



## Understanding Inclusively costed **VS** Exclusively costed contribution arrangements

*As a member or a participating employer in the umbrella fund, it is important to understand the contribution structure of the Fund, and how the costs of risk benefits and administration are funded. The terms "inclusively costed" and "exclusively costed" are used to describe the contribution funding method of the costs of risk benefits and administration.*

### Let's take a look at exclusively costed arrangements.

If we say that an employer's participation (known as a scheme) is exclusively costed, it means that the employer's entire contribution to the Fund is allocated to members' retirement savings, and there is an additional payment made by the participating employer to cover the costs of administration and risk benefits. This additional payment is over and above the specified contribution allocation towards members' retirement savings.



### What does this mean for the participating employer?

For an exclusively costed scheme, the employer has a varying cost of contributions to the Fund, being the fixed retirement savings contributions portion (as a percentage of pensionable salary) as well as the additional variable costs pertaining to risk benefits and administration.

If these additional costs increase, then the employer's payroll cost

base increases, leaving the allocation to retirement savings for members unchanged, but negatively impacting the employer's cost of employment.

In a reducing cost environment (which is possible if risk claims become fewer due to improvements in health technology and awareness), an exclusively costed scheme will be more favourable for the employer, as their employment costs would reduce. The employer contributions towards members' retirement savings will remain constant as a percentage of pensionable salary.

### What does this mean for members?

For a member of an exclusively costed scheme, the costs of risk benefits and administration do not impact retirement savings and the retirement savings outcome for the member.

In an increasing cost environment, an exclusively costed scheme should be favourable for the members' retirement savings.

**Decision makers should carefully consider the various factors of risks, benefits and affordability when deciding on a scheme's optimal Employee Benefits contribution package, including the impact on members' Net Replacement Ratios at retirement.**

