



Training notes

Reduction in Salary for Superannuation

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<http://www.pss.gov.au/>

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Contents

| | |
|--|----------|
| Reduction in Salary for Superannuation | 3 |
| Introduction | 3 |
| Salary for Superannuation Following a Salary Reduction | 4 |
| Updating for Birthdays after 1 July 2003 for Salary Reductions that Occur After 30 June 2003 | 4 |
| Updating for the First Birthday After 1 July 2003 for Salary Reductions that Occur Prior to 1 July 2003 | 6 |
| Salary Sacrifice | 8 |
| Member's Options on Salary Reduction | 9 |
| Partial Invalidity Pension Granted in Respect of the Reduction | 9 |

Reduction in Salary for Superannuation

Introduction

A salary reduction occurs when the contribution salary is lower than on the previous day. These reductions may occur:

- > On transfer to a lower position,
- > On transfer to a new agency on a lower salary
- > Loss of a recognised allowance, or
- > For temporary employees only, if they are re-engaged at a lower level either in that same or a different organisation and membership remains continuous.
- > Members on flexible salary packages who elect to enter into salary sacrifice arrangements.

A reduction does not occur simply because an allowance is lost, there has to be an overall reduction in salary.

Example 1

A member is an APS 4 (\$36 000) with recognised shift allowance of \$2000 and is then promoted to an APS 6 (\$48 000) in a position that does not work shifts.

Contributions will be based on the APS 6 salary only as there has been no reduction in salary.

A salary reduction can still occur where the contribution salary on the current birthday is higher than that received on the previous birthday.

Example 2

On a member's birthday (5 February 2005), the contribution salary was \$45 714, made up of top of APS5 + \$2000 Shift Penalties. The shift allowance ceased to be paid on 29 November 2005. The highest salary for super prior to shift ceasing was \$49 200 (top of APS5 + \$2800 Shift Penalties).

At the time of the member's next birthday (5 February 2006), they have been promoted to an APS6 position, and is on a salary of \$48 740, which is higher than the contribution salary on the previous birthday.

In these circumstances, it is necessary to determine what the member's contribution salary would have been on the current birthday if the decrease in superannuation salary had not occurred, i.e. if the member had remained as an APS5 on top of the range with shift penalties of \$2800.

Salary for Superannuation Following a Salary Reduction

The rules in regard to calculating salaries for superannuation purposes following a salary reduction changed with effect 1 July 1990 and again from 1 July 2003 please refer to the archived training notes for rules prior to 1 July 2003.

- > From 1 July 2003, the salary at the date of the reduction is updated by AWOTE and the frozen allowance is then added on. (Transitional rules apply for updating for the **first birthday after 1 July 2003 for salary reductions that occurred prior to 1 July 2003**).

UPDATING FROM 1 JULY 2003

Updating for Birthdays after 1 July 2003 for Salary Reductions that Occur After 30 June 2003

Salary reductions that occur after 30 June 2003 are updated by AWOTE.

1. The substantive salary, this includes HDA, at the date prior to reduction is divided by the last published AWOTE at the date of the reduction.
2. These two figures are multiplied by the last published AWOTE at the member's birthday or date of exit if applicable.
3. If the reduction is due to the loss of an allowance such as shift allowance, FAA or DLO allowance, the frozen allowance is then added onto the updated base salary in accordance with steps 1 and 2.
4. The new updated salary is then compared to the member's actual current salary for superannuation at the birthday.
5. The higher of the two is the member's new salary for super.
6. When the actual salary is higher than the updated salary, the actual salary is the new salary for super and the salary reduction rules cease to apply.

Example 1

- > Member who had qualified for HDA, ceased HDA COB 10 August 2005 on the 3rd increment level of an APS4 = \$44 290
- > The member's birthday was 10 September 2005
- > The last published AWOTE at 10 August 2005 was 992.90
- > The last published AWOTE at the member's birthday on 10 September 2005 was 1006.70

CALCULATION FOR SALARY AT 10 September 2005

$$\begin{array}{r} \$44\,290 \quad \times \quad 1006.70 \\ \hline \quad 992.90 \quad = \quad \$44\,906 \end{array}$$

Example 2

- > Member who had shift allowance included in salary for super had a salary reduction due to a decrease in shift allowance on payday 31 July 2005. At the previous pay the total salary for super \$51 800, comprised a base salary of \$42 000 and shift allowance was \$9 800.
- > The member's birthday was 10 February 2006
- > The last published AWOTE at 31 July 2005 was 992.40
- > The last published AWOTE at the member's birthday on 10 February 2006 was 1023.20

CALCULATION FOR SALARY AT 10 September 2005

$$\begin{array}{r} \$44\,000 \quad \times \quad 1023.20 \\ \hline \quad 992.90 \quad = \quad \$43\,282 \end{array}$$

The frozen shift penalties are then added = +\$ 9800

Salary for Super at 10 September 2003 = \$53 082

Note:

The salary prior to the reduction (\$44 290 and \$42 000 in the above examples) and the last published AWOTE at the day of the reduction (992.90 in the above examples) will stay constant each year. The only future variable will be the last published AWOTE at the member's birthday or date of exit if applicable.

Updating for the First Birthday After 1 July 2003 for Salary Reductions that Occur Prior to 1 July 2003

Updating for the first birthday after 1 July 2003 when the salary reductions occurred prior to 1 July 2003. Base salaries must be updated to the current equivalent salary as at 30 June 2003 using the previous salary reduction rules. AWOTE is then applied from 1 July 2003:

1. Treat the 30th of June 2003 as if it was the member's birthday and determine the member's superannuation salary on that day. (Follow the rules under Reductions from 1 July 1991 – 30 June 2003).
2. When you determine this salary, it is then updated by AWOTE.
3. The equivalent salary at 30 June 2003 is divided by the last published AWOTE as at 1 July 2003 (900.40) and multiplied by the AWOTE last published at the member's birthday or date of exit if applicable.
4. This new salary is then compared to the member's actual salary at their birthday or date of exit if applicable.
5. When the actual salary is higher than the updated salary the salary reduction rules cease to apply.

Example 1

- > Member who had qualified for HDA, ceased HDA on 2 February 2002 on the 3rd increment level of an APS4
- > At the members birthday on 10 September 2002 the current salary for the APS 4, 3rd increment point was \$43 000.
- > The agencies CA increased salaries by 3% on 10 March 2003
- > Therefore the current equivalent salary at 30 June 2003 was \$44 290
- > The last published AWOTE at 1 July 2003 was 900.40
- > The last published AWOTE at the member's birthday on 10 September 2003 was 921.00

CALCULATION FOR SALARY AT 10 September 2003

$$\frac{\$44\,290 \quad \times \quad 921.00}{900.40} = \$45\,303$$

Example 2

- > Member who had shift allowance included in salary for super had a salary reduction due to a decrease in shift allowance on payday 15 January 2003. At the previous pay the total salary for super was \$54,000 which comprised a base salary of \$47,000 (3rd point APS4) and shift allowance of \$7000.
- > The member's birthday was 10 September 2003
- > The agencies CA increased salaries by 3% on 10 March 2003
- > Therefore the current equivalent base salary at 30 June 2003 was \$48 410
- > The last published AWOTE at 1 July 2003 was 900.40
- > The last published AWOTE at the member's birthday on 10 September 2003 was 921.00

CALCULATION FOR SALARY AT 10 September 2003

$$\begin{array}{r} \$48\,410 \quad \times \quad 921.00 \\ \hline \qquad \qquad \qquad 900.40 \qquad \qquad = \quad \$49\,517 \end{array}$$

The frozen shift penalties are then added = +\$7000

Salary for Super at 10 September 2003 = \$56 517

This updated salary is then compared to the member's actual salary at their birthday or any other updated salary reduction point. The higher of the salaries is the member's new salary for superannuation.

Note:

You continue to update until the current salary is the higher salary. Until this occurs, the salary at 30 June 2003 and the last published AWOTE at 1 July 2003 (900.40) will stay constant each year. The only future variable will be the last published AWOTE at the member's birthday or date of exit if applicable.

The AWOTE Calculator under *TOOLS* on the employer website will help you with these calculations. www.aria.gov.au and link to the Employer centre. For further information refer to page 16 *Application of Average Weekly Ordinary Times Earnings (AWOTE)*.

Salary Sacrifice

With the introduction of Australian Workplace Agreements (AWAs) and Certified Agreements (CAs) and the like within the public sector, salary sacrifice arrangements have become more common and led to queries regarding salary for superannuation.

It was not intended that a member's salary for superannuation purposes would reduce due by operation of salary sacrifice arrangements.

Therefore, if a member has an established basic salary then enters into salary sacrifice arrangements and sacrifices cash salary for other non-cash benefits the basic salary continues to be salary for superannuation purposes.

Example 1

- > A member's superannuation salary as an APS 5 is \$44 045.
- > The member is promoted to an APS 6 where the basic salary is \$46 187.
- > The member elects to sacrifice \$5000 giving a taxable salary of \$41 187.
- > Salary for super is the member's basic salary of \$46 187.

This has led to the statement that superannuation salaries will be unaffected by entering into salary sacrifice arrangements. While this is true for members who have a basic salary established, there are situations where members could in fact find that their superannuation salary varies from what it would have been had the sacrifice arrangements not been entered into.

In the case of a member who has an AWA which specifies a total package payable and the member elects to forgo cash for non cash benefits, there is no basic salary established in this arrangement until after determining non-cash benefits. Therefore, the taxable salary is salary for superannuation purposes.

Example 2

- > A new member commences on a total package of \$80 000.
- > The member immediately elects to sacrifice \$20 000 for non-cash benefits.
- > Salary for super is \$60 000.

However, the salary reduction rules must be applied if a current superannuation salary is lower than a previous higher superannuation salary.

Example 3

- > A member has a salary for super of \$80 000.
- > The member enters onto an AWA where the agreement specifies a total package of \$90 000.
- > The member elects to sacrifice \$20 000 to another superannuation fund.
- > The member's salary for super would be \$70 000 but as this salary is lower than the previous superannuation salary of \$80 000 the salary reduction rules must be applied.

This means that when looking at salary for super, the previous salary of \$80,000 must be updated by AWOTE or in accordance with the applicable salary reduction rules. The rules have always provided for updating by AWOTE when no current equivalent salary was available under the previous current equivalent rules.

Member's Options on Salary Reduction

Members of the PSS **may not** elect to reduce their contribution salary.

For example, if a member transfers to a lower level, contributions must continue to be paid on the previous salary updated in accordance with the applicable salary rules.

The only option members have is to reduce the contribution rate currently being paid (provided it is not reduced to less than 2% of salary). They should be made aware however, of the impact any reduction in contributions will have on benefits.

If members wish to reduce their contribution rate following a reduction in salary, a Form SE2 ("Election to Vary Superannuation Contribution Rate") should be signed. The form, or any other accepted electronic advice, is to be retained on their personnel file for future reference.

The lower rate of contribution is effective from the payday after the date of election.

Note:

On any anniversary, a PSS member's contribution salary MUST be equal to, or higher than, that of the previous year. The exception to this would be a member who is in receipt of a partial invalidity pension in respect of a formal redeployment to a lower level.

Partial Invalidity Pension Granted in Respect of the Reduction

Where a member reduces in level for medical reasons and is granted a partial invalidity pension (PIP), contributions will be based on the lower salary from the next birthday. ***This is the only occasion on which PSS contribution salaries can decrease.***

Agencies must continue to advise ComSuper of the updated former salary as productivity and future benefits will be based on this salary. Remember that allowances are also updated when PIP is payable in respect of the reduction.