



Salary reductions and your super

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What you should know upfront

It is important that you read the disclaimer below. Before making any decisions, please read the CSS **Product Disclosure Statement (PDS)** 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 involuntary. Circumstances could include loss of an allowance, redeployment at a lower 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 factsheet does not cover moving from full-time to part-time work. For more information about changing from full-time to part-time, please read our factsheet **Changing from permanent full-time to permanent part-time** under **Forms and publications** at csc.gov.au

Financial advice or your needs and goals

Obtaining professional advice from an experienced financial planner can help you reach your financial goals.

CSC's authorised financial planners provide 'fee for service' advice, which means you receive a fixed quote upfront. There are no obligations, commissions or hidden fees.

To arrange an initial advice appointment please call **1300 277 777** during business hours.

Who should read this factsheet?

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



Commonwealth
Superannuation
Scheme

How does a salary reduction affect my superannuation?

Generally, a reduction in actual salary will not affect your superannuation unless you elect for it to do so. In other words, if your actual salary were to reduce because you are working at a lower level, your benefits would be calculated on the basis of your former salary which, from 1 July 2003, 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 will be the higher of the two salaries.

However, you can elect to pay contributions on your new reduced salary in CSS. Generally, you have from the date of reduction until three months after your birthday, which immediately follows the salary reduction, to make such an election.

Please note that if you elect to pay contributions on your new reduced salary, we will calculate your final benefits on that new reduced salary. This is particularly important if you are thinking about retiring on or after your 55th birthday as we calculate your employer-financed indexed pension as a percentage of your final salary.

How does a salary reduction affect my contributions?

In CSS, you can decide how much you contribute – either 5% of your salary or you can choose not to contribute at all (0%). These rates are referred to as your basic contributions, and form the basis for many benefit calculations.

In addition to your basic contributions, you may also voluntarily pay supplementary contributions and these do not have to be in whole percentage rates.

If you have a salary reduction and you do not elect to contribute on the new reduced salary, you will have to maintain your basic contributions at the updated former higher salary. You can reduce your supplementary contributions (contributions over your basic contribution rate) at any time. For further information on supplementary contributions you can refer to **The facts about contributing to CSS** at csc.gov.au

On the other hand, if you were to elect to pay contributions on the new reduced salary, your contributions will be calculated on that lower rate of salary from either the payday after your election or your birthday that immediately follows your salary reduction (see following page for examples).

Peter does not elect to pay contributions on his new reduced salary

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 salary at age 55 was \$72,051 per year, and his new reduced salary is \$58,902 per year.

Despite working at a reduced level, Peter does not elect to pay contributions on his new reduced salary and therefore his salary for superannuation purposes is not reduced.

Here's how it works. Assuming that Peter's former salary was updated by AWOTE, which was 1.5% per year above inflation (inflation assumed to be zero to keep the figures in today's dollars), Peter's employer-financed indexed pension from CSS is as follows:

	At age 55	At age 58
Pension as % of final salary	33.75	40.32
Final Superannuation Salary	\$72,051	\$75,342
Total indexed pension (per year)	\$24,317	\$30,378

In addition to the effect on his indexed pension, Peter accrues extra member and productivity contributions on the updated former salary.

Peter does elect to pay contributions on his new reduced salary.

As the above example, Peter has arranged with his employer to take a voluntary reduction in classification. Peter's final salary at age 55 was \$72,051 per year, and his new reduced salary is \$58,902 per year.

In this example, Peter does elect to pay contributions on his new reduced salary. Assuming that Peter's actual salary increased by 1.5% per year, his employer-financed indexed pension from CSS is as follows:

	At age 55	At age 58
Pension as % of final salary	33.75	40.32
Final Superannuation Salary	\$72,051	\$61,593
Total indexed pension (per year)	\$24,317	\$24, 818

In addition to the effect on his indexed pension, Peter accrues extra member and productivity contributions on the new reduced salary which takes effect immediately.

Please be aware that electing to pay contributions at the lower level would generally affect the final benefit that you get from CSS on retirement.

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

If you do not wish to pay contributions on the new reduced salary, you do not need to do anything about your superannuation. Your contributions and benefits would continue to be payable on the updated former salary.

However, if you wish to pay contributions on the new reduced salary, you will need to complete the form **CSS Election for decreased salary to apply as salary for super** which you can find under **Forms and publications** at csc.gov.au

You have from the date of reduction until three months after your birthday that immediately follows your salary reduction, to complete and submit this form.

How can I get more information?



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