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

Submission: *Benefit design of Commonwealth unfunded superannuation funds and schemes*

I retired as a Commonwealth public servant in 1991 and pension movements since then have given me a strong interest in the subject matter of your inquiry.

The current benefit design contains an indexation method introduced in the 1970s as a well-intended attempt to ensure that retired public servants' pensions keep up with the cost of living while maintaining administrative simplicity for what is now Comsuper. Unfortunately, the long term result of CPI indexation has worked to the detriment of Commonwealth superannuation recipients:

- Pensions have steadily declined against other measures of social well-being.
- There is a bias in benefit levels against those who have been retired lengthy periods of time compared with those who retired more recently in similar circumstances (age, classification, length of service etc). This is a disguised form of discrimination on the basis of age.
- For those who elected to receive an additional pension under the *Superannuation Act 1976*, the detriment is magnified by lack of any indexation at all.

I do not know how useful anecdotal information will be to the Select Committee, but my own experience illustrates how the benefit design of the Commonwealth Superannuation Scheme has led to the effects listed above.

I was retired in August 1991 on the grounds of incapacity, electing to receive both basic and additional pensions. My salary at the time of retirement was \$45,546. The current salary for the same position in the same Department is \$64,199. I have done some "back of the envelope" calculations to compare how my actual 2001 pension (derived under CPI indexation) compares with: (1) a pension indexed by Average Weekly Ordinary Time Earnings (AWOTE); and (2) someone retiring from my position today on grounds of incapacity and with an identical length of prospective service. These comparisons are shown in the table:

Pension type	CPI-indexed pension		AWOTE-indexed Feb 01	Retirement in Feb 01
	Aug 91	Feb 01		
Basic	19,576	23,142	26,772	27,593
Additional	7,830	7,380	7,830	11,036
<i>Total</i>	27,406	30,972	34,602	38,629

AWOTE is a commonly used basis for indexation, and it is applied to superannuation-related figures such as reasonable benefit limits and ETP tax thresholds (as well as selected pensions such as Federal Parliamentarians' pensions) and to a range of social welfare benefits. If my CSS benefit had been indexed according to AWOTE it would currently be \$36,30 higher (15.6% of the basic pension and 11.2% of the total benefit). AWOTE has almost kept up with the actual rise of salary levels, giving a basic pension only about 3.1% lower than would be derived today from an actual retirement in circumstances identical to my 1991 retirement.

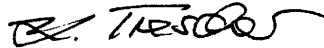
There is a glaring disparity in benefit levels, however, when the additional pension obtainable for a 2001 retirement is considered. The \$11,036 which could be obtained currently is 40.9% higher than my actual non-indexed pension from my 1991 retirement. Also, the basic pension for a 2001 retirement is 19.2% higher than my basic pension which has been CPI-indexed since 1991.

I believe that the illustrative figures given above hint at a consistent bias against older people who have been retired longer. This bias derives from both when a person retired and the type of indexation which has been used. I recognise, however, that the Select Committee would need to seek additional actuarial advice if it wishes to quantify these trends over the broad population of Commonwealth retirees.

The lack of any form of indexation for the additional pension is an aspect of the benefit design of the Commonwealth Superannuation Scheme that should be given close attention by the Select Committee. Over long periods of time, this non-indexation has greatly eroded the value of the additional pension to those receiving it. This was addressed when the Public Sector Superannuation Scheme was set up in 1990 to give an option for a fully-indexed pension, but indexation of the CSS was neglected. This neglect was presumably meant as a stick to help encourage then-current employees to transfer from the CSS to the newly-created PSS.

While not strictly within its terms of reference, it would be disappointing if the Select Committee does not address the question of whether the lack of indexation of the CSS additional pension should be rectified.

Yours sincerely,



K Trescher