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## CHAPTER 8 : STATE GOVERNMENTS

8.1 Public sector superannuation schemes conducted by the Commonwealth and State and Territory governments provide superannuation benefits to approximately 20 per cent of the Australian workforce, or nearly 2 million employees. It has been estimated that investments in public sector superannuation funds total \$32 billion.<sup>1</sup>

8.2 The State and Territory governments have been longstanding providers of superannuation benefits to employees, especially those involved in white collar work. Currently, State and Territory public sector superannuation coverage has been extended to over 1.5 million employees on a two-tiered basis.<sup>2</sup>

8.3 The first tier of coverage which usually applies to higher paid salaried employees involves contributory superannuation schemes whereby the employer contribution is roughly 2-2½ times the employee contribution. For example, in Queensland the employer contribution to the defined benefit scheme is 14.55 per cent of a salary for a member who contributes five per cent of salary.<sup>3</sup>

8.4 In New South Wales where over a 30 year period employee contributions average 6 per cent of salary, the employer contribution is basically twice that amount.<sup>4</sup>

8.5 The second and less generous tier of superannuation coverage was introduced as part of the award three per cent award wage outcome. Members in these schemes have elected not to contribute or have not been eligible to join the more generous voluntary contribution schemes.

8.6 During the hearings on the Bills, the Committee heard that in some states more than half of the public sector workforce receives the three per cent award superannuation contribution only. The evidence on this matter for those states that provided the Committee is included in Table 8.1.

8.7 The Committee was led to understand that, in spite of repeated attempts by a number of States to have a greater number of employees voluntarily join the more generous schemes, progress towards universal coverage was proceeding slowly. It would appear that cost and the industrial relations constraints have militated against encouraging all public sector employees to join the more generous schemes.

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1 Superfunds November 1991, ASFA Sydney 36.

2 SG evidence, p 113.

3 Evidence, p 1170.

4 Evidence, p 923.

Table 8.1

Public Sector Superannuation Coverage – Selected States			
	Employees in fully contributory schemes	Employees in 3% only award schemes	Employers not in receipt of superannuation benefits
NSW <sup>5</sup>	260 000 or 72% of employees	100 000 or 28% of employees	–
QLD <sup>6</sup>	80 000 or 50% of employees	50 000 or 50% of employees	–
WA <sup>7,8</sup>	30 000 or 30% of employees	60 000 or 60% of employees	10 000 or 10% of full-time equivalent employees
SA <sup>9</sup>	30% of employees	70% of employees	

8.8 For some schemes, however, compulsion has been a key feature. Queensland has compulsory superannuation for its 80 000 salaried employees and New South Wales had compulsory schemes until 1985.<sup>10</sup>

#### Financial Impact of the SGL

8.9 The lack of substantial progress towards broader coverage for State government employees beyond the three per cent award provision has meant that the introduction of the SGL will impose significant cost burdens on State and Territory budgets. For most State and Territory governments, the additional costs under SGL will be a consequence of increasing superannuation coverage from three to five per cent. However, in the case of Western Australia, where some employees are not in receipt of any superannuation, SGL will mean cost increase of five per cent.

8.10 The State and Territory government estimates of the cost of SGL are shown in Table 8.2.<sup>11</sup>

8.11 The States contend that the cost increases associated with the SGL have come at a most unreasonable time in that their budgets are stretched and that it is unlikely that they will receive additional compensatory funding. Further, they see no general wage rise

<sup>5</sup> SG evidence, p 117.

<sup>6</sup> *ibid*, p 118.

<sup>7</sup> Evidence, p 1559.

<sup>8</sup> *Annual Report (WA) Government Employees Superannuation Board 1990-91*, p 20.

<sup>9</sup> SG evidence, p 118.

<sup>10</sup> SG evidence, p 118.

<sup>11</sup> SG sub no. 17, p 2.

in prospect on 1 July 1992 and therefore little opportunity exists for the SGL cost increases to be absorbed in wage rises.<sup>12</sup>

Table 8.2

Financial Impact of Superannuation Guarantee			
	1992-93	1992 to 2001	Annual Accrual in 2001
	\$M	\$M	\$M
New South Wales	90	1 550	250
Victoria	70	1 110	190
Queensland	40	920	150
South Australia	35	590	100
Western Australia	35	590	100
Tasmania	20	350	70
Northern Territory	10	110	20
ACT	2	50	10
	<b>\$302</b>	<b>\$5 270</b>	<b>\$890</b>

These superannuation costs, which are in 1992 dollars, are over and above those which would have been expected without the SGL.

8.12 The States see the following outcomes accruing as a result of the legislation:

- (i) additional taxation collected by the Commonwealth from taxes on fund incomes;
- (ii) if SGL is provided as a substitute for wages, there will be an adverse impact on State revenue from a loss of payroll tax; and
- (iii) the increase in wage costs will cause some States to reconsider the level of services and public sector employment, and/or to offset the increase in budgetary expenses.<sup>13</sup>

### Unfunded Liabilities

8.13 The Committee was advised of the level of accumulated unfunded liabilities which have been incurred by the public sector in conducting employee superannuation. Table 8.3 shows the level of unfunded liabilities for public sector superannuation schemes.

<sup>12</sup> SG evidence, p 115.

<sup>13</sup> SG Sub No. 17, pp 2-4.

Table 8.3

Public Sector Employee Superannuation Unfunded Liabilities – 30 June 1988	
	\$ (billion)
Commonwealth	33.0
New South Wales	14.0
Victoria	15.6
South Australia	2.8
Western Australia	3.9
Queensland	fully funded
Tasmania	1.8
Defence Forces	4.6 - 5.5

Source: *Superfunds*, November 1989, p 18.

8.14 It was suggested that the introduction of new obligations under the legislation will add \$1.5 billion to the level of unfunded liabilities in NSW by 2000, and approximately \$5 billion nationally.<sup>14</sup> Queensland, the only State which has fully funded superannuation schemes, plans to maintain this policy in meeting SGL obligation. The Committee notes the SGL does not require schemes established by statutes to be funded but that it will increase unfunded liabilities.

8.15 Unfunded superannuation schemes are seen by some commentators as unsound because their growth disguises the true cost of labour in the public sector. Also, overseas rating agencies include superannuation liabilities in formulating credit ratings for the State and Territory governments.<sup>15</sup>

### Constitutional and Legislative Difficulties

8.16 The States contended that they have not had sufficient time to address the constitutional and legal difficulties which the legislation poses. They asked whether it is appropriate, efficient or necessary for State superannuation schemes to be subject to two sets of legislation and claimed that there is no evidence to indicate they have been unable to cope with the requirements of employee superannuation.<sup>16</sup> They believe that their superannuation schemes already have extensive operational and reporting standards, are fully accountable to State parliaments, are subject to the scrutiny of Auditors-General, Ombudsmen (where applicable) and Ministers.<sup>17</sup>

8.17 A further issue raised by the States was that, as a number of their Parliaments are in recess and will not resume until August 1992, they would need to pass retrospective

<sup>14</sup> SG evidence, p 119.

<sup>15</sup> SG evidence, p 120.

<sup>16</sup> SG Sub No. 17, p 5.

<sup>17</sup> Sub No. 84, p 2.

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legislation to implement the provisions of the SGL should it come into force on 1 July 1992.

### **Technical Concerns**

#### *Treatment of Defined Benefit Scheme*

8.18 The States and Territories suggested that as the SGL legislation is framed with defined contributions or accumulation schemes only in mind, detailed and comprehensive guidelines will need to be issued to define the way defined benefit schemes should be treated in assessing compliance with the SGL contribution requirements. As the final guidelines have not been issued, the States submit they are unable at this stage to frame legislation to implement the SGL. Also, under defined benefit schemes the level of cover can vary from year to year but over the lifetime average out well in excess of SGL requirements. The treatment of yearly contributions less than the required SGL level is therefore of critical interest to the States and Territories.

#### *Compliance*

8.19 It was argued that the SGL Bills ignore the different funding arrangements of most government schemes which involve meeting obligations when they arise rather than fully funding liabilities as they accrue. Under the legislation, it would appear State unfunded superannuation schemes would not be deemed as 'complying funds', as no fund exists, nor could the Insurance and Superannuation Commission deem a State's Consolidated Revenue Account, where that is used to pay superannuation benefits, to be a 'complying fund'.