

# Manildra Flour Mills Retirement Fund

## Defined Benefit Conversion Offer

### Background

You have received this notice because you are a defined benefit member of the Manildra Flour Mills Retirement Fund.

In December 2007 the benefits of the Fund were amended so that from 1 January 2008 your accruing benefits became accumulation in nature, i.e. employer contributions, net of tax, accrue with investment earnings. These accruing benefits are held in your Company Accumulation Account.

However, your defined retirement benefit accrued to 31 December 2007 is protected. Your retirement multiple accrued to 31 December 2007 times your Final Average Salary<sup>1</sup> is paid on retirement on or after age 55, in addition to the accumulation benefits accruing after 31 December 2007.

For members under age 55, the resignation benefit includes the accumulation benefits accruing after 31 December 2007 plus the Additional Resignation Account. The Additional Resignation Account is the resignation benefit that applied as at 31 December 2007 plus investment income allocated since that date.

On retirement, on or after age 55, the defined retirement benefit (i.e. the accrued benefit multiple times Final Average Salary) is subject to a minimum of the Additional Resignation Account.

Note that any contributions plus investment returns which have been made to your Member Accumulation Account such as voluntary contributions, after tax or by salary sacrifice, and any rollovers into your Rollover Account in the Fund plus investment earnings, are paid in addition to the benefits described above.

### The Offer

The Trustee of the Fund and your employer, the Manildra Group, have decided that those defined benefit members who are aged 55 and over may convert all or part of their defined retirement benefit to an accumulation benefit.

---

<sup>1</sup> Final Average Salary is the average of the three annual salaries as at 1 July in each of the three years prior to your retirement

For example, if your accrued multiple is 5.000 and your Final Average Salary is \$100,000 your defined retirement benefit is \$500,000. If you convert 50% of your defined retirement benefit to accumulation then your accrued retirement multiple will reduce to 2.500 and your defined retirement benefit will reduce to \$250,000 (i.e. 2.500 x \$100,000). However, your Company Accumulation Account will be credited with \$250,000 i.e. the value of the defined retirement benefit converted.

### **What are the Advantages and the Risks of Converting?**

The defined retirement benefit will only increase if your Final Average Salary increases, effectively only if your annual salary increases. If you choose to convert then that part of your benefit that is converted will increase or decrease with future investment earnings of the Fund, which may be positive or negative in any given year.

If the rate of investment earnings is greater than the rate at which your Final Average Salary increases then you will accumulate a higher benefit than if you did not convert.

The main risk after conversion is that the investment earning rate of the Fund is low or at least lower than the rate at which your Final Average Salary increases.

In summary the risks and advantages of converting are:

- If you convert, the risk associated with investment performance transfers from your employer to you. If investment earnings are high, you receive a greater benefit, but you also bear the risk of poor investment performance;
- After conversion, there is no need for your employer to make additional contributions (at least in respect of that part of your defined retirement benefit that is converted). Hence, you are less reliant on the financial status of your employer.
- If your Additional Resignation Account is currently greater than your defined retirement benefit then it may not be your advantage to convert any part of your defined retirement benefit. This is because your Additional Resignation Account could be expected, in the normal course, to grow with investment earnings and you will have that underlying minimum of your defined retirement benefit should investment performance be poor in future. You can consider conversion at a later date should your defined retirement benefit ever exceed your Additional Resignation Account in future.

### **What are the advantages and risks of retaining your full defined benefit?**

- Under the current arrangements your defined retirement benefit is guaranteed by your employer. If investment performance is poor then your employer may have to make additional contributions to ensure there are sufficient funds to allow your benefit to be paid when you retire. There is currently a formal arrangement in place for your employer to maintain the necessary funding requirements for the Fund;

- On the other hand if the future investment earnings are greater than the increase in your defined retirement benefit due to salary increases then you will have missed the opportunity to have a greater benefit;

### **What about income protection and death and disablement benefit?**

Your monthly **income protection benefit**, should you need to receive it, will not be affected by a full or partial conversion as it depends on your annual salary, which will not be altered should you convert any or all of your defined retirement benefit.

The current definition of your **death and total and permanent disablement benefit** is as follows: The sum of

1. Your Company Accumulation Account, your Member Accumulation Account and your Rollover Account less your Surcharge Account;
2. An Insurance Benefit;
3. Your defined retirement benefit but using latest annual salary rather than Final Average Salary (i.e. your accrued multiple times your salary at date of death or disablement).

The amount of your Insurance Benefit equals 20% of your salary times the period between your date of death/disablement and your 65<sup>th</sup> birthday (calculated in years and complete months).

After conversion items 1 and 2 will be unchanged. With regard to item 3 that part of your defined retirement benefit that is converted will accrue interest and be paid on your death or disablement while the part that is not converted will continue to be paid as a defined benefit but with a reduced accrued multiple.

### **Can You Increase the Amount You Convert in Future?**

Yes, if you only convert part of your defined retirement benefit then, at a later date, you may convert part or all of the remaining defined retirement benefit.

### **Can You Convert Back to Defined Benefit?**

No. Any conversion of any part of your defined retirement benefit to accumulation is irreversible.

## **How Does the Offer Apply if You are Under Age 55?**

It does not apply to you at present; this offer is only open to members who are aged 55 and over. However, you may convert part or all of your defined retirement benefit once you reach age 55.

### **Disclaimer**

***This Defined Benefit Conversion Offer contains general factual information only and has been prepared without taking into account your individual objectives, financial situation or needs. Before acting on the contents of this document, you should consider whether it is appropriate to you, having regard to your objectives, financial situation and needs. You should obtain advice from a licensed financial adviser before making any decisions about your superannuation. Neither the Trustee nor your Employer is licensed to provide you with any financial advice.***

This Defined Benefit Conversion Offer was prepared by Manildra Flour Mills Retirement Fund Pty Limited (ABN 74 065 680 195), the Trustee of the Manildra Flour Mills Retirement Fund (ABN 32 448 411 930) ("the Fund").