Parliamentary
Budget Office

Policy costing

Scrap the generous pension scheme for ex-Members of Parliament	
Party:	Australian Greens
Summary of proposal: The proposal would terminate the Parliamentary Contributory Superannuation Scheme (the Scheme) and associated pension benefits for all eligible beneficiary recipients from 1 July 2019. • The Scheme's members who have not yet retired from Parliament would be provided with the sum of their total contributions, adjusted to reflect superannuation earnings while those contributions were invested in the Scheme, in the first year of the proposal. • Persons who are currently receiving a pension from the Scheme would be entitled to the sum of the total contributions, adjusted to reflect superannuation earnings while those contributions were invested in the Scheme, less the total pension amount paid out prior to the commencement of this proposal. The Prime Minister's scheme would continue.	

Costing overview

This proposal would be expected to increase both the fiscal and underlying cash balances by $90 million over the 2019-20 Budget forward estimates period. This impact reflects the net effect of a decrease in expenses of $146 million and a decrease in taxation revenue of $56 million over this period.

A breakdown of the financial implications over the 2019-20 Budget forward estimates period is included at Attachment A. The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period.

The Parliamentary Budget Office (PBO) makes no judgement about the feasibility of the proposal, including whether the proposal may give rise to a risk under section 51(xxxi) of the *Australian Constitution* relating to the unjust acquisition of property.

The financial implications of this proposal are sensitive to a number of factors, including the projected average annual pension amount payable under the Scheme, the growth of parliamentarians' salaries, the total contributions made from parliamentarians' salaries during their years of service, and the earnings on these contributions while in the Scheme. Due to the nature of information made available to the PBO, estimates are based on averages across all members rather than being informed by data on individual members.

Table 1: Financial implications ($m)[a][b]

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Fiscal balance	-11	32	34	34	**90**
Underlying cash balance	-11	32	34	34	**90**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Parliamentarians' salaries would grow by the average growth rate from 2013 to 2018.
- 10 per cent of currently serving parliamentarians who are eligible for the Scheme would retire each year from when the proposal starts.
- The average marginal personal income tax rate of the Scheme's recipients would be 30 per cent.
- Contributions from parliamentarians' salaries would earn an average net return of 5 per cent per annum.
- All affected pension recipients would claim a tax-free lump-sum payout of their contributions (adjusted for earnings growth on their contributions) in the first year of the policy.

Methodology

The Department of Finance provided information related to the Scheme, including the number of Scheme beneficiary recipients, the average annual pension amount payable, and the number of serving parliamentarians who were members of the Scheme as at 1 July 2018.

This information was used to estimate the financial implications of this proposal which represents the difference between the cost of paying out current serving parliamentarians and current pension beneficiaries, less the savings associated with no longer having to make future pension payments in respect of paid-out pensions under the baseline.

Pension payout amounts were calculated as per the proposal.

Baseline expenses for the Scheme over the medium term were projected by the current pension amount, grown by the estimated growth in the average salary of all parliamentarians over this period. These amounts were benchmarked to the 2017 long-term costs report.

Baseline taxation revenue was estimated based on the Scheme pension amount payable multiplied by the assumed marginal tax rate mentioned above.

All estimates have been rounded to the nearest $1 million.

Data sources

The Department of Finance provided information related to the Parliamentary Contributory Superannuation Scheme as at 2018-19 Mid-Year Economic and Fiscal Outlook.

Department of Finance, *Parliamentary Contributory Superannuation Scheme Handbook*, February 2019. [Online] Available at https://www.finance.gov.au/sites/default/files/parliamentary-superannuation-handbook.pdf?v=1 [Accessed 8 April 2019].

Parliament of Australia, *The base salary for senators and members: 2018 update*. [Online] Available at https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1819/ParlBaseSal2018 [Accessed 8 April 2019].

Department of Finance, *PCSS Long Term Cost Report 2017* [Online] Available at https://www.finance.gov.au/sites/default/files/2017%20PCSS%20LTCR.pdf [Accessed 17 April 2019].

Attachment A – Scrap the generous pension scheme for ex-Members of Parliament – financial implications

Table A1: Scrap the generous pension scheme for ex-Members of Parliament – Fiscal and underlying cash balances ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Revenue					
Personal income tax	*-14*	*-14*	*-14*	*-15*	***-56***
Total – revenue	**-14**	**-14**	**-14**	**-15**	**-56**
Expenses					
Pension payments – lump sum payouts	*-42*	*-*	*-*	*-*	***-42***
Pension payments – amounts no longer paid due to cessation of Parliamentary Contributory Superannuation Scheme	*45*	*46*	*48*	*49*	***188***
Total – expenses	**3**	**46**	**48**	**49**	**146**
Total	**-11**	**32**	**34**	**34**	**90**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.