

Product news

The ongoing volatility in investment markets had significant consequences for some UniSuper products. For Defined Benefit Division (DBD) members and those with a Defined Benefit Indexed Pension, the most important news came when the Trustee initiated the process described in Clause 34 of the Trust Deed. This has been undertaken as a precautionary measure to secure the long-term financial stability of the DBD. A restriction was also introduced for DBD members wanting to commence a Flexi Pension under the transition to retirement (TTR) rules.

Clause 34 and securing the DBD's financial future

Benefits for Defined Benefit Division (DBD) members are calculated using a formula based on age, benefit salary, period of service, average service fraction and level of contributions.

In practice, the contributions paid on behalf of DBD members, along with the pooled funds of members who've chosen a Defined Benefit Division Indexed Pension based on Trust Deed factors, are invested by UniSuper in a diverse portfolio of shares, property, bonds and cash; currently similar to UniSuper's Balanced investment option. This portfolio is designed to grow over time so that sufficient funds are available to pay members' benefits as they become due.

Since late 2007, Australian and international investments have experienced extreme volatility. As a result, the falls in investment markets have impacted the assets of the pooled fund that pays benefits to DBD members. Despite this, in its investigation of the DBD at 31 December 2008, the Fund's actuary confirmed that, on a 'best estimates' basis, the DBD still has sufficient assets to pay all members' benefits as they become due.

As a precautionary measure, however, the Trustee initiated the process described in Clause 34 of the Fund's Trust Deed in June 2009. This action is designed to protect the long-term financial stability of the DBD and will enable the Trustee to properly manage the assets of all DBD members for the future.

The process set out in Clause 34 is simple: over a minimum period of at least four years the Fund's actuary will conduct another two in-depth actuarial investigations into the financial health of the DBD. At the end of the four-year period, if the DBD is considered to have insufficient assets to meet its liabilities, the Trustee will be required to reduce DBD members' benefits on a fair and equitable basis.

Importantly, there is no immediate change to how benefits are calculated or paid as a result of the Trustee invoking Clause 34, nor are there any current plans to change these benefits. How any reduction to DBD benefits might be managed in the future would ultimately depend on the financial position of the DBD at the end of the Clause 34 monitoring period.

For more details on how the Trustee monitors the ongoing financial health of the DBD and the action it has taken to protect its financial future, please see the information and fact sheet, *Your Defined Benefit Division and investment markets*, provided on the UniSuper website – www.unisuper.com.au/DBDupdate.

Restricting Flexi pension under the TTR rules for DBD members

During periods when the Vested Benefit Index is under 100% the Trustee can restrict a DBD member's access to a Flexi Pension taken under the transition to retirement (TTR) rules.

From July 2009, a DBD member wanting to use all or part of their defined benefit component to commence a Flexi Pension under the TTR rules must satisfy the Trustee that they are genuinely reducing their working hours by at least 20%.

To verify the reduction in working hours, a member must have their employer attest to the reduction in working hours using the *Transition to retirement pension attestation form* on the UniSuper website (www.unisuper.com.au).

Please note, if you use all or part of your defined benefit component to commence a Flexi Pension under the TTR rules, you will cease to be a DBD member and become an Accumulation 2 member. Any residual defined benefit component will be transferred to an Accumulation 2 account and all future employer and member contributions will be paid into this Accumulation 2 account. This means that all future contributions, together with any residual defined benefit component that is transferred, will be invested in the investment option you have chosen for your accumulation component and will be subject to investment market volatility. If you have not chosen an investment option, the Accumulation 2 account will be automatically invested in UniSuper's Balanced option – the Fund's default investment option.

If you are not reducing your working hours by at least 20% but still want access to a Flexi Pension under the TTR rules, you can commence one using all or part of your accumulation component.