

SuperViews

From the office of the
Employee Representative
SAS Trustee
Corporation Board



Ron Davis
Full-time Employee Representative

PO Box N259,
Grosvenor Place
NSW 1220

COMMUTATION OF PENSION TO LUMP SUM

Introduction

While SSS is essentially a pension scheme, it provides eligible members with the flexibility to choose to exchange all or part of their fortnightly pension entitlement for a lump sum payment. This exchange is referred to as commutation of a pension entitlement.

In this article we provide an outline of the commutation option, including when the right to commute arises and how to exercise that right.

However, before you decide whether to commute all or part of your pension, you might want to seek professional financial advice.

When can I make an election to commute?

The legislation includes strict prescribed timeframes within which you can elect to exchange your pension for a lump sum.

This depends on your age at the time your pension commences.

If you are under age 55 years at the commencement of your pension (invalidity, retrenchment and spouse/de facto partner pensions only), you can submit an election:

either

(i) at any time between age 54 years 6 months and age 55 years 6 months;

or

(ii) if you do not make the election during the period specified in (i), at any time between age 59 years 6 months and 60 years 6 months.

*Note: You can only make **one** election to exchange your pension for a lump sum.*

If you are 55 years or over at the commencement of your pension, you can submit an election:

either

(a) at any time in the 6 months immediately before or after your pension commences. (For example, if you retire at age 55 years, the application can be made at any time between age 54 years 6 months and age 55 years 6 months. Even if you retire at age 63, the application can be made between age 62 years 6 months and 63 years 6 months.);

or

(b) if you do not apply during the period specified in (a), at any time between age 60 years and age 60 years 6 months.

*Note: You can only make **one** election to exchange your pension for a lump sum.*

Can I receive my lump sum in two parts?

YES – You can request that the pension commutation is paid in two separate amounts. (This means that two separate portions of your pension would be commuted on two separate dates.)

At the date you make your election, you must nominate the date on which the second payment is to occur. The later date must be within 13 months of the date on which you are eligible to receive a lump sum payment.

Example

The date is 1 July 2005 and Harold is age 55. Harold has decided to retire on 31 December 2005 and has decided to commute part of his pension to a lump sum.

Harold has elected to receive the first part of his lump sum payment on 31 December 2005 (the date he is first eligible to receive a lump sum payment, ie. his retirement date). He also nominated in his application for a second commutation of his pension on 16 October 2006. This election is valid as both dates occur within 13 months from his date of retirement.

Note: If Harold had not commuted at his retirement date, he would be able to commute all or part of his pension from age 60 (subject to the 13 month rule).

When does my lump sum become payable?

Generally your election takes effect and the lump sum becomes payable on the **latest** of the following dates:

- the date the election is received by Pillar;
- your 55th birthday;
- the first day on which a pension is payable; or
- a payment date nominated by you (this must not be more than 13 months after the date on which the election could first take effect).

How do I make an election to commute?

In addition to completing the relevant benefit application form, you will need to complete an "Election to commute SSS pension to a lump sum" form. (The forms can be obtained from your employer, Customer Service or on the website at www.statesuper.nsw.gov.au).

This form **must** be lodged with the scheme administrator, Pillar Administration. You can lodge the election form prior to completing your benefit application form. We recommend that you do so at least 4 weeks prior to the date on which you want the election to take effect.

Can an election to commute be cancelled?

An election to commute will be **cancelled automatically** if:

- **You die** before the date on which your election is to take effect.

(Note: If an election form is completed by a pensioner, but is not received by Pillar until after the pensioner's death, the election will not take effect.)

- **You do not retire within 12 months** after:

- reaching age 55 years, if your election was made prior to your 55th birthday, or
- the date you made your election if the election was made on or after you reached age 55 years.

*(Note: If your election is cancelled because you did not retire, you will need **specific approval** from the Trustee **before** you can make a further election to commute.)*

You have the right to choose to cancel your commutation election before the lump sum has been paid if:

- **you decide not to proceed** with your election, or
- **you want to change the lump sum amount** you have applied for, or
- **you want to change the date of effect** of your lump sum.

(Note: If the change you seek is an increase in the amount of lump sum or an earlier date of effect and the application is received after the application period has expired, you will be required to provide evidence, satisfactory to the Trustee, that you are in good health.)

How is the lump sum calculated?

The amount of fortnightly pension you elect to commute is multiplied by a factor to calculate the lump sum payable to you. This factor is dependent on your age at date of commutation. At age 55 the lump sum factor is \$285 for each \$1 of fortnightly pension commuted. This factor reduces progressively to \$250 for each \$1 of fortnightly pension commuted at age 60.

What deductions are made from the lump sum?

Benefit payments are subject to Commonwealth income tax and/or benefits tax. If applicable, the amount of tax payable will be deducted from your benefit.

Any outstanding debt amount you have will also be deducted from your benefit when it is paid, unless other arrangements for payment are made (where applicable). Member debts may arise from surcharge tax assessments, family law splits and the previous early release of a benefit on financial hardship or compassionate grounds.

A deduction may also be made from your lump sum to pay for any personal contributions still owing to the scheme. Such contributions may be payable for units taken up close to or at retirement, or as a result of the non-payment of your contributions to the scheme during a period of leave without pay.

What pensions cannot be commuted?

The following pensions may not be commuted:

- A child or student pension payable upon the death of a member,
- A pension amount that is required to be preserved in the scheme in accordance with the Commonwealth's preservation requirements. This will affect you if you cease your current employment before age 60 but are not permanently retired from the workforce.

If a portion of the pension must be preserved, you have two options.

You may elect to:

- take the entire pension immediately and forfeit your right to ever commute the preserved part of your pension, or
- take the non-preserved part of your pension immediately. In this case the preserved amount of the pension is paid each fortnight into a separate accumulation account

within SSS. This accumulation is adjusted for investment earnings and management charges. The amount of the fortnightly preserved pension is adjusted annually in line with the CPI. Once you meet one of the Commonwealth Government's conditions for the release of the preserved benefit (e.g. cessation of employment on attaining age 60 years), the future pension payments become payable directly to you. The accumulated pension to date is payable to you as a lump sum.

Alternatively, you may be able to commute the preserved part of your pension if the date on which it commences to be payable to you is less than 13 months after your original pension commencement date (or age 55, if later). You would need to indicate your intention to commute this amount when making your original commutation election.

For more information about the rules governing the release of a preserved benefit please see the STC Fact Sheet 4 – *When can I be paid my superannuation benefits?* and the Winter 2005 edition of SuperViews.

How would my spouse or de facto partner's potential benefit be affected?

Although your pension is reduced by the amount of pension commuted, this does not affect the pension your spouse or de facto partner may be entitled to if you die before them.

The spouse or de facto partner's pension is two-thirds of the full pension that you would have been eligible to receive at date of death.

(A spouse or de facto partner's pension can be commuted to a lump sum on the same terms as a member's pension).

How do I obtain more information?

Customer Service will be pleased to give you factual information about the lump sum option and how it works. This information, including Fact Sheet 14 (Exchanging your pension for a lump sum), can be found on the State Super website at www.statesuper.nsw.gov.au.

Examples of lump sum calculation

A member entitled to a pension of \$1,500 each fortnight elects to commute all of her pension to a lump sum effective on her 55th birthday, which is the day her pension commences.

The lump sum benefit is calculated as $285 \times \$1,500 = \$427,500$.

The same fortnightly pension benefit, commuted at age 60 (exactly), is calculated as follows:

$250 \times \$1,500 = \$375,000$.

The factor is higher at younger ages because the amount of pension being given up over the member's lifetime, in

exchange for the lump sum, is potentially greater.

The factor further reduces in certain circumstances on commutation between age 60 and age 65 and on commutation where retirement on pension occurs after age 65.

Please refer to your annual benefit statement or contact Customer Service for details of the lump sum payable in your circumstances.

Note: A current member who has reached age 65 may apply for immediate payment of their benefits even though they are still working – see SSS Fact Sheet 20 – Contributions and Benefits Up to Age 70.

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

Investment Update – June 2005

Growth assets did very well during the year ended 30 June 2005. This enabled the growth strategy to finish the year with a return of 2.5% for the month of June, and a return of 13.0% for the year, after all taxes and charges. The Balanced and Conservative Growth strategies also did well with returns of 11.6% and 9.4% respectively for the year. Over the same period the Consumer Price Index rose by 2.5%, so a substantial real return was generated by each of the investment options.

	Growth %	Balanced %	Cons Growth %	Cash %
Sept Qtr 04	1.6	2.1	2.0	1.2
Dec Qtr 04	5.6	4.6	3.2	1.2
March Qtr 05	1.3	1.1	1.0	1.1
June Qtr 05	3.9	3.4	2.9	1.2
1 Year	13.0	11.6	9.4	4.8

Looking back over the year, it looks like it was an easy year, with good performances being generated each and every quarter for all the investment options. The quarterly performance figures for the investment options disguise the volatility that was experienced in the individual asset classes.

Global equity markets were from time to time negatively affected by the expected impact of the tightening cycle in the US, which saw interest rates rise from 1% to 3.25% over the year. Combining this with an oil price which gradually rose to US\$ 60 a barrel, inflation seemed a distinct possibility and this was expected to dampen consumer spending and the outlook for profit growth. None of the expected fears materialized during the year, as both global inflation and the outlook for global growth have stabilized at benign levels, however, the benchmark return for International shares unhedged was 0.1% for the year.

The strong investment performance for the year can largely be attributed to the Australian share market, which was the best performing asset class for the year ended 2004-05 returning 26.4%. This followed on from 2003-04, which was also a good year for Australian shares and the cumulative return over the past two years has been 53.7%. The strength

in the Australian share market has largely been driven by a boom in resources due to strong demand from China. This has underpinned the Australian economy at a time when the housing related boom was tapering off.

The investment returns from the bond sectors ranged between 7.8% for Australian bonds to 12.3% for international bonds (100% hedged) for the year ended June 2005. The return for unhedged international bonds was a negative 1.5% over the same period, so the hedging of the international bond portfolio added significant value. Including the 100% hedge for international bonds, the two bond sectors outperformed cash, which returned 5.6% for the year gross of tax and fees.

Net Investment Returns/Strategy	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Growth	3.9	13.0	8.0	4.2
Balanced	3.4	11.6	N/A	N/A
Conservative Growth	2.9	9.4	N/A	N/A
Cash	1.2	4.8	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)	5.0	26.4	14.7	9.4
International Shares (unhedged)	1.8	0.1	-0.9	-6.9
Listed Property Trusts	4.7	18.1	15.8	15.2
Australian Fixed Interest	3.2	7.8	6.6	6.7
International Fixed Interest (hedged)	4.0	12.3	9.1	8.8
Cash	1.5	5.6	5.3	5.3

Past performance is no guarantee of future performance. The Trustee does not guarantee the performance of any product.

4



Disclaimer: Reasonable care has been taken in producing the information in this newsletter, which gives a general interpretation of the issues. Relevant information is subject to the Acts that govern the Schemes mentioned in the newsletter and those Acts will prevail to the extent of any conflict.

None of the SAS Trustee Corporation (STC) Board members or officers warrant the accuracy, reliability or completeness of the information in the newsletter and all of them exclude liability for any decision taken on the basis of information shown or omitted from the newsletter.

In preparing this newsletter, STC has not taken into account your objectives, financial situation or needs and, because of this, you should consider your personal circumstances and possibly seek professional advice, before making any decision that affects your future.

With respect to material in this newsletter that has been prepared by organisations other than STC, STC does not necessarily agree with the opinions expressed therein, nor take any responsibility for the accuracy or completeness of the information contained in that material.

9/05

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

What a difference a plan makes

Quite often at seminars, we are asked; “Why would I need to see a financial planner?” There are a number of ways that a financial planner can help you, particularly if you are preparing for retirement. In this article we are going to look at five of the most common areas in which a planner may be able help you.

Cashflow:

Generally, when we are working, our income comes primarily from our salary. However, income in retirement may come from a number of sources, for example interest and dividends from investments, a superannuation income stream, and perhaps some income from part time work or social security. The amount that each of these sources contributes to your cashflow will probably change over time as your circumstances change.

A financial planner can help you put together a plan to replace your salary once you stop work. For those of us who will receive a lump sum rather than a pension from our superannuation fund, generating a regular income in retirement can be very important. And it is equally important to maximise your income from all these sources available to you.

Tax:

No one likes paying tax, however, in retirement without a regular salary it is particularly important to minimise the amount of tax that you have to pay on your income. Some traditional income sources such as fixed interest investments like term deposits are generally fully taxable and may not be the most tax effective investment to make in retirement.

A financial planner will be able to discuss a range of options for you to consider such as superannuation income streams that can provide a regular income and will help you minimise tax. These income streams, such as allocated pensions, have significant tax advantages including tax-free earnings and a tax rebate on part of each income payment. These rebates, and other tax offsets available to senior Australians, may reduce the amount of tax that you pay on your income.

Social Security:

Understanding the complexity of the social security system is difficult. However, after assessing your situation, a financial planner can help you to determine if you may be eligible for social security support. Importantly, as your circumstances change over time, social security entitlements may also change. By reviewing your situation regularly, your financial planner will ensure that you are making the most of your entitlements.

Security and Peace of Mind:

A basic rule of sound investing is to spread your money over a range of different investments. This is called diversification. It is like the old saying: “Don’t put all your eggs in the one basket”.

History shows that different types of investments, and investment managers, perform better than others at different times for different reasons. That’s why diversifying your investments can assist with:-

- Reducing the total amount of risk in an investment portfolio;
- Optimising the return you’re likely to get for the risk taken; and
- Smoothing out the volatility – the ups and downs of investment returns over time.

Having a diversified selection of investments also avoids the pitfalls of trying to time the market. A more reliable strategy is to set your broad financial objectives, understand how you feel about risk and choose a diversified range of investments that are suitable for your time frame. Your planner will help you develop a plan that is right for your circumstances and suggest a range of investments that suit your financial objectives.

Ongoing support:

As you get older, you will probably find that your needs will change. At the same time, taxation, social security and superannuation legislation is also constantly evolving. An ongoing relationship with your planner means they are there to assist you continue to plan your future over the long term. It is worthwhile remembering that many people considering retirement today will be retired for more than 25 years, and so ongoing support is a vital part of your long term planning.

Do you need to talk to a financial planner about your retirement plans?

State Super Financial Services is one of Australia’s leading retirement planning organisations with over \$5 billion in funds under advice and more than 34,000 clients (as at 30/6/05). Our services are exclusive to current and former public sector employees and their families.

If you are approaching retirement and would like to find out how we can help you plan your financial future, call **1800 620 305** or visit our website at **www.ssfs.com.au**

This information is of a general nature only, is not comprehensive, and is not specific to your personal circumstances or needs. It is published for your interest. Before making any decisions based on this information you should consider its appropriateness to you. Every effort has been made to ensure the information contained in it is accurate. We strongly recommend that you consult a Financial Planner before taking action based on this information.

State Super Financial Services Australia (SSFS) is a principal member of the Financial Planning Association of Australia. Neither the SAS Trustee Corporation, PSS Board, CSS Board nor the NSW or Australian Governments take any responsibility for the services, or guarantee the performance of any product provided by SSFS.

SAS Trustee Corporation is a major shareholder in SSFS. As shareholder of SSFS, SAS Trustee Corporation has an interest in the number of people who use its services.