

Defined Benefits Fund

LGsuper's Defined Benefits Fund closed to new members from 1 July 1998.

What is a defined benefit?

A defined benefit is a superannuation arrangement where the benefit is calculated as a multiple of the member's salary. Salary is generally averaged over a period of time and is known as final average salary (FAS).

Members of the LGsuper Defined Benefits Fund also have a second calculation made whenever a benefit is due. The second calculation is based on the sum of notional contributions plus earnings, minus tax, fees and insurance costs. The member gets the higher of the two amounts.

What is your multiple?

The LGsuper multiple is 0.18 for each year of service after 01 January 1986 and 0.135 for each year before. For example, if a member started on 1 January 1993 and retired on 1 January 2003 (i.e. after 10 years), the multiple would be 1.8 (0.18 x 10). Your multiple at 30 June last and at prospective retirement ages is shown on your statement.

What is your final average salary (FAS)?

The FAS in LGsuper is generally the average of the member's superannuation salary over the final 12 months of employment. However, the FAS cannot be greater than 120% of the member's superannuation salary 3 years earlier.

If a member finished up on 31 December 2002 when their superannuation salary had been \$29,000 at 1 January 2002 and \$31,000 at 1 July 2002, the FAS would be \$30,000 (6 months at \$29,000 and 6 months at \$31,000), provided this was not greater than 120% of the superannuation salary at 1 January 1999.

What effect does going part-time have on your FAS?

LGsuper always uses the full-time equivalent salary in multiple of salary calculations. This ensures that members reducing their working hours do not experience a drop in the benefit they accrued while working full-time. Instead, the multiple will grow more slowly during part-time work. For example, a member working 3 days a week (60% of full-time hours) would have their multiple accrue at a rate of 0.108 per year (60% x 0.18) while working part-time, instead of the 0.18 they would receive each year working full-time.

What benefit is payable on resignation before age 55?

Multiple-of-salary calculation

For members who leave before age 55, the multiple-of-salary calculation is discounted by 2% for each year prior to 55. For example, if a member resigned at age 45 (10 years short of the retirement age of 55), the discount would be 20% (10 x 2%).

The calculation for a member with an FAS of \$30,000 who resigned at age 45 after 15 years of membership, would be:

$$\$30,000 \times 0.18 \times 15 \times 80\% = \$64,800$$

Contributions-plus-earnings calculation

The notional contributions-plus-earnings calculation for resignation is based on the member contribution (generally 6%) and the level of employer contribution required under the superannuation guarantee legislation (4% in 1992, gradually increasing to 9% from July 2002).

The member gets whichever is the higher of these two calculations. In practice, separate comparison calculations are made for different membership periods (e.g. before and after 1986).

What benefit is payable at normal retirement age (between ages 55—70)

Multiple-of-salary calculation

At retirement, the multiple-of-salary calculation is a simple multiple times FAS, without discounting. For example, if a member's FAS is \$30,000 after a membership period of 15 years, the defined retirement benefit is:

$$\$30,000 \times 0.18 \times 15 = \$81,000$$

Contributions-plus-earnings calculation

At retirement, the notional contributions-plus-earnings calculation is based on the standard member contribution (generally 6%) and the full employer contribution (generally 12%, rather than just the Superannuation Guarantee amount). Notional earnings are added and taxes, fees and insurance costs are deducted.

The member gets whichever is the higher of these two calculations. In practice, calculations for the pre and post 1986 periods are compared separately and members get the higher number for each period.

What benefit is payable on retirement after age 70?

The multiple-of-salary calculation stops at age 70 when it is compared with the notional contributions-plus-earnings equivalent (as per retirement 55-70). The age 70 defined benefit is then transferred to the Accumulation Benefits Fund. All subsequent contributions go to the Accumulation Benefits Fund.

The benefit at final retirement is simply the balance of the member's accumulation account.

What benefit is payable on death or disablement?

The "past service" part of the benefit is calculated in exactly the same way as the normal retirement benefit (see above, normal retirement). However, in the case of death or total and permanent disablement, a "future service" benefit, calculated as a multiple of FAS, is added for the prospective period to age 60.

For example, if a member was totally and permanently disabled at age 50 when his FAS was \$30,000, the "future service" benefit (payable in addition to the normal retirement benefit) would be \$54,000 ($\$30,000 \times 0.18 \times 10$).

Any questions?

LGsuper is here to help. Contact us on 1800 444 396 to talk through your options and have your questions answered.

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