STATE SUPER
SAS Trustee Corporation

SuperViews

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From the office of the Employee Representative SAS Trustee Corporation Board

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SUPERANNUATION CO-CONTRIBUTIONS

In this article we discuss the Commonwealth Government's Superannuation Co-contributions and how they apply to you as a member of the State Authorities Superannuation Scheme (SASS), the State Superannuation Scheme (SSS) or the Police Superannuation Scheme (PSS). We will focus on the arrangements which have applied since 1 July 2004. Customer Service will be happy to assist you with information on the arrangements which operated between 1 July 2003 and 30 June 2004.

What is a Super Co-contribution?

As part of its strategy to encourage eligible people to save for retirement, the Commonwealth Government pays a superannuation contribution which is linked to the personal after tax contributions that a person makes to a superannuation fund and to the person's total income*. For complete details of the eligibility conditions, see *"Am I eligible to receive the Super Co-contribution?"*

Are there any superannuation contributions which do not attract a Super Co-contribution?

Certain superannuation contributions do not qualify as eligible contributions for Super Co-contribution purposes:

- salary sacrifice contributions, as they are from your before tax income.
- contributions made by or on behalf of your spouse.
- superannuation contributions made by a self employed person who claims a tax deduction on those contributions.

Am I eligible to receive the Super Co-contribution?

Generally, from 1 July 2004, the Commonwealth Government's Super Co-contribution will be payable for a financial year if you meet ***all*** of the following conditions:

- you make personal superannuation contributions from your after tax income during a financial year. *(As a member of SASS, SSS or PSS you make personal after tax contributions. These contributions will be taken into account when the Australian Taxation Office (ATO) assesses your eligibility for the Super Co-contribution),* and
- your total income* for the financial year was less than $58,000**, and
- at least 10% of your total income* is attributable to employment, and
- you lodge an income tax return for the financial year, and
- you are less than 71 years of age at the end of the financial year, and
- you did not hold a temporary resident visa at any time during the year.

** Total income means assessable income plus reportable fringe benefits.*
*** Subject to indexation from 2007-08.*

How is the Super Co-contribution calculated?

The ATO will determine the applicable Co-contribution amount on the basis of your income tax return and information that is provided by your superannuation fund.

For financial years ended 30 June 2005 and later:

- The Co-contribution is $1.50 for every $1 of personal contributions made in a financial year (subject to the maximum Co-contribution available).
- For annual incomes up to $28,000**, the maximum Co-contribution for the 2004–05 and later years is $1,500.
- For incomes above $28,000**, the maximum ($1,500) reduces by 5 cents for each dollar of income above $28,000, so that it phases out completely at $58,000**.

***Subject to indexation from 2007-08.*

Examples

The income/contribution table below gives some examples of the Super Co-contribution available for selected income and personal contribution amounts. It also shows the effect of the reduction in the maximum Super Co-contribution available at higher income levels.

	From 1 July 2004, if your annual personal after tax contribution is:	
	$1,000	**$500**
And your total annual income is:	**Your Commonwealth Government Super Co-contribution will be:**	
$28,000 or less	$1,500	$750
$30,000	$1,400	$750
$32,000	$1,300	$750
$34,000	$1,200	$750
$36,000	$1,100	$750
$38,000	$1,000	$750
$40,000	$900	$750
$42,000	$800	$750
$44,000	$700	$700
$46,000	$600	$600
$48,000	$500	$500
$50,000	$400	$400
$52,000	$300	$300
$54,000	$200	$200
$56,000	$100	$100
$58,000	$0	$0

Let's look at some specific examples:

Example 1

Tony's total income in the financial year ended 30 June 2006 is $27,500. Tony made personal after tax contributions to his superannuation scheme totalling $800 in the year and meets all the other conditions necessary to receive a Super Co-contribution.

As Tony's total income is below $28,000, he is entitled to the lesser of:

- 1.5 times his own contributions ie $1,200, or
- the maximum Super Co-contribution available - $1,500 as his income is under $28,000.

In this case, he would receive $1,200.

Alternatively, if Tony contributed $1,200, he would be entitled to the lesser of:

- 1.5 times his own contributions ie $1,800, or
- the maximum Super Co-contribution available - $1,500.

In this case, he would receive the maximum of $1,500.

Example 2

Julie's total income for the financial year ended 30 June 2006 is $46,000. Julie makes personal after tax contributions to her superannuation scheme totalling $800 for the year and meets all the other conditions necessary to receive a Super Co-contribution.

To determine Julie's Super Co-contribution, we first need to calculate the maximum Super Co-contribution available, as follows:

Maximum Super Co-contribution:	$1,500
Less reduction of 5 cents for every $1 of income over $28,000	
($46,000 – $28,000) x 0.05	$ 900
Maximum Super Co-contribution available	**$ 600**

In this case, Julie is entitled to the lesser of 1.5 times her own contributions ($1,200) or the maximum of $600 ie she would be entitled to receive a Co-contribution of **$600.**

Alternatively, if Julie had only contributed $300 in personal contributions, she would be entitled to receive a Co-contribution of $450 (ie the lesser of 1.5 times her contributions, $450 or the maximum of $600).

Do I need to apply for the Super Co-contribution?

No – if you meet all of the eligibility conditions listed previously, payment of the Super Co-contribution to your fund will normally happen automatically.

The ATO will use personal contribution information from your superannuation fund and information from your tax return, to assess whether you are eligible, and to calculate your Super Co-contribution. Any Super Co-contribution due will be forwarded directly to your superannuation fund. *(To assist this process, it is important that you provide us with your Tax File Number so that the ATO can link the personal contribution information with your tax return.)*

The ATO will send you a letter with details of your Super Co-contribution payment after it has been deposited into your superannuation account. Your Super Co-contribution payment will also be shown on your next Annual Benefit Statement.

(Our funds generally start receiving Super Co-contribution payments for members in the December following the end of a Financial Year. However, payments may extend over a year as the timing depends on when you lodge your tax return and when the ATO completes its assessment of your return.)

Where is my Super Co-contribution paid to?

Unless you have nominated a particular superannuation fund, the ATO will forward the Super Co-contribution amount to the superannuation fund where you made your personal after tax contributions.

Super Co-contribution payments received in respect of SASS, SSS and PSS members, will be treated as undeducted contributions (i.e. contributions tax is not payable) and will be deposited to your Commonwealth Government Co-contribution Account in SANCS. This Account is invested in the Growth Strategy and will accumulate with investment earnings at the Growth Strategy earning rate. Details of Super Co-contribution payments received on your behalf are included on your Annual Benefit Statement.

Do I have to pay tax on a Super Co-contribution?

No – the Super Co-contribution is treated as a personal after tax superannuation contribution (undeducted contribution). Contributions tax is not payable on the Super Co-contribution. However, tax at a maximum of 15% is payable on the investment earnings on the Super Co-contribution while it is in your Scheme.

Do I need to contribute more to super?

If you are a current member of SASS, SSS or PSS, your personal contributions may be sufficient to attract the maximum Super Co-contribution. As we showed in the examples, the maximum Super Co-contribution is dependent on your income and the amount you contributed to your superannuation scheme on an after tax basis.

You can calculate how much you contribute each year by looking at your Annual Benefit Statement and your payslips (these show the deductions from your salary for superannuation contributions).

If you are a member of SASS and are not contributing at the maximum 9% contribution rate, you may increase your level of personal contributions to that Scheme each year from 1 April. You can select a higher percentage (up to 9%) contribution rate on your annual contribution election form. This is enclosed with your Annual Benefit Statement and must be submitted by 31 December each year. The next opportunity will be with your 2006 Annual Benefit Statement.

If you want to increase your personal contributions to maximise your Super Co-contribution entitlement, you may make additional after tax contributions to another superannuation fund, such as First State Super. However, we are unable to accept additional contributions into SASS, SSS or PSS.

Do many State Super members qualify for the Super Co-contribution?

Yes – so far almost 20% of active members of SASS, SSS and PSS members have received a Commonwealth Government Super Co-contribution for the 2005 financial year. The first payments were received in December 2005.

The following table summarises the payments received from December 2004 to January 2006:

	Co-contribution Payments Received			
	Dec 04 to Nov 05		Dec 05 to Jan 06	
Scheme	**Number**	**Amount $**	**Number**	**Amount $**
SASS	8,628	4,164,210	16,206	10,089,818
SSS	971	441,141	2,419	1,233,352
PSS	55	30,085	102	61,455
Deferred	96	60,798	70	48,291
Total	**9,750**	**4,696,234**	**18,797**	**11,432,916**

When can I access the Super Co-contribution payment?

Super Co-contribution payments are required to be preserved until you satisfy a condition of release for preserved benefits. Your Annual Benefit Statement provides details of the benefit preservation requirements. *(Details of the conditions of release can be found in the Winter 2005 edition of* ***SuperViews, Keeping your Super for your retirement****.)*

Investment Update

December 2005

The investment performance was strong for the year ended 31 December 2005 and all the investment options offered by STC performed very well. The growth option returned 15.4% for the year, which was significantly better than the 14.4% generated by the median manager in the universe of growth managers. The Balanced and the Conservative Growth options returned 12.1% and 9.2% respectively and both investment options out-performed the median manager in their respective risk universe.

	Growth	Balanced	Cons Growth	Cash
	%	%	%	%
1 Year	15.4	12.1	9.2	4.9
Median Manager*	14.4	11.7	9.0	

*The Median Manager refers to the median in the relevant Intech performance survey.

Superannuation performance is not about 1 year returns. The Balanced, Conservative Growth and Cash options have only been offered for the past two years, but the Growth option has a long track record. It has generated an average annual return of 12.6% over 3 years, 5.9% over 5 years and 8.6% over 10 years. The 10 year average annual return for the Growth option is well ahead of the actuarial earnings rate and only slightly below the median manager, which is a good result.

The strong investment performance for the year ended December 2005 was largely underpinned by a strong Australian equity market, which returned 22.8% over this period. It was the resource sectors, energy and materials, which did particularly well. The high oil price, which was a curse for motorists, was a bonus for BHP and Woodside Petroleum. The strong growth in China was another factor boosting resources through increased demand. As a consequence, the energy sector was up 58.8% for the year and the materials sector was up 39.1%.

Although the Australian equity market performed strongly in 2005, when compared to the performance of other developed countries in 2005, Australia ranked 14, which is around the middle of the 23 developed equity markets in the MSCI world index. This index is used as a benchmark for STC's investments in international equities. The best performer in local currency terms was Japan with a return of 44.6%, which was closely followed by Denmark and Austria. At the other end of the spectrum was Hong Kong, New Zealand and USA, which returned 8.1%, 7.9% and 5.1% respectively.

In global markets none of the expected fears materialized during the year, as both global inflation and the outlook for global growth have stabilized at benign levels. This resulted in the benchmark returning 16.8% for the year on an unhedged basis.

In comparison to the returns from the equity markets, the investment returns from the bond sectors were more modest during calendar 2005. Australian bonds returned 5.8%, which was not much better than the 5.7% return from cash. The return for unhedged international bonds was a negative 0.1% over the year, but on a hedged basis, which is the way STC manages its international bond portfolio, the return was 7.3%.

In summary, 2005 will be remembered as a good year for investments. Throughout 2006 you will be kept informed about the major issues influencing investment markets and the way these affect investment performance.

Net Investment Returns/ Strategy	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Growth	3.9	15.4	12.6	5.9
Balanced	3.1	12.1	N/A	N/A
Conservative Growth	2.4	9.2	N/A	N/A
Cash	1.2	4.9	N/A	N/A

Past performance is no guarantee of future performance. The Trustee does not guarantee the performance of any product.

Asset Sector Index Returns (before allowance for tax and fees)

	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Australian Shares (ASX 200)	3.6	22.8	21.7	12.6
International Shares (unhedged)	7.4	16.8	8.4	-3.6
Listed Property Trusts	6.8	12.5	17.3	15.7
Australian Fixed Interest	1.9	5.8	5.3	6.0
International Fixed Interest (hedged)	1.1	7.3	7.1	7.9
Cash	1.4	5.7	5.4	5.3

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Visit us on the web at: **www.statesuper.nsw.gov.au**

or phone Customer Service: **SASS** 1300 1300 95; **SSS** 1300 1300 96; **PSS** 1300 1300 97

STATE SUPER **Financial Services** AUSTRALIA

Where will the money come from?

When you leave work and are no longer receiving your fortnightly income, where will the money come from? And how do you go about converting your lump sum super and other savings into a regular income stream?

For many, retirement income is unlikely to come from just one source. In fact, in many instances it is prudent to have a number of sources of income. But how do you determine what will best meet your needs? A financial planner will help you structure your retirement income to your individual circumstances. Four income options for you to consider are:

Salary and wages:

For many retirees, a part time job, consultancy work or a small business gives them the opportunity to have an interest and income source at the same time. Recent changes to superannuation such as the "transition to retirement" legislation has made it easier for many people to continue working and access a superannuation income stream at the same time.

Earnings from investments:

This could be in the form of interest from fixed interest investments such as term deposits, rent from an investment property or dividends from shares. Alternatively you could use a managed fund to achieve the same level of income from a more diversified base. Each investment has it's own risks and rewards and you should seek professional advice regarding the best way for you to structure your financial investments.

Personal income streams:

These fall into two broad categories. The first category includes options such as superannuation pensions and life office annuities. These investments generally provide a guaranteed income for life. Often, however, you do not have access to your capital. The other category of income streams includes allocated pensions and term allocated pensions. These are individual accounts, which are not guaranteed for life. In this case, when the money runs out, the money runs out. However, they offer significant flexibility in that you can vary the amount of income paid between minimums and maximums set by the government and you can make capital drawdowns.

Social Security benefits:

The Social Security safety net is an element in the ongoing income of many retired Australians. You should be aware that there is significant complexity in the Social Security assessment system, and that not all retirement income products are treated equally. However, a financial planner can help you make the most of your superannuation assets and still access some social security benefits when you have an entitlement.

When should you see a retirement planner?

Our experience shows that there are certain times in life when most of us would benefit from seeking professional financial planning advice. For example:

- *You are 1 year from leaving work and have started actively planning your retirement;*
- *You are considering a redundancy offer and need to make a decision;*
- *You are a member of SASS considering retirement in the next 1 to 2 years and you need to consider your retirement income options;*
- *You have a SASS deferred benefit (DB) that may be affected by legislative changes – for many people this will be age 58;*
- *You have a lump sum to invest and require advice.*

Need retirement planning help?

To find out how we can help you plan your retirement
call **1800 620 305** or
visit our website at **www.ssfs.com.au**

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