



Training notes

General Benefit Accrual

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<http://www.pss.gov.au/>

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General Benefit Accrual – PSS

Aims and Objectives

This course is designed to give personnel staff a general understanding of how benefits are calculated, so that they can appreciate the impact of the data they supply on the benefit ultimately paid.

On completion of the course, participants should have an understanding of:

- > The meaning and relevance of FAS (Final Average Salary);
- > The calculation of a multiple;
- > The broad benefit options available on each exit.

These notes are not a substitute for the *Superannuation Act 1990*, the Trust Deeds or the Rules for the administration of the scheme.

As provisions change you will be advised by way of Employer News. If you wish to continue to use these notes please ensure that you update them for any change.

The size of the benefit in the PSS is dependant on only two factors – the final average salary and the benefit multiple.

Final Average Salary

Except in cases of involuntary retirement the final average salary (FAS) is the average of the salaries on which contributions were based on the last three birthdays.

Where members have reduced in level for medical reasons and are receiving a partial invalidity pension, the final average salary will be based on the updated salary of the higher position, **not** on the lower salary on which contributions are based.

If members are leaving on the day before their birthday, the salary on which contributions would have been based on that birthday will be taken into account.

Where members have not been in the scheme for three birthdays, the commencement salary and as many birthday salaries as are available are used to calculate the average. In some cases, only one salary may be available.

Where members cease due to involuntary retirement, the third salary of the FAS is calculated on a pro rata basis using the salary for superannuation at date of exit with the salary at the third last birthday. The superannuation salaries at the last two birthdays are then used. **Remember, this method applies to PSS retrenchments ONLY.**

Example

A member's last birthday was 15 April and the exit date is 28 September 2001. There are 166 days between 14 April and 28 September. The member is therefore entitled to 166 days at the final salary, and the difference, 199 days of the 1999 birthday.

Usual Method of Calculating FAS

Salary 1 on 15 April 99	\$37 241
Salary 2 on 15 April 2000	\$36 511
Salary 3 on 15 April 2001	<u>\$35 971</u>
	<u>\$109 723.3</u>
FAS	\$36 574.33

Retrenchment Method of Calculating FAS

Salary on 15 April 2001	\$37 241
Salary on 15 April 2000	\$36 511
Salary on 15 April 1999 = $\$35\,971 \times \frac{199 \text{ days}}{365 \text{ days}}$	\$19 611.59
Exit salary on 28 Sept 2001 = $\$39\,877 \times \frac{166 \text{ days}}{365 \text{ days}}$	<u>\$18 135.84</u>
	<u>\$111 499.43 3</u>
FAS	\$37 166.48

The updated FAS is multiplied by the member's Accrued Benefit Multiple at exit. This calculation will cause an increase to the member's employer component.

Benefit Multiple

The benefit multiple is a number applied to the final average salary to determine the benefit payable.

The size of this multiple will depend on the contribution level chosen by the member and the period of time for which contributions are paid.

A table is attached which shows the annual rate of growth of the multiple for each possible contribution rate.

Example 1

A member pays 5% for three years. Their benefit multiple at the end of that time will be **0.63** $(0.21 \times 3) \times \text{FAS}$.

For a ten year period of membership (note: leave without pay not to count as service extends the ten year period), if the contribution rate is more than 5%, a member will not accrue any additional employer benefit for contributions made in excess of 5%.

Example 2

A member joins and pays 10% from commencement. At the end of three years, the member's benefit would be $0.78(.26 \times 3) \times \text{FAS}$.

The member would have received a multiple of $.93(.31 \times 3)$ if the employer matched at 10%. If the 10% was matched the multiple would be calculated as 10% (by the employee) + 10% (matching by the employer) + 8% (employer component) + 3% (EPSC) = 31% . As the employer only matches at 5% the multiple is calculated as follows: 10% (by the employee) + 5% (matching by employer) + 8% (employer component) + 3% (EPSC) = 26% . Refer to the table on page 10.

On invalidity retirement or death, the multiple is calculated by assuming a member would have continued to pay the greater of 5% or the average contribution paid over the last 78 contribution due days, until age 60.

However, if the member is a Limited Benefit Member, only the actual benefit accrued **to the date of exit or date of death is paid**. No invalidity benefit can exceed 8 times FAS.

Form of Benefit

The prime benefit is generally a lump sum, but all or part of it may be converted to an indexed pension using the factors on page 11.

Maximum Benefit Multiple

There is a limit on the benefit multiple that may be accrued by members.

Generally, this is 8, but the number may be higher for low income earners and lower for high income earners.

Example 1

For the financial year 2001–2002 the maximum benefit for a member on an average salary of \$23,000 is \$308,663 that equates to a multiple of 13.42013.

For the financial year 2001–2002 a member on an average salary of \$80 000 may have a maximum benefit of 6 times FAS + \$123 420. This is \$603 420 that equates to a multiple of 7.54275.

You should note that these are maximums and the majority of contributors will not reach these multiples. For example, a member paying 5% would need to contribute for over 38 years to reach the maximum of 8.

If a member reaches their maximum benefit multiple they **must** cease contributions. Regardless of any further increases in salary or changes in the maximum benefit limit they do not recommence contributing.

Exit Options

With effect from 1/7/99 limitations applied on the amount of cash available for exits prior to preservation age. Further limitations were introduced with effect from 1 July 2000.

From 1 July 2000, members who are under the preservation age and who cease membership, are entitled to take a refund of their contributions plus interest up to the SIS legislation upper limit. This is the cash value of the members' retrenchment benefit as at 30 June 1999. The balance has to be compulsorily preserved in the PSS or another superannuation or rollover fund.

Resignation

- > Preserve All
- > Refund of Contributions and Interest up to SIS upper limit – the balance must be preserved in the PSS.
- > Transfer to an Eligible Superannuation Scheme (Refer eligible schemes attached to the **Membership of the PSS** module)
- > Combine with an on-going membership

Retirement

- > Full Lump Sum
- > Full Pension
- > Part Pension/Part Lump Sum (at least 50% of total lump sum must be taken as pension)

Involuntary Retirement

Reached minimum retiring age

- > As for **Retirement**

Not reached minimum retiring age

- > Refund of contributions plus interest up to SIS upper limit and preserve the balance in the PSS or roll-over the balance to another superannuation fund
- > Full Pension
- > Combination of lump sum and pension (at least 50% of the total lump sum must be taken as pension, and lump sum cannot exceed member contribution and interest up to the SIS upper limit).
- > Preserve all

Invalidity Retirement

LBM

- > Lump sum equal to accrued benefit

Others

- > Full Pension
- > Part pension, part lump sum. The most that can be taken in cash is member contributions and interest.

Terminally Ill

- > The terminally ill have an additional option to take their **accrued benefit** as a lump sum. No benefit is then paid in respect of service to age 60.

Death

LBM

- > Lump sum of accrued benefit paid to estate or eligible spouse and children.

No LBM

- > Lump sum of benefit calculated to age 60 paid to the estate of a single member.
- > Spouse and/or children have pension and lump sum options based on the member's benefit which would have been payable at age 60.

On the death of a member you should determine if the member is survived by a spouse and/or children. If so, you should ask the spouse or guardian if they would like a superannuation benefit estimate and request this information from ComSuper. This benefit quote should be provided to the spouse or guardian along with the spouse or orphan benefit application form. If you are not sure if there are eligible dependants you should provide ComSuper with details and ComSuper will determine eligibility.

If a member dies and has no eligible spouse and/or eligible children you must advise ComSuper the name and address of who is handling the Estate and forward to ComSuper along with the completed Departmental Report of a Cessation of Employment benefit application form, history of salary for superannuation and any other relevant information.

Prescribed Preservation Age

With effect from 1 July 1999, members may only access any preserved amounts when they reach the prescribed preservation age determined by the birth date:

Date of Birth	Preservation Age
Before 1/7/60	55
1/7/60 to 30/6/61	56
1/7/61 to 30/6/62	57
1/7/62 to 30/6/63	58
1/7/63 to 30/6/64	59
1/7/64 and after	60

Important Points to Remember

- > If you advise the wrong contribution or notional salary, members **will** receive the wrong benefit. The same applies if you advise incorrect hours or contribution rate.
- > Calculation of benefits is very complex and personnel staff should only become involved by providing advice to your employees in regard to the use of Member Services Online on the **PSS website (www.pss.gov.au)**
- > Ensure members are advised of ComSuper seminars.
- > Obtain quotes for members approaching retirement.
- > As soon as you know someone is leaving, provide him or her with the appropriate application form.
- > Forward the form as soon as possible to ComSuper or follow up the application with the member.

If in doubt speak to ComSuper

Exercises

Exercise 1

A member pays 5% for 8 years, 4% for 2 years and then 2% for 3 years. What would be the accrued multiple?

Exercise 2

A member has the following contribution salaries:

2000 – \$25 000

2001 – \$30 000

2002 – \$32 000

a) What is the average salary?

b) What would the benefit of the member in Exercise 1 be using this average?

Growth of the Benefit Multiple

Member's contribution rate	Member's share of Benefit Multiple	Employer's share of Benefit Multiple (including productivity component and interest)	Total Benefit Multiple for each year's contribution at rate shown in first column
% of salary	times FAS	times FAS	times FAS
2	0.02	0.13	0.15
3	0.03	0.14	0.17
4	0.04	0.15	0.19
5	0.05	0.16	0.21
6	0.06	0.17	0.23
7	0.07	0.18	0.25
8	0.08	0.19	0.27
9	0.09	0.20	0.29
10	0.10	0.21	0.31

Pension Conversion Factors

Age	Conversion Factor	Age	Conversion Factor
65	10.0	59	11.2
64	10.2	58	11.4
63	10.4	57	11.6
62	10.6	56	11.8
61	10.8	55	12.0
60	11.0		

PSS Maximum Benefit Limits

1990–91			
\$0.00	to	\$25 000.99	\$200 000
\$25 001.00	to	\$39 969.99	8 times FAS
\$39 970.00	to	\$74 220.99	6 times FAS plus \$79 940
\$74 221.00	&	above	3 times FAS plus \$302 600

1991–92			
\$0.00	to	\$26 882.99	\$215 063.00
\$26 883.00	to	\$42 979.99	8 times FAS
\$42 980.00	to	\$79 809.99	6 times FAS plus \$85 960
\$79 810.00	&	above	3 times FAS plus \$32 5390

1992–93			
\$0.00	to	\$28 051.99	\$224 412
\$28 052.00	to	\$44 849.99	8 times FAS
\$44 850.00	to	\$83 279.99	6 times FAS plus \$89 700
\$83 280.00	&	above	3 times FAS plus \$339 540

1993–94			
\$0.00	to	\$28 371.99	\$226 972
\$28 372.00	to	\$45 359.99	8 times FAS
\$45 360.00	to	\$84 229.99	6 times FAS plus \$90 720
\$84 230.00	&	above	3 times FAS plus \$343 410

1994–95			
\$0.00	to	\$29 172.99	\$233 383
\$29 173.00	to	\$46 639.99	8 times FAS
\$46 640.00	to	\$86 609.99	6 times FAS plus \$93 280
\$86 610.00	&	above	3 times FAS plus \$35 3110

1995–96			
\$0.00	to	\$30 488.99	\$243 909
\$30 489.00	to	\$48 749.99	8 times FAS
\$48 750.00	to	\$90 519.99	6 times FAS plus \$97 500
\$90 520.00	&	above	3 times FAS plus \$369 060

1996–97			
\$0.00	To	\$31 722.99	\$253 783
\$31 723.00	to	\$50 729.99	8 times FAS
\$50 730.00	to	\$94 189.99	6 times FAS plus \$101 460
\$94 190.00	to	...	3 times FAS plus \$384 030

1997–98			
\$0.00	to	\$33 167.99	\$265 338
\$33 168.00	to	\$53 039.99	8 times FAS
\$53 040.00	to	\$98 479.99	6 times FAS plus \$106 080
\$98 480.00	to	...	3 times FAS plus \$401 520

1998–99			
\$0.00	to	\$34 368.99	\$274 949
\$34 369.00	to	\$54 959.99	8 times FAS
\$54 960.00	to	\$102 049.00	6 times FAS plus \$102 920
\$102 050.00	to		3 times FAS plus \$416 070

1999–2000			
\$0.00	to	\$35 441.99	\$283 532
\$35 442.00	to	\$56 679.99	8 times FAS
\$56 680.00	to	\$105 239.99	6 times FAS plus \$113 360
\$105 240.00	to		3 times FAS plus \$429 080

2000–2001			
\$0.00	to	\$36 918.99	\$295 349
\$36 919.00	to	\$59 049.99	8 times FAS
\$59 050.00	to	\$109 629.99	6 times FAS plus \$118 100
\$109 630.00	to		3 times FAS plus \$446 990

2001–2002			
\$0.00	to	\$38 582.99	\$308 663
\$38 583.00	to	\$61 709.99	8 times FAS
\$61 710.00	to	\$114 569.99	6 times FAS plus \$123 420
\$114 570.00	to		3 times FAS plus \$467 130

2002–2003			
\$0.00	to	\$40 985.99	\$327 886
\$40 986.00	to	\$65 559.99	8 times FAS
\$65 560	to	\$121 709.99	6 times FAS plus \$131 120
\$121 710	to	...	3 times FAS plus \$496 250

2003–2004			
\$0.00	to	\$40 985.99	\$327 886
\$40 986.00	to	\$65 559.99	8 times FAS
\$65 560	to	\$121 709.99	6 times FAS plus \$131 120
\$121 710	to	...	3 times FAS plus \$496 250

How to Complete Departmental Reports

You MUST always make sure that you provide the member with the correct scheme benefit application form. If membership ceases prior to age 55 it is a resignation unless the member is retrenched or invalidity retired. If membership ceases the day before the members 55th birthday or any time after their 55th birthday it is age retirement unless they are retrenched or invalidity retired. There are also particular benefit application forms for cessation of membership due to the sale, transfer or outsourcing of an organization.

Benefit applications must be accompanied with superannuation salary details and any other documentation requested on the departmental report.

If a member dies you must determine if there is a spouse and/or children. You must provide a spouses application form to the spouse or an orphans application form to the guardian if there is no spouse. You have the option to request a benefit estimate from ComSuper.

If a member dies and you are not aware of a spouse and/or children, you complete a Resignation Departmental report. You forward this form to ComSuper accompanied by the usual documentation and advice in regard as to who is looking after the estate and their address.

Completing the Last Three Variations

Last three superannuation variations including the payday that contributions were ceased. (Usually the payday after the date of exit.)

Payday of adjust.	Old perm cont	New perm cont.	Current adjustment	PLUS/ MINUS
		NIL		

- > *The last line must be the **actual payday that contributions ceased to be paid.** This is usually the first payday after the cease date but can be any payday.*
- > *The previous two lines are for the previous two paydays when contributions were varied.*

Example 1

A member resigned with effect COB 23 April 2003(the day before payday 24 April). Contributions were paid on 24 April and were ceased on payday 8 May. No further adjustments were made after payday 8 May. The previous two adjustments were made for the member's previous birthday adjustment on payday 26 Sept 2002 and when the member elected to change their % rate on payday 13 February 2003.

Payday of adjust.	Old perm cont	New perm cont.	Current adjustment	Plus/Minus
26/9/02	\$86.60	\$92.30		
13/2/03	\$92.30	\$147.70		
8/5/03	\$147.70	NIL		

Example 2

Contributions were ceased on payday 8 May and a minus current adjustment was processed to recover the contribution paid on 24 April. You must advise this action on the last line. **You must not advise that contributions went to NIL on payday 24 April 2003.**

Payday of adjust.	Old perm cont	New perm cont.	Current adjustment	Plus/Minus
2/9/02	\$86.60	\$92.30		
13/2/03	\$92.30	\$147.70		
8/5/03	\$147.70	NIL	\$147.70	minus

Example 3

A member commenced LWOP on payday 26 September 2002, contributions ceased on payday 10 October 2002 and the member resigned with effect COB 24 April 2003. The previous two adjustments were birthday adjustments in April 2002 and April 2001.

Payday of adjust.	Old perm cont	New perm cont.	Current adjustment	Plus/Minus
26/4/01	\$80.80	\$86.60		
25/4/02	\$86.60	\$92.30		
10/10/02	\$92.30	NIL		

Example 4

A member ceased on 1 February 2003 however contributions were not ceased until 26 April 2003. A minus current adjustment for paydays 13/2, 27/2, 12/3, 26/3 and 10/4 was also processed on 26 April.

Payday of adjust.	Old perm cont	New perm cont.	Current adjustment	Plus/Minus
26/4/01	\$80.80	\$86.60		
25/4/02	\$86.60	\$92.30		
13/2/03	\$92.30	NIL		

Example 5

A member ceased on 1 February 2003 Contributions were ceased on payday 13 February 2003. A minus current adjustment was made on payday 26/3 for the amount of \$300.

Payday of adjust.	Old perm cont	New perm cont.	Current adjustment	Plus/Minus
26/4/01	\$80.80	\$86.60		
25/4/02	\$86.60	\$92.30		
13/2/03	\$92.30	NIL		

**A minus current adjustment of \$300 was processed on 26/3/03*

In these cases you must advise ComSuper of the current adjustment by adding your own line under the table or on an attached letter with the benefit application.

Note

- > **The above examples are exactly the same for plus current adjustments**
- > **No plus or minus adjustments may be made on behalf of a member after this report has been completed and sent to ComSuper.**

Salary For Superannuation Benefit Purposes

Some benefits are calculated on the members salary for superannuation at date of exit e.g. CSS members' age, invalidity and retrenchment pensions. Also PSS retrenchments take a member's salary for super on the member's last day of service into account when calculating the member's final average salary.

To provide ComSuper with the correct salary for superannuation benefit purposes at date of exit, you must **treat the last day of service as if it was the members birthday and do a birthday review** to determine the highest salary for superannuation purposes during the previous year. The member may have qualified for higher duties since their last birthday review or have been promoted. They may have received an increase in actual salary due to an increment or progression to another level or an increase in salary due to a certified agreement or a new AWA.

Example 1

A member is paying contributions on \$50 000 as this was his salary for superannuation at his previous birthday on 10 September 2002. Since that birthday he has received a salary increase of \$4000. On his date of exit 1 April 2003 his actual salary is \$54 000. Therefore you would advise ComSuper that his salary for superannuation benefit purposes at 1 April 2003 is \$54 000

Salary for superannuation benefit purposes at date of exit: \$54 000.00

Note:

This is the member's salary for superannuation benefit purposes as at the date of exit. This can be greater than the salary for superannuation contribution purposes at the last birthday.

Example 2

A member may have been on higher duties at their last birthday but the higher duties classification had not qualified for superannuation purposes. Salary for superannuation at the last birthday was \$40 000. Since the birthday the member completed over 12 months higher duties and therefore the higher duties salary of \$48 000 qualified as salary for superannuation purposes. The member ceased higher duties prior to their cease date and reverted back to an actual salary of \$40 800. Due to a certified agreement since the member lost their higher duties, the current equivalent salary for the previous higher duties classification is now \$48 960. Therefore this is the salary for superannuation benefit purposes at date of exit.

Salary for superannuation benefit purposes at date of exit: \$48 960.00

Note:

This is the member's salary for superannuation benefit purposes as at the date of exit. This can be greater than the salary for superannuation contribution purposes at the last birthday.

Salary for Superannuation Contribution Purposes

Some benefits such as PSS resignations and age retirement calculate a member's benefit on the member's Final Average Salary. This is generally the last three birthday salaries. The salary for contribution purposes is a check that ComSuper has the correct salary for super as at the members last birthday.

Example 1

A PSS member is paying contributions on a salary of \$50 000 which was his superannuation salary on his last birthday on 10 September 2002. He is ceasing membership on 20 April 2003 and has a salary on that day of \$54 000.

Salary for superannuation contribution purposes on the birthday before retirement: \$50 000.00

Note:

If the member is retiring on the day before his or her birthday, the salary shown should be the salary for superannuation contribution purposes that would have applied on that birthday.

Example 2

ComSuper was advised that a member's birthday superannuation salary was \$50 000. On processing the employee's final payments, it was realized that the member had qualified for higher duties to be included in their salary for super prior to their birthday. The correct salary which should have been reported at the member's birthday was \$56 000.

If the previous birthday salary advised to ComSuper was not correct, please advise the correct salary that should have applied at the previous birthday even if the member has not paid contributions on it.

Salary for superannuation contribution purposes on the birthday before retirement: \$56 000.00

Note:

If the member is retiring on the day before his or her birthday, the salary shown should be the salary for superannuation contribution purposes that would have applied on that birthday.

In these cases it would be advisable to attach a note to advise ComSuper why the salary reported on the departmental report is different to what the member is paying contributions on and the salary advised for the previous birthday review.

Example 3

A PSS member is paying contributions on a salary of \$50 000. He is ceasing membership on 20 April 2003 and has a salary for superannuation purposes on that day of \$54 000. His

birthday is on 21 April 2003. Therefore, the salary to be reported on the departmental report is \$54 000.

If the member is leaving the day before their birthday, they are regarded as having attained that age. Therefore the new birthday salary is taken into account when processing the benefit regardless of the fact that the member has never paid contributions on that salary. Therefore you must advise the salary that you would have been reported to ComSuper as their birthday salary if they were still a member.

Salary for superannuation contribution purposes on the birthday before retirement: \$54 000.00

Note:

If the member is retiring on the day before his or her birthday, the salary shown should be the salary for superannuation contribution purposes that would have applied on that birthday.

Salary for Superannuation Benefit Purposes at 1 July 1999

Members under preservation age are entitled to take a refund of their contributions plus interest up to the cash component of their SIS upper limit that they were entitled to take if they were retrenched on 1 July 1999.

Therefore ComSuper must establish what that cash retrenchment benefit would have been at that date.

As PSS retrenchments take the final salary for super into account in calculating the member's final average salary (FAS), ComSuper needs to be advised of the member's superannuation salary as at 1 July 1999.

This may be higher than the salary that the member was actually paying contributions on at 1 July 1999. Therefore you should treat 1 July 1999 as if it was the member's birthday and determine what the salary for super would have been on that date.

For Example

At a members birthday on 2 February 1999 their salary for super was \$40 000. On 10 March 1999 a certified agreement increased this salary to \$41 800. On 14 June 1999 the member received an increase in salary to \$43 400. This was due to an increment or progression through the salary range. Therefore the member's salary for superannuation benefit purposes on 1 July 1999 was \$43 400.

Salary for superannuation benefit purposes at 1 July 1999: \$43 400.00