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Superannuation Legislation Amendment (Indexation) Bill 2001

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Superannuation Legislation Amendment (Indexation) Bill 2001

Date Introduced: 28 June 2001

House: House of Representatives

Portfolio: Finance and Administration

Commencement: The amendments outlined in this Digest commence on the day on which the Bill receives Royal Assent. However, where the proposed Superannuation Legislation (Commonwealth Employment) Repeal and Amendment Act 2001 (this Act will repeal the *Superannuation Act 1922* and the *Superannuation Act 1976*) commences before this Bill, the amendments proposed by this Bill will continue to apply under the proposed Superannuation Legislation (Commonwealth Employment – Saving and Transitional Provisions) Act 2001.

Purpose

To provide for the twice yearly indexation of pensions payable under the *Superannuation Act 1922* and the *Superannuation Act 1976.*

Background

The Commonwealth Superannuation Scheme

The Commonwealth Superannuation Scheme (CSS) is an employer-sponsored superannuation scheme. It covers certain employees of the Australian Public Service and related participating employers. It was compulsory for most employees permanently appointed before 1 July 1990 to become members of the CSS. Full-time temporary and contract employees could also have joined the scheme before that date as long as they satisfied a qualifying period.

The CSS is established under the *Superannuation Act 1976*, which replaced the *Superannuation Act 1922*. The *Superannuation Act 1922* was closed to contributors on 1 July 1976 and the *Superannuation Act 1976* was closed to contributors from 1 July 1990. The *Superannuation Act 1922* and *Superannuation Act 1976* continue to provide for the payment of pensions to retired members and reversionary beneficiaries.

The CSS provides members with benefits including:

- automatic death and invalidity cover at no extra cost
- substantial employer contributions
- a fully indexed pension for life (on retirement), and
- low-cost home loans.

Unlike most other Australian superannuation schemes, the CSS doesn't charge its clients administration fees.

As at 30 June 2000 the CSS had:

- 48 552 contributors
- 109 045 pensioners
- contributions received totalled $216 908 000 in 1999-2000
- benefits paid by way of lump sums totalled $641 515 000 in 1999-2000, and
- benefits paid by way of pensions totalled $1 956 598 000 in 1999-2000.[1]

The CSS is what is termed a split benefit scheme, by reason of how benefits are generally made up. Under the CSS benefits comprise:

- a member component - comprising basic and supplementary contributions (if any), plus accumulated interest (paid as a lump sum)
- an employer component (funded on an emerging cost basis) - which is a defined amount paid as a CPI indexed pension, the size of which depends on the reason for exit, final salary, length of contributory service, prospective (i.e. potential) membership and age at exit. In the case of invalidity retirement, calculation of the member's pension benefit also takes into account a period of prospective membership to age 65, and
- an employer productivity superannuation component (funded on an accrual basis) which also accumulates at the crediting rate of the CSS Fund.

Compulsory basic member contributions based on 5 per cent of salary for superannuation purposes are required but optional supplementary contributions of up to a further 5 per cent of salary are allowed.

Standard pensions (i.e. the employer - financed part of a CSS pension) are subject to automatic adjustment each year in accordance with upwards percentage changes in the Consumer Price Index (CPI) for the 12 months ended 31 March. The adjustment is paid on the first pension payday in July each year. Standard pensions which were paid for the whole financial year (either to a pensioner or a surviving spouse) before a July adjustment are varied by the full percentage movement as described above. However, if a standard pension for less than the whole financial year after retirement is receive the initial adjustment is varied proportionately in relation to the number of months that a person has been receiving pension up to 30 June. If a person retires on or before the 15th day of a month (14th day for February), that month is counted as a complete month for pension increase purposes.

Rationale for amendments

The amendments proposed by the Bill amend the *Superannuation Act 1922* and the *Superannuation Act 1976* to provide for the twice yearly indexation of pensions paid under those Acts.

The amendments proposed by the Bill give effect to a 2001-02 Budget announcement. The explanation for the amendments provided by the Government at Budget time was:

> The Government has decided to introduce twice yearly indexation of Commonwealth superannuation pensions under the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). This indexation will occur twice yearly on 1 July and 1 January for movements in the Consumer Price Index for the previous half year. This will reduce the delay between inflation effects faced by superannuation pensioners and income adjustments. This change will commence from 1 January 2002.[2]

The rationale for the amendments is as stated by the Parliamentary Secretary to the Minister for Finance and Administration, the Hon. Peter Slipper, in the Second Reading Speech, namely:

> The amendments in this Bill will increase the purchasing power of some 100,000 Commonwealth civilian superannuation pensioners, by reducing the delay between price increases and compensatory adjustments to their superannuation pensions. The new pension indexation arrangements are in addition to other initiatives announced by the Government in the 2001-02 Budget for self-funded retirees and age pensioners which may also benefit Commonwealth civilian superannuation pensioners.[3]

It is estimated in the Government's Explanatory Memorandum to the Bill that the amendments will cost $30 million per annum.[4]

Senate Select Committee on Superannuation and Financial Services

In April 2001 the Senate Select Committee on Superannuation and Financial Services tabled its report *'A Reasonable and Secure' Retirement? – The benefit design of Commonwealth public sector and defence force unfunded superannuation funds and* *schemes*. The report made recommendations to implement immediately a bi-annual adjustment of scheme pensions in line with CPI increases and to consider a phased, alternative indexation method.

The Committee noted that superannuants found that the present annual adjustment of benefits by the CPI can delay increases to their pensions by some 12 to 15 months, resulting in an indexation lag which reduces the purchasing power of their benefits considerably.[5]

Committee member Senator Lyn Allison tabled a 'Minority Report' on behalf of the Australian Democrats. While supporting the general thrust of the majority recommendation that indexation should occur more than annually, the Australian Democrats recommend that public sector superannuation pensions be indexed quarterly to movement in the CPI, and investigations be conducted on identifying an index that better reflects the cost of living for aged pensions.[6]

Main Provisions

Amendments to the *Superannuation Act 1922*

Part XI of the *Superannuation Act 1922* deals with pension increases on an after 1 July 1976. The major amendments proposed by **Schedule 1** of the Bill (**items 1-33**) provide for twice yearly increases in pensions in line with increases in the CPI. It is stated in the Government's Explanatory Memorandum to the Bill that increases will be paid where the CPI "measured in the March quarter is higher than the highest of any index measured in a previous March quarter since 1985".[7] Under the amendments pensions will be able to be increased either in January or July each year. **Items 15** and **16** ensure that pension increases flow to reversionary benefits following the death of a pensioner on 30 June or 31 December. **Item 31** is a key operative provision in relation to twice yearly pension increases and ensures that increases become payable on the first pension payday after the end of either 30 June or 31 December. **Item 33** applies the amendments for the half-year commencing on 1 January 2002 and each subsequent prescribed half-year.

Amendments to the *Superannuation Act 1976*

Part X of the *Superannuation Act 1922* provides for annual increases in pensions payable under the Act in line with increases in the CPI. The major amendments proposed by **Schedule 2** of the Bill (**items 11-32**) provide for twice yearly increases in pensions in line with increases in the CPI. It is stated in the Government's Explanatory Memorandum to the Bill that increases will be paid where the CPI "measured in the March quarter is higher than the highest of any index measured in a previous March quarter since 1985".[8] Under the amendments pensions will be able to be increased either in January or July each year.

Items 21 and **22** ensure that pension increases flow to reversionary benefits following the death of a pensioner on 30 June or 31 December. **Item 29** is a key operative provision in relation to twice yearly pension increases and ensures that increases become payable on the first pension payday after the end of either 30 June or 31 December. **Item 32** applies the amendments for the half-year commencing on 1 January 2002 and each subsequent prescribed half-year.

Endnotes

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1 http://www.comsuper.gov.au/pss/index.htm.

2 Budget Measures 2001-02, *Budget Paper No. 2*, p. 134.

3 House of Representatives, *Hansard*, 28 July 2001, p. 28819.

4 Superannuation Legislation Amendment (Indexation) Bill 2001, *Explanatory Memorandum*, p. 2.

5 Senate Select Committee on Superannuation and Financial Services, *A 'Reasonable and Secure' Retirement? – The benefit design of Commonwealth public sector and defence force unfunded superannuation funds and schemes*, April 2001, p. 45.

6 Ibid., p. 63.

7 Ibid., p. 4.

8 Ibid., p. 7.