

54. The Treasury projections are 'derived from the results of simulations conducted, using the National Mutual Retirement Incomes Policy Model'.<sup>43</sup>

The projections estimate that the SGL will increase saving in the form of private superannuation by about two per cent of GDP within fifteen years, increasing to more than 2.5 per cent of GDP by the year 2020, before levelling off. It is assumed that half of this increase in superannuation saving would remain in private sector saving. The net increase in private sector saving due to the SGL is therefore estimated to reach about 1¼ per cent of GDP in about 25 years from now ...

[In relation to public savings] the projected increase in the cost to the Budget of the tax concessions for superannuation, due to the implementation of the SGL ... is found to be of the order of 0.5 per cent of GDP. [If it is assumed that the alternative to the SGL is an increase in age pension benefits to the same level as the SGL target, that is, 40 per cent of pre-retirement income, then] pension savings are also found to be significant ... Until the year 2019 the cost of the additional tax concessions is found to exceed the alternative cost of achieving the Government's interim retirement incomes target [that is, increasing pensions]. However, in later years, the converse is the case.<sup>44</sup>

55. In assessing the 'two alternative means of increasing the total value of retirement incomes to the Government's interim retirement income target: use of the SGL (and associated tax concessions) versus increases in the age pension', The Treasury notes that 'in years three to 29 of the projection the cost of the former exceeds the latter [whereas] the picture is reversed in subsequent years.. [In summary] the Budget balance begins to improve ... some 26 years after the SGL begins to phase in'.<sup>45</sup>

56. *The assumptions by The Treasury about private and public savings arising from the SGC were the subject of considerable debate and have implications for the financial system, especially in relation to the manner in which the Government will obtain the revenue foregone by the additional cost of superannuation tax concessions for the foreseeable future.*

57. The Committee heard evidence supporting The Treasury's claim that the increase in superannuation funds would lead to an increase in the national savings ratio of between one and two per cent. BT Australia Ltd

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<sup>43</sup> *ibid.*

<sup>44</sup> *ibid.*, pp 2,4, emphasis added.

<sup>45</sup> The Treasury, SG 32, 6 May 1992, pp 14-15.

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made this claim, adding that such an increase over a decade was not unprecedented in Australian saving patterns.<sup>46</sup>

58. The Reserve Bank admitted that it did not know whether 'aggregate saving is affected by changes in members' contributions':

In the Australian context, the argument essentially boils down to two sets of issues: the substitutability between superannuation and other forms of saving; and the effect of the superannuation system (including its interaction with other aspects of the retirement incomes system) on behaviour around retirement. The first question asks whether households offset rises in superannuation contributions by simultaneously reducing other forms of saving; the second asks whether they are likely to offset their current superannuation saving by reducing saving later in life.

On the first issue, there is generally thought to be some degree of substitutability between the different forms of saving, particularly for high income households. Provided this ability to be substituted is less than perfect, an enforced increase in private contributions would raise the private sector's saving rate, particularly if it brings in low income earners who would not otherwise have saved. Unfortunately the experience with award superannuation in the late 1980s cannot easily be used as a test case for this proposition, because it has not yet produced a significant lift in net contributions.

The second issue, concerning saving by those close to retirement age, has been raised as a matter of concern in several studies. These have pointed out that the interaction of the income tax system with means-testing of age pensions, creates extremely high effective marginal tax rates for those at or near retirement. These high marginal tax rates apply both to income earned prior to retirement, and to the income yielded by assets accumulated as self-provision for retirement (with the exception of the family home). Particularly for those in the middle income range or below, this is argued to have the effect of discouraging labour force participation in the ages around retirement, and encouraging the de-cumulation of assets in order to qualify for the age pension. The effects are exacerbated by the still-favourable treatment given to lump-sum superannuation benefits, which facilitate the phenomenon of 'double dipping'.

Without going into the detailed arguments for or against these propositions, it can be seen that some of the more obvious facts do seem consistent with such effects ...

[Pension-aged households appear to be reducing non-home assets in order to qualify for the age pension.] ... On the basis of such behaviour it could

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<sup>46</sup> BT Aust Ltd, sub no 105.

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plausibly be argued that higher current contributions by younger workers would, to a large extent, lead to higher dis-saving by those workers when they approach retirement, unless other aspects of the tax and benefits systems are also changed.<sup>47</sup>

59. The Association of Superannuation Funds of Australia (ASFA) advised that increases in superannuation savings could lead to individuals reducing their other savings to offset any reduction in purchasing power which would otherwise arise. In the United States, this 'substitution effect' has been estimated to work in a way that for every \$1 of superannuation saving, a reduction of 60c of non-superannuation savings occurs. The effect of the superannuation savings is a net increase of 40 cents in personal savings. ASFA contended that, as most of the SGL-driven superannuation savings would be made on behalf of those on relatively low incomes who experience low saving ratios, the 'substitution' effect would be less pronounced.<sup>48</sup> The Life Insurance Federation of Australia (LIFA) was another organisation that recognised the existence of the 'substitution' phenomenon, however, its research reveals that, notwithstanding this increase in superannuation, national savings by 2030 will increase by at least one per cent, or \$5 billion in today's dollars.<sup>49</sup>

60. Other submissions put to the Committee also commented on the uncertainty about the effect of the SGC on national savings. Whereas the South Australian Government postulated that national superannuation may simply change the composition of savings rather than increase aggregate savings, the AMP pointed out that some research studies do suggest savings will increase.<sup>50</sup> The ACTU asserted that the SGC will increase national savings which are urgently needed to finance a greater level of domestic investment and also to contain foreign debt.<sup>51</sup>

61. There is another way in which public savings may grow beyond the levels assumed by The Treasury. A consequence of the SGC legislation is that all governments are required to provide superannuation benefits for their employees; such schemes to take at least the minimum prescribed level of contributions under the SGC. As well, the new schemes are required to be portable, that is, to fully vest employer benefits even in the case of

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<sup>47</sup> RBA, sub no 190, Edey et al, December 1991, pp 18-20.

<sup>48</sup> Sub no 89, p 37.

<sup>49</sup> Sub no 114, p 20.

<sup>50</sup> SA Government: Minister of Finance, sub no 122; AMP, sub no 120.

<sup>51</sup> ACTU, sub no 106.

employees leaving before a minimum qualifying period (ten years in the case of NSW).

62. All State governments expressed concern about the cost of such extended coverage for their employees, with NSW for example stating that the full additional cost of the SGC to the State was \$236 million in 1992 rising to \$707 million in 2000.<sup>52</sup>

63. In response to the new obligations imposed by the SGC, the NSW Government in August 1992, announced that it was closing its old superannuation schemes to new entrants and henceforth would pay only the SGC-prescribed level of contribution into the replacement schemes. In effect, NSW has moved from an unfunded to a fully funded superannuation scheme for all new employees and/or those not in one of its existing contributory schemes.

64. The new arrangements do not remove the NSW Government's liability to meet the payout benefits to its past and present employees, which liability is estimated at over \$14 billion.<sup>53</sup> But as these employees resign or retire from the public service, the liability will gradually reduce and no new unfunded liability will be incurred. This will mean that Budget outlays in the future will be reduced over what they otherwise would be.

65. *The Committee does not speculate on whether other governments will follow the lead of the NSW Government but notes that to the extent they do so, the public savings arising out the SGC will be greater than shown in The Treasury's estimates.* The final section of this report addresses in greater detail the matter of unfunded public sector superannuation.

## **Superannuation and the Long-term Interests of Contributors**

### *The Role of Government*

66. A second matter brought to the attention of the Committee concerns the implications for the financial system in the long-term in the event that some superannuation funds prove unable to deliver the level of benefits that

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<sup>52</sup> NSW Government: Minister for Industrial Relations, sub no 118.

<sup>53</sup> Australian Financial Review, 18 August 1992.

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contributors expect and which those contributors believe have been guaranteed by the government.

67. The Committee's first report, *Safeguarding Super*, drew attention to the need for tighter and more extensive controls over superannuation funds. There remains the possibility that even when such controls are implemented, some superannuation funds in the future might, as a consequence of poor management or fraud, not be able to deliver the retirement benefits promised to contributors, leading to demands that the Government step in to make up any shortfall of retirement income. Such action would have implications for the financial system if for no other reason than its effect on Budget outlays.

### *The Role of Trustees*

68. The Committee believes that trustees will play a critical role in ensuring that fund members receive appropriate levels of retirement benefits. Accordingly, it reiterates the recommendation in *Safeguarding Super* regarding the need to codify the duties of trustees, namely:

[that trustees should have a duty] ...

- to maintain a diversified portfolio unless members advise to the contrary;
- to maintain an appropriate level of liquidity;
- to limit the level of in-house investment;
- to keep proper accounts;
- to ensure the equitable treatment of members of superannuation funds;
- to inform members about matters materially affecting the fund;
- to seek independent legal, auditing, and actuarial advice;
- to avoid conflicts of interest; and
- to be personally responsible for the administration of the trust.<sup>54</sup>

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<sup>54</sup> *Safeguarding Super*, p 42.

69. In *Safeguarding Super*, the Committee made several recommendations designed to ensure that fraudulent actions do not detract from the accumulation of superannuation. The central component in these recommendations is the establishment of a prime regulator who will have powers to intervene and, if need be, prosecute those who commit crimes in the context of superannuation.

70. The Committee notes that it is critical that all superannuation providers come under the ISC when it is given prime regulator status. To this end, the Committee places on record its concern that friendly societies who are significant providers of superannuation products are currently covered by State legislation.

*Recommendation 4:*

The Committee recommends that the Government consult with the States to explore the possibility of the ISC becoming the prime regulator of superannuation products offered by friendly societies.

*The Scope for Fraudulent and Criminal Activity.*

71. The Committee's attention was drawn to a report of the National Crime Authority (NCA) which suggested that the insurance industry (which offers a range of superannuation products), as with any industry offering financial services, was capable of being utilised for money laundering.<sup>55</sup> Whilst that report acknowledges that the NCA inquiry had found few instances of money laundering, it suggested that the capacity could be used more frequently as the superannuation industry grows.

72. The Committee was advised by the Australian Bureau of Criminal Intelligence (ABCI) that it intended to conduct a strategic assessment of the possibility of organised crime as it may affect the superannuation industry.<sup>56</sup>

73. The AMP commented that as superannuation funds grow, so will the scope for fraudulent and other criminal activity.<sup>57</sup> The Federal Bureau of

<sup>55</sup> NCA *Taken to the Cleaners: Money Laundering in Australia*, volume 1, December 1991. Also referred to in evidence given to the Joint Committee on National Crime Authority, 5 June 1992, p 55.

<sup>56</sup> Sub no 142.

<sup>57</sup> AMP, sub no 120.

Consumer Affairs made a similar comment, and recommended an inquiry into the potential vulnerability of superannuation funds to criminal penetration with a view to developing appropriate safeguards. The Bureau also considers it desirable to examine ways to bring all criminal conduct relating to superannuation within the purview of Commonwealth enforcement agencies.<sup>58</sup>

*Recommendation 5:*

The Committee believes that the initiative of the ABCI in conducting a strategic assessment of superannuation is a forward looking one which warrants the full support of both the superannuation industry and relevant government regulatory and enforcement agencies. Accordingly, the Committee recommends that the Treasurer and the Attorney-General take steps to ensure that a thorough and systematic assessment is made. Further, the Committee recommends that, upon the completion of the assessment, an appropriate strategy to combat the entry of organised crime into superannuation be developed by the end of 1993.

<sup>58</sup> Attorney-General's Dept, sub no 107.

## Superannuation and Unfunded Liabilities

74. Superannuation in the private sector is usually fully funded. Under this practice money is set aside by both employers and employees and invested to generate benefits for retirees. Table 4 shows new entrant contributions rates, which are estimates of the level of employer support needed to fully fund the employer financed benefit of a superannuation scheme, for public sector schemes in Australia. Most public sector schemes in Australia are unfunded or only partially funded; lump sum (except for those accumulated by member contributions), and pension payments pledged by the Government to retirees are usually made from current revenue. In other words, no fund exits into which the employer component is contributed as the superannuation liability to an employee arises. Table 5 lists the public superannuation liabilities.

		NEC – Old Schemes percentage	NEC – New Schemes percentage
Commonwealth	CSS	22.8	PSSS 15.4
	DFRDB	26.4	MSBS 21.1
State	Victoria	21.5	11.3
	New South Wales	21.5 <sup>60</sup>	14.0
	Queensland	14.5	14.5
	Tasmania	13.7	13.7
	Western Australia	22.0	12.0
	South Australia	18.9	12.0
	Northern Territory	not available	not available

Note: The unweighted average for old schemes is: 20.16%  
The unweighted average for new schemes is: 14.25%

<sup>59</sup> Parliamentary Library Research Service.

<sup>60</sup> NSW now provides SGC only cover, that is, four per cent, for its new employees.



		Liability \$ billion	Population million	Liability \$ per head
Commonwealth	CSS <sup>a</sup>	33.0 <sup>b</sup>	17.34	1 903.
	DFRDB	5.4 <sup>c</sup>	17.34	311.
State	Vic	18.0 <sup>d</sup>	4.43	4 063.
	NSW	14.1	5.90	2 390.
	Qld	3.0 <sup>e</sup>	2.97	1 010.
	Tas	1.8 <sup>f</sup>	0.46	3 913 <sup>g</sup>
	WA	3.9	1.67	2 335.
	SA	2.9	1.46	1 986.
	NT	0.4	0.16	2 500.

75. If these unfunded liabilities are allowed to grow at a rate commensurate with the national stock of superannuation assets, it is likely that governments will experience difficulty, especially in those years when demographic characteristics dictate that a high number of payouts occur

<sup>61</sup> Parliamentary Library Research Service material, September 1992.

- a. Includes ACT, Telecom and Australia Post. However, like many government business enterprises, Telecom and Australia Post have now established separate fully funded arrangements.
- b. In the case of the Commonwealth, it is important to recognise that the direct liability of \$33 billion is an actuarial liability against which various offsets exist which essentially clawback much of the cost, that is, income tax and reduced social security payments. The real cost to the Commonwealth is much lower than the direct cost. The total offsets have an estimated value of approximately \$15 billion (or 45 per cent clawback of the direct liability) which leaves a past service liability (net of clawback) of approximately \$18 billion.
- c. The total offsets have an estimated value of approximately \$1.9 billion (or 35% clawback of the direct liability) which leaves a past service liability (net of clawback) of approximately \$3.5 billion. This amount does not include the past service liability in respect of retired, as opposed to active, members.
- d. Total liabilities are \$22.8 billion. Of the \$4.8 billion that has been unfunded, at least \$1.3 billion has been borrowed by Government to finance lump sum benefits in lieu of pensions.
- e. While technically unfunded, of the \$3.3 billion in consolidated revenue, \$3.0 billion is earmarked for superannuation. This arrangement avoids the Commonwealth's 15 per cent tax on contributions and earnings.
- f. The report of the Auditor-General of Tasmania, No 1 of 1992, on the Audit of the Public Account for the year ended 30 June 1992, indicates the liability is \$1.033 billion. The 1990/91 Budget reports the liability to be \$1.73 billion.
- g. Subject to adjustment to reflect 'f' above.

and/or a large number of former public servants are in receipt of a pension, in meeting these obligations in the context of tight budgetary conditions. To this end, it is in the interests of the Federal and State Governments to act to curtail this burgeoning debt. Should they be unsuccessful in this domain, it is likely that public sector borrowing will need to be expanded. Under this scenario, a link between pressure on interest rates and the growth of public sector superannuation debt could be established.

76. The pressure on interest rates could be further intensified if ratings agencies take superannuation debt into account in assessing credit rating for public sector borrowing activities. It follows that a higher risk rating will result in an expectation on the part of lenders that they receive even higher rates of return which would even further intensify pressure on interest rates.

#### *New South Wales*

77. The New South Wales State Government has recognised the problem of mounting superannuation liabilities and introduced a new superannuation scheme which is fully portable but offers significantly reduced benefits (arrangements are described in paragraphs 62 to 64 of this report).

#### *Tasmania*

78. Further recognition of the problem of unfunding recently occurred in Tasmania where the Auditor-General stated that that State's 'liability is very large and comparable in size to Net State Debt and has been increasing annually, which raises the fundamental question of why no provision is made to fund it'.<sup>62</sup> The Auditor-General noted that 'as the liability tends to be reported in isolation from other liabilities, it is doubtful whether its effect on the States overall finances is fully appreciated'.<sup>63</sup>

#### *Victoria*

79. A recent independent review of public sector superannuation in Victoria found that the liability stood at \$19 billion, compared to total State debt of \$56 billion. The report predicted that superannuation payouts would

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<sup>62</sup> Report of the Auditor General of Tasmania, September 1992, p 6.

<sup>63</sup> *ibid.* It should be noted that the reduction in unfunded liability from \$1.8 billion to \$1.03 billion is due to changed actuarial assumptions. Holding these new actuarial assumptions constant will lead to an increase in unfunded liabilities from year to year again. (Advice from the Auditor-General's Office, Tasmania.)

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take up 8.5 per cent of State revenue in 2000 and by 2010 would peak at 12 per cent.<sup>64</sup>

### *The Commonwealth*

80. The Commonwealth Government superannuation liability was estimated by the Australian Government Actuary to be approximately \$33.3 billion. These unfunded liabilities relate to amounts that are payable to retirees over a period of 50 years. The Department of Finance advises that they are not amounts which the Commonwealth could be called on to pay at any one time. The amount is also subject to a 'clawback' to the Commonwealth as a result of taxation revenue from pensions and reductions in social security outlays which have been estimated at 42.6 per cent of gross costs for the CSS scheme and 31.6 per cent for the new PSS scheme.<sup>65</sup>

81. The impact of past service liabilities on future Commonwealth public service salary costs is shown in Table 6 which shows that the current figure of 14 per cent will rise to a peak of 23.7 per cent in 2034-35.<sup>66</sup>

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<sup>64</sup> State Finance Victoria, *Independent Review of Victoria Public Sector Finances*, September 1992, chapter 6.

<sup>65</sup> Department of Finance, Answers to Questions on Notice by Senator Sherry – Estimates Committee B, 21 September 1992, p 3.

<sup>66</sup> *ibid.* Figures based on CSS scheme data. The new PSS and changed invalidity benefits access arrangements are expected to significantly reduce this figure.

Year	Estimated Cost Percentage	Actual Cost Percentage
1984-85	-	12.5
1985-86	-	12.6
1986-87	-	14.1
1987-88	-	16.9
1988-89	14.7	
1989-90	14.7	
1994-95	14.8	
1999-00	15.4	
2004-05	16.7	
2009-10	18.9	
2014-15	21.0	
2019-20	22.6	
2024-25	23.5	
2029-30	23.8	
2034-35	23.7	
2039-40	23.5	
2044-45	23.3	
2049-50	23.4	

82. The Department of Finance further advised Estimates Committee B that there is a crossover year somewhere between 2010 and 2015 when 'ingoings and outgoings would roughly correspond. That is, our liabilities and the ongoing cost of funding would be about equal ...<sup>67</sup>

83. The Department was unable to give the Estimates Committee an idea of the projected level of liabilities because of difficulties in setting assumptions about the take-up of the new PSS scheme and elections regarding lump sum or pension payment options. The Department gave 1993 as the earliest date to begin making reliable projections.<sup>68</sup>

## **Overseas Arrangements – Public Sector Superannuation**

84. Overseas arrangements vis a vis funding of public sector superannuation provide some guidance for the development of policies in

<sup>67</sup> Answer to question from Senator Short, *Hansard*, Estimates Committee B, p 176.

<sup>68</sup> *ibid*, p 177.

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Australia. The following material outlines the practices in Canada, Germany, New Zealand, South Africa, the United Kingdom and the United States of America in funding public sector superannuation.<sup>69</sup>

*Canada*

85. Civil servants belong to a pay-as-you-go scheme. Employees of some corporations, for example, Manitoba Hydro and Manitoba Government Telephones, also come under the civil servants unfunded plan.

86. Both at provincial and federal level there are government bodies whose employees are not civil servants; for example Canadian National Railways, Air Canada, Atomic Energy of Canada, Canadian Broadcasting Corporation, Petroair, and at the provincial level, Hydro-Quebec and Ontario Hydro-Electric Corporation. They have their own pension plans and are required to conform to the provisions which apply to private corporations. This involves contributions determined by an actuary, periodical actuarial valuations, and funding and deficits over a prescribed period.

*Germany*

87. Retirement benefits for civil servants are provided on a pay-as-you-go basis. There is also no funding of benefits for employees of the Federal Railways and Postal Services. Electricity authorities, however, are set up as companies with the state or municipal authorities holding most of the capital. For pension provision they are of the same status as private companies. There is no statutory requirement for companies to fund their pension liabilities, but the most usual approach is the 'book reserve method'. This system developed soon after the Second World War to increase the supply of investment capital. Allocations to the reserve are tax deductible to the extent that they are actuarially justified. However, no allowance can be made for future salary increases in these calculations. Also it is compulsory, except for government institutions and public corporations, to insure against employer insolvency with a national mutual insolvency fund. A note must appear in the accounts stating what proportion of the company's pension liability is covered by the reserve.

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<sup>69</sup> Provided by the Parliamentary Library Research Service. This material has been drawn from the NSW Public Accounts Committee Report No 10 of August 1984 *Superannuation Liabilities of Statutory Authorities*.

### *New Zealand*

88. Government departments whose employees are paid a salary out of Consolidated Revenue pay their pension commitments in connection with the New Zealand Government Superannuation Scheme on a pay-as-you-go basis. However, trading departments are required by legislation to contribute to the Government scheme on a fully funded basis. Departments covered by this fully funded requirement include:

- Post Office
- Railways
- Government Life
- State Insurance
- Public Trust
- Energy and Works Department

89. Local authorities must contribute to the National Provident Fund in respect of their employees. It has an accumulation scheme and a 'Standard Scheme'. The latter is fully funded and guaranteed by the Government. It is bound by legislation covering private sector schemes and must meet usual funding standards.

### *South Africa*

90. Private pension funds are subject to government supervision in South Africa. The main purpose of the *Pension Funds Act* is to ensure that funds' liabilities to members are funded at an acceptable pace of funding. The Registrar supervising pension funds will normally consider a fund financially unsound if the value of the assets is not at least 95 per cent of the value of the liabilities (allowing for future salary increases and pension increases). If special contributions designed to achieve this funding level within three years are planned, the financial position is normally acceptable.

91. Rule amendments involving retro active benefit increases will only be approved if there is a scheme of special contributions calculated to achieve this funding level within ten years. The aim is to permit retro active benefit increases to be introduced only in stages that can be afforded.

92. Some South African statutory authorities such as municipalities, Electricity Supply Commission, Water Boards, Iron and Steel corporation, SASOL, etc, have self administered pension funds which are subject to the full weight of the *Pension Funds Act* (just described) like any private sector fund.

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93. Other public sector employers, like the Central Government, Provincial Governments, Universities, SA Railways, Council for Scientific and Industrial Research, SA Bureau of Standards, etc, have funds classified as 'official funds' which are exempt from the *Pension Funds Act*. However, they have their own individual acts and regulations. These subject them to much the same financial disciplines, including the need for funding, the need to have actuarial investigations from the time and to have reports tabled in Parliament. It is interesting to note that the requirement for an actuarial investigation of these official funds was temporarily suspended in 1976 but reintroduced when actual and proposed benefit improvements raised the question of whether contributions would still be adequate.

#### *United Kingdom*

94. The Civil Service, the Armed Forces, Police and Firemen have pay-as-you-go schemes. There are also some small public sector pay-as-you-go schemes.

95. Nationalised industries like the electricity industry are publicly-owned trading corporations. They operate commercially, have funded pension schemes, and produce accounts like any private sector company. Whatever applies to the private sector applies to them. Nationalised industries 'contract out' of their obligations under the national superannuation scheme as do many private sector companies, and they have to meet the contracting out requirements. These include a certificate from the actuary to the fund, provided every three years, concerning the solvency of the fund.

96. Local government administrative staff are covered by a fully funded national scheme which is required to have regular actuarial investigations. Teachers are employed by local authorities but their scheme is a national one. Local authorities are required to pay fully funded contributions to the central Exchequer which accepts responsibility for paying the benefits. A notional fund is set up for the teachers' scheme, that is, a fund whose assets are hypothetical government stock. The scheme is investigated by an actuary every three years and the necessary employer contribution rate assessed. The Health Authorities have a similar notional fund.

#### *United States of America*

97. Following the loss of pension rights after employer company failure and malpractice, legislation was passed in 1974 (ERISA) to secure members' rights, to provide minimum funding standards, to ensure benefits against the event of company failure, to provide for disclosure and reporting, and many

other matters. It is a complex piece of legislation. Every plan must have an actuarial investigation at least every three years. It is generally carried out every year. The minimum contribution to a plan must equal the cost of benefits accruing during the year on any reasonable basis, plus the annual cost required to amortise over a period of years prescribed in the Act, unfunded prior service costs, unfunded benefit increases, deficiencies, etc. However, these requirements do not apply to government owned entities.

98. The United States of America has a variety of public bodies owned by Federal, State and Local Governments. Some are financed by charges for service, some by government appropriations and some by both. Employees of such bodies who are not treated as civil servants belong to pension plans established by their employer. In some cases the plan documents specify the funding methods and the required amortisation of unfunded liabilities over a period of years. Generally the funding decision is made by the employer on the recommendation of the actuary. Only rarely is the funding requirement less than that prescribed above for private sector funds.

## Conclusion — Public Sector Superannuation

99. *The Committee concludes that there exists considerable community concern about the implications of growing public sector superannuation debt. This concern centres on the fact that the nation's \$148 billion superannuation assets have a countervailing liability of approximately \$80 billion. If not properly managed the problem has the potential to considerably undermine essential State and Federal Government programs and place great strain on public sector borrowing activities.*

### *Recommendation 6.*

As the Committee has not received sufficient evidence on the matter of unfunded public sector superannuation liabilities, and as it does not have the resources or time to carry out a far reaching investigation of the problem, it recommends that as a matter of urgency the Commonwealth Government convene a meeting of State Finance Ministers/Treasurers to develop a plan of action for addressing the problems posed by unfunded public sector superannuation liabilities.