

Government Response
To The Recommendations Of The
Senate Select Committee On Superannuation Report

‘SUPERANNUATION AND STANDARDS
OF LIVING IN RETIREMENT’

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GOVERNMENT RESPONSE TO THE RECOMMENDATIONS OF THE SENATE SELECT COMMITTEE ON SUPERANNUATION REPORT 'SUPERANNUATION AND STANDARDS OF LIVING IN RETIREMENT'

1. The Committee recommends that the Government announce a clear statement of objectives for Australia's retirement incomes system, including target retirement incomes for representative groups.

The Government restated its objectives for the retirement income system in *A more flexible and adaptable retirement income system* in February 2004. The Government's retirement income policy is designed to provide incentives, flexibility and security. Retirement income policy should encourage people to achieve a higher standard of living in retirement than would be possible from the age pension alone, while ensuring that all Australians have security and dignity in retirement. Australia's ageing population also highlights the need for retirement income policy to be fiscally sustainable in the longer term.

The fully implemented Superannuation Guarantee arrangements, in conjunction with the age pension, will allow Australians to retire with higher living standards than previously. Treasury estimates that the Superannuation Guarantee system in conjunction with the age pension is projected to provide a spending replacement rate for a single male on median earnings (approximately \$35,000) of 76 per cent after 30 years of contributions, or 85 per cent after 40 years of contributions.¹ While the Government does not support setting a replacement rate target, it notes that these replacement rates are consistent with the 70 to 80 per cent band mentioned in the Senate Committee report.²

The Government believes that individuals are best placed to determine their own retirement income target based on their desired standard of living in retirement. The Government encourages people who have higher retirement income expectations than what the age pension and their Superannuation Guarantee savings will provide to consider what actions they can take to help achieve their expectations. This could include taking advantage of the concessions provided to superannuation by making additional voluntary savings or deferring their retirement.

The Government has instituted a balanced set of initiatives as part of its policy to improve the superannuation system further, to assist individuals in meeting their target level of income in retirement. Some examples of these initiatives are:

- increasing the limit on the full deductibility of superannuation contributions by self-employed persons from \$3,000 to \$5,000, while retaining the 75 per cent deductibility of any amount above the \$5,000 threshold up to the deduction limits;
- the Government superannuation co-contribution for qualifying low- to middle-income earners; and

¹ The results are estimated using Treasury's preferred replacement rate definition of average annual retirement expenditure as a percentage of expenditure in the final year of working life. The calculations differ slightly from those presented in Treasury's submission to the Senate Select Committee, reflecting updated (improved) life expectancy and changes to the year of retirement.

² The Senate Committee report preferred replacement rate to be defined as expenditure in the first year of retirement as a percentage of expenditure in the final year of working life. The Government endorses Treasury's view that this definition is inappropriate, as it can understate the true standard of living achievable over the course of retirement.

- a reduction in the superannuation surcharge rates.

The Government has made further reductions to the surcharge and broadened the co-contribution measure as part of the 2004-05 Budget initiatives:

- The surcharge will be reduced to 10 per cent for the 2005-06 and later financial years.
- The matching rate for the co-contribution has been increased to 150 per cent, up to a higher maximum co-contribution of \$1,500 for people on incomes up to \$28,000. Above this amount, the maximum co-contribution will reduce by five cents for each dollar of income to phase out at \$58,000, up from \$40,000.

The Government has also changed the contribution rules to allow anyone under the age of 65 to make contributions to a superannuation fund. The introduction of complying market-linked income streams will also give retirees more choice in how they finance their retirement.

2. The Committee recommends that, having established the objectives or goals, the Treasury convene a panel of key stakeholders to identify, and where possible recommend, common modelling assumptions and techniques for projecting retirement incomes.

This recommendation is not supported.

The models and modelling used by the Treasury's Retirement and Income Modelling Unit (RIMU) have benefited from extensive comments by stakeholders during the Senate Inquiry process, the guidance of a high level steering committee, and national and international sources. Convening another panel of stakeholders to discuss RIMU techniques for projecting retirement incomes is unlikely to yield any significant improvements.

3. The Committee recommends that the Government:

- a) extend the co-contribution concept by raising the threshold to people on average earnings, and improving the coverage to lower to middle income earners;**

The coverage of the co-contribution has been significantly broadened from the original proposal. As part of the 2004-05 Budget, the Government has increased the co-contribution to 150 per cent of an employee's personal contributions made from 1 July 2004 up to a maximum of \$1,500. The thresholds have also been increased so that the maximum co-contribution will be paid on incomes up to \$28,000. Above this amount, the maximum co-contribution will reduce by five cents for each dollar of income, to phase out at \$58,000, up from \$40,000.

- b) remove the work test for making voluntary contributions for those under age 75;**

The Government has removed the work test for making superannuation contributions for people under age 65. However, people under age 18 will be required to satisfy a work test in the year the contribution is made if they want to claim a deduction.

Additional work rules apply to people aged 65 and over. The work test is consistent with superannuation's intended role as a retirement income vehicle. However, the Government has simplified the superannuation contribution and payment rules for people aged 65 to 74. People will be able to make contributions to superannuation for a financial year if they have worked at least 40 hours within a 30-day period. Benefits will have to be cashed if the person does not work at least 240 hours during the financial year. This will significantly reduce compliance costs for superannuation funds as they will not have to confirm regularly that a member has worked at least 10 hours each week.

- c) permit the contribution of any non superannuation asset to superannuation income stream products, providing that, as far as possible, there are no adverse tax or age pension means test consequences.**

This recommendation is not supported.

The removal of the work test for people below age 65 will make it easier for people to purchase a superannuation income stream with the proceeds from the sale of a non-superannuation asset. However, if they are already in receipt of an income stream, they must commute the income stream, make the additional contribution (provided they satisfy the contribution rules), and then commence a new income stream. This is appropriate as the person's circumstances have changed, which will result in different tax and social security implications for the new income stream.

The exact tax and social security consequences of such a transaction will depend on individual circumstances and the nature of the income stream. The tax consequences may include a change to the annual deductible amount. The social security consequences may involve a change in benefit level, due to the impact of the income or assets test.

4. The Committee recommends:

a) examining the option of extending to the self-employed a framework for making superannuation contributions, with tax treatment similar to that which applies to employees making contributions;

This recommendation is not supported.

The Government has implemented its 2001 election commitment to increase the limit on full deductibility of superannuation contributions by self-employed people from \$3,000 to \$5,000, while retaining 75 per cent deductibility on any amounts above this threshold (subject to the age-based deductibility limits).

Further, many small business owners direct their earnings into building up their business. In recognition of this, the Government has implemented a number of initiatives to allow small business owners meeting the eligibility criteria to reduce significantly, or eliminate, their capital gains tax liability when selling a small business or part of a business. For example, a small business owner can disregard a capital gain when an active asset that has been held continuously for 15 years is sold and the person is over 55 and retired. Furthermore, a small business owner can disregard a capital gain where the proceeds of the sale of an asset are used for retirement purposes (up to a lifetime limit of \$500,000). These measures will benefit the many self-employed Australians who put all their resources into their businesses as an alternative to making superannuation contributions.

b) examining the removal of the \$450 earnings threshold for Superannuation Guarantee contributions.

This recommendation is not supported.

The Government is not convinced that the retirement income benefits of removing the \$450 earnings threshold for Superannuation Guarantee contributions outweigh the possible extra costs imposed on business, especially small business.

5. The Committee recommends that, together with industry, the Government conduct a review of the appropriate benchmark for measuring the impact of superannuation tax concessions.

This recommendation is not supported.

Official tax expenditures are measured against a comprehensive income tax benchmark. The reasons for this include that:

- international best practice (including in OECD countries) is to measure tax expenditures against the tax treatment that would normally apply. In the case of superannuation contributions and earnings, this is income tax;
- where government uses tax incentives deliberately, the comprehensive income tax base provides guidance on structuring measures to achieve the desired outcomes in the most efficient and cost-effective manner possible; and
- historically income tax has been the relevant base.

Accordingly, the Government does not consider that there is a need to review current practice.

6. The majority of the Committee recommends that, in the long term, the superannuation contributions tax be gradually removed and replaced with a new approach to taxing end benefits.

This recommendation is not supported.

Superannuation is the Government's largest tax expenditure. The value of the tax concessions provided to superannuation is projected to be \$13.3 billion in 2004-05. Published research by Treasury shows that superannuation is concessionally taxed for taxpayers in all marginal tax brackets. An average person with superannuation will have about 40 per cent more available at retirement, after all taxes, compared with receiving that money as wages and investing outside superannuation.

If the overall level of taxation of superannuation were to remain the same, shifting tax to the benefits stage would make no difference to an individual's after-tax superannuation benefits. A recent OECD survey of Australia found that although superannuation is taxed at three stages, the end result is close to a system in which only end benefits are taxed. This is consistent with the findings of World Bank research that Australian superannuation taxes over a working lifetime are not high by world standards (Whitehouse, World Bank (1999)).

Moving taxation to the benefits stage to compensate for the removal of the contributions tax would be inconsistent with the thrust of recent Government policies, such as the Senior Australians' Tax Offset, which have been directed at reducing the tax paid by older Australians. Deferring the taxation of superannuation entirely to the benefits stage would also cause a significant deterioration in the budgetary position over the medium term, with resultant higher Government debt and public debt interest costs. The alternative would be to find significant offsetting savings elsewhere in the budget so as to leave the Government's overall fiscal position no worse off. This would necessitate examining Government spending priorities in key areas such as national security, health, education, and social welfare.

7. The Committee recommends that, until such time as the taxation regime has moved to back-end taxes, which would ultimately enable Maximum Deductible Contribution limits (MDCs) to be removed, the Government review the scale of the annual MDC limits.

This recommendation is not supported.

The age-based deductibility limits are very generous, with contributions of up to \$95,980 (indexed annually) in respect of individuals aged 50 and over being deductible. This is nearly twice Average Weekly Ordinary Time Earnings (AWOTE). There is no limit on the amount of undeductible superannuation contributions that a person can make.

An individual who pays up to the full MDC limit for every year from age 25 to 65 would accumulate superannuation savings that significantly exceed the pension reasonable benefit level of \$1,238,440.

8. The majority of the Committee recommends that, as part of a policy to move towards a more equitable system of end-benefit taxation, the surcharge be gradually removed in the long term (given the revenue implications this may be achieved through a staged reduction).

The Government went to the 2001 election with a commitment to reduce the maximum surcharge rates from 15 per cent to 10.5 per cent. Due to difficulties with the passage of the legislation through the Senate, the Government could only obtain agreement to reduce the rates to 12.5 per cent by 2005-06.

Initiatives implemented as part of the 2004-05 Budget, however, have further reduced the surcharge rate to 10 per cent for the 2005-06 and later years. The Government remains committed to reducing the superannuation surcharge rate further.

9. The Committee recommends that:

a) a surcharge cap of the maximum rate of surcharge be implemented for members of private sector defined benefit funds;

This recommendation is not supported.

The current arrangements are applying the surcharge as intended, with the rules in respect of funded defined benefit schemes enabling consideration to be given to the unique features of individual schemes when determining surchargeable contributions.

Subject to the requirement to act in the best interests of all members, trustees of defined benefit funds have complete discretion in how they allocate the liability within the scheme.

The Government considers it inappropriate to intervene in matters between individual funds, employers and members. However, the current arrangements provide funds with considerable flexibility as to their operation.

From 1 July 2005 many employees will have greater choice as to the superannuation fund into which their superannuation contributions are paid. Choice of fund will allow employees to choose a fund that best meets their individual circumstances.

b) the burden of administering the surcharge be transferred from superannuation funds to the Australian Taxation Office (ATO).

This recommendation is not supported.

The ATO already undertakes a significant amount of the surcharge administration. From a fund's perspective, the administrative requirements for the surcharge are essentially similar to the processes it already undertakes as part of normal business operations—for example, processing and remitting payments, crediting and debiting accounts and reporting to members and regulators.

Under existing arrangements, a superannuation fund is required to provide the ATO with member contribution statements. These are generally provided electronically to the ATO, which in turn matches this information with data from individuals' income tax returns and determines the surcharge due where applicable. The function carried out by the ATO reflects that industry is only required to perform the necessary functions to facilitate the operation of the surcharge regime. The data provided by superannuation funds is also used by the ATO to determine entitlement to the Government's co-contribution payment.

10. The Committee recommends that:

- a) the current Reasonable Benefit Limits (RBLs) be retained, but that the annual indexation applicable to RBL thresholds be limited;**
- b) the lump sum tax free threshold be gradually reduced to the annual equivalent of average weekly ordinary times earnings (AWOTE) and maintained at that level; and**
- c) lump sum taxes on amounts in excess of the thresholds be gradually adjusted in line with the tax rate applicable to income streams.**

These recommendations are not supported.

The Government considers that individuals are ultimately best placed to determine how to invest their superannuation savings so as to maximise their standard of living in retirement. The current rules are structured so as to ensure that individuals who do take relatively small balances as lump sums may not need to pay tax on those benefits.

There are also significant tax and social security incentives to encourage retirees to purchase income stream products that provide a regular income over their retirement instead of taking lump sums. An example is the 15 per cent rebate in respect of pensions paid from a taxed source, while the component of a pension which represents a member's own after tax contributions is not subject to tax.

11. The Committee recommends that the Government consider proposals by which the superannuation system could be used to help meet health care costs in Australia, including dental health costs, which are expected to increase significantly in the next four decades.

This recommendation is not supported.

Assignment of superannuation for health and dental health costs is not appropriate. About 40 per cent of people aged 65 and over currently have private health insurance, in most cases including ancillary health cover, which provides significant benefits for dental health care costs. To make private health insurance more affordable for older Australians, the Government has announced that it will increase the Private Health Insurance Rebate from 30 per cent to 35 per cent for people aged from 65 to 69 years and to 40 per cent for people older than 70 years.

The nature of health expenditure is such that the risk needs to be shared across a broader group in the community through private health insurance and universal insurance through Medicare. Such risk-sharing is better achieved by policies that encourage a high proportion of the population to have insurance cover than by policies that force everyone to save enough to cover an expense that may only eventuate for some people. The Government's community rating and lifetime health cover arrangements ensure that premiums are affordable for older people, despite the higher average benefits they receive.

12. The Committee recommends that the Government:

a) continue to strive for universal and adequate superannuation coverage, with a focus on low and middle income earners;

Noted.

The measures introduced by this Government will go a long way in meeting the above recommendation.

Examples of such Government initiatives are:

- the Government superannuation co-contribution which is specifically targeted at low- to middle-income earners;
- increasing the fully deductible amount of superannuation contributions by self-employed people from \$3,000 to \$5,000 while retaining the 75 per cent deductibility on amounts above this threshold;
- simplifying the superannuation guarantee notional earnings base;
- removing the work nexus so that anyone under the age of 65 can take advantage of superannuation;
- allowing people who are working to make personal superannuation contributions up to age 75. The Government has also simplified these rules; and
- the spouse rebate to encourage partners to make contributions on behalf of non-working or low-income spouses.

The Government co-contribution can have a significant impact on a person's retirement income even for a modest level of saving.

- A single male with a 35-year working career and a current salary of \$36,000 who makes \$5 per week in member contributions and receives the co-contribution is projected to have an increase in his real accumulation balance at retirement of around \$55,000.
- This represents a 23 per cent improvement on his projected accumulation balance (in both real and nominal cases) where only SG contributions are made. His replacement rate is projected to improve by 6 percentage points (from 80 per cent to 86 per cent).

b) review the current arrangements for access to the Commonwealth Seniors Health Card scheme to ensure that it focuses on those in greatest need;

Noted.

The Commonwealth Seniors Health Card was introduced in 1994. It targeted self-funded retirees of age pension age or service pension age who had income below the pension cut-out point but were not eligible for any pension because of the assets test or on residence grounds. Income limits have subsequently been made more generous, most recently as part of the Government's *Acknowledging Older Australians* package, which was directed at giving more credit to self-funded retirees for their important contribution in developing the nation.

c) examine options to encourage older workers to remain in the workforce beyond the superannuation preservation age, particularly on a part-time basis;

The Government is committed to providing enhanced opportunities and greater choice for mature age workers, recognising that their skills, experience and ongoing contribution to the labour force will play a vital part in securing Australia's future economic strength.

As part of this commitment, the Government has announced that a new Mature Age Worker Tax Offset will be available to workers aged 55 and over. The offset will provide a maximum annual rebate of \$500 with effect from the 2004-05 income year. Eligibility for the offset will be based solely on earned income, so that mature age workers with earned income who also derive income from passive sources, such as superannuation and shares, can still benefit from the offset.

The offset will phase in from the first dollar of income, with the full \$500 rebate being available to all mature age workers when assessable earned income reaches \$10,000. The offset will phase out at 5 per cent from \$48,000, so that no offset is available when earned income exceeds \$58,000. In 2005-06 and beyond, the phase-out threshold will increase so that mature age workers with earned income up to \$63,000 will benefit from some offset.

The Government has already legislated to remove any age discrimination that exists in relation to the employment of employees of the Australian Government, and remains committed to continued leadership in promoting community understanding of the economic and social imperatives of greater workforce participation by mature age people.

The Government has also moved to make superannuation more flexible and adaptable so it is easier for older Australians to remain in the workforce and moved to recognise their changing work preferences. Allowing people who have reached their preservation age to access their superannuation as a non-commutable income stream, without having to retire from the workforce, will provide people with more flexibility in developing strategies in their transition to retirement. The work test that applies to people aged between 65 and 74 has also been changed so it is consistent with flexible working arrangements such as irregular part-time or short-term contract work, which older workers may prefer.

The Government also introduced the Pension Bonus Scheme which took effect from 1 July 1998. The scheme aims to encourage people to remain in the workforce past age pension age. The scheme is entirely voluntary and provides a tax-free lump sum to people who defer taking the age pension and continue to work at least 960 hours each year for a maximum of five years.

The Senior Australians' Tax Offset and the reduction in the age pension income test taper rate from 50 per cent to 40 per cent also provide an incentive for people above the age pension age to continue working, as they may not have to pay any tax on their earnings, and can keep more of their age pension.

d) monitor the uptake of complying annuities, to ensure that the restrictions imposed do not inhibit the attractiveness of complying annuities;

The Government supports this recommendation.

The Government will continue to monitor the uptake of complying annuities to ensure that these products are attractive to retirees. The Government extended complying status to market-linked income streams from 20 September 2004. This will increase competition within the complying income stream market, as well as providing additional choices to retirees.

e) consider the appropriateness of the current minimum drawdown limits for allocated annuities;

The Government supports this recommendation.

The Government is considering the appropriateness of the factors that are currently used to calculate minimum and maximum drawdown amounts.

f) develop a standard set of rules applying to income streams;

This recommendation is not supported.

The current rules that apply to income streams provide a great deal of flexibility and choice to people considering the investment of their superannuation and allow people to select the income streams that best suit their needs. A standard set of rules would necessitate a standard type of income stream, thereby reducing the options available to individuals in retirement.

The rules applying to complying and allocated income streams differ, as they have different characteristics. For example, a complying income stream receives a concession under the social security assets test, whereas an allocated income stream does not. A complying income stream may also be assessed against a higher reasonable benefit limit (RBL). Complying income streams receive these concessions based on their compliance with specific rules, including that they are non-commutable and that there is an orderly drawdown of capital over the term of the income stream.

g) examine options by which those who wish to could draw an income stream from their owner-occupied housing assets for retirement income purposes, including health and aged care expenses.

Noted.

The Government notes that since the Committee's inquiry, a number of financial institutions have launched reverse mortgage products. These allow retirees to unlock the capital in their home as a means of supplementing their retirement income.

The Pension Loans Scheme is also available to age and service pensioners receiving less than the full rate of pension and some self-funded retirees who own real estate. Under this scheme, a customer who is of age or service pension age, or the partner of someone who is, may be able to obtain a loan that will top up their fortnightly age pension payment to the equivalent of the full rate of age pension. Repayments can be made at any time or the debt can be left, including the accrued interest, to be recovered from the customer's estate.

13. The Committee recommends that more resources be allocated by Government agencies to assist people to prepare for retirement.

Noted.

The Government regularly reviews the resources allocated to Government agencies.

14. The Committee recommends that the Government consider the matters raised in this report in order to identify ways to make the superannuation system less complex and more comprehensible to the Australian people.

Noted.

The Government is committed to improving the financial literacy of Australians so that they are better able to make confident and well-informed decisions on the full range of financial products and services, including superannuation. The Government established a Consumer and Financial Literacy Taskforce in February 2004 to develop a national strategy to improve consumer and financial literacy in Australia.

The Taskforce found that while a diverse range of consumer and financial literacy programmes already exist, many consumers were not aware of the availability of these programmes, and similarly, programme providers were not linked into the needs of consumers in a nationally coordinated way. The Taskforce recommended that a national financial literacy body be established to take a strategic approach to this issue and facilitate improved cooperation, efficiency and effectiveness amongst provider organisations.

The Government has accepted the Taskforce's recommendation and committed \$5 million to establish a National Consumer and Financial Literacy Foundation and a further \$16 million over two years for a National Consumer and Financial Literacy Information Programme.

The Foundation will, amongst other things, establish a clearing house to provide a central point of access to consumer and financial information resources.

Many of the 'grandfathering' arrangements identified by the Committee as increasing complexity have been put in place to ensure that people are not worse off as a result of legislative changes. Unwinding these arrangements would impact negatively on the retirement plans of these people.

The Government is mindful of the need to reduce complexity in superannuation. As part of its recent superannuation policy initiative in relation to Australia's demographic challenges, the Government has implemented measures that will reduce complexity and red tape in superannuation. Examples include:

- removing the work test for making superannuation contributions for people under 65;
- simplifying the superannuation contribution and cashing rules for people between the ages of 65 and 74; and
- removing the requirement for superannuation funds to obtain an actuarial certificate for assets supporting allocated pensions and the new complying market-linked pensions.

These changes will not only make it easier for people to contribute to superannuation, but will also reduce regulatory costs on superannuation providers.

Furthermore, full portability of inactive accounts applies from 1 July 2004. This will allow people with multiple accounts to roll them over to one fund, thereby reducing the number of multiple accounts and the amount of lost money within the superannuation system.

15. The Committee recommends that, as a means of increasing national savings and reducing the temptation for people to accumulate debt which is repaid with superannuation on retirement, the Government examine the introduction of a tax preferred medium to long-term savings vehicle which could be accessed prior to retirement for purposes such as:

a) health;

b) savings for a home deposit; and

c) education.

Noted.

The Government already provides a range of tax and other incentives, in addition to superannuation, to support medium- to long-term savings. These include:

- the capital gains tax exemption for the family home;
- a change to the arrangements regarding taxation of other capital gains for individuals, whereby only 50 per cent of nominal gains are taxed (where the assets are held for at least one year). This means that the highest rate of capital gains tax for individuals is effectively no more than 24.25 per cent;
- redesigned company tax arrangements, whereby excess imputation credits are refundable to resident taxable individuals and complying superannuation funds. Where a person does not fully use their imputation credits to offset any tax liability, they are able to receive a refund of imputation credits; and
- abolition of Financial Institutions Duty and stamp duty on listed shares from 1 July 2001.

16. The Committee recommends that the Government consider indexing Commonwealth funded superannuation benefits to Male Total Average Weekly Earnings (MTAWE) or the Consumer Price Index (CPI), whichever is the higher, in order that recipients share in the increases in living standards enjoyed by the wider community.

This recommendation is not supported.

The Government at this time has no plans to change the indexation method for Australian Government civilian superannuation pensions. The Government believes that indexation using the Consumer Price Index (CPI) represents an equitable and satisfactory method over a period of years for increasing pensions, and protects the living standards of retired Australian Government employees.

In a recent article published by the Australian Bureau of Statistics (ABS) entitled *Analytical living cost indexes for selected Australian household types: update to June 2004*, the ABS measured and compared changes in the CPI against changes in prices of out-of-pocket living expenses experienced by different categories of households, including self-funded retiree households. The results have revealed that the CPI compares favourably with the cost of living index for self-funded retiree households over the six-year period to June 2004.

The Bureau's research indicates that for the period from June 1998 to June 2004 the CPI increased by 19.7 per cent. This compared favourably with the living cost index for self-funded retiree households, which increased by 18.6 per cent over the same period. Based on these results, the ABS article concluded that 'the CPI provides a reasonable estimate of changes in living costs for each of the selected household types over this period.'

The ABS findings reinforce the Government's belief that the CPI does provide a reasonable measure of the cost of living.

In addition, as previously set out in the Government's response to the Report of the Senate Select Committee on Superannuation and Financial Services entitled *A 'Reasonable and Secure' Retirement*, changing the current indexation arrangements would have a considerable financial impact. There would also be a considerable financial impact if the current indexation arrangements were changed so that they were based on Male Total Average Weekly Earnings (MTAWE). For example, in relation to the Australian Government civilian superannuation schemes, the proposal to change indexation arrangements to a MTAWE index is estimated to increase unfunded liabilities by a one-off amount of around \$7 billion and would worsen the budget fiscal balance by \$600 million to \$700 million per annum. A similar proposal to change to an AWOTE index is estimated to increase unfunded liabilities by a one-off amount of around \$11 billion and would worsen the budget fiscal balance by \$1 billion to \$1.1 billion per annum.

Again, the impact on the Defence Force superannuation schemes is similar. The notional average employer contribution rates for the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme would increase to 42.4 per cent and 28 per cent of superannuation salaries respectively. The increase in unfunded liability would be around \$6 billion and worsen the budget fiscal balance by around \$500 million per annum.