

Defined Benefits how do they work?

Frequently Asked Questions

Q1: **What is a defined benefit?**

A defined benefit means that the value of your benefit is determined by the fund rules and depends on how long you have worked for your employer (see questions four to six).

Q2: **What is the difference between a defined benefit and an accumulation benefit?**

An accumulation benefit is like a bank account, its value depends on the level of contributions made by you and your employer, and the investment earnings on these contributions, less any costs and taxes.

The main difference between a defined benefit and an accumulation benefit is that the value of a defined benefit is more certain than an accumulation benefit. For an example, if investment returns are negative an accumulation benefit may reduce, but a defined benefit would remain the same.

The investment risks for a defined benefit are carried by the employer (by meeting the balance of the cost of the defined benefit which is not funded by member contributions), whereas for an accumulation benefit the member carries all of the investment risks.

Q3: **How much flexibility do I have?**

Defined benefits remove the investment risk for the member but also remove the opportunity to benefit if investment returns are strong (since the benefit is defined). A defined benefit member has to pay the required member contributions to support their defined benefit.

An accumulation only member has more flexibility regarding their contributions, and can reduce their personal contributions to nil if required. Accumulation only members can move their superannuation money to a fund of their choice, and in some funds, access investment choices. Defined benefit members do not have this flexibility.

It should be noted that defined benefit members may be able to make additional contributions into an accumulation account to receive some of the flexibility of an accumulation benefit (see question nine).

Q4: **How is the defined benefit of the Coal Industry Superannuation Fund structured?**

The defined benefit is the product of your **membership multiple** and the **benchmark amount** at the time of your retirement, resignation, retrenchment, death or disablement.

Prior to age 55, the defined benefit is calculated as the product of your membership multiple, the benchmark amount and a discount factor. At present the discount factor has been waived by the Coal Industry Superannuation Board and is not currently applied (see question eight).

An example of a defined benefit calculation is shown at the end of this document.

Q5: What is the benchmark amount?

The benchmark amount for the 2007/08 financial year is \$46,762. The benchmark amount increases in line with movements in Australian Average Weekly Ordinary Time Earnings each 1 July.

Q6: How is my membership multiple calculated?

If you retire, resign or are retrenched:

The membership multiple is calculated as 13% for each year of defined benefit membership up to 30 June 1988 plus 12% for each year of defined benefit membership after 30 June 1988 up to your date of exit or 65th birthday (whichever occurs first).

If you qualify for a death or total and permanent disability payout before age 60:

The membership multiple is calculated as 13% for each year of defined benefit membership up to 30 June 1988 plus 12% for each year of defined benefit membership after 30 June 1988 up to your 60th birthday.

If you qualify for a death or total and permanent disability payout after age 60:

The membership multiple is calculated as 13% for each year of defined benefit membership up to 30 June 1988 plus 12% for each year of defined benefit membership after 30 June 1988 up to your date of exit or the 65th birthday (whichever occurs first).

Q7: Why did the rate change from 13% to 12% for each year of defined benefit membership?

The rate changed from 13% to 12% following the introduction from 1 July 1988 of a tax of 15% on all employer contributions.

Q8: What happens if I resign or become retrenched before age 55?

By law, employees cannot access their superannuation until they reach their preservation age (55 to 60 depending upon your date of birth).

What happens prior to age 55 depends upon whether you decide to retain 100% of your benefits within the Fund or decide to transfer all or part of your benefit to another fund.

If you retain 100% of your benefit within the Fund you are entitled to a defined benefit equal to the product of the membership multiple at the time of your resignation and the benchmark amount when you finally access the retained benefit.

If you retain less than 100% of your defined benefit you are entitled to a defined benefit equal to the product of the membership multiple and the benchmark amount at the time of your resignation and a discount factor. This retained amount will be transferred to an accumulation account in the Coal Industry Superannuation and any part of it can be transferred to another superannuation fund. In this case you must still wait until your preservation age before benefits can be accessed.

At present the discount factor has been waived by the Coal Industry Superannuation Board and is not currently applied.

Q9: How much do I have to pay and can I make additional contributions?

Defined benefit members are required to contribute 3% of the benchmark amount per annum. Contributions are automatically deducted from your pay each period and stop at age 65.

Additional member contributions can be made on a before-tax (salary sacrifice) or after-tax basis. Additional member contributions are credited into an accumulation account and are payable in addition to your defined benefit.

Q10: Can I convert my defined benefit to a pension?

When you resign or retire, you may be able to use the defined benefit to form the starting balance of an account based pension. Further information is contained in the "Supplementary Product Disclosure Statement".

You cannot convert your defined benefit to a pension while you are still working full-time.

Q11: How does reserving work?

The Board must ensure that there are sufficient assets to pay the defined benefits as and when they arise. An actuary helps the Board determine what is an appropriate level of assets and what contribution rate should be paid.

The 2006 Actuarial Report notes that assets held in the Fund covered the defined benefits if everybody resigned by a margin of 35%. This margin, or reserve, protects the defined benefit part of the Fund from poor investment returns over a prolonged period, higher than expected benchmark increases, unfavourable demographic experience (for instance, increased rate of disability) and increases to administration and management expenses.

While recent investment experience has been favourable and contributed to the size of this reserve, poor investment returns in the future could diminish this reserve.

The Board is responsible for the investment of assets.

Q12: What was the Actuary's advice in relation to the Fund's assets?

In the 2006 Actuarial Report the Actuary advised that the Fund is in a sound financial position, and the benefits of all members remain well secured by the current level of assets. Projections for the next ten years indicate that the Fund is likely to remain in a satisfactory financial position, with the current level of assets, together with the future contributions and investment earnings, being adequate to cover members accruing benefits.

The Actuary recommended that the employer contribution rate continue at 8.5% of the Benchmark Amount.

Q13: How do crediting rates affect me?

Crediting rates are based on the investment earnings on the Coal Industry Superannuation Fund's assets. Crediting rates are only relevant if you have an accumulation account with the Coal Industry Superannuation Fund. Crediting rates will not affect your defined benefit.

Q14: **Will the defined benefits change?**

Defined benefits which have already been earned (accrued) cannot be reduced but benefits to be earned in the future could increase or decrease if the fund rules change.

Determining the suitability of changing the defined benefits would require careful analysis of the associated risks and the equity (how fair it is to the members) of the result prior to any decision being made.

The Board is not currently considering any change to benefits.

Q15: **Where can I get more information?**

For more information you can refer to the Product Disclosure Statement of the Coal Industry Superannuation Fund or contact the Fund Secretary, Gary Peirce.

Example of a Defined Benefit

Jim has 29 years of defined benefit membership when he resigns age 50, which includes 10 years completed prior to 30 June 1988. Assuming that the Benchmark Amount at the time of resignation is \$46,762 and that he retains 100% of the defined benefit, his defined benefit is calculated as follows:

(a)	Membership Multiple	
	Prior to 30 June 1988	= 13% times 10 years membership = 0.13 × 10 = 1.30
	After 30 June 1988	= 12% times 19 years membership = 0.12 × 19 = 2.28
	Membership Multiple	= 1.30 + 2.28 = 3.58
(b)	Benchmark Amount	= \$46,762
	Resignation Benefit	= 3.58 × \$46,762 = \$167,407.96

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