

Lump Sum Maximum Benefit Limits

**Military
Super**

AFSL: 238395
ABN: 50 925 523 120
Board ABN: 72 406 779 248

MS02 - July 2011

What are Maximum Benefit Limits (MBLs)

The Scheme rules provide limits to contributions which can be made relative to a member's Pension Maximum Benefit Limit (Pension MBL) or Lump Sum Maximum Benefit Limit (Lump Sum MBL). The higher limit is the Pension MBL and the lower limit is the Lump Sum MBL. Once you reach the lower Lump Sum MBL you can choose whether or not to continue to contribute to MilitarySuper. Should you reach the higher Pension MBL you may continue to make ancillary contributions but you must cease making personal contributions i.e. those contributions of between 5% and 10% of your salary for superannuation purposes which are being deducted from your salary and paid into MilitarySuper. If this occurs we will notify you and arrange to cease your contributions immediately. If you require information in relation to the Pension MBL please refer to the Pension MBL fact sheet (MS20).

How are MBLs calculated

Both the MBLs are calculated by reference to your Final Average Salary (FAS). The table below summarises the formulas used to calculate MBLs. The dollar amounts shown are those applying for 2011-12; they are increased every year in accordance with the increase in Average Weekly Ordinary Time Earnings (AWOTE).

It should be noted that none of the various Ancillary Benefits are used when assessing the MBL under the MSB Legislation.

Maximum Benefit Limits 2011/2012

Note: The figures in the table should be used as a guide only, as the amounts change in July every year.

FAS	Lump Sum MBL	Pension MBL
Less than \$61 670	\$493 360	\$616 700
\$61 670 to \$98 490	8 times FAS	10 times FAS
\$98 490 to \$182 740	\$196 980 plus 6 times FAS	\$295 470 plus 7 times FAS
Greater than \$182 740	\$745 200 plus 3 times FAS	\$843 690 plus 4 times FAS

Example: Calculation of Maximum Benefit Limits

Wing Commander Hartmann's FAS is \$98 500. Using the formulas listed in the table above, we calculate his MBLs as follows:

$$\begin{aligned}
 \text{Lump sum MBL} &= \$196\,980 + (6 \times \$98\,500) \\
 &= \$196\,980 + \$591\,000 \\
 &= \$787\,980 \\
 \text{Pension MBL} &= \$295\,470 + (7 \times \$98\,500) \\
 &= \$295\,470 + \$689\,500 \\
 &= \$984\,970
 \end{aligned}$$

What happens if I reach my MBL?

The higher limit is the Pension MBL. If you have been notified that you have reached your Pension MBL we will arrange with your pay office to cease your contributions and will send you a letter to confirm that this has occurred.

If you reach the lower Lump Sum MBL you have a choice. You may elect to stop paying contributions after you have been notified that you have reached your Lump Sum MBL. You can only make an election after receiving a written notification. Consider any move to stop paying contributions carefully.

If you believe you are nearing your Lump Sum MBL, you may wish to seek information on how ceasing your contributions will affect your overall benefit. If you have been notified that you reached your Lump Sum MBL and elect to stop contributing, you will not be able to resume making contributions if you change your mind later. Even if you elect to stop contributing, once you become entitled to receive your benefit you will still be able to take your Employer Benefit as either a pension or a lump sum.

The following calculations illustrate how final benefits are determined where a member elects to cease contributions on reaching the Lump Sum MBL. If you require further information on any of the assumptions underlying the calculation such as the calculation of the employer multiple, please refer to the MilitarySuper book or contact a Customer Service Representative. Please refer to the Pension MBL fact sheet for further detail on how final benefits are calculated if a member retires after having reached their Pension MBL.

Customer Service Centre

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Example - Lump Sum MBL reached 7 June 2008

Scenario 1: Member elects to cease contributing:

A contributing member with a final average salary (FAS) of \$75 000, has served 25 years and when notified that their total benefit had reached their Lump Sum MBL of \$600 000 (8x \$75 000, see above table) elected to cease contributing to MilitarySuper.

At the time of the election to cease contributions the member's total benefit was \$605 000 calculated as follows:

Member Benefit (MB)	\$181 250
Employer Benefit (EB) \$75 000 x 5.65 (based on 25 years service)	\$423 750
Total Benefit (TB)	\$605 000

Thereafter as the member has elected to cease contributions the Employer Benefit is calculated by reference to schedule 8, Part 5 of the scheme rules (see appendix for details). The formula contained in schedule 8 is different to the usual Employer Benefit formula. It takes into account your situation at the time your contributions ceased as well as the maximum benefit payable when you exit. Increases in your salary while you are serving in the Australian Defence Force (ADF) and reflected in your FAS are included in the calculation of your Employer Benefit on discharge from the ADF. The following table shows the accrual of the member's final benefit after having made an election to cease contributing on reaching their Lump Sum MBL.

For the purpose of this calculation the following assumptions are made. The Member continued in the ADF, was promoted during this time and retired 3 years later on 7 June 2011 with a FAS of \$98 000. The Member Benefit has grown by \$40 000 (due to changes in unit prices, note that this increase is used for illustration purposes and is not intended to be a guide to future or past investment returns). As the member has not been making personal contributions the employer multiple is calculated in accordance with schedule 8 (See appendix for details).

Maximum Benefits Limits 2007/2008

FAS	Lump Sum MBL	Pension MBL
Less than \$51 270	\$410 160	\$512 700
\$51 270 to \$81 890	8 times FAS	10 times FAS
\$81 890 to \$151 940	\$163 780 plus 6 times FAS	\$245 670 plus 7 times FAS
Greater than \$151 940	\$619 600 plus 3 times FAS	\$701 490 plus 4 times FAS

The member's total benefit on 7 June 2011 is calculated as follows:

Member Benefit (MB)	\$221 250
Employer Benefit (EB) Schedule 8 Part 5 (See Appendix)	\$602 971
Total Benefit (TB)	\$824 221

Entitlements

The member celebrates their 55th birthday on 8 June 2011 and elects to convert the entire Employer Benefit to an indexed pension and claim their member benefit as a lump sum having met the conditions of release.

The pension conversion factor on the members 55th birthday is 12 (refer to MilitarySuper Book for Pension conversion factors).

Employer Benefit	\$602 971
Pension conversion factor	12
Starting annual indexed pension	\$50 247.58 p.a.
Lump Sum member benefit	\$221 250 gross

For comparison purposes we will assume the same member does not elect to cease contributing when notified that they had reached or were approaching their Lump Sum MBL.

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Scenario 2: The same member elects to continue making contributions

Maximum Benefits Limits 2010/2011

FAS	Lump Sum MBL	Pension MBL
Less than \$59 400	\$475 200	\$594 000
\$59 400 to \$94 870	8 times FAS	10 times FAS
\$94 870 to \$176 030	\$189 740 plus 6 times FAS	\$284 610 plus 7 times FAS
Greater than \$176 030	\$717 830 plus 3 times FAS	\$812 700 plus 4 times FAS

The same member at the time of reaching their Lump Sum MBL in 2008 chose to continue contributing (at 5% and had elected to remain in the default option of Growth) and retires on 7 June 2011. Their FAS has grown to \$98 000 (as above) and the employer multiple is now 6.49 because it grows in accordance with the usual employer benefit formula (refer the MilitarySuper book for further details) while the member is making personal contributions.

The member benefit had grown by \$50 000 (hypothetical change in unit prices and fortnightly contributions).

Member Benefit (MB)	\$231 250
Employer Benefit (EB) \$98 000 x 6.49 (based on 28 years service)	\$636 020
Total Benefit (TB)	\$867 270

In summary, by the time of retirement, using the member's FAS of \$98 000 the Lump Sum MBL had grown to \$777 740 (\$189 740 + \$98 000 x 6) and the member's pension MBL was \$970 610 (\$284 610 + \$98 000 x 7).

Based on the member continuing to contribute, they would not have reached their Pension MBL at the time of retirement on 7 June 2011 and had exceeded the then current Lump Sum MBL by nearly \$90 000 (\$867 270 - \$777 740 = \$89 530)

Entitlements

The member celebrates their 55th birthday on 8 June 2011 and elects to convert the entire Employer Benefit to an indexed pension and claim their Member Benefit as a lump sum having met the conditions of release.

The pension conversion factor on the members 55th birthday is 12.

Employer benefit	\$636 020
Pension conversion factor	12
Starting annual indexed pension	\$53 001.67 p.a.
Lump sum member benefit	\$231 250 gross

If you need more information

Phone: Customer Service Centre 1300 006 727

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Appendix

Schedule 8, Part 5 Calculation

A member whose total benefit exceeds their Lump Sum MBL may elect to cease making contributions.

In such a circumstance, the calculation of the Employer Benefit is different to that for a contributing member, and the following formula is used to calculate it:

$$\left(\text{LSMBMR} \times \left(\frac{\text{TB}}{\text{FASC}} \div \text{LSMBMC} \right) \times \text{FASR} \right) - \text{MB}$$

Where:

FASC means the person's final average salary on ceasing contributions; and

FASR means the person's final average salary on retirement; and

LSMBMC means the person's Lump Sum maximum benefit multiple when they ceased contributing

LSMBMR means the person's Lump Sum maximum benefit multiple on retirement

MB means the amount of the person's member benefit on ceasing contributions; and

TB means the sum of the person's employer benefit and member benefit on ceasing contributions.

The Lump Sum maximum benefit multiples are found by dividing a person's Lump Sum MBL by the average salary at the relevant date.

Example

A contributing member with an average salary of \$75 000, has served 25 years and when notified that their total benefit had reached their Lump Sum MBL of \$600 000 on 7 June 2008, elected to cease contributing to MilitarySuper.

At that time, their total benefit was \$605 000 consisting of \$181 250 in Member Benefit and \$423 750 in Employer Benefit (based on a multiple of 5.65).

They retired on 7 June 2011 with a Final Average Salary of \$98 000. At that time, their Member Benefit had grown to \$221 250.

Using the MBL tables for 2010-11, their Lump Sum MBL on retirement will be:

$$\begin{aligned} & \$189\,740 + (6 \times \$98\,000) \\ &= \$189\,740 + \$588\,000 \\ &= \$777\,740 \end{aligned}$$

This means that their LSMBMR will be

$$\$777\,740 \div \$98\,000 = 7.936122449$$

The LSMBMC, or LBM multiple when they ceased contributing, was $\$600\,000/\$75\,000 = 8.0$

The Employer Benefit will therefore be:

$$\left(7.936122449 \times \left(\frac{\$605\,000}{\$75\,000} \div 8.0 \right) \times \$98\,000 \right) - \$181\,250$$

$$\text{Or } \$784\,221.12 - \$181\,250 = \$602\,971.12$$

The total benefit payable to the member on retirement would be:

$$\$602\,971.12 + \$221\,250 = \$824\,221.12$$

NOTE: A different formula will apply if you take an invalidity retirement and are classified as Class A or Class B. A different formula also applies if you are required to cease contributing because your benefit exceeds the Pension MBL.

You should contact MilitarySuper's Customer Service Centre if either of these situations apply to you.

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