



Salary reductions and your PSS super

Who should read this?

Members who have recently experienced a reduction in salary, or are considering working at a reduced classification level.

What is in this fact sheet?

- > What you should know up front
- > How do salary reductions occur?
- > How does a salary reduction affect my superannuation?
- > How does a salary reduction affect my contributions?
- > What do I need to do if I have a salary reduction?
- > How do I get more information?

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.

How do salary reductions occur?

Salary reductions are caused by a number of different circumstances. A reduction in salary could be voluntary or it could be involuntary, such as the loss of an allowance, redeployment at a lower classification level, or on transfer to a new agency on a lower salary.

If you are approaching retirement, you may also wish to phase in your retirement by reducing your workloads and taking up a new position at a reduced classification level. This fact sheet does not cover changing from full-time to part-time work. For more information about changing from full-time to part-time, please read our fact sheet **Changing from full-time to part-time** under **Forms and publications** at www.pss.gov.au

How does a salary reduction affect my superannuation?

Your benefit in the PSS is determined by your accrued benefit multiple times your final average salary. Your accrued benefit multiple is determined by the rate of your contributions and the length of your

contributory membership. Your final average salary is generally the average of your last three superannuation salaries, which are determined on your birthday each year.

Your superannuation salary cannot reduce from a previously qualified amount. Therefore, the calculation of your final average salary would take into consideration the former higher salary. From 1 July 2003, your former salary is updated in line with movement in the Average Weekly Ordinary Time Earnings (AWOTE).

If at any time your new salary grows to exceed the updated former salary, your new superannuation salary (from your following birthday) will be the higher of the two salaries.

Peter takes a voluntary reduction in classification to phase in his retirement

Peter was intending to retire from the Australian Public Service as soon as he turned 55. However, closer to retirement Peter decided to continue his employment for an extra three years. To prepare himself for retirement, Peter arranged with his employer to take a voluntary reduction in classification. Peter's final average salary at age 55 was \$72,051 per year, and his new reduced salary is \$58,902 per year.

Assuming that Peter was contributing at 5% and that the salary growth was 1.5% per year above inflation (inflation assumed to be zero to keep figures in today's dollars), Peter's entitlements from the PSS are as follows:

	At age 55	At age 58
Accrued benefit multiple	5.25	5.88
Final Average Salary	\$72,051	\$75,342
Total benefit as lump sum	\$378,268	\$443,012
Total benefit as indexed pension (per year)	\$31,522	\$38,861

Despite working at a reduced level, Peter's salary for superannuation purposes is not reduced. Peter's former salary continues to grow even after he voluntarily takes a reduction in classification. The same applies for involuntary salary reductions.

How does a salary reduction affect my contributions?

You have the flexibility to choose a contribution rate of between 2% and 10% of your salary (as a whole percentage) or you can choose not to contribute at all. We understand that your financial needs can vary and the PSS allows you to change your contribution rate at any time.

If you have a salary reduction, your contributions are based on the former higher salary until any time your new salary should grow to exceed the former salary. You cannot elect to have your superannuation salary reduced, but you can elect to reduce your rate of contributions at any time. This would have the effect of increasing your take-home pay.

Please be aware that electing to pay contributions at a lower rate would generally reduce the final benefit that you get from the PSS on retirement.

What do I need to do if I have a salary reduction?

If you do not wish to reduce the rate of your contributions, you do not need to do anything about your superannuation. Your contributions will continue to be payable on the updated former higher salary.

However, if you wish to pay a lower rate of contributions, you will need to advise your personnel section and, if required, complete the form **Change my super contribution rate under Forms and publications** at www.pss.gov.au. An election to vary your rate of contributions is effective from the payday after the date on which it is made.

How do I get more information?

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Belconnen ACT 2616

WEB www.pss.gov.au

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.

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