Defined Benefit Scheme

Deferred (left after 1988) account

first state super

for members who left the fund after 1 July 1988

These Explanatory Notes provide a summary of your deferred (left after 1988) account and should be read in conjunction with your benefit estimate or statement.

The following sections outline when a benefit may be payable to you, and your payment options. The rules are complex. In the event of any inconsistency between this summary and the trust deed, the trust deed will prevail.

What is a deferred benefit?

A deferred benefit represents the component(s) of your former defined benefit account that has become deferred since the date you changed employers or ceased contributing to the Defined Benefit Scheme, and remains deferred until you become eligible to receive it.

A defined benefit is where your super benefit is determined by a formula (set out in the fund's trust deed), which is usually based on your salary. Your employer contributes to the amount needed to enable the fund to pay the benefit to you, based on agreed contribution rates and other variables such as inflation.

You may also have an accumulation account with us or another superannuation fund designed to receive contributions paid by your employer, which are based on your ordinary time earnings.

For more information about the features and conditions of your accumulation account in the fund please refer to the *Member Booklet* available from **firststatesuper.com.au/pds** or call us on 1300 650 873.

How your deferred benefit is calculated

Your account gives you two payment options when you retire on or after age 55, or should you become permanently disabled or die. Accordingly, either you, your eligible dependants or legal personal representative can choose one of the following two options.

Option 1 – Lump sum and pension

Lump sum

We maintain two accounts for your lump sum:

- **Earnings-based account** – updated with the defined benefit rate of return, and
- **Defined account** – updated every six months in accordance with consumer price index (CPI) movements.

To determine your lump sum benefit as at the date of your benefit estimate or statement, we take the higher amount of these two account balances at that date, assuming a lump sum benefit is payable to you under the terms of the trust deed.

The amount used to update the lump sum in Option 1 (the higher of the two accounts above) is displayed in the summary under 'Option 1 – Lump sum and pension' on your benefit estimate or statement.

Pension

Your pension is updated twice yearly in accordance with Consumer Price Index (CPI) movements.

If you are under age 55

Your benefit estimate or statement shows your fortnightly pension value when you turn 55.

If you are age 55 or over

Your benefit estimate or statement shows your fortnightly pension value if you were to start having your pension paid as at the date of the benefit estimate or statement.

Until you turn 65 your pension is discounted from its full value using the appropriate age factors as set out in the fund's trust deed. If you elect to take your pension before age 65, the discounted amount is the amount you will be paid for life, plus twice yearly changes according to CPI movements.

Option 2 – Lump sum only

Your lump sum amount is adjusted twice yearly in accordance with CPI movements.

How your supplementary account benefit is calculated (if applicable)

You may also have a supplementary account. This account relates to the additional contributions that you made prior to 1 January 1994. The supplementary account is a separate earnings-based account that is maintained on your behalf alongside your deferred account.

The supplementary account is updated with investment returns at the defined benefit rate of return each year. For more information about the earning rates applicable for previous financial years, see the long term defined benefit returns table on your latest annual statement.

If applicable, your supplementary account benefit is summarised in your benefit estimate or statement along with your deferred account benefit.

How the CPI works

Movements in the CPI are provided by the Australian Bureau of Statistics and are pro-rated over the number of days your pension or lump sum is in your account, from the time that your defined benefit is transferred into the deferred account.

Applying the CPI helps your lump sum and/or pension retain the same purchasing value in line with inflation over time.

Payment of your deferred benefit

Under government legislation, preserved benefits must remain in a superannuation account until a condition of release is met. For Australian citizens and permanent residents, situations in which your benefit may be released include when you:

- reach your preservation age (refer to the table below) and have permanently retired
- apply for the release of your entitlements due to severe financial hardship or on compassionate grounds
- die, become permanently incapacitated or terminally ill.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

Payment conditions under the trust deed must also be satisfied. For more information about the preservation rules and conditions of release, including a full list of release conditions, read the *Access to your super* factsheet at **firststatesuper.com.au/factsheets** or call us.

If you are ineligible to receive payment of your deferred benefit under the trust deed and/or the conditions of release, you may transfer the balance of your deferred account out of the Defined Benefit Scheme.

If you die

If you die while you are a member of the Defined Benefit Scheme, your eligible dependants will receive a death benefit.

Option 1 – Lump sum and pension

The higher amount of the earnings-based lump sum account and the defined lump sum account (see page 1) is paid to your eligible dependants (as defined under the fund's trust deed). If you have no dependants, the amount is paid to your estate.

The pension entitlement is payable to your eligible spouse for life (two thirds of the age 65 pension value, regardless of his/her age). If you have eligible dependent children, a child allowance is also payable (subject to certain conditions). If you have an eligible spouse and dependent children, both payments are payable. If you have no spouse or dependent children, a refund of pension contributions will be paid to the estate.

Option 2 – Lump sum only

The lump sum amount is updated with CPI movements to the date of your death. Your benefit is paid to your eligible dependants (as defined under the trust deed). If you have no dependants, the amount is paid to your estate.

If you become permanently disabled

If you become totally and permanently disabled you will receive a benefit.

Option 1 – Lump sum and pension

The higher amount of the earnings-based lump sum account and the defined lump sum account (see page 1) up to the date you become permanently disabled is paid to you.

The age 65 fortnightly pension amount becomes payable, regardless of your age. If there are eligible dependent children, a child allowance for each child is also payable (subject to certain conditions).

Option 2 – Lump sum only

The lump sum amount is updated with CPI movements to the date you become permanently disabled. The amount is paid to you.

Beneficiary nominations

Defined benefit members can make binding death beneficiary nominations for the lump sum component of their account (excluding any lifetime pension). If there is a valid binding death benefit nomination in place at the time of death, we will pay a lump sum to each of the nominated beneficiaries in the proportions specified, provided the nomination remains valid. A binding death benefit nomination:

- is valid for a period of three years if it is a lapsing nomination
- does not expire if it is a non-lapsing nomination
- is invalid if one or more beneficiaries die or no longer meet the definition of 'dependant' at the time of your death.

To make a binding nomination, download the form from **firststatesuper.com.au/nominate** or call us and we will send you the form. We also have forms to enable you to change, renew or cancel your nomination. Details of any binding beneficiaries will be shown on your next statement.

Who can receive a death benefit?

The person(s) you nominate under a binding nomination must be a 'dependant' (as defined by Commonwealth laws, including taxation and superannuation laws, and the fund's trust deed) or your legal personal representative. Your legal personal representative is the executor or administrator of your estate.

A dependant can include one or more of the following at the time the trustee pays the benefit:

- your current spouse or de facto
- your children, including step, adopted and ex-nuptial children
- any person(s) financially dependent on you, or
- a person in an interdependency relationship with you.

More information about dependants and how your super is distributed after your death can be found on our website.

Long term defined benefit returns

The earnings-based account for the lump sum in Option 1 is updated with the defined benefit rate of return. The returns for each of the last five years, including the five and ten-year compound average returns, are shown on your latest annual statement. Please remember, past performance is not an indication of future performance.

Your estimated benefit entitlements

Your benefit estimate or statement provides an estimate of significant benefit entitlements. These estimates are indicative only and are not a promise of any particular benefit or amount. Any benefits paid are subject to preservation rules and are in addition to the superannuation guarantee contributions your employer pays into your accumulation account (if applicable).

Transferring your balance

If you are under age 55

Under the trust deed, you may transfer your lump sum (Option 2 only) at its discounted present day value. You can move this into an accumulation account within the fund, or transfer it to another complying fund of your choice. By doing this you will be voluntarily leaving the Defined Benefit Scheme and your money will attract investment returns at the rate applicable to your chosen investments instead of CPI adjustments.

What does discounted present day value mean?

A discount rate of 4% compounded annually will be subtracted from the lump sum amount (under Option 2) in your deferred benefit account for every year (including part thereof) that you are under age 55.

This discounted benefit is classified as preserved and therefore cannot be paid to you as a cash benefit. It must go into another superannuation account.

If you are age 55 or over

You can transfer your lump sum into an accumulation account within the fund or another complying superannuation fund of your choice. By doing this your money will attract investment returns at the rate applicable to your chosen investments instead of CPI adjustments. At or after age 55 your lump sum deferred benefit is no longer subject to the 4% discounting rate.

You should seek professional financial advice before you make a decision about transferring your benefit. For information about our accumulation account, read the *Member Booklet* available at **firststatesuper.com.au/pds** or contact us.

Investment fees and costs

Investment fees only apply to your earnings-based account and not your defined account. These fees reflect a broad range of fees and costs associated with the purchase/sale and ongoing management of investments of the scheme and underlying investment vehicles.

Investment fees are paid from the assets of the scheme and are not deducted directly from your defined benefits. The defined benefit rates of return are calculated after investment fees and relevant tax deductions.

Investment fees may vary from year to year and cannot be precisely calculated in advance. **Important**: As a guide, the table below shows estimates of these fees and costs for the **12 months to 30 June 2018**. However, you should remember that past costs are not a reliable indicator of future costs.

Estimated investment fees (% per year)

Investment management costs	Performance-related costs	Transaction costs	Other fees and costs	Total investment fees
0.30%	0.20%	0.11%	0.10%	0.71%

Investment management costs

Investment management costs reflect fees paid to investment managers and a range of specialist investment consultants, as well as the costs of the First State Super investment team which is responsible for setting the fund's investment strategy and overseeing the fund's investment portfolios. These costs may be paid from the fund or deducted from underlying investment vehicles.

Performance-related costs

We don't directly deduct any performance based fees from member accounts. However, we have performance fee arrangements with a number of external investment managers. These costs may be paid from the assets of the fund or deducted from underlying investment vehicles and are subject to change without notice to you.

The estimated performance-related costs for the 12 months to 30 June 2018 are shown above. A performance-related cost may be payable once performance above an agreed level has been reached and is typically capped at an upper percentage limit. If performance-related costs are payable by the fund or an underlying investment they will increase the investment fees payable for that investment option. The method of calculation varies, but generally these fees are calculated as a percentage of the investment returns that exceed an agreed level of return. Investment managers with performance-related fee arrangements may also be entitled to a base percentage fee.

It is important to note that the amount of performance-related costs cannot be accurately predicted in advance. The actual amount of performance-related costs incurred in a particular financial year will depend on the allocation to these investment managers and underlying investments, as well as the actual investment performance for the relevant year

Transactional and operational costs

Transactional and operational costs are a broad category of costs that relate to the purchase/sale of the assets of the fund or an underlying fund or other investment vehicle. These costs are deducted from the assets of the fund or the underlying investment vehicle, as relevant, when they are due and payable and are an additional cost to you. Transactional and operational costs include both explicit and implicit costs. The amounts shown above reflect all explicit transaction costs incurred for the 12 months to 30 June 2018.

Explicit transaction costs include, but are not limited to, the following:

- **Brokerage** – the amount paid to a broker when buying and selling securities, for example shares on a stock exchange. In some overseas markets stamp duty is also payable in relation to share transactions which we consider a part of brokerage. While brokerage is an additional cost of investing, as a large institutional investor, First State Super is able to access wholesale brokerage rates which are generally cheaper than retail brokerage rates.
- **Clearing fees** – fees payable in relation to futures trades to a clearing house for facilitating settlement and reconciling orders between transacting parties (buyers and sellers).

- **Stamp duty** – a government tax paid on the legal transfer of property and certain other assets from one owner to another. As mentioned above, in certain countries stamp duty is payable in relation to equity transactions. However, the majority of the stamp duty incurred by the fund relates to investments in direct property and infrastructure where stamp duty costs can be significant.
- **Commissions** – a percentage of the sale amount paid to a selling agent, for instance, when a direct property investment such as an office building is sold. Like stamp duty, commission amounts can be substantial.
- **Buy/Sell spreads** – a charge incorporated into the application (buy)/redemption (sell) unit price of an investment product to cover the costs of transacting. Investments in certain external funds may attract buy/sell spread charges.
- **Due diligence costs** – the costs associated with researching a potential investment, for example legal and advisory costs.

In addition to explicit costs, implicit transaction costs are embedded in the price of certain investments. Implicit costs include bid/offer spreads, which are the difference between the price a buyer is willing to pay (the bid price) and the price a seller is willing to accept (the ask price) or a particular security. Bid/offer spreads may be incurred when converting one currency to another, as well as when buying and selling listed equities and fixed income securities such as bonds. For listed securities, implicit costs may also include market impact, which refers to the effect an investor can have on the price when buying or selling an asset: typically an upward effect when buying, or downward effect when selling. In general, highly liquid securities result in lower market impact costs than less liquid securities. Many of these implicit costs are estimates as they are not known with certainty.

An estimate of implicit transaction costs for the 12 months to 30 June 2018 is provided in the table on the right, which, together with the explicit transaction costs reported above, make up the total estimated transactional and operational costs (also shown on the right).

Other fees and costs

The amounts shown under the other fees and costs category reflects a range of other expenses associated with the fund's investments. This includes fees paid to the custodian to hold the assets of the fund, as well as amounts paid to accounting/audit and tax specialists to assist with the reporting obligations of the fund and underlying investments. Finally, it includes the estimated costs associated with the use of over-the-counter (OTC) derivatives which, rather than being traded on a listed financial market, are private contracts traded directly between two parties. For example, a number of foreign investments are hedged to the Australian dollar via the use of currency forward contracts, a type of OTC derivative. This helps minimise the impact of currency fluctuations on investment returns.

Borrowing and property operating costs

Borrowing and property operating costs are an additional cost to you of investing in certain investment options. Borrowing costs include loan establishment costs and interest payments and are most significant for illiquid asset classes such as property and infrastructure where asset prices can be substantial. Property operating costs include a range of costs associated with managing property investments, for example council and water rates, utilities and lease renewal costs.

These costs are deducted from the income or assets of the fund or an underlying investment vehicle, as relevant, when they are due and payable.

An estimate of implicit transaction costs, property operating costs and borrowing costs for the 12 months to 30 June 2018 is provided in the table below.

Estimated implicit transaction costs	Total estimated transactional and operational costs	Property operating costs	Borrowing costs
0.03%	0.14%	0.10%	0.09%

It is important to note that past costs are not a reliable indicator of future costs and the amount of transaction costs will vary from year-to-year depending on the type, size and frequency of transactions. In general, illiquid asset classes such as property and infrastructure tend to have higher transaction costs (for example stamp duty) compared to more liquid asset classes like equities and fixed income. Similarly, actively managed portfolios that trade investments frequently tend to have greater transaction costs compared to passively managed strategies which replicate an index.

Additions or alterations to fees and charges

All fees and costs may be revised by the trustee from time to time without member consent. For example, fees and charges may increase when there are changes in superannuation law, or there are increases in fees charged by First State Super's service providers. The trustee may also introduce new fees and charges. The trustee will give you at least 30 days prior notice if there is an increase in fees and charges or if a new fee or charge is introduced that affects your Deferred (left after 1988) account. This excludes fees which are estimates as the actual fees charged may be more or less than estimated.

Service and advice

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