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**Australian Council of Public Sector  
Retiree Organisations Inc.**

ABN 74 202 015 642



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*Combined organisations representing Commonwealth, State, Territory and other public sector retirees.*

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PO Box 372 Hawker ACT 2614

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The Secretary  
Senate Select Committee on Superannuation  
Parliament House  
CANBERRA ACT 2600



## **INQUIRY INTO PLANNING FOR RETIREMENT**

This Peak Council and its member organisations represents a very large number of retired superannuants from Public Sector employment. The numbers are in excess of half a million people and they were all formally employed by Commonwealth or State Governments. A specific segment relating to military retirees is included in this submission.

ACPSRO does not normally enter the debate about pre-retirement, or planning for retirement, except concerning the matter of superannuation incomes and the importance of maintaining the proper value of these Public Sector superannuation incomes compared to retirement incomes of others in the community.

### **Public Sector Superannuation**

Key issues that employees contemplating retirement become concerned about are the quantum of their retirement income, the certainty of that income continuing to be available and the dollar value of that income throughout their retirement years.

Unless these issues are provided for in a fair and equitable manner to all, retirement years will not in very many instances be the enjoyable reward one may dream about in the latter two or three years of a working life perhaps spanning 40 or more such years.

Parallel with the Government's wish for people, wherever possible, to become self funded in retirement, the Government also wants older Australians to remain in their own homes for as long as possible and the Government does provide some assistance measures which are commendable and do help in this regard.

However, disposable income becomes the very real worry of retirees because of the expenditures involved in trying to maintain the retirement home in a reasonable and livable condition. For example, facing the repair bills to re-instate breaking down and ageing appliances in the home such as stoves, refrigerators and hot water services can become a nightmare for many retirees. Replacing such utilities with a new item is usually out of the question for the majority, let alone re-painting the house, replacing floor coverings, window treatments or bedding etc.

It is against this background of the difficulties faced by Public Sector superannuants, as the value of their pensions continues to erode, that ACPSRO, fully supported by its member organisations, has

argued so vehemently before previous Senate Select Committees for all Public Sector superannuation pensions to be indexed by the higher of the CPI or MTAWÉ on a twice-yearly basis.

We acknowledge that the two previous Senate Select Committee inquiries recommended to Government that it 'consider' changing the method of indexing but asking for Government to 'consider' has fallen short of making a strong and outright recommendation with supporting reasons for the indexing to be changed as a matter of urgency.

ACPSRO was dismayed in reading the Government's response of 12 December 2002 to the Committee's report, *A 'Reasonable and Secure' Retirement?* where, in paragraph one, they virtually 'pass the buck' to the States and Territories. Paragraph 1, second sentence, of this response says 'In this regard the Government understands that the use of CPI to update pensions is consistent with arrangements that State and Territory Governments have for indexing pensions from their main superannuation schemes'.

It is the Commonwealth Government which sets the standards and expects the States and Territories to conform and grants the States and Territories certain exemptions from compliance with the *Superannuation Industry (Supervision) Act 1993* (SIS Act) by virtue of the *Heads of Government Agreements* signed between the Commonwealth and all States and Territories.

Paragraph 7 of the Government's response to the same Committee report is a very cynical statement. This says 'However, the Government understands that the Commonwealth's superannuation schemes should make an equitable and appropriate contribution to the retirement living standards of Commonwealth employees and members of the defence force and will continue to monitor the schemes to ensure they meet retirement income objectives'.

In another response ACPSRO has had from the Minister for Veterans' Affairs and Minister Assisting the Minister for Defence dated 4 February 2003 on the indexing issue for military superannuants, the Hon. Danna Vale paraphrases the Government response to the Committee by saying 'The Government's view is that six-monthly adjustment of pensions according to movements in the CPI remains an equitable and reasonable method of maintaining the relative purchasing power of military pension payments. Moreover, the Government has undertaken to continue to monitor the schemes to ensure they meet retirement income objectives.'

The Government's response to the Senate Select Committee's report and statements such as those made to us by Minister Vale are not only utterly wrong but they are totally unacceptable to this Peak Council. We represented this criticism at a meeting with the Prime Minister in his suite on 29 August 2002. The Prime Minister said he could not fault the logic of our argument and would have to consider the issue against other budget priorities. Surely a statement like this is acceptance that the present arrangements are inappropriate.

This negative attitude to our pleadings for the inequitable treatment of Public Sector superannuants to be rectified and quickly has only succeeded in increasing the anger and frustration of those already retired from Government service and will not go down well with those now planning to retire.

Planning for retirement, as stated at the beginning of this submission, requires Public Sector superannuation pensions to be maintained at a proper dollar value in concert with wage movements as well as the CPI which is only a 'Price Inflation Measure' and not a 'Cost of Living Index'.

If, as the Government continues to claim that CPI indexing is adequate, correct and properly maintains the value of Public Sector superannuation pensions, ACPSRO would like to be advised as to why the Government in 1997 amended the Social Security provisions for Centrelink pensions to be indexed to MTAWÉ movements (albeit at 25% of the average wage), why the Reserve Bank has recently changed the indexing of their pensions to MTAWÉ and why members of Parliament have their own

superannuation pensions, including those of their surviving spouses, indexed to AWOTE? If Public Sector superannuation benefits are not to be changed to a wages-based indexation perhaps these pensions should be changed back to CPI indexing alone to **'maintain their proper value.'**

To highlight even further how Public Sector superannuation pensions have eroded over the last decade we have compared the indexed increases of Commonwealth civilian and military superannuation pensions with those provided for politicians under the parliamentary scheme. Over the 10-year period 1992 to 2001 the increases have been:

**26% for Commonwealth civilian and military pensions. and  
44% for Parliamentary pensions.**

*[Sources for these calculations were:*

- . Comsuper's advice of CPI indexed increases mailed to superannuants annually until January 2002 and now bi-annually.*
- . Basic salaries of Senators and Members from January 1952 until July 2002 listing dates and amounts of increases awarded. Publicly available information.]*

Commonwealth superannuation pensions, including those of surviving spouses, as the Select Committee is aware, are CPI indexed only. Parliamentary pensions including surviving spouses are indexed by the same percentage changes made to the basic salary of Senators and Members from time to time. This is wage-related indexing which allows parliamentary retirees to share in increases in community living standards while Public Sector retirees are barred from doing likewise.

**Such discriminatory treatment of Public Sector retirees doesn't measure up to the Government's much-espoused claim that all Australians will be treated equitably and fairly.**

Public Sector superannuants and those planning to retire will continue to be the poor relations of the Australian retirement community if Governments continue to ignore the need to correct this serious and grossly inequitable treatment of their former employees. In the light of two Senate Select Committee inquiries we seek an undertaking from the Government that it will move as a matter of urgency to correct this serious and unfair anomaly.

### **Military Pension Schemes**

There are two military pension schemes which cover currently serving personnel. The oldest is the *Defence Force Retirement and Death Benefit* (DFRDB) scheme in which about 9,000 serving personnel have elected to remain as contributors. The other, more recent, is the *Military Superannuation and Benefits Scheme* (MSBS), the superannuation scheme covering all members of the ADF other than those who elected to stay with the DFRDB.

The DFRDB Scheme is a defined benefit scheme which can be accessed after 20 years service. The longer one serves the greater the benefit. The concept of the scheme, developed by the late Hon John Jess MP, recognised that service in Australia's Armed Services was a young and fit person's profession and that by making a benefit available on completion of 20 years service would assist in transition from service to civilian life. It was therefore tailored to the profile of a career in the services. However, it is not compliant with the SIS Act.

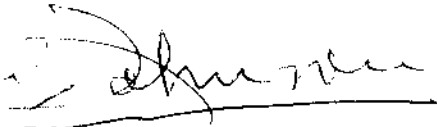
The present Defence scheme, the MSBS, is a partially defined benefit scheme in which the Government contributions are notionally brought to book on completion of service and indexed at the CPI until preservation age. The member component is paid in to the MSBS Investment fund, the funds being managed by the MSBS Board. The scheme is a regulated superannuation fund under the SIS

Act. The principal shortcoming of the MSBS scheme is that it is not tailored to military careers so that access to superannuation benefits is, with certain exceptions, not permitted until the contributor reaches preservation age. The outcome means that the Services have had to change their retirement age profiles upwards to accommodate the inability to access superannuation benefits at an earlier age.

Because of the special nature of military service, it is strongly recommended that the basic structure of the MSB Scheme be reviewed to:

- . reflect the need to take account of shorter careers and give access to a portion of this superannuation entitlement as a means of assisting transition from military to civilian employment. (In the UK, servicemen can obtain a military superannuation benefit from age 38.)
- . to recognise the need to exempt the MSB Scheme from certain aspects of SIS compliance
- . to transfer the employer component on termination of service to the MSB Fund in order to provide a marked increased benefit to the contributor.

If the Government accepts these principles it may be necessary for a separate judicial inquiry be set up to make appropriate detailed recommendations to Government.



G Johnson.  
National President