

Version 1.1

# Reference Guide Defined Benefit Schemes



## **What this document is about**

This document is an information reference to be used in conjunction with your Statement of Advice, Product Disclosure Statements (PDSs) and research materials provided.

It contains information about our recommendations that you should read and understand. Further and more expansive information on any product recommended is available in the Product Disclosure Statements and research material provided with your Statement of Advice or Record of Advice.

This document does not contain financial advice and does not make recommendations for your specific financial situation and current circumstances. Information provided is general or factual in nature and should be read with consideration of your personal situation, needs and objectives.

**Health Super Financial Services**

**Australian Financial Services Licensee (No. 240019)**

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## Section 1 – Health Super Defined Benefit Schemes

### 1:1 Defined Benefit Membership (Health Super New Scheme)

#### What is the Health Super Defined Benefit Scheme?

A Defined Benefit scheme is one where retirement benefits are typically based on your period of membership and your average salary over the last two years prior to retirement or termination of employment. Your Health Super Defined Benefit is separate and additional to the benefit entitlement provided by your Health Super Accumulation Account.

The Health Super Defined Benefit (New Scheme) provides you with a one off lump sum payment for resignation, retirement and death benefits and a pension only payment in the event of total and permanent disability.

#### How is my Defined Benefit Calculated?

Your Defined Benefit entitlements are calculated by using a two year average of your salary know as the 'Adjusted Final Fund Salary' (AFFS), complete years and months of membership and your contribution rate.

Accrual Rate	Years of Membership	Adjusted Final Fund Salary
Your accrual rate is determined by the contribution rate you have chosen (ie: 0%, 4% or 6%)	If you have worked part time or casual your years of membership are adjusted according to the service proportion	This is your Super Fund Salary averaged over the final two years of your fund membership

**Please Note: If you reduce your contribution rate to 0% at any time, no accrual rate will apply for that particular period.**

Your benefit calculation will take into account the applicable Accrual Rates for each year and complete month of fund membership and not just the current Accrual Rate at the time you receive your benefit.

The combination of these factors enables your entitlement to take into account salary increases resulting from productivity improvements and promotions received during fund membership. Therefore, entitlements will retain their purchasing power relative to your salary.

Current Accrual Rate for Member Contributions				
Your Contribution Rate	6%	4%	3%	0%
Current Accrual Rate	10%	4.5%	3%	0%

### **1:1:1 Part-Time Membership**

The Trust Deed of Health Super Fund and benefit design of the Defined Benefit scheme caters for members who move from full-time to part-time employment (section C2.2 of the Deed).

If you worked on a part-time or casual basis your benefits are calculated based on the following:

- Part-time or casual service is converted to the equivalent full-time hours worked; and
- The equivalent full-time salary over the last two years is averaged.

Member and employer contributions will be paid on actual fund salary received, and benefits will accrue at the percentage of part-time hours worked. These provisions account for the reduction in hours worked by reducing the corresponding accrual rate to the rate worked, while maintaining the AFS by calculating a full-time equivalent salary.

Therefore, transferring to part-time employment means that your future entitlements will accrue in proportion to the percentage of hours that you work. For example, if you half your hours, you will have to work two years part-time to get the same accrual as working one year full-time.

In summary, part time membership works on the basis that you retain your current hourly remuneration rate and penalty rates when reducing your hours. On this basis, your accrued Defined Benefit lump sum will be calculated on the specified basis for part time membership as described above, due to the change in your working hours.

### **Fee Structure**

There are no fees payable or deducted from members of the Defined Benefit scheme.

### **If member is under the age of 55 (Vested Component)**

If you are currently under the age of 55 and wish to cease your Defined Benefit membership your benefit component would consist of a cash component and a vested component. Although the cash component can be taken as cash (if unpreserved) or rolled over to a superannuation accumulation account, you have two options with regard to the vested component;

- Defer your vested component until age 55, in which case this component would only increase in line with CPI; or
- Discount your vested component and either cash out your entitlement (if unpreserved) or rollover to a superannuation accumulation account. The discount rate applied would be 4% for each year up until age 55.
- By deferring your vested component you will receive a lower return than that achieved from the accrual rate you receive by being a member of your Defined Benefit Scheme.

## 1:2 Defined Benefit Membership (Health Super Old Scheme)

### What is the Heath Super Defined Benefit Scheme?

A Defined Benefit scheme is one where retirement benefits are typically based on your period of membership and your average salary over the last two years prior to retirement or termination of employment. Your Health Super Defined Benefit is separate and additional to the benefit entitlement provided by your Health Super Accumulation Account.

The Health Super Defined Benefit (Old Scheme) provides you with two options in retirement; a lump sum only option (option 1) or a part lump sum with a lifetime pension (option 2) as outlined below.

#### Lump Sum Only (Option 1)

The lump sum only option provides a one off payment to the member. These funds can be withdrawn from the superannuation fund (subject to a condition of release being met) or rolled over to your superannuation accumulation account.

#### Part Lump Sum and Life-time Pension (Option 2)

This option offers a lower one off payment combined with a fortnightly pension. Again, the part lump sum payment can be withdrawn from the superannuation fund (subject to a condition of release being met) or rolled over to your superannuation accumulation account.

The fortnightly pension is payable to you for your life and in the event of your passing, two thirds of your pension becomes payable to your surviving spouse for their life ('Reversionary Beneficiary'). Please note that in the event of the death of the surviving spouse, the pension payments will cease. The pension is indexed twice annually with CPI, reducing the impact of inflation on your pension payments.

Should you elect to receive your lifetime pension prior to reaching age 60, part of your pension may be taxable. If you are aged 55 or over, you will receive a tax rebate of 15% on the taxable amount of your pension payments from a taxed source. Part of your pension payment, called the annual deductible amount, is not taxed when you receive it.

Once you reach 60, your Defined Benefit pension payments will be tax-free.

The pension is funded by Health Super. This means Health Super bears the risk of fluctuations and changes in the value of the underlying assets, with you experiencing any indexation changes to your lifetime pension.

### How is my Defined Benefit Calculated?

Your Defined Benefit entitlements are calculated by using a two year average of your salary know as the Adjusted Final Fund Salary or AFFS, complete years and months of membership and your contribution rate.

Accrual Rate	Years of Membership	Adjusted Final Fund Salary
Your accrual rate is determined by the contribution rate you have chosen (ie: 0%, 4% or 6%)	If you have worked part time or casual your years of membership are adjusted according to the service proportion	This is your Super Fund Salary averaged over the final two years of your fund membership

**Please Note: If you reduce your contribution rate to 0% at any time, no accrual rate will apply for that particular period.**

Your benefit calculation will take into account the applicable Accrual Rates for each year and complete month of fund membership and not just the current Accrual Rate at the time you receive your benefit.

The combination of these factors enables your entitlement to take into account salary increases resulting from productivity improvements and promotions received during fund membership. Therefore, entitlements will retain their purchasing power relative to your salary.

<b>Current Accrual Rate for Member Contributions</b>				
<b>Your Contribution Rate</b>	<b>6%</b>	<b>4%</b>	<b>3%</b>	<b>0%</b>
Current Accrual Rate	10%	4.5%	3%	0%

### **1:2:1 Part-Time Membership**

The Trust Deed of Health Super Fund and benefit design of the Defined Benefit scheme caters for members who move from full-time to part-time employment (section C2.2 of the Deed).

If you worked on a part-time or casual basis your benefits are calculated based on the following:

- Part-time or casual service is converted to the equivalent full-time hours worked; and
- The equivalent full-time salary over the last two years is averaged.

Member and employer contributions will be paid on actual fund salary received, and benefits will accrue at the percentage of part-time hours worked. These provisions account for the reduction in hours worked by reducing the corresponding accrual rate to the rate worked, while maintaining the AFS by calculating a full-time equivalent salary.

Therefore, transferring to part-time employment means that your future entitlements will accrue in proportion to the percentage of hours that you work. For example, if you half your hours, you will have to work two years part-time to get the same accrual as working one year full-time.

In summary, part time membership works on the basis that you retain you current hourly remuneration rate when reducing your hours. On this basis, your accrued Defined Benefit lump sum and pension (if applicable) will be calculated on the specified basis for part time membership as described above, due to the change in your working hours.

### **Fee Structure**

There are no fees payable or deducted from members of the Defined Benefit scheme, the costs are funded from your employer and the overall scheme assets.

### **If member is under the age of 55 (Vested Component)**

If you are currently under the age of 55 and wish to cease your Defined Benefit membership your benefit component would consist of a cash component and a vested component. Although the cash component can be taken as cash (if unpreserved) or rolled over to a superannuation accumulation account, you have two options with regard to the vested component;

- Defer your vested component until age 55, in which case this component would only increase in line with CPI; or
- Discount your vested component and either cash out your entitlement (if unpreserved) or rollover to a superannuation accumulation account. The discount rate applied would be 4% for each year up until age 55.
- By deferring your vested component you will receive a lower return than that achieved from the accrual rate you receive by being a member of your Defined Benefit Scheme.

### **1:3 Changing Employment**

If you change employment in the future and the employer to whom you are transferring is a participating employer, your new employer may allow you to continue in the scheme. This is contingent upon agreement from both your new employer and the superannuation fund. If accepted by both parties, your membership will automatically continue provided your break between jobs is less than four weeks for full-time or part-time and eight weeks for casual.

If you change employment in the future and the employer to whom you are transferring is not a participating employer, or does not agree to continue your scheme, you will be faced with the following options:

- Cease your membership of the Defined Benefit Scheme;
- Apply to the Trustee of Health Super for salary maintenance, which will involve you having to pay both the member and associated employer contribution rate; and
- Consider arranging these additional contributions as part of your total remuneration package.

**We highly recommend you discuss your various options with an Adviser as the implications and calculations are highly complex.**

**Notes:**