



CPSU submission to the:

**Review of Pension
Indexation Arrangements in
Australian Government
Civilian and Military
Superannuation Schemes**

July 2008

CPSU recommendation

The CPSU notes that there is a perception that public sector workers have significantly more beneficial superannuation entitlements. We believe that this perception needs to be balanced against the general community superannuation arrangements, entitlements and concessions that have been historically denied to Australian Government employees.

Given the current Federal Budget surplus and the superannuation changes that have quarantined and effectively reduced the Australian Government unfunded liability the CPSU believes that now is the time to change the indexation arrangements.

The CPSU recommends establishing an Australian Government civilian employee superannuation pension indexation which would be indexed, based on the same percentage increase as applies to the Age Pension.

Community and Public Sector Union Submission to the: Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes

The PSU Group of the Community and Public Sector Union (CPSU) is an active and progressive union committed to the promotion of a modern efficient and responsive public sector that delivers quality services and quality jobs. We represent around 60,000 members in the Australian Public Service (APS), ACT Public Service, NT Public Service, ABC and the CSIRO. We also have members in Telstra, commercial television and the telecommunications industry.

Superannuation is an important entitlement for public sector workers. A large proportion of our members see it as one of the benefits of Australian Government employment.

CPSU has a long history of advocacy on superannuation and this submission draws on previous submissions, our own experience and knowledge, and comments provided by a number of CPSU members across a range of APS agencies.

The CPSU notes two recent Senate Committee Inquiries¹ and Reports² which provide a comprehensive analysis of the issues associated with this Review.

Both these Committee Reports provide very clear recommendations which support moving away from a CPI based indexation methodology.

The CPSU, in conjunction with other organisations including the Superannuated Commonwealth Officers Association (SCOA), continue to lobby the major political parties to adopt the recommendation of these previous Senate Committee Reports.

The April 2001 Senate Select Committee Report

In April 2001 a Senate Select Committee Inquiry reported on the history, structure and benefits provided by the three civilian and three military superannuation schemes that were in existence at that point in time. The CPSU provided a submission and appeared before this Inquiry.

It was reported to this Committee that the great bulk of CSS and PSS pensioners received superannuation pension incomes of less than \$30,000 per annum. Paragraph 3.79 of the Report provides a breakdown of pension payments.

To illustrate this point SCOA in its submission provided the following break up of CSS and PSS pensioner incomes:

¹ Senate Select Committee Report April 2001, *A 'Reasonable and Secure' Retirement*

² Senate Select Committee Report, December 2002 *Superannuation and standards of living in retirement*

- *almost 22 per cent receive less than \$10,000*
- *65 per cent receive less than \$20,000*
- *over 90 per cent receive less than \$30,000; while*
- *over 99 per cent receive less than \$50,000*

The ARIA 2006 – 2007 Annual Report ³ identifies that the average yearly pension paid in the CSS was \$24,703, and in the PSS \$17,150.

In addition information provided by ARIA to the CPSU (as at 14 July 2008) indicates:

- 14 per cent of CSS and PSS pensioners currently receive less than \$10,000 per annum
- over 40% of CSS and PSS pensioners currently receive less than \$20,000 per annum
- over 65% of CSS and PSS pensioners currently receive less than \$30,000 per annum
- almost 85% of CSS and PSS pensioners currently receive less than \$40,000 per annum

Given this updated data it is clear that the amount received by retired Australian Government civilian employees via their CSS or PSS pension has not changed significantly over the seven year period.

There is an additional impact on retired Australian Government civilian employees that was also raised by the CPSU with this Committee - the indexation for Australian Government civilian employees who have resigned from Australian Government employment.⁴ Australian Government civilian employees on resignation in most circumstances are required to preserve (in the PSS) and defer (in the CSS), at least the employer's accumulated superannuation contribution. This contribution is indexed to the CPI.

The ARIA 2006 – 07 Annual Report identifies that there are close to 110,000 ex Australian Government civilian employees in the CSS and PSS who fall into this category. As there are only very limited portability arrangements this money is effectively 'locked away' until the employee retires.

In the context of this Review the Committee also noted ⁵

³ Table 24, Australian Reward Investment Alliance (ARIA) Annual Report 2006 – 2007

⁴ Paragraph 3.48 2001 Senate Select Committee Report

⁵ Ibid 3.97

that the CPI alone, as a measure of inflation, may not be the best method to adjust the value of Commonwealth public sector and defence force benefits, if parity with living standards in the community is to be maintained.

Following further deliberation the Committee recommended:⁶

This Committee recommends that the Government examine the feasibility of adopting an indexation method other than CPI for Commonwealth public sector and defence force superannuation schemes, to more adequately reflect the actual increases in the cost of living.

The December 2002 Senate Select Committee Report

In December 2002 a Senate Select Committee reported on the adequacy of the taxation arrangements for superannuation and related policies.

This was a very comprehensive report which looked at living standards in retirement and proposed sixteen recommendations. These recommendations were broken down into segments including adequacy, taxation, health and aged care, income support and simplifying the superannuation system. A further segment titled *Other Issues* provided two recommendations, including one in regard to Commonwealth funded superannuation benefits.

This Senate Select Committee Report provided three pages of commentary regarding Indexation of Commonwealth superannuation pensions.⁷

The Committee specifically considered the financial costs of changing the indexation arrangements away from CPI to Average Weekly Ordinary Time Earnings (AWOTE) or MTAWE. The Committee⁸ noted the advice from the Department of Finance (DoFA) in regard to quantifying the costs and potential clawbacks, but suggested that under *favourable fiscal conditions the cost of such a change could be absorbed.*

This Senate Select Committee unanimously recommended⁹:

The Committee recommends that the Government consider indexing Commonwealth funded superannuation benefits to Male Total Average Weekly Earnings (MTAWE) or the Consumer Price Index (CPI), whichever is the higher in order that recipients share in the increases in living standards enjoyed by the wider community.

⁶ Ibid 3.100

⁷ Paragraphs 14.13 – 14.29 Senate Select Committee on Superannuation, Superannuation and standards of living in Retirement

⁸ Ibid 14.27

⁹ Ibid 14.28

Changes in superannuation arrangements since these Senate Select Committee Reports

Since the release of the December 2002 Senate Committee Report the CPSU can identify a significant number of changes to superannuation arrangements both at the broad community level and within the Australian Government Civilian superannuation schemes. Some of these changes are:

- 1) Introduction of superannuation fund choice
- 2) Expansion in use of salary sacrificing for superannuation
- 3) Introduction of Government Co-contribution scheme
- 4) Introduction of Transition to Retirement
- 5) Simpler / Better Super

In addition, initiatives which have been established impacting on Australian Government civilian employees specifically include:

- 6) Closure of the PSS (Defined Benefit) schemes and opening of the PSSAP (Accumulation / Defined Contribution Scheme).
- 7) Establishment of the Future Fund
- 8) Changes established on 1 July 2008 which provides contributors in the CSS and PSS with the ability to cease any employee contribution, and in the PSS to preserve their benefit and leave the scheme and join another complying superannuation scheme in accordance with 'choice' arrangements.

The CPSU understands that all these changes have been established:

- to provide superannuation contributors with more choice and / or
- to reaffirm the Government commitment to ensuring that superannuation continues to be a primary savings vehicle which will provide employees with income in retirement.

Unfortunately, notwithstanding almost universal access to the broad community superannuation initiatives, Australian Government civilian employees have been denied access to a number of these changes. In addition, the Better Super changes have established an inequity for Australian Government civilian employees.

CPSU comments on these superannuation changes

The CPSU does not believe that this Review can consider indexation of Australian Government Civilian and Military personnel without considering the changes that have been made in superannuation arrangements since 2002.

Further, the CPSU believes that these changes, their availability and cost offsets need to be factored in when determining future indexation arrangements.

The CPSU has supported the introduction of all the superannuation changes that have been established by the Government and have supported their establishment within the Australian Government employment sector.

With the proposed introduction of Transition to Retirement in 2005 the CPSU provided a submission to Treasury advocating support for Transition to Retirement and for it to be made available to employees in the CSS or PSS. The CPSU advocated that allowing Transition to Retirement would assist in the retention of mature aged employees with the Australian Government employment sector. This request was rejected by Government and CSS and PSS employees are still unable to access Transition to Retirement.

The growth of salary sacrificing into superannuation has been significant. Unfortunately the rules of the CSS and PSS do not allow employees to salary sacrifice into these schemes. Employees who wish to salary sacrifice are required to join another scheme.

Both Transition to Retirement and Salary Sacrificing are generally available to the great majority of Australian workers. The CPSU continues to maintain that the Government's refusal to allow these arrangements to its own employees is inequitable and unfair.

The closure of the PSS on 1 July 2005, and the opening of the PSSAP was a significant initiative. In conjunction with the subsequent establishment of the Future Fund, the Government was finally able to quarantine the growth in its unfunded employer superannuation liability to its civilian and military personnel. This is due to the PSSAP being a fully funded accumulation scheme.

The establishment of the Future Fund continues to provide the Government with a mechanism to redirect money from the Budget surplus to fund this liability going forward.

The financial benefits around the closure of the PSS in 2005 have been identified in the long term actuarial cost analysis.¹⁰ The next tri-annual Actuarial Cost Analysis will commence this year and it would be expected that the Accrued Unfunded Liability will recognise the significant reduction in the Government's unfunded liability due the closure of the PSS.

Retired employees aged 60 years and over have been inequitably treated in regard to taxation changes following the Simpler / Simplified / Better Super taxation changes¹¹.

¹⁰ PSS and CSS Long term Cost Report 2005, Australian Government Department of Finance and Administration

¹¹ Senate Standing Committee on Economics, Taxation Law Amendment (Simplified Superannuation Bill 2006, February 2007

The proposed Better Super changes were considered by a Senate Committee in 2007. The CPSU provided a submission and also appeared before this Committee. This Committee unanimously endorsed the taxation treatment of superannuated pensioners in untaxed funds as an 'anomaly' that applies inequitable tax treatment to the same type of assessable income. It also recommended a change in taxation arrangements which would separately assess other additional earnings from the superannuation income stream.¹² This change was rejected by the Government.

As a result of the ongoing Government opposition to these arrangements being made available, or established equitably within the Australian Government employment sector the CPSU has been obliged to continue to lobby and make representations to the major political parties. We have also provided submissions to Government and the Department of Finance (ex DoFA) around providing Australian Government civilian employees with superannuation arrangements that are consistent with the broader Australian community.

CPSU comments on matters raised in the Review Terms of Reference

The CPSU notes the five matters that the Review's Term of Reference will consider and provides the following comments:

- the occupational nature of those schemes

The CSS was closed to new contributors in 1990 and the PSS in 2005. The current open scheme is the PSSAP, which is an accumulation / defined contribution scheme. The PSSAP is not covered by this Review and does not provide a pension option to retired employees.

The CSS and PSS (and PSSAP) are not public offer funds. They are administered by a Board of Trustees who are appointed by the relevant Minister. On this basis the funds are established to provide a benefit to Australian Government civilian employees and their beneficiaries only.

The CPSU with over 50,000 current members in the Federal Public Sector who would be covered by one of these three schemes, and has an active interest in their operations.

The CPSU believes that these are the Australian Government occupational superannuation schemes and strongly supports the CSS, PSS and PSSAP being the default schemes for the Federal Public sector.

- the form and value of the benefits payable under those schemes

The CSS is a hybrid scheme, with the employee component a defined contribution arrangement, and the employer contribution a defined benefit. The CSS closed to new contributors in 1990.

¹² Paragraph 3.58 Senate Standing Committee on Economics, Taxation Law Amendment (Simplified Superannuation Bill 2006, February 2007)

The PSS is a defined benefit scheme. It closed to new contributors on 30/6/05.

The PSSAP is the default fund for new Australian Public Service employees, and is an optional default fund for new Australian Government public sector employees.

Given the hybrid nature of the CSS there are a range of formulas that are used to determine a member's benefit. This includes a range of formulas covering retirement, resignation, redundancy, partial invalidity and total invalidity.

The PSS is a basic defined benefit scheme where the final benefit is generally based on a formula which includes employee contribution, times years of service, times final salary. It is generally acknowledged that the nature of a defined benefit scheme is that the financial risk and residual liability lies with the employer.

In considering the recent changes to superannuation in Australia the failure of the previous Government to allow CSS and PSS members entitlements (e.g. salary sacrificing, transition to retirement) generally available in other superannuation schemes is eroding the value of the CSS and PSS benefits. In addition comparing the CSS and PSS with other comparable schemes and general industry superannuation arrangements the CPSU believes that the CSS and PSS schemes are failing to provide a fair and reasonable benefit.

- indexation arrangements in similar defined benefit schemes in Australia
The CPSU believes that the 2001 Senate Select Committee Report¹³ provides a good analysis and comparison of the Commonwealth and the main State superannuation schemes.¹⁴ The CPSU is not aware of any changes in superannuation arrangements within any State Government scheme

- the interaction with government safety net benefits; and
The CPSU has no comments to make on this point.

- the full cost to the Commonwealth.
As previously reported in this submission, the CPSU believes that this matter was considered by the Senate Select Committee in their Report in December 2002. The CPSU believes that with the closure of the PSS and the establishment of the Future Fund, the additional cost involved in changing the indexation arrangements away from CPI have now significantly reduced.

¹³ Senate Select Committee on Superannuation and Financial Services, A reasonable and Secure Retirement, April 2001

¹⁴ Ibid paragraph 4.1 – 4.45

CPSU recommendation

The CPSU notes that there is a perception that public sector workers have significantly more beneficial superannuation entitlements. We believe that this perception needs to be balanced against the general community superannuation arrangements, entitlements and concessions that have been historically denied to Australian Government employees.

Given the current Federal Budget surplus and the superannuation changes that have quarantined and effectively reduced the Australian Government unfunded liability the CPSU believes that now is the time to change the indexation arrangements.

The CPSU recommends establishing an Australian Government civilian employee superannuation pension indexation which would be indexed, based on the same percentage increase as applies to the Age Pension.