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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Ways to boost your retirement savings

Some members are concerned the retirement benefit they expect to receive from their State Super account will be inadequate to meet their retirement goals. This article discusses three ways you can increase your retirement savings: through eligibility for the Federal Government co-contribution, contributing to superannuation on behalf of your spouse and salary sacrifice contributions. This article discusses the arrangements that apply for Government co-contributions from 1 July 2004, which changed the arrangements that operated from 1 July 2003. If you would like information on the arrangements that applied between 1 July 2003 and 30 June 2004, you can call customer service.

SUPERANNUATION CO-CONTRIBUTIONS

What is the super co-contribution scheme?

The super co-contribution is a contribution by the Federal Government to help eligible people save for their retirement by adding to the personal after tax contributions that they, themselves, make to superannuation. It applies from 1 July 2003.

The contributions you already make to your State Authorities Superannuation Scheme (SASS), State Superannuation Scheme (SSS) or Police Superannuation Scheme (PSS) are personal after tax contributions and will be taken into account when assessing your eligibility for the co-contribution.

Who is eligible to receive a super co-contribution?

Generally, from 1 July 2004 the super co-contribution will be payable for each financial year that you meet ***all*** of the following conditions:

- your total income for tax purposes (assessable income plus reportable fringe benefits) is less than $58,000*, **and**
- you make personal superannuation contributions for yourself from your after-tax income, **and**
- you lodge an income tax return for the tax year in which the personal contributions are made, **and**
- 10% or more of your total income is from employment as an employee, **and**
- you are aged less than 71 years at the end of the tax year in which the contributions are made.

Note: A person who held a temporary resident visa at any time during the tax year is not eligible for a co-contribution.

Super contributions that do not attract a super co-contribution

Please note that the following kinds of superannuation contributions are not eligible contributions and will not qualify towards a super co-contribution:

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

How much is the super co-contribution?

If you meet all the conditions outlined previously the maximum amount of super co-contribution for the 2004-05 financial year is $1,500. This is available to people who have an annual income of $28,000 or less and who have contributed $1,000 in that year.

If your income is between $28,000 and $58,000 this maximum cap reduces by five cents for each dollar of additional income and cuts out completely for total income of $58,000* or more. Your entitlement then becomes the lesser of the new (calculated) maximum cap and 1.5 times your contributions.

* This amount will be indexed from the 2007-08 financial year.

Subject to the maximum cap explained above, the super co-contribution is $1.50 for every $1 you contribute to your super. If you contribute more than the amount necessary to attract the maximum super co-contribution available to you, your additional contributions will not attract any further contribution from the Federal Government.

Examples

The income/contribution table 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.

	Annual personal after tax contribution from 1 July 2004 $1,000	Annual personal after tax contribution from 1 July 2004 $500
Your total annual income	**Government's super co-contribution**	
$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 2005 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 which is $1,500 as his income is under $28,000.

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

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

- 1.5 times his own contributions ie $1,800, or
- the maximum super co-contribution available which is $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 2005 is $46,000. Julie makes personal after-tax contributions to her superannuation scheme totalling $800 for the year.

To determine Julie's 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 earnt over $28,000	
($46,000 – $28,000) x 0.05	$ 900
Maximum super co-contribution available at $46,000	**$ 600**

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

Alternatively, if Julie had only contributed $300 in personal contributions, the co-contribution would be $450 (ie the lesser of 1.5 times her contributions - $450 – and the maximum of $600).

Do I have to contribute more to super?

If you are a current member of one of the pooled fund contributory schemes – SASS, SSS or PSS – you may already qualify for the maximum super co-contribution to which you are entitled according to your income, without the need to make additional personal contributions to superannuation. The annual benefit statements we send you, together with the payslips you receive from your employer show deductions from your salary for personal superannuation contributions. These will enable you to determine your total annual contributions to your scheme.

If you want to increase your personal contributions in order to maximise a super co-contribution entitlement or to increase your superannuation savings generally, you may make additional after-tax contributions to another superannuation fund, such as First State Super (although this option is not available to University employees).

If you are a member of SASS and are not contributing at the 9% contribution rate, you can increase your level of personal contributions to that scheme from 1 April 2006. You can select a higher percentage (up to 9%) contribution rate in your annual contribution election form. This is enclosed with your annual benefit statement and must be submitted by 31 December each year.

See **More Information** at the end of this newsletter for details of how you can make superannuation contributions to FSS.

Do I have to apply for a super co-contribution from the Federal Government?

No – provided you meet all of the conditions listed previously, payment of the Government's super co-contribution to your fund will normally happen automatically.

The Australian Taxation Office (ATO) will use information provided by your super fund about your personal contributions, together with income details from your tax return, to assess and calculate your super co-contribution and will forward the amount directly to your superannuation fund. To assist this process, it is important that you provide us with your tax file number (TFN) so that the ATO can link the personal contribution information with your tax return.

The ATO will send you a letter with details about 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.

Do I have to pay tax on a super co-contribution?

No – the super co-contribution is treated as a personal superannuation contribution made by you from your after-tax income. No contributions tax is payable on the super co-contribution. It is treated as an undeducted contribution. However, tax is payable on the investment earnings on the super co-contribution while it is in your fund, at a maximum of 15%.

How will the super co-contribution be added to my superannuation benefit account?

If you are a current member of one of the defined benefit schemes – SASS, SSS or PSS – co-contributions will be credited to a co-contribution accumulation account in SANCS, where they will accumulate with investment earnings at the Growth strategy earning rate.

When can I receive payment of a super co-contribution benefit?

Super co-contributions are required to be preserved until you reach your preservation age (between 55 and 60) or meet a condition for earlier benefit release – refer to your annual benefit statements for details of the benefit preservation rules.

SUPER CONTRIBUTIONS FOR YOUR SPOUSE

If you are a member of SASS, SSS or PSS and you are currently employed within the NSW Public Sector, you can make superannuation contributions into First State Super or another complying superannuation fund for your spouse. By making these contributions, your spouse then becomes a member of First State Super and is entitled to the benefit that accumulates in the account. Spouse contributions to First State Super can only be made from after-tax income.

These contributions do not attract the Federal Government super co-contribution. However, you can claim a tax rebate for spouse contributions where your spouse earns less than $13,800 (total assessable income and reportable fringe benefits) in the tax year in which the contributions are made. The maximum rebate is $540 for contributions totalling $3,000 (calculated as 18% of contributions). There is no restriction on a person paying more than $3,000 a year in contributions for a spouse, however amounts above $3,000 will not attract the tax rebate.

The full rebate of $540 is available where your spouse earns less than $10,801 a year. A partial rebate applies for spouses earning up to $13,800 annually.

For the purposes of eligibility for the tax rebate, a 'spouse' includes a person who, although not legally married to you, lives with you on a bona fide domestic basis as your husband or wife, but does not include a person who lives apart from you on a permanent basis.

Spouse contributions are treated as 'undeducted contributions' for tax purposes and are not subject to the 15% employer contributions tax or surcharge. Spouse contributions are also tax free when received by your spouse as a benefit. Note, however, that investment earnings on spouse contributions are subject to investment and benefits tax at the concessional rates applying to superannuation. Spouse contributions do not count towards the Reasonable Benefits Limit (RBL) of the spouse. The benefits arising from spouse contributions are preserved and, therefore, cannot be paid from the fund until the retirement of the spouse (if the spouse is gainfully employed) or until the spouse reaches retirement age (generally 65).

SALARY SACRIFICE CONTRIBUTIONS

Salary sacrifice contributions to super are contributions made from before-tax income. As with contributions made on behalf of a spouse, they do not attract the Federal Government super co-contribution. The 'sacrificed' amount is effectively paid as an employer contribution to a superannuation fund and is not subject to payment of income tax by the member. However, unlike personal superannuation contributions made from after-tax income, salary sacrifice contributions are subject to the 15% superannuation contributions tax on entry to the scheme and to benefit tax at the time of payment. These contributions are also subject to surcharge tax for high income earners and count towards the RBL of the member.

Salary sacrifice contributions may be made into First State Super or another complying superannuation fund agreed with the employer. Most NSW public sector employees can salary sacrifice up to at least 30% of their salary to a superannuation fund.

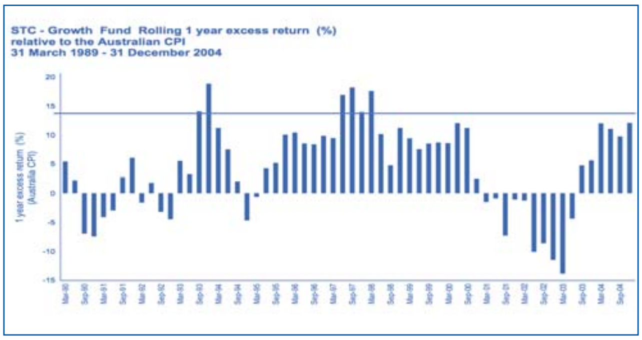
MORE INFORMATION

If you want to obtain more information about making additional contributions to First State Super, simply call the First State Super Customer Service Centre on 1300 650 873. Alternatively, information may be downloaded from the First State Super website at **www.firststatesuper.com.au**

Investment Update – December 2004

The calendar year finished on a very strong note with the Pooled Fund's Growth Strategy returning 5.6% for the quarter, which resulted in a return of 14.6% for the year ended December 2004. Taking into account an inflation rate of 2.6 % over the same period, the real rate of return was 12%, which is a very good outcome.

This level of real return is among the top 10 outcomes seen during the past 15 years, as shown in the table below.



In addition, SASS members, in respect to their own contributions have had available a Balanced, a Conservative Growth and a Cash strategy for the past year and these have generated 12.3%, 9.4% and 4.7% respectively for the year ended December 2004.

Apart from the Cash strategy, the performances of the other strategies have been boosted by the strong performance of the Australian share market, which returned 28% for the 1 year ended December 2004. The Australian share market was underpinned by a number of factors including solid earnings growth, China's growth story, which has been reflected in rallies in commodity prices and finally merger and acquisition activity. The latter was a major reason for the stellar performance in the listed property trust sector, which returned 32% during calendar 2004.

It was a year where asset allocation was important, because there was a wide dispersion between the best and the poorest performing asset class. As mentioned listed property trusts returned 32% for the year and Cash, which returned 5.6% over the same period was the poorest performing asset class.

With the benefit of hindsight the Australian Listed Property Trust sector was the place to be, followed by the wider Australian share market. It is always easy to know where the action has been. However, history tells us that the chances are slim for last year's best performing asset class becoming this year's best performing asset class. This is the very reason that members are offered diversified investment strategies, which invest across a number of different asset classes, across regions, across size, across styles and across investment managers. The more diversification can be put into the investment strategies the more likely it is that future returns will capture the positive trends available in markets and that the impact of negative trends can be minimized.

Net Investment Returns/Strategy	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Growth	5.6	14.6	4.2	4.6
Balanced	4.6	12.3	N/A	N/A
Conservative Growth	3.2	9.4	N/A	N/A
Cash	1.2	4.7	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)	11.4	28.0	10.2	9.2
International Shares (unhedged)	3.3	9.9	-7.5	-6.1
Listed Property Trusts	10.6	32.0	17.1	16.7
Australian Fixed Interest	1.8	7.0	6.2	7.2
International Fixed Interest (hedged)	2.6	8.7	8.4	8.5
Cash	1.4	5.6	5.1	5.4

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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

What happens when the pay packet stops?

One of the biggest issues facing us when we retire is how will we replace our pay packet.

A minority of Australians have a superannuation scheme that has a pension option. For these people the question is often "how much pension should I take?" rather than where will the money come from. For the rest of us, who will receive a lump sum when we retire, the question still remains "where will the money come from"?

Once you have retired, you may have more than one source of income to replace your salary. This may include investment earnings, part time work, social security and perhaps a personal income stream. Over time, the amount each source contributes to your overall income may change as well. One of the benefits of an ongoing relationship with your financial planner is that they can regularly fine tune your income structure to ensure that you stay on track with your long term goals.

If you have a partner, it is vital that you include them in your retirement income planning. One of the simplest yet most tax effective planning strategies is to "income split". This means that you set up your finances so that each member of the partnership receives a similar level of income rather than only one "breadwinner". By taking advantage of two tax-free thresholds, your family unit can often increase the tax-free component of your combined income.

A popular personal income stream product to consider is called an allocated pension (AP). An AP is a private income stream that is purchased with money paid from a superannuation fund.

An AP has a number of features:

- **You control your income –** You can vary the amount of income you draw from your AP each year within limits set by the government.
- **There are significant tax advantages –** Depending on the tax status of the money used to purchase your allocated pension, it is possible to have a tax-free income stream.
- **Your estate gets the balance of your pension –** Unlike many lifetime annuities; your estate will receive any balance that remains in your account.
- **You can make capital withdrawals from your AP –** You are able to access your capital from an AP if required. Of course withdrawing large amounts of capital will reduce your account balance, and the level of income the pension generates.
- **There is no guarantee –** As each AP is a personal account. If the earnings in the account are less than the pension payments paid out, the balance of the account will decrease and it may run out before you die.

Your financial planner can help you determine the most effective income stream strategy for your retirement and an AP may be part of this plan. But don't leave seeing a planner to the last minute. There are a number of pre-retirement strategies that your financial planner may wish to use to maximise your income in retirement. Ideally, you should see a financial planner about 18 months before you plan to leave work.

Financial Planning – The choice is yours

State Super Financial Services is your financial planner. The organisation was set up more than 14 years ago by the STC to provide a quality financial planning service exclusively for current and former public sector employees and their families.

Our extensive office network across NSW and the ACT means you can meet a planner at a place and time convenient to you.

For more information, call today on **1800 620 305**
or visit our website at **www.ssfs.com.au**

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