

Winter 07



Australian Government
Defence Force Retirement &
Death Benefits Scheme

What's inside...

Simplified Superannuation

Important information about the superannuation tax changes that apply from 1 July 2007. Page 2

Terms to know

A useful reference for you when reading the information on the tax changes. Page 8

Online member statements

Sign up to Member Services Online to access your superannuation details. Page 9

Rejoining the ADF after retiring?

Information on your options if you re-enter the ADF on continuous full-time service. Page 10



Member Update

Special edition



Simplified Superannuation

Summary of the tax changes

New legislation that affects all members of the Defence Force Retirement and Death Benefits Scheme (DFRDB) will apply from 1 July 2007.

The main changes include:

- the amounts you can contribute without paying additional tax (pages 2–3)
- the tax you pay when you claim your benefit (pages 4–7), and
- the introduction of proportioning to partial benefit payments (page 7).

You may find the ‘Terms to know’ section on page 8 a useful reference while reading the next few pages.

Amounts you can contribute without paying additional tax

You can make two types of contributions. These are undeducted and deductible contributions.

Changes in relation to undeducted contributions

The tax changes set a cap on the amount of undeducted contributions you can make without incurring additional tax.

The undeducted contributions cap across all your superannuation funds is:

- \$150 000 per year, or
- \$450 000 over three years for members under 65. For example, \$300 000 in year 1, \$100 000 in year 2 and \$50 000 in year 3.

Your after-tax contributions up to the cap are paid in tax-free.

Undeducted contributions made above the cap will be taxed at the top marginal tax rate (plus Medicare levy).

If you are making a large contribution into superannuation or approaching your undeducted contributions cap, you will need to take into account that it is compulsory for you to continue to make member contributions at the rate of 5.5%.

If you contribute over the cap the Australian Taxation Office (ATO) will advise you of your options.

Undeducted Contributions

The following contributions are classed as ‘undeducted contributions’ for taxation purposes.

1. Member contributions

As a DFRDB scheme member, you must contribute 5.5% of your superannuation salary each fortnight, unless you have reached 40 years of service.

THIS DOCUMENT CONTAINS GENERAL ADVICE OR INFORMATION ONLY

Any financial product advice in this document is general advice only and has been prepared without taking account of your personal objectives, financial situation or needs. Therefore, before acting on any such general advice, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation or needs. You may wish to do so with or without the assistance of a licensed financial advisor.



2. *Additional personal contributions*

Although you cannot make additional personal contributions into DFRDB, you are eligible to make additional personal contributions into the Military Superannuation and Benefits Scheme (MilitarySuper) or another eligible superannuation fund. An additional personal contribution is a type of ancillary contribution.

3. *Co-contributions*

Government co-contributions are undeducted contributions but will not be included in the undeducted contributions cap.

Changes in relation to deductible contributions

The tax changes also set a cap on the amount of deductible contributions you can make without incurring additional tax.

The deductible contributions cap across all your superannuation funds is:

- \$50 000 per year, or
- a transitional limit of \$100 000 per year for five years (financial year 2007/08 to 2011/12) for members over age 50 on or after 1 July 2007.

Contributions above this cap will be taxed at the top marginal tax rate (plus Medicare levy), and will also count towards the undeducted contributions cap.



If you contribute over the cap the ATO will advise you of your options.

Deductible Contributions

Salary sacrifice contributions are classed as 'deductible contributions' for taxation purposes.

Salary sacrifice contributions

If you are contributing member of the DFRDB scheme you can make salary sacrifice contributions into MilitarySuper. They are taxed at 15% when entering the fund, unless you have made deductible contributions above the cap or you have not provided your Tax File Number (TFN). A salary sacrifice contribution is a type of ancillary contribution.

If MilitarySuper does not have your TFN all deductible contributions will be taxed at the top marginal tax rate at the end of each financial year.

Transfer Amounts

Amounts transferred into MilitarySuper from other superannuation funds will not count towards the undeducted or deductible contributions caps.

IMPORTANT NOTES:

The DFRDB Authority will not be able to accept your undeducted contributions if you have not provided your Tax File Number (TFN).

MilitarySuper cannot accept your ancillary contributions if you have not provided your TFN.

Tax you pay when you claim your benefits

The information on the following two pages shows how your benefits will be taxed at different ages from 1 July 2007.

Under 55

From 1 July 2007, if you are aged under 55 at the time you claim your benefit from the DFRDB scheme (an untaxed source), you will be taxed as follows:

Untaxed Source¹

- If you are entitled to retirement pay, it will be taxed at your marginal tax rate. Once you turn 60, a 10% tax offset will apply.
- If you take any part of your benefit as a lump sum, the taxable component will be taxed at 30% up to a threshold of \$1 million, and at the top marginal tax rate above this amount.

From 1 July 2007, if you are aged under 55 at the time you claim an ancillary benefit from MilitarySuper, you will be taxed as follows:

Taxed Source

- If you take any part of your benefit as a lump sum, you will pay no tax on the tax-free component. The taxable component will be taxed at 20%.

55-59

From 1 July 2007, if you are aged between 55 and 59 at the time you claim your benefit from the DFRDB scheme (an untaxed source), you will be taxed as follows:

Untaxed Source¹

- If you are entitled to retirement pay, it will be taxed at your marginal tax rate. Once you turn 60, a 10% tax offset will apply.
- If you take any part of your benefit as a lump sum, the taxable component will be taxed at 15% up to a threshold of \$140 000, then 30% between this amount and \$1 million, and at the top marginal tax rate above this amount.

From 1 July 2007, if you are aged between 55 and 59 at the time you claim an ancillary benefit from MilitarySuper, you will be taxed as follows:

Taxed Source

- If you take any part of your benefit as a lump sum, you will pay no tax on the tax-free component. The taxable component will be tax-free up to a threshold of \$140 000 and taxed at 15% above this amount.

Over 60

From 1 July 2007, if you are aged 60 and over at the time you claim your benefit from the DFRDB scheme (an untaxed source), you will be taxed as follows:

Untaxed Source¹

- If you are entitled to retirement pay, it will be taxed at your marginal tax rate. However, you will now receive a 10% tax offset.
- If you take any part of your benefit as a lump sum, it will be taxed at 15% up to \$1 million and at the top marginal tax rate above this amount.

From 1 July 2007, if you are aged 60 or over at the time you claim an ancillary benefit from MilitarySuper, you will be taxed as follows:

Taxed Source

- If you take any part of your benefit as a lump sum, it will be tax-free.

¹ If you do not provide the DFRDB Authority with your TFN your benefits will be taxed at the top marginal tax rate (plus Medicare levy).

Taxation of benefits tables

Table 1 shows the percentage of tax payable on LUMP SUMS based on age and component

Age		Taxed Source		Untaxed Source		
		Tax-free component	Taxable component	Tax-free component	Taxable component	
Under 55		0%	20%	0%	30%	
					Top marginal tax rate above \$1 million threshold	
55-59	Up to \$140 000 threshold	0%	0%	0%	15%	
	Above \$140 000 threshold	0%	15%	0%	30%	
60 and over		0%		0%		15%
						Top marginal tax rate above \$1 million threshold

Please Note: The Medicare levy is also applied when tax is deducted.

The lump sum threshold of \$140 000 is calculated across your entire taxable benefit, both taxed and untaxed.

The lump sum threshold of \$1 million only applies to untaxed sources but is calculated across your entire taxable benefit, both taxed and untaxed.

Table 2 shows the percentage of tax payable on RETIREMENT PAY based on age and component

Age	Untaxed Source	
	Tax-free component	Taxable component
Under 55	0%	Your Marginal Tax Rate
55-59	0%	Your Marginal Tax Rate
60 and over	0%	Your Marginal Tax Rate less a 10% Tax Offset

Please Note: The Medicare levy is also applied where tax is deducted.

The tax treatment on your retirement pay changes according to your current age. This is regardless of the age when you first took your retirement pay.

Your Untaxed and Taxed Sources

The information below describes the untaxed and taxed sources that were referred to in the tables on pages 4 and 5.

1. *Untaxed Source*

The DFRDB is an untaxed superannuation scheme as the funds are drawn from an untaxed source. An untaxed source is a source from which no tax has previously been deducted. For the DFRDB scheme, the untaxed source is the Government's Consolidated Revenue fund.

As a DFRDB member, you are required to make fortnightly contributions (undeducted contributions) from your after-tax salary. These fortnightly contributions are considered to be from an untaxed source because they are paid into Consolidated Revenue, which does not pay income tax. However, because these contributions come from your after-tax income, different tax rules apply to this part of your benefit.

The two parts of your benefit in the DFRDB scheme are called tax-free and taxable.

- The **tax-free** component consists of your post-June 1983 compulsory fortnightly contributions from your after-tax salary. In some cases it also includes contributions made prior to 1 July 1983
- The **taxable** component consists of the untaxed employer contributions which are paid to you from Consolidated Revenue on exit

Your total benefit in the DFRDB scheme, including the tax-free component is from an untaxed source.

Productivity Benefit

Separate to your DFRDB benefit, you have been accruing a productivity benefit (from 1 January 1988). This benefit is paid by the Department of Defence and is separate from your DFRDB benefit. It is also from an untaxed source.

Associate Benefit

An associate's benefit is from an untaxed source.

2. *Taxed Source*

A benefit is from a taxed source if tax has previously been paid on the contributions that created the benefit. Ancillary contributions paid into MilitarySuper are from a taxed source. These include:

- additional personal contributions
- Government co-contributions
- salary sacrifice contributions, and
- transfer amounts.

Your benefit from a taxed source is further divided into two parts: tax-free and taxable.

i) Tax-free

You pay no tax on the tax-free part when you claim your benefit. The tax-free part of your benefit from a taxed source is made up of several components. The most common of these components are the pre-July 1983 component and undeducted contributions.

ii) Taxable

You may have to pay tax on the taxable part when you claim your benefit. The taxable part of your benefit from a taxed source is also made up of different components. The most common of these components is the post-June 1983 taxed element.



Proportioning of partial benefit payments

Under the tax changes if you access part of your benefit, the payment will include both tax-free and taxable components in the same proportions that exist in your total benefit.

This change has no effect on the DFRDB scheme and the current rules for applying your tax-free amount to your benefit (either commutations or retirement pay) remain unchanged.

However, if you are a DFRDB member who has an ancillary benefit with MilitarySuper you may be affected. If you access part of your ancillary benefit, the payment will include both tax-free and taxable components in the same proportions that exist in your total ancillary benefit.



Other considerations

Tax File Numbers (TFN)

From 1 July 2007, if you have not provided your TFN:

- we will not be able to accept your undeducted contributions (member and additional personal).
- your employer may choose not to pay productivity contributions, and
- you will be taxed at the top marginal tax rate at the end of the financial year on any deductible contributions (salary sacrifice) that are made.

Reasonable Benefit Limits (RBLs)

RBLs will be abolished from 1 July 2007.

Withdrawal of benefits

Contributing members of the DFRDB scheme are eligible to make ancillary contributions into MilitarySuper. The tax rules that force a member to claim their benefit at age 65 have been removed with the changes. However, MilitarySuper scheme rules do not permit benefits to remain preserved in the fund after reaching 65 years of age.

Terms to know

Ancillary contributions

Ancillary contributions include:

- additional personal contributions
- Government co-contributions
- salary sacrifice contributions
- spouse contributions, and
- transfer amounts.

Associate

A spouse or former spouse of a DFRDB member who gains a separate superannuation interest in the fund when a Family Law court order or superannuation agreement is put into effect.

Co-contributions

Additional contributions from the Australian Government available to eligible individuals with an assessable income under \$58 000 per annum. Further information is available at www.ato.gov.au/super.

Deductible amount

The tax-free component of retirement pay. If you take retirement pay that includes your member contributions paid from after-tax dollars (undeducted contributions), you will receive a tax deduction each year for a portion of this amount over the life of your retirement pay.

Deductible contributions

Normally contributions that your employer has made on your behalf (for which they can claim a deduction) and include salary sacrifice contributions. From 1 July 2007 deductible contributions will be known as concessional contributions.

Productivity Benefit

Separate to your DFRDB benefit you have been accruing a productivity benefit (from 1 January 1988). This benefit is paid by the Department of Defence and is separate from your DFRDB benefit. It is from an untaxed source.

Reasonable Benefit Limits (RBLs)

RBLs restricted the amount of superannuation you could receive at a reduced rate of taxation. Any amount over your RBL was taxed at a higher rate of tax. RBLs will be abolished from 1 July 2007.

Taxable (Untaxed source)

You may have to pay tax on the taxable part when you claim your benefit. The taxable part of your benefit from an untaxed source is also made up of different components. The most common of these components is the post-June 1983 taxed element.

Taxed sources

A source where tax has previously been paid, including:

- additional personal contributions
- Government co-contributions
- salary sacrifice contributions
- transfer amounts, and
- any earnings on these contributions.

Your benefit from a taxed source is further divided into two parts: tax-free and taxable.

Tax-free (Untaxed source)

You pay no tax on the tax-free part when you claim your benefit. The tax-free part of your benefit from an untaxed source is made up of several components, including the pre-July 1983 component and undeducted contributions.

Tax offset

A reduction in tax liability. Often a tax offset is described as a percentage (for example, an offset of 10% to your retirement pay). It is different from a tax deduction, which may reduce your marginal tax rate. If you receive a tax offset we will calculate it for you.

Undeducted contributions

Contributions you have made from your after-tax income for which you have not claimed a tax deduction. This includes your member contributions and any additional personal contributions. It does not include pre-July 1983 contributions. From 1 July 2007 undeducted contributions will be known as non-concessional contributions.

Untaxed sources

A source where no tax has previously been paid, including:

- Compulsory 5.5% member contributions
- Untaxed employer contributions paid from Consolidated Revenue
- Productivity Benefit.

Your benefit from an untaxed source is further divided into two parts: tax-free and taxable.

Online member statements

DFRDB offers members the option to view Member Statements online. Re-entered recipients will continue to receive separate statements for preserved and contributing memberships whilst members with a Family Law reduction will not have access to this service.

To receive your Member Statement online, you will need to fill in an Access Number Application form and send it to us. This is available at www.dfrdb.gov.au.

Once you sign up to Member Services Online, you will be able to access your superannuation details.

Want to speak to someone about your superannuation?

ComSuper provides individual counselling sessions both interstate and in-house on behalf of DFRDB. At these half-hour sessions, you can discuss your individual superannuation needs, options available to you, obtain benefit estimates and gain a better understanding of your superannuation scheme. Seminar presenters attend all transition seminars across Australia and if you would like to know when we are coming to a venue near you, please check availability at www.dfrdb.gov.au.

If you are retiring, resigning or being medically discharged, you may want to consider booking an individual counselling session to discuss what options are available to you. Please note that ComSuper representatives provide information only. If you require financial advice you will need to seek assistance from a financial advisor.

Military superannuation review

The Government recently announced an independent review of military superannuation arrangements. This review will assess existing arrangements against contemporary superannuation changes and the changing demographics of the ADF.

The review was commissioned by the Minister Assisting the Minister for Defence and will not affect the accrued benefits of serving and former members of the ADF. An independent team will conduct the review, with support from civilian and military personnel in the Department of Defence.

Further information is available at www.defence.gov.au/militarysuperreview.

Do you think about rejoining the ADF after retiring?

If you are receiving DFRDB retirement pay or you have a deferred benefit, and you re-enter the ADF on continuous full-time service (CFTS), you **must** make a DFRDB or MilitarySuper election **before re-entry**.

Failure to lodge a scheme election before re-entry will result in automatic MilitarySuper membership. MilitarySuper membership is **final** and irreversible for your re-engagement and all future full-time ADF engagements.

want to join MilitarySuper. (Deferred benefit re-entrants don't get to make an election – you automatically join MilitarySuper).

If you choose not to join MilitarySuper, you continue to receive DFRDB retirement pay but you do not re-join the DFRDB Scheme as a contributor. You will also accrue a productivity benefit but you will not have invalidity cover.

Returning to either the Reserve Forces for 12 Months or More or the Permanent Forces for any full-time service

If this is your situation, you must elect **before re-entry** whether you want to join MilitarySuper or re-join the DFRDB Scheme as a Contributing Member.

Contributions are due for the scheme you choose, and your retirement pay is not paid during the period of service. After discharge your retirement pay will be recalculated and recommence.



Your Scheme Election

Your scheme election depends on the nature and length of your re-engagement.

Returning to the Reserve Forces for Less than 12 Months

If this is your situation, you must elect before re-entry whether or not you

Note: You must make a scheme election **before each re-entry** to the Reserve Forces for less than 12 months (unless you have joined MilitarySuper, which is final). Failure to make an election before any re-entry will result in automatic MilitarySuper membership.

Note: If you choose the DFRDB scheme, your election continues to apply to all subsequent re-entries to the ADF of the same nature (ie in the Reserve Forces for 12 months or more or in the Permanent Forces again). However, if you re-enter the Reserve Forces for a period of less than 12 months, you will have to make another election.

Joining MilitarySuper

If you join MilitarySuper, you must contribute to MilitarySuper and your DFRDB retirement pay will be suspended during your engagement.

After discharge your DFRDB retirement pay will recommence (including any CPI adjustments) and you will be entitled to MilitarySuper benefits. MilitarySuper benefits are generally not payable before preservation age.

You may want to seek professional advice for your individual circumstances

For more information please read the Re-Entering the ADF fact sheet at http://www.dfrdb.gov.au/publications/fact_sheets/df09.pdf

Make your scheme election on the DM100 form (*DFRDB Retirement Pay and MilitarySuper Pension Recipients Re-entering the Defence Force*). This form is available from the DFRDB website: www.dfrdb.gov.au. It is also attached to the D20 form, *Application for Retirement Pay, Commutation and Superannuation Productivity*.



Need advice?

If you are considering making a large contribution to your superannuation or you are close to retirement, you may want to seek assistance from a certified financial planner to make your decisions. The Financial Planning Association can put you in touch with a certified financial planner. Call them on 1800 337 301 or visit www.fpa.asn.au.



Are you phoning the correct number?

When contacting DFRDB, please ensure you are using the correct numbers. As of 31 May 2007, our old contact number will be closed. The correct contact details are:

DFRDB Members

Phone: 1300 001 677

Fax: (02) 6272 9616

Retired DFRDB Members

Phone: 1300 001 877

(02) 6272 9827 (TTY facility)

Fax: (02) 6272 9618

Email: pensions@dfrdb.gov.au

MilitarySuper Members

Phone: 1300 006 727

Street Address:

Unit 4 Cameron Offices,
Chandler Street,
Belconnen ACT 2617

Where can you get more information

Web

www.dfrdb.gov.au

Email

members@dfrdb.gov.au

Mail

DFRDB

PO Box 22, Belconnen ACT 2616