Make the most of your Defined Benefit Scheme

It could provide a regular income, a lump sum, or maybe both

Super is usually the biggest asset we have, next to the family home. Therefore it's important to make the most of it. So how do you make the most of your Defined Benefit?

Defined Benefits explained

Defined benefit schemes pay you a specified benefit on retirement. Your employer contributes to the scheme while you work with them and, in some instances, you will also be able to make contributions. The final value is set using a formula. This formula may be based on employer and employee contributions, salary, tenure of service and age and in some cases, investment returns. The final benefit may be paid as a lump sum, a lifetime pension and/or a combination of the two, depending on the scheme.

Sounds complicated? Defined benefit schemes can be complex and each scheme tends to have its own unique formula. So if you're in one, it's a good idea to understand how your benefit will be calculated, so you can make the most of your super.

Maximise your contributions while you can

Most defined benefit schemes need you to make contributions from your salary. How much you contribute is often up to you. Generally, the more you contribute, the more your employer will too (subject to limits) and the greater your final retirement benefit may be.

With this in mind, it's often best to make the most contributions you can to maximise your defined benefit.

Let's take a look at the contribution requirements and options for several state and commonwealth public sector defined benefit schemes.

State Authorities Super Scheme — SASS (NSW)

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

- **Contributor-financed benefit** (Personal Account money you contribute)
- **Employer Financed Benefit (EFB)** – a defined benefit based on your Final Average Salary (FAS), length of membership and your rate of personal contributions
- **Basic Benefit** – 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

For every 1% of your salary you contribute you accrue approximately one benefit point. This generally provides you with an Employer Financed Benefit of 2.5% (2.125% after contributions tax) times your Final Average Salary (FAS).

If you are a member of the old SASS Super Scheme, the State Public Service Superannuation Fund (SPSFF), the EFB is calculated as 3% (2.55% after contributions tax) x FAS x your accrued benefit points.

The point is, the more you contribute from your salary, the more benefit points you get and the greater your Employer Financed Benefit will be.

You can contribute up to 9% of your salary to SASS. However, excess contributions (above 6% on average per year) may not increase your Employer Financed Benefit, though they will earn interest and increase your Personal Account benefit. You can accrue a maximum of six benefit points per year and an overall maximum total of 180 benefit points. It's important to make sure you're accumulating enough points to maximise your final end benefit payment when you exit the scheme.

SASS members also receive their benefit under something called the 'State Authorities Non-Contributory Superannuation (SANCS)' scheme. SANCS is primarily made up of the Basic Benefit plus accumulation amounts for any government contributions and additional employer component (AEC) for which members may be eligible.

State Super Scheme — SSS (NSW)

SSS members receive a lifetime pension on retirement. You can choose to convert some or all of it to a lump sum.

The final pension is determined by the number of units you're entitled to, which is linked to your final salary (plus movements in the Consumer Price Index). You have to contribute towards your unit entitlement, with the level of contributions calculated to make sure the full cost of the unit is paid off by normal retirement. If your contributions are more than 6% of your super salary, you can choose not to contribute, or delay contributing, towards any additional units.

The rate of pension payable on retirement is $5.50 each fortnight (to a minimum of $5.00 per fortnight after contributions tax) for each superannuation unit for which you have contributed. However, a reduced pension of $3.30 each fortnight (to a minimum of $2.80 per fortnight after contributions tax) is paid on units for which you chose not to contribute. Choosing to contribute to all units means you maximise your final pension benefit.

SSS members also receive their benefit within the State Authorities Non Contributory Superannuation (SANCS) scheme. SANCS is primarily made up of the Basic Benefit. This 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. It also includes accumulation amounts for any government contributions and the additional employer component (AEC) you may be eligible for.

Police Super Scheme — PSS (NSW)

Police members contribute a flat 6% of their salary and don't have the option of changing their member contributions. The final benefit is a lifetime pension based on final salary, age and years of membership, which can be converted wholly or partly to a lump sum.

Police members also receive their benefit within the State Authorities Non Contributory Superannuation (SANCS) scheme – as outlined above.

We're here to help

Contact us

Phone: 1300 650 873
8.30am to 6pm (AEST/AEDT)
8.30am to 5pm (AWST)
Monday to Friday
Int'l: +61 3 9131 6373
Email: enquiries@aware.com.au

Get advice

Phone: 1800 620 305
8.15am to 8.15pm (AEST/AEDT)
6:15am to 6:15pm (AWST)
5:15am to 5:15pm (AWDT)
Monday to Friday
Book: aware.com.au/advice
Email: clientservicecentre@aware.com.au

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