PROVEN PensionsJournal
ISSUE 003 NOVEMBER 2019

In the last edition of the PensionsJournal, we went "Back to Basics" by introducing the difference between an Approved Superannuation Fund and an Approved Retirement Scheme. We also delved into one of the two types of Superannuation Funds – the Defined Contribution Plan. As promised, this edition will focus on the Defined Benefit Plan.

A Defined Benefit Plan is a Superannuation Fund which has, at the outset, defined the basic benefit that each member will be entitled to at retirement age. This benefit is a function of the member's salary and years of pensionable service. The definition of pensionable salary that is used in calculating the basic benefit varies from plan to plan. You are therefore encouraged to check the Plan's Trust Deed and Rules for specifics about your pension plan.

Let us look at an example:
A plan may define its basic benefit as **1.75% X Pensionable Service X Final Average Salary**. If a member has 35 years in pensionable service and the last 12 months salary is $1,000,000, his basic annual pension at retirement is:

1.75% x 35 x $1,000,000
= $612,500

Unlike the defined contribution plan where the contributions required by the employee and employer are known at the outset, only the employee's basic or mandatory contributions are predetermined with a defined benefit plan. The sponsor has no idea what the contribution rate will be until the Actuary does the valuation and determines the cost required to ensure that the members' basic benefits are secure at retirement. After deducting the members' accrued basic contributions, the Actuary calculates "the Balance of the Cost". This determines the sponsor's contribution rate. ***This means that the risk associated with guaranteeing a member a benefit rests solely with the sponsor - the sponsor must contribute whatever additional amount is necessary to pay this benefit after taking account of the member's accrued basic contributions***.

The question about what happens to a member's voluntary contributions is probably in the back of your minds by now. Not to worry; voluntary contributions are used to increase a member's benefit at retirement. The accumulated voluntary contributions if any, will be divided by the applicable annuity rate to find the annual pension that can be bought. This amount is then added to the basic benefit calculated by the formula.

Important to note, is that the maximum amount of voluntary contributions which can be made by a member may change throughout the life of a defined benefit plan. Remember, mandatory or basic contributions (usually 5%) are made by the member.

The employer will contribute what the Actuary recommends which is usually done every three years. For example, if the actuary determines that the minimum contribution rate required by the employer is 3%, then a member can give up to 12% in voluntary contributions. Likewise, if the employer is required to contribute at 9%, then a member can only contribute a maximum of 6% in voluntary contributions. The total contributions made on behalf of a member is still capped at 20%.

You are encouraged to contact any member of the Pensions Administration Team if you have suggestions or questions at PWLpensionadmin@provenwealth.com or via telephone at 876-908-3800.

The best time to start thinking about your retirement is before the boss does.
Author Unknown

PROVEN WEALTH