

## 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 (four 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 (two 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 (30 June each year) 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 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 will be reduced. Your contributions will become 6% of your reduced salary.

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

### How does purchased leave affect my PSS benefit?

In most cases your benefit is based on a percentage of your superable salary when you leave employment with the Police Service. This means that if you are on a reduced salary when you exit the Scheme, as a result of having a Purchased Leave Agreement in place, that is the salary your entitlement will be based on.

#### Example

Benson is a PSS member who works full-time and is entitled to a superable salary of \$95,000. He decides to enter into a Purchased Leave Agreement and purchases an additional four weeks leave. His superable salary is then calculated as follows:

$$48/52 \times \$95,000 = \$87,692$$

Benson's employer will report this salary on his next Annual Review Day or if he ceases employment. If this salary is reported when Benson ceases employment, this is the salary that will be used to calculate his PSS benefit.

The STC schemes are administered by Mercer Administration Services (Australia) Pty Ltd on behalf of the schemes' trustee, SAS Trustee Corporation (STC). STC is governed by the *Superannuation Act 1916*, the *State Authorities Superannuation Act 1987*, the *State Authorities Non-contributory Superannuation Act 1987*, the *Superannuation Administration Act 1996* and the *Police Regulation (Superannuation) Act 1906*. The schemes are also subject to Commonwealth superannuation and tax legislation.

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If Benson terminates his Purchased Leave Agreement, his superable salary will revert to his full salary of \$95,000, and his benefit will be based on that higher salary.

Note: If you elect to receive the withdrawal benefit when you exit PSS, your benefit is not based on your final salary, 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 Additional Employer Contributions 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 contributions will also be reduced.

The balance in your AEC account when you enter into a purchased leave arrangement 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:

PSS Fact Sheet 2: *Contributions and Superable Salary*

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:

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