Defined Benefit Scheme

Pre-1988 account

first state super

for members who joined the fund before 1 July 1988

These Explanatory Notes provide a summary of your defined benefit 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. In the event of any inconsistency between this summary and the trust deed, the trust deed will prevail.

What is a defined benefit?

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. Salary refers to your base rate of pay and includes allowances that are regularly paid over a 52-week period, but does not include reimbursements. Please refer to the trust deed for the full definition.

Your employer is required to contribute towards your defined benefit. Employer contributions are not allocated to individual member accounts, instead they are allocated to the defined benefit pool from which all of the fund's defined benefits are paid.

Member defined benefit contributions are included in the non-concessional contribution cap, however employer defined benefit contributions are classed as notional and are not included in the non-concessional contribution cap. For more information about the contribution caps, please refer to the fact sheet available on our website.

Generally you will also have an accumulation account designed to receive superannuation guarantee contributions paid by your employer. These contributions are based on your ordinary time earnings.

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

Things that could affect your final payment

1. Your Adjusted Final Fund Salary (AFFS)

Your AFFS is based on your fund salary, details of which are provided by your employer. It represents the greater of your average salary (over the last two years of service) and your salary at 01/01/1994. If you work part time, the equivalent full-time salary (had you worked full time) over the last two years will be used for calculation purposes. Your benefit will change based on changes to your salary.

2. The date you joined the Defined Benefit Scheme

Refer to your benefit estimate or statement for the date you joined the Defined Benefit Scheme.

3. The date you joined service

This date relates to the calculation of your benefits for taxation purposes. It is also used to calculate the deferred component of your resignation benefit.

4. The percentage of full-time hours you work

If you do not work full time, the service proportion refers to your actual hours worked, divided by the prescribed full-time hours for the position.

If you work full time, the service proportion is 100%. Your service proportion is provided to us by your employer.

5. The amount you have paid

This is the total amount (after-tax) you have paid into your defined benefit account during the current financial year. It is based on a contribution rate of either 6% or 3.5%[1], being the percentage of your fund salary paid into the scheme.

[1] Those members who elected not to join the pension scheme will be contributing at a rate of 3.5%.

6. How you have been medically classified

Members are classified in order to calculate death and disability entitlements. This will not affect your other entitlements.

7. Your current multiple

This is determined by your contribution rate, together with years and completed months of membership in the Defined Benefit Scheme, as at the date of your benefit estimate or statement. Different multiples apply depending on the circumstances in which your benefit is taken (e.g. resignation or retirement).

The basics

Your benefits are calculated as:

Benefit multiple x AFFS = your benefit

The benefit that will be paid to you depends on the circumstance in which your benefit is taken. For example, resignation if you are under age 55 or retirement if you are age 55 or over. Your multiple is determined by your contribution rate and your years and completed months of membership at the date of the benefit estimate or statement. If you have worked on a part-time or casual basis, the accrual rate is multiplied by your service proportion for that period.

Benefit accrual rates based on contribution rates

Your contribution rate	Resignation multiple	Retirement multiple (benefit accrual rate since 2002)**
0%	0	0
3%	3%	3%
4%	4%	4.5%
6%*	6%	10%

* 6% rate closed December 1993.

** For benefit accrual rates prior to this date refer to the trust deed which is available online or by contacting us.

Before withdrawing your benefit

You should seek up-to-date information from us as your benefit entitlements may change. Further, you can only withdraw your benefit if permitted under the trust deed and superannuation legislation. For details see **Your benefit entitlements** on this page.

If you change jobs

Your new employer is not obliged to contribute to your defined benefit account. Subject to approval of the trustee (at its discretion), your new employer may contribute to your defined benefit account if you provide them with your member number and contribution rate. If your new employer does not agree, your defined benefit account may cease. Please call us on 1300 650 873 for further information.

When a benefit becomes payable

From the date you cease employment with your defined benefit employer, your lump sum will be updated with returns at the defined benefit rate of return until the effective date of closure of your account. The effective date of closure of your defined benefit account may be a date prior to the date of payment. Where deferred benefits are selected, you will receive a statement summarising your entitlement(s).

If a surcharge is deducted

If we receive a surcharge tax assessment from the Australian Taxation Office (ATO) relating to your defined benefit contributions, we deduct the surcharge from your accumulation account with the fund. Surcharge tax was abolished on contributions made after 30 June 2005, however assessments may still be received from the ATO after this date.

Your benefit entitlements

Payment of your benefit is subject to preservation rules and conditions of release. For more information read the *Access to your super* factsheet at **firststatesuper.com.au/factsheets**. Please note the calculation of preserved amounts for defined benefit members differs from the standard information available on our website, and you should refer to your benefit estimate or statement for your preservation amounts.

These amounts assume that you have not stopped working for your employer. When you do, any amount noted as restricted non-preserved will be reclassified as unrestricted non-preserved and made available for you to withdraw (subject to the defined benefit rules). Depending on your age, tax may be applicable on your benefits and will be deducted as required by law.

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

If you resign before age 55

Option 1 – Immediate lump sum and Deferred lump sum

Your entitlement will consist of an immediate lump sum (payable immediately, subject to preservation rules) and a deferred lump sum, payable upon meeting a condition of release.

Type	What is it?	Formula used
Immediate	This benefit represents a percentage (6%) of your AFFS. This component is subject to preservation.	Resignation multiple x AFFS
Deferred	This benefit represents a portion of your retirement benefit. The deferred component cannot be taken in cash upon cessation of employment or rolled out of the fund. It is updated twice a year in accordance with movements in the Consumer Price Index (CPI) .	5% x (years and months of service less five years) x (Retirement multiple less Resignation multiple) x AFFS

Option 2 – Deferred lump sum and deferred fortnightly pension

Your entitlement consists of a deferred lump sum and a deferred fortnightly pension, payable upon meeting a condition of release.

Option 3 – Deferred lump sum

Your entitlement will consist of a deferred lump sum only, payable upon meeting a condition of release. This deferred lump sum will be updated bi-annually in accordance with movements in the CPI.

If you retire from age 55 you have two options

Option 1 – lump sum

This is calculated using the formula:
Your Benefit multiple x AFFS = your benefit.

Option 2 – lump sum and fortnightly pension

You will receive a lump sum and a fortnightly pension.

If you are retrenched before age 55 you have two options

Option 1 – lump sum

This is paid instead of a resignation benefit (subject to preservation rules), and is calculated as if you retired on the date you were retrenched.

Option 2 – lump sum and deferred fortnightly pension

The lump sum may be paid, subject to preservation rules. The benefit is calculated as if you retired on the date you were retrenched. The deferred fortnightly pension is deferred until you reach your preservation age and is updated twice a year in accordance with movements in the CPI.

If you are retrenched after you turn 55, you will receive your retirement benefit.

If you die while an active Defined Benefit Scheme member, your eligible dependants have two options

Option 1 – lump sum

Calculated by adding your accrued retirement benefit (at your date of death) to an amount projected through to age 60 – subject to your medical classification[1]. If you are over 60, the lump sum benefit is your retirement benefit. If you have no eligible dependants, your resignation benefit will be payable to the legal personal representative of your estate.

[1] A minimum benefit may also apply under Option 1.

Option 2 – lump sum and fortnightly spouse and/ or dependant pension

This is your retirement benefit at the date of your death[2]. The lump sum and fortnightly pension are paid to your eligible spouse and/or other eligible dependants (other than a child) if permitted by the trust deed. The fortnightly pension is equal to two thirds of the disablement pension. A children's allowance may also be payable if there are eligible children. If you have no eligible dependants, the lump sum, together with a refund of contributions made towards the pension scheme, is paid to the legal personal representative of your estate (subject to certain conditions).

Note: Payment of a pension to a child aged 18 or more after a member's death is subject to government restrictions. For further information call us on 1300 650 873.

[2] In some cases a minimum death benefit may apply.

If you become permanently disabled while an active Defined Benefit Scheme member, you have two options

Option 1 – fortnightly pension

If you are aged 60 or under, your benefit is calculated the same way as your death benefit, but paid as a fortnightly pension. If you are aged over 60, you will be entitled to your retirement benefit paid as a lump sum.

Option 2 – lump sum and fortnightly pension

Benefits are calculated the same way as your death benefit under Option 2 above, and paid as a lump sum plus a fortnightly pension (age 65 pension). A children's allowance may also be payable if there are eligible children.

How the lump sum in each 'Option 2' is calculated

(applies to resignation, retirement, retrenchment, death and permanent disablement)

We maintain two accounts for you; an earnings-based account, and a defined benefit account. The lump sum that appears on your benefit estimate or statement represents the greater of:

Account type	How is it calculated?
Earnings-based	The earnings-based account is updated with the defined benefit rate of return as at 30 June each year[3]. For more information, see **Defined benefit rate of return** on page 4.
Defined benefit	The defined benefit style lump sum is updated with your relevant AFFS

[3] If you leave during the financial year, your account will be calculated using an interim defined benefit rate of return.

About your fortnightly pension

This is calculated using your membership period, your age and your AFFS, and represents a percentage of your fund salary.

- **Protecting your family** – A reversionary pension is payable to your eligible spouse or other eligible dependant, other than a child (subject to any legislative requirements) if you die.
- **Children's allowance** – An allowance may also be payable per eligible child upon your death or disablement. Eligible children are either under the age of 18, or between 18 and 25 and are full-time students and financially dependent. The current allowance rate per child per fortnight is updated twice a year in accordance with movements in the CPI, and is payable in addition to a disablement or reversionary pension.
- **Flexibility** – You may be eligible to commute part of your entitlement into a lump sum, subject to certain conditions.
- **Updating your pension** – The pension is updated twice a year in accordance with movements in the CPI.

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 at **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.

Dependants 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.

For more information about dependants, call us on 1300 650 873.

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).

Defined benefit rate of return

The earnings-based account in Option 2 on your benefit estimate or statement is updated with the defined benefit rate of return. The returns for the last five financial years and the five and ten-year compound average can be found in your latest annual statement. The five or ten-year defined benefit rates of return are not indicative of the returns applicable to your account.

Your transaction listing on your benefit estimate or statement

Your defined benefit member contribution amount, the salary upon which contributions were based, and the service proportion relating to that pay period, is listed on your benefit estimate or statement. If you work part time the salary is then divided by the service proportion to provide your equivalent full-time salary for that period. These figures are used to determine your defined benefit fund salary.

To calculate your AFFS using your transaction listing, add your salaries from the last two years together and divide by two. If a minimum 01/01/94 salary applies to you, this will be shown on your benefit estimate or statement.

If any of this information appears incorrect, please check with your employer.

Investment fees and costs

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 page 6, which, together with the explicit transaction costs reported above, make up the total estimated transactional and operational costs (also shown on page 6).

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 ongoing 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 Defined Benefit (Pre-1988) account. This excludes fees which are estimates as the actual fees charged may be more or less than estimated.

Need financial advice?

Super can be quite complicated and sometimes you might want help just to make sure you're making the right decisions. If you do have a question or two about your super, or you would like advice about other financial matters, why not give us a call? You can choose from a range of services from simple phone advice through to a comprehensive financial plan. For more information, call 1300 650 873.

Financial planning services are provided by First State Super Financial Services Pty Limited (ABN 37 096 452 318, AFSL 240019). First State Super Financial Services is wholly owned by the FSS Trustee Corporation and is responsible for the advice that they provide. General advice relating to your superannuation may also be provided by the trustee, FSS Trustee Corporation.

Service and advice

Phone 1300 650 873
Fax 1300 722 072
Email enquiries@firststatesuper.com.au
Web firststatesuper.com.au
Post PO Box 1229
Wollongong NSW 2500

DB_PRE1988_10/18