SUPER INFO

Winter 2013

METROPOLITAN FIRE SERVICE SOUTH AUSTRALIA

***Welcome** to the Winter-2013 edition of Super Info*

What's inside:

Defined benefit? Plan your voluntary contributions carefully

Provided by Mercer

Before putting extra money into super, defined benefit members should understand how "notional taxed contributions" work.

Generally there are two types of superannuation funds or schemes in Australia: defined contribution, more commonly referred to as 'accumulation', and defined benefit.

Most working Australians have accumulation-style super accounts. This is where the retirement benefit of the member relates to the amount of employer and member contributions made to the fund or scheme, the investment returns (which can be positive or negative) less any taxes, surcharges, fees, expenses and insurance premiums.

The way a retirement benefit is calculated for defined benefit members is different.

With a defined benefit super fund or scheme, the final benefit paid to the member is defined in advance of the member's retirement. Generally, a retirement benefit is based on a formula (each defined benefit fund or scheme will have its own formula) which usually takes into account the member's salary at or near retirement, age and period of employment or membership.

Understanding the type of super fund or scheme you have can help you manage the super contributions caps.

(continued next page)

Concessional contributions caps

From 1 July 2013 a cap of $25,000 applies to concessional contributions for those aged 59 and under ($35,000 for those aged 60 and over*). Concessional contributions are generally contributions made by your employer, salary sacrifice contributions and personal contributions in respect of which a tax deduction is claimed.

** From 1 July 2014, the higher threshold of $35,000 will also apply for people aged 50 and over.*

Where the cap is exceeded an extra tax of 31.5% applies (30% plus 1.5% Medicare Levy**) on top of the normal 15% contributions tax on the concessional contributions over and above the concessional contributions cap^.

*** From 1 July 2014, the Medicare Levy will increase to 2% to fund the National Disability Insurance Scheme.*

^ The rate of contributions tax on high income earners (those with 'incomes' of $300,000 pa plus) will increase to 30% from 1 July 2013. However, the higher tax rate will not apply to contributions that exceed the concessional contributions cap as these are already effectively taxed at 46.5% (45% plus Medicare Levy).

While the concessional contributions cap is the same for accumulation and defined benefit members, the amount that counts towards this cap is calculated differently.

For an accumulation fund or scheme, it's the actual contributions made for the member (plus certain amounts allocated from reserves or surplus if applicable) that count towards the concessional contributions cap.

For defined benefit funds or schemes, it is not possible to directly identify the amount of contributions that are funding a member's benefit and therefore members of defined benefit super funds or schemes will have a "Notional Taxed Contribution" calculated by their super fund or scheme on their behalf. This will be used to measure against their relevant concessional contributions cap. Any additional employer or salary sacrifice contributions (plus certain amounts allocated from reserves or surplus if applicable) to an accumulation fund or scheme will also count towards the concessional contributions cap.

So, how can defined benefit members monitor concessional contributions?

Well, the most straightforward way is to monitor:

- Your notional taxed contributions
- Any additional employer super contributions which provide accumulation benefits
- Any additional salary sacrifice contributions you make to provide accumulation benefits
- Any concessional contributions you receive in other super funds or schemes.
- Certain amounts allocated from reserves or surplus (if applicable).

You can check your level of notional taxed contributions for the current financial year by logging on to **www.samfs.superfacts.com** or calling the Manager on **08 8204 3826**.

Given the complexity of the regulations and the serious implications if you exceed the concessional contributions cap, defined benefit members should manage and plan their overall super contributions and retirement wealth with care.

Non-concessional contributions

Caps also apply to non-concessional contributions, which are contributions you make from after-tax income, also known as 'after-tax' or 'personal' contributions.

The non-concessional cap for the 2013-14 income year is $150,000. The 'bring-forward' option, allowing people under 65 years to make non-concessional contributions of up to 3 times the non-concessional limit in the first year of a 3 year period, is $450,000.

Any contributions in excess of the non-concessional contributions cap will be taxed at 46.5 per cent even though these contributions are made from your after-tax income. So, you're effectively paying a tax on a tax!

More information

Please visit **www.samfs.superfacts.com** or call the Manager on **8204 3826**.

A licensed, or appropriately authorised, financial adviser will be able to help you manage the contributions caps as part of a strategy that organises your wealth as a whole.

Notional taxable contribution – change in calculation rate

Your Notional Taxed Contribution (NTC) is the notional employer contributions that count towards your Concessional Contribution cap.

Importantly you should note that the NTC is not the actual contributions paid by your employer but is a notional amount calculated by a formula provided by the Scheme's actuary for the purpose of reporting the level of employer contributions to the ATO, as required by Government legislation.

Effective 1 July 2013 the formula for calculating NTC in the Scheme is as follows:

1.2 X (11% X Salary for financial year - member compulsory contributions)

Members making their compulsory member contributions by salary sacrifice

From 1 July 2013 the NTC rate increased from 12% to 13.2% (i.e., 1.2 X 11%) of salary as a result of the increase in the Superannuation Guarantee contribution rate to 9.25%.

Example:

John earns $70,000 and salary sacrifices his compulsory member contributions. The Notional Taxable Contribution for the 2013/14 financial year is:

1.2 X (11% X $70,000 - $0.00)

= 13.2% X $70,000

= $9,240

Members who are making post-tax compulsory member contributions

From 1 July 2013 the NTC rate increased from 12% to 13.2% (i.e., 1.2 X 11%) of salary (after deducting compulsory member contributions) as a result of the increase in the Superannuation Guarantee contribution rate to 9.25%.

Example:

Fred earns $70,000 and makes post-tax compulsory member contributions at the rate of 6%. The Notional Taxable Contribution for the 2013/14 financial year is:

1.2 X (11% X $70,000 – ($70,000 X 6%)

1.2 X (11% X $70,000 - $4,200)

= 13.2% X $65,800

= $8,685.60

For more information on Notional Taxed Contribution and how they apply to your Concessional Contribution cap, please refer to the article titled "Defined benefit? Plan your contributions carefully" in this Super Info.

Indexation rate for Deferred Members

Members that have elected to defer their benefits in the Scheme on ceasing employment prior to age 50 have their benefits indexed each year. The rate that applies depends on when a member elected to defer their benefit. For members who ceased employment prior to 23 June 2003 the annual indexation rate is based on the increase in Consumer Price Index (CPI) plus 3%, whilst for members deferring benefits after 23 June 2003 the annual indexation rate is CPI.

The rates applicable for the year ending 30 June 2013 are as follows:

- Members electing to defer prior to 23 June 2003 5.2%
- Members electing to defer after 23 June 2003 2.2%

Increase in insurance unit value effective 1 July 2013 for Retained Firefighters

Each year the amount of insurance provided to Retained Fire-fighters is reviewed in line with the increase in Consumer Price Index (CPI). Accordingly the insurance amount has increased from $4,640 per unit to **$4,740 per unit**, effective 1 July 2013.

The insurance cover is provided on a unit basis with the number of insurance units allocated depending on your age. The table below provides details of the number of units of insurance depending on your age.

Death, Terminal Illness and Total and Permanent Disablement - Number of units provided

Age in Years	Number of Units	Age in Years	Number of Units
39 or	35	50	24
40	34	51	23
41	33	52	22
42	32	53	21
43	31	54	20
44	30	55	19
45	29	56	18
46	28	57	17
47	27	58	16
48	26	59 to 64	15
49	25		

Age in years is based on your age at the 1 July prior to the date you are accepted by the trustee as last working as a result of your injury/illness.

Wills

What is a Will?

A Will is simply a document which sets out the wishes of the person signing it (known as the Testator") with regard to:

- *the disposition and in some circumstances the management of the Testators property on death; and*
- *the appointment of the person or persons who are to carry out the instructions contained in the Will (known as the "Executors and Trustees").*

Who should make a Will?

Anyone over the age of 18 years who holds assets in their own name and who does not want to leave the disposition of their property upon their death to chance.

What happens if a person dies without making a Will?

If a person dies without making a Will they are said to have died intestate. The distribution of intestate estates is governed by the Administration and Probate Act.

If the deceased is survived by a spouse and no children then the spouse is entitled to the whole estate. If the deceased is survived by a spouse and children then the spouse is entitled to the first $100,000.00 and one half of the balance of the estate and the children share the other half of the estate. The Act provides for a multitude of varying scenarios.

Whilst the legislation produces what appears to be a fair result, in practice, it can result in the surviving spouse having significantly reduced control over the assets belonging to the children placing unnecessary financial strain on the family.

Why should a Solicitor prepare my Will?

A well-drafted Will that correctly expresses your wishes is essential to facilitate the smooth succession of your assets. A Will should not be prepared without taking into account your financial circumstances and the way your assets are held. The effectiveness of the provisions of your Will is dependent on knowing precisely what assets will form part of your estate and what assets will not and therefore need to be dealt with separately. A solicitor can advise on matters such as which property can be disposed of by Will, superannuation, assets held in companies, trusts and partnerships, tax and capital gains tax implications.

Information provided by Mellor Olsson Lawyers.

Forgotten your PIN?
Call the Helpline on 1300 132 573 and one of our friendly consultants will assist you.

Funds SA's 2013 investment objective review

– Capital Defensive and Conservative investment options

Given the prevailing financial market environment which is exhibiting low yields and lower prospective returns, particularly for fixed income, Funds SA has reviewed the existing investment objectives for each of the multi-sector funds to determine whether they continue to be achievable.

As a result, it is proposed that the return targets for the Capital Defensive and Conservative funds be amended as follows, effective 1 July 2013.

- The **Capital Defensive fund** is structured for investors with an investment time horizon of at least 2 years. Over this period it aims to earn a return averaging 1.5% (previously 2.0%) in excess of the rate of inflation. However annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC its risk level is classified as 'very low' (Risk Band 1) meaning that a negative return might be expected to occur less than 0.5 years in 20.
- The **Conservative fund** is structured for investors with an investment time horizon of at least 4 years. Over this period it aims to earn a return averaging 2.5% (previously 3.0%) in excess of the rate of inflation. However annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC its risk level is classified as 'low to medium' (Risk Band 3) meaning that a negative return might be expected to occur between 1 and 2 years in 20.
- For the **Capital Defensive fund**, Funds SA's 2013 Strategic Asset Allocation review proposed that the Inflation Linked Securities asset class allocation be reduced to fund small increases to listed equities, property and Diversified Strategies Income. Despite the slight increase in growth assets, the risk characteristics of the Capital Defensive fund remain broadly unchanged.

The table below shows the strategic asset allocations to apply from 1 July 2013, with the Capital Defensive fund's changes from the previous strategy shown in brackets.

	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %
Cash	100	25	15	8	3	2	2
Short Term Fixed Interest		23	13	7	5	2	0
Long Term Fixed Interest		5	5	9	5	2	0
Inflation Linked Securities B		15 (-6)	19	15	12	9	0
Diversified Strategies Income		16 (+1)	17	16	15	15	12
Property B		6 (+1)	9	10	12	14	16
Australian Equities B		6 (+2)	12	16	22	25	33
International Equities B		4 (+2)	10	14	18	21	27
Diversified Strategies Growth B		0	0	5	8	10	10
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Downloading forms from the website

Members wishing to download forms from the Scheme's website do not need a pin number to access these. If you open up the home page on **www.samfs.superfacts.com** you can click straight onto 'Documents and forms' at the top of the page, followed by 'Member Forms' and then choose the form you wish to download.

Your pin number is needed to access your confidential web page which contains personal and account details. If you don't have a pin or have forgotten it, please ring the Helpline on **1300 132 573** for assistance.

Important Check List Reminder

1 **Change of Address** Have you advised the Scheme of your change of address?

2 **Nomination of Beneficiary Form** Is your Nomination of Beneficiary form up to date?

3 **Leave Without Pay** Are you going on Leave without Pay? If so, all your insurance cover may cease.

4 **Long Term Sick leave** Members under age 60, is your sick leave due to run out?

5 **Maternity leave** Are you going on maternity leave and when will wages cease - as your insurances will be affected.

6 **Working less than 15 hours per week** For members working less than 15 hours per week, your insurance cover will be reduced to Death insurance only.

Death insurance will cease if you are working less than 10 hours per week.

7 **Salary Sacrifice Forms** Please ensure you send in **original** signed Salary Sacrifice forms to this office. If you fax your copies in, we still need the originals to be signed off by the employer before forwarding to Shared Services.

Please advise the Scheme on any of the above and contact the Manager, Mr Alan Kent on 8204 3826 for any clarification you may require. Information is also available in the Member Benefit Guide on the website **www.samfs.superfacts.com.*

Note: *If you are on extended leave at any time, you can always access the Super Info on the website www.samfs.superfacts.com.*