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INVALIDITY PROVISIONS OF THE
COMMONWEALTH SUPERANNUATION
SCHEME

House of Representatives
Standing Committee on
Expenditure

Information Paper

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1. The nominee of the Chairman of the Joint Committee of Public Accounts who, in accordance with clause (2) of the Resolution of Appointment, is a member of the Expenditure Committee.

CHAPTER 1

BACKGROUND

1.01 The subject of superannuation - the extent, format and cost of its coverage - has drawn wide attention in recent times. Much of this attention has focussed on public sector superannuation schemes.

1.02 In Victoria, for example, the Economic and Budget Review Committee has been inquiring into Victorian public sector superannuation schemes to investigate, among other things, the adequacy and appropriateness of present benefits, funding and administration.⁽¹⁾

1.03 In New South Wales, the Public Accounts Committee focussed their recent inquiry⁽²⁾ on the superannuation liabilities of statutory authorities with reference also being made to investment strategies and funding arrangements of public sector superannuation schemes.

1.04 At the Commonwealth level, the 1980-81 Annual Reports of the Superannuation Fund Investment Trust (the Trust) and the Commissioner for Superannuation were referred by the Senate to the Senate Standing Committee on Finance and Government Operations for investigation and report.⁽³⁾ Concerns expressed by the Auditor-General in his report on the financial statements of the Trust for 1981-82⁽⁴⁾ prompted the establishment in January 1984 of an independent inquiry into the management and

operations of the Trust.(5) This was followed by the establishment of a working party comprised of departmental, union and private sector representatives to examine and make recommendations for the future management of the Trust.

1.05 Given the degree of interest shown in the Commonwealth Superannuation Scheme, and its charter to investigate areas of government spending, the House of Representatives Standing Committee on Expenditure considered in February 1984 among a number of suggested new references, the desirability of conducting an inquiry into the invalidity provisions of the Commonwealth Superannuation Scheme.

1.06 The Committee decided not to proceed with such an inquiry at this stage but resolved that an information paper should be prepared which would address the proposed terms of reference and assess the feasibility of further inquiry.

1.07 It had been proposed that the Committee examine and report on:

- 1) the cost to the taxpayer of invalidity retirements through the Commonwealth Superannuation Scheme;
- 2) a comparison with the cost of age retirements of Commonwealth Public Servants; and
- 3) the reasons for the apparent large number of Commonwealth Public Servants retiring on invalidity grounds.

1.08 This paper outlines the invalidity provisions of the Scheme and summarises the available information on the level and cost of invalidity retirements and the factors underlying the observed trends in their magnitudes in recent years.

CHAPTER 2

Invalidity Provisions of the Commonwealth Superannuation Scheme⁽¹⁾

The Commonwealth Superannuation Scheme

2.01 The Commonwealth Superannuation Scheme is a comprehensive occupational contributory superannuation scheme for Commonwealth employees. The present Scheme which was established by the Superannuation Act of 1976 came into force on 1 July 1976 and superceded two previous schemes, the Pension Scheme and the Provident Account which were established by the Superannuation Act of 1922. On 1 July 1976 all existing contributors to the previous schemes were transferred to the Superannuation Scheme. However, contributors and pensioners of the previous schemes retained certain benefit rights provided under the superceded schemes.

2.02 The Commonwealth Superannuation Scheme covers the majority of Commonwealth civilian employees. The Commonwealth Banking Corporation and the Reserve Bank are two important Commonwealth authorities not covered by the Scheme. At 30 June 1983 there were 300 068 contributors to the Scheme out of a total Commonwealth civilian workforce of 408 500.

2.03 With few exceptions all permanent employees of Commonwealth Departments and Approved Authorities [i.e. Authorities to which the Superannuation Act 1976 applies] are required to contribute. Temporary employees and holders of statutory offices have the option of applying to join the Scheme.

2.04 The Scheme's benefits are funded from employees' contributions and Consolidated Revenue. A contributor is required to pay a basic contribution of 5% of fortnightly salary and has the option of paying up to a further 5% as supplementary contributions. The Commonwealth [employer] financed benefits are [technically] 'unfunded' in that contributions are not paid in advance of benefits becoming payable. All private sector superannuation schemes need to attempt to secure all accrued benefits against assets of sufficient value to fund those benefits. It is debatable whether a government superannuation scheme should be fully funded in this sense.

Summary of Invalidity Provisions

2.05 All contributors to the Commonwealth Superannuation Scheme qualify for invalidity benefits if they are retired because of physical or mental incapacity before the maximum retiring age of 65.

2.06 On invalidity retirement contributors generally are entitled to either:

- a) a standard [employer-financed] pension plus a refund of accumulated basic and supplementary employee contributions;

or

- b) the standard pension plus an additional [employee-financed] pension and a refund of any accumulated supplementary employee contributions.

2.07 The rate of pension is based on a percentage of final salary determined by years of prospective service i.e. contributory service plus future service up until the maximum retiring age. However, contributors with less than 8 years prospective service are entitled to a lump sum payment only equal to either 3.5 times their accumulated basic contributions or one-half their final salary whichever is the greater. Accumulated supplementary contributions are refunded.

2.08 The benefits of contributors who retire as invalids before completing 20 years contributory service are reduced if the invalidity is related to a medical condition noted on joining the Scheme and recorded in a Benefit Classification Certificate. The benefit is then based on contributory service. The Benefit Classification Certificate ceases to apply on maximum age retirement or after 20 years contributory service. Contributors may apply at any time to the Commissioner for Superannuation to have the Certificate varied or revoked. The decisions of the Commissioner for Superannuation on an application for reconsideration are appealable to the Administrative Appeals Tribunal. The decisions of the Tribunal are appealable to the Federal Court of Australia though only on questions of law.

2.09 The employer-financed component of the invalidity pension is adjusted annually for increases in the Consumer Price Index for the 12 months ended 31 March. Employee contributions are accumulated with interest at the earning rates of the Superannuation Investment Trust Fund as prescribed by regulation from time to time.

2.10 An invalidity pensioner who has not reached the maximum retiring age of 65 years may from time to time be required to furnish information concerning any employment undertaken and/or undergo a medical examination. Attempts are made to place invalidity pensioners found fit for employment. If the salary received on re-employment is less than the salary received at retirement a 'partial invalidity pension' is payable. Contributors who are not retired but redeployed to a lower salary position on the grounds of physical or mental incapacity under the provisions of the Commonwealth Employment [Retirement and Redeployment] Act are eligible also for a partial invalidity pension.

The Administration of the Scheme

2.11 The Commonwealth Superannuation Scheme is administered by the Commissioner for Superannuation through the Australian Government Retirement Benefits Office [AGRBO] which is located in Canberra. The Commissioner and the AGRBO are responsible also for the administration of the Defence Forces Retirement Benefits Schemes and the Papua New Guinea Superannuation Schemes. Departments and Approved Authorities collect employee contributions and the AGRBO uses the Departments of Finance and Social Security and the Commonwealth's overseas offices to make pension payments. The overall administration of the Scheme is highly centralised and no delegation of the Commissioner's responsibilities has been made to Departments or Approved Authorities.

2.12 Employee contributions are paid into a Superannuation Fund administered separately by the Superannuation Fund Investment Trust [SFIT], a statutory corporation whose office is located also in Canberra.

The Cost of Invalidity Retirement

2.13 The overall annual cost of invalidity retirement to the taxpayer is not ascertainable from available public sources. What can be readily ascertained is the cost of invalidity retirements relative to the costs of other types of retirement or exit from the Scheme, i.e. age and early retirement and death.

2.14 The total cost of invalidity retirements to the taxpayer comprise:

- 1) the direct costs of employer-financed benefits
 - standard pensions
 - unfunded lump sum only payments;
- 2) the indirect costs of administration
 - the AGRBO and the SFIT
 - 'outside services' [Departments of Finance and Social Security]
 - administration by Departments and Approved Authorities; and

- 3) sick leave and compensation benefits associated with invalidity retirement.

2.15 The available cost information is summarised in the following paragraphs.

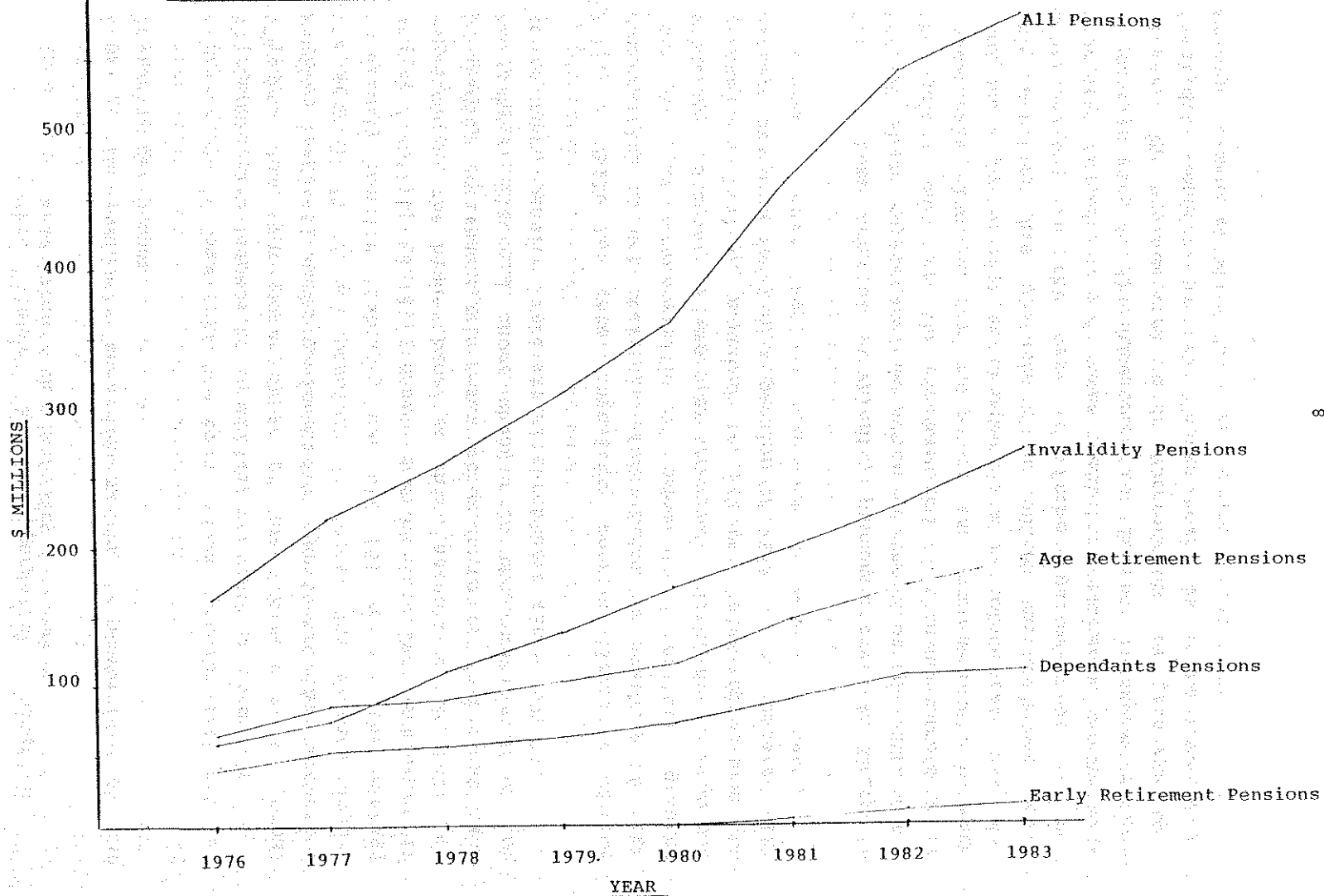
2.16 At 30 June 1983 the total annual pension liability of the Scheme with respect to invalidity pensions in force was \$268.8m. This represented 46.4% of the Scheme's total annual pension liability although invalidity pensioners then accounted for only 37.7% of all pensions in force. The average annual invalidity pension liability was \$10 753 whereas the average annual liability of all pensions was \$8 755. This situation is explained by the higher benefits which attach, in the main, to invalidity retirement vis-a-vis other forms of retirement from the Scheme. Figure 1 shows changes in the composition of the total annual pension liability of the Scheme since 1976-77.

2.17 While the total invalidity pension liability of the Commonwealth is not available, information is available on the cost to the Commonwealth of invalidity pensions granted annually. Standard [employer-financed] invalidity pensions granted in 1982-83 amounted to \$20.6m. This represented an average standard invalidity pension of \$9659 which compared with an average standard [employer-financed] age pension of \$8820.

2.18 Lump sum only invalidity payments totalled \$9.3m in 1982-83 which represented an average payment of \$17 308. While the actual cost to the Commonwealth of these benefits is unavailable also, an indication of the Commonwealth's minimum lump sum only benefit contribution can be calculated. Lump sum only benefits are one-half final salary or 3 times basic contributions in the case of former contributors to the Provident Account or 3.5 times basic contributions in the case of contributors to the Superannuation Scheme, whichever is the greater. The minimum cost to the Commonwealth of lump sum only invalidity benefits in 1982-83 was \$6.4m which represented an average payment of \$11 897.

TOTAL ANNUAL PENSION LIABILITY BY CLASS OF PENSION

FIGURE 1



2.19 Thus, while the actual cost to the taxpayer of total invalidity benefits paid during 1982-83 is not available, a good indication of the cost of benefits attaching to invalidity exits during the year can be ascertained. Total employer-financed invalidity benefits granted during 1982-83, i.e. standard invalidity pensions plus Commonwealth-financed lump sum only payments, amounted to \$27.1m. The average [Commonwealth-financed] invalidity benefit granted during 1982-83 was \$10 178, \$1358 or 15.4% more than the average Commonwealth-financed component of age pensions granted during that year.

2.20 The overall cost of administering the invalidity provisions of the Scheme is not known although information provided by the AGRBO indicates that the estimated additional administrative cost to them of processing invalidity exits in 1982-83 was \$0.5m. This estimate reflects the additional cost of processing invalidity retirement benefits over and above a normal age retirement benefit. It includes the cost of activities such as examination of claims to determine if Benefit Classification Certificates apply, medical and employment reviews of pensions and work associated with the administrative review of adverse decisions relating to invalidity retirements and the review of invalidity pensioners.

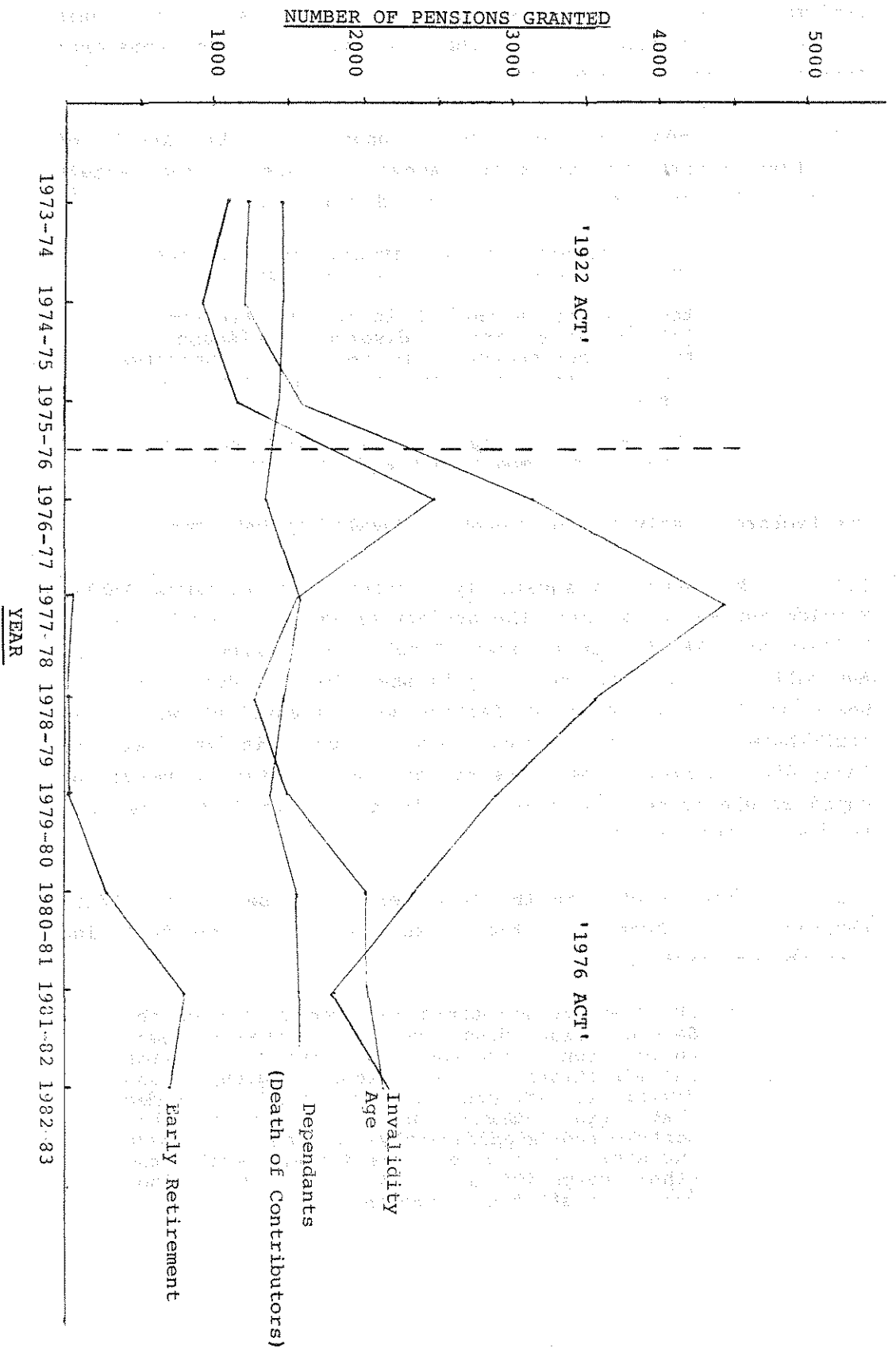
2.21 Total expenditure on the administration of the AGRBO in 1982-83 was \$8.2m of which, it was estimated, \$5.6m could be attributed to the administration of the Superannuation Acts. A charge is made against the earnings of the Superannuation Fund Investment Trust for the cost of administration. However, present administration charges do not include the cost of the Trust's salaries bill which in 1982-83 amounted to just over \$1m. The cost of the services of the Departments of Finance and Social Security and of the invalidity retirement administration by Departments and Authorities is also not known. However, the cost to Departments and Authorities is likely to be insignificant. Similarly not known is the cost to the Commonwealth of sick leave and compensation payments associated with invalidity retirements.

The Level and Pattern of Invalidity Retirements

2.22 In 1982-83, about 39.1% of all exits, excluding resignation from the Commonwealth Superannuation Scheme resulted from invalidity retirement compared with some 36.2% due to age retirement. Early retirement and death accounted for the remainder. Comparable figures for 1981-82 were 36.6% for invalidity retirements and 37.8% for age retirements. The 1981-82 result represented a departure from the previous exit pattern. Hitherto, invalidity had been the leading mode of exit, outside of resignation, from the Scheme. Figure 2 shows pensions granted by type for the years 1973-74 to 1982-83. Comparable data on all exits, i.e. pensions plus lump sum only retirements is not available. The proportion of invalidity retirements on pension is less than the proportion of all retirements on pensions [78.8% compared to 94.2% in 1982-83] and the comparisons drawn in Figure 2 hence understate somewhat the relative level of invalidity retirements. Figure 2 clearly shows the large and rapid increase in invalidity retirements on pension that occurred in 1976-77 and 1977-78 following the introduction of the new superannuation scheme. Since 1977-78 the proportion of pensions granted on invalidity grounds has declined steadily although the 1982-83 figures for invalidity retirements show a slight increase.

2.23 The acceleration of invalidity retirements in 1976-77 and 1977-78 has altered the composition of the pensioner populations and the annual pension liability of the Scheme. At 30 June 1976, 25.7% of all pensions in force were invalidity pensions. At 30 June 1983, 37.7% of all pensions were invalidity pensions. The average duration of invalidity pensions is significantly less than the average duration of age pensions. Based on pensions ceased in 1982-83 the average durations of invalidity pensions that were granted to persons in the age range 60-64 at retirement were 8 years for males and 13 years for females compared with 12 and 19 years respectively for age retirement pensioners. Even if a downturn in invalidity

PENSIONS GRANTED BY TYPE 1973-74 TO 1982-83



retirements was to be experienced it would take some years before the proportion of invalidity pensioners in the pensioner population would be reduced.

2.24 In addition to these changes in the level of invalidity retirements there are several features of the pattern of invalidity retirements that are worth mention:

- . the concentration of invalidity retirements in the 55 years and over age group;
- . the high percentage of invalidity retirements attributed to mental disorders, diseases of the musculoskeletal system and connective tissue and diseases of the circulatory system; and
- . the marked variation in invalidity retirement rates among departments and authorities.

The Factors Underlying the Trends in Invalidity Retirements

2.25 Movements in invalidity retirement rates among Public Service Act employees were the subject of detailed studies⁽²⁾ in 1977-78 and 1982-83. In a paper 'Invalidity Retirement from the Australian Public Service'⁽³⁾ published by the Public Service Board in 1983, a range of factors were identified which had contributed to a steady long term increase in the rate of invalidity retirement over the period 1966 to 1976, a period of rapid acceleration from 1976 to 1978 and a rapid decline over the period 1979 to 1981.

2.26 With respect to the long term increase in invalidity retirements to June 1976 the Board identified the following contributory factors:

- 1) The changing structure and composition of the Service [including age, sex, ex-servicemen composition, geographic location, education qualifications, occupational group and divisional structure]. The Board concluded that the ageing of the Service had contributed significantly to the long term increase in invalidity retirement while the other compositional factors had had minor dampening effects on growth.

- 2) Trends in medical and community attitudes to preventive health care. Observed changes in community health, Social Security invalidity pension rates and invalidity retirement rates in State Public Services indicated that the part of the long term upward movement in invalidity retirements in the Service reflected trends in health and medical practice in the wider community.
- 3) Changes in Medical Standards and Preventive Health Measures. There was a general relaxation of medical standards for appointment to the Service after 1972 when the period of expected health service that the examining medical officer had to certify was reduced from seven to three years. The Board suggested also that during the period there was likely to have occurred an increasingly earlier awareness of symptoms of serious illness among both contributors and medical officers.
- 4) Australian Public Service Superannuation and Sick Leave Provisions. Under the superceded superannuation schemes there were often financial advantages in being retired on invalidity grounds. Age 65 Pension Scheme contributors who retired voluntarily before age 65 received an actuarially-reduced pension unless they purchased full pension by payment of a lump sum to the superannuation fund. On invalidity retirement however, full benefits equivalent to age 65 retirement were paid. Invalidity retirees were and are permitted to use accumulated sick leave and war-service sick leave of up to 52 weeks before retiring. Apart from the advantage of paid leave, these provisions enable contributors to select a retirement date which ensures maximum superannuation benefits.(4)

2.27 With respect to the rapid acceleration in invalidity retirement rates over the period 1976-1978 the Board found that the movement had 'no community parallels and must be attributed to causes specific to the Service. In particular it appears that the introduction of the new superannuation scheme with even greater benefits available to invalidity retirees compared with age retirees caused a great acceleration in the numbers of officers seeking invalidity retirement and a consequent acceleration in the numbers retiring in this manner'.(5) Under

the superceded superannuation scheme contributors with 20 or more years of contributory service and with the maximum number of units purchased would be entitled to an invalidity pension of between 67% and 70% of final salary. Under the new scheme contributors with 30 or more years of prospective service⁽⁶⁾ are entitled to a maximum pension of 70% of final salary. In addition, under the old scheme entitlement to the maximum age pension rate could be reached at age 60 whereas under the new scheme the maximum pension rate is attained at age 65 and significant penalties apply for early retirement [viz a 1% reduction in the Commonwealth financed pension for each year before age 65].

2.28 Finally, 'the sharp decline in invalidity retirements in the APS from 1979 on, the Board concluded, is not paralleled by community movements and appears largely due to internal factors:

- 1) the introduction of revised medical procedures in November 1979; and
- 2) the introduction of voluntary early retirement from age 55 in February 1981'.⁽⁷⁾

2.29 Following the investigation of invalidity retirement trends by the Public Service Board in 1977-78 revised procedures relating to medical examinations for fitness for continued duty and redeployment were introduced.⁽⁸⁾ There is evidence that the percentage of applicants medically accepted for retirement has dropped markedly since then. Figure 2 shows the rapid rise in early retirement pensions since 1980-81. As noted earlier, the bulk of invalidity retirees come from the 55 years and over age group and, to an extent, voluntary early retirement acts as a substitute for invalidity retirement under the tighter medical procedures.

2.30 Overall, the study's conclusions appear to be sound and applicable across the Scheme. However, a number of shortcomings in the study should be noted. The analysis of the

influence on invalidity retirement rates of trends in community health factors is inadequate and the conclusions drawn are based more on broad judgment. The variation in invalidity retirement rates among States is unexplained and the variation among departments and authorities is ignored. Of course, an adequate examination of these complex matters would require a much more detailed study.

2.31 An important omission from the study is an examination of the influence of the general administration of the invalidity provisions apart from changes in medical procedures. There are a number of aspects of invalidity retirement administration which would appear to warrant examination:

- 1) An apparent 'randomness' in the effort made to review invalidity pensioners and place pensioners found fit to resume duty. Figure 3 shows the recent levels of review activity.

FIGURE 3: REVIEW OF INVALIDITY PENSIONS

Year	Requests for Employ- ment Data	Medical Examinations	Pensioners Found Fit	Pensioners Re-employed	Suspended Invalidity Pensions
1978-79	2193	138	30	22	68
1979-80	3450	851	57	16	7
1980-81	1638	310	90	27	37
1981-82	1862	735	100	14	57
1982-83	1988	936	126	29	35

- 2) The limited use made of some invalidity retirement options especially partial invalidity pensions and redeployment. Figure 4 shows the number of partial invalidity pensions granted and those granted consequent to redeployment.

FIGURE 4: PARTIAL INVALIDITY PENSIONS

Year	Pensions in Force	Pensions Granted	Pensions Granted Consequent to Redeployment
1976-77	2	2	-
1977-78	14	14	10
1978-79	17	6	5
1979-80	49	14	12
1980-81	61	41	26
1981-82	72	36	26
1982-83	113	46	43

- 3) Evidence of continuing backlogs in the contributor data processing work of the AGRBO.
- 4) The appointment in January this year of an independent inquiry into the management and operations of the Superannuation Fund Investment Trust following adverse comment by the Auditor-General.

CHAPTER 3

Scope for Further Inquiry

3.01 This paper has addressed the immediate concerns of the Expenditure Committee regarding the invalidity provisions of the Commonwealth Superannuation Scheme outlined at paragraph 1.07. It has pointed out that there is scope for further inquiry into the factors underlying the trends in invalidity retirements. Further investigation needs to be undertaken into the influence of compositional and occupational health factors especially on the observed variations in invalidity retirement rates among States and departments and authorities. The most scope for further inquiry however lies with the contribution of administrative factors. The following aspects of the administration of invalidity retirements would seem to be the major candidates for closer scrutiny:

- 1) the standards of medical examination at entry
 - their comparison with the standards set by other schemes
 - their relevance to occupational conditions and requirements;
- 2) the processing of entry medical reports and the issuance of Benefit Classification Certificates
 - time factors
 - minimisation of subsequent cancellation or issue of Benefit Classification Certificates;
- 3) the management of the AGRBO
 - utilisation of AGRBO staff and other resources
 - adequacy and updatedness of the AGRBO's contributor data base;
- 4) the medical criteria relevant to invalidity retirement and the assessment of retirement/benefit options; and

- 5) post-retirement review
- level of review activity
- administration of invalidity redeployment
and re-employment.

3.02 The paper has not addressed, of course, the issues of the size and design of invalidity benefits and entitlements and the level of employee contributions. Such issues would greatly expand the magnitude of any inquiry and introduce many more external comparisons.

October 1984

MR. L. B. McLEAY M.P.

Chairman

ENDNOTES

CHAPTER 1

- 1 On 21st December 1982, the Governor-in-Council of Victoria approved the Terms of Reference of the Inquiry into Victorian Public Sector Superannuation Schemes to be conducted by the Economic and Budget Review Committee. The Terms of Reference are published in the Summary of Victorian Public Sector Superannuation Schemes, Economic and Budget Review Committee, April 1984, page (v).
- 2 Report on Superannuation Liabilities of Statutory Authorities, August 1984.
- 3 Report on the Superannuation Fund Investment Trust and the Commissioner for Superannuation - Annual Reports 1980-81, Senate Standing Committee on Finance and Government Operations, December 1983.
- 4 Superannuation Fund Investment Trust Annual Report 1981-82, pages 41-44.
- 5 John Dawkins, Minister for Finance, Press Release, January 1984.

CHAPTER 2

- 1 Figures have largely been derived from statistics published in the Annual Report 1982-83 of the Commissioner for Superannuation. As indicated in the Report, statistics presented cannot be regarded as final until a validation exercise has been completed.
- 2 Conclusions of the Office of the Public Service Board's 1977-1978 study were outlined in the Office's 1977-78 and 1978-79 Annual Reports. The 1982-83 study was undertaken by the Planning and Statistical Services Section of the Office.
- 3 Research Paper 5, Office of the Public Service Board, 1983.
- 4 Ibid, page 40.
- 5 Ibid, page 40.
- 6 Ibid, page 22.
- 7 Ibid, page 40.

