This leaflet has been prepared by the Military Superannuation and Benefits Scheme (MSBS) Implementation Team to provide you with information on valuing superannuation benefits. Many factors will affect the relative value of the benefits available from the MSBS and the DFRDB Scheme. Not all are covered in this leaflet. Members should make their transfer decision only after careful consideration and seeking competent advice on all relevant matters.

Further information may be obtained from the MSBS Hotline on 008 020 555 or by writing to:

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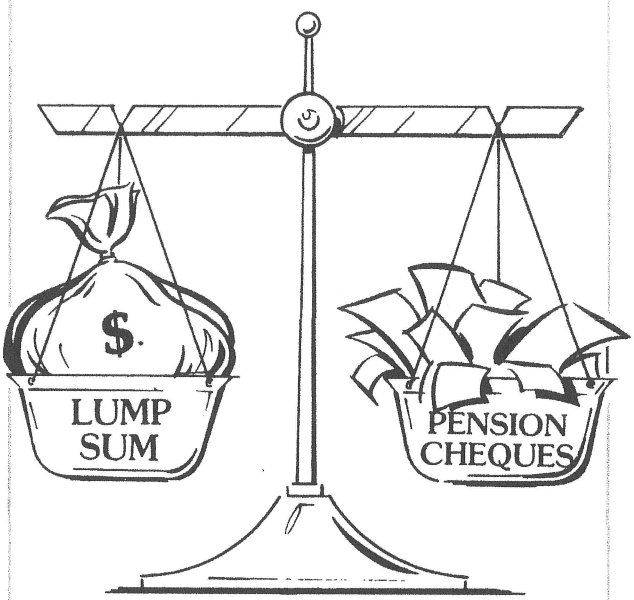
Civic Square ACT 2608

When re-ordering copies of the brochure, quote No. 11.

HOW TO VALUE A SUPERANNUATION BENEFIT



MSBS
MILITARY SUPERANNUATION AND BENEFITS SCHEME

How to Value a Superannuation Benefit

For many years Australians preferred their superannuation benefits to be paid as a lump sum. Until the early 1980s lump sums generally were more valuable because they received favourable tax treatment. Since then changes in the tax laws have made pensions attractive. So which is the better superannuation benefit these days — a lump sum or a pension?

The answer will be different for everyone and ultimately will depend on personal judgements. You will need to consider many factors, such as the lifestyle you want in retirement, whether you feel comfortable managing large sums of money, how long you expect to live, and whether you have dependants.

This leaflet is intended to help you evaluate the information you will receive in your personal information statement and the estimates produced by the computer benefit forecaster (known as "Fred"). Other leaflets which may be helpful are *Lifestyle Considerations* and *Resignation and Retirement Benefits.*

Valuing a Pension

MSBS members have the option of taking part of their superannuation benefit as a pension which normally will begin when you turn 55. DFRDB Scheme members who complete 20 years of service will receive a pension when they separate from the ADF.

Pensions are an attractive form of superannuation benefit because they provide a guaranteed source of income in retirement. As the average man retiring at 55 will live for another 21 years and the average woman for five years longer, this is an important consideration.

The conventional method of valuing a pension is to multiply the annual amount by a "pension valuation factor" (PVF) which is worked out by actuaries. It is based on your life expectancy and several factors including the fact that it is indexed to keep up with inflation and that, should you die, your surviving spouse and/or dependent children will be eligible to receive a benefit. The PVF for a man aged 55 with dependants receiving an MSBS or DFRDB pension is 18. Thus an actuary would tell you the lump sum value of his $15,000 pension is $270,000. Because a woman is likely to live a few years longer her pension would be a little more valuable.

This method is useful because it allows you to compare two amounts of money which otherwise could not be compared. However it has practical limitations. The actuarial value of a $10,000 DFRDB pension beginning at age 40 is about $230,000 which is significantly more than the equivalent benefit available from the MSBS at age 55 in identical circumstances. However, unlike the MSBS benefit, the DFRDB benefit cannot be converted to a lump sum. For many members the form of the benefit will be just as important as the capital value.

The following list of pension valuation factors may assist you assess the relative merits of lump sums and pension benefits. To convert a pension to a lump sum, multiply it by the conversion factor. These factors are for men; female factors are generally 0.5 higher. MSBS benefits are expressed as lump sums initially; the main use for these factors is in valuing a DFRDB pension. The total lump sum value of the DFRDB benefit can be calculated by adding the result of this calculation to your DFRDB commutation. Remember, this is a theoretical value as only the commutation can be paid as a lump sum.

Age at which pension begins	Pension Valuation Factor (PVF)	Age at which pension begins	Pension Valuation Factor (PVF)
40	23	48	20
41	23	49	20
42	22	50	20
43	22	51	19
44	22	52	19
45	21	53	19
46	21	54	18
47	21	55	18

NOTE: PVF have been rounded to the nearest whole number.

Many people will value a pension according to the number of years over which they expect to be paid. As the MSBS pension payable at age 55 is one twelfth of the employer financed lump sum, some people will consider they have reached the "break even point" if they live for twelve years after retirement. Most people will live quite a lot longer than that. Because your lump sum could earn interest it is more realistic to place the break even point at about 15 years.

The most valuable feature of a Government superannuation pension is that it provides a safe, secure and worry free way of providing for your retirement and for ensuring your dependants are protected in the event of your death.

Valuing the MSBS pension

The cost to the Government of providing an MSBS pension is far greater than the lump sum you give up in exchange for the pension. For example, the cost of providing a $16,666 MSBS pension from age 55 to a man and his spouse who live to their normal life expectancy is about $300,000 but in the MSBS you would be required to give up a lump sum of only $200,000 to "buy" this pension. This difference indicates that the MSBS pension option is worth serious consideration. Its impact on the actuarial value of MSBS benefit is illustrated in this table:

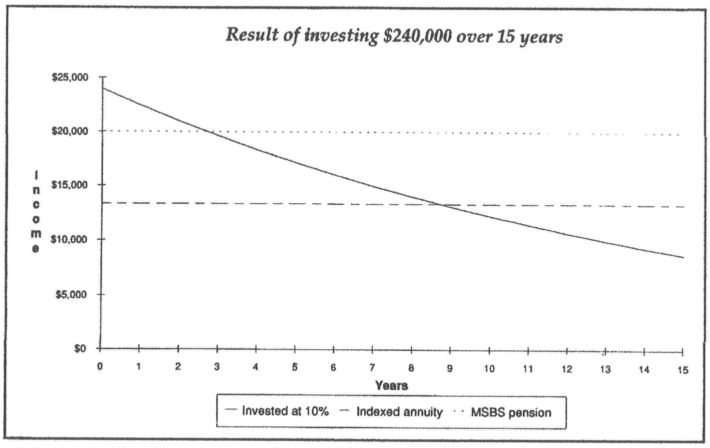
$250 000 taken as	**Value**
100% lump sum	$250 000
50% lump sum and 50% pension	$300 000
100% pension	$350 000

NOTE: The $250 000 benefit is assumed to contain both member and employer financed components.

Valuing a Lump Sum

The value of a lump sum seems easy to assess until you remember that it is likely to be the main means of support for you and your family for the rest of your life. Considered in this context, the value of a lump sum depends on the performance of the economy in general and how wisely you invest the money. Many specific factors, such as interest rates, the rate of inflation, and how income or capital gain will be taxed, need to be considered.

The following chart shows the outcome of using an MSBS lump sum of $240,000 in three ways over a period of 15 years.



NOTES: 1. Assuming annual inflation of 7%, the real value of the $240,000 invested at 10% will drop to $87,000 after 15 years.
2. An annuity is a pension purchased from an insurance company or other financial institution. This graph assumes the cost of annuity similar to an MSBS pension is $18 per $1 of pension.

You may see a lump sum as more valuable because you wish to invest it in a business, real estate or the stock market. If you are successful you may make a good capital gain after 10 or 15 years and have a new and larger lump sum to support your family in retirement. This option should be selected only after careful planning and advice from expert advisers about tax implications and other matters.

If you who have a serious illness at the time you reach age 55, are single or have a family history of shorter than average longevity, you may place a higher value on a lump sum than a pension.

'A dollar each way'

Because it is so difficult to say whether a pension or a lump sum is the most valuable form of superannuation benefit, many people may decide to have 'a dollar each way'. When you retire from the workforce at or after turning 55 you can convert half or more of your MSBS lump sum into a pension. This way you can have some lump sum to pay off the mortgage or buy a new car, and still ensure a secure income for you and your dependants.

The following table summarises some of the issues you should consider when deciding how to structure your superannuation benefit and suggests whether a lump sum or a pension might best meet your aim.

The Choice — Lump Sum or Pension?

	Pension	Lump Sum
Income security	√	
Wish to ensure that spouse (and dependants if any) will not need to worry about money if you die before them	√	
Don't want to have to worry about managing money in retirement	√	
Spouse will receive a lump sum superannuation benefit	√	
Spouse does not wish to deal with investments	√	
Family history of longer than average lifespans	√	
Children still dependent at retirement	√	
Substantial mortgage or other debts to pay off		√
Prefer to manage your own money		√
Require capital to invest		√
In poor health at retirement		√
No dependants		√
Caring for dependants who would not be eligible to receive a benefit if you die		√
Retirement income large enough to require sophisticated tax planning		√
Desire to leave someone money in your Will		√