# PENSION BENEFITS ON CSS 54/11 VERSUS RETIREMENT AT 55

As a CSS member, you are entitled to benefits that are dependent upon when you cease your membership.

If you resign prior to age 55, you can choose to take a lump sum (with a limited cash component) or you can elect to leave your money in the CSS (i.e. defer) until you turn 55 (or older). Deferring may be the better option. When you claim the deferred benefit, you will be entitled to a pension based on your accumulated basic contributions[1] plus a lump sum. As the earliest retirement age is 55, the deferred benefit can only be accessed if you resign at least 2 days before turning 55. Because of the "11th month" nature of this form of the benefit, it is generally referred to as a 54/11 benefit.

If you go beyond 54/11 to age 55 or later, the indexed pension from the retirement option is calculated using your service, your salary at retirement and your age when you retire. That is, the earning rate of the fund only affects the lump sum part of your benefit and not the indexed pension.

Because of the different methods of determining your pension at 55, you are presented with a choice. The 54/11 benefit relies heavily on the earnings rate of the fund as the benefit is a multiple of your accumulated basic contributions converted to an indexed pension using set factors.

With both options, you would also receive a lump sum of your accumulated basic, supplementary and productivity contributions as well as any government co-contributions and transferred-in monies. It is possible that some of the lump sum may need to be preserved until you meet a condition of release. The lump sum entitlement will be the same for the two options if there is not another payday between resigning and turning 55, so will not form part of the decision process.

As the pensions paid under both options depend on factors that change over time (such as salary and fund earning rates), the further from age 55, the less certain we can be as to the relative amounts. The retirement pension tends to be more easily estimated as the main variable is salary which usually progresses on a relatively steady basis. The estimate of the 54/11 benefit relies heavily on the earning rate of the fund in which the money is invested (Default or Cash). Whilst the earnings on the Cash Fund are reasonably steady, the earnings on the Default Fund are often highly variable.

More information on earning rates is available on the CSS website at:

https://www.csc.gov.au/Members/Superannuation/How-do-we-perform/Unit-prices-and-earning-rates/

The changes to the interest rate policy within the CSS in 2007 introduced additional considerations. These changes have removed the guarantee that the fund will not provide a negative return. Essentially, if the wheels fall off world share markets, then the interest earnings on your contributions in the CSS Default Fund could go back to their amount at 30 June 2003. Under 54/11, this is a double whammy as it is the CSS lump sum which determines the size of the indexed pension. This means that if the wheels fall off, it impacts directly on the size of the pension under the 54/11 option, as well as your lump sum.

To be more (although still not absolutely) certain of the level of pension benefits under the 54/11 arrangements, you are able to move your funds to the Cash Option. This opportunity exists once each month and an election must be made by the last Friday of the month (to take effect on the following Wednesday).

The following example points out the possible variability of the final benefits for someone whose benefits on the two options could be close. The best approach is to obtain estimates of both options on a regular basis over the few years prior to turning 55. These estimates may use a range of possible future earning rates to give a feel for the relative levels of the pensions from both options.

[1]Employee contributions (to a maximum of 5% p.a.) plus interest thereon.

## EXAMPLE

Sue is about to turn 55

Her superannuation details at 55 are expected to be:

| | |
|---|---|
| Superannuation Salary: | $100,000 |
| Membership: | |
| Years | 30 |
| Days: | 250 |
| Accumulated Basic Contributions and earnings: | $175,000 |
| Accumulated Supplementary Contributions: | $2,500 |
| Accumulated Productivity Contributions: | $52,000 |
| Accumulated Super Co-contributions: | $1,200 |
| Accumulated Transfer Value: | $32,000 |
| Total Equity: | $262,700 |
| Surcharge Debt Account: | $2,700 |

Based on a final salary of $100,000, Sue would be entitled to a CPI-indexed pension of $37,630 per annum for retirement on her 55th birthday.

If Sue decided to resign 2 days before her 55th birthday, she would be entitled to a CPI-indexed 54/11 pension of $175,000 x 2.5 x 0.0925 or $40,468.75 per annum. (If her accumulated basic contributions and earnings were $160,000 instead of $175,000, her CPI-indexed pension would be $37,000 per annum).

In both cases, a lump sum of the accumulated contributions ($262,700 less the surcharge debt or $260,000) would be payable, some of which may need to be rolled over to another superannuation account.

**Lump Sum and the Non-Indexed Pension Option**

An alternative to taking all of the lump sum in cash or rolling over to another superannuation account is the non-indexed pension (NIP) which can be purchased with your member and productivity components. The pension factors used to calculate this benefit are extremely generous in times of low inflation. The amount of the pension that can be purchased when taking the retirement benefit is 20% of salary but there is no limit if the benefit taken is the 54/11 option. Any excess lump sum would be available though some may still need to be rolled over.

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