



SUPERANNUATION AND MATURE-AGED APS WORKERS

INFORMATION ON RETENTION
OPTIONS AND PHASED RETIREMENT

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■ PREFACE

The Management Advisory Committee (MAC) report on *Organisational Renewal*, which was released in March 2003, made several findings in relation to superannuation arrangements for APS employees.

These largely relate to superannuation arrangements for mature-aged APS workers who are members of the Public Sector Superannuation Scheme (PSS) or the Commonwealth Superannuation Scheme (CSS). Against this background this booklet outlines the superannuation impact of options available to employers to provide more flexible employment patterns to facilitate retention of valued mature-aged workers who are members of the PSS or of the CSS.

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Mature-aged workers
have a strong
preference for more
flexible work options.

■ MAC FINDINGS RELEVANT TO SUPERANNUATION

The report finds that the Australian workforce is ageing and that the APS tends to be somewhat older than the wider workforce. Further, the APS faces the likely departure of around 23 per cent of its workforce in the next five years. The report anticipates that the future APS workforce, whilst retaining a core of long-term full-time employees, will continue to have an ageing profile and will make greater use of more flexible working patterns.

Looking to the future APS workforce requirements in the context of superannuation arrangements, the report finds that there is a need to retain valued mature-aged workers (those aged 45 and over) in the workforce. It also finds that there is a case for changing APS superannuation, to provide stronger support for portability and, without reducing accrued benefits, to reduce incentives to retire early. The Government's policy is to reform superannuation for Commonwealth employees and to close the current PSS arrangements to new members.

The report emphasises that individual APS agencies will need to ensure they understand the retention and separation factors relevant to their individual organisation. It also cautions that retention strategies should only be targeted so as to facilitate continuing service of valued employees and that agencies need to plan ahead (approach valued employees before they make their retirement plans).

A significant issue regarding superannuation that arose from surveys of current and former mature-aged workers, conducted as part of the MAC review, was that they had a strong preference for more flexible work options. There was a common perception that current (PSS and CSS) superannuation provisions act as a barrier to phased retirement options such as working part-time or at a lower level of work, although this is not the case.

There is also a financial incentive for some CSS members to resign just before reaching age 55 (referred to as the 54/11 issue) in order to avoid a reduction in the pension they could receive in retirement. In the PSS there is a different situation whereby employees may perceive a disincentive to remain in APS employment if they reach their maximum benefit limit before their planned retirement age, but an analysis found that this has only a small impact.

The report also found that re-engagement of former APS employees on different arrangements (such as non-ongoing employment or contract) has become common, providing flexibility for organisations and extending the individual's workforce participation. However, it also stated that such re-engagement should occur only in genuine circumstances and agencies should not engage in contrived arrangements to provide for continued employment.

Where individual employees are targeted for retention, there are existing options available to agencies to negate a perceived or actual disincentive to continue in APS employment. These are outlined in this booklet.

■ PSS AND CSS DESIGN FEATURES AND EARLY RETIREMENT

As at 30 June 2003, the large majority of APS employees were members of the PSS or the CSS. Compared with most superannuation arrangements in Australia, both schemes provide generous benefits to long-serving employees. Also, the basic design of both schemes supports early retirement by generally providing for retirement benefits from age 55. To some extent, therefore, it is not surprising that the schemes have a sharp decline in membership around age 55 and that very few PSS or CSS members work past age 60.

However, it is clear from the MAC surveys that many mature-aged workers have a strong preference for a phased retirement. Given the MAC report findings on the need to retain valued mature-aged workers, this presents an opportunity to develop retention strategies with a view to avoiding or reducing the loss of skills and knowledge that some agencies may assess they would otherwise experience.

Unfortunately, it is difficult to outline clearly and concisely the arrangements that will apply in individual cases. This is because:

- The PSS and CSS are complex defined benefit superannuation schemes, with different provisions applying in given circumstances and with some grandfathering arrangements for members who have transferred from a predecessor Commonwealth scheme.
- They are also designed to integrate with the member's general employment conditions and status—some of the options available that are referred to in the MAC report rely on changes to the employee's terms and conditions of employment and can be implemented either separately or as a package of incentives.

This booklet therefore only outlines the superannuation arrangements and how they impact generally with retention options. In particular, it includes broad statements about provisions—for example, it outlines the provisions that apply when a member moves from full-time to part-time employment, without describing the detail (such as that they generally commence from the member's next birthday).

OTHER INFORMATION AVAILABLE

The PSS Board and the CSS Board and their administrator, ComSuper, provide comprehensive information on the schemes via their website and telephone contact points (see the end of this booklet).

In particular, the Boards have produced fact sheets that are useful to read in conjunction with this booklet. They provide more information and specific examples of how scheme members may achieve a phased retirement, such as going part-time or working at a reduced level as a final stage of their employment.

MAC REPORT INFORMATION

Appendix C of the MAC report provides an outline of all of the superannuation issues raised in the report. In particular, it provides a number of examples relating to the issues raised for both the PSS and the CSS. The website address for the MAC report is given at the end of this booklet.

There is a misconception that superannuation is a barrier to going part-time for the last few years of service, where members seek to have a phased retirement. On the contrary, scheme provisions readily facilitate this and equitable accrual arrangements apply.

■ PART-TIME EMPLOYMENT

Naturally, a person who moves to working part-time at half the hours they previously worked for their final years of employment could not reasonably expect to be paid exactly the same pension they would have received if they had continued working full-time. However, for both schemes, the member's existing accrual remains intact and (part-time) service is calculated on a pro rata basis, using the equivalent full-time salary.

THE PSS

For PSS members, the benefit accrual is based on a benefit multiple, which is calculated from the member's level of contribution and their final average salary (FAS) –usually the average of the superannuation salary on each of the three birthdays before leaving the scheme.

So when a member works part-time in the period leading up to retirement, their FAS generally continues to be calculated on the equivalent full-time salary that applied on any of the three birthdays before their retirement that they were working part-time.

The benefit accrual during the part-time employment is based on the current percentage rate of member contributions and then prorated according to the fraction of full-time hours worked. Thus, if a member works half the full-time hours, the benefit multiple accrued for that part-time service would be half that accrued for an equivalent full-time employee.

So, a PSS member who was aged 56 and had 25 years service and then worked half hours for two years would accrue an additional benefit multiple equivalent to one year's full-time service. Importantly, if by moving to part-time employment the member decides to retire

later than they may have done had they continued full-time, they can 'gain' from further salary growth, because of an increased final average salary, and a 'better' pension factor (where relevant) because they are older when the pension commences.

THE CSS

In the CSS, the same pro rata principle applies but the scheme design is different.

A CSS member who was aged 56 and had 25 years service and then worked half hours for two years before retirement would accrue an additional year of service and would receive a benefit based on their equivalent full-time salary and 26 years service.

As in the PSS example above, if by moving to part-time employment the person decides to retire later, they can 'gain' from further salary growth on which their final benefit is calculated and a 'better' pension factor because they are older when the pension commences.

In the above example, if the person had intended to retire at age 58 but found that by working half-time they continued on those hours and retired at age 60, the final full-time equivalent salary on which their pension was based would likely be higher (therefore their pension would be higher) than if they had continued working full-time and retired at age 58.

■ WORKING AT A REDUCED LEVEL

Similarly, where PSS or CSS members choose to take a reduction in work level as a transition to retirement, the benefit already accrued remains intact and, in most cases, future accruals are based on a superannuation salary that is the former highest qualified salary for superannuation purposes updated by the relevant mechanism. From 1 July 2003, updating is in accordance with changes in the average weekly ordinary time earnings (AWOTE).

So, if a member of the PSS or CSS has a reduction in classification their superannuation salary usually continues to be updated. However, there are some exceptions to this. An example is where a CSS member elects to have the lower (actual) salary apply.

Members should always be advised to check their individual circumstances before they finalise new working arrangements with their employer.

MAC REPORT EXAMPLES OF PART-TIME/REDUCED HOURS EMPLOYMENT

There is a section of the MAC report that deals with the effect on PSS and CSS benefits of working part-time or at a reduced level towards the end of an APS career (pages 86 to 94). This includes a number of examples to which employers and scheme members may wish to refer for further information.

OTHER FLEXIBLE WORKING ARRANGEMENTS

There are other arrangements that employers may wish to investigate if they consider they may be attractive to employees in their agency. These include less than full-year employment by taking, say, two months leave without pay (but continuing superannuation contributions) or continuing to work full-time but taking eight weeks half-paid recreation leave instead of four weeks full-paid leave. Information about the superannuation implications of such arrangements is available from the contact points at the end of this booklet.



The PSS and CSS facilitates phased retirement such as working part-time or at a reduced classification level.

■ THE CSS AND THE 54/11 ISSUE

The MAC report noted the financial incentive for some CSS members to resign before age 55 (the 54/11 issue). This arises where a member would be disadvantaged if they remain in employment until age 55 or later by reason that their deferred benefit on resignation before age 55 can be significantly higher than their benefit on retirement at age 55.

Where an employer wishes to retain the services of a valued mature-aged worker, they have the ability to set a higher superannuation salary (without increasing take-home pay) to address the financial incentive that they may have to cease employment before their 55th birthday.

Guidelines for setting superannuation salary for the CSS and PSS, which include information about setting a higher salary for CSS 54/11 cases, were provided to APS agency heads in August 2003. The guidelines stress that this strategy:

- is intended only to lessen the incentive for an employee to resign before their 55th birthday
- has been designed to allow employers to attract and retain only those key individuals who are critical to the organisation's outcomes and whom the employer wants to continue in employment
- should be used only in such a way that it will not result in any additional cost to the Commonwealth and will not result in any long-term costs to the employer after the employee has retired.

Not all CSS members will have a 54/11 incentive—this is determined by their individual membership history. It generally applies to members with longer service.

Where the member does have a 54/11 incentive, material factors in determining whether a retention strategy will work are likely to be their personal financial circumstances and the age at which they plan to retire. For example, some people may be planning to simply retire and receive their pension from age 55, whereas others may have plans to defer their CSS or PSS pension and take up other employment until they do retire.

OTHER RETENTION INCENTIVES

There are other incentives within superannuation arrangements and some unrelated to superannuation that may be useful in assisting employers to develop retention strategies for valued mature-aged workers. For example, it may be attractive to some employees who are close to their planned retirement age to salary sacrifice, from their pre-tax salary, contributions to a complying superannuation fund (other than the PSS and CSS which do not accept salary sacrifice contributions). Alternatively other incentives unrelated to superannuation could be explored to meet the individual circumstances.

■ RESIGN AND RETURN APPROACH

Some CSS members do leave the APS (for example, by taking a CSS 54/11 exit or by leaving APS employment and ceasing PSS membership at, say, age 56) and then at some later point return to some form of employment in the Australian workforce, on either a full-time or part-time basis. One aspect of a decision whether or not to return to employment in some form is the impact that may have on their superannuation entitlements.

Former CSS or PSS members and their prospective APS employers should therefore always check what the impact is in the particular circumstances before any new employment arrangements are finalised. Broadly the impact in certain circumstances is:

- Where the person has resigned from the APS and payment of their CSS deferred pension has commenced and they subsequently change their minds and re-enter the APS, payment of the CSS pension continues.
 - Where they re-enter as ongoing employees they become members of the PSS upon commencement; and where they re-enter as non-ongoing employees they may have the option of PSS membership, sometimes after a qualifying period, or a Superannuation Guarantee type arrangement in a scheme such as AGEST.
 - Where payment of a person's CSS deferred pension has not commenced and that person returns to public sector employment in certain circumstances (for example, as an ongoing employee) they will resume CSS membership and their right to a deferred pension will be cancelled.
- Where a return is contrived and pre-arranged before resigning, this can result in employees being treated as if their CSS membership had continued—that is, the employee would no longer have an entitlement to a deferred pension.
 - Where a former employee returns to APS work as an employee or contractor of a body that supplies resources to the relevant agency (rather than as a direct employee of the relevant agency) their future superannuation is provided by that body and it is of no consequence whether or not they are CSS pensioners or deferred benefit members at that time.
 - Where contract employees are direct employees of an agency, the agency should take care to establish any responsibility they may have for superannuation payments under the *Superannuation (Productivity Benefit) Act 1988*.



Some PSS and CSS members
do leave the **APS**
and then later
return to the workforce.

■ THE PSS AND THE MBL

The report found that the PSS has some design features that may influence some older scheme members to leave employment before retirement, although an analysis found the impact was small. In particular, the PSS benefit accrual is subject to a maximum benefit limit (MBL). This limit is usually eight times the member's FAS for lower-paid members, and reducing for higher-paid members.

Actuarial data was compiled to determine how many PSS members are likely to reach their MBL and the age at which they might reach it. The data shows that less than two per cent of members are likely to reach their MBL by age 56. The available data also shows that of the very small number who have reached their MBL about two-thirds were making contributions at the rate of 10 per cent.

There is some scope for members to 'manage' the point at which they reach their MBL. Members are advised of their accrued benefit multiple in their annual PSS statement, and it is open to them to reduce their rate of contributions, with a target of reaching their MBL at or close to their planned date of retirement.

When members reach their MBL, they must cease making contributions to the scheme and real growth of their benefit is limited to salary growth. The employer must also cease making the 'three per cent' productivity contributions to the PSS Fund. However the balance (and majority) of the employer contributions that are paid to the Consolidated Revenue Fund are payable for the full length of PSS membership and the employer must therefore continue to pay those contributions.

Where an employee has reached their MBL and the employer regards this as a retention issue that needs to be addressed, there are options available, both within and outside of the superannuation framework. As a starting point, the amount of productivity contribution that is no longer payable by the employer could be paid as a (salary sacrifice) employer contribution to a complying superannuation fund. The member could also negotiate to have paid, from their pre-tax salary, a (grossed up) amount of their former PSS contributions as a (salary sacrifice) employer contribution to the same complying fund (thus boosting their provision for retirement whilst maintaining their take-home pay at the former level).

■ CONTACT DETAILS

The MAC report is available at www.apsc.gov.au/mac

PSS AND CSS MEMBERS

For individual PSS and CSS member enquiries, including where a member seeks a projected benefit, the contacts are:

Phone 13 23 66
Email pss.members@comsuper.gov.au
css.members@comsuper.gov.au
Mail ComSuper
PO Box 22
BELCONNEN ACT 2616
Fax 02 6272 9801 or 02 6272 9808

EMPLOYERS

For PSS and CSS enquiries from employers, including information on determining salary for superannuation purposes and the CSS 54/11 retention strategy, the contacts are:

ComSuper Employer Help Line 02 6272 9993
Email employer.help@comsuper.gov.au
Fax 02 6272 9816

Should employers require further information in relation to the strategy to set superannuation salary for some CSS members to lessen the incentive to retire before age 55 (where employers intend to use this approach in select cases to retain valued key individuals), they may contact the Department of Finance and Administration by email at superbranch@finance.gov.au

SUPERANNUATION ENQUIRIES NOT RELATED TO THE CSS OR PSS

Should employers require information about superannuation for employees who are not members of the CSS and PSS—generally these are Superannuation Guarantee type arrangements under the *Superannuation (Productivity Benefit) Act 1988*—they may contact the Department of Finance and Administration on 02 6215 3479.

