



## Parliamentary Superannuation Amendment Bill 2006

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## Parliamentary Superannuation Amendment Bill 2006

**Date introduced:** 11 October 2006

**House:** House of Representatives

**Portfolio:** Finance and Administration

**Commencement:** Royal Assent

### Purpose

This Bill amends the *Parliamentary Superannuation Act 2004* (PSA).

Essentially, the Bill increases the government's contribution to a member or senator's superannuation account from 9 to 15.4 per cent of the sum of:

- the amount of parliamentary allowance to which the person is entitled in respect of the month
- the amount (if any) of salary to which the member is entitled because he or she was a Minister of State for some or all of the month; and
- the amount (if any) of allowance by way of salary to which the member is entitled because he or she was an office holder for some or all of the month.<sup>1</sup>

### Background

Currently, there are two parliamentary superannuation schemes in operation for members and senators. The first is the Parliamentary Contributory Superannuation Scheme (PCSS), which commenced operation in 1948 and was closed to new members in 2004. Further background on the closure of the PCSS and the commencement of the new scheme can be read in the Parliamentary Library's Bills Digest on the Parliamentary Superannuation Bill 2004.<sup>2</sup>

The second is constituted by the arrangements made under the PSA. These arrangements commenced operation from 1 April 2004 and only apply to members first entering, or re-entering, Parliament as a result of the 2004 election. Currently, these arrangements are:

- 9 per cent of a member's or senator's parliamentary income per year is paid into a superannuation fund of their choice, and
- if the member or senator does not choose a particular fund – the payments are made into the Australian Government Employees Superannuation Trust (AGEST).

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The figure of nine per cent of income is based on the minimum required employer contributions under the current Superannuation Guarantee Provisions.<sup>3</sup>

This rate of contribution is widely interpreted as being the ‘community standard’ for employer superannuation contributions on behalf of the employee. However, research undertaken by Treasury’s Retirement Income Modelling Unit in 2003 indicated that the average rate at which employer superannuation contributions are made for higher income earners was between 10 and 12 per cent.<sup>4</sup> Anecdotal evidence suggest that even higher rates of contribution are common.<sup>5</sup>

#### *Public Servant’s Superannuation Arrangements*

There are three schemes providing superannuation benefits to Commonwealth public servants:

- the Commonwealth Superannuation Scheme (CSS), which was closed to new members in 1990
- the Public Sector Superannuation Scheme (PSS), which was closed to new members on 30 June 2005, and
- the Public Sector Superannuation Scheme – Accumulation Plan (PSSAP), which commenced operation on 1 July 2005.

The Commonwealth’s notional contribution rate to the PSS, as at 30 June 2005, expressed as a percentage of a Commonwealth public servant’s superannuation salary, was 15.6 per cent. As at 30 June 2002 it was 15.4 per cent.<sup>6</sup>

The Commonwealth contributes at least 15.4 per cent of a PSSAP member’s salary to the scheme.<sup>7</sup>

#### *Comparison with the PCSS*

If the proposed arrangements are approved by Parliament, the resulting superannuation benefits would still be far less generous than the PCSS scheme. For example, one commentator has noted that the Commonwealth’s notional contribution to the PCSS is about 70 per cent of a parliamentarian’s income.<sup>8</sup> As noted above, the proposed contribution rate is 15.4 per cent of the same income.

#### **Basis of policy commitment**

The measure was announced in a Press release by the Rt. Hon. John Howard MP on 7 September 2006.<sup>9</sup>

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### Position of significant interest groups/press commentary

Press reaction to the increase in the rate at which the Commonwealth contributes to post 2004 election members' and senators' superannuation has been varied:

- some commentators condemn this development as an unwarranted pay increase<sup>10</sup>
- some commentators suggest that the attractions of office and current parliamentary remuneration standards are sufficient to attract talented individuals to become members and senators. This point casts doubt on one of the main justifications given (see below) for increasing the superannuation contributions rate for the relevant parliamentarians,<sup>11</sup> and
- one commentator supported the increase in the contributions rate on the basis of comparative wages levels with senior executives in the private sector.<sup>12</sup>

### Pros and cons

Points in favour of increasing the superannuation contribution rate for the relevant members and senators are:

- it places these parliamentarians on the same basis as their staff and the public servants with whom they deal
- higher overall levels of parliamentary remuneration attract more diverse, talented and qualified individuals to parliament
- higher remuneration for parliamentarians allows them to work without the distraction of securing an income and prevents conflict of interest situations arising from involvement from extra parliamentary employment
- the increase in superannuation contribution rates may actually align this aspect of a parliamentarians' remuneration with current community practice as applied to other higher income earners, and
- in view of high, private sector, executive wage levels, increases in the total remuneration for parliamentarians via increasing the contribution rate is fair.

Arguments against the increase in the superannuation contribution rate include:

- the increase is unnecessary, as sufficient numbers of suitably qualified individuals seeking entry to parliament are always available
- as the basic allowance for members and senators is already well above the average wage (i.e. currently \$118 950 p.a.), increasing the superannuation contribution rate unjustifiably increases their total remuneration, and

the desire to undertake public service, not the prospect of higher pay and retirement benefits, should attract individuals to parliament. Increasing parliamentary remuneration

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may attract new parliamentarians mostly for the remuneration available, not to render a valuable and often thankless form of public service

**ALP/Australian Democrat/Greens/Family First policy position/commitments**The ALP has indicated that it will support the increase in the superannuation contribution rate for the relevant parliamentarians.<sup>13</sup>

The Leader of the Greens in the Senate, Senator Bob Brown, has noted that the increase in the contribution rate is designed to win the support of the back bench and is in stark contradiction to the earlier decision to set the Commonwealth's superannuation contributions at 9 per cent of the relevant parliamentarian's salary.<sup>14</sup>

Prominent independent member, Mr Peter Andren MP, has noted that there is a strong argument for increasing the rate at which the Commonwealth makes superannuation contributions on behalf of the relevant parliamentarians. However, he has called for:

- increasing the general employer superannuation contribution rate to 15 per cent of wages, and
- an inquiry into parliamentarians remuneration.<sup>15</sup>

## Financial implications

The fiscal impact is projected to be less than a million dollars in each of the financial years to 2010–11.<sup>16</sup>

## Main provisions

### Schedule 1

Clause 1 of the Bill amends subsection 8(2) of the *Parliamentary Superannuation Act 2004*, so that the rate at which the Commonwealth contributes to the relevant parliamentarians' superannuation fund is increased from 9 to 15.4 per cent of their total remuneration per year.

## Endnotes

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1. Subsection 8(2), *Parliamentary Superannuation Act 2004*.
2. Graeme Selleck, *Parliamentary Superannuation Bill 2004*, *Bills Digest*, No 131, Parliamentary Library, Canberra, 2003–04 at <http://www.aph.gov.au/library/pubs/bd/2003-04/04bd131.htm> (accessed 12 October 2006).

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3. Subsection 19(2) *Superannuation Guarantee (Administration) Act 1992*.
4. Cliff Bingham, Treasury Retirement Income Modelling Group, 'Impact of Private Savings and Longer Carers on Retirement Savings', *Paper presented to the 11<sup>th</sup> Colloquium of Superannuation Researches*, University of New South Wales, 7 July 2003, p. 6.
5. Graeme Orr, 'Politicians' pay fires debate', *Courier Mail*, 14 September 2006, p. 26, suggests that starting employer superannuation in the banking sector is at a rate of 14 per cent of salary. John Warhurst, 'Political gene pool awash without a super top-up', *Canberra Times*, 14 September 2006 notes that ANU junior lecturer positions come with a 17 per cent of wages employer superannuation contribution.
6. Australian Government, Department of Finance and Administration, *PSS and CSS Long Term Cost Report 2005*, Canberra, 2006, p. 3.
7. Rule A2.2.1, PSS Trust Deed.
8. 'Howard in wrong direction on super side', *Canberra Times*, 10 September 2006. Department of Finance and Administration staff have confirmed that this particular number is calculated but state that it is not available to the public.
9. The Rt Hon. John Howard MP, Prime Minister, 'Certain Parliamentary Entitlements' *Media Release*, 7 September 2006.
10. Terry Sweetman, 'Pollies backflip on a few dollars more', *Sunday Mail*, 10 September 2006, p. 59 and no byline, 'Howard in wrong directions on super side', *Sunday Canberra Times*, 10 September 2006, p. 18.
11. Graeme Orr op. cit. and John Warhurst op. cit.
12. Katharine Murphy, 'Transparency needed', *Age*, 8 September 2006, p. 3.
13. The Hon. Kim Beasley MP, 'Superannuation', *Media Statement*, 7 September 2006.
14. Senator Bob Brown, 'Brown says Howard using taxpayer's money to calm back bench', *Media Statement*, 8 September 2006.
15. Peter Andren MP, 'Boost super contributions for all – Andren' *Media Release*, 7 September 2006.
16. The Hon. Gary Nairn MP, Explanatory Memorandum – Parliamentary Superannuation Amendment Bill 2006, 11 October 2006, p. 1.

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