

Superannuation "costs" for packaged/contract staff in the Defined Benefit Scheme

Following recent changes to the required employer superannuation contributions, a number of queries have been made relating to the amount that should be deducted from the employee's salary package.

We understand that most Councils have adopted a policy of using the "Notional Cost" as the basis for this deduction. Should this apply to your Council please note the comments below:

The "notional" cost is set by the Actuary and is based on an estimate of the average cost of funding members' benefits. It does not change due to the financial position of the Scheme from time to time.

Superable Salary and 'notional oncost':

The method used to calculate Superable Salary based on "notional cost", uses the following formula:

$$\text{Total Remuneration Package (TRP)} / (1 + \text{member's oncost factor \%})$$

**The member oncost factor is established based on the member's age at fund commencement, gender and the number of years to normal retirement age. This factor is expressed as a percentage, includes 2.5% for the Basic Benefit and does not change.*

The method used to calculate the long term cost or 'notional oncost' will also remain unchanged and is calculated as follows:

$$\text{Notional Oncost} = \text{TRP} - \text{Superable Salary}$$

Example:

If a member's TRP is \$120,000 and the oncost factor is 10.2%:

$$\begin{aligned} \text{Superable Salary} &= \$120,000 / (1 + 10.2\%) \\ &= \$120,000 / 1.102 \\ &= \mathbf{\$108,893} \end{aligned}$$

$$\begin{aligned} \text{Notional Oncost} &= \$120,000 - \$108,893 \\ &= \mathbf{\$11,107} \end{aligned}$$