

Defined Benefit Funds

Many Australians have **defined benefit funds**, which differ from the typical accumulation type funds most of us have. Defined Benefit Funds are prevalent in the public service sector and use a formula based on a multiple of your final average salary to calculate the retirement payout.

The owner of the fund usually takes on the investment risk and they have special rules that prohibit members' returns going backwards. This has made them expensive for employers to operate. Most have now either been shut down or closed to new members.

If you are wondering whether you should keep your defined benefit fund or move to an accumulation fund, there is no single answer for everyone. (Accumulation funds are the ones where you contribute money and the balance rises or falls depending on how your chosen investments perform.)

You need to look at your employment and personal circumstances. If you are looking to leave your job before retirement, you will probably end up in an accumulation type fund. So it is worth checking how much you will have to roll-over into your new fund. If you're going to stay, you should also use our super calculators to see if you could reach the same retirement payout in a normal fund.

What is the difference between defined benefit and accumulation funds?

	Accumulation fund	Defined benefit fund
How is the value of the fund determined?	Super contributions <i>plus or minus</i> the return on the fund <i>less</i> any fees and tax	Calculated with a formula based on salary, age and years of fund membership.
Investment choice	You can choose how your funds are invested within super	Your benefit is based on a formula and not affected by investment markets
Who carries the investment risk?	The member risks losing money on the selected investment portfolio	The fund carries the risk by subsidising the fund. Benefits must be paid at the calculated level regardless of underlying investment performance.
Fees	Most funds charge fees. Industry funds (eg. BUSSQ) generally charge lower fees than retail funds (eg. AMP)	Very low or no fees
Transfer	Most funds accept transfers in and it is possible to move your super to another fund	Transfers of other funds into this super account are rarely accepted. If you move your money out of the fund, you may not be able go back in as most defined benefit funds are closed to new members

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Any questions? Call 1800 046 166 or visit: www.moneysolutions.com.au