Member Information Session Webinar March 2014 – Transcript

Northern Territory Government and Public Authorities’ Superannuation Scheme

Department of Treasury and Finance

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NTGPASS Member Information Session – Understanding Your NTGPASS Benefit

Slide 1: Introduction

This document is a transcript of the NTGPASS Member Information Session webinar presented by the Superannuation Office in March 2014.

Slide 2: Disclaimer

It is important that you read this disclaimer before considering any of the information contained within. The information provided is general in nature and does not take into account your personal circumstances, financial needs or objectives. Before acting on any information, you should consider the appropriateness of it, having regard to your objectives, financial situation and needs. In particular, you should seek independent financial advice before acting on any information contained within.

This disclaimer is intended to state the fact that anything we say today is purely factual information. We do not hold a financial services licence at the Superannuation Office, so we are not allowed to give financial advice. Any information is purely black and white factual information and we urge you not to rely on it to make financial decisions.

Slide 3: Presentation

The presentation topics include:

* + - Information about NTGPASS members and benefits;
		- when and how you can access your super money;
		- transition to retirement;
		- financial planning issues; and
		- death and invalidity benefits which are available through your NTGPASS membership.

Slide 4: Your Superannuation Benefit

NTGPASS is a fairly unique superannuation scheme. Most employees today will have what is called an accumulation style superannuation fund. NTGPASS is a defined benefit scheme, which has an employer component (the defined benefit) and an accumulation component. Your accumulation account is comparable to the accumulation style super fund, and your contributions make up this part of the benefit. As an NTGPASS member, you are required to contribute between two and six per cent of your salary every fortnight to your accumulation account. That money is physically paid into your NTGPASS accumulation account. That is where your salary sacrifice contributions go if you are salary sacrificing. It is also where your investment earnings are paid, so all the money in your accumulation account is physical money. It is actually invested for you in your elected investment options.

The two other components described on this slide are the NTGPASS employer benefit and the NTSSS employer benefit. NTSSS is an additional employer benefit under the NT Supplementary Superannuation Scheme. All active NTGPASS members have this benefit. So your total benefit consists of three components. The employer benefit is paid at the end, when you cease Northern Territory Public Sector employment and claim your benefit.

One of the great things about NTGPASS as a scheme is that it is very generous. One of the not so nice things about NTGPASS is that it is a very complex and often confusing scheme to understand.

Just remember:

* + - Your accumulation account is actual physical money.
		- The NTGPASS employer and the NTSSS employer benefit are estimated on your annual statement, but do not exist in real physical money terms while you are still working. They are promises that the government is making to you to pay when you resign and exit active membership of the scheme.

Slide 5: Defined Benefit versus accumulation account

In terms of the average NTGPASS **active** member (everyone is going to be slightly different), the accumulation part of your benefit makes up roughly 25 per cent of your total superannuation benefit. The remaining 75 per cent is the promise that the NT Government has made to you. In times of negative investment returns like 2009-10, those negative returns only affected the accumulation component, approximately a quarter of your total benefit. For the average member, approximately three quarters of your total benefit (the employer defined benefit) is actually protected from any adverse or negative investment returns. In this way it provides you with a certain amount of protection when investments are performing poorly. Contrast that with the typical Australian employee who is in an accumulation style fund, where 100 per cent of the benefit is invested.

If you choose to leave your money in NTGPASS after resigning or retiring from service in the NT Public Sector, your active membership will transform into what is called a **retained** membership. Your entire benefit will now become 100 per cent accumulation-type benefit. Your entire account balance is affected by investment markets. So in times when markets are good, that will obviously be a good thing, but in the negative investment return situations, your entire balance will be adversely affected.

Slide 6: NTGPASS and NTSSS benefits

Delving a little bit deeper into your active membership, I have already touched on what is included in your accumulation account; that is reasonably straight forward. However, the two employer benefits, the NTGPASS employer component and the NTSSS benefit, are called defined benefits because they are defined by formula. All of the following numbers and details you can find on your annual statement that you get each year.

**The NTGPASS employer benefit equals: 2.5% x benefit points x benefit salary.**

The **benefit points** are simply a representation of how much you are contributing as a member to the scheme. For example, if you are contributing 2 per cent of your salary each fortnight, then you will only accumulate two benefit points each year. If you contribute 6 per cent, you will get six benefit points. The more you contribute, the larger the product of that formula will be and the more you will get as an employer benefit.

The **benefit salary** is often a confusing figure, particularly when people see it on their statements and it’s not quite the same as what they are earning at the present time. That is because it is an average of your last three contribution salaries. At the NT Superannuation Office, we only look at your salary once a year, on the 1st of October. This 1st of October is called the **review date**, on which we look at your contribution salary. Your contribution salary is your full time equivalent salary plus approved allowances. For example if we were to look at your situation today, in March 2014, we would take your contribution salaries from the 1st of October 2013, 2012, and 2011. We would then index those salaries to bring them up to today’s dollar value. In a next step, we would take an average. That is how we calculate your benefit salary at any given point in time.

The NTSSS benefit that you receive upon resignation is based on a different formula. Again you can see the relevant figures on your statement.

The NTSSS benefit equals: 3% of your final salary on your last day of service (not your benefit salary) x number of years of eligible service since 1st of October 1988**.**

The 1st of October 1988 is when the scheme first started. So those are the three components to your total NTGPASS and NTSSS superannuation benefits.

All of the amounts and figures mentioned above can be obtained from your current member statement.

Slide 7: What else affects your benefit

Knowing that your employer benefit is based on salary eligible service, a common question we get is: How do certain types of leave affect those formulas?On our website [www.super.nt.gov.au](http://www.super.nt.gov.au) we have a lot of different fact sheets. This topic is covered by a particular fact sheet that we have.

Generally speaking, if you go on **leave without pay** as an active member, you are usually not allowed to contribute to the scheme. If you are not contributing, you are not accumulating benefit points or eligible service. That is a fairly straight forward situation.

However, if you chose to go on **long service leave**, you are required to continue to contribute at the full time rate. Everything will work as normal. NTGPASS and NTSSS are not affected. You still accumulate benefit pints and eligible service while being on long service leave.

Recreation leave at half pay is reasonably commonly taken when people are approaching retirement or are resigning. Sometimes they choose to take recreation leave at half pay. In this situation your NTGPASS benefit is not affected, because you are required to continue to contribute at the full time rate regardless of the fact that you are only getting half of your pay. What is affected is the NTSSS formula, because you are on half pay. Only half of that recreation leave at half pay is counted as eligible service. So if you were to take six weeks of recreation leave at half pay, only three weeks will be counted towards NTSSS eligible service purposes.

Working part‑time can also affect your NTGPASS and NTSSS formulas. That will depend on the timing of changing to part‑time work, because we only look at your salary on the 1st of October i.e. once a year. It will depend on the point in time at which you switched to part‑time. If we look at your situation on the 1st of October and you are going to part‑time work on the 1st of October, then you will be required to contribute going forward at the part‑time rate. So, if you are working 50 per cent of normal time hours you will be contributing at the half time rate. Therefore, you are only accumulating benefit points going forward at a part‑time rate. Eligible service will be affected.

These are all scenarios you should be aware of. That is why we are here in the office to answer these sorts of questions. If you are considering going part‑time, then please contact the office to make sure that you are aware of all the consequences of doing so. If you were to go part‑time after the 1st of October (the review date) for example on the 15th of October, we will have already looked at your salary on the 1st of October. Since we saw then that you were on the full time rate, you will be required to continue to contribute at the full time rate until the following 1st of October. It depends on the point in time at which you go part‑time.

Slide 8: Contributions

The Commonwealth Government specifies how much you can actually put into super, when you can take it out and what tax applies. In terms of what you can put into super, there are two contribution caps:

* + - One is the **concessional** or pre-tax contribution cap. ‘Concessional’ means the contributions are being concessionally taxed. Salary sacrifice is one example. Instead of paying your marginal tax rate on this money, it is actually being taxed at 15 per cent upon entry into a superannuation fund. If the marginal tax rate is more than 15 per cent, in most cases people may be saving tax by salary sacrificing. For 2013-14, the Commonwealth government applies a $25 000 yearly cap on these types of contributions, or $35 000 if you are over age 60. These amounts will increase on 1 July 2014, to $30 000 for everyone under 50 and $35 000 for everyone over 50.
		- The other cap is a **non-concessional** or post-tax contributions cap. Your compulsory NTGPASS member contributions are counted towards this cap, as well as any voluntary or spouse contributions that are made to your account. For 2013‑14, the contributions in one year must be less than $150 000. On 1 July 2014 this limit will increase to $180 000 which you can contribute each financial year. There is also a bring-forward rule. For example, if someone intends to retire in the next one or two years, they can bring forward two future contribution cap years. The amounts average over a three year period. For example, currently a person could contribute $450 000 as long as they do not exceed $450 000 over this financial year and the following two financial years.

There are penalties for exceeding both of these caps, so it is definitely worth keeping in mind how much you are contributing to super.

Slide 9: When can I access my benefit?

When you can access your superis dictated by Commonwealth legislation. Since 1999, all contributions have been preserved in your account which means you cannot access them until you have satisfied a condition of release. There is a list of conditions of release, but the most relevant in this presentation is the condition that says you have met your preservation age. Your preservation age will depend on your date of birth and also on whether you have either fully retired from the workforce or whether you are transitioning to retirement.

If you were born before 1 July 1960, your preservation age will be 55. It gradually increases so that anyone born after 30 June 1964 will have a preservation age of 60. In most cases, you must meet these preservation ages before you can access your superannuation.

When you look at your statement, on the last page, page four, you may see a non-preserved amount. Even though it is non-preserved, it is still restricted which means that you have to actually resign from your current employment before you can access it. Accessing it usually means that there is tax payable if you withdrew that amount in cash.

You can find the NTGPASS and NTSSS formulas, the comprising components, the non‑preserved amount and all the tax components on your annual statement.

Slide 10: Claiming your NTGPASS benefit

In order to claim your NTGPASS benefit, you will need to fill out a **benefit claim form**. This claim form will tell us what you want us to do with your money. You also need to provide **certified identification** (ID). The Commonwealth government has legislation in place that means we need to know with 100 per cent certainty as to whom we are actually paying the money to. This is to avoid situations where a potential fraudster comes along and pretends to be someone else, and we pay the money to where it should not be going. A tax file number is also required. But the point in this slide is to illustrate the fact that it is a process, it is usually a reasonably quick process, but it can take at least a few weeks, ultimately depending on your payroll department.

Please note that you must return **workplace security items** when you leave employment. We cannot process your benefit until we actually receive your detailed employment history from your payroll department. Without this, we cannot know the underlying salaries and eligible service, which are required to calculate your benefits. So if you have a set of keys or a corporate credit card, or something else you have not given back to your payroll department, then they will probably withhold that information from us, which can hold up the benefit payment process.

Timeframes can depend on whether you are simply rolling over your money or taking some in cash. Depending on the situation, it could take one or two weeks, or it could take up to thirty days. It depends on whether we receive the information quickly regarding the choices you have made for the payment.

Slide 11: Benefit Options

When you claim your NTGPASS benefits you have a number of options. Your employer benefits from NTGPASS and NTSSS will actually be physically paid into your accumulation account. At this point you will transfer from active membership and having those defined employer benefits to a retained benefit. This means that your entire benefit is invested in an accumulation account and affected by investment movements.

If you choose to keep your benefit in an NTGPASS retained account, you will be required to choose an investment option for your current account balance upon resignation, and also for future contributions. Thus, you can technically have your account balance in more than one investment option going forward. A second option is to roll your money over into another superannuation fund. If you were intending to commence an account based pension for example, then you will need to roll your money over into another superannuation fund. If you are eligible, that is you have reached your preservation age and are retired, you can choose to take a lump sum or you can choose a combination of all three options. We suggest members seek professional financial planning advice, which is always a good thing in these situations.

Slide 12: Lump Sum Tax and Thresholds

Lump sum tax thresholds apply to someone who has chosen to withdraw a superannuation lump sum from an NTGPASS account. Depending on individual circumstances, you will have three different tax components making up your total benefit: Tax Free, Taxable (taxed) and Taxable (untaxed).

The tax free component will essentially comprise all your member contributions and voluntary contributions. You have already paid marginal tax rates on these amounts so you will not pay any tax upon withdrawal. There will be a zero per cent tax rate.

You will also have a taxable component, either taxed or untaxed. The untaxed component, in most cases, represents your employer benefits from NTGPASS and NTSSS. The taxed amount will refer to salary sacrifice contributions and investment earnings.

The low rate cap is $180 000. This is significant because it is a cap the Commonwealth government puts in place. If you were to withdraw money from your taxable component, whether already taxed or still untaxed, up to $180 000, you will pay a lower tax rate of zero per cent for the taxed amount and 16.5 per cent for the untaxed amount. That changes as your age increases. If you are 60 years or older, you will pay zero per cent tax on the taxed component. However, you will still pay at least 16.5 per cent on your untaxed component. The tax on the untaxed component is something you cannot avoid, regardless of your age and life situation. That tax will always be paid.

Slide 13: Taxation on Rollover

To illustrate taxation a little bit further, we have the following example. A theoretical active member is finishing up work and claiming their benefit. This member will have the NTGPASS, NTSSS and total amounts broken up into three different components:

|  |  |
| --- | --- |
| Tax free | $142 000 |
| Taxed  | $170 000 |
| Untaxed | $386 000 |
| Total | $698 000 |

The member can choose to take all of this money in cash if he or she retired, but if the member takes the tax free amount it is paid tax free.

Please note that this scenario indicates a roll over. The difference between taking a lump sum as cash and a roll over is that with a rollover your benefit gets paid to another superannuation fund. So you are not actually taking any cash, but even in this situation tax will still be paid on the untaxed component, which in our example is $386 000.

If this person were to look at his or her member statement or ending benefits and expect to receive $698 000 that is not quite correct. Fifteen per cent tax still needs to be paid on their untaxed component, even if the member is over 60. The tax will need to be paid at the time of a rollover or withdrawal because you are under a defined benefit scheme and your employer is not actually contributing on a regular basis every pay day. Employer components are not paid until the member actually resigns or exits the scheme. So, therefore, the benefit has never been taxed along the way and that is why it must always be taxed when the member claims the money.

In comparison, for someone who is in an accumulation type superannuation fund, the employer is contributing every pay day. For example, if their employer pays $100 as employer contributions to their super fund, that super fund is required to send 15 per cent immediately to the tax office. So, if $100 is paid, 15 per cent or $15 goes directly to the tax office, and the remaining $85 is credited to the superannuation account. This does not happen with NTGPASS. In the current example, 15 per cent tax on $386 000 equals $57 900. The member receives a net benefit of $640 100. This amount is what will arrive at the superannuation fund the member rolls the benefit over to. Again, these amounts and figures are on the last page of your statement.

Slide 14: Opting out of NTGPASS/NTSSS

You don’t have to stay an active member of NTGPASS once you reach your preservation age. You can choose to opt out of the scheme. There are various reasons for people to do so. One is transition to retirement, which means that you choose to continue working, but you are also drawing down on your superannuation benefit in the form of a transition to retirement pension. An NTGPASS member wanting to do this will have to opt out of NTGPASS membership. Opting out means that you are no longer required to contribute the 2 to 6 per cent of your salary. However, employer benefits from NTGPASS and NTSSS are paid into your account, so they become actual money. From then on you have 100 per cent of your benefit in an accumulation style fund.

Opting out of NTGPASS also means that your employer is only required from now on to contribute the minimum superannuation guarantee, which is currently (for 2013-14) 9.25 per cent. As an active NTGPASS member contributing 6 per cent of your salary you are effectively receiving up to 18 per cent as an employer contribution. So theoretically you see a drop in employer contributions going forward. Opting out of the scheme does not mean you can access lump sums. As stated earlier, you may have a non-preserved amount, but you cannot access it because it is restricted until you resign from your current employment.

As an active NTGPASS member you will have a certain amount of death and invalidity benefit. But even if you opt out, you continue to have that benefit under a different scheme called Northern Territory Government Death and Invalidity Scheme (NTGDIS).

One final thing to know about opting out of the scheme is that the decision is irreversible. If you chose to opt out of active membership you cannot get back into the scheme, which closed in 1999 to new members. Therefore, we cannot let you back in if you change your mind. So it is very important to seek financial advice before deciding to opt out of active membership.

Slide 15: Retirement planning

For your retirement planning, we have some figures to give you a bit of an idea as to how much money you will need in your retirement. The numbers have been taken from the ASFA (Association of Superannuation Funds of Australia) retirement standard. ASFA publishes these numbers every quarter. They are intended to illustrate the estimated living requirements of the average Australian retiree. They split them up into single and couple scenarios, and a modest and comfortable lifestyle. ‘Modest’ and ‘comfortable’ are fairly generic terms. In a general sense, modest lifestyle is cost covering, no more. There is not a lot of extra money to spend on the nice things that we would like to spend on in retirement; such as going out for dinner every week, perhaps going on a holiday every year. These sorts of things are potentially included in what ASFA consider to be a comfortable lifestyle.

According to ASFA, the theoretical comfortable couple will need an annual income of about $57 665 to live off in retirement. Remembering that these amounts are after tax, and they also assume the mortgage and any other loans have been paid off. For a single person, the annual amount required for a comfortable lifestyle according to ASFA is $42 158.

The amount required for a modest lifestyle according to ASFA is $23 175 for a single person and $33 358 for a couple.

While the modest lifestyle is only covering the basic cost, it is still a larger amount than what you would get on the current Centrelink age pension, which would amount to $19 916 a year for a single person, or $30 025 for couples. Hence, it is very important to have a superannuation benefit behind you that will assist you in not having to rely on the age pension from Centrelink in retirement. You can get part of the age pension in retirement if you do have some superannuation benefit. The Centrelink age pension is subject to an income and asset test. Based on your income and assets, you may be eligible to receive part if not the full Centrelink age pension in retirement.

Slide 16: Financial advice

When talking about superannuation in retirement, it is fairly compulsory to talk about financial advice. We at the NTSO cannot give you financial advice, but we suggest seeking such advice elsewhere. We suggest seeking several sources of information, such as getting recommendations from friends and family where they have existing relationships with a financial advisor. The website [www.moneysmart.gov.au](http://www.moneysmart.gov.au) has a publication called ‘Getting advice’, which will give you a list of questions to ask a potential financial advisor. Entering such meetings with a list of questions is a good idea because you need to know how this person is paid, who their employer is, what their experience is, whether they know anything about NTGPASS and defined benefit schemes.

The financial planning association ([www.fpa.com.au](http://www.fpa.com.au)) has a ‘Find a financial planner’ facility on their website, which is where you put in your post code and they come up with a list of financial advisors in your area. A financial adviser must have a licence to provide you with appropriate advice, which NTSO does not have. They will need to find out as much information about you as possible in order to give you appropriate advice. NTGPASS is not likely to be on any advisors approved product list. So ask the questions: Why are you giving me this advice to move my money from here to there? They may have a very good reason, but asking the question is always a good policy.

Centrelink also has a financial information service. It is a free and independent service. We certainly recommend contacting Centrelink in the lead up to retirement. It does not matter whether you think you are going to get Centrelink benefits or not. Staff there can provide you with independent advice on superannuation, Centrelink benefits, or otherwise. If you are in doubt about your financial adviser, even if you have already signed up, it should always be within your power to change that relationship at any time. If you are not happy with the advice you are getting, we certainly suggest that you seek other professional opinions.

Slide 17: Invalidity Retirement Benefit

Thinking about invalidity retirement raises a number of daunting questions in many of us: What if I can’t work anymore? What is the definition of invalidity? What is the assessment process for invalidity retirement? How much money can I expect from my benefit?

Invalidity is defined as follows:

‘Invalidity means the physical or mental incapacity to continue any work for which you are reasonably qualified either by training, experience, or education, and you cannot perform that work anymore for any employer who is covered by the NTGPAS scheme, which covers a variety of NT Government agencies.’

The assessment process can be quite long and complex. The following information only focuses on those aspects of the process that matter to you.

If you or your doctor thinks that you are suffering from a serious medical condition and that you may have a case for invalidity retirement, you will need to report this to your manager and your human resources area. They will initiate the invalidity retirement assessment process for you. During this process, you will need to get two further medical opinions. One needs to be from a GP who is not your treating GP, in order to get an independent opinion. The second medical report must come from a medical specialist in the field in which your invalidity may lie. You will have to return these medical reports to your human resources area, and they will pass it on to us for review by the NT medical advisor.

During this assessment process, please communicate only with the human resources area of your agency and your doctors. Please do not ring us in order to inquire about the progress of your invalidity retirement application, or in order to inquire about the contents of your medical reports.

While this gives the impression we do not want to talk to you, the reason behind this is that we have a duty of care. Staff members at the Superannuation Office do not have medical training and it would not be appropriate for us to discuss the content of your medical reports with you.

Slide 18: Invalidity Retirement Benefit (continued)

Your invalidity retirement benefit will comprise your NTGPASS benefit accumulated to date, for which the calculation has been explained previously. This includes a refund of your accumulation account, and the NTGPASS employer benefit.

However, when retiring on the grounds of invalidity, you probably exit the workforce a lot earlier than you originally planned, and your NTGPASS benefit is not as substantial as if you had been working until your retirement age.

That is why there is also a prospective employer component. This is calculated as:

**17.5% x years (or part thereof) of prospective service x benefit salary.**

However, this benefit reduces from the age of 50 and gradually phases out if you retire on the grounds of invalidity between ages 50 and 60.

Slide 19: Invalidity Retirement Benefit – Key Points

Key points to remember are that the prospective employer component phases out between ages 50 and 60. Another key point to remember is that you will only receive the invalidity retirement benefit once you have been formally retired on the grounds of invalidity. The assessment process for invalidity retirement can take quite a long time.

Also, sometimes, you may be required to undergo a rehabilitation program while on leave without pay in order to see whether can be fit for work after all. Time wise, there can be quite a gap between your accident and formal retirement. If you have no more sick leave left, and are therefore on leave without pay, you may be eligible for a **temporary invalidity income benefit**. While on leave without pay and being assessed for invalidity retirement, this benefit pays up to 80 per cent of your previous income until you become formally retired.

If the outcome of the invalidity retirement process is that you are somewhat, but not totally, incapacitated, and can continue to work in a lower paid position, you also may be eligible for a **continuing invalidity income benefit**, which supplements your lower new salary in order to bring it a bit closer to your previous higher salary, although it will not be fully matched.

During the retirement process, members with a terminal illness will be given priority.

Another important aspect to remember is that the prospective employer component may be offset by any workers’ compensation payments which you may also receive. Only the prospective employer component can be offset by workers’ compensation, as the other elements of your benefit, the refund of your accumulation account and the employer component, represent your money. You have worked for it.

Slide 20: Death Benefit

If you pass away, your dependants may be eligible for a death benefit. This benefit is calculated in the same way as your invalidity retirement benefit.

Slide 21: Death Benefit (continued)

Once again, if you pass away as an active contributing member between age 50 and 60, the prospective employer component phases out.

The Superannuation Office’s definition of a dependant includes a spouse including a same sex spouse, a child of any age including adopted children, or anyone else who has a legal right to look to you for financial support. Please note that even if someone is regarded as a dependant for NTGAPSS they may not necessarily be a dependant for ATO purposes.

As an NTGPASS member, you do not nominate a beneficiary, as we will only pay your death benefit to your estate. For that reason it is very important that you have a will. Your will indicates to us that you have dependants, and that therefore a death benefit might be payable. Another thing to bear in mind is the current $20 000 threshold. If your death benefit is less than $20 000, we can pay it directly to your dependants.

While this is a daunting topic, it is not our intention to frighten you, but to provide you and your family members with some reassurance that if things go bad, there is some financial support to be had. While some of the benefits may be offset by workers’ compensation payments, you get these benefits in addition to any private health/life insurance benefits which you may also have.

Useful Resources

The following are some useful resources you can access for further information.

* + - NT Super - www.super.nt.gov.au
		- ASIC - www.moneysmart.gov.au
		- ASFA - www.superguru.com.au
		- www.nicri.org.au
		- www.superguide.com.au
		- www.industrysuper.com
		- www.asx.com.au
		- www.centrelink.gov.au
		- Magazines, books, etc.

On that note, we wish you a happy, healthy and long life!