

## 2. How super works

The information in this document forms part of the Product Disclosure Statement (PDS), dated 6 February 2012, for the LGS Accumulation Scheme. This document is dated 6 February 2012.

### Overview

This Fact Sheet summarises how super works, the types of contributions which LGS will accept and the rules around how these contributions can be made or on what premise they may not be accepted. Contributions generally fall into two categories, concessional and non-concessional, which could also be referred to as taxed and un-taxed respectively and have caps or limits imposed that if breached may have significant taxation implications. The contribution caps apply to all contributions made for your benefit to any superannuation fund, regardless of how many superannuation accounts you have. You should monitor contributions made into your accounts as there are taxation consequences for exceeding the caps.

### Member account

In this Fact Sheet, your account is referred to as your 'benefit' and will be made up as an accumulation of the following:

- Initial and subsequent contributions/rollovers
- Investment returns (if positive)
- Any insurance benefit that may be payable

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- Taxes (if applicable)
- Fees
- Insurance premiums (if applicable)
- Any withdrawal of benefits
- Investment returns (if negative).

### Contributions

Generally, LGS accepts Superannuation Guarantee contributions and other employer, personal and spouse contributions, transfers and rollovers and any other contributions permitted by superannuation law. The Trustee may reject a contribution where it believes acceptance of such a contribution may not be permitted.

The following table provides an overview of the different types of contributions and their general tax treatment.

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<b>Concessional (or pre-tax) contributions</b>	
<ul style="list-style-type: none"> <li>● Superannuation Guarantee</li> <li>● Additional employer</li> <li>● Award</li> <li>● Self-employed deductible contributions</li> <li>● Salary sacrifice</li> </ul>	<ul style="list-style-type: none"> <li>● Subject to contribution caps (see below).</li> <li>● Generally taxed at 15%.</li> <li>● Taxed at a higher rate if your Tax File Number (TFN) is not provided.</li> </ul>
<b>Non-concessional (or post-tax) contributions</b>	
<ul style="list-style-type: none"> <li>● Personal</li> <li>● Spouse</li> <li>● Concessional contributions that exceed the cap</li> </ul>	<ul style="list-style-type: none"> <li>● Subject to contribution caps (see below).</li> <li>● You must supply Local Government Super with your TFN in order for us to accept these contributions.</li> <li>● Contributions are tax free when below the cap amount.</li> </ul>
<b>Contribution caps</b>	
Concessional	<ul style="list-style-type: none"> <li>● Capped at \$25,000 per annum indexed to Average Weekly Ordinary Time Earnings. The cap will only increase in \$5,000 increments.</li> <li>● Until 30 June 2012, the cap is \$50,000 for members who are aged 50 or over during the financial year in which the contributions are made.</li> <li>● Amounts in excess of the cap are taxed at the highest marginal rate plus the Medicare levy.</li> <li>● Excess amounts count towards the non-concessional cap.</li> </ul>
Non-concessional	<ul style="list-style-type: none"> <li>● Capped at six times the concessional cap ie. \$150,000 per annum or \$450,000 over three years. Maximum one-off contribution amount capped at \$450,000 for members under 65.</li> <li>● Capped at six times the concessional cap ie. \$150,000 per annum for members aged 65 or over.</li> <li>● Amounts in excess of the cap are taxed at the highest marginal rate plus the Medicare levy.</li> </ul>

## Concessional contributions

Concessional contributions are contributions which are usually paid by your employer as either part of their obligatory requirements or on your behalf out of your pre-tax salary. All concessional contributions are taxed at 15% provided you have supplied LGS with your TFN.

### Types of concessional contributions

- **Compulsory Superannuation Guarantee contributions**  
Most employees are entitled to a minimum employer contribution of 9% of salary (ordinary time earnings) known as the Superannuation Guarantee (SG).
- **Award contributions**  
These are contributions which are required under an award or agreement secured by your Union which may count towards SG. Some contributions can be in addition to SG.
- **Additional employer contributions**  
Additional contributions paid by your employer which could be the result of a salary packaging agreement.
- **Salary sacrifice**  
Amounts deducted from your pre-tax salary for the purpose of contributing to superannuation.

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### Self-employed deductible contributions - Division P members

You may be able to claim a tax deduction on personal contributions made to Local Government Super if you earn less than 10% of your combined assessable income, reportable fringe benefits and reportable employer superannuation contributions from working as an employee. Eligible members intending to claim a tax deduction for their personal contributions must lodge an ATO Notice of intent to claim or vary a deduction for personal super contributions form (NAT 71121) with LGS by the date they lodge their tax return or the end of the financial year after the income year in which the contribution was made (whichever date is earlier).

### Concessional contributions cap

Under current legislation there is a cap on the amount of concessional contributions that you and/or your employer can make in a financial year. Amounts in excess of the cap will also count towards the non-concessional cap.

The current concessional cap is \$25,000 p.a. (this amount will be indexed to Average Weekly Ordinary Time Earnings but will only increase in \$5,000 increments). Contributions within the cap will be taxed at 15%.

### Amounts exceeding the Concessional Contributions Cap

Amounts in excess of this cap will be taxed an additional 30% plus the Medicare levy which the Australian Taxation Office (ATO) will charge to you directly. This is in addition to the tax already paid on these contributions. If the ATO notifies you that an additional tax amount is to be paid for amounts in excess of the cap, you can nominate LGS to release monies from your account to pay the liability or you can pay the ATO directly.

### Transitional arrangements

Until 30 June 2012 people who are aged 50 and above have a non-indexed concessional contributions cap of \$50,000 per financial year. Amounts in excess of this cap are treated as explained in the section above.

### Non-disclosure of TFN

If you or your employer have not provided your TFN by the end of the financial year then:

- In the case of an account opened after 1 July 2007, all of your employer's concessional contributions will be taxed at the top marginal rate, plus the Medicare levy and
- In the case of an account opened on or before 1 July 2007, where your annual contribution exceeds \$1,000, all of your concessional contributions will be taxed at the top marginal tax rate, plus the Medicare levy.

In the case of self-employed contributions or other personal contributions, these cannot be accepted without a TFN.

If you do not provide your TFN by the end of the financial year and the additional tax is deducted, you can still provide your TFN and apply to have the additional tax refunded. However, additional tax will only be able to be refunded if the TFN is received within three years of the year in which the contributions were made and the additional tax was deducted.

If we have paid the additional tax to the ATO, there will generally be a considerable delay before any tax paid can be reclaimed because the application can only be made when we lodge our next tax return. If you leave LGS before any additional tax can be reclaimed from the ATO,

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your super payout will be reduced. You will not be able to request a refund of this additional tax paid after you have left LGS.

### Non-concessional contributions

Non-concessional contributions are personal contributions which are paid from after-tax salary or contributions paid on your behalf by your spouse. These contributions are not taxed (if within the cap amount) either when contributed to or withdrawn from super.

These contributions can be made periodically or as single amounts.

### Non-concessional contributions cap

Under current legislation there is a cap on the amount of non-concessional contributions that you can make in a financial year.

Non-concessional contributions are capped at \$150,000 (this amount is a multiple of six times the concessional contribution limit) per year. However, those under age 65 can bring forward two years' worth of contributions, giving them a cap of \$450,000 over three years.

For example, if you were to contribute \$450,000 in the current financial year, for the next two financial years you would not be able to make non-concessional contributions without exceeding the cap.

Contributions in excess of the concessional cap will count towards the non-concessional cap.

### Amounts exceeding the non-concessional cap

If you exceed the non-concessional cap, the contributions in excess of the cap will be taxed at the highest marginal tax rate plus the Medicare levy (this will be assessed by the ATO and any tax payable will be payable by you). You must provide the ATO Release Authority to the Trustee within 21 days or be subject to a financial penalty, however the Trustee can action the release authority up to 90 days from the date of issue to release money from your superannuation account to pay the tax liability, either to the ATO or have the Trustee reimburse you from your superannuation account.

### Acceptance of non-concessional contributions

The following conditions need to be satisfied for you to make non-concessional contributions:

- Your TFN must have been supplied to LGS. If your TFN has not been supplied the contribution will not be accepted and will be refunded to you
- Personal contributions can be made at any time or with any frequency until you reach age 65
- Between ages 65 and 74, you will need to satisfy the work test, which requires that you have worked at least 40 hours in a period of not more than 30 consecutive days during the financial year to which the contributions relate
- If you are over age 70 but less than 75, personal contributions can only be made directly by you for yourself. Spouse contributions will no longer be accepted
- Persons aged 75 and over can no longer make personal contributions
- If we receive a single contribution payment in excess of the non-concessional contributions cap we are required to return the excess amount to you.

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### Rollovers and transfers-in

LGS accepts transfers of benefits from other superannuation funds, including superannuation split amounts resulting from a Family Law settlement or order and superannuation lump sum (SLS) payments.

### Government Super Co-contributions

The Federal Government makes contributions to the superannuation account of an eligible income earner based on the personal contributions made by the income earner.

To qualify for a Co-contribution, you must, in the financial year in which the personal contribution is made:

- Make personal non-concessional superannuation contributions to a complying superannuation fund or retirement savings account
- Have a total income (assessable income plus any reportable fringe benefits) of less than \$61,920
- Have earned at least 10% of your total income from eligible employment, running a business or a combination of both
- Not have held any eligible temporary resident visa at any time during the year
- Have lodged an income tax return for the year of income
- Be less than 71 years old at the end of the year of income.

The Commonwealth Government will contribute \$1.00 for every \$1.00 contributed to a maximum of \$1,000 (where the contributor's annual income is less than the lower income threshold of \$31,920).

The Co-contribution amount phases out as income increases at the rate of 3.333 cents in the dollar and is no longer available where the annual income is \$61,920 (the higher income threshold) or more.

The income threshold amounts shown above are for the 2011/2012 financial year. The minimum Co-contribution amount is \$20.00.

### Tax deductible personal contributions

You are eligible to contribute personal contributions for which you can claim a tax deduction if you are aged:

- Under 65; or
- Between 65 and 74 and have been gainfully employed at least 40 hours in a period of not more than 30 consecutive days during the financial year.

You are unable to make personal contributions if you are aged 75 years or over.

Personal contributions by an eligible person (such as a self employed person) that are allowed as an income tax deduction are treated in the same way as contributions made by employers for the benefit of employees (i.e. Concessional Contributions).

You are only able to make personal contributions for which you intend to claim a tax deduction if you earn less than 10% of your combined assessable income and reportable fringe benefits and reportable employer superannuation contributions for the year from employment-related activities, (that is, through being an employee rather than being self-employed).

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A tax deduction may be available on contributions up to the concessional contributions cap of \$25,000 per person per year. To claim a tax deduction, instructions need to be provided to the Trustee before:

- You lodge your income tax return
- The end of the following financial year
- You request us to split contributions
- You commence a pension, or
- You rollover to another super fund.

Once these periods have lapsed, you are unable to claim or amend a tax deduction notice. You must also be a current member of the Scheme to claim a deduction.

## When benefits can be taken

Superannuation is a long-term investment and the Federal Government has placed restrictions on when you can withdraw benefits from your account. These are referred to as 'Preservation' rules.

Depending on the preservation components of your benefit (some members may have amounts under different components), you may need to satisfy a 'condition of release' in order to withdraw all or part of your benefit as a lump sum amount.

You are still able to roll over to another superannuation fund regardless of the preservation status of your account, however, rolling over to another fund will not alter the preservation status of the benefit.

## Preserved component

This is the amount of your benefit that cannot be cashed, unless you meet a condition of release.

The preserved component (and any investment earnings on the preserved component) cannot be withdrawn from the superannuation environment unless a condition of release is met.

All spouse contributions are classified as preserved.

## Restricted non-preserved

This component of your benefit can only be withdrawn and taken in cash when you cease employment with an employer who has contributed to LGS.

Your restricted non-preserved benefit is the amount (if any) that you would have been able to withdraw and take in cash if you had left LGS on 1 July 1999.

Over time your restricted non-preserved benefit stays at the same dollar value except for any restricted non-preserved benefit rolled over from another scheme. While it will continue to accumulate investment earnings, the earnings will be preserved. This amount, plus any unrestricted non-preserved amount, will remain the maximum amount that you will be able to take in cash on ceasing employment with a local government employer.

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### Unrestricted non-preserved

This is the amount of your benefit that you can withdraw and take in cash at any time.

In accordance with the preservation rules, the Trustee also keeps a record of the amount (if any) that you would have been able to withdraw without any restrictions at 1 July 1999.

This amount will only exist when you meet a condition of release, or have rolled over an unrestricted non-preserved benefit from another superannuation entity.

### When are preserved benefits payable?

The conditions of release you would need to meet in order to take your total preserved benefit as cash are as follows:

- On permanent retirement from the workforce at or after your 'preservation age' (refer to the following section 'Preservation age')
- On leaving employment on or after age 60
- On reaching age 65, regardless of whether you are still working
- On total and permanent incapacity
- On attaining your preservation age and whilst still employed, taking a transition to retirement pension (note that your benefit components will not change)
- If you entered Australia on an eligible temporary resident visa and you subsequently permanently depart Australia, then you can apply for payment of your benefit
- When the Australian Taxation Office (ATO) gives the Scheme a release authority to pay excess contributions tax to the ATO
- You terminate employment with a contributing employer and your preserved benefit is less than \$200
- On death, or
- You are suffering from a terminal illness.

You may be eligible to cash all or part of your benefit:

- On the grounds of severe financial hardship. Refer to the Local Government Super website for more information, or
- On compassionate grounds (subject to approval by the Australian Prudential Regulation Authority (APRA)).

### Preservation of spouse contributions

If the spouse account holder has never been in paid employment, their benefit can generally be paid only when the spouse reaches age 65 or on the spouse's death. Otherwise, normal preservation rules apply.

### No compulsory cashing of benefits

Although you are eligible to cash your preserved benefit on reaching age 65, you are permitted to keep all or part of your benefit in your superannuation account. If you decide to leave your benefit in superannuation, investment earnings on your benefit will continue to be taxed at the applicable tax rates.

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### Preservation age

Your preservation age is the age at which you are eligible to access your preserved benefits due to retirement. Currently, the preservation age is 55 years. However, from 2015 this age will increase.

Preservation age	Date of birth
55 years	Before 1 July 1960
56 years	1 July 1960 – 30 June 1961
57 years	1 July 1961 – 30 June 1962
58 years	1 July 1962 – 30 June 1963
59 years	1 July 1963 – 30 June 1964
60 years	After 30 June 1964

### Ceasing employment

If you cease employment with your Local Government employer, until we become aware that you have left employment, (either you or your employer may advise us of this fact) there will be no change to your account. Once we are advised that you have ceased employment with your employer or no employer contributions have been received for three months, members of Division A will be transferred to Division P of the Accumulation Scheme.

It is important to note that when you cease employment with a Local Government employer and your account has been transferred to Division P, your basic insurance cover will continue\* (provided premiums are paid and you meet the other terms and conditions of the Insurance policy). It is important to make sure that LGS is advised of changes in your employment.

\*Note that if you were transferred to Division P prior to 1 March 2009 any basic insurance cover would have ceased.

### Withdrawing a benefit

You are able to withdraw all or part of your benefit as a lump sum amount taken in cash, a rollover to another complying superannuation entity, or as a combination of both. If you elect to take part of your benefit, a minimum of \$5,000 must remain in your account after the withdrawal, otherwise your election will be invalid.

It is important to note that your preserved benefit can only be taken in cash as a lump sum amount if you have satisfied a condition of release. You may elect to roll over some or all of your funds to another superannuation entity or approved deposit fund by completing the relevant documentation, which is available from Member Services.

### Rolling over benefits to the Rollover and Account-Based Pension Plan

LGS has a division known as the Rollover and Account-Based Pension Plan that is available to you as either a:

- Rollover option, or
- Pension option if you have reached preservation age.

The Rollover and Account-Based Pension Plan is available for all LGS members and former members and their spouses. To commence either account, please refer to the Product Disclosure Statement for the Rollover and Account-Based Pension Plan available from the website, or contact Member Services.

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### Portability

You may elect under 'portability' to transfer some or all of your benefit to another superannuation entity, regardless of your employment status or whether or not you are able to move funds under 'Choice' provisions.

If you elect to take part of your benefit under portability, you must leave at least \$5,000 in your account after the rollover, otherwise your election will be invalid.

If you are withdrawing all or part of your benefit under portability, you can continue to have contributions paid into your account. It is important to note that you can only elect to withdraw under the portability provisions once in any 12 month period.

### Total and Permanent Disablement (TPD)

For the payment of a TPD benefit (not including any insured component), the Trustee must be satisfied that you have left employment on the grounds of total and permanent disablement.

Depending on your circumstances, you may need to show that you have been absent from work for six consecutive months due to that incapacity. This waiting period is in line with industry standards.

If you have any basic or voluntary insurance cover, the insurer must be satisfied that the requirements (as outlined in the policy document) have been met before any insurance benefit can be paid.

### Family Law Act

The Family Law Act takes account of superannuation entitlements when negotiating settlements resulting from the breakdown of marriages and de facto relationships (including same sex) and for the 'splitting' of those entitlements between the parties involved. The Family Law provisions are complex and you should seek independent legal and financial planning advice with respect to your personal situation. For more information please see our Family Law fact sheet at [www.lgsuper.com.au](http://www.lgsuper.com.au)

### Do you have lost super?

It is always important to keep Local Government Super informed of your current postal address. If your details change, call Member Services on 1300 369 901. You can track down lost super by using the ATO's free search service. Visit the ATO website [www.ato.gov.au/super](http://www.ato.gov.au/super)

### Eligible Rollover Fund

The Trustee has an Eligible Rollover Fund (ERF) Policy which deals with transfers of inactive accounts under \$400.

The Trustee has nominated 'Australia's Unclaimed Super Fund' (AUSfund) as the ERF to which members' benefits may be paid.

Contact details are as follows

#### AUSfund Administration

Ph: 1300 361 798

[www.unclaimedsuper.com.au](http://www.unclaimedsuper.com.au)

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### What happens if you die?

The rules regarding to whom a death benefit is payable are as follows.

If you make a valid binding death benefit nomination in favour of your dependant(s), the Trustee must distribute the benefit on your death in accordance with that binding death benefit nomination provided the nomination is still valid at the time of your death.

Alternatively, the Trustee will, at its discretion, pay the benefit to one or more of your legal personal representatives and/or dependants if:

- (a) you have made a binding death benefit nomination notice which is not valid at the time of your death or
- (b) you have not made a nomination,

the Trustee shall pay the benefit to one or more of your legal personal representatives and/or dependants.

Benefits will be paid to your legal personal representative by way of a lump sum which will form part of your estate. If you die leaving a Will, that lump sum will be distributed according to your Will. If you do not leave a Will and letters of administration for your estate have been taken out, the benefit will be distributed according to law.

Once informed of your death, the Trustee will lodge with the Scheme's insurer a claim for any insurance proceeds that may be payable.

### What is the definition of dependant?

At the time of your death, a dependant is defined under superannuation law to include:

- Your spouse
- Your child or children
- Any other dependant; and
- Any other person with whom you had an "interdependency relationship"\*.

\*Two persons have an interdependency relationship if:

- They have a close personal relationship; and
- They live together; and
- One or each of them provides the other with financial support; and
- One or each of them provides the other with domestic support and personal care.

### Can I nominate more than one beneficiary?

Yes, you may nominate a combination of one or more of your dependants, and/or your Legal Personal Representative as your beneficiaries, and you will need to specify the proportion of the benefit that will be paid to each beneficiary.

To be valid, each benefit allocation percentage must be a whole number with the total allocation equalling 100%. For example, if you nominate three beneficiaries, you may wish to allocate the percentages as 33%, 33% and 34%.

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### How do I make a valid binding death benefit nomination?

To make a binding death benefit nomination you must complete the 'Binding Nomination' form available from Member Services or our website and return it to us.

For the Trustee to consider your binding nomination form to be valid and effective:

- The form must state the proportion of the benefit that will be paid to each such beneficiary (in whole numbers) with the total allocation equalling 100% of the benefit
- It must be signed and dated by you in the presence of two witnesses who are at least 18 years old AND are not a person nominated on the form. The witnesses must sign and date their declaration on the same date that you sign the form.

There are strict legal requirements for a binding nomination to be validly made and to remain valid. You can amend or revoke your nomination at any time. To remain valid, a binding nomination must be renewed at least every three years.

When you make a valid binding nomination we will confirm in writing to you that the nomination has been made. If you make a binding nomination that we consider to be invalid we will write to you advising that we are unable to accept the binding nomination.

### When does a valid binding nomination become effective and how long does it last?

If you make a valid binding nomination it becomes effective from the date you and your witnesses sign it.

A binding nomination will usually expire and cease to have effect three years after being made or last amended. You can confirm or amend it at any time by completing the 'Binding Nomination' form and returning it to us, which extends the term for another three years from the date you and your witnesses sign it.

The Trustee must follow a valid binding nomination, regardless of whether your circumstances have changed, so it is important that you keep it up to date.