

20 June 2008

Dear Employer,

**Superannuation Guarantee Obligations from 1 July 2008
Ordinary Time Earnings**

As you are aware from 1 July 2008 the calculation of Employers' minimum Superannuation Guarantee (SG) obligations must be based on a single earnings definition – 'Ordinary Times Earnings' (OTE) As this new definition may be different to your current definition of salary, this change may have financial implications. The purpose of this letter is to advise of the approach taken by Lutheran Super in respect to these changes and how they impact on the contribution and salary details you provide for your employees who are accumulation members and defined benefit members of Lutheran Super.

What is OTE?

Broadly speaking, OTE are generally what employees earn for their ordinary hours of work, including; over-award payments, commissions, allowances and paid leave. Taxation ruling SGR 94/4 and its addendum provide detail on the ATO's views of how OTE is determined. The summary table on pages 10 and 11 of SGR 94/4 provides a useful summary of whether different types of remuneration are generally included or excluded from OTE. It should be noted that these rulings do not have the force of law but are useful as they provide some guidance in the ATO's views. Also if the calculation of OTE exceeds the quarterly 'Maximum Contribution Base' (MCB) then OTE can be limited to the MCB, which is currently \$36,470 per quarter for the 2007/2008 year. We have attached for your information a copy of SGR 94/4.

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Trustee: LCA Nominees Pty Ltd | ACN 008 204 939 | AFSL No. 240571 | RSE Licence No. L0002103

Accumulation Members

For accumulation members, Superannuation Guarantee requirements are satisfied by the payment of employer contributions of 9% of OTE.

Trustee Approach

The change in Employers' SG obligations to use OTE for accumulation members, impacts on Lutheran Super in two ways. Firstly, in respect of the contributions paid by Employers to Lutheran Super. Secondly in respect of salary details provided by Employers to Lutheran Super used to determine members' Salary Continuance benefits. We advise of the Lutheran Super approach in both these areas.

Contributions

From 1 July 2008 the Employer will need to ensure that its contributions, for accumulation members, paid to Lutheran Super are at least sufficient to meet their new SG requirements based on OTE. We expect Employers have reviewed their payroll and pay policy to determine what items of remuneration are being paid to employees, whether those items are included or excluded from OTE and whether superannuation guarantee contributions are being paid on items of remuneration that form part of OTE.

The Trustee will assume that contributions paid by the Employer to Lutheran Super for accumulation members will meet their SG obligations based on OTE from 1 July 2008.

Salary details – Salary Continuance Benefits

Employers currently provide salary details to Lutheran Super which are used to calculate and insure accumulation members' Salary Continuance Benefits of 75% of salary. The requirement to use OTE relates only to the calculation of minimum SG contributions, it does not relate to the calculation of insured Salary Continuance Benefits. This means Lutheran Super can continue to provide members' salary continuance benefits on the current definition of salary, as provided by the Employer. The main advantage of this approach is that there is no change to members' Salary Continuance benefits.

Employers should continue to use the current salary definition when providing salary details for accumulation members of Lutheran Super.

Defined Benefit Members

For defined benefit members, Superannuation Guarantee requirements are satisfied by the provision of minimum benefits not minimum contributions. The Lutheran Fund's Actuary has prepared a Superannuation Guarantee Benefit Certificate which sets out the relevant minimum benefit (known as the Minimum Requisite Benefit [MRB]) The MRB is an accumulation style benefit of 9% contributions less tax and expenses accumulated with the earning rate. When defined benefit members leave they receive the greater of their MRB and the normal defined benefits in Lutheran Super. The requirement to use OTE only relates to the calculation of the MRB. It does not need to be used in calculating members' normal defined benefits or in calculating member or employer contributions.

Trustee Approach

The Trustee approach is to use OTE only in respect of members' MRB and not their normal defined benefits.

Accordingly, employers will need to:

- continue to provide details of defined benefit members' current definition of salary to Lutheran Super to be used in determining their normal defined benefits;
- continue to make contributions of 11% p.a. of defined benefit members' current salary definition to Lutheran Super
- continue to submit members' contributions of 5% (post tax) or 5.88% (pre tax) of current salary definition to Lutheran Super
- **Provide new data detailing for each defined benefit member 9% of defined benefit members' OTE, this new data will be used to calculate their MRB.**

Please find attached a New Remittance form for your use. If you have any queries regarding the remittance of data please contact our administrator,

Summary

In summary Lutheran Super's position from 1 July 2008 is as follows:

Accumulation Members	
Contributions	Employers to continue to calculate contributions, as they are currently, however they will also need to ensure their total employer contributions meet their new superannuation guarantee requirements based on Ordinary Times Earnings from 1 July 2008.
Salary – Insured Salary Continuance Benefit	Employers to continue to use the current salary definition when providing salary details for employees to Lutheran Super.
Defined Benefit Members	
Contributions	Employers to continue to pay contributions 11% of employees' current salary definition Employers to continue to submit member contributions of 5%(post tax) or 5.88%(pre tax) of their current salary definition
Salary	Employers to continue to provide details of employees current salary definition, which will be used to calculate their normal defined benefit
New MRB data	Employer to provide new data of 9% of employees OTE, to be used to calculate their MRB

More Information

If you have any queries as to Lutheran Super's approach to Employers' SG requirements to use OTE from 1 July 2008 please do not hesitate to contact me on 08 8267 7338.

Yours sincerely,



Darren Royals
Executive Officer