



# SASS — Salary Sacrifice from 1 April 2007

*The Superannuation Legislation Amendment Act 2006* included amendments to the SASS legislation that will enable you, from 1 April 2007, to pay your compulsory personal SASS contributions as Salary Sacrifice contributions.

*Before making this decision, it is recommended that you seek professional financial advice.*

## WHAT ARE THE CURRENT CONTRIBUTION ARRANGEMENTS?

- Currently, your compulsory personal contributions are after-tax (undeducted contributions) i.e. income tax is deducted from your salary before your contributions are paid.
- Each year, by 31 December, you decide what percentage of salary, between 1% and 9%, you want to contribute to SASS as your compulsory personal contributions. (You advise Pillar by sending in your Contribution Election Form. This Form is included with your 2006 Statement.)
- As SASS can only accept your compulsory personal contributions, any additional contributions (either Salary Sacrifice or undeducted) you make must be paid into another superannuation scheme of your choosing.

## FROM 1 APRIL 2007 ... WHAT WILL CHANGE?

- Provided your Employer agrees, from 1 April 2007, you will have more choice in how you make your compulsory personal superannuation contributions to SASS.
- If your Employer agrees, you can choose to pay your compulsory personal contributions:
  - entirely from your before-tax salary; or
  - from a combination of before-tax and after-tax salary.

## FROM 1 APRIL 2007 ... WHAT WON'T CHANGE?

- Salary Sacrifice is not compulsory. You can continue to pay all your compulsory personal contributions from after-tax salary.
- Any additional Salary Sacrifice or undeducted contributions you make will continue to be paid into another superannuation scheme of your choice. SASS is still not able to accept these contributions.

## IT'S ONLY OCTOBER ... WHY ARE YOU TELLING ME NOW?

- By 31 December 2006, you must complete your Contribution Election Form and return it to Pillar.
- In selecting the percentage of salary for your compulsory personal contributions, you might want to consider the implications of being able to make those contributions as Salary Sacrifice contributions after 1 April 2007. (In doing so, we recommend that you seek professional financial advice.)
- Your superannuation benefits are calculated using your salary before

Salary Sacrifice contributions are deducted.

- You need to be aware that Salary Sacrifice contributions are treated as employer contributions and attract the 15% contributions tax on entry to the Fund.
- This means that your contribution rate needs to be increased so that you make the same net contribution to SASS that you would have made through after-tax contributions. For example, if you elect to contribute at 6%, you would need to contribute 7.06% of salary, i.e. an additional 1.06% of salary on a before-tax basis. (Formula: Contribution Rate ÷ 0.85.) The grossing up of the contribution rate is arranged with your Employer, as part of overall Salary Packaging arrangements.

The Salary Sacrifice contribution rates applicable for the specified after-tax contribution rates are set out in the following table.

After-tax Contribution Rate	Salary Sacrifice Rate
1%	1.18%
2%	2.35%
3%	3.53%
4%	4.71%
5%	5.88%
6%	7.06%
7%	8.24%
8%	9.41%
9%	10.59%

## WHY IS THIS RELEVANT TO ME?

You may receive more take-home pay if you pay your contributions from before-tax salary. However, this depends on your level of income so you should seek professional financial advice to assist you to decide whether to make Salary Sacrifice contributions.



The following example compares the effect on net salary of Salary Sacrifice contributions for a member earning \$70,000 per annum. The example assumes the member has elected to contribute 6% of salary and is not eligible for the Commonwealth Government Co-contribution.

#### After-tax Contributions

Gross Salary	\$70,000.00
Less Income Tax (excluding Medicare)	\$16,350.00
Net Salary	\$53,650.00
Less Superannuation Contribution (6% of Gross Salary)	\$4,200.00
<b>Net Salary (after tax and super deductions)</b>	<b>\$49,450.00</b>

#### Salary Sacrifice Contributions

Gross Salary	\$70,000.00
Less Salary Sacrifice Contributions (7.06% contribution rate)	\$4,942.00
Adjusted Gross Salary	\$65,058.00
Less Income Tax (excluding Medicare)	\$14,867.40
<b>Net Salary (after super and tax deductions)</b>	<b>\$50,190.60</b>

*In this example, making Salary Sacrifice contributions resulted in a \$740.60 increase in annual after-tax salary.*

*In both scenarios, the net contribution credited to a member's Personal Account will be the same.*

#### OTHER MATTERS TO CONSIDER

##### Do Salary Sacrifice contributions affect the Salary used to calculate my benefits?

No. Your superannuation benefits are calculated using your Salary before any superannuation contributions (before-tax or after-tax) are deducted.

##### Can I pay additional Salary Sacrifice contributions into SASS?

No. SASS can only accept your **compulsory** SASS contributions.

##### Do Salary Sacrifice contributions count for the Commonwealth Government Co-contribution?

No. Only after-tax contributions qualify for the Commonwealth Government Co-contribution.

#### Am I eligible for the Commonwealth Government Co-contribution?

Generally, the Commonwealth Government's 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, 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 Co-contribution calculated?

For 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.

#### I RECEIVED A CO-CONTRIBUTION LAST YEAR – SHOULD I MAKE SALARY SACRIFICE CONTRIBUTIONS?

We can't help you make that decision. You should seek professional financial advice before deciding whether to make Salary Sacrifice contributions.

#### APART FROM THE 15% CONTRIBUTIONS TAX, ARE THERE OTHER TAX IMPLICATIONS?

Yes. The Australian Taxation Office requires any Salary Sacrifice arrangement with your Employer to be made in advance. i.e. it must be based on future

salary. You also need to advise your Employer in advance so that appropriate deductions can be made from your salary.

Salary Sacrifice contributions:

- count towards your Reasonable Benefit Limit (2006 Commonwealth Budget proposals include abolishing the Reasonable Benefit Limits from 1 July 2007).
- are subject to tax on benefit payment (2006 Commonwealth Budget announcements included a proposal to remove tax on benefit payments if taken after age 60).
- are counted in full towards the employer contribution limit (2006 Commonwealth Budget proposals include removing the age based employer contribution limit. Discussions continue on how the notional employer contributions are to be calculated for SASS. Contributions above the limit will be taxed at the highest marginal tax rate instead of the concessional rate of 15%).

#### I'M INTERESTED IN SALARY SACRIFICE ... WHAT SHOULD I DO NOW?

- Seek professional financial advice.
- **Complete your Contribution Election Form and return to Pillar by 31 December 2006.**
- Check whether your Employer will allow you to make Salary Sacrifice contributions and when you will have to advise changes to your Salary Packaging arrangements to include any Salary Sacrifice of your compulsory personal contributions.
- Advise your Employer what portion (if any) of your SASS contributions you want to make under a Salary Sacrifice arrangement.

#### HOW DO I OBTAIN MORE INFORMATION?

Customer Service is available to help you with general information and can be contacted on 1300 130 095 between 8.30am and 5.30pm Monday to Friday. In early 2007, we will include a calculator on the State Super website to assist you.

**For assistance in making the decision whether to make Salary Sacrifice contributions, we recommend you seek professional financial advice.**

The State Authorities Superannuation Scheme (SASS) is administered by Pillar Administration on behalf of the Trustee, SAS Trustee Corporation (STC). SASS is governed by the *State Authorities Superannuation Act 1987*, the *State Authorities Non-contributory Superannuation Act 1987* and the *Superannuation Administration Act 1996*. The Scheme is also subject to Commonwealth superannuation and tax legislation.

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