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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Leave Without Pay – the superannuation rules

INTRODUCTION

As 2006 draws to a close, I hope that you and your families have a safe and enjoyable Festive Season.

In the final edition of SuperViews for 2006, we focus on how the superannuation benefits and compulsory personal contributions of State Authorities Superannuation Scheme (SASS) and State Superannuation Scheme (SSS) members are affected by periods of Leave Without Pay (LWOP).

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

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

The Scheme rules are applied according to the information provided by your employer. Any leave that does not affect your superannuation contributions and benefits – such as periods of LWOP of 5 days or less – is not required to be reported to the Pillar Administration.

Shared features of the LWOP rules

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.

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 Parental leave, leave to take a career break, undertake private studies, or travel.

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*. During a period of *special* LWOP, your personal contributions and accrual of benefits continue. (Where sick or maternity LWOP extends for more than 2 years, payment of contributions and the accrual of benefits is suspended for any period in excess of 2 years.)

Basic Benefit

Generally, a period of *ordinary* LWOP of more than 5 days will not count as service for the accrual of your Basic Benefit.

Scheme specific features of the LWOP rules

SASS

Ordinary LWOP (SASS)

Periods of *ordinary* LWOP of 1 whole 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 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. You will have to pay your personal (employee) SASS contributions to your **employer** — Pillar is not able to accept these contributions directly from you. Your employer will continue to make employer contributions for you.

If the requirement to contribute to SASS during a period of LWOP causes financial hardship, you may apply to Pillar 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 on 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 $25,000, but as a full-time employee it would have been $50,000, your salary ratio would be 0.5 (ie. one-half).

The salary ratio is used to determine your annual benefit points accrual:

a) The maximum number of benefit points is 6 multiplied by the salary ratio. If the salary ratio was 0.5 (as in the previous 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. However, the amount of 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 the employer contributions during the leave period ; 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 the employer contribution liability to SSS for the leave period. Some employers will allow LWOP of up to 6 months before applying this condition. You would have to make these arrangements with your employer. Please note, your personal 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 is available from your employer or from Customer Service.

Special LWOP (SSS)

If you take *special* LWOP you are not required to pay the employer's contribution liability to the scheme. 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 *prescribed* 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.

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.

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

Calculation of the deduction factor referred to in (b) 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 directly 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 at fund earning rate added) when you return to work—either as a lump sum or by instalments over a period not longer than the period of leave. As interest can quickly grow to a large amount, it is recommended that you seek professional financial advice before deciding to defer payment of your personal contributions.

During the September quarter the returns from the three diversified investment options were fairly similar, ranging between 2.4% - 2.7%, but over the year there was a significant dispersion in returns as risk taking was rewarded. The Growth option, which had around 78% in growth assets (shares and property) generated a net return of 13% compared to the Balanced option, which returned 9.9% and the Conservative Growth option, which returned 7.9% over the same period.

Net Investment Returns/Strategy	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Growth	2.7	13.0	14.1	8.6
Balanced	2.6	9.9	N/A	N/A
Conservative Growth	2.4	7.9	N/A	N/A
Cash	1.3	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 have been very strong in absolute terms over the past 3 years. This has enabled the Growth option to comfortably achieve its long-term objective, which is to generate a return in excess of CPI + 4.5% pa over 10 year rolling periods. For the 10 year period ended September 2006, the Growth option returned an average annual return of 8.8% pa, which is 1.5% pa above the hurdle rate.

On a relative basis, the Growth option is also performing very well. It is currently ranked in the top quartile of products with a similar risk profile over 1 year and ranked second quartile over 3 years. It must be emphasized, however, that the relative ranking of the Growth option is not a primary objective of the fund, but a fortunate outcome, which occurs from time to time when the key pieces in the long-term strategy are in alignment.

To 30 September 2006	Growth %	Balanced %	Cons Growth %	Cash %
1 Year	13.0	9.9	7.9	4.9
Median Manager*	11.9	10.1	7.8	

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

The September quarter was an outstanding quarter for investments in the listed property trust sector, which returned 10.6%. This strong performance has underpinned the performance over various time periods and resulted in the asset class being the best performing asset class over 3 and 5 years.

It was also a strong quarter for international equities in particular US equities, which rallied to their highest third quarter return for the past 10 years. Although some commentators were worried about the slowing US housing market, its impact on the US consumer's ability to continue to spend and how this would affect world growth, market sentiment was driven by solid corporate earnings. In particular, sectors like health care, telecommunication services and information technology stocks were boosted by corporate news, while concerns about demand for commodities hindered materials and energy stocks.

Poor performances in materials and energy are generally bad for the Australian equity market as the major resource stocks such as BPH, RIO and Woodside account for around 13% of the S&P/ASX 200. In spite of weaker resource stocks, the Australian market managed to generate a return of 2.9% during the September quarter due to a series of take-over offers led by global private equity firms. KKR's attempt at buying Coles Myer was a high profile example of this activity. Apart from the actual take-over offers, the market was buoyed by widespread speculation over other potential targets.

Interestingly, during the September quarter, investment returns were good across all the asset classes. Fixed income investors focused on the decline in energy prices and how this would ease inflation concerns especially when combined with a weak US housing market. Expectations of a cut in US interest rates triggered a bond rally as long bond yields declined globally and the sector returned 3.6% for the quarter, which contributed more than half the returns for the year ended September 2006. The rally was less powerful in Australia with Australian bonds returning 2% for the quarter and 5.3% for the year.

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

To 30 September 2006	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Australian Shares (ASX 200)	2.9	16.0	22.8	15.8
International Shares (unhedged)	4.1	16.9	12.8	1.0
Listed Property Trusts	10.6	25.6	23.6	17.5
Australian Fixed Interest	2.0	4.8	5.3	5.4
International Fixed Interest (hedged)	3.6	4.1	6.6	7.2
Cash	1.5	5.9	5.7	5.3

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What does a retirement financial planner do?

Many people find the idea of seeing a retirement planner very intimidating. Others don't see a need, either because they feel that they can "do it themselves", or that there is nothing that can be done to improve their situation in retirement.

However, those individuals who do seek professional advice most often find that the experience was a very rewarding one, both financially and in terms of their peace of mind.

So what can you expect from a financial planner?

A professional financial planner takes a holistic view of your circumstances. For many people, superannuation is a significant issue, but it is only part of the picture. Your future plans and expenses, your ongoing income requirements, your other financial resources will be just some of the elements that must be considered when developing your personal financial plan.

The first part of the financial planning process, will be meeting with your financial planner who will cover a wide range of issues. This meeting will be an information gathering discussion that is crucial to helping your planner understand your financial circumstances. Once your planner has collected enough details including your goals and objectives, you can move to the next step, which is developing a strategy

Your planner will suggest a strategy that will help you to achieve both your long and short-term goals. In some situations part of the planner's role is to be a "reality check". It may be that you need to accumulate more assets prior to leaving work if you are to have the lifestyle you want in retirement. On the other hand, a planner may be able to show you that it makes financial sense for you to leave work somewhat earlier than you had thought possible.

Your planner will also look at your short and long-term investment options. The type of investment products used and the allocation of your assets will be vital for your long-term security. A diversified portfolio over a range of asset classes is an accepted way to manage risk. Diversification is essentially the investment equivalent of the old proverb "don't put all your eggs in one basket."

Importantly, in all instances you are in control of the process. Your planner is there to provide you with expert advice and decision support, but ultimately you are in charge of the decision making process.

Once your strategy is agreed between you and your planner you will move to the implementation phase, where you complete the paperwork. This is another area that often seems daunting. Filling in forms can be confusing and frustrating. Your planner will help you to identify the appropriate forms and help you to complete them correctly. Once your plan has been implemented, you can move on to enjoying your retirement in whatever form you may have planned. But your relationship with your planner won't stop there.

At regular intervals, and when you circumstances change significantly, you will need to meet with your planner to review your financial plan. This may be because you have reached a milestone such as age pension age, perhaps changes have been made to the superannuation or taxation laws, or simply fine tuning of your strategy as your needs change in retirement.

Australian life expectancies are increasing. Research from the Australian National University in 2004 reveals that more than half of the women and over a third of the men turning 50 today will live to at least age 95. As you age, your needs will change and you will require more decision support to manage your affairs. A long-term relationship with a financial planner can help make this process easier for you to manage.

Planning for your future is not a set and forget process. The recent Federal Budget announcements illustrate how quickly things can change. A financial planner can add significant value both in planning for retirement and for retirees. Our experience shows that where retirees perceive their financial planner adds most value is by helping them achieve money to live on, security and peace of mind in retirement.

When should you see a retirement planner?

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.

Thinking of retiring and need help?

To find how we can help you plan your retirement 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.

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