Superannuation

Contribution splitting

Aon Hewitt Financial Education Series

Super contribution splitting means that you can split some of your super contributions made in the previous financial year to your spouse's super account. It is a way for your spouse to accumulate their own super, even if they have a low income or they aren't working. Splitting your super contributions will give you and your spouse more choices in how to prepare for your retirement.

How does it work?

You can split contributions with your partner if you are married, or in a de facto relationship, as long as your partner is under preservation age, or between preservation age and 65 and not yet retired.

Up to 85% of concessional super contributions (e.g. super guarantee contributions (SGC), salary sacrifice and contributions made by you for which you have claimed a tax deduction), made during one financial year can be split between you and your partner the following financial year.

Existing account balances and non-concessional contributions can't split. You are also not able to split more than the concessional contribution cap. The concessional contribution cap will apply for the spouse who is initially making the contribution. The amount split won't count towards the receiving spouse's contribution caps.

For more information regarding the cap limits, please refer to the 'Super Contributions' fact sheet under the Superannuation Financial Education Series.

Super contribution splitting is voluntary, which means that super funds can decide whether or not they will offer contribution splitting to their members. Some super funds will only allow contribution splitting if the spouse sets up a separate account in the same super fund. In other words, they won't allow the money to be transferred to a different super fund.

What are the benefits of contribution splitting?

- If you or your partner have met a condition of release to access your super benefit and decide to take a lump sum benefit between meeting preservation age and 60, both of you will have access to a lifetime limit. As of 1 July 2018, the lifetime limit (tax free amount) increased to $205,000, however, it should be noted that this cap is reduced by any amount previously accessed. This means you can effectively withdraw up to $410,000 tax free before you both turn 60.
- If you choose to split to an older spouse, they will have access to tax free income payments or lump sum withdrawals earlier than if the contributions weren't split, as they will reach age 60 sooner than the younger spouse.

- The recent introduction of the Transfer Balance Cap means that there are now limits on the amount that you can hold in tax free retirement pensions. By splitting your contributions to your spouse, this may increase the amount that you can hold in tax free retirement pensions between you when you retire.
- You can use contribution splitting to pay personal insurance premiums through super, which is particularly helpful if cash is tight. This means both you and your partner may be able to afford the right level of cover.
- Super funds are not counted under the Centrelink Means tests for people under Age Pension age. If you are older than your partner and you split your contributions to your younger spouse, super assets held by your younger partner will be ignored, potentially enabling you to qualify for more Centrelink benefits once you reach Age Pension age.

Note: Super contribution splitting is voluntary - you will need to check with your super fund if they offer the strategy.

Example

Bill, aged 34 has $100,000 in super, and has total employer contributions (including salary sacrifice) of $20,000 made into his super account each year. His wife Jean isn't working, as she is raising their 2 children.

Bill and Jean visit their financial adviser as they are concerned about having no Life or TPD insurance on Jean. Bill has insurances through his super fund. Their financial adviser suggests that they split $17,000 ($20,000 x 85%) of Bill's super contributions into Jean's super account at the end of the financial year. This $17,000 will fund the cost of retaining Life and TPD insurance for Jean for at least the next 10 years, allowing the family to adequately insure Jean without having to use their existing cash flow.

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This document, including all tax and super calculations, has been prepared using legislation in place as at 1 July 2018.

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