

Winter 07

Military Super

AFSL: 238395
RSEL: L0000253
RSE Number: R1000306

What's inside...

Simplified Superannuation

Important information about the superannuation tax changes that apply from 1 July 2007. **Page 3**

Terms to know

A useful reference for you when reading the information on the tax changes. **Page 7**

Online member statements

Sign up to Member Services Online and you will be able to access your superannuation details. **Page 6**

New and improved website

The new website will provide a simple, effective way for you to access the information and services you need. **Page 6**



Member Update

For preserved members

Message from the Chairman

Welcome to the third publication of the MilitarySuper member update. It is designed to keep you informed of the issues affecting superannuation and your membership and entitlements in MilitarySuper.

From 1 July 2007 the superannuation landscape will change significantly as the Simplified Superannuation legislation comes into force. In this issue we focus on the changes that may apply to you. In addition, we will continue to keep you informed via the MilitarySuper website.

We are constantly seeking opportunities to improve our services to you. In response to member feedback we are redeveloping the MilitarySuper website to make it easier for you to access information about your super and the services available to you. You can visit the new website early in the new financial year to see the changes we have made.

The website is also where you can find out how MilitarySuper's investment options are performing. MilitarySuper has achieved strong results over

the past nine months across all five options, despite volatile market conditions and assisted in a large part due to the performance of the non-listed elements of our investments. These returns are relevant to your preserved member, productivity and ancillary benefits. Details of the performance of the investment options for the nine months to 31 March 2007 are shown below:

Investment Strategy	Unit Price as at 30 June 2006	Unit Price as at 31 March 2007	Financial YTD Return	Annualised Rate*
Cash	\$1.151684	\$1.198128	+4.0327%	+5.4077%
Conservative	\$1.275052	\$1.361487	+6.7789%	+9.1304%
Balanced	\$1.459212	\$1.591856	+9.0901%	+12.2883%
Growth (Default)	\$1.457119	\$1.606931	+10.2813%	+13.9246%
High Growth	\$1.589921	\$1.755790	+10.4325%	+14.1327%

The table provides an annualised rate for each option which should only be regarded as a guide to possible financial year outcome.

There is growing awareness within the superannuation industry of the impacts that environmental, social and corporate governance issues can have on investment performance. These

phenomena represent both risks and opportunities for long term investment which continue to be closely monitored by the Board and its advisors.

We would welcome your feedback on these regular member updates, and, in particular, any views you may have on topics or issues you would want to see covered in future editions.

IT IS IMPORTANT YOU KNOW - 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 advisor.

Simplified Superannuation



Summary of the tax changes

New legislation that affects all members of the Military Superannuation and Benefits Scheme (MilitarySuper) will apply from 1 July 2007. The main changes include:

- changes to the tax you pay when you claim your benefit (pages 3–5),
- the introduction of proportioning to partial benefit payments (page 3), and
- the abolition of Reasonable Benefit Limits (page 7).

You may find the ‘Terms to know’ section on page 7 a useful reference while reading the next few pages.

Changes to the tax you pay when you claim your benefit

The tables on pages 4 and 5 compare how your benefit will be taxed at different ages. The information below describes the different parts of your benefit.

Taxed and Untaxed Sources

In MilitarySuper different tax rules apply to different parts of your benefit. These different parts are referred to as taxed and untaxed.

1. Taxed Sources

A benefit is from a taxed source if tax has previously been paid on the contributions that created the benefit. Generally, the contribution has been paid from your after-tax salary or has attracted contributions tax on entry to the Fund. These include:

- member contributions,
- additional personal contributions,
- Government co-contributions,
- productivity contributions,
- salary sacrifice contributions,
- transfer amounts, and
- earnings on these contributions.

Your benefit from a taxed source is further divided into two parts:

i) Tax-free

You pay no tax on the tax-free part when you claim your benefit. The tax-free part of your benefit from a taxed source is made up of several components. The most common of these components are the pre-July 1983 component and undeducted contributions.

ii) Taxable

You may have to pay tax on the taxable part when you claim your benefit. The taxable part of your benefit from a taxed source is also made up of different components. The most common of these components is the post-June 1983 taxed element.

2. Untaxed Sources

A benefit from an untaxed source is your employer contributions which are paid to you from Consolidated Revenue on exit. They are an untaxed source because no tax has previously been paid on them. If you are a former member of the DFRDB scheme, who transferred to MilitarySuper, you will also have a separate component of interest on your DFRDB member contributions and a component of your pre-July 1983 member contributions.

Associate Benefit

Similar to the member’s original superannuation interest, an associate’s benefit can be from either a taxed or an untaxed source, or both.

Proportioning of partial benefit payments

These changes will affect the amount of tax payable on partial benefit payments. Your tax-free component will now be spread in equal proportions across each benefit payment you receive or preserve.

If you are considering accessing part of your benefit and you require financial advice, you will need to seek assistance from a financial advisor.

You will find some common examples of how the proportioning rules apply on the MilitarySuper website at www.militarysuper.gov.au

Taxation of benefits by age



Under 55

From 1 July 2007, if you are under age 55 at the time you claim your benefit and take any lump sum and/or pension from MilitarySuper, the taxed and untaxed sources will be taxed as follows:

Taxed Source

- Any pension from a taxed source will continue to be taxed at your marginal tax rate with no offset. Once you turn 55 you will receive a 15% tax offset on the taxable component of your pension. Once you turn 60, any pension from a taxed source will be tax-free.
- If you take any part of your benefit as a lump sum, you will pay no tax on the tax-free component. Any pre-1983 amount will now be tax-free. The taxable component will be taxed at 20%.

Untaxed Source

- If you take an indexed pension it will be taxed at your marginal tax rate. Once you turn 60, the 10% tax offset will apply.
- If you take any part of your benefit as a lump sum, the taxable component will be taxed at 30% up to a threshold of \$1 million, and at the top marginal tax rate above this amount. Any pre-1983 amount will now be tax-free.

55-59

From 1 July 2007, if you are aged between 55 and 59 at the time you claim your benefit and take any lump sum and/or pension from MilitarySuper, the taxed and untaxed sources will be taxed as follows:

Taxed Source

- Any pension from a taxed source will be taxed at your marginal tax rate. Any pre-1983 amount will now be tax-free. You will also receive a 15% tax offset on the taxable component. Once you turn 60, any pension from a taxed source will be tax-free.
- If you take any part of your benefit as a lump sum, you will pay no tax on the tax-free component. Any pre-1983 amount will now be tax-free. The taxable component will be tax-free up to a threshold of \$140 000 and taxed at 15% above this amount.

Untaxed Source

- If you take an indexed pension it will be taxed at your marginal tax rate. Once you turn 60, the 10% tax offset will apply to your pension.
- If you take any part of your benefit as a lump sum, the taxable component will be taxed at 15% up to a threshold of \$140 000, then 30% between this amount and \$1 million, and at the top marginal tax rate above this amount. Any pre-1983 amount will now be tax-free.

Over 60

From 1 July 2007, if you are aged 60 and over at the time you claim your benefit and take any lump sum and/or pension from MilitarySuper, the taxed and untaxed sources will be taxed as follows:

Taxed Source

- Any pension from a taxed source will be tax-free.
- If you take any part of your benefit as a lump sum, the part from a taxed source will be tax-free.

Untaxed Source

- If you take an indexed pension, it will be taxed at your marginal tax rate. However, you will receive a 10% tax offset.
- If you take any part of your benefit as a lump sum, it will be taxed at 15% up to \$1 million and at the top marginal tax rate above this amount. Any pre-1983 amount will now be tax-free.

If you do not provide MilitarySuper with your Tax File Number your benefits will be taxed at the top marginal tax rate. If you are considering taking part of your benefit please read the proportioning information on page 3.

Taxation of benefits tables

How the changes affect your benefit depends on your age when you claim your benefit and whether your benefit is from a taxed or untaxed source.

Table 1 shows the percentage of tax payable on LUMP SUMS based on age and component

Age		Taxed Source		Untaxed Source	
		Tax-free component	Taxable component	Tax-free component	Taxable component
Under 55		0%	20%	0%	30%
					Top marginal tax rate above \$1 million threshold
55–59	Up to \$140 000 threshold	0%	0%	0%	15%
	Above \$140 000 threshold	0%	15%	0%	30%
60 and over		0%		0%	15%
					Top marginal tax rate above \$1 million threshold

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

The lump sum threshold of \$140 000 is calculated across your entire taxable benefit both taxed and untaxed.

The lump sum threshold of \$1 million only applies to untaxed sources but is calculated across your entire taxable benefit, both taxed and untaxed.

Table 2 shows the percentage of 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		0%	Your marginal tax rate	There is no tax-free component for pensions from an untaxed source.	Your marginal tax rate
55–59		0%	Your marginal tax rate less 15% tax offset		Your marginal tax rate
60 and over		0%			Your marginal tax rate less a 10% tax offset

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

MilitarySuper Invalidity A pensions will receive a 15% tax offset for any age under 55.

The tax treatment on your pension changes according to your current age. This is regardless of the age when you first took your pension.



Online member statements

MilitarySuper offers members the option to view Member Statements online. Re-entered recipients will continue to receive separate statements for preserved and contributing memberships whilst members with a Family Law reduction will not have access to this service.

To receive your Member Statement online, you will need to fill in an Access Number Application form and send it to us. This is available at www.militarysuper.gov.au

Once you sign up to Member Services Online, you will be able to access your superannuation details.

Military superannuation review

The Government recently announced an independent review of military superannuation arrangements. This review will assess existing arrangements against contemporary superannuation changes and the changing demographics of the ADF.

The review was commissioned by the Minister Assisting the Minister for Defence and will not affect the accrued benefits of serving and former members of the ADF. An independent team will conduct the review, with support from civilian and military personnel in the Department of Defence.

Key stakeholders have been consulted, and the final report will be presented to Government in July 2007. If recommended changes are accepted by Government, a process for legislation change and implementation will occur. Further information is available at www.defence.gov.au/militarysuperreview.

Keeping up-to-date

When contacting MilitarySuper, please ensure you are using the correct numbers. As of 31 May 2007 our old contact number will be closed. The correct contact details are:

MilitarySuper Members – 1300 006 727

Pension Recipients – 1300 001 877

It is also important that we have your correct residential and postal addresses at all times. If your MilitarySuper mail is uncollected it will be returned to us. If two mail articles are returned we will try to find a new address for you. If MilitarySuper cannot find you, you will be deemed a Lost Member.

New website

MilitarySuper is preparing to launch its new website and a fresh look early in the new financial year, in response to member feedback.

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

Terms to know

Ancillary contributions

Ancillary contributions include:

- additional personal contributions,
- Government co-contributions,
- salary sacrifice contributions,
- spouse contributions, and
- transfer amounts.

Associate benefit

A former spouse of a MilitarySuper member who gains a separate superannuation interest in the Fund when a Family Law court order or superannuation agreement is put into effect.

Co-contributions

Additional contributions from the Australian Government for low income earners. Further information is available at www.ato.gov.au/super.

Deductible contributions

Contributions that your employer has made on your behalf (for which they can claim a deduction) and include salary sacrifice and productivity contributions. From 1 July 2007, these will be known as concessional contributions.

Undeducted contributions

Contributions you have made from your after-tax income for which you have not claimed a tax deduction. This includes your member contributions and any additional personal contributions. From 1 July 2007, these will be known as non-concessional contributions.

Reasonable Benefit Limits (RBLs)

RBLs restrict the amount of superannuation you could receive at a reduced rate of taxation. Any amount over your RBL was taxed at a higher rate of tax. RBLs are abolished from 1 July 2007.

Tax offset

A reduction in tax liability. Often a tax offset is described as a percentage (for example, an offset of 15% 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:

- member contributions,
- additional personal contributions,
- Government co-contributions,
- productivity contributions,
- salary sacrifice contributions,
- transfer amounts, and
- any earnings on these contributions.

Tax-free (taxed source)

You pay no tax on the tax-free part when you claim your benefit. The most common source of the tax-free amount is your compulsory member contributions from your after-tax salary. However, the tax-free part of your benefits from a taxed source can be made up of several components. The most common of these components are the pre-July 1983 component, and undeducted contributions.

Taxable (taxed source)

You may have to pay tax on the taxable part when you claim your benefit. The taxable part of your benefit from a taxed source is made up of different components. The most common of these components is post-June 1983 taxed element.

Untaxed source

A source where no tax has previously been paid either by yourself or on entry to the Fund. These include:

- Employer component (paid from Consolidated Revenue)
- Productivity (pre-July 1990)
- 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.





Australian Defence Force Medal – are you eligible?

In the interests of our members ComSuper works cooperatively with other Australian Government agencies such as the Department of Defence.

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 efficient 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

Where can you get more information

Web
www.militarysuper.gov.au

Email
members@enq.MilitarySuper.gov.au

Mail
MilitarySuper
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