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Official Committee Hansard

SENATE

SELECT COMMITTEE ON SUPERANNUATION AND
FINANCIAL SERVICES

**Reference: Benefit design of Commonwealth public sector and defence force
unfunded superannuation funds and schemes**

WEDNESDAY, 14 FEBRUARY 2001

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SENATE
SELECT COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES
Wednesday, 14 February 2001

Members: Senator Watson (*Chair*), Senator Sherry (*Deputy Chair*), Senators Allison, Chapman, Conroy, Hogg and Lightfoot

Senators in attendance: Senators Allison, Sherry and Watson

Terms of reference for the inquiry:

For inquiry into and report on:

The benefit design of Commonwealth public sector and defence force unfunded superannuation funds and schemes, with particular reference to:

- (a) the method of indexation used by trustees to preserve the real value of fund members' preserved unfunded component of their employer benefit;
- (b) the rationale for using this method;
- (c) the costs and benefits to fund members and trustees of using this method over other alternatives;
- (d) indexation methods used by unfunded and funded state government superannuation schemes where the member's preserved employer benefit remains in the fund;
- (e) the possible implications of adopting another method of indexation; and
- (f) any other issues related to the scope of this inquiry.

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Committee met at 9.08 a.m.

CHAIR—I declare open this public hearing of the Senate Select Committee on Superannuation and Financial Services. This is the first of two days of hearings which the committee is holding in relation to its inquiry into the Commonwealth public sector and the Defence Force unfunded superannuation funds and schemes. On 8 November last year, the Senate referred the matter to the committee for inquiry and report by the last sitting day in March 2001. The inquiry has attracted a lot of interest from current and former public sector and Defence Force personnel. The committee has received nearly 200 submissions from organisations and people representing the interests of those groups and from many individuals who have taken the time to express their views on how the current arrangements for pensions affect them.

The aim of today's hearing is to take evidence from some of the representative organisations. Tomorrow we will take evidence from individuals and government agencies on the policy role in the area of superannuation for Commonwealth public sector and Defence Force personnel. All witnesses who appear before the committee are protected by parliamentary privilege with respect to the evidence given before the committee. This means that they are given broad protection from action arising from what they say and the Senate has the power to protect them from any action which disadvantages them on account of evidence given before the committee. The committee prefers to conduct its hearings in public. If there are any matters which you wish to discuss with the committee in private, the committee will consider your request. Given the nature of this reference, we do not expect that to occur.

At the end of the scheduled hearings tomorrow—that is, Thursday, when we will be taking evidence from individuals—the committee will take evidence in what we call an open forum from those individuals for whom there was not time to take evidence elsewhere in the program. That will give a lot of people the opportunity of sitting around at something like a round table to present their views. In that way, we believe we should get a very representative sample of people's concerns and aspirations.

[9.09 a.m.]

ALLNUTT, Ms Helen Margaret, National Secretary, Superannuated Commonwealth Officers Association

BRIGG, Mr John Sidney, National President, Superannuated Commonwealth Officers Association

FAWL, Mr Terry, National Vice-President, Superannuated Commonwealth Officers Association

HURLEY, Mr Peter James, National Vice-President, Superannuated Commonwealth Officers Association

NEWTON, Ms Kris Anne, Consultant, Managing for Productivity

TAYLOR, Mr Neil Charles, Managing Proprietor, Managing for Productivity

CHAIR—I welcome the first group of witnesses representing the Superannuated Commonwealth Officers Association: Mr John Brigg; Mr Terry Fawl; Mr Peter Hurley; and Mrs Helen Allnutt, whose letter inspired the committee to undertake this inquiry. I think that should be on the public record.

Ms Allnutt—Thank you.

CHAIR—You are obviously looking after your members very well. I also welcome Mr Neil Taylor and Ms Kris Newton. The usual procedure is that we ask you to make a presentation. Given the large number of you present, unless everybody has a particular thing to say we will ask you to keep it relatively brief to make sure everybody has an opportunity and so we can get the widest range of views in terms of the input. Following that, the committee will ask questions of the witnesses.

Mr Brigg—If you like, I will lead off and give you an outline which will hopefully lead the committee to questions and give the main gist and substance of our submission. Thank you for fitting us in. We really appreciate that because we know how busy you are with this particular inquiry. We welcome the Senate inquiry into the benefit design of public sector and Defence Force unfunded superannuation schemes. We represent about 350,000 contributors—not all are a member of our organisation, but that is the broad picture—which consists of pensioners and deferred beneficiaries around Australia under the Commonwealth's two civilian schemes. In brief form, that is the CSS scheme, which is the older version; and the PSS scheme, the Public Sector Superannuation Scheme.

Our main concern is the ongoing decline of the value of the benefit in retirement—that is, our superannuation pension—because it is CPI indexed. This comes in particular under item (f) of your terms of reference. By the way, that decline has been very significant over the last 10 years, and our presentation illustrates that. The government uses a wage based mechanism to index partly or fully other Commonwealth funded retirement benefits, including the age pension and the parliamentary pension. Our position is unequivocal. We say that if the justification for applying a wage based indexation for these categories is sound, so it should be for extending the

same treatment to its former Commonwealth employees. By the way, the defence forces will also be involved in this.

Over the last decade wages have consistently outstripped rises in the CPI. If our pensions had been indexed by either MTAWWE, which is male total average weekly earnings, or AWOTE, which is average wage ordinary time earnings, we would have been 10 to 20 per cent better off in real terms. So it is not a small margin that we are making our submission about. It is quite significant in that it is 10 to 20 per cent. This is at a time when parliamentary pensions have risen by more than 50 per cent over the same period because they have been adjusted to a wage based type system. The situation will get worse as wages are expected to continue to outstrip rises in CPI in the short to medium term. External commentators support that proposition.

The CSS and PSS pension levels are modest. They cover a whole range of employees, as you will realise. Not all are senior public servants. Some 22 per cent receive less than \$10,000 a year, which is about a fifth. Some 65 per cent receive less than \$20,000 a year. Over 90 per cent receive less than \$30,000 a year. Some 70 per cent receive less than the current minimum safety net wage. For the vast majority of Commonwealth superannuants, their superannuation pension is their main source of income in retirement. Put simply, living standards in retirement are falling. Our superannuation pensions are eroding in value and more and more of us are having to draw down on our capital, where we have it, and top up our pensions with social security benefits. We are denied any share of productivity gains and increases in community living standards as measured by wages.

The impact would be lessened if the CSS and PSS pension adjustment process were to include a wages mechanism. We are losing out on relativity with the position we held in the work force when we retired. This does not happen with parliamentary pensions because of the link to salaries of serving members and senators. The inadequacies of the CPI and adjustment mechanism apply equally to preserving the real value of the preserved, unfunded component of the employer benefit in the PSS scheme, which is the scheme which has emerged in more recent years. There will be costs involved with incorporating a wages mechanism, and I expect the committee to be looking at the indexation process, too, over the days. There will be substantial offsets—and I stress this—through increased taxation revenues because, as you move the pension up, pensions are taxable because they are regarded as unfunded schemes, and there will also be savings and offsets because of the reduced age pension outlays. Our submission outlines these matters in more detail. It also covers other inequities, such as the denial of the bereavement package to surviving spouses of the original 1922 act, and our opposition to the proposal to close the PSS to new entrants.

Last year, we commissioned consultants to undertake a case study of the lifestyles in retirement of 100 of our members as a follow-up to a national survey in 1999. The consultants, Managing for Productivity, are here today to tell us about their findings so far, and they will be able to give you practical examples, if you would wish that—and I hope you do—of the circumstances of individual members. They are about a third of the way towards completing their study at the moment. We are happy to assist in any way we can and to answer any questions that you might put to us.

CHAIR—Will we hear from the productivity people to get some figures?

Mr Brigg—I am quite happy for you to have that. It is not completed yet. We are about a third of the way through. We hope to be able to give that to the committee a bit later, in March some time.

CHAIR—Some interim information would be very helpful to the committee, because we will have probably completed our report by the time you complete your study.

Mr Taylor—Yes, I understand. My organisation, Managing for Productivity, was commissioned by SCOA late last year to survey its members. The purpose of the research is to obtain data on the effect of the current indexation system used for Comsuper. In particular, we are looking at the impact on superannuants' economic circumstances and lifestyles in retirement. The research takes the form of 100 case studies. We developed the following methodology that ensures that we have selected 100 of the most representative individuals available for the case studies.

Firstly, a mail-out of 2,000 questionnaires was posted to a randomly selected representative sample in each state and territory to establish a pool of respondents for the 100 case studies. Over 1,000 replies have been received from those 2,000 mailed out, with over 870 nominating themselves for selection as potential case studies. Focus groups were conducted in the ACT, Queensland and New South Wales, with Comsuper recipients to develop a suitable questionnaire for telephone interviews.

From information provided in a previous survey conducted by SCOA in 1999, as John as mentioned, and from Comsuper data, a set of six representative profiles was established in terms of Comsuper income level, sex, age, state of origin and categories of normal recipient or joint recipient of Comsuper or widow of recipient. Ten Comsuper recipients were chosen from the focus group participants and the 870 respondents to the mail-out to form a representative sample for a set of 10 pilot case studies. So the first thing we did was to run a pilot just to see how this would go. Using the questionnaire that we had already developed, we conducted structured telephone interviews in January 2001 to produce the 10 pilot case studies. My main report today is on the findings from those initial case studies.

We have looked at three major issues. The first is Comsuper's value as an ongoing source of income in retirement. The value of Comsuper income is being eroded in every case surveyed, forcing every one of those interviewed to rely more and more on other sources of income, such as the age pension, and either interest from and/or disposal of assets and/or investments to either survive or maintain their standard of living. Most cases are gradually reducing their standard of living. Some are forced to because there is simply no option. Some have chosen to reduce their standard of living now to avoid financial hardship later in life. Those who are not reducing their standard of living are, as one respondent put it, living beyond their means. All respondents said that they could not cope if they had to live on Comsuper alone.

The second is Comsuper's ability to keep pace with wages. In every case the increase in wages paid to employees in the equivalent positions in the Public Service has exceeded the relative increases in Comsuper incomes. This effect has created a gap between what they would receive if they were to retire from the equivalent positions today and what they are actually receiving now. Of course, this gap varies from case to case. For the pilot group the gap ranged from \$692 to \$11,134 per year. The average gap for the 10 cases is \$3,461 per year.

The third issue is Comsuper's ability to keep pace with the cost of living for recipients. All respondents reported that the cost of living had increased since separation from the service—not surprisingly. Three of the pilot respondents maintained very thorough records of their income and expenditure since separation—and, I might add, some of them for several years before that. Two of these reported increases in expenditure that exceeded the increases in Comsuper. In one case, this equated to a net loss of \$2,481 per year and in the other a net loss of \$927 per year. Only one of the three respondents reported that she had been able to reduce expenditure at all and noted that she had done this intentionally as part of her savings strategy.

We have already started on the 100 case studies, so the information I am giving you now is the information from the pilot case studies. So far we have interviewed a total of 27 Comsuper recipients. Their characteristics represent a broad cross-section of the Comsuper recipients as follows: they are aged between 47 and 91 years of age—an average of 68 years of age. There are 18 males and 11 females in the group that we have interviewed: nine from the ACT, seven from New South Wales, six from Victoria, three from Queensland and two from South Australia. The net after-tax annual income per person ranged from \$10,719 to \$49,000 per annum, with an average of \$26,121 per annum. Their gross Comsuper benefits ranged from \$2,392 to \$69,527 per annum, with an average of \$23,158. Their length of service in the Public Service varied from six to 42 years, with an average of 27 years of service. Twenty-three of the 27 live in their own home, two live in retirement villages, one lives in residential care and one lives in rented accommodation.

Fourteen of the 27 live with a spouse or partner. Six still have dependants. Fourteen have children, 10 have grandchildren and two have great grandchildren. Twenty-three own a car and the cars range in age from two to 23 years old. The average car is eight years old. Seven receive a part pension, a disability pension or a veterans affairs pension; three receive a part UK pension; 24 of the 27 receive at least some sort of income from investments, and this might vary from a Commonwealth Bank account through to shares on the stock market; and seven have major health concerns.

During the interviews we have noted the following comments—and I thought they gave a quite interesting human face to the situation: 'I make jam for the church fete,' says the 66-year-old widow of a contributor, 'but only if someone will give me the fruit for free.' 'When my husband was alive, he would never take the pension but worked as a driver in a furniture delivery business from age 65 until he died at aged 75,' says the 83-year-old widow of a contributor; and, 'He found this very hard.' 'When interest rates were falling, housing was included in the CPI. When rising, it was excluded. I traded my 23-year-old car on a new one in 1996. When I am 80 years old, this car will be 23 years old as well, and I intend to replace it with a new one. My father is 90 and he is still driving. On the previous 23-year experience, the new car will cost me \$323,000. That means I will need to preserve almost all my savings just to buy a car.' Both of these quotes are from an ex-SES officer. An ex-supervising foreman from the department of civil aviation told me, 'I can still go fishing in the river because us old blokes don't need to pay for a fishing licence.' An ex-clerk class 6 said, 'We are living beyond our means.' This is a quote from an ex-SES officer: 'The policies we helped deliver led to Australia's wealth. Self-funded retirees are treated inequitably by the government.' An ex-meat inspector from AQIS noted, 'For birthdays, I like to take my family to lunch at Sizzlers. It costs \$58 for the five of us, which is a lot for me.'

Our conclusions from this initial part of the study are that the pilot studies showed—these are the first 10—that the current method of indexation, the CPI, for Comsuper superannuation is failing to keep pace with both increases in comparable wage levels and increases in cost of living expenses for all 10 recipients surveyed. Although the 27 recipients interviewed so far represent such a broad cross-section of Comsuper recipients, there are four main conclusions that summarise our findings so far. In all interviews conducted, respondents indicated that Comsuper alone was not sufficient to support their retirement lifestyle. In most cases, Comsuper is the main source of income. Those on higher household incomes also tend to have more assets and worry that they have more to lose in terms of established lifestyles, which they feel they deserve because they have worked for it. Consequently, they have developed strategies which aim to ensure their financial security in the future, even though some of those saving for their old age are already in their 70s. These strategies include saving for the future and/or doing paid work or handling investments such as rental properties or shares. Therefore, many of these people see themselves as not properly retired.

On the other hand, those in the lower household income categories who are not already receiving a part aged pension or similar are gradually living more frugally, although very few will make this kind of statement about their own situation. If the trend continues, many will become more dependent on the public purse—that is, the age pension and public health services. Under the current indexation arrangements, those who have already been caught by the safety net will gradually become even more dependent on the public purse.

We still have work to do with over 70 case study interviews yet to conduct. We will provide SCOA with a final report, including a more complete analysis of all 100 case studies, by 16 March. Thank you.

CHAIR—Anybody else?

Mr Brigg—Senator Watson, I have just a few things to punctuate what has just been said, which will assist the committee, I think. Helen Allnutt would be able to give us the average pensions at the moment—that is, the average supplied by the superannuation people for CSS schemes and PSS schemes. It is as an average, of course. It covers the whole spectrum from the bottom to the top. So it is limited in that respect but it gives you an indication.

CHAIR—The other thing that we would be interested in is in terms of the use of the CPI. What elements of the CPI are omitted in terms of your expenditure patterns? I think that is important for us to have on record. You mentioned financial services—banking—but there must be others. I would not mind that as part of your presentation.

Ms Allnutt—Interest rates were included in the 1980s and the early part of the 1990s. They are no longer included. The exclusions of bank fees, as we said in our submission, is an issue because older people tend to get hit by bank fees more. They are not always comfortable with using technology.

Mr Brigg—Can I just add there that Helen will refer to particular sections. We have had a look at other indexes and we refer to the ASSIRT index. We mention it in our report in several places. We have given you a table there—I am just at the moment talking while we turn up that particular reference—which is on pages 9 and 10 of our submission. Helen will take you

through the ASSIRT. We put in a table, alongside the CPI, of the variations in their index. We can take you through that quickly, if you have a copy of that in front of you.

Ms Allnutt—It is on page 9 of our submission.

Mr Brigg—Paragraph 4.2.

Ms Allnutt—The retiree price index, which ASSIRT has developed, accords lesser weighting to food, clothing and footwear; housing; and alcohol and tobacco. It accords a higher weighting to household supplies and services, transportation, recreation and health. I think you would expect that that would be where older people would spend more than the general population.

Mr Brigg—So the big variations there—if I can continue, just to draw focus to the committee—are, of course, on the household supplies and services; transportation, as you would expect travel and you would expect older people to perhaps move around more; recreation, which is parallel to that; and the health budgets. So there under that index—and I think that you are seeing the Bureau of Statistics—they are, I think, attempting to provide more of a retirement index. I am sure that they will be able to address that tomorrow for you, to give you some insight into the extra factors that I have been trying to evaluate.

The key thing for us, of course, is then to relate the CPI to the graph which we have, which is on page 7, which our state branch in Western Australia has done a lot of research into, highlighting the point that I made earlier—that is, what has happened in the last 10 years. We are seeing various indexes and ways of reflecting, shall we say, benefits either of salaries or so on and comparing CPI with it. I had a look at it myself—a longer-term picture—and the disparity has been quite marked in the last 10 years. We will follow that up with ABS to get some objective evaluation on that, if you would like it, tomorrow.

Ms Allnutt—The other thing that is really impacting is the loss of relativity with the position that we held on retirement.

Mr Brigg—I would just refer you to a 1973 inquiry, which appears as parliamentary paper No. 9, headed 'Inquiry into the Superannuation Pension Updating', of March 1973. The particular person who undertook that inquiry, R.E.H. Pollard, refers in the second paragraph of page 30 as follows:

The plan—

and that is a little bit ambiguous; it could be his plan or the longstanding plan—

aims to provide pensions of the order of 70% of final salary for over 95 per cent of contributors, if all entitlements are taken up.

I can talk for my father. He was the kind of person who did not believe in superannuation. He is dead now. He took his absolute minimum of superannuation because he wanted to have access to the pension. Others of our people want to get an adequate superannuation pension and not have access to the Commonwealth pension. There is a very mixed attitude for people coming

through the system in the 1930s, 1940s, 1950s and so on. People's attitude to superannuation has changed.

The key thing from this particular paper I mention becomes: if the CPI is a reflection of costs, which is what you were addressing, Senator Watson—and you will be following that up—what are we on about? Of course, we are on about getting a fairer share of what I would call the general increase in productivity. Secondly, you could argue perhaps that, if the broader community is disadvantaged, what are we on about? But the broader community now is not disadvantaged like it was 1973. The rate for a pension now—that is, a social welfare pension—for a couple at which the cut-off takes place on the income test is around \$47,000 or \$48,000. So that really means now that, as 90 per cent of our people are under \$30,000, as I mentioned earlier—they are all subject to the asset test and other income they might be earning from investments, et cetera—they are all eligible for a pension, which was not the situation which people necessarily expected when the first superannuation was brought in in the 1920s, 1930s and 1940s forties right through to 1973. So the situation has changed a bit. That 1973 report addresses what I would call this aspect of sharing in the productivity of the country as an important factor in addition.

The areas that have shared in an increase in productivity are, of course, wage earners—you would expect that—of all kinds; pensioners; and Commonwealth pensioners, who now can achieve up to 25 per cent of the age pension. The other aspect, as I said, is in the case of other government pensions—parliamentary pensions and, I presume, judges. I do not think we gave you the average wage.

Ms Allnut—The average adult pension under the CSS and the PSS last year was \$20,557 for the CSS, and it is much lower for the PSS. It is \$14,391.

Mr Fawl—I would like to say that, being the non-ACT representative here—I am from Sydney—we have our meetings in Sydney, Newcastle and Wollongong. The standard joke is that NSW stands for Newcastle, Sydney, Wollongong. But we do encompass more than that. We average about 100 people at our meetings. By and large people are non-complaining, active in the community and more or less happy with their lot, and cover a wide range of ages. But the common theme always comes through that they feel they are falling behind in their living standards. It is just what Neil and everyone else is saying.

Just to put a face on that, one of our members is 94 now. He is probably the most active member of our branch. He is the least complaining, but he is feeling hard done by now when these points get raised about the CPI. It is a common theme that comes through. They are happy with the Commonwealth superannuation scheme up to the point when it used to get indexed and used to be pretty much in line with the cost of living, but now that has fallen behind over the last 10 years. It is a common theme, whether it is in Wollongong, Newcastle or Sydney, that they are feeling hard done by because their living standards now are falling relative to their living standards when they were at work, and their wage now does not bear any relationship to the salary of the position they held, whether it was in an organisation like the Civil Aviation Authority or in the postal service—wherever. That is a common theme coming through. I just make that point.

Mr Hurley—I attend the ACT meetings, as I indicated earlier, and it is a similar experience to that in New South Wales. There is increasing concern about the way they have to tighten their belts. They see it really as a case of having given good service and now not really being rewarded for it. I retired in December 1996, 4½ years ago. The CPI increase on my pension has been 5.1 per cent. Had it been adjusted by MTAWWE it would have been 11.9 per cent and by AWOTE 15.6 per cent. I think that demonstrates what has been happening in the last five years. When you look at the CPI increases forecast, it is going to be something which is going to be a feature of the future. That is a big concern to those ACT members.

CHAIR—My first question is: was Prof. Pollard a former Commonwealth statistician or not?

Mr Brigg—I do not know.

Ms Allnutt—I think he was an actuary.

Mr Brigg—Reading his report, it is more of an actuarial approach than an accounting or economic one.

Ms Allnutt—It was an independent review.

CHAIR—Actuaries are very reliable people.

Mr Brigg—I know you may be going to ask some questions, but one more question that we should touch on is that of costs, because the government in particular, whatever recommendation comes up, is going to say, ‘Can we afford it?’ and that kind of thing. We have some recent information in answer to a parliamentary question which will assist the committee a little in that respect. The committee will, of course, want to follow that up with the department of finance tomorrow.

Ms Allnutt—As you are aware, every three years there is a triennial actuarial study done of the long-term costs of the PSS and the CSS, and it is done of other super schemes as well. The last one was in respect of the situation as at 30 June 1999. This report costs the unfunded liability up to the year 2045 at \$46 billion, which sounds a hell of a lot—and it is, but it is spread over almost half a century. But equally—this was done by Towers Perrin—they have estimated the clawback that would result from increased taxation receipts and people not going on to social security benefits. That is costed at \$17 billion, which is quite substantial. So when we talk about costs I think we need to also emphasise that there are offsetting savings.

Mr Brigg—I might mention that clawback. When Senator Walsh was last addressing this in 1983 in the parliament, he referred to that clawback—that is, the savings to the Commonwealth across its spectrum of expenditures in the pension areas and tax—as being of the order of 43 per cent. Interestingly, the figure that Helen Allnutt has just given you, which is the \$17 billion clawback of the \$21 billion clawback mentioned in that, ranges from 40 to 46 per cent. So the order of the clawback is in that vicinity of 40 to 46 per cent, and Senator Walsh in 1983 said that it was 43 per cent.

CHAIR—Would you mind giving us that document so that we can incorporate it in our records?

Ms Allnutt—Yes, we will.

Senator SHERRY—I have a couple of questions and I am going to be a bit provocative. You are asking for something additional and there is a net additional cost. Whatever the clawback—and Peter Walsh, I am sure, is accurate, because I have respect for his calculations—you are asking for something extra. Let me paint you this scenario. We have people living longer. Average life expectancy is increasing: I think for males it is now 69; for females it is 72 or 73. A female baby born last year will live to an average age of 93. If we were to agree with what you are requesting, as legislators we would have to look at the longer term impact on society. We have an aging demographic. We have people who, 40 or 50 years ago, would have been receiving a pension, whether it be from PSS or CSS, or an aged pension, now living for close to 20 years in retirement. My concern is how we are going to pay for all of this.

The comment from Mr Taylor was that people feel they deserved a change in the indexation because they have worked for it. The comment that you quote from the actuary who wrote that report was that people want 70 per cent of final salary for their retirement purposes—or that was the aim. But is it not the simple fact that we have not contributed, that our contributions are not high enough to sustain all of this? I have to weigh up what you are requesting against, say, a pensioner who is living on \$9,000 a year. I accept that the figures that you have given us for average pensions are very low. I can understand the struggle and the problems. But I just put the simple question to you—and I am sorry that it is a long introduction: how do we pay for all of this, given these demographic changes that are occurring?

Mr Brigg—That, of course, becomes a very awkward question for government when it balances a whole range of expenditure. But let us move it back to me as a person. In 1949 when I joined the Customs Department in Sydney at the age of 16½, superannuation was not even in my mind. I was keen to take on a career service. It was a deduction which was taken. The way in which it was sold at that time—loosely, of course; there was not any campaign—was that this was the kind of scheme which made the Commonwealth Public Service at that time a true, genuine career service. And it was.

In 1961, I was offered a position with IBM, which I can document. It was one of the decisions that I made there, having young children and that. So the security of tenure plus the long-term career, which was vindicated because I enjoyed that career, was this undertaking at that time by other governments. I thought the question may come from someone on the committee: ‘Your scheme is generous, so why should you be seeking an adjustment?’ That is another way of putting the question in addition to yours, which is, ‘Where are we going to find the money?’

When it was set up, it was a very progressive scheme. There was no question about it. It was a good scheme. It has been amended since but it was a binding scheme. It was not a formal contract but the contract with me and many of these other public servants was that you were going to be, as it were, adequately covered in your retirement. Now we are saying that there has been a breach of that understanding, particularly emphasised in the last 10 years.

The next question is: what about the rest of the community, so that we are not getting a sweet cop and they are not? The answer to that is, of course, that if we were in very much a recessionary sort of phase and wages were like they were perhaps in the 1930s—and I think

even parliamentarians took a cut then—then everyone would take a cut, which is a sort of equity type of consideration. Then, public servants took it and politicians took it. But the situation is in the reverse at the moment in that the politicians have a good scheme. We are not throwing rocks at that, but we have to highlight it. The pensions, of course, take account not just of CPI. You are trying to give them a relative position.

Senator SHERRY—I understand about pensions, but pensioners—

Mr Brigg—Where is the value?

Senator SHERRY—Pensions are a much lower base. I do not know how a pensioner on \$9,000 a year survives, quite frankly. It is are tied to male average weekly earnings. I understand that. But you are not. The base is incredibly low—\$9,000 a year. Your schemes have had a significant contribution from the public purse through the taxpayer. Sure, you have made contributions; I acknowledge that. But the fact is that the tax system contribution to the CSS and the PSS—the CSS, I think, is 18 or 19 per cent; the PSS is a lower because it is a lower cost scheme—provides a substantial subsidy or transfer. I do not see how we can improve a benefit for you without improving a benefit for an aged pensioner when they have got an aged pension of \$9,000. How do we increase tax subsidies and tax transfers for higher income earners who want more superannuation? How do we cope with all of this when there are fewer people working to people who are retired? I just do not see how. The crunch is coming—not just here but in every other country. The crunch that is coming for us, frankly, is not as dramatic or as significant because our pension levels are lower. I am just putting to you: how do we pay for all of this? Do we set contribution levels for pensions and superannuation at 20 per cent for everyone, which is what we would have to do to get anywhere near 70 per cent of final average salary in retirement? I am looking for a solution to all of this.

Mr Brigg—I would perhaps—and this is in a jocular vein—join in on a discussion on that if I had the whole range of figures with optional expenditures, equity considerations and so on. But getting back to our position, I will just try to explain that. We see—and that is not just me; I illustrated it so it is meaningful, and this is substantial—it is not just a minority view. You have over 180,000 plus the defence people. I would say all of these people would be significantly aggrieved at the situation. It was not a formal contract—I agree—but the contract was that our superannuation was going to be adequate in retirement. You may have to breach—there are no media here that I can see—and reduce the pension, the government pension.

CHAIR—The media technically could be here because they could be watching it.

Mr Brigg—That is all right. I do not want to enter into political sorts of situations. But in the future you may have to cut ordinary social welfare pensions. You may have to look at cutting Public Service salaries if you had a major recession like in the 1930s. You may have to cut parliamentary salaries. Everyone would have to share in a dramatic situation like that. All I can say is that our members really feel very concerned about this.

Senator SHERRY—I understand that. I get pensioners through my door saying that \$9,000 is not enough, and I agree with them. I get people who say to me, ‘Reduce the taxation on superannuation.’ That is general private superannuation. They tend to be higher income earners. We are getting these demands to increase benefits. I am not unsympathetic but what I am

worried about is that, the way the demographics are headed, we are not going to have enough people in the work force to pay for all of this. That is the basic dilemma I face. Governments have to prioritise.

Mr Brigg—I cannot answer that question, because I cannot get in on budgetary discussions. I know what you are asking. It is a difficult question for a government or an opposition. All I can say is that, when we joined, it was a compulsory contribution scheme. It was not optional. It was ahead of its time. It was a good scheme. It has a reversionary situation for spouses, just like the parliamentary scheme. It was a good scheme. Five per cent was taken out of my pay as a youngster. We were in there contributing to our future. You may want to dump us on the way through, but if you do that we will be very aggrieved. We will be very disappointed. We will see it as unfair.

Senator SHERRY—You make the point that it was a good scheme, and I agree with that. But the problem is that it was a good scheme that was substantially funded through tax contributions to the tune of at least two to one of your contributions or higher, depending on what level you were contributing at. It was not available to the rest of the community. I have similar concerns about politicians' super, so we do not have to worry about that. How are we going to pay for all of this? I do not hear an answer. We as legislators have to come up with an answer about how we afford all of this. I would like to increase the basic pension from \$9,000 to \$10,000 or \$11,000. It is shocking. It is an absolute shocker, and those people did not have the scheme that was available to you.

Mr Brigg—If you have inequities in your community—you are keeping the question broad, which I understand in the political sense—you have to look at the taxation structure. You have to look at your gross raisings from taxation. You asked me: how do you afford it? You have to look at that and then you have to look at it in relation to the general economy. Taxation and various other government income sources are the source of adjusting inequities and giving fair play.

Ms Allnutt—I again refer to that report which you took note of. It is taking a long-term view. It is looking at over half a century. It points out that, as a percentage of GDP, the unfunded liabilities dropped compared to three years ago. It is estimating that it will continue to reduce over the next half century.

CHAIR—Particularly as there will be fewer public servants.

Ms Allnutt—Yes, exactly. But it also interestingly says that the actual Commonwealth employer superannuation costs are expected to reduce as a percentage of projected GDP from 0.4 per cent in 1999 to 0.2 per cent in 2044. I cannot give you the answers, but an independent actuary is projecting that, as a percentage of the total budget and so on, the costs are going to fall.

Senator SHERRY—I have one final point. Taking state public servants for a moment, in breach of the undertaking it gave to public servants at the 1966 federal election, the government wants to scrap the current funds and have a superannuation guarantee contribution base scheme at nine per cent. That is the current government policy, which is obviously significantly less than what you receive at the present time. A number of state governments have already done

that. I know New South Wales has done it, Victoria has done it and Tasmania has done it. What is your attitude to this: that existing public servants in those states are only going to receive contributions at nine per cent, which means a much lower pension for them?

Mr Brigg—You can do that as a condition of employment. As to whether they impose it on people who are already there is a very interesting question. If someone has a pension of 15 per cent equivalent which is then cut to nine per cent, you would expect a lot of industrial negotiation, if not disputation, in that situation. However, when you bring in a new person, you can make it three per cent superannuation if you wish. If you are not competitive in the marketplace when you negotiate an employment contract, you will suffer or you will have to pay more in salary, because these days people are looking at total gross packages. I do not know if I have fully understood your question, but you do have to look at it.

When the department of finance appears before the committee tomorrow, you should ask them questions on costs. Don't forget the offset issue I raised on that and don't forget when you do estimates of our scheme that the actuaries are doing them and they are taking into account existing contributors. They are also taking into account retirees, because actuaries do that. We have 41-year-olds who will still be employed and they have taken a whole stream of costing. If the act were amended, which we would hope it would be to give us a wages mechanism, then that could be taken into account for existing employees. It would possibly and appropriately be handled in the wage package.

Senator SHERRY—But what you are effectively saying is, 'Look after us but cut the benefit of people who are existing employees to cover the cost'?

Mr Brigg—Because I had a role as vice-president of ACOSS, I would be quite happy to come tomorrow and argue the case for pensioners. We are putting our case forcefully and factually and we are seeking justice. People who have given you good career service over the years can perhaps be easily discarded now, but we do not want you to think that we are going to be easily discarded.

Senator SHERRY—I understand the point you are making, make no mistake about that.

CHAIR—Perhaps I will ask Senator Allison to ask questions because it is becoming a little confrontational.

Senator ALLISON—Have any comparisons been made by you of benefits which might have accrued in an accumulation scheme? You talked about very early contributions to superannuation in your own career. I know this would be a difficult exercise to do, but have you had a look at what the entitlements might be on retirement had you been in another kind of fund?

Mr Brigg—You mean perhaps in the private sector or in a state fund?

Senator ALLISON—Yes, the sort of accumulation fund that most people are in.

Mr Brigg—Personally, I have not done that, no.

Ms Allnutt—No, we have not done that.

Senator ALLISON—Do you draw on the parliamentary superannuation scheme for comfort, if you like, in terms of attaching CSS and PSS to wages? Is there a level within the Public Service that you might do that to, just as ours is attached to a backbencher's salary? Have you had a chance to look at the different levels to see which might be appropriate to attach it to?

Mr Brigg—Yes, we have. We have done some comparable figures and looked at the way in which salaries of public servants have risen in the last 10 years.

Ms Allnutt—Yes, but we have not nominated a level which might be appropriate.

Mr Brigg—But we can safely say, and we can back this up, that the order of the increase which has taken place certainly broadly accords with the AWOTE and is around 40 per cent. That is not the discrepancy between the CPI; that is just the movement that has taken place in salaries over, say, the last 10 years.

Senator ALLISON—Yes, I understand.

Mr Brigg—CPI has been about 24 per cent.

Senator ALLISON—The other question I want to ask relates to the overall cost. I assume you have not done the figures, and we will ask Treasury when they appear before us. I just did a quick calculation of your example of someone who might retire on \$20,000. Had AWOTE been applied to it, there would have been an additional \$9,000 which, if you applied that to 350,000 public servants, would give you something like a \$3 billion additional expense per annum. Is that a sort of average area that you would expect to be able to apply raw to give us a rough figure? Or is that more than you would expect?

Mr Brigg—It is terribly difficult. We have just had a reply given to a question to the minister for finance asked by Kelvin Thomson. The actuarial figures, which I presume they have given us, are for a cost of about 1½ per cent with, say, a CPI of two per cent. For around a three per cent factor instead of two per cent CPI—they have had to make some guesstimates, of course—they have given us an idea that the cost for that would be of the order of—

Ms Allnutt—It is around \$6.6 billion if an ongoing 1.5 per cent difference is assumed, or by \$4.1 billion if a one per cent difference is assumed.

Senator ALLISON—That is additional per annum?

Mr Brigg—No, that would be over the life cycle, which is about 45 years.

Ms Allnutt—It is building on the same time frame as in that long-term cost report.

Mr Brigg—Senator Sherry, this is just factual: you have to discount that by a factor of—and this is our estimate—43 per cent, using Senator Walsh's figures. You also have to realise that it is for existing contributors; it is not just for retirees who are in front of you today. There are

people in there now at age 30 in respect of which the actuaries worked out that they might leave at a certain age and some will leave because of a disability. They will live, as Senator Sherry mentioned, to 91 and so on. So really you have to dissect the costs between existing employees and retirees. A 43 per cent offsetting factor at least has to be taken into account, and you should ask Finance to give you that so you have a meaningful figure of its potential implications for the budget.

Senator ALLISON—Have there been any actuarial calculations of the benefits that would be provided by, say, rolling over the entire entitlements at the point of retirement into a retail superannuation fund? I know there are lots of variations on that, but can you compare yourselves favourably with accumulation schemes and those kinds of benefits?

Mr Brigg—We have not done any work on that, but it is interesting. You will be looking at some of the state schemes, I presume. I have not looked closely at the list. The Victorian state scheme has come up with a scheme where the government puts in its funds and turns it into a funded scheme, whereas ours is unfunded. It is like a private scheme, with the government allocating its funds, like what used to take place with the post office and the others. They had to put their money into Commonwealth revenue year by year rather than the government putting it off. That is why the burden is there. In the state scheme, when you do that it becomes a funded scheme and you have taxation benefits to the recipients, because the taxation takes place within the funded scheme, I presume. I am not a tax expert. But as the taxation is paid within the funded scheme, when it is paid out in superannuation you might save 15 per cent in tax to a recipient. That would require major surgery to change the fund. It is not impossible. We have not done any figures on it, however, except that we know that we are at a disadvantage in relation to a fully funded scheme such as the Victorian state scheme.

Senator SHERRY—I have just one other point. I have considerable sympathy—do not mistake my questions earlier—particularly for those who are on invalidity benefits who obviously retire early. Do you have any idea of the cost of indexing for a person, say, up to age 65 against male average weekly earnings on an invalidity benefit who is effectively forced to retire before retirement age?

Mr Brigg—No. You would have to get some actuarial work done on that because disability would occur over a whole spectrum of ages. We do not have the figures, but they would be easily obtainable for a number of disabled people. The disability situation was tightened up about 10 to 15 years ago.

Senator SHERRY—I understand that. Their circumstances are the same as yours but over a much longer period of time.

Mr Fawl—You have to also bear in mind that there are an awful lot of people retiring at 50 through involuntary redundancies, with departments and organisations closing down. In this day and age I do not think there would be too many people going through to 65, anyway.

Senator SHERRY—Yes. They have really got a problem for a lot longer period than a person who leaves—

Mr Brigg—You are raising a good point. However, there is another group which you might not have focused on. If I die after leaving here—hopefully I will not—my spouse only gets 67 per cent. So that situation for the reversionary benefit is also quite important where people are dying, which they do—men usually die sooner than women, in their sixties and seventies. So they are another group which you might like to put on your list for getting some figures on. The parliamentary pension reversionary one is 82 per cent, I understand.

CHAIR—Thank you very much for appearing before the committee.

[10.13 a.m.]

ROSS, Mr Sandy, Secretary, CSIRO Staff Association; Member, National Management Committee, Community and Public Sector Union

SPEERS, Mr Noel Euan, Industrial Organiser, Community and Public Sector Union

CHAIR—I am sorry that we are running a little late. Would you mind highlighting the items in your submission rather than going right through the submission? I think that would help the committee. We have read the submissions.

Mr Ross—Thank you. This will probably not take terribly long. Our submission was not too long and really covered two major points. The first of those was in relation to deferred benefit in the PSS and the need for better and more equitable treatment of those deferred benefits. Currently, the bulk of those deferred benefits in the PSS scheme are not indexed in any way apart from growth at the CPI rate; although in the CSS, and just about any other superannuation arrangement that I can think of, benefits of that nature would normally grow at the fund crediting rate. The fund crediting rates have been substantially larger and better for the beneficiaries than the CPI, which is what applies to the PSS rate. So for us that is a key concern and an issue of equity.

One of the ways in which to look at unfunded schemes is, of course, that they operate in a sense by government borrowing our members' entitlements and using those entitlements to fund government activities. I would have to say the government is doing pretty well out of that sort of deal, because it is not exactly paying the coupon rate for the bond market; it is paying at present, on the way the PSS works, CPI only. The government is benefiting effectively off the backs of our members' entitlements in the way that that is currently constructed, and we think that is highly inequitable. So that is the first of our key issues.

Mr Speers—I will briefly touch on the second major area, being the indexation of the pensions paid through the Public Sector Scheme and the CSS scheme. The key things we have gone to there are the value of those pensions eroding due to the use of the CPI to adjust for the cost of living increases. We have made the point about CSS and PSS pensioners, we believe, being denied access to a share of the increase in the community living standard as measured by wages. We also point out the pension levels declining relative to the final position held in the work force on retirement. We have had a number of representations to our organisation on those points. We go into some detail on the various components about how the CPI is changing in nature with the move to productivity based wage setting and also highlighting the wage based links to age pensions and the parliamentary pensions—those various points. Also—I know it was touched on by the previous organisation—it is important to consider some of the background, with superannuation being a condition of service historically. There was the notion of tenure and pay rates being under the prevailing market rates. Also, an adequate superannuation scheme was seen as a key part of that employment.

We also point out the discriminatory treatment of aged pensioners and other self-funded retirees through the recent tax reforms and current tax arrangements. I know that was touched on by one of the speakers in the last submission in relation to private pension arrangements and also some of the state government arrangements, which goes to that issue, for example, of the

Victorian government partly funding and the sorts of taxation benefits that flow from there which do not flow to the PSS and CSS people drawing the pension. They are the key points in the second part of our submission.

CHAIR—I am pleased that you raised that question about amounts sitting there and not yet being taken, and just getting a CPI increment, because most industrial super funds would have a clause that their aim is to get at least a CPI plus a three per cent or some sort of percentage above that minimum, don't they?

Mr Ross—Yes.

CHAIR—Could you just give us a little bit of your experience of what you know of industrial superannuation funds? As you have said, they do not even get the coupon bond rate. I think this is a fairly significant issue. I see it as that, and I stand convinced.

Mr Ross—Looking at the appendices in our submission that highlight, for instance, the crediting rates in the PSS and the CSS—which have been, I think, performing probably in the top echelon of the industry funds—

CHAIR—They have done very well. That is a credit to the people running them, actually. I would like that put on the record.

Mr Ross—Yes, we could not agree more. That is a real bonus for our members. That is something that is very strongly appreciated. In some ways, the operation of the PSS and the CSS in investing the funds that they do have under their control and so forth is not terribly different, as we understand it, from other industry funds. The money is managed professionally and invested in a range of environments to attempt to generate the best returns possible within certain fiduciary and other limitations for the members of the funds.

In a sense, the examples in our appendices comparing those crediting rates with CPI just highlight your point, which is that, generally, you would expect that funds that are investing money on behalf of their members will earn CPI plus 3 or 4 per cent. I think that has been established as pretty well the standard. If there were to be a period of high inflation and economic recession, that might change. But we have been encountering a period of great stability in inflation and a very long period of growth. There does not seem to be any sign that that is significantly under threat in the near or foreseeable future. So it is not that we would expect that to change.

I might actually just comment, if I may, on the exchange that was occurring just before with Senator Sherry and the SCOA and the argument about aged pensions. It seems to me that, if the indexation issue that has been raised by us here is not addressed, effectively what you are talking about in the medium term is a reduction in superannuation pensions to the level of the aged pension. I just do not see how that is in any way something that actually makes sense or is desirable in a lot of ways. That sort of move would be just one of a number of things which is occurring in our economy structurally, which is about the middle and about the lower parts of the middle being squeezed out and being forced down to the lower end of the spectrum in socioeconomic terms. We believe that that sort of growing polarisation in economic benefits is a very regressive and negative process that is occurring in our economy and society. That is

actually one of the key reasons why we think the indexation issue in relation to these pensions actually does need to be addressed. The exchange earlier on about the aged pension issue was quite instructive and very important because I think that is probably the key political debate around indexation. I think that there are substantial arguments about why perhaps a comparison should not be made with the lower end but should be made more with the upper end.

CHAIR—Thank you.

Senator SHERRY—Thank you for that last contribution. I think that it is an important point. But is it not in one sense the demographics. The ageing population has accentuated the problem. When the scheme was set up in 1946, when Mr Brigg joined, it was not believed or projected that people were going to live much beyond the age of 60 to 65.

Mr Ross—Yes. That is true. Demographics have changed. That is undoubtedly true.

Senator SHERRY—I would like your response in terms of priority, and it relates to my last question. In my mind, the priority is people who have been forced, effectively, to retire early before they would normally have been expected to and also people who are invalided out and who are on the PSS or CSS pension for a much longer period of time. Do you have a comment to make about that priority?

Mr Ross—The priority in respect of what? Whether those people in particular—

Senator SHERRY—It seems to me that they are disadvantaged for a much longer period of time. If you are invalided out at, say, 45, or you retire early at, say, 55, your pension benefit is indexed to CPI for a much longer period of time than is a person's who would work through to their sixties, for example.

Mr Ross—Yes. So in other words you are saying that, if we are arguing that there is a disadvantage here, the disadvantage is compounded for people in that situation.

Senator SHERRY—Yes, for those people. I have had representations from those people as well. I have had some very sad cases of people invalided out. I accept that one of the reasons people are leaving early is that there is greater pressure in the workplace, and it is not easy. The modern employment environment is certainly not easier for most people in society.

Mr Speers—I might say that one area of relevance to that has certainly been the representations that we have had for people who have their preserved contributions in the PSS scheme.

Senator SHERRY—Yes.

Mr Speers—One of the issues we highlight there is where a contributor to the PSS leaves the scheme and elects to withdraw their contributions to the scheme. They are provided with the option to rollover the employer component of their benefit to another scheme. I suppose the focus, or the representation that we have had, is certainly that the validity issue is a crucial one but also the sheer amount of downsizing that has occurred in recent years. A lot of people in voluntary retirement—it is just something that they have had to face—are people in their forties

and up to 55 who may not be as competitive in the wider labour market; there are difficulties for mature age workers. So that has certainly also been one issue that we refer to there. There have been views to our organisation on that sort of issue, about having greater access in terms of mobility.

Senator SHERRY—In fact, I think Mr Howard signed the letter personally prior to the 1996 election that existing and prospective members of the Public Service—future members of the Public Service—would not have their superannuation entitlements cut, reduced or changed in any way. There is legislation to close the current schemes for new public servants. Do you believe that that legislation is a breach of the undertaking given by Mr Howard?

Mr Ross—Clearly, we do. The short answer is yes. We are deeply concerned about that. Our submission does make a reference to that and to our concerns about it, although it is not strictly speaking in the terms of reference for this particular inquiry. Again, I reflect on some of the exchange between the previous witnesses and the committee regarding the operation of state schemes, changes there and those sorts of trends, I guess, to strip back superannuation entitlements to some sort of superannuation guarantee minimum. It seems to us that the direction of retirement income policy in this country has been to try to build a substantial system that is going to attain what some of the European countries have in terms of schemes that provide for people's retirement incomes to be at a decent level. Those moves are, generally speaking, from our perspective, quite regressive and involve reduction in entitlements for employees. They are not things that we think are helpful, not only from the point of view of our members' interests in a narrow sense but also more broadly in a public policy sense.

Senator SHERRY—It is certainly the case in Victoria, New South Wales and Tasmania that new public servants only get the SG, which goes to nine per cent. I would like your comment on this. Effectively, their benefits have been reduced significantly on what existed prior to the closing of the older schemes. Do you see that as a shift in costs between one generation and another?

Mr Ross—Yes. I think clearly there are intergenerational equity considerations that do concern us. I think there is a whole range of things going on in our economy that has similar effects. The significant reductions in government debt, for instance, have a number of generational equity effects which are little considered. The downgrading or loss of fundamental public sector infrastructure, again, is something that ultimately is linked to that issue about government debt and also has generational equity implications. We are concerned about all of those things. They relate to what our members currently do, the environment our members currently work in, the future prospects of people in public sector employment, and equity considerations for current and future people versus previous generations.

Mr Speers—I have a supplementary point on the other issue back to 1996 with the Prime Minister. The other part of that, of course, is that we, like everybody else, are watching very closely for any announcement on the choice of fund developments between the government and the Democrats. But the other part of that is that we have struggled with the rationale about: if choice of fund comes in, how would the PSS, as the logical industry fund for Commonwealth public sector workers, close? And that, as I understand it, remains government policy. That is another issue that we just touch on. It is not the key part of anything, but we certainly highlight the PSS being shut in terms of the choice of fund legislation—

Mr Ross—It is not a giving of choice; it is a removal of choice.

Senator SHERRY—We will address that at another time—if there is ever agreement between the government and the Democrats. I have nothing further.

Senator ALLISON—Could you explain what you mean by the recommendation to move to crediting rates rather than CPI when a member leaves the PSS? What is the situation now and what difference would crediting rates make?

Mr Ross—The crediting rate of the fund is what in an industry fund you might call the rate at which the fund earned interest or made earnings on the money under management. That is the crediting rate. It is the rate at which benefits in the fund have grown due to the investment of the moneys and the management of those investments.

Senator ALLISON—How would that be calculated with regard to the PSS?

Mr Ross—It is calculated on an annual basis and it simply reflects the performance of their investments over the period. As I said, the appendices do have some comparisons. In fact, table 1 in the appendix lists the PSS crediting rates and compares them with CPI over the last 10 years.

CHAIR—The amount is credited to the individual member's account, which reflects the performance of the fund for that period?

Mr Ross—Yes. The rate is established across the whole of the fund but then it is applied to each individual's benefits within the fund.

Mr Speers—There is an earned rate, then there are obviously reserves and then there is a final crediting rate. But it also has relevance in terms of that point about the PSS and when someone elects to preserve their total benefit. They have access to an indexed pension upon retirement, but if they take out any of their member contributions they just have the lump sum.

Senator ALLISON—So that crediting rate is applied to the member's own contributions, not to some notional government contribution?

Mr Ross—That is right. The unfunded contribution which sits in consolidated revenue is the bulk of the benefit. What happens in the PSS is that, if any of the benefit is deferred, the large chunk—the bulk of the benefit—actually sits there and ultimately a CPI indexation is applied to it. Compare that to the CSS, for instance, where deferral of the benefit results in an end-year calculation being made on the basis of the existing money in the fund being subjected to a multiplier. The effect of that means that whatever growth that existing benefit in the fund has had—that is, the crediting rate over that period of deferral—is then translated through and applied to the unfunded component as well. So the method of calculation in the CSS effectively means that the crediting rate flows through and is applied to the unfunded portion of the benefit too. In the PSS that just does not happen. We think that is quite inequitable.

Senator ALLISON—You suggest that, where funds are withdrawn, the PSS membership has the option of rolling over those funds into another scheme. Will you also recommend that at the point of retirement? Should there be an option for public servants to take that choice?

Mr Ross—Yes. Logically that does follow. I guess the principle is that, when people leave the fund, they are able to roll the money over. Currently, there are quite significant constraints. When you look at the operation of the PSS and the fact that the unfunded benefits are being indexed at only CPI, people are having their hands tied behind their backs and are forced to lock away their money on a very low growth basis—in fact, I would say a uniquely low growth basis.

Senator ALLISON—Could you give some indication of which public servants would benefit from such arrangements—whether it would be those who might expect pensions at the lower end of the spectrum or those at the higher end of the spectrum?

Mr Ross—That is actually a very good question. I think we would see these things as applying across the board.

Senator ALLISON—I understand that. But if you are given choice, financial advisers will advise presumably some groups not to do it and that for others it would be in their interests. I am wondering whether it is the high or the low income earners who would be in that category.

Mr Ross—That would depend, I guess, on the age of the people.

Mr Speers—I think it is the length, too, of time that you have got to come. So it goes back to that invalidity question or if you are caught up in a round of downsizing or whatever.

Mr Ross—How old are you, how long is your service—there would be all of those factors in the mix.

Senator ALLISON—So you could not make any broad guesses about longer serving rather than short term—

Mr Ross—Not easily. The PSS has lump sum as well as pension options. It is actually not that simple an equation. We would have to invest a fair bit in studies to try to work out what the patterns were of where the preferences might lie. We have not done that.

Senator SHERRY—On the issue that Senator Allison has raised, surely for superannuants it is a good thing to have a fund largely paid for by government, and effectively total protection against theft, fraud and poor investment returns, with no administration or investment fees and other charges. Surely you look at those advantages as against someone taking their money out as a lump sum. There is a variety of risks. We are getting growing numbers of complaints both about fees and charges and about theft and fraud, because people have left the system in which they are protected. Do you have a comment to make about that balance?

Mr Ross—Clearly, our members benefit from where the risk lies in these schemes. That is unmistakable. That is what we would regard as one of the key benefits that our members receive through the superannuation schemes, which form a very important part of their entitlements as

employees. In the context of our members having that sort of benefit, we are concerned, and would share the concern of other unions, that adequate regulation should occur in the systems to ensure that risks within the system more broadly are not excessive.

Mr Speers—I suppose it has a particular pertinence for the PSS preserved people in that scheme that has been going since 1990. But as we said a bit earlier, certainly in a lot of the industry funds that I am aware of, investment choice is flowing through now. The medium growth is often three per cent above CPI, or there is high growth, with 80 per cent exposure to growth assets, of four per cent and five per cent. It would be a very serious decision not to pull your money out, having regard to all the comments that you made, Senator, but some of the feedback that we are getting, particularly from people who have gone out because of outsourcing, redundancy, et cetera, who have got a fair period of their working life left, is that they are expressing this concern: ‘Okay, if the money is left in there, what about the employer unfunded component?’ There is this whole issue about it only being adjusted for the CPI. If we look back at the nineties, the wage based earnings have been substantially ahead.

Senator SHERRY—Whilst that is true, when you say it is only adjusted for the CPI, the fact is that it is an employer level of contribution—

Mr Speers—Sure.

Senator SHERRY—that is substantially higher than most other people in the community would receive.

Mr Speers—Yes, except that most other people would be hoping, depending on what investment choice they make within a fund, that they will be getting rates of return that are superior to the prevailing CPI outcome.

Senator SHERRY—You make the comment:

The taxation treatment of CSS and PSS pensioners be revised to bring their treatment onto an equivalent basis with the treatment of State Government and private pensioners and recipients of commercial products such as allocated pensions.

I am just not sure what that meant.

Mr Speers—That goes back to what the previous speaker was talking about. It goes back to the current legislation where, with a superannuation pension derived from a funded source, say the 15 per cent contributions tax law—I guess it would be higher with the surcharge—you get the 15 per cent tax concession and that helps your PAYE tax position. As I understand it, funded pensions and allocated pensions fall into that category. Some of the state government super schemes—and I know that Victoria was touched upon—are often unfunded in the same way as the PSS and the CSS, but those funds have a different arrangement than just coming out of consolidated revenue. I also understand there is the constitutional factor with respect to the 15 per cent contributions tax—how it actually operates.

The ultimate effect is that the pensions are treated for PAYE tax purposes—certainly in Victoria and, as I understand it, in the Queensland scheme—as if they are coming out of a funded scheme and therefore attract the 15 per cent concessional rebate. We have certainly had

representations on that issue over recent times, more particularly with the public sector changes that are occurring in state government areas. It had a recent kick-along having regard to the other arrangements associated with the introduction of the GST last year.

CHAIR—Thank you very much.

Proceedings suspended from 10.42 a.m. to 10.52 a.m.

KNIGHTS, Mr Colin David, Member, State Executive, Combined Pensioners and Superannuants Association of New South Wales Inc.

MERCHANT, Mr Raymond Alfred, Assistant State Secretary, Combined Pensioners and Superannuants Association of New South Wales Inc.

THOMAS, Mr Gerard, Policy Officer, Combined Pensioners and Superannuants Association of New South Wales Inc.

CHAIR—I welcome via teleconference the witnesses representing the Combined Pensioners and Superannuants Association of New South Wales Inc. We have already heard evidence from the Superannuated Commonwealth Officers Association and the Community and Public Sector Union. We will hear later from the National Seniors Association, the Australian Council of Public Sector Retiree Organisations, Retireinvest, Australia Post, the Returned and Services League, and a number of individuals. Do you have any comments to make on the capacity in which you appear?

Mr Knights—I am also the Assistant Secretary of the Superannuated Commonwealth Officers Association (NSW).

CHAIR—Even though you are appearing before the committee via teleconference, you are protected by Commonwealth parliamentary privilege in terms of the evidence that you give to the committee. We do not expect anything to be very controversial, so I do not think that will be an issue. However, I have to advise you of that protection. I ask you to make a few brief comments. We have your submission. Following that, committee members will ask questions.

Mr Merchant—You have a copy of our submission. One thing we are most concerned about is the unfair and discriminatory indexation arrangements. One issue we find difficult is the fact that the pension is tied to the CPI and the MTAWA whereas Comsuper pensions are only increased at the rate of CPI. We feel that we are being left behind in the wages race. Any advantage we had with Comsuper is being whittled away. That is one of the main gripes I have, particularly because I am a Comsuper pensioner. We feel that we are being disadvantaged.

Mr Knights—CSS and PSS pensioners are not well off. The SCOA submission refers to this. Almost a quarter of them receive less than \$200 per week and almost two-thirds receive less than \$400 per week. To put that into perspective, the average rent rate in Sydney is \$250 a week and for New South Wales generally it is \$210 per week. Another point I would like to make is that the CPI has not been very good for superannuants, with reference to page 5 of the SCOA submission at paragraph 3.3.4. Most superannuants have to apply for a part pension because they are so hard up, which means an inquisition and a hideous form from Centrelink which most people dread. It is my view that retirement means a nosedive in a person's standard of living. Cars have to be sold, and holidays and dental treatment forgone because of the cost. The state of pensioners' teeth is a national disgrace. To sum up, I think that a fairer benchmark than the CPI is needed. Our pensions need to be indexed to a wages component to make sure our living standards do not fall further behind.

Mr Thomas—Our submission is fairly self-evident. I want to add a few issues that we were not able to raise and to expand on some of the issues raised. The issue for us is that, as previous

speakers have said, many Commonwealth retirees are experiencing a continued decline in their living standards. This is at a time when major health issues are becoming a serious financial burden and houses are in need of repair. One issue we want to focus on is the whole indexation arrangement, specifically to look at the indexation lag in this context as it impacts on Commonwealth superannuants and to look at its cumulative impact at times when inflation is increasing, such as recently with the GST impact. Our concern about this is that all Commonwealth retirees have to cope with what is called indexation lag. They have to absorb prices for up to one year. As any pensioner or superannuant group knows, this is particularly hard at times when inflation is increasing. For Comsuper pensions, increases flow through in July for the yearly inflation figures as at the previous March. That is obviously something we want the committee to look at. That is a significant problem that the committee might like to investigate further.

Another issue relates to the closing of the PSS super scheme for new members. Amongst our members that was not a popular option. It is not supported at all by our organisation or any other retired public servant organisation. In developing a new regime of superannuation choice, we believe the committee would need to have good justification for supporting the closure of this scheme. We also think that this sort of action would arouse some significant accusations of double standards in relation to the treatment of parliamentary superannuation.

As a general issue, we accept that the issues that the committee is looking into are quite complex, and many retirees we speak to are struggling to get across the details of their own super scheme and their history of involvement in the scheme. Given the complexities, we would have liked to have seen an initial discussion paper coming from the community before the inquiry was undertaken. Perhaps in future on these sorts of complex issues that could be a consideration to help people understand the context of what the inquiry is looking into. We have had a chance to look at a couple of submissions made to the inquiry. We may be in a position to comment on some proposals at a later stage.

CHAIR—In terms of your submission, I was interested in your comment that, for retired public servants, only the standard pension is linked to inflation and that additional pensions purchased with members' own funds are not. That means that, if you put in a voluntary contribution and your service is terminated, the component that is put in by you—the voluntary additional component—does not attract the CPI. That in itself seems an injustice, doesn't it?

Mr Thomas—Yes, it certainly does. We relied on information gathered by other retiree groups. We think that should certainly be investigated by the committee. There seem to be a range of anomalies which have crept into the system and we think that the time to iron some of those out is during this review.

CHAIR—For example, entry into the Commonwealth Public Service is not necessarily employment for life. If you leave early in life, an amount sits there. You can take out additional units, as it were, and voluntarily put that in. If you are already in a funded scheme, at least that would get some credit as a result of interest or as a result of investment earnings, whereas your additional amount just sits there. At least your standard amount attracts the CPI indexation.

Mr Thomas—That is correct. In an environment where we are encouraging people to contribute, that would seem to be a disincentive.

Senator SHERRY—In terms of priority and the difficulties that the people you represent are experiencing, can you comment on the fact that it seems to me that people who retire early, whether it is voluntarily or because of disability, are suffering from the disadvantages you outlined for a much longer period of time?

Mr Thomas—Yes, that is certainly the case. In relation to superannuation that people have accumulated, if people have to retire before what is considered the ‘normal’ retirement age of 60 or 65—if they are forced out at 50 through retrenchment or leave work because of illness—their money is going to be cut very short in terms of funding an adequate retirement. From our point of view, the situation for these people was made worse by the decision in 1997 to means test superannuation for people over the age of 65 receiving social security payments. Superannuation is always a bit of a jigsaw, but certainly some of the pieces are not fitting together at the moment. That is certainly another piece of the jigsaw that the committee needs to try to make sure fits better.

Senator SHERRY—Are you referring there to the deeming provision at 55?

Mr Thomas—That is right.

Senator SHERRY—We get representations from many groups in society who are concerned about their retirement incomes. Could you comment on this issue: I accept that the indexation against CPI means that the pension entitlement increases at a lower rate than that for an age pensioner. But the converse is that an age pensioner receives only just over \$9,000 a year, which is a very low sum of money. Do you want to comment on that analysis?

Mr Merchant—You would have to agree that Comsuper would be much better. But when you look at wage increases over the last few years, the figures that we cited were that wages have increased by about 47 per cent and the male total average weekly earnings have increased by 37 per cent. If we look at Comsuper, I worked out that, for my pension, which is based on the old 1922-76 superannuation act, the increase has been 24 per cent. In fact, in some years we did not even get increases. In a couple of those years—I think it was 1987 and 1988—wages increased at the rate of four per cent, which was pointed out in the SCOA submission. Granted, we are better off than the ordinary pensioner, but it cost us a lot in our early days when we were raising our families to put that money aside to provide a better way of life. When you see your Comsuper eroding as it is, you wonder why you bothered. I think that is the crux of it. We feel that we are disadvantaged at this stage of the game.

Senator SHERRY—Have you thought about an improved indexation provision for those former public servants who are on lower levels of pension—certainly, those who are receiving a pension of, say, less than \$30,000 a year—rather than an improvement in the indexation provision for all former public servants?

Mr Thomas—We have looked at some of the proposals in papers. We have not seen that one written down. From our perspective, that sort of approach would have a great deal of appeal in that we obviously understand that there have to be priorities and there needs to be targeting to overcome unfairness and anomalies, but the system has to have the confidence of the people who are using it as well. Our organisation could think about that and maybe get back to you quickly with a response. It is within the realms of how we approach policy generally. We do not

simply apply a means test for the sake of it. We do recognise that there are degrees of living standards. Our focus has always been on low income retirees, be they pensioners or superannuants.

Senator SHERRY—It seems to me, from an equity point of view—and this is my personal approach to the matter—that whilst I understand the argument I am a lot less sympathetic to people receiving a pension from the CSS or the PSS that is greater than \$40,000 a year. I use that as an arbitrary figure. I am a lot more sympathetic to the bulk of those who are receiving pensions of, say, less than \$30,000 a year—those who are on a much lower level of income.

Mr Merchant—We are looking at an ageing society. We are talking about people who might have retired during the eighties. They have retired some 20 years ago. Even in my own case, retiring in 1987, I thought I would have quite a good standard of living, as I did at the time. I can quite honestly say that I am now in the lower income bracket. I am well below your \$30,000 mark. For those older people—and they are getting older; and this situation will be upon us forever—unless some alterations are done at this point, it will only further exacerbate the situation.

Mr Thomas—Again, we would also be much more sympathetic about and comfortable with practical assistance coming out of an inquiry. So often we have inquiries and they disappear into the never-never. But if something concrete could happen on this issue, which has been a bone of contention for years, to really help those people at the lower end of the income scale, we think it would be a job well done.

Senator ALLISON—You have invited the committee to develop a suitable formula to address the concerns about indexation. Is this because your own organisation is undecided about what to suggest or do you think there is a more complex formula that you would like to see developed than, say, adopting AWOTE or the other one?

Mr Thomas—Obviously, as an unfunded community organisation with a whole lot of pressures on us, we are unable to do the sorts of nuts and bolts work that the committee and its secretariat could undertake. In terms of the two measurements, pensions are linked to MTAW. So would seem to us to be an anomaly to link Commonwealth pensions to a higher level—AWOTE. Nevertheless, that is the figure to which parliamentary salaries are linked. We have not come up with any firm proposals. We think that, coming from this inquiry, there will be a number of options. I think they probably need to be examined in terms of the cost and fairness of the proposals which are being put to you. We did not come up with a specific proposal.

Senator ALLISON—You have been quite critical of the inquiry's terms of reference, the advertising of those and the hearings. Could I invite you to expand on that. I did not quite understand your criticism of the poorly framed terms of reference. I would have thought the terms of reference embraced the question of the CPI, even though it was not expressly put. What sort of alterations or additions would you like to have seen in the terms of reference?

Mr Thomas—I suppose they could have been made a bit more explicit. This has been an issue that has come up regularly during the 10 years that I have been working in the pensioner organisation environment. It would have been placatory for people who have been raising this

issue to see an acknowledgment by the Senate select committee of their concerns about the system.

With respect to our criticism, we certainly tried not to go overboard. We felt that if there was a more widespread notification of the various inquiries that you are undertaking, you would get a better range of submissions. I know there have been about 200 submissions; I think a lot of those were generated by organisations who work on behalf of their membership. With respect to members of the public, I do not know of too many retirees who read the *Australian Financial Review*. There may be some, and I am sure there are some Commonwealth superannuants who do so. Nevertheless, I think there might have been some other way of publicising it. It is obviously in everyone's best interests to get more feedback and a better understanding of what people's concerns are.

CHAIR—The reference was initially drawn to our attention by the Superannuated Commonwealth Officers Association. At the end of the scheduled hearing tomorrow, we will take evidence in an open forum from those individuals from whom there was not time to take evidence elsewhere during the hearing. So we are getting, we believe, as wide a spectrum of views as possible. Of course, we have had approximately 200 submissions. I would be surprised if, in those 200 submissions, every aspect has not been adequately covered.

This matter was also raised in the *Canberra Times*—that we should have advertised more extensively, given the high number of superannuated Commonwealth officials in the ACT. However, people living in Darwin or Adelaide might say, 'We do not have the network that our colleagues in Canberra have. Therefore, you should have advertised in the Darwin and Broome newspapers, for example, because we have less access to those sorts of contacts.' I think that is always a criticism, whenever an inquiry takes place. We do rely on the informal networks and the associations, as well as the newspaper networks. We appreciate that a lot of older people in particular do not have access to the Internet. There being no further questions, thank you very much for participating in this teleconference today.

[11.17 a.m.]

PARSONS, Mr Bernard James, Senior Industrial Officer, Association of Professional Engineers, Scientists and Managers, Australia, and Professional Officers Association (Victoria)

CHAIR—I welcome our next witness, from the Association of Professional Engineers, Scientists and Managers Australia.

Mr Parsons—The two organisations that I represent made a joint submission and I am here to elaborate on that submission and to help the committee in its inquiry.

CHAIR—Thank you very much, Mr Parsons. Please proceed.

Mr Parsons—Firstly, I need to clarify the recommendation made in my submission. At best, one aspect could be construed as being a little ambiguous and, at worse, it could be construed as saying something that the organisations that I represent do not intend. The recommendation reads:

That the AWOTE, or CPI indices, which ever is the greater, be used for the annual adjustment of the employer funded component of the public sector superannuation schemes including both pensions and preserved benefits.

Our organisations are not intending to say that the CSS should be adjusted from the current arrangement with preserved benefits. It is the PSS where the CPI indexation is used. Our recommendation is that AWOTE ought to be used in its stead.

I will tell you a little about our organisations. They represent professionally qualified employees in the Commonwealth public sector. The majority of those employees would be in the engineering and science areas. They are characterised as being long-term employees in the Commonwealth sector. Generally speaking, they have traditionally enjoyed good career paths whereby they move through career structures. They know when they start that, provided they obtain the promotions which most would do and would look forward to, they will end up with a reasonable income. That is important when I come to the pension issue and their retirement income.

These people are not risk takers. In fact, generally speaking, they would be risk averse. They have entered into their contract of employment with the Commonwealth on the understanding of a secure and fair pension superannuation scheme and they look forward to retiring in a way which does not reduce their standard of living in relative or real terms. One of the issues that we raise in our submission is that we believe the indexation arrangement that is currently based on CPI is failing them in this objective and in the belief that they have in their contract of employment.

It is our view that the initial basis for setting the CPI has changed over time, and the CPI now does not adequately reflect what it originally was intended to do. It does not adequately protect the income of our retired members and those people who will retire in the future who currently are our members.

We have also noted in our submission that other instruments are used to index pensions. We referred to parliamentary salaries and the Queensland and Victorian governments' use of average weekly ordinary time earnings as an index. We are particularly keen on equity and fairness in relation to this issue of indexation. It is our belief that, when you examine how various schemes are administered, or in this case indexed, there has to be equity and fairness in the allocation and the arrangement of those schemes. It is our contention that having average weekly ordinary time earnings for some schemes and not others indicates an inequity when there are disparities in what those indices produce.

We are also concerned that the committee take into account the real basis of superannuation—why people pay into superannuation and what is expected from superannuation. In our submission, we say that the objective in design should be to ensure that members' incomes in retirement are both reasonable and secure. That is important to our members. That is why they generally like the structure of the defined benefits scheme and an indexed pension. But the difficulty they have now is that they believe the indexation arrangements are not meeting these objectives.

There is no doubt that in our submission we could have recommended greater benefits to our members. However, we recognise that there is a balance to be achieved here. We have to look at the costs and benefits; we have to look at what the superannuation scheme should be trying to achieve. We have taken a rather modest and cautious approach. But that is also in keeping with the nature of our membership. Whereas others would be arguing for more of a risk taking approach in that they might be prepared to put their retirement incomes at the mercy of the skill and expertise of fund managers and market volatility, our members, by and large, do not prefer that option; they prefer the defined benefit indexed pension—secure and reasonable income. That would be my summary of our submission.

CHAIR—Could I take you to the chart that you produced as part of your submission: 'A comparison of the CPI and average weekly ordinary time earnings'. At the beginning of the chart, in March 1996 and then in September 2000, particularly in September 2000, there is no difference between the CPI and AWOTE. If we expect that close proximity to continue in the future, it does not appear that your members will be discriminated against. It is true that there has been a big problem in, say, a period like December 1997, when there was a big variance, but the gap seems to be closing. Would you like to comment on that?

Mr Parsons—I have a couple of comments. We have recommended that an either/or principle be applied because we recognise that there can be changes in the economic measurements—in the way indices are used. CPI, for example, has changed over time. So that is why we say either/or. The other point is that there has been a particular spike in the CPI because of the effect of the GST, and that is not expected, from my advice, to continue. We also have to take into account that wage increases can vary, although the chart is quite instructive in that it shows there has been a great discrepancy between wage based increases and consumer price increases. But we have to acknowledge that things could change, and that is why we have taken the safety net approach and said there should be an either/or approach.

Senator SHERRY—I think you have been here during most of the proceedings this morning. You would have got the gist of my general approach to and concern for those on lower incomes.

Have you thought about applying a different indexation provision for those who are on lower incomes?

Mr Parsons—No, I have not, but I would comment that there is no really high income earner on a pension. I think you have figures that I have seen elsewhere. Very few would earn more than \$50,000.

Senator SHERRY—I think it is less than one per cent.

Mr Parsons—Yes. We are talking about people who are not high income earners. I think a point can be taken from your question—that there are people who are on lower incomes than my members who are members of these schemes. We would not want to be in any way asking for something which would make others worse off. We do not think our approach would do that.

Senator SHERRY—It seems to me that it is a big ask that a person on a pension of \$50,000 a year could have the improvement being requested when you have got people on \$10,000 and \$20,000 a year pensions. That seems to me to be a big ask, given the fact that governments of any description, be they Labor or Liberal, have to look at the cost and balance that against the other demands on a budget.

Mr Parsons—Yes, I agree with and accept that. I come back, though, to one of the points in our submission: people on retirement incomes should not have a reduced standard of living and they should also be included in any general increase in the standard of living across the community. Why should one segment be denied that?

Senator SHERRY—Let us accept that principle. In principle, why should anyone in our society receive a lower level of contribution through the tax system or through their employer than other groups in society? I have to look at the principle of age pensioners who have had no superannuation and often no opportunity for superannuation and who get \$9,000 a year. The equity of that concerns me. We are talking about these equity principles, but I do not know how these people live on \$9,000 a year, if they are retired.

Mr Parsons—In the context that you are talking about, I would see that my members would be considered to be fortunate in that they have a good education, good qualifications, good jobs and they are also contributing to their retirement income, and the employer contributes on a proportional basis. I understand that there can be an argument that it is not fair to some. We say that our members are doing their bit by making their contribution and that they have reached a standard of living which should not be jeopardised—they have gone to work and they have left work—by the vagaries of a particular system.

Senator SHERRY—I understand that they have contributed. But the majority of people who are retired today had no opportunity to contribute because their employers did not offer a fund. I have to try to get some balance on this issue. The employer contribution in the CSS and the PSS is very substantial compared to that involving the rest of the work force, who did not have available contribution levels from their employer at an average rate—obviously it varies from individual to individual—of 18 per cent, as I understand. There is an equity issue there, isn't there?

Mr Parsons—Yes, but I do not think our membership should be penalised because of the disadvantage suffered by others. Certainly, we should recognise that those disadvantages exist and try to do something to help them.

Senator SHERRY—Let us take that theory. In a perfect world, I would increase the age pension to \$15,000 or \$16,000 a year, which is at the bottom end of what people who you represent are receiving from the CSS and the PSS. I would also index it to male average weekly ordinary time earnings. I would also do that for people who are receiving pensions from CSS and PSS at the lower end of the scale. The next issue is: how would you pay for the hundreds of millions, probably billions, of dollars a year that that would cost? Do you have any suggestions about how we would pay for it?

Mr Parsons—No, I have not, other than to say that the issue ought to be addressed. I would suggest that it would have to be done in small incremental movements. You would not solve the problems of the world overnight in that respect.

Senator SHERRY—I understand the phase-in argument and the incremental movement. Let us assume we followed the scenario that I outlined earlier. At the same time, in order to give those people currently in the work force the same benefit, we would have to increase their taxes to pay for the improved benefit for those who are currently retired. We would also have to increase taxes paid by them, either through the superannuation guarantee or through general income taxes, to allow them to have the same retirement income when they retire. Do you see the dilemma we are in?

Mr Parsons—Yes, indeed.

Senator SHERRY—We are the ones who have got to solve it. I am just trying to put this before you so that you can give me some ideas about how we do solve it.

Mr Parsons—I would love to be able to give you some ideas, but I think our submission is very modest. We are only asking for a protection of the income in retirement in real and relative values for our members. We have only asked for the greater of average weekly ordinary time earnings or CPI. It is a modest submission, I think.

Senator ALLISON—I want to follow up that discussion about the substantial contributions that taxpayers make to the pension funds for public servants, together with the equity issues, and invite you to draw some comparisons between the parliamentary super scheme and the PSS and CSS.

Mr Parsons—I have received comments from members on that very issue. Some of them are aware that the parliamentary superannuation schemes are linked to the increases in parliamentary salaries. They have said to us, ‘When you speak before the Senate committee, you should raise this issue and ask why this is so. From a point of equity, why should one be one way and the other a different way?’ We do not want to be accused of having our cake and eating it, too. That is why we have said, ‘We’re not just picking one because it happens to be greater than the other.’ We are trying to look at what we think are the admirable objectives of superannuation schemes in public policy terms—that is, providing adequate, reasonable and secure income in retirement. It seems to us that, if the parliamentary system is better than the

current Commonwealth scheme in using AWOTE, then use that. But if it happens not to be better, then use the CPI. We should do the same with the parliamentary scheme—that is, have an either/or system, because those people should also be protected. They should reasonably expect to maintain a certain standard and a relative standard of living when they retire. We are very even-handed about it.

Senator SHERRY—Given that principle of even-handedness, we should extend the politicians' benefit and Public Service benefit to every pensioner. If we come to the conclusion that we cannot afford it, following the logic of Senator Allison's question and your response, we would scrap them all.

Mr Parsons—That would be one option, but why make everybody worse off? If some people are better off than others, why not try to improve the lot of the others?

Senator SHERRY—We improve the benefits of public servants to the level of politicians. Let us accept that logic. If you accept that logic, we improve the benefit of pensioners to politicians. Let us accept that logic; then everyone is better off. When we add up the bill, I suspect it would be in the billions. You then come to the conclusion that, if everyone is going to get the same, you have to scrap all the schemes.

Mr Parsons—If you scrap all the schemes, what would you replace them with? Is there a better scheme?

Senator SHERRY—We will design a new scheme. If we cannot afford what we have got, we design a new scheme that we can afford. How do we afford this when people are living longer and people are out of the work force for longer periods than those who are in it? How do we afford all this? Twelve per cent of the people at the moment are over 65. In 20 years time, it will double to 22 per cent. How do we afford it all?

Mr Parsons—Obviously, there has to be immense thought given to it, but you have to start from a basis that you believe in pension schemes or whatever you want to call them—superannuation or pension schemes. You have to believe in secure and reasonable retirement incomes for people. If you do believe in that, then you can start to develop a fair and, hopefully, affordable scheme which would have contributions from all sectors of society.

Senator ALLISON—Can I bring the discussion back to your submission. I found the chart relating to the comparison between CPI and AWOTE instructive. What does it look like prior to March 1996? Have the two travelled much more closely over, say, the last decade?

Mr Parsons—I have forgotten, but I think they are closer together, yes. I think the greatest disparity has been in those particular years I have shown there. I could get that information for you. I would be happy to do that.

Senator ALLISON—I know we cannot crystal ball gaze, but if we found this year and in subsequent years that that gap has narrowed substantially, does that take the problem away or is there a cumulative problem?

Mr Parsons—I guess there is a cumulative problem. What we have tried to do is say, ‘Let’s protect the income and look at it in real and relative terms. If CPI is not adequately measuring the cost of living of retirees, if they are falling behind in real and relative terms, then let’s look at a more reasonable index.’ If AWOTE is a more reasonable index, we should use it. But, as you said, we do not know what the future holds, so we should play it safe. Let us not get into the same position we are in now. Let us have an either/or approach.

Senator ALLISON—You said earlier that your members and those of the other organisation you represent would not be in favour of converting entitlements to an accumulation type scheme on retirement. Can you expand on that? Have you surveyed your members to ask that question?

Mr Parsons—This is the feedback we get. There has not been a formal survey as such, but this is certainly the feedback from members who contact us and from our contact with them when we talk about superannuation issues. As I said at the beginning, generally speaking they are risk averse. Generally speaking, they do not want to risk their retirement incomes on the market and put them in the hands of a fund manager’s knowledge and expertise. They want a guaranteed, secure and reasonable income. You will always find people who will want to do something a little different. Some might be happy to play the markets or see the markets play with their money. In fact, some would have taken lump sums with the PSS so that they then have what they feel is more control over their incomes. They may think that they will gain greater incomes. But generally, for the majority of members I am representing today, the strong indication that has come back to us in our organisations is that they like the defined benefit schemes and they like the indexed pension.

CHAIR—For the public record, I think we should also indicate that by using the consumer price index just once a year—and there is a lag in terms of adjusting the Commonwealth pension—it really does not adequately reflect rising living costs. At least the social security allowance is adjusted twice a year and it is also linked to another more favourable index.

Mr Parsons—That almost went into our submission, but we thought it might have been asking for too much. We have had that very comment from members.

CHAIR—There is a timing problem—

Mr Parsons—Yes.

CHAIR—As well as an indexation problem?

Mr Parsons—Yes.

CHAIR—It has not been raised so far. I thought I should put it on record.

Mr Parsons—It certainly has been raised by our members—the timing problem. And they raised the fact that the age pension is indexed twice a year and this issue of lag. I know some of them have said they did not get an increase when the CPI dipped and went into negative territory. So that lag was accentuated until their next increase.

CHAIR—There are no further questions. Thank you very much, Mr Parsons. You might pass my best wishes on to your colleague in Darwin.

Mr Parsons—Thank you. I will pass those on.

[11.43 a.m.]

DEANS, Mr David Randall, Chief Executive, National Seniors Association Ltd

CHAIR—Would you like to make an opening statement and then we will move to questions.

Mr Deans—I guess as an organisation representing seniors generally rather than a specific group of seniors, the retirement income of whom we are dealing with today, I am coming at it from a different angle. But many of our 211,000 members are in fact the people who are affected by what you are looking at. In our federal policy document we do have issues that have come through on this matter. It should be remembered that all of the policies that we have in our federal policy document come through a process from our membership, branches and conferences, not unlike, I guess, your parties. So it is the thoughts of our members. I would like to comment on two of those. Firstly, 3.17 states:

The Commonwealth government should legislate to stop the continuing erosion of the value of the Commonwealth superannuation pensions.

Secondly, another important one is 2.3. I am not sure if this has been mentioned to you over the time you have been inquiring into this matter. It states:

Income splitting should be permitted for retired married couples despite a particular asset being received by one partner as a superannuation or annuity pension.

I am sure that you would be aware that a lot of the people who get the pension receive it in one name, and that is how it is treated for tax purposes. Our submission in brief states—and it is a brief submission; it is one page—the real issue. It is that we believe using the CPI once a year—and, Mr Chairman, you mentioned a couple of minutes ago the issue about it being done once a year—to adjust the Commonwealth superannuation pension does not adequately reflect the rising costs of living and is inconsistent with indexation methods used for other benefits.

For example—and unless you invite me to I am not going to talk about parliamentary pensions; I could have a book full of policies on those issues if we allowed that sort of policy to come through, but we prefer not to—social security payments are indexed twice a year and are linked with average weekly earnings. I am sure that you have heard about this before. But as you mentioned before, the Public Service pension is only indexed once a year. The real issue here, I think, is to preserve the real value of the pension. Interestingly, our current Treasurer, when the age pension was being changed from CPI to average weekly earnings, stressed:

Tonight's Budget demonstrates this by continuing twice yearly indexation of the pension—

the age pension—

and making financial provision to maintain the age pension at or above 25 per cent of male total average weekly earnings across the forward estimates. This will ensure that the living standards of those who receive a full or part rate pension keep pace with community standards.

Really, I think that relates to what we are here to talk about today. I think anyone who is on a pension that is in fact tied to CPI is at a disadvantage. The CPI, as it relates to retired people, we know, is totally different to the CPI that affects us in the work force. Many recipients of the

superannuation pension also receive part age pension. So those two payments are getting different treatments. Really, the age pension is an unfunded pension scheme for those in need in the community. So if we find that we can do something for the two million people on part or full age pensions, I am not sure why we cannot consider doing a similar thing for those people on the superannuation.

The options that we see being open to you would be, firstly—and we would certainly support this one; and there are only two—to index it the same as the age pension. A lot of these people are in fact getting a part age pension. That is one reason. The second could be something that is not quite as simple, but it is to prepare a new index for the cost of living for retirees. We have talked about for many years in our area of seniors that there is a need for a separate CPI for people in retirement, because they are using the health system more, for instance, and that inflation rate in health is usually very high. But certainly out of those two options the first would be our preferred.

CHAIR—I note your comments about the Commonwealth parliamentary pensions. You are probably aware that the committee did report on this scheme some years ago and I believe comes with relatively clean hands to the issue of pensions and anomalies, et cetera. I thought I should probably at least put that on the public record.

Senator SHERRY—Just an issue of fact—and this reinforces your case; just so you do not misunderstand—the Treasurer’s comment that you referred to about male average weekly ordinary time earnings was in fact referring to legislation. The existing pension has been indexed to male average weekly ordinary time earnings since 1983, when it was introduced by a Labor government.

Mr Deans—Yes, I accept that.

Senator SHERRY—The current government has not changed anything. It has put it into law, but in terms of monetary outcome nothing changed.

Mr Deans—Sure.

Senator SHERRY—I put a number of scenarios to earlier witnesses in terms of priority. There is a cost to this on budget. Do you think that there should be an order of priority: people who had to retire early because of injury or disability, people who have had to retire early because of redundancy, and people who receive a lower income of less than, say, \$30,000 a year pension from PSS or CSS?

Mr Deans—I am not quite sure of your question.

Senator SHERRY—If we were to recommend what you ask and we were looking at priorities, do you think we should prioritise?

Mr Deans—I am not sure of the mix within the numbers who are eligible and who are drawing the pensions. So without that information, it is very hard to answer. But I would suggest that probably that is one thing that you would need to be looking at at the time of working it through the system, through your suggested model.

Senator SHERRY—We only make recommendations. I put it on the table: my priorities are people on lower incomes, not higher incomes. There is an equity issue and we have got to weigh that up with the cost.

Mr Deans—So you could compare that with means testing the age pension? So you are basically putting a test in there for public servants to get a particular increase?

Senator SHERRY—If you apply male average weekly ordinary time earnings or average weekly earnings, which is an improvement. Frankly, I do not see the equity in it going to people who are earning or receiving a pension of greater than \$40,000 a year. I just do not see the equity in that. It seems to me that the priority should be lower incomes, those receiving a lower pension rather than a higher pension. There is also a cost issue as well.

Mr Deans—Certainly, I do not think that would be rejected by the people concerned. We have not worked through the level of pension that people are being paid. But it seems a reasonable idea.

Senator SHERRY—The final point that I would like you to respond to: sure, the age pension is indexed to male average weekly ordinary time earnings, but they are people who receive approximately \$9,000 a year, which is a very, very low amount. If we were to accept the logic that is being presented to us, then we should also be increasing the age pension.

Mr Deans—I am not quite sure of the reason that you would increase the age pension.

Senator SHERRY—You are arguing that pensioners from CSS and PSS should have the same indexation provision as age pensions. I can see the argument. But their base benefit is much lower. It seems to me if we accept the logic of the argument—and my philosophical approach is people on lower incomes, not on the higher incomes—we should increase the base pension as well.

Mr Deans—We would love to increase the base age pension, but I think that is where our new index would come into play. Everyone talks about going to total average weekly earnings because that is the measurement that is there now. It is being used in another area. The major issue is that the general CPI does not maintain the value of the pension; it is going backwards. There is evidence of that in calculations that have been done over years for people in retirement, because they spend differently to the people in the work force.

Senator SHERRY—Is that not a dangerous argument for people who are currently on the age pension? If you accept the logic of that and you have a special CPI for people who are retired, you would apply it to current pensioners—indexation of current pension provisions—and it would be less than male average weekly ordinary time earnings, if we were to accept that logic.

Mr Deans—No, I would not, because I think that we are here talking about a different group of people.

Senator SHERRY—No, we are talking about retired people who are all in the same circumstances. They are retired and they need an income. You are arguing for a consistent

indexation. Let us assume that we change indexation provisions to a special CPI, taking into account the spending patterns of the people who are retired. I accept that there is some logic to that. Surely we would have to apply that to the age pension as well.

Mr Deans—You mean bring it back to something less?

Senator SHERRY—That is the logic. I am not arguing for that, but that is the logic that you are presenting to us.

Mr Deans—I do not see that as logic. I think that there is a very good reason that the age pension has been increased over the years.

Senator SHERRY—You see, you are arguing for a category of retirees who receive a pension from CSS and PSS. They are retired. They are receiving an income. You are saying that it should be indexed to a CPI that takes special account of the expenditure patterns of the retired. If you accept that logic, then surely the logic is that that same CPI would be applied to pensioners. That is your logic. I am not saying that we should be doing it, but that is your logic.

Mr Deans—That is not my logic and I do not believe that it should be done.

Senator SHERRY—Good.

Mr Deans—I think that it would be a brave politician who would do it.

Senator SHERRY—I am glad that you have made that clear.

Mr Deans—That is a political decision that has been made over the years to what you are looking at the level of age pension being, and we support that as an organisation. But I do not think everyone in retirement is the same. You are talking about millions of people. Some retirees are well off, funding their own retirement. I think that it is reasonable, if you look at the new tax system, 50,000 self-funded retirees as at 30 June last year became part pensioners, or were able to become part pensioners on 1 July because of the change in the tapering effect. So it is a matter of providing incentives for retirees. But I think when you look at the people who are retired, they are not the same. As in the work force, people are not the same.

Senator SHERRY—So we prefer others. Okay. Let us accept that logic. My philosophical attitude is that those on the lowest incomes are the ones we should protect and look after first. Why not significantly increase the age pension to \$10,000 a year?

CHAIR—Senator Sherry, with respect, our focus today is on the Commonwealth public sector schemes. We are not looking at the whole ambit of pensions.

Senator SHERRY—But there is an equity issue here. When we make recommendations to change the law, it has to be paid for. You would accept that, Mr Deans. You know—and I have read your document; I think you sent it out a week or two ago, thank you for that—but at this juncture in our society with the ageing population, we have got your full self-funded retirees asking for an increase in benefit, we have got public servant pensioners asking for an increase in

benefit and we have got pensioners asking for an increase in benefit. Do you accept all that? I think that there are some equity issues there. But we have got an ageing population. We have got 12 per cent of our people over 65. It will be 22 per cent by the year 2020. We are going to have fewer people working and more people retired. How does society pay for this?

Mr Deans—I think, first of all, there is a big question about the mix of those retired and those working. If you look at the magic age of 65, that was set in 1909, I think I am right in saying, for the so-called retirement age for the age pension.

Senator SHERRY—But virtually no-one lived beyond 65.

Mr Deans—They did not live to 65, so they did not get it. You were not meant to get the age pension. Whereas today it is still 65 and we are living to 80, approximately. There is a very good question to say that you do not get the age pension until further in your life—maybe, 67, 68 like it is in some other countries. I am not here to argue for that, though. But the issue is that, in fact, in the work force, more older people—'older' meaning over 65—will need to stay in the work force so you have a work force to produce what you need to produce in this country. We will need to provide incentives for people to work beyond that age of 65, we will need to provide incentives for employers not to make redundant people in their 50s and 60s and even earlier. I think there is an issue on productivity between now and, say, the next 40 years to establish whether there is going to be a mix like we think it might be today in the retired people and the work force.

I am not one who sees—and I am not suggesting you are suggesting this, Senator—it as a burden. It is a challenge, for sure, that we need to look at the cost of people in retirement, and that is why we have the compulsory superannuation levy—a very good move for people providing for themselves and there should be more incentives in policy to get people to provide for themselves in retirement. The more we do that, the less 'burden' there will be on the work force, because people will be providing for themselves. But I cannot agree with the suggestion that, because you maintain the real value of this pension or pensions that we are talking about, that would have a flow-on effect to others.

Senator SHERRY—But others will argue that. Other groups will come before us and argue for it, and I would not blame them. I would not blame them if people representing pensioners, who are just on an age pension, come before us and say, 'Why shouldn't the government make a higher contribution?' I would agree with them. Then we go back to Finance. I am just putting these hypotheticals to you, because when governments make decisions—and we make recommendations—Finance and Treasury are going to say to us tomorrow, 'The bottom line is that this costs extra X millions a year. How do we pay for it?' That is the bottom line we have to deal with as well.

Mr Deans—But I think that it is a mistake, though, to say, 'We are prepared to let the real value of the dollars that a person started off getting in retirement not buy as much.' That does not seem to be fair.

Senator SHERRY—Do you accept that the level of contribution by government through the taxpayer into the CSS and the PSS is substantial? It varies from individual to individual. It is an average of 18 per cent, as I understand it.

Mr Deans—I think when people go—I have never been a public servant—but I think when people go into the service, this is part of a package that they have known about. I think that it is wrong to, in fact, change that package when they retire or before they retire.

Senator SHERRY—That is an interesting argument, because I thought the issue was that we had never had indexation to male average weekly earnings or average weekly earnings. If we have never had it, how is it being changed?

Mr Deans—What I am saying is that the value of the dollar that you receive as a pension today through CPI, particularly indexed once a year, does not keep up with the real value of that dollar.

Senator SHERRY—But you are saying that the contract was changed. Yet the argument is that people in these circumstances have never had indexation to male average weekly earnings.

Mr Deans—That is right.

Senator SHERRY—They have never had it. So the contract could not have been changed if you had never had it.

Mr Deans—But don't you see that if a person goes into the work force in that area—

Senator SHERRY—Yes.

Mr Deans—And you are going to retire on a particular pension—

Senator SHERRY—Yes, and it is indexed—in this case to CPI.

Mr Deans—To CPI. The CPI has changed since then, for a start.

Senator SHERRY—You are arguing the change in the components of the existing CPI have disadvantaged people in these circumstances?

Mr Deans—I do not think that the current CPI—and nothing is set in concrete forever; we all accept that—reflects the increase in cost of living for anyone in retirement. As I said before, one of the options is to create a new index which is closer to the expenses of someone in retirement.

Senator SHERRY—As I said earlier, I see the logic of that, but if you apply that to this particular group, surely you apply it to another group, such as pensioners.

Mr Deans—But you do not have to—the person on an age pension—and to some degree we are almost talking about the same group because I am not sure if anyone has mentioned veterans; they get a part pension—but I do not think that it is the haves and the have-nots. This is a great problem to some degree in our society in retirement between the person on a pension and a person who is self-funded. The number of self-funded retirees, including those people who are on superannuation who do not get any government benefit, is not half a million people in the community.

Senator SHERRY—I know that.

Mr Deans—So it is not a lot of people and it is reducing rather than increasing.

Senator SHERRY—When you say they are self-funded; are they self-funded?

Mr Deans—They are full superannuants and, if you do the statistics, they are self-funded.

Senator SHERRY—Some of them would have received a substantial tax concession on the treatment of their superannuation contributions.

Mr Deans—I am sure anyone who has had superannuation—

Senator SHERRY—Certainly up to 1983.

Mr Deans—But that may be seen as an incentive.

Senator SHERRY—It is also a tax transfer, isn't it?

Mr Deans—Sure.

Senator SHERRY—From other taxpayers.

Mr Deans—It is an incentive to provide for your retirement. That is what—

Senator SHERRY—You have got people on a pension who are former public servants who receive 18 per cent, I think under the old scheme—average contribution from the employer through the tax system. We have politicians receiving 60 per cent, 65 per cent cross-subsidy payment. We have got people who are self-funded retirees, certainly up to 1983, effectively being taxed at a rate of 3 per cent—an incentive, tax concession, whatever you want to call it. We have organisations coming to our committee asking for improvements in these incentives—except for politicians; we would all be mad to ask for an improvement in our scheme. But most people by and large want more. They want an improvement in benefit. I understand that, and from an equity point of view I can see some groups should get more. However, how do we pay for it?

Mr Deans—Senator, that is the job of government.

Senator SHERRY—No, no. Sure, it is our job, but it is also your job to give us some suggestions about how we pay for it.

Senator ALLISON—Hardly.

Senator SHERRY—Yes, it is.

Senator ALLISON—Chair, I think this is out of order.

Mr Deans—I am happy to give you suggestions.

Senator SHERRY—It is easy to ask for something.

Mr Deans—I am happy to suggest means of reducing that burden.

Senator SHERRY—Good, and I would be happy if your organisation would provide some specific suggestions along those lines.

Senator ALLISON—The parliamentary super scheme might be one.

Senator SHERRY—There are a lot of areas where we could make change.

Senator ALLISON—It has been suggested by a number of witnesses that we need to look at CPI calculations and perhaps take into account financial services, bank fees and the like. Would you like to see that happen in the broader context of pensions as well as in relation to Public Service pensions? Is there a difference? Do public servants use financial services more than other pensioners?

Mr Deans—I have not heard any of those rumours. No, I believe that it is the broader community that you would need to look at. There are different spending patterns in retirement. As I mentioned, you spend more on health, you spend more on recreation; you do not spend as much on clothes. We all know that. But I think it is for the broader community. I would not like to pin it on to this subject, but I think it could be one of the options that could be looked at.

The main aim that our members see who are involved in this situation is maintaining the value of their pension. We have evidence given to us, but it is someone's idea of their cost of living and how it has increased and it is more than what the CPI is giving up. So it really gets down to a matter of some model that is going to maintain that value. I am not sure what anyone else is asking for but we are not asking for an increase; it is a matter of maintaining what they started off with. The adjusted cost of living index for retirees would show that there is a different percentage. It was being done by outside people for some years. It has stopped now. It is something that we would encourage the Bureau of Statistics to look at.

Senator ALLISON—Today a lot of the argument about equity has used the comparison between public servants and pensioners.

Senator SHERRY—And politicians.

Senator ALLISON—It is very important we keep them in there. But what we have not talked much about today is any sort of comparison of the Public Service and the private sector and the level at which public servants by and large operate in terms of responsibilities. I invite you to draw some comparisons of the roles, responsibilities, income levels and retirement benefits.

Mr Deans—I would hate to do a comparison with the highest level of public servant versus, say, the managing director of the Commonwealth Bank, because I think—and I am not picking

on him; we can think of other industries—some of the salary packages in some industries are immoral. No-one can really earn that much money. They are given it, but they cannot earn it. I do not think you can look at the highest level, if you think of someone at the top in the Public Service.

Senator ALLISON—Perhaps a more reasonable level then?

Mr Deans—If you look at someone, let us say, who is earning \$50,000 or \$75,000 in the private sector, in the main I think I would be right in saying—and I do not have any evidence of this—that the employer would be paying eight per cent. Some of them top it up. They put some in, particularly as they get into later years, so they have got a better income in retirement. That is the comparison that you have to make. There is a compulsory amount that employers are putting in of eight per cent. That is the comparison with what is happening in the Public Service.

Sure, I get a feeling that everyone would like to knock the parliamentarians retirement plan. That is fine. You expect that. You expect that to happen. But when you get to public servants I do not hear any of that. I see a lot of people particularly in that age group. No-one is saying that a public servant should not get what they get. I just do not hear that. If you compare it with the normal person in the private sector, you do not hear that about them, either.

The introduction of the compulsory super levy was one of the best things that happened in Australia. There is no doubt about that. We started providing for the years when there are going to be a huge number of older people in the community. But, of course, as they drop off their perches in maybe about 60 years' time the thing will reverse. We will need more schools again and we will need fewer nursing homes and all those sorts of things. Long term I do not think it is a huge burden. It is one that has to be worked through to see how you are going to fund it. That is like everything else in the budget. It comes down to a political decision in a lot of these issues. I do not know whether I have really answered the question.

Senator ALLISON—You have. Thank you.

CHAIR—Thank you very much, Mr Deans, for appearing before the committee today.

Senator SHERRY—We have got a couple more minutes. Could I just ask one last question? Mr Deans, we were talking earlier about the closure of public sector funds. Some states have closed their funds—Victoria, New South Wales and Tasmania. There may be others. This is the state Public Service. They have closed their defined benefit fund and it is now accumulation—SG 8 per cent going to a nine per cent employer contribution. What is your view of that? It is obviously being done to reduce liability.

Mr Deans—We do not have a formal view on it. I would like to think that the state public servants are in a different position to the federal public servants, particularly those who are domiciled in Canberra. Personally, I do not mind there being an incentive. If that is in the retirement plan, so be it. But it is an incentive to work in Canberra.

Senator SHERRY—I do not see the difference, frankly, between Commonwealth public servants and state public servants. I do not see why they should be treated differently.

Mr Deans—I am saying that it is about location. I am not—

Senator SHERRY—Because they live in Canberra, at least the majority of Commonwealth public servants, they should get a superior retirement plan than public servants who live in Melbourne, Sydney or Hobart?

Mr Deans—Why not? I guess I could put a reasonable argument—

Senator SHERRY—I do not see the argument.

Mr Deans—It is purely an incentive and it just happens to be retirement.

Senator SHERRY—But we have now got a situation in New South Wales, Victoria and Tasmania where new public servants who started after the date of the cut-off are receiving substantially less than public servants who started work prior to the cut-off date and people who have retired. Do you think that is equitable or fair?

Mr Deans—I guess so long as when a person came into the service that is what they expected to get.

Senator SHERRY—They do not have a choice. That is what they get. The law has been changed. That is it. That is all the government is putting into their funds now.

Mr Deans—I guess that is what the situation is federally now. That is what they are getting. I am not against their changing them in the states.

Senator SHERRY—But do you think it is a good thing—

Mr Deans—It is an option here.

Senator SHERRY—for the Commonwealth to be attempting to scrap the existing CSS and PSS for new public servants, effectively reducing their retirement benefit, to the superannuation guarantee, which is eight per cent going to nine per cent? Do you think that is a good thing?

Mr Deans—It depends on how long it is phased in over. It is not something that would happen tonight and then it changes. I come back to the point that if you are talking about people living in Canberra, like I do—I am sorry for those people who live in Canberra—there might be a need for an incentive to have people here. That may be the way you do that. But if you put that aside, it is not a very strong argument to not do it—not change it.

Senator SHERRY—So you are quite relaxed about that change?

Mr Deans—I am not relaxed about it because I have not come here today prepared to debate the issue. But I think if you start doing that level of change the public will in fact start looking more, if they can, at parliamentary pensions.

Senator SHERRY—I accept that. I have no doubt about that at all.

Mr Deans—It opens a can of worms.

Senator SHERRY—And I accept the logic of that, too.

CHAIR—In conclusion, I thank you and other witnesses, but particularly Mr Deans, for appearing before this committee today. You have certainly responded with dignity and in the best traditions of a senior public servant appearing before perhaps a different sort of committee from a Senate estimates committee. However, we are not an estimates committee and we are taking evidence on a particular issue that we want to try to resolve. But from time to time, I think to bring the whole thing into perspective, people do find themselves in certain categories of society where they are subject to certain anomalies that have crept in and which affect their circumstances. This inquiry really seeks to find out those anomalies, evaluate the extent of the discrimination and hopefully recommend a means of overcoming it and ensuring a just and fair outcome. I thank you all for appearing before the committee.

Proceedings suspended from 12.21 p.m. to 1.35 p.m.

[1.35 p.m.]

ADAMS, Commodore Harold John Parker, National President, Regular Defence Force Welfare Association

JOHNSON, Mr Gordon, National President, Australian Council of Public Sector Retiree Organisations Inc.

MORONY, Mr Frank, South Australian Councillor, Australian Council of Public Sector Retiree Organisations Inc.; and President, South Australian Superannuants

PAULE, Air Vice Marshall (Retired) John Alan, National Secretary, Australian Council of Public Sector Retiree Organisations Inc.

ROBINSON, Mr Anthony, Affiliate, Australian Council of Public Sector Retiree Organisations Inc.; and Executive Member, Tasmanian Association of State Superannuants

CHAIR—I welcome you all, but I particularly welcome the representatives who have come from South Australia and Tasmania. It is good that we are getting national representation.

Senator SHERRY—Particularly from Tasmania.

CHAIR—Mr Robinson was a colleague of mine a few years back.

Senator SHERRY—In my case, colleague and sparring partner occasionally.

CHAIR—I understand that each of you would like to make a contribution. We certainly welcome that. Mr Johnson, I understand you are going to make an opening statement.

Mr Johnson—At the outset, I want to place on the record the appreciation of ACPSRO for the invitation to lodge the submission regarding this inquiry and also the invitation to appear before your committee to give oral evidence in support of that submission. As our written submission indicates, we are a peak council representing entire organisations from the Commonwealth—including the military, states and territories. As such, our submission is in four parts and we will also present oral evidence in separate segments.

Initially, Commodore Adams will address some remarks about the military scheme. I will then follow briefly with Commonwealth schemes. Mr Morony will address the South Australian schemes, and Mr Robinson the Tasmanian schemes. We believe these two states have schemes genuinely representative of the state sphere. We will then turn to our part 4, which deals with indexation of pensions. Commodore Adams will say a little about the indexing of military pensions from specific points there. I will follow regarding indexation of the civilian public sector schemes. Air Vice-Marshal Paule will conclude with some remarks. Of course, we are happy to field questions as you see fit.

Cdre Adams—I want to endorse the remarks of the president and thank the committee for having us appear before it. Although we are an ex-service organisation in our own right,

RDFWA is affiliated with ACPSRO because there is a commonality of some of the issues we are concerned with, specifically the question of superannuation. Within the military schemes, as you will have read, maintaining the value of preserved benefits, which is the crux of this inquiry, applies only to the MSBS—the Military Superannuation Benefits Scheme. There are no preserved benefits in the DFRB scheme, which is the old scheme, or the DFRDB scheme. Although the DFRB scheme has been closed for nearly 30 years and only retains pension recipients, the DFRDB scheme, although now closed to new members, still has significant numbers of contributors as well as pension recipients.

Contributions to the DFRDB scheme are paid into consolidated revenue and benefits are paid from consolidated revenue but allocated to the defence budget, so the matter of preserved benefits does not arise. Within the MSBS, the preserved benefit is not paid until the beneficiary reaches preservation age. Because most people today do not serve in the armed services for more than 10 years, this preserved component becomes a significant element in their ultimate superannuation. At the time of separation from the service, the employer contribution is calculated and from then on it is indexed at the CPI until claimed, say, some 25 or 30 years later. These young people see the current indexation of their preserved element of their superannuation as being financially detrimental to their future.

If it were to be indexed by a wage led index system, the ultimate value would be greater. Furthermore, if the employer contribution were to be realised at the time of separation, then it would grow at an even greater rate because of the fund manager's earning objective. In this latter situation, the government's cash outlays and its unfunded liability would both be reduced. It is relevant to point out that, in the past, people joining the armed services did not come under the military superannuation umbrella until after 20 years of service unless they were invalided out or they died while in service when the DFRDB provisions for those matters came into force. Nowadays, however, people joining the armed services automatically become contributors to the MSBS, with the majority of members leaving the service with less than 10 years service. The recommendations we have made in respect of this scheme, at paragraph 12, would, we believe, benefit both the individual and the government and need to be addressed.

Mr Johnson—I will address the preserved benefits issues of the Commonwealth civilian schemes—that is, CSS and PSS. We will cover the indexing of the retirement pensions when we get to part 4 of our submission. The figures quoted are all as at 30 June 2000. Under the original 1922 act scheme, which was closed in 1976, there are no preserved benefit cases among the present 12,736 beneficiaries, of which 8,764 are widower recipients. This scheme is winding to a close fairly rapidly, so we can disregard it. The Commonwealth Superannuation Scheme, CSS, closed to new entries on 1 July 1990 and has 48,552 members, of which 13,850 are deferred or preserved cases. The preserved benefits under this scheme when claimed at preservation age are paid as an annual pension calculated, as we have set it out in paragraph 25 of our submission on pages 5 and 6, by the use of an age pension factor. We have been unable to compare the age pension factors as applied against, for example, CPI indexing of the employer component to ascertain if there is a difference. If these factors used are no greater than CPI indexing or even less, then of course the value of the pension claimed at preservation age will be of considerably less value, and it should be, considering what we believe is the inadequacy of the CPI indexing process. We have addressed that issue in great detail in part 4.

The only scheme currently open to new entries is the Public Sector Superannuation scheme, referred to as the PSS. This scheme has 112,436 members, of which 60,000 are preserved benefit cases. As stated in paragraph 30 of our submission, the preserved benefit can consist of three components. There is the member's contribution and the interest that is accumulated in the fund against that contribution up to exit date. That component continues to earn interest at the fund's allocation rate. The productivity component—it is a funded component—also earns interest at the fund allocation rate.

The third employer financed component is increased in line with the CPI. If all three components are preserved it can be claimed at preservation date as a lump sum or it can be converted to a pension using pension conversion factors, which we have set out in paragraph 28. If the member contribution is taken at exit, the remaining two components are compulsorily preserved and can only be taken as a lump sum and not a pension at preservation date.

I would like to respond to terms of reference A, B, C, D and E collectively rather than go through a whole narrative, because we have set it out in some detail. In a nutshell, where CPI indexing is used to index the employer financed component—and that is a notional financing, because money does not flow into the fund—the real value of that preserved benefit is simply not maintained by preservation date. In turn, that results in increasing rather than lowering the call on the social security budget for top up or supplementary part social security pensions.

We have also said at paragraph 39 that the actual funding of future preservation cases—this is prospective cases—under the scheme should be manageable because it will be a progressive outlay from budget. On the other hand, the retrospective funding, for example, of the present 73,850 cases under CSS and PSS would involve substantial initial budget outlays. But, of course, it would be of significant benefit to the government as well as the claimants in the longer term—the benefits being part reduction of unfunded liabilities, higher benefits to the recipient at preservation date on retirement from the work force and reduction in the claims against social security. It would be entirely consistent, in our view, with the government wanting retirees to become self-funded in retirement wherever possible and not to rely on social security support. I would like to now ask Mr Morony to briefly discuss the South Australian superannuation issues.

Mr Morony—I do not believe that the Commonwealth scheme should be considered in isolation without considering the state schemes and I do not believe that indexation of preserved benefits can be considered without taking into account the impact on pensions after retirement.

SA Superannuants is interested in these proceedings in that we have the objective of encouraging change at the federal level with a view to achieving a flow on to the states. I appreciate that there could be a degree of repetition in our presentation compared with other things that you have heard and will hear in the future, but you will not know just how widespread the concern is unless you hear it repeated from all around Australia. So I might repeat some things.

Super schemes generally offer two types of indexation at present—CPI indexation or an investment earnings rate. CPI has got some shortcomings. We believe there are shortcomings evident in CPI. We believe that we should encourage consideration of an alternative to CPI wherever it is used. When CPI is used as a measure of the cost of living it fails to take into

account the fact that what were in the past considered luxuries are now considered essentials and what are considered luxuries now will inevitably be regarded as essentials in the future. There is no provision for the initial purchase of these items in CPI. The only provision in CPI is to measure the change of the price in those items once they have been purchased. Adjustments to the composition of CPI can also work against people who have already retired. A case in point is the removal of mortgage interest payments at the very bottom of the interest rate cycle.

Looking at the question of CPI indexation for preserved benefits and considering whether CPI indexation does lead to a loss of value, I ask the committee to consider the example of an employee with a preserved benefit equal to the value of average weekly earnings at the time of resignation. If that benefit is indexed to CPI, when the employee collects that benefit some years later it will be worth considerably less than average weekly earnings, and this is a classic example of how the value of the benefits has been eroded.

Regarding resignation versus continued employment, at the outset I said that indexation of deferred benefits should not be considered without also giving thought to the indexation of pensions after retirement. If a benefit is in the form of a percentage of final salary—the scheme that I belong to, for instance, works on that principle—and that preserved benefit is indexed to something other than CPI, for example, to an investment earning rate, it would be possible under some circumstances for an employee who resigns to receive a benefit that is higher than an employee who remains in the Public Service, because if the preserved benefit is indexed at an earnings rate and the employee has only got something in the order of CPI or average weekly earnings, the benefit is going to escalate faster than the wages of the person who remains in the Public Service.

Consequently, any change to the indexation of deferred benefits should, in the interests of equity, take into account and apply to both the accumulation phase and the retirement phase, or you are going to create anomalies. That is particularly so in light of the fact that there is a belief that pensions are losing value just as preserved benefits are losing value. So that demonstrates the link between the two.

Turning to commutation factors, if former employees are not satisfied that the value of their preserved benefit in a pension scheme is being protected, there is a very strong disincentive to take that benefit out of the scheme and roll it over into an investment that would provide a better return. Where there is a provision for commutation of a pension and rollover to another fund, the disincentive is in the form of pension commutation factors that generally result in a cash pay-out well below the notional capital value of the pension.

In past years when life tenure of employment was common, that may have been a legitimate means of encouraging employees to remain in the Public Service. Nowadays, both employees and employers accept that employment mobility is normal. In today's environment it seems unreasonable for employers, namely the government, to withhold a major portion of a superannuation benefit if an employee wishes to resign and commute whilst at the same time applying an indexation factor that results in a loss of value if the benefit is preserved. If commutation factors were equated more closely to the real value of a pension, employees would have the option of rolling over to another investment vehicle that was not restricted to CPI indexation.

Earnings rates versus CPI versus average weekly earnings: if the options under review are confined to just CPI indexation and investment earnings rate, it is obvious that using an investment earnings rate could result in benefits increasing at a faster rate than the incomes of the community at large. That does not mean that CPI is the only alternative. It means that an index other than either an investment earnings rate or CPI should be considered, and something like average weekly earnings is a likely contender. Average weekly earnings is surely a more accurate reflection of community living standards, and this is acknowledged by the government in the way age pensions are adjusted using the higher of average weekly earnings or CPI.

Regarding life expectancy and early retirement, people are spending longer in retirement now due to government downsizing, discrimination against older employees in the work force and longer life expectancies. Consequently, the period during which the value of pensions can be eroded is longer than it was in the past. The effect of compounding over a longer period magnifies the loss of value and the loss becomes much greater than it was in the past when people were retired for a shorter period.

In conclusion, in South Australia we would certainly like to see the higher of CPI or average weekly earnings used as an index, the same as with the age pension. We would also like to see more frequent pension adjustments, which I have not discussed but which is included in our major submission, together with the reasons why we would like to see that. We would also like to see commutation factors that align more closely with the real value of pensions.

Mr Robison—The Tasmanian Association of State Superannuants also appreciates very much the opportunity to be here today and to support ACPSRO's major submission—they have the main carriage. I would just like to point out that the particular interest of our organisation, that is the Tasmanian Association of State Superannuants—I will call it TASS, if you do not mind—is to seek a change from the present method of adjusting superannuation pensions by CPI increases each six months to adjustments to such pensions by the greater of the CPI or male total average weekly earnings each six months. We say there is a strong case to support this change. Of course, Mr Johnson will speak to that case a little bit later.

Given the restraints of time, I will be brief and confine my remarks to, firstly, presenting just a brief profile of TASS; secondly, presenting an overview of public sector superannuation arrangements in Tasmania; and thirdly, presenting a summary of action taken by TASS in relation to indexation of pensions and then a final summary.

TASS is an organisation which represents, under its constitution, retired state public servants. Its present membership is at the last count 1,540 and in rounded terms it represents indirectly, therefore, about 7,000 state retirees and their dependants in Tasmania. Their pension rate average is very low, and again I think Mr Johnson will detail that.

Under the heading of an overview of the public sector arrangements in Tasmania, I would just like to indicate that there are a number of different superannuation arrangements. They cover members of parliament, the judiciary and public sector employees generally. It is not intended to address the parliamentary or judges schemes in any detail in our address but rather to concentrate upon the general scheme which directly affects our members.

That scheme is covered by state legislation. That is the Retirement Benefits Act 1993 and the Retirement Benefits Regulations 1994. It should be noted also that the general scheme does not include the superannuation support arrangements provided by the government to many employees, such as heads of agencies, members of the Senior Executive Service and other contract staff who are members of private superannuation funds.

Following a major review of superannuation in 1996-97 under a state inquiry, there emerged two fundamental public sector schemes affecting basically old and new employees regardless of them being in a contributory or a non-contributory scheme beforehand. The features of each of the two current schemes are as follows: firstly, there is the retirement benefits fund contributory scheme, which is a defined benefits scheme. The final outcome depends upon salary over the last three years before retirement, number of years as the contributor and percentage of salary contributed. Members may also now voluntarily contribute to an investment account. Eligibility is generally confined to permanent or long-term temporary employees who elected to join and commenced employment prior to 15 May 1999. Membership of the scheme was about 17,000 as at 30 June last year. Subject to Commonwealth preservation requirements, members may take a lump sum, a life pension, an allocated pension or a combination. The pension, of course, is CPI increased twice a year and is closed to new employees.

There is a new Tasmanian accumulation scheme, and I will skip over it a little bit. It basically covers new employees. Only those who were employed before 15 May 1999 may opt for a life pension. As mentioned earlier, there is also a compulsory preservation account. I guess that is of interest because the amounts which are preserved under that scheme and held until a person reaches preservation age are indexed by the greater of the CPI or average weekly ordinary time earnings.

The action taken by TASS is as follows: a motion was passed on 21 March 2000 at a general meeting following the annual general meeting that stated:

This association regards the present method of adjusting superannuation pensions by the eight capital cities CPI as unfair, inadequate and discriminatory, and that the executive be authorised to vigorously pursue an early review of the now outdated manner in which pensions are adjusted.

Then a special subcommittee was formed to deal with superannuation. It was found, through research, that the CPI adjustments are well behind what we are suggesting, and that under the Judges Contributory Pension Act 1968, pensions are increased once a year in accordance with the movements in judicial salaries. We do not criticise that. In fact, we think that that has got a lot of merit in that it preserves the retirement pension at an appropriate level.

We found also that RBF regulations already provide that preserved amounts are increased six-monthly by the greater of CPI and average weekly earnings as indicated, but of course pensions are not. We found also that—and I will just mention this—Social Security and Veterans' Affairs payments, including pensions, are increased by CPI or average weekly ordinary time earnings, whichever is the greater. Again, that will be dealt with later by Mr Johnson.

We found that the state parliamentary salaries are linked to a set percentage of salaries of federal politicians and automatically increased. I am not quite sure of the frequency, but I suspect it is annually. It was found also that the Tasmanian prices oversight commission recently recommended that the Motor Accident Insurance Board premiums be regularly

increased by movements in average weekly ordinary time earnings. The point that we are trying to make here is that CPI adjustments seem to be now outdated and only applied to superannuation pensions from the public sectors.

TASS wrote to the state Treasurer, Mr Crean, who twice refused to meet the reps and indicated that, apart from monetary considerations, a heads of government agreement existed and that it was the Commonwealth government's responsibility. I will say that TASS has a mandate from its members to vigorously pursue the changes sought. Public sector superannuation pensions are alone in having cost of living adjustments using CPI only. A plethora of examples exist to demonstrate that Commonwealth and state representatives recognise that the use of the CPI in relation to pensions adjustment is an anachronistic system and it has been established that the higher of CPI average weekly earnings is a contemporary standard.

Mr Johnson—Mr Adams will lead off in part 4 with some specifics relative to the military indexing of pensions.

Cdre Adams—Just briefly, our submission to the committee was comprehensive, we believe, in respect of the three military schemes. There are just some points about pension indexation which I would like to emphasise. The first is the fact that the RDFWA have made three submissions to government in the past year setting out our concerns with regard to indexation, each time to be told that the legislated method of indexation of military people receiving DFRB or DFRDB pensions is adequate.

Yet, as we have pointed out, had military pensions been indexed over the last 10 years to MTAWA, as are Social Security and Veterans' Affairs pensions, our people in receipt of retirement pay would be 23 per cent better off. We find incomprehensible the stand adopted by the government, particularly the Minister Assisting the Minister for Defence, in not addressing the arguments put forward by our association, particularly as the minister has recently restated the government's commitment in respect of superannuation and their 'commitment to providing the most appropriate levels of support for current and former serving members.'

Secondly, as stated in our paper, the ex-service community is a group of people who made their careers in the armed services, that is, they served for more than 20 years in uniform, and whose mean superannuation pension is about \$15,000. As stated in our paper, 40,000 receive less than \$30,000 a year. In terms of community living standards, these people are slipping further and further behind. Many need income support from the Department of Social Security. The same applies to widows of these people, whose mean pension is around \$10,000 a year.

Finally, we believe this inquiry is both extremely important and timely given the government's intractable position in respect of the reform of military superannuation schemes and the degree of disadvantage being experienced by over 50,000 veteran ex-servicemen and women, who we believe deserve every consideration. At the moment they are being dismissed out of hand by the present government.

Mr Johnson—May I proceed further on part 4? I would like to continue. We have pointed out in our main submission that the CPI alone is used to index the public sector super pensions, that is the Commonwealth, the military and the state, except, of course, your own parliamentary

contributory superannuation scheme, which is linked to AWOTE wage movements. We have also pointed out that both the government and the opposition supported the legislative change to benchmark social security pensions to 25 per cent of MTAW in 1997. The reason given then for such benchmarking was that recipients of these benefits were entitled to share in increases in community living standards like everyone else.

It is well recognised and has been for quite a long time that the CPI is no longer a cost of living index. If you go back to between the 1960s and about the 1990s, CPI and average weekly earnings tend to be in concert. But since then the divergence is very significant. CPI today is a price index and it is referred to by many, including the Bureau of Statistics, as an inflation measure as well. Furthermore, the CPI is an historic index. It measures past price changes, that is, increases or decreases which have already occurred. The composition of the CPI has also been changing over time, as my colleague Mr Morony mentioned.

For example, he also mentioned mortgage interest rates. They have been deleted, but a very significant number of superannuants still have mortgages or they live in rental accommodation. A surprising number of older superannuants are re-entering the home mortgage market as a means of maintaining their long-established residences, where the government encourages them to remain by providing a range of care services. It is better to keep them in their own homes than to move them into other institutions or aged care residences. The CPI makes no provision for the initial purchase of things such as computers, mobile phones, airconditioners or refrigerators, all of which are elements of increasing living standards in our community as technology changes occur at such a rapid rate.

The delay in paying pension adjustments in the public sector, as we have mentioned, is variable. It varies a great deal. The Commonwealth uses the CPI quarter ending March and pays in July. Others use the CPI quarter ending in June and pay in October. In Victoria the state system is indexed every six months, but payment is withheld for six months after the indexing calculation. That is, there is a timelag of up to 15 months during which time the superannuant carries the full burden of the price rises and simply slips further behind. You may query: why does he slip further behind and progressively slip? It is because there are so many other items that increase at a substantial rate over that period that are not part and parcel of the calculation in the CPI.

When tax reforms were introduced by the government together with the GST, there was no immediate supplementary adjustment such as the 4 per cent provided for recipients of social security benefits. We pressed for this very, very hard, but all of our submissions to the Treasurer and the Prime Minister on this matter were completely—and I emphasise ‘completely’—ignored.

I would now like to focus the committee’s attention, if I may, on the coloured charts which I hope have been attached to your submissions, because we did provide quite a few extra ones. Those charts demonstrate that pensions indexed by the CPI have only increased, as Commodore Adams said a minute ago, by 23 per cent over the last 10-year period. Had male total average weekly earnings indexing applied, the increase over the same period would have been 44 per cent. We did not include our AWOTE index chart with the submission, because we are asking for the indexing to be changed to CPI or male total average weekly earnings, whichever is the

higher, in exactly the same way as the government has already legislated in benchmarking the social security pensions. But AWOTE indexing increased to 47 per cent over the same 10 years.

In examining the indexing—and I understand the indexing of the parliamentary pension arrangements—we want to emphasise that we are not attacking the quantum of parliamentary salaries. Fixing of salaries in the marketplace is not our concern. But the wage linkage of our pensions, including the benefit paid to a surviving spouse of a politician, is very directly relevant. Research paper No. 30, which is available from the Parliamentary Library and is a very recent survey of the remuneration of parliamentarians, states that on 1 July 1990 the basic salary of a parliamentarian—at the federal level—was \$58,300 per annum. Today it is \$92,000 per annum and that is an increase of 57.8 per cent over the same 10-year period. That 57.8 per cent increase has also flowed through in full to all parliamentary pensions, including the surviving spouse of a politician.

As a public funded pension, they are running well ahead of AWOTE indexing measured over the 10-year period, but of more significance to our members is that they are in fact 34.8 per cent greater than our pensions, which have only been indexed to the CPI. This is a very major difference in pension values alone, and we see that as an extremely powerful argument for changing our indexing on grounds of equity and fairness. After all, the Prime Minister, in introducing taxation reforms, kept stressing time and again that it would result in fairness to all Australians.

The surviving spouse benefit is also inequitable, when a public sector widow receives no more than 67 per cent of her former contributor's pension and less in some schemes. In some of the 1922 cases it is as low as 59 per cent. However, the widow of a politician is receiving 83.3 per cent, and that is still indexed in parallel with parliamentary salary adjustments.

We also want to dispel, hopefully once and for all, the myth which was initiated by the former member for Hindmarsh, Mr Clyde Cameron, who said we are the fat cats. Mr Chairman and members, superannuants are tending towards anorexia as our pensions erode and will continue to do so unless the government addresses the indexing inequity and does it quickly. As Mr Morony said, retirees are spending more time in retirement and they are living longer.

In particular, I would like to quote to you directly from paragraphs 83 and 84 of our submission, because I think this is extremely important from the state government's point of view:

A major concern of this Association is the matter of how possible changes made to indexing of Commonwealth superannuation pensions as a result of this Inquiry will flow on to the States and Territory recipients of Public Sector superannuation benefits. This question must include consideration of the Heads of Government Agreement which was signed by all concerned.

Requests have previously been made to both the Tasmanian State Government Treasurer and the Western Australian Government Employees Superannuation Board for consideration to be given to changing indexing to CPI/AWOTE and, in the WA case, to consider splitting superannuation income with a spouse for income tax purposes. Apart from rejecting these requests on financial grounds, etc, the State's responses relied heavily on the fact the *Heads of Government Agreement* signed with the Commonwealth required them to comply with the Commonwealth's retirement incomes policies or the Superannuation Industry Standards (SIS) Act and Regulations. If the States are bound by agreement to comply with Commonwealth standards and policies as claimed, this Inquiry will need to review and, where appropriate, recommend changes as necessary to the existing agreement and SIS Act.

It would be completely wrong to deny the same benefits—the long overdue improvements to indexing the superannuation pensions that we are asking for—for the state people if they were only given to the Commonwealth end.

We are almost ready to conclude this. Perhaps on a lighter note but a serious one: unless the committee recommends to government a prompt change to CPI or MTAWWE indexing, whichever is higher, every six months you will become a party to effectively saying to a very large number in the community—that is, our members—‘Stick with your ice chests and chip bark heaters. You are not entitled to have refrigerators or hot water services.’ ACPSRO has a responsibility to all of its affiliates—military, Commonwealth, state and territory, which with superannuant member dependants are in excess of one million people. These are people who are very disgruntled and very disillusioned at the present time. Thank you.

Air Vice Marshal Paule—I would just like to conclude with a few summary remarks. The last term of reference of this inquiry, ‘Many other issues related to the scope of the inquiry’, is really a catch-all, and we have addressed that in our part 4 where we deal with indexation of pensions. The title of the inquiry and the other five terms of reference all relate to the preserved components of public sector and Defence Force unfunded superannuation schemes. This is really the crux of the inquiry.

It is well known in the public sector retiree community that CPI indexation by itself is outdated and, because of this, the living standards of these superannuation recipients is falling behind the rest of the community. Therefore, we seek a change of indexation to MTAWWE, or the CPI, whichever is the greater, and at six-monthly intervals for both preserved benefits and pensions.

We are not asking for what is not available to other publicly funded beneficiaries. In our submission to this committee and in our earlier submission to the government on superannuation indexation, we have used the same arguments that the parliament used when it changed indexation of social security, veterans affairs and parliamentary pensions to a wage linked index. In our view, if the parliament were correct in changing the indexation for these other pensions, then there would be no logic in denying the same consideration to those in receipt of pensions from the superannuation schemes, which are the subject of this inquiry.

Furthermore, if governments realised their contribution components at the time a contributor separated and allowed that contribution to be managed by the trustees of the various funds, then there would be a threefold advantage: the member’s ultimate benefit would be larger, their call on social security supplementation would be less in the aggregate and the government’s unfunded liability would be reduced and probably eventually disappear. We know that there are many superannuation schemes in use in the public sector, some of which are now closed to new members but which will operate for many years to come because of current pension recipients. To tidy them all up as we are suggesting, we believe, is overdue if only on the grounds of equity and fairness. We would expect this inquiry to recommend appropriate changes.

The final point that I wish to make is that, whatever the outcome of this inquiry in the federal arena, we would urge the committee to recommend that the federal government do all it can to ensure that any beneficial changes flow on to the state and territory schemes even to the extent

of changing the existing arrangements which have been signed between governments. Thank you.

CHAIR—Thank you very much. It was mentioned by a number of your members that a factor restricting the flexibility of the state schemes was this heads of agreement arrangement. How is it then that in some respects—I think it is Queensland and Victoria—they have some improvements compared with the other states if they are bound by that same heads of agreement arrangement?

Mr Johnson—I can answer that fairly clearly in terms of the Victorian side. You will have a member from that combined council here tomorrow, Mr Lindsay Whitrod, who is a delegate to our council. The Kennett government, in fact, converted their scheme to a fully funded scheme. One of the conditions that they had to accept was this six-month delay. So the situation there is entirely different from the unfunded position that you are faced with in terms of CSS, PSS, military and many of the state schemes.

CHAIR—In terms of the 15 per cent rebate?

Mr Johnson—Yes, the tax situation. Mr Whitrod would be able to give you that in greater detail. But there is a difference there. Queensland is also a funded scheme, but I have not got all of those details at my fingertips at the moment and we have not got a Queensland rep here.

CHAIR—But if Premier Kennett at the time was able to devise an arrangement, albeit it had a delay factor built into it, how is it that he was able to circumvent the heads of agreement arrangement?

Mr Johnson—I would not be able to answer that. I really do not know. Perhaps Mr Morony may know.

Mr Morony—Just as an observation, I do not believe that the heads of government agreement is very old. I wonder—

Mr Johnson—1994.

Mr Morony—1994. I am not sure when the Victorian scheme made the changes. Perhaps they were made before the heads of government agreement was signed, but I am not too sure about that.

CHAIR—Maybe it is something that the research component of the committee might have to look at.

Mr Johnson—I could certainly alert Mr Whitrod to be prepared to answer that question for you, Mr Chairman.

Mr Morony—Could I add something else also, Mr Chairman, and that is that I understand that the reason this was mentioned in our submission was that organisations like the Western Australian organisation had approached the West Australian government and it was the West

Australian government that said they were constrained by the heads of government agreement. That was not something that this organisation put forward.

Mr Johnson—The other thing with the Treasurer in Tasmania, Mr David Crean—and I did not bring the letter with me—is that, apart from falling back on the need to comply with the Commonwealth situation, he also said that there was no way that that state could afford it. We are very conscious of the fact that there would be increases in costs if you moved from CPI to MTAWA.

Could I just have a minute to give you some cost calculations very briefly? In the case of Tasmania, still based on 30 June last year figures, there were 6,947 pensioners with a pension average of \$14,384 per annum. Using the same index factors that are in the coloured tables at 3.2 per cent last year for CPI and 3.7 per cent for male total average weekly earnings, the added cost had the MTAWA figure quoted there been used against a CPI of 3.2 per cent would have been \$499,628, applying that average pension against that total number. In the Commonwealth arena, I have done some further calculations where we do get into bigger numbers. If we take the CSS and PSS, I have taken 106,824 of the members who are all on pensions which are no greater than \$32,614 a year. That is 93.13 per cent of the total number of pensioners under those two schemes. I picked them out because they are in the category where, as couples, they would be eligible for possible top-ups such as a social security pension, depending on if they have any other income. Again using the same figures on the charts—the CPI at 3.2 per cent—the commitment at that rate would in fact have been \$67,856,264. That is calculated against the various pensions within that group. There are some, for example, on less than \$1,000. Indexed at 3.7 per cent of MTAWA, it rises to \$78-odd million. That is a cost differential of \$10,602,443.

If you spin that across per head per annum, that is an increase of 99.25c per head. With tax clawback, if you take only 25 per cent and the reduction that would occur in the social security budget, because some of them would fall outside of their eligibility, the cost is not really that significant—not when the government talks in billions these days. I cannot answer for the other states. I have not really had the time available to do the calculations. Incidentally, in that CSS-PSS one, last year our CPI index increase was in fact only 2.8 per cent. It was not 3.2 per cent, which is the June figure. The 2.8 per cent is the March to March figure. That simply highlights the lag that occurs, because at 2.8 per cent the commitment would have been less than \$67 million. Taking MTAWA at that time, a greater amount would have been required, but it would not have been that significant. In the Tasmanian case with the figures I quoted there of just under half a million, the cost per head was \$72 per annum each for the nearly 7,000 pensioners. I do think it is easy to get this all out of perspective—that this is a dramatic cost increase. It is not.

CHAIR—I note that comparisons between CPI and AWOTE produced by an earlier witness have shown that, particularly between June 2000 and September 2000, the gap between CPI and AWOTE narrowed until September, when they were virtually equal. Do you see that trend continuing? If so, perhaps because of the GST, AWOTE could be behind CPI.

Mr Johnson—That is why we say that we would want the CPI or average weekly earnings, whichever is the higher. There must have been some recognition anyhow when that was done in benchmarking social security. Surely that is still a fair approach. Yes, what you say is a possibility, but over the last 10 years comparing average weekly earnings with CPI it has been

the other way. I am not an expert, but the forecast that we are hearing from analysts is that it is going to continue—that is, MTAWWE or average weekly earnings will in fact continue to surge ahead of the CPI, because the CPI is really no longer a truly relevant figure.

Senator SHERRY—On the issue of the heads of government agreement—and we have to look at it—I do not accept the position that the states are putting to you that they cannot improve the benefit by changing the indexation. Frankly, I think that is an excuse. I think the real reason is financial. I just cannot see how the Commonwealth can prevent that. Following on from that, if we recommend change and the states refuse to follow in a consistent manner, would you recommend to this committee that we legislate to override the states' position? I believe there is the power to do it under the pensions power.

Mr Johnson—If there is a power to do it and it is deemed very desirable and necessary by the Commonwealth Government, I can only answer yes. Perhaps there are a lot of other issues that relate to that which are beyond my knowledge and which may throw caution to the wind, but I do not see why not. Incidentally—and I think I mentioned this at the family law hearing—I in fact had a meeting with the Treasury people to explore this heads of government agreement. I was unable to get a copy. They indicated that I could apply under FOI but it would take probably a year because they had to go to all of the states. It is an agreement that was signed in 1994 which ties them to certain compliances, but it does not seem to have the power of forcing them to do it. I can just see it if they refuse to do it.

Senator SHERRY—My understanding is that they are now required to adhere to the SI(S) Act, which is prudential, not in respect of benefit. If they want to improve a benefit, I do not see that there is a particular head of agreement or power that can stop them doing that. If we can move on, you compare yourselves to politicians and—

Mr Johnson—Only on the pension side.

Senator SHERRY—I understand that, and I am not offended by that. That is just par for the course. That is a comparison that would be made, and also to the judiciary, who have the same benefit. We got into a bit of a combative argument, which was not a problem, this morning with some of the witnesses about this issue. You have a situation where what you are requesting will cost additional moneys, whatever the quantity. We will get that from Finance and we will test the figures. People who have been in Public Service funds have had a significant contribution from government via the taxpayer—very significant. I do not put the military or police in this category because I think there are special circumstances in respect of their employment.

Let us make a comparison with an age pensioner. I have to have regard for total public policy. However, say an age pensioner comes to me. You point out that their pension has increased to male average ordinary time earnings, and has done for a long time, and I believe that is a good thing. But their pension is only just over \$9,000 a year. I accept that the average figures you gave me, which surprised me, are average Public Service pensions. How do we make a judgment, because we have competing interests? My philosophical approach is one of trying to assist those on lower incomes rather than those on higher incomes. How do we make a judgment against those sorts of competing interests?

Mr Johnson—Yes, I would agree that if I were sitting in your chair it would be a fairly difficult situation. However, public servants—not only myself but my military colleagues and my state colleagues—served the government of the day when they worked for a very long time, many years. They contributed to the schemes that they belong to. Take my own situation. This will be my 18th year in retirement on a superannuation pension. I also had a lot to do with the administration of the reserves in my time at work.

We always understood that under the CSS, which I came under, pensions at that time would retain relativity to the wage structure that existed and would continue to exist. In other words, as I said earlier, the CPI and average weekly earnings were in concert in those years. They stayed very close to each other. The expectation was that as we were indexed—and there were fairly small indexes in those early years—you would in fact still be on parity with your former position.

Senator SHERRY—But was that a provision in the fund at that time?

Mr Johnson—It was not a provision, it was the expectation and the understanding. The other thing that is really important is that when we were granted that superannuation scheme that was considered to be compensation for our actual salaries being well below market rates at that particular time. It is not an easy or simple situation. There are a lot of complexities there. We really do feel—all of our members feel, the military people feel—that they are being let down, left behind and that their pensions are eroding. But we do not see that it is our fault that social security pensioners are on, whatever that pension was, about \$9,000 a year and we are asking for what we are asking for. That was the expectation and it was the condition of our employment. We are losing out.

Senator SHERRY—We would have to look at the figures, but let us go back to whenever you entered the work force. I would be surprised if increases in real earnings were any less than they have been, say, over the last decade. I would be very surprised. It seems to me your problem in part is driven by the fact that people are living longer. You are having to live on this pension for a longer period of time. People who retired forty or fifty years ago—whatever the average life expectancy was then—would probably only have been living on the pension for five or six years. Now it is probably 15 or 20 years because of increased life expectancy. I am not saying that invalidates your argument, but I suspect that is one of the problems you are facing.

Mr Johnson—Certainly they are issues. Perhaps my colleagues would like to join me in this debate.

Air Vice Marshal Paule—The crux of the matter is that we are talking about indexation. The parliament itself used arguments some years ago to say CPI indexation of social security, veterans affairs and parliamentary pensions is not keeping pace with living standards, therefore we will tie it to a wage index. No-one is arguing against that. How can you turn around and say, ‘But CPI is good enough for other public sector superannuants.’

Senator SHERRY—I am not saying that.

Air Vice Marshal Paule—I thought you were.

Senator SHERRY—No, I am not saying that. The dilemma I face is that we have a group in the community who are on a basic age pension and who could not even access superannuation because it was never offered by their employer. They could not be compelled to belong to it, because it was never offered in the first place. They are on, what I find to be, an appallingly low retirement income. Public policy makers have to weigh up the relative costs—who do you assist in the community? Sure, they are indexed to male average weekly earnings, but their base is much, much lower than your base.

Air Vice Marshal Paule—Why don't you increase their base?

Senator SHERRY—I would love to.

Air Vice Marshal Paule—It is not up to us to find the money. You increase their base.

Senator SHERRY—We want to hear what your suggestions and ideas are. In an ideal world I would love to do what you ask tomorrow and in an ideal world I would love to increase the current age pension to probably 30 per cent of male average weekly ordinary time earnings and get it up to \$11,000 or \$12,000. We will look at the cost. And this is the debate we had this morning—more of a discussion and a debate rather than a question. Whatever it is in billions of dollars a year, where do you get the money from? We have a couple of options. We can increase taxes. That in itself might be acceptable. But that means increasing taxes on today's wage and salary earners, who are going to live longer and will get a reduced pension entitlement. They have to pay for their own pension through superannuation. So this is not an easy issue, because we have got an intergenerational contest emerging.

Air Vice Marshal Paule—True, but we have offered you also another suggestion and that is this: instead of notionally putting in the employer component, if you put your contribution at the time the person in the Public Service left the Public Service and let it earn at the earning rate of the fund, a government's own contribution would be in the aggregate less, and in fact your future unfunded liability would be—

Senator SHERRY—That does not solve your problem, because you are retired. That has happened in respect of some state funds.

Air Vice Marshal Paule—Some state funds, yes.

Senator SHERRY—But all that they are ending up with is a much lower government contribution, effectively the superannuation guarantee. The government has reduced its liability by reducing the level of contribution. Sure, they get the contribution plus accrued interest. But that is still going to be considerably short of the effective contributions that went into the defined benefit funds that you were members of.

Air Vice Marshal Paule—We have put forward our suggestions and we stand by them.

Senator SHERRY—I understand that.

Mr Robinson—Senator Sherry, I appreciate the point you make. But could I just point out to you that when persons joined the Public Service they went into a pension scheme to which they

made a contribution and it was unfunded for many, many years up until quite recently by government. It is not the fault of the people we now represent that governments of the past put that money in their pocket and used it for whatever means they liked. I will give you an example of my own.

I was in the department of labour and industry, as it was then called, for 12 years. I contributed 5.5 per cent of salary. Then I left to pursue other interests in the private sector and I received a refund of my 12 years contributions less 1 per cent for handling. I put it to you that that is the sort of thing that really would not be condoned today.

Senator SHERRY—It certainly would not. Effectively, you cross-subsidised the participants of the scheme who were there till, say, 60 or 65.

Mr Robison—Yes. Again, the retirement benefits funds general report of last year, 2000, asks, ‘What are the benefits of a life pension?’ And states that ‘the value of your pension is maintained’. That is the only issue—whether or not it is being maintained. There was a reasonable expectation—and with your background you will appreciate this—and it really was part of the understanding of the contractual arrangement entered into by employees and employers at that time. A deal is a deal is a deal.

Mr Johnson—Could I just make another comment to Senator Sherry? Earlier when we opened this debate with you, Senator, or you opened it with us you did make the comment that we had received benefits under taxation reforms.

Senator SHERRY—No, I did not make that comment.

Mr Johnson—You said something to that indication.

Senator SHERRY—My argument is that you are amongst the worst impacted because of the GST.

Mr Johnson—I misunderstood you.

Senator SHERRY—I would not put that argument forward. The Democrats and the government might, but I do not.

Mr Johnson—I perhaps misunderstood you, because—

Mr Morony—The words were something like that we received a contribution via tax. I must say that I did not quite understand what you meant there.

Senator SHERRY—Sorry. What I was referring to there was the government contribution to the funds.

Mr Morony—Which it obtained from the—

Senator SHERRY—Which is paid for by the taxpayer. I was not referring to the GST introduction last year. You did not benefit from that. That would be one of my arguments for not supporting it. But that is another issue.

Mr Johnson—I apologise for my misunderstanding. But if I could just have one minute. One of the things that really has discouraged our people is that some of the letters that we have had back from ministers when we have raised the issues we are raising here—income splitting for tax purposes, et cetera—in particular the minister assisting the Treasurer has come back and said, ‘But look what we have given you. You have got reductions in income tax. You have got access to the bonus scheme and the supplementary bonus. You have got a 50 per cent reduction in capital gains tax and so forth.’ These people that we represent are not people who have benefited in any major way.

Let me quote the statistics from the CSS and PSS. In the range of \$1,000 to \$10,000 there are 24,000-odd people on pensions at that level. There are another 49,000 on pensions between \$10,000 and \$20,000. There are nearly 18,000 on \$20,000 to \$25,000. They are getting a social security top up. Really, the great majority of these people get it. It disqualifies them from the supplementary bonus for a start. They are not people who hold share portfolios. They are very ordinary John Citizens. It really does get a bit sickening to have this sort of response instead of trying to seriously address it. I understand Senator Sherry’s point. The cost to government is a big factor and the balance sheet—

Senator SHERRY—I do take exception to that. The reality is this: we are not in government. I could recommend this tomorrow. I can do what you ask. We have no responsibility. We are not in government. But to be responsible, we have got to put forward a reasonable position that we know at the end of the day there is some chance of being adopted. It is very easy to agree with what you want knowing that we are not in government.

Following on from that, I put this to you, and I would ask you to respond to it because this is what is in my mind and this is my attitude. I would like your response. It seems to me the priority should be, based on equity, those people who have been invalided out and obviously live on the pension for a lot longer; those who are forced out early, because of their circumstances, redundancy—whatever. They seem to me to be a high priority. Then the next group of priority, which I would like to you address, are people who are on lower income pensions from superannuation—not your \$50,000 plus. The priority from my point of view should be those people who are on your average \$14,000, maybe up to \$20,000 for \$30,000.

Mr Johnson—That is an average, yes.

Senator SHERRY—We have got to be realistic about what the recommendation should be and it has some chance of being adopted. But I think that it is a bit unrealistic to expect that—people who are on a pension of \$50,000 or more—we can do something in that area as well. I would like your response.

Mr Johnson—That may well be the answer that you need to come up with, or the government may compartmentalise accordingly into parts of the lower incomes. We are certainly concerned about the people on the lower incomes. Have you anything clearer to add?

Mr Morony—I would just like to add something there. We have run out a few figures on the relativity of people on the age pension compared with the relativity of people on the average superannuation pension and projected it into the future, assuming that there would be a continuation of the present escalation in pensions and a continuation of the present escalation in CPI. You get to a point very quickly where you find that your average superannuation pension becomes less than the age pension. They are not at the moment—in South Australia they are not, anyway—but if the trends continue, the lines cross.

So there is this suppression. I know there is always this tendency to take the people at the top end, the \$50,000 plus, and say, ‘Well, let us suppress their income and give something to the people down the bottom’, but the effect of that is that it completely destroys the relativity over a relatively short term.

Senator SHERRY—That is my personal priority, frankly—helping the people who you outlined who are on an average of \$14,000. It is a high priority to me to help them than people up the scale on \$50,000 or \$60,000. Government resources are limited.

Mr Morony—We understand that, but we are talking about here an issue of equity, we believe—equity in that people had certain terms and conditions of employment. It was part of their wage package, more or less.

Senator SHERRY—But there is no written proof. I will look back through the funds when they were first created to see whether there were undertakings at that time to index to a AWOTE. I do not know, but we will check on that.

Mr Johnson—Senator Sherry, I researched the debates prior to the Fraser government coming to power and the Whitlam government, in fact—and it is clearly recorded—did undertake and did review completely replacing the 1922 act scheme, which was too costly for the employees. The recommendation that was made by the Whitlam government at that time was, in fact, to introduce a pension of 50 per cent of final salary. They set up a committee to review the index and that, in fact, established—and the details of the proposal are in the debate papers in *Hansard* showing that there was to be a special indexing arrangement. The eligibility for the 50 per cent was to be something like 20 years, from memory.

When the Fraser government came to power, they gave an undertaking to the staff associations that they would, in fact, continue to replace the 1922 act [indistinct] but said that what had been proposed by the previous government was too expensive. That resulted in their discontinuing with any attempt to find a special indexing arrangement. They reduced the value and they introduced a percentage of final salary according to your years of service. For example, to get 50—maximum possible under the CSS of 52 and a half per cent—you had to have 40 or more years contributory service. So there has been a lot of examination. If I go back to answer another one of your queries, which just came to mind, the actuaries did make a submission to government some time back proposing a complete change and the introduction of a universal pension for everybody, which would be administered through the tax system.

The issues that you raise have been debated, but I must say in conclusion that it is not our fault that this balancing problem exists. It is partly governments—and I make that plural—because of the imprudence of never funding their commitments and their short-term view of the

situation, and the hens have come home to roost in that sense. We could have been in a totally different situation today if there had been more consideration and prudence given in those days. Thank you, Mr Chairman.

Cdre Adams—I have a concluding statement. I just want to say, in relation to this question that was raised by Senator Sherry, an enormous number of people who have served in the services were limited as to how far they could be promoted and there was a limit also as to level they reached at retirement. Very few served beyond the age of 45 years. Of course, an enormous number left at what I call the senior NCO level, or middle ranks in the services at major, lieutenant commander level, depending on the branch and everything in which they served. In other words, the promotion opportunities were not there—similar to the Public Service. They had an enormous number of people in the old fourth and third class divisions of the Public Service.

I think these people would have expected more than what they are getting at the moment because, as I pointed out there, they are not on high salaries at all and yet they did their bit. The Jess committee recommended, as far as the military superannuation schemes, that the pension should relate to the rank at which the person retired—whether it was a major or a sergeant or whatever it was. But when it was actually legislated, it was said that that was too difficult, that they would go to a system of salary on retirement, a percentage of salary on retirement with indexation. So that really the inability of governments—earlier governments in the 1960s and 1970s—to address these things in, I would say, an equitable position and go down the path of the defined benefits scheme where the piper pays in 20 or 25 years time means that the sins of the parliamentarians of the 1960s and 1970s are being visited upon parliamentarians of today who have to grapple with this particular problem.

I am not an economist and so, therefore, I cannot come up with any ideas about creative accounting as to how this might be done, but I believe there should be a commitment as far as the military people are concerned. These people who are very deserving—and they are not high fliers, but they have done their bit—should not be ignored. I believe that those at the bottom of the pile are really highly deserving.

Senator SHERRY—And as I said earlier, I put the military services and emergency services in a different category because of the nature of their employment.

Cdre Adams—You did. The only thing I just say is the fact that ultimately, with the legislation now pending before government, the pending debate in the Senate on the superannuation choice of funds bill, all government employees in these will go into private sector areas, but of course there will be one remaining group of people in the public sector who will remain in the government schemes, and that is the military. I believe there is an area there to get that right in the context of the Defence Force white paper to make sure that the department does get it right.

CHAIR—We will have to try to bring it to a close, because we are well over time and the Australian Democrats have not had a chance to ask a question as yet.

Senator ALLISON—Have you thought through the idea of funds being invested? I assume we are talking here of the Commonwealth contributions being invested as well as the

contributions of public servants. How would that work in effect and what sort of legislative change would we need to make to achieve that?

Mr Johnson—We have made reference to that in part in our submission dealing with preserved benefits. For example, we have said that to fund the 78,000-odd of existing preserved benefits it would be of substantial cost to the government—that is, to find the money to let it flow into the fund. We also make the point, and this applies right across-the-board, that goodness knows how many billions of dollars would be required to fully fund the totality of the public sector across the nation, including the military. However, the benefits in the long term would be very significant because of the money invested in the fund.

If you take the PSS/CSS trust board, their annual reports show that in the military area they are returning 13 per cent at the present time and of the order of 15 per cent in the civil area. Government money as well as members' money contributed to a fund that is generating well in excess of inflation or CPI, if you like, must be beneficial because, firstly, it is increasing the ultimate pension payable to the recipient when he reaches retiring age and, secondly, it reduces demand on the social security budget. That is consistent with papers about the aged in Australia issued by Senator Newman and Bronwyn Bishop which look at trying to get people out of the social budget area. So there really is a lot of benefit for everybody in the longer term. There is a lot of pain for government immediately in finding the money.

Senator ALLISON—The question I am asking is this: can that money be invested periodically at the same time as it is being accumulated or not accumulated? Can that be done as a kind of hybrid or do you have to move to an accumulation scheme? Am I making myself clear?

Mr Johnson—Yes. I do not believe you would have to change to an accumulation system, but you may have to introduce other amendments to the legislation to cover it under a defined benefit scheme. I am not 100 per cent sure.

Senator ALLISON—And presumably there would have to be additional flows of money into that investment.

Mr Johnson—In terms of the people already out of the system, that is a large chunk of money. In terms of people prospectively, it would be a progressive flow of funds as they exit and preserve. For example, there might be 10 this week and 20 in a month's time and 100 later on. We have said in our submission that we would believe it would be quite manageable for the prospective funding of those people. I think I might have to take a couple of these questions on notice like you do in the parliament to give them more consideration and perhaps come back. I will be out of action for a week. I am taking a week off next week, so you might have to wait.

Senator ALLISON—You may also decide to give us an answer on notice to my next question, which relates to the history of widows pensions being only at 62.5 per cent. Has there been a change in that over time or was that always understood to be the case?

Mr Johnson—It is not greatly significant with the 1922 act. Under the 1922 act, the widow benefit, depending on a decision made by the contributor during his working life, determined whether the widow got 59 per cent or 67 per cent. There are about 8,000 of those widows now

and there are about 4,000 former contributors still there. I do not believe it is a major issue, but again there is inequity here. This is not a criticism of the system; it is a question of equity. When a widow of a politician gets 83.3 per cent, why does another person in the public area get 67 per cent? In the military scheme, DFRDB, some of them get what they call a notional 62.5 per cent, which we mentioned in the submission. They get a little less than that when it is all calculated. There are a whole raft of complications in that area.

Cdre Adams—Anomalies.

Mr Johnson—Anomalies, perhaps.

CHAIR—We thank you all very much for appearing before the committee. We have gone well over time.

Mr Johnson—Thank you very much for your extended time as well, Mr Chairman.

[3.02 pm.]

BROOKHOUSE, Miss Jennifer, Technical Manager, Retireinvest Pty Ltd

CHAIR—Welcome, Miss Brookhouse. In the past Retireinvest has given us very good evidence. We look forward to your presentation today.

Miss Brookhouse—Retireinvest is a financial planning organisation which has over 60,000 clients Australia wide. Today I bring to the committee the views of our clients and concerns they have in relation to these particular schemes. I also bring to the committee the difficulties we have experienced on a number of occasions for our clients. We find that these schemes are very generous in what they provide. There is no ability in the marketplace to take the lump sum that you could get from one of these CPI indexed pensions and replicate the amount of money that you get. Certainly from that perspective and from the submissions that you have received, there are no complaints or concerns about how generous these schemes are. The concerns are more about, ‘When do I get my pension? How’s it indexed? Does that reflect my changes in my lifestyle?’ They are key concerns that clients have brought to our attention and we in turn bring them to you today.

As you have been made aware all day from a number of representatives, the CPI is not reflective of people’s lifestyles. That is true given that, when people get to retirement, CPI is not reflecting their changes in spending patterns, and maybe an alternative indexation measure needs to be taken in place of that. It is not just the fact that this indexation method is not reflective of their lifestyle, but it is also a perception of what is equitable in the community and what is fair. So it is not just an issue of saying that this is unfair; it is also a perception of what is fair. The suggestions that we made were to look at alternative indexation methods.

The most popular one is AWOTE because it has already been adopted in a number of areas. If we look at the age pension, it increases in relation to earnings within the economy. However, if you look at the pensions coming from these unfunded schemes, they are increasing in line with a different measure. At the moment, they are increasing at different rates. What will happen is that the unfunded scheme pension will essentially go down in real terms and the age pension will go up. At some point this will connect and people in these unfunded schemes will be getting age pensions, which means that the government will be paying out funds at some point in the future. That is one of the key concerns that clients have had.

The other issue that we have found is that once people preserve their benefits in this scheme they do not have the ability to get out. One option we would ask you to consider is increasing the flexibility so people can take their money out. If a person leaves employment today and they decide to preserve it in the scheme, how come they have the choice today to take that lump sum or they could make up their mind three years down the track to take their lump sum? Why can’t their choice be extended to some future point in time? Perhaps people who have small lump sums and who will not be taking a pension or people with ill health and who will not take a pension should be able to look at taking that money out. That would draw away some of the concern about CPI indexation, because then they can take that money, accept the investment risk and go somewhere else. They are the key concerns that I have brought to you today to take on board. To try to get you back on track, I will keep it really short, too.

I agree that these pensions are very generous. But people in retirement are looking at ‘How am I maintaining my lifestyle once I reach retirement? I have different spending patterns. I have different requirements. The CPI is not reflective of that. Could we consider an alternative measure?’ AWOTE is the one that people are certainly putting weight towards, because other people in the community get that measure. Why is it that this group of public servants gets one indexation and another group gets another form of indexation? It is a perception of what is equitable.

I know that there are conflicting priorities of government. But I think people need to be able to consider that they are no worse off even though they are in a scheme that is extremely generous. Are there any questions in relation to our submission?

Senator SHERRY—You suggest the RPI should be used rather than the CPI. Do you have any tracking figures of that over time so we can have a look at the comparisons?

Miss Brookhouse—We can obtain some for you and I can send them down. All it is is an alternative index measure that is more reflective of what retirees are spending as opposed to what the economy as a whole is looking at. So it focuses more on the health issues and other things that they will be spending on in retirement. I believe that it has been fairly closely compared to CPI. But then retirees would have that peace of mind that it is focused more towards their changes in lifestyle, not necessarily everybody’s changes in lifestyle.

Senator ALLISON—Who prepares it?

Miss Brookhouse—Originally it was done by Macquarie Bank and ASSIRT. They did it jointly.

Senator ALLISON—For how long has it been around?

Miss Brookhouse—I believe it came out in about 1995.

Senator SHERRY—Finally, you would have heard some of the exchange earlier and a similar exchange this morning. Do you have any comments to make on the perspective that governments face in coming to policy and prioritising increases in income and benefits for people who are retired? What do you think our priority should be?

Miss Brookhouse—I agree that you have numerous priorities that are always conflicting, and that is something that we have to deal with. People on pensions certainly do need help and we have certainly supported a number of initiatives the government has put in place to ensure that public funding is provided to those most in need. A recent example is the changes to the private trusts and companies legislation that has been brought in so that there is equity within the system. That is really what I am looking at here. Are we looking at an equitable system for a lot of people. I know it will cost money to provide this, but in a broader scheme is it fair to say that we can have different groups of people treated differently, or are we looking for a system that provides equity across-the-board? Yes, we have to look at the funding and the costing of doing these things, so it is a balancing act and there is always a trade-off. We deal with that every day in financial planning. You cannot have a 30 per cent return and absolutely no risk. It is all about

trade-off and balance. You can come and ask for something, but at the end of the day it may be that there is some compromise that we can reach in the middle.

Senator SHERRY—But part of the difficulty I see in all of this is that people of your generation are going to have to pick up the cost.

Miss Brookhouse—That is true.

Senator SHERRY—And at the same time you are going to have to work longer, because life expectancy is longer, and you are going to have to provide for your own retirement much more so than in the past in the sense of contributions to your own fund plus employer funds.

Miss Brookhouse—Yes, that is why I have looked at both people who are clearly getting pensions now and their issues as well as people who have left their money in the scheme and providing them with an opportunity to take on responsibility for funding for their own retirement. That might mean being able to access that lump sum maybe three years down the track when they have been able to learn a bit more about super and understand the options available to them, rather than that three-month time frame that they have when they leave employment.

This aspect also does not accommodate the changing working patterns we have going ahead. So, yes, on one hand we need to look at today's generation moving forward. They had different working patterns. They are changing jobs more often. So let us accommodate that need so they can fund for their own retirement. But we also have a different generation that has different needs. So it is trying to find that balance and, yes, pushing forward. People need to fund for their retirement. There are a lot of initiatives in place to encourage that and to allow people to do that. That way we will have less burden going forward, but we still have to look at what has happened in the past and what were the expectations that we need to manage from the past of people who have gone into these schemes expecting certain outcomes.

CHAIR—I am interested in your motivation for appearing before the committee today. Most Commonwealth public servants do not come to you with a lump sum because they are in receipt of a pension. Do a lot of Commonwealth pensioners visit you? Is it their discretionary or their inheritance money that they bring to you for investment?

Miss Brookhouse—The clients that we have are right across-the-board, because we are actually throughout the nation. So we do have public servants who are Canberra based who are very close to this sort of issue. But, of course, we have public servants all around the country. A number of them are coming to us now who are at the point where they are receiving a redundancy package and so they do have options to them. It is a question of: do I take a pension or a lump sum? So it is at varying stages. I was a public servant for a whole year. I made a poor choice when I left my super, because I did not understand it. There is a changing work pattern out there. People are changing jobs, and that is why the government has \$4.5 billion of lost super out there that it wants people to claim so they can start taking responsibility for their retirement going forward.

Senator ALLISON—I am interested in something you have not raised so far and that is the suggestion that someone who is on a pension ought to be able to at some time change their mind

about the lump sum option. You might go on a pension for a couple of years and then say, 'Well, the rest of it I would like to take as a lump sum.' Can you expand perhaps on your reasons for suggesting that? Is that an area of self-interest or are public servants saying that that is what they would like?

Miss Brookhouse—I was not looking at people getting pensions and commuting their pension. I was focused more on people who decide to preserve their benefit in the scheme. They do not take a pension at the time so they are preserving their lump sum. So when they reach preservation age then they can get a pension if they choose to. In a number of submissions that I look through the individual is saying, 'I have about \$60,000 in the scheme. I would really like to get it out because it is being indexed to CPI. I would like to look at the alternatives that are in the marketplace to use this money.' But because they have picked the option of deferring that lump sum, they cannot actually get to that amount to invest it elsewhere.

Senator ALLISON—So you are not talking about post retirement, you are talking about preretirement?

Miss Brookhouse—It is preretirement.

Senator ALLISON—They make that choice at the time they leave the Public Service for another job and then they cannot—

Miss Brookhouse—Yes. They can take the lump sum, say, today or they can defer it in the scheme. If they defer it in the scheme it is locked into the scheme until they reach preservation age.

Senator ALLISON—Apart from not understanding what they are doing at the time, are there changing circumstances which might suggest that that sort of option should be available?

Miss Brookhouse—Their health may change. They may get to the point where they separate from their spouse. They have deteriorating health and so getting the pension option is not suited to them. Maybe they want to leave more of a capital lump sum for their family, because they know they will not be living for a great period of time, rather than taking that lump sum and converting it into a pension. That might be an alternative for those people.

But we are at the stage where there is a lot of mistrust or misunderstanding with super because there have been so many changes on a constant basis. So people are finding that, 'I will just leave my money with this scheme because I do not understand the alternatives. I do not want to seek advice at this time.' So it is just opening a door of opportunity so that people can look at alternatives down the track. If they choose to take on that opportunity, they could.

Senator ALLISON—Could I just clarify something? If somebody preserves some money in the Public Service and goes on outside the Public Service but then, say, dies very soon after retirement age or immediately, their beneficiaries would not be entitled to any of that preserved fund?

Miss Brookhouse—If they have moved into a pension phase, essentially they are converting their lump sum into an income stream.

Senator ALLISON—No, if they have not done that; if they have left it.

Miss Brookhouse—Then their beneficiaries are entitled to a lump sum, but I am saying once they get to, say, retirement age and they convert it to a pension and, say, they do not have a spouse, their children are all grown up, there are no beneficiaries, there can be the reversion of that pension income stream. Personal circumstances might dictate that they would prefer not to get an income stream or they might like to—I think some of the people who provided submissions were in their 30s and they said, ‘Well, I would have preferred to get that money and invest it in, say, Australian shares because I have such a long time to invest, so I can maximise that capital and then provide an income stream potential later on.’

Senator ALLISON—So theoretically, somebody might take the pension and then die within two weeks of having done it and that is all they will get from their preserved benefits.

CHAIR—If they have not got a spouse.

Miss Brookhouse—Yes, if they move it into a pension, that is right.

Senator ALLISON—And they have got—no-one can benefit from it, such as a spouse. I understand.

Senator SHERRY—That cross-insurance, if you like, is the same with the old age pension.

Miss Brookhouse—Yes.

Senator SHERRY—Following on from Senator Allison’s question, if people were allowed to withdraw their money at, say, age 40 and it is indexed against CPI—sorry, those who are not allowed to do that—that is effectively a subsidy against the rest of the funding of the fund, is it not?

Miss Brookhouse—Yes.

Senator SHERRY—So if they were allowed to do that, then there would have to be a greater government contribution to offset that loss?

Miss Brookhouse—My issue is that the option is available today; that I am leaving employment, I can take that lump sum and roll it into a new superannuation fund, but three years down the track, I gather more information, understand the options better, I then cannot take my lump sum and roll it to a super fund. It does not seem fair that today I can take my money and do something with it but I cannot three years down the track.

Senator SHERRY—I do not disagree with what you are putting but what I am trying to get at is that the issue relates to the funding. Effectively, they cross-subsidise the fund.

Miss Brookhouse—Yes.

Senator SHERRY—So that the government would have to increase its contribution to offset that loss to the fund.

Miss Brookhouse—Yes.

Senator SHERRY—That is what flows on from that.

Miss Brookhouse—I agree with that. That is what would happen, but, if everybody took that choice today; the same outcome would arise. It is just that if you have that window there—that they could comfortably preserve it in there so that government does not need to allocate that money today, it may be at a future point or time or it may not be at all.

CHAIR—Thank you for coming today from Sydney. We appreciate that. We apologise for keeping you waiting.

Miss Brookhouse—That is okay.

CHAIR—They are very interesting performance values you have put before us.

Miss Brookhouse—Thank you for the invitation.

[3.20 p.m.]

McKENZIE, Mr Angus James, Group Manager, Superannuation, Australia Post

CHAIR—Welcome, Mr McKenzie. I invite you to make an opening statement.

Mr McKenzie—I do not really have a lot to add to what has been said. There are two points to be made here. I think one is that as Australia Post does fund its costs, that any costs that emanate from a change to benefits structures in these funds will directly flow through to Australia Post. The other one relates back to the 1990 changes where people were given opportunities to transfer from the CSS to other funds, including the PSS and Australia Post super scheme. These sort of issues always raise questions of whether people are allowed to transfer back to the CSS if there are improvements in the CSS. It is really an issue to bear in mind that those transfer arrangements could be reopened by any of this.

Just one other thing: I did get our actuary to attempt to dimension the change in Post's liability through changing, say, the indexation of the CSS from CPI to AWOTE. Post's liabilities, which were measured as the present value of the cash flows that would have to be paid out over time, would go from something like \$1.2 billion to \$1.4 billion, and that is a 16 per cent increase, which indicates the significance of such a change for costs.

CHAIR—Right. Your recommendation is not to alter the scheme design of the CSS but obviously you would like the PSS changed, would you?

Mr McKenzie—No, Post has no involvement with the PSS.

CHAIR—Because you came in before that?

Mr McKenzie—Yes, Post offered admission to the Australia Post super scheme at the time that the PSS was created in 1990. So Post only has involvement with the CSS.

CHAIR—So people at the time of the changeover had the option of moving into, I suppose, a funded scheme, was it?

Mr McKenzie—Yes.

CHAIR—Offered by Australia Post as opposed to the CSS. In hindsight, was there a CSS advantage or disadvantage as a result of staying with them—

Mr McKenzie—You would have thought that at the time that people made rational decisions and those, where there was an advantage for them staying in the CSS, stayed in it.

CHAIR—Yes.

Mr McKenzie—I am not sure that was actually the case, because the value of the benefits in the CSS are significantly higher than almost any other scheme in terms of measured, actuarial

value. More people transferred out than you would have expected. I think that has something to do with the attraction of lump sums.

CHAIR—So more people opted to move out of the CSS into the Australia Post scheme and what—reinvest their lump sum into the Australia Post scheme?

Mr McKenzie—Yes, there were transfer arrangements. Australia Post picked up the liability for certain past service in the CSS but the Commonwealth agreed to fund that through what is called the deferred transfer value mechanism, which is where they meet the component of past service liabilities with the liabilities transferred between schemes.

CHAIR—So in hindsight those who made the transfer made the right decision, did they?

Mr McKenzie—They made a decision that suited them at the time, and I think there was an attraction of a lump sum as opposed to a pension.

CHAIR—Did they have to invest that lump sum in your scheme, or did they not? They had the option of just taking the lump sum and doing what they wanted with it?

Mr McKenzie—No, they do not get any benefit until they retire, and when they retire they receive a lump sum, which they then have to consider how to invest, which is similar to PSS arrangements.

CHAIR—At the time of transfer to Australia Post were the members of the CSS given the option of taking a lump sum and doing what they wanted with it?

Mr McKenzie—No.

CHAIR—They were not?

Mr McKenzie—No.

CHAIR—That lump sum had to go into your fund or into any fund?

Mr McKenzie—They had a choice between Australia Post superannuation scheme and the CSS.

CHAIR—Right.

Mr McKenzie—That was managed through the 1988 reform of government business enterprise arrangements and the change in the Commonwealth superannuation arrangements at that time.

CHAIR—Right. So in hindsight at this point in time, sort of tracking the performance of both funds, would it depend on your age, or length of service, et cetera, whether you would be better or worse off?

Mr McKenzie—That is really an issue for individuals. The benefits are different in design. So those who think they are going to live a long time, for instance, would have been better off staying in the CSS. So that is the point mainly that I make—is that people made a judgment at the time based on what they assessed the CSS benefits to be versus what they assessed the APSS benefits to be. To improve the CSS benefits now would mean that some people may think they made a wrong decision; they would now prefer to be in the CSS, yet they transferred to the APSS.

The only point being made is that that raises that issue. There were a number of transfer windows, if you like, and Post would like to see the end of that issue of transfers between schemes.

CHAIR—Sometimes when people are faced with this dramatic choice, it might be based on emotion. They may not have full information, or it might just be hearsay or what their colleagues believe is the right thing to do. So it is a hard call unless there are specialist advisers giving people guidance as to the relative merits of each in terms of expectation of life, prior service and so on?

Mr McKenzie—I think that the process that was gone through at the time of education and ensuring people were well aware of their options was comprehensive.

CHAIR—I am pleased to hear that.

Senator SHERRY—In relation to the figures you gave, I walked in at the end of that. What did the \$1.2 billion relate to?

Mr McKenzie—That is Australia Post's liability arising from the Commonwealth's super scheme.

Senator SHERRY—In a year?

Mr McKenzie—No, that is measured as the liability. It is the present value of all future pension payments that Post has to fund, so it is discounted back in an actuarial sense. If that had to be shown on the books somewhere, that would be the liability that Post has to meet.

Senator SHERRY—If the indexation provision was changed, have you calculated what the increase in your yearly liability would be?

Mr McKenzie—The yearly issue is one that relates to the funding arrangements with the Commonwealth and all that sort of thing. I think that depends on the state of the notional fund. It would vary from time to time. The cleanest measure is to say that, over time, Post has to meet an extra \$200 million in present value terms.

Senator SHERRY—When you say 'over time', what do you mean?

Mr McKenzie—Over the life of all the pensions, past, present and future.

Senator SHERRY—So presumably there would be a high point—it might be now—if this change occurred. It might move up and then obviously slow down as people leave the fund.

Mr McKenzie—Yes.

Senator SHERRY—What does your current fund provide for?

Mr McKenzie—It provides a defined benefit component funded by Post at 14.3 per cent of final average salary per year. In other words, it is 6.3 per cent higher than the super guarantee level.

Senator SHERRY—Does that apply to all employees?

Mr McKenzie—Yes.

Senator ALLISON—I want to ask you about the figures. You say it would cost Australia Post \$200 million.

Mr McKenzie—The liability would increase by \$200 million. How that is actually paid and funded is to be looked at in the future, but that is the value of the extra benefit, if you like.

Senator ALLISON—How many employees are there who are on CSS still within Australia Post?

Mr McKenzie—There are about 2,500 remaining as current members. Probably half of the Australia Post work force—another 12,000 or 13,000—have some part of their benefit, depending on their service before 1990, from the CSS. I am unsure of the number, but there have been a number of people who have retired since 1975 when Post was formed. Since 1975, all Australia Post employees who retired out of the CSS are paid for by Post.

Senator ALLISON—And your actuary took all of those into account in arriving at the \$200 million figure?

Mr McKenzie—Yes.

Senator ALLISON—Are you representing Australia Post the employer, not the employees?

Mr McKenzie—Yes, the employer.

Senator ALLISON—Does the CEPU look after Australia Post?

Mr McKenzie—Yes.

Senator ALLISON—Does it agree with your anxiety about people feeling they might have made the wrong decision?

Mr McKenzie—I am not aware of its view.

Senator ALLISON—But you nonetheless expressed that view as an employer, yet you cannot support that by what your employees actually say?

Mr McKenzie—It goes back to whenever these issues have been raised in the past. It was raised in the early 1990s when various other GBEs in the Commonwealth were making offers. It was always raised. Whenever someone else was making offers to change from the CSS, this issue was always raised. I am just foreshadowing—I am not saying it will happen, because we are a long time further down—that raising this again has the potential to bring that out into the open. There are ways of solving the problem in a legislative way. I am just saying that there should be no transfers. If that possibility was left in any changes that were made, that would expose Post to demands to make another offer.

Senator ALLISON—So you are suggesting then that if we were to recommend a change from CPI we ought to also recommend that there be no further transfers, that there is no second—

Mr McKenzie—I think that would be a worthwhile component of any decision, yes.

Senator ALLISON—Would you go so far as to suggest that because of this anxiety those public servants who had been offered accumulation schemes and not taken them should be outside any measure to adjust the CPI to something else?

Mr McKenzie—Those who have transferred out have no issue with indexation anymore.

Senator ALLISON—Yes, I understand that, but those who chose not to but were given the offer.

Mr McKenzie—I do not see how you could discriminate against them as CSS members and say, for instance, that Australia Post employees were left out. That is not really for Post to say.

Senator ALLISON—So discriminating against them is worse than making them feel bad?

Mr McKenzie—It is an issue that I would have said was one for the government as to how it dealt with that legislation. Post was in that not through choice. It is something that it inherited, if you like, and it was compulsory for Post employees to be part of it. One of the arguments at the time was whether that sort of benefit for Post and its low-paid work force was an appropriate benefit and the right structure given the issue that was talked about earlier—that is, low pensions cutting out opportunity for social security and that sort of top-up. Our view would be that those few who are still in there knew what they were doing when they made the decision. There really is no argument to make any changes because they consciously chose that benefit structure they are in.

CHAIR—Could they have foreseen the widening gap between a wage earnings base as compared with the CPI? These people do not necessarily have the opportunity of being able to judge the future with a great deal of accuracy.

Mr McKenzie—I think they may have considered it along the lines as to, ‘What retirement income do I need? Is the starting point adequate?’ By that I mean they would have wondered

whether the 50 per cent or 37 per cent of their final salary was adequate. They might have said that indexation to CPI is supposedly preserving my purchasing power and been happy that that base level was preserved in purchasing power. If they have now formed a view that CPI is not a good index for preserving purchase power, they might have an argument. I am not sure that, had I been viewing it personally—and this is not a Post view really, I suppose—I would not have been so interested in comparing it to salary increases, because I would be more interested in whether my purchasing power was preserved because I am seeking retirement income, which is what the CSS offers. It offers retirement income pure and simple guaranteed compared to other superannuation arrangements where you get a lump sum which you then have to decide how to invest and how to consume over time.

Senator ALLISON—The last witnesses suggested that it would be sensible to invest, in this case Australia Post's, contributions to the CSS. Can you see how that might work in your organisation?

Mr McKenzie—In effect, that is what is done. Post fully funds its notional arrangements with the Commonwealth. From Post's perspective, it has made contributions which earn interest. From Post's point of view, it is a fully funded arrangement that applies to all government business enterprises.

Senator ALLISON—But does it actually earn interest? What happens when it is transferred from Australia Post to the Commonwealth?

Mr McKenzie—No. That is within the Commonwealth's arrangements.

Senator ALLISON—So how might it work if Australia Post did not transfer that money over to the Commonwealth but invested it in something?

Mr McKenzie—That is the effect of what happens.

Senator ALLISON—Under your—

Mr McKenzie—The notional fund arrangements are such that the notional fund is credited with interest at the rate that Australia Post invests it at, that is, the interest earnings that Australia Post makes on the component of money it invests. The alternative was for the Commonwealth to actually pay the money across. So you had normal transfer protocols between super schemes taking place in 1990. Past service liability in the CSS that related to those employees who transferred to the Australia Post super scheme would have been handed over to the Australia Post super scheme and Australia Post would have invested it. So the arrangements in place actually emulate that without the money actually transferring.

Senator ALLISON—You are still talking about the PSS scheme, not your accumulation scheme?

Mr McKenzie—PSS. As I say, I just cannot—

Senator ALLISON—Sorry, the CSS?

Mr McKenzie—Yes, the CSS arrangements. GBE CSS arrangements are funded through what is called a notional fund, which is credited with payments made by GBEs and notional interest earnings and debited with all payments that are made for pensions.

Senator ALLISON—That is the case with all GBEs?

Mr McKenzie—As I understand it.

CHAIR—So Telecom would be in the same position?

Senator SHERRY—So the government is simply sending you a bill and saying, ‘Pay up for these number of your employees who are still in CSS?’

Mr McKenzie—It assesses the liability and where there is a liability and it is not funded it gets paid. So from the point of view of GBEs, they are meeting fully at all times the cost of the liabilities they have in all the schemes that they are involved in.

Senator SHERRY—So under a change to the scheme as has been suggested, if there was an increased cost—which there is, but we do not know how much—you would pay the bill?

Mr McKenzie—To the extent that that liability caused an increase in the necessary contributions, yes.

CHAIR—So in effect you have inequity between your employees in that one can get a tax concession and rebate now under the Australia Post funded scheme, whereas those of your employees who continue under CSS do not have that benefit; is that right?

Mr McKenzie—Yes, there are different tax arrangements because one is unfunded and one is not.

CHAIR—That is right.

Mr McKenzie—I do not know that there is inequity in the sense that from Post’s point of view they were all offered the chance to go to the other arrangement. So from Post’s point of view it is saying people consciously made a choice to stay there—

CHAIR—If they had been aware of that advantage or disadvantage would they have made that choice?

Mr McKenzie—They knew that at the time. It was made clear that that was what you were doing. That was taken into account.

Senator SHERRY—But a significant motivation for some of your people, particularly lower paid people, is that with a lump sum they can spend it and then go on the age pension, is it not?

Mr McKenzie—That is correct. That is what government policy allows.

Senator SHERRY—You were talking about motivations earlier. I suspect that that could have been a motivation.

Mr McKenzie—I think that is absolutely true. In fact, Post had been asked and was a driving force in getting the changes through. It was something that we worked with the unions to do.

CHAIR—Are there any concluding comments? Mr McKenzie, thank you very much for coming in and giving Australia Post's point of view.

[3.41 p.m.]

PHILLIPS, Major General Peter Raymond, AO, MC (Retired), National President, Returned and Services League of Australia

TOWNLEY, Brigadier James Harold, AM (Retired), Chairman, National Conditions of Service Committee, Returned and Services League of Australia

CHAIR—I invite you to make an opening statement and then answer questions.

Major Gen. Phillips—Thank you for the opportunity to be present here and put the RSL's point of view for this inquiry. We put this conscious of the fact that the RSL is not an organisation that has any great expertise in actuarial calculations or superannuation generally. We do, however, claim to represent the interests of those members of the RSL who are recipients of the DFRDB or the MSBS schemes and potentially, of course, those who are still serving and are contributors and will be affected by the benefits paid in the future.

At the heart of our concerns in the present schemes is the question of indexation. In simple terms, we would see the purpose of any superannuation scheme as being to provide benefits that would enable the recipients to maintain a certain standard of living at the end of their active paid working life. We would see the purpose of indexation as being to maintain the relativity of this standard of living to changes in the standard of living in the community generally.

In our contention, the present method of indexation that is linked to the consumer price index has failed to deliver this. Furthermore, in a period of prosperity when wages are rising faster than CPI it always will. The figures given to you by the Superannuated Commonwealth Officers Association bear this out.

From 1990 to 2000 the average weekly ordinary time earnings rose by 47 per cent, male total average weekly earnings by 37 per cent, in contrast with a 24 per cent rise in the CPI. I think those figures are right. I do not have any argument with them, although I note in my own particular circumstances that I happen to have been out of the Australian Army for exactly 10 years. Over those 10 years my pension has increased by 20 per cent, but the wage I was on when I left the Army has increased by 40 per cent, give or take a decimal point on those figures. I think that illustrates the level of concern that we have. It is not that I am arguing that I am in any desperate need, but it would be representative of many that are.

Further, and again accepting the Superannuated Commonwealth Officers Association research, over the last 40 years CPI has exceeded average weekly ordinary time earnings on only eight occasions, mostly during the high inflation of the 1980s. We do not doubt those figures. In this context, we note the use of a wages based mechanism to index other taxpayer funded retirement benefits, such as the age pension and your own federal parliamentary pensions. Our position would be the same as the superannuated officers association. Because of the demonstrated limitations of the indexation based salary on the CPI, there is a need to incorporate also some wages based process in the case. I hope that has been mercifully brief for you, but that is our position.

CHAIR—Brigadier Townley?

Brig. Townley—No, I have got nothing to add to what General Phillips has said.

CHAIR—You have heard that any big increase in terms of changing the base would have a major impact on government finances. Given that impact, would you favour an incremental approach?

Major Gen. Phillips—Yes. I am not sure whether you have had the benefit of advice from Wing Commander (Retired) Williamson.

CHAIR—No.

Major Gen. Phillips—If not, we will leave a letter from him that was presented through Senator the Hon. Margaret Reid. I think it sets out the various alternative ways of indexing it, that is, the options that might be available. He proposed, for example, that if we must live with CPI there should be some, say, triennial, catching up against average weekly earnings. Frankly, I do not know that we want to press any particular option on you, but we could not argue for CPI alone.

Senator SHERRY—I hold a different view in respect of the armed forces, police and emergency services, because of your category and unusual nature of employment and the various challenges that you face in that employment. Do you have a comment on that?

Major Gen. Phillips—I would use that to argue a stronger case for—

Senator SHERRY—That is why I said it.

Major Gen. Phillips—Yes. But we did not come here really to put that view and separate ourselves away from the superannuated officers.

Senator SHERRY—But in the defence forces—and this is true of police, too, as I understand it—you have a different superannuation fund. You are not in the PSS or CSS. You have got two different funds. There are differing arrangements relating to medical payments and things of that nature that I think recognise the unique employment background and the challenges you face. I do not see why that principle should not apply in this area. It is recognised in other areas.

Major Gen. Phillips—Yes, I would have to support that.

Senator SHERRY—I have nothing further.

Senator ALLISON—Can I invite you, as I have done with other witnesses, to compare your superannuation pension scheme with the parliamentary one? Why do you think it is that one is connected to a wages outcome and the other is not?

Major Gen. Phillips—I am tempted to say that we perhaps have not had the same clout. It is a long time since the indexation was even looked at, I think, in relation to defence pensions. We

accepted CPI back in the seventies. It was a different world. But I think there is a very good case now to look at it in terms of what is going on with salaries across other sectors.

Senator ALLISON—I do not think I have any other questions.

CHAIR—One of the benefits of appearing late in the afternoon is that a lot of questions have been asked of earlier witnesses.

Senator SHERRY—We are exhausted.

Major Gen. Phillips—I'll bet you are.

CHAIR—Thank you very much. You have made a few points that other people have not made. We will simply take those into account in terms of the presentation and we will give you a copy of the report. I would like to thank both you and all the other witnesses who have appeared before the committee today.

Committee adjourned at 3.50 p.m.