As an example, if an employee does not provide their TFN to the fund, an employer's contribution will be taxed at 46.5% rather than 15%. This means that on a contribution of $10,000, an extra $3,100 tax will be paid by the fund and usually deducted from the employee's account. Once the employee notifies the fund of their TFN, it is possible for the fund to claim back the extra tax.

If you use a third party to manage your payroll or a clearing house to pay super contributions to your employees' funds, make sure any contract allows them to pass employee TFNs to the funds or Retirement Savings Accounts on your behalf, and that they do so. If they don't pass on the TFNs, you may be liable for penalties, not the payroll service provider or clearing house.

Your employees could win a $2,000 Westfield Shopping voucher*

If we don't have your employees' TFN we are required to withhold an additional 31.5% tax from their employer contributions. To help your employees save more for super, and for their chance to win a $2,000 Westfield Shopping voucher, ask them to give us their TFN by simply:

- calling 13 38 63, or
- completing and returning the TFN Notification Form available to download at anz.com.au/wealth/super.

They will also be entered into the draw if they update their mail address, email address and/or contact phone numbers by logging into ANZ Investor Access at anz.com/wealth/super

Spread the word to your employees today and help them save more super.

* Terms and conditions apply and are available at onepath.com.au/competitions. Competition commenced 21 July 2011 and closes 30 November 2011. The promoter is OnePath Custodians Pty Limited (ABN 12 008 508 496, AFSL 238346, RSE L0000673). Authorised under NSW Permit No. LTPS/11/06094 and ACT Permit No. TP11/02689.

Federal Budget update

The past two Federal Budgets have announced a number of proposals which will impact super, tax and investments. Some of these announcements have become law and others are still being considered by the Government.

The proposals which have become law are:

Minimum pension levels reduced for 2011/12

For the 2011/12 financial year, the standard minimum annual drawdown rates for account-based and term-allocated pensions have been reduced by 25%. For example, a person who is under age 65 will be required to receive a minimum pension equal to 3% of the account balance rather than the standard minimum of 4%.

Abolition of the low income tax offset for children under 18

The low income tax offset of up to $1,500 will not be available from 1 July 2011 to children under 18 who have unearned income, such as investment income and distributions from family trusts. This means that any unearned income exceeding $416 would be taxed at penalty rates.

Flood and cyclone levy

A temporary levy has been introduced to help pay for the rebuilding of essential infrastructure of flood and cyclone affected communities. The levy is payable on taxable income above $50,000. Super lump sum payments an individual receives that are taxable in the 2011/12 financial year are subject to the levy.

The proposals which are yet to become law are:

Co-contribution income thresholds freeze extended

The income thresholds to qualify for the co-contribution are frozen until 1 July 2013. This means that the lower adjusted income threshold, at which the co-contribution begins to reduce, remains at $31,920 and no co-contribution will be payable once a person's adjusted income is greater than $61,920.

Superannuation Guarantee (SG) increase

From 1 July 2013, it is proposed to gradually increase an employer's obligation under the SG legislation from 9% to 12% of an employee's ordinary earnings. The 12% contribution will apply from 1 July 2020. In addition, the maximum age for SG contributions is proposed to increase from 70 to 75.

Employer super contributions on employee payslips

To assist employees keep track of whether their employer has met their SG obligations, it is proposed that information about employer contributions be included on the employee's payslip.

Higher super caps for anyone aged 50 and over

From 1 July 2012, a higher concessional contributions cap is proposed for those aged 50 and over and who have a total super balance of less than $500,000. The higher cap will be set at $25,000 (unindexed) above the standard concessional cap of $25,000 (2011/12) which is indexed.

Currently, the concessional contributions cap for anyone aged 50 and over is $50,000, irrespective of the employee's super balance.

One-off option to refund excess concessional contributions

The proposal applies to individuals who breach the concessional contributions cap from 1 July 2011 by up to $10,000 on a once only basis. They can request a refund of the excess contributions and subsequently be taxed at their marginal rate instead of incurring excess contributions tax. This aims to provide some relief to individuals who breach the concessional contributions cap for the first time.

Low income super contribution

A contribution of up to $500 is proposed to be made to super by the Government for workers with adjustable taxable income of up to $37,000. This will help low income employees to compensate for the tax paid on SG contributions from 1 July 2012.

For further information visit www.ato.gov.au

Member Annual Statements

Your employees will shortly receive, if they haven't already, their Annual Statement for the 2010/11 financial year. Along with their statement they receive a copy of The Super Advantage magazine, a newsletter providing the latest industry and product news. It also includes an Economic Insights article from Stewart Brentnall, OnePath's Chief Investment Officer, about how he sees economies and markets playing out over the next year and beyond.

To view The Super Advantage magazine, visit anz.com/wealth/super.

Brief update on reforms to our super system

You may have read in our previous updates about the Cooper Review, a comprehensive review of our super system completed under the previous Labor administration. The Government has subsequently responded at a high level to all 177 of the Review's recommendations.

The Treasury was asked to establish a Peak Group and smaller working groups comprising of industry bodies, employer groups and unions to work on the details. These groups have been meeting since early in 2011.

OnePath has been following the debates closely and assisting with the discussions arising out of these groups where possible. While none of the details are finalised, some of the reforms proposed could be significant.

OnePath will work towards minimising the disruption to employers and super members. We are actively involved with our industry bodies to ensure that our views on appropriate courses of action are conveyed to Government via Treasury.

We understand the various groups have concluded most (if not all) of their consultations and a report to Government by the Peak Group has been submitted. The report has not yet been made publicly available. We will provide more detailed updates when greater clarity comes to light.

Product update

Contributions tax changes

What is contributions tax?

Concessional contributions made to your employees' super funds are subject to a 15% contributions tax. This includes any contributions that they wish to claim as a personal tax deduction or that are made by you as their employer (including salary sacrifice contributions). The amount of contributions tax payable may be reduced by deductions such as certain insurance premiums.

Contributions tax processing periods

Contributions tax will now be processed four times per financial year, rather than annually. Contributions tax will be processed before the end of each quarter and at the end of the financial year.

Personal contributions (which are covered by a valid Notice of Intent to Claim a Deduction) are the exception and will still be deducted annually at the end of each financial year.

If your employees have made a withdrawal during the year, contributions tax will be deducted at the time of withdrawal.

No tax file number contributions

If we do not have an employee's tax file number (TFN), we are required to deduct an additional 31.5% tax from their concessional contributions when they exit the fund, commence a pension or at the end of the financial year. If they provide us with their TFN prior to one of these events, we will not deduct the additional tax from their concessional contributions. Also, we will not be able to accept member contributions if we do not have their TFN.

What are concessional contributions?

Concessional contributions are sometimes called before-tax contributions. Generally, these are contributions made by you, or your employee, for which your employee can claim a tax deduction. Contributions made by you include Superannuation Guarantee (SG) contributions and contributions made under a salary sacrifice arrangement, and also include employer paid fees and premiums. These contributions are taxed at 15% as they enter the fund, which is often referred to as contributions tax.

See page 3 to find out how your employees could win a $2,000 Westfield Shopping voucher by supplying us with their TFN.

For further information

13 38 63

customer@onepath.com.au

anz.com/wealth/super

OnePath Custodians Pty Limited
ABN 12 008 508 496
AFSL 238346
RSE L0000673
347 Kent Street
Sydney NSW 2000

OnePath Custodians Pty Limited (ABN 12 008 508 496, AFSL 238346, RSE L0000673) is the trustee and issuer of this Super eUpdate.

The issuer is a wholly owned subsidiary of Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) (ANZ). ANZ is an authorised deposit taking institution (Bank) under the *Banking Act 1959* (Cth). Although the issuer is owned by ANZ it is not a Bank. Except as described in the relevant Product Disclosure Statement (PDS), an investment with the issuer is not a deposit or other liability of ANZ or its related group companies and none of them stands behind or guarantees the issuer or the capital or performance of an investment. An investment is subject to investment risk, including possible repayment delays and loss of income and principal invested. Returns can go up and down. Past performance is not indicative of future performance.

This information is current as at September 2011 but may be subject to change. Updated information will be available free of charge by contacting Customer Services.

The information is of a general nature and does not take into account an investor's personal needs, financial circumstances or objectives. Before acting on this information, an investor should consider the appropriateness of the information, having regard to their needs, financial circumstances and objectives. The case study used in this Super eUpdate is hypothetical and is not meant to illustrate the circumstances of any particular individual.

An investor should read the relevant PDS available at anz.com and consider whether that particular product is right for them before making a decision to acquire or continue to hold the product.

Australia and New Zealand Banking Group Limited (ANZ) ABN 11 005 357 522. ANZ's colour blue is a trade mark of ANZ.

M1708/0911