

SuperViews

From the office of the
Employee Representative
SAS Trustee
Corporation Board



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SSS Salary Sacrifice from 1 July 2007

In this issue we focus on the introduction of Salary Sacrifice for SSS members' compulsory personal contributions.

Before deciding whether to Salary Sacrifice, it's recommended you seek professional financial advice and review the Concessional Contributions Cap information pack sent to you by mail recently.

Remember, you can talk to your employer at any time about salary sacrificing all or some of your current compulsory personal contributions to SSS. However any adjustment in the **total** amount of contributions you make only takes effect from your Annual Adjustment Day which is either 21 October or 5 May.

What are the current contribution arrangements?

Currently, compulsory personal contributions to SSS are made on an after-tax basis (non-concessional contributions which were previously known as undeducted contributions). This means income tax is deducted from your salary before your contributions are paid.

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Better Super at a glance...

No doubt you've heard a lot about the Commonwealth Government's Better Super changes. Unless otherwise stated, these changes take effect from 1 July 2007 and include:

Tax-free after age 60

For **taxed** schemes such as SASS and SSS, all superannuation benefits whether in pension or lump sum form paid to members over age 60 will be tax free (subject to an adjustment for any surcharge or other debt). Low rates of tax still apply for benefits paid to members who are less than age 60.

RBLs abolished

Reasonable Benefit Limits (RBLs) have been abolished. If you were affected by RBLs you need worry no more. There is now no limit on the amount of super you can build up. However there are new annual contribution limits for both concessional (taxed at 15%) and non-concessional contributions (after-tax contributions paid by members).

Co-contribution boost

Those members who received a Commonwealth Government Co-contribution for the year ended 30 June 2006 will receive double what they thought they'd get up to a maximum of \$3,000 instead of \$1,500. This was a one-off bonus announced by the Commonwealth Treasurer in the 2007 Budget. There's a Fact Sheet on our website explaining how the Commonwealth Government's Co-contribution works.

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SSS Salary Sacrifice

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Each year on your Annual Review Day you are advised of any new units to which you have become entitled because of salary increases. While you do not have to make compulsory personal contributions to SSS that would exceed an amount equal to 6% of your salary, the amount you select to contribute to SSS takes effect from your Annual Adjustment Day.

SSS can only accept compulsory personal contributions for those units you're eligible to contribute towards.

| What will change?

Provided your Employer agrees, from 1 July 2007 you can choose to pay your compulsory personal contributions to SSS:

- entirely from your before-tax salary (Salary Sacrifice) or;
- entirely from your after-tax salary; or
- from a combination of before-tax and after-tax salary.

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| What won't change?

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

| What do I need to consider?

Salary Sacrifice contributions are treated as employer contributions and attract the Commonwealth Government's 15% contributions tax on entry to the Scheme. This means the amount you contribute needs to be increased (or grossed up) by an amount representing the contributions tax, so that you make the same net contribution to SSS that you would have made via after-tax contributions.

To calculate how much extra you would need to contribute if you salary sacrificed all your SSS compulsory personal contributions, simply divide your current after-tax contribution amount by 0.85.

For example, if you currently contribute \$4,200 to SSS in after-tax contributions, you would need to increase this amount to \$4,941 via Salary Sacrifice contributions (ie $\$4,200 \div 0.85 = \$4,941$). The grossing-up of contributions is arranged with your Employer as part of overall Salary Packaging arrangements.

Whether Salary Sacrifice is right for you depends on your individual circumstances. You may receive more take-home pay if you make your contributions via Salary Sacrifice. However this depends on your level of income so you should seek professional financial advice to help you decide whether to make Salary Sacrifice contributions.

There is a handy calculator on our website that shows you the effect of making contributions via Salary Sacrifice, after-tax and a combination of both.

Do Salary Sacrifice contributions affect the Salary used to calculate my SSS unit entitlements?

No. Your Salary and your SSS unit entitlement are not affected by whether you make Salary Sacrifice contributions.

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

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

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. You will need to advise your Employer in advance so that appropriate deductions can be made from your salary. Salary Sacrifice contributions:

- are subject to tax on benefit payment unless taken after age 60
- count towards the Concessional Contributions Cap (further details are provided in SSS Fact Sheet 23).

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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

Better Super at a glance...

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Concessional Contributions Cap

All contributing members of SASS and SSS were sent an information pack by mail explaining the new Concessional Contributions Caps. Briefly, concessional contributions exceeding \$50,000 for people aged less than 50 or \$100,000 if you're more than 50, will generally be taxed at a total of 46.5%.

However special conditions apply to members of defined benefit schemes such as SASS and SSS as explained in the relevant Fact Sheets sent to members and now available on the website.

Non-concessional Contributions Cap

Non-concessional contributions are after-tax contributions members may make to an STC Scheme or another super top-up fund. The non-concessional cap is set at \$150,000 a year although members can bring forward two years' worth of non-concessional contributions, allowing up to \$450,000 to be contributed in a single year. Contributions exceeding this cap are taxed at 46.5%.

Tougher TFN rules

More than 96% of members have provided their Tax File Number (TFN). However we remain concerned for that small percentage of members who have not provided their TFN as they are expected to be adversely affected by the continued tightening of the

Commonwealth Government's TFN regime. One of the consequences is that employer contributions (including Salary Sacrifice contributions) are expected to attract an additional 31.5% tax where a member's TFN is not recorded.

Those members who have not provided their TFN to Pillar may wish to discuss the effects of this with their financial planner or accountant. There's a TFN Collection Form on our website or you can call Customer Service and a copy will be sent to you.

Strong investment returns

SASS members will be pleased to know the Scheme's four investment strategies had another strong year. For the year to 30 June 2007, the declared rates were:

Growth Strategy	14.9%
Balanced Strategy	11.6%
Conservative Growth Strategy	8.9%
Cash Strategy	5.4%

Past investment performance is no indication or guarantee of future investment performance. The declared rate can be positive or negative depending on investment performance and is allocated to SASS members' accounts each month. Most benefits paid from SSS are taken as defined benefits and are not affected by declared rates.

I'm interested in Salary Sacrifice ... What should I do now?

- Check whether your Employer will allow you to make Salary Sacrifice contributions and when you are able to advise changes to your Salary Packaging arrangements to include any Salary Sacrifice contributions.
- Visit the website and use the SSS calculator to see the effect Salary Sacrifice has on your personal circumstances.
- Seek professional financial advice.
- Advise your Employer of the portion (if any) of your SSS contributions you want to make via Salary Sacrifice.

Visit us on the web at:

www.statesuper.nsw.gov.au

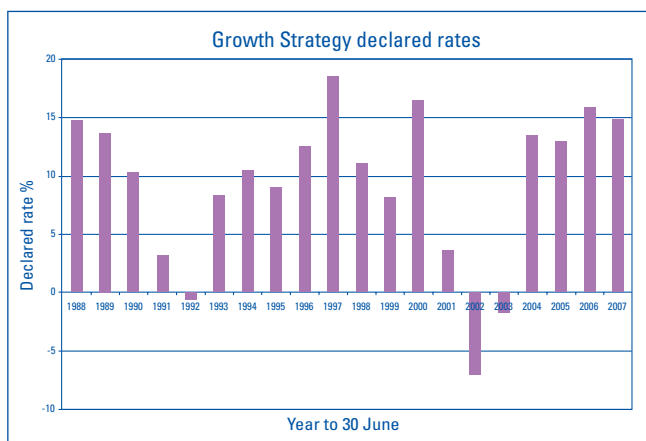
or phone Customer Service:

SASS 1300 1300 95; **SSS** 1300 1300 96; **PSS** 1300 1300 97

It has once again been a good year for growth assets. Investment strategies with a tilt to growth assets generated strong returns for the year to 30 June 2007. The year was as always dominated by a mixture of themes. The dominant themes being a world economy growing at 5.5% which was well above the long-term average growth rate of 3.5%pa; and easy liquidity translating into strong merger and acquisition activity. The positive tenor of the themes translated into steady quarterly performances during the year for the various investment strategies as the following declared rates indicate:

Strategy	Sept Qtr 2006 %	Dec Qtr 2006 %	March Qtr 2007 %	June Qtr 2007 %
Growth	2.7	5.2	2.9	3.5
Balanced	2.6	3.8	2.4	2.2
Conservative Growth	2.3	2.7	2.0	1.6
Cash	1.3	1.3	1.3	1.4

The Growth Strategy returned 14.9% for the year to 30 June 2007, the fourth year in a row the Growth Strategy generated double digit returns. The average rate over the past 3 years was 14.6%pa and 10.9% over 5 years. Just how good the last four years have been can be seen from the graph below which shows the annual returns of the Growth Strategy over the past twenty years.



Apart from the boost from investment returns, the Growth Strategy experienced significant growth during the year. It grew from \$27.9 billion at the end of June 2006 to \$37.8 billion at the end of June 2007 and accounts for 99.6% of Pooled Fund assets.

Australian equities

It was another strong year for Australian equities with the S&P/ASX 200 index returning 28.7% for the year following returns of 23.9% and 26.4% in 2006 and 2005 respectively.

Industrials was the best performing sector with a total return of 40.6% just ahead of Telecommunication Services at 40.1%. Interestingly, the lowest performing sector was Energy with a total return of 21.1%, highlighting the overall strength in the Australian equity market across all sectors.

International equities

Strength in the world economy translated into solid earnings, boosting equity markets around the world. In the US the S&P500 rose 18.5% during the past year as positive factors exceeded negatives, like the problems being experienced in the sub-prime mortgage market.

The performance of international equities was significantly impacted by the decision to hedge or not to hedge as the A\$ rose from US\$0.743 at the beginning of the year to US\$0.849 at the end of the year. As a result, unhedged international equities returned 7.8% for the year compared with a fully hedged return of 21.4%. STC uses two active currency managers and they partially hedged the portfolio during the year. The portfolio therefore benefited from the return differential between the hedged and unhedged benchmark.

It was another difficult year for bond investors. One year returns from Australian and international fixed income were 4.0% and 5.2% respectively compared with a return of 6.4% from Cash. The Australian 10 year bond yield started the year at 5.8%, fell to 5.5% in December 2006 before finishing the financial year at 6.3%. In the US the 10 year bond yield started the year at 5.15%, fell to 4.4% before finishing the year around 5.3%.

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

To 30 June 2007	3 Months %	1 Year %	3 Years % per annum	5 Years % per annum
Australian Shares (ASX 200)	5.4	28.7	26.3	19.2
International Shares (unhedged)	1.3	7.8	8.9	4.7
Listed Property Trusts	2.5	25.9	20.6	18.2
Australian Fixed Interest	0.3	4.0	5.0	5.4
International Fixed Interest (hedged)	-0.6	5.2	6.0	6.6
Cash	1.6	6.4	5.9	5.6

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



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.

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