# DEFINED BENEFITS SCHEMES

Apt. WEALTH PARTNERS

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Although most of us have superannuation, how much you receive in retirement may depend on the type of super fund you have.

Based on the calculation of the retirement benefit there are two types of superannuation funds:

1. Accumulation funds are the most common type of super fund. The lump sum available on retirement is based on the sum of the contributions and earnings less fees and taxes (much like a bank account).
2. A defined benefit fund (or defined benefit scheme) on the other hand is one in which each employee's retirement benefit is a specifically defined multiple of certain pre-determined variables, such as your average pre-retirement salary and years of service. Importantly, these schemes are not affected by market returns, so the cost of meeting the final super benefit to members is effectively shifted onto the employer or operator of the scheme (commonly, the Government).

Defined benefit schemes can be:

- fully funded, where the employer sponsor's contribution to the fund each period is sufficient to ensure that the assets of the fund cover the estimated accruing value of all member entitlements.
- partially funded, whereby the Government contributes to the fund in each period but the assets of the fund are insufficient to cover the estimated accrued value of all member entitlements, or
- unfunded, whereby the Government does not contribute to the fund each period. Government funding is provided only as required for payments to retiring Government employees.

In contrast, an accumulation-style fund is, by definition, fully funded; the account balance reflects the member's entitlement on retirement, resignation, withdrawal or death.

Historically, public sector superannuation schemes have been defined benefit schemes and pay benefits either as a pension or as a lump sum at retirement.

However, there has been a shift towards accumulation funds and lower employee benefits since the mid to late 1980s. This is now the only option open to nearly all new public sector employees in NSW, Victoria, WA and SA. Longer serving employees, however, continue to have the option of remaining in defined benefit schemes.

## Payments from defined benefit schemes

Depending on how the fund is operated, members and their dependants may be paid benefits under various events such as disability, redundancy, death or generally on retirement etc. Members may receive a lump sum or pension or a combination of both.

The taxation of these benefits is complex and depends on how benefits are paid (such as lump sum or pension), the age of the member at the date of payment and the circumstances in which benefits arise (for example, payments under disability may be concessionally taxed to members).

## Ask your Apt Wealth Partners financial planner for more information.