THE LEGISLATIVE COUNCIL GOVERNMENT ADMINISTRATION COMMITTEE A MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON MONDAY 2 MAY 2016

INQUIRY: RETIREMENT BENEFITS FUND

Mr MERVIN REED, TASMANIAN PRIVATE WEALTH ADVISERS, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR (Ms Forrest) - Thank you, Mervin, for your submission. The hearings are recorded on *Hansard* and are part of the public record. If there are matters you would like to discuss in confidence you can make the request and it will be considered by the committee.

Everything you say is protected by parliamentary privilege while before the committee. However, if you repeat anything outside this room you are not protected by this privilege. I am sure you have read the information regarding giving evidence to committees.

Mr REED - Yes. It was sent to me.

CHAIR - Any questions before we start?

Mr REED - No. I am perfectly comfortable.

CHAIR - I assume you know the members of the committee?

Mr REED - I know Mr Gaffney. I know Mr Farrell and Leonie Hiscutt by sight, and I know you perfectly well.

CHAIR - We have all read your submission. Did you want to speak to it in broad terms first and then members will have questions for you?

Mr REED - Would it be in order to make an opening statement?

CHAIR - Absolutely.

Mr REED - Madam Chair and members of the committee, I thank you for the opportunity to provide a short opening statement. I am specifically addressing the overarching risk to the present and future Tasmanian government budget positions.

The terms of reference referred to the Retirement Benefits Fund 2015 annual report and specifically the funding arrangements by Government which are defined on page 73 of that report. For the State Actuary to have recommended a 10 per cent increase in the employer contribution rate, that is the rate by the government, as a percentage of basic benefits from 78.5 per cent of salary to 88.5 per cent of salary to ensure that the scheme has sufficient assets to meet obligations over the lifetime of the scheme is somewhat scary. Expressed in real dollars, the costs to the budget rise from $264 million this year to $358 million in 2019, a rise of almost $100 million or

73.7 per cent of increased funding required. The cost of the defined benefit contributory scheme by way of future liabilities rose in one year by $88.57 million. Over a 10-year period assuming no further salary rises by public sector employees, using these figures, and noting here that the yield curve on the federal bond rate would be to further increase the liability on the scheme, it is not an unreasonable assessment that the future value liability of this very expensive superannuation scheme will blow out by about $1 000 million.

A salary rise would impact directly on the 67 per cent for every dollar of salary that rose the contingent liability, the fund. Unchecked and not unconstrained in any way it is probable that the emerging cost of the RBF contributory live pension scheme will be in the order of $450 million annually in the very short term. At this point structural decisions with the state budget will need to be made. It will either require fewer public servants to be employed in order to free up funds to pay the superannuation pensions, or functions of government will need to be closed down in order to fund superannuation pensions.

That concludes my opening remarks, Madam Chair.

CHAIR - Going to your submission I will start with a couple of questions. In your submission you used terms like 'decimating the budget' and 'a coming tsunami' to describe the future, and you have reiterated your concerns with your opening comments. I assume you have probably read the other submissions on the website?

Mr REED - Yes, I have.

CHAIR - The Treasury submission confirms that outlays will peak in about 15 years' time, at less than 6 per cent of budget receipts. Should the committee accept the Treasury view? Or do you think it is going to be a lot worse than Treasury is suggesting?

Mr REED - I disagree with the Treasury view.

CHAIR - What basis do you disagree with it?

Mr REED - Because of the age and the gender spectrum of the existing public sector employees who are over 55 years old.

CHAIR - You don't believe the Actuary takes that into account when they -

Mr REED - No.

CHAIR - We are talking to the Actuary later. What do you suggest we ask the Actuary?

Mr REED - How many people who are over 55 years old have what level of service within the retirement benefits defined benefit fund? Do those people have an ability to buy service back under the RBF Trustee? They can put a capital sum into the trust to purchase years of service which adds to their multiple of their pension when they receive it.

CHAIR - So whether people are going to do that? That is the question?

Mr REED - Of course they do. They mortgage their house to do it.

CHAIR - You do not believe the Actuary considers these things?

Mr REED - No.

CHAIR - Why not?

Mr REED - Because they are not laid out by RBF as to the consulting outcomes they have when they advise state employees at the point of exit or proposed exit from the fund.

CHAIR - I am not sure of the Actuary's powers. Why would the Actuary -

Mr REED - Perhaps I will come back a step and answer your question in a different way. Your concern is whether the Treasury's figures are accurate. The answer is they are probably not because the Treasury cannot forecast who is going to retire any more than the Actuary can. That is the first thing.

If you have a look at the overhang - there is 45 per cent of the state service that is over 55 years old. A large majority of those are women who, unfortunately, in the previous scheme were unable to access superannuation because it was not a condition of service. When it became a condition of service they all signed on to the deal. Most of these women joined the scheme between 1991 and 1995. They do not have the years of service, so they are staying in service to build the multiple for retirement. They will all retire within a five- or six-year period. That is why the tsunami is going to whack the budget very hard, very deliberately, and there is nothing to stop it.

CHAIR - You are suggesting the pattern of impending retirements has been wrongly estimated by the Actuary?

Mr REED - Yes. Nobody has every polled the people in the state service over 55 and asked if they intend to retire now, in three years' time, in five years' time, at age 65, at age 70.

CHAIR - A lot of them would not know. I worked with a lot of these people years ago. With the GFC and things such as that sometimes their other assets have lost value. They may now decide to work longer than they were planning to. It is a moving feast, is it not?

Mr REED - Exactly, and it pushes forward the rising level of liability. Your liability is based on the final average salary over the last three years.

Let us say in your prior field, the nursing system, a nurse at, say, $75 000 average salary, if they are working in a specialisation for three years, the salary would rise over the three years by 2 or 3 per cent. The 2 or 3 per cent is represented in the 67 per cent the person would receive in a pension payment. If it is $75 000 multiplied by 3 per cent each year, accruing, you are then looking at 67 per cent of $84 000.

CHAIR - This is the exponential rise you are referring to?

Mr REED - Exactly, and there is nothing you can do to stop it.

Mrs HISCUTT - Why do you break it up into females to males? They are all of a certain age and retiring. Is it because women live longer?

Mr REED - No, because in the early part of the Retirement Benefit Scheme the Trustee did not allow women to be members. In the early 1990s the deed was changed to provide for membership of female permanent public servants and permanent part-time public servants. A lot of women are part-time; they are at 0.6 and 0.8 FTE. They are still entitled to superannuation.

We then had the normal age strata in the public service: the age 65, 5 per cent component of the scheme; the age 60, 8 per cent component of the scheme; the age 55, 11 per cent component of the scheme. You have the situation where you have a whole bunch of people within the scheme on varying time scales within that scheme paying varying amounts into it. I was not being derogatory toward females.

Mrs HISCUTT - I just wondered why.

Mr REED - This big bubble of female applicants for super happened in 1990 onward.

CHAIR - They have fewer years of service, as you say.

Mr REED - What would you do if you were a female state servant and you needed to get a minimum of 25 years service to receive 67 per cent of your average final salary?

CHAIR - You hope you were not under the gun of the government cutting jobs.

Mr GAFFNEY - When you said the three year average at the end, do you think it is a fair and equitable way of doing it? Could you suggest a different way? I know it is the situation at the moment.

Mr REED - Mr Gaffney, I can give you three answers, all of which will be controversial.

The first would be the final average salary - averaging is a rort. It generates rorts within the public sector. This is done by making sure in the last three years the person has increased overtime, increased higher duties, and is given a promotion. Everybody gets on the gravy train. That is the first thing.

The second - the average of three years of final average salary was meant to smooth the ups and downs from the original component members, who were railway workers. The vast majority of people who entered the scheme in 1930 were forestry workers, railway workers and miners. The reason we have Forestry Tasmania and huge pine forests in the Fingal Valley is because Eric Reece decided that the 250 miners who lost their jobs should become tree planters. All these people came on to the retirement benefit scheme as 40 years' service, aged 65, retirements. So to smooth their retirement dollars, they averaged their last three years of wages.

CHAIR - How would that smooth it?

Mr REED - The person who is working in the rail system may be a driver and may be driving certain sorts of trains that are paid more than others. The person in the forestry area may be working remotely and receiving remote camping allowances and living allowances. The person working with the main roads department - they had 1 500 employees -

CHAIR - You are saying it was only meant to work over a three-year period.

Mr REED - Yes.

CHAIR - Clearly when that was brought in -

Mr REED - It was to smooth the camping allowances and all the other stuff.

CHAIR - We weren't there at the time, but such a short-term approach doesn't add up. If the scheme was going to continue over a period, then smoothing it for three years could have been done a different way rather than enshrining in the process this thing that went on forever -

Mr REED - True.

CHAIR - Because as soon as someone has been working more than three years in their new role -

Mr REED - Madam Chair, now someone works in their new role for half an hour and their final average salary figure goes up to the new promotable level.

Mrs HISCUTT - Mr Reed, do you have a suggestion on that?

Mr REED - Why have three years?

Mrs HISCUTT - Well, why have three years? Go on.

Mr REED - Why not average it over the last 10 years - that averages it down, not up. It gets rid of the rort. There is no point.

CHAIR - What is your third point?

Mr REED - The third part to this is the question of how final average salary is determined. If your final average salary is a mix of base salary, shift allowances, overtime, remote living allowances, whatever, it is not salary.

CHAIR - So it includes all those other things, beside salary?

Mr REED - Yes. You can relate to my recent article about the nurses.

CHAIR - I didn't read that, sorry.

Mr REED - It is the same problem. They work them to death and they wonder why they get upset. The answer is they should hire more. It is the same problem. We now, as a state, are remunerating by way of a life pension, a person's salary plus all the add-ons.

CHAIR - When we are talking about salaries, not wages -

Mr REED - Wages or salaries, the same thing.

CHAIR - Or are we using the same thing? Nurses' wages are what he or she is paid, plus overtime and call-back fees, et cetera. They are not allowances as such.

Mr REED - They are allowances under the Fair Work Act. It is an overtime allowance, a call-back allowance, a double shift allowance, a Saturday or Sunday allowance, a meal allowance.

CHAIR - Looking at it from a nurse's point of view who may only be contracted - and this is what happens in private as well as the public sector - for two shifts a fortnight, or a week, or whatever it is - permanent part-time, whatever the number is. Inevitably, he or she works full-time hours, perhaps even more than full-time. If you base it just on their salary, all they would be entitled to is two days a week salary, and that is not fair either.

Mr REED - If they work full-time?

CHAIR - If they are working full-time hours even though they are not contracted to.

Mr REED - But they are working full-time hours.

CHAIR - But you are saying every shift above their contracted salary, two days per week -

Mr REED - No, I am defining salary or wages as a component of remuneration. I am adding to that overtime. I am adding to that the shift allowance.

CHAIR - Technically, every shift they work beyond their contracted hours is overtime.

Mr REED - True.

CHAIR - If you took away -

Mr REED - Then you would have to lift the nurse's salary up.

CHAIR - If the salary is the salary for a nurse; whether he or she works whatever number of hours, the salary is the same. Lifting it will lift it for the people who work full-time already.

Mr REED - True.

CHAIR - There needs to be some way of making this fair and equitable for those who work much more than their contracted hours.

Mr REED - It is pro rata. It is a relatively simple thing to do. It is really simple.

Mr GAFFNEY - You were suggesting in the last three years of a person's working life they are increasing those components of their wage so they can have a higher average within the years before retirement. To extend it over a 10-year period, may be a better reflection of the reality of the level of the wage. Ultimately, toward the end of someone's life, this is when you have added responsibilities and in the last three years you are probably in a higher wage bracket.

CHAIR - The CPI increases everything.

Mr GAFFNEY - If you look at the fiasco with the Tasmania Tomorrow process and you split with the academic and - what was the other one - they were putting all these people from a certain band here up to here and then they close it down. Those people are still at that level because it is where they jumped to.

Mr REED - Of course.

CHAIR - Page 60 of your submission, Mervin, you are talking about the pattern of increasing job classifications in the years immediately preceding retirement, in order to boost the final average salary over the last three years. In addition, the extra wage increases of 20 per cent during the Labor-Green government. You claim this has led to an extra $1 billion in liabilities. Can you inform the committee how you arrived at this figure? We are talking to the State Actuary later and it would be good to have some questions for the Actuary as well.

On that point, you may want to cover both of these at the same time, but I would also like to have some more information on upscaling job classifications so we can take this up with Treasury.

Mr REED - Okay. There was a public service pay rise, a deal done by David Bartlett with the union. It was on the public record and it was 20 per cent over a three-year period. It lifted all the classifications in the State Service. Everyone, there was not one that missed out. You take your end liability and multiply it by 20 per cent. It is not that hard. The 20 per cent liability is going to be there at 67 per cent of the average final salary.

For instance, you have $1 billion worth of salaries and increase all the salaries by 20 per cent. You have $1.2 billion-worth of salary bill. Then you multiply the $1 billion by 67 per cent and you have $670 million. You have to multiply the $1 200 million by 67 per cent and you then have about $150 million more.

This is the problem with classification creep and the so-called 'We need to have mainland standard salary' stuff. The functions are much larger elsewhere in Australia. The governments are much larger in terms of disposition of funds and things. In ratio terms, Victoria has fewer public servants than we do. Far less.

Most of the public service here has this structural classification problem. Everybody has an executive assistant or an executive officer. There is five layers of padding between the person making the decision and the person taking the information. You see it every day.

CHAIR - A lot of these people who are taking on these new positions are not in this scheme. It closed in 1999.

Mr REED - Yes, but they are in the scheme now and they receive a pay rise. They stay in the scheme.

CHAIR - Those who are but none of these new ones, since 1999, have not been in it.

Mr REED - Since the year 2000 there have been no additional members of the defined benefit scheme. It was closed down because Treasury became frightened. They really became frightened.

Mrs HISCUTT - You said Tasmania has one public servant to every three of our population. Is that right?

Mr REED - It is worse than that. At local government, state government and federal government, it is about one to every 2.3 people.

Mrs HISCUTT - Do you know what that relates to in Victoria?

Mr REED - About one in 4.7 over there.

CHAIR - Victoria is the model that is always talked about - its efficiency of delivery of public services. They have a very different demographic and structure than we have in Tasmania. Saul Eslake has often commented on that, it is a matter for the government.

Mr REED - Saul and I will argue that and we have done that in a structured session. The issue was very simple - that we have the most highly decentralised population in Australia.

CHAIR - That is not the only reason. According to Saul Eslake that is only one aspect of it, though, and I have been trying for some years to find out what the other reasons are - previous governments and current government - and we still do not seem to have the answer to that.

Mr REED - Madam Chair, let us take this question of the 20 per cent to drill down and show you how that drives the actuarial outcome. You have the salary person who gets a $1 000 a month and we increase by 20 per cent so they get $1 200 a month. The following year they are still employed so they get $1 200 a month every month. Then they get a pay rise but the pay rise is 3 per cent based on the $1 200, not 3 per cent based on the $1 000, so you have this exponential compounding effect on the salaries. That is what scares the governments around Australia particularly now with public service salaries.

The Treasurer has made a statement in the last week or so about the question of public service pay rises and what effect it will have on the Tasmanian Government's recurrent fund.

CHAIR - That happens everywhere. It has happened forever. CPI increases on salaries - it is always on the salary you are on and not on what you were on two years ago.

Mr REED - There will be a choice where we will not have any tax base to service the public servants.

CHAIR - That is a different argument though, isn't it?

Mr REED - No.

CHAIR - You are all for tax reform then at a state level?

Mr REED - No. You have two choices. You either raise more money from the people of Tasmania to pay for public servants, or you have fewer public servants. They are the two basic outcomes of the theorem. As much as that is distasteful to a lot of people, that is what this committee is looking at in terms of the retirement benefits fund outcome. Whether you ignore it as the last 10 to 20 years of government has, or you do not ignore it, is entirely up to you. If you do ignore it and next year there is a $450 million hit to the budget, do not be surprised when somebody says it is time to shut down the North Western General Hospital because we cannot afford to run it.

CHAIR - These people are still in the system, working. All the people who are taken on as new employees are not in it.

Mr REED - They go on what is called an accumulation fund where the government has to, if they are outside the retirement benefits funds, pay real money to the superannuation fund, but if they are inside they can pay notional money.

CHAIR - Yes, but I am saying this is a problem that is not going to go away until all these people have either died or retired or both.

Mr REED - Or you buy out the scheme.

Mrs HISCUTT - Do you want to expand on that?

Mr REED - You buy the scheme out.

CHAIR - Who is 'you'?

Mr REED - You, the government.

CHAIR - We are not the government.

Mr REED - The parliament buys the scheme out.

CHAIR - How would they find the money for that?

Mr REED - Loan money.

CHAIR - How much would it cost?

Mr REED - About $4.5 billion, $5 billion. It is a roll forward, Commonwealth supplied loan that will meet the outgoings.

Mrs HISCUTT - How would you work it, if the state was to purchase a $5 billion debt to pay it out?

Mr REED - You turn everything off at the particular day you make the decision.

Mrs HISCUTT - And pay those people out?

Mr REED - So people get three options: option number 1 - you can take the cash and retire now; option number 2 - you can take the cash when you retire together with 4 per cent or 3 per cent of whatever the lift up factor is going to be every year and you go buy your own pension; or option 3 - you take our pension which will not be indexed any more. No indexation.

Mrs HISCUTT - This is just a theoretical question, Chair. If a public servant was to say, I will take my benefits and if you give me an incentive to take it, it will be done with.

Mr REED - That is illegal.

Mrs HISCUTT - It is illegal to incentivise someone to do that?

Mr REED - Unless you pass legislation that says you can provide to somebody a benefit for which they are not presently entitled under the current legislation.

Mrs HISCUTT - Even if it is less than what they would get if they lived 20 or 30 years down the track?

Mr REED - You can incentivise anybody any way you want.

Mrs HISCUTT - As long as it is legal.

Mr REED - Your question is: how do we get people to take up the offer and leave the public service?

Mrs HISCUTT - Yes, leave the public service and close their scheme.

Mr REED - Or stay in the public service and get out of the RBF.

CHAIR - And go to the accumulation fund.

Mrs HISCUTT - Yes, one way or the other.

Mr REED - You roll them all straight into the accumulation fund and you fund it with other loan money, which is going to be cheaper at the end of the day than the emerging cost of the life pension.

CHAIR - That is a point I will come back to, whether that is the case or not.

Mrs HISCUTT - If someone was over 55 and perhaps they had another 10 years that they needed to work - or not need to, but were planning on - they may have had $600 000. But if the state was to offer them an incentive of $40 000 or something to take it all and be done with it -

Mr REED - You can offer other incentives by maintaining or altering the trust deed in the Retirement Benefits Fund. You can say, 'Mrs Hiscutt has decided to retire but she only wants a 25 per cent pension'. It does not provide 25 per cent, it only provides for 50 per cent or 100 per cent. Or she wants to retire and she will take 100 per cent life pension but she wants the option to convert it at any time in the future to cash, which she hasn't got now. Or she wants the opportunity in the future to convert 50 per cent of it to cash, which she does not have now.

I see probably four or five people a year who are over 55, who are on a retirement benefits fund pension, and suddenly get sick. They have to wait every fortnight for the dollar to arrive in the bank before they can buy the medication. So they end up selling the house. They have no capacity to get into a nursing home because the RBF pension is deemed differently for Centerlink.

There are a number of options, Mrs Hiscutt, to change the paradigm in relation to the retirement benefits system to make it attractive to public servants to access those new opportunities, rather than stick to the current thing.

CHAIR - Currently it is not legal to do that though.

Mr REED - No. You would have to pass legislation, but it is not very difficult legislation to write. We could probably write it in an afternoon.

CHAIR - I want to go back to the point of the relative cost. You talk about stopping the defined benefit schemes. Do you mean you would stop it for existing pensioners as well as members who are still working? Are you talking about closing it for everyone, including those who are working and not just those who are currently on pensions?

Mr REED - No. The ones currently on pensions also get the same option. Because it is fair. If you don't do it for the ones on pensions, they are stuck in no-man's land.

CHAIR - So you would do it for them and for existing workers as well?

Mr REED - Yes. Let me give you an example. A person receiving a benefit of between, say, $30 000 and $38 000 a year as a retirement benefit under the RBF scheme, that is still taxable - tax does not go away for this benefit - where everybody else's superannuation pension is tax free.

CHAIR - At this stage. It could change.

Mr REED - It won't. There are a couple of fundamental reasons it will not. It will destroy the superannuation assessment privately. If it does, there will be some marginal around-the-edge tax stuff for people earning more than $300 000.

What happens with those between $31 000 and $38 000 is they become the new retired poor because they are deemed out of the Centerlink system. The deeming stopped on 1 January 2017. The deeming on the benefit they used to get - 20 per cent of the pension - then drops down to 10 per cent. So that pension no longer gets 20 per cent absorbed from the deeming, only 10 per cent is absorbed. Many of these people are going to lose their Centerlink benefits and the minor amount they get on their health cards.

We have developed a system that for the majority of employees who do not earn a lot of money in the State Service - the average is probably $65 000 - will be getting an RBF benefit between $30 000 and $45 000. They will be the new retired poor.

CHAIR - Talking about the relative costs of doing something like this - and I want to give you a bit of context for the question. When Paul Keating brought in the super guarantee levy, since 1992 employers have had to contribute super to employees - initially 3 per cent, now 9.5 per cent. It is my understanding that if the defined benefit scheme employer contributed more than the SGL amount, they are exempted from the SGL. RBF was a generous scheme, as you have mentioned, and therefore RBF was not required to put away extra to satisfy the SGL requirements.

Mr REED -True.

CHAIR - The government was notionally contributing enough already, pursuant to fund rules, to satisfy the SGL although it was completely unfunded. This means that the SGL amounts notionally belonged to the defined benefits members, those amount have been unfunded.

When you propose to pare back entitlements, presumably these entitlements would simply be the unfunded SGL amounts?

Mr REED - That is right.

CHAIR - So, you believe they are?

Mr REED - For many years you pursued the government for the superannuation provision account, which was the pea and thimble creep.

CHAIR - Yes, I will come back to that in a minute.

Mr REED - What the Chair is getting at is, what does the person lose? Do they lose the unfunded superannuation guarantee component? In other words, the notional component, 'We did not put anything down. We put a funny number in the budget every year for it'. What did they lose? The answer is they will lose the unfunded notional nonsense. There is no real money.

CHAIR - Yes, but it is still an entitlement.

Mr REED - Yes, but when you capitalise that entitlement with a large loan program which caps the liability to the state - if you borrow the $5.5 billion today at a particular rate through TasCorp it caps the entire liability of the RBF scheme. You turn it all off and take it back to a capital base. All those SGC numbers will come forward in real money on everybody's accounts.

CHAIR - The way you have put it, is you are suggesting we can withhold the SGL amounts from these people. It is only notional money.

Mr REED - No, presently there is no real money - you know that and the committee knows that. You have pursued these people uphill, down dale for years. You have finally got really close to shooting them all and they turned around and went 'poof', we will cancel it, and it disappeared out of the accounts. I felt so sad. It was great; every year it was fun.

The answer to your question is simple. There are only notional SGC superannuation guarantee liability in numbers. If we capitalised it, we would be funding all those superannuation guarantee liabilities. We would also be paying tax to the federal government of 15 per cent. You can do a deal with the federal government, so it becomes a roundabout. These would all be taxed contributions by the employer at 15 per cent going into the fund, as they are now.

CHAIR - The notional amount, not cash backed, which has already been contributed -

Mr REED - Is nonsense.

CHAIR - No. There is still an amount there in terms of the notional amount. Do you have an estimate of what the SGL contributions would have been?

Mr REED - $4 billion or $4.5 billion.

CHAIR - Over 24 years.

Mr REED - Yes. There is only about $1 800 million to $2 000 million of members' money in the RBF fund depending on how you look at the balance sheets.

CHAIR - Going back to the issue of stopping the Defined Benefit Scheme and buying it out or whatever you suggest we could do, when the defined benefit members revert - say they chose to revert to a contribution fund, an accumulation fund - a lot of these people are still working and will continue to work for a period, will the government not have to make the SGL contributions on their behalf at this point?

Mr REED - It would have done by the injection of the capital.

CHAIR - We will still have to deal with the ongoing into the future; they will have to continue. You are saying up to a point it will be done by the borrowings.

Mr REED - Madam Chair, you have an emerging cost figure at the moment which is going to eat the government's budget from the inside out. You would not be having this hearing if you did not think it was the case.

The second question you have is, does the government have to meet the emerging cost of the superannuation guarantee? On real terms - yes, they do. It is part of the salary dollars. They actually fund it now on the budget.

CHAIR - Yes, the ones who are not in a defined benefit scheme.

Mr REED - Yes, and the ones who are in the defined benefit scheme, when it is bought out, there will be no past SGC liability but there will be a future SGC liability, of which will be offset against that component of the emerging cost payments that you used to make to fund the pensions.

CHAIR - My question is, what you may save in pension outlays will instead have to go to paying the extra SGL?

Mr REED - Yes, but they will cap it. It will be level. There will not be an increase every year.

CHAIR - What sort of figure do you think this will be?

Mr REED - In round billions of dollars?

CHAIR - Yes.

Mr REED - $4 billion - $4.5 billion of loan money.

CHAIR - What about the ongoing liability of the SGL, how much are we talking about there?

Mr REED - No liability. It is only going to be that 12 per cent, or 9.5 per cent, or whatever the number is on the year of the salary funded by the -

CHAIR - How much are we talking about in the amount?

Mr REED - Whatever 9 per cent of the state budget salary is going to be for a defined benefit pensioner, classified employees, which will be a diminishing component of it.

CHAIR - It will, but it is not an insignificant number. Would you agree?

Mr REED - Say 35 per cent, maybe 40 per cent, of the State Service are on a defined benefit pension. The current salary bill is about $2.5 billion. So we assume $250 million, or thereabouts, for that of which probably 40 per cent is defined benefit pensioners. So $80 million a year.

CHAIR - If you have to find $80 million a year to pay this, because this is now the cost - we have cut off the scheme, we now have $80 million a year -

Mr REED - We have saved it, because they are not doing it twice.

CHAIR - It was only notional money before - we have already had that discussion - it was not real money.

Mr REED - That was notional money before; we are talking real money now.

CHAIR - That is my point. So don't we now have a cashflow problem?

Mr REED - No.

CHAIR - Why not?

Mr REED - Because you would not be putting that amount of money into the emerging cost pensions because they are gone. They are all capitalised. The cash is sitting there to pay the pensions. You might borrow the $4.5 million but it is sitting in the market earning at the same time. You do not need the whole $4.5 million on day one, you need it over 25 or 30 years. If it is done properly, like the future fund - this is going to be the Tasmanian future fund. You borrow the money and you give it to the federal Future Fund and call it the Tasmanian subset, and they invest it in the market. The average return is 8 per cent.

In this case, what happens is you will have the $80 million, but that is going to be a normal component of the salary met by all the agencies and exposed to the parliament as an operating cost.

Mrs HISCUTT - So you are saying the interest is going to cover the liability - the 9.5 per cent?

Mr REED - Plus some over 25 years.

Mrs HISCUTT - And we will make money?

Mr REED - You will make money on it. The government has the capacity to borrow at AAA2 rating at roughly 4.5 per cent on the market, or thereabouts, whereas the current bond funds are paying around about 8 per cent.

CHAIR - I suppose it is a moot point whether there is going to be a cashflow. We will take this up with Treasury. The net operating balance will look better.

Mr REED - You borrow the money, reorganise the whole of the Retirement Benefits Fund, and turn off the defined benefit pensions. No more defined benefit pensions, you have to go buy your own now - but we will give you, as Mrs Hiscutt said, a component of increased superannuation contribution as a once-off if you make the election. It is exit bonus.

CHAIR - And you reckon the revolution would not start at that point?

Mr REED - What revolution?

Mrs HISCUTT - I am not in the scheme, but for people in the scheme, how much would they make/lose? Would there be any difference if we bought them out?

Mr REED - They have to buy their own pension so they take the economic risk themselves, rather than the government taking the economic risk.

Mrs HISCUTT - So this is the revolution?

CHAIR - This is changing the goal posts for people who have gone into a scheme in good faith -

Mr REED - You do not have to make it a revolution. You give them three or four options.

Mrs HISCUTT - We will ask the unions when they come in.

Mr REED - If they have an existing life pension they can convert it to cash. If they have an existing life pension that is 100 per cent pension, they can convert half of it to cash. If they have not got one yet they can take the cash, but they cannot take a pension.

Mr GAFFNEY - In what arenas do people in your position, with your knowledge of this, have a chance to discuss this. Other than this one, where we have given you the opportunity, how do you have discussion in the arena you work in, with Treasury or those in this space, about the options? Do you have forums and workshops to discuss this with Treasury? Do you have the opportunity?

Mr REED - There is no discussion down here. They see it as an ongoing continuum.

Mr GAFFNEY - Okay.

Mr REED - This is the first time it has been discussed in years. There is no parliament saying, 'Hey, what is going on here?'

Mr GAFFNEY - You do not have conferences where this is presented?

Mr REED - No, there would be very few, probably be no more than a half-a-dozen defined benefit schemes, left in the private sector in Australia. They are all gone. Do you know why?

On the balance sheet in companies there is a set of structural accounting which has to be declared under the Corporations Act. These are called current liabilities and non-current liabilities. If you have a defined benefit scheme you have to define the non-current liabilities.

Your actuary says, 'By the way, it just blew out by $100 million'. For example, Mr Gaffney, who lives in Tasmania, is one of your shareholders. He is pretty upset that he has had snipped a bit of a dividend because you guys had this uncontrolled defined benefit scheme. He goes along to the shareholders' meeting with the other 1 200 disgruntled shareholders who did not receive a nice dividend and tells the board to get rid of it or we will get rid of you. That is what happens in the private sector.

You are talking about an uncontrolled, undefined, long-term liability for the state of Tasmania.

Mr GAFFNEY - The population base here is so small.

Mr REED - The government of the day is going to be faced with dishing you up a bunch of gruel in a bowl and is going to tell you to, say, pick a hospital to close down or pick 10 schools to close down to fund the pensions. When the voters go to the polls they are going to say they are not interested in closing the school or the hospital, they will want to close the Retirement Benefits Fund. No options, gone.

Mr FARRELL - In your submission you spoke about the history of the whole scheme. It made it clear for me to understand how it happened, how originally there was a larger blue collar workforce. Now it is mainly white collar workers. Is it the same in Victoria? Do they still have a defined benefit scheme? Do they have more blue collar workers?

Mr REED - There are no defined government benefit schemes still continuing. They were all turned off in about the year 2000. The only fully funded schemes are in Queensland and New South Wales.

Mr FARRELL - So Victoria is not?

Mr REED - Not fully funded, no. Nor are South Australia and Western Australia. The assets in the Queensland system Bjelke-Petersen funded; the assets exceed the liabilities by about $8 billion over time.

Mr Farrell, it is not the question of the blue collar versus white collar. It is the question of longevity in the scheme. We are living much longer. We have medical technology now which extends people's lives for years. In 1935 there were no cardio-thoracic surgeons. There was no antibiotic such as penicillin. We did not have the ability to put stents in people's arteries and hearts. We did not have the ability to provide people with drug regimes to support their lifestyle when they had diabetes and various other problems.

We now have a population which extends its life totals in Tasmania to 84.5 years. This is the average survival age. We all hope we go further than that.

CHAIR - This is one of the reasons it was closed off. People realised things had changed enormously since it was first established. You could see it was not meeting the current reality.

Mr REED - You are stuck with it now. People are living longer and being paid longer on the RBF scheme. The same question comes, which hospital are you going to close to fund it?

Mr GAFFNEY - If you were supposed to retire at 55, could we not say to the person we will take you through your average then, when you are 53, 54, 55, even though you have worked to 65 and have a higher wage?

When I first went into the scheme as a teacher, retirement age was 55. My wife could not go into it because she was not offered it back then or she chose not to. You could actually say what your expectation was to do that.

Mr REED - You could not do that because that would discriminate one against the other. What you need to do is incentivise it like Mrs Hiscutt wants to do by simply saying, if you stay this is the price, if you go this is the benefit. You have five or six options - they are not that hard to define - and they would be able to be readily legislated so people could take the option. If they were a teacher of age 60 who wanted to retire but wanted to increase their retirement funding and not want to be a part of RBF anymore and they had another option, then they will take the other option.

CHAIR - Going back to this point of whether it is the problem that you say, my beef has been with governments past and present for pretending to set aside funds each year, not so much at present because the SPA was got rid of.

Mr REED - Every year we thought you were very brave.

CHAIR - Someone kept at it and there are still people who think I was completely wrong.

Mr REED - I bet.

CHAIR - Yes. Some of those people have not made submissions to the committee by the way. The government pretended to set aside funds each year to extinguish, funded superannuation liability but never actually did. At least the general government does not have any other borrowings - the general government I am talking about, not the state sector. It really only has the unfunded superannuation liability. If the government only has to spend up to 6 per cent of its revenue at the maximum to service borrowings and all their projections suggests that, even when it gets to the peak to fund these unfunded liabilities, isn't that an okay result? If it stays below that, this is a fiscal strategy that the government have set. The previous government had the same, this current Government has maintained it.

Mr REED - They have all had the same view since 1970. It is the same Treasury file that is pulled out and recycled. To borrow money in the government context you must meet the requirements of the Loan Council Act of 1932. That requires Tasmania to put a case to the Loan Council which consists of all the other treasurers of the states and the federal treasurer. I am sure a proposal to borrow sufficient funds in terms of a line of credit, either off the Commonwealth or somebody, to fund the superannuation liabilities to stabilise the Tasmanian Government's budget liabilities going forward will receive favourable consideration.

The second question is, is this going to be anymore expensive than the proposed 6 per cent? Probably less.

CHAIR - Have you done your own modelling on it?

Mr REED - We can model it easily if you want.

CHAIR - It would be interesting to see what your modelling shows here. I think about the Commonwealth loan, the housing loan. Victoria paid their loan out; we still have this loan.

Mr REED - Two hundred and thirty four million dollars, was the last remembered figure.

CHAIR - The housing loan?

Mr REED - Yes.

CHAIR - We have asked nicely a few times from the Commonwealth to forgive us that debt but they do not seem inclined to do that. If we do something like this is it another noose hanging over our head? It means we have this liability to meet that potentially might not be anymore than just managing it the way it is over these ensuing years, knowing that it is there, providing it stays within less than 6 per cent. The latest fiscal sustainability report from the Government, only released last week, says that the defined benefit expenses as a share of general government revenue are estimated around 4.9 per cent in 2015-16; increased to 5.3 per cent by the end of the forward Estimates in 2018-19. They have done different scenarios. You could argue that is manageable. I am interested to see your modelling.

Mr REED - You can also argue that the tax take from Tasmania will go up forever; you could also argue that the federal government will continue to increase the amount of GST funding to Tasmania - all which is false.

To answer the question in another way, the federal government 10 years ago hit the same point of decision and discussion that you are now going through as a committee. They formulated with Peter Costello in the last couple of years something called a future fund. The federal government's future fund only has one purpose which is to fund the liabilities on the PSSS and the CSSS superannuation schemes, the parliamentary super scheme and the legal super schemes, that the Commonwealth has liabilities for. They now have more money in the future fund by way of earnings and aggregated capital than they have liability for the funds.

I am suggesting borrowing and some added dollars to generate a Tasmanian component future fund.

CHAIR - But if we are borrowing the money to put into that fund, you are relying on interest rates being favourable and rates of return.

Mr REED - You are relying on managing the fund.

CHAIR - We'll talk to RBF about that. They have had two years of losses in 2008-09.

Mr REED - Why not? They invested in things that did not suit their asset allocations including airports and other things that made no money.

CHAIR - Potentially, we could face the same problem.

Mr REED - Depending on who does the managing.

CHAIR - True.

Mr REED - If you subcontract the managing to the federal Future Fund, that would be an offset liability that the parliament would probably agree to, would it not?

CHAIR - That's a matter for the parliament.

Mr REED - Exactly, and I'm not a member.

CHAIR - Any other comments you want to make in closing, Mervin?

Mr REED - I think it is time the committee did this. There is room to take Mrs Hiscutt's options and inject it into the RBF system one way or another. People do not have any options at the moment.

Mrs HISCUTT - It was just a comment for your comment.

Mr REED - I think it is fantastic. It is the first time we have heard a member of parliament talking about changing the RBF Trust Deed.

Mrs HISCUTT - I was only looking for a comment.

Mr REED - I am not holding you to it, and nor would I because that would be improper. To change the Trust Deed to get the pensioner or the RBF member a better deal, there is nothing wrong with that.

CHAIR - The argument is whether it is going to be a better deal, and there needs to be very extensive modelling done around that to demonstrate it. You talk about some of the people who are in this fund who are going to be the retired poor soon -

Mr REED - True.

CHAIR - Modelling to ensure they are better off, not worse off -

Mr REED - Would it not be better to find out? If you sent a letter to every state servant who is part of the defined benefits fund, currently a pensioner and maybe in the future being a pensioner, saying if we provided an option for you to bail out of it, and you got the cash instead, would you take it, yes or no.

CHAIR - It is going to cost you $5 billion just to close the scheme - and the incentive would need to be significant - are we looking at $10 billion that we would have to borrow?

Mr REED - Less. You wouldn't have anything more than the $5 billion. You wouldn't need to do that because people aren't going to retire en masse. Mr Gaffney is right.

CHAIR - For those already on pensions, you are going to incentivise those.

Mr REED - You might have $150 million to $200 million cash upfront to buy them out. There is another realisation on the other side, you don't have the emerging cost payment every month because they're gone.

CHAIR - How many people are on pensions now and what is a reasonable figure to buy them out?

Mr REED - You can ask RBF to give a strata of the pensions that are paid to state servants who have retired, their ages, their average dollar pensions, and how long they have been on the scheme. That would be in order to ask that question and I think the committee should ask it. That will answer your question, Madam Chair.

CHAIR - There would have to be some good modelling done around all this.

Mr REED - It's not that hard to do the modelling.

CHAIR - But nothing like this has been done, obviously.

Mr REED - No. Everybody thinks this is going to go away. It's not.

CHAIR - Eventually it will.

Mr REED - No, you are facing a period of the next five or six years in the economy of the world where the interest rates will remain substantially low. Even with moderate rises of the US Federal Reserve of 25 basis points every six months to try to slow the economy a little bit over there, you are still going to be looking at bank borrowing rates being no more than 2 per cent in real terms. The federal bond rate is a reflection of the actual rate. So the coupon price - the bond may be returning 1.75 per cent with a coupon of 2 per cent. If you have that continually rolling forward on the actuarial calculation with this fund, it will rise 10-12 per cent each year.

CHAIR - If the interest rates go up the liability will reduce.

Mr REED - It will come down. It is not probable that the interest rate is coming down in the next five to eight years.

CHAIR - Interests rates going up?

Mr REED - The next change by the Reserve Bank will probably be the interest rate being cut by 25 basis points in May. It was priced into the markets as of this morning. I was looking at the screens at about 6 o'clock.

CHAIR - I will not pre-empt the RBA.

Mr REED - In real terms you have an opportunity to change the nature of the Retirement Benefits Fund system to the benefit of both the employees of the state and the state itself. It is an interesting proposition the committee floated out there.

CHAIR - Thank you for your time, Mervin.

Mr REED - Thank you very much for the opportunity to speak with the committee today.

THE WITNESS WITHDREW.

<u>Mr CHRIS BEVAN</u>, PRESIDENT, AND **<u>Mr MURRAY HARPER</u>**, VICE PRESIDENT TASMANIAN ASSOCIATION OF STATE SUPERANNUATION INC. WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR - Thank you for your submission and for coming to speak with us. As you are probably aware the evidence you will give will be recorded on *Hansard*, made part of the public record and published on our website. Everything you say is public.

If there is something you wanted to raise of a confidential nature, you can make a request to the committee if you wish to do so. You are covered by parliamentary privilege while in front of the committee giving evidence. If you speak outside the meeting you are not afforded the same protection, even if you are repeating what was said here.

I invite you to make opening remarks speaking to your submission, or anything you would like to add. The committee will then have questions for you.

Mr BEVAN - When we considered this as an executive, we wondered why this matter would raise its head again. It seems to be something which comes up for consideration every now and again. It is not as if it is new news. We are all very aware that there is an unfunded liability. We are also aware that the Treasurer has addressed this issue and he believes the issue is manageable.

From our membership point of view, we would be concerned if there was going to be changes to legislation which would affect us. We would want to be actively involved in anything going on in that area. We have a large number of members in the 70 to 75 group and rely on us to disseminate information that comes down for them in our newsletter, which maybe some of you have seen. It is one of those documents where we try to get as much information in a simplistic term as we possibly can to our members. We are here because we are very concerned about any scary aspects of what might be looked at in the unfunded liability. It is a matter we have discussed with the Treasurer on several occasions.

CHAIR - In those discussions with the Treasurer, you said the Treasurer has fed back to you and he has also fed back to parliament and the previous Treasurers the same, saying, whilst it is a big liability, it is the only liability that sits within the general government - we are not talking about the whole state just the general government - and it is within their fiscal strategy managing it of less than 6 per cent of total receipts. Those discussions with the Treasurer, why do you believe there is no need to change what is currently happening?

Mr BEVAN - Don't get me wrong, I believe that if there are measures that we can address fiscally that will take the burden off the state then of course we would be supportive of that. What I would be worried about is if there were draconian measures like Mr Reed has suggested in his document that were very concerning - capping pensions, and capping CPI increases at certain points in time. He may not be aware but one of the other issues that TASS does fight and has been fighting for a long time is the CPI. We have shown to various people that statistically we are way behind with the way CPI is structured in increases we have had.

There is strong perception that we are all fat cats and live on $80 000 a year pensions, to pick a figure, whatever figure you like to pick but supposedly large pensions. It is not the case. We have a very low pension rate for a large number of members; it is around the $25 000 to $30 000 a year.

CHAIR - How many members have you got?

Mr HARPER - Our association has about 1 400 members representing roughly 9 000 people who are in that situation, in other words are receiving those pensions at present. I believe there are about 8 000 current public servants who are in the defined benefits scheme and may qualify for a defined benefit pension at the end of their career. Of course they have other choices including they may take a lump sum and therefore not receive the defined benefit pension. Those are the figures as they stand at the moment - about 1 400, about 9 000, and about 8 000.

CHAIR - The 9 000 people receiving pensions, do you have an understanding, and we can ask this of RBF, what salary bands or the pension range band, or whatever we want to call it, they are in?

Mr HARPER - No, I do not have those figures but, as Chris has mentioned, we believe that the annual pension is of the order of $25 000, or so, per year. It may be a little higher, maybe $27 000 - $28 000 but it is around about that sort of figure.

Mr BEVAN - To give you other evidence of the lower rates, a lot of our members have been caught up in this latest Commonwealth government change with what they call a 10 per cent cap. They were receiving RBF life pensions but were eligible for part Centrelink pensions. Now, to get a part Centrelink pension you cannot be on high figures. The figures that they were showing of how they calculated that, they went after people who were on - well, one member I know of, I know his case because we have dealt with it at an executive level, he was on $25 000 a year and has lost around $89 a fortnight off his Centrelink. He wrote a couple of letters and we recall him saying to his local member, how would you feel about getting an 8 per cent or 9 per cent cut in your take home money. You are trying to pay his bills on $25 000. His wife gets nothing; she gets a part pension from Centrelink as a married couple. He said how would you like a 8 per cent or 9 per cent cut on a $25 000 defined benefits pension. It is not a big pension and he worked 40 years for Forestry Tasmania to achieve that pension.

CHAIR - So he must have been a fairly low paid worker?

Mr BEVAN - He was a blue-collar worker to start with - what they call a forest assessor - and then worked his way through store and eventually into a clerical role at the time he retired. He did not have a lot of those opportunities as he was going through to be able to salary sacrifice - that did not exist. He struggled his way through to retirement and now in the latter part of his life, with some ill health issues, he gets a massive cut from Centrelink. We have been campaigning on that one as well.

Mr HARPER - Although that has not been the purview of this committee, it is purely a Commonwealth matter, is of significant interest and impact to a lot of our members.

CHAIR - It is to your members who are on lower rate pensions, and those are the ones who appear in the media. Obviously the ones getting the big pensions -

Mr HARPER - Exactly. We believe the federal government on this federal issue has totally missed its target. Press releases from Minister Porter, and Minister Morrison before him, had talked about public service fat cats on $80 000 to $120 000 a year and the impact the legislation would have on those. If you look at the figures, there are about 48 000 nationally who have been affected by that legislation. About 1 700 have totally lost their top-up aged pensions and yet, it has had virtually no effect on those people on large pensions because there are virtually none of them who were in that salary range.

We think there may be of the order of a handful, literally - single figures - in Tasmania. We realise that is outside the guidelines of this committee but we just point towards the pressures which are on a number of those people.

CHAIR - It is important to raise those because it has a connection with the benefit that members have from RBF.

There was some discussion, and Mr Reed included in his submission some information of his view about the final average salary calculation. You talked about the member you have from Forestry Tasmania. Obviously he was on a low final average salary for those three years. Mr Reed indicated he believed it was brought in to help smooth out those changes over that period. Do you have a view on the calculation of the final average salary?

Mr BEVAN - It is the methodology, I guess, of how you are going to calculate a pension. If you are a 5 per cent contributor, you have to do 40 years to get the two-thirds pension. So you are giving your whole life to this pension. If you do not have the opportunities as you go through your 40 years to get promotions, then how do you take a salary at the end or a salary at the start, or somewhere in the middle, as a salary you will have you pension calculated on. That is where the FAS(3) came from.

There are certain conditions where FAS(1) applies - whether Mr Reed went through that at all?

CHAIR - No.

Mr BEVAN - RBF would be able to give you that information better than I, but there are FAS(1) and FAS(3) opportunities under certain circumstances.

I noticed in Mr Reed's document - and I do not want to sound like I am going after him, but his was a long document and very interesting reading - he talked about a 20 per cent pay rise. If that happened, I would not lose sight of the fact that most pay rises over the last 10 to 15 years have been offset by what you are able to negotiate through an enterprise agreement. So if they got a 20 per cent pay rise they probably lost something.

CHAIR - Over four years that was, it was not one hit.

Mr BEVAN - I thought he said it was over a 10 or 20 year period. It was quite a long period he was talking about.

CHAIR - When we are looking at 2 per cent annual increases, that is 10 years - 20 per cent.

Mr BEVAN - But they would have traded stuff for that. I was the industrial relations manager for Forestry Tasmania for the last six or seven years in my time there. We did three agreements before I left, and there was always an offset. For example, public servants work 36.75

hours - or they did back then. In Forestry Tasmania, the white-collar workers work 38 hours. We brought them up to be equal to the blue-collar workers. They lost nothing; the white-collar workers had to work extra hours.

CHAIR - It is negotiation.

Mr BEVAN - As part of the negotiation.

CHAIR - I remember as a nurse we went through those sorts of things.

Mr BEVAN - Yes. There might have been a lot of pay increases for a lot of people but they traded something for it.

CHAIR - In terms of their overall salary -

Mr BEVAN - Their overall conditions.

CHAIR - Yes, which relates sometimes to income, such as a meal allowance.

Mr BEVAN - You might remember there was a thing called SAF. It was stopped on a pay increase back in 1988, I believe. It was offset -

CHAIR - What was that called?

Mr BEVAN - Superannuation Accumulation Fund. It was money put away for all employees of the state. I guess it was a precursor to the current system with the superannuation guarantee. People who were paying money from a contributory perspective also received SAF. It was an unusual situation. You had people with opportunities to have contributory pensions and people who were receiving a thing called Retiring Death Allowance. You received one week for each year of service when you retired. This was for blue collar workers. There was a marked difference in the schemes.

The SAF was a precursor into bringing the blue collar into what we now call accumulation. Eventually some of the blue collar people argued they missed out. So they were able to go back and buy service and get into the contributory scheme. The gentleman I referred to in Forestry was one of those. He had to put money into the scheme.

CHAIR - So he bought his way back into it?

Mr BEVAN - Yes.

CHAIR - But you cannot take any more, can you?

Mr BEVAN - You can. It will cost you 3.5 times the normal rate, or something of that nature. If your contributory debt was, say, $50 000, to buy that time you might have to pay $200 000 because you are paying the 15 per cent as well.

CHAIR - Talking about mortgaging your house to do it. Do you know of any people who do this, mortgage their home to buy back in?

Mr BEVAN - I have not heard of anybody who would be that adventurous. It is a lot of money to give up for a pension which, as you would know, stays with the principal person until they pass. If they pass first, then two-thirds of two-thirds goes to the spouse if they are still alive. If they are not the money goes back to the state.

CHAIR - You might consider it if you had low interest rates on your mortgage but if the interest rates go up on your mortgage it could be a bad choice.

Mr GAFFNEY - We had this discussion before and I found Mr Reed's paper quite interesting in that it was one of the longer ones and offered different ranges. The discussion was about potentially offering people on the Retirement Benefit Scheme a way out to stop the liability continuing for the government. Have you mentioned this, or would it be a discussion? Do you think some of it would be taken up by some of the members?

Mr BEVAN - It is not a discussion I have had. I have been with TASS going into my third year now. Murray has been with them a lot longer. It is not something I am aware of.

Mr HARPER - No, I have not heard that. I think TASS members, as well the other people who are affected - and we have what we think is a pretty good percentage, 1 400 out of 9 000 - can probably speak for them. Our members, all the time I have been a member, are very strong that the current arrangements should remain.

I guess there are two aspects to that. If you look backwards there have been a number of political decisions made which we would say are outside the possibility of us affecting them. That was the government, as employer, chose not to put aside employer contributions. Along the way, the fund which initially was set up to pay pensions from, a decision was taken to close it and to use the money for other purposes.

CHAIR - They were already using it for other purposes. It was offset by the temporary Debt Repayment Account. There was never any money there.

Mr HARPER - Yes. That has simply become a line item in the budget. Those were political decisions. Our members, I believe, would say that we had no control over those and we should not be personally affected by them because we came into the scheme on a particular set of understandings and regulations and they should remain.

It was no decision of ours in any way that those things happened. Second, we believe that our discussions with the Treasurer and the recent report from Treasury - the Fiscal Sustainability Report - says specifically that the unfunded liability is a significant burden but it is manageable, and the liability will peak at 6 per cent in 2024 -

CHAIR - That is 6 per cent of general government receipts.

Mr HARPER - That is right - and will then, in the period after that, decline from that percentage to zero over time because as our members die off, which we hope will be a long time ahead for most of them, but in the government's view the quicker it happens, the more that decline is from 6 per cent to zero. We would also say that any change in legislation, regulations or arrangements would be most unfair if they were to bring in any of those negative effects now when this problem, if it is seen as a problem, is going to begin to disappear within a few years time.

Mr GAFFNEY - The follow-up, as I understand it, is the people involved have had no input into those political decisions. It is just made and this is what you signed up for, and this is what you got back.

Alternatively, when this scheme was devised in the 1930s, or whenever, it was responsible for a certain cohort of people who did have, as Mr Reed outlined, a certain life expectancy, a certain actual wage. Since that it has expanded and those people in the Retirement Benefits Scheme were not the cohort it was initially trying to protect.

Therefore you do get some people who, over that three-year period, did have a very good scheme. I understand that it was out of your control but if we accept Mr Reed's assumption that it has gone from 67 per cent to 80 per cent, how do you -

Mr BEVAN - I believe how it needs to be addressed is that this was not a thing that happened overnight, it is a creep. In the 1920s or 1930s when they designed it, a particular group of people on a particular salary with a particular life expectancy could afford to do it by putting the money away, if they did, or on an emerging basis because it was not a lot.

I remember when I started in 1972 and the fund was explained to me and why I had 5.5 per cent taken out of my salary at that stage with no question of do you want this taken out, I received my first pay cheque and asked, 'What is that?' and somebody explained it to me. I was 17 years of age. At 17 you do not think at 57 I will have done my 40 years and I am going to get a pension for life. It doesn't go through the mind of a 17 year-old but you have to pay it anyway.

As the years ticked by and I do one year, I do 10 years, I do 20 years, somebody in government should have been saying statistically there are a lot of him, and therefore our cost is getting greater, and we need to be active about it. They chose to be inactive.

That is not an issue that me, as an individual, or all of the 'me's' grouped together, ever had an opportunity to address. We had a meeting with Philip Mussared from RBF recently. He made a comment along the lines that had they invested the money and had RBF had the money instead of being held in Treasury under this smoke and mirrors -

CHAIR - Notionally held in Treasury.

Mr BEVAN - He said we would have been the largest fund in Tasmania that would have been part of the Quadrant TasPlan merger instead of being a secondary-type measure. The whole issue about the APRA regulations and whether RBF would be recognised as a fully APRA fund would not have been an issue, which has created an issue for the government and the RBF

CHAIR - And they need to separate them now.

Mr BEVAN - And they need to separate them now. What they have done, in my simplistic simplistic way of looking at it, is it is putting RBF back to where it was when I started in 1972, back into Treasury or back into a single body looking after the contributory scheme.

The government missed a golden opportunity here. It should have addressed it on a creeping basis.

CHAIR - Years ago.

Mr BEVAN - Years ago, yes. Forty-two years ago in my case and going back to the 1920s. Somebody in the statistics area should have said - there are more of them, they are living longer.

CHAIR - Maybe they did not use a state actuary then?

Mr HARPER - I was going to follow on from Mr Gaffney's comment. Things have changed over the years. It is quite true. As an aside, one of the other things which has changed over the years is the issue of CPI. At that stage when these arrangements were introduced, CPI was regarded as the appropriate indexation issue. No-one really believes now that the CPI retains that capacity. For example, the federal government recognised this quite a lot of years ago and changed the aged pension's indexation from the CPI because it was falling behind and because the ABS said it no longer represented what it was supposed to. The federal government took notice of that and changed the aged pension arrangements. Our government has not done this.

This is something which has changed along the way. As Chris has alluded to, it has had a significant negative impact. If you trace it back a few years and look at the representative graphs of how, for example, the aged pensions for comparison purposes of people of a similar age and how the RBF defined benefit arrangement has increased. The gap is wide and becoming wider. So there are things which have changed over the years.

CHAIR - It is not as lucrative as it might have seemed in the public eye, you are saying?

Mr HARPER - That is right. Our members are often saying to us that that gap is widening and the value of the Defined Benefit Scheme, particularly in relation to the income of other people in the same sort of age cohort, that the benefit, if you like, of the defined benefit is becoming less as time goes by.

Mr BEVAN - I will put a comment on the end of Murray's. There are those at the top end of it which no-one could argue will leave on fantastic salaries. If you have 17-18 departments, you have 17 heads. I do not know what sort of money they earn but if we said, conservatively, \$300 000, which is probably not unreasonable, they would be on \$200 000 a year pensions.

CHAIR - They are the ones who appear on the front page of the *Mercury*.

Mr BEVAN - They are the ones who, hopefully, will be quieter about what they are getting because they are on such a fantastic -

Mr HARPER - Partly, they are on the front page of the *Mercury* because we have recently had this federal government campaign that we have alluded to and these sort of statements are coming out in official press releases, but we know they relate to virtually no people at all and (a) the savings which the federal government has talked about are simply not there, and (b) the people they are targeting, and the number of them, are very few people on high defined benefit pensions.

What they are hitting is very large numbers, 48 000 across the country, who are on an average of about \$25 000 to \$27 000 a year.

Mr BEVAN - I said to Wilkie at a recent meeting that we had with him I believe the Commonwealth government deliberately did what they did. If you look at the simple maths of it, if you have 100 people on the $120 000 and you have 2 000 on the $25 000 over a long period of time where are you going to get the most money from? You are going to get it from the smaller group, so they go after them. They put up smoke and mirrors again around trying to get the judges at $120 000, the fat cats and all that stuff, and try to get some sense out of them, porters and so on, it is impossible. We are banging our head against a brick wall. You trot these cases out and give them as examples and they appear not to care.

Mrs HISCUTT - You represent 1 400 members of a 9 000 cohort is that correct?

Mr BEVAN - Potential 9 000 with another 8 000 still in the workforce.

Mrs HISCUTT - In the other fund?

Mr BEVAN - No, in the contributory scheme.

Mrs HISCUTT - Have you heard much talk amongst your members that they would have liked to have taken it all as a lump sum with a percentage to pay off their own mortgage and invest their own money - because most people have managed their own money better - has there been that sort of talk?

Mr BEVAN - Not at TASS level, I do not believe. I think anybody who has an opportunity, and I will speak personally if I may, to get it to defined benefits pension would be crazy not to take it. I know of people in Forestry who have taken lump sums and have come back years later and say, '2008 killed me and I am just getting back to where I am now'. You have those sorts of issues which we do not have to manage. RBF manage that on our behalf and make good investments and the fund does well. They make bad investments -

Mrs HISCUTT - Didn't they have two years of losses?

Mr BEVAN - I am sure they would have.

Mr HARPER - There are people on both sides of the fence. After about 2008-09 there were quite a lot of the people who deliberately took lump sums rather than the defined benefit pension, who for those years and for several years since have not been doing as well. This fluctuates a lot over time. I personally know quite a lot of people who took a lump sum and are very pleased that they did take a lump sum. It depends on when you retired and what you invested your money in. There are wins and losses for sure.

Mrs HISCUTT - Mr Reed was adamant that by 2026, or around that year, that the government of the day is going to have to make the decision between whether to fund a hospital or to fund this fund. Would you like to make a comment on that? He was talking closures of hospitals or schools or something.

Mr BEVAN - I personally think he has overstated it. If we take what the Treasurer is saying now, it is manageable. I take the Treasurer as being an intelligent financial manager that he knows he has to manage the RBF issue, hospital issue.

Mrs HISCUTT - And that is not saying that Mr Reed is not?

Mr BEVAN - If you want me to say it, I think his stuff is draconian and is horrible to think about, a very narrow-minded attitude on how the public service is structured. He mentioned also classification creep and that there are higher duty allowances paid at the end of your career so that you get a better FAS(3). What a load of nonsense. I worked in HR from 1984 to 2002 and that never happened in Forestry Tasmania, never. If you did a higher job you were getting paid for the duties of that job, not because they were putting you up there for the heck of your FAS(3). That is complete and utter rubbish. Does it happen in other departments? I do not know. It certainly did not happen in Forestry Tasmania.

Mr HARPER - The other side of that coin is that if you look back over the years rather than forward, money paid in has been used to open hospitals or schools or whatever. It has gone into general revenue and has been used for those purposes. There is no reason to believe that situation will differ in the future because we are there as a line item together with education, health and the other things.

CHAIR - That was when your now Treasurer was in the opposition and used to talk about raiding the SPA.

Mr HARPER - The other aspect is, over time we have a decline. At the moment we have it increasing but within a few years we will have a decreasing liability.

CHAIR - In what?

Mr HARPER - In that it will drop. The defined benefit payments.

CHAIR - Sorry, over time. I thought you meant overtime.

Mr HARPER - No, over time it will begin to decrease from 6 per cent to zero.

Mrs HISCUTT - Was that year 2026?

Mr HARPER - Treasury said 2024-25.

CHAIR - That is when it will start to decline. It has a long tail.

Mr HARPER - Not as long as the increasing tails. In other words, it increases slowly and declines relatively quickly.

Mrs HISCUTT - We are only talking nine-odd years.

CHAIR - Until it starts to decline

Mrs HISCUTT - Until it peaks.

CHAIR - Then, they are saying here 2075-76 it will be down to almost zero.

Mr HARPER - We will have to take everyone's word for it.

CHAIR - Yes, all of us, Murray, I think.

Mr BEVAN - If you take retirement as a 40-, 35- or a 30-year exercise in the old contributory scheme, so you have 5 per cent, 8 per cent and 11 per cent. If you now look at the whale and how it tails off, 40 years for the retirement system is nothing. They signed these people up in 1972 and told them to come back and get their pension in 40 years' time. It is not something which happens tomorrow.

I think we need to look beyond 2024-28 or whatever it is and ask where this thing will be in 40 years' time. If it will be tapering off then I would be taking the attitude that at some point the government is going to have a nice windfall. We will not be here to enjoy it.

CHAIR - I struggled to get a copy of the whale graph for a few years. I did eventually receive it. Treasurer Aird was the first one who kindly managed to secure a copy for me. We know that originally the scheme was designed to be retired in about 2030. It was 2016-17 initially, which is now. Then it was 2035; then 2062. Now it is up to around 2075.

This could change but are you happy to accept the Treasurer's view it is manageable and when it peaks it will still be within 6 per cent of total outlay?

Mr BEVAN - We have to accept he is managing the funds and is aware of the line item. He has said to us in a meeting with myself, Ross Brown and Murray. I believe he said in parliament it is manageable in respect to changes to the legislation which recently went through to create the new RBF. His words were something like, 'It would never, never change'. I think he is being a very brave politician.

Mr HARPER - When these things are estimates, we have to take estimates of a number of factors are affected. It has to take an estimate of the percentage of retirees who will take a defined benefit pension or will not. It has to make an estimate of how long those people will live. It has to take an estimate of how much medicine will improve over the years and so on.

CHAIR - The State Actuary making assumptions around those figures as well. We are talking to the State Actuary tomorrow.

Mr HARPER - Exactly.

Mr GAFFNEY - I might have to declare a pecuniary interest. I thought I would put that on the table, 1979.

Laughter.

Mr GAFFNEY – You gave the example where Centrelink payments have gone down, somebody becomes ill, the $25 000 or whatever they receive is not a lot of money. Is there any way, in light of changing circumstances of the potential longevity of a person, they can access any of their funds quicker?

Mr BEVAN - Not once you are on a pension. There are certain conditions which apply between 60 and 65 where you can make one opportunity to take a percentage as a lump sum and continue the pension, or take 100 per cent. That is a one-off situation with no flexibility.

I remember them saying to me - I retired through TPI - I have a choice of a pension or a pension or a pension. That is how it amounts up. Once you are locked in, you are locked in.

Mrs HISCUTT - Would you like to see that changed?

Mr BEVAN - It is an opportunity which applies to, not being a 'normal' retired person in that sense, I think it happens at the start. The day you retire you can declare what you want to do with it.

To go back to what Mr Gaffney was saying earlier, do we think our members would - for want of a better expression - want to buy out or sell their pension now, how do you strike a value? If you are getting, say, $40 000 a year now, how much do you need to invest in this very uneasy market at 2 per cent, 3 per cent or 4 per cent as a guarantee against a volatile stock market to guarantee you are going to get at least $40 000?

CHAIR - Even though Leonie said people can often manage their own money better; I suggest that a lot of people cannot.

Mr BEVAN - I agree.

CHAIR - When you look at the number of members you have in this potentially low salary level, I don't think many of them would be well-equipped.

Mr BEVAN - I don't think it would be compulsory to have an open slather. I think it would lead people into blowing the money quickly then ending up on the Commonwealth system. So what have you achieved? I know it is not the state but it is still coming out of a -

Mr GAFFNEY - It finished in 1999. When we signed up it was 55 years and then so many years later I think it was 58 for ladies.

CHAIR - The retirement age?

Mr GAFFNEY - Yes.

Mr BEVAN - The preservation age started to kick in, depending on when your birth date was.

Mr GAFFNEY - Now that the retirement age has extended further, the expectation is for people to work for longer than 55 years. In fact, you are nearly required to work longer to 65 or 70 years. Some of those people who signed to the scheme in 1990, have you had feedback from them? What were their retirement preservation ages?

Mr BEVAN - It could be anything up to 66-67 years, but there is a complication now that once you hit 65 years, unless the RBF have changed their legislation, at 65 years you can no longer contribute to the scheme which means the employer has no obligation to put in their 15 per cent. So you work past 65 years and you are working for nothing, as far as the pension goes. You have maximised at 65. So that is a quirk in the system.

Mr GAFFNEY - It is a quirk.

Mr BEVAN - It may have changed. It has been a long time since I have been working so I am not up to date on all the changes but that was a quirk when I was working.

Mr GAFFNEY - I am sure the RBF would be working to look at that situation.

CHAIR - It will be Tasplan soon - I don't think defined benefits will.

Mr BEVAN - No, it will still be RBF.

I think the answer to your question, Mr Gaffney, was how much money would they have to find to buy out pensions and it could end up being far more expensive than coping with what they have now.

CHAIR - The question is how do you value it.

Mr BEVAN - Exactly.

Mr GAFFNEY - Individually, if somebody has had a change of heart and they want to change their living circumstances - if somebody wanted to move overseas and get out of this system, they can't.

CHAIR - While they are working or when they have retired?

Mr GAFFNEY - When they have retired.

Mr HARPER - One would have to be fairly careful to change arrangements along that line. Decisions could be made on those circumstances you have mentioned but they could also be made on the sort of basis we were talking about before with highs and lows of availability of returns.

Mr BEVAN - It is a tough one.

CHAIR - Did you want to make any closing remarks, gentlemen?

Mr HARPER - I think the basis of our submission, as we have mentioned before, is looking at what has happened previously and our views on that, and look at what may happen in the future and our views on that, in particular with the shape and nature of payments. Other than that we have covered the major points in our submission.

Mr BEVAN - I have one question I would ask RBF: can you show us by numbers and by salary ranges where people sit? So, break the 9 000 down so you could see that there are five people on $200 000-plus and there are 5 000 on $25 000, or whatever the figure is.

CHAIR - That is an important question to ask on a number of levels in terms of modelling any other proposed change.

Mr BEVAN - You will get the impact then if there are dramatic changes where the changes going to be felt the most. You can only have 17 or 18 heads of department; you can't have a lot of people on $200 000, I wouldn't have thought.

CHAIR - Thank you very much for your time and for your submission. We appreciate it.

THE WITNESSES WITHDREW.

<u>Mr STEVE WALSH</u>, SECRETARY, UNIONS TASMANIA, AND **<u>Mr TOM LYNCH</u>**, SECRETARY, CPSU, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR - I am sure both of you have given evidence to committees before and understand the process. Parliamentary privilege covering your time in front of the committee does not extend beyond the committee hearing. Everything is on the public record, recorded and transcribed. Do you have any questions?

Mr LYNCH and **Mr WALSH** - No.

CHAIR - We have your submissions and while they do not address all the terms of reference I understand the intent behind your submissions. If you would like to make some opening remarks and point to anything you would like to discuss further, we will have questions for you after that.

Mr WALSH - From Unions Tasmania's point of view, being a peak organisation which represents unions in Tasmania - we represent over 50 000 members both in the public and private sector - the main thrust from our submission is dealt with under item 3 of your terms of reference which was 'any other matters incidental thereto'.

As we said in our submission we are concerned because of the continuing liability and there is a lot of media comment. Every now and again it gets into the public arena about this unfunded liability. A future government may contemplate changing existing entitlements. The thrust of our submission is that we would be clearly opposed to anything like that.

Defined benefit members have an expectation that their entitlements will continue. When they entered into their employment contracts and conditions of service at the time of their employment, we would expect like any other employment contract that what is in place at the time would continue, particularly superannuation.

It is fair to say from Unions Tasmania's perspective, we understand and acknowledge the unfunded liability is a major cost on the state. It does require thinking about ways in which, for all of us as a collective, it can be funded going forward.

We want to differentiate. There is a difference between what are existing entitlements for workers, and they should not be penalised as a result of governments, for whatever reasons they chose, not being able to continue to fund the liability as it occurs.

There have been attempts in the past to start funds and put money aside. We acknowledge it is a lot easier to say than to do. I understand there have been no real changes since 1999. The RBF changed and the pension or the defined benefit ceased to exist then. I refer to the graph in the Treasurer's submission. We accept it is going to be a continual challenge for any government to meet their liabilities. One way in which they should not meet their liabilities is reducing entitlements.

Mr LYNCH - Thank you for the opportunity to make a contribution. I reinforce Steve's message. My members, who are members of the contributory scheme, joined the public sector. At the time they were required to become members of the contributory scheme. It put certain obligations on them and it put certain obligations on their employer. These members have gone through their career for however long they have been in the scheme. They have made after tax contributions to the fund on a fortnightly basis, based on their salary. Later they may have made salary sacrifice contributions at a higher rate in order to cover off on the 15 per cent contributions tax. They have, throughout this whole period, met their side of, effectively, a contractual arrangement. It is completely unreasonable for people to talk now about changing the benefit for these people. None of us have this obligation. The analogy about building a hospital or paying an obligation you will have over here for people's superannuation would like me saying to my bank, 'Well, I have decided I really do not want to have a mortgage anymore. I would like to keep my house but I do not want to pay my mortgage'.

We all enter into arrangements that are long term. The state entered into an arrangement with these people that was long term and it is unreasonable to say that you are then going to change those arrangements.

The other obligation that was on people throughout their career was that they stayed within the public sector. While people talk about the defined benefits scheme being a very generous scheme, it is only relatively generous if you serve your career through and retire in the public sector.

There are a lot of people - and I am actually in this category where I did 15 years in the public sector and then because I left the public service I ended up with a compulsory preserved amount that is certainly a very low amount for the number of years I was in. I would have been better off being an accumulation scheme member over that period. I would have accrued more in my superannuation. People are required to stay in the public sector in order to gain the final benefit.

For many people that can have a cost associated with it. They miss out on employment opportunities outside the public service. I have seen the language about it being referred to as a 'golden handcuff'. Certainly it was, and I think it still continues. Certainly up to the time that the scheme was closed it was seen as being an important part of remunerations which were generally below what people, certainly in the higher levels of the public sector could gain outside of the public sector. That was effectively you employment package.

From the time the superannuation guarantee levy was brought in the employer for those people not in the DB scheme had been fronting up their amount each fortnight into the accumulation scheme, 3 per cent growing through to 9.5 per cent. At the same time the employer for those in the contributory scheme had not been fronting up anything. That is why we have accrued this liability over time.

I thought it was interesting to look at an RBF communication that they put out around the funding rate change and how they explain this. They ask the employer a question effectively about employer funding. They say:

> Your employer does not contribute to your contributory scheme benefit whilst your contributory scheme benefit accrues. The employer share of the contributor scheme benefit is funded by last minute employer contributions when the employee share of the defined benefit becomes payable.

So, clearly the employer, that was their choice to do it that way. They then go on to explain that the contributory scheme amount will increase from 78.5 per cent to 80.5 per cent. From 1 July this will be reflected in peoples' accounts after that.

> Why is the increase in employer share necessary? Increasing the employer's share of contribution scheme benefits is necessary for the following reasons: the ageing membership and the fact the contributory scheme is closed to new members means that the membership base will continue to age and decline over time whilst the accrued benefits of remaining members will continue to increase. This places pressure on the funding arrangements for the contributory scheme.

We are seeing something here which should not be surprising us. There is a lot of people who are on pensions, there is a reducing number of people making contributions, therefore the liability for the scheme was always going to increase in this way.

> What is the unfunded component of the contributory scheme benefit? The unfunded component is the employee's share of your contributory scheme benefit which is funded by last minute employer contributions. In the case of the Contributory Scheme Life Pension, the employer share is paid fortnightly as the employer contributions for the duration of Contributory Scheme Life Pension. In the case of the contributory scheme retirement lump sum payment, the employer share is paid as an employee contribution in the form of one-off lump sum payment.

The employer has made their decision as to how they are going to fund their component of this contractual arrangement. I think it is extremely unreasonable to think because the employer has decided not to do anything in that part other than as described there -

> Fund the pension on a fortnightly basis.

CHAIR - At least they are being honest now?

Mr LYNCH - RBF?

CHAIR - The way it is managed in the budget papers.

Mr LYNCH - It has been all over the place, yes.

CHAIR - At least they have got rid of the smoke and mirrors now.

Mr LYNCH - That is exactly right. We have seen the graphs and it seems, based on the current actuarial advice, there will be a peak in somewhere between 2028 and 2032 where the contributions will be equivalent to about 6 per cent of total cash outlays, and then it will fall away quite steeply after that.

I make the point that that is based on the State Actuary's advice right now. I do not know whether this is a fundamental change in our economy. The time seems different now to me than it has been in the past. You see all the super funds talking about lowering expectations on earnings. When interest rates are low, then the discount rate is low. This means the present value of the liability is high. At the same time, when interest rates are low, salary growth is also low which will be factored in over time to a reduction in the liability. I do not know how far this is factored in. This would be interesting to know.

CHAIR - Are you talking about the modelling around the slower growth in salaries in combination with the lower interest rates and the impact on the government's percentage contribution?

Mr LYNCH - Yes, I understand that the reduction in interest rates has been fully factored into that discount rate. That has had a big impact on lifting the liability in present value terms. I am not certain whether the trend in wage growth, which has certainly been trajecting down, has been built in as strongly as the interest rate has and whether it would have an impact over time.

The other thing that low interest rates does is slow the growth in plan assets which also has an impact on the net present value of the liability. Also, it slows the growth in pensions being paid out as they are linked to CPI. This is a complex space. I do not begrudge the actuary they job they have to do.

My feel of things is we are looking at things at the moment from the very worst perspective. We still have the mountain ahead of us and the rapid fall in interest rates has made that net present value look very large. I understand why people would want to react to it. Having looked back over some of the numbers, these numbers have trended up and down over time. I guess they will again in future.

Mr GAFFNEY - You mentioned your 50 000 members. Do you have any idea how many of those are in the Defined Benefit Scheme?

Mr WALSH - Not in defined. We would have approximately 50 per cent in the public sector but of that how many would be in the defined benefit it would be very hard to determine.

Mr GAFFNEY - I appreciate the comment that your members should not be any worse off than when they signed on the dotted line as it was part of their working conditions. What if they chose to try to get out of the scheme now? Would it be something you would support if they could get out of the scheme?

Mr WALSH - At first blush, no, there would not be an issue. I suppose it is how the option is presented.

Mr GAFFNEY - Okay.

Mr WALSH - From a general principle, as an individual, after they have done their due diligence and got their advice and chose to opt out, then we would, from my perspective, not be opposed to that.

Mr GAFFNEY - Even though it is a condition they signed on the dotted line back then - it was presented to us by Mr Harper - that the gap has been widening between the CPI. So the conditions they signed on has become worse, I suppose, in relation to -

CHAIR - To the Commonwealth pension and the RBF pension rates.

Mr GAFFNEY - Yes.

CHAIR - RBF is linked to the CPI but the Commonwealth pension now isn't. That was addressed years ago.

Mr LYNCH - Relative to the pension, if there is a logic to that, the RBF pension has become less generous because of the way it is linked to CPI. It has certainly been an issue that Tasmanian superannuants have been concerned about for some time. I notice even in some of the other parts of RBF regulations, it says at times you can take something based on CPI or what are your average full-time earnings, whichever is greater. The pension is adjusted by CPI.

CHAIR - Steve, you made the comment that there is public comment around this at various times. In your view, do you think a lot of that is well informed?

Mr WALSH - No, I don't believe it is well informed. In one of the submissions I read the phrase 'pension envy'. I think back to my initial entry into the workforce, it was always, 'The public servants have this and that'. I think Tom said the golden handcuff. That comment is not based on well-informed information. It is just the populous, 'he's privileged', that if you are in the public service you get looked after.

There are plenty of people in the private sector who still have defined benefit and they would not give it up for anything. Employers have put all sorts of sweeteners in front of them to give it up. They are coming from a well-informed base. They have their advice and say, 'Why would I want to give up this?'.

CHAIR - The reason I proposed this inquiry was because in the RBF's annual report and the State Actuary has advised that the percentage of the government contribution is rising steeply, which has a significant impact on the state budget. Why is that happening? I don't expect you to answer this, it is not a question for you, it is the basis for the inquiry. You raised some concerns at the outset that there has been public comment, and the concerns you have alluded to.

The questions we will ask of RBF, the State Actuary, and Treasury officials are: what has driven this? Is it issues of higher wages or the creep of entitlements boosting up the final average salary, or what is it? RBF has given us a few reasons as to why that is; they need to be further explored. It is looking at how do we manage this? The Treasurer's submission says that it will still remain within 6 per cent even when it does peak, even in light of what the Actuary has advised in terms of their percentage contribution. With all those things being said, have you had discussions with the Treasurer about this on behalf of your members? Do you believe it is under control? Do we need to do something differently?

Mr WALSH - From Unions Tasmania point of view, we have not had any discussions with the government, or the Treasurer, in relation to these particular issues. We have not had a lot of discussion with the government anyway, and that is not for want of trying. That is why from Union Tasmania's perspective we did not want to delve into that. There are plenty of other experts who could deal with parts 1 and 2.

We also wanted to let the committee know we are interested as a union movement in an outcome in relation to this. Again, I make the offer that we are prepared to work with you. We accept and acknowledge over time it has becomes an issue. Some of the easy solutions are to simply cut benefits. We would take a strong view against that.

CHAIR - Mr Harper made the point the funds which have been notionally set aside into the SPA previously, have been used to fund health services, education services, infrastructure and other things.

Mr WALSH - Yes, and again how do you start to put the funds away? I have read in one of the submissions the Australia Fund, I think it was called -

CHAIR - The future fund.

Mr WALSH - The future fund - if you could quarantine money into that fund and use investment, but again, the return will only be dependant upon the market.

CHAIR - You have to borrow it to do it though.

Mr LYNCH - I think we are beholden here on the Treasurer and the government of the day making those decisions. They made decisions to put money into SPA. I presume when they decided to use the money to fund other things it was because it was a more cost effective way of delivering money they needed than borrowing it somewhere else. They were then able to put the liability off to fund it on an emerging basis. This is the point I am making. Governments are in control all the time. They are making decisions about how they manage that side of it; the employee is not.

We had some discussions with the Treasurer around the public sector superannuation reform act. In those conversations the Treasurer assured us there was no intention to change any entitlements for members of the contributory scheme. He indicated a degree of confidence that they had looked closely at their emerging liability and it would be funded from the budget on an annual basis. The peak was see-able and they were confident it could be properly managed. This is the message I communicated back to my members.

CHAIR - It seems you are quite right. With the Temporary Debt Repayment Account which offset the SPA, internal borrowing is much cheaper than going to the market, as you said.

Mrs HISCUTT - Touching back on what Mike was saying. Steve, you said you have 50 000 members. We are only talking about public servants here. How many of those members would you have?

Mr WALSH - Approximately 50 per cent would be. There would be 50 per cent in the private sector; 50 per cent in the state service

Mrs HISCUTT - So you are saying 25 000 members of yours are in the defined benefit scheme?

Mr WALSH - No. What I am saying is, as an organisation I was giving the committee some background information. The reason Unions Tasmania made a submission is that not every individual union within the public sector sought to make a submission. We are making a submission on behalf of the affiliates to Unions Tasmania of which, approximately, 50 per cent would work within the broad definition of the public service.

Mrs HISCUTT - Are these the same people that Tom is representing?

Mr LYNCH - My members are a sub-set of Unions Tasmania.

Mrs HISCUTT - Right, I understand.

CHAIR - And not all of those from the defined benefit scheme.

Mr WALSH - No.

Mr LYNCH - Is there 8 000 to 9 000?

Mrs HISCUTT - Yes.

Mr LYNCH - Between ourselves and the AE, HACSU, AMF, a fair number of those, I would say around 80 per cent of them, would be members of our union.

Mrs HISCUTT - If a public service member takes a year's secondment, or a two-year secondment, and works elsewhere, do they lose any of their RBF entitlements if they come back and start again?

Mr LYNCH - Like everything else with RBF, the answer to that question is not simple. They can go away on a secondment, with the approval of the employer, and remain within the scheme.

Mrs HISCUTT - So if it is ticked off, that's fine.

Mr LYNCH - Yes. They would pay their contributions. I will give the example of the CPSU because we have in the past seconded public servants to the CPSU for the period they are employees of ours. They continue to pay their 5 per cent contribution fortnightly to RBF and -

Mrs HISCUTT - They can pay that out of their new wage?

Mr LYNCH - It is either their substantive wage back in the public sector or their new wage, depending on which has been agreed. The CPSU then pays, in cash, whatever the current contribution rate for an employer is, to Treasury. I think the last time we did it it was 12.5 per cent. We paid that in cash. I don't know where that goes -

CHAIR - Into the black hole of the Consolidated Fund.

Mr LYNCH - and then that person's years of service are recognised. In other circumstances, a secondment can be treated as leave without pay and so whilst they remain a member of the scheme, when they come back those two years disappear and they are not ever seen as years of service. So when they finish up -

Mrs HISCUTT - So there's no loss?

Mr LYNCH - No.

Mrs HISCUTT - Once it's negotiated.

Mr LYNCH - Yes.

CHAIR - Is there anything you would like to add, gentlemen?

Mr LYNCH - I make the point that we have all said the Public Sector Superannuation Defined Benefits Scheme has been referred to as a generous scheme. That has probably been an historical thing from when people in the public sector had the defined benefit scheme and the vast majority of workers in Australia did not have superannuation at all.

As time has gone by, I don't necessarily think it is such a generous scheme. The employer's contribution is 15 per cent, minus the earnings on the amounts held. The employee contributes 5 per cent and RBF invests that, and then effectively the employer contribution is the difference between those two. There are plenty of other private sector and GBEs that offer their employees at least 12 per cent, 15 per cent - there are universities that are offering employees 18 per cent employer contributions.

I don't know that these are incredibly generous. The generosity probably comes from people thinking that when the scheme was set up, everybody came in as a base grade clerk and retired as a deputy secretary. That was the generosity. I don't see that in the public sector anymore but with more people coming in in spot positions, and quite often finishing almost at the same band they came in at, or one level higher, that generosity is not there. I think the problem we have is that the employer chose not to fund their side of the obligation all the way along and that has built up over time.

Mr GAFFNEY - You are right. The history of the group you are talking about is that 40 years ago you used to work your way up, through Education, as a teacher and then to a principal. That doesn't happen anymore, or fairly rarely.

Mr LYNCH - That is the same in other agencies and that has changed the nature of the scheme quite considerably.

CHAIR - Thank you very much.

THE WITNESSES WITHDREW.

Mr RODNEY WHITEHEAD, AUDITOR-GENERAL, **Mr RIC DE SANTI**, DEPUTY AUDITOR-GENERAL, AND **Mr JARA DEAN**, ASSISTANT AUDITOR-GENERAL, FINANCIAL AUDIT WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR - Welcome, is this your first stint?

Mr WHITEHEAD - Yes.

CHAIR - Thank you very much Rod, you and your team presenting to the committee. Mainly for your benefit and reconvene before committees many times. I will go through the proceedings for the committee process. By way of how this all works is that the proceedings are recorded on *Hansard* and they will be transcribed and form part of the public record and will also inform our report. Everything you say while you are in front of the committee is covered by parliamentary privilege but if you did happen to talk to someone outside to the media then you are not covered at that time, just to keep that in mind. It is a public hearing so anything you say is part of the public record unless you make a request to the committee to provide information on camera and the committee would then consider your request at that time.

You have seen the terms of reference and we are addressing particularly the reason for the increase in government contribution over the next few years, and the impact that will have on the state budget.

I know you did not put in a submission but we have your report from the Auditor-General's report from RBF's last financial year. In many respects it would be asking you to speak to that and anything you think is relevant to our terms of reference. Do you have any questions before we start, those who have not appeared before particularly?

Mr WHITEHEAD - No.

Mr De SANTI - No.

Mr DEAN - No.

CHAIR - Do you want to make some opening comments and then the committee will have some questions for you. I do not know if you have taken time to read the small number of submissions on the website so you are probably aware of what other submissions have said. You may want to address some of those if you believe them to be perhaps in error or needing further detail.

Mr WHITEHEAD - I might make a few opening comments. The first thing I will state is that given my relatively recent appointment as the Auditor-General, I have actually asked Ric and Jara to come along as well given they have more familiarity with the Retirement Benefits Fund than I do. So I might defer to them in terms of some of the responses to the questions that you might ask as well.

As you mentioned, our report on the Retirement Benefits Fund is covered within the report of the Auditor-General No.7 of 2015-16 volume 1, which included analysis of the Treasurer's annual financial report, the general government sector, and the Retirement Benefits Fund 2014-15.

Regarding the terms of reference, I notice three particular points that have been included within the terms of reference, being the reasons for the increased funding shortfall, the risks and implications of the current, and any future increases, in the employer contributions to the government's budgetary position, and any other matters incidental thereto.

I will make some comments in relation to the first two points. The first one relating to the funding shortfall. It is important to recognise that the funding shortfall is related to particular elements of the contributory scheme. One is the gross liability and the other one is the planned assets that are available to meet that liability. The reason for the increase in the funding shortfall is because the gross liability is increasing at a much greater rate than the increase in the plan assets. Regarding the plan assets, there has been an increase in the performance of the plan assets since the global financial crisis but the growth in the plan assets is again much less than that in the gross liability.

In regard to the gross liability, it should be recognised that the liability is determined by an actuarial assessment undertaken by the State Actuary. That includes a number of assumptions, some of which include the discount rate, the higher take-up of pensions relative to lump sums, and various other actuarial assumptions that are outlined in the State Actuary's report, which is attached as an attachment to the RBF financial statements.

In conducting our audit of the RBF, we also look at the actuarial assessments, and engage our own expert to review the assumptions of the State Actuary to ensure that those assumptions are appropriate.

In regard to the second point - the employer contributions - it should be noted that the employer contributions are based on advice from the actuaries and it is the government's responsibility for the whole of the funding shortfall. Timing around when the government contributions will be made is really what determines the level of government contributions at any particular point of time.

We make reference to the whale graph, which I understand most people refer to it as, which is essentially the undiscounted payment cash flows from pensions and lump sums, representing the whole cost which is not split between the RBF and the government - although in some cases I have seen versions of this particular graph which show the government's contribution over the expected time that the liability will need to be extinguished.

The whale graph shows a significant build-up in the annual cost over the next three-year period, to 2021, which shows an increase of approximately 30 per cent in the annual contributions that will need to be made. Then there is a peak period covering a period of 15 to 20 years, during which the maximum contributions will need to be made, after which the level of contributions required to extinguish the liability will be reduced.

In terms of the rest that might relate to the government contributions, the first point that should be acknowledged is that these come from the Consolidated Fund and that any potential increase in the level of government contributions will be at the expense of other programs and services that the government might wish to provide. The level of government contributions may be subject to changes in the actuarial assumption of the gross liability in the future.

CHAIR - Thank you. I am interested in a point you made that you get your own actuarial assessment and test the assumptions of the State Actuary and make your own assumptions. We had a witness this morning who suggested that the actuary's are not right, doesn't appear to have made the assumptions, and thus Treasury have perhaps even not made the assumptions or are not providing the right information, particularly about the cohort of people likely to be retiring or taking lump sums versus pensions.

With the assessments that your office has undertaken, their own actuarial assessments, do they line up with the government's assessment, or is there a difference?

Mr WHITEHEAD - I will refer to Ric or Jara who might respond to that question.

Mr DEAN - We do engage an expert to undertake a peer review of the State Actuary every three years. The last time this review took place was in 2015 and prior to that in 2012. The outcome of the review was that our expert was satisfied that the data assumptions and methodology used by the State Actuary were reasonable and concluded that the source data were relevant and appropriate for the purpose of the valuation. This is data as it relates to the members of the fund. The assumptions and methodology were consistent with the relevant accounting and professional standards and have been determined in a manner consistent with prior periods.

Again the assumptions, for example, about mortality rates, when people will be retiring, decisions around whether people will be taking pension or lump sum payments, these are the type of assumptions we are talking about.

CHAIR - And the bands from which they are retiring from? Those sorts of things are considered as well?

Mr DEAN - Yes. The assumptions were consistent with industry practice and the method of calculations applied were appropriate. On that basis, we were satisfied that the work that the State Actuary performed was done in accordance with the relevant standards and the general practice is that actuaries would apply in determining the value of the liability.

CHAIR - In terms of the advice in the RBF's annual report of last year where it talks about the employer contribution rising potentially in 2019 up to 88.5 per cent, then your assessment would confirm that likely scenario?

Mr DEAN - That assessment did not look at the recommendation of the percentages in terms of the contribution by the employer as against the contribution by the RBF fund.

CHAIR - You cannot comment on that, or is it not an appropriate place to comment on that?

Mr DEAN - It is probably not the appropriate place for us to comment because it was not within the scope of the work that we did to look at the accuracy of that advice in terms of the percentages that employers should be contributing to the fund.

CHAIR - In terms of the reasons why that might have gone up, did you look at that at all in your assessment of the ongoing financial performance of RBF in the defined benefits?

Mr DE SANTI - No, our review would be pretty much looking at the liability as opposed to the level of contribution.

Mr DEAN - As Rod mentioned before, I guess the reason for it was simply the level of assets. It is not high enough to meet the requirements of the outgoing cash.

CHAIR - I will come to some of those points in a minute about that. Looking at your report, the graph on page 116 -

Mr DEAN - Madam Chair, you are referring to the chapter on the Retirement Benefits Fund, itself.

CHAIR - Yes. With regard to net investment revenues, the access on the right hand side reveals negative returns for 2008-09. Are they the only years of negative returns?

Mr WHITEHEAD - It does show a reduction in the years 2011-12 as well. Perhaps if I provide you with my particular graph, it might help.

Mr DEAN - But it did not go negative.

Mr WHITEHEAD - It did not go negative but it did reduce in those particular years.

Mr DEAN - The net investment returns reflected earnings of the fund and any realised or unrealised gains on investments or losses.

CHAIR - The 2008-09 losses could be attributable to GFC in part.

Mr DEAN - Yes, the global financial crisis and the reduced value of the assets.

CHAIR - As the airport, for example, was written down, is that in that area as well, at about the same time?

Mr DEAN - Correct.

CHAIR - How does RBF then divide its assets and earnings between their five funds in terms of how they divide the assets between contributory schemes and the accumulation schemes? Do we know that?

Mr WHITEHEAD - Given my recent employment, I do not have an answer to that particular question.

Mr DE SANTI - I think it would work simply that the accumulation scheme is a known amount. You know the value of the assets. So, deduct the value of the accumulation scheme from the assets and what is left then would be available for defined benefits.

CHAIR - Again you might not know this and it might be a question for RBF. I presume looking at how they manage their affairs you might look at some of this stuff. Are the assets contained within the fund segregated to each fund, or managed as a pool in the defined benefit fund?

Mr DEAN - The assets would be managed in a pool. There would be a pool of assets. Assets would be attributed to the individual schemes.

CHAIR - With the earnings, is each fund credited on its segregated assets, or are the earnings pooled and then split between the funds on a pro rata basis? I am interested in how they manage it across the different funds they operate.

Mr DEAN - They would be split between the individual funds.

CHAIR - On a pro rata basis?

Mr DEAN - On a basis which would reflect the investments in those individual funds. For example, with the accumulation scheme where members of the accumulation scheme can opt for different types of investments, essentially the choices would then reflect the investments the accumulation scheme would be making and therefore the earnings of the RBF would be allocated proportionately to the accumulation scheme.

CHAIR - So the contributory scheme is not accredited with the same earnings as the accumulation fund, for example?

Mr DEAN - Not if the investments invested by the contributory scheme are different to, for example, the accumulation scheme.

CHAIR - This is what I am trying to understand, which assets sit where. We know the airport is basically a loss. The asset is not worth as much as it was. Effectively, do all members including the contributory scheme members and accumulation scheme members share the loss?

Mr DEAN - They could. There are different types of investments. For example, you have cash investments, listed equities, unlisted equities, bonds, foreign exchange contracts, et cetera, and direct properties. I am looking on page 8 of the RBF financial statements. Each of the schemes would have a different investment strategy.

Mr WHITEHEAD - It would be note (e) starting on page 7 and moving to page 8.

Mr DEAN - Onto the financial statements - it is note (e). Maybe we will start on the Statement of Financial Position which would be a couple of pages before. There you see under the heading 'Investments' the different types of investments RBF would invest in. Internally within their financial system those investments would be allocated to the different sub-funds. The allocation would reflect the investment strategies of those different funds.

CHAIR - So a loss is not shared across all of them, potentially? It could be contained within one.

Mr DEAN - It could if the loss relates to an asset invested only in the one specific sub-fund.

CHAIR - Yes, this is a question for RBF.

Mr DEAN - We do look at it as part of the audit, yes, the allocation across the different sub-funds. Previously, if you remember, since RBF has been reporting in the form of aggregated financial statements since 2013-14, I think, prior to that it would be reporting for each. There would be a set of financial statements for each individual fund.

CHAIR - Why did they stop that, do you know?

Mr DEAN - However, in the notes to the aggregated financial statement and that is note 12, there is a note which provides the breakdown between the individual sub-funds.

CHAIR - The actual value of the assets in it?

Mr DEAN - Correct. The liability attributed to the fund and the assets attributed to the fund.

CHAIR - Both Treasury and RBF in their submissions refer to an annual deficit of $258 million in the 2010 triennial review. They noted it had grown to $344 million by the time of the 2013 review. I think this is the first time I have seen mention of the deficit. Is this a measurement which has ever troubled the former Auditor-General? Can you explain this annual deficit?

Mr WHITEHEAD - Chair, for the benefit of my colleagues, page 3 of the Treasurer's submission makes reference to this deficit. The Treasurer states the deficit represents the difference between the net value of the plan assets and the present value of contributions. It also talks about the major factor contributing to the increase of the deficit was the addition of interest to the previous deficit. I would state the interest represents the unwinding of the discount on the particular provision or the liability.

CHAIR - Has it raised a concern for the Auditor-General in assessing -

Mr WHITEHEAD - In terms of the comments made in our particular report stating the overall level of the unfunded benefit does cause us concern. In the case of my predecessor, it caused him concern. He made the comment it requires closer management and monitoring.

CHAIR - They have given a range of reasons as to why this has increased. RBF has basically said the same thing. We will ask them to expand further on it. RBF is particularly short on detail in their submission. You may have noticed it as well.

Do you generally agree with the main reasons given by both the RBF and the Treasurer, as to the reasons for the growth in the deficit? Is it most likely there are no other areas that could cause it or should be looked at?

Mr WHITEHEAD - There are a broad range of factors which have an impact on the liability. The discount is one in particular which tends to have a material impact on the provision or the gross liability. Some of the previous reports the Auditor-General has produced has shown some sensitivity around a 1 per cent movement in the discount rate potentially having a significant impact on the gross liability amount. They have listed some factors there as well.

In terms of the change in mix relating to the higher take-up of pensions than lump sums, it would seem to be supported by Mercer's attachment to the RBF annual report. I refer to Appendix A which shows for the year ended 30 June 2015 the number of pension payments was quite high relative to the previous year. It also shows the liability for contributing members is slightly lower. Again, you can see the conversion into pension payments increasing quite significantly from the 2014-15 year. This perhaps does support the assertion which has been made about pension versus lump sum mix.

CHAIR - Also, potentially, there will be a lot more people making that decision as we baby boomers reach retirement age. There is only one of us here who has a vested interest. The rest of us do not. I know he is retiring this year, are you, Mike?

Mr WHITEHEAD - Perhaps if I make a comment there too and that is that that decision as to whether to take a lump sum benefit versus a pension payment would obviously be contingent on financial advice that members receive at that time of retirement. Now with people's life expectations being a lot longer than what might have previously been the case, it would probably predispose them to taking a pension as opposed to a lump sum.

CHAIR - I want to go back to the negative earnings in 2008-09 and again in 2011-12. These represent by far the largest variation from all assumption used by actuaries, earning rates, CPI, wage increase, percentages and admin fees, et cetera. If the earnings fall was evidenced in the 2010 triennial review, are you surprised that it was not flagged at that time as something that really should be addressed? It seems that it has gone on without much comment, not necessarily from the Auditor-General's office but in broad terms. It is not a 'who should have said something here', it is what do you think has really happened here?

Mr WHITEHEAD - My observation would be the proportion of fund assets available to meet the gross liability have been decreasing its percentage. As a consequence, there might be less scrutiny on the performance of those assets as opposed to the scrutiny on the gross liability amount itself. I would imagine people would be probably be more interested in the reasons for the increase in the liability amount as opposed to perhaps underlying questions about the performance of the fund assets.

CHAIR - That is an interesting point. You may not be able to answer this but certainly a question for RBF in how they manage their risk profile for their different schemes. Do you look at how they manage their risk, and what sort of investment strategies they take with the different schemes? Their accumulation scheme as well as their contributory schemes and ones that sit underneath that?

Mr WHITEHEAD - I will defer that question to my colleagues.

Mr DEAN - We would look at the processes for investing in different investments and in terms of controls around compliance with investment policies that are set by the board. Essentially the board or the trustee set investment policies for the different funds and what we are interested in is that those policies are being complied with by the investment officers at RBF.

CHAIR - Not whether they are appropriate or not, but whether they are being applied.

Mr DEAN - Correct.

CHAIR - Do they apply their policies to those particular funds?

Mr DEAN - Yes.

CHAIR - We will ask them about their investment strategies. From your knowledge are they different for the contributory scheme as opposed to the accumulation scheme?

Mr DEAN - They would be different by the fact that those two schemes are very different in nature. The accumulation scheme, the investment mix is to a large degree driven by investment choices of the scheme's members. The contributory scheme would be more driven by the intent of the scheme, the policy that the trustees would set.

CHAIR - The board would really set that and their members do not really have any say at all in that?

Mr DEAN - When it comes to the contributory scheme, no.

CHAIR - This is me not knowing, again it may not be your question to answer it, it may be RBF's. How does it work that the investment strategies are determined for their accumulation scheme?

Mr DEAN - For the accumulation scheme, members have different choices and the investment decisions of RBF in relation to the accumulation scheme would be driven by the choices made by the members. For example, post again in 2012 there was a financial crisis in Europe. People possibly tended to switch from share options into more secure investment options like, for example, cash which would then have to be reflected in the actual investments by the RBF in relation to the accumulation scheme; that is moving investments from equities into cash to mirror the investment choices made by its members.

CHAIR - Clearly in the accumulation schemes you have a range of age groups. You would have people in their early 20s who you would think would be happy to take a higher risk strategy approach, whereas people in their late 50s-60s, heading closer to retirement age, perhaps taking a more conservative approach. How does that work at an individual level? Does the board have a role to play in setting that? When it goes to TasPlan, I guess, it will be up to the board to make those decisions. Is it done collectively? How is it done?

Mr DEAN - It would be done collectively by the board that would set the investment policies for the fund.

CHAIR - Generally, the contributory scheme policy set by the board of RBF, are they generally conservative in nature?

Mr DEAN - I could not comment.

CHAIR - That is a question for RBF. There are not many young people in that now.

Mr DEAN - It is probably a question for RBF to explain their investment policies and also when it comes to the accumulation scheme the decisions that are taken by RBF to offer the different options for its members.

CHAIR - Yes, I am interested in where various assets sit. For example, the airport; what are they going to do with that when the split up happens? Does that stay as an asset of the unfunded liability or does it get shunted over to TasPlan? Do they want it?

Mr DEAN - I guess that is something that will have to be worked out as part of the transition process.

CHAIR - They were all the questions I had for you. I was more interested in whether you think there is an emerging problem and you have identified that it does need addressing. The comment you made, Rod, about the decision being made as to what you fund, the previous and current Government has made it very clear it is a manageable liability. It is the only liability in the general government sector. It will remain, even at its peak, within 6 per cent of the total general government receipts. If that is the case, and modelling would suggest that it is, is it a concern we need to be worried about? Is it something to be watchful about?

Mr WHITEHEAD - In the contribution that the Government makes, it is directly related to the cash flows that need to be paid over the term of the remaining pension payments going out to 2083. But there is that peak period of time over the next 15 to 20 years when there is going to be significant drain on the state's financial resources to meet those pensioner benefit payments.

The Government has set a benchmark as to what level it would like those payments to represent in percentage of gross receipts. It is a question of how achievable or how relevant that particular benchmark will be into the future. Again, there may be changes in some of the actuarial assumptions that might require revisiting of that particular benchmark but the fact that the Government has set a benchmark that it wants to maintain that benefit level within, on an annualised basis, sets an expectation of the public as to how much of the Government receipts will be available to meet that liability.

CHAIR - It has been that way for some years now. It is not a new government matter, this is a previous government as well that had set that.

Mr WHITEHEAD - Again, it sets that public expectation on what that level of contribution will need to be. This is, to some extent, a liability that is going to go across a number of generations and across a number of governments. It is a matter of coming up with the contribution level that is fair across those generations.

CHAIR - I do not know if you read the other submissions. You do not have to comment on this if you think it is outside the area. Where it suggests we should call it quits and say no more, we are going to close it as it is and you can roll your benefit into an accumulation fund, manage it yourself or whatever.

Aside from not being legal to do so and requiring legislative change to do it, do you think it is a reasonable thing, needing to borrow about $5 billion from somewhere to fund it and have the debt? In terms of the cash flow issues that could create, there was a comment made earlier in the day, the interest you would be able to gain from the money you have saved by not having the ongoing liability -

Mr WHITEHEAD - It comes down to the decision whether you define the liability in terms of the cap and call it an accumulation fund. I think most people think they are going to live longer, or as long as they possibly can, and therefore might defer to selecting the pension method. Given the choice they would go for the pension option as opposed to a capped benefit option in looking at the lump sum they will receive.

CHAIR - For the people who are more likely to make this decision, as we know from history the scheme when it was originally set up was with the understanding people did not live as long as they do now. They retired a bit earlier, they did not live as long and not have the health treatment measures we have now to keep people alive longer. To change the rules now for people who have been employed under this scheme as part of their contract of employment, do you think it could create a problem?

Mr WHITEHEAD - That would certainly be a matter of government policy. We would not make a particular comment on government policy.

CHAIR - That is fine.

Mr GAFFNEY - When the Treasurer mentions in his submission something about contributions projected to peak in 2029-30 to approximately $437 million, that is on page 4, do you in your role look at what the Treasurer is saying, looking at those numbers and figures and do an envelope sketch around the ball park figure? Is that part of your role as well when the government of the day comes out and says in 2030 it is going to reach this? Sometimes the government of the day can say whatever they like. Is part of your role to ensure there is some integrity? I am not suggesting the Treasurer does not have integrity over the figures they project into the community and into this sort of thing.

Mr WHITEHEAD - We have made the same comments within our report to parliament. In making those comments we have to satisfy ourselves those numbers have some validity to them. The same question around making sure the information is correct, we have our own actuaries to review the work of the State Actuary to give us some comfort those sort of projections are reasonable and reasonable for us to put in our own reports as well.

Mr GAFFNEY - We heard from one person this morning saying some of this is based on projected interest rates and margins proposed or thought about by the state or banks. I think he said it was going to be low for five to eight years. Does that impact as well? Do you do long-term forecasting on this?

Mr WHITEHEAD - Not so much ourselves. Our office would not do those sorts of projections. The expert we engage would take those sort of assumptions into account when reviewing the work of the State Actuary. To some extent the expert that we place reliance on as well looks at those sorts of factors.

CHAIR - Low interest rates increase the liability.

Mr WHITEHEAD - Correct.

CHAIR - It was a couple of years ago in the graph in the Auditor-General's annual report showed the significant difference made by 1 per cent difference in the discount rate.

Mr WHITEHEAD - Correct, yes.

CHAIR - Another point was made by the people representing the unions, who would like not to see things change for their members. Wages have declined in real terms in Tasmania. Their view was that potentially - I hope I am not misrepresenting what they said - their view was that basically without real significant way to describe it that liability may not increase to the extent that has perhaps been predicted. Their view was that the majority of members are on much lower pensions. There are not many $200 000 pensions because there are not many people in the public service who retire in those positions on that salary level. We know the large number of people in the general government sector who make up the vast majority of people in this scheme, the defined benefits scheme, are not high paid workers. They are nurses, police, teachers who are not on $200 000 a year.

Those sorts of things potentially could see the increase not materialised to the extent that it has been proposed by some.

Mr WHITEHEAD - That is right. It comes back to there is a number of different factors. That is one example where that might have an impact on the actual gross liability amount. Similarly, some of the other recent government policy around workforce renewal, early redundancy may also mean that some of that liability may have actually shifted forward as well. Another example of factors that can have an impact on that liability.

CHAIR - I suppose the actuary only knows what they are told in terms of if the government has a policy of introducing some incentive to move old teachers on to other places and replacing them with younger lower paid teachers, which has happened in the past, those sorts of things the liability does not change overall to a huge degree, it moves where it falls, the hump in the whale comes closer.

Mr WHITEHEAD - Yes, potentially. The other comment is there is a triennial review which is scheduled for 30 June 2016. That might answer some of the questions that you have alluded to.

CHAIR - In 2016, I thought it was 2015 you did the last one.

Mr De SANTI - No, 2015 was ours.

CHAIR - It was only 2016 for the statement. The Treasurer mentioned that in his submission.

Mr DEAN - Just on the question on the point you were making about the inflation rates, they are all factored into the calculations and disclosed in the assumptions used in determining the value of the liability. You will see, if you look at the Treasurer's annual financial report the inflation rate for salaries was 3 per cent. So a 3 per cent increase would be factored into the projections.

CHAIR - Thank you very much for that. A few questions for RBF and the Treasury officials. Thank you. It was not too painful was it?

Mr GAFFNEY - If you have any good questions for us to propose, tell us.

CHAIR - We will see you outside.

Mr DEAN - Most of the assumptions are disclosed. As you can see things can change - CPI which affects the future pension rates, 2.5 per cent in the last actuarial review, if that goes up or down it will have an impact on the future.

CHAIR - Small changes can have quite a significant impact, can't they?

Mr WHITEHEAD - One would hope that the discount rate is not going to go any lower to push the liability any higher. Again that is contingent on financial markets as well. We cannot predict what they will do.

CHAIR - Some people try and not always with a great deal of success. Thank you for your time.

Mr WHITEHEAD - Thank you.

WITNESSES WITHDREW