

## **EMPLOYER FINANCED BENEFIT (EFB) PENSION**

### **WHO IS ENTITLED TO AN EFB PENSION?**

Any member of the Retirement Scheme who was previously a member of the Local Government Super Pension Fund, Transport Retirement Fund or NSW Retirement Fund retained the option to receive a portion of their superannuation benefit as a pension. Also, any member of the Active Super Pension Fund retained the children's and orphan's pension option which may apply upon the death of the member. You can confirm if you are entitled to this option by checking your latest annual benefit statement or by contacting Member Services.

### **How does the pension work?**

Eligible members can convert all or a portion of their employer-financed lump sum benefits (and additional benefits where applicable) into a pension. This is calculated by using the member's benefit points multiplied by their applicable salary and a factor. The factor depends on the member's age at pension commencement, the reason for termination and whether a reversionary pension is applicable (discussed below). The EFB component is reduced to take into account the 15% tax payable on employer contributions for the period commencing 1 July 1988 to the date of exit. Any pension paid to a member who is 60 or over is tax-free or, if under 60, a rebate may be available to reduce the tax payable. A member's remaining benefit, consisting of their personal contributions and Basic Benefit entitlements, can be paid as a lump sum, rolled over, or be used to commence an income stream if desired.

### **Are there any restrictions on when the pension entitlement is payable?**

An EFB pension option is only available to members retiring at or after age 60, if they retire due to total and permanent invalidity prior to age 60, or upon the member's death. For example, if a member retires at age 58, they are not eligible for the EFB pension option.

### **How long will the pension last?**

The EFB pension is payable for life and is normally adjusted each year in accordance with movements in the Consumer Price Index (i.e. inflation). Members who have been in receipt of the pension for the entire financial year are entitled to full indexation. Alternatively, the indexing is pro-rated depending on when you commenced the pension (as shown in the table below) until you have been receiving the pension for one full financial year.

DATE COMMENCED	2/7-1/10 INCL.	2/10 TO 1/1 INCL.	2/1 TO 1/4 INCL.	2/4 TO 1/7 INCL.
Indexation	75%	50%	25%	0%

Once the election has been made to take an EFB Pension, the pension cannot be converted to a lump sum.

**Can a member elect for their EFB pension to continue after their death?**

All pensions paid to former members of the Active Super Pension Fund are reversionary – i.e. the surviving spouse of a deceased pensioner is also entitled to a pension. Former members of the NSW Retirement Fund are required to nominate, prior to commencing the pension, whether they wish for their benefit to be ‘reversionary’, that is, whether they wish for a pension to be paid to their surviving spouse upon their death. Once a decision has been made, it is final, and the amount of pension payable depends on this nomination. The surviving spouse would be entitled to approximately five-eighths (or 62.5%) of the pension entitlement previously received by the member. Please note that the pension is only payable to the spouse if they were your spouse at the time you elected to receive a pension.

**What are some of the issues a member should consider when deciding to take the EFB pension?**

- Electing the pension option provides some investment security as the pension does not rely on investment returns (it ensures at least a minimum level of income).
- Selecting the pension option may provide a higher benefit when compared to the lump-sum option, should a member live past their statistical life expectancy. Therefore, if a member and/or their spouse are in good health, they may be more inclined to select this option.
- The financial position of a member may influence their decision. If a member is comfortable with the level of investments they have, they may be less inclined to rely on a pension and elect to take a lump sum in order to utilise another type of investment.
- Members need to assess the importance they place on the risk that they (and possibly their spouse) may die in the early years of their retirement, meaning they forfeit the extra funds that could have been passed on to their estate.
- The overall attractiveness of the pension option when compared to publicly available pensions needs to be considered. For example, a member would need to compare how much they would receive from the EFB pension versus the income they may receive from another pension provider.

- For social security purposes, the capital amount used to commence the pension is exempt from the assets test. However, the income you receive is assessable but may be reduced by a social security 'exempt' portion.
- The EFB Pension cannot be converted once the election to commence an EFB Pension has been made. However, before deciding whether an EFB Pension is the right choice for you, we strongly recommend that you discuss it with your financial planner.

### How does a member find out what their pension entitlement may be?

Member Services can answer all your superannuation questions and provide you with a quote of your expected pension and lump sum entitlements at retirement. You can contact them by calling 1300 547 873.

### NEED FURTHER INFORMATION?

If you would like further information, please visit our website [activesuper.com.au](https://activesuper.com.au) or contact Member Services on 1300 547 873 between 8.30am and 5.00pm, Monday to Friday, if you have any questions or need more information.

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