STATE SUPER
SAS Trustee Corporation

SuperViews

From the office of the
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Corporation Board

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SASS — Salary Sacrifice from 1 April 2007

INTRODUCTION

In this Article, we focus on the recent amendment to the SASS Legislation, which was included in the Superannuation Legislation Amendment Act 2006. We are pleased to announce that **from 1 April 2007,** with your Employer agreement, you will be able to pay your **compulsory personal SASS contributions** as Salary Sacrifice contributions.

However before making this decision, we recommend that you seek professional financial advice.

WHAT ARE THE CURRENT CONTRIBUTION ARRANGEMENTS?

- **Currently**, your compulsory personal contributions are after-tax (undeducted contributions) i.e. income tax is deducted from your salary before your contributions are paid.
- Each year, by 31 December, you decide what percentage of salary, between 1% and 9%, you want to contribute to SASS as your compulsory personal contributions. (You advise Pillar by sending in your Contribution Election Form. This Form is included with your 2006 Statement.)
- As ***SASS can only accept your compulsory personal contributions,*** any additional contributions (either Salary Sacrifice or undeducted) you make must be paid into another superannuation scheme of your choosing.

FROM 1 APRIL 2007 …. WHAT WILL CHANGE?

- ***Provided your Employer agrees, from 1 April 2007, you will have more choice in how you make your compulsory personal superannuation contributions to SASS***.
- If your Employer agrees, you can choose to pay your compulsory personal contributions:
  - entirely from your before-tax salary; or
  - from a combination of before-tax and after-tax salary.

FROM 1 APRIL 2007 …. WHAT WON'T CHANGE?

- Salary Sacrifice is not compulsory. You can continue to pay all your compulsory personal contributions from after-tax salary.
- Any ***additional*** Salary Sacrifice or undeducted contributions you make will continue to be paid into another superannuation scheme of your choice. **SASS is still not able to accept these contributions.**

IT'S ONLY OCTOBER …. WHY ARE YOU TELLING ME NOW?

- ***By 31 December 2006***, you must complete your Contribution Election Form and return it to Pillar.
- In selecting the percentage of salary for your compulsory personal contributions, you might want to consider the implications of being able to make those contributions as Salary Sacrifice contributions after 1 April 2007. (In doing so, we recommend that you seek professional financial advice.)
- Your superannuation benefits are calculated using your salary before Salary Sacrifice contributions are deducted.
- You need to be aware that Salary Sacrifice contributions are treated as employer contributions and attract the 15% contributions tax on entry to the Fund.
- *This means that your contribution rate needs to be increased so that you make the same net contribution to SASS that you would have made through after-tax contributions. For example, if you* ***elect to contribute at 6%****, you would need to contribute* ***7.06%*** *of salary, i.e. an additional 1.06% of salary on a before-tax basis. (Formula: Contribution Rate ÷ 0.85.) The grossing up of the contribution rate is arranged with your Employer, as part of overall Salary Packaging arrangements.*

The Salary Sacrifice contribution rates applicable for the specified after-tax contribution rates are set out in the following table.

After-tax Contribution Rate	Salary Sacrifice Rate
1%	1.18%
2%	2.35%
3%	3.53%
4%	4.71%
5%	5.88%
6%	7.06%
7%	8.24%
8%	9.41%
9%	10.59%

WHY IS THIS RELEVANT TO ME?

You may receive more take-home pay if you pay your contributions from before-tax salary. However, this depends on your level of income so ***you should seek professional financial advice*** to assist you to decide whether to make Salary Sacrifice contributions.

The following example compares the effect on net salary of Salary Sacrifice contributions for a member earning $70,000 per annum. The example assumes the member has elected to contribute 6% of salary and is not eligible for the Commonwealth Government Co-contribution.

After-tax Contributions	
Gross Salary	$70,000.00
Less Income Tax (excluding Medicare)	$16,350.00
Net Salary	$53,650.00
Less Superannuation Contribution (6% of Gross Salary)	$4,200.00
Net Salary (after tax and super deductions)	**$49,450.00**

Salary Sacrifice Contributions	
Gross Salary	$70,000.00
Less Salary Sacrifice Contributions (7.06% contribution rate)	$4,942.00
Adjusted Gross Salary	$65,058.00
Less Income Tax (excluding Medicare)	$14,867.40
Net Salary *(after super and tax deductions)*	**$50,190.60**

In this example, making Salary Sacrifice contributions resulted in a $740.60 increase in annual after-tax salary.

In both scenarios, the net contribution credited to a member's Personal Account will be the same.

OTHER MATTERS TO CONSIDER

Do Salary Sacrifice contributions affect the Salary used to calculate my benefits?

No. Your superannuation benefits are calculated using your Salary before any superannuation contributions (before-tax or after-tax) are deducted.

Can I pay additional Salary Sacrifice contributions into SASS?

No. SASS can only accept your ***compulsory*** SASS contributions.

Do Salary Sacrifice contributions count for the Commonwealth Government Co-contribution?

No. Only after-tax contributions qualify for the Commonwealth Government Co-contribution.

Am I eligible for the Commonwealth Government Co-contribution?

Generally, the Commonwealth Government's Co-contribution will be payable for a financial year if you meet ***all*** of the following conditions:

- you make personal superannuation contributions from your *after-tax* income during a financial year, and
- your total income* for the financial year was less than $58,000**, and
- at least 10% of your total income* is attributable to employment, and
- you lodge an income tax return for the financial year, and
- you are less than 71 years of age at the end of the financial year, and
- you did not hold a temporary resident visa at any time during the year.

**Total income means assessable income plus reportable fringe benefits.*

***Subject to indexation from 2007–08.*

How is the Co-contribution calculated?

For years ended 30 June 2005 and later:

- The Co-contribution is $1.50 for every $1 of personal contributions made in a financial year (subject to the maximum Co-contribution available).
- For annual incomes up to $28,000**, the maximum Co-contribution for the 2004–05 and later years is $1,500.
- For incomes above $28,000**, the maximum ($1,500) reduces by 5 cents for each dollar of income above $28,000, so that it phases out completely at $58,000**.

***Subject to indexation from 2007–08.*

I RECEIVED A CO-CONTRIBUTION LAST YEAR – SHOULD I MAKE SALARY SACRIFICE CONTRIBUTIONS?

We can't help you make that decision. You should seek professional financial advice before deciding whether to make Salary Sacrifice contributions.

APART FROM THE 15% CONTRIBUTIONS TAX, ARE THERE OTHER TAX IMPLICATIONS?

Yes. The Australian Taxation Office requires any Salary Sacrifice arrangement with your Employer to be made in advance. i.e. it must be based on future salary. You also need to advise your Employer in advance so that appropriate deductions can be made from your salary.

Salary Sacrifice contributions:

- count towards your Reasonable Benefit Limit *(2006 Commonwealth Budget proposals include abolishing the Reasonable Benefit Limits from 1 July 2007).*
- are subject to tax on benefit payment *(2006 Commonwealth Budget announcements included a proposal to remove tax on benefit payments if taken after age 60).*
- are counted in full towards the employer contribution limit (*2006 Commonwealth Budget proposals include removing the age based employer contribution limit. Discussions continue on how the notional employer contributions are to be calculated for SASS. Contributions above the limit will be taxed at the highest marginal tax rate instead of the concessional rate of 15%).*

I'M INTERESTED IN SALARY SACRIFICE …. WHAT SHOULD I DO NOW?

- Seek professional financial advice.
- **Complete your Contribution Election Form and return to Pillar by 31 December 2006.**
- Check whether your Employer will allow you to make Salary Sacrifice contributions and when you will have to advise changes to your Salary Packaging arrangements to include any Salary Sacrifice of your compulsory personal contributions.
- Advise your Employer what portion (if any) of your SASS contributions you want to make under a Salary Sacrifice arrangement.

HOW DO I OBTAIN MORE INFORMATION?

Customer Service is available to help you with general information and can be contacted on 1300 130 095 between 8.30am and 5.30pm Monday to Friday.

In early 2007, we will include a calculator on the State Super website to assist you.

For assistance in making the decision whether to make Salary Sacrifice contributions, we recommend you seek professional financial advice.

Despite weak performances by all the investment options except Cash during the June quarter 2006, it was a great year for all three diversified options. The Growth option returned 16.1% for the year ended June 2006, which is the highest year-end return since June 1997, when the return was 17.2%.

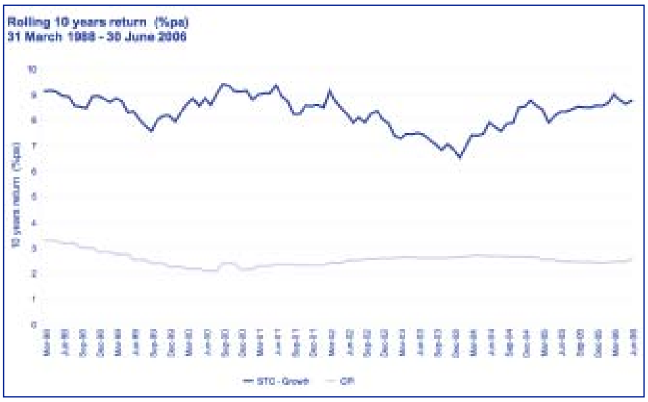
It is the third year in a row that the Growth option has generated double digit returns. The strong returns over the past 3 years translate into an average annual return of 14.2% pa, which is the best average annual return over a 3 year period during the past 20 years.

Although the last 3 years have generated very good investment returns, the average annual return over 5 years is still fairly modest at 6.3% pa, due to the poor returns in the financial years 2002 and 2003.

Net Investment Returns/Strategy	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Growth	0.0	16.1	14.2	6.3
Balanced	-0.2	11.4	N/A	N/A
Conservative Growth	0.4	8.2	N/A	N/A
Cash	1.2	4.9	N/A	N/A

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

Investment returns can fluctuate widely in the short to medium-term, but they tend to be much more stable over the long-term. The aim for the Growth option is to achieve returns in excess of CPI + 4.5% pa over 10 year rolling periods. For the 10 year period ended June 2006, the hurdle rate equated to approximately 7.1% pa . Over the same period the Growth option returned an average annual return of 8.8% pa, which is a significant margin above the hurdle rate.



Although the main focus is on the long-term performances of the investment options, short-term performance comparisons are regularly monitored and it is pleasing to note that the Growth option is doing very well on a relative basis. The return of 16.1% for the year ended June 2006 was significantly better than the 14.9% generated by the median manager in the universe of Growth managers. The Growth option ranked 14 out of 71 products, which puts it in the top quartile of products with a similar risk profile.

The Balanced and the Conservative Growth options returned 11.4% and 8.2% respectively. For both investment options the performance was slightly below the median manager in their respective risk universe, which was due to a below average weighting to equities.

To 30 June 2006	Growth %	Balanced %	Cons Growth %	Cash %
1 Year	16.1	11.4	8.2	4.9
Median Manager*	14.9	11.5	8.3	

*The Median Manager refers to the median in the relevant Intech performance survey.

The strong investment performance for the year ended June 2006 was largely underpinned by strong equity markets. The Australian equity market returned 23.9% and international equity markets returned 15% on a fully hedged basis and 19.9% on an unhedged basis.

During the year the world economy expanded at above average pace across all the major regions. In addition, China and India continued to experience very strong growth, which has been reflected in strong prices for oil and base metals. This created very favourable conditions for the Australian economy, which now appears to be operating with limited spare capacity, although there is quite a dispersion between the states. Both Western Australia and Queensland are experiencing boom conditions, whereas growth is more moderate in NSW and Victoria. The economic expansion has resulted in the jobless rate being at a 30-year low at 4.9%, which compares to 4.6% in the U.S. and 7.9% among the 12 nations in the Euro Zone.

Limited spare capacity is often a precursor for inflation. In Australia, the Consumer Price Index rose by 4 % for the year ended June 2006, which is above the target range of 2 – 3% used by the Reserve Bank of Australia. Similar trends are evident across the world. To combat rising inflation most central banks have been increasing interest rates over the past year, which is the main reason for the poor performances of the bond sectors. For the year ended June 2006, Australian and International bonds (fully hedged) returned 3.4% and 0.9% respectively. This compares with a return of 5.8% on cash.

Asset Sector Index Returns (before allowance for tax and fees)

To 30 June 2006	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Australian Shares (ASX 200)	-0.2	23.9	23.9	12.3
International Shares (unhedged)	-4.6	19.9	12.7	-2.3
Listed Property Trusts	4.5	18.0	17.8	16.1
Australian Fixed Interest	0.0	3.4	4.5	5.9
International Fixed Interest (hedged)	0.1	0.9	5.3	7.1
Cash	1.4	5.8	5.6	5.3

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STATE SUPER
Financial Services
AUSTRALIA

Choosing to leave work before 60. Is it still an option?

The recent Federal Budget announced a number of proposed changes to the taxation of superannuation benefits. These announcements include changes to the tax treatment of superannuation benefits paid from a taxed superannuation fund to a member over 60. For people over 60, these payments will become tax free either as a pension, or as a lump sum.

Many people are uncertain about the impact of these proposed changes, and a number of common misconceptions have arisen.

The first misconception is that these announcements are now law. Most of the changes announced are not yet law, and should they be passed by the Australian Parliament, most of them will not take effect until July 2007. The Federal Budget announced ***proposals***, and at the time industry and the public was asked to comment on the proposed changes. The submission period has ended and now the Government faces of the task of reviewing the record number of more than 1,500 submissions that were received regarding the proposals.

Another common misconception among members of the NSW STC funds (SASS, SSS or Police), is that "all government defined benefit" super funds are untaxed and therefore retiring members will not be able to access this tax free option if and when it becomes law. This is not true for SASS, SSS or Police, which are funded schemes.

This means that from 1 July 2007 under the proposals, upon reaching 60 the total lump sum benefit will be tax-free. Currently any undeducted contributions plus the first $135,590 (for 2006/2007) of your Post 1 July 1983 component are tax-free. And remember that under the current rules, if a lump sum benefit is rolled over, any lump sum tax is deferred until the money leaves the superannuation system. It is also important to note that it is proposed that all pensions even those already started under the current rules will be reclassified as tax-free once you reach age 60 (assuming the changes are implemented).

One of the most significant misconceptions is that retirement before age 60 is no longer an option. This is simply not true. For many people, retiring before age 60 can make a lot of sense, whatever the reason. It is still quite possible to do so. Depending on the circumstances of each individual, it may be possible under the current rules to use a superannuation lump sum benefit to purchase an income stream that will pay little or no tax on income before age 60 and then automatically become tax-free from 60. If you are over 55 and do wish to retire before 60, you should discuss your situation with a financial planner.

A planner will be able to review your situation and help you with the decision support you need when planning to retire. You may have more options than you had anticipated.

When should you see a retirement planner?

Our experience shows that there are certain times in life when most of us would benefit from seeking professional financial planning advice. For example, if you are over 55 and:

- You are 1 to 2 years from leaving work and have started actively planning your retirement;
- You are considering a redundancy offer and need to make a decision;
- You are a member of SASS considering retirement in the next 1 to 2 years and you need to consider your retirement income options;
- You have a SASS deferred benefit (DB) that may be affected by legislative changes – for many people this will be age 58.

Need retirement planning help?

To find how we can help you plan your retirement call **1800 620 305** or visit our website at **www.ssfs.com.au**
