Purchased leave

What is purchased leave?

Purchased Leave is a voluntary arrangement between employees and their employers where employees may “purchase” additional leave by reducing their annual salary. The conditions under which such agreements can be made are generally set out in your Award or employment contract.

How does purchased leave affect my superable salary?

If you enter into a Purchased Leave Agreement with your employer, you will have your annual salary adjusted commensurate with the number of leave days purchased. That is, you will have a new purchased leave rate of pay.

The salary rates will be based on the following:

- for the purchase of 20 additional days per year (4 weeks), the new salary rate will be 92.3% (48/52) of the ordinary salary rate or pro rata equivalent.
- for the purchase of 10 additional days per year (2 weeks), the new salary rate will be 96.15% (50/52) of the ordinary salary rate or pro rata equivalent.

Where a Purchased Leave Agreement is in operation, on your Annual Review Day or at exit, your employer will report your purchased leave salary for that year, i.e. the reduced salary, as your superable salary.

Where a Purchased Leave Agreement is terminated, your salary is adjusted and the revised salary will be reported by your employer as your superable salary on the next Annual Review Day or at exit.

How does purchased leave affect my contributions?

Your contributions are based on your unit entitlement, and your unit entitlement is based on the salary reported by your employer. This means that if you enter into a Purchased Leave Agreement and your employer reports your reduced salary on your next Annual Review Day, your contributions can be reduced. However, contributions will continue to be payable based on the higher salary reported on your previous Annual Review Day, unless you elect to have your contributions reduced to the amount payable based on your reduced salary.

After termination of a Purchased Leave Agreement and subsequent reporting of your higher salary at the next Annual Review Day, your contributions will be assessed on the higher salary.

How does purchased leave affect my SSS benefit?

In most cases your benefit is based on the number of units to which you are entitled, and the higher your superable salary when you exit the scheme the more units you receive. If you are on a reduced salary when you exit the scheme, due to having a Purchased Leave Agreement in place, that is the salary your unit entitlement will be based on.

Example

Morris is a SSS member who works full-time and is entitled to a superable salary of $85,000. On this salary, his contributions and benefit would be based on a unit entitlement of 358 units.

Morris decides to enter into a Purchased Leave Agreement and purchases an additional four weeks leave. His superable salary is then calculated as follows:

\[
\frac{48}{52} \times 85,000 = 78,462
\]
Morris’ employer will report this salary on his next Annual Review Day or if he ceases employment. If this salary is reported when Morris ceases employment, this is the salary that will be used to calculate his SSS benefit. Based on the reduced salary of $78,462, Morris is entitled to 333 units.

If Morris terminates his Purchased Leave Agreement, his superable salary will revert to his full salary of $85,000, and his benefit will be based on a unit entitlement of 358 units.

Note: If you elect to receive the withdrawal benefit when you exit SSS, your unit entitlement is not taken into account when determining the value of your benefit, so being on a reduced salary on your last day of service will not reduce the benefit you receive.

How does purchased leave affect my basic benefit and AEC benefit?
Your basic benefit is calculated using either your final salary or your final average salary. Your final salary is the amount of salary for superannuation purposes, paid or payable on your exit date. Your final average salary is the average of the salaries for superannuation purposes, paid on your exit date and the two preceding Annual Review Days. See STC Fact Sheet 10: Basic benefit to determine when each salary is used.

If the salary payable to you on your exit day or on an applicable Annual Review Day has been reduced by entering into a Purchased Leave Agreement, then this reduced salary will be used in calculating your basic benefit.

If you terminate a Purchased Leave Agreement then your regular salary will be reported as your superable salary on your next Annual Review Day or at exit. However, it should be noted that if your final average salary is used to calculate your basic benefit, then the reduced salary as at an earlier Annual Review Day may still be used in calculating the final average salary used to determine your benefit.

The Additional Employer Contributions (AEC) that your employer makes each month are based on the salary that your employer reports on your Annual Review Day. As your Annual Review Day salary is reduced when you enter into a purchased leave arrangement your AEC will also be reduced.

The balance in your AEC account when you enter into a purchased leave arrangements does not change.

Is there anything else I need to consider?
Individual circumstances will vary. You should seek financial advice to determine how a Purchased Leave Agreement will affect your salary package and tax.

Fact sheets about related topics are:
SSS Fact Sheet 1: Salary for superannuation purposes
STC Fact Sheet 10: Basic Benefit
STC Fact Sheet 20: SANCS Additional Employer Contributions (AEC) Account

More information
If you need more information, please contact us:

Telephone: 1300 130 096 (for the cost of a local call, unless calling from a mobile or pay phone)
8.30 am to 5.30 pm, Monday to Friday.

Personal interviews: Please phone 1300 130 096 to make an appointment.

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