Australian Council of Public Sector
Retiree Organisations Inc. ABN 74 202 015 642

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

PO Box 372 Hawker ACT 2614

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Secretary
Senate Select Committee on Superannuation and Financial Services
Parliament House
Canberra ACT 2600

SUBMISSION ON
INQUIRY INTO COMMONWEALTH AND DEFENCE FORCE UNFUNDED SUPERANNUATION FUNDS AND SCHEMES

1. This Peak Council (ACPSRO) links Commonwealth (including the Military) State and Territory Public Sector superannuation organisations across Australia. ACPSRO concerns itself with Federal legislation which has implications for Commonwealth Public Sector superannuants and can have flow-on effect or is likely to influence the State and Territory Governments' superannuation arrangements.

2. ACPSRO views this inquiry as an extremely important one and is pleased to present the attached submission for consideration by the Select Committee in accordance with the published Terms of Reference. The current plethora of public sector superannuation schemes with widely varied and little understood features and benefits has beggared such an inquiry for decades. If the outcome of this inquiry does not result in future treatment of retired Public Sector employees which is seen to be fairer than at present and with much less complexity and varied benefit schedules, then the current widespread dis-satisfaction with these schemes can only increase and cause further problems for future Governments.

3. Only the broad principles of the Public Sector schemes addressed in this submission concerning age retirement and preservation of full benefits have been considered in the descriptions of the design benefit of the various schemes hereunder. Detail such as Superannuation Industry Standards restrictions and various scheme rules applicable in special circumstances which cover invalidity, death, contributions during leave periods, salary reductions, surcharge, etc, have not been included. These special conditions do not appear to have any bearing on the matter of indexation of a preserved employer benefit which we understand is the main thrust of this inquiry.

4. To address the Terms of Reference in the most effective manner and to facilitate understanding of the various public sector schemes which, while reflecting the social standards of the era in which they were conceived and the particular public sector enterprise they supported, are diverse in the way they operate, the submission is in four parts. **Part One** addresses matters

pertaining to the three Defence Force superannuation schemes. **Part Two** deals with the three Commonwealth Public Sector (civilian) superannuation schemes and **Part Three** covers the State Government schemes of South Australia and Tasmania. These two State schemes are generally illustrative of all State Government schemes and help to highlight the disparity which currently exists between most Public Sector superannuation arrangements.

5. **Part Four** embraces the indexation arrangements applying to all of the above Public Sector schemes and the Parliamentary Contributory Superannuation Scheme from commencement of retirement. Although the Terms of Reference do not contain a specific reference to indexing of benefits after retirement, ACPSRO considers this aspect of Public Sector superannuation should not be isolated when considering the benefit design of the Public Sector superannuation schemes currently legislated. Therefore Part Four is included as a response to Term of Reference (f) - "Any other issues related to the scope of this inquiry".

6. In view of the large number of people in receipt of Public Sector pensions, including Parliamentarians, we would expect the Committee to identify in clear terms the extent of disadvantage occurring at the present time, and in the future, with a view to recommending changes that need to be made to ensure equity and maintenance of community living standards for this large and important sector of the Australian community.

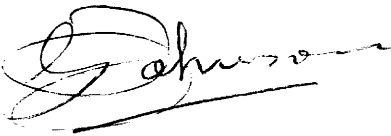
7. **Terminology.**

a. Various superannuation schemes use different terms to describe the benefits they provide. For example, the benefit provided by one of the military schemes is referred to in the applicable legislation as 'retired pay'. However, throughout this submission we have used generic terms like 'pensions' or 'superannuation benefit'.

b. CPI is a term which seems to have undergone a subtle change over the years. Although it was in the past referred to as 'Consumer Price Index', more recently it has been referred to as 'Cost Price Index'. We have used the abbreviated form 'CPI' without an explanation of its full title.

8. **Acknowledgment.** The statistics and facts used in this submission have been taken from publications in the public domain without specific acknowledgment where they appear.

Yours sincerely,



Gordon Johnson
National President

SUBMISSION ON
INQUIRY INTO COMMONWEALTH AND DEFENCE FORCE UNFUNDED SUPERANNUATION FUNDS AND SCHEMES

PART ONE

MILITARY SUPERANNUATION SCHEMES

1. Input to this submission relating to military schemes derives from the Regular Defence Force Welfare Association (RDFWA), a constituent member of ACPSRO, and which has addressed superannuation issues with successive Governments of the day over many years. The RDFWA was established in 1959 to represent the interests of serving and retired members of Australia's armed services with particular interest in conditions of service and superannuation benefits. RDFWA's constituency embraces all servicemen and women who serve in the ADF (about 50,000) and those Regulars who have retired, some 700,000. Of the latter figure some 52,000 are in receipt of military superannuation benefits. These are people who have served their country for 20 years or more in every operational area in which this country has been involved from WWII onwards.

2. The inquiry is particularly timely as far as superannuated military personnel are concerned in view of the large number of retired military people in receipt of superannuation benefits as well as the number of serving personnel who contribute to the current scheme and whose financial security post military service is dependant on either the DFRDB or MSB Schemes. In addressing the question of financial security for retired military personnel it is beholden on the Government of the day to ensure that:

a. military retirees with long term service continue to enjoy recognition by successive Governments, specifically by ensuring that their living standards are maintained vis-a-vis the Australian community;

b. widows of military superannuants are adequately provided for in recognition of the role they played in support of their husbands: and

c. the need for income supplementation through other government agencies is kept to a minimum.

3. In the past 12 months, the RDFWA has made two representations to the Government pointing out that under the two current military superannuation schemes there has been a significant erosion of living standards of those in receipt of military pensions. This has occurred because the legislated CPI indexation arrangements are disadvantageous compared to those whose pensions are indexed to Male Total Average Weekly Earnings (MTAWE) or Average Weekly Ordinary Time Earnings (AWOTE) such as Social Security pensions, Veterans' Affairs pensions and Parliamentary pensions.

4. Responses to these representations by the Minister for Veterans' Affairs and Minister Assisting the Minister for Defence, the Hon Bruce Scott, requesting an internal inquiry into these matters has been rejected; furthermore the RDFWA has not been invited to discuss these matters. None of the arguments advanced by the RDFWA have been adequately addressed by Defence which holds the line, erroneously in our opinion, that CPI indexation is a reasonable measure for ensuring that the real value of military pensions is maintained.

Background to the Military Superannuation Schemes

5. Since WWII the following three schemes have provided retirement income for long serving members of Australia's Armed Services:

a. Defence Forces Retirement Benefits Scheme (DFRB);

b. Defence Forces Retirement and Death Benefits Scheme (DFRDB); and

c. Military Superannuation and Benefits Scheme (MSBS).

6. **DFRB.** The DFRB was established in 1948 under the DFRB Act 1948 and closed to new members on 30 September 1972. The DFRB Scheme currently provides retirement benefits to 6,031 people of whom 2,878 are widows. This was a fully funded scheme with both contributor and government contributions being managed by Trustees. The corpus was transferred to the Government without audit when the new DFRDB Scheme was introduced. DFRB pensions are CPI indexed.

7. **DFRDB.** The DFRDB Scheme came into operation on 1 October 1972 under the DFRDB Act 1972. Members of the DFRB Scheme were compulsorily transferred to this scheme which is a defined benefit scheme. All members of the DFRDB Scheme had an option until 1992 to remain in the DFRDB Scheme or transfer to the MSB Scheme. From 30 September 1991 all new members of the ADF automatically became members of the MSBS. The DFRDB Scheme currently provides retirement income for 46,981 people of whom 3,896 are widows. There are currently about 13,000 ADF serving members still in the DFRDB Scheme. DFRDB pensions are CPI indexed.

8. **MSBS.** The MSB Scheme was established in 1991 under the MSBS Act with serving members given the option of transferring to the scheme as mentioned in paragraph 7 above. The MSBS is a defined contribution/defined benefit scheme. The member component is paid into an investment fund and managed by the MSBS Board of Trustees. The Board's objective for the fund is to exceed inflation by at least 5% (in the year FY 1999/2000 the return on investments was 13.6%). The scheme is a complex one providing for members to access their contributions on leaving the service but with the employer component not accessible until preservation age which varies according to the member's date of birth. Members' contributions earn interest at the Fund's earning rate while the employer component (which is unfunded) is notionally indexed at the CPI. Most serving members of the ADF (about 40,000) are members of the MSBS Fund while in FY 1999-2000 FY, 5205 members left the scheme.

Profile of the Retired Military Superannuant

9. In addressing military superannuation it is pertinent to remember that most of the men and women who served to pensionable age (at least 20 years service) were either Senior NCO's or officers promoted from the ranks whose promotion opportunities were limited. They were not highly paid and seldom served beyond the age of 45. Compulsory retiring ages were much lower than in the civilian workforce. Their wives had only limited opportunities for employment in the workforce and when employed were not superannuated. Furthermore, employment opportunities for many servicemen on leaving the service were often limited so that their superannuation benefit remains an important part of their financial security. DFRDB tables show that 40,000 pensioners receive less than $30,000 pa, the mean pension rate being about $15,000 pa. For widows the mean pension is about $10,000 pa. It is

against this background that there is an obligation on Government to ensure that the living standards of these deserving people is not further eroded: it can be shown that CPI indexation is diminishing pension value and there is no guarantee that this will not continue to occur in the future.

Choice of Fund Arrangements

10. Under legislation currently before Parliament pending debate in the Senate [Superannuation Amendment (General Choice of Funds) Bill 1998], all government employees will be given the choice of accessing private sector superannuation funds to provide their retirement income, with government managed schemes being closed off. This arrangement will not apply to serving military personnel who will be required to continue to contribute to the current military schemes. It is therefore the responsibility of Government to ensure that the military schemes covering ADF members are generous to the point of being more beneficial than the best civilian schemes reflecting the special nature of military service. Thus a commitment by Government to a military superannuation review process is seen as essential and would be consistent with the recent Defence White Paper.

Inquiry Terms of reference

11. **TOR (a) - The Method of Indexation Used by Trustees to Preserve the Real Value of a Fund Members' Preserved Unfunded Component of Their Employer Benefit.** This issue applies only to the MSBS in which the employer benefit is based on a formula related to Final Average Salary (FAS) at the time of separation. A similar formula is used to determine the employer benefit in cases of invalidity, or death. In respect of these situations the pensions derived from the employer benefit are CPI indexed. In the case of personnel resigning, their employer benefit is determined at that time based on an FAS formula. This unfunded component of the employer benefit is CPI indexed each year until preservation age is reached.

12. Recent advice from ComSuper indicated that 72% of ADF members separating from the service in the year 1998/99 had served for 10 years or less with the majority leaving while still not 30 years old. This pattern is unlikely to change given that the separation rate from the ADF is running at around 11-12%. This means that the employer benefit for these people will compound at the CPI index rate for 25-30 years before finally becoming accessible. On the other hand, if the benefit was realised at the time of separation and invested in the MSBS Fund it would enjoy a far higher earning rate. The benefits of such a change in the scheme would be threefold, as follows:

a. The ADF member would enjoy a larger benefit at preservation age;

b. The Government's liability would be significantly reduced; and

c. The need for the member to seek income supplementation from Social Security at some time in the future would be reduced.

Relevant to the above argument is the recent Defence White Paper which stresses the importance of "recruiting, developing and retaining high quality people" and foreshadows the need to develop, inter alia, policies to address superannuation. We suggest that this is one area in which the Government could introduce a more practical and enlightened scheme by an amendment to the MSBS Act.

13. **TOR (b) - The Rationale for Using this Method.** This Association does not have access to the papers giving rise to the MSBS and is not in a position to comment except that defined benefit schemes have always adopted the 'pay later' concept.

14. **TOR (c) - The Cost and Benefits to Fund Members and Trustees of Using this Method Over Other Alternatives.** This Association can see no benefit to members or Trustees in using the present method.

15. **TOR (e) - The Possible Implications of Adopting Another Method of Indexation.** There are two issues here. Firstly, if the employer benefit were to be paid into the MSBS members' accounts at time of exit, then indexation would not be an issue at all. If this occurred it would abrogate the need for the Government to address the liability in, say, 25-30 years time and would also increase individual member's ultimate retirement benefit when claimed. Secondly, using this system of funding the employer benefit, the funding requirement on Government, in dollar terms, would be less at the time of exit than at preservation date.

16. **TOR (f) - Any Other Issues Related to the Scope of this Inquiry.** The main ADF unfunded scheme is the DFRDB scheme outlined at paragraph 7 above and indexing of pensions under the DFRDB is addressed in Part Four of this submission. Paragraph 79 draws attention to an anomaly in indexing of surviving spouse benefits.

Lack of Commitment by Government

17. In a recent letter from the Hon Bruce Scott published in *Navy News* he re-affirmed in an article on the MSB Scheme "the Government's commitment to providing the most appropriate levels of support to current and former serving members". It is our firm view that the present Minister Assisting the Minister for Defence has not delivered on this commitment to former serving members by not addressing the indexation issue. Moreover, unless some amendments to the MSB Scheme are made he will also fail those still serving - this at a time when defence personnel is a crisis area for Defence.

PART TWO

COMMONWEALTH PUBLIC SECTOR SUPERANNUATION SCHEMES (CIVILIAN EMPLOYEES)

18. There are three unfunded Commonwealth Public Sector superannuation schemes all of which are administered by ComSuper and the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) Boards of Trustees. The PSS is the only scheme currently open to new entries.

Superannuation Act 1922

19. This original scheme was closed when the Commonwealth Superannuation scheme (CSS) was opened on 1 July 1976. 1922 Act contributors still employed at that time were compulsorily transferred to the CSS. The 1922 scheme was based on the purchase of units of pension.

20. There are no deferred (preserved) benefit members under the 1922 Act scheme but there are 12,736 recipients of pensions including 8,764 reversionary benefits being paid. All of these pensions are administered by ComSuper in the same manner as pensions paid under the CSS and PSS schemes. The pensions are indexed annually against the CPI.

1976 Commonwealth Superannuation Scheme (CSS)

21. This second scheme commenced on 1 July 1976 and, with some exemptions, was closed to new entries from 1 July 1990. As at 30 June 2000 there were 33,524 male and 15,028 female members for a total of 48,552. Since 30 June 1996 the membership has declined from 77,559 at that time to the current figure of 48,552 - a decline of 37.4%.

22. Pensions in force as at 30 June 2000 were:

Age retirement	43,026	
Involuntary retirement	14,172	
Invalidity	24,659	
Spouse and orphans	27,188	
Total	109,045	(which includes 12,736 of 1922 Act)

Preserved benefit cases numbered 13,850 among the membership of 48,552 above.

23. Pensions payable upon retirement are based on a percentage of final salary, length of contributory membership, age at exit and whether contributions commenced before or after 1 July 1976. Maximum pension payable is 52.5% of final salary for retirement at age 65 with 40 or more years of contributory membership. Pensions payable decrease with less years of membership and lower retiring ages. For example, 30 years of contributory membership and retiring at age 55 generates 37.5% of final salary.

24. All retirement pensions are CPI indexed against the twelve months CPI movement ending with the March quarter with any increase payable with first payment after 30 June annually.

25. Deferred (preserved) benefit pensions payable at the prescribed preservation age are calculated by the formula of multiplying the members basic contributions, including accumulated interest, by 2.5 and then multiplying this by a prescribed indexed pension factor. The indexed pension factor is 0.0925 if the preserved benefit is claimed at age 55 and is 0.1100 for age 65.

For example: Basic contribution with interest = $100,000
Age 55 indexing factor = 0.0925
100,000 x 2.5 x 0.0925 equals a pension of $23,125 pa

If the same contributions applied and claimed at 65 years of age the pension would be $27,500 PA

The pension is then indexed annually against the CPI as is the non preserved age retirement pension. It has not been possible to evaluate the indexing factor used in preserved benefit pension calculations against a situation where the employer component was CPI indexed during the preservation period until claimed at the preservation age.

1990 Public Sector Superannuation Scheme (PSS)

26. This third scheme commenced on 1 July 1990 when the CSS was closed to new entries. Provision was made for CSS contributors to voluntarily transfer to the PSS within specified time limits. As at 30 June 2000 there were 48,110 male and 64,326 female members for a total of 112,436. Since 30 June 1996 the membership has declined slightly from 120,774 at that time to the current figure of 112,436 - a decline of 6.9%. However, since the 30 June 1999 membership of 111,899 the increase to 112,436 is about 0.5% .

27. Pensions in force as at 30 June 2000 were:

Age retirement	918
Involuntary retirement	3,841
Invalidity	763
Spouses and orphans	192
Total	5,714

Preserved benefit cases numbered 60,000 among the membership of 112,436 above.

28. The age retirement benefit under the PSS may be taken wholly as a lump sum or from half to all of the lump sum may be exchanged for a CPI indexed pension. Conversion of the lump sum to a pension is arrived at by dividing the lump sum by a factor relative to age at retirement. The pension conversion factor is 10.0 for age 65 and increases by 0.2 for each year under 65. At age 55 the factor applicable is 12.0.

For example: A lump sum of $200,000 converted for age 60 pension is divided by 11.00 giving an annual pension of $18,182 pa gross which is CPI indexed annually after retirement in the same manner as CSS and PSS age retirement pensions.

29. Preserved benefits are established where a member leaves the PSS before reaching the prescribed preservation age which varies according to date of birth. If born before 1 July 1960 the preservation age is 55 years and increases by one year on the 30 June up to 1964. After 30 June 1964 the preservation age is 60 years.

30. A preserved benefit consists of three components. The first component consists of the member's contributions and interest accumulated to the date of leaving work and this part continues to earn interest at the fund allocation rate. The productivity component is an employer contribution dependent on salary and calculated to the date of leaving work. This productivity component also continues to earn interest at the fund allocation rate. The third component is employer financed and

dependent on final average salary and the rate at which contributions were paid into the scheme. This component is increased in line with the CPI.

31. A preserved benefit, where the three benefit components have been preserved, may be taken as a lump sum or converted to a pension when preservation age is attained and the member retires from the work force. Where a member takes the member component at exit, the remaining two components are compulsorily preserved until later claimed. The benefit in these circumstances is a lump sum and no pension option is available. The pension conversion is the same as under age retirement provisions where the lump sum is divided by the same pension conversion factors.

Inquiry Terms of Reference

TOR (a) - The Method of Indexation Used by Trustees to Preserve the Real Value of a Fund Member's Preserved Unfunded Component of Their Employer Benefit

32. The matter of indexation of either the employer or employee component of a preserved benefit is irrelevant where the member, claiming the benefit at preservation age, is entitled to claim the benefit as a pension calculated against the member's final salary. This provision exists for example in the South Australian State superannuation scheme outlined at paragraph 49 below. The following paragraph covers a similar situation in the CSS.

33. A similar situation arises under the CSS where the preserved benefit claimed at preservation age is a pension calculated by converting the member's contributions with interest by application of pension index factors. Under this process, the indexing of both the employer and employee components may also be irrelevant unless it can be demonstrated that the pension index factors applied result in a lower pension rate than would be the case if the employer preserved component was for example CPI indexed throughout the preservation period. We have been unable to make such a comparison. (Paragraph 25 explains the CSS pension conversion process in detail.)

34. In some other Public Sector schemes, such as the PSS and the New South Wales Superannuation Scheme, preserved employer components are indexed against the CPI. In the NSW scheme referred to, the members' own contributions are also indexed against the CPI when preserved and do not increase according to the crediting rate of the fund which is higher than the CPI. The indexing methods applied to both employer and employee preserved components are quite varied but where the indexing is by the CPI the real value of the benefit is not being maintained.

TOR (b) - The Rationale for Using This Method

35. Where CPI indexing is employed as the means of preserving the value of the employer unfunded component, which today it fails to do, the only possible reason must be to minimise Government outlays when a preserved benefit is claimed by a member.

36. It would be far more beneficial to Government outlays in the longer term if the employer component of the preserved benefit was funded and invested by the funds' trustees to maximise the value of the members' retirement benefit. In these circumstances the claim against the Social Security budget would be reduced and the Government tax claw-back would be higher. The claims for Social Security top-up payments, because the level of Public Sector retirement benefits are below the cut-off

point for such top-up, should not be ignored. Generally, Public Sector superannuation incomes for about 90% of recipients are below the Social Security cut-off limit.

37. Except where a member's preserved benefit is converted to a pension based on final salary, this Association is concerned that there are situations where a member's own contributions are relegated to a CPI indexing rate when they preserve their benefit. The members' contributions should continue to be increased according to the funds' returns from investment.

TOR (c) - The Costs and Benefits to Fund Members and Trustees of Using this Method Over Other Alternatives

38. Retention of CPI indexation of a member's preserved employer benefit indexed at annual CPI rates during the preservation period does not enhance the member's benefit when claimed compared to the situation of the employer component being funded on exit and passed to the fund Trustees for investment. The crediting rates of the funds managed by the Trustees for the MSBS, CSS and PSS schemes, for example, have over the years outperformed the rate of inflation. In FY 1999/2000 the crediting rate of these funds ranged between 13 and 15 per cent after tax.

39. Members preserve their benefits progressively and therefore any future call on revenue to contribute the employer component for investment is also progressive and would not require transfer of large sums from revenue at the one time. Over the longer term, such employer funding will have beneficial impact by helping reduce the unfunded liability of the various schemes.

40. The benefit to scheme members would be significant and the higher retirement benefits claimed at preservation date would reduce the amounts claimable as top-up from Social Security. Such a change would be welcomed by members and would be consistent with Government policy for retirees, where possible, to become self-funded. There would be some administrative increases for Trustees and Fund Managers but it would be insignificant.

TOR (d) - Indexation Methods Used by Unfunded and Funded State Government Superannuation Schemes Where the Member's Preserved Employer Benefit Remains in the Fund

41. This question concerning an employer "unfunded" component being preserved can only be interpreted as meaning a "notional" valuation of the component since no money has been transferred into the fund. In State schemes the indexation of such an unfunded "notional" component is by application of the CPI.

42. As mentioned under the State Schemes, the New South Wales Superannuation Fund also applies the CPI to the member's own contributions when the member preserves the benefit.

TOR (e) - The Possible Implications of Adopting Another Method of Indexation

43. The implications for adopting an alternate method of Government's funding the employer component of a preserved benefit are principally budget related. We are unable to estimate what such costs might be but as already mentioned at paragraph 39, the transfer prospectively of the

employer component at exit date to Trustees for investment until preservation claiming date would be a progressive injection of funds from revenue and should be manageable.

44. The cost of retrospectively funding members already retired with their employer component currently preserved, such as the 73,850 cases within the PSS and CSS would of course be substantial notwithstanding it would benefit the members. This is a matter for Government to consider.

45. Funding and permitting the preserved benefits to accumulate at a higher rate than inflation is of benefit to Governments in the longer term and equally beneficial to members. The income tax claw-back and Social Security outlays provide cost offsets as previously mentioned and the unfunded liabilities of the schemes would be reduced. Transferring an increased benefit to members is also consistent with Government policy of more retirees becoming self-funded.

PART THREE

SOUTH AUSTRALIA AND TASMANIA STATE GOVERNMENTS' SUPERANNUATION (PENSION) SCHEMES

46. These two State Government schemes are generally representative of all State and Territory superannuation schemes which have provided pension benefits. Such pension schemes have now been replaced by accumulation lump sum schemes.

SA State Pension Schemes

47. There are three South Australian superannuation schemes, two of which are closed to new entries. These are:

a. SA Pension Scheme introduced in 1974 and closed to new entries on 31 May 1986. This scheme is referred to as "Super SA".

b. A lump sums scheme introduced in 1988 and closed to new entries on 31 May 1994.

c. Southern State Superannuation scheme ("Triple S") which is still open.

Super SA

48. In this scheme, which was closed to new entries on 31 May 1986, as at 30 June 2000 there were 7,875 contributing members, 15 non-contributing and 3,039 preserved members. There has been a decline of 25% over the previous three and a half years.

49. Under this scheme there are 13,834 retirees receiving pensions and the average pension is $19,781 pa. The pension benefit on retirement at age 55 is a percentage of the member's final salary and takes into account total length of scheme membership, average contribution rate, retirement age

and any periods of part time employment. Pensions paid are indexed annually against CPI movements for the year ending with the June CPI quarter and adjustments to pensions are made in the following October. The index applied is the All Groups Adelaide CPI.

50. Provision exists for commutation of some or all of the pension to a lump sum on retirement at or after age 55. Commutation factors applied vary with age and the commuted lump sum is less than, and in some cases little more than, half the notional capital value of the pension.

51. Preservation is an election option upon resignation and members can preserve their accrued benefit in the scheme until retirement at or after age 55. Both the employer and employee preserved benefits are CPI indexed. Because the pension available when claiming the preserved benefit is still based on a percentage of final salary of the member, the matter of the adequacy or otherwise of CPI indexing the employer component during the preservation period is not at issue and in this particular situation is irrelevant to the ultimate value of the pension payable.

52. Cash withdrawal of the balance of a member's contributions, plus accumulated interest, is an option available on resignation. With cash withdrawal of contributions and interest the SA Government will automatically preserve an employer benefit equal to its Commonwealth Superannuation Guarantee obligation due from 1 July 1992 plus a small pre-July 1992 productivity component.

53. A member who withdraws his or her own contributions effectively foregoes most of the employer benefit.

State Lump Sum Scheme (Closed)

54. The indexaton and interest crediting treatment of benefits in the State Lump Sum Scheme is as follows:

a Preserved benefit (employee components) when there has not been a cash withdrawal on resignation. An interest rate based on investment earnings is applied.

b. Preserved benefit (employer components) when there has not been a cash withdrawal on resignation. CPI indexation is applied.

c. Preserved Superannuation Guarantee benefit, when there has been a cash withdrawal of member contributions at the time of resignation. An interest rate based on investment earnings is applied.

d. Employee contributions of active members prior to retirement or resignation. An interest rate based on investment earnings is applied.

55. With the State Lump Sum Scheme it is the treatment (ie CPI indexation) in paragraph 54b above that stands out because the declared interest crediting-rate would normally be higher than the change in CPI. However because the benefit at retirement is defined as a percentage of final salary the indexing rate becomes irrelevant.

56. There are 13,662 members including 3,308 preserved and a pension is not applicable.

Triple S (Lump Sum) Scheme

57. In the Triple S Scheme a declared interest crediting-rate is applied annually to the balance of both the employer and employee accounts. The declared interest crediting-rate is applied regardless of whether:

a. The member is still employed by a State public sector agency (and employee and/or employer contributions are still accumulating).

b. The member has resigned and preserved both the employee and employer benefit.

c. The member has resigned and has made a cash withdrawal of the employee component, leaving only the employer component to accumulate interest.

58. CPI indexation is not applied to any preserved benefit in the Triple S Scheme.

59. There are 159,869 members with 59,922 preserved and a pension is not applicable.

Tasmanian Retirement Benefits Fund Contributory Scheme (RBF)

60. This scheme was closed to new entries on 15 May 1999. It is an unfunded deferred benefits scheme providing a pension based on average salary over the last three years before exit, the number of contributory years and contribution rates. (This is similar to the Commonwealth CSS.)

61. As at 30 June 2000 there were 17,073 member accounts which was a decline of 603 against the previous years numbers. Life pensions paid as at the same date were:

Retirement	4,092
Spouses	1,646
Invalidities	1,105
Children	104
Total	6,947

This was a reduction of 146 since June 1999.

62. The average pension as at 30 June 2000 was $14,384 pa indexed twice yearly against movements in the eight capital cities CPI average. Maximum pension payable is 2/3 of Final average salary after 40 years service.

63. Contribution rates can be from 5% up to 11% of salary and members can make additional voluntary contributions to the TAS Investment Account.

64. Provision exists under the RBF and a previous non-contributory scheme abolished on 25 April 2000 for preservation of members' benefits when exiting.

65. Preserved benefits are retained in the Compulsory Preservation Account and indexed in line with either inflation or movements in Average Weekly Ordinary Time Earnings (AWOTE) whichever

is the greater. However, because benefits in the Compulsory Preservation Account are unfunded until claimed, members' entitlements are not affected by the performance of the fund.

66. During 1999/2000 the increase applied to the preserved account was:

1 Jul 99 to 31 Dec 99	2.37%
1 Jan 00 to 30 Jun 00	2.64%
Total	5.01%

67. RBF preserved members who meet Commonwealth preservation requirements may take the benefit at preservation age as a lump sum, life pension, an allocated pension or a combination.

68. The current Tasmanian scheme, which replaced the RBF, is the Tasmanian Accumulation Scheme (TAS). This comprises member contributions plus employer Commonwealth Superannuation Guarantee contributions held in the TAS-SGC account. Earnings net of fees and taxes are credited to members' accounts. Members can claim a lump sum, allocated pension or a combination at preservation age.

PART FOUR

INDEXATION OF PENSIONS EMBRACING ALL SECTORS OF PUBLIC SECTOR SUPERANNUATION SCHEMES

69. Commonwealth Government superannuation pensions, military and civil, as well as State and Territory Government superannuation pensions are indexed against CPI movements with the exception of the Commonwealth Parliamentary Contributory Superannuation Scheme.. The indexing frequency, CPI quarterly periods used, the particular CPI applied and the date when pensions are adjusted varies across the entire range of Public Sector schemes.

70. Commonwealth, including military pensions, are CPI indexed annually against the CPI quarter ending March each year and pensions are adjusted the following July.

71. South Australian pensions are indexed annually against the June quarter and adjustments occur the following October.

72. Tasmanian pensions are indexed every six months against the quarters ending March and September with adjustments occurring the following July and January respectively. The index applied is the eight capital cities CPI average.

73. Pension adjustments, except for Victorian State pensions, are made three months after the CPI quarter used for calculations. Victorian State pensions are adjusted six months after the CPI quarter used but are adjusted every six months.

74. Use of the CPI alone as an index is considered to be totally inadequate and is in urgent need of change to provide for all Public Sector pensions to be adjusted against MTAWE or the CPI,

whichever is the greater, and at six monthly intervals. The Commonwealth Government admitted indexing pensions by the CPI only denies recipients the right to share in rising community living standards. This admission was made when the Government introduced the Social Security and Veterans' Affairs Legislation Amendment (Male Total Average Weekly Earnings Benchmark) Bill 1997. Mr Peter McGauren, Member for Gippsland, when speaking to this Bill in the House said:

> "Pensions are indexed twice a year - in March and September - according to movements in the CPI, ensuring that the real purchasing power of the pension is maintained. However, CPI indexation, by itself, may not enable pensions to keep pace with changes in the living standards of the rest of the community. By legislating to maintain the single rate of pension at 25% of Male Total Average Weekly Earnings, the Government is demonstrating its commitment to ensure that pensioners share in increases in community living standards."

The Opposition, Mr Peter Baldwin, said:

> "We had a robust commitment to the basic pension and to maintaining its adequacy - not just indexing it so that it kept track of inflation, but linking it to a benchmark that related to community standards and expectations in terms of living standards. Hence we saw the links to average weekly earnings as being absolutely fundamental."

75. Public Sector superannuated retirees, the former employees of Governments, Commonwealth including the military, or State or Territory, are entitled to the same commitment from Governments to ensure that they also share in increases in community living standards. At present, they are the only group of pensioners in the community whose pension indexing excludes a linkage to wage movements. Social Security, Veterans' Affairs and recipients of Parliamentary Superannuation pensions are all wage-linked to MTAWE or AWOTE movements.

76. The continuous erosion of the value of all Public Sector superannuation pensions is illustrated by reference to the spread sheet tabulations and bar charts attached. These figures demonstrate that for every $10,000 of pension received in a year since 1989/90 up until the year ending 30 June 1999, CPI indexing has increased the value by 23% over the ten years. Had the indexing applied been by MTAWE, the value would have increased by 44% over the same ten year period. Applying AWOTE indexing would have increased the value by 47%.

77. The Parliamentary Superannuation Scheme is wage linked to the basic back bench salary which is now indexed annually against AWOTE movements. This results in their pensions, including the surviving spouse's benefit maintaining values and sharing in increases in community living standards.

78. There is major disparity when the figures reveal that Public Sector CPI-indexed pensions are 21% behind MTAWE indexing and 24% behind AWOTE indexing. Also study of a 1999/2000 research paper on the *Remuneration of Members of the Parliament of Australia* reveals an even wider disparity. On 1 July 1990 the basic Member's salary was $58,300 and by 1 July 2000 had increased to $92,000. This is an increase of 57.8% which is greater than AWOTE over the same period. This increased rate has also flowed through to recipients of Parliamentary pensions. This alone is a powerful argument for changing the indexation arrangements of Public Sector superannuation schemes merely on the basis of equity and fairness.

79. The surviving spouse benefits under the various schemes do vary. Under the Commonwealth 1922 Act the rate is either 59% or 67% depending on an election made by the former contributor. In other schemes, Commonwealth State or Territory, the rate is generally 67% but the military DFRDB scheme has another complexity. Although the surviving spouse rate under the DFRDB is stated as being normally 62.5%, that benefit is 'notionally' CPI indexed which produces a figure less than normal CPI indexation. This is an unacceptable anomaly.

80. Surviving spouse pensions under the Parliamentary Contributory Superannuation Scheme are 5/6ths or 83.3% of the deceased member's full pension entitlement. These surviving spouse benefits receive increases when members' salaries are AWOTE indexed annually or increased by other instruments. It is anomalous for the Public Sector surviving spouse pensions to be no greater than 67%, and less in some cases, compared to the wage-linked rate of 83.3% available to the surviving spouse under the Parliamentary scheme.

81. Surviving spouses of former Public Sector superannuants have an equal right to share in increases in community living standards. Being on substantially reduced pension income when a death occurs, every dollar of income is extremely important to them. By continuing to index Public Sector pensions by the CPI alone, surviving spouses are being seriously disadvantaged vis-a-vis the rest of the community.

82. Representations have been made to the Federal Government requesting a review of the indexation provisions and specifically asking for a change to six monthly indexation against either the CPI or MTAWE, whichever is the greater. Replies received from the Federal Minister with this responsibility have unreasonably rejected our requests and stated that indexing our pensions against CPI movements is the appropriate way for our pension value to be maintained. Similar replies have been received in the States. If in fact what Ministers are saying on behalf of the Government is believed, we must question the reason for introducing wage linkage arrangements for pensions paid in the Social Security, Veterans' Affairs and Parliamentary spheres.

83. A major concern of this Association is the matter of how possible changes made to indexing of Commonwealth superannuation pensions as a result of this Inquiry will flow on to the States and Territory recipients of Public Sector superannuation benefits. This question must include consideration of the *Heads of Government Agreement* which was signed by all concerned.

84. Requests have previously been made to both the Tasmanian State Government Treasurer and the Western Australian Government Employees Superannuation Board for consideration to be given to changing indexing to CPI/AWOTE and, in the WA case, to consider splitting superannuation income with a spouse for income tax purposes. Apart from rejecting these requests on financial grounds etc, the States' responses relied heavily on the fact the *Heads of Government Agreement* signed with the Commonwealth required them to comply with the Commonwealth's retirement incomes policies or the Superannuation Industry Standards (SIS) Act and Regulations. If the States are bound by agreement to comply with Commonwealth standards and policies as claimed, this Inquiry will need to review and, where appropriate, recommend changes as necessary to the existing agreement and SIS Act. The long overdue improvements to indexing of superannuation pensions will be denied State Public Sector superannuants if this is not done.

COMPARISON OF CPI INCREASES & MTAWE INCREASES

Year	CPI for quarter ending (ABS figures)				% CPI increase for year ending 30 Jun	MTAWE each May (ABS)	% MTAWE increase for year ending May
	31 Mar	30 Jun	30 Sep	31 Dec			
1985			71.3	72.7		$435.50	
1986	74.4	75.6	77.6	79.8		$465.90	7.0
1987	81.4	82.6	84.0	85.5	9.3	$497.40	6.8
1988	87.0	88.5	90.2	92.0	7.1	$532.40	7.0
1989	92.9	95.2	97.4	99.2	7.6	$576.60	8.3
1990	100.9	102.5	103.3	106.0	7.7	$613.30	6.4
1991	105.8	106.0	106.6	107.6	3.4	$632.70	3.2
1992	107.6	107.3	107.4	107.9	1.2	$665.50	5.2
1993	108.9	109.3	109.8	110.0	1.9	$679.60	2.1
1994	110.4	111.0	111.9	112.8	1.6	$705.90	3.9
1995	114.7	116.2	117.6	118.5	4.7	$743.00	5.3
1996	119.0	119.8	120.1	120.3	3.1	$774.20	4.2
1997	120.5	120.2	119.7	120.0	0.3	$795.80	2.8
1998	120.3	121.0	121.3	121.9	0.7	$829.90	4.3
1999	121.8	122.3	123.4	124.1	1.1	$853.40	2.8
2000	125.2	126.2	130.9		3.2	$884.90	3.7

COMPARISON OF INDEXED PENSIONS OVER 10 YEAR PERIOD: mid 1990 to mid 2000

	CPI	MTAWE*
Mid 1990	102.5	$613.30
Mid 2000	126.2	$884.90
Increase over 10 years =	23%	44%

* MTAWE = Male Total Average Weekly Earnings

Consider a pension of $10,000 pa on 30 June 1990 & adjustments applied on 1 July each year:
Indexed to CPI it would be $12,312 by 30 June 2000 & indexed to MTAWE it would grow to $14,429.
CONCLUSION: Had our pensions been indexed to MTAWE instead of CPI we would have had 17.2% more purchasing power.
Or stated dfferently, those with pensions indexed to CPI have 14.7% less purchasing power at the end of this last ten year period than those whose pensions are indexed to MTAWE.

TOTAL PENSION RECEIVED OVER A TEN YEAR PERIOD

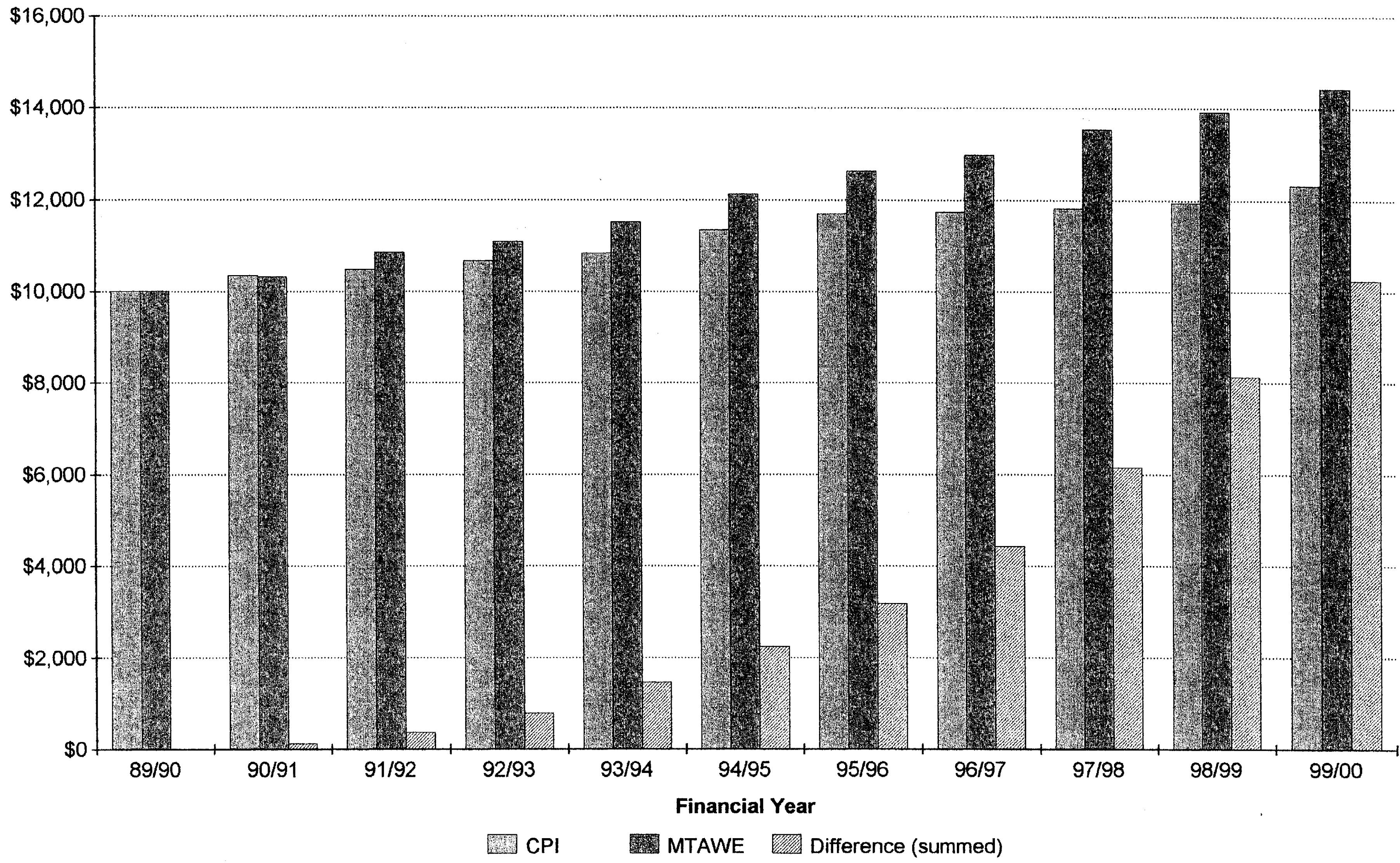
AS FUNCTION OF INDEXING REGIME: CPI increases v MTAWE increases

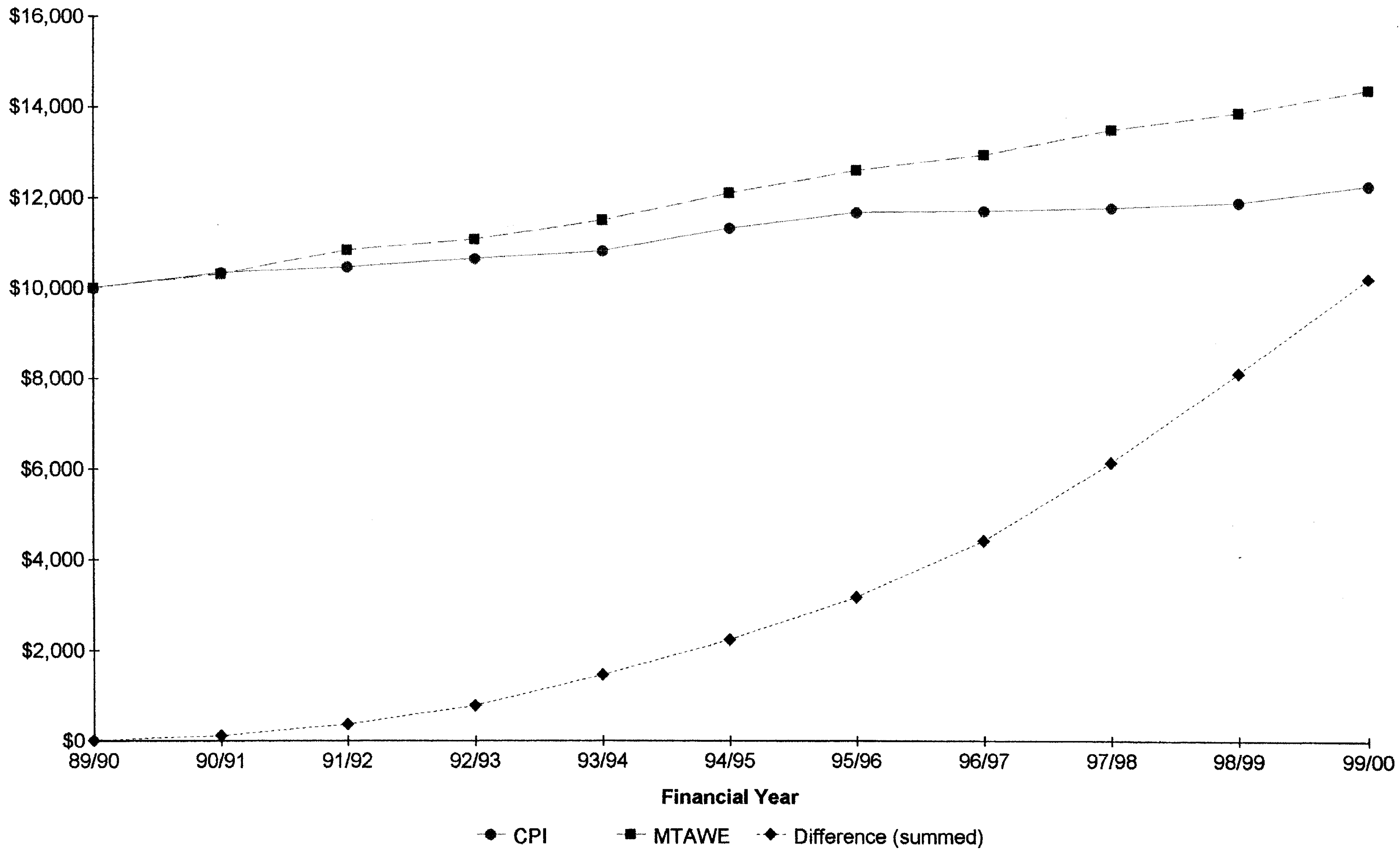
Year		CPI for quarter ending (ABS figures)				% CPI increase for year ending 30 Jun	CPI indexed pension	MTAWE each May (ABS)	% MTAWE increase for year ending May	MTAWE indexed pension	Difference between MTAWE & CPI indexing	
		30 Sep	31 Dec	31 Mar	30 Jun						Annual	Cumulative
85/86		71.3	72.7	74.4	75.6			$465.90				
86/87		77.6	79.8	81.4	82.6	9.3		$497.40	6.8			
87/88		84.0	85.5	87.0	88.5	7.1		$532.40	7.0			
88/89		90.2	92.0	92.9	95.2	7.6		$576.60	8.3			
89/90	0	97.4	99.2	100.9	102.5	7.7	$10,000	$613.30	6.4	$10,000	$0	$0
90/91	1	103.3	106.0	105.8	106.0	3.4	$10,341	$632.70	3.2	$10,316	-$25	$107
91/92	2	106.6	107.6	107.6	107.3	1.2	$10,468	$665.50	5.2	$10,851	$383	$358
92/93	3	107.4	107.9	108.9	109.3	1.9	$10,663	$679.60	2.1	$11,081	$418	$775
93/94	4	109.8	110.0	110.4	111.0	1.6	$10,829	$705.90	3.9	$11,510	$681	$1,456
94/95	5	111.9	112.8	114.7	116.2	4.7	$11,337	$743.00	5.3	$12,115	$778	$2,234
95/96	6	117.6	118.5	119.0	119.8	3.1	$11,688	$774.20	4.2	$12,624	$936	$3,170
96/97	7	120.1	120.3	120.5	120.2	0.3	$11,727	$795.80	2.8	$12,976	$1,249	$4,419
97/98	8	119.7	120.0	120.3	121.0	0.7	$11,805	$829.90	4.3	$13,532	$1,727	$6,146
98/99	9	121.3	121.9	121.8	122.3	1.1	$11,932	$853.40	2.8	$13,915	$1,983	$8,129
99/00	10	123.4	124.1	125.2	126.2	3.2	$12,312	$884.90	3.7	$14,429	$2,116	$10,245

Total pension received over ten year period = CPI indexing: **$113,102** v MTAWE indexing: **$123,347**

Conclusion: At the end of this ten year period the person with the pension indexed to CPI has received 8.3% less total dollars over that period than someone whose pension is indexed to MTAWE.

Simplifying assumption - pension is adjusted once per year at the beginning of July.


PENSION INDEXING COMPARISON
CPI v MTAWE
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
89/90
90/91
91/92
92/93
93/94
94/95
95/96
96/97
97/98
98/99
99/00
Financial Year
CPI
MTAWE
Difference (summed)


PENSION INDEXING COMPARISON
CPI v MTAWE
$16,000
$14,000
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
89/90
90/91
91/92
92/93
93/94
94/95
95/96
96/97
97/98
98/99
99/00
Financial Year
CPI
MTAWE
Difference (summed)