

DFRDB Benefits — Retrenchment or Redundancy

If you have served for less than 20 years:

Available immediately

- a return of your DFRDB contributions,
- a gratuity if applicable.

Available at a minimum age of 55:

- a lump sum 3% productivity benefit (to stay in a roll-over fund until age 55).

If you have served for 20 years or more:

Available immediately:

- your DFRDB pension based on your years of completed service, and
- if you are an officer notional retiring age penalties are waived.

Available at a minimum age of 55:

- a lump sum 3% productivity benefit (to be placed in a nominated roll-over fund until age 55).

In MSBS, if you are made redundant you can access the employer benefit before age 55 as long as it is taken as a pension.

MSBS Benefits — Retrenchment or Redundancy

Available immediately:

- your member benefit (a return of your contributions and interest*), and
- an employer benefit, based on your length of service, taken as a non-commutable pension.

Option to take benefit at a minimum age of 55:

- if you want to take part or all of your employer benefit as a lump sum, you must leave it in the MSBS until you reach age 55 and retire from the workforce.

*Note: The phase-in of access to notional interest on DFRDB contributions will be waived for members made redundant after transferring to the MSBS.

In MSBS, if you take your employer benefit as a pension when you are made redundant, the factor used to convert your lump sum to a pension will depend on your age on discharge. (The MSBS leaflet, *Resignation and Retirement Benefits*, includes pension conversion factors for ages less than 55 years.)

Statutory Retiring Age for Rank less than age 55

In DFRDB, you are entitled to a DFRDB pension if you reach your statutory retiring age for rank when you have completed a minimum of 15 years' service.

In MSBS, you have the same retirement provisions that apply to a member retrenched or made redundant (see above).

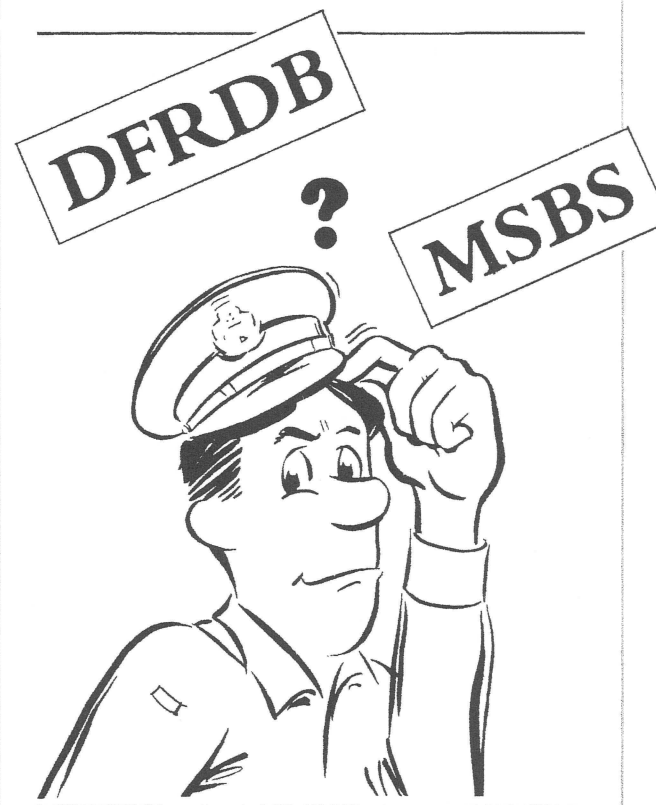
This leaflet has been prepared by the Military Superannuation and Benefits Scheme (MSBS) Implementation Team to provide you with information on Lifestyle Considerations. The leaflet is not a substitute for the legislation or matters requiring specific interpretation of the legislation.

Further information may be obtained on this topic from the MSBS Implementation Branch on (008) 020 555 or by writing to:

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LIFESTYLE CONSIDERATIONS



MSBS
MILITARY SUPERANNUATION
AND BENEFITS SCHEME

Lifestyle Considerations

You are going to make a very significant decision between 1 October 1991 and 30 September 1992. That is whether to remain a member of the DFRDB Scheme or whether to transfer to the MSBS.

When you have formally made your decision, you will not be permitted to change your mind. It is therefore important that you make your decision with a full understanding of how well the features and benefits offered in each scheme will suit your career aspirations and preferred lifestyle and retirement plans.

This leaflet raises a number of issues which you may need to think about in deciding whether DFRDB or MSBS is better for you. It is not intended to provide a detailed guide to the benefits in the DFRDB Scheme and the MSBS. An overview and comparison of the benefits in each Scheme will be provided in the Personal Information Kit you will receive in September 1991. The kit will contain your personal information statement and will also include the following publications:

- *DFRDB Booklet*
- *MSBS Booklet*, and
- *DFRDB or MSBS? — a comparison.*

How long do you intend to stay in the Defence Force?

The length of time you intend staying in the Defence Force will be an important consideration in deciding your preferred scheme.

I don't plan to stay in the Defence Force for 20 years

The dollars and cents value of your benefits from MSBS will be substantially higher than those you would get from the DFRDB Scheme if you are not planning to stay in the Defence Force for 20 years.

DFRDB Scheme — Benefits on resignation before completing 20 years' service (or 15 years of service for those reaching Statutory Retiring Age)

Available immediately:

- a return of your contributions to DFRDB,
- a small gratuity* (if applicable).

Available at a minimum age of 55:

- a lump sum 3% productivity benefit (which stays in a nominated roll-over fund until you reach a minimum age of 55).

* For \$ values of gratuities — see *DFRDB Booklet*

In DFRDB, if you go to work for an approved Government organisation after resignation, you may elect to take a deferred benefit. This entitles you to a pension calculated at the rate of 1.75% of pay for each completed year of service. Deferred benefits are discussed in more detail in the *DFRDB Booklet*.

MSBS — Benefits on resignation before completing 20 years' service.

Available immediately:

- a return of your contributions plus interest,* that is, your member benefit.

Available at a minimum age of 55:

- a lump sum employer benefit which stays in the MSBS and increases in value with the CPI until you retire from the workforce at or after age 55. You can then take this benefit as
 - a lump sum,
 - an indexed pension for life, or
 - a mixture of both (with a minimum of 50% to be taken as a pension);
- your employer benefit includes your 3% benefit entitlement.

* Note: Your DFRDB contributions on transfer will also be credited with a notional amount of interest although the interest is subject to phase-in arrangements if you leave before 30 September 1993.

I hope to stay in the Defence Force for at least 20 years

If you plan to stay in the Defence Force for at least 20 years then your choice between schemes may be more difficult. A major difference between the MSBS and DFRDB superannuation benefits is when you can access a retirement benefit.

In DFRDB you receive a retirement pension after completing 20 years service (or after 15 years if you have reached your statutory retiring age for rank). Under MSBS you generally cannot receive a full retirement benefit until you reach age 55 and retire from the workforce.

DFRDB — Benefits on retirement with 20 years service or more.

Available immediately:

- a life pension (indexed annually to the CPI) based on your whole years of completed service, and
- the option to commute up to 5 times your annual pension to a lump sum with consequent reduction in pension (commutation factor for 1991/92 is 4.45 times your annual pension).

Available at a minimum age of 55:

- a lump sum 3% productivity benefit (which stays in a nominated roll-over fund until you reach age 55).

MSBS — Benefits on resignation with 20 years service or more.

Available immediately:

- your member benefit (your contributions and interest).

Available at a minimum age of 55:

- an employer lump sum benefit at or after age 55 when you retire from the workforce with the option to convert part or all to a life indexed pension.

In MSBS, you may have also received:

- a retention benefit equal to about half of one year's salary cash in hand when you completed 15 years' service.

If you are in this category, you will probably consider a number of other factors related to your lifestyle when reaching your decision. Some important lifestyle factors are:

- your age when you plan to leave the Defence Force;
- your career plans after leaving the Defence Force;
- your family commitments; and
- your preference for a lump sum or pension retirement benefit.

Examples of the resignation and retirement benefits payable in DFRDB and MSBS will appear in the booklet, *DFRDB or MSBS? — a comparison*, in your Personal Information Kit. You can also obtain a forecast of your future benefits in DFRDB and MSBS using the computer disk *DFRDB/MSBS Benefits Forecasts (FRED Mark 3)*.

Do I plan to retire from the Defence Force when I reach or am close to age 55?

If you plan to stay in the Defence Force until you are close to or reach age 55, then MSBS may be the preferred financial option for you, because you would have a large MSBS employer benefit through many years' service.

On the other hand, if you plan to leave the Defence Force around age 50 and feel that you might have some difficulty in finding well paid employment until you retire from the workforce you may decide to stay in the DFRDB Scheme and receive a pension as soon as you leave the ADF.

What work will I do after retiring from the Defence Force?

Your choice of a DFRDB pension from the day you leave or an MSBS benefit at age 55 may also depend on your intended civilian career prospects after leaving the Defence Force.

If, like some members, you wish to have a regular supplementary income stream from the time you retire, because you want:

- to have a more relaxed job after you leave the Defence Force, or
 - to set up your own small business,
- then DFRDB may be your preferred option.

On the other hand, if you

- are likely to take up a well paid career elsewhere where superannuation is part of the package, and
- will pay high marginal tax rates on your DFRDB pension income until you retire from the workforce, and
- would like to take a larger lump sum benefit when you retire from the workforce,

then MSBS may be your preferred option.

My family commitments

The needs of your spouse and family will obviously play a most important role when you are considering how long you are likely to stay in the Defence Force and what you do after you leave. For instance, some members now choose to leave the Defence Force soon after completing 20 years service so that their family can settle down in one place.

Just as your choice of a home base is usually a joint decision, your spouse may also wish to be involved with your superannuation plans and your choice between DFRDB and MSBS.

Your spouse's income may be an important consideration when you are considering your need for a retirement pension as soon as you leave the Defence Force.

If you and your spouse each have substantial superannuation cover, then you may wish to take into account whether your spouse will get a lump sum benefit or pension when considering the benefits from MSBS and DFRDB.

If you have a family, you will probably wish to compare the dependants' benefits available to them in the event of your death while you are in Service or after you have left the Defence Force. Consideration of these benefits may be of particular importance to your spouse if he or she has little or no personal income.

The leaflet, *Dependants' Benefits*, outlines MSBS dependants' benefits. A comparison and examples of the dependants' benefits in MSBS and DFRDB will be provided in the booklet, *DFRDB or MSBS? — a comparison*, in your Personal Information Kit.

If you are a single member, you may also wish to consider the needs of your close relatives in the event of your death. The MSBS benefit paid to the estate of a deceased single member is far more generous than that paid under the DFRDB Scheme. The MSBS leaflet *Single Members* explains the benefits payable to the estate of single members. A comparison of the death benefits payable to the estate of single members in MSBS or DFRDB will also be provided in the booklet *DFRDB or MSBS? — a comparison* in your Personal Information Kit.

Would I prefer a lump sum or a pension benefit when I retire from the workforce?

The DFRDB Scheme offers you the option to commute a specific multiple of your annual pension benefit to a lump sum at the time of your retirement from the Defence Force. If you take this option, your annual DFRDB pension will be reduced by a small amount.

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In MSBS, you can take the entire retirement benefit as a lump sum if you wish. You can also decide the mix of lump sum and pension you wish to take from your employer benefit at age 55 provided that you take at least 50% as a pension. In MSBS, you will always receive your contributions plus interest as a lump sum.

Members more interested in taking a larger lump sum benefit on retirement may view the greater flexibility offered by MSBS on their retirement from the workforce as an important factor in influencing their transfer decision.

In considering whether or not you might like to take a lump sum or pension benefit, you will need to compare the lifetime value of a pension with the value of a lump sum. You will also need to consider the taxation of lump sum benefits and pensions.

Some members may prefer a large lump sum benefit to provide them with an income on retirement, for example, by investing in a business, or property. Other members may not want the worry of managing an investment and would prefer the security of a guaranteed income from an indexed pension.

The MSBS leaflets *How to value a superannuation benefit* and *Tax arrangements — a short introduction*, provide more information on these matters. In particular, the first leaflet explains how the MSBS pension is derived which for most makes that pension a more valuable option than a lump sum.

But what if I am retired from the Defence Force before age 55?

Retrenchment and Redundancy

The reduction in size of the Permanent Defence Force announced in the Force Structure Review foreshadowed a limited need for redundancy packages.

In DFRDB, if you are retrenched or made redundant you receive similar benefits to those given to a member resigning voluntarily.

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