

# DEFINED BENEFIT (DB) MEMBERS WORKING LESS FACT SHEET



## WHO SHOULD READ THIS FACT SHEET?

This fact sheet was prepared to answer questions from Fund members with an Energy Super DB membership who are considering working fewer hours, or in a reduced capacity in the lead up to retirement, and wish to understand how this will affect their DB superannuation benefit.

## WHAT HAPPENS TO MY SUPER IF I WORK FEWER HOURS OR MY SALARY IS REDUCED?

If you are approaching retirement and wish to adopt a phased retirement approach whereby you may change to part-time work, or switch to another role with your current employer at a reduced salary, your DB will most likely be a different amount compared to your projected outcome if you had continued to work at full capacity until you retire.

This fact sheet explains how your DB may be affected and provides examples to show the effect of reduced hours and/or salary.

### First a short recap on how a DB is calculated...

Your DB is calculated using a formula that has three parts, (1) your Final Average Salary (FAS), (2) your Member Benefit Multiple (MBM), and (3) your Member Reserve (MR) factor as follows:

**Defined Benefit** = FAS x MBM x MR factor

### FINAL AVERAGE SALARY (FAS)

FAS is the average of your salary advised to the Fund by your employer over either the last one or two years before the calculation date. The averaging period depends on your employer. This takes into account any salary increases you have over that time.

**Please note:** Some items of your pay may not apply for super purposes – check your Annual Statement for your FAS and ask your employer for what's included or not included in your salary for super purposes.

If you work part-time - for example, 4 days instead of 5 days per week (or 80% of the full-time equivalent hours), your employer provides the Fund with full-time equivalent salary to calculate your FAS. If your salary for working 4 days per week was \$50,000, then your employer will advise the Fund that your full-time equivalent salary is \$62,500 (i.e. uses the same hourly rate). This means that regardless of how many days you work we always use the full-time equivalent salary to work out your FAS.

## WHAT IF I KEEP WORKING THE SAME HOURS BUT TAKE A POSITION THAT PAYS A LOWER SALARY?

The Fund rules say that if you have a genuine reduction in your salary used to determine your FAS then your actual FAS can't be less than the FAS that applied immediately before the reduction occurred and this pre-reduction FAS is indexed each year with the change in Average Weekly Ordinary Time Earnings (AWOTE) for Australian workers. This protects your benefit from the effect of a salary reduction.

**Please note:** Working part-time by itself doesn't mean a salary reduction occurs, unless your hourly pay rate is also reduced with the part-time work because the Fund always uses a full-time equivalent salary to calculate defined benefits.

### MEMBER BENEFIT MULTIPLE (MBM)

Your MBM is a number that reflects how long you have been a contributing member to the Energy Super DB category in the Fund and your work situation over that time.

Your MBM increases by 0.195 for each year of membership over which you worked in full-time employment. The MBM also takes into account any periods that you worked less than your normal full-time hours or took extended leave without pay.

#### Example:

If your DB membership was 20 years made up of 15 years full-time, 4 years of part-time at 4 days per week (80%) and 1 year of leave without pay (LWOP) your MBM would be 3.549, calculated as follows:

**Full-time MBM is (15 X 0.195 X 1.0) = 2.925**

plus

**Part-time MBM is (4 X 0.195 X 0.80) = 0.624**

plus

**LWOP MBM is (1 X 0.195 X 0.0) = 0.0**

**Total MBM = 2.925 + 0.624 + 0.0 = 3.549**

### MEMBER'S RESERVE FACTOR (MR)

Your MR factor is a reduction factor that applies to your benefit calculation if you are under age 55 when your defined benefit is calculated. Once you reach age 55 your MR factor will be 1.0 for future calculations. For DB members under age 55, your MR factor is reduced by 0.02 for each year (in years and complete days) that you are under age 55, but won't be less than 0.70.

#### Example:

If you were to calculate your MR factor on your 50th birthday it would be:

MR factor = 1.0 less (5 X 0.02)

MR factor = 0.90

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## MEMBER RESERVE BENEFIT TESTS

When calculating your Energy Super DB three tests are applied to ensure that you receive your appropriate benefit amount which is the greater of:

1. An amount that is 2.5 times the balance of your Member Account in the DB section of the Fund up to age 55\*.
2. The amount calculated using the standard benefit formula (FAS X MBM X MR factor) described on page 1 and in the following examples.
3. Your Minimum Requisite Benefit (MRB) which is a defined benefit amount specified by Superannuation Guarantee law and determined by the Trustee.

*\*For most DB members this amount is frozen at age 55 and does not increase thereafter.*

## SOME EXAMPLES OF CALCULATING DEFINED BENEFITS FOR MEMBERS WORKING LESS

The following three examples are provided to show how defined benefits are calculated for different scenarios. The first two scenarios are simple situations where a DB member experiences a reduction in either "hours worked" or "salary", but not in both. The third scenario is more complicated, being a reduction in both.

### Scenario 1 (reduced working hours)

Bill, aged 58 years, has an Energy Super DB account and has been a member for 32 years. He worked full-time (40 hours per week) for 30 years, then reduced his working hours to 32 hours per week (a 4 day week) for 2 more years before retiring. Bill's hourly pay rate remains unchanged and his FAS is based on his average salary over one year.

Bill wants to finish work and be fully retired. His salary in his last year of employment was \$80,000 (full-time equivalent salary). His actual earnings that year were 80% of his salary (\$64,000).

Bill's defined benefit calculation at retirement uses the following numbers:

FAS = \$80,000

MBM = (30 yrs X 0.195) + (2 yrs X 0.195 X 0.8)  
MBM = 6.162

MR factor = 1.0 (Bill is over age 55)

Defined benefit = (\$80,000 X 6.162 X 1.0)

Bill's defined benefit at retirement = \$492,960\*

*\*Bill's actual benefit is subject to a minimum of at least the Member Reserve benefit tests described earlier in this fact sheet, which could be more but not less.*

### Scenario 2 (reduced salary)

Sam, aged 60 years, has an Energy Super DB account and has been a member for 35 years. He worked full-time (40 hours per week) for 30 years, then changed roles, working for the same employer, for 5 more years on a reduced salary until he retired. Sam's hourly pay rate at the time of his salary reduction was about 70% of his pre-reduction salary. His FAS is based on his average salary over one year.

If we make the following assumptions we can calculate Sam's retirement benefit:

- Sam's pre-reduction FAS was \$90,000
- Sam's post-reduction FAS was \$60,000
- AWOTE increases by 15% in the last 5 years before Sam retires
- Sam's Final average salary at retirement was a 20% increase on his post reduction FAS of \$60,000.

We need to calculate Sam's two FAS amounts using, (a) his pre-reduction FAS increased by AWOTE, and (b) his post-reduction FAS increased by 20% as follows:

(a) is [\$90,000 + (\$90,000 X 0.15)] = \$103,500

(b) is [\$60,000 + (\$60,000 X 0.20)] = \$72,000

The higher FAS (a) is used to calculate Sam's defined benefit at retirement as follows:

FAS is \$103,500

MBM is (35 yrs X 0.195) = 6.825

MR factor = 1.0 (Sam is over age 55)

Defined benefit = (\$103,500 X 6.825 X 1.0)

Sam's defined benefit at retirement = \$706,387.50\*

*\*Sam's actual benefit is subject to a minimum of at least the Member Reserve benefit tests described earlier in this fact sheet, which could be more but not less.*

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## Scenario 3

### (a combination of changed working hours and reduced salary)

Kerry, aged 55 years, has an Energy Super DB account and has been a member for 30 years. Kerry's employment arrangement specifies a standard 9 day fortnight, but for the last 5 years Kerry had an agreement with his employer to work regular additional hours each fortnight for which he receives a 13% salary loading. Kerry's salary as advised by his employer is \$90,400 per annum, which includes the 13% loading for the extra hours he regularly works.

Kerry plans to reduce his working hours leading into retirement so, for the next two years, will work half of the standard 9 day fortnight (i.e. 4.5 days each fortnight).

By making the choice to change to a 4.5 day fortnight, Kerry is no longer eligible to receive the 13% loading on his salary.

To summarise the above, we can say:

- Kerry's FAS before he reduced his hours was \$90,400
- Kerry's full-time equivalent salary after reducing his hours worked was \$80,000. (The 13% loading no longer applies)
- Kerry's part-time salary when working 4.5 days each fortnight was \$40,000.

We will also make the following assumptions:

- Kerry's salary at retirement has increased to \$43,200 therefore his full-time equivalent salary is at retirement \$86,400
- the change in AWOTE during the two years before Kerry's retirement is 4% per annum, which is 8.16% (used to index Kerry's pre-reduction FAS of \$90,400 over the last two years).

We need to calculate Kerry's two FAS amounts using,

(a) his pre-reduction FAS increased by AWOTE, and

(b) his post-reduction FAS increased by \$6,400 as follows:

$$(a) \$90,400 + (90,400 \times 0.0816) = \$97,777$$

$$(b) \$43,200 \times 2 = \$86,400$$

### Calculating the benefit:

We also need to calculate Kerry's MBM in two parts,

(c) during his 30 years of full-time work, and (d) during his 2 years working half the normal hours (4.5 days each fortnight):

$$(c) (30 \text{ yrs} \times 0.195) = 5.85$$

$$(d) (2 \text{ yrs} \times 0.195 \times 0.5) = 0.195$$

Therefore Kerry's total MBM = 6.045

We now have all the information to calculate Kerry's defined benefit at retirement using the following formula:

Defined Benefit = (FAS X MBM X MR factor)

- FAS is the higher of his AWOTE indexed pre-reduction FAS (\$97,777) and his actual full-time equivalent salary at retirement (\$86,400)
- MBM previously calculated is 6.045
- MR factor is 1 because Kerry's age is greater than 55.

$$\text{Defined benefit} = (\$97,777 \times 6.045 \times 1.0)$$

Kerry's defined benefit at retirement = \$591,062\*

*\*Kerry's actual benefit is subject to a minimum of at least the Member Reserve benefit tests described earlier in this fact sheet, which could be more but not less.*

## NEED MORE INFORMATION

For more information about your defined benefits please check your *Annual Statement* or read the *Energy Super Defined Benefit Handbook* available online at [energysuper.com.au](http://energysuper.com.au)

We're here to help – Call **1300 436 374**

Email [info@energysuper.com.au](mailto:info@energysuper.com.au) or visit [energysuper.com.au](http://energysuper.com.au)

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