Scheme Summary

Contacts

Scheme call centre: 1300 007 844
Website: www.eiss.superfacts.com

October 2010

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ELECTRICITY
INDUSTRY
SUPERANNUATION
SCHEME

Brief History of the Scheme

The ETSA Staff Super fund (which covered white collar workers and provided pension benefits) and the ETSA Retiring Gratuities Scheme (which covered blue collar workers and provided lump sums) date back, in one incarnation or another, to the 1920s.

Changes were made to the pension fund in the 1960s, and again as at 4 October 1975.

In 1988, the Pension Scheme (Division 3) and the RG Scheme (Division 4) were closed, and a new Lump Sum defined benefit Scheme (Division 2), were combined into the ETSA Contributory Scheme. In 1999, the non-contributory accumulation scheme (Division 5) was also included.

Following privatisation of ETSA, the Scheme came under the umbrella of the Electricity Corporations Act 1994, with the appointment of a Board to manage the Scheme.

Structure of the Scheme

The Scheme has a Trust Deed, which is a schedule to the Electricity Corporations Act 1994. The Scheme is exempt from some of the legislation that regulates superannuation funds, but is taxed.

The Scheme also has Rules, which are split into 5 Divisions as follows:

1. General rules that define the powers of the Board
2. Lump sum scheme (a combination of defined and accumulation benefits, closed to new members)
3. Pension scheme (defined benefit, closed)
4. RG scheme (a combination of defined and accumulation benefits, closed)
5. Accumulation scheme (open to new members)

There are members of the Scheme who are active contributors to Division 2, and remain eligible to a preserved pension in Division 3. Otherwise members are only in one Division.

The benefits and definitions in the divisions can be very different from each other.

At the moment, about 60% of the members are in the Accumulation Scheme (Division 5) and about 40% are in the older defined benefit divisions. This ratio will obviously change as the older members retire, and younger members join the Accumulation Scheme.

The Scheme became taxed as at 1 July 2002. Rules were put in place that stated that benefits would be reduced to allow for this change in status, but that members would not receive a benefit that was less than what they would have received from an untaxed scheme. Thus, all defined benefits are subject to what is known as a ‘contribution tax offset’, which reduces the gross benefit prior to benefit taxes being applied.

Role of the Board

The Board is responsible for the administration of the Scheme. They are the Trustee and have powers and responsibilities set out under common law, the Electricity Corporations Act, and the Scheme rules.

The role of the Scheme office is to manage many of the functions of the Scheme on behalf of the Board. The Board outsources many functions to service providers.

The Scheme call centre is the first point of contact for members.

Employer Funding

Employer contributions to the Scheme are not straightforward. This is because Divisions 2, 3 and 4 pay benefits at retirement that are based on salary, length of service and the members’ average contributions. The employers take on the investment risk (ie if investment returns are poor, the employers pay more) as well as pay the administration costs.

For Division 3 (Pension Scheme) it is even more complicated, as the benefit is a pension that is paid for an unknown length (ie until the member and their spouse dies).

Therefore, employers contribute as much as is needed to keep the Scheme in a position where it can pay members’ benefits. Every three years the Scheme’s actuary sets the level of contributions needed from employers, in order to maintain the assets of the scheme at a level to provide for the benefits.

The contributions for Division 5 are a percentage of salary (at least 9%). The member takes all the investment risk (ie if investment returns are poor, the member’s account is not as high as it otherwise might be).

Benefit Design Summary

Lump Sum Scheme (Division 2)

General	Hybrid lump sum benefits. This means that the part that members pay for is the accumulation of contributions with interest, whereas the employers pay for a defined benefit based on a formula and salary at retirement.
Standard member contributions	• Variable, allowable rates 1.5%, 3%, 4.5%, 6%, 7.5%, 9% • Maximum employer defined benefit received for an average contribution rate of 6% over 35 years membership • Average is measured through the use of contribution points
Retirement benefit available	After age 55
Retirement benefit at age 60	Member contributions plus interest, plus 4.5 times contribution points/420 times final salary, plus 3.4% times final salary times years after 1992
Variations on the Retirement benefit	1) Members who transferred from the RG Scheme get the greater of the above benefit plus RG accumulations, with a maximum of 4.9 times salary 2) Maximum defined benefit reduces the earlier the benefit is taken 3) Additional grandfathered Occupational accumulations may also be included
Resignation benefit	Available prior to age 55. Three options are available: 1) Cash plus rollover: essentially minimum SG benefit. Member account may be taken in cash, the employer amount must be preserved, either in the Scheme or another fund. 2) Preserved retirement benefit: preserved in the Scheme, indexed at inflation on the defined portions and interest on the accumulation portions. Subject to maxima. 3) Rollover benefit: member account, plus twice member account (limited to the member account had the contribution rate averaged 6%), plus 3.4% benefit as for retirement Member has 3 months to decide. Default option is 2).
Retrenchment/VSP benefit	Same as the Resignation Benefit
Temporary	• Available up to age 55

Disability benefit	• Benefit of two-thirds of salary • Payable for 12 months (can be extended by the Board for another 6 months) • Benefit can't start until sick leave used up
TPD benefit	Over 55: Retirement benefit Under 55: Retirement benefit at age 55, assuming 6% contributions in future, and with a minimum of twice salary on the member account TPD eligibility: see booklet. Benefit may be limited by amount of insurance proceeds received.
Death benefit	Benefit varies according to age and number of dependents: • Over 55, spouse, no eligible children: Retirement benefit • Any age, spouse, eligible children: Spouse receives potential age 60 retirement benefit, based on defined benefit multiple of 3 rather than 4.5. Eligible children receive a pension. • No spouse but with eligible children: Estate receives greater of member account and two times salary. Eligible children receive pensions. Additional amount possibly payable to estate on cessation of pensions • No spouse, no eligible children: Estate receives accrued retirement benefit Member can nominate beneficiaries but if none nominated will be paid to spouse. Dependents are defined in the Rules (see booklet)

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Pension Scheme (Division 3)

General	Defined benefit pensions
Standard member contributions	• Variable, allowable rates 1.5%, 3%, 4.5%, 6%, 7.5%, 9%, standard • Members have a standard contribution rate, which is set when they joined the Scheme. • Maximum employer defined benefit received for an average contribution rate of their standard rate over 30 years membership • Average is measured through the use of contribution points
Retirement benefit available	After age 55
Retirement benefit at age 60	Pension of up to 75% (less tax offset) of salary, pro-rated depending on average contribution rate, and period since occupational super was introduced. Pension includes a reversionary spouse pension of two-thirds of the retirement pension.
Variations on the Retirement benefit	Pensions may be commuted to a lump sum (see member booklet) Members can choose to take either a pension after tax offset, or a pension gross of tax offset. The income tax paid on these benefits is different.
Resignation benefit	Available prior to age 55. Two options are available: 1) Cash plus rollover: essentially minimum SG benefit. Member account may be taken in cash, the employer amount must be preserved, either in the Scheme or another fund. 2) Preserved retirement benefit: accrued pension preserved in the Scheme, indexed at inflation. Member has 3 months to decide. Default option is 2.
Temporary Disability benefit	• Available prior to age 55 • Benefit of extrapolated retirement pension • Payable for 12 months (can be extended by the Board for another 6 months) • Benefit can't start until sick leave used up
TPD benefit	• Extrapolated retirement pension. • TPD eligibility: see booklet. • Benefit may be commuted within 28 days.

Death benefit	Benefit varies according to age and number of dependents: • Spouse receives two-thirds of potential age 60 pension • Eligible children receive a pension. • No spouse but with eligible children: Estate receives greater of member account and two times salary. Eligible children receive pensions. Spouse pension may be commuted. No nominated beneficiaries. Dependents are defined in the Rules (see booklet)
Retrenchment/VSP benefit	Lump sum benefit of Member account, plus 2.5 times member account (limited to what member account would have been at the member's standard percentage). Members also have the option of taking a preserved pension.

RG Scheme (Division 4)

General	Hybrid lump sum benefits. This means that the part that members pay for is the accumulation of contributions with interest, whereas the employers pay for a defined benefit based on a formula and salary close to retirement.
Standard member contributions	Variable, allowable rates 1.5%, 3%, 4.5%, 6%, 7.5%, 9% Members are not permitted to contribute more than an average contribution rate of 6% and are notified when they reach this average. Average is measured through the use of contribution points
Retirement benefit available	After age 55
Retirement benefit at age 60	Member contributions plus interest, plus 2.3333 times Member account, subject to a maximum of 4.9 times salary, plus 3.4% times final salary times years after 1992
Variations on the Retirement benefit	1) Maximum defined benefit reduces the earlier the benefit is taken 2) Additional grandfathered Occupational accumulations may also be included.
Resignation benefit	Available prior to age 55. Two options are available: 1) Cash plus rollover: essentially minimum SG benefit. Member account may be taken in cash, the employer amount must be preserved, either in the Scheme or another fund. 2) Preserved retirement benefit: preserved in the Scheme, indexed at inflation on the defined portions and interest on the accumulation portions. Member has 3 months to decide. Default option is 2.
TPD benefit	Retirement benefit, plus the excess (if any) of two times salary over member account No temporary disability.
Death benefit	As for TPD, though the additional amount payable on TPD is only payable if there are dependents. Beneficiaries may be nominated, though must be a spouse, child or dependent.

Accumulation Scheme (Division 5)

General	Accumulation lump sum benefits
Retirement benefit available	After age 55
Retirement benefit	Accumulated contributions plus interest
Resignation benefit	As for retirement. Benefit can be preserved in the Scheme (default) or rolled over.
Temporary Disability benefit	• Available prior to age 60 • Two-thirds of Salary • Payable for 12 months (can be extended by the Board for another 6 months) • Benefit can't start until sick leave used up
Death and TPD benefit	Retirement benefit, plus insured amount Binding nominations are available.
Insurance options	Insured amounts are a % times salary times future service to age 60. There are 3 levels: 1) 9% 2) 15% 3) 20% Cost of insurance is deducted from members' accounts. Cost varies with level.

Other Issues

Contributions

Defined benefit (DB) members can vary their member contributions, and this affects the amount of employer funded benefit members receive. The idea was to allow flexibility in funding, to fit in with members' changing financial circumstances. The benefit accrual varies with the contribution rate, with the maximum employer funded benefit accrued with an average rate of:

- Division 2: 6%
- Division 3: standard contribution rate (individual for each member, 5-6%)
- Division 4: 6%

Division 3 members must stop contributing when they reach their maximum benefit.

If members contribute more than the amounts above, any extra contributions are paid out with interest (ie there is no loss).

All members can make additional voluntary contributions (AVCs) of any amount (though may attract penalty tax).

As far as the Scheme is concerned, both standard contributions and AVCs can be salary-sacrificed. Some employers have introduced a rule whereby if standard contributions are salary-sacrificed, then the member also has to make a particular level of AVCs.

Maximum Benefits

Division 3 maximise their benefit at the later of age 60 or 30 years membership. Members can reach their maximum defined benefit contributions earlier, but their pension still goes up until the later of age 60 or 30 years.

Division 4 is a comparison between an accumulation benefit and a salary based maximum.

Minimum benefits

All benefits are structured to meet the minimum Superannuation Guarantee that employers are required to pay.

Investment options

There are four investment options

1) High Growth (100% growth assets/0% defensive assets)
2) Balanced Growth (65% growth assets/35% defensive assets) – default option
3) Conservative Growth (30% growth assets/70% defensive assets)

4) Cash

These can all be used for AVCs, but only one option can be used by a member at a time.

For standard (DB) member contributions in Divisions 2 and 4, only the Balanced Growth and Cash options are available.

For standard (DB) member contributions in Division 3, only the Balanced Growth option is available.

Accumulation Scheme (Division 5) members can access all options.

Insurance

All members have benefits payable on death and total disability. Accumulation Scheme members have a choice of insurance options.

All members except the RG Scheme (Division 4) have salary continuance insurance. This is payable for a maximum of 12 months from when they run out of sick leave.

Pension commutation options

Retirement, spouse and invalidity pensions may all be commuted (ie converted to a lump sum). This decision must be made within 28 days of retirement.

Choice of fund

Accumulation Scheme (Division 5) members can transfer their benefits to another fund. Other members do not have that right.