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.

In this document, we take a look at inclusively costed arrangements. Our next campaign will deal with exclusive costing.

If we say that an employer's participation (known as a scheme) is inclusively costed, it means that the costs of risk benefits and administration are paid from the participating employer's contribution to the Fund, and the remainder of the employer's contributions are allocated to the members' retirement savings.

Employer's contributions to the Fund **100** – Risk and Admin Costs **20** = Allocation to Members' Retirement **80**

What does this mean for the participating employer?

For an inclusively costed scheme, the participating employer has predictability and ease of budgeting with regard to the cost of contributing to the Fund.

If the cost of risk benefits and/or administration increases, this has no impact on the employer's cost of contributing to the Fund, as the allocation to retirement savings is adjusted downwards to accommodate the increased costs.

This means that the remaining allocation to retirement savings for members will reduce:

Employer's contributions to the Fund **100** – Risk and Admin Costs **INCREASE TO 35** = Allocation to Retirement **REDUCES TO 65**

As demonstrated below, the opposite result will apply in the event that risk and administration costs reduce (i.e. the allocation to retirement savings will increase, leaving the total employer contribution unchanged).

Employer's contributions to the Fund **100** – Risk and Admin Costs **DECREASE TO 15** = Allocation to Retirement **INCREASES TO 85**

What does this mean for members?

For a member of an inclusively costed scheme, the lower the costs of risk benefits and administration, the greater is the member's retirement savings portion of the employer's contribution, and therefore the better the retirement benefit outcome should be for the member.

Conversely, the higher the costs of risk benefits and administration, the lower is the member's retirement savings portion of the employer's contribution, and therefore a reduced retirement benefit outcome will be likely for the member.

Ultimately, the proportion of cost of risk benefits and administration will directly impact on whether the member retires more comfortably than not, in an inclusively costed scheme.

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.