



Training notes – CSS

Reduction in salary for superannuation



**Commonwealth
 Superannuation
 Corporation**

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 ABN: 90 302 247 344
 RSE: R1077063

Commonwealth Superannuation Scheme
 ABN: 19 415 776 361
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Public Sector Superannuation accumulation plan
 ABN: 65 127 917 725
 RSE: R1004601

Military Superannuation and Benefits Scheme
 ABN: 50 925 523 120
 RSE: R1000306

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 ABN: 64 250 674 722

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Introduction

A salary reduction occurs at any point when the salary for superannuation purposes 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
 - on 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 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 for superannuation.

Example

A member has a basic salary of \$30,000 and a recognised higher duties allowance of \$1,000. A promotion salary increase of 2% is granted giving a base salary of \$30,600 and HDA of \$400.

Although the allowance has decreased, the overall salary package has remained the same and therefore the salary reduction provisions do not apply.

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

Example

On a member's birthday (20 December 2004), the superannuation salary was \$58,993, made up of top of APS6 \$58,543 + \$450 First Aid Allowance. The allowance ceased to be paid on 21 May 2005. This reduced the member's salary for superannuation purposes to \$58,543.

By the member's next birthday, the top of the APS6 salary had increased to \$59,757 due to a general wage increase. This is higher than the superannuation salary on the previous birthday.

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. This training document provides you with information on current rules. Please refer to the archived training notes for rules prior to 1 July 2003;

- **From 1 July 2003**, the salary and allowances at the date of the reduction are updated by AWOTE. (Transitional rules apply for updating for the **first birthday after 1 July 2003 for salary reductions that occurred prior to 1 July 2003**).

NOTE: salary reductions for medical reasons which result in the payment of partial invalidity pension will be treated in exactly the same way as other reductions in respect of superannuation salary for contribution purposes.

Updating from 1 July 2003

Updating for birthdays after 1 July 2003 for salary reductions that occur after 30 June 2003

Salaries following salary reductions that occur after 30 June 2003 are updated by AWOTE.

- The total salary and allowances for superannuation purposes at the date prior to reduction are divided by the last published AWOTE at the date of the reduction.
- These two figures (that is the salary and the allowance) are multiplied by the last published AWOTE at the member's birthday or date of exit if applicable.
- The new updated salary is then compared to the member's actual current salary for superannuation at the birthday.
- The higher of the two is the member's new salary for super.
- 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 February 2006.
- The last published AWOTE at 10 August 2005 was 992.90.
- The last published AWOTE at the member's birthday on 10 February 2006 was 1,023.20.

CALCULATION FOR SALARY AT 10 February 2006

$$\frac{\$44,290 \times 1,023.20}{992.90} = \$45,642$$

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 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 992.90.
- The last published AWOTE at the member's birthday on 10 February 2006 was 1,023.20.

CALCULATION FOR SALARY AT 10 February 2006

$$\frac{\$51,800 \times 1,023.20}{992.90} = \$53,381$$

NOTE: the salary prior to the reduction (\$44,290 and \$51,800 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.

1. If the reduction has occurred **after** the last birthday but before 1 July 2003, you update the salary prior to the reduction by AWOTE.
2. The salary prior to the reduction is divided by the last published AWOTE at the day of the reduction and multiplied by the AWOTE last published at the member's birthday or date of exit if applicable. (Refer examples 1 and 2 below).
3. If the reduction occurred **prior** to the last birthday before 1 July 2003, you update the imputed salary at that last birthday by AWOTE.
4. The imputed salary at the last birthday is divided by the last published AWOTE at the day after the last birthday and multiplied by the AWOTE last published at the member's birthday or date of exit if applicable. (Refer examples 3 and 4 below)
5. The new salary is then compared to the member's actual salary at their birthday or date of exit if applicable
6. When the actual salary is higher than the updated salary the salary reduction rules cease to apply.

The AWOTE Calculator under *Tools* on the employer website will help you with these calculations at eac.csc.gov.au For further information refer to page 15 **Application of Average Weekly Ordinary Times Earnings (AWOTE)**.

Example 1

- Member who had qualified for HDA, ceased HDA on 2 February 2003 on the 2nd increment level of an APS3 (\$38,000).
- The agencies CA increased salaries by 3% on 10 March 2003.
- This CA increase will have no effect on the 2003 birthday salary.
- The salary at the date of reduction (\$38,000) is updated by AWOTE.
- i.e. divided by the last published AWOTE at 2 February 2003 (the day of the reduction) 879.40, and multiplied by the last published AWOTE at 10 September 2003 (the member's current birthday) 921.00.

CALCULATION FOR SALARY AT 10 September 2003

$$\frac{\$38,000 \times 921.00}{879.40} = \$39,798$$

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, total salary for super was \$54,000 that comprised a base salary of \$47,000 (3rd point APS 4) and shift allowance of \$7,000.
- The member's birthday was 22 October 2003.
- The agencies CA increased salaries by 3% on 10 March 2003.
- This CA increase will have no effect on the 2003 birthday salary.
- The salary prior to the reduction, \$54,000, is updated by AWOTE.
- i.e. divided by the last published AWOTE at 15 January 2003 (the payday of the reduction) 879.40, and multiplied by the last published AWOTE at 22 October 2003 (the member's current birthday) 921.00.

CALCULATION FOR SALARY AT 22 October 2003

$$\frac{\$54,000 \times 921.00}{879.40} = \$56,554$$

Example 3

- Member who had qualified for HDA, ceased HDA on 2 February 2002 on the 3rd increment level of an APS 4.
- At the members birthday on 20 August 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.
- This CA increase will have no effect on the 2003 birthday salary.
- The imputed salary at the last birthday (\$43,000) is updated by AWOTE.
- i.e. divided by the last published AWOTE at 21 August 2002 (the day after that birthday) 866.80, and multiplied by the last published AWOTE at 20 August 2003 (the member's current birthday) 921.00.

CALCULATION FOR SALARY AT 10 September 2003

$$\frac{\$43,000 \times 921.00}{866.80} = \$45,689$$

Example 4

- Member who had shift allowance included in salary for super had a salary reduction due to a decrease in shift allowance on payday 10 December 2001.
- At the member's birthday on 2 October 2002, the imputed salary for super was \$64,000 that comprised a base salary of \$52,000 (2nd point APS 5) and shift allowance of \$12,000. The member's salary needs updating for their birthday on 2 October 2003.
- The agencies CA increased salaries by 3% on 10 March 2003.
- This CA increase will have no effect on the 2003 birthday salary.
- The imputed salary at the last birthday \$64,000, is updated by AWOTE.
- i.e. divided by the last published AWOTE at 3 October 2002 (the day after the birthday) 866.80 and multiplied by the last published AWOTE at 2 October 2003 (the member's current birthday) 921.00.

CALCULATION FOR SALARY AT 2 OCTOBER 2003

$$\frac{\$64,000 \times 921.00}{866.80} = \$68,002$$

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 the salaries in this manner until the current salary is the higher salary. Until this occurs, the salary and the last published AWOTE used in the above calculations 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.

Salary Sacrifice

With the introduction of Individual Agreements, 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 members' salary for superannuation purposes would reduce by operation of salary sacrifice arrangements.

Therefore, if a member has an established basic salary and 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

- 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 \$5,000 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 the superannuation salaries of staff 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 Individual Agreement which specifies a total package payable and the member may elect 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

- 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

- A member has a salary for super of \$80,000.
- The member enters onto an Individual Agreement with 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 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.

Member's options on superannuation salary reduction

Members **may elect** to contribute on the lower rate following a reduction in their superannuation salary.

The election may be made up to three months after the birthday following the reduction (i.e. within the period commencing on the day of the reduction and ceasing three months after the next birthday). An election to reduce submitted after the period allowed may be considered by our delegate.

Once members make such an election, their benefit will immediately be based on the lower superannuation salary. Therefore no CSS member should elect to reduce their salary for super without full knowledge of how the reduction will affect their superannuation entitlements. Members should contact us for further information.

Contributions will vary immediately if the new reduced salary is less than the salary applicable on the previous birthday.

Where the new reduced salary is higher than the member's superannuation salary on the last birthday, the member's contribution will not change immediately, but will be based on the new lower salary from the next birthday.

Where the election is made in the three months after the next birthday, the superannuation salary is re-assessed at the lower rate from that birthday. This will require a refund of contributions.

Benefit salary following reduction

If a member continues to pay contributions on the higher salary, benefits will continue to be based on this salary. However, if a member elects to pay contributions on a lower salary, benefits will be based on the lower salary.

Before electing to reduce their salary for superannuation, members should contact us to find out how the lower salary will affect their future benefit or seek financial advice from a licensed financial planner.

Members in receipt of a Partial Invalidity Pension who elect to pay contributions on their lower salary will continue to be entitled to benefits at the higher salary.



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