METROPOLITAN FIRE SERVICE SOUTH AUSTRALIA

# SUPER INFO
## SPRING 2020

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# Optional Salary Sacrifice of "Compulsory" Contributions

## (Not applicable to Retained Firefighters)

**The purpose of this article is to again provide you with information for the salary sacrifice of compulsory superannuation contributions to the SA Metropolitan Fire Service Superannuation Scheme Defined Benefit.**

Compulsory member contributions (5.5% to 6.0% of annual salary depending upon age at joining the Scheme) can be salary sacrificed. Additional voluntary contributions to your Accumulation Account are also able to be salary sacrificed via a separate form.

### What is Salary Sacrifice of Superannuation Contributions?

You forfeit receiving part of your salary/wages and direct the amount to superannuation as compulsory contributions to the Scheme.

### Can I salary sacrifice all of my contributions to the Scheme or only additional voluntary member contributions?

You can salary sacrifice your compulsory contributions which go towards building up your defined benefit entitlements. You can also salary sacrifice additional voluntary contributions that are credited into your Accumulation (Voluntary) account.

### How are Salary Sacrifice Contributions treated?

The Scheme must treat salary sacrifice contributions as employer contributions for tax purposes, and will credit them to your Contribution Account.

### Do Salary Sacrifice Contributions attract Tax?

Yes, as salary sacrifice contributions are treated as employer contributions, the Scheme is required to deduct 15% tax (contribution tax) from the contributions.

That means that you must contribute a greater amount to allow for the 15% contribution tax being deducted. The following table shows the gross amount of annual salary you have to now salary sacrifice.

| Age Joined Scheme | DB rate – after tax | DB rate – before tax |
|---|---|---|
| 20 | 5.5% | 6.47% |
| 21 | 5.6% | 6.59% |
| 22 | 5.7% | 6.71% |
| 23 | 5.8% | 6.82% |
| 24 | 5.9% | 6.94% |
| 25 | 6.0% | 7.06% |

However, your employer does not deduct any PAYG tax from the salary sacrifice contributions you make with pre-tax dollars.

For many, this is considered the key advantage of salary sacrificing contributions.

## Are there any tax issues with Salary Sacrifice Contributions when I retire?

Contributions are included in the taxable components of your benefit when it is paid from the Scheme.

Depending upon your age at retirement, the type of benefit you receive and your period of Scheme membership, you may or may not be subject to the lump sum tax on your benefit. As a result, the benefit associated with the salary sacrifice contributions may be taxed at a rate between 0% and 20% (excluding the Medicare levy) before age 60.

After tax member contributions are not taxed at the time of payment from the Scheme although interest allocated may be subject to tax.

## Are Salary Sacrifice Contributions Preserved?

Yes. All salary sacrifice contributions and interest earned on these contributions are preserved. This means that you will only be able to have the corresponding benefit paid out of superannuation if you are over your preservation age and are permanently retired from the workforce. If you are not permanently retired you can rollover to other superannuation arrangements or retain your benefit in the Scheme.

## If I am already making additional voluntary salary sacrifice contributions from my salary, can I also salary sacrifice my compulsory contributions?

Yes. A separate form is required and compulsory contributions are quite separate from voluntary salary sacrifice contributions.

## Can I have my Salary Sacrifice Contributions paid out of the Scheme if I change my mind?

No. If you are working you cannot receive any payment from the Scheme. If you have ceased employment, then normal benefit payment and preservation conditions apply.

**The arrangements are as follows:**

- Salary sacrifice of compulsory superannuation contributions to the Scheme can be made directly with your employer.
- Members/employees make an agreement to salary sacrifice compulsory superannuation contributions direct with their employer.
- The cost for members to do this is $44.00 (including GST) payable to Shared Services (by payroll deduction) to cover administration for setting up an agreement or any change to an existing agreement.
- There is no ongoing weekly administration fee.
- Once the arrangement is in place, the Payroll area at Shared Services will send the salary sacrifice contributions direct to the Scheme.

## How do I start a new arrangement to make salary sacrifice of compulsory superannuation contributions?

You will need to complete 2 forms obtainable from the Scheme.

1. **Government Form**
   Form 7 – Salary Sacrifice of Superannuation Agreement (South Australian Government Schemes Excluding Triple S).
2. **SAMFS Super Scheme Form**
   Notification of Salary Sacrifice Arrangement form.

## Where do I send my completed forms?

Send both to the Scheme at the email address below.

alan.kent@sa.gov.au

On receipt of your forms the Scheme will take note of the pending arrangement and will forward the Form 7 - Salary Sacrifice of Superannuation Agreement to the payroll area at Shared Services for processing.

### Scheme Contact

**Alan Kent – Manager SAMFS Super Scheme**
**Ph:** 8204 3826
**E-mail:** alan.kent@sa.gov.au

### Important Things To Note

1. *The Scheme is not party to these arrangements other than it being the Scheme into which the salary sacrifice of compulsory contributions is made for eligible employees of the SAMFS, SAFECOM, SES, CFS & DTF who are also Scheme members.*
2. *The Trustee is not providing advice as to any benefits (or otherwise) of salary sacrifice arrangements or whether existing arrangements with Maxxia Pty Ltd should be cancelled (or otherwise).*
3. *The Trustee strongly recommends that professional financial advice be sought prior to making any decision to commence or change a salary sacrifice arrangement.*
4. *The Trustee does not accept any responsibility for any actions taken by individuals based on this information provided.*

# Investment risks, options and policies

## Understanding your investment risks

All investments have risks, which can affect you in different ways. Volatility of the investment market isn't the only risk that applies to your retirement income.

| Type of risk | What is it? |
|---|---|
| **Adequacy** | The risk that your super savings won't provide enough retirement income for as long as you'll need it. |
| **Agency** | The risk that the third parties who manage investments do not perform as expected. |
| **Credit or counterparty** | The risk that the issuer of a security (like a bond) doesn't pay back the money borrowed when it's due. |
| **Currency** | Movements in exchange rates can affect the value of your investments. For example, an increase in the Australian dollar compared to other currencies can reduce the returns of international share investments. A drop in the value of the Australian dollar can improve returns. |
| **Drawdown (retirement income payment amount)** | When your retirement income payments are much higher than your investment returns and you start to draw large amounts of your savings to provide your income payments.<br>This could have a significant impact on how long your retirement savings last. |
| **Inflation** | Inflation is the rate at which the general level of prices for goods and services rises and the value of currency falls.<br>Inflation risk is when your investment returns don't grow above inflation to meet your long-term income requirements. |
| **Interest rate** | Interest rate movements can affect your investment returns. While lower interest rates are usually good for the economy, they can lead to low returns for investors relying on cash-based investments for income. |
| **Liquidity** | The risk that your investment can't be sold at the right time or when you need your money. For example, if your funds are invested in a term deposit. |
| **Longevity** | The risk that you'll outlive your retirement savings. |
| **Market timing** | The risk that you buy or sell your investments at the wrong time.<br>For example, if prices are low when you sell, you may lose savings. If you wait until prices pick up before you buy, it might take longer for the value of your savings to grow. This can be a risk when switching investment options. |
| **Policy or legislative** | The risk that changes to super legislation, retirement income account rules or industry regulations will affect your investment. |
| **Sequencing** | Sequencing risk relates to the order and timing of your investment returns. Experiencing negative returns when you're early in retirement can significantly impact how long your retirement savings last. You may not have as much time to recover from market downturns and you won't be getting ongoing super contributions to help offset this risk. |
| **Volatility or market risk** | Market ups and downs can cause the value of your investment to rise and fall. This is something you may want to avoid if drawing income over a short-term timeframe. Volatility is sometimes measured by how often you can expect to receive a negative annual return within a particular period of time. |

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