

# How Defined Benefit Indexed Pensions are calculated

You may be eligible to open a Defined Benefit Indexed Pension if you joined the Defined Benefit Division (DBD) before 1 July 1998 and have remained a DBD member since then.

## What this fact sheet covers

How the Defined Benefit Indexed Pension is calculated at age 65 under Division A and Division B of the DBD.

This fact sheet should be read in conjunction with the *Your guide to pensions – Defined Benefit Indexed Pension Product Disclosure Statement* (PDS), available at [unisuper.com.au/pds](http://unisuper.com.au/pds).

## Who is this fact sheet for?

Members who joined the DBD prior to 1 July 1998 who want to understand how Defined Benefit Indexed Pensions are calculated.

**Note:** If an amount was transferred into your defined benefit component prior to 1 July 1998 additional calculations apply—please contact us for more information.

## About Defined Benefit Indexed Pensions

Defined Benefit Indexed Pensions provide a regular income in retirement based on formulas defined in the Trust Deed, indexed each year in line with the Consumer Price Index (CPI).

UniSuper provides two types of Defined Benefit Indexed Pensions: ‘Division A’ and ‘Division B’. Your entitlement to these benefits is determined by when you joined the DBD.

- If you joined before 1 January 1990, and have remained a DBD member since then, you are eligible for **either** a Division A or a Division B pension.
- If you joined after 31 December 1989 and before 1 July 1998, and have remained a DBD member since then, you’re **only** eligible for a Division B pension.

If you’re eligible for a Defined Benefit Indexed Pension, you can choose to receive your benefit as a pension, as a lump sum, or as a part pension and part lump sum. If you choose a part pension and part lump sum, they must both be from the same division.

For information on how the Division B lump sum is calculated, refer to the *About leaving service benefits* fact sheet available on our website. The Division A Indexed Pension is converted to a lump sum (using prescribed factors) when a part Division A pension is elected. Please call us for a quote.



### IMPORTANT DEFINITIONS

The ‘Important definitions’ at the end of this fact sheet explain the meaning of certain important terms which appear in *italics* throughout.

## Important differences

There are important differences in the reversionary benefits under Division A and Division B.

A ‘reversionary’ benefit means that a percentage of your pension payments ‘revert’ to your spouse, dependant or disabled child when you pass away.

The PDS outlines these differences and provides more detail.

## Changes to benefit salary from 1 January 2015

All Defined Benefit Indexed Pension benefits are determined by a formula. On 1 January 2015 we changed the way the *benefit salary*—part of the formula used to calculate a Defined Benefit Indexed Pension—is calculated.

### BENEFIT SALARY – ELIGIBLE SERVICE BEFORE 1 JANUARY 2015:

For the period that you were a contributing member to the DBD before 1 January 2015, *benefit salary* will be calculated as your average annual equivalent full-time salary, indexed by CPI, over the last **three years** of your employment before your benefit is calculated. We refer to this *benefit salary* as “three-year *benefit salary*”.

### BENEFIT SALARY – ELIGIBLE SERVICE ON AND AFTER 1 JANUARY 2015:

For the period that you were a contributing member to the DBD **on and after** 1 January 2015, *benefit salary* will be calculated as your average annual equivalent full-time salary, **not indexed** by CPI, over the last **five years** of employment before your benefit is calculated. We refer to this *benefit salary* as “five-year *benefit salary*”.

See the ‘Important definitions’ at the end of this fact sheet for a full definition of *benefit salary*.

## How to calculate a Division A Defined Benefit Indexed Pension

If you're eligible for a Division A Defined Benefit Indexed Pension (i.e you joined before 1 January 1990 and have remained a DBD member since then), it is calculated as follows:

### FORMULA FOR A DIVISION A PENSION AT AGE 65

THREE-YEAR BENEFIT SALARY × ACCRUED PERCENTAGE BEFORE 1 JAN 2015 × AVERAGE CONTRIBUTION FACTOR

+

FIVE-YEAR BENEFIT SALARY × ACCRUED PERCENTAGE ON AND AFTER 1 JAN 2015 × AVERAGE CONTRIBUTION FACTOR

+ THE SUPPLEMENTARY BENEFIT

THREE-YEAR BENEFIT SALARY × BENEFIT SERVICE BEFORE 1 DEC 2000 × 4% × AVERAGE SERVICE FRACTION AT 31 DEC 2003 ×  $\frac{\text{PENSION FACTOR AT AGE 65}}{\text{LUMP SUM FACTOR AT AGE 65}}$

## How to calculate a Division B Defined Benefit Indexed Pension

### FORMULA FOR A DIVISION B PENSION AT AGE 65

THREE-YEAR BENEFIT SALARY × BENEFIT SERVICE BEFORE 1 JAN 2015 × PENSION FACTOR × AVERAGE SERVICE FRACTION × AVERAGE CONTRIBUTION FACTOR

+

FIVE-YEAR BENEFIT SALARY × BENEFIT SERVICE ON AND AFTER 1 JAN 2015 × PENSION FACTOR × AVERAGE SERVICE FRACTION × AVERAGE CONTRIBUTION FACTOR

+ THE SUPPLEMENTARY BENEFIT

THREE-YEAR BENEFIT SALARY × BENEFIT SERVICE BEFORE 1 DEC 2000 × 4% × AVERAGE SERVICE FRACTION AT 31 DEC 2003 ×  $\frac{\text{PENSION FACTOR AT AGE 65}}{\text{LUMP SUM FACTOR AT AGE 65}}$

## Calculating your accrued percentage

Your accrued percentage—which is used to calculate a Division A pension—is a calculated value that accrues at 2.1% for the first 20 years of employment during which you were a contributing member to the DBD and 1.1% after 20 years. Your service fractions over the length of your DBD membership are also taken into account.

YEARS × SERVICE FRACTIONS × ACCRUAL RATE = ACCRUED PERCENTAGE

## For example: Division A Defined Benefit Indexed Pension

After starting work with a UniSuper employer on 1 January 1985, Claire retired at age 65 on 31 December 2019. She had always been employed fulltime (so her service fractions = 100%) and hadn't reduced her default member contributions from 7% after-tax prior to her retirement (so her *average contribution factor* was also 100%). Her three-year *benefit salary* was \$75,000 and her five-year *benefit salary* was \$72,000.

Her accrued percentage is split between her employment before and after 1 January 2015, as follows:

### ACCRUED PERCENTAGE FOR CLAIRE'S 30 YEARS OF EMPLOYMENT BEFORE 1 JANUARY 2015:

$$20 \times 100\% \times 2.1\% = 42\%$$

+

$$10 \times 100\% \times 1.1\% = 11\%$$

$$= 53\%$$

### ACCRUED PERCENTAGE FOR CLAIRE'S FIVE YEARS OF EMPLOYMENT ON AND AFTER 1 JANUARY 2015:

$$5 \times 100\% \times 1.1\% = 5.5\%$$

$$= 5.5\%$$

### CLAIRE'S DIVISION A DEFINED BENEFIT INDEXED PENSION BENEFIT AT AGE 65 ON 31 DECEMBER 2019 WOULD BE:

$$\$75,000 \times 53\% \times 100\% = \$39,750 \text{ p.a.}$$

+

$$\$72,000 \times 5.5\% \times 100\% = \$3,960 \text{ p.a.}$$

+ THE SUPPLEMENTARY BENEFIT

$$\$75,000 \times 15.92\% \times 4\% \times 100\% \times \frac{1.7\%}{23\%} = \$3,530 \text{ p.a.}$$

$$= \$47,240 \text{ p.a.}$$

All members who are eligible for Division A pensions are also eligible for Division B pensions, so we provide details on both to help members make an informed choice. Please see overleaf for an example of Claire's Division B pension entitlement.



## For example: Division B Defined Benefit Indexed Pension

As Claire is eligible for a Division A Defined Benefit Indexed Pension, she is also eligible for a Division B Defined Benefit Indexed Pension. Having had a service fraction of 100% for all her membership, her average service fraction is 100%.

Her Division B Defined Benefit Indexed Pension at age 65 would therefore be calculated as follows:

### CLAIRE'S DIVISION B DEFINED BENEFIT INDEXED PENSION BENEFIT AT AGE 65 ON 31 DECEMBER 2019 WOULD BE:

$\$75,000 \times 30 \times 1.7\% \times 100\% \times 100\% = \$38,250 \text{ p.a.}$

+

$\$72,000 \times 5 \times 1.7\% \times 100\% \times 100\% = \$6,120 \text{ p.a.}$

+

THE SUPPLEMENTARY BENEFIT

$\$75,000 \times 15.92 \times 4\% \times 100\% \times \frac{1.7\%}{23\%} = \$3,530 \text{ p.a.}$

**= \$47,900 p.a.**

As you can see from the two calculations, as Claire is eligible to choose either a Division A or a Division B Defined Benefit Indexed Pension, she would be slightly better off financially choosing the Division B Defined Benefit Indexed Pension.

However, she should also look into how the reversionary benefits are calculated for each option and might benefit from professional financial advice before making her decision.



### WHERE TO GO FOR MORE INFORMATION

Different calculations may apply to different retirement ages (before or after 65), so call us for a personalised quote outlining your Defined Benefit Indexed Pension entitlement and options.

Also, if you transferred an amount into your defined benefit component before 1 July 1998 additional calculations apply. Please call us on **1800 331 685** to find out more.

## Important definitions

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### ACCRUED PERCENTAGE

'Accrued Percentage' is the aggregate of:

- (a) in relation to the first 20 years of service as a contributing member, 2.1% of the sum of all such periods of service as a contributing member, multiplied by your relevant service fractions; and
- (b) in relation to periods of service as a contributing member in excess of 20 years, 1.1% of the sum of all such periods of service as a contributing member, multiplied by your relevant service fractions.

### AVERAGE CONTRIBUTION FACTOR (ACF)

This is the level of member contributions you make and the period of time you contribute at various levels. If you always make the default 7% member contributions, your ACF is 100%.

Reducing your default member contributions will generally decrease your ACF.

### AVERAGE SERVICE FRACTION (ASF)

This refers to how much of your DBD membership has been spent in full-time employment. It's calculated by averaging all of your service fractions over your period of *benefit service* with a UniSuper participating employer. For example, if you always worked full time with your UniSuper employer(s), your ASF is 100%. However, any breaks in employment will reduce your ASF. Typical breaks in employment include the time between ceasing one job and starting another, periods of leave without pay, periods of part-time work and half-contributions. Breaks in employment are calculated in days and include weekends.

### BENEFIT SALARY

From 1 January 2015 the *benefit salary* is generally calculated as follows:

- ✦ three-year *benefit salary* applies to your service as a contributing DBD member before 1 January 2015; and
- ✦ five-year *benefit salary* applies to your service as a contributing DBD member on and after 1 January 2015.

The "three-year benefit salary" is the average of your annual equivalent full-time indexed (by CPI) salary as a contributing member over your last three years of employment with a UniSuper employer(s), before your benefit is calculated. If you have worked for less than three years, it is averaged over the time you have been employed as a contributing member.

The "five-year benefit salary" is the average of your annual equivalent full-time salary (not indexed) as a contributing member over your last five years of employment with a UniSuper employer(s), before your benefit is calculated. If you have worked for less than five years, it is averaged over the time you have been employed as a contributing member. The five-year benefit salary is subject to a maximum of the three-year benefit salary.

### BENEFIT SERVICE

Your period of service covers the years and days of your DBD membership as a contributing member.

If you die before age 60, your *benefit service* will also include the period from the date of your death to what would have been your 60th birthday. If you suffer disablement, your benefit service covers the period (years and days) from the date of your disablement up to age 65.

## LUMP SUM FACTOR (PF)

Your lump sum factor is determined by your age when you retire, as shown in the following table.

YOUR AGE	LUMP SUM FACTOR (%)
40 or under	18
41	18.2
42	18.4
43	18.6
44	18.8
45	19.0
46	19.2
47	19.4
48	19.6
49	19.8
50	20.0
51	20.2
52	20.4
53	20.6
54	20.8
55	21.0
56	21.2
57	21.4
58	21.6
59	21.8
60	22.0
61	22.2
62	22.4
63	22.6
64	22.8
65 and over	23.0

## PENSION FACTOR (PF)

Your pension factor is determined by your age, as shown in the following tables.

YOUR AGE	PENSION FACTOR (%)
55	1.3
56	1.34
57	1.38
58	1.42
59	1.46
60	1.5
61	1.54
62	1.58
63	1.62
64	1.66
65	1.7
66	1.74
67	1.78
68	1.82
69	1.86
70	1.9
71	1.94
72	1.98
73	2.02
74	2.06
75	2.1

The information provided in this fact sheet is of a general nature only and does not take into account your personal financial situation or needs. You should therefore consider whether it is appropriate for your circumstances before relying on it. You should obtain and consider the PDS before deciding whether to apply for a Defined Benefit Indexed Pension which is available online at [unisuper.com.au/pds](http://unisuper.com.au/pds). If you would like advice you should obtain financial advice tailored to your personal circumstances before making a decision about the Defined Benefit Indexed Pension product.

This information is current as at July 2019 and is based on our understanding of legislation at that date. Information is subject to change. To the extent that this fact sheet contains information which is inconsistent with the UniSuper Trust Deed and Regulations (together the Trust Deed), the Trust Deed will prevail.

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