Maximising your West State Super (WSS) scheme benefit

StatePlus

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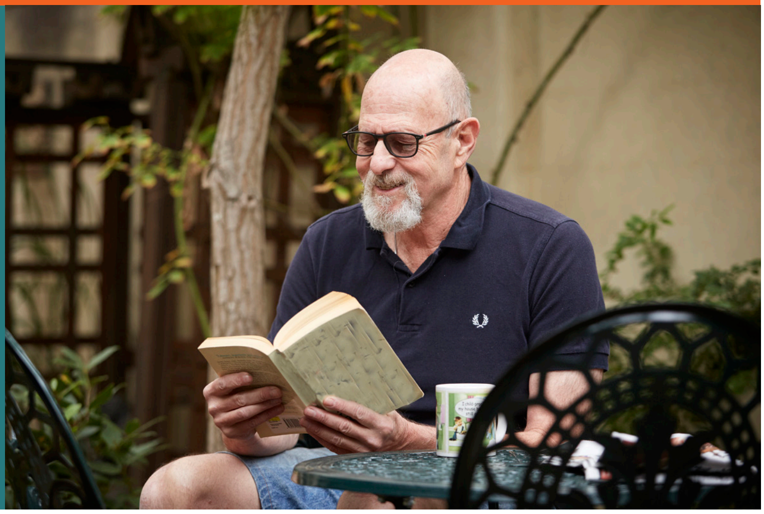
Public sector schemes like West State Super (WSS) can help you work towards a comfortable retirement. But they are very unique, which means it can be easy to miss opportunities to get the most out of them.



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In this factsheet, we'll take a look at:

- Maximising your contributions
- Maximising your benefit on retirement
- Taking advantage of pre-retirement income options
- Your retirement income

Maximising your contributions

Making contributions will help you get the most out of your benefit

With West State Super, like other accumulation funds, your super benefit at retirement is based on what your employer contributes (generally 9.5% of your salary), any contributions you make (or rollover from other schemes) and how the investment market has performed over the lifetime of your fund.

Whilst there is no compulsory requirement for you to contribute to your superannuation, doing so may reduce your tax and assessable income whilst you are still working, and may also be the difference between a modest and comfortable retirement.

Salary sacrifice

A way to increase your retirement benefit is through a salary sacrifice arrangement. In simple terms salary sacrifice gives you the opportunity to contribute more to your super in a tax effective way. It's an arrangement with your employer where you redirect part of your before tax salary into a super fund. It means reducing your take home pay so that you can benefit from extra contributions into your super. Salary sacrifice is a concessional (before tax) contribution. To find out more, you can read our *Boost your retirement benefits and reduce your tax* fact sheet.

What makes WSS unique when it comes to boosting your benefit prior to retirement?

WSS is an 'untaxed' scheme, and as such is constitutionally protected, which means if WSS is your only super fund, you are not impacted by the annual concessional contributions limit applicable to most other people. (Please note however, if concessional contributions are also made into another fund you will need to monitor your contributions more closely so as not to exceed the annual cap.)

There is a lifetime limit of $1.48m (2018/2019 financial year) of untaxed component that you can accrue concessionally (you can accrue more than this but you pay more tax). In some cases, depending on your situation, it means you might be able to salary sacrifice up to 100% of your income into your WSS (should you have the means) to not only boost your retirement benefits but enjoy some significant tax savings in the meantime.

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Case Study

Note: This case study is illustrative only, and based on the factors stated. It should therefore not be taken to contain or provide an estimate of the amount you can save.

Background

Mary is 55 and works for The Department of Education. She has a West State Super account. Her husband, John, is 56 and works for a private firm. Mary and John recently paid off their home mortgage and their two children have just completed university, meaning $2,800 has been freed up in monthly expenses as surplus. Mary and John wanted to use their extra funds to boost their savings and reduce their tax.

The strategy

Because Mary has a WSS account (and no other super fund), she is not impacted by the annual concessional contribution cap, which would otherwise limit the amount she could salary sacrifice. So Mary effectively had the ability to make unlimited concessional contributions*.

Some of the options available to Mary and John included continuing to be paid the surplus and save the money in a high interest bank account, or to invest outside of superannuation. Due to the tax benefits available to Mary as WSS member, they decided to salary sacrifice the majority of the surplus from Mary's salary in to Mary's WSS account, to reduce her tax and increase her superannuation benefit.

*There is a lifetime limit of $1.48 million (2018/2019 financial year) which can accrue (from concessional contributions and earnings) concessionally.

The outcome

As a result of this strategy, Mary and John increased their savings by $69,000 and paid $33,000 less tax over 5 years when compared with the alternative option of retaining their surplus and putting it into a high interest savings account.

Pre-retirement options

As you approach retirement, it's a good idea to start thinking about how you might manage the transition. A transition to retirement (TTR) strategy could offer you the option of working part-time, or be a smart way to boost your super as you approach retirement.

Thanks to the unique rules of WSS, as a member you have access to some features that you can utilise to help you maximise your savings, such the ability to make additional concessional contributions above the normal annual cap. For more about how TTR could work for you, read our *How can a transition to retirement (TTR) strategy work for me?* Factsheet.

The numbers

- Mary and John's surplus was around $2,800 per month after tax, the equivalent to around $4,590 before tax. Mary and John were happy to salary sacrifice $3,000 of the surplus each month, meaning a total of $36,000 a year.
- With most super funds, it is only possible to concessionally contribute up to $25,000 per year, including SG and salary sacrifice. Mary's WSS account allowed her to salary sacrifice $36,000, in addition to her existing $8,000 compulsory employer contribution.
- A total of $45,000 was paid in to Mary's WSS account in the first year. By salary sacrificing $36,000 of her salary each year, Mary reduced her taxable income and paid less tax. The 15% tax that will effectively be paid on her super contributions when she accesses her benefit, is far less than her marginal tax rate of 39% (including 2% Medicare Levy).

Salary sacrifice to WSS account (Yr 1)	**$45,000**
Salary sacrifice to WSS account (Yrs 2-5)	**$36,000**

Over a 5-year period:

= $69,000
INCREASED SAVINGS

&

= $33,000
SAVED ON TAX

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Maximising your benefit on retirement

What will my benefit look like at retirement?

When you reach retirement, and are ready to access your benefit, your options are to take a lump sum, rollover to another fund, or commence an account-based pension.

Remember, your WSS benefit will have concessional tax liability of 15% (on any untaxed components) that will need to be paid at the time of accessing your benefit (either taking a lump sum, rolling over your benefit or commencing an account-based pension).

A lump sum gives you the ability to access your money as and when you need it, for example, if you want to make a big purchase such as a car or an overseas holiday. If you're looking for regular income you have the option to use your lump sum to purchase an account-based pension.

You'll need to think about a number of factors to decide which option is best for you, such as:

- How much income vs capital do you need?
- How stable is your health and family medical history?
- What is your plan for passing on your estate and how could the payments impact estate planning?
- What are your plans for your life in retirement?
- Could financial markets, tax or Centrelink benefits influence your decision?

What is an account-based pension?

When you meet a condition of release, for example you have retired and are no longer working, an account-based pension is a popular way to provide yourself with a regular income in retirement. You can start your account-based pension with a lump sum amount from your super. Investment returns on your capital are tax free.

Your pension provider will invest that money and provide you with regular pension payments, which could be fortnightly, monthly, quarterly, half-yearly or annually (depending on your fund provider). You are required to withdraw a minimum amount each year depending on your age and your account-based pension will last until your balance is exhausted.

You can also access your cash when you need to, as you have the ability to withdraw lump sums from your account-based pension. Plus, once you are over the age of 60, your pension payments and any withdrawals will be tax free*.

*There will be no further tax on what you draw down from the pension, or the investment returns you make on your capital.

To find out more about how we can help you, call us on 9214 4141. Our local WA experts can provide personal advice on your GESB benefit.

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