

Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
SUPPLEMENTARY BUDGET ESTIMATES 2013-2014

Finance Portfolio

Department/Agency: Department of Finance

Outcome/Program: 1/1.2

Topic: Superannuation Costings

Senator: Lundy

Question reference number: F47

Type of question: Written

Date set by the committee for the return of answer: Friday 17 January 2014

Number of pages: 3

Question:

1. Were any costings prepared by the Department for the Rudd Government's commitment to index Defence Forces Retirement Benefits scheme (DFRB) and the Defence Force Retirement and Death Benefits (DFRDB) scheme pensions by the higher of the Consumer Price Index (CPI) or the Pensioner Beneficiary Living Cost Index (PBLCI) by July 2014? If so, could these be provided to the Committee?
2. Have any costings been prepared by the Department for the Coalition's Policy for the indexation of the Defence Forces Retirement Benefits scheme (DFRB) and the Defence Force Retirement and Death Benefits (DFRDB) scheme? If so, could these be provided to the Committee?
3. Can the Department provide the Committee the estimated additional cost if the proposed changes to the indexation provisions of the Defence Forces Retirement Benefits scheme (DFRB) and the Defence Force Retirement and Death Benefits (DFRDB) scheme were applied to all Commonwealth military and civilian pensions?
4. Research from the Australian Institute, reported in the *Public Sector Informant* of June 2011, claims that the costs of public sector superannuation has been effectively double-counted in Budget papers since the introduction of accrual accounting. The paper states: *...cash accounting, which the Treasury used to use, and accrual accounting are usually alternatives – you would use one or the other – but effectively the Commonwealth is now using both, with the result that it double-counts the superannuation expenses in the budget papers. On top of that is the notional interest on the “unfunded superannuation liability”.*
5. Has the Department of Finance responded to this claim? If so, can the Department provide the Committee an explanation of the apparent exaggeration of the costs of public sector superannuation?

6. In relation to the notional interest payments on unfunded superannuation liabilities, who receives those payments? Are they retained and how are they accounted for? Please identify where.

Answer:

1. The Department of Defence has policy responsibility for the Commonwealth military superannuation schemes, including DFRB and DFRDB. The costs relating to the previous Government's policy for indexing DFRB and DFRDB pensions by the higher of the CPI or the PBLCI for those aged 65 years or over were reported in Appendix B of the 2013 Economic Statement.
2. No costings have been undertaken by the Department of Finance for the Coalition's policy to change the indexation of DFRB and DFRDB pensions for those aged 55 and older in line with the Age Pension indexation methodology.
3. The costings requested would involve Finance seeking external actuarial advice. This would involve an unreasonable diversion of departmental resources.
- 4 and 5. The Department of Finance was provided with a draft of the media article prior to its publication in June 2011. Finance advised the author that there were errors in the draft and provided an explanation of the errors to the author prior to publication of the article. However, these errors were not addressed in the published article.

The use of accrual accounting does not result in double counting of the superannuation expenses. The adoption of accrual accounting meant that the costs of accrued entitlements (which are not funded) are now reported in financial statements. Each year, the Australian Government's superannuation obligations increase as its employees continue to accrue increased benefits under the defined benefit schemes. This is added to the unfunded superannuation liability and gets reduced as payments are made to beneficiaries.

The Government produces budget financial statements that comply with both Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) framework and Australian Accounting Standards (AAS). In doing so it meets the requirements of the Charter of Budget Honesty Act 1998. Each year, the Auditor General certifies that accounting standards have been applied correctly as part of the Australian Government's consolidated financial statements.

Superannuation estimates in the Budget Papers will appear in various statements as follows:

- Operating Statement (superannuation expense and superannuation interest)
- Balance Sheet (superannuation liability)

- Cash Flow Statement (superannuation payments).
6. The nominal superannuation interest expense represents the change in the superannuation liability due to the unwinding of the discount that was used to calculate the present value of future benefits payable. The present value of the existing liability will increase as it gets closer to maturity. The interest expense is recognition of this increase. There is no exchange of cash associated with the nominal superannuation interest expense.