

Senate Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Finance and Administration Portfolio

Department of Finance and Administration

Estimates Hearings 14-18 February 2005

Question: F18

Outcome 3, Output 3.1

Topic: Superannuation salary for MOP(S) employees

Hansard Page: F&PA 66

Senator Faulkner asked:

Are you able to inform the committee how many people requested that their previous salary be retained for superannuation purposes?

Answer:

Under Comsuper Public Sector Superannuation (PSS) policy rules, members of the PSS scheme cannot elect to reduce their contribution salary. If a member transfers to a lower level, contributions must continue to be paid on the previous salary. A copy of PSS fact sheet psf21 of February 2005 concerning this issue is at Attachment A.

Under Comsuper Commonwealth Sector Superannuation (CSS) policy rules, members of the CSS scheme may elect to contribute on a lower salary rate following a reduction in their salary. The election must be made within three months after the birthday following the reduction. A copy of CSS fact sheet CSF15 of January 2005 concerning this issue is at Attachment B. Departmental records indicate that no CSS members have elected to contribute at the lower rate.

Peter takes a voluntary reduction in classification to phase in his retirement

Peter was intending to retire from the Australian Public Service as soon as he turned 55. However, closer to retirement Peter decided to continue his employment for three extra years. To prepare himself for retirement, Peter arranged with his employer to take a voluntary reduction in classification. Peter's final average salary at age 55 was \$72,051 per year, and his new reduced salary is \$58,902 per year.

Assuming that Peter was contributing at 5 per cent and that the salary growth was 1.5 per cent per year above inflation (inflation assumed to be zero to keep figures in today's dollars), Peter's entitlements from the PSS are as follows:

	At age 55	At age 58
Accrued benefit multiple	5.25	5.88
Final Average Salary	\$72,051	\$75,342
Total benefit as lump sum	\$378,268	\$443,012
Total benefit as indexed pension (per year)	\$31,522	\$38,861

Despite working at a reduced level, Peter's salary for superannuation purposes is not reduced. Peter's former salary continues to grow even after he voluntarily takes a reduction in classification. The same applies for involuntary salary reductions.

How does a salary reduction affect my contributions?

In the PSS, you are required to pay contributions of at least 2 per cent, but not more than 10 per cent of your superannuation salary.

If you have a salary reduction, you will have to maintain your contributions at the updated former higher salary until any time your new salary should grow to exceed the former salary. You cannot elect to have your superannuation salary reduced, but you can elect to reduce your rate of contributions at any time (unless you are already paying the minimum of 2%). This would have the effect of increasing your take-home pay.

Please be aware that electing to pay contributions at a lower rate would generally reduce the final benefit that you get from the PSS on retirement.

What do I need to do if I have a salary reduction?

If you do not wish to reduce the rate of your contributions, you do not need to do anything about your superannuation. Your contributions will continue to be payable on the updated former higher salary.

However, if you wish to pay a lower rate of contributions, you will need to advise your Personnel Section and, if required, complete the form *Request to Vary Contribution Rate* under FORMS AND PUBLICATIONS at www.pss.gov.au. An election to vary your rate of contributions is effective from the payday after the date on which it is made.

Where can you get more information?

PHONE	13 23 66
FAX	02 6272 9808
EMAIL	pss.members@comsuper.gov.au
WEB	www.pss.gov.au
ABN	74 172 177 893

About the PSS

The PSS is a defined benefit fund. Unlike more common accumulation funds, the PSS provides you with a benefit that is 'defined' by two factors being your 'Final Average Salary' and an 'Accrued Benefit Multiple'.

PSS defined benefit arrangements will close to new members from 1 July 2005, after which time PSS accumulation arrangements will apply to new Australian Government employees. Superannuation arrangements for existing Australian Government employees and/or members who already have an interest in the PSS will be unaffected.

The PSS offers:

- no administration fees and charges or transaction costs (your employer pays this cost) with taxes, investment management fees and transaction costs deducted before exit rates are declared
- a range of options on how you can take your retirement benefit including a lump sum, a CPI-indexed pension for life or a combination of both
- automatic death and invalidity cover
- option to take out additional death and invalidity cover
- ability for you to contribute at any rate between 2% and 10%, and change your contribution rate at any time (please note that member contributions are compulsory in the PSS); and
- limited member investment choice for preserved benefit members.

Working for you

The PSS was set up in 1990 exclusively for employees of the Australian Government and participating agencies.

Members of the PSS Board are appointed to work in the best interests of members, either on the basis of their experience in, or knowledge of, a government agency or their nomination by the Australian Council of Trade Unions (ACTU). The Board manages the Fund's administration, investment and member communications. Our administrator, ComSuper, is responsible for the day-to-day administration of the PSS.

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fact sheet

JANUARY 2005

CSF 15

THE FACTS ABOUT SALARY REDUCTIONS AND YOUR CSS SUPER

It is important you read the disclaimer at the end of this fact sheet

Who should read this fact sheet?

Members who have recently experienced a reduction in salary, or are considering working at a reduced classification level.

How do salary reductions occur?

Salary reductions are caused by a number of different circumstances. A reduction in salary could be voluntary or involuntary. Circumstances could include loss of an allowance, redeployment at a lower level, or on transfer to a new agency on a lower salary.

If you are approaching retirement, you may also wish to phase in your retirement by reducing your workloads and taking up a new position at a reduced classification level. This fact sheet does not cover moving from full-time to part-time work. For more information about changing from full-time to part-time, please read our fact sheet *Changing from Permanent Full-time to Permanent Part-time* under FORMS AND PUBLICATIONS at www.css.gov.au

How does a salary reduction affect my superannuation?

Generally, a reduction in actual salary will not affect your superannuation unless you elect for it to do so. In other words, if your actual salary were to reduce because you are working at a lower level, your benefits would be calculated on the basis of your former salary which, from 1 July 2003, is updated in line with movement in the Average Weekly Ordinary Time Earnings (AWOTE).

If at any time, your new salary grows to exceed the updated former salary, your new superannuation salary will be the higher of the two salaries.

However, you can elect to pay contributions on your new reduced salary in the CSS. Generally, you have from the date of reduction until 3 months after your birthday, which immediately follows the salary reduction, to make such an election.

Please note that if you elect to pay contributions on your new reduced salary, your final benefits would be calculated on that new reduced salary. This is particularly important if you are thinking about retiring on or after your 55th birthday as your employer-financed indexed pension is calculated as a percentage of your final salary.

Peter does not elect to pay contributions on his new reduced salary

Peter was intending to retire from the Australian Public Service as soon as he turned 55. However, closer to retirement Peter decided to continue his employment for three extra years. To prepare himself for retirement, Peter arranged with his employer to take a voluntary reduction in classification. Peter's final salary at age 55 was \$72,051 per year, and his new reduced salary is \$58,902 per year.

Despite working at a reduced level, Peter does not elect to pay contributions on his new reduced salary and therefore his salary for superannuation purposes is not reduced.

13 23 66

CSS IS ADMINISTERED BY COMSUPER

Here's how it works. Assuming that Peter's former salary was updated by AWOTE, which was 1.5 per cent per year above inflation (inflation assumed to be zero to keep the figures in today's dollars), Peter's employer-financed indexed pension from the CSS is as follows:

	At age 55	At age 58
Pension as % of final salary	33.75	40.32
Final Superannuation Salary	\$72,051	\$75,342
Total indexed pension (per year)	\$24,317	\$30,378

In addition to the effect on his indexed pension, Peter accrues extra member and productivity contributions on the updated former salary.

Peter does elect to pay contributions on his new reduced salary

As the above example, Peter has arranged with his employer to take a voluntary reduction in classification. Peter's final salary at age 55 was \$72,051 per year, and his new reduced salary is \$58,902 per year.

In this example, Peter does elect to pay contributions on his new reduced salary. Assuming that Peter's actual salary increased by 1.5 per cent per year, his employer-financed indexed pension from the CSS is as follows:

	At age 55	At age 58
Pension as % of final salary	33.75	40.32
Final Superannuation Salary	\$72,051	\$61,593
Total indexed pension (per year)	\$24,317	\$24,818

In addition to the effect on his indexed pension, Peter accrues extra member and productivity contributions on the new reduced salary which takes effect immediately.

How does a salary reduction affect my contributions?

In the CSS, you are required to pay contributions of at least 5 per cent of your superannuation salary.

If you have a salary reduction and you do not elect to contribute on the new reduced salary, you will have to maintain your basic contributions at the updated former higher salary. Supplementary contributions (contributions over the minimum 5 per cent) can be reduced at anytime.

On the other hand, if you were to elect to pay contributions on the new reduced salary, your contributions will be calculated on that lower rate of salary from either the payday after your election or your birthday that immediately follows your salary reduction.

Please be aware that electing to pay contributions at the lower level would generally affect the final benefit that you get from the CSS on retirement.

What do I need to do if I have a salary reduction?

If you do not wish to pay contributions on the new reduced salary, you do not need to do anything about your superannuation. Your contributions and benefits would continue to be payable on the updated former salary.

However, if you wish to pay contributions on the new reduced salary, you will need to complete the form *Elections— to Vary Superannuation Contribution Rate or for Decreased Salary to Apply as Salary for Superannuation* which can be found under FORMS AND PUBLICATIONS at www.css.gov.au. You have from the date of reduction until 3 months after your birthday that immediately follows your salary reduction, to complete and submit this form.

Where can you get more information?

TELEPHONE	13 23 66
FACSIMILE	02 6272 9808
EMAIL	css.members@comsuper.gov.au
WEB	www.css.gov.au
ABN	19 415 776 361

About the CSS

The CSS is a hybrid fund: part accumulation, part defined benefit. In a defined benefit fund, member benefits are 'defined' by a formula whereas in an accumulation fund, member benefits are determined by the value of contributions and investment returns.

In the CSS, the defined benefit part is generally the CPI-indexed pension option which is defined by a formula based on your final super salary, your length of contributory service and your age at exit. If you preserve your benefit and then claim it when you reach retirement age, your pension will be defined by a formula based on your basic contributions and interest. The accumulation part is your contributions plus interest (known as the 'member component') and your employer's contributions to your super (known as the 'productivity component'). You can generally take these components as a lump sum in combination with a CPI-indexed pension, or use them to purchase an additional non-indexed pension.

The CSS offers:

- a high-value employer benefit above the Super Guarantee
- no administration fees and charges (your employer pays this cost) with taxes, transaction costs and investment fees deducted from investment earnings before exit rates are declared
- a range of options on how you can take your retirement benefit including a CPI-indexed pension for life
- automatic death and invalidity cover
- the ability for you to contribute supplementary contributions above the minimum basic rate of 5%; and
- limited member investment choice.

Working for you

The CSS was set up in 1976 exclusively for employees of the Australian Public Service and participating agencies. The CSS was closed to new members in 1990.

Members of the CSS Board are appointed to work in the best interests of members, either on the basis of their experience in, or knowledge of, a government agency or their nomination by the Australian Council of Trade Unions (ACTU). The Board manages the Fund's administration, investment and member communications. Our administrator, ComSuper, is responsible for the day-to-day administration of the CSS.

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