Parliamentary Superannuation Bill 2004
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Parliamentary Superannuation and Other Entitlements Legislation Amendment Bill 2004

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## Contents

- **Purpose** .......................................................... 1
- **Background** ..................................................... 2
  - Basis of policy commitment ........................................ 3
  - Position of significant interest groups/press commentary ....... 4
  - ALP/Australian Democrat/Greens policy position/commitments .... 5
  - Pros and cons .................................................. 5
- **Main Provisions** .................................................. 8
- **Parliamentary Superannuation Bill 2004** ........................ 8
  - Part 1 - Preliminary .................................................. 8
  - Part 2 – The new parliamentary superannuation scheme .......... 8
    - Division 1 – Commonwealth’s Obligations to make contributions ... 8
    - Division 2 – Choice of funds ...................................... 9
    - Division 3 – The default fund ..................................... 10
  - Part 3 – Miscellaneous ........................................... 10
- **Parliamentary Superannuation and Other Entitlements Legislation Amendment Bill 2004** .......................... 11
  - Schedule 1 – Closing off the current parliamentary contributory superannuation scheme, and related matters ............. 11
  - Proposed Schedule 1 PCS Act – Closing off the scheme constituted by this Act, and related matters .......................... 11
  - Schedule 2 – Salary Sacrifice ........................................ 12
  - 1. *Parliamentary Contributory Superannuation Act 1948* ........... 12
- **Concluding Comments** ........................................... 13
- **Endnotes** .......................................................... 14
Date Introduced: 1 April 2004
House: House of Representatives
Portfolio: Finance and Administration

Commencement: The operative clauses of the Parliamentary Superannuation Bill 2004 commence at the same time as the Parliamentary Superannuation and Other Entitlements Legislation Amendment Bill 2004. The Parliamentary Superannuation and Other Entitlements Legislation Amendment Bill 2004 commences on the day after Royal Assent.

Purpose

The purpose of the Parliamentary Superannuation Bill 2004 (Parliamentary Superannuation Bill) is to establish new superannuation arrangements for new members of the Commonwealth Parliament from the next federal election. Employer contributions made on behalf of new Members and Senators will be 9% (equal to the superannuation guarantee requirements) and paid to a complying superannuation fund of their choice.

The purpose of the Parliamentary Superannuation and Other Entitlements Legislation Amendment Bill 2004 (the Other Entitlements Bill) is to:

- amend the Parliamentary Contributory Superannuation Act 1948 (the PCS Act) to close the Parliamentary Contributory Superannuation Scheme (PCSS) to new members from the next federal election
- suspend any pensions being paid to former Members and Senators who re-enter the Commonwealth Parliament at or after the next federal election, and
- amend the Remuneration and Allowances Act 1990 (the Remuneration Act) to allow those Members and Senators covered by the arrangements in the Parliamentary Superannuation Bill to salary sacrifice up to 50 per cent of their Parliamentary salaries.

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Background

The current superannuation arrangements for Members and Senators of the Commonwealth Parliament are governed by the PCS Act. Membership of the PCSS is compulsory for all sitting Members and Senators. The Bill will not alter or amend the current arrangements that apply to sitting Members and Senators re-elected at the next federal election. In the second reading speech the Hon Peter Slipper MP emphasised this point when he stated:

I repeat that these arrangements will apply to new senators and members who enter the federal parliament for the first time at or after the next general election. The arrangements will also apply to former senators and members, and former state or territory parliamentarians, who are elected to the federal parliament at or after the next general election.

These changes will have no impact on the existing superannuation arrangements for sitting senators and members.\(^4\)

The PCS Act was originally introduced into parliament on 1 December 1948 as the Parliamentary Retiring Allowances Bill 1948 (the Retiring Allowances Bill). It applies to Members and Senators who ceased parliamentary service after 30 November 1948.\(^5\)

According to the Department of Finance the reasons for the PCSS’s establishment in 1948 were:

- when elected, parliamentarians often gave up potential superannuation payouts from previous employers when they left employers prior to retirement age
- electoral and parliamentary demands reduced members’ chances to re-establish careers when their parliamentary term was over, and
- there was a need to entice people to enter parliament who would not otherwise come.\(^6\)

For more information on the history of the PCSS, how it has changed since it commenced in 1948 and reviews by the parliament into its operation please refer to Leanne Manthorpe’s *E-brief*, ‘The Parliamentary Retiring Allowances Act 1948: Debates, Committee Reports, Remuneration Tribunal Reviews and a Chronology of Legislative Amendments’ published by the Parliamentary Library.

For the purpose of this Bills Digest the term parliamentary salary refers to the sum of a Member or Senator’s:

- parliamentary allowance
- any amount of salary the member is entitled to as a Minister of State, and

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• any amount of allowance by way of salary the member is entitled to as an office holder in the parliament for which they receive an allowance by way of salary.\(^7\)

**Basis of policy commitment**

On 10 February 2004 the Leader of the Opposition, Mark Latham MP, announced that a Labor Government would close down the current superannuation schemes for Federal MPs, judges and the Governor-General.\(^8\) In the press release that accompanied the announcement Mr Latham stated that along with the Parliamentary scheme, the judges’ and Governor-General’s schemes:

> are well outside the community standard in Australia and have become out-of-date. They offer superannuation benefits seven times more generous than the current contribution scheme available to the general public.

> Parliamentary superannuation has become a major source of public dissatisfaction and cynicism in modern politics. That is why a Labor Government will pass legislation closing the scheme to new entrants.\(^9\)

On 12 February 2004 the Prime Minister, the Hon John Howard MP announced in response that the Government would close the PCSS and establish new superannuation arrangements for new Members and Senators elected from the next federal election.\(^10\) The Prime Minister justified his decision on the basis of:

> a community perception that this super’s too generous, I think the overall package is not too generous but people think the super’s generous and rather than this thing drift on for months as the subject of a partisan political debate I’ve decided to act immediately to get it off the agenda as a partisan political issue…so that we can have a focus on issues that are really important to the future of this country such as the Free Trade Agreement with the United States.\(^11\)

Due to the speed of change in position by both major parties on parliamentary superannuation there were no costing figures on the financial effect of the decision to close the PCSS when the announcements were made. The Explanatory Memorandum of the Parliamentary Superannuation Bill provides the following estimate of the financial impact of the decision to close the PCSS:

**Financial Implications**

The estimated financial impact of closing the PCSS and introducing a 9% accumulation arrangement as provided for in this Bill and the Parliamentary Superannuation and Other Entitlements Legislation Amendment Bill 2004 is as follows:

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Parliamentary Superannuation Bills 2004

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The fiscal balance improvement is due to the reduction in accruing unfunded liabilities less the expense of funding the new arrangements and less the reduction in member contributions no longer received by the Australian Government.

The negative underlying cash impact reflects the Government contributions to the new accumulation arrangements and the member contributions that will no longer be received by the Government. In 2007-08, the underlying cash balance is improved because unfunded benefit payments will no longer be made in respect of new Members and Senators exiting.12

Position of significant interest groups/press commentary

There was significant press coverage of the announcements by both Mr Latham and the Prime Minister. The issues raised in the press ranged from the speed with which the Prime Minister dealt with the issue to the potential impact on the future stock of federal politicians. The main focus in a number of articles was the way the Prime Minister reacted to the policy announcement made by Mr Latham.

However, press commentary did focus on other issues associated with the announcement on changing parliamentary superannuation arrangements. A number of articles noted that changing the superannuation benefit for new Members and Senators would produce two classes of politicians in parliament after the next election.13 Others raised the prospect of the Remuneration Tribunal increasing parliamentary salaries to make up for the loss of superannuation benefit.14 Some even commented on the impact the decision would have on future public service superannuation arrangements.15 In Alan Kohler’s article, ‘Super-dumb move as the PM plays catch-up’16 the author suggests that politician’s superannuation should not be looked at in isolation but as part of an overall package and by dealing with it in isolation the treatment of the remuneration packages available to Members and Senators is out of step with the rest of the community.
ALP/Australian Democrat/Greens policy position/commitments

The Australian Greens and the Australian Democrats have both indicated that they will move amendments to these bills to force all Members and Senators into the new arrangements. While it may seem appropriate to bring all Members and Senators into line with the rest of the community there are issues which need to be considered before taking such action. These are:

- taking away a right or future right that an existing Member and Senator may have to benefits in the PCSS may invoke the requirement for ‘just terms compensation’ under the Constitution. The calculation of the final benefit payable from the PCSS is determined by a Member or Senator’s length of service. Until they cease being a member of parliament a Member or Senator’s final benefit cannot be calculated, particularly if they have between eight and 12 years of service as it depends on whether they have voluntarily or involuntarily left parliament. Until they have retired from parliament their treatment under the PCS Act is unknown.

- both Western Australia and Tasmania have closed their generous parliamentary schemes to new members. However, in each circumstance they did not force existing parliamentarians into the new scheme. Members and Senators could argue that they are being unfairly treated in relation to their State counterparts.

- if re-elected Members and Senators were forced into the new arrangements while the current arrangements where suspended it may set a worrying precedent for other public sector employees, particularly Commonwealth Public Servants who are members of the Public Sector Superannuation Scheme (PSS). The defined benefit PSS is being closed to new members from 1 July 2005 and a new accumulation scheme will be established under the PSS Trust Deed. If the Australian Democrats and Greens proposals were adopted, why should the principle not apply to current public servants, current judges and the current Governor-General (disregarding any restrictions imposed by the Constitution)?

Pros and cons

The possible advantages of changing the superannuation arrangements of the Members and Senators are:

- over time there will be a reduction in the ongoing unfunded liability of the PCSS. The forward estimates expect the reduction in accruing unfunded liabilities to be $0.9 million in 2003-04 increasing to $5.3 million in 2007-08.

- the new arrangement will in more in line with the community standard, i.e. the superannuation guarantee rate of 9 per cent. One of the major complaints against politicians is that they currently have a very generous superannuation system that is
significantly more generous than that available to average wage and salary earners. The Parliamentary Superannuation Bill will subject new Members and Senators to the same type of superannuation arrangements, i.e. accumulation funds, as most of their constituents

- requiring their contributions to be paid into a complying superannuation fund will provide new Members and Senators with a better appreciation of how changes to superannuation legislation affect the rest of the community. The various pieces of legislation governing the regulation and taxation of superannuation are some of the most complex and amended pieces of legislation currently on the statute books. Currently the PCSS is an exempt public sector superannuation scheme. A consequence is that the Government and parliament decides whether any amendments to the general legislation covering the regulation of superannuation funds and the taxation of superannuation benefits will apply to the PCS Act and the benefits it provides. Not all the requirements in the *Superannuation Industry (Supervision) Act 1993* (SIS Act) apply to the PCSS. By requiring new Members and Senators to be members of complying superannuation funds they will be directly affected by all the amendments to superannuation legislation passed by the parliament. Some people in the superannuation industry will hope that this direct impact may result in Members and Senators making more considered changes to superannuation in the future

- by limiting their employer superannuation contributions to the superannuation guarantee rate and allowing limited salary sacrifice the structure of Members and Senators salary package will be more closely aligned in structure to executives in the public and private sectors.

The possible disadvantages of changing the superannuation arrangements of Members and Senators are:

- there will be three classes of superannuation benefits that will apply to Members and Senators in the parliament and, as a consequence, there will be three different remuneration packages applicable to Members and Senators. Excluding the additional allowances paid to Ministers and Officer Holders of the parliament, all Members and Senators have the same base salary, i.e. their parliamentary allowance. However, the value of a Member or Senator’s parliamentary salary and superannuation package will differ depend on when they were elected to parliament:
  - the most generous will apply to those sitting Members and Senators who commenced their service prior to the 2001 election and are re-elected at the next federal election. They will have access to their PCSS benefit as soon as they cease being a Member or Senator regardless of their age or whether they have retired from the workforce
  - the Members and Senators who commenced their service at the 2001 election or through a by-election or retirement of a Senator prior to the next federal election

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and are re-elected at the next federal election will have a less generous package to their earlier elected colleagues. They can only access their PCSS benefit when they cease being a Member or Senator if they have reached 55 years of age. Otherwise their benefit will be preserved in the PCSS until they are 55 years of age.

- the least generous package will apply to new Members and Senators who commence their service at or after the next federal election and former Members or Senators who re-enter parliament after the next federal election. They will be subject to the new superannuation arrangements and will not have access to the PCSS when they take up their seat in parliament.

- new Members and Senators would not be required to make personal after tax contributions to their superannuation benefit like their longer serving colleagues. Currently, Members and Senators with 18 years or less service are required to contribute 11½ per cent of their annual allowance to the PCSS while members with more than 18 years service are required to contribute 5¼ per cent of their annual allowance to the PCSS.

- there could be a conflict of interest for new Members and Senators when amending superannuation legislation. By being required to be members of complying superannuation funds, new Members and Senators will be directly affected by any amendments to the regulatory requirements of the SIS Act. However, this is no different to what currently exists for Members and Senators when considering bills to amend tax rates and other legislation that directly affects their personal circumstances.

- Members and Senators will be able to reduce their tax liabilities by salary sacrificing their parliamentary allowance into superannuation. The limited salary sacrifice of up to 50 per cent of parliamentary salary will allow a new Member or Senator to reduce their tax liability as their taxable income will reduce from their current parliamentary allowance of $102,760. Depending on what other income they earn and deductions they claim new Members and Senators could feasibly reduce their marginal tax rate to the 30 per cent tax rate.

- the changes to parliamentary superannuation arrangements could result in the Remuneration Tribunal recommending a significant pay increase to offset the superannuation benefits lost by the passage of these bills which will eventually apply to all Members and Senators. If this happens then the pay rise will result in a cost to revenue.

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Main Provisions

Parliamentary Superannuation Bill 2004

The Parliamentary Superannuation Bill provides for the payment of employer superannuation contributions by the Commonwealth on behalf of new Members and Senators elected to the parliament from the next federal election. It requires the contribution to be paid either to a fund chosen by the Member or Senator (Division 2 of Part 2) or the default fund as declared by the Minister (Division 3 of Part 2).

Part 1 - Preliminary

Clauses 1 to 6 of the Parliamentary Superannuation Bill set out the commencement provisions and the definition provisions of the bill. Clause 3 includes the general definitions of the Parliamentary Superannuation Bill. The definitions in clauses 4 to 6 detail the meanings of:

- complying superannuation fund
- new scheme entry time, and
- new scheme contribution period.

Subclauses 5(2) & (3) when read in conjunction with subclause 5(1) ensure that existing Members or Senators (those who hold seats in the parliament prior to the 2004 election) who resign from one House of Parliament and are elected within three months in the other House of Parliament will be treated as if they are continuing members of parliament. This is important so that they maintain their membership in the PCSS and are not treated as new members of parliament subject to this bill and the Other Entitlements Bill.

Part 2 – The new parliamentary superannuation scheme

Division 1 – Commonwealth’s Obligations to make contributions

Division 1 sets out the Commonwealth’s obligation to make contributions on behalf of those Members and Senators subject to the new parliamentary superannuation arrangements.

The contribution that the Commonwealth is required to make and which satisfy the Commonwealth’s obligations in relation to the Superannuation Guarantee requirements are calculated in accordance with clause 8 of the Parliamentary Superannuation Bill. Subclause 8(2) requires that the contribution is to be calculated as equal to 9% of the sum of:

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parliamentary allowance

any amount of salary the member is entitled to as a Minister of State, and

any amount of allowance by way of salary the member is entitled to as an office holder in the parliament for which they receive an allowance by way of salary.

Subclause 8(3) ensures that any decision by a Member or Senator to reduce their parliamentary salary by way of a salary sacrifice arrangement does not reduce their parliamentary salary for the purpose of determining the Commonwealth’s obligation.

Subclause 8(4) excludes from a Member or Senator’s parliamentary salary any amount that is not salary or wages for the purpose of section 19 of the Superannuation Guarantee (Administration) Act 1992.

Division 2 – Choice of funds

The provisions in Division 2 set out the requirements that must be met if a Member or Senator elects to have their employer contributions paid into a complying superannuation fund or Retirement Savings Account of their choice. They deal with:

• when a person can choose a fund (clause 10)

• the type of complying superannuation fund that can qualify as a chosen fund and that there can only be one chosen fund at any particular time (clause 11)

• how a Member or Senator make their choice, i.e. the information they must provide to the Clerk of their Chamber (clause 12)

• the duration of a notice for a chosen fund (clause 13)

• how a Member or Senator can change the superannuation fund to which their contributions are made (clause 14)

• revoking a notice for a chosen superannuation fund (clause 15), and

• requirements for notifying a new Member or Senator that they can choose where their employer contributions are paid (clause 16).

While Members and Senators can choose the superannuation fund or Retirement Savings Account into which their contributions are paid, paragraph 11(2)(a) prevents a Member or Senator from selecting their own self managed superannuation fund. There is no explanation for this requirement in either the Explanatory Memorandum or the media release22 issued by the Minister for Finance and Administration when the Bill was approved by the Coalition Party Room.

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This restriction goes against the Government’s proposal for choice of superannuation fund for the general community. The proposed legislation for the choice of superannuation fund\(^{23}\) does not prevent people from selecting a self managed superannuation fund as their chosen fund.

Members and Senators subject to the provisions of the Parliamentary Superannuation Bill who also have their own self managed superannuation fund, and are not members of another superannuation fund will have to become members of another complying superannuation fund. This will mean they will be maintaining at least two different superannuation accounts, as the main reason for establishing a self managed superannuation fund is so the members of the superannuation fund can control the investment of their own superannuation assets. Their benefits will also be subject to the administration costs of two different superannuation funds, therefore eroding their total superannuation benefits.

Apart from a desire to prevent a conflict of interest arising for Members or Senators who may have their own self managed superannuation fund, there is no obvious reason for preventing new Members or Senators from choosing such funds.

**Division 3 – The default fund**

Clause 17 requires the Minister to make a declaration, in writing, as soon as practical after the commencement of the Parliamentary Superannuation Bill, choosing a default superannuation fund for contributions payable under clause 8. Where a Member or Senator has not chosen a superannuation fund for the contributions payable under clause 8 the contributions will be paid to the default fund.

The main concern with this provision is that there are no details in the Parliamentary Superannuation Bill, Explanatory Memorandum, media releases or other documentation detailing how the default fund is to be selected. The Government will need to establish a transparent process for the selection of a default fund to avoid claims of favourable treatment.

**Part 3 – Miscellaneous**

Clause 18 provides that the contributions payable under clause 8 are to be appropriated from the Consolidated Revenue Fund while clause 19 provides for the making of regulations.

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Parliamentary Superannuation and Other Entitlements Legislation Amendment Bill 2004

The Other Entitlements Bill makes amendments to:

- the PCS Act:
  - closing the PCSS to new members
  - suspending the retiring allowance payments of formers Members and Senators who re-enter the Commonwealth Parliament on or after the next federal election, and
  - consequential amendments to facilitate amendments to the Remuneration and Allowances Act 1990 (the Remuneration Act) concerning the proposed salary sacrifice arrangement, and
- the Remuneration Act permitting new Members and Senators to salary sacrifice part of the Member or Senator’s parliamentary allowance.

Schedule 1 – Closing off the current parliamentary contributory superannuation scheme, and related matters

Item 4 inserts proposed section 29 and proposed Schedule 1 at the end of the PCS Act. Proposed section 29 provides that the preceding provisions of the PCS Act apply subject to proposed Schedule 1.

Proposed Schedule 1 PCS Act – Closing off the scheme constituted by this Act, and related matters

Proposed Part 1 defines, for the purposes of proposed Schedule 1, two terms, new scheme contribution period and new scheme entry time, by reference to their meaning in the Parliamentary Superannuation Bill.

Proposed Part 2 closes off the PCSS to Members and Senators first elected or appointed to parliament at or after the next federal election by prohibiting them from making contributions to the PCSS under section 13 of the PCS Act.

Proposed clause 3 will close off to a new Member or Senator any access to benefits under the PCS Act. It will also cancel any former Member or Senator’s retiring allowance and additional retiring allowance when they re-enter parliament and are entitled to the superannuation arrangements provided for by the Parliamentary Superannuation Bill. However, the cancellation of the benefit in proposed clause 3 will be subject to the rules in proposed Division 2.

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Proposed Division 2 preserves the basic retiring allowance and any additional retiring allowance at a preserved percentage rate of the parliamentary allowance and the additional allowance determined by proposed clauses 4 and 5. So, while proposed clause 3 cancels a former Member or Senator’s benefits, proposed clauses 4 and 5 preserve the percentage at which the retiring allowance and any additional allowance is calculated. In effect it suspends a former Member or Senator’s existing retiring allowance if they are elected or appointed to parliament at or after the next federal election.

Proposed clause 6 ensures that the PCS Act applies to the preserved allowances calculated under proposed clauses 4 and 5 in the same way as if they were retiring allowances calculated under the PCS Act. However, proposed clauses 7 to 18 provide exemptions and modifications to provisions in the PCS Act as they would apply to retiring basic and additional allowances, when they are applied to the preserved allowances calculated under proposed clauses 4 and 5.

Schedule 2 – Salary Sacrifice

Parliamentary Contributory Superannuation Act 1948

Items 1 to 3 make amendments to the PCS Act to ensure that any calculation of retiring allowances under the PCS Act are not affected by salary sacrifice arrangements permitted under the Remuneration Act.

Remuneration and Allowances Act 1990

Item 4 amends section 8 of the Remuneration Act so that salary sacrifice superannuation contributions can come out of the standing appropriation.

Item 6 inserts a new Division into Schedule 3 of the Remuneration Act allowing new Members and Senators elected at or after the next federal election to salary sacrifice part of their parliamentary allowance.

Proposed clause 1C identifies who can elect to enter a salary sacrifice arrangement under the Remuneration Act. It limits salary sacrifice arrangements to those Members and Senators elected or appointed to parliament at or after the next federal election and who were not entitled to a parliamentary allowance prior to their election or appointment.

Proposed clauses 1D to 1I set out the requirements that must be met if a Member or Senator elects to salary sacrifice a percentage or amount of their parliamentary allowance into a complying superannuation fund or Retirement Savings Account of their choice. They deal with:

- the type of complying superannuation fund (again Members and Senators are prohibited from choosing their own self managed superannuation fund) that can
qualify as an additional contributions fund and that there can only be one additional contributions fund at any particular time (proposed clause 1D)

- how a Member or Senator makes their election, i.e. the information they must provide to the Clerk of their Chamber (proposed clause 1E)

- the duration of the election to make additional contributions (proposed clause 1F)

- how the election is administered in relation to limits imposed on the amount of parliamentary salary that can be salary sacrificed (proposed clause 1G)

- how a Member or Senator can vary their election to make additional contributions (proposed clause 1H), and

- how to revoke an election to make additional contributions (proposed clause 1I).

While the salary sacrifice amount will be paid solely from a Member or Senator’s parliamentary allowance, proposed subclause 1G(3) limits the amount of the salary sacrifice a Member or Senator can make to 50 per cent of a Member or Senator’s parliamentary salary.

### Concluding Comments

The Parliamentary Superannuation Bill and the Other Entitlements Bill achieve the Government’s objective of closing the PCSS to new Members and Senators from the next federal election and establishing new superannuation arrangements for new Members and Senators. However, it has been done in a manner that creates disadvantage for new Members and Senators and former Members and Senators who re-enter parliament.

The key reason for this is that the Government has treated the superannuation benefits of Members and Senators as a separate entitlement, which technically it is, from other entitlements such as parliamentary salary, use of motor vehicles, subsidies of telephone costs. This is inconsistent with the treatment of these items for executives in the public and private sectors. Until the Government recognises these entitlements and other salary or salary replacement entitlements as part of a whole remuneration package, the inequity in the current system of remuneration for Members and Senators will remain, especially as a result of the differences in superannuation benefits that result from this policy decision.
Endnotes

1 The next federal election is expected some time in 2004.
4 Peter Slipper, op. cit., p. 27933.
6 Submission No. 46, Department of Finance, Attachment A, p. 1 cited in Senate Select Committee on Superannuation, Parliamentary Superannuation Scheme and the Judges’ Pension Scheme - 25th Report of the Senate Select Committee on Superannuation, Canberra, September 1997.
7 The definition of allowance by way of salary in the Parliamentary Superannuation Bill 2004 is an exclusive definition in that it does not stipulate what is an allowance by way of salary but rather what is not an allowance by way of salary. The Remuneration Tribunal Determination 2004/07, ‘Parliamentary office holders – Additional salary’ lists the current office holders who receive an additional salary on top of their Parliamentary allowance because of the office of parliament they hold. It does not include Ministers of State.
9 ibid.
11 ibid.
12 Explanatory Memorandum, Parliamentary Superannuation Bill 2004, p. 3.
14 Two examples include: Brian Toohey, op. cit. and ‘Pollies pay rise mooted in wake of super cut’, Canberra Times, 4 March 2004, p. 5.
15 Examples include: Alan Kohler, ‘Super-dumb move as the PM plays catch-up’, Age, 18 February 2004, p. 1 and Daryl Dixon, ‘Equitable plan needed: Moves to reduce super could put end to generous PS benefits’, The Canberra Times, 15 February 2004, p. 34.
16 Alan Kohler, opt. cit.


19 However, the decision in *Health Insurance Commission v. Peverill* (1994) 179 CLR 226 suggests that a variation in the statutory rate of entitlements of MPs to superannuation through a change in the government contribution may not amount to an acquisition of the type of ‘stable…property interest’ that would attract the ‘just terms’ compensation provision in section 51(xxxi) of the Constitution.

20 Voluntarily retirement refers to the Member or Senator’s expiration of their term without them standing for re-election while involuntarily refer to a Member or Senator retiring from the parliament due to the loss of preselection or loss at an election.

21 *The Australian Master Superannuation Guide 2003/04* describes exempt public sector superannuation schemes as schemes that are subject to different treatment from other regulated superannuation funds in that they are not subject to the prudential requirements in *Superannuation Industry (Superannuation) Act 1993*. These schemes are subject to Commonwealth, State or Territory government supervision under their respective enabling Acts and, as such, already conform to the principles of the *Superannuation Industry (Superannuation) Act 1993* without formally being subject to it.


23 Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2003.