

How your defined benefit component is affected after a partial withdrawal



What this fact sheet covers



How a partial withdrawal impacts the calculation of your defined benefit component. Withdrawals from your accumulation component don't affect your defined benefit component.

Who is this fact sheet for?



Members who started in the Defined Benefit Division (DBD) on or after 1 January 2015 and want more information about the impacts of making a partial withdrawal from their defined benefit component.

When can I make a partial withdrawal?

Partial withdrawals from your defined benefit component are only allowed when:

- satisfying a Family Law split
- on compassionate or severe financial hardship grounds
- electing a lump sum at the time of commencing an inbuilt Disablement benefit.

What happens to your super when you make a partial withdrawal from your defined benefit component?

In limited circumstances, you may be eligible to access some of the super in your defined benefit component.

In this event, the value of your defined benefit component is reduced to reflect the amount paid. A 'reduction factor' is determined and generally applied to your Benefit Service—the part of the formula used to calculate your defined benefit. The reduction factor will continue to apply to all future lump sum defined benefit calculations.

In addition, as a reduction factor decreases the value of your defined benefit component, the value of your death benefit is also reduced. If more than one partial withdrawal is made from your defined benefit component, the reduction factor is increased to reflect each additional payment.

When does the reduction factor apply?

The reduction factor applies if:

- You're entitled to a Disablement benefit and you choose to receive an additional lump-sum payment as well as the immediate Disablement pension (which will also be reduced), or
- the value of your defined benefit component is adjusted for:
 - a Family Law payment split, or
 - a payment on compassionate or severe financial hardship grounds.

Inbuilt Disablement Benefit

On commencing an inbuilt Disablement benefit, members electing to receive an **additional lump sum payment** in addition to the immediate Disablement pension (which will also be reduced) would have a reduction factor of 5 years applied to Benefit Service.¹ This reduction factor is then applied against Benefit Service in all future benefit calculations.

¹ To be eligible to receive the Disablement lump sum, there must be at least five years of Benefit Service when the Disablement Benefit starts. Electing a lump sum also reduces disablement pension payments from 60% x Benefit Salary x ASF to 55% x Benefit Salary x ASF.

How does the reduction factor work?

As a DBD member, part or all of your lump sum super resignation/retirement benefit is calculated using the following formula (different formulas apply depending on the reason for ceasing service e.g. disablement or death).

5-YEAR
BENEFIT
SALARY



BENEFIT
SERVICE



LUMP SUM
FACTOR



AVERAGE
SERVICE
FRACTION



AVERAGE
CONTRIBUTION
FACTOR

A reduction factor is applied to Benefit Service in the defined benefit formula.*

*Benefit Service refers to the period of your DBD membership.

Example

Betty is 50. She's been a DBD member for 10 years, has a Benefit Salary of \$100,000, an average contribution factor of 100% and an average service fraction of 100%. The following examples demonstrate how a reduction factor is calculated and applied in two difference scenarios. On the date of disablement at age 50, before electing to receive the additional lump sum payment, Betty's defined benefit component is calculated as follows:

$$\$100,000 \times 10 \times 20\% \times 100\% \times 100\% = \$200,000$$

On electing the additional lump sum payment, Betty's Benefit Service is reduced by the 5 year reduction factor, meaning her defined benefit component will be calculated as follows:

$$\$100,000 \times (10 - 5) \times 20\% \times 100\% \times 100\% = \$100,000$$

At age 60, and after a further 10 years receiving the inbuilt disablement benefit, Betty would have had a Benefit Salary of \$128,000² and the 5 year reduction factor would continue to apply in determining her defined benefit component as follows:

$$\$128,000 \times (20 - 5) \times 22\% \times 100\% \times 100\% = \$422,400$$

² During a Disablement Benefit, salary is indexed in line with increases in the Consumer Price Index (CPI) which has been assumed to be 2.5% p.a. This rate of CPI was chosen purely for purposes of the example. It is in no way a prediction of likely CPI increases.

Family Law payment split, compassionate or severe financial hardship grounds

When your defined benefit component is used to satisfy a Family Law split or make a payment on compassionate or severe financial hardship grounds, your Benefit Service

will be adjusted to the proportion of the defined benefit component paid.

This reduction factor is then applied against the Benefit Service in all future benefit calculations.

Making a payment from your defined benefit component for these purposes doesn't impact how inbuilt Temporary Incapacity or inbuilt Disablement Benefits are calculated.

Example

BEFORE SATISFYING THE FAMILY LAW SPLIT AT AGE 50, BETTY'S DEFINED BENEFIT COMPONENT IS CALCULATED AS FOLLOWS:

$$\$100,000 \times 10 \times 20\% \times 100\% \times 100\% = \$200,000$$

To satisfy a Family Law split amount of \$75,000, a reduction factor is calculated based on the following formula:

$$\frac{\text{AMOUNT PAID}}{\text{DEFINED BENEFIT COMPONENT}} \times \text{BENEFIT SERVICE} = \text{REDUCTION FACTOR}$$

Betty's reduction factor is therefore:

$$\frac{\$75,000}{\$200,000} \times 10 = 3.75$$

When the Family Law split is processed, Betty's Benefit Service is reduced by the 3.75 year reduction factor to reflect the \$75,000 paid. Her defined benefit component is then calculated as follows:

$$\$100,000 \times (10 - 3.75) \times 20\% \times 100\% \times 100\% = \$125,000$$

At age 60, and after a further 10 years as a contributing DBD member (assuming Betty had a Benefit Salary of \$135,000), the 3.75 year reduction factor would continue to apply as follows:

$$\$135,000 \times (20 - 3.75) \times 22\% \times 100\% \times 100\% = \$482,625$$

These scenarios are examples only and address only certain benefit types. If a reduction factor applies to your defined benefit super, we'll include it your statement.

Before deciding to withdraw all or part of your super, you should consider how this may impact your future retirement savings. You can speak to a qualified financial adviser to help to understand your options. Contact UniSuper Advice on **1800 823 842** or by emailing advice@unisuper.com.au.

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