



How the 1 July 2007 changes affect you in the PSS

Who should read this?

All PSS preserved benefit members.

If you plan to make any changes to your super arrangements after reading this fact sheet, we recommend that you seek financial advice before making any decisions.

What is in this fact sheet?

- > What you should know up front
- > What are the changes?
- > How do the changes affect your benefit?
- > Is there anything else you should consider?
- > Where can you get more information?
- > Glossary

What you should know up front

It is important that you read the disclaimer at the end of this fact sheet. Before making any decisions, please read the **PSS product disclosure statement** and consider seeking advice from a licensed professional such as a financial planner, accountant or solicitor.

What are the changes?

New super tax legislation that affects all super funds and their members comes into effect from 1 July 2007.

The changes are different based on whether tax has or has not been paid on contributions.

The PSS includes both taxed and untaxed components as follows:

1. Member component – this is your own contributions paid whilst you were a contributing member, plus Fund earnings. We call this a ‘taxed’ component because it is money that was paid from your after-tax salary directly into the PSS to be invested.
2. Productivity component – this is your employer’s productivity contributions since 1 July 1990 (less 15% contributions tax) paid whilst you were a contributing member, plus Fund earnings. We call this a ‘taxed’ component because it includes money that was paid directly into the PSS to be invested. Any productivity contributions paid before 1 July 1990 are treated as an ‘untaxed’ component.
3. Employer-financed component – this represents a defined amount financed by your employer whilst you were a contributing member. We call this an ‘untaxed’ component because it is paid from the Consolidated Revenue Fund (CRF), not the PSS. For tax purposes, it is treated as coming from an ‘untaxed source’.

Benefits from a taxed source

The main changes that affect PSS members include:

- > new thresholds and withdrawal rules, including the abolition of tax paid on lump sums and pensions for those **aged 60 or over** (at the time of payment), and
- > conversion of the pre-July 1983 component (as at 30 June 2007) to a tax-free component.

Benefits from an untaxed source

The main changes for those claiming a benefit at **age 60 or over** include:

- > a 10% tax offset on pensions, and
- > a threshold for lump sum benefits over \$1.1 million.

These changes are explained in more detail in this fact sheet.

How do the changes affect my benefit?

Table 1 shows how your benefit will be taxed if you take a lump sum and/or pension from the PSS.

Table 1 - Tax on benefits by age from 1 July 2009

| Under 55 (please note that you can only access your PSS benefit under age 55 in very limited circumstances. For more information see the PSS super book at www.pss.gov.au) | Between 55 and 59 and have reached preservation age | 60 and over |
|---|---|---|
| <p>Benefits from a taxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be taxed at 21.5%. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, the taxable component will be taxed at your marginal tax rate and you may have a tax-free component. <p>Benefits from an untaxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be taxed at 31.5% up to a threshold of \$1.1 million and at the top marginal tax rate above this amount. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, it will be taxed at your marginal tax rate. | <p>Benefits from a taxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be tax-free up to a threshold of \$150,000 and taxed at 16.5% above this amount. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, the taxable component will be taxed at your marginal tax rate less a 15% tax offset and you may have a tax-free component. <p>Benefits from an untaxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be taxed at 16.5% up to a threshold of \$150,000, then 31.5% up to \$1.1 million and at the top marginal tax rate above this amount. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, it will be taxed at your marginal tax rate. | <p>Benefits from a taxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the component from a taxed source will be tax-free. > If you take any part of your benefit as a pension, the component from a taxed source will be tax-free. <p>Benefits from an untaxed source</p> <ul style="list-style-type: none"> > If you take any part of your benefit as a lump sum, the taxable component will be taxed at 16.5% up to \$1.1 million and at the top marginal tax rate above this amount. Your lump sum may include a tax-free component. > If you take any part of your benefit as a pension, the taxable component will be taxed at your marginal tax rate, less a 10% tax offset. |

Tax offset example

The following example shows how the tax offset is calculated.

If the untaxed component of your fortnightly pension is \$1000, the offset amount is 10% of \$1000 which is \$100.

If your marginal tax rate is 30%, you would pay \$300 tax per fortnight before the offset.

You then deduct the offset amount from the amount of tax applicable based on your marginal tax rate i.e. \$300 - \$100 = \$200.

Tax liability for that fortnight would now be \$200.

Please note: The Medicare levy is also applied where tax is deducted.

Table 2 shows the names and tax rates of LUMP SUM components pre-1 July 2007 and names of the components post-1 July 2007.

| Table 2 - Tax rates of the lump sum components | | |
|--|---|----------------------------|
| Pre-1 July 2007 Component | Pre-1 July 2007 tax rate | Post-1 July 2007 Component |
| Pre-July 1983 | 5% at your marginal tax rate | Tax-free* |
| Concessional | 5% at your marginal tax rate | |
| Undeducted contributions | Tax-free | |
| Post-June 1994 invalidity | | |
| Capital gains tax | | |
| Non-qualifying | Your marginal tax rate | Taxable* |
| Post-June 1983 taxed | 20% 0% up to \$135,590 threshold 15% above \$135,590 threshold | |
| > Under age 55 | | |
| > Age 55 and over | | |
| Post June 1983 Untaxed | 30% 15% up to \$135,590 threshold 30% above \$135,590 threshold | |
| > Under age 55 | | |
| > Age 55 or more | | |
| Excessive | Up to 47% | ABOLISHED |

* For tax payable on these new components refer to Tables 3 and 4.

Table 3 shows the percentage of tax payable on LUMP SUMS based on age and component.

| Table 3 - Tax treatment of lump sums | | | | | |
|---|---------------------------|---|-------------------|--|---|
| | | Percentage of tax payable on a Taxed Source | | Percentage of tax payable on an Untaxed Source | |
| | | Tax-free component | Taxable component | Tax-free component | Taxable component |
| Under 55 (and have not reached preservation age) | | 0% | 21.5% | 0% | 31.5% |
| | | | | | Top Marginal Tax Rate above \$1.1 million threshold |
| 55-59 (and reached preservation age) | Up to \$150,000 threshold | 0% | 0% | 0% | 16.5% |
| | Above \$150,000 threshold | 0% | 16.5% | 0% | 31.5% |
| 60 and over | | 0% | | 0% | |
| | | | | | |

Please note: The Medicare levy is also applied where tax is deducted.
The \$150,000 threshold is calculated across your entire taxable benefit.
The \$1.1 million threshold is applicable to the untaxed component of your benefit.

Table 4 shows the percentage of tax payable on PENSIONS based on age and component.

| Table 4 - Tax treatment of pensions | | | | | |
|-------------------------------------|--|---|--|--|--|
| | | Percentage of tax payable on a Taxed Source | | Percentage of tax payable on an Untaxed Source | |
| | | Tax-free component | Taxable component | Tax-Free component | Taxable component |
| Under 55 | | 0% | Your Marginal Tax Rate | There is no tax-free component for pensions from an untaxed source | Your Marginal Tax Rate |
| 55-59 | | 0% | Your Marginal Tax Rate less a 15% tax offset | There is no tax-free component for pensions from an untaxed source | Your Marginal Tax Rate |
| 60 and over | | 0% | | There is no tax-free component for pensions from an untaxed source | Your Marginal Tax Rate less a 10% tax offset |

Please note: The Medicare levy is also applied where tax is deducted.
The tax treatment on your pension changes according to your current age.

Is there anything else I should consider?

- > Reasonable Benefit Limits have been abolished.
- > The Senior Australian tax offset may apply to you. For further information visit www.ato.gov.au
- > The age pension assets test taper rate has changed. For further information visit www.centrelink.gov.au
- > Any part of your benefit which is taxed will also be subject to the Medicare levy.
- > You should seek financial advice before claiming a benefit.
- > This fact sheet only covers changes that affect your PSS preserved benefit. It does not cover contributions, as you no longer contribute to the PSS. However, you may have other superannuation funds that you contribute to and we recommend you speak to them to find out how the changes may affect your contributions.

Where can I get more information?

| | |
|--------------|--|
| EMAIL | members@pss.gov.au |
| PHONE | 1300 000 377 |
| FAX | 02 6272 9613 |
| MAIL | PSS PO Box 22 Belconnen ACT 2616 |
| WEB | www.pss.gov.au |

Glossary

Concessional contributions

Previously known as deductible contributions. These are contributions made from your before-tax income, whilst you were a contributing member.

CPI-indexed pension

A pension which is indexed half yearly in line with the consumer price index.

Non-concessional contributions

Previously known as undeducted contributions. These are personal contributions made after June 1983 from your after-tax salary, whilst you were a contributing member.

Post-June 1990 productivity

Fortnightly funded contributions paid by your employer after June 1990. This is payable from a taxed source.

Post-June 1994 invalidity component

Paid as a result of total and permanent incapacity and in consequence of termination of employment.

Pre-July 1983 component

The amount of your superannuation which relates to eligible service before 1 July 1983.

Pre-July 1990 productivity

Productivity contributions paid by your employer for the period prior to July 1990. This is payable from an untaxed source.

Preservation age

The minimum age at which you can take a cash lump sum without any restriction (see table below).

| DATE OF BIRTH | PRESERVATION AGE |
|----------------------------|------------------|
| Before 1 July 1960 | 55 |
| 1 July 1960 – 30 June 1961 | 56 |
| 1 July 1961 – 30 June 1962 | 57 |
| 1 July 1962 – 30 June 1963 | 58 |
| 1 July 1963 – 30 June 1964 | 59 |
| After 30 June 1964 | 60 |

Reasonable Benefit Limits (RBLs)

Before 1 July 2007 the maximum super benefit you were able to receive from all sources at a concessional tax rate. These limits have been removed.

Taxable component

This includes concessional contributions made since 1 July 1983. It can contain taxed and untaxed amounts.

Taxed component

Consists of your post-June 1990 productivity member contributions, Super Co-contributions and transfers from other superannuation funds. This component was previously referred to as 'funded'.

Tax-free component

This may include contributions made before 1 July 1983, non-concessional contributions made since 1 July 1983 and post-June 1994 invalidity amounts.

Tax offset

A reduction in tax liability. Often a tax offset is described as a percentage, for example, an offset of 10% to a pension. It is different from a tax deduction, which reduces your taxable income.

Top Marginal Tax Rate (MTR)

The highest income tax rate. For 2009/10 the top MTR is 45%.

Untaxed component

Consists of your employer component and any pre-July 1990 productivity contributions. This component was previously referred to as 'unfunded'.

Warning - This Document Contains General Advice or Information Only

Any advice in this document has been prepared without taking account of your personal objectives, financial situation or needs. Because of this, you should, before acting on any advice in this document, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. You may wish to consult a licensed financial planner to do this.

Australian Reward Investment Alliance (ARIA)
 ABN: 48 882 817 243 AFSL: 238069 RSE Licence no: L0001397,
 Trustee of the Public Sector Superannuation Scheme (PSS)
 ABN: 74 172 177 893 RSE: R1004595