

YOUR

FUTURE



LOCAL GOVERNMENT®
SUPERANNUATION SCHEME

Local Government Superannuation Scheme

Special Edition - Federal Budget Newsletter April 2007

How the *Simplified Super* reforms affect you

The *Simplified Super* reforms, initially announced in last year's Federal Budget, passed through Parliament at the end of February 2007.

From the Chair



As newly elected Chair of the Local Government Superannuation Scheme it is with pleasure that I write this forward to a newsletter devoted to helping you in getting the most out of the recent tax changes to superannuation.

The Government's *Simplified Super* reforms now make superannuation one of the most attractive savings

vehicles available, largely because they have enhanced the tax treatment of super.

This newsletter details how these changes could affect you. However, I would urge you to talk to one of our financial planners as soon as possible if any of the following applies to you:

- You turn 50 before 30 June 2012 or currently have additional cash available to invest. The changes include transitional measures which could greatly benefit you if you take action before 30 June 2007.
- You are about to retire. A number of strategies can also be put in place to boost your retirement nest egg if you take prompt action.
- You are on a pension. New standards have been introduced for pensions and you might benefit from moving to more flexible pension rules from 1 July 2007.

If you don't fall into any of the above "time sensitive" groups, I would still urge you to carefully consider how you can apply the changes to your personal circumstances to better grow your wealth. If you have any questions in this regard, please do not hesitate to contact Member Services on **1300 369 901**.

It's also important to note that as a result of the changes, you could be penalised if you don't provide your Tax File Number (TFN) to the Scheme. You are not obligated to supply your TFN, but if you don't your pre-tax contributions will be taxed at the top marginal tax rate, plus the Medicare levy. Furthermore, we will not be able to accept any after tax contributions from you if we don't have your TFN.

I hope you find the content of this newsletter informative. We are always looking to improve our communication to members and welcome any feedback you have on things we do well and things we can improve on.

Yours sincerely,

Brian Harris
CHAIR
Local Government Superannuation Scheme

July 1 2007 - the changes in brief:

- ✓ All superannuation benefits paid from a taxed source (i.e. your Scheme), such as lump sums or income streams, will be tax free for people aged 60 and over.
- ✓ Reasonable Benefit Limits (RBLs) will be abolished.
- ✓ Age based limits on pre-tax contributions (concessional contributions) to super will be removed and new limits introduced.
- ✓ New contribution limits introduced for undeducted or after tax contributions (non-concessional contributions).
- ✓ Top tax rates will be applied if you don't provide your Tax File Number to the Scheme.
- ✓ Taxation of the super benefits of those aged under 60 has been simplified.
- ✓ There will be no forced payment of benefits out of a super fund after age 65.
- ✓ The rules relating to pensions have been simplified.
- ✓ Age Pension Assets Test Taper Rate will be changing from 20 September 2007.

How the reforms make super more attractive



The reforms make super one of the most attractive savings mechanisms available. This is because they have removed the tax payable on end benefits taken out of your super in a lump sum or income stream after you turn 60.

Superannuation is already concessionally taxed in other ways. Both pre-tax contributions made by yourself and the Superannuation Guarantee contributions paid by your employer (up to \$50,000 a year) are taxed at 15%, which may be a much lower tax rate than the one you pay on other earnings. In addition, the earnings on your investments while invested in super are taxed at a maximum rate of 15%, whereas earnings outside of super may be, depending on your circumstances, taxed at the highest marginal tax rate.

So, as Treasurer Peter Costello has said:

“You will never find a better savings vehicle.”

What the reforms mean if you are still accumulating super

30 JUNE 2007 DEADLINE DON'T MISS IT!

Before 30 June 2007 you can make non-concessional contributions of up to \$1 million to super.

If you are sitting on a big amount of cash or have just sold a business or investment property, there's an exciting window of opportunity that you can take advantage of before 30 June 2007. Thanks to transitional measures in place, you are permitted to make after tax contributions of up to \$1 million to your super before this date. Such a move will allow you to place your money in a vehicle where the tax on your investment earnings won't be greater than 15% (compared to up to the highest marginal tax rate in other vehicles) and where the benefits you finally draw down are tax free after you turn 60.

Deductible or pre-tax contributions (now referred to as concessional contributions)

In the past, the size of concessional contributions you or your employer could make to your super at the concessional rate of 15% was limited by your age. Now there are no age based limits. In fact, you are now allowed to make concessional contributions to super until you turn 75. However, the Superannuation Guarantee only applies up until age 70.

From 1 July 2007, any concessional contributions you or your employer make up to \$50,000* a year will be taxed at 15%. Any amount over \$50,000 will be taxed at an additional 30% plus the Medicare levy.

If you turn 50 between 1 July 2007 and 30 June 2012, you may benefit from transitional arrangements which allow you to make concessional contributions of up to \$100,000 a year at the 15% tax rate each financial year until 2012.

* This amount is indexed to Average Weekly Ordinary Time Earnings (AWOTE) but will only increase in \$5,000 increments.

Undeducted or after tax contributions (now referred to as non-concessional contributions)

From 1 July 2007, non-concessional contributions to super will be limited to \$150,000** a year if you are:

- 64 years old or younger; or
- 65 years to 74 years old and satisfy the work test (that you work for 40 hours during a consecutive 30 day period each year a contribution is made).

If you are younger than 65, you can also bring forward these contributions out to a limit of \$450,000 over three years. For example, a person under age 65 can make up to \$450,000 of contributions in the 2007-08 financial year, but would not then be able to make further non-concessional contributions until the 2010-11 financial year. Any contributions made within the limit will not attract tax when withdrawn from super. Contributions above the limit will be taxed at the top marginal tax rate plus the Medicare levy.

** This amount will be linked and capped at 3 times the concessional contribution limit.

What the reforms mean for retirement planning



The *Simplified Super* reforms have created a whole new ball game for retirement planning. In the past, much of the focus in retirement planning was on tax-free thresholds and Reasonable Benefit Limits (RBLs) on retirement because these limited the amount of concessional super you could receive over your lifetime.

The reforms have made these issues less relevant but how much tax you pay along the way has also fundamentally changed. All benefits you receive from a taxed super fund will be completely tax free after the age of 60. Earnings on your investments in super are also taxed at a maximum rate of 15% (compared to a possibly higher rate outside of super, depending on your circumstances). To take advantage of the favourable tax treatment of super, you might want to begin sacrificing some of your salary or increasing the amount you already salary sacrifice.

The reforms may also influence the age at which you plan to retire. As noted above, all benefits will be completely tax free if taken after you turn 60. If you retire between the ages of 55 and 59, some of your benefits will be subject to taxation. And, if you retire before you turn 55, the amount of tax you will pay on your benefits will be higher.

If you are nearing retirement you should seek guidance from your Scheme. We can assist you and provide access to a financial planner who can explore with you a host of strategies that may be applied to maximise your benefits and reduce your tax bill. And remember that it does not matter when you intend to retire, it's always better to plan well in advance to ensure you take advantage of all possible options that relate to your personal circumstances.

The reforms also make it easier for you to stay in the workforce longer. There will be no forced payment of benefits out of a super fund after age 65, although once you've reached this age, you will be able to draw down on your superannuation even if you haven't retired. You will also be able to make concessional contributions to super up until the age of 75.

IMPORTANT NOTICE for personal contributions made between 10 May 2006 and 7 December 2006.

If for any reason you have breached the \$1 million transitional cap for personal contributions, you have to lodge an application for a transitional release authority with the ATO before 30 June 2007. Excess transitional personal contributions will be taxed at 46.5%.

Non-concessional (personal) contributions

From 1 July 2007 superannuation funds will only be able to accept non-concessional contributions for a member if the TFN has been quoted. When the Scheme receives a non-concessional contribution on behalf of a member where the TFN has not been provided, the Scheme will have 30 days to return the contribution to the member.

NOTE: where you have not provided your TFN to your Scheme, any non-concessional contributions you make after 1 July 2007 must be returned to you.

Contact our friendly Member Services team on **1300 369 901** who can help you determine if you should be talking to one of our financial planners sooner rather than later.



What the reforms mean for retirees or those receiving retirement benefits

Age Pension changes

If you don't currently qualify for an Age Pension, this could change as a result of adjustments made to the Asset Test Exemption and the Age Pension Asset Test Taper Rate.

From 20 September 2007, the Age Pension Asset Test Taper Rate will be halved so that pension recipients only lose \$1.50 per fortnight (single and couple combined) for every \$1,000 of assets above the relevant threshold.

In addition, the Assets Test Exemption for purchased 'complying' income streams will be removed for income streams purchased on or after 20 September 2007. The income test, however, will not change.

FROM 20 SEPTEMBER 2007

Age Pension Asset Test Taper Rate will be halved. Asset Test Exemption for purchased 'complying' income streams will be removed.

Allocated Pensions (AP)

From 1 July 2007 all allocated pension payments and all lump sum withdrawals will be tax free for people aged 60 years and over. Pension payments to those aged 55-59 years will be taxed but will be eligible for a 15% offset with any exempt component being tax free.

New minimum pension income rules will make it possible for your allocated pension to last longer if you choose the minimum.

AP minimums until 30 June 2007*

Age	% of account balance
55-64	4.8 - 5.7
65-74	5.8 - 7.5
75-79	7.8 - 9.2
80-84	9.5 - 11.5
85-89	12 - 14.5
90-94	15.1 - 18.2
95+	18.9 at age 95

* For pensions commenced after 1 January 2006.

AP minimums from 1 July 2007

Age	% of account balance
55-64	4
65-74	5
75-79	6
80-84	7
85-89	9
90-94	11
95+	14

Contact Member Services on **1300 369 901**.

If you currently have an allocated pension, you will be able to move it to the new, minimum pension income rules without having to commute and start a new pension from 1 July 2007. A guaranteed lifetime pension provided on an arm's length basis that meets relevant existing requirements will also meet the new rules.

However, if your income stream is a 'complying' income stream, you will not be able to commute and transfer to the new pension. This is because complying income streams typically involve the long term investment of funds and allowing you to transfer your benefits out could create potential risks for other members as well as product providers.

From 1 July 2007, transition to retirement pensions (also known as non-commutable allocated pensions, or NCAP) will allow up to 10% of the account balance (at the start of each year) to be received as a pension payment in any one year. Pensions that start before 1 July 2007 and comply with "transition to retirement" rules will be seen as satisfying the new requirements. Transition to retirement pensions will continue to be pension only (i.e. no lump sum withdrawals).

NOTE: If you are currently receiving an allocated pension and under age 60, these recent changes may impact you if you are intending to commute your existing allocated pension either partially or in full. If you are intending to commute your allocated pension, it is important that you seek financial planning advice immediately. Our financial planners are available to you and can be contacted on **1300 369 901**.



What the reforms mean for Employer Eligible Termination Payments

Employer Eligible Termination Payments (to be known as 'Employment Termination Payments') will no longer be able to be rolled over into super.

Instead, Employment Termination Payments will consist of two components — a tax free component and a taxable component. The tax free component will consist of any post-June 1994 invalidity amount and the pre-July 1983 amount. The taxable component will be the post June 1983 amount or the remainder of the payment minus the tax free component. This will be taxed at 15% plus the Medicare levy for amounts up to a maximum of \$140,000 (for 2007-08) for recipients aged at their preservation age (age 55) and over, and at 30% plus the Medicare levy for those aged under preservation age (age 55). Amounts in excess of this will be taxed at the top marginal tax rate plus the Medicare levy.

These payments must be made within 1 year of termination. Also there will be an annual cap of \$140,000 for all Employment Termination Payments with no limit as to how many you could receive over your working life. The \$140,000 will be indexed over time and increased only in \$5,000 increments.

However, there are transitional arrangements for Employment Termination Payments that were specified in existing employment contracts as at 9 May 2006, provided payment is made by 30 June 2012. Under these arrangements the taxable component will be taxed at 15%

up to a maximum of \$140,000 (30% plus the Medicare levy if under preservation age), 30% plus the Medicare levy up to a maximum of \$1 million and the top marginal rate plus the Medicare levy for any further amounts. There are some pre-conditions so you should get more detailed information if you feel this may apply to you.

Further, if transitional arrangements apply to you, you will be able to rollover your Employment Termination Payments into super (again, provided payment is made by 30 June 2012). Amounts less than \$1 million will be treated as a taxable contribution but will not count towards the concessional contributions cap.

If you don't meet the requirements for the transitional arrangements, you might want to discuss the possibilities available to you before the end of June 2007 with one of our financial planners. Contact us on **1300 369 901** and one of our friendly Member Services officers will work out with you whether you may need to see one of our financial planners.

The need for financial advice

Even though the Government's reforms have simplified some aspects of super, you should seek advice. See what you need to do in order to take advantage of the changes, depending on your personal circumstances.

Please call Member Services on **1300 369 901** to book an appointment.

A WARNING about Tax File Numbers (TFNs)

If you don't provide your TFN to the Scheme between now and 30 June 2008, all your concessional contributions will be taxed at the top marginal tax rate, plus the Medicare levy, if they exceed \$1,000. For accounts that begin after 1 July 2007, the \$1,000 threshold does not apply. Furthermore, your Scheme will not be able to accept any non-concessional contributions from you if they don't have your TFN.

For this reason, it is crucial that you provide your TFN to the Scheme, either directly or through your employer, as soon as possible (if you haven't already done so). You should also check your Member Benefit Statement to ensure that your TFN is correctly recorded.

Regional office details are:

Lismore

81- 83 Molesworth St

Newcastle

161 King St

Orange

187 Summer St

Parramatta

10-14 Smith St

Sydney

28 Margaret St

Wagga Wagga

2/209 Baylis St

Wollongong

Shop 2 & 3, 60 Burelli St

Albury*

621 Dean St

Goulburn*

148 Auburn St

Glossary

Age Pension - The regular payment the Australian Government makes to retirees who have reached retirement age (65 for men, 63 for women) and who qualify by passing the Social Security Income Test and Assets Tests.

Allocated Pension - An income stream you purchase with your superannuation benefit that is designed to pay you a regular income after you retire. You can withdraw some or all of the amount at any time and choose the size and the frequency of your income payment (within certain limits). However, there is no guarantee that the account balance will last your lifetime.

Complying Income Stream - A pension generally where:

- Payments can only be adjusted by the lesser of 5% or the Consumer Price Index (CPI);
- There is no residual capital but a guaranteed period of payment; and
- There can be no commutation (except within the first six months).

Concessional contributions - These are contributions made from pre-tax income for which a tax deduction can be made. They include employer Superannuation Guarantee contributions, additional employer contributions and salary sacrifice contributions.

Employment Termination Payment - Is a lump sum payment made to a person in consequence of their termination of employment and can include amounts in respect of:

- Unused rostered days off;
- Amounts in lieu of notice;
- A gratuity or 'golden handshake';
- An employee's invalidity (permanent disability, other than compensation for personal injury); and
- Certain payments after the death of an employee.

A payment in respect of unused annual leave or unused long service leave is not an Employment Termination Payment. The tax treatment of such amounts is unchanged under the plan.

Non-commutable allocated pension - A pension, similar to an allocated pension, which can be accessed by Accumulation and Executive Scheme members who are at or over their preservation age and still employed. They cannot be commuted in cash except in limited circumstances. They revert to normal income stream (i.e. can be commuted) when a condition of release is met.

Non-concessional contributions - These are contributions made from a person's after tax income. They include undeducted contributions or personal contributions you make to the Scheme after tax.

Preservation - Most superannuation is 'preserved', which means that you can't withdraw it in cash unless you meet a 'condition of release'. Your super is generally preserved until you retire (between age 55 and 60, depending on your date of birth) or turn 65.

Preservation age - The preservation age is 55 years for people born prior to 1 July 1960, and increases in yearly steps to age 60 for those born after 30 June 1964.

Reasonable Benefit Limits (RBLs) - The maximum superannuation benefit you can accumulate in your lifetime that is taxed at the lower (concessional) rate. Amounts contributed above an RBL may be taxed at a maximum rate of 46.5% (including the Medicare levy). As part of the 2006 Federal Budget announcements, RBLs will be abolished from 1 July 2007.



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feel free to contact
Member Services on 1300 369 901
or visit www.lgsuper.com.au**