1975

AUSTRALIA

HOUSE OF REPRESENTATIVES

SUPERANNUATION BILL 1975

SUPERANNUATION ACT AMENDMENT BILL 1975

EXPLANATORY MEMORANDUM

(Circulated by the Treasurer, the Hon. J.F. Cairns, M.P.)

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INTRODUCTORY NOTE

The purpose of these Bills is to give effect to the Government's decision, announced on 4 December 1974, to replace the existing superannuation arrangements for Australian Government employees with a new superannuation scheme to operate from 1 July 1975.

The Existing Arrangements

2. The existing arrangements are provided under the Superannuation Act 1922-1974 and are designed to provide comprehensive cover for the family unit, the main benefits becoming available on invalidity, death or age retirement. The benefits are of two kinds:

- The "Pension Scheme" - a pension;

- The "Provident Account" - a lump sum payment.

3. When introduced in 1922, the arrangements provided contributory pension benefits, based on units of pension, for permanent officers of the Public Service. In 1937 the arrangements were extended by the introduction of the Provident Account to provide a lump sum benefit based on accumulated contributions for those who, for medical reasons, were not permitted to contribute for a pension benefit and those who, although eligible to contribute under the Pension Scheme, would have been faced with high initial

contributions under that scheme. At the same time, the arrangements were extended to permanent officers in areas of Australian Government employment outside the Public Service. The arrangements were further extended in 1942 to cover, subject to certain conditions, long term temporary employees and persons employed by "approved authorities".

4. The scheme has been amended from time to time to improve benefits and to make other changes. In recent years provision has been made for the preservation of superannuation rights on entry into or exit from the scheme and non-contributory units introduced to afford some relief to members faced with very high contributions in their later years of service.

5. The contribution structure of the present unit scheme has proved to be its fundamental weakness. Early in a career contributions may represent only 2% or less of a member's salary but in later years contributions may take 25% and even more of salary if the member seeks to maintain his full contributory entitlement. The contributions system is complex, complicates administration and requires contributors, particularly those over 40, to make frequent and sometimes difficult decisions involving, on their part, judgments on future trends and events.

6. For many years the scheme has provided for most members - so long as they meet the necessary contributions - a pension of about 70% of final salary on retirement at age 60 or later after 20 or more years of contributory service. Of this, the government-financed element of pension is 50% of final salary and the contributor financed element 20% of final salary. Should the member qualify for and avail himself of non-contributory units he may still obtain the government-financed element of pension of 50% of final

salary but the contributor-financed element may be reduced to as low as 10% of final salary if he utilises non-contributory units to the fullest extent. Since July 1973 the Government-financed element of pensions have been updated annually in accordance with the formula 1.4 times the Consumer Price Index or the change in Average Weekly Earnings, whichever the lesser, recommended to the Government by the actuary, Professor A.H. Pollard of Macquarie University.

7. Mainly because of the contribution problem the Pension Scheme has come under increasing criticism in recent years.

8. The Provident Account has also been criticised for not providing adequate benefits in many situations, particularly for those contributors who become invalids, and for the dependants of those who die, after relatively short periods of service.

Review of the Existing Arrangements

9. In 1971, a committee of officers drawn from the Treasury and the Offices of the Public Service Board, the Superannuation Board and the Australian Government Actuary commenced a review of the existing arrangements. The Committee identified the problems and shortcomings associated with the arrangements and proposed that they should be replaced by a new scheme. The Committee's Report was tabled on 8 May 1973.

10. The former Treasurer invited comments on the Committee's Report from interested persons and organisations and on 12 March 1974 tabled revised proposals that had regard to the suggestions he had received. Subsequently,

the Government appointed the actuaries, Mr. G.L. Melville and Professor A.H. Pollard, to review the revised proposals and their Report was tabled on 10 July 1974. As announced by my predecessor on 4 December 1974, the Government decided to implement a scheme that took into account the recommendations of the two actuaries and further representations that had been made to the Government.

The New Scheme

11. The proposed new scheme is, on the contributions side, simpler in concept than the existing arrangements and, after the initial transitional stage, will be simpler to operate. Under the new scheme, contributors will have a number of options in relation to benefits but these will be exercised on retirement rather than during the contributor's working life as is the case with the present arrangements. Thus decisions will be taken by the contributor at a time when he is arranging his post-retirement affairs.

12. The scheme provides for compulsory contributions of 5% of salary with an option to make supplementary contributions of up to a further 5%. Benefits are based on a Government-financed pension of 50% of final salary on retirement on or after age 60 with 30 years contributory service together with additional pension of up to 20% of final salary financed by the accumulation of the member's contributions at interest. Should contributory service to age 60 exceed 30 years the Government-financed pension will be increased to a maximum of 55% of final salary by .5% of final salary for each year of contributory service in excess of 30. Whole or part of the additional pension may be converted to a lump sum.

13. Overall, the introduction of the proposed new scheme is expected to increase the capitalised cost of superannuation to the Government by 13.7%. The main assumptions used in developing this estimate are discussed in paragraphs 90 and 91 below and the various components of the increased cost are shown in the associated table. It will be seen from the table that a significant part of the additional cost relates to improving benefits payable to, or in respect of, existing contributors to the Provident Account. The increase in cost in relation to existing pension scheme contributors is estimated to be 4.8% and 3.6% for existing pensioners.

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14. The Superannuation Bill provides the new superannuation arrangements for existing and new contributors.

PART I - PRELIMINARY (CLAUSES 1-16)

15. This Part provides for the new arrangements to come into operation on 1 July 1975 and defines various terms used in the Act. It also describes "salary" for superannuation purposes and who may be "eligible employees" for the purposes of the Act (and thus contributors) and contains provisions in relation to medical examinations.

PART II - COMMISSIONER FOR SUPERANNUATION (CLAUSES 17-28)

16. The general administration of the arrangements other than the investment of the Superannuation Fund is to be the responsibility of the Commissioner for Superannuation. This Part establishes the office of Commissioner for Superannuation and deals with the method of appointment to the office, remuneration, termination of appointment, acting appointments, delegations etc.

PART III - THE INVESTMENT TRUST AND THE FUND (CLAUSES 29-45)

17. Contributions by employees are to be held in the Superannuation Fund which is to be invested. The Fund is to be managed by the Superannuation Fund Investment Trust which is to be a body corporate consisting of three members -

(a) a full-time Chairman; and

(b) 2 part-time members, one of whom is to be a contributor or pensioner appointed after consultation with appropriate organisations, a substantial proportion of the members of which are eligible employees or pensioners.

So far as is practicable, the Chairman and other members are to be persons with experience in investment or finance.

18. This Part establishes the Trust and contains provisions relating to the appointment etc. of members and the conduct of meetings.

19. It also establishes the Superannuation Fund, provides for it to be managed by the Trust and sets out the manner in which it may be invested. The powers of investment are wide, extending to shares and real property.

PART IV - CONTRIBUTIONS (CLAUSES 46-55)

20. This Part requires an eligible employee to pay fortnightly basic contributions of 5% of salary. Subject to special provisions relating to decreases in salary during the year, the amount of the fortnightly basic contribution to be paid by an eligible employee during the ensuing year will be established on his birthday and will be based on his salary on the birthday.

21. An eligible employee will have the option of paying supplementary contributions of up to 5% of salary.

22. The Part also contains provisions relating to the treatment of a contributor who is on leave without pay. It also provides for deferment of contributions by an

eligible employee while he is liable to contribute under the Defence Force Retirement and Death Benefits Act.

PART V - ELIGIBLE EMPLOYEES' BENEFITS (CLAUSES 56-81)

23. This Part sets out the benefits payable to eligible employees on retirement. It is separated into Divisions according to the nature of the retirement.

24. DIVISION 1 (Clauses 56-58) deals with age retirement benefits and provides for an eligible employee who retires after attaining age 60 and completing 30 years <u>contributory</u> service to receive a <u>standard</u> (Government-financed) age retirement pension of 50% of final salary. Provision is made for the <u>standard</u> pension of a person who completed more than 30 years <u>contributory</u> service before attaining age 60 to be increased in accordance with Schedule 1 to the Bill by .5% of final salary for each year of <u>contributory</u> service in excess of 30 years completed before age 60 up to a maximum of 55% for 40 or more years service. The Division also provides for the <u>standard</u> pension of a person who completed less than 30 years <u>contributory</u> service to be at a rate less than 50% of final salary determined from Schedule 2 to the Bill (the pension increases from a minimum of 2% of final salary for 1 years service to 49% for 29 years service). It also provides for the accumulated contributions (contributions are accumulated at interest) of a person who is entitled to <u>standard</u> age retirement pension to be used to finance an <u>additional</u> age retirement pension of up to 20% of final salary and related spouse's benefits. Should the amount of accumulated contributions exceed that required to finance the maximum rate of additional pension, the excess would be paid to the retired employee.

25. DIVISION 2 (Clauses 59-63) sets out the benefits payable on early retirement, that is, retirement on other than invalidity grounds before attaining age 60 where permitted by the conditions of employment. It provides for a standard (Government-financed) early retirement pension to be payable according to years of contributory service but reduced by 4% for each year or part of a year by which the person's age on retirement falls short of 60 years. Provision is also made for a similarly reduced contribution financed additional early retirement pension with related spouse's benefits with any accumulated contributions in excess of those required to finance the additional pension being paid to the retired employee.

26. The Division also provides for a person whose early retirement is deemed to be involuntary (as described in provisions of the Division e.g. retrenchment) to have the option of receiving, instead of the pension and lump sum benefit described above, a lump sum benefit equal to 3½ times his accumulated basic contributions together with an amount equal to his accumulated supplementary contributions.

27. DIVISION 3 (Clauses 64-66) enables a person who is entitled to additional age or early retirement pension to increase the retirement pension by reducing the spouse's benefit or vice versa. Either or both benefits may also be converted in whole or in part to a lump sum. These are once only options on retirement.

28. DIVISION 4 (Clauses 67-80) provides the benefits payable to a person who retires on invalidity grounds before attaining age 60. The benefit payable depends upon his periods of prospective and contributory service ("period of prospective service" is defined in Part 1 as the period of contributory service at cessation plus the period remaining to age 60 or an earlier retiring age).

The benefit payable also depends upon whether a "benefit classification certificate" was in force in relation to him at his retirement in accordance with provisions contained in Part I. A benefit classification certificate specifies a physical or mental condition or conditions, found to be in existence on medical examination at entry, that the Commissioner for Superannuation considered made it unlikely that the person would continue in employment until retiring age. A benefit classification certificate ceases to be in force once the employee has completed 20 years contributory service or attains retiring age. Within the period of 20 years the certificate may be revoked or varied to exclude a particular condition or conditions following further medical examination.

29. Where an eligible employee retires on invalidity grounds and a benefit classification certificate is in force in relation to him and his retirement arose from one or more of the conditions specified in the certificate, his benefit is reduced on medical grounds.

30. Where an eligible employee retires on invalidity grounds before attaining age 60 and his benefit is <u>not to be reduced</u> on medical grounds, the benefits and options available to him are as follows (see also paragraph 31 below) -

(a) If his period of <u>prospective</u> service is not less than 30 years, the benefit is, <u>at his option</u>, either -

(i) a pension of 70% of final salary together with payment of the amount of his accumulated <u>supplementary</u> contributions (if he has completed more than 30 years <u>contributory</u> service, the rate of the pension is increased, in accordance with Column 2 of Schedule 3 to the Bill, by .5% of final salary for each completed year of contributory service in excess of 30 years up to a maximum of 75% for 40 years or more);

OR

(ii) a pension of 50% of final salary together with payment of the amount of his accumulated contributions (both basic and supplementary (if he has completed more than 30 years contributory service, the rate of the pension is increased, in accordance with Column 3 of Schedule 3 to the Bill, by .5% of final salary for each completed year of contributory service in excess of 30 years up to a maximum of 55% for 40 years or more).

(b) If his period of prospective service is less than 30 years, the benefit is, at his option, either -

(i) a pension at a rate lower than 70% of final salary determined from Column 2 of Schedule 4 to the Bill (for example, a person with 10 years prospective service would receive a pension of 28% of final salary) together with payment of the amount of his accumulated supplementary contributions;

OR

(ii) a pension at a rate lower than 50% of final salary determined from Column 3 of

Schedule 4 to the Bill (for example, a person with 10 years prospective service would receive a pension of 20% of final salary) together with payment of his accumulated contributions (both basic and supplementary).

31. If the period of prospective service of an eligible employee referred to in paragraph 30 above is less than 8 years he may elect to receive, in lieu of a benefit including a pension, a lump sum benefit of whichever is the greater of 3½ times his accumulated basic contributions or an amount of half his final annual salary. In addition he would receive payment of his accumulated supplementary contributions.

32. Where an eligible employee retires on invalidity grounds before attaining age 60 and his benefit is to be reduced on medical grounds, the benefits and options available to him are as follows -

With at least 8 years contributory service

(a) If his period of prospective service is not less than 30 years, the benefit is, at his option, either -

(i) a pension determined from Column 2 of Schedule 5 to the Bill of 28% of final salary for 8 years contributory service increasing with each additional year to 66.5% for 19 years service (Note - a benefit classification certificate ceases to be in force on completion of 20 years contributory service and the benefit would then be as described in paragraph 30 above). He would also receive payment of his accumulated supplementary contributions;

OR

(ii) a pension determined from Column 3 of Schedule 5 to the Bill of 20% of final salary for 8 years contributory service increasing with each additional year to 47.5% of final salary for 19 years service together with payment of his accumulated contributions (both basic and supplementary).

(b) If his period of prospective service is 20 or more years but less than 30 years the benefit is, at his option, either -

(i) a pension at a rate determined by multiplying the amount that is the percentage of final salary shown in Column 2 of Schedule 6 to the Bill that is appropriate to his years of prospective service by the factor shown in Schedule 7 to the Bill that is applicable to his years of contributory service (for example, for a person with 20 years prospective service and 10 years contributory service the pension rate would be determined by multiplying 56% of final salary by .5). He would also receive payment of his accumulated supplementary contributions;

OR

(ii) a pension at a rate determined by multiplying the amount that is the percentage of final salary shown in Column 3 of Schedule 6 to the Bill that is appropriate to his years of prospective service by the factor shown in Schedule 7 that is applicable to his years of contributory service (for example, for a person with 20 years prospective service and 10 years contributory service the pension rate would be determined by multiplying 40% of final salary by .5). He would also receive payment of his accumulated contributions (both basic and supplementary).

(c) If his period of prospective service is less than 20 years the benefit is, at his option, either -

(i) a pension determined from Column 2 of Schedule 8 to the Bill (for example, a person with 10 years contributory service would receive a pension of 28% of final salary) together with payment of his accumulated supplementary contributions;

OR

(ii) a pension determined from Column 3 of Schedule 8 to the Bill (for example, a person with 10 years contributory service would receive a pension of 20% of final salary) together with payment of his accumulated contributions (both basic and supplementary).

With at least 8 years but less than 15 years contributory service

Where the eligible employee's period of contributory service is at least 8 years but less than 15 years, he may elect to receive (in lieu of the benefits outlined above for at least 8 years contributory service) a lump sum benefit of whichever is the greater of 3½ times his accumulated basic contributions or an amount equal to half his final annual salary. In addition, he would receive an amount equal to his accumulated supplementary contributions.

With less than 8 years contributory service

Where the eligible employee's period of contributory service is less than 8 years, the benefit is a lump sum benefit of whichever is the greater of 3½ times his accumulated basic contributions or an amount equal to half his final annual salary. In addition, he would receive an amount equal to his accumulated supplementary contributions.

33. The Division also contains provisions empowering the Commissioner to require an invalid pensioner who has not attained age 60 to undergo a medical examination. It also provides for the suspension or cancellation of invalidity pension in certain circumstances.

34. Provision is also made for the payment of partial invalidity pension to a person who was an invalid pensioner and again becomes an eligible employee but at a lower rate of salary than that on which he retired due to

invalidity. Partial invalidity pension may also be payable to an eligible employee whose salary has been reduced for health reasons.

35. DIVISION 5 (clause 81) provides that where a person ceases to be an eligible employee otherwise than on death and he is not entitled to an age retirement, early retirement (voluntary or involuntary) or invalid retirement benefit, the benefit payable to him shall be the amount of his accumulated contributions (both basic and supplementary).

PART VI - BENEFITS PAYABLE TO SPOUSES AND CHILDREN (CLAUSES 82-110)

36. This Part provides the benefits payable to, or in respect of, the "spouse" and/or "eligible children" (as defined in Part 1 of the Bill) of an eligible employee or retirement pensioner on his death.

37. DIVISION 1 (clauses 82-85) provides the benefit payable to the spouse of an eligible employee who dies on or after attaining age 60.

38. The spouse would be entitled to a spouse's standard (Government-financed) pension of 67% of the rate of standard age retirement pension to which the eligible employee would have been entitled if he had retired on the day after he died (see paragraph 24 above). Where the eligible employee was also survived by eligible children, the spouse's standard pension would be increased to 78% of the rate of standard age retirement pension applicable to the eligible employee if there was 1 eligible child, to 89% if there were 2 eligible children and to 100% if there were 3 or more eligible children.

39. The spouse would also be entitled to a spouse's <u>additional</u> pension at a rate of whichever is the lesser of -

(a) an amount per year equal to the product of the accumulated contributions of the eligible employee and a factor applicable under Regulations;

OR

(b) 13.4% of the eligible employee's final annual rate of salary.

Where the amount in (a) is greater than the amount in (b), the spouse would receive, in addition to the spouse's <u>additional</u> pension, a lump sum of the amount of the eligible employee's accumulated contributions in excess of that required to finance the additional pension of 13.4% of final annual salary.

40. The spouse may elect to convert whole or part of the spouse's <u>additional</u> pension to a lump sum benefit.

41. DIVISION 2 (clauses 86-93) provides the benefits payable to the spouse of an eligible employee who dies before attaining age 60. Where a benefit classification certificate (see paragraph 28 above) was in force in relation to the deceased eligible employee and the Commissioner for Superannuation was of the opinion that the eligible employee's death was caused or substantially contributed to by a physical or mental condition specified in the certificate, the spouse's benefit would be reduced on medical grounds.

42. Where the spouse's benefit was not to be reduced on medical grounds, the benefit would, at the option of the spouse, be a spouse's pension of 67% of the rate of the invalidity pensions that the eligible employee could have elected to receive if he had retired on the grounds of invalidity on the day after he died (see paragraph 30 above) together with the lump sum benefit that would have been paid to the eligible employee. Alternatively, where the eligible employee's period of prospective service was less than 8 years, the spouse could elect to receive, instead of pension, the lump sum benefit that the eligible employee could have elected to receive (see paragraph 31 above). If the eligible employee was survived by eligible children, the spouse's pension would be increased in the same way as for the spouse's pension under Division 1 (see paragraph 38 above).

43. Where the spouse's benefit was to be reduced on medical grounds, the benefit payable would be determined along the lines outlined in the preceding paragraph but would be based on the benefit (reduced on medical grounds) applicable to the eligible employee on invalidity retirement (see paragraph 32 above).

44. DIVISION 3 (clauses 94-97) provides for the following benefits to be payable to a spouse on the death of a pensioner -

(a) Where the pensioner was in receipt of a standard (Government-financed) age or early retirement pension - a spouse's standard pension at the rate of 67% of the pension that was payable to the pensioner (see paragraphs 24 and 25 above);

(b) Where the pensioner was in receipt of an additional age or early retirement pension - a spouse's additional pension at the rate of 67% of the pension that was payable to the pensioner or would have been payable to the pensioner if whole or part had not been converted to a lump sum under Division 3 of Part V (see paragraph 27 above). The rate of the pension would also be affected by the action (if any) taken by the deceased under Division 3 of Part V to increase or reduce his own pension;

OR

(c) Where the pensioner was in receipt of an invalidity pension - a spouse's pension at the rate of 67% of the pension payable to the pensioner (see paragraphs 28-31 above).

Where the pensioner was also survived by eligible children, the spouse's pension in (a) and (c) would be increased in the same way as for the spouse's pension under Division 1 (see paragraph 38 above).

45. DIVISION 4 (clauses 98-110) provides the benefits payable in respect of eligible children where an eligible employee or a retirement pensioner dies and is not survived by a spouse, or a spouse in receipt of pension dies.

46. In general, the benefit will be a pension related by percentage (according to the number of children) to the rate of retirement pension appropriate to the eligible employee or retirement pensioner. In certain circumstances, the benefit will be, or will include, a lump sum payment.

47. The percentages applicable in relation to pension are -

(a) for 1 eligible child - 45%;

(b) for 2 eligible children - 80%;

(c) for 3 eligible children - 90%; and

(d) for 4 or more eligible children - 100%.

48. In accordance with provisions contained in Part VII, payment of orphan benefit is to be made to the child or children or such other person or persons as the Commissioner for Superannuation considers appropriate.

49. DIVISION 5 (clauses 111-113) provides for spouse's pension to cease on re-marriage. The Commissioner for Superannuation is empowered to restore the pension (at a rate not exceeding the rate at which the pension would have been payable if it had not ceased) if he is satisfied that the spouse is in necessitous circumstances.

50. Where an eligible employee or retirement pensioner dies and is survived by more than one person who is a spouse for the purposes of the Bill, the spouse's benefit is to be allocated between them in such proportions as the Commissioner for Superannuation determines from time to time.

PART VII - GENERAL PROVISIONS APPLICABLE TO BENEFITS (CLAUSES 114-122)

51. This Part contains a number of general provisions in relation to benefits.

52. It provides that, where an eligible employee dies and no benefit is payable to a spouse or children under Part VI, an amount equal to his accumulated contributions shall be paid to his personal representatives.

53. Provision is also made for payments to and from Consolidated Revenue. Except where the benefit is a lump sum payment of accumulated contributions or accumulated supplementary contributions payable from the Fund, the accumulated contributions of an eligible employee are, upon his ceasing to be an eligible employee, to be paid to Consolidated Revenue and his benefit paid from Consolidated Revenue. The Consolidated Revenue Fund is appropriated for this purpose.

54. There is also provision for the payment of pension to someone other than the person entitled where the person entitled is under certain disabilities.

55. The Part also includes provisions in relation to the assignment and attachment of benefits.

PART VIII - CANDIDATES AT PARLIAMENTARY ELECTIONS (CLAUSES 123-128)

56. This Part extends superannuation cover to an eligible employee who resigns his employment, within 1 month of the date nominations close, in order to become a candidate for election as a Member of a House of Parliament (Australia or a State) or the Legislative Assembly for the Northern Territory or a legislative or advisory body for any other Territory prescribed for the purposes of section 47C of the Public Service Act (section 47C provides for the re-appointment of officers who have retired to become candidates at elections).

57. Under the provisions of the Part, death benefits would be payable in respect of an eligible employee who resigned to contest an election and -

(a) died before the declaration of the poll;

(b) if he failed to be elected, died within 2 months after the date of declaration of the poll; or

(c) if he was successful at the election, died before he became a member of the legislative body.

58. In a similar way, the Part provides invalidity benefits for a person who becomes physically or mentally incapacitated.

PART IX - PRESERVATION OF RIGHTS OF CERTAIN ELIGIBLE EMPLOYEES (CLAUSES 129-150)

59. This Part contains provisions similar to those of the existing Act in relation to the preservation of superannuation rights on change of employment where different superannuation schemes are involved.

60. DIVISION 1 (clauses 129-130) defines certain terms used in the Part. It also provides that service as a Member of Parliament (Australia or a State) or as a member of the Legislative Assembly for the Northern Territory or a legislative or advisory body of any other Territory prescribed for the purposes of section 47C of the Public Service Act will be treated as employment by Australia or a State for the purposes of the preservation arrangements.

61. DIVISION 2 (clauses 131-134) applies to a person who becomes an eligible employee and has a "transfer value" available from the superannuation scheme of a previous employer. A "transfer value" is a lump sum benefit based wholly upon contributions by the employer or partly upon contributions by the employer and partly upon contributions by the employee. The employer component of the transfer value will be paid to Consolidated Revenue in exchange for a period determined by the Commissioner that will be added to the person's actual period of contributory service in determining his pension entitlement on retirement. The employee component will be paid into the Superannuation Fund and treated as basic contributions.

62. Where the person ceases to be an eligible employee and pension is not payable to, or in respect of him, he will receive the amount of the transfer value that he brought in plus interest in addition to the normal lump sum benefit.

63. Provision is also made for an eligible employee to be exempted from medical examination on entry where he has a preserved benefit from the superannuation scheme of a previous employer and the rules of the previous scheme required him to pass an acceptable medical examination. For the exemption to apply there must not have been a break of more than 3 months between the termination of the previous employment and becoming an eligible employee and the termination must not have been on the grounds of invalidity.

64. DIVISION 3 (clauses 135-148) sets out the preservation arrangements applicable to persons ceasing to be eligible employees.

65. The preserved benefit takes the form of either a transfer value payable to the administrators of another

superannuation scheme or a deferred benefit payable to, or in respect of, the person. The amount of the transfer value is determined by the Commissioner for Superannuation and becomes payable when the person, within 3 months after ceasing to be an eligible employee, moves to a scheme that has been declared by the Treasurer to be an "eligible superannuation scheme".

66. The Commissioner will also determine the amount of a deferred benefit. A deferred benefit becomes applicable in respect of a person where a transfer value is not payable in respect of him and he has completed 10 years "eligible employment" or he has become employed in public employment within 3 months after ceasing to be an eligible employee. The deferred benefit becomes payable, subject to certain conditions, on the person attaining age 60, on a date selected by him or on earlier death or invalidity. Should the conditions not be met the person will receive benefits as if the preservation arrangements had not applied to him.

67. DIVISION 4 (clauses 149-150) will apply to those persons who become eligible employees and whose previous superannuation scheme was conducted in accordance with the assurance policy scheme established in the United Kingdom and known as the Federated Superannuation System for Universities (FSSU) or a similar system approved for the purposes of this Division. Such a person who, as an alternative to other courses open to him, wishes to keep his policies alive will be able to transfer them to the Commissioner for Superannuation. The Division sets out the conditions under which the policies will be maintained and varied as appropriate by the Commissioner having regard to the salary of the eligible employee. The person assigning the policies will pay contributions at least at the level he

would have been required to contribute had his former scheme applied to him. If, before attaining age 60, he moves to employment to which FSSU or similar policy arrangements apply he will be able to take his policy with him as a preservation benefit.

68. The Division also makes provision for payments to and from Consolidated Revenue in relation to the preservation arrangements.

PART X - PENSION INCREASES (CLAUSES 151-157)

69. This Part provides for pensions being paid under the provisions of the Bill on 30 June 1976 (i.e. not those that became payable before 1 July 1975) and each subsequent June, to be increased annually by the percentage increase in the Consumer Price Index over the 12 months ending on the preceding 31 March. The increases will not apply to the additional (contributor-financed) pension unless accumulated basic contributions were used to their fullest extent possible to finance the additional pension.

PART XI - MISCELLANEOUS (CLAUSES 158-171)

70. This Part contains a number of miscellaneous provisions in relation to the administration of the superannuation scheme.

71. It provides for the review of decisions by the Commissioner for Superannuation where sought by a person affected by a decision and for the constitution, by Regulations, of a review tribunal.

72. It also contains provisions relating to the payment by approved authorities of the employer superannuation liability in respect of contributors employed by them and the cost of the medical examination of their employees.

73. To meet the problem of delays in the payment of benefits during the transitional period, provision is made for interim payments at the direction of the Commissioner.

74. Both the Investment Trust and the Commissioner for Superannuation will be required to prepare annual reports for transmission to the Treasurer and tabling in the Parliament. The Trust is to include, with its report, financial statements on which the Auditor-General has reported.

75. The Part also provides for the Treasurer to delegate his powers under the Bill and empowers the Governor-General to make Regulations. It also prescribes penalties in relation to persons who make false statements to the Commissioner in order to obtain a benefit.

PART XII - TRANSITIONAL PROVISIONS (CLAUSES 172-196)

76. This Part contains provisions in relation to the changeover from the existing to the new scheme.

77. DIVISION 1 (clause 172) defines various terms used in the Part.

78. DIVISION 2 (clauses 173-182) provides for the assets of the existing Superannuation Fund to be vested in the Investment Trust and for them to form part of the new Fund. It also provides for the investment liabilities of the Superannuation Board to become the liabilities of the Investment Trust.

79. The Part also provides for the value of the net assets of the existing Fund to be allocated into 2 parts as determined by the Treasurer, one being attributable to existing pensioners and the other being attributable to existing contributors.

80. Of the part attributable to existing pensioners, so much as is deemed by the Treasurer as being required to provide for the Fund share of future payments is to be paid to the Consolidated Revenue Fund and may be paid in instalments as determined by the Treasurer over a period of 10 years. The remainder, if any, is to be distributed as surplus among existing pensioners.

81. Existing contributors will be allocated, as determined by the Treasurer, an amount representing basic contributions and an amount for supplementary contributions. Contributors will be able to elect to receive a cash payment of whole or part of the supplementary contributions element.

82. DIVISION 3 (clause 183) applies the relevant provisions of the Bill to a person to whom an invalidity pension is, or would be but for its suspension, payable under the superseded Act.

83. DIVISION 4 (clauses 184-190) provides that a person, who was an employee for the purposes of the superseded Act immediately before 1 July 1975 and who continues to be such an employee, shall be deemed to have become an eligible employee for the purposes of the new scheme on 1 July 1975. Provision is included to enable the Regulations to modify provisions of the Bill in relation to such persons.

84. Provision is also made for existing contributors to be exempted from medical examination and for benefit classification certificates to be deemed to have been in force in 1 July 1975 in relation to Provident Account contributors who, as at 1 July 1975, had not completed 20 years <u>contributory</u> service.

85. DIVISION 5 (clauses 191-196) contains provisions in relation to persons who exchanged certain superannuation rights under other legislation for equivalent

rights under the superseded Act. It also provides for certain special superannuation arrangements made under the superseded Act to continue in force.

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86. The Superannuation Bill 1975 does not repeal the Superannuation Act 1922-1974 since the latter will continue to provide the benefits applicable to all those who have an entitlement to Pension Scheme or Provident Account benefits by reason of resignation, retirement, death or invalidity before 1 July 1975. Those persons presently contributing and who are contributors as at 30 June 1975 will, however, be compulsorily transferred to the new scheme and a number of consequential amendments to the existing Act are necessary.

87. Some of the principal consequential amendments provide for the discontinuance of contributions for both the Pension Scheme and the Provident Account and for Reserve Units, for the abolition of the Superannuation Board and the Superannuation Fund as they exist now by the repeal of Part II of the Act and for persons contributing under the Superannuation Act 1922-1974 as at 30 June 1975 to have no entitlement for benefits under that Act after that date. Amendments are also made to the appropriation provisions to provide for all benefits to be paid from Consolidated Revenue after 1 July 1975 (the Superannuation Bill 1975 provides for the transfer from the Superannuation Fund to Consolidated Revenue of an amount necessary to meet the Fund share of pensions payable after 1 July 1975).

88. The Bill provides for the increased benefits that will become payable to spouses and children under the new scheme to be paid to existing spouses and child pensioners and also applies the extended eligibility tests for spouses' and children's pensions in respect of deceased ex-contributors and pensioners.

89. Provision is also made in the Bill for the provision of special superannuation arrangements for those persons who are transferred before 1 July 1975 from State

and private employment as a result of the transfer of functions to the Australian Government, e.g., State Aboriginal Affairs personnel have transferred to the Department of Aboriginal Affairs and employees of private health funds have transferred to the Health Insurance Commission. The arrangements will avoid disadvantage to them in respect of superannuation where they were previously contributing to a superannuation scheme. Those provisions have been made retrospective to cover those persons who have already been transferred and they have also been applied to those State teachers who transferred to the Commonwealth Teaching Service between 14 September 1973 and 1 January 1974.

ESTIMATED CAPITAL COSTS OF THE NEW SUPERANNUATION SCHEME COMPARED TO THE COSTS OF THE EXISTING SCHEME

90. The estimates of the cost of the proposed new superannuation scheme for Australian Government employees contained in the table that follows paragraph 93 are the estimated capital values as at 30 June 1972 of the future cost to the Government in respect of pensioners and contributors in the present scheme at that date. June 1972 was the occasion of the last valuation of the present Superannuation Fund and detailed statistical information was compiled for that purpose. The estimated capital values show the present value of the liabilities to be met by the Government under the present scheme with adjustments for changes to be incorporated in the new scheme. The liabilities relate to the period covered by the lifetime of contributors and pensioners as at 30 June 1972 and their dependants, a period that could extend for perhaps 80 years or more.

91. The main assumptions on which the estimates have been based are those that were adopted in the Report by the actuaries Mr. G.L. Melville and Professor A.H. Pollard on the Treasurer's Proposals for a New Superannuation Scheme for Australian Government Employees, which was tabled in the House of Representatives on 10 July 1974. The main assumptions are:-

(i) The interest discount factor over the period during which the costs would arise would be 5½% per annum.

(ii) The increase in the Consumer Price Index over the period during which the costs would arise would be 3.9% per annum.

(iii) In addition to a promotional salary scale based on average Australian Government service experience, annual increases in general salary levels of 5½% per annum over the remaining working lives of existing contributors at 30 June 1972 have been assumed.

(iv) The rates of mortality, invalidity, withdrawal etc. are based on the experience of contributors to, and pensioners of, the present scheme.

Although based on data as at 30 June 1972, the estimates serve to indicate the relative magnitude of the various changes listed.

92. Membership of the Superannuation Scheme at 30 June 1972 was as follows:

Contributors to the Pension Scheme	174,355
Contributors to the Provident Account	21,518
Pensioners (including 2609 children)	30,403

93. At 10 April 1975 the membership was:

Contributors to the Pension Scheme	193,000
Contributors to the Provident Account	31,000
Pensioners (including approximately 2,500 children)	33,000

The total of 224,000 contributors to the Pension Scheme and Provident Account suggests that of the order of 60,000 Government employees and employees of Approved Authorities, with one or more years past service are not members of the present scheme or of other superannuation schemes. Not all these employees would be eligible to become members of the new superannuation scheme as they would not, on 1 July 1975, have the prospect of three further years Government employment. Further, membership of the new scheme is optional for such employees and, based on past experience, not all those eligible would choose to join the scheme.

ESTIMATED CAPITAL COSTS
(See Paragraphs 90 to 92)

	Pensioners	Pension Scheme Contri-butors	Provident Account Contri-butors	Total
Capital Value of benefits under the present scheme	$m	$m	$m	$m
	912	6,553	152	7,617
less adjustment of the present updating basis to the 1.0 CPI basis	-	-1,204	-	-1,204
plus cost of transfer of Provident Account contributors to the present Pension Scheme	-	-	534	534
plus additional capital value of:				
(a) providing full benefits at age 60	-	419	40	459
(b) increasing widows' pensions	30	97	11	138
(c) widening eligibility for spouses' benefits	-	86	10	96
(d) increasing children's pensions	3	25	2	30
(e) eliminating tapering above the prescribed amount	-	23	-	23
(f) giving option of guaranteed pension on death in service	-	99	9	108
(g) giving option of guaranteed pension on invalidity	-	269	27	296
(h) introducing a 5% supplement	-	298	40	338
(i) updating pension purchased with accumulated contributions	-	200	25	225
Ø Capital value of benefits under the proposals	945	6,865	850	8,660
Increase in capital value of benefits	33	312	698	1,043
Increase in capital value on account of each group compared to the cost for that group under the present scheme	+3.6%	+ 4.8%	+459%	+13.7%

NOTE: The additional capital values shown as items (a) to (i) above apply only if they are introduced in the order shown. If a different order is used, the compounding effect of the introduction of new benefits would cause variations in the individual amounts of additional capital value, although the total would remain unchanged.

ø These capital values include $3,235m. for updating of benefits which is made up as follows:-

- $392m. in respect of existing pensioners as at 30 June 1972 on the basis of the Government share of pensions being adjusted annually by a percentage equal to 1.4 times the annual increase in the Consumer Price Index.

- $2,514m. in respect of Pension Scheme contributors as at 30 June 1972 on the basis of the Government-financed element of age pensions and the whole of other pensions being adjusted annually by the formula one times the percentage increase in the Consumer Price Index and the contributor-financed element of age pensions being adjusted on the same basis, provided basic contributions are used to the fullest extent possible to finance the pension; and

- $329m. in respect of existing Provident Account contributors as at 30 June 1972 on the same basis of updating as for existing Pension Scheme contributors.