

## APPENDIX A

### Summary of membership, contribution and benefit provisions of the Military Superannuation and Benefits Scheme (MSBS)

The MSBS is governed by a Trust Deed and Rules established under the *Military Superannuation and Benefits Act 1991*. The Act, Trust Deed and Rules set out the full membership, contribution and benefit provisions of the MSBS. The provisions of the Scheme are complex and a summary of the principal provisions of the Scheme is set out below. It should not be used to calculate benefits for individuals.

#### Membership

Membership is compulsory for all members of the Permanent Force and Reservists rendering continuous full time service.

#### Definitions

Salary	Salary is actual salary including higher duties allowance, service allowance, and some qualifications and skills allowances.
Final average salary	Average annual salary received over the last three years prior to termination of service.
Accrual rates	The accrual rate is variable and calculated on a daily basis. The rate is 18 per cent for each of years of service 0 to 7, 23 per cent for each of years 8 to 20 and 28 per cent for year 21 and each year thereafter.
Total accrued multiple	The sum of the accrual rates for the total period of service.

#### Member contributions

Contributions rates are variable. There is a set base rate of 5 per cent of salary with an option to contribute additional amounts of up to 5 per cent in increments of 1 per cent (maximum contributions are thus 10 per cent of salary).

## **Scheme structure**

Member component	This consists of the member contributions paid into the MSBS together with accumulated earnings on the contributions.
Employer component	This consists of a defined benefit equal to: $\text{Total accrued multiple} \times \text{Final average salary.}$
3 per cent benefit	This consists of employer contributions of 3 per cent of salary less 15 per cent employer contribution tax together with accumulated earnings.  The 3 per cent benefit forms part of the employer component.

## **Retirement benefits (on or after age 55)**

On retirement the member would be entitled to a lump sum of:

- Member component + Employer component

The member has an option to convert between 50 per cent and 100 per cent of the employer component to a pension. The terms of conversion are determined by the member's age at the date of conversion. At age 55, \$12 of lump sum is converted to \$1 per annum of pension.

## **Resignation benefit (before age 55)**

On resignation, the member would be entitled to:

- an immediate lump sum of the Member component; and
- a Preserved Employer Benefit of the Employer component

The Preserved Employer Benefit is paid at age 55, or earlier in certain circumstances. The funded portion of the Preserved Employer Benefit (the 3 per cent benefit) is accumulated with Fund Earnings between the date of exit and the date of payment. The unfunded portion of the Preserved Employer Benefit (the portion in excess of the 3 per cent benefit) is increased in line with movements in the CPI between the date of exit and the date of payment.

When the Preserved Employer Benefit is paid the member has the same pension option as applies to retirement benefits.

## Retrenchment or redundancy

The benefit is calculated in the same way as the resignation benefit. The member may elect one of two options with the employer financed part of the benefit:

- take a Preserved Employer Benefit; or
- convert all of the Preserved Employer Benefit into an immediate pension. The conversion factor is dependent on the member's age.

## Invalidity benefits

Invalidity and death benefits depend on retirement age. At the time of preparing this report, steps were being taken to clarify that retirement age for the purposes of calculating invalidity benefits was 55 for most members. The relevant references to retirement age in the following formulae have been marked with an asterisk (\*).

The invalidity benefit payable depends on the level of invalidity suffered by the member.

Invalidity classification	Degree of incapacity
A	60% — 100%
B	30% — 59%
C	Less than 30%

### Invalidity A benefit

A benefit equal to:

- an immediate lump sum of the member component; plus
- a pension calculated as follows:

$$\frac{\text{Total Accrued Multiple at Retirement Age}^* \times \text{Final Average Salary}}{\text{Conversion Factor at Retirement Age}^*}$$

### Invalidity B benefit

A benefit equal to:

- an immediate lump sum of the member component; plus
- a pension equal to the better of:

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- (i)  $50\% \times \frac{\text{Total Accrued Multiple at Retirement Age}^* \times \text{Final Average Salary}}{\text{Conversion Factor at Retirement Age}^*}$ ; and
- (ii)  $\frac{\text{Total Accrued Multiple (to date of exit)} \times \text{Final Average Salary}}{\text{Conversion Factor at Age at Exit}}$

### Invalidity C benefit

The invalidity C benefit is the same as the resignation benefit.

### Death benefits for contributory members

The death benefit for a contributory member is:

- an immediate lump sum of the member component; plus
- an employer financed lump sum equal to:

Total Accrued Multiple at Retirement Age\* x Final average salary.

The surviving spouse of the member may convert between 50 per cent and 100 per cent of the employer financed lump sum into a pension. The amount of the pension is calculated as:

$$67\% \times \frac{\text{Employer Financed Lump Sum} \times \text{Proportion Converted}}{\text{Conversion Factor at Retirement Age}^*}$$

If the pension option is taken and there are dependent children, additional pension is paid.

### Pensions

Pensions are payable for the life of the pensioner and are increased twice each year in line with the movement in the Consumer Price Index (CPI). On the death of the pensioner, a pension of 67 per cent of the member's pension is paid to the surviving spouse (if any). An additional pension is payable in respect of children under age 16 (or age 25 if still in full time education). If there is no surviving spouse then in some circumstances orphan's pensions or a lump sum may be payable.

### Ancillary benefits

The ancillary section of the MSBS provides fully funded accumulation benefits. Ancillary benefits can arise in various ways including additional voluntary member contributions, salary sacrifice employer contributions, Government co-contributions, spouse contributions and transfers into the MSBS.

### **Superannuation guarantee**

Additional employer contributions are payable with effect from 1 July 2008 to the ancillary section of the MSBS on a quarterly basis to ensure compliance with Superannuation guarantee requirements. The contributions are paid in respect of both DFRDB and MSBS members at the rate of 9 per cent of eligible allowances that are not included in superannuation salary. The additional contributions are subject to a maximum of 9 per cent of the maximum quarterly earnings base for Superannuation guarantee less 9 per cent of superannuation salary for the quarter.