


Senate Select Committee on Superannuation and Financial Services

**The benefit design of Commonwealth public
sector and defence force unfunded
superannuation funds and schemes**

Submission No. 5

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Dear Committee Member,

it is widely understood that the role of superannuation is twofold;

- to help provide people with an acceptable standard of living upon leaving the paid workforce, and,
- to help relieve the burden on the Government social services budget by enabling citizens to help pay their own way.

The current situation, where the Military Superannuation and Benefits Scheme (MSBS) unfunded component is indexed to the CPI, is a dismal failure in both of these cases.

As the MSBS unfunded component is indexed to the CPI, it follows that;

1. The buying power of the money will be unchanged at retirement when compared to that at the date of separation from the Defence Force, and also,
2. The 'real' cost to the Government to pay this figure out would be unchanged at retirement when compared to that at the date of separation from the Defence Force.

So we have the same cost to the Government whether we are paid this money early or not, and yet the current growth of this amount is way below any industry standard superannuation scheme.

Some suggested solutions in order of preference are as follows;

1. Bring the MSBS in line with the Parliamentary Contributory Superannuation Scheme by allowing the member to receive the unfunded amount as a lump sum upon leaving the Defence Force. (see example #1).
2. Change the rules to allow the unfunded amount to be paid into an approved superannuation fund/scheme of the members choice. This may be the superannuation scheme of the members new employer or some type of managed superannuation fund etc. This solution would be in line with the Governments current thrust towards 'choice of fund'.
3. Instead of the CPI, link the unfunded amount to say the all ordinaries index or bank term deposit interest rates.

Some worked examples, comparing the current method of indexation to the above suggestions, are attached. (see example #2).

As the examples show, fund members are greatly disadvantaged by the current scheme.

The miracle of compound interest would suggest that the sooner a change is made to the current method of indexation, the better.

I would reiterate that in all of the above cases, the 'real' cost to the Government is the same (or less if you allow for the lower social services payouts that would be achieved).



Give those of us who have served and those of us who still serve, in places such as Timor, a fair go. We would like to have a choice but we need your help to change the rules.

Yours Sincerely,

B. Werndly

Brian Werndly.

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Example # 1 - Andrew Peacock.

- Mr Peacock retired from Parliament in 1994.
- Suprannuation payout from PCSS.....\$2.2 million dollars.
- Mr Peacocks personal contributions - \$104 000.
- Difference, ie unfunded amount.....\$2.1 million dollars.

It is grossly unfair to have a politician receiving a payout like this when the unfunded amount of the MSBS is only linked to the CPI. Furthermore, a retiring federal politician is entitled to take his/her PCSS payout even if they are going to continue working and even if they have not reached their nominal retiring age.

Example # 2 - Comparison of MSBS payout to other forms of indexation/investment.

Assumptions - 24 years to retirement.
- starting amount \$100 000.

	NOW	PROJECTED	INCREASE over CPI
1. MSBS @ CPI	100 000	242 000	\$ 0
2. Bank term deposit	"	322 000	\$ 80 000
3. All ordinaries index	"	2 320 000	\$ 2 078 000
4. Superannuation fund	"	2 862 000	\$ 2 620 000
5. Share fund	"	6 908 000	\$ 6 666 000
and.....			
6. Andrew Peacock	104 000	2 200 000	\$ 2 100 000

Notes.

1. CPI average annual increase 3.75% since 1985.
2. Bank term deposit interest rate 5% compounded.
3. All ordinaries index increased by 9% pa since 1979. Dividends @ 5% re-invested.
4. Colonial First State Australian Share Fund grew by 15% pa compound over the last 7 years.
5. Bankers trust Equity Imputation Fund grew by 19.3% pa compound since 1987.