STATE SUPER

SuperViews

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From the office of the Employee Representative SAS and FSS Trustee Corporation Boards

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Ron Davis — your employee representative

SuperViews talked with Ron about his role and superannuation issues.

What are your key challenges in this role?

"I see savings adequacy for members, member education, good corporate governance and trustee training as my key challenges. I've always been very interested in super because retirement lasts a long time, especially today with people living a healthy life to a much greater age. This makes it very important to save as much as you can, and to choose the investment strategy best suited to your investment risk tolerance and time until retirement. Education is an important part of helping people understand how to build their super savings and I have a strong interest in developing member education programs.

Good corporate governance is essential for open, transparent company management and it's something I am very committed to. I'm also enthusiastic about developing trustee training courses so that fund trustees are even better placed to meet their responsibilities to members in a complex and often changing environment."

How do you see the superannuation guarantee (SG)?

"I'm a strong believer in former Prime Minister Paul Keating's co-contribution policy. It was a terrific platform to raise awareness of the importance of superannuation savings, and even more importantly make a practical start to helping people save.

It would be good to see the SG increase so the savings momentum continues. For example, why not add 1% every 2 years to at least lift the SG to 12%?

> **"You need to focus on the future — it won't be too long before your retirement lasts longer than your years at work."**

At the current rate many people won't have saved enough for a comfortable retirement. There is also scope for people to increase their voluntary super contributions. Certainly most of us have mortgages, education costs, and other bills to pay, but it's also important to keep up your super savings. Looking ahead, many of us may spend more time in retirement than in the workplace, and those years in retirement should be years of comfort."

What is your own professional background?

"I have always maintained an active role in the union movement, both currently in the PSA and as a past president of the NSW Professional Officers Association (POA). I've always had a strong personal commitment to looking after the underdog, which has underpinned my union involvement. My first official role in super was on the Labor Council's Public Sector Employees Super Committee, which I joined in the 1980s as a delegate for POA. Before that, I began my career as an assistant valuer with the then Valuer General's Department in the 1970s; an office that gave independent assessments of the value of public and private real estate. After the Department was separated into two, I continued as a valuation manager at the State Valuation Office until taking up my current role."

And what is the best piece of advice you have ever been given?

"To maximise my super, and provide adequate insurance cover for my family."

Many members were asking about SALARY SACRIFICE at recent seminars

1 Am I permitted to salary sacrifice?

If you are a member of First State Super, SASS, SSS or PSS, you can make salary sacrifice contributions into First State Super if your employment conditions permit it.

2 What is salary sacrifice and will it help me?

Salary sacrifice is money you choose not to receive through your after tax pay. This means that personal income tax is not paid on amounts you salary sacrifice.

Because you do not pay personal income tax on amounts salary sacrificed, salary sacrifice moneys are treated as employer contributions to super. All employer contributions to super are subject to a 15% flat contributions tax on entry to the scheme. You may also have to pay the high income earner's surcharge on the contributions (currently a maximum of 15%) — see point 6 for more information.

***Example**: Joe is earning $67,000 and normally pays 48.5% income tax (including the Medicare levy) on earnings over $60,000. Joe elects to salary sacrifice $7,000 this year. Joe receives $60,000 as taxed salary and pays PAYG tax on $60,000. The $7,000 — on which he would have paid 48.5% tax if it had been paid to him as after tax salary — is salary sacrificed into First State Super (FSS).*

The $7,000 is deemed to be an employer contribution into superannuation (a flat 15% tax is therefore applied). The Australian Taxation Office determines that Joe does not have to pay the surcharge this year. Joe therefore only pays 15% contributions tax on the $7,000 plus a maximum of 15% per annum on fund earnings on the $7,000.

If you take your superannuation as a lump sum (within your Reasonable Benefit Limit — RBL), tax of up to 16.5% (after reaching 55) may be due when you claim your benefit. If you take your benefit as a pension, no lump sum tax is charged and there can be rebates available on the income you receive.*

For more information, including possible tax savings, see *Salary sacrifice contributions to grow your super*, FSS fact sheet 3 on the web or available from FSS customer service.

** RBL's for 2001–02 are Lump Sum $529,373 and Pension $1,058,742.*

3 If I salary sacrifice, will it affect my FSS, SASS, SSS or PSS benefits?

No — salary sacrificing will not reduce your salary for FSS, SASS, SSS or PSS purposes.

4 If I salary sacrifice, will I receive any statements?

Because the salary sacrifice contributions will be paid into FSS, you will receive statements twice a year and you can find out your FSS balance at any time by visiting the FSS web site www.firststatesuper.nsw.gov.au

5 How do I start making salary sacrifice contributions?

Download a copy of the *Personal contributions and choice of investment strategy* form from the web, www.firststatesuper.nsw.gov.au or call Customer Service on 1300 650 873 for the form. Send the top part of the form to First State Super, PO Box 1229, South Coast Mail Centre NSW 2521 and give the lower part of the form to your payroll area.

6 For more information

If you are a member of SASS, SSS or PSS see the salary sacrifice or Commonwealth surcharge information fact sheets on the web, www.statesuper.nsw.gov.au under *Publications* or ring 1300 130 095 (SASS), 1300 130 096 (SSS), or 1300 130 097 (PSS) to order a copy.

If you are a member of FSS, see the salary sacrifice fact sheet or Commonwealth surcharge information fact sheet on the web, www.firststatesuper.nsw.gov.au under Fact Sheets or ring 1300 650 873 to order a copy.

NEWS UPDATE
Pooled Fund Seminars

The Pooled Fund Field Team will soon take on a new form. There will be more emphasis on pre-retirement seminars, and also a greater focus on more personalised written communications to members at key decision points about their superannuation.

MAXIMISING income and MINIMISING tax in retirement

When it comes to the secret of a happy retirement, having more money to live on while paying less tax are two of the key ingredients. An allocated pension can often help achieve this.

For many of us, when we retire our money to live on will come from a variety of sources such as social security, earnings from investments, our savings, or from an income stream purchased with our superannuation retirement lump sum.

One of the most popular and tax effective forms of income streams is an allocated pension.

An allocated pension can offer a flexible, regular retirement income stream as well as significant tax concessions. It may also allow you to maximise social security benefits as not all of the income received from an allocated pension is assessed for Centrelink income test purposes.

An allocated pension can also help to manage an excess where you exceed your reasonable benefit limit.

How does an allocated pension work?

An allocated pension is purchased with a lump sum paid from a superannuation fund. Once the allocated pension commences, usually after age 55, you must receive at least one pension payment each year, and some funds allow quarterly or monthly payments so that you can plan for a steady income level throughout the year.

You can choose your level of income within a maximum and minimum range set by Federal legislation, and you can also make lump sum withdrawals.

If you die the balance in your allocated pension can generally be paid directly to your spouse or estate. This is different to some other income stream products such as a lifetime annuity, where the capital may be lost if you die.

How is an allocated pension taxed?

There is no tax payable on any earnings credited to your account while your money remains in your allocated pension account. You do not have to declare interest earned in your taxation return unless you take a capital withdrawal.

The regular allocated pension payments to you are subject to income tax at your marginal tax rate plus the Medicare levy. Your fund manager will take out the tax on the pension payments you receive and will send you a group certificate at the end of the year. This PAYG tax may be reduced by one of the following tax concessions:

- A deductible amount (the share of your pension payment which comes from any after tax contributions you have made).
- Tax rebate (you will generally be entitled to a 15% tax rebate).

Do I need to do anything before I retire?

If you want to take advantage of the flexible income stream and tax advantages offered by an allocated pension, you need to hold money in a superannuation fund before you retire — it may be too late to do so after you retire. For example, consider moving your term deposits or *rainy day* savings into super.

Also, talk to your financial planner about spouse contributions and income splitting, and how these strategies can affect tax free thresholds and reasonable benefit limits.

How State Super Financial Services can help

State Super Financial Services is one of Australia's leading financial planning organisations with more than $3.5 billion in funds under advice and more than 28,000 clients.*

To arrange a cost and obligation free appointment with a State Super Financial Services financial planner in any one of our 14 offices across NSW and the ACT, call 1800 620 305 or visit our web site at www.ssfs.com.au

** as at 31 March 2002*

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FINANCIAL SERVICES
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Time is your friend

It has been a tumultuous 12 months for sharemarket investments. At the beginning of the financial year the US economy was slowing down and there were fears that it was heading for a recession, followed by Europe. Then came 11 September 2001, which significantly changed economic fundamentals and introduced political risk as a stronger variable in the investment process.

The response of governments and central banks around the world was swift. Interest rates were cut and fiscal spending packages introduced, aimed at restoring both consumer and business confidence. On top of this, energy prices fell, which also acted as an economic stimulus.

Equity markets responded to this stimulus and rebounded, but the major international sharemarkets are still showing negative returns for the 10 months ending April 2002.

To give members an appreciation of investment returns over the past 10 months, the table below shows the net year-to-date and 3 and 5 year performance figures for the Pooled Fund and the five investment options in First State Super.

The year-to-date figures clearly highlight that this has been a period where taking investment risk has not been rewarded. The best performing investment options have been Cash and Capital Guarded. Unfortunately, it is not difficult to imagine a negative return for the Pooled Fund and the FSS High Growth and Diversified investment options for the 12 months ending June 2002.

According to InTech Financial Services* many Trustees will soon be reporting negative returns for the 2002 financial year, so State Super is not unique in that sense. In fact, we are likely to be one of a crowd! InTech also points out, that looking back over the past 30 financial years, the typical growth fund would have only produced a negative return three times — the last occasion being 20 years ago in the year to June 1982. The last 20 years may have been unusual, but this does not mean that members should shy away from taking investment risk. It is true that this year you are likely to take a step backwards with your super, but the important thing is to look to the long term. While past performance is no guarantee of future results, it may be a long time^ before another year of negative returns is recorded — and history shows that over the long term taking investment risk is an important part of building up a nest egg for the future.

** Intech is an asset consulting firm which publishes surveys of the investment performance of superannuation and fund managers.*

^ Intech notes that applying the typical asset allocation from Intech's Growth funds universe, the likelihood of a negative return is 1 in 5 years.

POOLED FUND AND FIRST STATE SUPER
Net investment returns for periods ended 30 April 2002

	Year-to-date* %	3 years % pa.	5 years % pa.
Pooled Fund	-4.1	4.8	8.3
First State Super			
High Growth	-5.0	3.4	8.5
Diversified	-2.2	4.2	8.2
Balanced	-0.0	4.5	7.8
Capital Guarded	1.9	4.8	7.2
Cash	4.8	5.4	5.1

* Year-to-date: 10 months ending 30 April 2002

Source: State Super / JP Morgan

MEMBER BENEFIT PAYMENTS BY EFT

Members can now have their benefit payments credited to their bank or credit union account by Electronic Funds Transfer instead of the traditional mailed cheque.

This is faster and avoids any possible loss of a cheque in the mail.

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06/02

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