



Contributory Scheme – Employer Share Funding rate change

Employer funding

The employer share of your Contributory Scheme benefit is funded by last minute employer contributions when your defined benefit becomes payable.

Increase in the employer share of Contributory Scheme benefits

The employer share of Contributory Scheme benefits will increase from 86.5% to 88.5% of the basic Contributory Scheme benefit on and from 1 July 2019.

This increase will apply to your benefit if your final date of service is on or after 1 July 2019.

Why is the increase in employer share necessary?

Increasing the employer share of Contributory Scheme benefits is necessary for the following reasons:

- 1 The ageing membership and the fact that the Contributory Scheme is closed to new members means that the membership base will continue to age and decline over time whilst the accrued benefits of remaining members will continue to increase. This places pressure on the funding arrangements for Contributory Scheme members' benefits.
- 2 The primary factors that influence the value of the Fund's and the State's Contributory Scheme liabilities include:
 - ▶ the length of contributory service of remaining members;
 - ▶ growth in salary and wages;
 - ▶ changes in the consumer price index; and
 - ▶ investment performance.

The State Actuary assesses the Contributory Scheme liabilities (both funded and unfunded) and recommends the employer share percentage to apply.

Does the change impact my defined benefit?

The increase in employer funding does not change the value of your gross defined benefit.

Your Contributory Scheme defined benefit comprises two funding components:

- 1 the funded component; and
- 2 the unfunded component.

The change to the employer funding impacts the apportionment of your Contributory Scheme benefit between the funded and unfunded components.

What is the funded component of my Contributory Scheme benefit?

The Fund share of your Contributory Scheme defined benefit is the funded component of your benefit and is represented by your contributions and investment returns. The tax components attributable to the funded component include the tax-free component and the taxed component.

What is the unfunded component of my Contributory Scheme benefit?

The unfunded component is the employer share of your Contributory Scheme benefit which is funded by last minute employer contributions.

The last minute employer contributions are not subject to 15% contributions tax when received by the fund. The liability for the payment of contributions tax is effectively transferred to the member's benefit. The employer share is classified as the untaxed component and due to contributions tax not being deducted previously, this component attracts a relatively higher rate of tax when compared to the other components, to allow for the correct taxation when the benefit is paid.

What are the tax impacts of increasing the employer share of Contributory Scheme benefits?

Increasing the employer share to 88.5% of the basic Contributory Scheme benefit will increase the untaxed component of your Contributory Scheme benefit which may result in a slight reduction in your after-tax Contributory Scheme benefit.

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