

ESSS DB Fund Members – Frequently asked questions about your benefit

This fact sheet provides answers to some frequently asked questions about your ESSS DB Fund. It explains how changes to your super arrangements and employment can impact your super benefit.

What happens to my super if I increase my contribution rate?

Any increase to your contribution rate will increase the rate at which your benefit is accrued (subject to a maximum benefit multiple).

Things to consider

The Federal Government has imposed limits on the amount of contributions that are taxed on a concessional basis (at 15% rather than a member's marginal tax rate). Concessional contributions include employer and member's salary sacrifice contributions. In the ESSS DB Fund, concessional contributions are known as Notional Taxed Contributions (NTCs) and are calculated using an actuarial formula. Grandfathering arrangements apply to ESSS DB Fund members who have been members since 1 July 2007. Grandfathering arrangements ensure that no excess contributions tax applies to NTCs that are in excess of the concessional limits for the ESSS DB Fund. **However, any increase in contribution rates by the member after 5 September 2006 will result in the removal of grandfathering arrangements for certain members and may mean that excess tax will apply (refer to the example below).** You should carefully consider the consequences of increasing your contribution rate. More information is available on ESSSuper's website or by calling our Member Service Centre on 1300 650 161.

For example:

Michelle became a member of the ESSS Defined Benefit Fund in 2000. Her Notional Taxed Contribution (NTC) which represent the concessional contributions in respect of her defined benefit that count towards the concessional contributions cap, is \$35,000. As a result, Michelle has exceeded the concessional contributions cap (currently \$25,000)*. Generally taxation penalties will apply if your contributions to superannuation exceed certain caps. However, as Michelle has not increased her contribution rate since 5 September 2006 the grandfathering rules apply and her NTC will always be set to the applicable concessional contributions cap (in this case \$25,000). No additional tax will apply in respect of her defined benefit contributions. However, if Michelle increased her contribution rate after 5 September 2006 additional tax would apply to the benefit exceeding \$25,000 (i.e. Michelle would pay tax on the \$10,000 at her marginal tax rate plus an excess concessional contribution charge less a 15% allowance for tax paid by the fund).

* Based on the 2018/19 tax year.

What happens to my super if I haven't contributed at the maximum rate?

Operational members

To achieve the maximum benefit multiple of 7.5 times your Final Average Salary (FAS) (8.4 untaxed multiple) you need to contribute at the maximum rate of 7% for 30 years. If you are not contributing at the maximum rate it will take you longer than 30 years to achieve your maximum benefit multiple.

If you haven't always contributed at the maximum rate you can elect to contribute at the special catch-up rate of 8%. This catch-up rate does not guarantee you will reach your maximum benefit multiple.

Non-operational members

To achieve the maximum benefit multiple of 7.5 times your FAS (8.4 untaxed multiple) you need to contribute at the maximum rate of 5% for approximately 42 years. Note, there is no higher catch up rate available to non-operational members.

What happens to my super if I become disabled?

Operational members

If you become disabled, you are entitled to a disability benefit which is based on your accrued benefit multiple at the date you become disabled, and a benefit multiple which is projected from the date of disablement to age 55 at the maximum contribution rate (generally 7% or 8% if eligible for catch up rate).

Non-operational members

If you become disabled, you are entitled to a disability benefit which is based on your accrued benefit multiple at the date you become disabled and a benefit multiple which is projected from the date of disablement to age 60 at the rate of 5%.

All members

Your disability benefit is made up of two components: the projected benefit and the accrued benefit to date of disablement. Your projected disability benefit multiple is not affected by your current contribution rate as it is calculated using the maximum rate. However, your accrued benefit multiple will be less than it might have been if you elect to contribute at less than the maximum rate. As a result your total disability benefit may also be less than it would have been.

Note:

If at any stage of your membership you work part-time your death and disability benefits may be impacted. To determine if your benefit will be impacted, please call the Member Service Centre on 1300 650 161.

For example:

Joanne joined the ESSS DB Fund at age 25 and claimed a disability benefit at age 45. Joanne has a FAS of \$70,000. If Joanne had contributed 3% throughout her membership, her disability benefit would be \$1,436 per fortnight. However if Joanne contributed 7% throughout her membership her disability pension would be \$1,885 per fortnight.

What happens to my super if I have reached the maximum benefit multiple of 8.4 (untaxed)?

After you reach your maximum benefit multiple, your benefit will only increase due to increases in your superable salary.

Your contributions to the fund will cease. You can however direct your contributions to another fund including ESSSuper's Accumulation Plan. Your NTC will be zero so you can make salary sacrifice contributions up to the value of the NTC Concessional contributions Cap (\$25,000 pa. from 1 July 2017).

Things to consider

If you reach your maximum benefit multiple your employer is still liable to make employer contributions to fund the defined benefit pool. These contributions do not get allocated to your defined benefit. Your employer can't make Superannuation Guarantee (SG) contributions into an accumulation plan account. However, you can decide to exempt out of the defined benefit fund on or after age 65 (only) and receive SG contributions into an accumulation fund such as ESSSuper's Accumulation Plan while you continue to work.

For example:

Greg reaches his maximum benefit multiple at age 63 and his benefit entitlement will only increase due to increases in his FAS. Greg wishes to access his benefit whilst still working, so at age 65 Greg elects to exempt out of the ESSS DB Fund and his employer commences paying SG at the applicable rate to an accumulation fund.

What happens to my super if I take on higher duties or receive additional allowances?

Taking on higher duties may increase your superable salary but this will depend on the agreement between you and your employer.

If you terminate service while on higher duties, or within two years of performing higher duties, and higher duties have been included in your superable salary you will receive a higher FAS and an increase in all benefits payable, including any disability benefits. This is because your FAS is calculated using the average of your full-time equivalent superable salary over the last two years of service.

Things to consider

If higher duties are included in your superable salary, your super contributions will immediately increase on a proportionate basis. However, if you stop working more than two years after the higher duties salary ceases to apply, your former salary will be used to calculate your FAS and will not include higher duties salary.

There is no advantage including higher duties in superable salary (and the associated payment of higher contributions) if you return to your previous position for more than two years before terminating service.

For example:

Brendan has undertaken a period of higher duties and it has been agreed that this will be included in his superable salary (Brendan receives an extra \$20,000 higher duties allowance on top of his \$60,000 former salary totalling \$80,000). Brendan ceases his period of higher duties and returns to his previous position paying \$60,000 for a period of 3 years before terminating service. The higher duties allowance will not be included in Brendan's FAS. This means that Brendan has paid contributions in respect of the additional \$20,000 higher duties allowance for no benefit. However if Brendan had decided to terminate service, or became disabled within a 2 year period of ceasing the higher duties, the higher duties allowance (i.e. the additional \$20,000) would be included in his FAS proportionately and would result in a higher benefit being paid.

What happens to my super if I decide to move to a lower paid position? (Reduction in salary)

Your superable salary will immediately reduce in line with your new salary unless ESSSuper's Board agrees you can continue on the previous higher salary. This decision is generally subject to your employer's agreement.

The amount at which you contribute to super is reduced proportionally in line with your new salary but your benefit multiple will increase at the same rate (provided you continue to contribute the same percentage of salary).

For example:

If your superable salary reduces by 20% the contributions payable (assuming they are at the same level) similarly reduce by 20%.

Things to consider

Your FAS is used to determine your final benefit. A reduction in your superable salary in the last two years of service will reduce your FAS and consequently the final benefit payable (including any disability payment). This is because your FAS is calculated using the average of your full-time equivalent superable salary over the last two years of service.

For example:

George has reached his maximum multiple of 7.5 taxed (8.4 untaxed). He is two years away from retirement and decides to take a job with a lower salary. When George retires his FAS reduces from \$80,000 to \$60,000 (because FAS is calculated using the average full-time equivalent superable salary over the last two years of service) and George's retirement benefit is \$450,000 taxed (\$504,000 untaxed). If George had not accepted a lower paid position in the two years before retirement, his retirement benefit would have been \$600,000 taxed (\$672,000 untaxed).

What happens to my super if I decide to reduce my hours and work part-time? (Reduction in time fraction)

Superable salary is always based on your full-time equivalent salary. Your contributions are based on your superable salary and your time fraction (for example, hours worked on a part-time basis as a proportion of hours worked on a full-time basis). This means if you continue to contribute at the same percentage rate, the amount you contribute is less and your benefit multiple increases at a slower rate.

If you have contributed the maximum amount (maxed out), moving to part-time work will generally have no impact on your benefit accrual.

Things to consider

If you haven't reached your maximum benefit multiple and move to a part-time working arrangement your benefit will accrue proportionately according to your time fraction and therefore more slowly.

If at any stage of your membership you work part-time, your death and disability benefits may be impacted. To determine if your benefit will be impacted, please call the Member Service Centre on 1300 650 161.

For example:

Shane commenced a part time arrangement with the agreement of his employer on a 5 day working fortnight (i.e. 50% full time). This will have no impact on the benefit he has already accrued. His superable salary will remain at the full time equivalent value for FAS purposes, however his future benefit multiple and contribution rate will be lower to reflect the part-time arrangement. Shane's benefit will continue to accrue but as he's part-time it will accrue slower than it would if he was working full time.

Disability and death benefits

If you become disabled or die you are entitled to a disability or death benefit. This benefit is based on your accrued benefit multiple at the date you become disabled, or die, and a benefit multiple which is projected from the date of disablement or death to age 55 (age 60 for non-operational employees).

If you work part-time at any time in the three years before claiming a disability benefit or you die, prospective service (age 55 for operational emergency services members and age 60 for non-operational emergency services members) will be projected on a part-time basis.

What happens to my super if I am seconded to another role outside of my current employer?

The impact on your defined benefit will depend on the arrangements made between the current and secondment employer. It is advisable to confirm the impact on your defined benefit before entering into a secondment arrangement.

For example, there are a number of different secondment scenarios that may apply:

- The secondment is treated as LWOP with no benefit accrual for the secondment period; or
- The secondment period is recognised for accrual purposes and the superable salary is fixed at the current employer's salary;
- In very limited circumstances, the secondment period is recognised for accrual purposes and the superable salary is based on the secondment employer's salary.

What happens to my super if I change from full time to casual employment with my emergency services employer?

Only permanent full-time or part-time employees are allowed to contribute to the ESSS DB Fund. If you change to casual employment you will cease membership of the Fund and (subject to preservation rules), your defined benefit will become payable. Any future SG employer and/or member contributions will be payable to an accumulation fund, such as ESSSuper's Accumulation Plan.

What happens to my super if I get promoted to an Executive Contract?

In accordance with Victorian Government policy, under an Executive Contract only 70% of your total remuneration package is recognised as superable salary. Before being promoted to an Executive Contract if your superable salary was higher than 70% of your total Executive Contract remuneration package, your previous salary will be recognised until it is exceeded by 70% of the Executive Contract remuneration package. Please note that in very limited cases an employer may have an approved alternative arrangement. You should check with your employer to see if they are subject to the 70% rule.

If an Executive reaches their maximum benefit multiple, no further employer contributions are deducted by the employer from the Executive's total remuneration package. However, the employer is still liable to pay employer contributions to fund the defined benefit pool.

For example:

Jane is promoted to an Executive Contract position with a total remuneration package of \$100,000. With the application of the 70% rule, Jane's superable salary is \$70,000. Jane's superable salary of \$80,000 prior to moving to an Executive Contract will continue to apply until it is exceeded by 70% of the Executive Contract total remuneration package.

Things to consider

A formula is used to calculate the amount of employer contributions deducted from your total remuneration package. The formula uses factors such as age and length of service to calculate the deductible amount. The calculation may not be the same dollar amount your employer remits as employers base their calculations on a global employer billing rate.

Depending on individual circumstances, this can have a positive or negative impact on Executive Contracts take home pay.

What happens to my super if I decide to purchase leave, move to 48/52 or a similar working arrangement?

This depends on the individual employer. Generally, your employer may reduce your time fraction proportionately to reflect a purchased leave arrangement (time fraction approach). This would be similar to moving to a part-time working arrangement (see above).

Under the time fraction approach, an equivalent adjustment to a member's time fraction is made (multiply by 48/52 where there is four weeks additional leave). Benefit accrual is the same for a member providing part-time service with an equivalent time fraction (for a member employed on a 48/52 basis, benefit accrual is equal to a 0.92308 time fraction).

What happens to my super if I want to take Long Service Leave (LSL)?

LSL is recognised as service at your normal time fraction, for example if you work 4 days per week it's recognised as 0.8.

LSL at half pay (where in effect the LSL period is doubled) is also recognised as service at your normal time fraction.

Things to consider

Contributions are still payable, at their normal rate, irrespective of whether LSL is taken at full pay or half pay.

What happens to my super if I choose to take Leave Without Pay (LWOP)?

If LWOP is four weeks or less it has no impact on your defined benefit. The period is counted as normal service and your employer should deduct your contributions before or after you return to work.

LWOP over four weeks is not classed as normal service. No benefit accrual is allowed unless you are on unpaid parental leave (a 0% contribution rate applies for up to 12 months for each birth), sick leave with or without pay, or are in receipt of WorkCover or TAC payments (see below for more information). If you become disabled or go on LWOP you will be entitled to your accrued benefit only, and not entitled to any prospective benefit.

Things to consider

If you are on LWOP (not including unpaid parental leave, WorkCover or TAC purposes) you may consider paying an insurance premium at 2% of your superable salary in order to be entitled to death and disability cover during this period.

For example:

Mark commences unpaid leave for lifestyle reasons and decides to pay the 2% premium. Mark submits his payment along with a "Notification of Leave without Pay form" to ESSSuper. This ensures he maintains full death and disability entitlements.

A member's benefit will only grow as a result of salary increases for the person's position while on LWOP.

For example:

Casey commences unpaid leave and her benefit entitlement at that time is calculated at \$100,000. Casey remains on LWOP for three years after which time her benefit has grown to \$109,000 due to salary increases for her position.

What happens to my super if I have to take sick leave or sick leave without pay?

Sick leave with or without pay is recognised as service at your normal time fraction (the same rule applies if you're in receipt of WorkCover or TAC payments).

Things to consider

If you choose to contribute, contributions are payable irrespective of whether you're on paid or unpaid sick leave (including WorkCover or TAC). If you're on unpaid leave you will accrue contribution arrears.

For example:

Vanessa cannot work and has used up her paid sick leave entitlements. She submits medical certificates to her employer, who records her as being on unpaid sick leave. For superannuation purposes Vanessa is treated as though she is still working and will fall into arrears for any contributions she normally pays. The contribution arrears are payable when she returns to work, or if she does not return to work, from her benefit entitlement. Vanessa can apply for a disability benefit if applicable. However, if her illness or injury is work related she may apply for WorkCover entitlements. Usually members exhaust any WorkCover payments before applying for disability benefits through the ESSS DB Fund.

What happens to my super if I take parental leave?

For each confinement, an initial period of parental leave for up to twelve months will be regarded as service. During this period your benefit will accrue as though you had elected not to make personal contributions (irrespective of the contribution rate effective prior to commencing the period of parental leave). Any period of parental leave (in respect of each confinement) in excess of twelve months will be treated as leave without pay (LWOP). During this additional period, no benefit will accrue and you will be ineligible for death and disability cover from the defined benefit scheme in the event of your death or disablement unless you elect to pay an insurance premium at the rate of 2% of your superable salary.

What happens to my super if I change my operational status?

Emergency Services operational members retain their operational status if they move to a non-operational position.

An operational member also retains the right to make contributions of up to 7% (or 8% in some circumstances) if they move to a non-operational position (a maximum contribution rate of 5% generally applies to non-operational members).

Things to consider

If you change your operational status and claim a disability benefit any benefits payable to you will be based on a projected service to age 55 (maximum contribution rates, generally 7% or 8% if eligible for catch up) and not to age 60 (maximum 5% contribution rate) as per non-operational members.

For example:

Dave is a Police Officer with operational status. He decides to take a managerial job that has a non-operational status. Dave will maintain his operational status, including the level of contributions allowed as an operational member, and in the event Dave becomes disabled his disability benefit will be projected to age 55, as per normal.

What happens to my super if I leave emergency services employment for a period of time and then return (as an operational employee)?

If you have received a benefit payment in respect of an earlier period of membership and you subsequently return in an operational position, you will have the option to either:

- retain the original payment and accrue a further benefit in the ESSS DB Fund based on your second period of membership; or
- repay your original payment with interest (as determined by the Board) and have your previous membership re-instated and accrue a benefit based on both periods of membership.

Under the latter option, your total benefit multiple will be based on your total service over the two periods of your membership. For benefit payment purposes, the effective salary will be your FAS at the end of your final period of membership. You should seek independent financial advice to determine which of these options is best for you.

Proudly serving our members

This document is issued by Emergency Services Superannuation Board ABN 28 161 296 741, the Trustee of the Emergency Services Superannuation Scheme ABN 85 894 637 037 (ESSSuper). The information contained in this document is of a general nature only. It should not be considered as a substitute for reading ESSSuper's Product Disclosure Statement (PDS) which contains detailed information about ESSSuper products, services and features. Before making a decision about an ESSSuper product, you should consider the appropriateness of the product to your personal objectives, financial situation and needs. It may also be beneficial to seek professional advice from a licensed financial planner or adviser. An ESSSuper PDS is available at esssuper.com.au or by calling our Member Service Centre.