A number of questions on the indexation issue have been asked by Senator Humphries as part of the Senate Finance & Public Finance Committee examination of the Supplementary Estimates October 2010.

A response is due by 3 December 2010.

Questions on Notice

The Secretary
Senate Finance and Public Administration Committee

Questions on Notice
Senate Supplementary Estimates October 2011
Department of Finance and Deregulation- Public Sector Superannuation.

Question 1

The June 2010 DoFD "Red Book" provided advice to the new Minister that the “current unfunded liability” for Commonwealth and Military Superannuation is $127B.

(a) Can DoFD explain and substantiate how it has derived this figure when the Future Fund Actuary estimated the liability to be $96.3B for 2009/2010 and the Department itself was quoted in the Matthews Review Report (page 34) to have estimated the figure to be $100.3B as of 30 June 2008?

(b) Is it not standard practice to quote unfunded liability figures as a discount value in the current year and not in nominal terms unless otherwise specified?

(c) In the DoFD submission to the Matthews Review, the Department estimated the unfunded liability (in nominal terms) would be $147B by 2020 (page 19). The latest Red Book now suggests that the figure is $168B.

What has significantly changed that would account for a $21B increase?

Question 2

In both the DoFD and Australian Government Actuary (AGA) submissions to the Matthews Review, there is an explicit assumption made that the “take up rate of pensions” would be greater under improved indexation arrangements as analysed, which subsequently affected (significantly) the financial estimates generated.

(a) On what historical basis have these assumptions been made?

(b) Is there hard historical data that can be provided to support the assumptions?

(c) Given that the AGA's assumption that the take up rate of pension for the employer component would be from 75% to 90% for Officers and 60% to 80% for other Ranks (page 2 of AGA submission) and that the implied take up rate of civilian schemes would be 50% (page 27 of DoFD Sub), what would the estimates be if this assumption was completely removed from the analysis?

Question 3

(a) Given the impact of previous assumptions on the financial wellbeing of Commonwealth and Military retirees, what process is used to peer review assumptions?
(b) Are the main Retiree Representative Organisations consulted on the use and change of underlying assumptions?

Question 4

Professor Pollard's 1973 report (Chapter 1) made very clear recommendations that he believed that the "Commonwealth Servant" was entitled to "a share of national productivity", and that, as such, retirement incomes should be indexed by a factor of 1.4 times the CPI.

Can DoFD confirm that Mr. Matthews was provided with a full and unabridged copy of the 1973 Pollard Report?

Question 5

The Matthew's Review placed considerable emphasis, particularly within the Executive Summary, that CPI indexation alone was and continues to be adequate in maintaining the "purchasing power" of Commonwealth provided retirement incomes. However, the ABS clearly states in its document 4102.0 (dated 7 August 2007) that *"Purchasing Power"* and *"material living standards"* are directly proportional to *"real national disposable income per capita"* and *"real national net worth per capita"*. In other words, Purchasing Power is directly proportional to income and net worth after inflation.

(a) Does DoFD agree with the ABS' analysis and definition of "Purchasing Power"?

(b) If not, is there a preferred alternative?

Question 6

On page 42 of the Matthews Review Report, DoFD is quoted as stating that there "are no identifiable assets available to offset an increase to the unfunded liability" and that the

"Future Fund currently only has sufficient assets to meet superannuation liabilities at and beyond 2020 arising from current indexation arrangements".

(a) Given the investment return of the Future Fund over the last Financial Year (i.e. 10.7%), is it feasible that the annual cash cost of improved indexation arrangements could be reasonably met (after prospective legislative amendment) by accessing excess earnings from the Future Fund without creating serious detriment to the Funds original purpose?

(b) Has DoFD undertaken any detailed analysis of this proposal including potential clawbacks of age pension and taxation receipts?

Question 7

In the DFRDB annual reports for 2008/2009 and 2009/2010 (i.e. pages 48 and 4 respectively) it states that the "average annual pensions" as at 30 of June each year were: 2008 = $21,486; 2009 = $22,092; and 2010 = $23,549.

(a) Can DoFD explain why there is a seemingly large discrepancy between these COMSUPER Annual Report figures and that of the average annual pension figures for DFRDB as stated in the Matthews Review Report (Table F2 of Appendix F, page 58)?

(b) What bearing did the Table F2 figures have on the estimates generated by DoFD?

(c) If the DFRDB figures within the Matthews Report are in error, what measures will DoFD employ to ensure that the estimates within the Matthews Review Report are iron clad?

Question 8

In the AGA's confidential submission to the Matthews Review (dated the 6th of August 2008), the Australian Government Actuary (Mr. Michael Burt) states on page 5 that the proceeding cash tables on page 4 are "nominal values" and have not been "discounted to give a 2009 value". DoFD (as the Matthews Review Sponsor) has replicated these figures in its own submission.

(a) Given that the total discount value in 2009 dollars would presumably be less than the total sum of the nominal values cited, can DoFD explain why the unfunded liability figures contained in the 'Unfunded Liability' table on page 3 are significantly greater than the total sum of nominal values given (i.e. the total sum of nominal values for 'MTAWE Only' is $7.83B and for the 'Greater of MTAWE & CPI' is $11.48B as opposed to the total unfunded liability figures on Page 3 of $10.3B and $15B respectively)?

Question 9

On page 5 & 6 of the DoFD submission to the Matthews Review, considerable emphasis was placed on the fact that Government-provided Superannuation is/was "provided as part of the employee's terms and conditions of employment" and that a change to the indexation of the employee's / retiree's retirement income would "represent an improvement in the employment contract of Australian Government Employees who are members of these schemes by increasing their total remuneration package".

(a) Given that the CPI and its predecessors "were developed with the principal purpose of providing input to the highly centralised wage and salary determination process that existed in Australia" up until the early 1990s and the fact that the CPI itself has been manipulated since 1989 due to Australia's adoption of International Labour Standards in the construction of the CPI (particularly the considerable manipulation due to "Quality Changes"), is it possible that the Commonwealth itself is in fact in breach of its employment contract with former employees because the CPI has been changed substantially both in its employment (i.e. historically maintaining wage to pension relativity) and its construction over time?

(b) Has DoFD undertaken any risk assessment or sought legal advice on this possibility?