

Understanding the introduction of the salary sacrifice option in the Retirement Scheme.

Dear Employer,

You would be aware that on 1 October 2005, the Local Government Superannuation Scheme (LGSS) introduced a Salary Sacrifice option for Retirement Scheme members. This means that these members were able to salary sacrifice their defined contributions (compulsory member contribution of 1% to 9% of superable salary) as pre-tax. This, in effect, means that a Retirement Scheme member, who currently contributes 9%, could choose to contribute that whole amount on either a pre-tax (i.e. salary sacrifice) or post-tax basis.

As a further service, from 1 April 2006, the Scheme is introducing a salary sacrifice "blended" option for these same members. This means that from 1 April 2006 we will be able to accept a combination of pre and post tax contributions. For example a member, who currently contributes 9%, could choose to contribute 5% as pre-tax and the remaining 4% as post tax.

The affected members will therefore have three options from 1 April 2006:

1. They can nominate to have all their compulsory defined contributions made on a post-tax basis; or
2. They can nominate to have all of their compulsory defined contributions made on a pre-tax basis; or
3. They can nominate to split their compulsory defined contributions made on both a post-tax and a pre-tax basis.

In addition, members can also make optional "top-up"* contributions using the same three options.

Salary sacrifice continues to be a private arrangement between an employer and the individual employee. As such you should inform your employees in the Retirement Scheme what, if any, restrictions you have in place (e.g. its commencement date, the frequency of adjustments, any maximum limits, etc).

From the LGSS perspective, we will need to know the contribution basis of Retirement Scheme contributions each time one is received (i.e. whether that contribution is being made on a pre or post tax basis). This will ensure that these contributions are correctly taxed. **Accordingly, we require that all member contributions paid into the Retirement Scheme are identified using the following terms:**

- Defined Pre Tax (compulsory 1 to 9 per cent); or
- Defined Post Tax (compulsory 1 to 9 per cent); or
- Pre Tax Top Up; or
- Post Tax Top Up

**Please note: any member of the Retirement Scheme that currently makes their "top up" contributions to the Accumulation Scheme should continue to do so unless advised to the contrary (these contributions could be being used to finance additional insurance). These contributions should be sent with other Accumulation Scheme contributions.*

You will also need to ensure that your payroll system is able to correctly report the basis of member contributions as described above.

The Employer Online File Formats Guide Version 2.0 and the latest version of the contribution spreadsheet can be downloaded from the Employer Section of the LGSS website. We are currently working with the main payroll vendors to create interfaces that generate standard formatted files from their payroll systems, using our new file format.

If you require a sample payroll deduction form, or help with the reporting of contributions, please contact your Account Manager or the Employer Helpline on 1800 636 441. Alternatively, you can go to the “Employer Section” of the LGSS website www.lgsuper.com.au (then go to the Employer Online section at the bottom of the page).

Current regulations only allow fully qualified financial planners to provide advice on whether salary sacrifice is appropriate to an individual member. Accordingly if an employee approaches you for information regarding salary sacrifice, you should advise them to contact the Scheme on 1300 369 901.

We thank you for your assistance.