Defined Benefit Access

For many Australians, the two biggest assets we acquire in our lifetime are our home and our super. That's why it's important to make sure you are making the most of your super.

Defined benefit schemes are an employer-sponsored retirement plan which are less common than accumulation funds and are mostly closed to new members.

The government provides tax incentives to encourage all working Australians to use super as a way of saving for their retirement, with the trade-off that the government places restrictions ('conditions of release') on when you can access your super benefit.

Preservation Components

The retirement and non-retirement conditions of release mentioned previously are in relation to super benefits classified as preserved, which generally make up the majority of your super if you have not previously met a condition of release. If your super benefit contains any restricted non-preserved component (some benefits accrued before 1 July 1999) these can be accessed once you stop working for the employer who has contributed to your fund, regardless of age. And if your super contains any unrestricted non-preserved component this means a condition of release has already been met in respect of these benefits and they can therefore before accessed at any time.

Defined Benefit Schemes

Defined benefit schemes can be especially complex and each scheme promises a specified benefit on retirement with the final value determined by a formula based on the employee's earnings and contributions history, tenure of service and age, and in some cases investment returns, rather than depending solely on individual investment returns.

This complexity may also extend to the manner in how the final benefit is paid to you when you exit. Your final benefit may be paid as a lump sum, or a regular pension and/or a combination of the two. There are also rules around when the benefit may be paid, as members have to meet the specific defined benefit scheme rules in addition to the Government's conditions of release.

Condition of Release

As mentioned above, there are scheme specific rules a member also needs to meet, which is why you generally cannot access a pension simply upon resigning and exiting a defined benefit scheme. A useful condition of release for defined benefit members where schemes offer a pension, is that upon termination of gainful employment (over $200), benefits that would otherwise be preserved can be paid as a pension to a member regardless of age, provided the pension cannot be exchanged for a lump sum.

This condition of release is good news for those members whose preservation age is older than their scheme's minimum retirement age, or for some defined benefit scheme members who receive a redundancy or exit on invalidity before reaching preservation age.

Lump sums will only be accessible as cash once a condition of release that converts benefits into an unrestricted non-preserved amount is met. For many members of defined benefit schemes, due to the termination of gainful employment condition of release mentioned above, this can be achieved for a portion of their benefit upon leaving their employer, regardless of age. This is the portion of a benefit that is restricted non-preserved whilst a member is employed, and is generally a set dollar amount that the member would have been entitled to upon leaving their employer on 1 July 1999.

If you are a defined benefit member, it is important you understand how your scheme works and what options are available to you on exit so you can make the most of your super savings in preparation for retirement.

State Authorities Super Scheme (SASS)

If you're a member of SASS your final benefit is made up of 3 main parts:

Personal Account	An accumulation benefit consisting of your accumulated member contributions and earnings (less fees)
Employer Financed Benefit (EFB)	A defined benefit calculated as 2.5%* (2.125% after contributions tax) times your Final Average Salary (FAS) times your accrued benefit points (ABP)
SANCS Benefit	A defined benefit, known as the Basic Benefit equal to 3% (2.55% after contributions tax) of your Final Average Salary for each year of service since 1 April 1988; plus accumulation amounts for any government contributions and additional employer component (AEC) members may be eligible for

You can generally have your benefit released when you leave your employer from age 58; however, as it is a lump sum, if you do not also meet the Government's retirement condition of release (i.e. you intend to work 10 hours or more a week), you will not be able to access any preserved benefits as cash.

* Note: for members of the old State Public Service Superannuation Fund (SPSFF), the minimum retirement age is 55 and the EFB is calculated as 3% (2.55% after contributions tax) x FAS x ABP.

Pension option

Some members of SASS predecessor schemes have the option of an indexed pension for some or all of their employer-financed benefit. For these members, the pension is generally payable for retirement exits after age 60 or upon invalidity. To find out if you are a SASS member with a pension option you can refer to your annual statement, contact your scheme administrator, or your financial planner can also assist.

Please refer to the SASS fact sheets for more information on the specific exit options, which can be accessed from the SASS website (**statesuper.nsw.gov.au/sass**).

State Super Scheme (SSS)

If you are a member of SSS, upon retirement you receive a lifetime pension based on your unit entitlement, which you can choose to convert all or part to a lump sum. Your unit entitlement, and therefore final pension, is directly linked to your salary. You are entitled to 1 unit for every $260 of salary plus an additional 33 units (adjusted each quarter for inflation). Each unit provides a benefit of up to $5.50 per fortnight (to a minimum of $5.00 per fortnight after contributions tax), which is generally a retirement pension of around 50%-55% of your final salary if you have contributed towards every unit. A reduced pension of $3.30 per fortnight (to a minimum of $2.80 per fortnight after contributions tax), is paid on units for which you elected not to contribute.

A pension is available, regardless of age, whether exiting due to normal retirement (age 60, or 55 for some women), early voluntary retirement (age 55 to 59), redundancy or invalidity. If you resign and preserve your benefit, you can also take the pension from age 55. However, if you are entitled to access your pension prior to meeting a condition of release with nil cashing restrictions (such as before preservation age on early voluntary retirement, redundancy, or invalidity that is not total and permanent) you may only access your full pension if you elect for the preserved portion to be non-commutable. Alternatively, the preserved portion can be paid into a separate account in the scheme for you to receive later when you do meet an appropriate condition of release, enabling you to retain the commutation option. The unrestricted portion in either case can be paid immediately and enables you to retain the commutation option.

SSS members also receive their benefit within the State Authorities Non Contributory Superannuation (SANCS) scheme. SANCS is made up of the Basic Benefit, which is a defined benefit equal to 3% (2.55% after contributions tax) of your Final Average Salary for each year of service since 1 April 1988, as well as accumulation amounts for any government contributions and additional employer component (AEC) members may be eligible for. The SANCS benefit must be accessed when the SSS benefit is paid, however if a condition of release with a nil cashing restriction isn't met (such as permanent retirement after preservation age or age 65) this amount will have to be rolled over.

There are complexities around accessing your pension and the commutation options under each exit so we encourage you to speak to your financial planner or refer to the SSS fact sheets for more information, which can be accessed from the SSS website (**statesuper.nsw.gov.au/sss**).

Police Super Scheme (PSS)

If you are a member of the NSW Police Super Scheme, upon retirement you receive a lifetime pension based on your final salary, age and years of membership. You can choose to convert all or part of the retirement pension into a lump sum. Pension and/or lump sum amounts can also be paid to you or your spouse on invalidity or death, depending on whether you were Hurt on Duty (HoD) or not.

The Police scheme is a unique scheme in that there are no preservation issues once you leave the Police force - benefits can be accessed regardless of age. Note however, if below retirement age, the amount of benefit deferred may be a lot higher than the immediately accessible lump sum.

Police scheme members also receive their benefit within the State Authorities Non Contributory Superannuation (SANCS) scheme. SANCS is made up of the Basic Benefit, which is a defined benefit equal to 3% (2.55% after contributions tax) of your Final Average Salary for each year of service since 1 April 1988, as well as accumulation amounts for any government contributions and additional employer component (AEC) members may be eligible for. The SANCS benefit must be accessed when the Police scheme benefit is paid, however if a condition of release with a nil cashing restriction isn't met (such as permanent retirement after preservation age or age 65) this amount will have to be rolled over.

Please refer to the PSS fact sheets for more information on the specific exit options, which can be accessed from the Police website (**statesuper.nsw.gov.au/pss**).

Defined benefit pensions and the $1.7 million general transfer balance cap/$106,250 defined benefit income cap

The Government has placed a cap on the amount of funds you can have in the retirement phase (superannuation income streams) and receive concessional tax treatment by introducing a general transfer balance cap of $1.7 million and corresponding defined benefit income cap of $106,250 p.a. These are the cap amounts for 2021/22 and are indexed in line with CPI.

If you commence a retirement income stream for the first time from 1 July 2021, you will have a personal transfer balance cap of $1.7 million. However, if you commenced a retirement income stream prior to 1 July 2021, your personal transfer balance cap will be between $1.6 and $1.7 million. Therefore, you should consider seeking advice, prior to commencing a new income stream.

For complying defined benefit pensions, a special value is included in the general transfer balance cap by multiplying the annual payment by 16. A defined benefit pension that commences in 2021/22 paying $106,250 p.a. would therefore exhaust the transfer balance cap in the 2021/22 financial year. If the special value of your defined benefit pension exceeds the transfer balance cap, you will not be allowed to also have an account-based pension (instead, these excess funds will need to be retained in accumulation phase or withdrawn from super).

However, complying defined benefit pensions will not be required to be commuted if they exceed the transfer balance cap. Instead additional tax will apply to defined benefit pension payments over the defined benefit income cap ($106,250 p.a. for 2021/22) if you are age 60 or over, or any age if you are in receipt of a death benefit pension and the member was age 60 or over at the time of death. The additional tax depends on the underlying tax components of your defined benefit pension income, as follows:

- **Taxable component – taxed element (TE) and tax free component (TFC)** – 50% of the pension payment over the defined benefit income cap is added to your assessable income and taxed at your marginal rates.
- **Taxable component – untaxed element (UTE)** – pension payments over the defined benefit income cap are added to your assessable income and taxed at your marginal rates (no 10% offset is applicable on the excess).

Where your defined benefit pension has a combination of tax free component, taxed element and untaxed element, the tax free component and taxed element is added to the defined benefit income cap first.

Note: in the financial year you turn 60 or commence receiving a death benefit pension when the member was age 60 or over, the defined benefit income cap is pro-rated for the financial year.

Get in touch

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