



PSS and Imbalanced Member Contributions

What has happened?

Your employer provides us with information about your employment, your super salary, and your fortnightly contributions.

Sometimes your member and employer contributions may be paid incorrectly, resulting in you having an 'imbalanced' record. This can occur for a variety of reasons, including retrospective adjustments to the information provided, non-payment of contributions while on some periods of leave without pay, or administrative errors.

Why does it matter?

Your total benefit from PSS upon retirement is generally calculated based on three components:

1. Member Component (your member contributions plus investment earnings),
2. Productivity Component (your funded employer contributions plus investment earnings), and
3. Employer Component (calculated based on a set formula when you cease contributing).

If your Member and/or Productivity Components are imbalanced, it will also affect the calculation of the Employer Component and the final benefit we pay to you.

How does PSS work?

Your Member and Productivity Components are invested in the PSS fund (which is subject to investment earnings).

The Employer Component is calculated by taking your total accrued benefit and deducting the accumulated Member and Productivity Components.

At retirement, or when you cease contributing to PSS, your total accrued benefit is calculated by multiplying your Final Average Salary by your Accrued Benefit Multiple (FAS x ABM).

Your Final Average Salary (FAS)

Your super salary is your basic salary plus any recognised allowances. This is updated annually by your employer on your birthday.

On retirement, or when you cease contributing to PSS, we will calculate your FAS as the average of your super salaries reported by your employer over your previous three birthdays*.

Who should read this?

Any PSS member who has been advised that their member contributions have been either underpaid or overpaid.

***On redundancy your FAS also incorporates your final super salary.**



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Your Accrued Benefit Multiple (ABM)

Each fortnight that you contribute to PSS, your ABM will grow by a multiple determined by your contribution rate and the hours you work. You can choose to contribute between 2% and 10% of your salary, or you can choose not to contribute at all.

The below table shows how much your Benefit Multiple will increase each year, dependent on your fortnightly contribution rate.

Please note: the ABM growth will be prorated based on your actual employment if you work on a part time or casual basis.

Contribution rate (% of salary)	Accrued Benefit Multiple p.a (if you have satisfied the 10-year rule*)	Accrued Benefit Multiple p.a (if you have not satisfied the 10-year rule*)
0%	0.11	0.11
2%	0.15	0.15
3%	0.17	0.17
4%	0.19	0.19
5%	0.21	0.21
6%	0.23	0.22
7%	0.25	0.23
8%	0.27	0.24
9%	0.29	0.25
10%	0.31	0.26

* If you are paying contributions at rates above 5%, there is a restriction on how much employer share you can accrue over the period of your membership. This restriction is known as the 10-year rule. Please visit csc.gov.au for more information.

So that's a lot of information. How is it applied?



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Peter has worked full time for 30 years, contributing @ 5% of his super salary for 10 years, and @ 2% for 20 years. He is retiring at age 60 with a FAS of \$95,500.

His ABM is determined on his contribution rate and years of membership

10 years @ 5%	$0.21 \times 10 = 2.1$
20 years @ 2%	$0.15 \times 20 = 3.0$
ABM	5.1
Total Accrued Benefit of FAS x ABM	$\$95,500 \times 5.1$
	= \$487,050

During his 30-year career, Peter has paid member contributions and, in turn, his employer has also paid productivity contributions. These amounts have been invested in the PSS fund over that time, and have moved with market fluctuations. On Peter's retirement, those investments have resulted in the following:



We now have all the figures required to calculate Peter's Employer Component:



The Employer Component is an unfunded amount paid out of the Consolidated Revenue Fund (CRF), so it will usually incur tax when being claimed.

What happens if my account is imbalanced?

The impact of an imbalanced record will differ depending on whether you have an underpaid or overpaid Member Component. Your membership status is also relevant – that is, whether you are still contributing or have preserved your benefit.

We've set out examples of some of the different scenarios that may apply to you. Please refer to the relevant sections below, based on your situation.

My member contributions are overpaid

You've been informed that your member contributions are overpaid and that these must be refunded to you. Let's look back at Peter as an example of how this could happen, and what it means for him.

CSC has worked with Peter's employer to investigate the cause of this overpaid amount, and discovered that, during the period of him electing to pay a contribution rate of 2%, PSS was paid contributions of 5% over three pay periods in error.

This has resulted in overpaid contributions of \$176.92 plus earnings of \$116.45.

His equity in the fund at retirement has not changed:



His overpaid contributions are accruing and will be paid out separately to his PSS benefit.

Overpaid Member Contributions \$293.37

What's the impact on my final benefit?

None. Overpaid amounts don't count towards your total accrued benefit.

Why do the overpaid member contributions need to be refunded?

The PSS Rules don't allow CSC to accept contributions that are higher than your nominated contribution rate. This means that overpaid contributions can't be accepted or included in the total accrued benefit, and so must be refunded.

Can I retrospectively change my contribution rate to make the problem go away?

No. Under the PSS Rules, you can't retrospectively change your contribution rate.

Will overpaid contributions accrue interest?

As the overpaid contributions form part of the fortnightly contribution payments received from your employer, they will be invested in the PSS fund. This means that they will fluctuate in line with the fund while invested – when the fund has positive returns, the value increases, and when the fund has negative returns, the value decreases.

What does it mean for tax purposes?

The overpaid contributions have already been taxed because they come from your after-tax salary. No additional tax is payable on those amounts when we refund them to you.

Any investment earnings that are payable on the refunded contributions will not have had tax withheld by CSC. This means you must declare the investment earnings received on your next tax return (whether positive or negative). The ATO will advise you directly of any impact to your income tax liability from these earnings.

Do overpaid contributions count as Non-Concessional Contributions for tax purposes?

No. As overpaid contributions can't be included in your total accrued benefit, they can't be reported as Non-Concessional Contributions for tax purposes. When the overpaid amount is refunded, CSC will adjust previous reporting to the ATO and the overpaid amount will no longer count towards your Non-Concessional Contributions Cap.

What happens if I don't give details for a refund?

The overpaid amount will be displayed each year on your annual member statement.

If the overpayment remains on your record when it comes time to claim your benefit, CSC will refund the amount to you as a separate amount to your retirement benefit.

I would like to keep this overpaid amount in super. Can I do something with it?

While this amount is not able to remain in PSS, you have the option to pay this amount into another super fund after it has been refunded and included in your tax return. For example, you may choose to open a PSSap Ancillary Account and pay it as a personal contribution. This personal contribution would be reported as a Non-Concessional Contribution by the receiving fund. Since PSS isn't able to accept this as a super contribution, we're not able to pay or rollover this amount to another super fund on your behalf.

My member contributions are underpaid

While a shortfall in your member contributions may have occurred due to no fault of your own, the contribution must be paid under the PSS rules.

In this scenario, Peter has been informed that his member contributions are underpaid. CSC has worked with Peter's employer to investigate how this happened and discovered that his super salary was incorrectly reported on his 55th birthday. This meant that instead of paying contributions on his correct salary of \$90,000 for the year, he was only paying them based on a salary of \$85,000. This means his contributions for that year:

Should have been: **2% of \$90,000 = \$1,800.00**

But, because of the error, Peter instead paid: **2% of \$85,000 = \$1,700.00**

This has resulted in underpaid member contributions of \$100.00.

For the rest of Peter's contributory period of PSS membership, his contributions were paid correctly. Had Peter contributed the additional \$100.00 in the year of his 55th birthday, that \$100.00 would have increased with investment earnings to \$150.00 at claim time. This is important as it will impact his retirement benefit.

The Member Component is the total of the actual member contributions paid into the fund and investment earnings (or losses) on those amounts. Because Peter had underpaid his member contributions, his Member Component won't be the same as it would have been if the error hadn't occurred. To meet the requirements of the rules, a Notional Member Component is calculated. This amount is equal to Peter's underpaid member contributions.

Peter's Total Accrued Benefit is still based on the FAS x ABM formula:

$$\text{\$95,500} \times 5.1 = \text{\$487,050}$$

But, once we've taken into account his underpaid member contributions, the components that make up his benefit now look like this:

Member Component	\$162,850
Notional Member Component	\$100
Productivity Component	\$95,000
Employer Component	\$229,100
Total Accrued Benefit	\$487,050

Why has the Employer Component increased?

To ensure the correct Total Benefit is paid, your Employer Component is increased by the extra investment earnings you would have received if your member contributions had been paid correctly. So, in the scenario above, Peter's original \$100.00 would have increased to \$150.00 if it had been received and invested. This means that his Employer Component is increased by \$50.00.

What's the impact on my final benefit?

Underpaid contributions do not have any impact on your FAS or ABM growth. However, as described above, the member contributions that are invested (and any associated earnings) could be lower than they would have been if the member contributions weren't underpaid. The specific impact will depend on the investment returns of the fund.

When your contributions are paid correctly, they increase the funded portion of your PSS benefit. This generally means that less tax will be withheld when your benefit is paid. Similarly, if your contributions have been underpaid at any stage, you will generally have more tax withheld from your benefit, even if you have repaid the principal underpaid amount, due to the increased Employer Component.

As both the Employer and Notional Member Components are unfunded amounts, this means when you claim your PSS benefit, it's likely that more tax will be withheld.

Why do I have to pay the underpaid member component?

As a PSS member, you're required to pay contributions based on your elected contribution rate. If you haven't paid contributions at your elected rate for any reason, there is still an obligation to pay these contributions. They are still required to be made prior to claiming your benefit.

Can I retrospectively change my contribution rate?

No. Under the PSS Rules, you can't retrospectively change your contribution rate.

How can I pay the underpaid amount?

Contributing Members

There are three ways you can pay your underpaid member contributions before you cease employment:

1. **Payroll deduction.** If your employer agrees, you can arrange for repayments to be deducted in instalments from your fortnightly salary. Please speak to your payroll area to make these arrangements.
2. **BPAY or Direct Credit.** Please contact CSC on **1300 000 377** to make arrangements.
3. **Cheque.** Made payable to **CPM CSC** and sent directly to **GPO Box 2252, Canberra ACT 2601**.

Along with your cheque, please remember to include a cover letter with 4 points of ID (i.e. full name, AGS number, address and date of birth) stating that the payment is for Underpaid Member Contributions.

Please note, these payments must be received while you are still a PSS member. Receipt of payment after you claim your benefit may not be accepted.

Preserved Members

There are two ways you can pay your underpaid member contributions:

1. **Direct Credit.** Please contact CSC on **1300 000 377** to make arrangements.
2. **Cheque** - Made payable to **CPM CSC** and sent directly to **GPO Box 2252, Canberra ACT 2601**.
Along with your cheque, please remember to include a cover letter with 4 points of ID (i.e. full name, AGS number, address and date of birth) stating that the payment is for Underpaid Member Contributions.

Please note, these payments must be received before claiming your PSS Benefit. If these aren't paid before your claim date, they will be recovered from your benefit and processing may be delayed.

What happens if I don't pay the underpaid contributions?

Underpaid contributions must be paid. If you haven't paid these amounts using one of the methods above, it will be recovered when you claim your benefit as follows:

- If you claim your benefit as a lump sum: it will be deducted from the net lump sum before it is paid to you;
- If you claim your benefit as part lump sum, part pension: it will be deducted from the net lump sum payment amount. Where the net lump sum will not sufficiently cover the shortfall amount, CSC will withhold net pension payments until the amount is repaid in full; or
- If you claim your benefit as a pension only: it will be recovered by withholding net pension payments until the shortfall is repaid in full. That is, no pension amount will be paid to you until the underpaid contributions are paid.

CSC recognises that in some circumstances the recovery of underpaid contributions may cause financial hardship. If this is the case for you, please contact us so we can assist you with other options to repay the underpaid amount.

If your underpaid contributions are recovered from your benefit, these amounts will not change the tax components of your benefit. The contributions will be recovered at the time your benefit is paid, meaning that the calculation of the tax components of your benefit will have already been determined, and aren't able to be altered.

Will the payment of underpaid contributions impact my Non-Concessional Contributions?

Yes. If you're a contributing or preserved member, the payment will be invested in the PSS fund, will be reported as a Non-Concessional Contribution, and will increase your member component.

If you're a pensioner or have claimed your benefit as a lump sum, the recovered amount will be reported as a Non-Concessional Contribution, however it will not be invested and will not increase your member component.

How can I get more information?

If you would like more information on imbalanced member contributions within PSS and the effects on your super, please contact us on:



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PHONE 1300 000 377

FAX (02) 6275 7010

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