Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009
Department of Finance and Deregulation
Finance and Deregulation Portfolio

Question 1 of 11

Number of Pages: 3
Senator FIELDING asked:

How does the superannuation entitlement scheme compare with those post 2004? Have you had actuarial advice on how it compares on a dollar basis or on a per-year basis? How does it compare?

Ms Campbell—I do not think we have had actuarial advice. We have not sought actuarial advice on the comparison. I think it is fair to say we have not ever sought that advice.

Mr Sotiropoulos—No.

Senator FIELDING—Could you find that out or establish the difference between the two?

Ms Campbell—Would you be asking how much the current PCSS is worth in dollar terms or percentage of salary terms to a member versus the 15.4—

Senator FIELDING—What you could do to keep it simple—because there are so many variables here—is to do it just on a straight backbencher's entitlement, so that keeps the variables of ministers and all sorts of other variabilities out, and do it year by year: year 1, year 2, year 3, year 4, year 5, year 6, year 7, year 8 et cetera. You could probably go up to a maximum of 30 years, and then on the right-hand side you could show the old scheme entitlement and the new scheme entitlement. You could do it for a couple of scenarios about how many terms they were elected for, so you would have a couple of variables in there. The actuaries could do it pretty quickly, actually; it would not take long to do.

Ms Campbell—That would be possible. It is also worth remembering that we would need to include the 11.5 per cent post-tax contribution that the PCSS members make, which is a significant element.

Senator FIELDING—Correct.

Senator FIELDING—I think the actuaries have probably already done it. You are asking them for information they have probably got, I would think. Is that something you could take on notice?

Ms Campbell—Yes, we will take that on notice.

Answer:

Under the Parliamentary Contributory Superannuation Scheme (PCSS), the form of entitlements payable to a member on retirement is dependent on their length of service.

Where retirement is voluntary, a retiring member qualifies for a life time reversionary indexed pension after completing 12 or more years of service or after serving the equivalent of four terms. If a member's retirement is involuntary (e.g. due to the loss of pre-selection or loss at an election), a retiring member qualifies for a pension after eight years of service, or three terms.

Where a member is not entitled to a pension, they are entitled to a lump sum comprising the higher of:

- a refund of the member contributions plus a supplement (which is 1 $\frac{1}{6}$ times the member contributions if retirement is voluntary, or 2 $\frac{1}{3}$ times the member contributions if retirement is involuntary); or
- a lump sum amount equal to the minimum amount required to be met by the Commonwealth (as employer) to satisfy its obligations as an employer under the *Superannuation Guarantee (Administration) Act 1992*.

Under the post 2004 arrangements, the form of benefit is not dependent on length of service. A member would receive, on retirement, the balance of his/her total superannuation contributions, accumulated with investment earnings.

In order to make comparisons between the superannuation arrangements, the following assumptions have been made:

- the member retires from Parliament in August 2010 at age 60;
- the backbench salary at the time of the member's retirement is the same as the current rate of $127,060 per annum;
- the member had received the backbench salary (per historic salary data) for the duration of his/her service;
- the PCSS member's retirement is considered involuntary for the purpose of calculating benefits for service periods that are less than 12 years (and thus qualifying the member for a pension entitlement after eight years of service or three occasions);
- for a member covered by the post 2004 arrangements:
  - the member had received employer contributions of 15.4% each year (notwithstanding that Superannuation Guarantee was introduced progressively from 1992) and in addition, has salary sacrificed an amount each year equivalent to the after tax contribution of 11.5% (or 5.75% after 18 years of service) made by a member in the PCSS;
  - the salary sacrificed amounts were calculated based on historic backbench salary and income tax rates (to which a Medicare levy of 1.5% was added);
  - administration fees and insurance fees that are charged by AGEST were applied;
  - 15% contributions tax on employer contributions was applied; and
  - a fund earnings rate, after investment fees and taxes, of 6% (this is based on the target asset return for the Balanced investment option in AGEST of CPI plus 3.5% per annum over the investment timeframe);
- for the purpose of calculating the after tax superannuation benefits:
  - the member does not have any other assessable income besides the superannuation entitlement; and
  - the tax rates for superannuation benefits in 2009-10 (plus a Medicare levy of 1.5%) were applied.

Based on these assumptions, the tables below provide a comparison of the superannuation entitlements payable from the PCSS and the post 2004 arrangements for a backbencher, given the duration of service.

- Under eight years of service (lump sum entitlements only for PCSS members)

Years of service	**PCSS Entitlement – Involuntary Lump Sum Benefit (after tax)**	**Value of benefit under post 2004 arrangements (after tax)**
1	$43,081	$38,525
2	$86,162	$81,070
5	$208,159	$212,494
7	$279,676	$306,670

- Eight years of service or over

Years of service	**PCSS Entitlement - full pension**	**PCSS Entitlement - 50% pension, 50% lump sum**		**Value of benefit under post 2004 arrangements (after tax)**
	Pension pa (after tax)	**Pension pa (after tax)**	**Lump Sum benefit (after tax)**	
10	$62,764	$33,912	$302,322	$455,485
15	$75,847	$41,043	$372,526	$723,596
20	$83,390	$44,943	$414,326	$996,809
30	$83,222	$44,882	$413,558	$1,458,796

Note: the above results are dependent on specific assumptions. Changes to any of the assumptions listed above may lead to a significant change in the results.

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009
Department of Finance and Deregulation
Finance and Deregulation Portfolio

Question 2 of 11

Number of Pages: 5
Senator POLLEY (Chair) asked:

I just want to see whether you can highlight any other differences for those who are on the old scheme in terms of the benefits to their spouse as opposed to the new scheme—which I would think is not considered by those elected after 2004 as an entitlement to a pension after they leave parliament; it is their own contributions to superannuation. I am interested in whether there are any issues that change the benefits of a spouse and also whether there are any differences in terms of insurance for those elected prior to 2004 as opposed to the new members and senators in relation to their own insurance—their health and death benefits.

Ms Campbell—I will start, and hopefully my colleagues will be able to give some more detail. The pre-2004 scheme was a defined benefit very structured around the pension and the availability of a lump sum. The post-2004 scheme is a more modern system, an accumulation system which allows members to make their own decisions about where their money is placed, including how it is invested, as well as portability—so it can be transferred into other schemes and members can also include other superannuation funds or elements that they have already accrued or are going to accrue into the future. Regarding the insurance, I will ask my colleagues whether they are able to comment on the insurance elements. Clearly the old scheme had an invalidity element, which was common to most of the old defined benefit schemes, where there was not that clear precision which there now is between accumulating retirement and looking after invalidity.

Mr Sotiropoulos—As Ms Campbell just mentioned, invalidity is the appropriate insurance benefit that would be payable under the PCSS. In the new arrangements it would depend on the nature of the insurance arrangement for the particular superannuation scheme that the member is in. I do not have details of those specifics for any particular scheme, so I would have to take that on notice.

CHAIR—If you could take that on notice, I think it would help to clarify it for the committee and, probably more particularly, for the media. I think there is a lot of confusion in terms of the two schemes and the benefits and the generalisations that are made in relation to this issue.

Ms Campbell—We will probably be able to provide the default scheme, which is AGEST. That is something that we will hopefully be able to provide quite easily.

Answer:

Details of the death and invalidity arrangements for the PCSS are provided at Attachment A, and those for AGEST are at Attachment B.

The following table summarises the general features of the two arrangements.

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009

Department of Finance and Deregulation

Finance and Deregulation Portfolio

Summary Table - Death and Ill-Health Benefits from the PCSS and AGEST

	PCSS	AGEST
Commencement of cover	Cover starts on day the MP becomes entitled to parliamentary salary.	Subject to certain conditions, automatic cover commences when an employer contribution is received. Member is able to opt out of automatic cover. Also cover is not available for those over age 70.
Benefits	**Death** A pension is payable to an eligible partner equal to five sixths of the rate of pension that the deceased member was being paid or is deemed to have been payable.	**Death** Amount in the member's superannuation account plus death cover, if any.
	Invalidity Applies where the Parliamentary Retiring Allowances Trust is satisfied that the MP is unlikely, because of physical or mental impairment, ever to be able to perform the duties of an MP again. *At least 8 years service or 3 terms*[1] Pension equal to the retirement pension that the member would be entitled to. The minimum pension would be 50% of backbench salary. *Less than 8 years service or 3 terms*[1] 60% or more incapacity - pension of 50% of backbench salary. 30% to 60% incapacity – pension of 30% of backbench salary. Less than 30% incapacity - lump sum equal to three and one third times the member's contributions. [1] A term occurs on the dissolution or expiration of the relevant house or the expiration of the MP's term of office. Senators, who are elected for six years, achieve a term after completing three years and another term at the completion of the six years.	**Invalidity** Applies where the MP is totally and permanently disabled (TPD) within the terms of the insurance policy (see page 18 of attached document). The TPD benefit comprises the amount in the member's account plus any TPD Cover. TPD Cover is available either as: – unit based cover, where the level of cover decreases with age for the same level of premium; or – fixed cover, where the cost of obtaining the same level of cover increases with age.

Q2 ATTACHMENT A

Death and invalidity arrangements in respect of PCSS members

For the PCSS, the relevant provisions relating to invalidity and death benefits are contained in Part V of the *Parliamentary Contributory Superannuation Act 1948*.

Invalidity Retirement Benefits under the PCSS

Members of the PCSS are entitled to an invalidity benefit if the Parliamentary Retiring Allowances Trust is satisfied that the MP is unlikely, because of physical or mental impairment, ever to be able to perform the duties of an MP again.

Where the member has completed at least eight years service or three terms he or she will be entitled to a pension. The pension is based on the service completed by the member with the minimum pension being equal to 50% of backbench salary.

Where the member has not completed sufficient service or terms, the form and value of the invalidity benefit will depend on the extent of the person's incapacity in relation to non-parliamentary employment.

The three classes of invalidity are:

- class 1 – 60 per cent to 100 per cent incapacity, with a benefit of a non-commutable pension of 50 per cent of backbench salary, which is subject to review;
- class 2 – 30 per cent to 59 per cent incapacity, with a benefit of a non-commutable pension of 30 per cent of backbench salary, which is subject to review; or
- class 3 – less than 30 percent incapacity, with a benefit of a lump sum of three and one third times the member's own contributions.

Death benefits under the PCSS

Benefits payable to an eligible partner

A reversionary pension is payable to an eligible partner of a member. The reversionary pension is equal to five sixths of the rate of the pension to which the member is being paid or would have been entitled to be paid.

If the member died while a MP and had not completed eight years service, he or she is deemed to have completed eight years service for the purpose of calculating the amount of the pension.

Benefits payable to orphan children

A reversionary pension is payable to any eligible children of a member who dies while a MP or is being paid a pension, provided the member is not survived by an eligible partner who is the natural or adoptive parent of the child and who is entitled to a reversionary pension.

To be eligible child, a child must be under 16, or under 25 if a full-time student, and have been dependent on the member, at the time of his or her death.

Benefits payable to a personal representative

In accordance with the formula specified in section 19AB of the *Parliamentary Contributory Superannuation Act 1948*, a lump sum may be payable to the personal representative of a deceased member who is not survived by an eligible partner or eligible child.

Q2 ATTACHMENT B

Death and Invalidity Benefits for MPs who are AGEST members

AGEST is the default fund for parliamentarians who entered Parliament on or after 9 October 2004.

For AGEST members the benefits payable on death or total and permanent disablement comprise the member's superannuation account balance plus any insurance cover that they have purchased.

Specific information on insurance cover available for members of AGEST can be found at pages 15 to 24 of the AGEST Product Disclosure Statement dated 1 January 2009. The relevant pages are attached.

If a Parliamentarian chooses a fund other than AGEST, insurance will depend on the specific arrangements that are available within that scheme.

Insurance cover

AGEST insurance cover at a glance

DEATH ONLY COVER
- Lump sum
- Unit based or fixed cover

DEATH AND TOTAL & PERMANENT DISABLEMENT (TPD) COVER
- Lump sum
- Unit based or fixed cover

INCOME PROTECTION COVER
- Ongoing income benefit
- Choose between 30, 60 or 90 day waiting periods

Your insurance options

AUTOMATIC COVER

10 Units death & TPD cover at $2.50 per week

Subject to some conditions, automatic cover commences when a contribution is received from your employer.

Reduce or cancel your automatic cover

You can reduce or cancel your cover in writing at any time. Members who cancel their automatic cover within 60 days of AGEST's confirmation letter will receive a full refund of premiums already deducted.

Increase your automatic cover (limited offer)

Death & TPD: Apply for up to 20 additional units of death &/or TPD cover, without evidence of health.

Income Protection: Apply for up to 85% of salary (to a limit of $6,000 per month), by answering only five simple health questions.

You must apply within 60 days of AGEST confirming your automatic cover.

APPLY FOR COVER

Death, TPD and Income Protection cover. Underwriting (full evidence of health) will apply.

You will need to apply for cover if you:
- are not eligible for automatic cover;
- have previously opted out of automatic cover;
- would like cover above the automatic cover limits; or
- are applying after 60 days from the commencement of automatic cover.

Transferring other personal insurance policies to AGEST

If you have death-only, death and TPD or Income Protection insurance cover with another provider (either within or outside of super) you can apply to roll your cover into your AGEST account. If accepted, you will receive the equivalent level of cover at the AGEST premium rate for that cover. Any loadings or exclusions may also be transferred. Please refer to the *Transferring Your Insurance* form on our website for more details.

How to apply for (or alter) your insurance

1. Read this booklet.
2. Determine the type(s) and level of cover that best suit you.
3. If you have employer contributions paid into AGEST and are eligible for additional cover without evidence of health and wish to take up the additional cover, fill in the relevant section on the *Member Application* form.
4. If you wish to apply for new or additional cover, complete the *Application to Increase Insurance Cover* form.
5. If you wish to reduce or cancel your cover, complete the *Insurance Cover Reduction* form on our website (or contact us to obtain this form).
6. Return your form(s) to:
   AGEST Administration,
   Locked Bag 20, Wollongong NSW 2500.

Insurance cover

Death and Total & Permanent Disablement (TPD) Insurance

Our low-cost, flexible insurance products protect you and your family, 24 hours a day, 7 days a week.

The maximum level of cover is $5 million death cover and $2 million TPD cover.

All premiums are deducted monthly from your AGEST account, so your take-home pay is not reduced. **In addition, the tax deduction we receive for your premiums is credited directly to your AGEST account.**

Automatic cover

New members and existing members who commence or recommence having employer contributions paid into AGEST automatically receive and pay for 10 units of death and TPD cover without evidence of health, subject to some conditions – the premium for this cover is $2.50 per week, deducted from the member's AGEST account.

Page 19 has full details of the automatic cover for members who receive an employer contribution into their account.

Applying for death and TPD cover

In addition to the automatic cover noted above for members who receive an employer contribution into their account, any AGEST member under age 70 can apply for insurance cover. Your ability to have death and TPD insurance cover is not dependent upon your employment status.

Pension members cannot apply for insurance cover in respect of their pension account. However, if they are under age 65, they can set up a non-pension account in AGEST and then apply for insurance cover which, if granted, will result in premiums being deducted from that account.

Unless you are eligible for automatic cover, you must apply for insurance cover by completing the *Application to Increase Insurance Cover* form.

Your application will be referred to AGEST's insurer (CommInsure) for assessment.

Whilst your application is being assessed, you will be covered for up to 60 days for accidental death and/or TPD cover (as applicable) up to the level of cover you have requested (subject to some conditions and up to a maximum of $500,000 inclusive of any cover you already have in AGEST).

When the insurer assesses your application, they will take into account your standard of health, based on your responses to questions on the forms and any additional evidence of health they may request (eg you may be required to undergo a medical examination or have a blood test).

We will advise you if the insurer requires any additional information to assess your application.

Cover may be granted by the insurer with or without exclusions (eg if you have an existing injury, the insurer may grant you full death and TPD cover **other than** TPD directly related to that injury).

If cover is approved, we will advise you in writing of the terms and commencement date of cover.

What insurance options are available?

You can apply for **death only** or **death and TPD** insurance cover, and you can choose two styles of cover:

- **Unit based cover** – this style of cover is purchased in 'units', where your premium does not alter from year to year but your cover reduces each year on your birthday.
- **Fixed cover** – under this style of cover, you nominate the fixed dollar amount of cover you require, and the premium will increase each year on your birthday. You can also request on the application form to have this cover indexed (increased) 5% each year on your birthday, without ongoing evidence of health.

Cost of insurance

The cost of your insurance depends on whether you have **unit based cover** or **fixed cover**. The underlying premium rates are the same at each age – only the style of benefit is different, to suit your individual needs. The following page shows full details.

Important Note

Insurance benefits provided by AGEST are underwritten by insurance policies between the fund's insurer (The Colonial Mutual Life Assurance Society Limited, trading as CommInsure) and the Trustee of AGEST.

If there is any inconsistency between the contents of this booklet and the insurance policies, the contents of the insurance policies shall prevail.

You can obtain copies of these insurance policies from our website or by contacting us.

Additional notes

- If you have 2 or more accounts in AGEST, you will only be entitled to insurance from the account with the highest level of insurance cover. Any premiums deducted from other accounts will be refunded to those accounts.
- If an insurer pays us an insured amount as a result of a member's death, it will be added to the member's AGEST account and invested in the Cash option. For payments in respect of TPD, it will be added to the same investment option(s) that the member has nominated for future contributions (the Balanced option, if no nomination has been made).
- If you are invested in more than one AGEST investment option, the deduction of insurance premiums will be spread across all your investment options, in proportion to the balance held in each option on the deduction date.

Unit based cover

The table below shows the unit based cover for **death only** and **death and TPD** cover.

Each unit of cover costs:

- 15 cents per week for **death only** cover
- 25 cents per week for **death and TPD** cover

Premiums are deducted monthly from your AGEST account.

Example

If you have 10 units of **death and TPD** cover, your premium is:

25 cents x 10 = $2.50 per week.
This is deducted from your account as $10.87 per month.

Fixed cover

The table below shows the annual premium per $1,000 of fixed cover for **death only** and **death and TPD** cover.

Premiums increase each year on your birthday, and are deducted monthly from your AGEST account.

Example

If you are aged 40 next birthday and have $100,000 of **death only** cover, your premium is:

$0.59 x $100,000 divided by $1,000
= $59.00 per annum or $4.92 per month.

INSURANCE COVER

DEATH ONLY AND DEATH/TPD UNIT BASED COVER		
AGE NEXT BIRTHDAY	1 UNIT	10 UNITS
Up to 30	$23,000	$230,000
31	$22,000	$220,000
32	$21,000	$210,000
33	$20,000	$200,000
34	$19,000	$190,000
35	$18,300	$183,000
36	$17,300	$173,000
37	$16,300	$163,000
38	$15,300	$153,000
39	$14,300	$143,000
40	$13,200	$132,000
41	$12,200	$122,000
42	$11,200	$112,000
43	$10,200	$102,000
44	$9,100	$91,000
45	$8,100	$81,000
46	$7,700	$77,000
47	$7,200	$72,000
48	$6,600	$66,000
49	$6,100	$61,000
50	$5,800	$58,000
51	$5,600	$56,000
52	$5,000	$50,000
53	$4,300	$43,000
54	$3,800	$38,000
55	$3,400	$34,000
56	$3,100	$31,000
57	$2,800	$28,000
58	$2,500	$25,000
59	$2,200	$22,000
60	$2,000	$20,000
61	$1,700	$17,000
62	$1,400	$14,000
63	$1,200	$12,000
64	$1,000	$10,000
65	$900	$9,000
66–70	$800	$8,000
71+	Not available	Not available

ANNUAL PREMIUM PER $1,000 OF FIXED COVER		
AGE NEXT BIRTHDAY	DEATH ONLY	DEATH & TPD
Up to 30	$0.34	$0.57
31	$0.36	$0.59
32	$0.37	$0.62
33	$0.39	$0.65
34	$0.41	$0.69
35	$0.43	$0.71
36	$0.45	$0.75
37	$0.48	$0.80
38	$0.51	$0.85
39	$0.55	$0.91
40	$0.59	$0.99
41	$0.64	$1.07
42	$0.70	$1.16
43	$0.77	$1.28
44	$0.86	$1.43
45	$0.97	$1.61
46	$1.02	$1.69
47	$1.09	$1.81
48	$1.19	$1.98
49	$1.28	$2.14
50	$1.35	$2.25
51	$1.40	$2.33
52	$1.57	$2.61
53	$1.82	$3.03
54	$2.06	$3.43
55	$2.30	$3.84
56	$2.52	$4.21
57	$2.80	$4.66
58	$3.13	$5.22
59	$3.56	$5.93
60	$3.91	$6.52
61	$4.60	$7.67
62	$5.59	$9.32
63	$6.52	$10.87
64	$7.83	$13.05
65	$8.70	$14.49
66–70	$9.78	$16.31
71+	Not available	Not available

Insurance cover

When does death and TPD cover cease?

Once you have **death only** or **death and TPD** cover, it continues until:

- you opt out of it; or
- your AGEST account has insufficient funds in it to pay the premiums; or
- you reach age 70; or
- you are a member of the Australian Armed Forces Reserve and are called to active duty; or
- you close the account to which your insurance cover is attached.

Death only and **death and TPD** cover does **not** cease because employment ceases. This means that you do not have to worry about insurance cover when you are between jobs or on leave without pay. Provided that you keep sufficient money in your AGEST account to pay premiums, your insurance cover continues unaltered.

Payment of death benefits

AGEST members may make either 'preferred' or 'binding' nominations as to the distribution of their AGEST benefit when they die.

Preferred nominations

Preferred nominations tell the Trustee who your preferred beneficiaries are, but the Trustee will make the final decision as to how and to whom your benefit is paid. The Trustee will exercise a discretion to allocate your benefit among the potential recipients who are described below. You can make a 'preferred' nomination online at **www.agest.com.au**, on your *Member Application* form or by completing a *Change of Details* form which is available by calling **1300 724 378**.

Binding nominations

Binding nominations provide greater certainty about who receives your benefit when you die, as your nomination binds AGEST's Trustee to pay your death benefit to a specified person(s), provided that the correct procedure has been followed. A binding nomination overrules all previous nominations except in the case of a reversionary nomination (see page 27). You can only make a 'binding' nomination using a *Binding Death Benefit Nomination* form. A copy of the form is included in this booklet. Further details and requirements for binding death benefit nominations are included on the second page of the form.

Recipients of death benefits must be one or more of the following:

- your current spouse (including a de facto)
- your children (including adult, step, adopted or ex-nuptial children)
- any person(s) financially dependent on you
- any person(s) you have an interdependency relationship with (see below for further details)
- your legal personal representative, in their capacity as the executor or administrator of your estate.

Two persons (whether or not related by family) have an 'interdependency relationship' if:

- they have a close personal relationship, and
- they live together, and
- one or each of them provides the other with financial support, and
- one or each of them provides the other with domestic support and personal care.

If two persons (whether or not related by family) have a close relationship, but do not satisfy the other requirements outlined above because either or both of them suffer from a physical, intellectual or psychiatric disability, they are considered to have an interdependency relationship.

Terminal Illness Benefit

Death benefits may be paid to you if you are diagnosed as terminally ill (where two specialists have determined that death is expected to occur within 12 months). Benefits paid in respect of terminal illness are tax-free.

Payment of TPD benefits

TPD benefits are only payable to members with TPD cover when they satisfy the insurer's definition of TPD.

If submitting a claim for TPD, you will be required to provide medical and such other information as the insurer requires to assess your claim.

If you need to attend a medical appointment, the insurer will arrange this and advise you of details. Travel costs to and from the appointment will be at your expense and, if you do not attend the pre-arranged appointment without reasonable cause, the insurer may cease consideration of your claim until any non-attendance fees levied by the medical practitioner are paid by you.

The assessment of a TPD claim may take some time to complete, so it is important that you lodge a claim as soon as practical after becoming disabled.

Definition of Total and Permanent Disablement (TPD)

This definition is contained in our insurance policy with the fund's insurer, CommInsure. The insurance policy can be downloaded from **www.agest.com.au**

TPD means the state of health of the insured member resulting from illness, accident or injury (while covered under the terms of this policy) and as a result of which the member:

(a) suffers the total and permanent loss of use of two limbs or the sight of both eyes or the total and permanent loss of use of one limb and the sight of one eye (where limb is defined as the whole hand or the whole foot); or

(b) (where the member has not been unemployed for 6 or more months and is aged 70 years or less as at the date of disablement), is unable to follow his or her own occupation and any other occupation to which he or she is reasonably suited by education, training or experience for six consecutive months after the date of disablement and the insurer considers, on the basis of medical or other evidence satisfactory to the insurer, that the insured member is unlikely ever to be employed or attend to any such occupation; or

(c) is, as a result of illness or injury, totally unable to perform without the physical assistance of another person any two of the following activities of daily living:

dressing – the ability to put on and take off clothing;

toileting – the ability to use the toilet, including getting on and off;

mobility – the ability to get in and out of bed and a chair;

continence – the ability to control bowel and bladder function;

feeding – the ability to get food from a plate into the mouth;

and the member is permanently and irreversibly unable to do so for life; or

(d) all of the following paragraphs (i), (ii), (iii) and (iv) apply to the member:

(i) the member was, on the date of disablement, aged 70 years or less;

(ii) the member is absent from all work as a result of suffering cardiomyopathy, primary pulmonary hypertension, major head trauma, motor neurone disease, multiple sclerosis, muscular dystrophy, paraplegia, quadriplegia, hemiplegia, diplegia, tetraplegia, dementia and Alzheimer's disease, Parkinson's disease, blindness, loss of speech, loss of hearing, chronic lung disease or rheumatoid arthritis.

(iii) we consider that, on the basis of medical and other evidence satisfactory to us, the member is unlikely ever to be able to engage in any occupation, whether or not for reward; and

(iv) the member is likely to be so disabled for life;

where *occupation* means an occupation that the member can perform, on a full-time or part-time basis, based on the skills and knowledge the member has acquired through previous education, training or experience.

Automatic insurance cover when employer contributions are paid to AGEST

If your employer contributions are being paid into AGEST, this page shows important insurance information for you, including the default level of cover you will receive without evidence of health.

When, for the first time, an employer pays contributions for you into AGEST, you **automatically** receive and pay for 10 units of **death and TPD** insurance cover, **without evidence of health**.
If you cancel your cover and later an employer starts paying contributions to AGEST for you, you do not receive this automatic cover.

This applies to new members and existing members who commence or recommence having employer contributions paid into AGEST. It also applies when any type of employer contribution is paid into AGEST (e.g. Superannuation Guarantee (SG) contributions, salary sacrifice contributions or one-off employer contributions).

The cost of 10 units of death and TPD cover is $2.50 per week, which is automatically deducted from your AGEST account on a monthly basis ($10.87 each month) when cover commences.

This level of automatic cover will apply to a member if employer contributions are paid into AGEST. Cover will apply from the **latest** of the following dates:

- the date that you become a member of AGEST
- the date that you commence employment with your employer
- the date which is 120 days prior to the date when the employer contribution is received by AGEST
- the earliest date in the period covered by the employer contribution for you.

Full cover (which means that you are covered for claims arising from any illness or injury) will apply if:

- you have not been previously paid, and are not entitled to apply for the payment of, a benefit for TPD from AGEST, another superannuation fund or life insurance policy; and
- the employer contribution for you is paid within 120 days of the end of the period to which it relates; and
- you have received this cover no more than 120 days after commencing employment with your employer; and
- on the day that cover commences you are **actively at work** (which means that you are at work with an employer and performing the normal duties of your occupation. You will still be considered to meet the requirements of this definition if you are not at work on the respective date but you are still employed by an employer and the reason for absence is not due to illness or injury).

If **full cover** does not apply, **limited cover** will apply for a period of 24 months, after which time full cover will commence (provided that you have been in full employment for that time).

Limited cover means that you are only covered for claims arising from an illness which became apparent or an injury which occurred on or after the date that your cover most recently commenced or recommenced.
If you have been previously paid, or have been entitled to apply for the payment of, a benefit for Total & Permanent Disablement from AGEST, another superannuation fund or life insurance policy, no TPD cover applies under limited cover, only death cover.

Can I increase my automatic cover without evidence of health?

Yes, but only in certain circumstances. You can apply for up to an additional 20 units of cover without evidence of health if:

- you are eligible for automatic cover (see above); and
- we receive your request to increase your cover no later than 60 days after we send you confirmation of your automatic cover.

Simply complete the relevant section on the *Member Application* and send it to us. Such additional cover will commence from the date that we receive your application.

If you do not meet the circumstances described above, or want more than an additional 20 units, the extra cover requested will be subject to evidence of health. You will need to complete an *Application to Increase Insurance Cover*. AGEST may also provide insured members with an opportunity to increase cover without evidence of health by way of effecting a guaranteed insurability option. More details will be provided in your upcoming statement and on our website.

Insurance cover

Can I reduce or cancel my insurance cover?

You can reduce or cancel your cover at any time.

However, if you later want to reinstate your cover, you will need to provide evidence of health. This may include blood tests, urine tests, physical examinations etc. You can choose to opt out of cover by selecting the appropriate box when completing your *Member Application* form.

You can reduce or cancel your cover by completing the *Insurance Cover Reduction Form* (see our website or contact us for a copy). Note that we cannot accept cancellation requests by telephone or email because we must have your signed request in writing before we will act upon it.

If your request to reduce or cancel your cover is received by us no later than 60 days after we send you notification of your automatic cover, the reduction in cover and premium will be backdated to its commencement date – that is, no cover will apply and any premium deductions already made will be reversed. If the request is received by us after this time, it will take effect from the date we receive your request.

Can I transfer my current insurance arrangements to AGEST?

Any AGEST member with insurance cover in another superannuation fund, or who holds an individual policy, may request to transfer their cover into AGEST if all of the following conditions are satisfied:

- the cover in place (in your former fund) is part of an employer-sponsored superannuation group insurance policy arrangement;
- your cover under the former fund ceases on acceptance of cover by AGEST;
- you have not received nor are you eligible for a TPD benefit from another fund or insurance arrangement;
- you are not terminally ill with a life expectancy of less than 12 months;
- you are gainfully employed and physically capable of undertaking gainful employment for at least 30 hours per week;
- you must transfer the whole of your account balance from the former fund to AGEST;
- any special conditions to your cover such as premium loadings or exclusions continue to apply in AGEST;
- you provide an up-to-date statement from your former fund as evidence of cover held; and
- you complete the relevant forms to the satisfaction of AGEST's insurer .

With respect to death and TPD cover, the level of cover provided to you will be based on the equivalent type and level of cover provided by your former fund, and expressed as a fixed cover amount. This transferred cover will be an addition to any existing cover provided under AGEST. With respect to Income Protection cover, the level of cover will be the equivalent level of cover provided by the former fund, and will replace existing income protection cover, if any.

Examples of our death and TPD cover

Read these examples for a good understanding of when death and TPD cover is automatically granted to members and the type of cover that will apply.

Example 1

Anthony is aged 30 next birthday. He commences work with his employer on 9 January 2009 and immediately chooses AGEST for his employer contributions.

He is paid on a calendar-month basis. His employer sends his January 2009 contributions to AGEST, and they are received on 15 April 2009.

Anthony's 10 units of death and TPD insurance cover will automatically commence (without evidence of health) on 9 January 2009, and a premium deduction from his AGEST account of $10.87 per month (or $2.50 per week) will apply from the same date. His cover will initially be $230,000 on a full cover basis.

He will receive a 'welcome to AGEST' letter shortly after 15 April 2009. If he wishes to apply for another 20 units of cover without evidence of health, he must do so before 14 June 2009. If he does, he will receive the additional cover from the date AGEST receives his application and his total insurance cover will then be 30 units (or $690,000) – all received without evidence of health.

Example 2

Claire commences work with her employer on 9 January 2008 and initially has her employer contributions being sent to the superannuation fund she used in her previous job.

She is paid on a fortnightly basis.

Claire later decides to join AGEST and asks her employer to send employer contributions to AGEST. Her employer first sends her employer contributions to AGEST in respect of the fortnight commencing 13 November 2008 and AGEST receives those contributions on 15 December 2008.

Claire's 10 units of death and TPD insurance cover will automatically commence (without evidence of health) on 13 November 2008 and a premium deduction from her AGEST account of $10.87 per month (or $2.50 per week) will apply from the same date. When cover commences, Claire is aged 40 next birthday, so her cover will initially be $132,000 on a *limited cover* basis. (It will be limited because she has received this cover more than 120 days after commencing employment with her employer. However, if Claire continues in full employment for a period of 24 months, it will convert to full cover after that time.)

She will receive a 'welcome to AGEST' letter shortly after 15 December 2008. She decides to apply for another 5 units of cover without evidence of health, and does so before 13 February 2009. She could have applied for 20 units, but decided that 5 units was sufficient. She will receive the additional 5 units of cover from the date we receive her application, and her total insurance cover will then be 15 units (or $198,000) initially on a *limited cover* basis – all received without evidence of health.

Example 3

William commenced work with his public sector employer on 1 May 1987 and has been a member of the Commonwealth Superannuation Scheme (CSS) since then.

He has a small AGEST account that he established many years ago, but no insurance cover has been provided under this account for many years.

In 2009 he decides to commence salary sacrifice contributions to AGEST. He arranges this with his employer, who first sends his salary sacrifice contributions to AGEST in respect of the fortnight commencing 6 March 2009. AGEST receives those contributions on 28 March 2009.

William's 10 units of death and TPD insurance cover will automatically commence (without evidence of health) on 6 March 2009 and a premium deduction from his AGEST account of $10.87 per month (or $2.50 per week) will apply from the same date. When cover commences, William is aged 50 next birthday, so his cover will initially be $58,000 on a limited cover basis. (It will be limited because he has received this cover more than 120 days after commencing employment with his employer. However, if William continues in full employment for a period of 24 months, it will convert to full cover after that time.)

He will receive a 'confirmation of insurance' letter shortly after 28 March 2009. William already has sufficient insurance cover elsewhere, so he decides to cancel his automatic cover. If AGEST receives his cancellation request on or before 27 May 2009, the cancellation will be backdated to 6 March 2009 and all premium deductions will be reversed. If AGEST receives his cancellation request after 27 May 2009, the cancellation will be effective from the date the cancellation request is received and no past premiums will be reversed.

Income Protection Insurance

AGEST can provide you with low-cost Income Protection insurance. It can cover you for up to 85% of your income whilst you are temporarily disabled and unable to work. The maximum benefit period is 2 years. Cover applies 24 hours a day, 7 days a week.

Who is eligible to apply?

You may apply for Income Protection insurance provided that you:

- are employed or self-employed and working not less than 60 hours per month on a regular basis when you apply for this cover
- are at work, performing your normal duties, on the day you apply for Income Protection insurance and the day your cover commences (or you are absent from work for reasons other than sickness or illness, such as annual leave)
- you are under age 65.

If you become Totally Disabled due to injury or illness, while insured for Income Protection under AGEST, and you are still Totally Disabled after expiry of the waiting period, you will be eligible for a Monthly Income Benefit.

Total Disability/Totally Disabled means an injury or illness that stops the member from performing one or more of the important duties of his or her regular occupation necessary to produce income as confirmed by a Medical Practitioner, as a result of which the member is not engaged in any occupation.

Waiting period

You have a choice of waiting period when you apply for Income Protection Insurance:

- 30 days; or
- 60 days; or
- 90 days.

The waiting period is the period that must elapse after becoming disabled before you are eligible for benefits. During the waiting period, you have to be Totally Disabled (or Partially Disabled if applicable). Benefits only commence to be paid at the end of the waiting period (in arrears).

The waiting period commences only when you are Totally Disabled and a Registered Medical Practitioner confirms your total disability. The waiting period cannot begin until after you have been accepted for cover.

What is the maximum available benefit?

A maximum benefit of $25,000 per month applies. However, benefit payments are limited to a maximum of 85% of your Salary. (The first 75% will be paid directly to you, and the remaining 10% will be directed to your AGEST account as a concessional contribution.) So don't over-insure yourself.

Example

Lucy is 37 years old and earns $80,000 per annum. She wishes to acquire Income Protection insurance through her AGEST superannuation account for the maximum 85% of her salary and with a waiting period of 90 days.

Step 1

Determine level of monthly cover required

$$= \frac{85\% \times \$80,000}{12}$$

$$= \$5,667 \text{ per month}$$

Step 2

Calculate monthly premium.
Monthly cover required divided by
$1,000 x Premium (see table on page 22)

$$\frac{\$5,667}{\$1,000} \times \$2.17$$

$$= \$12.30 \text{ per month}$$

Insurance cover

Applying for Income Protection cover

If you are eligible for automatic death and TPD cover (as explained on page 19), within 60 days of receiving that cover, simply answer the five Income Protection health questions on AGEST's *Member Application* form. Based on your answers, you may be eligible for cover of up to $6,000 per month.

If you are not eligible for automatic death and TPD, simply complete the *Application to Increase Insurance Cover* and forward it to us.

You will also need to complete the *Application to Increase Insurance Cover* if you are applying for Income Protection cover:

- more than 60 days after receiving your automatic death and TPD cover;
- of more than $6,000 per month.

Your application will be referred to AGEST's insurer (CommInsure). Your cover will not commence until you provide any other information the insurer may require, and until the insurer approves your application. You must also have sufficient money in your AGEST account to pay the premiums.

The insurer may require some members to provide additional information, undergo a medical examination or have a blood test as part of the assessment. AGEST will advise you if the insurer requires any additional information to assess your application.

Note that the insurer may decline your application or accept it subject to exclusions.

When does my cover start?

Subject to maximum cover restrictions, your selected level of Income Protection cover commences when ALL of the following have occurred:

- you have completed and returned the relevant forms;
- you have provided any other information the insurer may require;
- the insurer approves your application.

How to calculate your premium

Firstly, you need to determine:

- the level of monthly income benefit you require (noting that a maximum benefit of 85% of Salary will be paid if you later make a claim); and
- the waiting period for benefits that you wish to select (30, 60 or 90 days)

You can then use the table opposite to work out the monthly premium that we will deduct from your AGEST account, if the insurer accepts your application. Note that the premium usually increases each year on your birthday.

You can also request to have this cover indexed by 5% each year on your birthday, without ongoing evidence of health. This will help to keep your cover up-to-date.

	$ PREMIUM PER MONTH PER $1,000 OF MONTHLY INCOME BENEFIT		
	WAITING PERIOD OF BENEFITS		
AGE NEXT BIRTHDAY	30 DAYS	60 DAYS	90 DAYS
Up to 20	$3.91	$2.61	$1.74
21	$3.91	$3.04	$1.74
22	$3.91	$3.04	$1.74
23	$4.35	$3.04	$1.74
24	$4.35	$3.04	$1.74
25	$4.35	$3.04	$1.74
26	$4.35	$3.04	$1.74
27	$4.35	$3.04	$1.74
28	$4.35	$3.04	$1.74
29	$4.35	$3.04	$1.74
30	$4.35	$3.04	$1.74
31	$4.78	$3.48	$1.74
32	$4.78	$3.48	$1.74
33	$5.22	$3.48	$1.74
34	$5.22	$3.91	$1.74
35	$5.65	$3.91	$2.17
36	$5.65	$3.91	$2.17
37	$6.09	$4.35	$2.17
38	$6.52	$4.78	$2.17
39	$6.96	$4.78	$2.61
40	$7.39	$5.22	$2.61
41	$7.39	$5.22	$3.04
42	$7.83	$5.65	$3.04
43	$8.26	$6.09	$3.48
44	$8.70	$6.09	$3.91
45	$9.57	$6.52	$4.35
46	$10.00	$6.96	$4.78
47	$10.44	$7.39	$5.22
48	$11.31	$7.83	$5.65
49	$12.18	$8.26	$6.09
50	$12.61	$9.13	$6.96
51	$13.48	$9.57	$7.39
52	$14.78	$10.44	$8.26
53	$15.65	$10.87	$9.13
54	$16.96	$11.74	$10.00
55	$17.83	$12.61	$10.87
56	$19.13	$13.48	$11.74
57	$20.87	$14.35	$12.61
58	$22.18	$15.65	$13.91
59	$23.92	$16.96	$15.22
60	$25.66	$18.26	$16.52
61	$27.83	$19.57	$17.83
62	$30.00	$21.31	$19.57
63	$26.96	$21.74	$16.09
64	$22.61	$18.26	$12.18
65	$13.91	$10.87	$5.22
66+	not available	not available	not available

Level of benefit payable

If you become Totally Disabled due to injury or illness, while insured for Income Protection under AGEST, and you are still Totally Disabled after expiry of the waiting period, you will be eligible for the payment of a Monthly Income Benefit.

The Monthly Income Benefit will be the lesser of:

- the level of cover that you have been accepted for (as at the date you became Totally Disabled); or
- 85% of your Salary (less any other income as detailed below) as at the date you become Totally Disabled; or
- a maximum of $25,000 per month.

If you receive, or are entitled to receive, income from one of the following sources while receiving a Monthly Income Benefit, your benefit will be reduced by the amount of that income:

- sick leave payments;
- any amount payable under legislation such as workers' compensation (including settlement for permanent impairment), social security benefit or motor accident compensation;
- any benefits payable under other Income Protection policies;
- any income earned by you from personal exertion while disabled;
- the income equivalent of any commuted income benefit;
- any income you could reasonably be expected to earn in your occupation where the type of work you can perform is available via your employer; or where you have terminated employment with your employer, any income you could reasonably be expected to earn in your occupation where the type of work you can perform is available in the marketplace;
- any combination of the above.

Salary means:

For members who are employed by an employer, Salary means their regular annual remuneration, including:

- the value of fringe benefits taken by way of salary sacrifice (provided they would have been paid for at least 6 months after the Monthly Income Benefit is first payable); and
- performance-related annual bonuses and commissions (averaged over the last 3 years, or such lesser period as the member has been in receipt of such payments).

For members who are casual workers or contractors, Salary will be the annualised average remuneration received over the 12 months prior to the commencement of the waiting period or, if less than 12 months, the period of employment.

Where a member directly or indirectly owns all or part of the business from which he or she earns his or her usual income, Salary shall mean the total amount earned by the business over the financial year as a direct result of the member's personal exertion or activities through his or her usual occupation, less his or her share of business expenses, but before the deduction of income tax, for that business (or the relevant proportion for part of a financial year).

Returning to work in the waiting period

You may return to full-time work once for up to 5 consecutive days without having to restart the waiting period. The days you worked are added to the waiting period.

If you return to full-time work for more than 5 consecutive days during the waiting period, a new waiting period will apply subject to cover being in place.

Recurring claims

If within six months of income benefit payments having ceased to be paid to you, you are again Totally Disabled due to the same cause, it will be treated as the same claim and a new waiting period will not apply.

A benefit paid under this condition will be limited to the balance of the maximum benefit period. However, you must still be a member of AGEST.

How long is a benefit paid for?

Your Monthly Income Benefit will be paid until the earlier of:

- the end of the 2-year benefit period;
- you cease to be Totally Disabled;
- you reach age 65;
- you die.

If you die while receiving a Monthly Income Benefit, the insurer will pay an amount equal to the total monthly benefit for 2 months after your death. It will be paid either to your dependants or your estate.

Payment of Monthly Income Benefits will stop if you travel or reside overseas for longer than six months (and may resume only when you are again residing in Australia).

What if I return to work in a reduced capacity?

If, after receiving a Monthly Income Benefit because you are Totally Disabled (or Totally Disabled for at least 7 out of 12 consecutive days in the waiting period), you return to work in a reduced capacity, and receive a reduced Salary due to continued disability, you may be eligible for the payment of a Partial Disability benefit.

This benefit will be a proportion of the Monthly Income Benefit whilst you are in receipt of a reduced Salary and you are not engaged in any other occupation.

The proportion of the Monthly Income Benefit payable for Partial Disability is:

$$\frac{A - B}{A}$$

where:

A = the member's monthly Salary prior to becoming Totally Disabled

B = the member's monthly Salary whilst Partially Disabled.

If you are eligible to receive a Partial Disability benefit, it will be paid after the waiting period until the earlier of:

- the end of the 2-year benefit period (which will include the period during which you received Monthly Income Benefits for Total Disability); or
- you are able to return to full duties; or
- you are engaged in another occupation; or

- you receive full Salary; or
- you reach age 65; or
- you die.

Rehabilitation expenses

In addition to the Monthly Income Benefit payments, the insurer may also cover rehabilitation expenses for a period of up to 24 months.

When does my cover cease?

You will be covered for Income Protection whilst there is sufficient money in your account to pay the premiums.

Your cover will also cease if:

- you cease to be a member of AGEST; or
- the relevant policy issued to AGEST by CommInsure is no longer in force (affected members will be given plenty of advance warning if this was to occur); or
- you reach age 65; or
- you die.

Can I cancel or reduce my Income Protection insurance?

Yes, you can do this at any time.

You can reduce or cancel your cover by completing the *Insurance Cover Reduction Form* (see our website or contact us for a copy). Note that we cannot accept cancellation requests by telephone or email because we must have your signed request in writing before we will act upon it.

Your insurance will be reduced or cancelled from the date on which we receive your request.

Can I transfer my current insurance arrangements to AGEST?

Any AGEST member with insurance cover in another superannuation fund, or who holds an individual policy, may request to transfer their cover into AGEST if all of the following conditions are satisfied:

- the cover in place (in your former fund) is part of an employer-sponsored superannuation group insurance policy arrangement;
- your cover under the former fund ceases on acceptance of cover by AGEST;
- you have not received nor are you eligible for a TPD benefit from another fund or insurance arrangement;
- you are not terminally ill with a life expectancy of less than 12 months;
- you are gainfully employed and physically capable of undertaking gainful employment for at least 30 hours per week;
- you must transfer the whole of your account balance from the former fund to AGEST;
- any special conditions to your cover such as premium loadings or exclusions continue to apply in AGEST;
- you provide an up-to-date statement from your former fund as evidence of cover held; and
- you complete the relevant forms to the satisfaction of AGEST's insurer .

With respect to death and TPD cover, the level of cover provided to you will be based on the equivalent type and level of cover provided by your former fund, and expressed as a fixed cover amount. This transferred cover will be an addition to any existing cover provided under AGEST. With respect to Income Protection cover, the level of cover will be the equivalent level of cover provided by the former fund, and will replace existing income protection cover, if any.

Situations in which you will not be covered

Whilst some of the following restrictions may seem severe, if they were not in place, the premium for your cover would be much higher.

The situations in which the insurer will not pay any Income Protection benefits are:

- where your illness or injury arose from:
  - service in the armed forces of any country other than the Australian Armed Forces Reserve; or
  - war or an act of war (whether declared or not); or
  - a deliberate self-inflicted injury or act; or
  - normal pregnancy or childbirth;
- where the injury or illness first occurred before you became a member of AGEST or before the policy commenced; or
- if premiums have not been paid in respect of your cover.

Benefits may not be paid if the insurer is not notified within 12 months (or as soon as is reasonably possible) of you becoming disabled and, as a result, the insurer's management of the claim is prejudiced.

Pre-existing conditions

You will be paid Income Protection benefits for pre-existing health conditions only if you made a full and accurate disclosure to the insurer of those conditions of which you were aware, or could reasonably have been expected to be aware, and cover for those pre-existing conditions was accepted by the insurer.

Can I claim a tax deduction for Income Protection premiums in my Income Tax Return?

No, you cannot claim a tax deduction for the premiums.

This is because the fund pays the premiums on your behalf to the insurer – you do not pay them directly yourself.

However, the benefit of the tax deduction received by AGEST is passed on directly to your account.

What tax do I pay on Income Protection benefits?

Any monthly income benefit paid to you is taxable income and attracts PAYG tax, the same as salary and wages. PAYG tax will be deducted from the benefit before it is paid to you.

Any amount above 75% of Salary will be paid as a concessional superannuation contribution to your AGEST account and taxed at 15% (or 46.5% if we do not have your Tax File Number).

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009
Department of Finance and Deregulation
Finance and Deregulation Portfolio

Question 3 of 11

Number of Pages: 2
Senator BERNARDI asked:

I think most of my questions will be covered in the further information that you are going to provide to Senator Fielding. I am interested in the comparison of total remuneration, including the retirement benefits. That is of course going to be dependent upon the age of the individual you are talking about.

Ms Campbell—It is.

Senator BERNARDI—I wonder if, in the information you are going to provide, you could identify the differences and the discrepancies from an age perspective?

Ms Campbell—We will talk to the actuaries about the best way to demonstrate what are very complex interplays between age and other—

Senator BERNARDI—In respect of the 11.5 per cent post tax salary, which pre-2004 members contribute, I am interested in the after-tax pay packet, if you will, of someone who is on the old scheme compared with someone who is on the new scheme.

Ms Campbell—From a backbencher's perspective?

Senator BERNARDI—From a backbencher's perspective. I will try and make it as simple as possible.

Ms Campbell—We will work with our colleagues to see whether we are able to provide that.

Senator BERNARDI—In your discussions with the actuaries I hope you will consider the benefits that will flow on to spouses as a product of that.

Answer:

Based on the current annual backbench salary of $127,060, the after tax pay of a backbencher who is in the Parliamentary Contributory Superannuation Scheme (PCSS) compared to a backbencher who is in the new arrangement is as follows:

Superannuation Arrangement	Post Tax Salary per annum
PCSS (Pre-2004)	$74,899
New (Post 2004)	$89,511

The above results assume that the backbencher who is in the PCSS still makes member contributions of 11.5 per cent from their post tax salary as required by the *Parliamentary Contributory Superannuation Act 1948*. However, a member covered by the new superannuation arrangements under the *Parliamentary Superannuation Act 2004* is not required to make such contributions. Therefore, it is assumed such a member is not making any voluntary superannuation contributions and only receives the 15.4 per cent employer contributions. The income tax rates for 2009-10 (plus a Medicare levy of 1.5%) were used in the tax calculations.

Question 4 of 11

Number of Pages: 1
Senator CAMERON asked:

Could you take on notice whether this is a proper definition to be used, because I do not believe it is. Just because you make a change does not make it modern. You are transferring the risk from the government and Treasury to the individual. That is what happens when you move from a defined benefit to an accumulation scheme. I am not defending defined benefit schemes; I just want to get the language right. I do not like this 'it's modern, so it's good'. I do not think that is right. I would like you to give me a proper definition of what 'modern' is, because you have used it several times this morning. I am interested to know why it is modern and whether that is a proper definition. If you want to take it on notice, I am happy with that.

Ms Campbell—We will take that on notice.

Answer:

The practice in the public and private sectors in recent years where a new superannuation scheme is formed is for it to be established as an accumulation scheme.

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009
Department of Finance and Deregulation
Finance and Deregulation Portfolio

Question 5 of 11

Number of Pages: 1
Senator CAMERON asked:

Just so that you are clear what I am asking in my question, could you also take on board as to whether the department believes there is a transfer of risk from what was the pre-2004 scheme to the current scheme? Does the department accept that there is another transfer of risk to the new members themselves?

Ms Campbell—We will take that question on notice. This is, of course, government policy, and we will refer it to the minister.

Answer:

The Parliamentary Contributory Superannuation Scheme (the pre 2004 arrangements) is an unfunded defined benefits superannuation scheme, where benefits are based on length of parliamentary service and salary. Member benefits are not affected by investment returns.

Under the post 2004 arrangements, MPs become members of accumulation funds (or defined contribution funds) where member benefits are affected by the level of contributions made by the employer and the employee and investment earnings on those contributions.

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009

Department of Finance and Deregulation

Finance and Deregulation Portfolio

Question 6 of 11

Number of Pages: 1
Senator FIELDING asked:

Have you had any actuarial advice on, if the pre-2004 scheme was able to close, what the cost would be bring current members up to their current benefit—in other words, to basically pay them out on their current benefit. When some defined benefit schemes close they can actually get an actuary involved and say, 'We are closing the scheme down for everybody, for not just the new people coming in but all members.' Have you had actuarial advice on what that cost would be?

Ms Campbell—We have had actuarial advice on what we think the methodology might be, but what was actually paid out would of course depend on the final agreed methodology by the parliamentary retiring trust. It is in the order of some $220 million for those contributing members.

Senator FIELDING—Are you able to table that advice?

Ms Campbell—We do not have that advice with us but we can take that on notice.

Answer:

The estimated cash cost of closing the Parliamentary Contributory Superannuation Scheme (PCSS) in accordance with the approach described in the *Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill 2009* (the Bill) is $317 million. This cost estimate was derived by Mercer based on the assumption that members would become entitled to a pension from the date of closing the PCSS (assumed 1 July 2010), and would receive a lump sum amount that represents the fair value of that pension to transfer to a superannuation scheme of their choice.

The estimated cash cost of closing the PCSS is higher than the $220 million referred to in the hearings, which was based on unfunded superannuation liability attributed to PCSS contributors, due to the different assumptions that are applied in deriving the two figures. In particular, the approach proposed in the Bill requires the value of benefits payable to existing contributors to be calculated from 1 July 2010 rather than from the expected retirement date of members. It also requires an assumption that all members receive their full entitlement as a pension from that date.

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009
Department of Finance and Deregulation
Finance and Deregulation Portfolio

Question 7 of 11

Number of Pages: 1
Senator FIELDING asked:

Back when the change was made in 2004 I think that Mr Howard and Mr Latham agreed that it needed to be changed. Were there any documents that you have with the reasons why that change was made?

Ms Campbell—We do not have any of that information, no. I am sure we could find the press releases at the time, if that would be useful.

Senator FIELDING—From my understanding, the reason was that there was public concern about the entitlements of parliamentarians being out of step with public perceptions and that led to the change. I just wanted to make sure I had that right. Was anything given to you folk in that regard?

Ms Campbell—That is my recollection, but we would need to go and find the press releases at the time. I do not recall that we provided advice on this matter.

Senator FIELDING—At the time were you asked to look at what it would cost to close the scheme down completely, for old as well as for new?

Ms Campbell—I do not recall. Unfortunately, none of the three of us at the table were in the superannuation area at that time. But we can take that on notice.

Answer:

A copy of the press release of 10 February 2004 issued by the then leader of the Opposition, Mr Mark Latham, is at Attachment A. The transcript of the press conference conducted on 14 February 2004 by the then Prime Minister, the Hon John Howard MP, is at Attachment B.

It is not practice to provide details of policy advice provided to previous governments.

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009
Department of Finance and Deregulation
Finance and Deregulation Portfolio

Question 8 of 11

Number of Pages: 2
Senator FIELDING asked:

Could you check if that was the case. The reason is that there is still public concern about the scheme and the payouts from those on the pre-2004 scheme. That is why I am interested to know whether there were any discussions held, if there was any documentation that you were given or any questions were asked about closing it down at that stage. How do the benefits on the scheme prior to 2004 compare with the general public's? We have asked questions about comparing it with the post-2004 parliamentarian scheme and the one the general public are generally on, which is what, nine per cent super guarantee?

Ms Campbell—Yes.

Senator FIELDING—I would be interested to see the comparison between what the average person on the street's would be compared with theirs as well.

Ms Campbell—We have not completed that work, clearly because there are a number of assumptions to go in there about salary and percentage and returns on investment. We can take that one on notice.

Answer:

In order to make comparisons between the superannuation entitlements of a parliamentarian belonging to the Parliamentary Contributory Superannuation Scheme (PCSS) and a member of the general public receiving 9% employer contributions in an accumulation arrangement, the following assumptions have been made in the calculations:

- both the parliamentarian and the person from the general public retire from employment in August 2010 with 30 years of service;
- they both had received the same salary for the duration of his/her service, being the salary for a backbencher (based on historic salary data);
- the backbench salary in August 2010 is the same as the current rate of $127,060 per annum;
- for the person in the accumulation arrangement:
  - the person had received employer contributions of 9% each year (notwithstanding that Superannuation Guarantee was introduced progressively from 1992) and in addition, has salary sacrificed an amount each year equivalent to the after tax contribution of 11.5% (or 5.75% after 18 years of service) made by the parliamentarian in the PCSS;
  - the salary sacrificed amounts were calculated based on historic backbench salary and income tax rates (to which a Medicare levy of 1.5% was added);
  - administration fees and insurance fees are charged (we have used AGEST fees as an example);

  - 15% contributions tax on employer contributions was applied; and
  - a fund earnings rate, after investment fees and taxes, of 6% (this is based on the target asset return for the Balanced investment option in AGEST of CPI plus 3.5% per annum over the investment timeframe);
- for the purpose of calculating the persons' after tax superannuation benefits:
  - they both do not have any other assessable income besides the superannuation entitlement; and
  - the tax rates for superannuation benefits in 2009-10 (plus a Medicare levy of 1.5%) were applied.

Based on these assumptions, a comparison of the superannuation entitlements payable to the parliamentarian and the person from the general public is as follows:

Age at retirement	PCSS Entitlement - full pension	PCSS Entitlement - 50% pension, 50% lump sum		Value of benefit under 9% accumulation arrangement (after tax)
	Pension pa (after tax)	Pension pa (after tax)	Lump Sum benefit (after tax)	
60	$83,222	$44,882	$413,558	$1,185,383

Note: the above results are dependent on specific assumptions. Changes to any of the assumptions listed above may lead to a significant change in the results.

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009
Department of Finance and Deregulation
Finance and Deregulation Portfolio

Question 9 of 11

Number of Pages: 1
Senator POLLEY (Chair) asked:

For clarity, in terms of Senator Fielding asking about the average Australian, I think it would fair to do an assessment with the benefits for senior executives, with their work responsibilities, as a fair comparison with elected members, whether senators or members. We can do it with the average Australian's superannuation. We all know that the public considers that it is more than theirs. I would like, for the committee's benefit, to have a comparison between the leading executives in this country as opposed to the elected members.

Ms Campbell—Clearly, that is quite difficult because it depends on individual salary packages. A number of people organise their financial arrangements with their employer in different ways with salary sacrifice. It is worth noting that Parliamentary Contributory Superannuation Scheme members are not able to salary sacrifice into either the PCSS nor any other scheme, so that is their only source of superannuation.

Answer:

Senior executives in the private sector are entitled to superannuation cover sufficient to satisfy their employers' obligations under the Superannuation Guarantee (SG) arrangements. The total level of an individual's employer superannuation support would also depend on whether or not the person had any additional voluntary employer contributions (for example salary sacrifice contributions) and, if so, the amount of those contributions.

As the remuneration arrangements between executives vary, depending on their particular remuneration packages, comparisons would depend on the sample chosen and the particular circumstances of the persons in that sample.

Employer superannuation benefits for members of the Parliamentary Contributory Superannuation Scheme (PCSS) are limited to benefits the member becomes entitled to under that scheme. Members of the PCSS are unable to have additional voluntary employer contributions or salary sacrifice contributions made to the PCSS or other

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009
Department of Finance and Deregulation
Finance and Deregulation Portfolio

Question 10 of 11

Number of Pages: 1
Senator FIELDING asked:

We touched on the life insurance arrangements between the pre-2004 and post schemes before. Could a comparison be done between those, because there is a substantial difference between the two. I know the issue quite well. I worked in a superannuation fund for about five years, so I know the defined benefit and accumulation pretty well and I understand the differences between them. There are substantial differences in life insurance and age is a big factor in the accumulation side versus the defined benefit. I understand that a comparison could be done for a number of years on that as well. It is a big issue. I would like to thank you for this morning and would be keen to get the stuff put on notice pretty quickly, if I can.

Answer:

There are significant differences between the nature of the invalidity benefits provided by the Parliamentary Contributory Superannuation Scheme (PCSS) and the insurance benefit offered by accumulation arrangements. It is therefore difficult to compare the value of benefits offered by the two superannuation arrangements. For information regarding the invalidity benefits provided by the PCSS and the death and total permanent disablement (TPD) insurance offered by AGEST, which is the default fund for parliamentarians in post 2004 arrangements, please refer to Question 2.

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Parliamentary Superannuation Amendment (Removal of Excessive Super) Bill – August 2009
Department of Finance and Deregulation
Finance and Deregulation Portfolio

Question 11 of 11

Number of Pages: 1
Senator FIELDING asked (additional question following hearing):

Can you please provide details for what the following members of Parliament would be entitled to under the current two-tiered superannuation scheme should an election be held in August 2010:

(a) The Prime Minister
(b) The Leader of the Opposition
(c) Every Minister

Answer:

For privacy reasons, the department cannot disclose specific details regarding a member's personal entitlement.

The benefit that a member will receive from the Parliamentary Contributory Superannuation Scheme (PCSS) will depend on the member's length of service and any additional offices that the member has held. For this reason, entitlements under the PCSS will vary on a case by case basis, depending on the member's circumstances.