SUPERANNUATED COMMONWEALTH OFFICERS' ASSOCIATION (SCOA)

A MATTER OF JUSTICE

Submission to the Senate Select Committee on Superannuation and Financial Services

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

January 2001

ABOUT SCOA

The Superannuated Commonwealth Officers' Association (SCOA) Inc is more than 75 years old - it is non-political, not for profit and financed entirely by its members. It represents the interests of:

- retired civilian Australian Federal Agency and Territory Government employees and their families;
- people 50 years and over in the public service who will receive a Commonwealth superannuation benefit (or lump sum) on retirement; and
- former employees who have deferred (preserved) their pension entitlement.

SCOA has a National (Federal Council) Office in Canberra and separate branches in each State and the ACT. SCOA branches are staffed largely by volunteers.

The Association has links with State and Defence superannuant organisations and with other key organisations concerning older persons and seniors.

SCOA's objectives are to:

- improve and safeguard the retirement interests of our members and constituency;
- protect the value of members' superannuation entitlements and related benefits;
- secure fair and equitable treatment compared to other retirees and pensioners; and
- provide information to members on issues such as - superannuation; taxation; age and other social security and veterans' affairs benefits; health and aged care; concessions; compensation; employment of older workers; and general investment matters.

At 30 June 2000 there were 348,621 members of the CSS and PSS schemes, being:

- 160,988 contributors;
- 114,795 pensioners, including 12,737 pensioners under the 1922 Act, of whom 8,764 were on reversionary benefits; and
- 72,838 deferred beneficiaries.

There is a further 145,564 contributors, pensioners and deferred beneficiaries under the two defence force superannuation schemes.

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1. OUR CASE IN BRIEF

1.1 The Superannuated Commonwealth Officers' Association (SCOA) welcomes the opportunity to respond to this inquiry but regrets the limited advertising and short response time available.

1.2 The Committee is to enquire into the benefit design of Commonwealth public sector and defence force unfunded superannuation schemes with particular focus on the indexation of the preserved unfunded employer benefit component. SCOA members generally receive retirement benefits under the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS)

1.3 SCOA's principal concern relates to the total benefit payable at the point of draw down and the maintenance of the value of the benefit and its purchasing power in retirement. For reasons of equity and justice, we consider it is essential to incorporate a wages-based mechanism into the regular adjustment process as used for age pensions and parliamentary pensions, rather than rely solely on the Consumer Price Index (CPI).

1.4 Superannuation has been a feature of employment in the Australian Public Service (APS) since early last century. It is a condition of service and not a welfare provision. Commonwealth public servants were called on to make compulsory contributions to their own superannuation over many years. They were employed with an expectation that they had job security and a superannuation scheme that would enable them to maintain a reasonable lifestyle in retirement or in the event of disability. Their dependants would also be looked after. This engendered loyalty, providing mutual benefits to the Government and to its employees. These conditions were generally a trade-off for the higher salary levels enjoyed in the private sector.

1.5 Members' expectations are no longer a reality. Superannuation pensions are decreasing in real value year by year. They are declining relative to the position held in the work force on retirement. Very few retired APS employees enjoyed a sufficiently generous salary as to be able to accumulate even modest assets that could contribute to their retirement needs over and above the pension received. Increasingly our members are being forced to draw down on capital and/or top up their superannuation pension with social security benefits. This was confirmed in the outcomes of a 1999 national survey of our members and in preliminary findings from follow-up case studies currently under way.

1.6 CSS and PSS pensioners are not well off. From their superannuation pension alone:

- **almost 22% receive less than $10,000**
- **65% receive less than $20,000**
- **over 90% receive less than $30,000**
- **over 99% receive less than $50,000.**

1.7 The structure and purpose of the CPI have changed in recent years and its use as the sole mechanism for adjusting the superannuation pensions of retired Commonwealth employees is no longer appropriate or valid.

1.8 Use of the CPI alone to adjust superannuation pensions does not provide a share of growth in national productivity; wage-related increases do. Commonwealth superannuants are being denied benefits resulting from broader economic growth and access to improvements in community living standards as measured by wages. Australia has experienced strong economic growth over the last decade, boosted by low inflation. Retired Commonwealth public servants helped build this strong economy and should be able to share in national productivity gains.

1.9 Between 1990 and 2000, CSS and PSS pensions increased by 24% based on movements in the CPI. Over the same period Average Weekly Earnings (AWE) increased by between 37% and 47%, APS salaries on average by 40% and parliamentary pensions by over 50%. Our members are concerned about these disparities and about their declining living standards relative to other groups in the community.

1.10 Unless changes are made the situation will worsen. The Government is estimating a one-off increase to the CPI in 2000-01, reflecting the impact of the introduction of the Goods and Services Tax (GST). Inflation is then expected to return to present levels. Wage increases are expected to continue to outstrip rises in the CPI. The situation is inequitable and unjust for those who have been retired for some time, for women and for early retirees. For those who are unable to obtain employment or who are not eligible for any supplementary social security benefit, the situation is particularly grim.

1.11 Commonwealth superannuants did not receive any special GST adjustment to their superannuation pensions on 1 July 2000 and are wearing cost increases for a full year until their pensions are adjusted after 1 July 2001. Because many receive small top-up age pension and welfare payments and cannot choose to split their superannuation pension with a partner, their access to the GST bonuses has been reduced.

1.12 We recognise that incorporating a wages-based component to adjust Commonwealth superannuation pensions will require increased Government outlays. However, there will be offsetting savings through reduced social security pension outlays and increased taxation receipts. Annual outlays on the CSS/PSS schemes represent less than half a percent of annual GDP and are estimated to reduce in future years.

1.13 Beneficiaries of other public sector superannuation schemes, including retired defence force personnel, which rely solely on a CPI-based system of adjustment to their pensions, share our concerns.

1.14 SCOA is seeking inclusion of a wages-based mechanism in the process for regularly adjusting the pensions of retired APS employees. **For us, it is a matter of equity and justice.**

1.15 Other associated inequities referred to in our submission include:

- Use of the CPI as an adjustment factor for preserved employer benefits in the PSS Scheme.
- Denial of the bereavement package to 1922 Act surviving spouses.
- Adverse taxation arrangements.
- Adverse implications of automatic adjustment of nursing home fees for many of our members who live in nursing homes and other forms of residential care.

1.16 The Association also supports the continued provision of a defined benefit superannuation scheme for new entrants to the APS and opposes the Government's proposal to close the PSS to new entrants.

2. INTRODUCTION

2.1 Background

2.1.1 SCOA welcomes this inquiry by the Senate Select Committee on Superannuation and Financial Services into the benefit design of Commonwealth public sector and defence force unfunded superannuation schemes. It provides the opportunity for this Association to raise formally in the Parliament many injustices that we have been taking up with the Government and Opposition parties for some time (see Attachment A).

2.1.2 While welcoming the inquiry, SCOA considers the limited public advertising of the Terms of Reference in only the *Australian* and the *Australian Financial Review* disappointing. The inquiry will impact on a large number of people located throughout Australia, including State and Territory public sector superannuants. The short time frame available for submissions is also regrettable.

2.2 Scope of the Inquiry

2.2.1 The Terms of Reference relate principally to the management and indexation of the preserved unfunded components by trustees. SCOA's principal concern relates to the maintenance of the value of the benefit and its purchasing power in retirement. This is covered under (f) of the Terms of Reference. It is also consistent with the letter of 28 June 2000 to the Association from the Chair of the Senate Select Committee on Superannuation and Financial Services (see Attachment B). For reasons of equity and justice, we consider it essential to incorporate a wages-based mechanism into the adjustment process as used for age pensions and parliamentary pensions rather than to rely solely on the CPI.

2.2.2 The Minister for Finance and Administration has acknowledged SCOA's concerns and has undertaken to look at the matter, including options and costs for addressing any unfairness, when compared with other pensioners and parliamentarians, whose pensions are indexed to wages growth.

2.2.3 We understand that the inquiry covers the two Commonwealth civilian superannuation schemes - the CSS and the PSS, as well as the Defence Forces Retirement and Death Benefits (DFRDB) Scheme and the Military Superannuation and Benefits Scheme (MSBS), all of which are partly funded superannuation schemes. The CSS and the PSS are partly funded defined benefit schemes, both of which have a funded employee component and a largely unfunded employer component. The unfunded components are paid from the Consolidated Revenue Fund (CRF) on an emerging basis, as and when the benefits fall due. Employee contributions and employer productivity contributions are invested in the CSS and PSS Funds as appropriate. All agencies and departments make regular employer contributions towards the employer cost of benefits (in addition to the productivity contributions); these are paid directly to the CRF. Details of the history and benefit design of civilian Commonwealth superannuation are provided at attachments C, D and E.

2.2.4 The Terms of Reference for the inquiry could equally cover the Parliamentary Contribution Superannuation Scheme (PCSS) and the Judges Scheme, both of which are fully unfunded public sector schemes. SCOA is not in a position to make substantive comment about the financial or actuarial aspects of these schemes, due to the lack of publicly available information. We have asked the Minister for Finance and Administration for a copy of the latest annual report governing the operation of the PCSS. At the time of writing, there has been no reply to this request. Age pension benefits are also 'unfunded' and are paid from the CRF.

3. INDEXATION ARRANGEMENTS

3.1 Indexation of CSS and PSS benefits during the accumulation phase

3.1.1 Throughout the accumulation phase, benefits are adjusted to maximise and retain the value of the benefit at the point of reaching retirement or preservation age. Member and employer productivity contributions earn and accumulate interest at the CSS and PSS Fund allocation rates. Employer productivity contributions are indexed each year by movements in average salaries. Reasonable Benefit Limits (RBL) and the Maximum Benefit Limit (MBL) under the CSS and PSS are indexed each year by movements in Adult Weekly Ordinary Time Earnings (AWOTE). Similar rules are used to calculate the annual increase in the Superannuation Guarantee Surcharge tax.

3.1.2 There are precedents under the benefit design of the CSS to take account of increases in APS salaries, prior to drawing down the benefit. A member who has reached minimum retiring age (generally age 55) and who has been retrenched but has not left the workforce can postpone all or part of the benefit until he/she reaches age 65. When a postponed CPI-indexed pension becomes payable, it is based on age, length of contributory membership, and the current equivalent of the salary for the position the member held on being retrenched. If there is no equivalent salary, it is based on salary at exit, updated by AWOTE.

3.2 Indexation of preserved members' benefits

3.2.1 Under the CSS, when a member preserves his or her benefit, the accumulated member and employer productivity contributions stay in the Fund and continue to earn interest at the Fund allocation rate. Fund allocation rates have been above rises in the CPI and movements in public service salaries over the last decade. On reaching preservation age, the Government pays an indexed pension based on a notional lump sum equal to 2.5 times the sum of the member's accumulated basic contributions plus interest earned on that component at the Fund rate. The remainder can be taken as a lump sum or as an additional non-indexed pension.

3.2.2 Under the PSS, when a member preserves his or her benefit, the accumulated member contributions and employer productivity contributions stay in the Fund and continue to earn interest at the Fund allocation rate. However, the preserved 'unfunded' employer-financed component increases on the basis of movements in the CPI. This is the only aspect in the accumulation phase of the PSS where the CPI, rather than wages or interest earnings of the fund, is used to preserve the real value of the benefit. This adjustment process is not a decision taken by the trustees of the PSS Fund, but rather a decision of the Government in designing the scheme.

3.2.3 Two State Governments, Victoria and Queensland, index their preserved unfunded employer benefits by changes in AWOTE. AWOTE increase annually by7 more than the CPI and allow for some improvements in living standards.

3.2.4 The use of the CPI as an adjustment factor to preserve the real value of the preserved unfunded component of the employer benefit in the PSS may need to be looked at in the light of our arguments elsewhere in the submission in support of a wages-based indexation approach.

3.3 Indexation of Commonwealth superannuation pensions

3.3.1 Prior to 1976, adjustments to Commonwealth superannuation pensions were ad hoc. Pension benefits were increased on a number of occasions between 1947 and 1957 by increasing the Commonwealth share only of the unit (see Attachment C for an explanation of the 1922 Scheme). In 1961, the Commonwealth share of pensions that commenced prior to 1954 was increased by the notional salary method to the Commonwealth share of the pension which would have been received, had the member retired in 1954 from the position corresponding to the one which he/she held on retirement. Further ad hoc adjustments were made in 1963, 1967 and 1971 to pensions in payment using the notional salary method and up-to-date salaries.

3.3.2 A 1973 independent *Enquiry into Superannuation Pension Updating* drew attention to the unsatisfactory nature and unfairness of the hitherto ad hoc nature of pension adjustment and recommended that the Commonwealth portion of pension payable under the Superannuation Act be adjusted automatically each year with effect from 1 July. It further recommended that this adjustment be on the basis of 1.4 times the percentage movement in the CPI over the preceding March to March quarters, with the proviso that the percentage pension increase should not exceed the percentage increase in Average Weekly Earnings (AWE) (seasonally adjusted) for the corresponding period as published by the Commonwealth Statistician. The recommendation for 1.4 times the CPI increase was considered consistent with the concept of granting a share of productivity gains to retired Commonwealth employees. The *Superannuation Act 1922* was subsequently amended to grant superannuation pension increases on this basis for 1974-75 and 1975-76.

3.3.3 CSS and PSS pensions are adjusted annually from 1 July by movements in the CPI over the previous March to March quarters. Pensions are not reduced if there is a negative movement over this period but the adjustment is discounted by the extent of the decrease in the following year. These provisions are incorporated in the relevant legislation governing the schemes. Similar arrangements apply in respect of the defence force superannuation schemes.

3.3.4 There was a 0.2% negative movement in the CPI over the March 1997 to March 1998 quarters, which meant that Commonwealth superannuants did not receive a pension adjustment for 2 years. Even then, the adjustment in July 1999 had to take account of the 0.2% reduction experienced earlier. During this period, AWE increased by over 4%.

3.3.5 In the case of the CSS, only the standard pension (ie, the employer-financed part) is subject to indexation; any additional pension purchased with accumulated member contributions and productivity contributions is fixed in dollar terms and not subject to indexation. By contrast, where a former member of the PSS Scheme converts all of his or her retirement benefit to a pension, then the total pension (including the member-financed and employer-financed productivity components) is fully indexed.

3.4 Indexation of the Age Pension

3.4.1 Over the last 30 years there has been bipartisan support for the age pension being tied to AWE. From 1972 to 1997, successive governments honoured this policy commitment on an informal basis (see Attachment F for the history of the indexation of age pensions).

3.4.2 The present Government has acknowledged deficiencies in the CPI and in 1997 legislated to maintain the single rate of age pension at 25% of Male Total Average Weekly

Earnings (MTAWE). In his second reading speech, the Hon Phillip Ruddock, representing the Minister for Social Security 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 weekly average earning, the Government is demonstrating its commitment to ensure that pensioners share in increases in community living standards..."*

3.4.3 In announcing pension increases on 12 March 1999, the then Minister, Senator the Hon Jocelyn Newman, said:

> *"...The Howard Government's initiative to legislate for the first time to set pensions at 25 per cent of male total weekly average earnings has ensured that pensions are maintained relative to those who are still in the workforce."*

3.5 Indexation of parliamentary superannuation pensions

3.5.1 Parliamentary superannuation pensions are based on a proportion of the salary of serving politicians, with the minimum superannuation pension, for someone who serves at least 8 years, being 50% of the salary of a backbencher. Parliamentary pensions are also indexed by a wages mechanism as salary increases for serving members and senators flow through automatically to retired parliamentarians.

3.5.2 From 1990 to 1996, parliamentary salaries were linked to the minimum SES Band 2 salary in the APS. Following enactment of the *Workplace Relations Act 1996*, and the move to individual Australian Workplace Agreements and agency agreements, the former nexus of parliamentarians' salaries was broken and there was no longer any common public sector standard by which to determine future parliamentary salary levels. The *Public Employment (Consequential and Transitional Provisions) Amendment Act 1999* rectified this problem. The Government subsequently accepted a recommendation from the Remuneration Tribunal that future increases in parliamentary salaries (which flow on to parliamentary superannuation pensions) should be linked to AWOTE. It also accepted a recommendation for a 10% increase in parliamentary salaries that was paid in 2 stages - December 1999 and July 2000.

3.5.3 In a television interview with the late Paul Lyneham on 9 December 1999, the Prime Minister said:

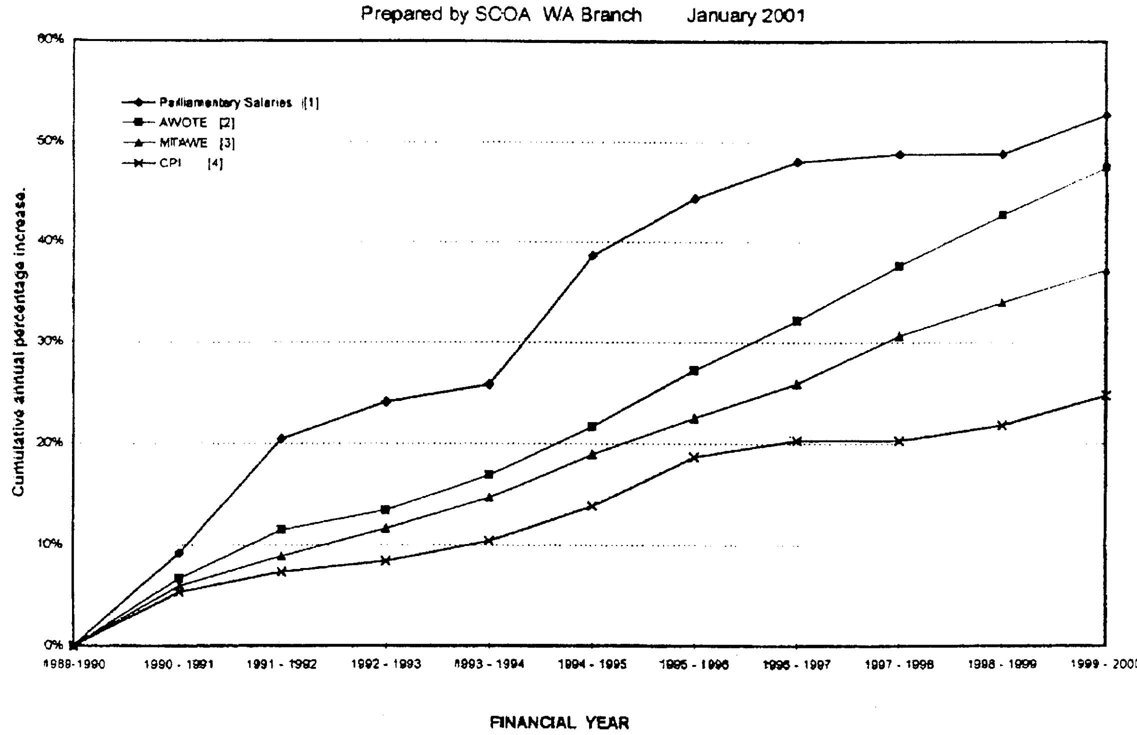
> *"...increases in parliamentary salaries (and hence parliamentary pensions) merely reflect the average wage increase enjoyed by the community over the last three years..."*

3.6 Impact of different indexation arrangements

3.6.1 The following graph compares movements in AWOTE, MTAWE, parliamentary pensions and the CPI. From 1990 to 2000, parliamentary superannuation pensions rose by over 50%, AWOTE rose by 47% and MTAWE by 37%. This compares with a 24% increase for the CPI and demonstrates how far Commonwealth superannuation pensions are falling behind. Over the last 40 years, the CPI has exceeded AWOTE on only eight occasions, largely in the high inflationary period during the 1980s.

Comparison of the Increase in Average Weekly Ordinary Time Earnings (AWOTE), Male Total Average Weekly Earnings (MTAWE), Consumer Price Index (CPI) and Parliamentary Salaries since 1990.

Prepared by SCOA WA Branch January 2001



Parliamentary Library, Research Paper 30, 1999-2000, and
ABS Cat No 6301 and 6401

3.6.2 To illustrate, if a person had retired in 1990 on a CSS pension of $20,000, that pension would have risen to $24,800 in 2000, based on movements in the CPI. It would have risen to $27,400 if it had been adjusted by MTAWE and to $29,400 if it had been adjusted by AWOTE.

3.6.3 If it is good enough to use a wages-based mechanism to adjust the age pension and parliamentary pensions, it is good enough to use to adjust the pensions of retired Commonwealth employees.

4. CONSUMER PRICE INDEX AND OTHER INDEXES

4.1 Changing CPI basis

4.1.1 The structure and purpose of the CPI have changed in recent years. Its principal purpose now is to measure price inflation for the household sector as a whole, rather than to provide input to the income adjustment process. For this reason, in its 1997 Review of the CPI, the ABS acknowledged that moves away from centralised wage fixing arrangements (under which employees tended to be compensated for previous changes in purchasing power) to individual workplace and enterprise agreements had led to a decline in the importance of the CPI in wage and salary negotiations. It broadened the reference population from salary and wage earner households only to all private households in the eight capital cities.

4.1.2 The unions agree that the CPI is no longer a factor in wage negotiations:

> *"...For our constituency, the protection of living standards has been largely fought out and bargained over in the marketplace in term of productivity growth that has been sustained..."*

Extract from evidence from the then President of the ACTU,
Jenni George, to the Senate Inquiry into the New Tax System (NTS)

4.1.3 In the 1997 Review of the CPI, the ABS noted that the absolute reliance of most social welfare beneficiaries on the CPI for indexation of their incomes had changed with enactment of legislation to ensure the age pension remained at 25% of MTAWE, thereby acknowledging that the value of the pension would be protected by that process. **The original intention for the CPI to be the sole factor in adjusting Commonwealth superannuation pensions has been subverted.**

4.1.4 There are differing views about the intrinsic merits of the CPI as an accurate measure of cost of living increases. The ABS acknowledges that it is only possible to have one CPI, and because it is an average, it will therefore not necessarily meet everyone's needs perfectly, or to the same extent. The ABS will be compiling and publishing analytical indexes specifically designed to measure changes in the cost of living of population sub-groups, including self-funded retirees. It has advised that it hopes to publish a self-funded retiree index early this year, before the reporting date for this Senate inquiry.

4.1.5 SCOA has concerns about the impact on older and retired people of the continued exclusion of financial services, including bank fees, from the CPI. We understand that the ABS is working on this matter with a view to financial services being included in the future.

4.1.6 Evidence provided to the Senate Inquiry into the NTS by Dr Henry, head of the group in the Australian Treasury that developed the NTS, cast further doubt on the CPI:

> *"...data gathered by the Household Expenditure Survey (HES) is subjected to a lot of judgment, a lot of manipulation in order to manipulate those results of the HES to produce the official CPI weights..."*

4.1.7 Other groups, including, the Council on the Ageing, have also drawn attention to the inadequacy of the CPI as a mechanism for measuring the cost of living increases for older and retired people.

4.1.8 Further details on the structure, use and relevance of the CPI are contained in Attachment G.

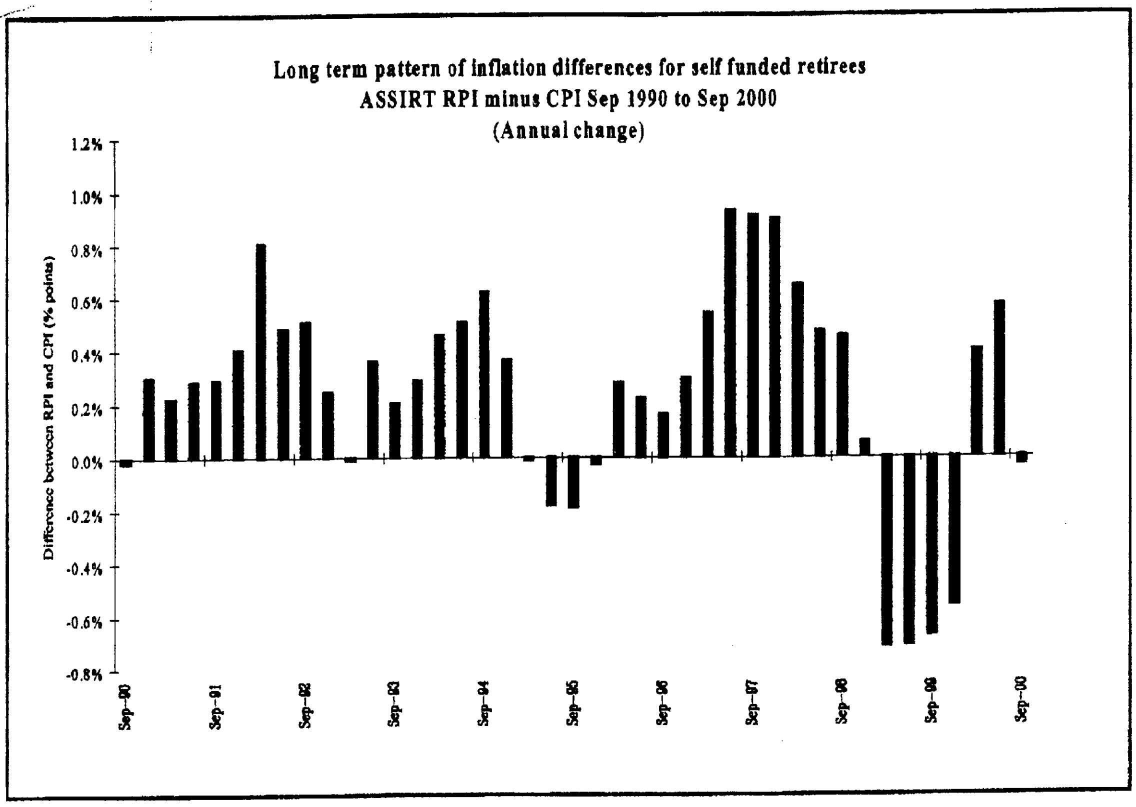
4.2 Other indexes

4.2.1 ASSIRT Pty Ltd has developed an Index - the ASSIRT Retiree Price Index (RPI) - which is a measure of inflation based on the spending patterns of self-funded retirees aged 55 plus. To obtain the measure of spending patterns of self-funded retirees, the CPI weightings are adjusted to reflect the spending differences compared to the general population. The RPI accords a lesser weighting to the Food, Clothing and Footwear, Housing, and Alcohol and Tobacco expenditure groups and a higher weighting to the Household Supplies and Services, Transportation, Recreation, and Health Expenditure Groups.

HES/CPI Expenditure Group	New weights (1998/99 HES) from 30 Sept 2000	
	CPI	RPI
Food	17.72%	16.90%
Clothing & Footwear	5.19%	3.58%
Housing	19.75%	12.14%
Household Supplies & Services	8.09%	10.28%
Communication	2.88%	2.41%
Transportation	15.25%	17.39%
Alcohol & Tobacco	7.41%	6.03%
Education	2.69%	0.09%
Recreation	12.29%	15.83%
Child care Miscellaneous Insurances (previously housing, household, transportation) Personal Care	4.04%	7.73%
Health	4.69%	7.60%
TOTAL	100.00%	100.00

Source: ASSIRT Research Bulletin
December 2000

4.2.2 Since the September Quarter 1990, the RPI has risen by more than the CPI on 30 occasions, indicating a higher inflation rate for retirees than for the broader population. The CPI has risen by more than the RPI on only 10 occasions, as demonstrated in the following graph.



Source: ASSIRT Research Bulletin
December 2000

5. A MATTER OF JUSTICE

5.1 A just return for service given

5.1.1 Superannuation is a condition of service, not a welfare provision. Commonwealth public servants made compulsory contributions to their own superannuation over many years. They were employed with an expectation that they had job security and a superannuation scheme that would enable them to maintain a reasonable standard of living in retirement or in the event of disability. Their families would also be looked after. This engendered loyalty, providing mutual benefits to the Government and to its employees. These conditions were generally a trade-off for the higher salary levels enjoyed by their counterparts in the private sector.

5.1.2 In his 1989 Policy Statement *Reform of Commonwealth Superannuation,* the then Minister for Finance, Senator the Hon Peter Walsh said:

> *"Commonwealth remuneration has regard to the comparative security of Commonwealth employment. Other elements of Commonwealth employees' packages, especially salary, can be less than those provided by the private sector..."*

5.2 Fairness and equity

5.2.1 The Government's treatment of its former employees and current contributors is at odds with its stated retirement incomes policy of encouraging independence and self-provision in retirement. The ongoing erosion of the value of Commonwealth superannuation means that it is becoming insufficient to maintain a reasonable standard of living in retirement, particularly for those who have been out of the workforce for some time, and has to be topped up with social security payments. This is poor public policy and an unnecessary cost to the public purse. The Government is falling down on its obligations and commitments as an employer to its former employees.

5.3 Access to increases in community living standards and productivity gains

5.3.1 Commonwealth superannuants are being denied any benefit resulting from broader economic growth and access to improvements in community living standards as measured by increases in wages. Australia has experienced strong economic growth over the last decade, boosted by low inflation. Retired Commonwealth public servants helped build this strong economy, but are now being denied any share of gains in national productivity. Productivity gains are not the property of any particular group or industry but belong to the community. Use of the CPI alone to adjust superannuation pensions does not provide a share of growth in national productivity; wage increases do. Retired Commonwealth employees, being members of the community, have some claim on productivity increases also. Because parliamentary superannuation pensions and age and veterans affairs' pensions are increased by a wages mechanism, recipients of those benefits share in productivity gains. Commonwealth superannuants do not.

5.4 Loss of relativity

5.4.1 Commonwealth superannuants are also disadvantaged because of the continuing loss of relativity with the salary level held on retirement. This is not the case with retired parliamentarians because the salary increases for serving parliamentarians flow through automatically to retired members and senators.

5.4.2 Since 1990, APS salaries have risen much faster than the CPI. For example, the salaries of ASO2, ASO4 and ASO6 positions have risen by almost 40%, and SOGC (Executive Level 1) salaries have risen by 50%. It is not possible to calculate comparable movements in the salaries of Senior Executive Service (SES) Officers, given the move from 1996 to individual workplace agreements that are confidential. However, they are likely to have been above the 50% increase in SOGC salaries. The CPI rose 24% over the same period.

APS Salary levels, Selected grades 1990-2001

Class	1/1/90	17/12/92	10/3/94	17/10/96	29/1/01	29/3/01
1	17,719	20,877	21,497	23,938	26,671	27,338
	21,249	23,074	23,748	26,457	29,478	30,215
4	27,774	29,995	30,871	34,391	38,317	39,275
	29,954	32,568	33,519	37,341	41,604	42,644
SOGC	39,715	42,768	44,018	50,931	59,175	60,654
	41,094	46,457	47,814	55,170	63,898	65,496
SES1	55,999	60,303	62,064	68,228	68,228	
	62,038	67,715	69,693	82,120		

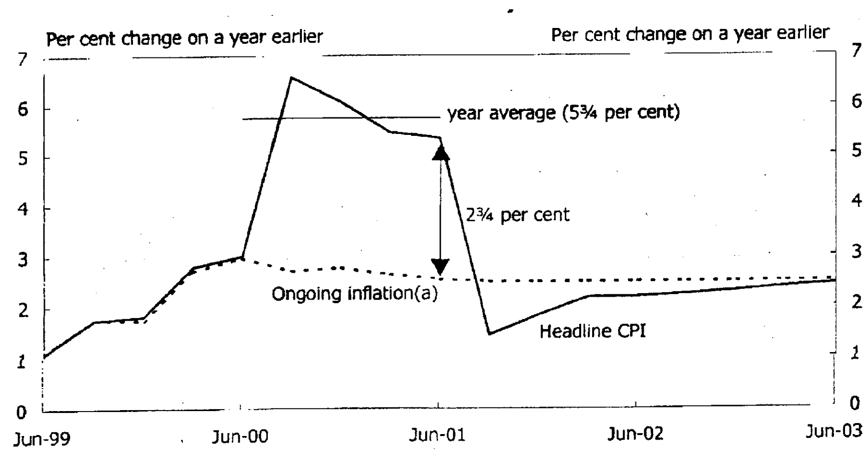
Note: Salary levels in the Senior Executive Service are now the subject of individual workplace agreements, which are confidential.

Note: The figures in the first four columns are from *Department of Employment, Workplace Relations and Small Business (1990 to 1996)* and those in the last two columns are from *the Department of Defence* (2001).

5.5 Forecasts for the Future

5.5.1 The Government estimates a one-off increase in the CPI in 2000-01 reflecting the impact of the introduction of the GST. Inflation is then estimated to return to present levels.

Forecasts and Projections of the Impact of *The New Tax System*



Source:2000-01 BUDGET PAPER No. 1

5.5.2 Wages are expected to continue to outstrip increases in the CPI in the future. The recent Towers Perrin Report on the long-term costs of the PSS and CSS predicts that the real rate of increase in the general level of salaries over and above the CPI will continue. Access

Economics provides the following estimates of movements in the CPI compared with AWOTE and Average Weekly Earnings (AWE) up to 2004-05.

Estimated movements in the CPI compared with wages 1999-2000 to 2004-05

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
CPI	2.4%	5.9%	2.2%	3.3%	4.1%	2.6%
AWOTE	3.4%	4.6%	3.8%	3.5%	5.0%	5.2%
AWE	2.2%	5.7%	3.3%	3.1%	4.8%	5.0%

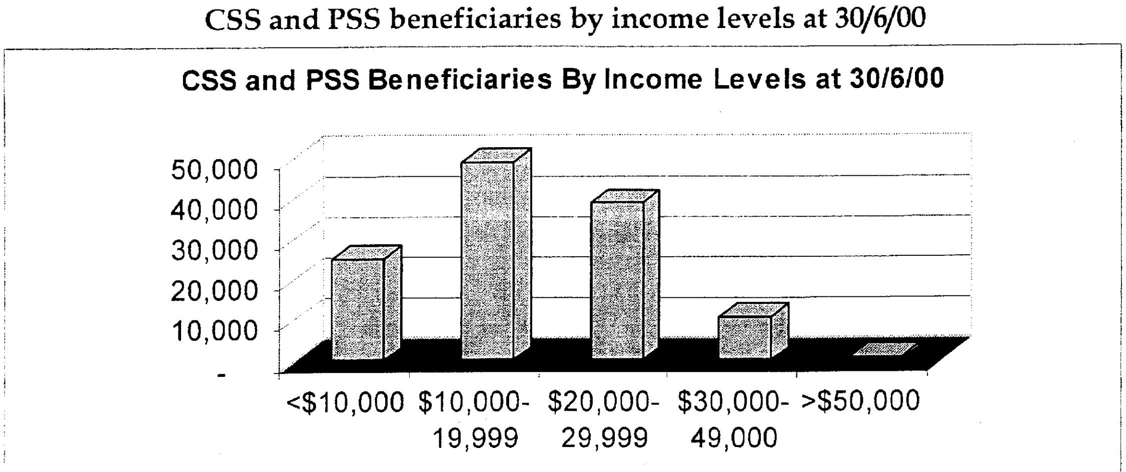
Source: *Access Economics*

5.5.3 If the justification for using a wage-based indexation for some categories of retirees is sound, the case for extending the same treatment to the Government's retired employees is equally sound. Unless changes are made, Commonwealth superannuants will continue to be denied increases in community living standards as measured by wages. Their living standards in retirement will worsen.

5.6 CSS and PSS superannuation levels

5.6.1 Commonwealth superannuants are not 'fat cats'. At 30 June 2000, from their superannuation pension alone, almost 22% of CSS and PSS beneficiaries were receiving less than $10,000; 65% were receiving less than $20,000; and over 90% were receiving less than $30,000. Nearly 70% were receiving less than the current minimum 'Safety Net Wage' award. Only 0.7% were receiving more than $50,000. This compares with the present **minimum** parliamentary superannuation pensions of $46,000.

CSS and PSS beneficiaries by income levels at 30/6/00



5.6.2 Commonwealth superannuants include former postmen, linesmen, storemen and clerical assistants as well as former senior public servants.

5.7 Women

5.7.1 Traditionally women have earned less than men in the APS and a high percentage have held casual, part-time or temporary positions. Shorter and intermittent patterns of employment have limited the amount they have able to put into superannuation. It was not until the mid-1960s that female Commonwealth public servants could remain in permanent employment after marriage. They did not receive equal pay until the early 1970s. As a result, their superannuation benefits are generally less than their male counterparts. Many were also unaware of the preservation entitlements and lost out by not preserving their benefits. The majority of people on reversionary benefits are also women.

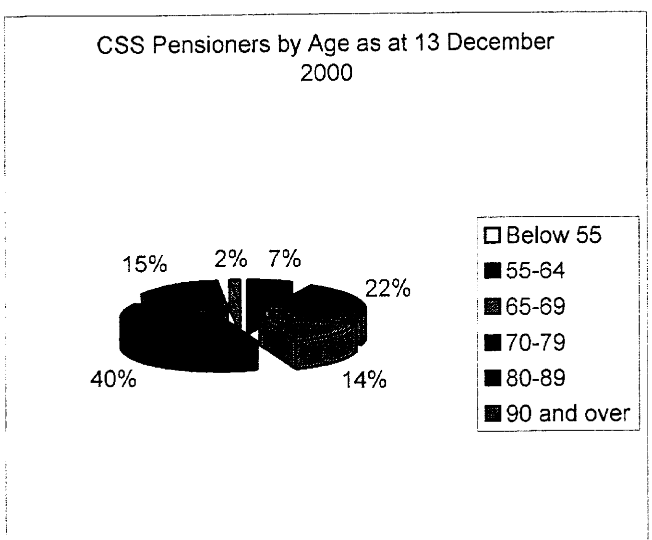
5.8 Reversionary Benefits

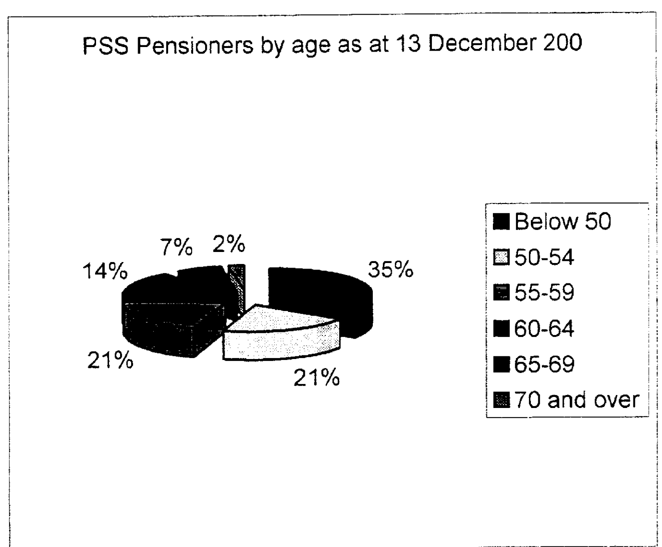
5.8.1 The 67% reversionary benefit entitlement on the death of a contributing partner is a strength of the CSS and PSS scheme. However, SCOA notes that the corresponding provision under the PCSS provides a reversionary benefit of 83%.

5.9 Early Retirees

5.9.1 Mature age unemployment is a growing problem in Australia and has been the subject of a recent House of Representatives Inquiry. Increasingly, people are leaving, or are being retrenched from, the APS below minimum retirement age. Figures from ComSuper show that at December 2000, 55% of people on a PSS pension were aged below 55. The annual average adult pension for the PSS in 1999-2000 was only $14,319. For those who are unable to obtain employment or who are not eligible for any supplementary social security benefit, the situation is particularly grim.

5.9.2 The following chart provides details of the age break up of CSS and PSS pensioners at December 2000.





6. COST IMPLICATIONS AND OFFSETS

6.1 CSS and PSS unfunded liabilities

6.1.1 SCOA is not able to put a figure on the additional cost of incorporating a wages-based component into the process for adjusting Commonwealth superannuation pensions. The Shadow Treasurer and Opposition Spokesperson on Superannuation has asked a question on notice about this matter, a copy of which is at Attachment H.

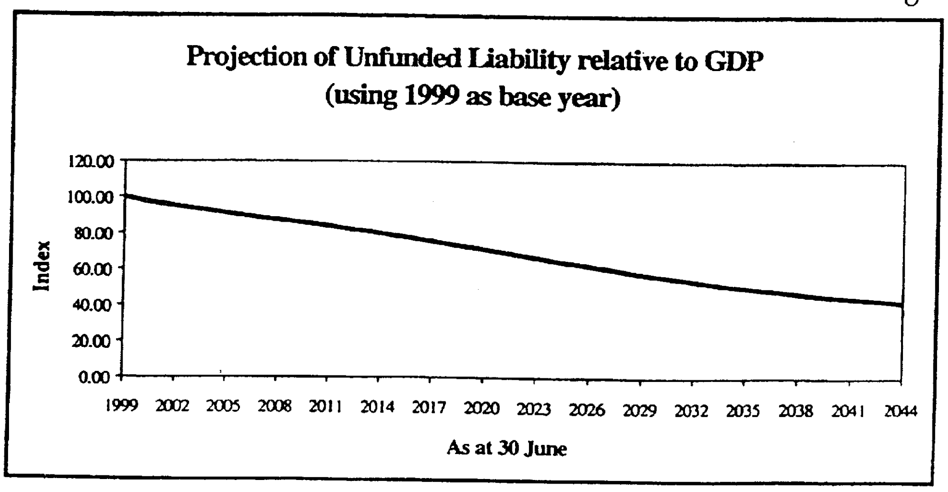
6.1.2 There will, however, be considerable offsets through reduced age pension outlays and increased taxation receipts. In his 1989 policy statement Senator Walsh said

> *"...the gross cost of the current CSS is 22.8% of salaries. However, the pensions paid to CSS members are fully taxable and are included in the social security income test. By paying pensions, the Commonwealth recoups part of its CSS outlays as tax and pays out less in social security benefits than would otherwise be the case. The combined effect of these 'clawbacks' reduces the gross cost of the scheme by about 43% to around 13% of salaries."*

6.1.3 The Australian Government Actuary conducts triennial reviews of the CSS and PSS. The recent Towers Perrin actuarial study of the long-term costs of the CSS and PSS estimated annual government outlays on these two schemes in 2000 to be of the order of $2.44b (which is less than 0.4% of GDP), down from $2.586b in 1999. The annual outlay estimate for age pension and nursing home assistance in the Commonwealth's Consolidated Financial Statements for 2000 (note 3c) is shown to be of the order of $19.55b.

6.1.4 Since superannuation is regarded as an 'employee entitlement' in accounting terms, it also has to be recognised in the government's balance sheet as a liability. However, the liability in respect of future age pensions is not recognised in the financial statements.

6.1.5 In recent years, various actuarial reviews have estimated the level of unfunded liabilities in respect of the CSS and PSS to be of the order of $42b to $46b over more than half a century. These same reviews have also estimated the savings (ie, clawback) from reduced age pension outlays and increased taxation receipts to be between $17b and $21b over the same period. The 1999 report said there is general agreement that the level of unfunded liabilities should not be seen as a matter of concern as the projections being made every three years since 1993 show a fall in unfunded liabilities relative to GDP over the longer term.



Source: *PSS and CSS Long Term Cost Report*

6.1.6 Moreover, the Commonwealth has considerable flexibility in its annual revenue raising opportunities to manage superannuation outlays and to implement proper superannuation adjustment processes to ensure that growing numbers of Commonwealth superannuants do not have to rely on welfare supplementation in retirement.

6.2 Proposed Closure of the PSS

6.2.1 In 1998 the Government introduced legislation to close the PSS to new members. Henceforth, new entrants would be required to join a superannuation scheme nominated by their employer. The proposal appears to be a cost-cutting exercise. SCOA is not opposed to choice of fund arrangements but considers the PSS should remain as one of the choice of fund arrangements for new civilian employees. There do not appear to be any plans to close the defence force superannuation schemes or the parliamentary superannuation scheme and introduce similar arrangements for new entrants to those schemes.

7. OTHER ISSUES

7.1 Inadequate GST compensation

7.1.1 The declining value of CSS and PSS pensions has been compounded by the introduction of the GST. Retired Commonwealth superannuants did not receive any one-off 4% adjustment to their pensions to compensate for the cost impact of the GST. In addition, they have to wear the cost increases for a full year until their pensions are adjusted by the CPI in the first pension payment after 1 July 2001. The inability to split the superannuation pension between a couple limits the number of Commonwealth superannuants who are able to access the one-off Self Funded Retiree Bonus.

7.2 Taxation issues

7.2.1 SCOA would like to draw attention to some inequities and disincentives related to the taxation of superannuation, recognising that they may be outside the scope of the Terms of Reference of the Inquiry. Of particular concern is the multiple taxation of superannuation moneys throughout the contribution stage up to and at the point at which they are drawn on for retirement. Organisations such as the Association of Superannuation Funds of Australia (ASFA) have called for changes, including reducing or removing the contributions tax. This matter needs to be addressed in the Review of Superannuation/Retirement Incomes foreshadowed last year by the Treasurer.

7.2.2 Commonwealth superannuants continue to be treated as continuing members of the workforce with pay as you go (PAYG) tax deducted automatically from their fortnightly superannuation pension payments. Unlike other retirees dependent on investment income or receiving full or part age pension, they are unable to **exercise the option** of splitting their superannuation pension with a partner to minimise taxation liabilities. This means that a Commonwealth superannuant couple will pay more income tax than a non-superannuant couple with an identical level of household income.

7.2.3 If it is legitimate for other retired taxpayers generally to arrange their affairs to minimise tax, then surely is inequitable for superannuants not to be able to do so.

7.2.4 Some did not receive all or any of the Self Funded Retiree Bonus because the honorarium they received to cover costs whilst doing unpaid work for non-profit organisation exceeded $1,000. Because this honorarium had to be included in their tax return as income they were deemed ineligible for the Bonus. Instead of being rewarded for being a volunteer, they have been penalised.

7.3 Automatic increases in nursing home fees

7.3.1 A further matter is the way nursing home fees increase automatically every six months in line with increases in Social Security and Veterans' Affairs pensions. The Government's commitment to maintain the single rate of age pension at 25% of MTAWE means that age pensions have received greater increases than they would have had they been adjusted only by the CPI. This means that Commonwealth superannuants who are solely reliant on their annually adjusted superannuation pensions are significantly disadvantaged and further out of pocket if they reside in a nursing home

7.4 Denial of bereavement package to 1922 Act surviving spouses

7.4.1 Under current arrangements, surviving spouses of deceased CSS and PSS pensioners are entitled to receive the full superannuation pension payment for 6 pays (3 months) after the death of their partner before reverting to the lower rate of 67% of the former full rate. However, surviving spouses of 1922 Act beneficiaries revert immediately to the lower rate of payment after the death of a partner. ComSuper advise that at 30 June 2000 there were 12,736 pensions in force under the 1922 Act, a decline of 944 over the previous year. Of these, 3,972 were former contributors and 8,764 were on reversionary benefits.

7.4.2 Bereavement payments can also be paid to surviving partners of social security and veterans' affairs benefit recipients.

7.4.3 The denial of this bereavement package to the surviving spouse of 1922 Act beneficiaries is unfair and discriminatory. They are the only recipients of retirement benefits or other pensions paid by the Commonwealth who revert immediately to the lower rate of payment after the death of a partner. Notification of the date of death and application of a spouse pension are usually delayed which necessitates recovery of payment and adds to the spouse's difficulties and administrative costs at a very emotional and stressful time.

7.4.4 If all former 1922 Act contributors currently on pensions (3,972) were to die leaving a spouse, the estimated cost of the additional benefits payable would be jut over $8m, spread over a number of years. However, the actual costs would be considerably less, as not all pensioners would have a surviving spouse. Available statistics point to surviving spouse pensions being paid in about half the number of cases.

8. RECOMMENDATIONS

SCOA recommends that:

- To maintain equity in retirement, a wages-based mechanism be incorporated into the regular adjustment of Commonwealth superannuation pensions.

- Consideration be given to the use of a wages-based mechanism to preserve the real value of the preserved unfunded component of the employer benefit in the PSS.

- The bereavement package be extended to surviving spouses of deceased 1922 Act beneficiaries.

- The taxation of superannuation be addressed in the proposed Review of Retirement Incomes/Superannuation.

- The adverse impact of automatic increases in nursing home fees for retired Commonwealth superannuants who are reliant solely on a CPI-indexed pension be addressed.

- The PSS scheme not be closed to new entrants and remain as one of the choice of fund options for new civilian entrants to the APS.

Superannuated Commonwealth Officers' Association (SCOA)
Federal Council Inc

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Mawson ACT 2607

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Dear Member/Senator

Members of the Superannuated Commonwealth Officers Association (SCOA) are fed up with the Government's discriminatory treatment of its former employees. This is resulting in hardship and falling living standards relative to other retired groups in the community. SCOA represents the interests of retired civilian Commonwealth and Territory Government employees and their families throughout Australia, the majority of whom live outside Canberra.

The value of Commonwealth superannuation pensions is being eroded through sole use of the Consumer Price Index (CPI) to adjust for cost of living increases. This means members are being denied access to improvements in living standards as measured by wage indexes. It is inequitable that the Government continues to rely solely on the CPI to index the superannuation pensions of its former employees and yet uses a wage-based mechanism to index partly or fully other tax-payer funded retirement benefits, including federal parliamentary pensions and the age pension. If the justification for applying a wage-based indexation for these categories is sound, the case for extending the same treatment to retired employees is equally sound.

Over the last three years Commonwealth superannuation pensions have risen by only 2.4 per cent, based on increases in the CPI. This contrasts with a 10 per cent increase to the superannuation pensions of retired parliamentarians based on movements in Average Weekly Ordinary Time Earnings (AWOTE) over the same period.

Commonwealth superannuants are also losing out on relativity with the position they held on retirement. In the case of retired federal parliamentarians, salary increases for serving politicians flow through automatically to their pensions.

The Government seems to be of the view that Commonwealth superannuants are well-off. In 1998-1999, 66 per cent received a superannuation pension of less than $20,000 and 22 per cent received less than $10,000 under the two civilian public sector schemes. Nearly 70 per cent received less than the current minimum 'Safety Net Wage' award. Just over 9.0 per cent received an annual pension of $30,000 or more. The Association points out that public servants made compulsory contributions to their own superannuation over many years, expecting this to provide a reasonable standard of living in retirement.

The situation will become worse with the introduction of the GST on 1 July 2000. Commonwealth superannuants will miss out on any one-off adjustment to their pensions to compensate for the cost impact of the GST and will have to wear the cost increases for a full year until their superannuation pensions are adjusted after 1 July 2001 Because many Commonwealth superannuants receive small top up age pension and welfare payments they will also miss out on the one-off self-funded retirees supplementary bonus.

SCOA has asked that Commonwealth superannuation pensions be adjusted by the CPI or Male Total Average Weekly Earnings, whichever is the higher, and that we receive an adjustment to our pensions from 1 July 2000 to compensate for the price impact of the introduction of the GST The Government remains unsympathetic and dismissive of our concerns.

We urge you to take these concerns up with the Government or raise the issues in the Parliament as you see fit

Yours sincerely

Helen Allnutt

Helen Allnutt
National Secretary
28 May 2000

Attachment B

B. LETTER FROM COMMITTEE CHAIR

AUSTRALIA

AUSTRALIAN SENATE

SELECT COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES

PARLIAMENT HOUSE
CANBERRA ACT 2600
Tel: (02) 6277 3458
Fax: (02) 6277 3130
Email: super.sen@aph.gov.au

28 June 2000

Ms Helen Allnutt
National Secretary
Superannuated Commonwealth Officers' Association
PO Box 107
MAWSON ACT 2607

Dear Ms Allnutt

Superannuation and Financial Services

Thank you for your letter, dated 28 May 2000, in which you drew my attention to the apparently discriminatory treatment of government employees in so far as the value of Commonwealth superannuation pensions is being eroded through sole use of the Consumer Price Index to adjust for cost of living increases. I apologise for the delay in replying.

I forwarded your letter to members of my Committee for information. The Committee has considered the issue you have raised and agreed to conduct an inquiry into the matter, possibly next year when the Committee's workload permits.

Thank you for drawing this important matter to the Committee's attention.

Yours sincerely

John Watson

JOHN WATSON
Committee Chair

Attachment C

C. 1922 SUPERANNUATION SCHEME

Pension design

Superannuation has been a feature of employment in the APS since early last century. Initially a system of compulsory life assurance policies for permanent officers provided retirement pensions. In 1922, the first Superannuation Act was passed. It provided benefits (including pensions on retirement or on invalidity) to its contributors who were Commonwealth employees or persons employed by certain Commonwealth authorities listed in the legislation and described as approved authorities, eg, PMG and the Commonwealth Banking Corporation.

Members contributed for retirement at age 60 or 65 or both. The scheme was unitary, ie, units of pension were bought, the number available to an employee being dependent on salary. The annual contribution per unit increased with age. On retirement, each unit provided $91 per annum of pension. Two/sevenths ($26) was provided from the employee's contributions which were fully funded in the Commonwealth Superannuation Fund. Five sevenths ($65) was provided by the Commonwealth from the CRF on an emerging cost basis.

Where the employer was an approved authority, eg, the Commonwealth Bank, the five seventh's benefit was paid by the employer into the CRF, which then assumed the liability for payment of pensions as they fell due.

The scheme aimed to provide pensions of the order of 70% of final salary for over 95% of contributors, if all entitlements were taken up. Because of the very steep rise in the contribution rate for units purchased near retirement, a system of non-contributory units was introduced in 1969. These were available, on a non-contributory basis, to members over 40 years of age who became entitled to further units, who already contributed for a minimum number of units, and whose contributions would exceed 7.5% of salary if further contributory units were taken up. The pension benefit for non-contributory benefits was 5/7ths of that for contributory units.

Provident Account

Employees of the Commonwealth or approved authorities who failed to meet the medical standards for scheme membership could contribute to the Provident Account. This was a lump sum benefit plan in which members contributed 5% of salary into the Superannuation Fund. The lump sum paid was a return of contributions plus interest all multiplied by three. The return of contributions plus interest was paid out of the Fund and the balance out of CRF. The employer-employee contribution ratio of the Provident Fund was thus 2 to 1 as compared with 2 ½ to 1 for those entitled to pensions under the scheme.

The 1922 scheme was closed to new members from 1 July 1976. Contributors under the scheme were compulsorily transferred to the CSS. The 1922 Act still provides for pensions that were in force at 1 July 1976, deferred benefit entitlements and any reversionary benefits that may become payable.

Attachment D

D. COMMONWEALTH SUPERANNUATION SCHEME (1976 SCHEME)

The CSS is a 'partly funded, partly defined benefit scheme'. Established in 1976, with some exceptions it was closed to new members from 1 July 1990. The scheme was compulsory for most employees appointed permanently before that date. Full-time temporary and contract employees and full-time statutory office holders could also elect to join. Compulsory basic member contributions based on 5% of salary for superannuation are required, but optional supplementary contributions of up to a further 5% of salary are allowed. A superannuation contribution surcharge tax, introduced from 20 August 1996, is payable on an adjusted taxable income threshold level which is indexed annually to general salary increases. For 2000-2001 the level is $81,493. The maximum rate of superannuation surcharge tax is 15% of surchargeable superannuation contributions.

In 1986, the Government of the day broke faith with its staff by enacting legislation which discounted by 2% from 23 October 1986, the superannuation pension increase that applied from 3 July 1986. In 1989, this decision was reversed by amending legislation which restored pension levels on 2 November 1989 to the levels that would have been payable had the October 1986 discount never been applied. The amending legislation did not provide for any refund of the pension reductions over the three years concerned.

Benefit Parts

The CSS provides a range of benefits that are payable on age retirement; resignation; dismissal or annulment of appointment (the same benefit is payable in each case); involuntary retirement (retrenchment/redundancy); invalidity retirement; and death. Benefits are generally made up of:

- A member component comprising basic and supplementary contributions (if any) plus accumulated interest.
- An employer component, which is a defined amount paid as a CPI indexed pension, funded on an emerging cost basis from Consolidated Revenue - this constitutes the 'unfunded' part of the scheme.
- An employer funded productivity superannuation component (funded on an accrual basis) which also accumulates at the crediting rate of the CSS Fund. The rate at which the productivity benefit is paid varies with income limits which are indexed each year by increases in general salaries. Productivity contributions generally average 3% of salary but are skewed towards providing a greater percentage for lower paid staff and a lower percentage for higher paid staff.

There is provision for the accumulated member component and the employer-funded productivity component to be converted to a non-indexed additional pension. In this instance, the additional pension is regarded as a taxed' element and thus attracts the 15% superannuation taxation rebate, whereas the pension funded from Consolidated Revenue does not.

New Rules for Accessing Superannuation

New rules for accessing superannuation were introduced from 1 July 1999 which limit the amount of superannuation benefit that can be paid as a lump sum before preservation age; and gradually increase the preservation age (up to 60) for those born after 1 July 1960. A member's right to take a CSS benefit in the form of a pension is not affected by these changes.

Age Retirement

Retirement benefits are payable on retirement (from 55) and generally consist of:

- an employer financed component, which is a defined amount paid as an indexed pension based on final salary, length of contributory service and age at exit. Generally the accrual rates at age 65 are 2% per annum for the first 20 years of membership, 1% for the next 10 years, and 0.25% for each of the next 10 years. The standard pension is based on a maximum of 40 years contributory membership. The maximum percentage at age 65 is 52.5% of salary. These percentages are reduced if a member exits prior to 65.
- An employer-funded productivity component, made up of accumulated productivity contributions plus interest.
- A member-financed component consisting of accumulated member contributions (basic plus supplementary) plus interest. The productivity and member components can be taken as a lump sum or as a non-indexed pension.

Resignation and Dismissal Benefits

Members who resign or are dismissed before the minimum retiring age (generally 55) can:

- receive a refund/rollover of the member contributions, productivity component and a 'top-up' amount equal to the difference between the productivity component accrued from 1 July 1992 and the minimum Superannuation Guarantee amount (introduced in 1991 with prescribed minimum contributions set initially at 3% rising to 9% in 2002-2003) accrued from that date. The productivity and top-up component and any member component in excess of the SIS upper limit must be paid into a rollover institution. This accumulated amount can then be paid from this fund on retirement from the workforce after preservation age is reached.
- preserve the total benefit either by transfer to another eligible superannuation scheme or take it as a deferred benefit from the CSS after minimum retirement age

Where a member **preserves** his or her benefit in the Fund, on reaching minimum retirement age, he or she may elect to receive:

- an indexed pension based on 2.5 times the basic contributions and interest accumulated to the date of payment converted to a pension;
- productivity contributions accumulated to the date of payment or a non-indexed pension; and
- member contributions (basic and supplementary) accumulated to the date of payment or a non-indexed pension.

Alternatively, the member can choose to take a transfer value of 3.5 times the accumulated basic contributions plus supplementary and productivity contributions less any surcharge debt to another *eligible* superannuation scheme.

The member can elect to obtain a lump sum refund of his/her own contributions plus interest, providing they do not exceed the SIS upper limit in which case the employer-funded component is foregone, except for an amount equivalent to the employer Superannuation Guarantee contribution

Provisions exist for early release of a preserved productivity benefit (up to a maximum of $10,000 in any 12 month period) in cases of demonstrated financial hardship and compassionate grounds.

Involuntary Retirement Benefits, including Retrenchment

Members who are involuntarily retired or retrenched can:

- receive a CPI indexed pension (worked out in the same way as for age retirement) plus an additional non-indexed pension purchased from the member component and rollover the productivity component to a fund of choice;
- receive a CPI indexed pension and member and productivity lump sum/rollover. Productivity and member components above the SIS upper limit must be preserved if under preservation age;
- take a lump sum only consisting of immediate cash payment of the member component below the SIS upper limit and roll the employer components of 2.5 times the accumulated basic contributions plus productivity plus member component above the SIS upper limit to a fund of the member's choice, or roll the total lump sum to a complying fund;
- preserve the total benefit either by transfer to another eligible superannuation scheme or take it as a deferred benefit from the CSS after minimum retirement age.

Invalidity Retirement Benefits

Invalidity retirement benefits are payable to members deemed by the Trustees as being permanently incapacitated to the extent that they are unlikely to work again in a position for which they are reasonably qualified. Providing a Benefit Classification Certificate does not apply, benefits include:

- an employer-financed indexed pension being a percentage of final salary based on contributory service and the period of prospective service to maximum retirement (usually 65);
- a lump sum of accumulated basic contributions or, at the member's election, an additional non-indexed pension being a percentage of final salary based on the period of contributory service and prospective service to maximum retirement age;
- a lump sum of supplementary and productivity contributions.

Partial invalidity pensions are also payable as income maintenance to people below maximum retirement age who continue working in eligible Commonwealth service when their salary is reduced permanently because of a medical condition.

Death Benefits

Benefits are payable to an eligible spouse/partner and/or children on the death of a contributor and/or pensioner. In the case of an eligible spouse, a pension is payable at the rate of 67% of the invalidity pension that would have been payable to the deceased, plus 11% of the invalidity pension for each eligible child (until age 16 or, if a full-time student, until age 25) with total pension limited to 100% of the invalidity pension. The accumulated productivity contributions and any supplementary contributions are payable as a lump sum.

On the death of a pensioner, a pension is payable based on the percentages outlined above that apply in respect of the death of a contributor, but using the pension payable to the deceased at the time of death.

Attachment E

E. PUBLIC SECTOR SUPERANNUATION SCHEME (1990 SCHEME)

The PSS Scheme is a partly-funded, fully defined benefit scheme and came into effect on 1 July 1990 following enactment of the *Superannuation Act 1990*. It was introduced in recognition of the need to cater for a more flexible and diversified workforce, to rationalise and tighten invalidity arrangements and to contain costs.

The PSS It is a defined benefit lump sum scheme, with an option to convert 50 % or more of the lump sum to an indexed pension. It is compulsory for all permanent full-time or permanent part-time employees and optional for temporary and casual employees appointed from that date. Contributions rates are flexible and can vary from 2% to 10% of salary for superannuation purposes. They can be altered at any time. As with the CSS, a superannuation contribution surcharge tax is payable in respect of superannuation accruals for higher income earners. The new SIS regulations introduced from 1 July 1999 also apply.

Benefit Parts

The PSS provides a range of benefits that are payable on age retirement; resignation or dismissal; involuntary retirement/retrenchment; invalidity and death. There is also provision for members who resign before minimum retirement age to preserve their benefits until preservation age.

A member's Total Benefit is calculated by multiplying the member's Benefit Multiple by his or her Final Average Salary (FAS) which is normally the average superannuation salary on the three birthdays before leaving the PSS. The benefit multiple reflects the contribution rate and the service of the member to the PSS and increases with each contribution made. The employer's share of the Benefit Multiple cannot be greater than that which would have accrued if member contributions had been made at 5% for 10 years (or total membership if less) and 10% for any membership in excess of 10 years.

Benefits consist of:

- a member-financed component comprising member contributions to the scheme plus (accumulated) interest;
- an employer-financed productivity component. Employers contribute productivity contributions to the scheme on a sliding scale averaging 3% of salaries paid to the members.
- an employer-financed component for the balance of the guaranteed benefit, the major part of which is funded on an emerging basis from Consolidated Revenue (this is regarded as the unfunded component. The employer-financed component is determined as the Total Benefit, minus the productivity and member component.

The maximum benefit allowable under the PSS is known as the Maximum Benefit Limit (MBL) and is based on the Reasonable Benefit Limits (RBL) that applied to all superannuation schemes throughout Australia on 1 July 1990. The MBL is broadly 8 times the member's Final Average Salary. MBLs are indexed each year by movements in AWOTE. On reaching the MBL, a member will cease contributing to the scheme. It would normally take a member paying contributions at 5% around 38 years to reach his or her MBL.

Limited Benefits Membership can apply for three years for people who are assessed by a medical practitioner as not meeting the standard for full benefit status or who fail to complete a medical statement.

All of the benefit taken as pension is fully indexed by the CPI, including that part which is purchased from member and employer productivity contributions. The 15% superannuation tax rebate is also allowable in respect of the latter components.

Age Retirement Benefits

Retirement benefits are payable upon retirement after minimum retiring age (usually 55) or after reaching preservation age. The options are:

- total lump sum;
- total indexed pension;
- combination of lump sum and pension providing a minimum of 50% is converted to pension;
- the total benefit can be preserved in the PSS and taken later as a lump sum, indexed pension or a combination of both.

Members who retire from the workforce on or after reaching minimum retiring age but before reaching preservation age can:

- preserve the total benefit in the scheme for payment at a later date;
- members joining before 1 July 1999 can take a lump sum up to their SIS limit and preserve the balance in the scheme for payment at a later date when it can be taken as a lump sum or they may convert the amount above the SIS limit to immediate pension providing it is at least 50% of total benefit;
- take the total benefit as an indexed pension.

Resignation and Dismissal Benefits

Members who resign or are dismissed can:

- receive a refund of member contributions and interest as a lump sump up to the SIS upper limit, and preserve the remainder of the benefit in the PSS. Members joining after 30 June 1999 must preserve the entire benefit;
- transfer the value to an eligible superannuation scheme, provided there has been no refund of the member component;
- preserve all benefits in the PSS until retirement from the workforce after reaching minimum retirement age.

As with the CSS, there is provision for a member to access part of his or her preserved benefit in demonstrated cases of financial hardship or on compassionate grounds.

Involuntary Retirement Benefits

Members who are involuntarily retired or retrenched can:

- receive an indexed pension and a lump sum, including those have not reached minimum retiring age;
- preserve the benefit in the PSS for subsequent payment on retirement from the workforce on attaining preservation age;

- preserve the entire benefit in an approved deposit fund (ADF) or, in some circumstances, transfer it to an eligible superannuation scheme;
- take the benefit as a lump sum (up to the SIS upper limit) and preserve the balance in the PSS or an ADF for payment as a lump sum on retirement from the workforce on attaining preservation age.

Invalidity Retirement

Members who are retired on medical ground can take:

- the three benefit components as a fully indexed pension; or
- the member component as a lump sum and the remainder as an indexed pension.

Death Benefits

Benefits are payable to an eligible spouse/partner and/or dependent children on the death of a contributor and/or pensioner. On the death of a contributor a pension is payable at 67% of the invalidity pension that would have been payable to the deceased plus 11% of the invalidity pension for each eligible child (until age 16 or if a full-time student, until age 25), with total pension limited to 100% of the invalidity pension. Alternatively, providing there are no eligible children not associated with the eligible spouse, the surviving spouse can convert the total benefit to a lump sum. If there are eligible children not associated with the surviving spouse, the lump sum value of any pension(s) for eligible dependent children is deducted from the lump sum and paid to the child(ren) as a pension.

On the death of a pensioner, a pension is payable based on the percentages that apply in respect of the death of a contributor, but using the pension payable to the deceased at the time of death. If the retirement benefit was taken wholly as a lump sum, no further benefit is payable to the spouse or children.

Additional death and invalidity cover can be taken out under the scheme.

Preserved Benefits

Members resigning before minimum retirement age must preserve the employer and productivity components of their benefit in the PSS. Members joining the scheme after 30 June 1999 must also preserve their member component in the scheme. The only exception is where a member joins an *eligible* superannuation scheme, in which case a transfer of the benefit, less any accrued superannuation surcharge debt, can be paid to that scheme.

Members who are retrenched before reaching preservation age must preserve some part of their benefit (or all of it if they join the scheme after 30 June 1999) in the PSS or a rollover institution, unless they take all the portion of the benefit above the SIS upper limit as a pension.

Members retiring after reaching minimum retirement age, but before reaching preservation age can either take the benefit above the SIS upper limit as a pension providing this amount is at least 50% of the total benefit or preserve the lump sum amount to which they cannot gain immediate access in the PSS and subsequently roll over that amount to fund of their choice. For members joining after 30 June 1999, no lump sum can be taken before reaching preservation age.

Where a benefit is being preserved in the PSS, member and productivity components increase using fund increase allocation rates, while the remainder of the employer-financed component increases on the basis of movements in the CPI.

A. AGE PENSION INDEXATION

Attachment F

Key dates and undertakings

1969 The Hon Gough Whitlam MP, the then Opposition leader, promised to tie pensions to a proportion of Average Weekly Earnings (AWE).

1972 The promise to tie pensions to a proportion of AWE was reasserted in his Federal election policy speech.

1983 The ALP and the ACTU agreed in the Statement of Accord to maintain the basic rate of pension at or above 25% of AWE

1989 The MTAWE commitment was reaffirmed by the then Minister for Social Security, the Hon Brian Howe MP, in the (then Government's statement, *Better Incomes: Retirement Income Policy into the Next Century.*

1990 The 25% MTAWE benchmark was achieved through a combination of normal CPI indexation and an ad hoc increase.

1993 An ad hoc increase of $6 per fortnight for singles and $5 a fortnight for each of a married couple was paid to maintain the benchmark.

1995 Press release by the then leader of the Opposition, the Hon John Howard MP, stating there is no difference between the Government and Opposition policy in relation to the 25% MTAWE commitment.

1996 The commitment to existing benchmarks for pensions and family payments was reaffirmed in the Coalition Policy Speech, *A Social Security Net*, prior to the election on 3 March 1996.

On the *7.30 Report,* in response to specific questions about twice yearly CPI indexation and the MTAWE benchmark, the Prime Minister and the Treasurer replied that the Government would not be adjusting the formula used to calculate pensions.

In reply to a Question Without Notice about the formula to calculate pensions, the Treasurer repeated the Prime Minister's and his own assurances that arrangements for the calculation of pension rates would not be changed.

1997 The Social Security and Veterans' Affairs Legislation Amendment (Male Total Average Weekly Earnings Benchmark) Bill 1997 received Royal Assent.

1998 First MTAWE increases required under new legislation.

Source: Department of Family and Community Services 2001

G. THE CONSUMER PRICE INDEX

Attachment G

The CPI is a general indicator of the annual rate of change, measured each quarter, in prices paid by households for the goods and services they buy. Its principal purpose is to provide a general measure of price inflation for the household sector as a whole. It is also used as input to adjusting incomes, in particular pensions and superannuation payments and in indexing government bonds and business contracts.

The commodity classification or basket used for the CPI consists of broad groups to which different weightings are applied in compiling the index. The weightings are derived from the most recent Household Expenditure Survey (HES).

The composition and structure of the CPI are reviewed regularly by the ABS. The 1998 review led to a redefinition of the index from one of input to the income adjustment process to one of measuring price inflation for the household sector as a whole. Mortgage, interest and consumer credit charges were excluded, while home computer equipment and software, financial charges, tertiary education fees and domestic services were included. The CPI reference population was extended from employee households only to include all private households, resulting in an increase in coverage from 29% to 64% of all Australian households.

The 14th Series CPI was introduced from the September Quarter 2000, following a review conducted earlier in the year. The review was considered necessary to ensure that the CPI continues to be a reliable measure of price inflation for the household sector as a whole, following the introduction of the new tax system. The changes involve:

- A new commodity-based classification to better address consumer substitution between commodities in response to relative price changes.
- An increase in the number of groups from 8 to 11 with the addition of 3 new groups – Communication, Education and Miscellaneous.
- The overall item coverage of the 14th series is unchanged from the 13th series.
- Weightings are based primarily on the 1998-99 HES.

13th Series		14th Series	
Group	**Weighting**	**Group**	**Weighting**
Food	19.19%	Food	17.72%
Clothing	5.72%	Alcohol & Tobacco	7.41%
Housing	19.35%	Clothing & Footwear	5.19%
Household Equipm't & Op'n	12.56%	Housing	19.75%
Transportation	14.13%	Household Furnishings, Supplies & Services	8.09%
Alcohol & Tobacco	8.14%	Health	8.09%
Health and Personal Care	6.98%	Transportation	15.25%
Recreation & Education	13.93%	Communication	2.88%
		Recreation	12.29%
		Education	2.69%
		Miscellaneous	4.04%

Due to the changed commodity classification and the addition of new groups, it is not possible to directly compare the weightings of the 14th series CPI with the 13th series.

Attachment H

H. QUESTIONS ON NOTICE

Commonwealth superannuants

*2086 **MR K. J. THOMSON:** To ask the Minister for Finance and Administration –

What was the outlay for payment of the adjustment to Commonwealth superannuants falling due on the first payday after 1 July 2000?

What is the anticipated outlay for payment of the adjustment to Commonwealth superannuants falling due on the first payday after 1 July 2001?

Has the Government made provision for advance GST compensation to be paid to public sector superannuants relative to their superannuation pensions as has been the case for other pensioners?; if not, why not?

What would the outlay be for the 4% pensioner GST compensation to be paid to public sector superannuants for (a) Commonwealth, (b) State and (c) Territory superannuants?

Did the Government index public sector superannuation pensions in advance of the predicted 1.9% increase as a result of the introduction of the GST?; if not, why not?

What is the estimated cost of indexing public sector superannuation pensions to Male Total Average Weekly Earnings?

Why are public sector superannuation pensions not indexed on a 6-monthly basis like other pensions?

ABBREVIATIONS

ABS	Australian Bureau of Statistics
ADF	Approved Deposit Fund
ASO	Administrative Service Officer
APS	Australian Public Service
ASFA	Association of Superannuation Funds of Australia
AWE	Average Weekly Earnings
AWOTE	Adult Weekly Ordinary Time Earnings
CSS	Commonwealth Superannuation Scheme
CRF	Consolidated Revenue Fund
CPI	Consumer Price Index
DFRDB	Defence Forces Retirement and Death Benefits Scheme
FAS	Final Average Salary
GDP	Gross Domestic Product
GST	Goods and Services Tax
HES	Household Expenditure Survey
MTAWE	Male Total Average Weekly Earnings
MBL	Maximum Benefit Limit
MSBS	Military Superannuation and Benefits Scheme
NTS	New Tax System
PAYG	Pay As You Go
PCSS	Parliamentary Contribution Superannuation Scheme
PMG	Post Master General
PSS	Public Sector Superannuation Scheme
RBL	Reasonable Benefit Limit
RPI	Retiree Price Index
SCOA	Superannuated Commonwealth Officers' Association
SES	Senior Executive Service
SOG	Senior Officer Grade
SIS	Superannuation Industry Supervision

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