UniSuper

Fact sheet

Salary reductions and working less

A reduction in your salary or how much you work can happen for any number of reasons. Whatever your situation, it's important you understand how your super's affected—and what options your employer may have available, if you have concerns.

What's going to happen to your super?

How much you earn or work impacts how much gets contributed to your super. The less you earn or work, the less super you're likely to have down the track. Salary reductions and working less affects UniSuper members in different ways.

MEMBERSHIP TYPE	THE EFFECT	WHAT CAN YOU DO?
DEFINED BENEFIT DIVISION (DBD)		
Super that's generally made up of two parts—a defined benefit component and an accumulation component. • Defined benefit: calculated based on a formula. • Accumulation component: reflects the money added to and taken from your account, as well as the returns on the investment options you select (which can be positive or negative).	The defined benefit component may reduce in value because parts of the defined benefit formula that relate to your salary and the number of hours you work, will be affected if you work less and/or have salary reductions. Your accumulation component may also be affected as less contributions are made into it.	You may be able to offset or lessen the impacts on the defined benefit formula. However, the **options available to you generally will be determined by your employer**. We may also need to approve certain options. Read this fact sheet for more information.
ACCUMULATION 1, ACCUMULATION 2, PERSONAL ACCOUNT		
Accumulation super reflects the money added to and taken from your account, as well as the returns on the investment options you select (which can be positive or negative).	If you earn less, you'll contribute less to your super. Your super contributions will reduce in proportion to the reduction in your earnings.	You may be able to top up your super from your take-home pay to offset the reduction in your super contributions. Visit unisuper.com.au/making-contributions for more information. Use our Retirement Savings Calculator available at unisuper.com.au/calculators to explore how earning or working less can affect your retirement outcome.

NEED HELP MAKING A DECISION? COME SEE US FOR A CHAT

If you need to talk to someone about your situation, one of our super consultants can help with general advice at no additional cost. Visit unisuper.com.au/superbookings to book an appointment.

For Defined Benefit Division members

While the rule of 'the less you earn or work, the less super you're likely to have down the track' applies to DBD members, it's important to understand how your super is affected.

Your defined benefit component will generally continue to grow due to increases in some of the factors in the defined benefit formula shown below.

- **Average Service Fraction**: This refers to how much of your DBD membership you've spent in full-time employment. It's calculated by averaging all of your Service Fractions over your period of DBD Benefit Service.
- **Benefit Salary**: generally the average of your annual equivalent full-time salary (not indexed) over your last five years[1] of employment as a contributing DBD member.

REFRESHER: THE DEFINED BENEFIT FORMULA

Here's the typical formula we use to calculate defined benefit entitlements.[2]

BENEFIT SALARY × **BENEFIT SERVICE** × **LUMP SUM FACTOR** × **AVERAGE SERVICE FRACTION** × **AVERAGE CONTRIBUTION FACTOR**

These terms are defined in the *DBD and Accumulation 2 Product Disclosure Statement*, available at **unisuper.com.au/pds**.

OVERVIEW OF IMPACTS IF YOU EARN OR WORK LESS

SCENARIO	EFFECT ON FORMULA	EFFECT ON DEFINED BENEFIT ENTITLEMENTS
Working fewer hours **Taking leave without pay** **Purchasing leave (or additional leave averaging)**	Reduced 'Average Service Fraction'	• Your defined benefit component will continue to grow, but at a slower rate. • The value of any inbuilt benefit you're entitled to will also reduce. – Inbuilt benefits are generally 'built in' to your DBD membership. They cover death (including terminal medical condition) and disablement (including temporary incapacity).
Reduced salary	Reduced 'Benefit Salary'	• The value of your defined benefit entitlement may reduce. • The value of any inbuilt benefit you're entitled to may also reduce. – Inbuilt benefits are generally 'built in' to your DBD membership. They cover death (including terminal medical condition) and disablement (including temporary incapacity).

1 If you joined the DBD before 1 January 2015, your Benefit Salary will generally be calculated in two parts: one for Benefit Service before 1 January 2015, and another for Benefit Service from 1 January 2015. See the About leaving service benefits fact sheet at **unisuper.com.au/pds** for more information.

2 Some members may be eligible for additional entitlements. Refer to your statement or read your product disclosure statement for more information.

Examples

Let's look at a few different UniSuper members. We'll see how they navigate each of the scenarios in the above table, and we'll study the effects on their defined benefit entitlements.

Let's assume each member had a salary of $85,000 on 1 May 2020 and received an annual pay increase of around 4-5% over the period to May 2025 and beyond.

Note: these members are hypothetical, and their own circumstances determine what impact the changes described will have on their defined benefit entitlements. Their circumstances (including the nature and period of their membership, their salary growth and age) may differ from yours. So, although on the surface the facts may look similar, your outcome could differ substantially.

REDUCED AVERAGE SERVICE FRACTION

Frank: Working fewer hours

Frank, 40, joined the DBD on 1 May 2020. He's a professional staff member who currently works full time. Frank's going to be reducing his hours by 20% over the next six months (i.e. he's going from 1.0 to 0.8) from 1 May 2025 to 1 November 2025.

On 1 November 2025, Frank returns to his regular, full-time working hours and continues this until he retires.

WHAT HAPPENS TO FRANK'S DEFINED BENEFIT ENTITLEMENTS?

When Frank starts working 20% less, his service fraction reduces immediately, from 100% to 80% (his salary remains unchanged, though).

Over time, this reduces his Average Service Fraction, affecting the value of his defined benefit entitlement by about 2% (compared to if he'd kept working full time) over the first five years following the reduction. The value of any inbuilt benefit (for death or disablement) he might be entitled to also reduces as a result.

The value of Frank's defined benefit component continues to grow. However, because he's working and making less contributions to it for six months, it grows at a slower rate during that period.

FRANK'S DEFINED BENEFIT COMPONENT OVER TIME

CALCULATION DATE	NO REDUCTION	20% REDUCTION FOR SIX MONTHS FROM 1 MAY	DIFFERENCE (%)	DIFFERENCE ($)
1 May 2025	$87,030	$87,030	0%	$0
1 May 2026	$111,056	$109,205	-2%	-$1,851
1 May 2027	$137,430	$135,466	-1%	-$1,963
1 May 2028	$166,210	$164,132	-1%	-$2,078
1 May 2029	$196,610	$194,426	-1%	-$2,185
1 May 2030	$228,380	$226,096	-1%	-$2,284
1 May 2031	$262,310	$259,926	-1%	-$2,385

* Figures rounded for simplicity.

LONG-TERM EFFECTS

When Frank returns to full-time work after six months, his service fraction goes back to 100%. However, as his Average Service Fraction is averaged over his whole DBD membership, it starts to increase again but generally doesn't return to 100%—even if his Service Fraction is 100% (i.e. he works full-time) for the rest of his working life in the sector.

Lisa: Taking leave without pay

Lisa, 40, joined the DBD on 1 May 2020. She's an academic who works full-time. Lisa will be taking six months of leave without pay from 1 May 2025 to 1 November 2025.

On 1 November 2025, she returns to her full-time position and continues this until she retires.

WHAT HAPPENS TO LISA'S DEFINED BENEFIT ENTITLEMENT?

When Lisa goes on leave without pay, her service fraction reduces to nil (her salary remains unchanged, though).

Lisa's Average Service Fraction therefore starts reducing, but this is partially offset by growth in her Benefit Service[3] (which is another part of the defined benefit formula).

This affects the value of Lisa's defined benefit component by as much as 10%* for the first 12 months following her break (compared to if she was working full time). This is because there are no contributions (either from Lisa herself, or her employer) going towards her defined benefit component.

The value of any inbuilt benefit (for death and disablement) she might be entitled to also reduces as a result.

The value of Lisa's defined benefit component will continue to grow while she's on leave without pay, even though she's not working or contributing to it. It just grows at a slower rate.

LISA'S DEFINED BENEFIT COMPONENT OVER TIME

CALCULATION DATE	NO LEAVE WITHOUT PAY	LEAVE WITHOUT PAY FOR 6 MONTHS FROM 1 MAY 2025	DIFFERENCE (%)	DIFFERENCE ($)
1 May 2025	$87,030	$87,030	0%	$0
1 May 2026	$111,056	$100,478	-10%	-$10,578
1 May 2027	$137,430	$126,659	-8%	-$10,770
1 May 2028	$166,210	$154,864	-7%	-$11,346
1 May 2029	$196,610	$185,397	-6%	-$11,213
1 May 2030	$228,380	$217,159	-5%	-$11,221
1 May 2031	$262,310	$250,387	-5%	-$11,923

* Figures rounded for simplicity.

LONG-TERM EFFECTS

When Lisa returns to full-time work after six months, her service fraction goes back to 100%. However, as her Average Service Fraction is averaged over her whole DBD membership, it starts to increase again but generally doesn't return to 100%—even if her service fraction is 100% (i.e. she works full-time) for the rest of her working life in the sector.

3 Benefit Service is the length of time you contribute to the DBD.

Anya: Purchasing leave or additional leave averaging

Anya's employer allows its employees the option of purchasing leave. This means her take-home pay is reduced by 1/52 for each week purchased (e.g. 48/52, 49/52, 50/52, 51/52).

Anya decides this year to take an extra two weeks of annual leave and goes with a 50/52 arrangement. Assuming Anya's working full-time, her take-home pay is reduced by 2/52, or 3.85%.

WHAT HAPPENS TO ANYA'S DEFINED BENEFIT ENTITLEMENT?

When Anya purchases two weeks of leave, her service fraction reduces immediately from 100% to 96.15% (100%-3.85%) for 12 months. Her Benefit Salary calculation doesn't change.

If Anya doesn't purchase leave in subsequent years, her service fraction goes back to 100%. However, as her Average Service Fraction is averaged over her whole DBD membership, it starts to increase again but generally doesn't return to 100%—even if her service fraction is 100% (i.e. she works full-time) for the rest of her working life in the sector.

ANYA'S DEFINED BENEFIT ENTITLEMENT OVER TIME

CALCULATION DATE	NO EXTRA LEAVE	TWO WEEKS ADDITIONAL LEAVE PURCHASED IN ONE YEAR	DIFFERENCE (%)	DIFFERENCE ($)
1 May 2025	$87,030	$87,030	0%	$0
1 May 2026	$112,277	$111,557	-0.64%	-$347
1 May 2027	$140,417	$139,646	-0.55%	-$745
1 May 2028	$171,571	$170,746	-0.48%	-$772
1 May 2029	$204,977	$204,101	-0.43%	-$876
1 May 2030	$240,400	$239,475	-0.38%	-$925
1 May 2031	$278,705	$ 277,730	-0.35%	-$974

* Figures rounded for simplicity.

Not all employers offer leave purchasing or averaging. We recommend you check with your employer to see what options are available to you.

REDUCED BENEFIT SALARY

Raj: Reduced salary

Raj, 40, also joined the DBD on 1 May 2020. He's a lecturer who works full time. From 1 May 2025 to 1 November 2025 (six months), Raj is going to have reduced responsibilities at work and his salary is going to decrease by 20%.

On 1 November 2025, Raj returns to his regular responsibilities and continues this until he retires.

Raj's Benefit Salary is an average of his salary over the five years he worked before his benefit is calculated.

WHAT HAPPENS TO RAJ'S DEFINED BENEFIT ENTITLEMENTS?

Raj's Benefit Salary will reduce as a result of his period of reduced salary (1 May 2025 to 1 November 2025). The value of any inbuilt benefit (for death and disablement) he might be entitled to also reduces as a result.

The period of Raj's salary reduction will affect his Benefit Salary for the next five years, given it's an average of his salary over this time. If Raj were to leave the sector during this period, his defined benefit entitlement would be affected by the reduction to his Benefit Salary.

RAJ'S DEFINED BENEFIT ENTITLEMENT OVER TIME

CALCULATION DATE	NO SALARY REDUCTION	REDUCED SALARY FOR 6 MONTHS FROM 1 MAY 2025	DIFFERENCE (%)	DIFFERENCE ($)
1 May 2025	$87,030	$87,030	0%	$0
1 May 2026	$111,056	$108,654	-2%	-$2,402
1 May 2027	$137,430	$134,596	-2%	-$2,834
1 May 2028	$166,210	$162,936	-2%	-$3,274
1 May 2029	$196,610	$192,888	-2%	-$3,722
1 May 2030	$228,380	$224,200	-2%	-$4,180
1 May 2031	$262,310	$262,310	0%	$0

* Figures rounded for simplicity.

LONG-TERM EFFECTS

By the time Raj retires in 2051 (some 25 years later), his Benefit Salary is unaffected by his period of reduced salary. This is because his Benefit Salary is an average of his salary over the five years before his defined benefit component is calculated (and the period of reduced salary happened many years before).

WHAT IF RAJ HAD BEEN OLDER?

If Raj had been 60 when he was receiving his reduced salary, and retired on 1 May 2028, his defined benefit component would have been about 2% lower compared to what it would've been if he'd had no salary reduction.

What are your options?

Different employers make different arrangements available to their employees.

Each workplace will have its own employee agreements, so it's important you check with your employer to see what's available to you.

Some of the options that may be available (but are subject to the agreements your employer has in place with you) are:

DO NOTHING

For information about how your defined benefit entitlement may be affected, refer to the relevant example above.

MAKE ADDITIONAL CONTRIBUTIONS

By funding the reduced contributions resulting from your reduced salary or hours, you can maintain your defined benefit entitlement as though no reduction occurred.

This could be done through additional before or after-tax contributions from your regular pay from your employer and is an arrangement that needs to be approved by both your employer and UniSuper.

FOR A REDUCED SALARY, YOU MAY ASK US TO INSTEAD REDUCE YOUR SERVICE FRACTION

If the above 'Make additional contributions' option cannot be adopted, you may ask UniSuper to adjust your service fraction instead of salary when your DBD becomes payable.

This is because (for example, if you were planning on retiring in the next few years), reducing your service fraction may have a lesser initial impact on your defined benefit entitlement than a salary reduction.

It's worth bearing in mind, however, that a salary reduction is unlikely to impact your defined benefit entitlement if you're going to contribute to the DBD for another five years or more.[5] Individual circumstances will vary, so we recommend you seek financial advice before pursuing this option.

For more information, you can call us on **1800 331 685** or visit **unisuper.com.au/contact-us** for more options, including chat.

We're here to help

Navigating the world of super can be complex. We know you may have questions, particularly if you're a Defined Benefit Division member, and we're here to help.

If your salary or working arrangements are reducing and you need help understanding how your super is affected, make an appointment with one of our super consultants at **unisuper.com.au/superbookings**.

Our super consultants can provide general advice about the options available to you and clearly explain the information in this fact sheet at no additional cost. If you need personal advice, they can refer you to our select or comprehensive financial advice services. Our team can help you understand any further options to help mitigate the effect of reduced work or salary on your benefits.

4 If you joined the DBD before 1 January 2015, your Benefit Salary will generally be calculated in two parts: one for Benefit Service before 1 January 2015, and another for Benefit Service from 1 January 2015. See the *About leaving service benefits* fact sheet at **unisuper.com.au/pds** for more information.

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