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# PERSONNEL POLICY AND EMPLOYMENT CONDITIONS BRANCH

DEPARTMENT OF DEFENCE

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FACSIMILE MESSAGE

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To **Sue Morton, Select Committee on Superannuation and Financial Services** Fax No **6277 3130**

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FROM : Adrian Wellspring  
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Number of pages including this page - 2 Date 4 April 2001

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MESSAGE

Sue

## **INQUIRY INTO BENEFIT DESIGN OF COMMONWEALTH PUBLIC SECTOR AND DEFENCE FORCE UNFUNDED SUPERANNUATION FUNDS AND SCHEMES**

I refer to the questions on notice asked by Senator Sherry. I am not in a position to provide, in final format, the cost data sought by Senator Sherry as I am waiting for further advice from the Australian Government Actuary.

Following the Committee hearing on 15 February 2001 and several preliminary discussions with the Actuary, he was formally tasked on 23 February 2001 to provide the required information to assist with the preparation of answers to Senator Sherry's questions. While informal advice was provided on 16 March 2001, the detail needed to be checked and confirmed. The Actuary was required to go to China on Government business and has not been in a position to finalise his advice. This is not expected to be available until 9 April 2001.

The costs provided in this facsimile are broadly indicative of the cost of applying AWOTE to the Defence superannuation schemes.

This information is provided now because I am aware that your Chairman wishes to finalise and present the Committee's report by 5 April 2001. This facsimile has been prepared to both assist that process and ensure that some information is available.

RECEIVED TIME 4. APR. 10:58

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The impact on the Defence budget is likely to be:

**Departmental appropriation** – the additional cost will be between \$150m and \$200m each year depending on the anticipated increase in the average cost of the Defence superannuation schemes expressed as a percentage of salaries for superannuation purposes. The additional cost is the accrual based superannuation payment that represents the expected future cost to the employer of the Defence Force superannuation schemes. It is a charge to the personnel portion of the Defence appropriation and is paid to the Consolidated Revenue Fund.

**Administered appropriation** – there are three costs identified:

- a. about an additional \$26m each year for the increase in pension and lump sum payments to beneficiaries of the Defence Force superannuation schemes;
- b. an increase in the unfunded liability for the Defence superannuation schemes of approximately \$6 billion. This would increase the cost of the Defence superannuation schemes to over 30% when expressed as an average percentage of salaries for superannuation purposes. This increase arises from the application of AWOTE to new benefits as they accrue, that is prospectively. No regard has been taken of benefits that have already accrued, where previous increases have been made in accordance with the requirements of existing legislation, that is where the increase in benefits has been from the application of the consumer price index. Thus there has been no retrospective application of AWOTE to benefits already accrued, but preserved or in respect of pension payments previously paid; and
- c. around \$300m each year for a notional interest charge. This amount is required for Government budgetary purposes to identify the amount of interest that would be charged if the unfunded liability for the schemes was to be funded by Government borrowings.

I will confirm and/or amend all costs as soon as I can.



Adrian Wellspring  
Acting Director General  
Personnel Policy and Employment Conditions

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