STATE SUPER
SAS Trustee Corporation

2017

Pension NEWSLETTER

Keeping members super informed

In this issue......

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State Super update

Keeping you informed of the latest news and updates to State Super

JP Morgan selected as the preferred custodian

Following a successful joint project between NSW Treasury, NSW Treasury Corporation (TCorp), Insurance and Care NSW (icare) and SAS Trustee Corporation (State Super), JP Morgan has been selected as the preferred custodian of the combined investment funds of the three NSW Government agencies. JP Morgan was selected on the basis of compelling commercial, contractual and capability considerations.

JP Morgan is State Super's current custodian and will also continue to provide State Super with custodial services related to member funded assets.

Pillar Administration sold to Mercer Australia

In December 2016, then NSW Treasurer Gladys Berejiklian, announced the sale of Pillar Administration to Mercer Australia.

Pillar has been State Super's administration service provider for many years and also provides other member services including our contact centre and interview service. Mercer and its leadership team also has a strong track record in superannuation administration services in Australia with expertise in defined benefit, defined contribution and hybrid fund administration.

Pillar are committed to innovation and excellence and we look forward to continuing to work closely with the Pillar team and the new team from Mercer, in providing superior services to members.

The name of Pillar Administration has now changed to Mercer Administration Services (Australia) Pty Limited (ABN 48 616 275 980). In addition, our Member Interview Service in Sydney will be moving to Mercer offices in Barangaroo in the second half of this year, and the website will have more details as we near the time of the move.

Legislative changes from 1 July 2017

In the Commonwealth Government's May 2016 budget, numerous reforms affecting superannuation were proposed. Legislation for most of these measures was introduced into Parliament on 9 November 2016 and passed through both houses of Parliament on 23 November 2016.

These changes are designed to improve the fairness, sustainability, flexibility and integrity of the superannuation system.

In this issue, we provide information on the key changes to superannuation, such as the introduction of a $1.6 million transfer balance cap on the total amount of superannuation savings that can be transferred from a concessionally-taxed 'accumulation account' to a tax-free 'retirement account'. We also look via examples at how you are likely to be affected.

The Commonwealth Government has updated and released several consumer fact sheets about these changes and they can be found on the Treasury department's superannuation reforms page.

State Super will continue to work with both the Commonwealth and State Governments and provide any further updates to the legislation changes on the State Super website – **statesuper.nsw.gov.au**

Keep an eye on the news!

These and other State Super updates and announcements are provided to members as they become available via the State Super website. Visit the Latest News section at www.statesuper.nsw.gov.au.

Investment market overview

Domestic doldrums

2016 presented continuing challenges in business conditions domestically. Coupled with a lethargic unemployment rate, wage growth and inflation, The Reserve Bank (RBA) moved to further ease monetary policy, down to an unprecedented 1.5%.

Looking at the year ahead, growth, business investment and inflationary expectations are likely to continue to be mediocre. On the plus side, the decrease in mining investment seems to be bottoming out, commodity prices and volumes are looking more robust and the continued weakening of the Australian Dollar is helping our services sector to export competitively. The RBA still has room to again cut rates, if they feel further stimulation is needed.

Where will Trump take us?

Prior to Trump's surprise victory, indicators in the U.S. last year were encouraging, including some buoyancy in manufacturing, services and pick-ups in employment, inflation and wages. The positives allowed the Federal Reserve to increase rates by the end of the year, but they will remain cautious about overplaying their hand by increasing rates too rapidly.

So how will the Trump agenda shape the year ahead? His fiscal stimulus agenda, combined with tax cuts, may have unpredictable repercussions economically and on markets. Any radical policy making may be tempered by the political need to gain congressional cooperation and the need to maintain mutually beneficial trade policies with trading partners.

The Chinese growth challenge

In the last couple of years all eyes have been on China's struggle to keep its impressive growth rate propped up. There is an obvious willingness by the authorities to provide the stimulation to keep it above 6%. The feared 'hard landing' is still a risk for this global powerhouse as the economy continues to transition toward greater reliance on domestic demand. While monetary conditions have tightened recently, the government will be striving to balance the need to stimulate growth with a need to keep a lid on the considerable levels of business and household debt.

Tumultuous times in Europe

Conditions are still patchy in the Eurozone, with modest pick-ups in France and Germany, while the Mediterranean states continue to struggle. Monetary conditions have continued to ease as a stimulus, but expectations are that growth will still lag behind other regions around the globe.

Politically, populist parties are looking to make gains in elections in France, Germany, Italy and the Netherlands. Fears of a breakup of the European Union in the wake of Brexit seem to be reducing, however the French election will be a key test in the first half of 2017.

How will markets be impacted?

Despite all the upheavals politically in 2016 and the volatility within the year, the markets seemed to weather the storm and it ended up a reasonable year for investors. A late flourish in Australian equities of over 4% in December, resulted in well over 11% return for the year. It was a similar story in developed markets around the globe. This gives a useful lesson for investors with longer time horizons to hold their nerve through short term fluctuations and resist a flight to cash after some political uncertainties. Markets can be surprisingly resilient in the wake of such shocks.

Despite the uncertainties ahead for this year, global recession fears have eased, monetary conditions are still favourable and growth prospects are moderately positive in many regions. Markets are generally not over-valued either, so all this seems to suggest that 2017 has scope for markets to again provide sound returns.

Legislative changes from 1 July 2017

Background

In the Commonwealth Government's May 2016 Budget, numerous reforms affecting superannuation were proposed. Legislation for most of these measures was introduced into Parliament on 9 November 2016 and was passed through both houses of Parliament on 23 November 2016.

Below is a summary of some of the key changes to superannuation.The Commonwealth Government has updated and released consumer fact sheets on these matters, which are referred to throughout this article and can be viewed and downloaded online at www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/Superannuation-Reforms.

There is also a defined benefit Treasury superannuation fact sheet, Fact Sheet 05 '*Changes to defined benefit schemes*', which explains in more detail some of the specifics relating to defined benefit funds.

$1.6 million cap on money you can put into the retirement phase

Retirees and pre-retirees with retirement funds in the region of $1.6 million or more should be looking at their retirement strategy to make sure they comply with the new rules.

What are the new rules?

From 1 July 2017, the Commonwealth Government will introduce a $1.6 million transfer balance cap on the total amount of superannuation savings that can be transferred from the concessionally taxed accumulation phase of superannuation to the tax-free retirement phase of superannuation.

The transfer balance cap is set at $1.6 million for 2017/18 and will be indexed in line with CPI in increments of $100,000. If you exceed the transfer balance cap, you will need to either transfer the excess back to an accumulation super account, withdraw the excess amount from super altogether, or in the case of a capped defined benefit pension, include half the excess pension amount in your taxable income. The transfer balance cap applies to both existing retirees, as well as individuals who start a new pension in the future. **If you think you might currently exceed the new $1.6 million cap, it's important you take action before 30 June 2017**.

What happens if you currently have a pension?

The new rules also apply to people already receiving a superannuation pension. The value of your existing superannuation pension(s) as at 30 June 2017 will count towards the transfer balance cap. You need to include the combined value of all defined benefit and account based pensions you receive. **Defined benefit pensions which place restrictions on exchanging the pension for a lump sum are treated differently from account based pensions. Members receiving or entitled to receive a State Super pension should read the section below about how the transfer balance cap applies to State Super defined benefit pensions.**

Transitional arrangements will apply to support individuals with existing account based pensions which take them over the $1.6 million transfer balance cap. These arrangements will apply for transfer balances above $1.6 million but at or below $1.7 million – individuals will have 6 months from 1 July 2017 to remedy the breach. If they comply, no further penalty is applicable.

If the total balance is over $1.7 million, then penalty tax will be applied to excess transfer balance earnings from 1 July 2017.

How do I calculate the transfer value of my SSS, PSS or SASS pension?

Gross fortnightly pension ÷ 14 × 365 = annual pension amount

Annual pension amount × 16 = Transfer balance value

You are not affected if; -

- the only superannuation income stream/s you receive at 1/7/2017 is a State Super pension (including any pension you receive as the result of the death of your spouse) that totals less than $100,000 per annum ($3,835.60 per fortnight). Part years are calculated on a pro-rata basis
- the combination of the value of your State Super pension/s (calculated based on the formula above) plus the balance of any account based pension account at 1/7/2017 totals less than $1.6 million
- if the only income stream/s you receive are from account based or allocated pension/s, and the total of all balances in your account/s at 1/7/2017, plus any balances you subsequently transfer to an account based pension are less than $1.6 million.

What happens if you breach the transfer balance cap?

If you exceed the transfer balance cap you will need to either transfer the excess, along with excess transfer balance earnings, back to an accumulation super account or withdraw that amount from superannuation altogether. A first breach of this requirement will have the associated earnings or excess transfer balance earnings taxed at 15%. However, from 2018/19 if you breach the transfer balance cap again, the excess transfer balance earnings will be taxed at a more punitive rate of 30%.

How can you make sure you stay within the transfer balance cap?

Each person receiving a pension will have a personal transfer balance account administered by the ATO, reflecting the total amount currently transferred into the retirement phase. The balance of this account will need to remain below your $1.6 million transfer balance cap.

continued overleaf

Leglislation update - continued

continued from overleaf

> Special rules will apply for defined benefit pensions which have commutation restrictions such as those paid by State Super...

When does the 'balance' amount change?

It will change in the following circumstances:

- When an income stream is commenced, a credit is added to the client's personal transfer balance account.
- When a commutation is made (roll-over, roll-back or cash-out), a debit is made against the account.
- If a commutation is made to give effect to a family law split, a debit is made against the account.
- Pension payments do not count as a debit (only commutations).
- Investment gains do not count as a credit and investment losses do not count as a debit.

For example, if you start an account based pension in 2017/18 with a balance of $1.6 million and in 2018/19 due to a positive net growth (after pension payments) the balance has increased to $1.65 million, you will not be subject to excess earnings tax.

It's worth noting that your 'personal' cap is fixed when you first commence an income stream (or at 1 July 2017 if you are already receiving a pension/s). This fixed value is the maximum you can use. So, for example, if you start an account based pension with $1.6 million in 2017/18 you can't later add any additional amounts when the transfer balance cap is indexed to a higher figure in future years. If you start an account based pension with a balance of $1.4 million in 2017/18, the remaining unused portion of the balance cap ($200,000) will be indexed to CPI.

See Treasury Fact Sheet 02 *'Introducing a $1.6 million transfer balance cap'*.

How the transfer balance cap applies to State Super defined benefit pensions

Special rules will apply for defined benefit pensions which have commutation restrictions such as those paid by State Super. Where these pensions are given a capital value of over $1.6 million, members will not be required to commute (exchange) the excess amount of their pension to a lump sum and remove it from the retirement phase of superannuation.

To calculate the capital value of your State Super pension, divide your gross fortnightly pension by 14, then multiply by 365 which will give you your annual pension amount, which is then multiplied by 16.

So, a defined benefit pension that pays $100,000 per annum would exhaust the transfer balance cap in the 2017/18 financial year.

However, in order to maintain a similar taxation outcome, pension payments above $100,000 per annum will become subject to income tax. For defined benefit pensions paid to members aged 60 years and over, such as those paid from State Super, 50% of pension payments over $100,000 per annum will be included in the recipient's assessable income and will

be subject to income tax at marginal tax rates. Members under age 60 receiving a death (spouse) benefit pension will also be subject to these arrangements in relation to any part of their combined pension over $100,000 per annum. Part years are calculated on a pro-rata basis.

If members have additional funds in a non-defined benefit superannuation retirement account (referred to as a retirement account for the remainder of this article), it is the combination of the valuation of their defined benefit pension and the balance of all other retirement accounts which need to be valued at under $1.6 million. If the combined value is above the transfer balance cap, the member will be required to either withdraw the excess from their retirement account or transfer the excess funds back into the accumulation phase where earnings will be subject to 15% superannuation tax.

The value of a State Super pension for this purpose will be 16 times the annual pension amount paid.

The transfer balance cap will be indexed in $100,000 increments in line with the consumer price index. The $100,000 per annum pension payment threshold will be indexed proportionately with the transfer balance cap.

Further information about the taxation arrangements is available in Treasury's defined benefit Fact Sheet 05 *'Changes to defined benefit schemes'.*

Individuals who believe they may be affected by this new measure should consider seeking financial advice.

How these changes may affect you?

How much tax-free retirement income will I be allowed under the new rules?

What's changed?

From 1 July 2017, a limit of $1.6 million will be placed on the amount of superannuation that can be transferred to the tax-free retirement income phase of superannuation, including the notional value of defined benefit pensions. The capital value of a defined pension is the payment amount ÷ by the number of days in the payment period × 365 × 16. If the capital value of a defined benefit pension such as SSS or PSS pension, exceeds $100,000 (and hence the $1.6 million transfer balance cap), it can still remain in the retirement income phase. However, 50% of the amount over $100,000 will need to be included in assessable income when the recipient lodges a taxation return and the individual will not be allowed to have any other funds in the retirement income.

continued overleaf

Leglislation update - continued

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Tax-free retirement income - John

Meet John...

"John is 62 and receives a SSS pension of $3,356 per fortnight which has a capital value of $1,399,931 as at 30 June 2017. He also has an account based pension with a balance of $327,000 and an accumulation superannuation fund with a balance of $60,000."

- John's defined benefit income stream (SSS) will be assessed first under the new "transfer balance cap", followed by any other retirement income phase superannuation products he has.
- The value of John's SSS pension ($1,399,931) is within the 2017/18 $1.6 million transfer balance cap so his SSS pension remains tax free. However, when the value of his account based pension ($327,000) is added, he exceeds the transfer balance cap ($1,399,931 + $327,000 = $1,726,931) by $126,931 so John will be required to remove the excessive amount from the retirement income phase before 30 June to avoid penalty.
- John may rollover the excessive retirement income phase amount ($126,931) from the account based pension account to his accumulation superannuation fund^ which would result in $186,931 in the accumulation phase of superannuation. There is no limit to the amount he can retain in the accumulation phase of superannuation.
- John now needs to consider his "total superannuation balance" which is the total amount an individual is deemed to have in superannuation (accumulation & retirement income phase) on and from 1 July 2017. After 1 July 2017, John's total superannuation balance will exceed $1.6 million ($1.6 million in retirement phase + $186,931 in accumulation phase). John will not be able to make further after-tax contributions to superannuation.
- Before-tax contributions (salary sacrifice, superannuation guarantee, concessional contributions) will continue to be allowed.

^Using the concessional taxation environment of accumulation, superannuation may not be the most tax effective option so John should seek financial advice regarding his options.

Tax-free retirement income - Dorothy

Meet Dorothy...

"Dorothy is 63 and receives a SSS pension of $2,200 per fortnight which has a capital value of $917,714 as at 30 June 2017. She also has an account based pension with a current balance of $160,000 and a small accumulation superannuation fund with a balance of $12,000."

- Dorothy's defined benefit income stream (SSS) will be assessed first under the "transfer balance cap", followed by any other retirement income phase superannuation products she has.
- The value of Dorothy's SSS pension ($917,714) is within the 2017/18 $1.6 million transfer balance cap so the SSS pension remains tax free. After adding the $160,000 held in an account based pension, she still remains under the transfer balance cap ($917,714 + $160,000 = $1,077,714) by over $500,000 so Dorothy can still transfer further amounts to the tax-free retirement income phase of superannuation if she makes further savings in superannuation. Note: Dorothy can contribute significantly more before 1 July 2017 than she will be allowed to after 1 July 2017.
- Dorothy now needs to consider her "total superannuation balance" which is the amount an individual is deemed to have in superannuation (accumulation & retirement income phase) on and from 1 July 2017. After 1 July 2017, her total superannuation balance will be well below the total superannuation balance of $1.6 million ($1,077,714 in retirement phase + $12,000 in accumulation phase^) so Dorothy will continue to be able to make after-tax contributions to superannuation within the applicable limits.
- Before-tax contributions (salary sacrifice, superannuation guarantee, concessional contributions) will continue to be allowed.

^Using the concessional taxation environment of accumulation, superannuation may not be the most tax effective option for Dorothy. She should seek financial advice regarding her options.

Need advice?

StatePlus, formerly known as State Super Financial Services, provides a wide range of financial planning advice to current and former public sector employees and their families.

To book an obligation free appointment, call 1800 620 305 or visit www.stateplus.com.au

For future updates to the legislative changes to Superannuation, visit the State Super website at statesuper.nsw.gov.au

We recommend seeking professional financial advice about your options and what impact these measures may have on your retirement.

“I retired from work.
Not from life.”

With the recent government changes to Centrelink entitlements, it can be difficult to know what you’re eligible for. A StatePlus financial planner can work closely with you to determine exactly what benefits you are entitled to; and ensure that you take advantage of any other benefits, like health care and concession cards.

At StatePlus, we’ll take the time to help you maximise your retirement savings, so you can enjoy the retirement you’ve earned and continue doing the things you love to do.

Visit **stateplus.com.au/stories** to see Fred and Marian’s whole story.

StatePlus

Formerly State Super Financial Services

Member Services update

Thank you for your feedback

We would like to say thank you to all our members who provided feedback as a part of our 2016 annual member satisfaction survey, which was conducted during November and December last year.

We received very positive results in all areas of service delivery and when compared to the broader superannuation industry, our results sit well above the industry standard.

The comments, insights and ideas that we receive from our members have become an integral part of our future planning and will help us continue to identify ways to improve the services we provide to you.

Welcome to the new State Super website

Our new look website launched on 3 February 2017.

While it looks different, it's easy to get around and offers you more features, including:

- **New retirement roadmap** – to help you prepare for retirement and access your State Super benefits, we've developed a brand new section which pinpoints where you're at on your journey and directs you to relevant information. It also guides you to information when unexpected detours (for example redundancy or divorce) occur along the way.
- **Salary sacrifice calculators** – find out the difference salary sacrificing your contributions to SSS or PSS can make to the amount of tax you pay and the amount of income you take home.

So take a look!

All the information that you're used to seeing including fact sheets, forms, information about the financial planning services available to you and the latest news from State Super is still there, just easier to find!

We'd love to receive your feedback and suggestions

Keep an eye out for the user feedback questionnaire on the new website, which will help us ensure the State Super website continues to develop and meet your needs. You can also email your feedback and suggestions to us via the contact details below.

Keeping members super informed

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