COMMONWEALTH OF AUSTRALIA

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SENATE

SELECT COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES

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

THURSDAY, 15 FEBRUARY 2001

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SENATE

SELECT COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES

Thursday, 15 February 2001

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

Senators in attendance: Senators Allison, Hogg 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.

WITNESSES

Committee met at 9.18 a.m.

BODE, Mr Garth, Assistant Statistician, Labour Statistics Branch, Australian Bureau of Statistics

HARPER, Mr Peter William, First Assistant Statistician, Economic Accounts Division, Australian Bureau of Statistics

WHENNAN, Mr Stephen William, Assistant Director, Consumer Price Index Section, Australian Bureau of Statistics

CHAIR—I declare open this public hearing of the Senate Select Committee on Superannuation and Financial Services. This is the second of two days of hearings which the committee is holding in relation to its inquiry into Commonwealth public sector and Defence Force unfunded superannuation funds and schemes. The aim of today’s hearing is to continue to take evidence from some of the representative organisations, some individuals, some state agencies and some Commonwealth government agencies with a policy role in the area of superannuation for Commonwealth public sector and Defence Force personnel.

As I mentioned yesterday, the committee will hold an open forum at the conclusion of the scheduled program today to allow an opportunity for those individuals who have not been able to be accommodated elsewhere in the program to give evidence. I would ask that the individuals wishing to make a brief presentation—which will be two to three minutes—to the committee register their names with the secretariat, who will provide them with a witness form for Hansard purposes.

All of the 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 that the Senate has power to protect them from any action which disadvantages them on account of the evidence given before the committee. The committee prefers to conduct its evidential hearings in public. However, if there are any matters which you wish to discuss with the committee in private, the committee will consider your request. I am very pleased to welcome representatives from the Australian Bureau of Statistics. We have a core team of Mr Stephen Whennan, Mr Peter Harper and Mr Garth Bode. Welcome, gentlemen. I invite you to make an opening comment.

Mr Harper—Thank you. The Australian Bureau of Statistics is responsible for the production of Australia’s consumer price index, which is commonly known as the CPI. The CPI plays a key role in current indexation arrangements for Commonwealth public sector and Defence Force unfunded superannuation funds and schemes. Because of this, the ABS is pleased to appear before this committee to provide information about the CPI. The committee may also be considering alternative indexation arrangements based on other ABS statistics, such as average weekly earnings, commonly known as AWE, or perhaps our labour cost index. If this is the case, we would also be pleased to answer any questions that the committee may have about these statistics, and Garth Bode here is an expert on earning statistics.

I would now like to give you a brief overview of the CPI. The simplest way of thinking about the CPI is to imagine a basket of goods and services comprising items typically bought by Australian households. Imagine that that basket is purchased each quarter. As prices change from one quarter to the next, so too will the total price of the basket. The CPI is simply a measure of the changes in the price of this fixed basket, as the prices of items in it change. Since the September quarter 1998, the CPI has been designed specifically to provide a general measure of price inflation for the household sector as a whole. This represented a change from historical practice. Prior to the September quarter 1998, the CPI had been designed to measure the changing living costs of wage and salary earning households as an input into the income adjustment process.

The Australian Statistician's decision to change the focus of the CPI was an on-balance one. It was made after a major review of the CPI which involved consultation with a wide range of users of the CPI. When the changes to the CPI were made back in 1998, the most noticeable changes were the exclusion of mortgage interest and consumer credit charges from the index and the inclusion of net expenditure on new dwellings. Interest charges are not appropriate in an inflation measure, as interest rates themselves are a consequence of inflation.

At that time, the population coverage of the CPI was also expanded from only wage and salary earner households to all private households. The current CPI population group includes wage and salary earners, the self-employed, age pensioners, social welfare beneficiaries, superannuants and other self-funded retirees. For practical reasons, the CPI population is restricted to metropolitan private households and it therefore represents about 64 per cent of Australian private households.

The CPI is designed to measure changes in retail prices experienced by all metropolitan private households in aggregate. The composition of the basket and the relative importance of items in it relate to this population group as a whole. It represents the expenditure of all households and not the expenditure pattern of the average household or of any particular household type or size. Changes in the CPI are therefore unlikely to reflect exactly the price experience of any specific subgroups of the CPI population group. It is worth noting, however, that retired persons and households whose principal source of income consists of indexed superannuation pensions generally incur relatively less expenditure on interest charges than households on average, as the households containing persons receiving superannuation are more likely to own their principal residence outright or to be renting their residence, rather than being in the process of purchasing. Therefore the current CPI, which excludes interest rate charges entirely, is likely to provide a better, but not perfect, measure of the changes in the cost of living experienced by these households than a CPI which incorporates interest charges with a wide representative of the community as a whole.

There is widespread interest in the extent to which rates have changed in the cost of living across different groups in the community. The ABS has undertaken to publish on an annual basis analytical indexes which will measure changes in living costs for a range of population subgroups, including self-funded retiree households. The first such indexes are expected to be published within the next two months. I have requested that the committee be provided with copies of *A guide to the consumer price index*, 14th series. It is the ABS catalogue No. 6440.0, and this guide provides more detailed information on the nature of the CPI.

CHAIR—Would Mr Bode or Mr Whennan like to add anything?

Mr Whennan—No.

CHAIR—We will now proceed to questioning. I was particularly moved by a submission from Mrs Monica McNamara, who retired at 65 years of age seven years ago. Her contention is that her pension has declined in value. She believes that a lot of items in terms of her expenditure pattern are not reflected in the CPI—for example, car washing. She has arthritis. She has had to move out of her own home because of her condition, costs, et cetera, and she now has an apartment. She has written about some problems she now faces. Car washing: this has gone up $1.50 within 12 months. Gardening: she can no longer maintain her garden, so she has moved to an apartment where she has to contribute to the cost of a gardener, which is not in the CPI. Clothes: she was an experienced dressmaker. She used to make most of her own clothes, but with arthritic fingers and poor eyesight, this is no longer possible. That is often a problem with older women. Cleaning: she used to clean her own carpets and do general cleaning, but with her age she can no longer do this. Eyesight: cataracts occur frequently at her age and she has to pay dearly for eye surgery, with little of the expenses recoverable. Electricity: she is in an apartment and uses less electricity than in her former house, but because she does not qualify for the bulk user discount, she pays much the same. Medical treatment: ailments are pretty usual at that time of life. Shoes: because of foot problems, she has to have special shoes. Transport: walking is no longer fun and neither is carrying cases.

These are the sorts of expenditure patterns that are not unusual for people in their retirement years, particularly someone at age 72. Just about every witness has said that, compared with average ordinary time earnings, et cetera, they are falling well behind, their standard of living is dropping and their ability to participate in voluntary activities—such as guided tours around Old Parliament House and the War Memorial, work at radio stations, et cetera—and take on these extra things is now being questioned because of declining values.

When some of these people went into the pension, they went in on the basis that they would get a good pension, particularly women. Now they find that this has effectively been eroded away. When we look at comments by Mr Pollard who, with Gough Whitlam, chose this index as best reflecting what would happen to the aged, et cetera, that might have been the case then. The question is: do you perceive that the CPI is now the appropriate index to calculate increments to pensioners for Commonwealth employees, military, et cetera? It is rather a long question, but I just wanted to put the whole thing into context for you.

Mr Harper—You have raised a number of issues and I would like to deal with them in turn. Getting back to your fundamental question—what is my view as to the most appropriate indexation arrangements for pensions—I do not have a view on that from the perspective of the Australian Bureau of Statistics.

CHAIR—No, I am not asking for your view; I am asking for your academic assessment as to whether the CPI in its current form truly reflects the sorts of typical expenses that a retired public servant has. A lot of these people do 30 years or so and they get something like a 30 per cent pension.

Mr Harper—The fundamental question is: what is the purpose of indexation? That is obviously a question on which the committee will come up with some views. I would make some observations from the perspective of the use of the CPI in indexation calculations. The first observation is that the CPI is not a measure of the cost of living. It is a measure of inflation and there are differences between those two things. However, for large parts of the population, cost of living and inflation are fairly similar things, and movements in the CPI could be considered to be consistent with movements in cost of living.

Senator HOGG—Could I just stop you there?

Mr Harper—Yes.

Senator HOGG—How close is the correlation between the two?

Mr Harper—We do not have a perfect measure of cost of living because to do so involves calculations that are not possible. In practice the biggest difference occurs with our treatment of mortgage interest charges and consumer credit charges. We include those in a cost of living index. As I said earlier, we included those up until September 1998 in the CPI. We exclude those from an inflation index. The extent to which interest rates move differently to inflation generally within the economy will drive a wedge between a cost of living index and a consumer price index. The interest rates tend to move in cycles though, so over a long period of time, even allowing for that difference, the two types of indexes would move fairly close together.

Mr Whennan—I could just come in here. The reason that interest rates were excluded when the Statistician decided to move to a closer measure of inflation, as opposed to what was perhaps closer to a cost of living index, was because interest rates by themselves should not be included in an inflation measure. The idea of the CPI at the moment, in terms of an inflation measure, is the cost of acquiring things today, whereas interest rates are the cost of taking possession of things today but paying for them over time. On a strict inflation measure, interest rates should not be excluded.

Mr Harper—Thanks for that, Steve. You raised a number of other issues. One of them was the relationship between the overall basket of goods and services that are measured in the CPI and the experience of any particular individual or subgroup within the population. As I said in my opening statement, the CPI represents the average expenditure across all households. It does not represent the expenditure of any particular household. In fact, I think it would be impossible to come up with a household in Australia whose expenditure actually mirrored what was in the CPI. Quite clearly, people have different circumstances, so where they spend their money is going to vary, depending on those circumstances. We need to make that point clear.

What is important in all of this is not so much the weights we have in the CPI that reflect people’s expenditure patterns. They are important but what is also important is how prices move differently for different goods and services that are measured in the CPI. You can have quite significant differences in expenditure patterns, but when you run those expenditure patterns across the range of prices in the economy, you can often come up with a very similar outcome for an individual or for a group of individuals with the overall movement in prices as measured in the CPI.

Back in 1992, the Australian Bureau of Statistics did a study looking at pensioners and their expenditure patterns and at providing an experimental price index for pensioners. The scope of the study was over an 18-year period. It was found that pensioners had very similar price outcomes to wage and salary earners, which was the scope of the CPI at that time. Even though their expenditure patterns were in some cases significantly different from those of wage and salary earners, because of the relative behaviour of prices in the economy those differences in expenditure patterns did not have too much of an impact on differences in price indexes.

As I have mentioned, we are in the process of constructing some price indexes which are based on a cost of living concept, not an inflation concept, for population subgroups, of which self-funded retirees is one. While we have not finalised that work, all the indications are that, as in the experience of the 1992 study, even when you split the CPI down by population subgroup and move it more to a cost of living basis, you do not get dramatically different outcomes from the CPI overall. I will not deny that an individual may have experiences which may be totally different from the CPI—

CHAIR—I think the point that Ms McNamara was making was essentially that, yes, the pattern has changed, but it changes as you get older to less dependence on goods and more dependence on services. She had a query about when you call in the plumber, the painter and all those other sorts of costs. You sound as if you are supporting the retention of the CPI but in another class we find that we are using ordinary time earnings.

Mr Harper—I do not want to sound as if I am supporting the retention of the CPI; I do not want to be seen as promoting some other alternative indexation measure. My assertion is that if the purpose of indexation is to maintain a certain cost of living, then the CPI is not a bad choice. It is not perfect but it is not a bad choice. If the purpose of indexation is something else—maybe to maintain relativities in living standards vis-a-vis some other section of the population, like wage and salary earners—it may be that an earnings measure of some sort is an appropriate vehicle for indexation. It gets back to this issue: what is the purpose of indexation?

Senator HOGG—Following on from that, who would be the best to determine the correct path to go down: someone such as yourself—the ABS—or is it government policy? Who is the best determiner?

Mr Harper—It is not the Australian Bureau of Statistics. What we can do is provide advice about the various statistics and how they might be used in these types of arrangements. At the end of the day, it is the people who are responsible for the pension funds—and in this case it is the Commonwealth—who decide, firstly, what the purpose of indexation is and, secondly, what is the most appropriate statistic or otherwise for using in that indexation process.

Senator HOGG—How often is the CPI, the basket, reviewed? Can you give us a brief history? You said it was reviewed back in 1998.

Mr Harper—The reviewing in 1998 focused on some fundamental issues to do with the nature and purpose of the CPI, and it was a major review of the series. Because it was such a major review, we went through a very extensive public consultation process. We set up an external advisory group and so forth to provide advice to the Australian Bureau of Statistics on how it might proceed and so forth.

We have other types of reviews of the CPI which are nowhere near as significant in their magnitude. Just recently, for example, we moved to the 14th series CPI, and that involves some changes which made sure that the index continued to best serve the purpose for which it is designed, but they were not fundamental of the type that was picked up in the review that was conducted back in 1997-98.

As far as the expenditure patterns that underlie the CPI are concerned, we reweight those expenditure patterns approximately every five years. The Australian Bureau of Statistics runs what we call a household expenditure survey, and if you want further information on that, Garth is the expert. But the household expenditure survey provides detailed information on the expenditure patterns of Australian households over the period of a year, and we use that as the basis for forming the weights in the CPI. As I said, we update those weights every five years or so in order to ensure that the weighting pattern in the CPI is as contemporary as we can make it.

Senator HOGG—Does that take into consideration the changing nature of our society? By that I mean that we are now moving to a phase where we have an ageing population and where, because we have an ageing population, the demands are different. How quickly are the changes to the CPI meeting the changing nature of our society, the changing demands of the people in our society and also the changing commercial pressures that are being placed on people out there in society to cope with modern society? Whilst the retirement benefit that people structured for themselves may well have been good and cogent 10 years ago, today life has moved on and they find that their benefit nowhere matches the expectations of society. How do we come to grips with that problem?

Mr Harper—As I mentioned, these periodic household expenditure surveys which we conduct every five years or so.

Senator HOGG—Are they good enough, though?

Mr Harper—They are good enough in terms of picking up the changes in expenditure patterns of the community as a whole, and some of those changes may be due to the demographic changes that you mentioned a little while ago. It is our experience that reweighting the CPI every five years or so is sufficiently frequent in order to maintain a contemporary weighting pattern within the index. Because of the technical nature of price index construction you can reweight too frequently and you can introduce something called chain linking bias into your indexes if you do so, but if you do not reweight often enough then you are stuck with antiquated expenditure patterns which bear no resemblance to current reality. In the Australian Bureau of Statistics we have decided that five years represents the best balance between maintaining reasonably contemporary expenditure patterns but not running into these technical problems of what I call chain linking bias occurring in our index.

You also raised the issue of community expectations. Again I think that is germane to the fundamental question: what is the purpose of indexation? If there is some element of community expectation in terms of relativities and so forth, then maybe it is not the consumer price index that you are after, maybe it is something else. The CPI is all about, in a very broad sense, telling us how much the cost of purchasing a fixed basket of goods and services changes over time. To the extent that that fixed basket of goods and services becomes less and less representative of an overall living standard, then the CPI will not pick that up.

Senator HOGG—If I can just go back to that review that you conducted back in 1997-98, you said there was an element of consumer contribution to that.

Mr Harper—Yes.

Senator HOGG—Would there have been contributions from people from major superannuation funds and superannuants and self-funded retirees?

Mr Harper—Yes. That group of people made representations to the committee. The Australian Pensioners and Superannuants Federation, for example, provided a submission to that review. And individuals—a Wing Commander L.C. Williamson, RAAF retired, made a submission.

Senator HOGG—Are you able to broadly characterise their submissions to that inquiry, and if you addressed their concerns?

Mr Harper—Different people wanted the CPI to achieve different purposes, so the Australian Bureau of Statistics had to make an 'on-balance' decision as to what the primary purpose of the CPI was. There was concern raised by the self-funded retirees and self-funded retiree organisations that made submissions to the CPI that the removal of mortgage interest rate charges may disadvantage them. That probably had something to do with where the interest rate cycle was at at that particular point in time. But I think it would be fair to say that the type of submission from self-funded retirees argued that the CPI should maintain a cost of living focus rather than a general inflation focus.

Senator HOGG—So you did not necessarily allay the fears—the broad superannuation concerns—of self-funded retirees, superannuants or whoever they might be? What I am trying to get at is that their concerns have been ongoing for a period of time.

Mr Harper—As I mentioned in my opening comments, in recognition of those concerns we agreed to develop these cost of living type indexes for particular subgroups of the population so that the question of how relevant the CPI is to a particular subgroup's cost of living can be answered. We are in the process of putting those numbers together, which we will publish shortly.

Senator HOGG—I accept that. Do you have a prospective publication date?

Mr Harper—It will be within the next two months. There is no international standard anywhere that says what a CPI should be. It therefore becomes a matter of judgment for the Australian Statistician. In making that judgment, he has to balance the competing interests of the various users of the CPI. It is very much an on-balance decision and, in making that decision, we recognise that it is not going to serve every purpose that people want from the CPI.

Senator HOGG—Do you know how overseas countries faced with a similar dilemma handle this issue?

Mr Harper—They treat it in a variety of ways.

Senator HOGG—There is no general panacea that can be offered to resolve the concerns of many people?

Mr Harper—Only the fact that we can provide these alternative indexes to show how good or otherwise the CPI is in terms of measuring what they are particularly interested in. As I said earlier, the crux of the problem from the point of view of significance relates to the treatment of interest rates in the CPI.

Senator HOGG—In your submission to us today, you have spoken of a 1992 and a 1997 study. Can you provide the committee with copies of those studies, please?

Mr Harper—Yes, that is fine.

Senator HOGG—We would appreciate that.

Mr Harper—Do you want them now?

Senator HOGG—If you have them now, you are looking for an efficiency bonus!

Mr Harper—There is another study—the 1997 study—that we need to get a copy of. We have the 1992 one here. I will also provide the information papers which talked about the issues that were considered in the review of the 13th series CPI, the subsequent decisions made by the Australian Bureau of Statistics and the rationale for those decisions.

Senator HOGG—Also, could you give us a guide to the current studies that you are undertaking as well—the parameters that are being used to determine the various indexes?

Mr Harper—For the population subgroups?

Senator HOGG—Yes.

Mr Harper—Do you want a written response on that or do you want me to talk to you now about that?

Senator HOGG—I would like both. It is up to you. Perhaps you can give us a clear enough guide.

CHAIR—Maybe we should take that on notice because our time is starting to run out.

Senator HOGG—You can take that on notice to give us an idea of what you are doing and how you are doing it. It does not have to be long though.

Mr Harper—It is quite simple. What we are really doing is splitting the population into those various subgroups, recreating weights of expenditure patterns which are relevant to those subgroups and then taking the relevant prices from our price collection process, which underlies our CPI, in order to calculate these so-called cost of living indexes.

Senator ALLISON—I would like to ask about GST. I think the assumption was that public servants would not need to be compensated for the impact of the GST because it was connected with the CPI. What would be outside the basket of goods that are taken into consideration in

CPI—in an establishment that would have a GST applied to them? Can you at least give us a range or categories of goods and services that might have GST applied?

Mr Harper—Something that a household might acquire that is not measured in the CPI and that has the GST applied to it?

Mr Whennan—In concept, the CPI basket covers all things that we acquire. In practice, we cannot collect prices for everything, so we select samples. There would be very few things excluded in concept from the CPI basket that would attract a GST or not. Gambling, for example, is excluded from the CPI. Dare I say it, some other social services provided to people are also excluded from the CPI.

Senator ALLISON—What are they?

Mr Whennan—Prostitution. You would probably get them out at Fyshwick—those sorts of things.

Senator ALLISON—What was the other thing you said?

Mr Harper—Gambling, prostitution, some of those types of things are excluded from the CPI. Presumably there is GST on those sorts of services.

Mr Whennan—But generally the basket is meant to represent everything that people acquire over a 12-month period.

CHAIR—We have been told that recent studies have shown that people's expenditure on food is a falling proportion of what it used to be of their total expenditure patterns. Given that you only change the CPI every five years, isn't it a problem that those changing expenditure patterns are not always accurately up to date?

Mr Harper—Our analysis has shown that they do not change sufficiently quickly, and the relative prices of the goods and services in the CPI do not change sufficiently quickly, for that to be a problem for us.

CHAIR—In September this year the index for average weekly ordinary time earnings and the CPI were about the same. I go back two years. There was a very wide discrepancy. During that period a lot of Commonwealth retirees really were feeling the difference in the declining standards. What gave rise to those big differences? We were looking at the graphs yesterday and they were quite extraordinary.

Mr Whennan—I think the main reason would have been that prior to the review that was implemented from the September quarter 1998, when the CPI included mortgage interest and consumer credit charges, the two- or three-year period immediately preceding that was a period of falling interest rates. As interest rates were falling, they had a significant effect on the CPI. So the CPI was very low. At the time, however, there may not have been any similar reduction in average weekly earnings. So that would lead to a change in the patterns between the CPI and average weekly earnings.

Mr Harper—It is worth recalling that the CPI and average weekly earnings measure two different things. The CPI is generally a measure of inflation. Average weekly earnings is a measure of what, on average, is paid to labour. In a very broad sense the difference between changes in earnings and changes in inflation can be explained by changes in productivity. To the extent that the Australian economy is becoming more productive and labour is becoming more productive then you would expect over time the growth rate of an average weekly earnings series to increase more quickly than the growth rate of a consumer price index. But they are very broad assertions. In the short term they may break down because there is a whole lot of other influences on both the inflation measure and the earnings measure itself.

Mr Bode—There were significant productivity increases during the 1990s, which have partly contributed to average earnings significantly outstripping price movements. But I think traditionally, historically, earnings have tended to move at a significantly higher rate than prices. It is not just because of productivity, which is one of the main reasons. There are other issues involved too in terms of the change in composition of the work force over time—changes away from low skilled occupation to higher skilled and higher paying occupations. So average earnings may increase simply because over time there is a change in the composition of wage and salary earners.

Mr Whennan—I do not know how relevant it is, but I did a study for the latest edition of the Australian year book trying to compare how prices and other things have changed since 1901 with those of the current day. Just using movements in the CPI to escalate wages from about the turn of the century, I found that, by using inflation, the equivalent of 1901 wages to today’s was about $243 a week compared with today’s average weekly earnings of about $870.

Mr Bode—Eight hundred and something. Yes, it is well over $800.

Mr Whennan—If you were just to use something like the CPI to compare with wages, yes, you would be out of whack by quite a significant amount over an extended period.

Senator HOGG—I have a broad question: what is a credible index? One of the ongoing criticisms—and I am not just talking about the GST spike—particularly from those who go shopping, is, ‘But this is nonsense. This does not reflect the real change in prices. They are going up far more at the supermarkets,’ and so on. So where does the CPI or any other index get any credibility in that situation? How is that? That is something that we have got to deal with.

Mr Harper—The credibility of an index or any other statistic is whether the statistic is fit for the purpose. So, at the end of the day, you have to determine what purpose you are using the statistic for and how well the statistic shapes up for that particular purpose. As I mentioned, the main purpose of the CPI is to provide an indicator of inflation in the household sector of the economy. The key users of the CPI from that perspective think it stacks up pretty well. I have made the assertion that from a cost of living perspective the CPI is reasonable but not perfect, and that is because its main purpose is not as a measure of changes in the cost of living.

Senator HOGG—I accept that. But the problem is a definitional problem in that people will accept the definition to be the latter rather than the former in what you described.

Mr Harper—We try very hard to educate people as to the nature and the purpose of the CPI. You can see a number of papers in front of me here. There is the guide which I tabled before the committee. We take every opportunity to speak to the community generally about the nature of the CPI. But it is true that confusion does exist in some people's minds about what the CPI is actually measuring. I occasionally get letters from people stating, as you said earlier, 'The CPI only went up by such and such but my shopping went up by such and such, and here are my shopping dockets to prove it.'

Senator HOGG—Yes, we get those letters as well. That is why I am raising this issue.

Mr Harper—We write back to those people and explain to them what the CPI is and how their individual circumstances may or may not be consistent with the broad measure of prices, which is the CPI.

Mr Whennan—The issue here is that the CPI covers more than just people's weekly or fortnightly grocery bills. It tends to be that people remember prices going up for things that they have acquired in recent times. Let us say, for example, that food is increasing at a higher rate than the overall CPI. The reason that that is the case is that there are other things in the basket which may be coming down in price. Because those people have not purchased some of those items in recent times, they think, 'My expenses are moving at a much higher rate than the CPI.' It is just one of those things: you cannot design a CPI for specific purposes. You have to design it for an overall purposes, and in an overall purpose we have got to try to measure the cost of a whole range of things, not just specific things.

Senator HOGG—That is why I raised the issue of the credibility of the index that is being used. I am not raising that as a criticism of yourselves. It really gets to the nub of the issue.

Mr Harper—It has to serve one primary purpose and, having established what that purpose is, that is how we design the measure. As I said, we took people who think it should be measuring something else into account when we made our decision in 1997 as to what the index should look like, and we do our best to educate people as to the suitability or otherwise of the CPI for the purpose to which they want to put it.

CHAIR—We need some education at the moment because we have listened to, and continue to listen to, retirees. Who is in the best position to tell us which is the most appropriate index that will reflect the intention of what these people joined the Public Service for in terms of maintaining reasonable standards of living or fulfilling their expectations when they joined the service? Obviously, they had ideas of a lower income to start with but that they would have security in their retirement through retaining their purchasing power, as Senator Hogg has reminded me.

Mr Harper—The retirees that appear before the committee will certainly be able to tell you what their expectations were.

CHAIR—Yes, we have that, but should we be asking actuaries about the correct linkages? You say, 'Well, we can give you all the different statistics, ratios, et cetera,' but who should we be asking for professional guidance that can stand up to an academic approach as well as to a practical approach on this? Who are the people that specialise in this area?

Mr Harper—I do not think it is necessarily an academic issue; I think it is a policy issue as to what the purpose is.

Senator HOGG—Is there any one solution or is it the sort of area where there might be a range of solutions?

Mr Harper—It depends upon the purpose of what you are trying to achieve which I think, as I have said, is a policy decision rather than a decision that could be answered from an academic perspective.

Mr Whennan—If you are purely looking for an index to retain purchasing power or something like that for a standard basket of goods and services, then the CPI would be adequate. If you are looking for something to also index something which is less tangible, such as a standard of living, then maybe you need to look elsewhere.

Mr Harper—A relative standard of living—I think that is the key point.

Mr Bode—Your standard of living in the community as a whole might be increasing so that, when the person retired, they may have had a certain standard of living relative to other people, and that may now have slipped.

CHAIR—In 1972, when Professor Pollard presented his report—and he was an actuary to the government of the day—he felt that the CPI at that time truly reflected the intention of what the members and, I suppose, the government wished. Having read the Pollard report—which you undoubtedly have—do you agree that the sentiments expressed in that report are still true today?

Mr Harper—From recollection, the report was advocating that the purpose of indexation was to maintain a particular standard of living in an absolute sense, in which case the CPI is a reasonable but not perfect measure. But, as I said, if the issue becomes the relative standard of living and maintaining that, then the CPI is not your best measure and you should perhaps be looking at alternatives.

Senator ALLISON—I have a query about the frequency of the CPI adjustment. I think that you said earlier that it was an annual exercise. I understood it to be quarterly.

Mr Harper—We reweight it every five years.

Senator ALLISON—What do you do every five years?

Mr Harper—We change the composition of the basket on which the CPI is based.

Senator ALLISON—But the actual assessment of what the CPI is between those five-year periods—do you do that quarterly?

Mr Harper—We publish a quarterly CPI. Periodically we review what we are doing with regard to the CPI. Some of those reviews are major, such as the review that preceded the 13th series CPI; some of those reviews are minor. There is no established pattern as to when we conduct reviews of the CPI. It depends on the issues.

Senator ALLISON—What do you mean by a 'review'?

Mr Harper—We look at the methodology which underlies the construction of the CPI and ask ourselves the question: is it still appropriate?

Senator ALLISON—How often do you go out into the supermarket with a shopping trolley and look at the price of goods on the shelves? Do you do that quarterly?

Mr Harper—It is more frequent than that.

Mr Whennan—It depends on the nature of the item that we are pricing. Bearing in mind that in each capital city we might have 15 to 20 supermarkets that we go to to price food, we would not go to all of those every day but we may go to one of those, say, every second day so that over a full month we cover those 15 supermarkets a number of times. There are other things in the basket, such as the very volatile things like petrol prices, which we would collect every day from a number of service stations—

Senator ALLISON—And then you do an average or a mean or—

Mr Whennan—That is right. So it really depends on the nature of things. With, for example, school fees, which generally only move once a year, and that being in the March quarter, we would only collect the price of those in the March quarter.

Senator ALLISON—I understand.

Mr Whennan—We would price furniture, for example, which tends to be fairly stable, once a quarter. It does vary. Generally, we collect prices frequently throughout the quarter and calculate an average, but there are some things which we might collect only once a quarter but we ask providers of that information to tell us how prices have changed throughout the period. An example there would be telephone services. Where we price local calls and certain national and international long-distance calls, we would ask whether the price to a certain destination changed and, if so, how long the certain price applied. Those pricings are what we call 'time weighting'. So it does vary from item to item.

Mr Harper—To put it into context, we have about 100,000 price observations each quarter to make up the CPI. There are a lot of prices.

Senator ALLISON—So there would be no reason then for the application of the CPI for the purposes of those independent retirees being quarterly, would there? Can you think of any reason from your point of view why that adjustment should not be made quarterly?

Mr Whennan—Probably the cost.

Senator ALLISON—The cost not to the ABS but the cost to administer it?

Mr Whennan—No, it would be an additional cost to the ABS to effectively produce two indexes on that regular basis. You might say, ‘We’ll do it for self-funded retirees and people living on superannuation,’ and then there might be a pensioner body that says, ‘We want one for pensioners as well.’ All those things would have to be taken into account. It really comes down to what the principal purpose of the CPI is.

Senator ALLISON—The trigger for this inquiry has been the big gap between average AWATE and CPI, which was at its worst, I suppose, in September 1997 through to March 1998 when the CPI went into the negative whilst wages were still relatively stable. Is there an easy explanation for that gap?

Mr Harper—There is an explanation which answers a lot of that question—that is, in that period we included mortgage interest charges in the CPI, and it was a period of declining interest rates. The CPI was low because of that. A number of other factors would have been behind that, but a key factor at that time was the treatment of mortgage interest rates. That is no longer an issue, because we do not include mortgage interest rates in the CPI.

Senator ALLISON—Could you cite some other factors?

Mr Harper—There were the sorts of things I mentioned earlier. For example, the fact that there is a productivity element built into earnings. That is clearly not a power in the CPI.

Senator ALLISON—I am interested in the drop in the CPI, because earnings pretty well stayed the same in that period.

Mr Harper—I do not have the time series available to me. If you would like, I could get that with some analysis as to what the prime reasons were for the fall in the CPI.

Senator ALLISON—I think that would be helpful for the committee.

Mr Harper—It was a period of low inflation generally in Australia.

CHAIR—Thank you very much, gentlemen. Your information has been most helpful to the committee. Thank you for appearing before us today.

[10.12 a.m.]

BRAMLEY, Ms Gwenda (Private capacity)

COGHLAN, Mr Michael Graham (Private capacity)

DYER, Mr Lennard William Herbert (Private capacity)

FLYNN, Mr Keith Brian (Private capacity)

LINDSAY, Dr John Francis (Private capacity)

McNAMARA, Mrs Monica Josephine (Private capacity)

CHAIR—Welcome. Do any of you have any comments to make on the capacity in which you appear?

Mr Dyer—I am branch president of the Association of Independent Retirees.

Ms Bramley—I was a teacher and formerly spent 10 years in the Department of Finance. I have been retired for three years.

Mr Coghlan—I am a retired public servant.

Mrs McNamara—I am a retired public servant. I have been in the public service—with a break to raise a family—since I was 17 years old.

Mr Flynn—I am a retired member of the RAAF and a retired public servant. I am involved in two volunteer operations around the ACT: the Community Broadcasting Association and Old Parliament House.

Dr Lindsay—I am a scientist and former public servant.

CHAIR—Thank you. Mrs McNamara, could you lead off and speak to the committee for perhaps three or four minutes. You gave us, for example, a detailed breakdown of the changes in costs in your lifestyle since you have moved into retirement mode. I think you were absent when I questioned the Bureau of Statistics in relation to some of these sorts of items. We found your figures most helpful. These are the things that we are interested in—changes in expenditure patterns that may not be truly reflected in the consumer price index.

Mrs McNamara—One of the items that I picked up was that the components of the CPI are various things and particularly that the break or lack of rise in the 1997-99 CPI was because productivity came into it. How does a retired public servant fit into that productivity range? Interest rates do not affect us because most of us own our own house. At least 50 per cent of retirees own their own house, so interest rates are not part of our scheme.

Stable wages: our wages are very stable. If I spent $100 on groceries back when I retired in 1993 I would say I would not get the same amount of groceries now if I spent $100. From the time I retired in 1993, my rise in pension has been $87. If you divide that by six years—and this is in round figures—it does not give you any more than $14 to $18, which is no great shakes, really. It is pretty small. As a retiree—and we are all getting older—I am a bit like an old house: I need maintenance. When we get older our eyes go on us and we may need to have operations, which I have had, for cataracts. It is very costly, but a necessity. Our feet do not last out. They are the most used part of the body, possibly. I found out that I had flat feet some 18 months ago and I then needed to get orthotics. They do not come cheaply. I would ask the CPI people whether they take these components into account. I would like a breakdown of the CPI on all those things. They will tell you, yes, they have a broad range, but I would like to see that broad range and have a breakdown of it.

I will just go quickly through—you said four minutes. Car washing: I do not relish the idea of car washing and, having moved into an apartment because of not being able to keep up with a garden, it is hard work. I have to take my car to have it washed, and it is all down there. The cost of car washing has gone up quite a lot. Indeed, that is about the cheapest car washing I can find. I could go out to Tuggeranong, I could go to Belconnen where it costs about $2, but it is only the equipment that is there, you still have to do it. Now $4 to $5.50 is quite a jump in a matter of months. Clothes: arthritis once again is a thing of age—not necessarily age but it comes with age. Indeed, the consumer price index people—or anyone—must find it very hard to know what the needs are until they walk in the moccasins of those other people. It is a true saying that you do not know what the problems are until you walk in someone else's moccasins.

So we have clothes, cataracts, gardening, car washing, medical treatment, physiotherapy. I think that goes through what I have as very basic things. Shoes are another thing. Going into orthotics you have to get the right kind of shoes to put your orthotics in, and they are very costly, which means that I can only afford to buy two pairs of shoes—the ones I have on for summer and the ones I have for winter in closed shoes. It is not a great thing for me. I used to be able to go to shoe sales and buy cheaply but I can no longer do that. Transport: I can no longer carry groceries home from the supermarket. I need to have some kind of vehicle, be it a two-wheeler or a four-wheeler, to get my groceries home. I need some kind of transport and the usual method is by four wheels. I have had my four minutes. Thank you very much.

Mr Dyer—I have one minor correction. I only found out last night. I said in my submission that the indexation of government super pensions is being considered by a committee set up by the Association of Independent Retirees. Actually the committee is only just being formed so it is not currently being considered, but it is being referred to the committee after the next meeting of our national council.

The suggestion that we put forward to you—the resolution—that is to be considered was made by the Canberra branch of the association. I submitted it on their behalf, but also on my own behalf I have pointed out a couple of things that were mentioned by the last speaker, in particular the components of the CPI. I also pointed out in my submission that most retirees face a substantial drop in income on their retirement. They also face lower costs, but normally the drop in income rather outweighs that drop in their normal costs. If the CPI is applied to the major component of their income, they obviously have a declining standard of living to face up to over time. We think that that is not a really rational or even-handed approach when other forms of superannuation are based on what we think are more representative indexes of the costs to retirees.

Dr Lindsay—I would like to talk a little about my own position, not because it is particularly interesting but because I am concerned about other people coming on in the public service system. I am a very experienced research scientist. I have published a couple of hundred scientific publications, textbooks and so on over the years. I have worked much of my professional life in the United States—with NASA on the Apollo programs and the Viking Mars landings and I have taught in universities. So that you do not think I am a woolly-headed academic, I worked in middle management in the petroleum industry. I joined the Public Service in Australia in 1984, after being invited to apply for a position. The Australian Geological Survey Organisation was upgrading and trying to modernise, and I guess I was seduced by the idea of the challenge. To do that I took a 60 per cent cut in salary and I lost my superannuation entirely—it was not vested; I had to stay another four years in the position I was in to have that retirement vested. That tells about half the story. I lost things like stock options, stock saving programs, bonuses, cars, and free medical, dental and optical cover. In other words, coming into the Public Service was a pretty poor option, but I came back because I wanted to return to Australia and I wanted to serve the community. My wife and I are both scientists and we both believe very strongly in public service. As well as that, even though the job was poorly paid it was permanent and secure—or so I believed. It also provided what I thought was a modest but secure superannuation scheme.

Under the present government we have seen general deterioration in conditions for public servants but in 1999, after the present government was elected, we saw wrangling between two departments—AFFA and ISR—that left the Geological Survey Organisation $7.5 million short. As this was going on, my wife collapsed with advanced cancer and, in the process of trying to deal with that, I was pushed out of the organisation. My detractors took the opportunity to get me out. So here I was at the age of 58 with the only superannuation coming from what I had here in the Public Service. Everything I had earned in the States was gone. Having planned ourselves carefully around the idea of retiring in the Public Service at 65, we are now in a situation where I am likely to retire in the next year or so or leave the country. I have no choice: I either retire this year some time or leave the country—while I cope with an extremely ill wife and one more son to get through high school. If the Public Service is going to offer low salaries and poor superannuation schemes it must offer security—you cannot have it both ways. I have turned 60; it is 18 months since I was pushed out of the system. I would probably be retiring now on $200,000 a year if I had stayed where I was in the US. Australia, and this government in particular, has let me down badly.

To get on to the nitty-gritty, I am worried about seeing a very miserable superannuation being eaten away. The CPI is clearly not the way to go. Obviously we need to have some adjustments for things like basic groceries and so on, but, as someone who has worked hard 12-hour days for the last 15 years, putting effort into maintaining the mining and petroleum industries in this country, why shouldn’t I share in the wealth of the country? Why shouldn’t my superannuation reflect the stock market? Why shouldn’t it reflect increasing wages? Why shouldn’t it reflect growth in other superannuation schemes? In other words, why shouldn’t it reflect the marketplace? This government has been very keen on the marketplace driving things, why shouldn’t my income when I retire reflect that growth?

Superannuation is not a charity; it is something I have earned; I worked hard for it. I have contributed significantly to the wealth of the nation, and there is nothing really generous about the scheme as it is, even now. It is a contract that I entered into with the Public Service when I joined in 1984, and I believe it is time the government took a closer look at the whole question of Public Service conditions and, in particular, superannuation. I would like to see some assurance that we are not going to see the Public Service superannuation schemes constantly manipulated. We have gone through a couple already, with declining benefits. Generally, we lose out.

I have probably said enough; I have taken too much of your time already. But I really think that the last few years under the present government have been very poor for public servants. I personally made a very serious mistake returning to Australia, and I see myself returning back to my old situation in the States at the end of this year if I cannot work something out, otherwise I will retire on a very low income.

Ms Bramley—I would like to expand on the submission I made. This submission is a pro-forma because I came to know of this inquiry very late on and so, since this letter said basically what I wanted to say—but without examples of course—I submitted it so it would be here in time, having learnt well in the Department of Finance that, if you do not get it in on time, it is a dead waste of a shilling or a dollar, shall we say.

I would like to make several points, the first being the retrospective nature of the indexation. We as retirees in fact are being ‘compensated’ for changes in society and the cost of living in that society up to about 15 months ago. This has been very much highlighted of course by the introduction of the GST. But, nevertheless, the argument remains that, in an ordinary year, 15 months getting behind is a cumulative thing and 15 months upon 15 months leaves one behind in that sense. I would also like to note that I do not believe that the basket of goods—I checked it out on the ABS web site last night—that they used in the CPI and the proportions of it are appropriate to my lifestyle. As a retiree, I am more interested in volunteer work, family, friends and leisure. These take different sorts of expenditures—mainly petrol of course—as one goes to a volunteer job or goes and visits family elsewhere. This is not reflected adequately, I believe, in the current CPI, which more reflects a petrol usage of going to work every day and then going on the annual holiday. So that is one thing, and I could go on about the inappropriateness of the current basket of goods. I would also like to suggest that, overall, a five-year review of the CPI is really not adequate. How was I contacted for this? I was contacted via email. Five years ago I would not have been on email at home. So what I am saying is that the pace of change to maintain a moderate living standard is too fast for a five-year period to be appropriate for a review.

Another thing that I am very sorry to see is that the CPI does not reflect increases in wages and productivity. That says to me loud and clear: ‘I am no longer a valued member of society. I no longer participate in the productivity of our society.’ That is something that I find very hard to take. There is plenty of ageism out there; we do not want it being forced home even through this thing called the indexation of our pensions. I will leave it at that, because anything else will be just detail to the main point of my argument.

Mr Flynn—I would like to support the previous witness in regard to the contribution of volunteers to society in general. I think the report of the Australian statistical people contains quite strong reference in that regard.

I would like to enlarge on my submission to start off with, particularly in regard to the circumstances of my own home and my wife's situation. I was with the Commonwealth for some 45 years—22 with the RAAF, during which time I joined the RAAF as a boy from the bush and trained as a radar mechanic. I retired from the RAAF at the age of 41 after taking an engineering degree in my own time. I came to Canberra to work for the Department of Defence and later the department of transport and then back to the Department of Defence before I retired at the age of 61, having contributed for some 44, nearly 45, years to DFRB and then to the Commonwealth public service scheme.

As the former speakers have said, I expected a fair indexed pension for the rest of my life. But I have been somewhat disillusioned in recent times. When the announcement of this select committee was made my wife made the point that we were seriously down the gurgler in respect of local rates. When I first came to the ACT we selected a bush block in Aranda, way out in the sticks. Local rates in those days were quite cheap. I think it is the third highest rating suburb in the ACT at the moment. Gas has gone up. Water has gone up. Bank fees have gone up, and car registrations have gone up. The local ACT government, I see, now acknowledges that they made a mistake with regard to car registrations, and they are going to go down for the first time ever. The cost of fuel has gone up. I am now paying twice what I was paying 15 months ago for the LPG to put in my car.

The other things that are not really covered by indexation, I suspect, are our health services, as previous speakers addressed. I served in the Far Eastern Strategic Reserve for 15 months. My wife accompanied me. Within 12 months of arriving back in Australia she went down with arthritis, and the disease has been progressing ever since. She is on six different medications at this stage and has blood tests once every fortnight. Our doctor, God bless him, had to put up his charges a fortnight ago, along with all the rest of the members of the AMA. These sorts of things, as previous speakers have said, do not appear in the indexation, except at five-year intervals, and the people on Commonwealth pensions are really in trouble. For argument's sake, we have lived in Aranda for 31 years and our side fence is falling down. The people on the other side are a pair of retirees. I got a quote for the replacement of that fence four years ago. It was $538. I got a quote last week for $1,158. Does that sort of thing appear in the indexation? The answer is probably no.

CHAIR—Twenty years ago you would have done it yourself probably.

Mr Flynn—Yes, exactly. I would not stand a chance of attempting it myself right now and neither would my neighbour.

Senator HOGG—Is the problem that you are facing as much the structure of the pension that was put in place as the question of the pensions keeping pace? I know there are still some speakers to address us and others might come back, so you can consider that in your remarks.

Mr Flynn—My personal opinion is that the problem is indexation.

Ms Bramley—I have no complaint about my basic pension. After all, it scarcely keeps me off the streets because I was only working for 20 years; but, never mind, I will not complain about that. What I will complain about is the indexation, which does not reflect the changed lifestyle.

Mr Coghlan—I made a brief submission by email and I was surprised to get an invitation here today, but since I received that invitation I have attempted to clarify in my own mind what I think, and I can put a very brief submission to the senators on what my thinking is. I think over the last decade, wages growth—and I think people have commonly referred to it as AWOTE, the average weekly ordinary time earnings—has outstripped CPI increases quite considerably. I think this is accepted by everyone, and certainly the Bureau of Statistics representative seemed to agree that there is a big disparity.

The fundamental point that I wish to make to the committee is that a Commonwealth retiree’s income should, broadly speaking, move with the changes in the community living standards. I think this is the policy basis upon which pensions should be adjusted, and that is similar to ordinary wage earners in the community. Certainly, we would be substantially disenfranchised if productivity increases are not taken into account.

The CPI increases have not delivered, and Commonwealth pensions have not kept pace with community standards. Average weekly ordinary time earnings is no more an appropriate vehicle to retain parity with community living standards, and AWOTE, as I understand it, is used as a linkage for other groups of retirees, including parliamentarians.

In my written submission, I pointed out that in 1998 my pension, after 30 years in the Public Service with a final salary of $80,000, was $950 net per fortnight. I do, Senator Hogg, take the point myself that I do not think the Commonwealth Public Service superannuation scheme is particularly generous. I do not think after 30 years in the Australian Public Service, the last 15 years of which I worked under considerable stress and so on, $950 net per fortnight is particularly generous.

So I make the point that I think the lack of generosity of the superannuation system itself is relevant to this inquiry as the scheme is not particularly generous. There is an even stronger argument that the indexation system should ensure that pensions at least keep pace with community living standards, which they have not done. Now after seven years on my pension, my pension is $1,020 net per fortnight. I hope these figures are accurate; I think I have only had an increase of $70 over about seven years. Going back to a point that Monica made and the $100 vegetable example, I would simply make the point that maybe I have $110 now to buy vegetables which really cost $120. That is the way the system has been eroded.

I would like to pick up a point made by the Bureau of Statistics which I think is quite critical—that is, why there has been a discrepancy between the CPI increases and average wages, AWOTE, or whatever you would like to call it. To a very large extent, that is probably due to productivity increases. The Reserve Bank target is for a low inflation rate and that has been achieved over a long period. AWOTE, the average wage formula, has outstripped CPI considerably in the last decade. I believe it will always do that over time. I am not an economist. I simply put this point because I believe it to be the case. The Australian economy is healthy. We are a young and progressive country. I think it is reasonable to assume that productivity over substantial periods will continue to increase. It may decrease for some periods, but in the long term, if you have an optimistic view of this country, I think CPI will always be outstripped by the average wage concept. I think community wage increase will always outstrip the CPI to give workers the benefit of these productivity increases. Otherwise, there would be no incentive to work. If you are simply getting a CPI increase and there was high productivity in the nation, you really would not have much incentive if you are only just keeping pace and were not getting the benefit of the productivity increase. Finally, I would like to say that retired public servants who do not have a great and generous superannuation scheme, in my view, should at least get an equitable linkage system. Otherwise, they are disenfranchised as citizens in this country.

Mr Dyer—I would like to point out that, as I said in my submission, many Commonwealth public servants paid into their super scheme with the belief and expectation that they would never become eligible for an old age pension. The old age pension entry is a bit more generous now, so some have been brought in, but some others came in because the CPI has just not kept them up to the standards.

Ms Bramley—I fall into that category of people who are not eligible for any welfare benefits, yet I am so little under that level that I am most disadvantaged by any ex gratia type payments from the government. I do not get them.

Mrs McNamara—I do not either. We are not entitled to any of the benefits that old age pension recipients are entitled to—with rail fares, they can go anywhere in Australia for $10, those kinds of things, and lots of concessions that are part of the package. We do not have any benefits like that at all. Doctors' fees have gone very high and this is rather an inhibitive thing. You go to the doctor only when you really need to because the cost of an appointment is so great.

Mr Flynn—As I said in my submission, if it were not for the Centrelink partial pension, my wife and I would not be able to sustain feeding ourselves in the manner in which we do.

Dr Lindsay—I feel we are in a time of rapid change with productivity rising very rapidly and that sort of thing around the globe, and I really think that any indexation must look at rising wealth in the community. People now working are contributing to that rising wealth and they deserve to share in it as they retire. Indexation cannot be based around just a basket of groceries. That is obviously important, but I think that as the community wealth grows the retired people should share in it as well.

Mrs McNamara—Yes, it is not just the groceries, really, it is the whole concept of being retired.

Ms Bramley—Yes. It is being seen as a valued member of society and to share in the wealth and the productivity gains. That is at the heart of what I feel badly about with this indexation lack.

Mrs McNamara—Also, there is this great myth that if you are a public servant and you are on a pension, you are doing well, you have got the sweets—when in reality it is quite the opposite. People say, 'Oh, you are on a pension. You are doing okay.' There are many times when you are asked to do things and you just would not have the money to find yourself able to be included in various things.

Mr Flynn—There is another point that should not be overlooked, and that is the contribution which retired public servants here in the ACT make to society. If a proper analysis were made of their contribution to the economy of the ACT, I think the level would be something like 15 per cent or 20 per cent.

CHAIR—I am very impressed by the extent of volunteer work done by so many public servants. It is very impressive.

Mrs McNamara—It is absolutely astounding.

Mr Flynn—If their standard of living is not maintained, you will find a drop there.

Senator HOGG—I have a process question. We heard from the ABS people before that they had an inquiry back in 1997, I think, into the structure of the index. Have any of you made any submissions to either that inquiry or to any inquiry conducted by the ABS? And have you been aware of those inquiries?

Mr Flynn—No, I am not aware of them.

Mrs McNamara—No.

Senator HOGG—I understand from a couple of you here today in your submissions that it was belatedly, or at the very last moment, that you even knew about this inquiry.

Ms Bramley—Yes.

Senator HOGG—Does that show certain weaknesses—

Dr Lindsay—A letter in the *Canberra Times* is what brought it to my attention. It was not in the local newspaper, and large numbers of public servants are here in Canberra.

Senator HOGG—And it would be fair to assume that you people would be, in some way, familiar with the processes of government and that you would be aware of inquiries such as this.

Ms Bramley—Yes. But this was not, as I understand it, publicly advertised in the *Canberra Times*. If it had been, I would have noticed it.

CHAIR—But, with respect, all the newspapers were boxed in terms of what was happening, so in a sense I think you have to ask, ‘Is this a priority, or a lack of priority, of the local press?’ We certainly notified the press gallery. They were all boxed, and I would have thought—with something here in Canberra, of so much local interest—that perhaps they would have run this issue. I note that there is no comment in the *Canberra Times* of yesterday’s proceedings. I suppose that is also reflective of what I said. Again, we do have difficulties in terms of how far we advertise, because it costs a lot of money and the network here in Canberra is usually fairly reliable. But equally, how do the public servants who are in Broome and Adelaide know? It is a difficult exercise. We put it on the Net—

Senator HOGG—That is a question I have had raised.

CHAIR—We do sympathise with you, but I think in a sense it also does reflect the priorities of the press.

Mr Coghlan—Mr Chairman and Senator Hogg, I may have misunderstood, but were you asking whether we knew about the inquiry being held by the Bureau of Statistics?

Senator HOGG—Yes.

Mr Coghlan—I would like to answer that by saying: had I known it was on, I would not have bothered to make a submission. I just think that CPI is a totally inadequate method of linkage and that productivity increases are really the crux of what it is all about. They will never be included in CPI and it will never be an appropriate vehicle to adjust our pensions, no matter what you do to it.

Senator HOGG—My last question is this, and you may all like to take this on notice. What do you consider to be the appropriate basket, the appropriate vehicle? I think Ms Bramley said to us that she had looked at the ABS site last night and looked at the basket of goods and that the proportions were not appropriate and so on. Do you have a view as to what does constitute an appropriate basket? It is not that this committee can necessarily do anything about it, but we would be interested in your views.

Mr Coghlan—I can answer that for myself and just say that I think it should be AWOTE—full stop, the same as is used for parliamentarians and other pension schemes.

Ms Bramley—I would agree with that. I do not think the CPI, even with lots of manipulation, is the appropriate vehicle anyhow because it does not take into account increases in wages and productivity. We have the various average weekly earning indicators, and AWOTE is probably as good as any at this time and could be implemented without a great deal of cost. My Department of Finance training still rears its ugly head, but I believe that would be a relatively simple implementation question.

Senator HOGG—I am glad you said that and not me.

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

Proceedings suspended from 10.51 a.m. to 11.12 a.m.

WHITROD, Mr Lindsay Raymond, Treasurer, Combined Council of Associations of State Retirees of Victoria

CHAIR—Welcome. Thank you for coming up from Victoria. We really appreciate getting state representation.

Mr Whitrod—The Combined Council of Associations of State Retirees of Victoria was started in 1993 by me and a few others. We brought together all the retiree organisations, which now send two representatives to our meetings held four times a year. Our main aim is to be the watchdog of the legislation for state superannuation. We sit in Parliament House and wait for talks to come on and so forth. One major achievement that we can point to is the maintenance of the biannual CPI. We were going to lose the six-monthly cost of living indexed adjustment that we were getting, but we fought hard to retain it. They wanted it to be a 12-monthly adjustment. When state governments want to withdraw something or not give something, they can always resort to or run to the heads of government agreement act. But we have managed, by pressure, to keep the biannual CPI. We are paid every June and every December for the CPI increases, but we are six months behind all the time.

CHAIR—But your Commonwealth counterparts are up to 15 months behind, aren't they?

Mr Whitrod—Fifteen months, are they?

CHAIR—Because it is only once annually.

Mr Whitrod—We are only six months behind, and we get it twice a year. So in that respect we are better off than some states and the Commonwealth. So the Kennett government came into power. There are two words a government falls over backwards and goes into apoplexy when they hear, and they are 'unfunded liabilities'. They do not like those words, although they are the mainstay of the insurance industry and the banking industry—they could not exist without unfunded liabilities. Having dismissed a great many public servants, teachers, railway workers and police and the like—not in hordes in the federal system but in the state systems—and paid them off, he found that the contribution base to the state super scheme was not as large as it should be, so something had to be done. He introduced a new scheme in 1988. The old scheme was closed off to future entrants and a new scheme was introduced which was rather attractive to people who would be working for a long time, but those in their early 50s and late 40s were inclined to stay in what was called the revised scheme. Although it is called the revised scheme it is the same scheme as it started off as in 1926. It was called 'revised' when they introduced CPI in the late 1950s. Until then you received the same pension all your life. He closed it off and started up a new scheme, mainly for younger people who are now in the majority, and it was to be fully paid up at the end—there would be no pension from it. That wiped out the potential increase in unfunded liability. So the super office run by the government had two schemes going. They were all in the same building with the same staff and everything else. You had to say which scheme you were in when you went there.

Then, in 1999, the government under Roger Hallam, the Minister for Finance, decided to separate it all, and the new scheme that most people were in by now—younger people and what have you—was handed over to a private company called VicSuper Pty Ltd. The government was free of them. So all the government is concerned with now is a decaying system where we are all dying off, of course. The government super office runs the old scheme which is an unfunded scheme. We in the old scheme are very pleased—and interrupt me if I divert—by the way the government has established this office. It is in the old office in Spring Street, Melbourne. Communication, service, attention, anything you like, is there 100 per cent. We of course protested against the separation of the two. There was industrial unrest, but we were wrong—and we all admit that now. The government was right. So the government therefore has left us with a super scheme to which 27,000 people are still contributing, and 47,000 people are receiving their pensions once a fortnight. Those 47,000 people consist mostly of ex-teachers, public servants, police, fire, ambulance, railway and road workers, and people in VicRoads, in the office as well.

It is a large scheme. One cannot describe it as being wealthy; these people do not receive large pensions. One-third of people, I am told by word-of-mouth—so I cannot verify it—receiving super from this scheme also receive the social security pension. Therefore, some of them have been asking me why it is that their increases for the pension come via the 25 per cent of the average weekly wage, but for superannuation it is via the CPI. I say, ‘Put your trust in government because it will come around that way before long,’ and I am sure it will, despite any opposition. The CPI is hopelessly out of date. We have mentioned the basket of goods. There are so many lifestyles, standards of living and ways of living in this country—for which we are fortunate—that you cannot draw an overall example and say, ‘This suits you,’ to everybody when it comes to superannuation. That to me is so ridiculous. It may have been all right when they first introduced it because the lifestyles were much the same—you could almost pick a retired public servant in the street without even knowing him. Lifestyles then were much the same but now they are so different and varied: some have motor cars, some have caravans and some have nothing, and some do not believe in this and that. The basket of goods, or whatever it is, says, ‘This is for you.’ It is better to look at the wage system and the figure of 25 per cent. When there is a rise in wages or salaries across the board, 25 per cent of that rise should go to the old age pensioner. To preserve parity with what we are used to, the superannuant should have that, in my opinion. I really cannot see any other way out for fairness and parity.

I am not preaching poverty here; I am preaching parity. If I was going to preach poverty, I would not know where to start because many of my friends who live on the old age pension have very nice antiques in their homes and lovely cars and everything else. The pension is available these days to the best manipulator, on the whole. I have gone into that seriously. Some of them have retired under our new VicSuper scheme with a lump sum; they get a lump sum of a couple of hundred thousand dollars to $300,000 and the first thing they say to me is, ‘How can I get the pension?’ Off they go to somebody to advise them. Legitimately, there does need to be some tightening up somewhere. Next thing I hear they are on the part pension and they have the card which entitles them to all the things that the others are not entitled to.

As I say, people think of superannuation as being for people in the upper echelons of industry and commerce, but most of us have belonged to the teaching profession and the public service where we are struggling—I am speaking for everyone else, not myself—more so, I imagine, than the proportions would be in the federal system because the state system has to run the infrastructure of transport and education far more than the federal system has to. These people struggled on their wages and salaries. They have their little pay-out pension and their little lump sum, they have finished their mortgage, and now they are struggling and they feel a grave injustice is being done and that their circumstances have been greatly reduced. They feel they should have the same increases as the old age pensioner in the social security system.

Looking at some figures, the State Superannuation Act 1988, for instance, provides for increases to the pension every six months. It always did. Increases applicable are made every June and December, based on the increases of the previous six months. Our pension was increased last December by 1.69 per cent and in the six months prior to that by 1.47 per cent. We do get the 15 per cent rebate on a certain amount of our annual income. After the lump sum we took out—which is up to 50 per cent, and we have invested that—the pension for me, a retired school principal, works out at almost $21,000, not enough to live on, of course, but you rely upon the investment of your lump sum of $150,000 as well. That takes me almost up to $30,000, enough to put me in the lowest tax bracket. Everybody who paid taxes got compensation for the GST by coming down one tax bracket. As for those who are on the lowest tax bracket the government did not say, ‘No tax for you.’ You stay there. Yet you are just over the $30,000. ‘There is no compensation for the GST for you people.’ We missed out entirely on the GST compensation. It was a joke to us. But that is by the way. It just shows you, though.

The number of members at the moment—contributors, retirees and what we call ‘reserved’—I notice the word ‘preserved’ elsewhere; that is, resigned, et cetera—is 125,000 in all. But we are paying out the pension to 47,000 people. Then there are the contributors as well, who number 24,000. But, as I say, they are falling off in number quite quickly. Mr Kennett, before his retirement—to his credit, again, but much to the chagrin of his colleagues—as the electoral campaign opened, and unknown to both of his colleagues in parliament, dropped in to our super scheme, the unfunded one run by the government superannuation office, the original scheme that we are in, $2.5 billion. His colleagues said, ‘We could have used that for a lot of pork-barrelling.’ But that was not so. Kennett put it there in order to encourage us to take another chance to be paid off in a lump sum.

The idea is to do away with this non-funded liability. We will be informed next week how much our lump sum will be worth to us and then they will be rid of us for a pension. The choice is entirely ours. We are not being pressured at all. It is up to us. It will suit some and it will not suit others. I shall remain as I am, with the pension, for all sorts of reasons. We imagine that not quite half will take out the lump sum. He says: ‘This is the final and last offer for a lump sum. After that you are on the superannuation pension for rest of your life, as a superannuant.’ That means we will be down to about $27,000, I think, as a rough guess. We will still be receiving the superannuation pension. The rest will be taking out the lump sum and there will still be about 24,000 contributing.

You can see that they are trying to balance it up so that the government does not have to put any more into the scheme. The money is carefully invested of course. After all, in charge of our super department—the Government Superannuation Office—and chairman of directors is Bernie Fraser, a man of considerable experience. He is also chairman of the Victorian financial management committee—commonly known, because it begins with the same letters, as the ‘Victorian Funny Money Committee’, but that is unfortunate because of how the letters come out. Our money is in with that. This is carefully watched by the government super board, which consists of four elected members—they are contributors—and four members chosen by the government.

Although we, the recipients of the pension, are in the majority, we do not have representation on the board. We have been assured that our pension is crystallised in legislation. Lots of things are crystallised in legislation, but somehow they get melted away, don’t they? So we still have to watch the government carefully. That is the reason for our organisation. We are concerned with poorer people who retire and just get slightly more than the pension. Their lump sum was not very much and yet they worked for a long time—30 years—but they did not get a promotion.

I know six or seven railway engine drivers on suburban lines who have retired. They are all on the old age pension. They invested their lump sum—they did not go floating around the world at all. They are who we are fighting for, to try to give them parity and a standard of living to which they are accustomed. I know there are differences. They do not have to worry about mortgages or children anymore, or anything like that, so it is not quite the same as being in the work force. But we do not like to see them almost at beggar level. We say, ‘Are you coming to the social dinner tonight?’ and they say, ‘No, I don’t think we will come tonight.’ And you know why. Yet they have given all their life to public service. They tell me that their pension is being eroded by the inadequacy of the CPI, meagre as the pension already is. That is something we should really bear in mind.

I must say that when I was listening to the people here previously I wondered if I was in the right room. I was very pleased with the figures I heard. I thought that I should have been in the federal government from the noises I heard going on here. However, I think that is the best description I can give you, in addition to the submission, which I must admit I did not write. I only came across it at the end of last week. I was not even sure at the end if I would have sent one in. However, it is too late I suppose to have a bit of punctuation altered in that.

CHAIR—I don’t think that will make a great deal of difference.

Mr Whitrod—Some of my friends will say, ‘You were a teacher of English and you let this get through!’ However, it is too late now.

CHAIR—I sympathise with you.

Mr Whitrod—If there are any questions, I am happy to answer them. I am of the opinion that the AWOTE, the MTAWE and the CPI for the first couple of years should run fairly parallel—then we could decide—because, with the cost of living increase coming in with the 10 per cent GST, the CPI would be more next year. I am of the opinion that we should not go hastily. After we have got over the dregs of this GST, we should then look at the total wage. I think 25 per cent of the male total weekly wage is what we should be looking at when we have freed ourselves of all GST angers or whatever there is.

I cannot give you figures, if you are looking at cost, but with the last six monthly increase in the CPI at 1.69 per cent of 47,000 members I estimate that the average pension—they would not reveal to me the average pension; you still get public servants who are afraid their information will be sent in the wrong direction and they will have to toe the line somewhere—per fortnight for a married couple would be $600, and so for a half year that would cost the government $476,580. So shall we say $½ million. For the full year at the 3.7 rating of the MTAWE, the cost would have been $1,043,000. The extra cost would have been $141,000 for the year. So it does not seem to be greatly different. I sometimes wonder: by the time you spend $141,000 among 47,000 people, it is not greatly different. But I think we have to go in that direction, because now—ignoring present complaints—if we stayed as we were, in 10 years time the average superannuant would have lost all parity. Mind you, in 10 years time, I must admit, state superannuants receiving a pension would be a mere handful because the scheme is closing up by its own attrition. It must close up. It is the older people who stayed in it, and we still have 24,000 to retire. If they retire at 60, in 20 years time from now there would be nobody left. That is the scheme.

It seems to be that state governments push hard for you to take out the 100 per cent lump sum because it relieves them of that horrible thought: unfunded liabilities. It is what we used to call in the early days of bookkeeping, when we learnt bookkeeping and accounting—it did not appear on the balance sheet; it just appeared as an item underneath as no transactions were involved—a contingency. And that is all it is: a contingency. If we had an earthquake or something like that, certainly the government would be embarrassed, but we are not all going to get our super at once.

So that is how it stands now: the government encourages lump sum. Pensioners from super schemes are on the way out. No new person retiring is coming in, unless he has already entered the scheme or has been in the scheme for a long time. He may take the 100 per cent lump sum. He is allowed to do that as from April this year if he retires then. So we are not asking for a long-time drawing of government money. In government circles it is not a long time at all. We are diminishing in numbers and everybody is going onto the lump sum. Some of them spend that hastily and go over to the pension and some of them reserve and keep it. They are always frightened that the pension will be inadequate—and it is for that sort of thing. I wonder whether there are any questions.

CHAIR—Thank you very much. I really enjoyed your presentation. Perhaps we might leave questions until the next witnesses come to table because they are also from Victoria—the Department of Treasury and Finance—and they may be able to provide information on some of the technical issues about funded schemes. But your presentation has been most helpful, and obviously you have contributed a lot in terms of benefits to your members, because you have things like twice yearly indexation of pensions and a funded scheme which gives you a 15 per cent rebate. These are things that Commonwealth people are missing out on at the moment. So I am going to ask the next people how they achieved this.

Mr Whitrod—By sheer weight of numbers!

CHAIR—Did you have to pay your expenses to come to Canberra?

Mr Whitrod—Yes.

CHAIR—We will reimburse you.

Mr Whitrod—That is very nice.

CHAIR—If you were going to be reimbursed by your association, that would be different, but if you have come on your own account we will reimburse you. If you see the secretariat, they will organise that. It is important that we get views from right around Australia, and that is why we have appreciated your coming, especially on the basis that you have paid your own expenses.

Mr Whitrod—That is very kind of you.

[11:41 a.m.]

MADDALENA, Mr Mario, Information Technology Project Officer, Government Superannuation Office (Victoria)

YATES, Mr Dean Anthony, Assistant Director, Superannuation, Victorian Department of Treasury and Finance

CHAIR—Thank you very much for coming, Mr Yates and Mr Maddalena. We appreciate the fact that you have come and that your government has allowed you to come to make this presentation. There are some interesting developments in terms of Victoria and I think your contribution is going to be very helpful. We now invite you to make an opening statement.

Mr Yates—I have provided the committee with a copy of the statement I am going to make, but I thought I might comment briefly on some of the issues raised by Mr Whitrod. I confirm that his organisation is a very effective watchdog.

Senator HOGG—We gathered that from your smiles at the back of the room.

Mr Yates—The reason state governments are concerned about the two words ‘unfunded liabilities’ is that, particularly in Victoria’s circumstance, unfunded liabilities are now the biggest liability on the state’s balance sheet. It is twice the size of state net debt, and obviously from a government financial point of view it is a very important issue. It is an issue that is very important to the rating agencies as well. With the decline over time in the level of state debt, they are now placing more focus on the superannuation liabilities. In fact, they tend to look at the aggregate figure which is known as the net financial liability position, which is actually debt plus superannuation. But, from a Victorian Department of Treasury and Finance point of view, having a significant unfunded liability in the order of $12.5 billion in superannuation is a very important issue.

One of the other comments that Mr Whitrod made was in relation to GST compensation. Through the CPI indexation that applies in the state super fund, Victorian state pensioners will be partially compensated for the GST because of the one-off spike in CPI that occurred last year. When they receive their next indexation instalment that will fully reflect that spike. The $2.5 billion that was mentioned during Mr Whitrod’s presentation was publicly announced in the 1999 state budget. So the Victorian parliament was aware that the previous Kennett government did allocate $2.5 billion worth of privatisation proceeds to the state super fund. That has been earmarked, if you like, for the program—which Mr Whitrod mentioned—known as the beneficiary choice program, which is just about to be implemented in Victoria. It has two components. One is aimed towards Victorian pensioners and that gives those pensioners a one-off opportunity to commute 50 per cent or 100 per cent of their remaining pension payments. It is a completely voluntary payment.

The Victorian state super fund has always had this artificial 50 per cent limit in terms of the amount of which individuals have been able to commute to a lump sum on retirement. Because the financial position of the fund has dramatically improved over recent years—partially because of the $2.5 billion one-off instalment but also because of the very significant investment returns that the fund has achieved over recent times—we are now in a position where we can remove that arbitrary 50 per cent limit. Whilst existing pensioners will have a one-off opportunity to commute 50 or 100 per cent of their pension to a lump sum, all future retirees—as Mr Whitrod mentioned—will have this opportunity to commute all of their pension to a lump sum if they wish. It is purely voluntary. I will refer to the other component of the beneficiary choice program in my presentation. It relates to what we call ‘deferred beneficiaries’. These are individuals who have left the public sector prior to retirement age.

I will revert to my presentation. There are a number of superannuation schemes in the Victorian public sector, but the state super fund is by far the largest and it is the fund that the government pays the most attention to, because it is the fund to which we owe $12.5 billion. It is administered by the Government Superannuation Office. I was very pleased to hear Mr Whitrod’s comments that the existing pensioners and current members of the fund are getting a very high level of service from that office. That is reassuring to know. The state super fund has been closed to new members since 31 December 1993. In the early days of the Kennett government, the defined benefit schemes in Victoria were closed. That obviously had a dramatic impact on future projections of unfunded liabilities because, all of a sudden, the expensive superannuation schemes, if you like, that required a significant amount of government funding were closed. All new public servants in Victoria after 1 January 1994 became members of accumulation schemes, and the level of employer support is just the minimum superannuation guarantee level.

The governing legislation for the state super fund is the State Superannuation Act 1988. As at 30 June 2000, the state super fund comprised 73,000 active members, of which about 24,000 are still in the pension scheme. There is a part of the state super fund which is not a pension scheme; it is just a lump sum scheme. There are approximately 54,000 existing pensioners and 50,000 deferred beneficiaries. In terms of the indexation arrangements that apply for those pensioners, section 91 of the act is the relevant provision. That ensures that state super fund pensions are indexed to movements in the all capital cities CPI on a biannual basis. It requires that any increase in the CPI for the December half year be applied to pension payments from the first pension payment in the following June. For the June half year, the payments are in the following December. So there is that five-month delay that was referred to earlier.

The biannual indexation of pensions was introduced in 1980. Prior to this, CPI adjustments occurred only once a year. Minor amendments to the indexation provisions did occur in 1992 when the basis for indexation was changed from the Melbourne CPI to all capitals. That reflects the fact that approximately 25 per cent of all Victorian pensioners live outside metropolitan Melbourne. A fairly significant proportion also live in northern New South Wales and southern Queensland. The indexation provisions contained in the act compare favourably with the indexation provisions that apply to public sector schemes in other jurisdictions. For example, superannuation pensions paid by the Commonwealth, New South Wales, Queensland and South Australia are indexed only on an annual basis. Offsetting this to some degree is the fact that in most jurisdictions there is a delay of only three months in applying the CPI, whereas in our scheme there is that five-month delay.

The key point from the government viewpoint and from the Department of Treasury and Finance viewpoint is that the contributions paid by our current state pensioners over their working careers were based on receiving a pension that is actually indexed according to CPI. When the actuaries determined what contributions needed to be made by both employer and employee, it was done on the basis that these individuals would receive a pension indexed by CPI—nothing else. Any change to the fund rules, therefore, that introduced earlier payment of CPI increases or actually changed the indexation arrangements to something that would provide benefits greater than CPI would increase the value of the state super fund's accrued liabilities, and that increase would ultimately have to be met by Victorian taxpayers.

The Victorian government has other priorities in terms of its scarce resources. It sees the state super fund as a generous scheme. It in no way wants to take away the generosity of that scheme from its pensioners, but it is also not in a position to be able to enhance it further from what it is. It is therefore the strong view in Victoria that the current indexation arrangements by the all capital cities CPI on a biannual basis provides an appropriate arrangement for pensioners and achieves the aim of protecting the purchasing power of their pensions.

There has been some other discussion this morning regarding productivity improvements that flow into other indexation arrangements, such as AWE, et cetera. But those productivity improvements are generated by individuals in the current work force and not by retired pensioners. What flows from the economy that benefits from those productivity improvements is a certain level of inflation, and we have confidence in the ABS's ability to measure that inflation through CPI.

I mentioned earlier that there is another component of the beneficiary choice program, which is about to be implemented in Victoria, and that relates to deferred beneficiaries. Deferred beneficiaries—and I believe that at the Commonwealth level they may be known as 'preserved benefits members'—are members who have left the public sector, usually through resignation, prior to reaching minimum retirement age. Upon exit a portion of their accrued retired benefit is actually deferred until retirement age, and the member becomes entitled to this benefit at that minimum retirement age. It is the benefit payable at the minimum retirement age that is indexed by CPI, to ensure its purchasing power is maintained. So if someone was to leave at age 35, for example, they might be able to take back their own contributions plus interest but the employer component is frozen in the fund until they turn 55, and that is what is indexed. But it is the amount payable at 55 that is indexed.

Under the beneficiary choice program existing and future deferred benefit members of the fund will actually be provided with the opportunity to convert their deferred benefit entitlement to a lump sum and to roll it over into a complying fund of their choice. As it is the indexed benefit payable at 55 that is being accessed at an earlier time it is appropriate to apply a discount rate to that amount that is rolled out. The discount rate to be applied under the beneficiary choice program is four per cent per annum, and the Minister for Finance in Victoria recently determined this is the rate to be used as part of the program, on the advice of an actuary.

The discount rate is appropriate because future increases in CPI are expected to be lower than long-term future investment returns. A deferred beneficiary who elects to take an immediate lump sum could invest the lump sum and in future receive investment returns rather than CPI. The impact of the discount is larger for younger beneficiaries than for those who are closer to minimum retirement age. Each year the fund's actuary calculates the fund's accrued benefit liabilities as part of his annual review of our unfunded liability situation, and in these calculations the long-term investment return and inflation assumptions used are seven per cent and three per cent respectively, resulting in a four per cent real rate of return and, correspondingly, the four per cent discount that I referred to earlier.

A four per cent discount rate is natural to use as part of this program and of allowing individuals to access this money. If we used a lower discount rate than four per cent, which has obviously been the request from some people, the state's unfunded liability would actually increase if they were allowed to access the money earlier and, just as I said, in relation to indexation arrangements. Whilst the state's financial situation has improved dramatically in recent years, we are still not in the position where we would willingly take steps that would actually increase the unfunded liability, and a higher discount rate than four per cent is unlikely to be very attractive to anyone who wanted to gain access to the funds.

So whether the member will benefit from electing an immediate lump sum rather than a deferred benefit will depend on the member's individual circumstances. For example, if a member can invest the immediate lump sum in a complying super fund and received an after tax investment return of more than four per cent above CPI they will be better off. Once again, it is entirely voluntarily. The Minister for Finance gets a lot of letters from people saying, 'Why can't we get access to this money? Why can't I roll it over into my other superannuation arrangements? I am sick of getting letters from a number of different places,' et cetera. Under this program these individuals will actually have the opportunity to access this money. As far as I am aware, it is the first time in the public sector in Australia that this has occurred. So it is a major step.

It should also be noted that the rollover of any discounted lump sum to a complying fund will be undertaken in a manner which is fully consistent with Commonwealth preservation laws. So we are not exactly letting people walk out the door with a huge amount of cash here. The overall tenor, the overall aim, of providing for retirement incomes is still being protected. It is just a question of where that superannuation money sits.

I think that is all I want to present in a formal nature, but if you have any questions we are more than willing to answer those. Mario is here from the GSO to answer any technical aspects that a policy person such as myself cannot answer.

CHAIR—We have heard quite a lot about the restraints imposed by the heads of government agreement. You have managed to bring a couple of changes which are a little bit different, such as twice yearly indexation. Did you have any difficulty instituting that with the protocols of the heads of government agreement?

Mr Yates—The Victorian government is a party to the heads of government agreement and follows that document closely. The main aim of the document is for state jurisdictions to ensure that they manage their schemes in a manner consistent with the spirit of the Commonwealth's retirement incomes policy. That does not always mean that it is managed to the letter of the law, but the spirit of the Commonwealth's retirement incomes policy has to be maintained. Whenever a change is made, full consultation takes place with relevant Commonwealth entities.

I believe that the introduction of biannual indexation occurred with no difficulties because that actually took place back in 1980, which was a different environment. In fact, it was pre heads of government agreement; the heads of government agreement was 1986. But in 1994, and I think Mr Whitrod referred to this earlier, there were attempts to reduce it to an annual indexation arrangement rather than biannual. At that point, the Commonwealth said, ‘We appreciate the state’s position that it needs to manage its own finances and that it has a sovereign right to do this or that, but we actually think you’ve taken a step too far in that matter. It is too far across the line in terms of being inconsistent with SIS. Therefore, we would oppose any move to reduce it from biannual indexation to annual.’ So that decision was reversed.

CHAIR—Hypothetically speaking, if the Victorian government wished to move to an index different to CPI, would you require the heads of government agreement to do that? You said there was a lot of consultation.

Mr Yates—We would definitely consult with the Commonwealth.

CHAIR—You would consult, but on the balance of probabilities, would you expect them to agree or not? That is a major change.

Mr Yates—As long as we were not introducing something that would result in benefits being dramatically lower than CPI, they would agree. If we were to enhance—

CHAIR—So a state government can enhance its benefits.

Mr Yates—We can enhance it any way we like. It is only a reduction that the Commonwealth would oppose.

CHAIR—You cannot reduce those benefits. So it is a safety net arrangement.

Mr Yates—That is right. And the Victorian government does not want to decrease in any way the superannuation entitlements that these individuals quite rightly have. They have contributed over their lifetimes to earn the pensions they receive, but it is not in a position to be able to enhance those benefits further.

CHAIR—For the record, our committee is very strongly supportive of the concept of an income stream in retirement. Given the sorts of manipulations that Mr Whitrod mentioned earlier, that does open up the opportunities for people to plan their activities to have a house full of antiques, et cetera. We also pioneered the concept of an allocated pension, which is almost a halfway house. So we are interested in the developments to a lump sum, which sometimes can cause anxiety in terms of developing a uniform income stream for people in retirement which is above the safety net of the social security type pension.

In terms of developments, it is very difficult for you, representing a state Treasury, but we appreciate your presence here because it has contributed a lot. We are a little constrained because we do not want to embarrass you in any way. I think it is important to come here, but are there any matters you could assist us with in terms of your understanding of superannuation or the situation that Commonwealth employees find themselves in?

Mr Yates—I suppose the only comment I can really make is that the two words that were mentioned earlier, the ‘unfunded liability’ situation, were so significant in the early 1990s. These defined benefit schemes that the states had open are generous and do cost the taxpayers a significant amount of money. If steps had not been taken to close those funds, the unfunded liability number in Victoria today would have been somewhere between $24 billion and $26 billion. It is now $12 billion. The Victorian government has a range of policy responsibilities and it also sees that, as an employer, it is important to provide superannuation coverage for its employees. But superannuation policy is, first and foremost, a Commonwealth government responsibility in the wider community. So the Victorian government's position is restricted to developments as they relate to their own employees. The decisions taken in the early 1990s to close those schemes and replace them with accumulation schemes that involve employer support at the superannuation guarantee level are continuing, and will continue. So in the future retiring Victorian public servants will have a lump sum.

Senator HOGG—On those accumulation schemes, what is the level of employee contribution and what it is the level of employer contribution?

Mr Yates—The level of employer contribution is at the minimum superannuation guarantee level. For this year, for example, it is eight per cent.

Senator HOGG—And the employee contribution?

Mr Yates—There is no requirement to contribute at all.

Senator HOGG—Is there an option to contribute? If so, how much?

Mr Yates—As much as they want.

Senator HOGG—Do you receive complaints from people who are on pensions in Victoria about the method of adjustment of the pension? If so, could you characterise the basic issues that they complain about?

Mr Yates—The issues are very similar to what you heard before the morning tea break in terms of the basket of goods, if you like, being inappropriate for particular pensioners. There have also been some concerns about the five-month delay that we put in place for passing the CPI increase on, but that is offset by the fact that they do receive biannual indexation as opposed to annual indexation. In the main, the concern from pensioners is that the CPI is not an appropriate indicator of their financial pressures. The level of correspondence increases in years in which inflation is lower. In other years we do not receive many letters at all.

Senator HOGG—We heard this morning that the ABS conduct a number of reviews. I think they referred to one in 1997 and one in 1992. I do not know if you were here when that evidence was given. Has your department contributed to those reviews of the ABS on the makeup of the CPI? If so, has the view of the department changed over time or has it been relatively static?

Mr Yates—The Department of Treasury and Finance did make a submission to those inquiries and was a participant in those deliberations. Another part of Treasury would have done that. It would have been our economics area. So they were looking at it from a much broader perspective than I would in terms of a superannuation policy officer. But, as far as I am aware, the Victorian Department of Treasury and Finance was satisfied with the outcome of those inquiries and still has confidence in the CPI index as an appropriate indicator.

CHAIR—We do not have any further questions, but we really appreciate your coming to the committee. As I said earlier, it is necessary to get representations from right around Australia and also from state governments. If you would not mind passing our appreciation on to your minister, we would appreciate that. Our best wishes to Mr Fraser. We follow his pursuits with great interest.

Mr Yates—He is not actually the Chairman of the Victorian Farmers Management Corporation.

CHAIR—Thank you.

Proceedings suspended from 12.06 p.m. to 1.15 p.m.

HODGSON, Mr Alastair, General Manager, Business Services Group, Department of Finance and Administration

ROBINSON, Mrs Rosemary Ann, Director, Policy/Legislation and Governance, Superannuation Branch, Department of Finance and Administration

WILSON, Ms Sandra, Branch Manager, Superannuation Branch, Business Services Group, Department of Finance and Administration

CHAIR—I welcome representatives from the Department of Finance and Administration. I invite you to make an opening statement.

Mr Hodgson—Firstly, let me apologise for the lateness of our submission. You can appreciate that it was a great deal of work and needed to be carefully considered. The department's submission provides information on the benefit design of the Commonwealth's three unfunded superannuation schemes for its civilian employees and former employees. The main scheme for Commonwealth employees is known as the Public Sector Superannuation Scheme (PSS). Some Commonwealth employees are members of the Commonwealth Superannuation Scheme (CSS), which was closed to new members from 1 July 1990 when it was replaced by the PSS. Commonwealth employees who retired before the CSS commenced in 1976 received pensions under the pension scheme of the Superannuation Act 1922, which is therefore known in the jargon as the '1922 CSS'. So they are the three schemes.

All schemes are legislatively based. The basic benefit structure of these schemes is referred to as a defined benefit scheme, although the CSS provides an accumulation benefit in addition to a defined benefit. The CSS and PSS are partly funded: member contributions and employer productivity contributions are paid into the PSS fund and the CSS fund. Investment management of the CSS fund and the PSS fund is the responsibility of the CSS and PSS boards, which also have responsibility for the general administration of the schemes. The Commonwealth meets its share of the cost of PSS and CSS benefits when they are paid. Where a benefit includes an unfunded employer element, the full benefit is paid from the consolidated revenue fund, which is then reimbursed for the funded component from the CSS or PSS fund.

The employer cost of the CSS is approximately 21.9 per cent of superannuation salaries and for the PSS is approximately 14.2 per cent. The Commonwealth has unfunded superannuation liabilities for those schemes of around $46 billion. In addition to information about scheme benefit design, the submission also provides information in relation to the committee's specific terms of reference on the indexation of unfunded preserved benefits and on the indexation of pensions under those schemes.

Pensions under the three schemes are generally indexed annually by movements in the CPI. The current method of indexation has applied to the CSS and the 1922 CSS since 1976, and to the PSS since its inception in 1990. The CPI is also used to index the unfunded component of the PSS preserved benefit before payment commences. The funded components are indexed by crediting the rates to the PSS fund. The indexation arrangement was an integral part of the original design. The information on the preserved benefits in the department's submission focuses on the PSS. That scheme has by far the largest number of preserved beneficiaries of the three schemes and nearly 60,000 preserved beneficiaries. Because of the design of the PSS benefit, which requires most members leaving the PSS before retirement to preserve at least some of their preserved benefit in the PSS, this number is expected to grow.

In summary, the submission provides information on the Commonwealth's civilian employee superannuation scheme. It is not the role of the department to publicly comment on the appropriateness of these schemes or any feature of these schemes, except in the context of explaining the policy of the government of the day. However, having said this, we are more than happy to assist the committee to any extent that we are able to do so.

CHAIR—Thank you very much. Mr Fahey agreed, in a meeting with ACPSRO and RDFWA, to undertake an examination of indexing public sector superannuation schemes, including the military schemes. Would you mind advising the committee of the progress of this examination?

Ms Wilson—I think that would be a matter that really should be addressed to the minister.

Mr Hodgson—We were not present at that meeting—sorry; I was not. Do you want to comment?

Ms Wilson—I said I think really that issue should be addressed to the minister because it is the minister who said that he will look into the issue.

Senator ALLISON—He has not taken that up?

Ms Wilson—I cannot really comment on that, Senator. It is a matter for the minister.

CHAIR—Perhaps it is more appropriate for Senate estimates questioning.

Ms Wilson—Yes.

CHAIR—We can hold that over to Senate estimates. We have heard evidence that a number of state schemes are moving towards the lump sum type payment, and witnesses have suggested that sometimes it is a means of accessing a pension and benefits the pension if people buy antiques and other things to circumvent the impact of means testing and that sort of thing. Effectively that means a transfer of responsibility for pension payments from the states to the Commonwealth, doesn't it, because people effectively double-dip. They take their lump sum, spend it, and then fall back on the aged pension.

Ms Wilson—I think there are issues there to do with whether they actually can take their lump sum and spend it. They certainly cannot do that before preservation age.

CHAIR—I know.

Ms Wilson—But there is an issue that the states do not have to concern themselves with the impact on the social welfare system. That is a concern for the Commonwealth government but not a concern for the states.

CHAIR—So in effect there is a potential transfer of liability from the states to the Commonwealth and that encourages the practice of what I might call double dipping for those who wish to use astute financial advisers.

Ms Wilson—That could be true.

CHAIR—Is that a matter that could be given some attention?

Ms Wilson—That is more an issue for Treasury.

CHAIR—Rather than Finance.

Ms Wilson—And I suppose also the areas that look after social welfare payments, yes.

CHAIR—You are aware of the practice, are you?

Ms Wilson—Yes.

CHAIR—Have you referred it to Treasury?

Ms Wilson—Treasury are quite aware of it. If you are talking about Victoria in particular, I understand—

CHAIR—I am not mentioning any particular states.

Ms Wilson—I do not know about the other states, but I know that Treasury are aware of the Victorian one.

Senator HOGG—The only issue I want to raise is whether you receive complaints about the method of indexation that is applied. I was not able to be with the committee yesterday but, from my time with the committee today, that seems to have been one of the major focuses of those who are in receipt of a pension from their superannuation. Do you receive complaints? If so, what do you do with them?

Ms Wilson—We actually do not receive any at all in our department because we are really policy advisers to the minister.

Senator HOGG—I accept that.

Ms Wilson—The minister of course has received representations from various bodies representing retired public servants. Senator Watson referred to a meeting that he had with a number of those representatives. The minister deals with his own representations, basically.

Senator HOGG—And there are none to the department as such?

Ms Wilson—No.

Senator ALLISON—I am sorry, I have not had a chance to read your submission and I missed most of your presentation. Did you address the question of the implications of shifting to another index such as MTAWE? Now that I am looking at it, I think you did on the last occasion: the change is estimated to increase the present value of liabilities by about $6.6 billion. Did you take into account a number of the arguments that have been put to us that there would be increased revenue from tax, that the pensions that would not be paid should be taken into account as well? Have you done that figuring?

Mrs Robinson—These figures were done for us by our actuary, Towers Perrin. What they actually say is that if MTAWE was 1.5 per cent more than CPI then that would be the cost. That would be exclusive of clawback, which is what you have been referring to as social welfare benefits being reduced for people who get increased CSS and PSS benefits, and also possible increases in tax. Actuaries, while they would be prepared to estimate clawback for us, would counsel us about the accuracy of it, really. They do say that clawback is fairly sensitive to the assumptions used and you cannot necessarily know what sort of taxation result will occur or what social welfare result will occur. In the long-term cost report which people have referred to earlier in the hearings, they do talk a fair bit about clawback. I do not know whether the committee has a copy of this, but we could make it available to you.

CHAIR—Thank you.

Senator ALLISON—Has there been any estimation made of the savings, if you like, associated with the low increase in the CPI since early 1996 associated with inflation? Surely you would want to offset that by that figure too. In some ways saying it would cost an extra $6.6 billion is really saying that is what we have saved over that time too, isn't it?

Ms Wilson—I do not know that actuaries would actually agree with that. Actuaries take a long-term view of the movement in the CPI. Certainly not in recent years but over a long term CPI could be considerably higher than it has been in the last few years. So I would think that actuaries would be reluctant to say that there has been a saving when you look at the scheme as a whole.

Senator ALLISON—So how far does this long-term view extend from the current time, and what does it say about CPI over whatever that period is?

Ms Wilson—Actuaries take a long-term assumption about CPI which they review every three years. In the last review they assumed 3.5 per cent long-term movement in CPI. Previously it was four per cent. They review that every three years.

Senator ALLISON—And that projection is for what period?

Ms Wilson—Forty years, usually.

Senator ALLISON—Over 40 years the CPI is likely to increase by 3.5 per cent?

Ms Wilson—What they are saying is that for the next three years, which is the period before they next assume it, the best assumption of what the average CPI over the next 40 years will be is 3.5 per cent.

Senator ALLISON—Per annum, not over that period.

Ms Wilson—Sorry, I did not make myself clear.

Senator ALLISON—If that is the case, that over the next 40 years we expect an increase of 3.5 per cent, doesn’t it suggest that the hiccup, if you like, of the last three or four years ought to be considered? It would appear to be very different from what you are suggesting will happen over the next 40 years. Would we expect in that 40 years to have some dips of this order along with some rises that would compensate for it?

Ms Wilson—Yes, it is an average, so you do expect there to be ups and downs.

CHAIR—Do you see any validity in the claims of members with preserved benefits in the CSS and the MSBS that they are penalised by having their unfunded employer financed components of preserved benefits indexed to CPI?

Ms Wilson—CPI is quite low and if those amounts were in a funded superannuation scheme then presumably, if you looked at the last 10 years at least, they would have increased by more than the CPI. But this was part of the original benefit design of the PSS in 1990, and it was part of the package of the scheme when it was developed within a cost structure.

CHAIR—You can see, though, that there have been changes in relativities since 1990.

Ms Wilson—That may be so, yes.

CHAIR—Do you believe those changes in the relativities are leading to a situation in which pensioners are effectively being penalised vis-a-vis the use of other indexes that might better reflect—

Ms Wilson—Are you asking me for my view about this, Senator? I do not think I am really entitled to give my view.

CHAIR—I think I was fairly careful in how I framed that question. I said, ‘Does the department see any validity in the claims of members?’ I think they were the words I used rather than actually asking for your views.

Mr Hodgson—Senator, just to make sure I understand the question: you are referring to employees who have left the scheme and their money is preserved until they take a pension, and it is the indexation of that preserved benefit at CPI that you are asking us to comment on. Sandra’s answer in relation to that was that it is all part of the structure of the scheme. If that were indexed at a different rate, it may well end up in a situation where you might advantage people who have left the scheme as opposed to those who stay in employment. So the structure of the scheme—

CHAIR—You have to put the two components: you could not do one without the other. You would have to adjust the pension for those pensioners as well as adjusting the benefit for those people who have left the scheme and who are not of pensionable age. Otherwise, yes, I agree with you, there would be an inequity.

Mr Hodgson—The scheme was and is set up on a basis that takes into account contributors such as people who have left and whose benefit is preserved and also pensioners. It is important that the balance be maintained between them. That is the way the scheme is. Clearly, if you gave a benefit to the preservers who have left their funds there—

CHAIR—We are not suggesting that. We are suggesting that you treat them both the same in terms of applying the same sort of index. Since the inception of the scheme, it has been part of the structure of the scheme—and we agree with that. What we are trying to evaluate is this: given the changes that have occurred such as the changes in spending patterns and the dependence of the load levels of retirees from the Commonwealth schemes increasingly falling back into the safety net of the social security Centrelink payment, that has given rise to the question being asked by this committee about the adequacy of the indexation. That is what we are trying to look at. We explored some of these matters with the Bureau of Statistics today. We realise that it is a difficult area. It has got to be basically a policy decision. We are trying to get some evaluation of the extent, if any, of deterioration in the benefits that have occurred since or shortly after the inception of the scheme compared with nowadays, because we are seeing a big difference in the gaps between, say, average male ordinary time earnings compared with the CPI.

Mr Hodgson—In the long-term cost report that we referred to there is an estimation of the long-term value of average weekly earnings ordinary time earnings over CPI. It comes out at about 1½ per cent over the 40 years. Simplistically, if that was applied rather than the CPI, then over that time you would be looking at 1½ per cent more. Whether that answers your question, I am not sure. As Sandra said, the scheme was set up with a certain structure, with certain entitlements, and to say that it has deteriorated or that certain members or preservers are disadvantaged—relative to what, I guess is the question. Certainly in the last 10 years, earnings on accumulation funds, which are quite different from defined benefits funds, have been a lot higher because of the stock market and growth in the economy and so on. Whether that would persist in the long term is a question you really need to ask an actuary.

CHAIR—On your presentation, item 22—and this is based on Towers Perrin, the actuarial form—indicates that CPI cost of the PSS is 14.2 per cent of superannuation salaries, whereas if you move to AWOTE, it is 14.7 per cent. It does not seem a big increase if you move, but what sort of impact would that have on the budget? That is a 0.5 per cent increase in the employer cost of the PSS.

Ms Wilson—That is based on contributors as at 30 June 1999.

CHAIR—Yes. For example, if the government decided to move—

Ms Wilson—This is the current body of preserved beneficiaries? We are talking only about the 60,000 preserved beneficiaries that there are at the moment.

CHAIR—Right. So that is the preserved benefits.

Ms Wilson—This is not pension indexation; this is about changing the basis of indexing preserved benefits between when they are preserved and when they are paid.

CHAIR—Right. That is the first part of the question. What is the cost of that 0.5 per cent increase in terms of your table in item 22?

Ms Wilson—I do not know that we have looked at that at the moment.

CHAIR—Would you take that on notice? Also, my colleague Senator Sherry left some questions yesterday which he wanted you to take on notice. Have you been given those?

Ms Wilson—Yes, we have.

Mr Hodgson—There is one relating to the military superannuation scheme which is not our area. We are happy to refer that to other officials or if you want to refer it to them later, it is up to you.

CHAIR—We have Defence coming next, so we might ask them.

Ms Wilson—Can I correct what I just said. I was not reading my own submission correctly. Towers Perrin have given us a dollar value of changing to AWOTE. It would increase the unfunded liabilities by $4.8 billion.

CHAIR—Per annum, or is it a one-off?

Ms Wilson—I beg your pardon: I need to correct myself yet again. It is $0.8 billion unfunded liabilities.

Mr Hodgson—It is a one-off over the 40 years or whatever.

CHAIR—So that would increase the unfunded liability by $0.8 billion?

Mr Hodgson—By $800 million.

Ms Wilson—We need to correct ourselves again.

Mrs Robinson—If you look at paragraph 22, it sets out the unfunded liability at CPI, which is $4.5 billion. If you were to increase it to AWOTE, the unfunded liability would increase to $4.8 billion.

CHAIR—Right, thank you.

Senator ALLISON—Can I ask for a response to one of the suggestions put by the CPSU, and that was that, where a member leaves the PSS, the preserved employer component should be increased at the prevailing crediting rate of the fund rather than the CPI. Is there anything you can tell us about the implications of doing that and why it should not be acted on?

Mrs Robinson—Again in paragraph 22 in the table set out, under the CPI line, the crediting rate, which I think is what you are referring to, shows that the unfunded liability would increase from $4.5 billion—

Senator ALLISON—Can you give me the page reference?

Mrs Robinson—Page 6. The table has the CPI line and underneath it has the crediting rate. It shows that the unfunded liability would increase from $4.5 billion to $5.4 billion. In terms of what is known as employer cost to the PSS, it would increase from 14.2 per cent of superannuation salaries to 15.7 per cent of superannuation salaries.

Senator ALLISON—Thank you. And it says that, where the funds are withdrawn, the former PSS member should have the option to roll over funds to another scheme capable of paying market return.

Ms Wilson—I will just add something to Rosemary's comment about increasing to fund earning rate. The actuaries have also advised us that, depending upon when the person leaves the scheme, you could end up advantaging the preserved benefit person over the contributor who continues to remain in the scheme. That would be another implication that would have to be looked at, as well. With regard to roll-out, and there is a couple of issues here that our submission does talk about on pages 7 and 8, we also took advice about this. There is obviously a significant cash impact because the schemes are largely unfunded. The large amount of employer component would have to be found at an earlier time than it would otherwise be found. Also, the actuaries advise that the unfunded liabilities would increase by early roll-out by $0.6 billion and that the average cost to the PSS would increase by 0.9 per cent of superannuation salaries if that was allowed.

CHAIR—Have you done any study of the relativities between people under Commonwealth pensions vis-a-vis state pensions, and how they compare?

Ms Wilson—No, we have not done any studies, Senator. The states have a number of different superannuation schemes and a number of them provide pensions similar to the Commonwealth schemes and some provide preserved benefits similar to the Commonwealth schemes, but they are not exactly the same sorts of schemes.

CHAIR—Do any of them have benefits which are greater than in the Commonwealth schemes?

Mrs Robinson—In terms of the indexation methods?

CHAIR—Yes. Perhaps we should look at indexation first, but also the quantum.

Mrs Robinson—I am not aware of anything being done on the quantum but, in terms of the indexation, the Commonwealth's indexation arrangements are quite similar to a lot of the states. I think the CPI forms the basis for most of the states main pension schemes.

CHAIR—But some pay twice a year.

Mrs Robinson—Yes, that is correct.

CHAIR—How many pay twice a year?

Mrs Robinson—I do not have that information with me, but I can get it for you.

CHAIR—That would be handy. I understand that there is legislation around—I do not think it has come to the Senate yet—to make certain changes to schemes. Is that right?

Ms Wilson—Are you talking about the Commonwealth schemes?

CHAIR—Yes.

Ms Wilson—Are you talking about legislation that has been introduced into the Senate to close the PSS?

CHAIR—I understand that there is some superannuation legislation around. I am just asking you about the nature of it; I have not seen it.

Ms Wilson—The Minister for Finance and Administration has five superannuation bills in the process of going through the parliament. One is a set of four bills involved in closing the PSS and introducing choice for public servants, and a number of other changes. There is another bill to do with post-retirement surcharge commutations, which was actually introduced into the House of Representatives recently.

Mr Hodgson—I can help with the earlier question on the states. I have a table which gives the frequency of indexation. The Commonwealth's CSS and PSS are indexed annually, of course, as is the Commonwealth military scheme. Queensland is annually, South Australia is annually and New South Wales is annually. Tasmania, Victoria and Western Australia are biannually. They do not all exactly follow CPI in the sense that the Commonwealth schemes follow all capital cities; whereas, as an example, the Queensland scheme follows the Brisbane CPI, which makes sense and South Australia follows Adelaide. Interestingly, Tasmania and Victoria follow all capital cities CPI, even though they index biannually. Is that what you wanted?

CHAIR—Yes, I think that is the information we wanted. Could we have that document or is it an internal document?

Mr Hodgson—Certainly.

Mrs Robinson—Something else is attached. We are happy to provide it.

CHAIR—Thank you.

Senator ALLISON—Retireinvest suggested that the government ought to look at alternative measures of indexation, such as the retiree price index. Was that also in your table as a consideration?

Mrs Robinson—No.

Senator ALLISON—Do you have any views about that?

Mr Hodgson—I guess we certainly would not claim to be experts on various indices. We are more than happy to take that question on notice and have a look at that.

Senator ALLISON—I just wonder whether that would deliver a greater return and at higher cost, as a compromise position or whatever.

Mr Hodgson—I do not know. We do not know how those indices move.

CHAIR—Thank you for appearing before the committee and for your submission. It is very much appreciated.

[1.53 p.m.]

CHARLEY, Mr Phillip John, Director, Superannuation, Department of Defence

ROBERTS, Group Captain Lee Colin, Director, Salary and Allowances, Department of Defence

WELLSPRING, Mr Adrian, Director-General, Personnel Policy and Employment Conditions, Department of Defence

CHAIR—Thank you for appearing before the committee today.

Mr Wellspring—Thank you for the opportunity to come before the committee to speak about Defence superannuation arrangements. Defence has made a submission to the inquiry and I do not propose to go through the submission in detail. Rather, I will address some of the main points.

There are two superannuation schemes for members of the ADF: the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme. The former was introduced in 1973 and closed to new members in 1991. Some 12,400 members of the ADF remain contributors to that scheme. The Military Superannuation and Benefits Scheme was opened in 1991, and all new members of the ADF are required to join that scheme. There are some 37,800 contributors to the MSBS and some 38,800 have preserved benefits. There are indexation arrangements for both superannuation schemes and these use the consumer price index as the basis for indexation. Indexation applies to pensions and the unfunded employer component of the MSBS. The rules relating to these indexation arrangements are either in legislation or scheme rules created in accordance with the legislation. Indexation arrangements have been in place for quite some years.

The Defence submission notes that at times there is criticism of the indexation arrangements. This criticism often implies that the schemes are deficient in this regard and are therefore bad schemes. The criticism is usually single-focused with the suggestion that rather than a small change resulting from indexation arrangements, members might be better of by taking the money and investing it in the open market. This raises the issue of the unfunded liability of the schemes, particularly that part that relates to the preserved benefits. The Australian Government Actuary has estimated that if all existing preserved benefits were to be funded for the military superannuation schemes, there would be a need to find in excess of $1 billion. Further, the criticism does not take into account other scheme design features—for example, the fact that members receive their own contributions, plus interest, as well as a separate employer benefit, is often overlooked. The invalidity and death benefits are also often overlooked.

Without defending the scheme or making comment on those who complain about the scheme’s indexation arrangements, both schemes include a mechanism whereby the purchasing power of benefits is maintained. As the Defence submission notes, there are methods other than the CPI that could be used to index pensions and preserve benefits. Those methods may produce an outcome that is more favourable to the members and this would increase the cost of the schemes. That cost would have to be found or accommodated by scheme design changes to offset the increase in cost. If there were to be changes to the indexation arrangements, legislation and scheme rule changes would also be required. I would be happy to answer any questions.

CHAIR—Both the Jess report and Professor Pollard, in reviewing superannuation, believed that there was an adjustment necessary annually so that the relativity with average weekly earnings is maintained. Is it Defence's view that that relativity has been maintained in recent years through the use of a CPI?

Mr Charley—I do not think that has actually been addressed by Defence. At the moment, the rules—as they apply—require us to use the CPI, and that is done. No work has been done on looking at the relativity with average weekly earnings or another index like that.

CHAIR—It seems to me, from reading those reports, that the aim of preparing the report was to ensure that relativity with average weekly earnings is maintained. The thrust of the presentations to our committee to date appears to be very strongly that that relativity in a sense has been eroded by the use of a CPI and, while perhaps in earlier years it had a great deal of connection, in more recent times that has disappeared. Have you had representations on the basis of loss of status, loss of consuming power or reduced standard of living after people have retired?

Mr Wellspring—It was the minister who said the number of representations on really the indexation issue and getting access to the preserved benefits are often linked in that way, saying, 'Well, if we could take our money out and put it elsewhere we would do better.'

CHAIR—That is one issue, but the other issue in terms of the pensions that are being paid to former members of the defence forces is that they have been slipping back—falling increasingly back, particularly at the lower end of corporal, lance corporal, sergeant and those sorts of people—more into the Centrelink, social security, age pension arrangements or supplements, if not wholly.

Mr Charley—I am not aware of questions being asked in that format. Those sorts of issues have been used as arguments for gaining access to the preserved benefit, to take it out of the scheme to get access to the notional benefit.

CHAIR—But you have not had representations although you presume the minister may have?

Mr Charley—Not that I am aware of, Senator.

Group Capt. Roberts—I can probably answer that as well in that a number of representations do come to me from the minister's office. Again I guess I am saying the same number. It is not that specific issue that is raised in them as a single point. It is often mentioned as one of four or five items. Normally it is conditions, particularly the condition to do with the preservation. Again military personnel are probably a little bit slower in some ways than the rest of the community in recognising what is changing outside. It took a long time to get people to understand what the new preservation rules meant.

CHAIR—A lot of people understand very succinctly—and they put it very clearly to our committee—about the erosion of benefits. I am interested that that has not been communicated to you. Obviously it must have gone elsewhere.

Group Capt. Roberts—Again, as I say, I am not aware that—

CHAIR—We have to look at all sides of the argument. It is part of our job to make those assessments. If you read the *Hansard*, I think you will be very moved by some of the stories that have been presented to the committee in the last couple of days.

Senator HOGG—In your submission I note, and I think I picked it up in the words that you were using in your presentation to us earlier, that you referred to the purchasing power of pensions and preserved benefits. You say, under the heading 'Comment' on the last page:

> The indexation arrangements recognise a commitment to maintain the purchasing power of the pensions and preserved benefits. They are a measure of change and historically this has been based on the consumer price index.

Evidence that we had this morning from the Australian Bureau of Statistics went to that very issue of the purchasing power. Really, the CPI is a measure of inflation and not a measure of the cost of living—and I am looking at my notes as to what they said so I think I am paraphrasing them reasonably well—and that one does not really, by using the consumer price index, preserve the purchasing power. This is where part of the difficulty in this area lies. I am not being critical of you, but there is confusion in the language that is used. While some people may believe that the intent of the CPI is to maintain their purchasing power it does not necessarily do that because that is not what the CPI measures. Hence we had questions to ABS this morning about what constitutes the basket—whether it is the best indicator to use in terms of indexing the various pensions and so on. Would you comment on that?

Mr Charley—Perhaps it is best answered in this way from our perspective, that the CPI is a measure of change and it is a measure of change amongst many measures of change. It is the one that we have, through the legislation, to work with.

Senator HOGG—I accept that, but there is confusion out there in the real world in the minds of people who are receiving these pensions, who have put claims to this committee that their pension is being eroded, that the benefit that was there is no longer there. Probably because it is the common usage of language—I am not being critical of it—I see that that appears in your submission. Have you thought of addressing that issue in dealing with the complaints that you might receive?

Group Capt. Roberts—To answer it I guess in the way that we view it, and in some way it would flow through my responses to people who do raise this formally, most of our emphasis is probably on the longer term benefits of the scheme itself. As I say, there are people who will certainly be in a position where they do not get much out of the scheme. The scheme is designed for longer term members. You will see that there are various points at which we actually retain people. We tend to retain an awful lot of people from the 10-year point to the 20-year point, for instance. Very few would get out in that period because that is where we have a maximum benefit period through the scheme. There is actually a retention benefit that goes on top of these conditions. So that tends to hold them to there, and that is one of the things we point out. They are very high benefits. You would then start arguing, and many of these people who do write are talking about very short-term periods in the Defence Force, for six years or less. That is where the sort of comment you are making is probably quite valid. It is probably not in the scheme design. I cannot talk too much about that; that is something that was done before it gets handed to the Defence Force. But within the scheme design it was believed at the time that that provided the compensation. Certainly what you are hearing now is evidence whether it is or not. But, no, we have not actually gone into looking at that sort of detail.

CHAIR—I suggest that perhaps when you are making presentations to this or another committee of the Senate a little more care could be taken in terms of your comment that indexation arrangements recognise a commitment to maintain the purchasing power of the pensions. As we found today, that is not 100 per cent accurate. It is an attempt to partially offset. I think it is important that those words be revised because they convey a notion that would not meet people’s expectations over time 100 per cent. The manner in which we convey information is very important. Perhaps we might ask you to look at that in a future presentation to this or some other committee because, as we have found today very conclusively, there are a range of indexes and the CPI does not meet that criterion. That actually came from the Bureau of Statistics. Of course, it was never attempted to do that in any way. It was not designed to do that, changes in the inflationary impact on certain prices of a particular basket.

Senator ALLISON—Can you tell the committee what the average length of stay in the military is for employees now? I think I know the figures for the Public Service at large, which is around two years, I understand. But what is it in the military, and what are the trends?

Mr Charley—I do not have the actual trend figures with me. We probably could provide those to you. As I understand it, a person joining the Defence Force today will probably stay for around six to seven years, but that depends on the people. There are some points at which people tend to leave. We have found that there is this six- to seven-year point when people go. There tends to be another point, as has already been mentioned, about the 10-year point and then at about 20 years as well. They seem to be the peaks of when people leave the Defence Force.

Senator ALLISON—In what year was the decision made to preserve benefits until retirement? How old is that policy?

Mr Charley—That is part of the scheme designed in 1991.

Senator ALLISON—How much consideration was given at that time to the different kinds of careers that there are in the military, the kinds of work patterns and opportunities for people who retire and the early retirement of certain sectors of the Defence Forces? Perhaps you could point to a document that tells us about that. I am thinking, for instance, that there must be shorter career spans in some areas of the military—I do not know what they would be, but in the artillery, for instance, I imagine you cannot be running out doing exercises until you are 60.

Senator HOGG—Or a submariner.

Senator ALLISON—Or a submariner. I am sure that there are a lot of occupations that force people into early retirement. Is there a document that we can look at that shows that?

Group Capt. Roberts—There is no document that I know about off the top of my head, but I can explain some of that to you right now. A lot of the scheme set up in 1991 was set up to follow the original scheme—the Defence Force Retirement Benefits Scheme. The whole aim of that scheme was to keep people in for 20 years, minimum. The DFRDB scheme, in fact, was to keep people for 20 years and encourage them to get out at that stage, because you could actually take a pension after 20 years of service and leave. We actually wanted people to leave at about 38 to 40 years of age, at which point people had probably reached the maximum extent of their fitness, if they were to be used in the field. After that, you are starting to look at them more for using their experience at the higher rank levels or at the senior non-commissioned officer level. That is the way the scheme was designed.

To some extent, this new scheme—the MSB scheme—replicated that by building in a retention benefit that was paid at 15 years for people who stayed on to 20 years. However, it did allow people to be paid a benefit from a much earlier time, so it did recognise that all of a sudden people did not join the Defence Force for a full career of 20 years. For instance, under the old scheme, you did not get anything with less than 20 years of service. Consequently, if you got out at 15 years—as it so happens, I did—you got all your contributions back and nothing else. The new scheme basically allows us to have people come in for short periods and move on. But even at the time the scheme was designed, we had two things—

Senator ALLISON—I am sorry to interrupt, but can you tell the committee exactly what happens now if you leave the Defence Force after 15 years?

Group Capt. Roberts—Now you will get the same sort of benefit that you get under any of the Commonwealth schemes. So you still get a preserved entitlement to a lump sum which can be commuted to a pension.

Senator HOGG—Are you saying that there was a vesting provision previously?

Group Capt. Roberts—No, if you left after 20 years in the previous scheme, you actually got a pension entitlement effective from that time. If you did less than 20 years, you got nothing except the contributions you had paid in, which were paid back to you as cash, and that was it. Unless you put that into, at the time, an ETP, you got no benefits at all.

So the new scheme was a vast improvement on that scheme, but it was at a time when the basic Defence policy was that people were joining for a career through to age 55—that everyone did that. The reality, of course, was something different. Over the nineties, of course, it has moved even further away from that. It still exists in some of our remuneration policies, which are all of one company: all officers at a particular rank get paid the same, regardless of their particular specialisation. We are currently reviewing all that. I have just come from a separate review that is looking at recognising that people join for different periods of time and they join for different reasons: some people join for full careers; some people do not. So we are looking at all those policies. But it was not recognised at the time that the MSBS system was brought in.

Mr Charley—Senator, may I just clarify a point for you. Under the old scheme—the DFRDB scheme—a person who left at 15 years would receive their own contributions, a productivity benefit and the superannuation guarantee top up to the superannuation guarantee minimum. Under the new scheme—the Military Superannuation and Benefits Scheme—a person who leaves at the 15-year point will receive their own contributions plus interest and they will have an entitlement to a preserved employer benefit, which then remains preserved in the MSBS until age 55.

Senator ALLISON—Can you explain the rationale for the DFRDB scheme reversionary benefits being paid at 62 per cent of the rate? Why is that figure chosen and how is it that it diverges so significantly from parliamentary superannuation schemes?

Mr Charley—I do not know that I want to address the difference between the parliamentary scheme and the other Commonwealth schemes. The issue of the reversionary benefit for the DFRDB scheme and the MSBS scheme and the difference in the rates were addressed at the time the scheme came into being. I have here an extract of the Cole report, which addresses that issue for you, if that would be of assistance.

Senator ALLISON—Are you able to summarise briefly what is in that document?

Mr Charley—If I can. Perhaps the only way I can do this is by actually referring to the detail in the Cole report. It starts at paragraph 5.11 of the report. It addresses the difference between 62.5 per cent and 67 per cent of the member's pension being paid to the eligible spouse. There is a suggestion there that the benefit is in fact much the same if you look at the way the benefit is calculated and what goes into the benefit. It says that there are three elements in the equation that go into the determination of the spouse pension, and two favour the DFRDB scheme. It talks about the maximum amount of the member's pension, the proportion of the pension that is indexed—and there is a difference between the DFRDB and the MSBS in the way that works—and the spouse pensioner's proportion of the member's pension. In terms of the rationale to get to the 62 per cent or the 67 per cent, I cannot answer that; I am sorry.

Senator ALLISON—In recruiting for the defence forces, does the retirement scheme offered pose a disincentive to recruits? Are they interested in the subject? How much knowledge is there across the force about entitlements?

Group Capt. Roberts—At this stage, we believe that the superannuation package has no effect whatsoever at the recruitment stage. We are actually going to try to prove that—or disprove it if we can—fairly shortly by doing a survey of new entrants. At that stage, we will make some judgments. We do try to get information into them as quickly as possible once they have joined us. But it is like the rest of a remuneration package, particularly getting pilots into the Defence Force; it does not matter how much money you tell them they are going to earn or not earn, they join because they want to be pilots at that stage. It tends to become significant at around four to six years. I should also mention that one of the reasons why this scheme is different, when we talk about a lot of servicemen leaving at about the six-year point, is that in many cases it is because they cannot leave before six years. They sign up for an initial period of service, so all these factors are taken into consideration, as well.

CHAIR—My colleague Senator Sherry, who is deputy chair of the committee, has asked that you supply, on notice, the costs of applying AWOTE to the military funds for all personnel. There being no further questions, thank you very much for your appearance before the committee today.

[2.21 p.m.]

CHAIR—We now move to an open forum. Only two people have registered to speak so far. If anyone else would like to come forward, please do so.

HINGEE, Mr Etienne (Private capacity)

Mr Hingee—My name is Etienne Hingee. I represent myself but perhaps also a group of superannuants who need representation but who do not have it. When we had the 1926 scheme I was a clerk with the CSIRO. I recall collecting money, rather than paying out wages, because people had to buy superannuation units. They were at the end of their working lives and they simply did not have enough money to live on. They had to give money to the Commonwealth to pay for superannuation.

When the scheme changed, I recall seeing a document—I do not know where it was—saying that the investment raised by the Commonwealth under the previous scheme was earning very small amounts of interest: about 0.16 per cent, two per cent or three per cent. To the best of my recollection, amounts of money were going to funds that were infrastructure related. Subsequently, when the scheme changed, a group of retiring superannuants had to pay—by reduced pensions or some way or another—for the losses made by the scheme as a result of the investment decisions of the then Treasury.

CHAIR—What year was that?

Mr Hingee—The 1960s or possibly the 1970s when the scheme changed from the 1926 scheme. Someone remarked to me at the time—I did not understand super much in those days—that people going out on super from that point had to pay for the losses of the previous scheme. Treasury had transferred the losses to the new scheme and they were paid by the contributors—particularly those moving to retirement at that time. I guess those people would now be in their 70s and 80s. I think it is a great injustice that they had to bear that loss and received no recompense when the infrastructure was sold. That infrastructure included Chifley Square, buildings and so on that were sold at great profit. If Senator Sherry were here and asked me how to pay for it, I would tell him to pay for it using those profits.

Another group helped to fund that scheme: women. In the early days, women were forced to resign from employment upon marriage. I recall that my section head at CSIRO had to resign, and I wondered why. As I began to understand the processes, it became clear to me that forced resignations denied women the benefits of a pension down the line. We are now advancing from 60 to 62 to 65 the time when people can collect their pensions. Why not hold it at 60?

There is another problem—Retireinvest sparked this idea. How will we fund any increases? When I was retrenched, I preserved my benefits for four years and went without a salary. I did not want the lump sum, but I was forced to take it when I eventually converted to a pension. I would have liked to keep the lump sum in the super scheme and at some date in the future—depending on the movement of the cost of living and so on—convert some of it to an indexed pension or perhaps to a lump sum. Essentially, I did not need the money and I would have preferred to leave it in the scheme, which could have made better use of it and funded any increases.

Senator Sherry would probably ask me, 'How would you pay for it?' We heard someone talking about productivity benefits—I forget who it was. I did not want to leave work; I was forced to. If my productivity of a small pension plus working back in the Public Service, contributing my corporate knowledge rather than losing it totally, enabled me at least to stay in employment and stay interested in things of a wider nature, that would have been something I would have preferred. Maybe my productivity could have counted to an increase in my pension at some future date. The other thing I would like to mention is that, if the coming super bill to eliminate Commonwealth superannuation and send it out to private enterprise is passed, you are condemning people to a working life of no more than 15 years. That is the end of things I need to say.

[2.27 p.m.]

SMITH, Mr Trevor, (Private capacity)

Mr Smith—My name is Trevor Smith. I am a member of SCOA, but I am appearing in a private capacity. I want to support the SCOA presentation which was delivered to you yesterday. They pointed out a method of indexation, and things like that, which is very similar to the parliamentary system. SCOA has also made some representations to the ACT government in terms of concessions to apply to superannuants. That is in process. I will be interested to see what Gary Humphries has put in his draft budget today and whether we got anything out of that. I want to point out the danger of typecasting. Listening to all the people who talked today, they said, ‘We are retired. We’ve paid for our own homes. We’ve paid everything off and we’re now living on our pension.’ I represent a group which, in the last 10 or 12 years, have been retrenched or have taken early retirement. Our employment potential was cut at the time that we took early retirement.

I worked for the Parliament House Construction Authority. When we delivered it in 1988, they said, ‘We don’t particularly want you guys back in the Public Service’—I was 56 at that time—‘Why don’t you take early retirement?’ So I took early retirement. For the first few years, I found I could get jobs fairly easily, but no-one wanted me permanently; it was all project work. That has gone on until this time. Project work took me all over Australia. Finally, about a year ago, I came back to the ACT to live because all my family is here and I had to take out a new mortgage. As Stats were saying, we do not include mortgage payments in pensions. It is true that in the last 10 years there has been a great upheaval in Australia. In fact, following projects around Australia I have met people of my own ilk, some of whom are extremely qualified—doctors of engineering, which is quite unusual really.

These people are performing basic engineering, planning jobs and things like that. Some are even acting as technicians because that is the best that they can get. Because they are getting some pension, it is not so important for them to start a new career move. That is the sort of thing that is happening. When they reach 65 years of age or so and they are actually forced to retire, then they are forced to come back and restart a new life again. I would like to make the point that we have not got to the end and everything is all bought and paid for and we can live on whatever is eked out. I guess that is it.

CHAIR—Thank you very much, Mr Smith. It is very important to hear your experiences. We will certainly take them into account in our presentation.

Mr Smith—It is what has happened in the last 10 years. If you think of retirement for people 20-odd years ago, yes, they had the opportunities, if you like, to go to the end of their employment tenure and do things like that.

CHAIR—I think one of the important features of the Senate committee system is that it does provide an opportunity for people such as yourselves to come before a committee of the parliament, the Senate, and for us to hear your ideas—otherwise, sometimes we get swamped with bureaucratic advice.

Mr Smith—Thank you.

Senator HOGG—Hear, hear! Well said, Chair. That will be noted on *Hansard*, won’t it?

[2.31 p.m.]

WILKINSON, Mr Kevin William, (Private capacity)

CHAIR—Do you wish to make a comment? You are free to do so.

Mr Wilkinson—I came with the intention of making a comment, Senator. I am a retired former officer of the Department of Foreign Affairs and Trade, and I am speaking here as a superannuant. I am concerned, of course, about the indexation that exists at the present time. I understand technically what the Statistician has said—I have not read his submission—and what the committee has mentioned, because I was an economist and my work was basically in education in that kind of matter. A factor which I think applies largely throughout Australia is that, accepting the GST—and it has been introduced—and accepting even government figures, there was a one-off extra cost in the CPI of three per cent. All savers, who are basically retired people on superannuation schemes, effectively lost three per cent of their purchasing power in terms of lump sums which will never be made up in terms of income tax concessions.

The other thing, which I suppose the committee has covered in other submissions, is that the taxation structure is such that, if a proportion of any earnings on a lump sum is placed in secure investments of cash or neo-cash types, up to 50 per cent of the earnings on these investments, which should go back to preserve the capital earning capacity in real terms, is abstracted through the taxation system. That has not applied in the past in terms of shares and other kinds of investments. When one is reaching my age—I am 69 and will be 70 this year—prudentially talking about the stock exchange or things of that kind for the long term—well, we prefer to look backwards rather than forwards.

Apart from that, and in fairness to the community at large, I have had cause to reflect on the great advantages that I had as a permanent Commonwealth public servant. I joined at the end of 1948 and served until 1995. I found it an enjoyable and, in fact, privileged career. I have appeared before committees like your own and I have always been treated, I must say, despite some of the stories—I even know Senator Bishop; I was not one of her victims—with the greatest courtesy. I have to reflect on the comments that you made that it is interesting to come as a private citizen and be invited to say something about something that I moon about at home.

Reflecting on my son, who is 29, and the casualisation and the difficulties of employment that confront him—probably not with the same realisation—I recognise that I have been very privileged. The Commonwealth—I know a little of the history—introduced all kinds of social reforms in the Public Service right from the beginning of Federation, including three weeks leave. I had uncles who worked in a wire factory and who did not have any leave at all at the end of the war. I know people who, up until the end of the war, if they wanted to get married, had to do it on a holiday weekend. Those were the kinds of conditions that existed. We were a very privileged group—the group in my generation was the last of it, probably. So I cannot say that it was all negative. Apart from that, excellent sick leave provisions and things of that kind I contrast with the conditions that many in the community have to face up to.

One of the down sides, I think, in the modern situation that is probably going to confront the next generation of retirees that are coming through is the lack of permanency and the fact that you are going to have to make career decisions with the superannuation and so on that they have. I suppose that community values are: why should public servants be treated as office holders of the Crown; why should they get these extra privileges? So when I heard about this inquiry being held, I could understand all the logic of it. I think I was sufficiently close to the political process for a long period of time to recognise that, while the timing is probably perfectly correct, the probability of great success in terms of budgetary concepts is not great.

It is widely recognised that the PSS was designed to reduce the Commonwealth's liability. People cannot try to pretend it was an improvement—it was reduced from 20 per cent to 13 per cent, and basically now I think it is down to nine per cent or whatever the community standard is supplied through awards. Having said that, I do not know whether it adds anything to your deliberations, but I thank you, Senator Watson, for the courtesy that you offered me in relation to hearing. I have one bad ear and another one that is not so good. I would like to say it was because I had to come to committee hearings and so forth, but I do not think I can blame it on that. The specialist has told me it is due to excessive swimming when I was young and a few other things—that it is inherited from my grandfather, who was a quarryman and his hearing was very bad at the time. Thank you very much for the courtesy.

CHAIR—Thank you very much. That concludes the committee's proceedings. We will certainly take note of everything that has been said today, take further advice and proceed to report. Copies of the report will be sent individually to each person who presented to the committee. Thank you all for attending and thank you for your presentations.

Committee adjourned at 2.38 p.m.