

New tax changes

This edition ...

In the January edition of Pensioner News, we outlined some of the changes to superannuation which the Government announced in the 2006 Budget. These changes come into effect on 1 July 2007.

This edition provides you with further information on how these changes may affect you. Please note there are some key definitions on page 4 to assist you in understanding some of the terms referred to throughout this edition.

What are the changes?

The legislation will change the taxation of pensions.
Pensions will be taxed based on whether they are derived from a taxed source or an untaxed source.

Taxed Source

This benefit consists of productivity contributions made by your employer. A portion of your pension will be from a taxed source if you have taken your productivity benefit as a pension.

Untaxed Source

Generally, this benefit is your total employer benefit less your productivity benefit and is paid from consolidated revenue. No tax has been paid on this portion of your employer's contributions. Your total pension is from an untaxed source unless you have taken your productivity benefit as a pension.



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How will the changes affect my pension?

Table 1 explains how MilitarySuper pensions will be taxed from 1 July 2007.

Between 55 and 59

Benefits from a taxed source

- That part of your pension paid from a taxed source (if applicable) will continue to be taxed at your marginal tax rate. You will be entitled to the 15% tax offset.

Benefits from an untaxed source

- That part of your pension paid from an untaxed source will continue to be part of your assessable income and taxed at your marginal tax rate.

60 and over

Benefits from a taxed source

- That part of your pension paid from a taxed source (if applicable) will be tax-free and will not be included in your taxable income.

Benefits from an untaxed source

- That part of your pension paid from an untaxed source will be taxed at your marginal tax rate. You will receive a 10% tax offset. We will calculate the offset for you. If you do not want to claim the offset each fortnight please write to us.



The following example illustrates how the 10% offset is calculated.

How do we calculate your tax offset?

Tax rates in this example are calculated based on the 2006/07 resident income tax rates and may be subject to change. This example assumes the Member:

- is receiving an MSBS pension
- has previously taken his Member Benefit as a lump sum
- has no pre-1983 component or other tax-free amounts
- is not receiving a Senior Australian tax offset or additional income stream
- has a preservation age of 55.



Example

How will John's pension be taxed at age 55?

John, aged 55, receives a fortnightly pension of \$1,000.
 Employer component (from an untaxed source) = \$950
 Productivity component (from a taxed source) = \$50

The taxation of pensions for Members aged between 55 and 59 has not changed. As John is 55, he will be taxed on both the taxed and untaxed components of his pension. These components will be taxed at John's marginal tax rate, which is approximately **\$138.00**, however he will be entitled to a 15% tax offset on the taxed component of his pension which is based on his Productivity component.

i.e. $\$50 \times 15\% = \7.50

The tax John will pay on the untaxed component of his pension, which is based on his Employer component, will be as follows:

i.e. $\$138.00 - \7.50 (15% offset) = $\$130.50$

Therefore, his net fortnightly pension payment will be **\$869.50**.

How will John's pension be taxed when he reaches age 60?

John, aged 60, receives a fortnightly pension of \$1,000.
 Employer component (from an untaxed source) = \$950
 Productivity component (from a taxed source) = \$50

The taxed portion of John's pension is \$50. When John reaches age 60, this component will be tax-free. Before 1 July 2007, this component received a tax offset of 15% for Members aged 55 or over.

The untaxed portion of John's pension is \$950. Before 1 July 2007 Members over the age of 60 were required to pay tax on this component at their marginal tax rate. For John this would have been approximately \$124.

From 1 July 2007 John will receive a 10% tax offset on his total taxable pension.

i.e. $\$950 \times 10\% = \95.00

The tax John will pay on the untaxed component of his pension will be:

$\$124 - \95.00 (10% offset) = $\$29$

Therefore, John's net fortnightly pension payment after reaching age 60 will be **\$971**.

Table 2 shows the tax payable on PENSIONS based on age and component

Age	Taxed Source		Untaxed Source	
	Tax-free component	Taxable component	Tax-free component	Taxable component
Under 55	NIL	Your marginal tax rate		Your marginal tax rate
55-59	NIL	Your marginal tax rate less 15% tax offset		Your marginal tax rate
60 and over	NIL			Your marginal tax rate less a 10% tax offset

When will I know if my tax has changed?

Please refer to your enclosed letter detailing your new net pension rate applicable from the first payday in July 2007 (5 July 2007).

If you require further information on the tax changes and their impact on your pension, please contact 1300 001 877 or visit www.militarysuper.gov.au.

Please Note: The Medicare levy is also applied when tax is deducted.

Terms to know

Tax offset

A reduction in tax liability. Often a tax offset is described as a percentage (for example, an offset of 10% to a pension). It is different from a tax deduction, which may reduce your marginal tax rate. If you receive a tax offset we will calculate it for you.

Taxed source

A source where tax has previously been paid. Generally, the contribution has been paid from your after-tax salary or has attracted contributions tax on entry to the fund. These include:

- Productivity contributions (post July 1990), and
- any earnings on these contributions.

Untaxed source

A source where no tax has previously been paid either by yourself or on entry to the fund, including:

- Employer Component (paid from Consolidated Revenue)
- Productivity (pre-July 1990) (this will apply to DFRDB Members who transferred to the MSBS)
- Former Members of the DFRDB scheme, who transferred to MilitarySuper, will also have a separate untaxed component of interest on their DFRDB Member Contributions and a component of their pre-July 1983 Member Contributions.



Department of Defence, Centrelink and Department of Veteran's Affairs (DVA) information that may be relevant to you

In the interests of our pensioners ComSuper works co-operatively with other Australian Government agencies such as the Department of Defence, Centrelink and DVA. If you have any questions regarding the following information please contact the relevant agency:

Defence	1800 111 321
Centrelink	132 300
DVA	133 254

Important news for Centrelink and DVA income support recipients

Income support payments paid by Centrelink and the DVA may be affected by your income, including income from defined benefit superannuation pensions. For the purposes of your Centrelink or DVA income support payment, the assessable income from defined benefit superannuation pensions is reduced if you have a deductible amount.

From 1 July 2007, as a result of changes to superannuation tax law, the deductible amount will be referred to as the 'tax free component' and may be calculated differently. The new tax free component will be calculated by us.

Your tax free component, if you have one, will be shown on your pension advice letter. You do not need to advise Centrelink or DVA of the tax free component as we will provide this information to Centrelink or DVA on your behalf.

Pension Assets Test

From 20 September 2007 more people will be able to get pension payments from Centrelink and DVA due to changes to the Age Pension Assets Test. For more information on the Pension Assets Test you will need to contact:

Centrelink 132 300
DVA 133 254

Australian Defence Medal – are you Eligible?

Currently, Defence is endeavouring to locate former Defence Force members who may be eligible for the new Australian Defence Medal (ADM).

This medal was established to recognise Australian Defence Force Regular and Reserve personnel, national servicemen and volunteers alike, who have completed an initial enlistment period or four years of effective service (whichever is the lesser) after the end of World War II – that is, after 3 September 1945.

Included are former Defence Force members who did not complete the qualifying period because they:

- died in service,
- were medically discharged with a compensable impairment at the time of discharge, or
- left the service due to a Defence workplace policy of the time. (For example, in the past a woman was required to resign on marriage.)

The ADM can be awarded posthumously.

As eligibility for the ADM covers an extensive period of Australia's history it is estimated that more than one million Australians are eligible. The challenge for Defence is to locate all the eligible former members of the Australian Defence Force.

If you believe you or a member of your family may be eligible for the ADM, please phone Defence on 1800 111 321 and an application form will be sent to you. The form is also available from the Defence website: www.defence.gov.au/medals

Keep your payment summary on hand

You will find your PAYG payment summary enclosed with your pension advice letter. Your payment summary shows the total pension you received during the financial year and the amount of tax that was deducted from your pension. It is important that you keep this document as you will need to submit it with your annual tax return for the 2006/2007 financial year.

Pocket calendars are back

Our popular pocket calendar is also enclosed and shows your pension paydays for the next 12 months and the days we are closed.

Remember that even when we are closed, you will still be able to access information, including forms and publications, online at www.militarysuper.gov.au



How the Consumer Price Index (CPI) is calculated

On the first payday in January and July each year, your pension is increased only if there has been an upward movement in the *all groups* Consumer Price Index (CPI) over the previous six months (either from March to September or September to March). The Australian Bureau of Statistics (ABS) determines the CPI by surveying the costs of the following categories of goods and services: food, alcohol and tobacco, clothing and footwear, housing, household furnishings, supplies and services, health, transportation, communication, recreation, education and miscellaneous items. Once we know the CPI numbers, we do a calculation (see below) to see if your pension is due

for an increase. If the new CPI number exceeds the previous March or September CPI numbers, as relevant, we increase your superannuation pension. If the new CPI number does not exceed these numbers there is no increase in the CPI rate.

On 24 April 2007 the ABS announced a CPI number of 155.6 for the March 2007 quarter. As the September 2006 CPI number was 155.7 your pension will remain the same from your first payday in July 2007. If you would like more information about the CPI, go to the ABS website at www.abs.gov.au



$$\frac{(\text{March 2007 CPI number}) - (\text{September 2006 CPI number})}{(\text{September 2006 CPI number})} \times 100 = \text{CPI change (September 2006 to March 2007)}$$
$$\frac{(155.6 - 155.7)}{155.7} \times 100 = -0.064226\%$$
$$= -0.06\% \text{ (when rounded to the nearest tenth of one per cent)}$$

Under current legislation, your pension cannot be decreased, however future CPI increases will only occur once the CPI number for the relevant period exceeds the CPI number for September 2006 of 155.7. When this occurs, the pension increase will be based on the percentage increase of the new CPI number as compared to the CPI number for September 2006 of 155.7.

Be sure your address is up-to-date

To avoid any disruptions to your regular payments, let us know if you change your mailing address or plan to be away from home for an extended period of time, such as an overseas holiday. It is a good idea to ensure your mail is secure and a forwarding address is advised during your absence. If your pension mail is not collected, it will be returned to us. If two mail articles are returned to us we will attempt to find your new address. If we cannot find you we may have to stop your pension.

To prevent any delays in payment, please remember to let us know where you would like your mail to be sent while you are away.

Changing your bank account details?

If you plan to change your bank account details, we will require seven calendar days notice before the pension payday to allow us to make the change. For example, if Mr Citizen wanted his pension payment to be deposited into his new account on payday **19 July 2007**, he will need to tell us no later than **12 July 2007**. **It is important that you do not close your existing account until your payments start going into your new account.**

Using your Military Super Reference Number

Your Reference Number is provided on the enclosed pension advice letter. Please quote your Reference Number whenever you contact us as it helps us to quickly identify you and speeds up your enquiry.

Not satisfied with the service? Then talk to...

We want you to be completely satisfied with our service, but if you feel you need to make a complaint just call us on **1300 001 877**. If you are still not satisfied with the response, ask to speak to a supervisor. If you still feel the issue has not been explained or resolved to your satisfaction, ask to be transferred or contact the Complaints Officer. You may contact the Complaints Officer directly by:

Phone: 1300 033 732

Email: complaints@enq.militarysuper.gov.au

Post: The MilitarySuper Complaints Officer
PO Box 22
Belconnen ACT 2616

If you are not satisfied with the handling of your complaint, you may contact the Superannuation Complaints Tribunal (SCT). The SCT is an independent organisation set up by the Australian Government to assist Members in resolving certain types of complaints about their superannuation with fund trustees. You can lodge a complaint with the SCT free of charge if you are dissatisfied with our response or we cannot resolve your complaint within 90 days. You can contact the SCT directly by:

Phone: 1300 780 808

Fax: 03 8635 5588

Email: info@sct.gov.au

Web: www.sct.gov.au

Post: Superannuation Complaints Tribunal
Locked Bag 3060
GPO Melbourne VIC 3001



Something new

MilitarySuper is getting ready to launch our new website and a fresh look early in the new financial year. We aim to make your contact with MilitarySuper as informative, interesting and convenient as possible.

The new website will provide a simple, effective way for you to access the information and services you need. The site will have a modern, simple and uncomplicated navigation system.

We are also releasing a comprehensive new brand to help Members recognise their super scheme and understand MilitarySuper's vision for the scheme. The new website and design responds to what Members have been asking for whilst moving with your changing interests.

How to contact us

Email: pensions@enq.militarysuper.gov.au

Phone: 1300 001 877 from anywhere in Australia for the cost of a local call (mobile charges apply to mobile phones). We are available from 9:00 am to 5:00 pm Australian Eastern Standard Time (AEST) Monday to Friday.
Pensioners with a hearing impairment can use a special TTY facility: 02 6272 9827

Fax: 02 6272 9618

Postal address: MilitarySuper, PO Box 22, Belconnen ACT 2616

Street address: Unit 4 Cameron Offices, Chandler Street, Belconnen ACT 2617

Web www.militarysuper.gov.au

Your feedback counts

Your feedback helps us to continue delivering a valuable service to our pensioners. Prior to publishing each issue of the Pension Update we conduct a focus group to ensure the publication best meets your needs. Members of the focus group are drawn from the readership and discuss the newsletter, its stories and style, and any other publications or information accompanying the CPI package.

If you would like to have input into the next edition, or if you have any suggestions on how to make your Pension Update more interesting, please let us know at:

MilitarySuper
PO Box 22,
Belconnen ACT 2616 or email
pensions@enq.militarysuper.gov.au



Each year we send a survey to a random selection of pensioners who receive a pension advice package. If you have been selected to participate in this year's survey you will find a survey in your mail out. Please complete the survey by 31 July and return it in the reply paid envelope or contact

Orima Research 1800 806 950
(freecall).

Note: This document contains general advice or information only

Any financial product advice in this document is general advice only and has been prepared without taking account of your personal objectives, financial situation or needs. Therefore, before acting on any such general advice, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation or needs. You may wish to do so with or without the assistance of a licensed financial adviser.

