

post-June 1990 proportion, gives the RBM applicable.

As an example, a person has an Old Pension RBM of 12.6 and a New Pension RBM of 9.8. The period of eligible service before 1 July 1990 was 9 200 days and the period of eligible service from 1 July 1990 was 2 800 days, a total period of 12 000 days.

The proportion of eligible service before 1 July 1990 is:

$$\frac{9\,200}{12\,000} = 0.767$$

The proportion of eligible service from 1 July 1990 is:

$$1 - 0.767 = 0.233$$

The RBM that applies is:

$$(12.6 \times 0.767) + (9.8 \times 0.233) = 11.95$$

Comparison of Benefits against RBL

The actual benefits you receive from MSBS will be compared against your RBL by the Insurance and Superannuation Commissioner. However in making the comparison the refund of your own contributions will not be taken into account. Allowance will also be made for the fact that the benefits are subject to tax, and only 85% or 80% of the benefit (depending on the rate of tax applying) will be counted against RBL.

Maximum Benefits Limits under MSBS

The foregoing should not be confused with Maximum Benefit Limits (MBLs) under MSBS. The Lump Sum MBL is the level of benefit achieved at which a member can choose to cease contributing to MSBS; while Pension MBL is the level of benefit achieved at which a member must cease contributing to MSBS. These limits are calculated using solely ADF salary as defined for MSBS purposes i.e. basic salary and where applicable, service allowance and higher duties allowance.

The MBLs take no account of other forms of salary or income, nor do they take account of other superannuation benefits to which a member may be entitled.

The RBL, on the other hand, is the upper limit of termination benefits that are subject to concessional tax treatment. A person's RBL is based on the highest level of all forms of income (as defined) and is measured against qualifying termination benefits from all sources.

As persons approach retirement, it may be necessary for them to monitor their superannuation entitlements against income, if they do not wish to exceed RBL.

If an ADF member:

- retires at age 55;
- takes his/her MSBS entitlements as part lump sum and part pension; and
- has a HAS based solely on ADF salary, then the pension MBL and the RBL will be close approximations.

This leaflet has been prepared by the Military Superannuation and Benefits Scheme (MSBS) Implementation Team to provide you with information on Reasonable Benefits Limits. 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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REASONABLE BENEFITS LIMITS

RBL



MSBS

MILITARY SUPERANNUATION
AND BENEFITS SCHEME

Reasonable Benefits Limits A Short Introduction

This pamphlet is intended to provide a quick introduction to Reasonable Benefits Limits. The full details are fairly complex, so this introduction can be no more than a general guide. If your total superannuation benefits come from MSBS, it is unlikely that they will exceed your RBL.

Overview

Superannuation benefits are subject to concessional rates of taxation. In general terms a person will pay less tax on a superannuation benefit than on the same amount received as normal taxable income.

There is, however, a limit set on the amount of superannuation benefit that can be received at the concessional tax rates. This is called the Reasonable Benefit Limit (RBL). When a superannuation benefit exceeds the RBL the excess is taxed at normal tax rates.

There is a Lump Sum RBL and a Pension RBL, with the Pension RBL being the greater.

The Lump Sum RBL applies when more than half of the superannuation benefits to which a person is entitled is taken as a lump sum. The Pension RBL applies when more than half of the benefits is taken as a pension. This rule is to encourage retired persons to take most of their superannuation benefits as pension and thereby to provide their own income support in retirement.

The RBL provisions are administered by the Insurance and Superannuation Commissioner.

What is my RBL?

In most cases, a person's RBL is related to his or her income before retirement.

Each RBL must be individually calculated. The higher a person's income the higher will be that person's RBL, but as shown below, the RBL becomes progressively a smaller proportion of income.

Highest Average Salary

Income is variable over working life and may even decline close to retirement because of reducing activity. The measure of pre-retirement income that has been adopted for RBL purposes, is Highest Average Salary (HAS). This is derived by taking the three consecutive financial years in which the person's income was highest and calculating the average annual income over those years.

The employer benefit under MSBS is to be paid generally at age 55 or later. Since most members will leave the ADF before this age, HAS will probably need to be derived from post-service civilian income.

Calculating the RBL

Having arrived at the HAS the person's RBL applying from 1 July 1990 can now be calculated. The HAS is "stepped" and multiplied by the Reasonable Benefit Multiple (RBM) in accordance with the following table:

HAS	LUMP SUM RBM	PENSION RBM
Up to \$39 970	7	11.25
\$39 971 - \$74 220	5	8.25
Above \$74 220	3	5.25

To illustrate how this table works, assume a person has a HAS of \$42 000 (i.e. \$39 970 + \$2 030).

The Lump Sum RBL is
 $(\$39\,970 \times 7) + (\$2\,030 \times 5) = \$289\,940$

The Pension RBL is
 $(\$39\,970 \times 11.25) + (\$2\,030 \times 8.25) = \$466\,410$

The amounts under the HAS column are to be indexed annually by the movement in average weekly earnings.

It will be noticed that although pension is set as a "per annum" amount, the Pension RBL is expressed as a total amount. The Insurance and Superannuation

Commissioner specifies the factor by which an annual pension is to be multiplied to derive its total value for RBL purposes. This is called the Pension Valuation Factor.

As an example, an MSBS pension which commences to be paid at age 55, currently has a Pension Valuation Factor of 18. So the total value of the pension for RBL purposes will be the annual pension multiplied by 18.

If the pension commenced to be paid at a different age, a different Pension Valuation Factor factor might apply. The set of Pension Valuation Factors applicable to each superannuation scheme is to be reviewed annually by the Insurance and Superannuation Commissioner and may vary as a result.

Transitional RBLs

The foregoing has explained how the RBLs applying from 1 July 1990 are calculated. From this date RBL rules were revised and extended to public sector superannuation schemes which had previously been exempted. The changes however did not create retrospective disadvantage. Where prior to 1 July 1990 a person was contributing to a scheme that provided benefits above RBL, that higher level of benefit is proportionally preserved.

In the case of members of MSBS who transfer from the DFRDB scheme, it is necessary to calculate what could have been the highest level of benefit achieved if the member had stayed in DFRDB. From this it is possible to derive the RBM that applied prior to 1 July 1990. This is called the Old RBM, and the RBM from 1 July 1990 is called the New RBM.

Members will be advised their Old RBM in the Personal Information Statement to be distributed around September this year.

The RBM that is applicable is a composite of the Old RBM and the New RBM. The composite RBM is calculated by apportioning the total period involved into pre-July 1990 eligible service and post-June 1990 eligible service. For the purposes of this calculation, the period between leaving the ADF and commencing to receive the benefit, is taken as part of eligible service. The Old RBM multiplied by the pre-July 1990 proportion, and the New RBM multiplied by the