

Local Government Super

**Information for employers regarding
Purchased Leave arrangements**

May 2012





Purchased Leave

The information contained in this document is of a general and factual nature only and is not intended to be a substitute for, and is not, legal or financial advice.

It does not take into account any organisation's or individual's specific financial circumstances or requirements.

It is recommended that employers obtain their own legal advice and employees seek financial advice before entering into any of the arrangements discussed in this document.



Purchased Leave

Under the Local Government (State) Award 2010, employers may provide an employee with access to 'purchased additional leave' arrangements to enable them to attend to work and family responsibilities.



Purchased Leave

The Local Government & Shires Association's Adjusted Salary Model

- Salary adjusted to the 'purchased leave rate' for the purchase period
- Purchased leave rate =
$$(purchased\ leave\ period^* - period\ purchased^{**}) / purchased\ leave\ period^*$$
- The additional leave is treated as paid leave, when taken

**The period over which the employee will purchase the leave*

*** The period of leave being purchased*



Purchased Leave

Example 1 (using the Adjusted Salary Model)

Mary purchases 2 weeks additional leave, paid for over a 12 month (52 week) period:

$$\text{Purchased leave rate} = (52 - 2) / 52 = \mathbf{0.9615 \text{ or } 96.15\%}$$

Mary would receive 96.15% of her salary for the 12 month purchase leave period, to pay for the 2 weeks additional leave.



Purchased Leave

Example 2 (using the Adjusted Salary Model)

Alternatively, if Mary had arranged with her employer to purchase her 2 weeks additional leave over 6 months (26 weeks):

$$\text{Purchased leave rate} = (26 - 2) / 26 = \mathbf{0.9230 \text{ or } 92.3\%}$$

Mary would receive 92.3% of her salary for the 6 month purchased leave period, to pay for the 2 weeks additional leave.



Purchased Leave

Accumulation Scheme members

During the purchased leave period, employers may choose to pay SG on the full salary, or at the purchased leave rate.



Purchased Leave

Accumulation Scheme members

In other words, revisiting example 1 and assuming Mary's full time salary is \$65,000 per annum, the employer may choose to do the following:

- SG payable at full rate = $\$65,000 \times 9\% = \mathbf{\$5,850}$
- or
- Purchased leave rate = $\$65,000 \times 96.15\% = \$62,498$
- SG payable at purchased leave rate = $\$62,498 \times 9\% = \mathbf{\$5,625}$

At end of the 12 month agreement period, if using the purchased leave rate, Mary's salary should revert to full time rate of \$65,000 and SG would be payable on the full salary.



Purchased Leave

Retirement Scheme members

IMPORTANT:

Do not report a reduced superable salary to LGS

LGS cannot apply the LGSA's Adjusted Salary Model to the Retirement Scheme, as the reduction of salary in these circumstances is not permitted under the Trust Deed.

However, if the employer has chosen to use the Adjusted Salary Model for Accumulation Scheme members and has applied the purchased leave rate to their super contributions, it may consider it equitable to treat a purchased leave period for a Retirement Scheme member as a period of part time employment, calculating the Salary Ratio in the same way as it calculated the purchased leave rate for Accumulation Scheme members.



Purchased Leave

Retirement Scheme members

So, if the employer resolves to treat a purchased leave period as a period of part time employment, it would submit a 'Change in Hours Worked' form, confirming:

1. Start date of period of part time employment
2. End date of period of part time employment
3. Salary Ratio* (ie purchased leave rate**)

**Salary Ratio should be provided to 4 decimal places (eg 0.6789)*

*** = (purchased leave period – period purchased) / purchased leave period*





Purchased Leave

Retirement Scheme members

Example:

Let's assume that Mary is a member of the Retirement Scheme and:

- her purchased leave period starts on 16 April 2012* and
- her purchased leave period ends on 12 April 2013* and
- her contribution rate = 6% and
- her superable salary = \$65,000 and
- she is purchasing 2 weeks additional leave

The employer would confirm the Salary Ratio as: $(52 - 2) / 52 = \mathbf{0.9615}$

**advised by the employer as the start/end dates of a period of part time employment*



Purchased Leave

Retirement Scheme members

Example – the impact on Mary’s defined contributions:

Normal (full time) monthly member contribution =
 $(\$65,000 \times 6\% \times 1.0000^*) / 12 = \mathbf{\$325.00}$

Purchased leave monthly member contribution =
 $(\$65,000 \times 6\% \times 0.9615) / 12 = \mathbf{\$312.49}$

**Salary Ratio = 1.0000 for members working full time.*

At the end of the 12 month purchased leave period, Mary’s Salary Ratio would revert to 1.0000. Her member benefits are only affected for the 12 month purchased leave period.



Purchased Leave

Retirement Scheme members

Example – the impact on Mary’s Benefit Points:

Normal (full time) Benefit Points =
 $(6 \times 1.0000) / 12 = \mathbf{0.5000}$ per month or **6.0000 Points for the year**

Purchased leave Benefit Points =
 $(6 \times 0.9615) / 12 = \mathbf{0.4808}$ per month or **5.7696 Points for the year**

Mary’s Salary Ratio would revert to 1.0000 at the end of the purchased leave period, so her accrued Benefit Points are only reduced for the 12 month purchased leave period.



Purchased Leave

Retirement Scheme members

**Example – the impact on the employer’s EFB* contributions
(assuming Mary has less than 180 accrued benefit points):**

Normal (full time) monthly employer contribution =
 $1.9 \times \$325.00 = \mathbf{\$617.50}$

Purchased leave monthly employer contribution =
 $1.9 \times \$312.49 = \mathbf{\$593.73}$

**EFB = Employer Financed Benefit. Not payable for members with 180 accrued benefit points.*



Purchased Leave

Retirement Scheme members

**Example – the impact on the employer’s ‘award’ contributions*
(assuming Mary has reached 180 accrued benefit points):**

Normal (full time) monthly contribution =
 $(\$65,000 \times 6.5\% \times 1.0000) / 12 = \mathbf{\$352.08}$

Purchased leave monthly contribution =
 $(\$65,000 \times 6.5\% \times 0.9615) / 12 = \mathbf{\$338.53}$

**payable in lieu of EFB contributions. Currently set at 6.5% of reported superable salary and allocated to the member’s Other Contributions account.*



Purchased Leave

Retirement Scheme members

**Example – the impact on the employer’s BB* contributions
(irrespective of how many benefit points Mary has accrued):**

Normal (full time) monthly employer BB contribution =
 $(\$65,000 \times 1.0000 \times 2.5\%) / 12 = \mathbf{\$135.42}$

Purchased leave monthly employer BB contribution =
 $(\$65,000 \times 0.9615 \times 2.5\%) / 12 = \mathbf{\$130.20}$

**BB = Basic Benefit. Currently set as 2.5% of Superable Salary / 12*



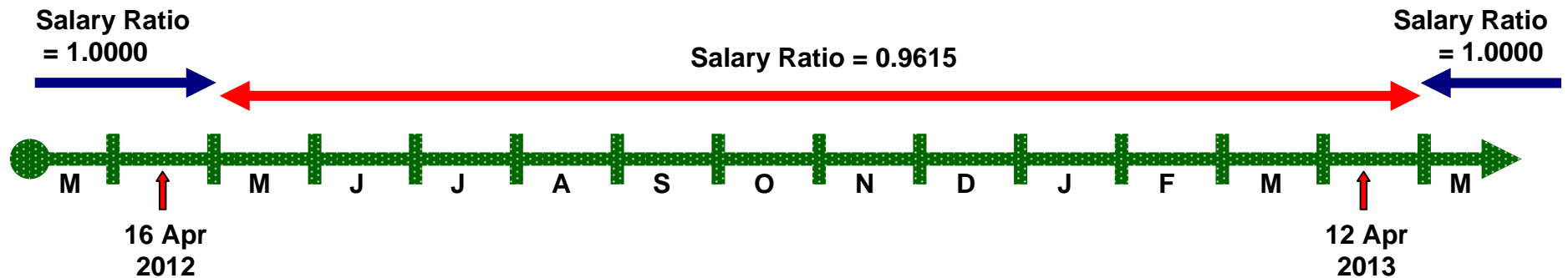


Purchased Leave

Retirement Scheme members

Example – the impact on the monthly billing of Mary's contributions

Although the purchased leave period in this example started during April 2012 and ends during April 2013, using the 'whole calendar month' principle the Salary Ratio would have reduced from 1 May 2012 and will revert to 1.0000 from 1 May 2013, as shown below.





Purchased Leave

Reminder:

Retirement Scheme benefits are NEVER calculated using a part-time salary. They are always calculated using a full time salary, even if an employee is working part time when they cease employment (ie using a full time equivalent salary).

A Salary Ratio of less than 1.0000 will reduce the contributions and accrual of benefits (as described in the example on the preceding pages) only for the period of part time employment itself and not for the entire membership period.



Purchased Leave

NEED MORE INFORMATION?

Please contact your LGS Customer Relationship Manager (CRM) or call Employer Services on 1800 636 441

Employees requiring more information on how purchased leave arrangements could affect their super are advised to call LGS Member Services on 1300 547 873





This presentation has been prepared by LGSS Pty Limited (ABN 68 078 003 497) (AFSL 383558), as Trustee for Local Government Superannuation Scheme – Pool A (ABN 74 925 979 278) and Pool B (ABN 28 901 371 321) – collectively known as Local Government Super.

The information contained in this presentation is of a general nature only and is not intended to be a substitute for advice. It does not take into account any individual's or organisation's investment objectives, financial situation or particular needs. If you require advice that is based on your own personal situation, we recommend you contact an authorised financial advisor.

For more information about Local Government Super, contact Member Services on 1300 369 901 or go to www.lgsuper.com.au to obtain a copy of the relevant Product Disclosure Statement pertaining to your membership.