



Funding Rate Change Contributory Scheme

Contributory Scheme (CS) defined benefits are lump sums which may, depending upon your age and reason for cessation of membership, be converted in whole or part to an indexed CS life-time pension.

The value of your CS defined benefit is calculated by reference to a formula which has regard to your:

- (1) final average salary (last 3 years of contributory service);
- (2) rate or rates of contribution to the CS;
- (3) the benefit accrual rate applicable to each contribution rate;
- (4) full-time equivalent contributory service; and
- (5) in the case of total and permanent incapacity or death benefits, the length of your prospective service to age 60¹.

All CS members are required to contribute to the Scheme. The minimum or basic contribution rate is 5% of salary. The maximum contribution rate is 15% of salary and you can choose to increase your contributions (and therefore your benefit accrual rate) in increments of 1

Employer funding

Your employer does not contribute to your CS benefit whilst your CS benefit accrues. The employer share of Contributory Scheme benefits (CS benefits) are funded by last minute employer contributions when the employer share of the defined benefit becomes payable.

In the case of CS retirement, death, total and permanent disablement benefits and redundancy entitlements which have been:

- (1) converted in whole or in part to a CS life pension, the last minute employer contributions are paid fortnightly for the duration of the pension; and
- (2) converted in whole or in part as a CS lump sum payment, the last minute employer contribution is a once-off lump sum payment which is made at the time the employer component of the lump sum benefit is payable.

In the case of CS resignation and preserved redundancy² entitlements where you have not reached your preservation age, the employer share of your CS entitlement is not funded. The employer share is transferred to the Compulsory Preservation Account (CPA) where it is indexed in accordance with movements in CPI or AWOTE whichever is the greater.

¹ Prospective service is limited to a maximum period of 25 years or a benefit multiple of 5.

² Particularly, redundancy benefits preserved within the Fund in accordance with regulations 53(3)(b) and 54(4)(b) allows access to the Divisor of 12 for life pension purposes.

When you attain your preservation age or satisfy a SIS condition for the early release of a preserved benefit, the balance standing to the credit of your CPA is funded and transferred to your Investment Account after appropriate deductions for tax.

Increase in the employer share of CS benefits

The employer share of Contributory Scheme (CS) benefits will increase from 70% to 75% of the basic³ CS benefit on and from 1 July 2010.

This increase will apply to your benefit if your final date of service is on or after 1 July 2010.

Why is the increase in employer share necessary?

Increasing the employer share of CS benefits is necessary for the following reasons:

1. The ageing membership and the fact that the CS is closed to new members mean that the membership base will continue to age and decline over time whilst the accrued benefits of remaining members will continue to increase. This places pressure on the funding arrangements for CS members' benefits. The primary factors that influence the value of the Fund's and the State's CS liabilities include:

- the length of contributory service of remaining members;
- growth in salary and wages;
- changes in the consumer price index; and
- investment performance.

The age profile of the CS members means the Fund and State liabilities are expected to grow in the short-term until the majority of fund members who are currently aged 45 to 65 retire. Long-term liabilities relating to members who are below age 45 are expected to decrease as membership declines.

2. There is a diminished funded surplus since 30 June 2007 due to poor investment markets. The valuation of CS liabilities is very sensitive to the Fund's investment performance. The economic shock caused by the global financial crisis caused:

- Two financial years of negative investment returns; and
- A reduction in the value of CS assets.

During the global financial crisis, the Board did not achieve its primary investment performance objective of providing real investment returns after tax and investment management cost of CPI + 4.5% p.a. over rolling 3 to 5 years.

³ The basic CS benefit is the benefit you would have received had you always contributed to the CS at the rate of 5% of salary or 2.5% of salary if you are contributing to the Scheme at the low contribution rate.

The State Actuary will assess the full impact of the global financial crisis on the CS liabilities (both funded and unfunded) during the triennial review of the CS for the period ending 30 June 2010.

However, the Board together with its Investment Management and Asset Allocation Consultant, JANA Investment Advisers, remains confident that over the medium- and long-term the Board's investment strategy will enable the Board to achieve its primary investment performance objective.

How is the change in employer share being implemented?

The change to the employer share funding arrangements will be implemented in a manner that has regard for:

- (1) the prudential management of the unfunded superannuation liabilities; and
- (2) the continuation of existing business practices relating to:
 - (a) the taxation of employer contributions used to pay unfunded defined benefits;
 - (b) the taxation of unfunded defined benefits paid to CS members; and
 - (c) compliance with relevant Commonwealth laws.

Does the change impact my defined benefit?

THE INCREASE IN EMPLOYER FUNDING DOES NOT CHANGE THE VALUE OF YOUR GUARANTEED GROSS DEFINED BENEFIT.

Your CS defined benefit comprises two funding components:

- (1) the funded component; and
- (2) the unfunded component.

The change to the employer funding impacts the apportionment of your CS benefit between the funded and unfunded components.

What is the funded component of my CS benefit?

The funded component of your CS benefit is represented by the RBF's share of your CS defined benefit, in other words your contributions and investment returns on those contributions that are held as real assets and investments within the RBF.

What is the unfunded component of my CS benefit?

The unfunded component of your CS benefit is represented by the employer share of your CS benefit. The employer's share of your CS benefits is funded by last minute employer contributions.

In the case of the CS life pension, employer share is paid fortnightly as employer contributions for the duration of your CS pension.

In the case of CS retirement lump sum payments, the employer share is paid as an employer contribution in the form of a once-off lump sum payment.

How is the unfunded component of my CS benefit calculated?

RBF calculates a funding percentage when calculating your CS benefit or performing a CS benefit estimate. Your funding percentage is calculated having regard to:

- a) Your rate of contribution to the CS;
- b) Your length of contributory service; and
- c) The rate of employer funding required to pay the guaranteed gross CS defined benefit which assumes all contributors contribute to the Scheme at the basic contribution rate of 5% of salary.

This funding percentage is then used to calculate, as applicable:

- a) The untaxed component of your CS benefit;
- b) The amount of employer funding required for your CS lump sum or CS pension benefits; and
- c) The amount of the employer component of your CS benefit that is to be transferred to the Compulsory Preservation Account.

If you contribute to the Scheme at more than 5% of salary, your funding percentage is adjusted in your end benefit by taking into consideration the higher contribution rate by the Fund.

What are the tax impacts of increasing the employer share of CS benefits?

Increasing the employer share to 75% of the basic CS benefit will increase the untaxed component of your CS benefit which may result in a reduction in your after-tax CS benefit. The after-tax reduction in your CS benefit, which is not guaranteed, is estimated to be less than 1% of your gross CS benefit.

Retirement Benefits

The table below provides guidance as to the estimated impact on your after-tax CS retirement benefit in different situations, assuming you retire on or after you attain age 60.

Value of gross CS retirement benefit	What you do with your CS benefit	Average % change	Range %
Greater than \$1 million	If 100% of CS benefit converted to indexed life pension	-0.93% pa	0% to -1.54% pa
	If 100% of CS benefit is rolled over	-0.58%	-0.15% to -0.84%
	If 100% of CS benefit is cashed as a lump sum payment	-0.69%	-0.17 to -2.84%
\$500,000 and \$999,000	If 100% of CS benefit converted to indexed life pension	-0.45% pa	0% to -1.07% pa
	If 100% of CS benefit is rolled over	-0.61%	-0.11% to -0.84%
	If 100% of CS benefit is cashed as a lump sum payment	-0.67%	-0.12% to -0.93%
Less than \$500,000	If 100% of CS benefit converted to indexed life pension	-0.06% pa	0% to -0.25%
	If 100% of CS benefit is rolled over	-0.71%	-0.70 to -0.84%
	If 100% of CS benefit is cashed as a lump sum payment	-0.79%	-0.78% to -0.93%

The after-tax reduction of your CS benefit is minimised if you:

- a) retire on or after attaining age 60;
- b) convert all or part of your CS retirement benefit to a CS life pension;
- c) roll over all or part of your CS retirement benefit before cashing part of your benefit;
- d) have any pre-1 July 1983 service (for benefit or tax purposes).

Example

- a) Joe retires from the workforce on his 60th birthday and elects to:
 - (i) convert 60% of his CS retirement benefit of \$500,000 to a CS life pension of \$25,000 pa; and
 - (ii) roll over the residual lump sum of \$200,000 to purchase an RBF Allocated Pension.
- b) Joe's CS funding percentage is 75% as he has always contributed to the Scheme at the basic contribution rate of 5% of salary.

	Treatment from 1 July 2010	<i>Treatment before 1 July 2010</i>
Gross CS Life Pension	\$25,000 pa	<i>\$25,000 pa</i>
Employer Share of CS life pension	\$18,750 pa	<i>\$17,500 pa</i>
PAYG	\$1,913 pa	<i>\$1,725 pa</i>
Medicare	\$281 pa	<i>\$263 pa</i>
Pension offset	\$1,875 pa	<i>\$1,725 pa</i>
Net annual CS life pension	\$24,681pa	<i>\$24,738 pa</i>
Difference on net annual life pension	- \$56 pa or -0.23%	
Gross residual CS lump sum	\$200,000	<i>\$200,000</i>
Employer share of CS lump sum	\$150,000	<i>\$140,000</i>
Contributions tax (15%)	\$22,500	<i>\$21,000</i>
Net rollover	\$177,500	<i>\$179,000</i>
Difference net benefit	-\$1,500 or -0.84%	

Resignation benefits

If you resign before attaining your preservation age, the employer share of the CS resignation benefit is not funded until you attain your preservation age. The employer share is transferred to the Compulsory Preservation Account (CPA) where it is indexed in accordance with movements in CPI or AWOTE, whichever is the greater.

When you attain your preservation age or you otherwise satisfy a condition of release of your preserved benefit, the balance standing to the credit of your CPA is funded and transferred to your RBF Investment Account after appropriate deductions for tax.

From 1 July 2010, 75% of the basic CS resignation benefit will be transferred to the Compulsory Preservation Account. The remainder (which is the funded component of your benefit) will be transferred to your RBF Investment Account.

Example

- a) Mary resigns from her employment aged 48, after 15 years of public sector employment and CS membership.
- b) Mary's gross CS resignation benefit is \$210,000.
- c) Mary has always contributed to the Scheme at the basic contribution rate of 5% of salary, therefore her CS funding percentage from 1 July 2010 is 75%.

	Treatment from 1 July 2010	Treatment before 1 July 2010
Gross CS resignation benefit	\$210,000	<i>\$210,000</i>
Amount transferred to the Compulsory Preservation Account	\$157,500	<i>\$147,000</i>
Amount transferred to the RBF Investment Account	\$52,500	<i>\$63,000</i>

Death and total and permanent incapacity benefits

The increase in employer funding applies to death and total and permanent incapacity (TPD) benefits paid after 1 July 2010, however the after-tax impact is mitigated by:

- the 10% pension offset of CS TPD pensions; and
- the tax consequences of the disability component of CS TPD lump sum payments.

Lump sum death benefits paid to dependants are tax-free and are therefore not impacted by the change in employer funding.

What should you do?

If you are not planning to retire or resign in the next 6 months, you need not do anything.

If you are planning to retire or resign in the next 6 months, you should consider contacting RBF because you may wish to bring forward or delay your retirement to take account of this change in funding

Important information

This fact sheet contains general information only. It is not intended to be, and should not be relied upon as legal, financial or other advice. It has been prepared without taking into account your personal objectives, financial situation or needs. You will need to consider whether this information is appropriate to your circumstances. We recommend that you talk to a financial adviser and read any relevant RBF documentation before making a decision.

Every care has been taken in providing accurate and up-to-date information in this fact sheet. However, things may have changed since this fact sheet was published and some of the information may no longer be correct. If there are mistakes or omissions in the information, we reserve the right to correct those errors or omissions. The governing rules of RBF will prevail over any misstatement in this fact sheet.

Need help?

Contact one of our RBF Superannuation Consultants to discuss your personal situation or to arrange an appointment. And if you need advice, they will refer you to a financial planner with RBF's financial planning company, RBF-TAS Planning Pty Ltd.

Phone: 03 6233 3672 or 1800 622 631

Email: super@rbf.com.au

Website: www.rbf.com.au

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