

SuperViews

From the Office of Beryl Ashe, Full-Time Board Member –
SAS and FSS Trustee Corporations



SPRING 2000

HOW TO MAXIMISE your super benefits

Many members exiting employment seek advice on how to get the highest superannuation benefit available to them. Often the questions come too late to assist them do this, so this edition of SuperViews gives a general overview of the rules and how you can manage your affairs to gain the highest benefit possible on retirement or resignation.

But members also need to be proactive and start learning the rules of their super scheme and so help themselves in maximising their benefits. It is never too early to start planning a retirement income strategy. Owning your own home is an objective of most Australians. Having enough to live on in retirement should be another.

Contributions

During your employment make sure your contributions are based on your correct superable salary level. It is not a perfect world and both employers and administrators can make mistakes.

- SSS, SASS & PSS member's salary levels are notified to SAC by your employer. SAC then advise your employer of the level of

contributions required to be deducted from your salary. You need to check this each year. Know the rules on shift allowances, higher duties pay, salary increases, changes between full time and part time work, etc. Talk to your employer if you believe your salary level for super purposes is incorrect.

- Try not to let your SSS account fall into arrears, as these unpaid contributions must be paid for and can attract compound interest at the fund earning rate. It can cost you big \$\$\$\$ if the arrears carry on over a long period of time.
- When you receive your annual statement, review your position. Are you behind on points (SASS), are you abandoning too many units (SSS)? Ensure you are maintaining your contributions at the highest level you can. Eg, SASS members contributions should average 6% of salary over 30 years to attract the highest possible employer financed benefit. Note that the majority of members with contribution averages of less than 6% are women. Data shows that on average women in retirement are financially worse off than males. PSS members must contribute at least 6% of salary and SSS members must contribute for all

of their units until they are contributing at least 6% of salary.

- SASS members with maximum points and contributing over 6% should consider salary sacrificing into FSS. Note that university staff are not eligible to join FSS.
- Check your FSS annual statement and 6 monthly transactional statement to ensure that contributions are being paid on a regular basis, at the right rate, on the correct salary level, from the date of employment. FSS member's salary levels are not recorded at State Super. Currently employers pay a minimum of 8% (as from 1.7.00) of salary into a full member's account. It is up to the member to check that this 8% is accurately calculated. Note that the Australian Taxation Office determines what can be included as salary for purposes of paying superannuation into FSS.

Deferring your benefit.

- The resignation (cash withdrawal) benefit payable to a member exiting SASS with less than 10 years service is less than the benefit payable after completion of 10 years service. However if a member defers taking their benefit until retirement age, the higher benefit is calculated.
- If you can afford to, any SASS members exiting before retirement

age are far better off deferring their benefit until retirement age (generally age 58) is reached. Deferred benefits include your personal account, the employer financed benefit and the basic benefit (as calculated at date of exit of employment). Deferred benefits accrue interest at the fund earning rate. Withdrawal prior to retirement age will reduce the benefit.

Insurance

If you have to leave work due to ill health, check your scheme rules on medical retirement. You may be entitled to a benefit.

- Employers pay 75% of the insurance premiums for additional death or disability cover in SASS. This is very good value. Note that many women have not applied for the additional benefit cover (ABC).
- Good insurance coverage makes sense from a financial health perspective for members and their families. FSS members pay the full premiums, however sound insurance options at industry competitive prices are available.
- SSS and PSS members enjoy insurance cover mainly paid for by the employer.

Retention of membership in SSS and SASS.

- A break in employment of over three months will cause your future membership rights in these schemes to be cancelled. So, if changing to another public sector job, do so within the three months period in order to retain your valuable membership. If this occurs, you must apply for continuity of your current membership within three months and arrange to pay outstanding arrears of contributions.

Spouse Accounts

You can open an account in FSS for your spouse (not university staff). This gives your spouse super in their

own right, may earn you a tax rebate, and allow you to income split for tax reasons on retirement.

Grow your money faster – FSS

- Do you know in which FSS product your money is invested? High Growth, Diversified, Balanced, Capital Guarded or Cash? Check your last statement and read your *Member Guide* for information. Have you chosen to invest in the product which will give you the highest returns, given your risk tolerance and time horizon? Note that over time you can earn much more for your retirement if you choose a growth investment option.

When is the best time to retire?

This can be quite complex given the different scheme rules and taxation issues. It is preferable to see a financial planner to assist you.

However, here are some points to think about:

- After age 55 for tax reasons, and in a new taxation year. Try to avoid your termination pay increasing your taxable income for the year, as this could put you into the higher income bracket which attracts the surcharge tax of up to 15%.
- Put aside money to live on until your benefit is paid or your pension commences. The transition from regular salary payments to pension payments or other, is not seamless. Do not arrange payments of monies in anticipation of your benefit being paid. Appreciate that processing of a benefit can only commence when all the necessary forms, properly completed, have been received, and sometimes delays occur.

For SASS members:

- It is wise to choose the *first of the month*, as points are earned on a monthly basis and a member must have worked the full month to accrue that month's points.
- It may also be better to leave in *January*, rather than before Christmas as many members

prefer, as this may help maximise the final average salary figure on which your employer financed benefit is based. Final average salary is the average of your salary at exit, and the previous two 31 December salary levels.

- A really difficult call is to try to leave on a rising sharemarket! The calculation of your benefit includes your personal account which is subject to sharemarket fluctuations. Any estimate of your benefit which you may have sought from SAC prior to retirement is an estimate only. From that date to the date of receipt of your benefit you are at the mercy of the sharemarket. Any falls in the market occurring in this period will affect your benefit.

For FSS members:

- Taxation issues and the sharemarket fluctuations are the ones to watch.

For SSS members:

- This scheme can be quite complex. Understanding "lump sum factors" is essential and how the discounts for early voluntary retirement affect your benefit. This will be dealt with in some detail in the Summer Edition of SuperViews.

- ✓ **Have you given SAC your tax file number?** If not you may be subject to higher taxes.
- ✓ **Salary Sacrifice is an excellent way of contributing more to super.** But check that the savings are there for you, especially with the changes to marginal tax rates which came into effect from 1.7.00. For Salary Sacrifice advice, speak with a financial planner.
- ✓ **Are you over age 65?** Your employer must continue to pay contributions (currently 8%) for you up until age 70 as long as you are working more than 10 hours per week.
- ✓ **There may be a big difference between when you *want* to retire and when you can *afford* to retire.** The earlier you do a financial health check up, the better. ■

5 Steps to Planning Your Financial Future

In retirement apart from good health, most people are looking for three things.

- Money to live on;
- Security; and
- Peace of mind.

The following five steps can help you plan for your future financial security and achieve these three goals.

1. Determine your Superannuation entitlements.

Be clear on your entitlements and options from your superannuation scheme. The Customer Service Centre of the SAC (Superannuation Administration Corporation) provides expert assistance for members of:

- FSS (First State Super) on **1300 650 873**
- SSS (State Superannuation Scheme) on **1300 130 096**
- SASS (State Authorities Super Scheme) on **1300 130 095**
- PSS (Police Superannuation Scheme) on **1300 130 097**

Appointments for a personal interview can be arranged at SAC's office in Sydney, and at Parramatta, Newcastle and Wollongong you can meet with a Customer Service Officer at your local State Super Financial Services office.

2. Talk to a financial planner.

Having established your entitlements and options, including an idea of any employer payments such as untaken long service leave, annual leave or redundancy payments, you should generally aim



NOTE: It should be noted that this article is published for your interest and every effort has been made to ensure the information contained in it is accurate. The item above is of a general nature only, is not completely comprehensive, and has not taken into account your personal situation or requirements. Also, changes in legislation sometimes occur quickly. Accordingly, we strongly recommend that you consult a Financial Planner before taking action based on the material above.

to speak to a financial planner approximately 12 to 18 months before leaving work. This allows you the time to effectively consider and plan your retirement strategies. It is during this process that your financial planner will consider a whole range of issues including taxation, social security and importantly your individual needs and objectives.

3. Carefully review your financial plan.

Having discussed your plans for retirement, your resources, needs and objectives, your financial planner will prepare a written financial plan to meet your requirements. This plan will be the road map for your financial future. Taking the time to understand how the plan works can be one of the important steps to your peace of mind. If you don't understand how the plan works, don't be afraid to discuss it with your planner. They will be happy to answer your questions. If you are uncomfortable with any elements of your financial plan it is important to be satisfied before proceeding. Your planner is the equivalent of your financial doctor. Good communication is one of the secrets to a successful long-term relationship.

4. Implement the plan.

Many financial plans can be implemented in one step. Others may take several stages to implement, depending on the financial planning strategies being employed. Outlined in your written financial plan will be details of the implementation process, including what is to be done,

by whom and at what time. Once the plan is in place, you should expect your financial planner to report to you regularly on the progress of your investment strategies. In fact, your plan should clearly set out the nature and frequency of regular reports and the timing of regular reviews.

5. Regular reviews.

A financial plan is a living document that regularly needs reviewing to adapt to your changing needs and situation. A review at least annually is an important part of your financial plan. At each review, in addition to discussing your changing needs and your modifying your financial plan to meet those requirements, it is particularly important to ensure that your financial plan remains appropriate having regard for legislative changes in areas such as social security, taxation and superannuation. ■

How can State Super Financial Services help you plan your future?

State Super Financial Services provides professional financial planning advice exclusively to current and former public sector employees and their families. With twelve offices across the State and the ACT, and planners visiting all the major regional centres you can make an obligation free appointment to see a financial planner at a time convenient to you.

For more information call 1800 620 305



STATE SUPER FINANCIAL SERVICES

Licensed Dealer in Securities
ABN 86 003 742 756

INVESTMENT NEWS

The June quarter 2000 delivered a strong finish to fiscal 1999/2000, which was a nice reward after the volatility, which marred the March quarter 2000. As a consequence, all the State Super Strategies generated significant real returns for members during the year.

Twelve months rolling returns can change substantially over three months. For the year ending March 2000, the Pooled Fund returned 11.3%, but for the year ending June 2000 the return was 15.2 %, both of which represented top-quartile performance within the universe of growth funds. To put the return into perspective, the inflation rate was 3.2 % for the year ending June 2000.

The returns for the five strategies offered to FSS members

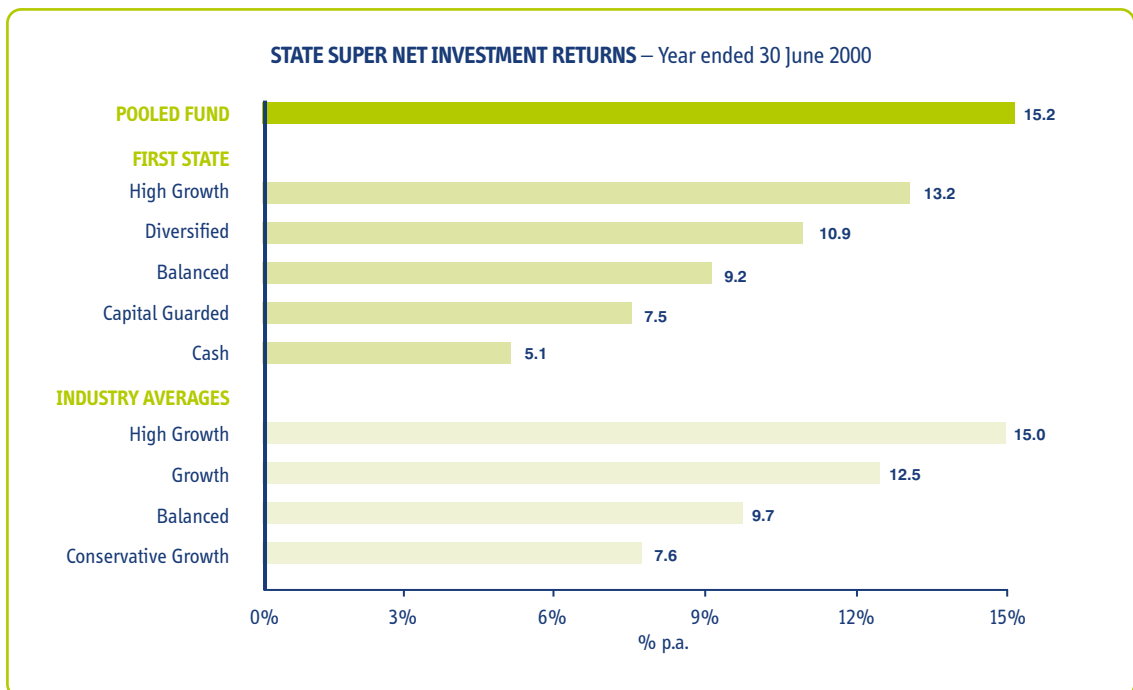
ranged between 5.1 % for Cash to 13.2 % for High Growth during the year. These returns were below average return for similar risk profiles, which was mainly due to some of the fund's active managers in Australian and International shares under-performing their respective benchmarks. The figures disguise that the FSS strategies performed strongly during the June quarter 2000.

For the year, International shares were the best performing asset class, returning 23.8 % on an unhedged basis. A large part of this return, however, was due to the fall in the Australian dollar exchange rate. If the currency was taken out of the return, a fully hedged international share portfolio would have returned 13.1 % for the year.

The Australian share market returned 15.1 % for the year, and would have eclipsed the return of a fully hedged international share

portfolio. The Australian share market was particularly strong during the June quarter 2000, fuelled by takeover activity and an easing of interest rate concerns. It posted a return of almost 6 % compared with a negative return of 2.6 % from International shares on an unhedged basis.

Monetary tightening continued to be a theme over the June quarter, with the US Federal Reserve and the European Central Bank raising interest rates by 50 basis points and 75 basis points respectively. In Australia, the Reserve Bank raised cash rates by 25 basis point increments at its April and May Board meetings, and again on 2 August 2000. Against this background, bond markets rallied modestly over the quarter as weaker data in the US raised hopes that the economy was slowing and the peak in the interest rate cycle was near. ■



Disclaimer: The information in this newsletter gives, by necessity, a general interpretation of the issues. Members should always seek advice from the appropriate authority on their individual circumstances before making decisions which may affect their future.