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SAS Trustee Corporation

SuperViews

winter 2003

From the office of the Employee Representative SAS Trustee Corporation Board

Ron Davis
Full-time Employee Representative

PO Box N259
Grosvenor Place
NSW 1220

Leave without pay and part-time employment — the superannuation rules

Introduction

This article gives you information about how your superannuation benefits, and the personal contributions that you may have to pay into your superannuation scheme, are affected by leave without pay (LWOP) or part-time employment.

Generally, a period of LWOP or part-time employment will mean that you will accrue less superannuation benefits than you would have accrued if you had not taken the LWOP or not worked part-time during the period.

This is because superannuation contributions and benefit accrual are based on your salary payments and/or your employment service over the period of your membership. A reduction or break in either of these will usually mean the rate at which you accrue benefits reduces or stops.

This is certainly the case if you are a member of the First State Super (FSS) scheme. However, there are some important exceptions that apply to members of the (closed) Pooled Fund schemes — State Authorities Superannuation Scheme (SASS), State Superannuation Scheme (SSS) and the Police Superannuation Scheme (PSS). You should read carefully the section of this newsletter that describes the rules for your particular scheme.

It is important to remember that it is your employer's responsibility to:

- consider employee requests for LWOP and part-time work and, if approved,
- advise the scheme administrator (Pillar Administration) of the details of the leave or changed employment circumstances.

The scheme rules are applied according to the employer's advice.

Your employer is not required to provide advice where the nature of the leave means that your superannuation contributions and benefits will not be affected, such as periods of LWOP of 5 days or less.

Quick Reference Guide

The LWOP rules applying to the SASS, SSS and PSS schemes are complex and varied. To assist you in understanding those rules, a **LWOP Quick Reference Guide** is provided on the back page of this newsletter. For a more detailed understanding of the LWOP rules, as well as the rules applying to part-time employment, you should also read both the *shared* and *specific* features sections of the article, for the scheme you belong to. See page 8 for the **Quick Reference Guide** for members of SASS,SSS and PSS.

FSS

Employer superannuation guarantee contributions are not payable to FSS during an employee's LWOP. So, if you take LWOP, your FSS account will not be increased by any employer contributions during the period of your leave, although your account will, of course, continue to be adjusted for investment earnings, management charges, insurance premiums (if any) and any taxes.

In the case of part-time employment, superannuation guarantee contributions would be lower than for equivalent full-time employment in the same job because these employer contributions are calculated as a percentage of your salary or wage payments.

For NSW public sector employees, your employer is required to pay superannuation guarantee contributions to FSS for you if you are on ***paid*** maternity, parental or adoption leave, or are receiving weekly workers compensation payments or certain non-cash *(salary sacrifice)* benefits.

You may make single payments of personal contributions to your FSS account during periods of LWOP.

SASS, SSS and PSS Shared features of the leave without pay rules

There are some shared features of the LWOP rules that apply to members of the (closed) Pooled Fund schemes. This section gives a general description of those features.

Ordinary and *special leave without pay*

The scheme rules distinguish between LWOP that is classified by your employer as *ordinary* and other LWOP that might be granted for certain *special* reasons.

1. **Ordinary LWOP:** A common feature of *ordinary* LWOP, which may also be referred to as *non prescribed* LWOP, is that your personal contributions to your scheme, and your accrual of benefits, may be reduced or suspended during the leave. Examples of *ordinary* LWOP include leave to take a holiday or career break, undertake private studies, or travel.

Parental leave is treated in the same way as *ordinary* LWOP for contribution and benefit accrual purposes. An employer may grant parental leave (called *authorised* leave in the scheme rules) to male or female employees. The scheme rules allow a member on parental LWOP to retain their membership for up to 7 years, even if they are not paying contributions (note: SSS does require payment of employee contributions during all LWOP). However, to retain scheme membership you must have a statutory or contractual right to resume employment at the end of the leave.

2. **Special LWOP:** The second type of LWOP may be called *approved, prescribed* or *special* leave depending on the scheme and the circumstances of the leave. In this article, all LWOP in these groups is referred to as *special*.

Examples of *special* LWOP include sick leave, maternity leave, military leave, leave to perform union duties, secondment, workers compensation.

A common feature of *special* LWOP is that generally, your personal contributions to your scheme, and your accrual of benefits, are not affected by the leave. An exception applies to a lengthy period of sick or maternity LWOP. In these instances, payment of contributions and accrual of benefits is suspended for any period of leave that is more than 2 years.

Basic Benefit

As a member of SASS, SSS or PSS you are automatically entitled to an award-type benefit called the *Basic Benefit* (assuming that you do not receive a similar employer-financed benefit from another scheme). This benefit is *additional* to any other benefit payable from your contributory scheme.

Your Basic Benefit accrues at a rate of up to 3% of final average salary for each year of your service from 1 April 1988. Generally, a period of *ordinary* LWOP of more than 5 days will not count as service for the accrual of your Basic Benefit. For part-time employment, your service is adjusted on a pro rata basis.

Scheme specific features of the leave without pay rules

There are some differences between the rules that apply to ordinary LWOP and part-time employment in the SASS, SSS and PSS schemes. This section explains those differences in more detail. Please read the part relevant to your scheme.

SASS

Ordinary LWOP (SASS)

Periods of *ordinary* LWOP of 1 calendar month or more do not count as part of the period of SASS membership for the purpose of accruing benefit points. You are not required to

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NEW (FINANCIAL) YEAR'S RESOLUTIONS

The end of the financial year is, for some, a time to make financial decisions which are beneficial in the period drawing to a close. However, the end of the financial year is also a good time to take stock of your personal situation. Here are five simple "resolutions" you can make to take control of your financial future.

1 Review your budget

A budget is a vital element of any financial plan and it is a useful tool for everyone. A budget allows you to focus on how you use your money. If you don't have a budget at the moment, a good start is to download our budget planner from our website and start recording your spending. You may be surprised to see just where your money is going and you may want to review your spending habits.

2 Reduce your debt

One of the things that your budget may highlight is your level of debt. Reducing debt in the form of credit cards, personal loans and even your mortgage may be appropriate and may help boost your financial fitness. Simple changes like paying your mortgage fortnightly rather than monthly can save you thousands of dollars over the term of your home loan.

3 Review your superannuation

Superannuation can be one of the most tax effective savings options available. The end of the financial year is a good time to check your level of contributions. Are you maximising your end benefit? If you don't know, call your fund administrator to ensure you are making the most of your benefit. You may also want to consider other superannuation savings options such as salary sacrifice or spouse contributions.

4 Monitor your reasonable benefit limit situation

Every Australian has a reasonable benefit limit (RBL). Put simply this is the total amount of concessionally taxed superannuation you can have in a lifetime. Benefits above these limits, currently $562,195 if you take a lump sum or $1,124,384 if you take a non commutable pension worth 50% of your total benefits, are taxed at the highest marginal tax rate if they are taken as a lump sum. If you feel you may exceed the RBL, you should discuss your situation with a financial planner who will be able to assist you with a strategy that will manage your tax situation.

5 Be aware of "trigger events"

Certain events in your life can be considered a "tap on the shoulder". Good examples of trigger events would be intending to leave work in the next 12 months, experiencing a change in your circumstances such as a redundancy, career change or ill health or receiving a lump sum such as an inheritance, property sale, or winning lotto. In all of these circumstances you may benefit from talking to a financial planner.

Financial Planning – The choice is yours

State Super Financial Services was established to provide a quality financial planning service exclusively for current and former public sector employees and their families. There is no cost to meet with a financial planner to discuss your situation.

You can use State Super Financial Services and be assured of a personalised service tailored to suit your individual needs, goals and circumstances. Our extensive office network across NSW and the ACT, means you can see a planner at a place and time convenient to you.

To make an appointment without cost or obligation, call today on 1800 620 305 or visit our website at www.ssfs.com.au

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 very quickly. Accordingly, we strongly recommend that you consult a Financial Planner before taking action based on the material above.

High levels of uncertainty have not been good for sharemarkets

The long anticipated war in Iraq got underway in March 2003. The uncertainty, which had negatively affected sharemarkets, eased and markets rallied quite strongly. But in the last week of the quarter the excitement that a quick war could pave the way for better times was again replaced with uncertainty that the war or post war environment would be more difficult than anticipated.

Such was the uncertainty in the political and economic landscape that even the US Federal Reserve did not make a commitment. After a meeting on interest rate policy, a statement was released which said:

"In light of the unusually large uncertainties clouding the geo-political situation in the short run, and their apparent effects on economic decision making, the committee does not believe that it can usefully characterise the current balance of risks with respect to the prospects for its long run goals of price stability and sustainable economic growth".

High levels of uncertainty have not been good for sharemarkets. Returns in international shares have been sharply negative for the year ending March 2003, generating a return of negative 33.4% on an unhedged basis. Forgotten are the years March 1998 – 2000, when international shares produced returns of 56.6%, 18.4% and 27.1%.

Historically, it is quite common to find big discrepancies between the returns generated from shares, bonds, property and cash from one year to the next. It would be nice to be always invested in the right sector at the right time — but that foresight cannot be purchased. The second best option is to be diversified across shares, property, fixed interest and cash, so when one asset class does not perform other asset classes are there to cushion the impact.

In absolute terms, investment returns in the year to March 2003 have been very disappointing, with only the FSS options of Cash and Capital Guarded generating positive returns in the twelve month period.

However, overall the FSS investment strategies and the Pooled Fund have performed competitively when compared to other funds with similar growth profiles, as indicated in the table below.

The Trustees are aware that good relative performance does not help members, when absolute performance is negative. But it does highlight that all diversified funds are finding the current investment environment difficult.

Net investment returns for periods ending 31 March 2003

	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Pooled Fund	-2.9	-10.5	-1.7	3.2
FSS Fund's Investment Strategies				
High Growth	-3.2	-12.9	-3.0	1.8
Diversified	-1.9	-6.8	0.2	3.3
Balanced	-0.9	-2.1	2.4	4.2
Capital Guarded	0.0	2.3	4.4	4.9
Cash	1.1	5.0	5.5	5.1
Median Manager — Intech* Surveys				
High Growth	-4.2	-14.5	-3.1	2.2
Growth	-3.4	-9.8	-0.4	3.2
Balanced Growth	-2.5	-6.3	0.1	3.2
Conservative Growth	-0.5	-0.6	2.8	4.1
Asset Sector Index Returns				
Australian Shares	-2.8	-11.9	0.9	4.7
International Shares (unhedged)	-11.7	-33.4	-18.5	-4.0
Listed Property Trusts	1.9	13.9	14.5	9.7
Australian Fixed Interest	0.9	10.1	8.0	6.5
International Fixed Interest (hedged)	2.0	13.4	9.3	7.8
Cash	1.2	4.9	5.3	5.3

Investment returns in the Pooled Fund and the FSS Fund's Investment Strategies are not guaranteed by the Trustees of the respective Funds or the NSW Government. Past performance is not an indication of future performance.

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

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pay contributions to SASS during any whole months of *ordinary* LWOP and no employer financed benefits accrue for those months. Benefit points for this period cannot be caught up when you return to work.

Special LWOP (SASS)

During a period of *special* LWOP, you are required to continue your contributions to SASS. Your employer will continue to make employer contributions for you and you should pay your personal (employee) SASS contributions to your **employer** — the scheme administrator has no provision to accept these contributions directly from you.

This is because your employer continues to be billed for these contributions at the rate that would have been deducted from your salary if you had still been at work.

If the requirement to contribute to SASS during a period of LWOP causes financial hardship, you may apply to the scheme administrator to have your contribution rate reduced to as low as 0% (subject to conditions). If a contribution rate of 0% is approved, no contributions will be payable and you will not accrue benefit points. However, your account will continue to be adjusted for investment earnings, management charges and additional benefit levies (if applicable).

Part-time employment and LWOP (SASS)

If you are a part-time employee (including a person on ordinary part-time LWOP), you will accumulate SASS benefit points at a lower rate than a full-time employee.

The employer-financed benefit accrued for a period of part-time employment is calculated by reference to your *salary ratio*. The *salary ratio* is your part-time salary divided by the equivalent full-time salary for your job. For example, if your part-time annual salary is $20,000, but as a full-time employee it would have been $40,000, your salary ratio would be 0.5 (ie. one-half).

There are two easy to apply rules affecting benefit points accrual during a period of part-time employment. These are:

a) The maximum number of benefit points which attract employer-financed benefits for a year as a part-time employee is 6 multiplied by the salary ratio. If the salary ratio was 0.5 (as in the above example), that maximum would be 3 benefit points.

b) The actual number of points accrued in a year is the percentage rate of contribution for that year multiplied by the salary ratio. For example, if the percentage rate of contribution was 4% and the salary ratio was 0.5, the actual accrual for that year would be 2 benefit points.

If you retire as a part-time employee, the salary used for the final average salary or final salary figure on which your benefit is based is the salary you would be receiving at that time if you were employed as a full-time employee.

SSS

Ordinary LWOP (SSS)

As a member of SSS, your personal (employee) contributions to the scheme remain payable during **any** period of LWOP, irrespective of the reason for the leave. However, in the case of *ordinary* LWOP, the amount of the contributions you will have to pay during your leave, and the effect the leave may have on your benefit entitlements, depend on:

- your employer's requirements for payment of its liability to the scheme to fund your benefits for the leave period (ie. the employer's contributions), and
- the decision you make about paying full contributions or accepting a benefit deduction for the leave period.

Generally, an employer's approval of a SSS member's request for *ordinary* LWOP is conditional on the employee reimbursing the employer for the cost of its own (employer) contribution liability to SSS for the leave period. Some employers will allow LWOP of up to 6 months before applying this condition. An arrangement of this nature is between the employee and employer and any enquiries should be made to the employer. Please note, your own (employee) contributions remain due and payable to the scheme.

However, your employer may not require you to meet its SSS contribution liability for a period of LWOP if you accept a **permanent** reduction in your unit (benefit) entitlement. The reduction is based on the ratio of the leave period — not counting the first 3 months — to the potential service you could otherwise have given over the whole of your scheme membership to retirement age. It means that your future benefits from the scheme will be less than they would have been if no reduction had occurred.

Your personal contributions to SSS are also reduced in line with the lower unit entitlement.

It is important that you check with your employer whether this condition will apply to you, before commencing LWOP.

Where the condition does apply, you should give your employer a completed election form to either retain your full unit entitlement or accept a permanent reduction (this will happen automatically if you do not make an election). The election form, which also contains a section for completion by your employer is *SSS Leave Without Pay (part-time or full-time) — member's election (SSS 536)*. The election form is available from your employer or from the Contact Centre.

Special LWOP (SSS)

If you take *special* LWOP you are not required to pay the employer's contribution liability to the scheme — so the choice between either paying that liability or accepting a permanent unit entitlement reduction does not apply.

You are required to pay your personal contributions to the scheme during the leave period according to your full unit entitlement.

Generally, the superable salary used to determine your unit entitlement during a period of LWOP is the salary you were last paid by your employer before going on leave.

However, in the case of certain types of LWOP, your superable salary may increase in line with salary increases that you would have received if you had not been on leave. Examples include LWOP due to ill-health, or military service. If you are seconded to another employer who participates in SSS, your superable salary is the same as the salary you actually receive from the employer you are seconded to. Your personal contributions will increase (from your annual adjustment day) in line with any salary increases.

Part-time employment and LWOP (SSS)

If you take **any** form of LWOP on a part-time basis you may elect to be treated as a part-time employee for the period of the leave. This option is available, whether the part-time LWOP is *ordinary* LWOP or *special* LWOP eg. maternity leave. As with full-time *ordinary* LWOP, eg. holiday leave, some SSS members may choose to be treated as a part-time employee to reduce the amount of their personal contributions to the scheme. If you do this, your end benefit will be lower. If you do not elect to be treated as a part-time employee for the period of your leave, your employer will report the aggregate of your leave as a period of full-time LWOP and the rules for such full-time leave will apply (see *ordinary* and *special LWOP*) on pages 5 and 6.

If you are a part-time employee, or have elected to be treated as a part-time employee for a period of part-time LWOP, the following SSS rules apply:

a) Your unit (benefit) entitlement and contributions are adjusted on a pro rata basis, as described below. Contributions paid before the change to part-time employment are used to buy fully-paid units in the scheme — you don't have to make any further contributions for these units.

b) Your adjusted unit entitlement is determined by using the equivalent full-time salary for the position and applying a deduction factor. The deduction factor is calculated by comparing:

- the period of potential full-time service you could have given over your whole period of membership, with
- the reduced service that will now be given as a result of the period of part-time employment or part-time LWOP (see below).

Contributions are payable for the difference between fully-paid units and your adjusted unit entitlement.

Calculation of the deduction factor referred to in (b) above is based on:

- advice provided by your employer of the expected date on which the part-time *employment* will cease, or,
- in the case of part-time LWOP which is being treated as part-time employment, the date on which the period of *leave* is expected to cease.

The deduction factor is adjusted if the period of part-time employment or LWOP is different from that expected, or the ratio of part-time to full-time salary changes during the period.

It is important to realise that the reduction in unit entitlement for periods of part-time employment and LWOP is a permanent one. It will reduce the amount of the SSS benefits you would otherwise have received if you had worked full-time throughout your membership, or had not elected to have a period of part-time LWOP treated as part-time employment.

How do I pay my SSS contributions during LWOP?

Before your leave begins, please make arrangements with the scheme administrator for the payment of your personal contributions to SSS. (Note that if you also have to pay your employer's contributions, these must be paid direct to the employer.)

You may pay your SSS contributions in one of three ways:

- in advance, or
- progressively during your LWOP, or
- in arrears (with interest added) when you return to work:
  - as a lump sum, or
  - by instalments over a period not longer than the period of leave. Interest can quickly grow to a large amount. You are encouraged to check the amount of any arrears due.

PSS

Ordinary LWOP (PSS)

Generally, you must continue paying your personal superannuation contributions into PSS for the first 3 months of a period of ordinary LWOP. Therefore, only the first 3 months of the leave count as service for benefit purposes. Any period of more than 3 months does not count as service, and you stop making contributions.

Special LWOP (PSS)

Your personal contributions are payable during the whole period of the leave, subject to a maximum payment period of 2 years in the case of maternity and sick LWOP. The period of special leave during which contributions are payable counts as service for benefit purposes.

The *Police Regulation (Superannuation) Act 1906* provides that any contributions which are due for payment but remain unpaid after a period of leave may be deducted from the member's salary or scheme benefits.

Part-time employment and LWOP (PSS)

Your superannuation contributions during a period of part-time employment are based on your actual part-time salary. Service for benefit purposes accrues on a pro rata basis. This is according to the proportion of actual service to potential full-time service, as measured by the difference between the part-time and equivalent full-time salaries.

Where *ordinary* LWOP is taken on a part-time basis, superannuation contributions deducted from your part-time salary are made at the rate of 6% of your:

a) equivalent full-time salary (called *attributed salary*) during the first 3 months, and

b) part-time salary during the remainder of the leave.

The first 3 months is treated as a period of full-time service for benefit purposes. Your service for the remaining period of part-time LWOP accrues on the pro rata basis described above.

In the case of *special* LWOP taken on a part-time basis, contributions are deducted from your salary at the part-time rate. Service also accrues on the part-time basis.

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LWOP Quick Reference Guide — SASS, SSS, PSS

The table below is intended as a quick reference guide to the rules that apply to your superannuation contributions and benefits during a period of full-time LWOP. Except where specifically stated, the rules shown in the table apply to all of the Pooled Fund schemes. The table covers the main categories of LWOP, but it is not a complete list of the different types of LWOP or the scheme rules that apply to each type. Please check with your employer or the scheme administrator if you are in doubt about how your superannuation will be affected by a period of LWOP or part-time employment.

	Ordinary LWOP	Special LWOP
Types of LWOP	Includes holidays, career break, private study, travel.	**All schemes** • sick leave • maternity leave **SASS & SSS** • secondment • workers compensation • military leave • duties for employer or State **SASS & PSS** • union duties Other types of LWOP declared as *special* in the Regulations (PSS) or as approved by the trustees (SASS).
Employee contributions payable?	SASS — contributions are not payable for whole months of LWOP. However, contributions are payable to your employer where the LWOP is less than 1 calendar month. See pages 2 and 5. SSS — contributions are payable for the whole period. See page 5. PSS — contributions are payable for the first 3 months only. See page 7.	Yes, contributions are payable for the whole period. However, for sick leave and maternity LWOP, contributions are due for the first 2 years only.
Can employee contributions be deferred?	SSS — Yes — subject to the scheme administrator's approval. Interest is payable (at the fund earning rate as at June 2003) until the contributions are paid. See page 7.	SSS — Yes — subject to the scheme administrator's approval. Interest is payable (at the fund earning rate as at June 2003) until the contributions are paid. See page 7.
Special contribution/ benefit rules?	SSS — the employer may require the employee to pay the employer's contribution liability for the whole period of the leave (generally when the leave exceeds 3 months). If the employee is unable to pay the employer's liability, the employee may take a permanent reduction in unit entitlement. See page 5.	SASS — a member may apply to reduce their contribution rate in circumstances of financial hardship.
Basic Benefit	The Basic Benefit does not accrue for any period in excess of 5 days. See page 2.	The Basic Benefit accrues for the first 2 years only for maternity and sick LWOP. See page 2.

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