Senate Select Committee on Superannuation and Financial Services

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

Submitted by: Department of Finance and Administration

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GLOSSARY

APS – the Australian Public Service

AWOTE – the full-time average weekly ordinary time earnings for all persons in Australia as published by Australian Statistician on a regular basis.

CPI – the all groups consumer price index number for the weighted average of the 8 capital cities published by the Australian Statistician.

Crediting Rate of CSS and PSS Funds – interest rate determined by the Boards to be applied to the funded components of CSS and PSS accruals.

CSS – the Commonwealth Superannuation Scheme, provided for by the *Superannuation Act 1976*, which was closed to new contributors on 1 July 1990.

FAS – (as used in the PSS) average of salaries generally on the last three birthdays prior to cessation.

MTAWE – Male Total Average Weekly Earnings as published by the Australian Statistician on a regular basis.

NECR – Notional Employer Contribution Rate which is the Commonwealth employer contribution rate necessary to ensure that employer financed benefits in the Commonwealth's civilian employee superannuation schemes would remain fully funded in three years time (from date of the latest triennial actuarial report), if they were fully funded now.

Preservation Age – as defined in SIS. Age 55 progressively increasing to age 60 depending on when a person was born.

PSS – Public Sector Superannuation Scheme provided for by the *Superannuation Act 1990.*

SG – Superannuation Guarantee as provided for by the *Superannuation Guarantee Charge Act 1992* and the *Superannuation Guarantee (Administration) Act 1992* currently requiring a minimum level of employer superannuation support of 8% or earnings or salaries.

SIS – *Superannuation Industry (Supervision) Act 1993* and regulations under that Act which provide for prudential and other general regulation of superannuation funds.

Unfunded Liabilities –the total accrued superannuation liabilities of the Commonwealth in respect of service to a particular date (date of latest triennial actuarial report) for which no assets are held, as estimated triennially by an actuary.

1922 CSS – the superannuation scheme provided for by the *Superannuation Act 1922* which was closed to contributors on 1 July 1976.

INTRODUCTION

The Committee is conducting an inquiry into the benefit design of Commonwealth public sector and defence force unfunded superannuation funds and schemes with particular reference to the method of indexation used for preserved benefits and pensions.

2. Superannuation for public sector civilian employees is the portfolio responsibility of the Minister for Finance and Administration (the Minister).

3. Currently, there are two superannuation schemes for the majority of the Commonwealth's civilian employees:

(a) the PSS established by a Trust Deed and Rules executed under the authority of the *Superannuation Act 1990*; and

(b) the CSS established by the *Superannuation Act 1976*. The CSS was closed to new members when the PSS was established on 1 July 1990.

4. The PSS and the CSS are both partially unfunded schemes. They provide benefits that satisfy a participating employer's SG obligations (except where alternative arrangements are made for productivity contributions for CSS members) and are regulated superannuation schemes for the purposes of SIS.

5. Commonwealth employees who are not members of the PSS or the CSS will receive employer provided superannuation either:

(a) as a member of a funded superannuation scheme provided by their employer, such as Australia Post; or

(b) under arrangements included in the *Superannuation (Productivity Benefit) Act 1988* which ensure that other persons employed by the Commonwealth are provided with at least the Superannuation Guarantee level of employer superannuation, usually through funded superannuation schemes.

6. The Commonwealth also has superannuation arrangements for former Commonwealth employees who retired or, in some cases, resigned before the commencement of the CSS on 1 July 1976 (the 1922 CSS). These are provided for in the *Superannuation Act 1922*, which continues in operation to provide for the payment of benefits to or for those persons.

7. A package of Commonwealth Superannuation Bills currently before the Senate is intended to introduce new superannuation arrangements for Commonwealth employees. The proposed new arrangements will provide choice of scheme through a funded arrangement for all new employees and existing CSS and PSS members who choose to leave their schemes.

8. In providing information to the Committee to assist it in its inquiry this submission addressees the PSS, the CSS and the 1922 CSS which are the 3 unfunded superannuation arrangements for Commonwealth civilian employees that provide for unfunded preserved benefits and also pensions.

2. PRESERVED BENEFITS IN THE PSS, CSS AND 1922 CSS

9. The following information is provided on the Committee's terms of reference that concern preserved benefits. The submission concentrates on the arrangements in the PSS, which is the main scheme for Commonwealth employees.

The PSS

10. A person who becomes entitled to a PSS preserved benefit (usually on resignation) will have the option of:

(a) taking his/her personal contributions and interest in cash, up to the limit allowed under SIS, and preserving the rest of his or her accrued benefit in the PSS; or

(b) preserving the whole of the accrued benefit in the PSS.

11. A person who preserves the full accrued benefit will have the option, when the benefit is paid, of receiving it either as a lump sum or a pension or a combination of both on the same basis as benefits paid to retiring members. All other preserved benefits are paid as a lump sum only. (Attachment A explains PSS accrued benefits and benefit options.)

The method of indexation applied to a preserved unfunded component of a PSS employer benefit

12. In the intervening period until the preserved benefit is paid it is updated from year to year by:

(a) for the funded component (ie, most productivity contributions and interest and any personal contributions and interest), the crediting rate of the PSS Fund; and

(b) for the unfunded component (ie, the remainder of the benefit), movements in the CPI.

13. As with all other PSS benefits no deductions are made for administration charges during the period that the benefit is preserved.

14. If some or all of the preserved benefit is ultimately paid as a pension the pension is indexed after payment by CPI movements on the same basis as other pensions paid from the PSS.

The rationale for using this method

15. Preserved benefits, including the indexation method, were an integral part of the original design of the PSS (although a small design change was made in 1992 to fully vest the benefit accrual immediately rather than after 4 years).

16. Their inclusion in the scheme was described as a major improvement for public servants as it removed a major inequity. This was because at the time that the PSS was designed most resignees from the CSS (about 95%) forfeited all of their employer benefit on resignation by taking an immediate cash lump sum (largely personal contributions and interest) rather than opting to preserve their benefit. Unlike the CSS the PSS was designed to allow resignees to receive a refund of their personal contributions and interest (now subject to the SIS preservation rules) but retain their right to the preserved employer component payable at preservation age.

17. As the unfunded component of the PSS preserved benefit was not invested it would not earn interest. The CPI was used to index that component to maintain its purchasing power.

18. For non-career employees (ie, those who generally receive preserved benefits) it was considered that the PSS would make a contribution to their retirement appropriate to their service with the Commonwealth. With the spread of superannuation throughout the workforce (which had started with award superannuation in the second half of the 1980's) it was expected that such employees would increasingly earn vested employer superannuation benefits from other employers to add to their retirement income.

The costs and benefits to fund members and trustees of using this method over other alternatives

19. The indexation method adopted for the PSS was designed to ensure that the real value of the benefit was maintained within the cost structure of the scheme.

The possible implications of adopting another method of indexation

20. There is a range of other indicators that could be used to index the unfunded component of the PSS preserved benefit. This submission considers three alternatives:

(a) the PSS Fund crediting rate;

(b) AWOTE; or

(c) CPI plus 2%.

21. The actuarial firm Towers Perrin has provided the following information on the cost implications of a different method of indexation compared with the cost of the current CPI indexation. Towers Perrin considered the unfunded liability for the indexation of preserved benefits (in respect of current and future preservers based on the scheme composition at 30 June 1999) and also the impact on the average PSS employer cost (ie NECR).

22. Their advice is summarised in the table below.

Rate of Indexation	Unfunded Liability as at 30 June 1999			PSS Employer Cost (NECR)
	Contributory Members ($b)	Preserved Members ($b)	Total ($b)	% of superannuation salaries
CPI	3.8	0.7	4.5	14.2%
Crediting Rate	4.3	1.1	5.4	15.7%
AWOTE	4.0	0.8	4.8	14.7%
CPI + 2%	4.1	0.9	5.0	14.9%

23. Apart from the financial implications of a change to the method of indexation, such a change could also lead in many cases to preserved members having a particular advantage over contributing members who remain in the PSS until retirement.

24. A comparison can be made of the preserved benefit eventually payable to a person who has resigned eg, after 10 years contributory membership and the portion of a retirement benefit accrued during the same period by a person who continues until retirement. A particular advantage could arise if the preserved benefit payable to a member who resigned is greater than the equivalent portion of the retirement benefit payable to the person who remained a member of the PSS until retirement.

25. Towers Perrin's consideration of this issue showed that the current CPI indexation provides similar levels of benefit in the above example. However, it is likely that other methods, which provide higher levels of indexation, would result in a preserved benefit being higher than the relevant portion of a retirement benefit.

26. The Budget impact of any change in the method of indexation is likely to be significant and would also be an important issue in any consideration of change.

Other issues

Allowing Rollover of Unfunded PSS Benefits

27. An alternative method of treatment would be to allow resigning members to rollover their PSS employer benefits to another fund at the time of cessation of employment. Again such an option could give rise to preserved members having a particular advantage over contributing members who remain in the PSS until retirement.

28. Allowing the early roll-out of benefits also would have financial implications. Towers Perrin's advice is that if all existing preserved members and members who exit the PSS in the future prior to age 55 were to rollover their employer financed benefit to another fund:

- The PSS unfunded liabilities would increase by $0.6 billion; and
- The PSS NECR would increase by 0.9% of superannuation salaries.

29. In addition, because the unfunded component is paid from Consolidated Revenue when benefits are paid, allowing immediate rollover at the time of scheme exit would involve bring forward of cash flow. The Budget impact is likely to be significant and would be an important issue in any consideration of change.

30. The PSS accrued benefit at resignation, which is the basis of the preserved benefit, is the benefit that will become payable at preservation age or later rather than an amount payable at that time. That is, its present value is in most cases less than its value when it is paid. Therefore, as indicated from the advice above, if the PSS preserved benefit were to be paid earlier than currently allowed the cost of the PSS would rise.

31. The increase in costs could be avoided by discounting the preserved benefit if it is rolled out early. This approach has been adopted in relation to defined benefit schemes in Victoria and Queensland. However, the Budget impact is still likely to be significant and would be an important issue in any consideration of change.

32. Towers Perrin has provided the following sample discount factors that would avoid affecting the cost of the PSS.

Age at Exit	Discount Factor
20	30%
25	36%
30	42%
35	50%
40	60%
45	71%
50	84%
55	100%

33. For example, a person who exits at age 30 with a preserved benefit of $10,000 would be entitled to 42% of the accrued benefit, ie, $4,200 would be available for rolling over to another superannuation fund.

The CSS

34. A person who is eligible to preserve their benefits in the CSS (mostly resignees under age 55 and persons who are made redundant) will receive no cash payment at the time of leaving the scheme. Their personal and any funded productivity contributions will remain in the CSS Fund and to continue to accumulate with interest at the CSS Fund crediting rate.

35. The CSS preserved benefit (known as a deferred benefit) when paid will be:

- an unfunded employer-financed CPI indexed pension calculated by applying an age based factor to 2.5 times the total of the person's accumulated personal basic (5%) contributions and interest up to the payment of the benefit; and

- an additional non-indexed pension which may be commuted to a lump sum of the person's accumulated personal and any productivity contributions and interest.

36. Attachment B gives more information on the CSS benefit structure.

<u>The method of indexation applied to a preserved unfunded component of a CSS employer benefit</u>

37. In the period before payment commences the unfunded component of a CSS deferred benefit is effectively indexed to the CSS Fund crediting rates. The pension component when paid is then indexed in the same way as a retirement pension.

<u>The rationale for using this method</u>

38. This deferred benefit was designed having regard to the requirement of the *Superannuation Act 1976* that such benefits would be benefits of the same nature as other benefits under the Act. It is understood that deferred benefits were modelled on the CSS involuntary retirement lump sum benefit.

<u>The costs and benefits to fund members and trustees of using this method over other alternatives and the possible implications of adopting another method of indexation</u>

39. There have only been a handful of years since the CSS commenced in 1976 when fund crediting rates were lower than any of the other likely indexation indicators. For that reason, any change to the method at this stage, could be seen by members as a reduction in benefits. Any proposal to enhance the current indexation method would increase CSS unfunded liabilities (around $40 billion at 30 June 1999) and average CSS costs (currently 21.9% of CSS superannuation salaries).

<u>Any other issues</u>.

40. As with the PSS, allowing rollover of the employer-financed benefit at the time of cessation of membership would have budgetary implications.

The 1922 CSS

41. Deferred benefits in the 1922 CSS were determined by the Superannuation Board (now the Commissioner for Superannuation). The *Superannuation Act 1922* envisages that an actuary will advise the Board (Commissioner) in relation to a pension or lump sum deferred benefit. The actuary, in giving that advice, is to take into account all relevant matters including, amongst other things, the rates of interest that it is assumed, for the purposes of the advice, will be earned by the assets of the Superannuation Fund.

42. There are now only about 40 persons who may be able to establish an entitlement to a deferred benefit payable under the rules of the 1922 CSS provided they have served 20 years in public employment.

3. CPI indexation of Commonwealth Superannuation Pensions

43. Until 1973 pensions payable to retired Commonwealth employees under the 1922 CSS were not indexed annually but rather on an ad hoc basis. Regular indexation commenced in 1973 and the current system of CPI indexation of Commonwealth superannuation pensions has operated since 1976 for the 1922 CSS, the CSS and subsequently, after 1990, for the PSS.

44. Commonwealth superannuation pensions are indexed to inflation, as measured by the CPI, to ensure those benefits retain their value. They are generally adjusted in July each year in accordance with any upward movement in CPI usually over the 12 month period ending in the March quarter of that year.

45. Commonwealth superannuation pensions have been updated each year since 1976 as a result of this methodology. The only exception was in 1998 when the CPI change was negative (-0.2%). No reduction was made to pensions as a result of the negative CPI. In the following year the CPI increased by 1.2%. The methodology used for pension increases in the CSS and PSS (that takes the previous negative into account) provided an increase in pensions of 1.1%.

46. The use of CPI to update Commonwealth superannuation pensions is consistent with the arrangements that State and Territory Governments have for indexing superannuation pensions from their main superannuation schemes.

47. The CPI is a measure of cost of living and inflation in Australia. It does not necessarily reflect individual experience, which can vary according to factors including lifestyle and geographical location. Other indicators of the rate of change in prices of a wide range of goods and services would, like the CPI, also be averages and therefore not necessarily in line with individual experience.

48. Although both social welfare pensions and pensions paid to former Commonwealth employees from the 1922 CSS, the CSS and the PSS are paid by the Commonwealth there are fundamental differences between those benefits and the Commonwealth's role in providing those benefits.

49. Some comparisons have been made by some parties between social welfare pensions and pensions paid to former Commonwealth employees. The social welfare pension is provided by the Commonwealth as an accepted responsibility of Government to provide a social safety net for those citizens who have little or no other means of support in their old age. Unlike Commonwealth superannuation pensions the rate of pension usually varies with a person's income and assets. (A CSS or PSS pensioner may qualify for all or part of a social welfare pension subject to satisfying the income or assets test.)

50. The age pension is indexed by CPI twice a year. Where the maximum rate is payable and that rate falls below 25% of MTAWE, a top-up to 25% of MTAWE applies. This increase flows through to partial pensions.

51. Where superannuation benefits are provided to retired Commonwealth employees the Commonwealth's role is that of employer. The amount of pension is generally related to a beneficiary's period of eligible employment and salary at or near retirement. Any level of other income or assets a beneficiary may have does not affect the rate of pension.

Possible costs of alternative indexation methods for Commonwealth public sector pensions

52. The cost of changing the indexation of 1922 CSS/CSS/PSS pensions to another index will depend upon the difference between the CPI and that index. Based on the unfunded liabilities for those schemes at 30 June 1999, such a change is estimated to increase the present value of those liabilities by around $6.6 billion if an ongoing 1.5% positive difference is assumed or, by $4.1 billion if a 1% positive difference is assumed. This costing would apply if, for example, pension indexation changed to MTAWE and this index was always 1.5% higher than the CPI.

53. Also, the average cost of the CSS/PSS could be expected to increase by 2.5% of superannuation salaries if the 1.5% difference is assumed, or 1.5% of superannuation salaries for the 1% assumed difference, all other things being equal.

54. These costs were calculated by the actuarial firm Towers Perrin who conducted the most recent long term cost report on the CSS and the PSS.

55. The Budget impact of any change in the method of indexation is likely to be significant and would be an important issue in any consideration of change.

THE PUBLIC SECTOR SUPERANNUATION SCHEME

56. The PSS is a partially funded defined benefit scheme. The principal benefit is a lump sum but in most circumstances a pension option is also provided. The PSS commenced on 1 July 1990 and is the main ongoing scheme for Commonwealth civilian employees. Members of the CSS generally had the option of transferring to the PSS (or another employer run scheme).

Membership

57. Membership of the PSS is compulsory for persons who joined or who join Commonwealth employment on a permanent basis (part-time or full-time) after 30 June 1990. Non-permanent employees (that is, casual and temporary full-time or part-time workers) may join the PSS at their option after a short qualifying period of service (three months in total).

Member contributions

58. PSS members must make personal contributions to the PSS Fund. A PSS member can choose to contribute at a whole percentage of superannuation salary in the range of 2% to 10%. The member may change the contribution rate at any time.

Employer contributions

59. Employers pay productivity contributions (approximately 3% of superannuation salary) to the PSS Fund. Interest is paid on these contributions at rates determined by the PSS Board.

60. Employers also make payments to the Consolidated Revenue Fund towards the remaining employer cost of scheme benefits.

> Note: The following description of PSS benefits is an outline of the basic benefit structure. It is not an exhaustive description of all benefits and benefit options. Full details of these are included in the PSS Trust Deed and Rules a copy of which is appended to this Submission.

Basic Benefit structure

61. PSS benefits are based on an accrued benefit multiple which accrues according to the rate of personal contributions paid to the PSS by the member. The rate of accrual is generally as follows:

Member Contribution Rate (% of salary)	**Employer Benefit Accrual** (% of FAS)	**Total Benefit Accrual**
2%	13%	15%
3%	14%	17%
4%	15%	19%
5%	16%	21%
6%	17%	23%
7%	18%	25%
8%	19%	27%
9%	20%	29%
10%	21%	31%

For example, a person who contributed for five years at 5% of salary and whose FAS on retirement was $25,000 would have a benefit multiple of 1.05 (5 X .21) X $25,000, ie, $26,250.

62. There are some exceptions to the general accrual provisions described immediately above.

63. Eligible part-time or casual employees can contribute to the PSS and attract employer-financed benefits in the same way, but at a lower rate, as full-time employees. The growth of the Benefit Multiple is slower for such contributors because it is reduced according to the ratio of part-time hours to full-time hours.

64. The PSS has a provision, known as the 10-year rule, which applies a maximum employer benefit accrual of 16% of FAS (ie, the accrual for 5% contributions) where a member has contributed in excess of 5% in any 10-year period. Examples of how this applies are as follows:

> *Case 1 - a person who contributes for 6 years at 8% will have a benefit multiple of 1.44 arising from employer benefit accrual of 16% per year and member contribution of 8% per year, ie .24 x 6.*
>
> *Case 2 - A person who contributes at 10% for 20 years will have a benefit multiple of 5.7 arising from an employer benefit accrual of 16% for ten years and 21% for 10 years and member contributions of 10% for 20 years that is (.16 x 10) + (.21 x 10) + (.1 x 20).*

65. There is a maximum benefit limit of 8 times of FAS. It is slightly higher for lower-paid employees (a fixed dollar amount for various salary levels) and slightly lower for higher-paid employees (on a sliding scale for reduction as salary increases above a threshold). The fixed dollar amount and the threshold where reduction commences are indexed annually.

Benefit – lump sum

66. The primary benefit from the PSS is a lump sum benefit which is calculated by applying the person's benefit accrual to the person's FAS.

Benefit - Pension option

67. Half or more of the lump sum benefit may be converted to an indexed pension using age based factors. For example, if the benefit is first payable at age 65 divide the lump sum by 10 to get the initial annual amount of pension, at age 60 divide by 11 and at age 55 divide by 12.

<u>When benefits are provided</u>

68. The PSS provides benefits on:

(a) age retirement, that is, leaving the scheme after attaining the minimum retiring age in any circumstances other than death or invalidity before age 60;

(b) death while a member;

(c) invalidity retirement, that is, where a person is totally and permanently incapacitated (whether the illness or injury is work-related or not);

(d) resignation before attaining minimum retiring age (including dismissal);

(e) payment of preserved benefits after preservation age;

(f) involuntary retirement (that is, retrenchment, redundancy, etc); and

(g) death of a pensioner.

Benefits available

69. The PSS provides a range of benefits in different circumstances. The following descriptions cover the main options. Whether or not these are paid directly to the individual on cessation of PSS membership will depend on the SIS preservation rules, the rules of the PSS and the options exercised by the member.

Age retirement benefits

70. These are the benefits described under "basic benefit structure" above.

Invalidity retirement before age 60 or Death when a member

71. These benefits are calculated as if the person had been able to work to age 60 and had retired at that time on the FAS applicable at the date of death or invalidity.

72. A person retired on invalidity grounds can take the amount of his/her personal contributions and interest as a lump sum but the rest of the benefit is payable as an indexed pension. An exception can be made in limited cases, eg where the person has a terminal illness. In this case the PSS Board may allow the benefit to be taken as a lump sum of the person's accrued benefit.

73. If a person who dies while a member is survived by a spouse, the spouse has the option of taking either:

(a) the full invalidity benefit as a lump sum;

(b) an indexed pension, the amount of which is 67% of the pension that the member would have received if the person had become an invalidity pensioner immediately before his/her death (the 67% is increased if there are any eligible children, up to a maximum of 100% if there are 3 or more eligible children); or

(c) a part-pension (at least 50% of the accrued benefit) based on the same percentages as described in paragraph (b) with the remainder as a lump sum.

74. Where a person who dies while a member is survived by one or more orphan children, those children have similar options as those available to a spouse. The usual level of reversionary pension in these circumstances is 45% of the pension that would have been paid to the person for one orphan, 80% where there are two orphans, 90% where there are three orphans and 100% where there are 4 or more orphans.

Resignation before retiring age

75. A PSS member who resigns before reaching the minimum retiring age (this age is set by the employer, but is usually age 55) has the option of:

(a) taking his/her personal contributions and interest in cash, up to the limit allowed under SIS, and preserving the rest of the benefit in the PSS; or

(b) preserving the whole of the benefit in the PSS.

76. Preserved benefits with the PSS are updated from year to year before they are paid:

(a) by the PSS crediting rate for that part of the preserved benefit that is funded (that is, member contributions and most productivity contributions); and

(b) by movements in the CPI for that part of the preserved benefit that is unfunded.

77. Preserved benefits become payable on retirement from the workforce on or after the preservation age. A person who preserved his/her whole benefit in the PSS has the option of converting the default lump sum benefit to an indexed pension, using the same conversion methodology referred to under "pension option" under Basic Benefit Structure above.

Involuntary retirement

78. On involuntary retirement, a PSS member has the option of:

(a) taking his/her personal contributions and interest in cash, up to the limit allowed under SIS, and preserving the rest of the benefit in the PSS; or

(b) preserving the whole of the benefit in the PSS; or

(c) transferring his/her benefit to another superannuation scheme; or

(d) taking his/her personal contributions and interest in cash, up to the limit allowed under SIS, and taking the rest of the benefit as an immediate, non-commutable, indexed pension; or

(e) taking the whole benefit in the form of an immediate, non-commutable, indexed pension that has reference to a person's age.

Death of a PSS pensioner

79. Where a PSS pensioner dies, a reversionary pension is payable to the surviving eligible spouse or eligible orphans. (No additional benefits are payable where the member took all benefits as a lump sum on leaving the PSS).

80. The usual level of reversionary pension to an eligible surviving spouse is 67% of the pension that was being paid to the pensioner. The 67% is increased if there are any eligible children, up to a maximum of 100% if there are 3 or more eligible children.

81. Where a PSS pensioner is not survived by a spouse but is survived by eligible children, orphans' pensions are payable. The usual level of reversionary pension to orphans is 45% of the pension that was being paid to the pensioner for one orphan, 80% where there are two orphans, 90% where there are three orphans and 100% where there are 4 or more orphans.

<u>Indexation of pensions</u>

82. PSS pensions are generally adjusted in July each year in accordance with any upward movement in the CPI over the preceding 12 month period ending in the March quarter of that year. The whole pension is adjusted.

<u>Funding -arrangements</u>

83. Member contributions and most productivity contributions are funded. That is, they are paid into a separate fund, the PSS Fund, administered by the PSS Board and invested. The crediting rate allocated to funded contributions is determined by the PSS Board.

84. The rest of the benefit (that is, most of the employer-provided benefit) is unfunded.

85. All PSS benefits are paid from the Consolidated Revenue Fund that is reimbursed from the PSS Fund in respect of any funded component.

<u>Employer cost of PSS</u>

86. The notional employer contribution rate (NECR) for the PSS is 14.2% of superannuation salaries. This rate is actuarially reviewed every three years.

THE 1976 COMMONWEALTH SUPERANNUATION SCHEME

87. The CSS closed to new members on 1 July 1990. The only exception applies to certain previous members who, in specific circumstances, are able to return to the scheme on rejoining Commonwealth employment. On the whole CSS members have had the option to remain in the CSS while in Commonwealth employment or transfer to another relevant employer-provided scheme, eg, for Australian Public Servants the PSS, for Telstra employees the Telstra Superannuation Scheme (the TSS).

88. The CSS is a partially funded scheme with both defined benefit and accumulation benefit characteristics.

Member contributions

89. Members must pay basic contributions of 5% of superannuation salary to the CSS Fund. Members may pay supplementary contributions of up to an additional 5% of superannuation salary to the Fund. Interest is paid on these contributions at rates determined by the CSS Board.

Employer contributions

90. Unless paid to another employer scheme for the member, employers pay productivity contributions (approximately 3% of superannuation salary) to the CSS Fund for their employees who are CSS members. Interest is paid on these contributions at rates determined by the CSS Board.

91. Employers also make payments to the Consolidated Revenue Fund towards the cost of the unfunded employer-financed CSS benefits.

> Note: The following description of CSS benefits is an outline of the basic benefit structure. It is not an exhaustive description of all benefits and benefit options. Full details of these are included in the *Superannuation Act 1976* and a range of regulations and other instruments under that Act. Copies of these can be found at http://scaleplus.law.gov.au/. A list of those regulations etc that relate to benefits and benefit options is attached to this submission.

Basic Benefit structure

92. CSS benefits generally consist of:

- an *unfunded employer financed component* - usually paid as a CPI indexed pension (standard pension) expressed as a percentage of final superannuation salary. The percentage depends upon:
  - length of contributory membership of the scheme;
  - age at exit; and
  - the reason for exit.

  The accrual is "front end loaded" with 2% per annum accruing in the first 20 years of membership, 1% between 21 and 30 years and 0.25% between 31 and 40 years. The maximum accrual is 52.5% of salary if paid on retirement on or after age 65. The percentage of final superannuation salary based on this accrual is reduced the earlier a member retires before age 65.

- a *member component* – this is based on the member's personal contributions and interest on those contributions. Where a standard pension is paid the member component can be paid either as a lump sum or an unindexed pension. In other circumstances it is paid as a lump sum only.

- a *funded employer financed (productivity) component* - this is based on any productivity contributions paid by an employer on an employee's behalf and interest. Depending on an employee's reason for leaving the scheme, the benefit may have to be preserved in the scheme or rolled over into a complying superannuation scheme. Where it is payable at the point of exit, and a standard pension is paid this component can be paid either as a lump sum or an unindexed pension. In other circumstances it is paid as a lump sum only.

When benefits are provided

93. The CSS provides benefits on:

(a) age retirement, that is leaving the scheme after attaining the minimum retiring age other than by death, invalidity before age 65 or involuntary retirement;

(b) invalidity retirement, that is, where a person is totally and permanently incapacitated (whether the illness or injury is work-related or not);

(c) involuntary retirement (that is, retrenchment, redundancy, etc);

(d) death; and

(e) resignation before attaining minimum retiring age and any other termination of membership.

Benefits available

Age retirement benefits

94. A CSS member's age retirement benefit is made up of two parts:

(a) a CPI indexed employer financed standard pension (see Basic Benefit structure above); and

(b) a component based on the member's personal contributions and interest and any productivity contributions paid on behalf of the person and interest. This component is taken either as an as additional non-indexed pension (limited to 20% of the member's final superannuation salary), a lump sum or a combination of both. Depending upon the SIS preservation rules some or all of the lump sum may need to be rolled over into a complying superannuation fund.

95. An age retirement benefit can be postponed. If a member has reached minimum retiring age but not age 65, is entitled to a CSS age retirement benefit and does not wish to retire from the workforce, the member can postpone all or part of their benefit for later payment. A postponed benefit becomes payable at age 65 or earlier if the CSS Board receives a statement from the member declaring they have retired from the workforce.

Resignation Benefits – on resignation before minimum retiring age (usually age 55)

96. On resignation before minimum retiring age a CSS member may choose one of the following benefits:

(a) immediate payment/rollover (depending upon the SIS preservation requirements) of the member component and, if the person's employer has not made alternative arrangements for productivity and SG amounts, an employer financed amount of productivity contributions and interest component and a "top-up" amount to ensure the employer component satisfies the SG minimum); or

Note: If a CSS member chooses this option, no employer financed component other than the SG minimum amount is payable, either on exit or in the future.

(b) preserve the total benefit either by:

(i) payment of a transfer value (2.5 times personal basic (5%) contributions plus interest together with all personal contributions and interest and any productivity contributions and interest) to an eligible superannuation scheme (mainly some State and Territory government and university schemes with reciprocal portability arrangements with the CSS); or

(ii) CSS payments being deferred generally until after the age of 55. The deferred benefit is an employer-financed CPI indexed pension based on 2.5 times the total of the former member's accumulated personal basic (5%) contributions and interest at the date they claim the benefit. An additional non-indexed pension is also available which may be commuted to a lump sum of personal and any productivity contributions and interest.

Invalidity retirement benefit

97. Benefit options available range from a lump sum only to pension and lump sum at varying rates depending on the individual circumstances.

98. Pension options are expressed as a percentage of final salary. That percentage will depend upon the length of the person's scheme membership and, except in some cases where there is a pre-existing medical condition, potential service (usually calculated to age 65).

Involuntary retirement

99. The benefit options available to a CSS member who is involuntarily retired are similar combinations of pension (based on age) and lump sum as are available on age retirement.

100. In addition, the member may choose to preserve all benefits in the scheme, roll over the accrued benefit to a preservation fund if aged less than 55, or take the accrued benefit as a cash lump sum if aged 55 or more. For the purposes of rollover the accrued benefit is a lump sum of 2.5 times personal basic (5%) contributions together with all personal contributions and interest and any productivity contributions plus interest. Where the rollover is chosen the member may take their member contributions and interest in cash up to the limit allowed under the superannuation regulatory regime.

Death benefits

101. Benefits are payable to a member's eligible spouse and/or children should the member die whilst a contributor or pensioner. Generally, the pension available to a spouse is 67% of a member's potential invalidity retirement benefit entitlement if the member died as a contributor or 67% of a member's pension if the member died whilst a pensioner. The 67% is increased if there are any eligible children, up to a maximum of 100% if there are 3 or more eligible children.

102. Where a CSS contributor or pensioner is not survived by a spouse but is survived by eligible children, orphans' pensions are payable. The usual level of reversionary pension if there is one orphan is 45% of a member's potential invalidity retirement benefit entitlement if the member died

as a contributor or 45% of the pension that would have been paid to the pensioner. The 45% is increased to 80% where there are two orphans, 90% where there are three orphans and 100% where there are 4 or more orphans.

Pension Indexation

103. The employer funded CSS standard pension is indexed to CPI. CSS additional pension (which may be commuted to a lump sum) is not indexed.

Funding arrangements

104. Member contributions and most productivity contributions are funded. That is, they are paid into a separate fund, the CSS Fund, administered by the CSS Board and invested. The crediting rate allocated to funded contributions is determined by the CSS Board.

105. The rest of the benefit (that is, most of the employer-provided benefit) is unfunded.

106. All CSS benefits are paid from the Consolidated Revenue Fund that is reimbursed from the CSS Fund in respect of any funded component.

Employer cost of the CSS

107. The notional employer contribution rate (NECR) for the CSS is 21.9% of superannuation salaries. This rate is actuarially reviewed every three years.

THE 1922 COMMONWEALTH SUPERANNUATION SCHEME

108. The 1922 CSS has been closed since 1 July 1976. At that time all contributors under the scheme were transferred to the 1976 CSS.

109. The scheme included both a defined benefit Pension Scheme and an accumulation Provident Fund. The Provident Account was for those Commonwealth employees who could not meet the medical standards to contribute to the Pension Scheme.

110. Pensions are still payable to or for pension scheme members who retired or preserved their entitlements before 1 July 1976. There is a small number of ex-members who may have an entitlement to a deferred benefit that has not yet commenced to be paid. There are no other benefits payable from the 1922 CSS.

Member contributions

111. Members in the Pension Scheme contributed for units of pension appropriate to their salary level. The rates were actuarially calculated on the basis that those contributions and interest on them would fund 2/7 of the value of the relevant pension unit. The rate of contribution depended upon the person's gender, age and selected retiring age (60 or 65). Voluntary contributions for additional (reserve) units were permitted.

112. Contributions to the Provident Account were at the rate of 5% of salary.

Employer contributions

113. Employer contributions were not made during the period of membership of scheme. Some participating employers made payments to the Consolidated Revenue towards the cost of benefits for their employees.

Note: The following description of 1922 CSS benefits is an outline of the basic benefit structure. It is not to an exhaustive description of all benefits and benefit options. Full details of these are included in the Superannuation Acts 1922 and 1976. Copies of these can be found at http://scaleplus.law.gov.au/.

When benefits were provided

114. The 1922 CSS provided benefits on:

(a) age retirement, that is leaving the scheme after age 60;

(b) invalidity retirement, that is, where a person was retired by the Commonwealth on grounds of ill-health;

(c) involuntary retirement (basically, being excess to requirements) after 10 years of contributory membership;

(d) death; and

(e) resignation generally before age 60 and any other termination of membership.

Basic Benefit structure

Pension Scheme

115. 1922 CSS pension benefits payable from the Pension Scheme consisted of a pension based on the units held at retirement and funded partly by member contributions as described above with the remainder paid from Consolidated Revenue. The full value of a unit was $90 per annum or $65 per annum if the member held those units on a non-contributory basis. The maximum pension payable was around 70% of salary (a lower percentage applied for those on salaries above a particular level). The value of the unit was reduced if retirement occurred before the member's selected retirement age.

116. Invalidity retirement benefits were also based on the pension units held although no decrease occurred for retirement before selected retirement age.

117. Involuntary retirement benefits were either a reduced pension (having regard to early termination) or a lump sum of the member's personal contributions and an actuarially calculated employer component.

118. Benefits were payable to a 1922 CSS member's eligible spouse and/or children on the death of the member either as a contributor or pensioner. The rates for reversionary benefits are generally the same as those under the CSS and the PSS.

119. On resignation a 1922 CSS member was able to choose one of the following benefits:

(a) taking his/her own contributions in cash; or

(b) preserve the total benefit (this option only became available from 1970). This was paid as either:

   (i) a transfer value paid to an eligible superannuation scheme (ie, a public sector scheme that had reciprocal portability arrangements with the 1922 CSS); or

   (ii) a deferred benefit from the 1922 CSS that became payable only if the person had achieved 20 years of public employment either before, during or after leaving that scheme. The deferred benefit is based on the amount of the transfer value actuarially calculated at the time of resignation and converted to a rate of pension at that time. When the pension becomes payable the rate is updated on actuarial advice.

Provident Account

120. The benefit payable to Provident Account members except on resignation, discharge, dismissal or redundancy before 10 years service consisted of a lump sum of 3 times contributions and interest (with a minimum of one-half salary in certain circumstances, eg, invalidity). On resignation etc the benefit was a refund of personal contributions and interest.

Pension Indexation

121. Any pensions paid under the 1922 CSS are fully indexed to CPI.

Funding arrangements and Employer cost of the 1922 CSS

122. All 1922 CSS benefits are paid from the Consolidated Revenue Fund. The 1922 CSS is not costed separately from the CSS.

Modifications of the *Superannuation Act 1976* contained in Regulations that affect benefits

Superannuation (Additional Contributions) Regulations
SR 1976 No. 221

Superannuation (Additional Pension) Regulations
SR 1976 No. 158
SR 1978 No. 141

Superannuation (CSS) Approved Part-time Employees Regulations
SR 1986 No. 48
SR 1991 Nos. 173 and 469
SR 1993 No. 351
SR 1995 No. 336
SR 1996 No. 96

Superannuation (CSS) Deferred Benefits Regulations
SR 1979 No. 46
SR 1991 No. 170
SR 1992 No. 265
SR 1995 Nos. 92 and 406
SR 1996 No. 98

Superannuation (CSS) Existing Invalidity Pensioners Regulations
SR 1988 No. 275
SR 1991 No. 192
SR 1992 No. 267
SR 1993 No. 347
SR 1996 No. 101

Superannuation (CSS) Former Contributors for Units of Pension
SR 1978 No. 281
SR 1991 Nos. 191 and 467
SR 1992 No. 268
SR 1996 No. 102

Superannuation (CSS) Former Eligible Employees Regulations
SR 1986 No. 266
SR 1987 No. 307
SR 1989 Nos. 16 and 306
SR 1990 Nos. 141, 177 and 451
SR 1991 Nos. 161 and 445
SR 1992 Nos 94, 170, 212 and 271
SR 1993 No. 262
SR 1994 Nos. 19, 247, 346, 359, 447
SR 1995 Nos. 93 and 236
SR 1996 Nos.2 and 99

Superannuation (Former HLIC Employees) Regulations
SR 1991 No. 22
SR 1993 No. 350

Superannuation (CSS) Former Provident Account Contributors Regulations
SR 1978 No. 227
SR 1991 Nos. 171 and 468
SR 1992 No. 269
SR 1993 No. 353
SR 1995 No. 94
SR 1996 No. 103

Superannuation (Leave of Absence Without Pay) Regulations
SR 1988 No. 246
SR 1993 No. 345

Superannuation (CSS) Period of Contributory Service Regulations
SR 1977 No. 105
SR 1986 No. 50
SR 1991 No. 172
SR 1995 No. 95
SR 1996 No. 104

Superannuation (CSS) Transfer Arrangements Regulations
SR 1978 No. 255
SR 1980 No. 257
SR 1981 No. 4
SR 1984 No. 404
SR 1985 No. 74
SR 1986 Nos. 90 and 311
SR 1988 No. 317
SR 1989 No. 303
SR 1990 Nos. 140 and 271
SR 1991 No 169
SR 1992 No. 270
SR 1993 No. 346
SR 1995 Nos. 96 and 439
SR 1996 No. 100