



# Training notes–PSS

## General benefit accrual



**Commonwealth  
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 Corporation**

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# General benefit accrual – PSS

## Aims and objectives

This is designed to give personnel staff a general understanding of how benefits are calculated, so that they can appreciate the impact of the data they supply on the benefit ultimately paid.

Participants should have an understanding of:

- the meaning and relevance of FAS (Final Average Salary)
- the calculation of a multiple
- the broad benefit options available on each exit.

**These notes are not a substitute for the *Superannuation Act 1990*, the Trust Deeds or the Rules for the administration of the scheme.**

**As provisions change you will be advised by way of Employer News. If you wish to continue to use these notes please ensure that you update them for any change.**

The size of the benefit in PSS is dependant on only two factors – the final average salary and the benefit multiple.

## Final average salary

Except in cases of involuntary retirement the final average salary (FAS) is the average of the salaries on which contributions were based on the last three birthdays.

Where members have reduced in level for medical reasons and are receiving a partial invalidity pension, the final average salary will be based on the updated salary of the higher position, **not** on the lower salary on which contributions are based.

If members are leaving on the day before their birthday, the salary on which contributions would have been based on that birthday will be taken into account.

Where members have not been in the scheme for three birthdays, the commencement salary and as many birthday salaries as are available are used to calculate the average. In some cases, only one salary may be available.

Where members cease due to involuntary retirement, the third salary of the FAS is calculated on a pro rata basis using the salary for superannuation at date of exit with the salary at the third last birthday. The superannuation salaries at the last two birthdays are then used. **Remember, this method applies to PSS retrenchments ONLY.**

## Example

A member's last birthday was 15 April and the exit date is 28 September 2014. There are 166 days between 14 April and 28 September. The member is therefore entitled to 167 days at the final salary, and the difference, 198 days of the 2012 birthday.

### Usual method of calculating FAS

|                           |                      |
|---------------------------|----------------------|
| Salary 1 on 15 April 2012 | \$86,540             |
| Salary 2 on 15 April 2013 | \$88,765             |
| Salary 3 on 15 April 2014 | <u>\$90,294</u>      |
|                           | <u>\$265,599 ÷ 3</u> |

**FAS** **\$88,533**

### Retrenchment method of calculating FAS

|                                  |   |
|----------------------------------|---|
| Salary 1 on 15 April 2012        | \$86,540  |
| Salary 2 on 15 April 2013        | \$88,765  |
| Salary 3 on 15 April 2014        | \$90,294  |
| Exit salary on 28 September 2014 | \$90,294  |
| Oldest salary                    | $(\$86,540 \times 198 \text{ days}) / 365 = \$46,945$ |
| Exit salary                      | $(\$90,294 \times 167 \text{ days}) / 365 = \$41,313$ |
|                                  | $= \$88,258$  |

**FAS**  **$\$88,258 + \$88,765 + \$90,294 / 3 = \$89,106$**

The updated FAS is multiplied by the member's Accrued Benefit Multiple at exit. This calculation will cause an increase to the member's employer component.

## Benefit multiple

The benefit multiple is a number applied to the final average salary to determine the benefit payable.

The size of this multiple will depend on the contribution level chosen by the member and the period of time for which contributions are paid.

A table is attached which shows the annual rate of growth of the multiple for each possible contribution rate.

### Example 1

A member pays 5% for three years. Their benefit multiple at the end of that time will be **0.63 (0.21 x 3) x FAS.**

For a ten year period of membership (note: leave without pay not to count as service extends the ten year period), if the contribution rate is more than 5%, a member will not accrue any additional employer benefit for contributions made in excess of 5%.

### Example 2

A member joins and pays 10% from commencement. At the end of three years, the member's benefit would be **0.78 (.26x3) x FAS.**

On invalidity retirement or death, the multiple is calculated by assuming a member would have continued to pay the greater of 5% or the average contribution paid over the last 78 contribution due days, until age 60.

However, if the member is a Limited Benefit Member, only the actual benefit accrued **to the date of exit or date of death is paid.** No invalidity benefit can exceed 10 times FAS.

## Form of benefit

The prime benefit is generally a lump sum, but all or part of it may be converted to an indexed pension using the factors on page 10.

## Maximum benefit multiple

There is a limit on the maximum benefit that may be accrued by members.

Members whose average salary is less than \$50,000 can accrue a maximum benefit of \$500,000. Members whose average salary is \$50,000 or more can accrue a maximum benefit of 10 times their average salary.

If a member reaches their maximum benefit applicable they **must** cease paying contributions. Regardless of any further increases in salary or changes in the maximum benefit limit they do not recommence contributing.

## Exit options

With effect from 1 July 1999 limitations applied on the amount of cash available for exits prior to preservation age. Further limitations were introduced with effect from 1 July 2000.

From 1 July 2000, members who are under the preservation age and who cease membership, are entitled to take a refund of their contributions plus interest up to the SIS legislation upper limit. This is the cash value of the members' retrenchment benefit as at 30 June 1999. The balance has to be compulsorily preserved in PSS or another superannuation or rollover fund.

Below is a description of the benefit options available to members under various types of exit from the scheme:

## Resignation

- Preserve all
- Refund of contributions and interest up to SIS upper limit – the balance must be preserved in PSS.
- Transfer to an eligible superannuation scheme (refer eligible schemes attached to the [Membership of PSS](#) module)
- Combine with an ongoing membership

## Retirement

- Full lump sum
- full pension
- part pension/part lump sum (at least 50% of total lump sum must be taken as pension).

## Involuntary retirement

Reached minimum retiring age:

- as for **retirement**.

Not reached minimum retiring age:

- refund of contributions plus interest up to SIS upper limit and preserve the balance in PSS or roll-over the balance to another superannuation fund
- full pension
- combination of lump sum and pension (at least 50% of the total lump sum must be taken as pension, and lump sum cannot exceed member contribution and interest up to the SIS upper limit)
- preserve all.

## Invalidity retirement

LBM:

- lump sum equal to accrued benefit.

Others:

- full pension
- part pension, part lump sum. The most that can be taken in cash is member contributions and interest.

Terminally ill:

- the terminally ill have an additional option to take their **accrued benefit** as a lump sum. No benefit is then paid in respect of service to age 60.

## Death

LBM:

- lump sum of accrued benefit paid to estate or eligible spouse and children.

No LBM:

- lump sum of benefit calculated to age 60 paid to the estate of a single member
- spouse and/or children have pension and lump sum options based on the member's benefit which would have been payable at age 60.

If a member dies you need to complete the **SRD1 Department Report**, and send this along with any applicable information i.e. spouse, child/ren, executor details through to [Employer.Service@admin.csc.gov.au](mailto:Employer.Service@admin.csc.gov.au). From here, we will make contact with the relevant parties for form completion, etc.

## Prescribed preservation age

With effect from 1 July 1999, members may only access any preserved amounts when they reach the prescribed preservation age determined by their birth date:

| Date of birth     | Preservation age |
|-------------------|------------------|
| Before 1/7/60     | 55               |
| 1/7/60 to 30/6/61 | 56               |
| 1/7/61 to 30/6/62 | 57               |
| 1/7/62 to 30/6/63 | 58               |
| 1/7/63 to 30/6/64 | 59               |
| 1/7/64 and after  | 60               |



## Important points to remember

- If you advise the wrong contribution or notional salary, members **will** receive the wrong benefit. The same applies if you advise incorrect hours or contribution rate.
- Calculation of benefits is very complex and personnel staff should only become involved by providing advice to your employees in regard to the use of Member Services Online on the [PSS website \(pss.gov.au\)](http://pss.gov.au)
- Ensure members are advised of our seminars.
- Obtain quotes for members approaching retirement or at least advise them of their option to obtain a benefit estimate. Employers must request an estimate in the case of redundancy, we will not produce a redundancy estimates upon an employee's request.
- As soon as you know someone is leaving, provide them with the appropriate application form.
- Forward the form to us as soon as possible or follow up the application with the member.

## For more information

Please refer to the Employer Administration Centre at [eac.csc.gov.au](http://eac.csc.gov.au)

## Growth of the benefit multiple

| Member's contribution rate | Member's share of benefit multiple | Employer's share of benefit multiple (including productivity component and interest) | Total benefit multiple for each year's contribution at rate shown in first column |
|----------------------------|------------------------------------|--|---|
| % of salary                | times FAS                          | times FAS  | times FAS   |
| 0                          | 0.00                               | 0.11   | 0.11  |
| 2                          | 0.02                               | 0.13   | 0.15  |
| 3                          | 0.03                               | 0.14   | 0.17  |
| 4                          | 0.04                               | 0.15   | 0.19  |
| 5                          | 0.05                               | 0.16   | 0.21  |
| 6                          | 0.06                               | 0.17   | 0.23  |
| 7                          | 0.07                               | 0.18   | 0.25  |
| 8                          | 0.08                               | 0.19   | 0.27  |
| 9                          | 0.09                               | 0.20   | 0.29  |
| 10                         | 0.10                               | 0.21   | 0.31  |

## Pension conversion factors

| Age | Conversion factor | Age | Conversion factor |
|-----|-------------------|-----|-------------------|
| 65  | 10.0              | 59  | 11.2              |
| 64  | 10.2              | 58  | 11.4              |
| 63  | 10.4              | 57  | 11.6              |
| 62  | 10.6              | 56  | 11.8              |
| 61  | 10.8              | 55  | 12.0              |
| 60  | 11.0              |     |                   |

# PSS Maximum Benefit Limits

| MBLs from 1 July 2008 |                         |
|-----------------------|-------------------------|
| Average salary        | Maximum benefit         |
| Less than \$67,500    | \$675,000               |
| \$67,500 or over      | 10 times average salary |

## How to complete departmental reports

You MUST always make sure that you provide the member with the correct scheme benefit application form. If membership ceases prior to age 55 it is a resignation unless the member is retrenched, or invalidity retired. If membership ceases the day before the members 55th birthday or any time after their 55th birthday it is age retirement unless they are retrenched or invalidity retired. There are also particular benefit application forms for cessation of membership due to the sale, transfer or outsourcing of an organisation.

Benefit applications must be accompanied with superannuation salary details and any other documentation requested on the departmental report.

If a member dies you must determine if there is a spouse and/or children. You must provide a spouse’s application form or an orphan’s application form to the guardian if there is no spouse. You have the option to request a benefit estimate from us.

If a member dies and you are not aware of a spouse and/or children, complete a **Resignation Departmental** report. Forward this form to us accompanied by the usual documentation and advice in regard as to who is looking after the estate and their address.

## Completing the last three variations

**Last three superannuation variations** including the payday that contributions were ceased (usually the payday after the date of exit).

| Payday of adjust. | Old perm cont | New perm cont. | Current adjustment | PLUS/ MINUS |
|-------------------|---------------|----------------|--------------------|-------------|
|                   |               |                |                    |             |
|                   |               |                |                    |             |
|                   |               | NIL            |                    |             |

- The last line must be the **actual payday that contributions ceased to be paid**. This is usually the first payday after the cease date but can be any payday.
- The previous two lines are for the previous two paydays when contributions were varied.

## Example 1

A member resigned with effect COB 23 April 2003 (the day before payday 24 April). Contributions were paid on 24 April and were ceased on payday 8 May. No further adjustments were made after payday 8 May. The previous two adjustments were made for the member's previous birthday adjustment on payday 26 Sept 2002 and when the member elected to change their % rate on payday 13 February 2003.

| Payday of adjust. | Old perm cont | New perm cont. | Current adjustment | Plus/Minus |
|-------------------|---------------|----------------|--------------------|------------|
| 26/9/02           | \$86.60       | \$92.30        |                    |            |
| 13/2/03           | \$92.30       | \$147.70       |                    |            |
| 8/5/03            | \$147.70      | NIL            |                    |            |

## Example 2

Contributions were ceased on payday 8 May and a minus current adjustment was processed to recover the contribution paid on 24 April. You must advise this action on the last line. **You must not advise that contributions went to NIL on payday 24 April 2003.**

| Payday of adjust. | Old perm cont. | New perm cont. | Current adjustment | Plus/Minus |
|-------------------|----------------|----------------|--------------------|------------|
| 2/9/02            | \$86.60        | \$92.30        |                    |            |
| 13/2/03           | \$92.30        | \$147.70       |                    |            |
| 8/5/03            | \$147.70       | NIL            | \$147.70           | minus      |

## Example 3

A member commenced LWOP on payday 26 September 2002, contributions ceased on payday 10 October 2002 and the member resigned with effect COB 24 April 2003. The previous two adjustments were birthday adjustments in April 2002 and April 2001.

| Payday of adjust. | Old perm cont | New perm cont. | Current adjustment | Plus/Minus |
|-------------------|---------------|----------------|--------------------|------------|
| 26/4/01           | \$80.80       | \$86.60        |                    |            |
| 25/4/02           | \$86.60       | \$92.30        |                    |            |
| 10/10/02          | \$92.30       | NIL            |                    |            |

## Example 4

A member ceased on 1 February 2003 however contributions were not ceased until 26 April 2003. A minus current adjustment for paydays 13/2, 27/2, 12/3, 26/3 and 10/4 was also processed on 26 April.

| Payday of adjust. | Old perm cont. | New perm cont. | Current adjustment | Plus/Minus |
|-------------------|----------------|----------------|--------------------|------------|
| 26/4/01           | \$80.80        | \$86.60        |                    |            |
| 25/4/02           | \$86.60        | \$92.30        |                    |            |
| 13/2/03           | \$92.30        | NIL            |                    |            |

## Example 5

A member ceased on 1 February 2003. Contributions ceased on payday 13 February 2003. A minus current adjustment was made on payday 26/3 for the amount of \$300.

| Payday of adjust. | Old perm cont. | New perm cont. | Current adjustment | Plus/Minus |
|-------------------|----------------|----------------|--------------------|------------|
| 26/4/01           | \$80.80        | \$86.60        |                    |            |
| 25/4/02           | \$86.60        | \$92.30        |                    |            |
| 13/2/03           | \$92.30        | NIL            |                    |            |

*\*A minus current adjustment of \$300 was processed on 26/3/03*

In these cases you must advise us of the current adjustment by adding your own line under the table or on an attached letter with the benefit application.

### Note:

- **The above examples are exactly the same for plus current adjustments**
- **No plus or minus adjustments may be made on behalf of a member after this report has been completed and sent to us.**

Some benefits are calculated on the members salary for superannuation at date of exit e.g. CSS members' age, invalidity and retrenchment pensions. Also PSS retrenchments take a member's salary for super on the member's last day of service into account when calculating the member's final average salary.

To provide us with the correct salary for superannuation benefit purposes at date of exit, you must **treat the last day of service as if it was the member's birthday and do a birthday review** to determine the highest salary for superannuation purposes during the previous year. The member may have qualified for higher duties since their last birthday review or have been promoted. They may have received an increase in actual salary due to an increment or progression to another level or an increase in salary due to a certified agreement or a new AWA.

## Example 1

A member is paying contributions on \$50,000 as this was their salary for superannuation at their previous birthday on 10 September 2002. Since that birthday they have received a salary increase of \$4000. On their date of exit 1 April 2003 their actual salary is \$54,000. Therefore you would advise us that their salary for superannuation benefit purposes at 1 April 2003 is \$54,000

Salary for superannuation benefit purposes at date of exit: \$54,000.00

**Note: this is the member's salary for superannuation benefit purposes as at the date of exit. This can be greater than the salary for superannuation contribution purposes at the last birthday.**

## Example 2

A member may have been on higher duties at their last birthday but the higher duties classification had not qualified for superannuation purposes. Salary for superannuation at the last birthday was \$40,000. Since the birthday the member completed over 12 months higher duties and therefore the higher duties salary of \$48,000 qualified as salary for superannuation purposes. The member ceased higher duties prior to their cease date and reverted back to an actual salary of \$40,800. Due to a certified agreement since the member lost their higher duties, the current equivalent salary for the previous higher duties classification is now \$48,960. Therefore this is the salary for superannuation benefit purposes at date of exit.

Salary for superannuation benefit purposes at date of exit: \$48,960.00

**Note: this is the member's salary for superannuation benefit purposes as at the date of exit. This can be greater than the salary for superannuation contribution purposes at the last birthday.**

# Salary for superannuation contribution purposes

Some benefits such as PSS resignations and age retirement calculate a member's benefit on the member's Final Average Salary. This is generally the last three birthday salaries. The salary for contribution purposes is a check that we have the correct salary for super as at the member's last birthday.

## Example 1

A PSS member is paying contributions on a salary of \$50,000 which was his superannuation salary on his last birthday on 10 September 2002. He is ceasing membership on 20 April 2003 and has a salary on that day of \$54,000.

|  |             |
|--|-------------|
| Salary for superannuation contribution purposes on the birthday before retirement: | \$50,000.00 |
|--|-------------|

**Note:** if the member is retiring on the day before his or her birthday, the salary shown should be the salary for superannuation contribution purposes that would have applied on that birthday.

## Example 2

We were advised that a member's birthday superannuation salary was \$50,000. On processing the employee's final payments, it was realized that the member had qualified for higher duties to be included in their salary for super prior to their birthday. The correct salary which should have been reported at the member's birthday was \$56,000.

*If the previous birthday salary advised to us was not correct, please advise the correct salary that should have applied at the previous birthday even if the member has not paid contributions on it.*

|  |             |
|--|-------------|
| Salary for superannuation contribution purposes on the birthday before retirement: | \$56,000.00 |
|--|-------------|

**Note:** if the member is retiring on the day before his or her birthday, the salary shown should be the salary for superannuation contribution purposes that would have applied on that birthday.

*In these cases it would be advisable to attach a note to advise why the salary reported on the departmental report is different to what the member is paying contributions on and the salary advised for the previous birthday review.*

## Example 3

A PSS member is paying contributions on a salary of \$50,000. They are ceasing membership on 20 April 2003 and have a salary for superannuation purposes on that day of \$54,000. Their birthday is on 21 April 2003. Therefore, the salary to be reported on the departmental report is \$54,000.

*If the member is leaving the day before their birthday, they are regarded as having attained that age. Therefore the new birthday salary is taken into account when processing the benefit regardless of the fact that the member has never paid contributions on that salary.*

*Therefore you must advise the salary that you would have been reported to us as their birthday salary if they were still a member.*

|   |             |
|---|-------------|
| <b>Salary for superannuation contribution purposes on the birthday before retirement:</b> | \$54,000.00 |
|---|-------------|

**Note: if the member is retiring on the day before his or her birthday, the salary shown should be the salary for superannuation contribution purposes that would have applied on that birthday.**

## Salary for superannuation benefit purposes at 1 July 1999

Members under preservation age are entitled to take a refund of their contributions plus interest up to the cash component of their SIS upper limit that they were entitled to take if they were retrenched on 1 July 1999. Therefore we must establish what that cash retrenchment benefit would have been at that date.

As PSS retrenchments take the final salary for super into account in calculating the member's final average salary (FAS), we need to be advised of the member's superannuation salary as at 1 July 1999.

This may be higher than the salary that the member was actually paying contributions on at 1 July 1999. Therefore you should treat 1 July 1999 as if it was the member's birthday and determine what the salary for super would have been on that date.

### For example

At a member's birthday on 2 February 1999 their salary for super was \$40,000. On 10 March 1999 a certified agreement increased this salary to \$41,800. On 14 June 1999 the member received an increase in salary to \$43,400. This was due to an increment or progression through the salary range. Therefore the member's salary for superannuation benefit purposes on 1 July 1999 was \$43,400.

**Salary for superannuation benefit purposes at 1 July 1999: \$43,400.00**



**Email**  
employer.service@csc.gov.au



**Phone**  
1300 338 240



**Fax**  
(02) 6275 7010



**Post**  
Employer Service  
GPO Box 2252  
Canberra ACT 2601



**Web**  
csc.gov.au



**Overseas Callers**  
+61 2 6275 7000