Retirement Scheme

Employer Financed Benefit (EFB) Pension

Who is entitled to an EFB pension?

If you are a member of the Retirement Scheme and were previously a member of the Local Government Pension Fund or NSW Retirement Fund and you have retained the option to receive a portion of your super benefit as a pension, conditions apply.

Also, any former member of the Local Government Pension Fund who has retained the children's and orphan's pension option, which may apply upon death of the member.

To confirm if you are entitled to an EFB pension option, you can check your latest annual benefit statement or contact us on **1300 369 901**.

Are there restrictions on when the pension entitlement is payable?

An EFB pension option is only available when ceasing work with an EISS employer on:

- retirement from the age of 60;
- retirement due to total and permanent invalidity prior to age 60; or
- death, to an eligible spouse.

For example, if you are aged 58 and retire, you will not be eligible for the EFB pension.

How does the pension work?

You can convert all or a portion of your employer-financed benefits (and additional benefits where applicable) into a lifetime pension. This is calculated by taking your benefit points multiplied by your applicable salary and a factor. The factor depends on your age at pension commencement, the reason for termination and whether a reversionary pension is applicable.

The EFB component is reduced to take into account the 15% tax payable on employer contributions.

No tax is payable on the tax-free component.

The taxable component is taxed depending on your age and how the payment is made as outlined in the table below:

Tax on pension payments

Your age	Tax on the taxable component
Under preservation age	Marginal tax rate plus Medicare levy
Preservation age or over but under age 60	Your marginal tax rate plus Medicare levy less 15% tax offset applies.
60 or over	No tax[1]

1 For pension payments that exceed the defined benefit income cap (currently $106,250 for the 2021/22 financial year) 50% of the amount in excess will be counted towards your assessable income and taxed at your marginal tax rate.

How long will the EFB pension last?

The EFB pension is payable for life and is automatically indexed each year in October in accordance with the Consumer Price Index. The indexation will be prorated until you have received the pension for one full year.

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

Can the EFB pension continue after death?

The pension is 'reversionary' for former members of the Local Government Pension Fund. This means that upon your death, your eligible surviving spouse is also entitled to a pension.

If you were a former member of the NSW Retirement Fund, prior to commencing the pension, you are required to nominate whether you wish for your benefit to be 'reversionary' or 'non-reversionary. This means, whether you wish for a pension to be paid to your eligible spouse upon your death.

The eligible spouse will be entitled to approximately five-eighths (or 62.5%) of the pension entitlement previously received by you.

Please note that a reversionary pension is only payable to your surviving spouse if they were your spouse at the time you elected to receive your EFB pension and at the time of your death.

What issues should I consider when deciding to take the EFB pension?

- Electing the pension option provides some investment security as the value of your fortnightly pension is not calculated on investment returns.
- Should you live past your statistical life expectancy, taking a lifetime pension may provide a greater benefit when compared to the lump sum option.
- Your financial position may influence your decision, as to whether a pension or lump sum is more suitable.
- Your health and the chance that you may die in the early years of retirement, meaning you forfeit the extra funds that could have been passed on to your estate had you taken your EFB as a lump sum upon your retirement.
- For Centrelink purposes, the capital used to start the pension is exempt from the assets test. The pension payments are assessed under the income test less a deductible amount.
- The EFB pension cannot be converted to a lump sum once the election to commence an EFB pension has been made.

What might your pension entitlement be?

We are able to provide a quote of your expected pension and lump sum entitlements at retirement, if you have reached 60 years of age. If you are under 60, contact us to find out how to get an estimate of your pension and lump sum entitlements at retirement.

Transfer Balance Cap

In simple terms, the transfer balance cap means that you cannot transfer more than $1.7 million in any single pension account or across multiple pension accounts (excluding TTR pension accounts). If you exceed this cap:

- you will become liable to pay excess transfer balance tax on deemed earnings on the excess amount above the cap; and
- you will have to remove the excess amount (plus any deemed earnings) by either rolling the amount to a super account or withdrawing it from the pension account.

Retirement Scheme pensions

As commutation restrictions apply to Retirement Scheme pensions, special rules apply. The 'special value' of these pensions for the purpose of the transfer balance cap is calculated by multiplying your annual pension payments by 16. Where a pension is given a capital value of over $1.7 million (i.e. more than $106,250 p.a.), you will not be required to commute the excess amount of your pension from the retirement phase. However in order to maintain a similar taxation outcome, the amount of the annual pension payment above $106,250 p.a. for those over age 60 will become subject to income tax. Specifically, 50% of your pension payments that exceed $106,250 p.a. will be included in your assessable income and will be taxed at your marginal tax rate.

If you have additional funds in a non-defined benefit retirement pension account, such as an account-based pension, the special value of your defined benefit pension and the balance of all other retirement pension accounts needs to have a total value of under $1.7 million. If the combined value is above $1.7 million, you will have to remove the excess amount (plus any deemed earnings) in the non-defined benefit pension account by either rolling the amount to a super account or withdrawing it from the pension account.

Seek professional advice

Our financial planners provide advice over the phone, at our offices or at a location near you.

To book an appointment, please call **1300 369 901** or visit **eisuper.com.au/appointment**.

We're here to help

1300 369 901 eisuper.com.au GPO Box 7039, Sydney NSW 2001