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Senate Superannuation & Financial Services Committee

Senate select committee on Superannuation and Financial Services

SUBMISSION

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

Firstly, at the risk of raising the ire of the committee, I would like to point out how disappointed I am at the lack of effort given by the powers that be when it came to advertising the calling of submissions.

It is my understanding that the advertisement only appeared in The Financial Review and The Australian and on the Parliament House website. Most pensioners I know only read the local state newspaper, few own a computer and if they do, do not view the Parliament House web site on a regular basis just to see if there is something there that might effect them. Generally they would not be aware of the advertisement. I also understand that it was not even published in the Canberra Times, considering the number of public servants (retired or not) that reside in that city.

The current method of indexing pensions by using the CPI is appallingly inadequate and inequiable. I believe the method of calculating the CPI has, over the years, changed to such an extent that it is no longer a true measurement of the cost of living for the average householder. Politicians in their wisdom recognised this and have moved to change their pension indexation from CPI to using AWOTE when it comes to determining Superannuation RBLs – why?

Other retirement indices such as ASSIRT and the Macquarie Bank are invariably much higher than CPI.

The Australian Government is pushing hard for its citizens to eventually become self funded in their retirement due to the high cost of providing age pensions in the future. Simply in the future, the Government will not have enough money to fund age pensions. This is, as we all know, due to several factors:

- people are living longer, therefore pensions paid for a longer period of time.
- More people are retiring at an earlier age, again pensions paid for a longer period of time.
- The population growth has almost stalled, giving rise to less and less people entering the workforce and therefore less people to provide support for the social security system through taxes.

Private sector employees are dealt with and protected through legislation passed over the years, governing the obligations of employers and recognised superannuation funds so as to provide a good basis on which to build enough equity, not to be a burden on the Social security system in the future.

As far as the Commonwealth Government is concerned the PSS and CSS should also provide the means for public servant retirees to be self funded and not have to rely on the age pension to supplement their pensions.

The reality is, that due to the CPI method of pension indexation, pensions are slowly slipping behind.
As an example, an SPO-C retiree 4 years agon on a salary of $55,170 would have retired ona pension of $23,171.40 (42% of salary)
The average salary of an SPO-C today is $60,091
So retiring today a public servant's pension would be $25,238.22
However, the CPI indexed pension today has risen to only $24,186.
Over 4 short years the indexed pension has failed to keep pace with AWOTE to the tune of $1,000.

The other impact on the Government is that once a portion of the age pension is paid (however small) people are entitled to a pension concession card, resulting in increased Social Security outlays. A lot of people are finding that because of "pension slippage" they are now entitled to a portion of the age pension.

Clearly CPI is not the method to be used in indexing pensions.

FUNDING OF INCREASED PENSIONS

The liabilities of the PSS and the CSS form part of the Commonwealth's overall liabilities. If the Commonwealth did not provide these benefits, then it would incur increased Age Pension outlays and reduced taxation receipts.

As stated before, the Government **is** incurring increases in age pension outlays, so the present system is not satisfactory.
The Government needs to lift Commonwealth pensions to a point where people do not need to access the Age pension scheme.
Using AWOTE to index pensions would probably fix the problem.
The increased pension amounts could be paid for out of the Comsuper fund.

Comsuper, the fund through which members are paid pension entitlements is a highly successful fund as the following crediting rate figures indicate (source:www.comsuper.gov.au)

Financial Year	Rate	Financial Year	Rate	Financial Year	Rate
1999-2000	15.1%	1991-92	7.9%	1983-84	13.5%
1998-99	9.8%	1990-91	2.8%	1982-83	10.8%
1997-98	10.8%	1989-90	9.8%	1981-82	11.7%
1996-97	14.5%	1988-99	8.8%	1980-81	12.1%
1995-96	7.3%	1987-88	12.0%	1979-80	9.6%
1994-95	7.1%	1986-87	22.7%	1978-79	9.3%
1993-94	6.6%	1985-86	16.7%	1977-78	8.4%
1992-93	8.2%	1984-85	15.0%	1076-77	8.1%

Crediting and Exit Rate Policy

The CSS Board's investment objective is to maximise the long-term real rate of return to members. The Board expects that, on average, the CSS Fund return will be positive at least four years out of five. It also expects that, on average, the CSS crediting rate will be higher than the bank interest rate (the 90 day bill swap rate) by 1% or more at leat three years out of five.

The Board maintains a Reserve within the CSS Fund to smooth out fluctuations in annual crediting rates. This reserve underpins the requirement that **no negative exit or crediting rates are declared** and allows the Board to adopt a higher allocation to long term growth assets in its investment strategy. In years when there are high returns, part of the investment earnings are transferred to the Reserve, thereby reducing the rate credited to members. In years when there are poor or negative returns, transfers from the Reserve are used to top up the interest rate credited to members.

The Board's annual **crediting rate** takes into account the earning rate of the Fund, the target rte of bank interest plus 1%, the Reserve bounds of plus/minus 5% of the Fund assets, and proportional adjustments into and out of the Reserve. If the Reserve is at its upper limit of 5% of Fund assets at the beginning of the financial year, the annual crediting rate will be the higher of the target rate of the Fund. If the Reserve is at its lower limit of minus 5% of Fund assets, the annual crediting rate will be the lower of the target rate and the earning rate. Where the Reserve is between its upper and lower limits, the annual crediting rate will fall between the target rate and the earning rate.

Compare the CPI indexing rate for the last 4 years with that of Comsuper's crediting rate and that of AWOTE (source: Personal Investment)

Year	CSS rate	AWOTE	CPI
2000	15.1%	4.4%	2.8%
1999	9.8%	3.2%	1.1% (actually 1.3% but discounted 0.2% for the previous negative CPI)
1998	10.8%	4.3%	0.0% (actually –0.2%)
1997	14.5%	3,5%	1.3%

AWOTE indexing could easily be funded from the comsuper fund.

In summary, the current system is inappropriate and inequitable considering some public servants are on the CPI index and some (politicians) are on the AWOTE system.
In calling for fairness I would not see those on AWOTE indexation going back to CPI to create a level playing field as far as indexation is concerned, so the alternative would be to move the disadvantaged to the AWOTE method of indexation.

I humbly urge the committee to consider the above submission and put the full weight of their position behind supporting the AWOTE as a method of indexing public servant pensions.

Yours sincerely,
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