Government of **Western Australia**
Department of **Treasury**

PARLIAMENTARY PENSION SCHEME

Western Australia

Explanatory Booklet

Contents

Parliamentary Superannuation Arrangements in Western Australia

The *Parliamentary Superannuation Act 1970* (the Act) is the governing legislation for the superannuation arrangements of Members of Parliament in Western Australia.

The Act provides for a defined benefit pension scheme with commutation option, called the Parliamentary Pension Scheme (PPS). The scheme was closed to new members on 10 October 2000 as a result of parliamentary superannuation legislative reforms in that year.

Members elected before the PPS closure date automatically became members of PPS. Concurrent with the closure of PPS, the legislative reforms in 2000 provided for new superannuation arrangements for Members elected after the PPS closure date. These Members are termed a 'non-participant' for the purposes of the Act and receive a State contribution determined by the Salaries and Allowances Tribunal (the Tribunal) paid into a superannuation fund of the Member's choice. The default scheme for payment of these contributions is *GESB Super*, administered by the Government Employees Superannuation Board (GESB).

The legislative reforms in 2000 also allowed an option for certain Members already in the PPS to transfer to the new arrangements. This transfer option applied only to Members elected to Parliament on or after 14 December 1996. Under the transfer provisions Members in the PPS had until 30 June 2001 to make an election to transfer to the new arrangements.

This explanatory booklet outlines the rules and procedures pertaining to the PPS only.

The Parliamentary Superannuation Board

A six member Board is responsible for administering the PPS and administration of the Act. The Board consists of:

- Chairperson (who is the Minister responsible for the Act or his/her nominee)
- Two Members of the Legislative Assembly
- Two Members of the Legislative Council
- A former Member in receipt of a PPS pension as parliamentary pensioner representative

Secretarial support to the Board is provided by GESB.

Scheme Administration

The PPS is administered by officers of GESB on behalf of the Parliamentary Superannuation Board. The main administrative functions performed in this regard are:

- Maintenance of member contributions
- Payment of benefits

- Provision of written and verbal advice to Members

Contributions required to be paid by Members to the PPS are paid into the Consolidated Account. In turn, all PPS benefit and scheme administration costs are met from the Consolidated Account.

Role of the Salaries and Allowances Tribunal

The Salaries and Allowances Tribunal (Tribunal) has the legislative responsibility for deciding certain matters relating to PPS contributions and benefits. In particular it is empowered to determine:

- Member contributions
- Minimum basic pensions
- Maximum basic pensions
- Pension accrual rates from the minimum to maximum level
- Pension adjustments for higher office responsibilities
- Commutation factors used in converting pension entitlements to lump sums
- The 'specified age' in relation to commutation factors

Following the legislative changes to the Act in 2000, the Tribunal now has greater powers of determination including:

- How benefits are payable
- When and in what circumstances benefits are payable
- The level of death and spouse benefits payable
- Specified rules and age relating to the preservation of benefits

In addition to the Tribunal's responsibilities in respect of the PPS, the Tribunal is also responsible for determining the level of State contributions for Members of Parliament in the new superannuation arrangements introduced after closure of the PPS to new members in October 2000.

Contribution Rate for Members

Members of Parliament eligible for membership of the PPS must pay a compulsory contribution of 12.5% of their salary in the first 20 years of service.

Salary for contributions purposes = Basic Salary + Higher Office Allowance

After 20 years service the PPS member contribution rate reduces to 6.25%.

Contributions are payable from the date a Member takes paid office and can be paid either before-tax through salary packaging (see below) or from after-tax salary.

Salary Packaging

Members are able to salary package their contributions to the PPS. Contributions made this way represent payment from pre-tax income. Any part of a Member's benefit attributable to pre-tax contributions is taxable when the Member receives his or her benefit from the PPS.

Members entering into a salary packaging agreement are encouraged to seek financial advice.

Qualifying for a Pension

Members who have retired from Parliament will qualify for a pension provided:

- contributions have been made to the scheme for at least 12 years or three complete Parliaments; or
- contributions have been made to the scheme for a minimum of 7 years and the Member:
  - is aged 55 years or more at the date of retirement; or
  - is not re-elected; or
  - resigns or declines to seek re-election for reasons that satisfy the Board (including ill health); or
  - does not gain endorsement by their political party.

Members who retire from Parliament and do not meet the requirements to qualify for a pension are entitled to a lump sum payment equal to twice their personal contributions to the scheme plus interest. The interest rate in this regard is determined by the Tribunal and is currently 10% per annum.

For the purposes of determining whether a Member qualifies for a pension, it is important to understand the differences that exist between the terms of office for Members of the Legislative Assembly and Members of the Legislative Council. These are set out below:

	Legislative Assembly	Legislative Council
• Commencement date	Day following election	22 May following election
• Cessation dates		
- defeated at election	Date of election	21 May following election
- non-endorsement	Date of election	21 May following election
- resignation/retirement	Date of acceptance by the Speaker	Date of acceptance by the President

Following recent amendments to relevant electoral legislation, a fixed election date was introduced for the holding of a State election. The election date is now the second Saturday in March of the election year. The first such election to be held under the new arrangements was the 2013 State election, held on 9 March 2013. The next State election is scheduled to be held on 11 March 2017.

Calculation of the Pension

The amount of Basic pension received by a Member is based on:

- length of service as a Member of Parliament; and
- basic salary at the date of retirement.

A Member who serves in higher office will be entitled to an additional pension. This additional pension is calculated in accordance with the higher office provisions in the Tribunal Determination of 6 March 1991.

The total pension entitlement of a Member is the sum of his or her Basic pension plus any additional pension attributable to higher office.

Basic Pension

The minimum qualifying period for a pension in PPS is 7 years, as specified in the pension qualification criteria outlined previously. A Member's basic pension entitlement at 7 years service is a pension equivalent to 46% of the current basic salary. That is, the basic pension multiple at 7 years service is 0.46 times the basic salary

For service in excess of 7 years, the basic pension multiple increases by 0.1859 for each completed month of service.

Under PPS rules, the basic pension is capped at 0.75 times the basic salary, which is attained after 20 years service. Any increase in the dollar value of the basic pension after 20 years service will only be attributable to increases in parliamentary salary.

BASIC PENSION Ready Reckoner			
Membership Period (years)	Pension Entitlement (% of base salary)	Membership Period (years)	Pension Entitlement (% of base salary)
7	46.0000	14	61.6156
8	48.2308	15	63.8464
9	50.4616	16	66.0772
10	52.6924	17	68.3080
11	54.9232	18	70.5388
12	57.1540	19	72.7696
13	59.3848	20 or more	75.0000

Higher Office Pension

Members who have held an office of the Parliament or a Ministerial portfolio will receive an additional pension calculated in accordance with the Determination of the Salaries and Allowances Tribunal dated 6 March 1991. This Determination has effect from 1 June 1990 and provides for an additional pension benefit for each year a higher office is held equal to 0.0657 times the amount at retirement of the relevant ***Higher Office Allowance*** (i.e. higher office salary less basic salary).

Members are entitled to an additional pension benefit up to a maximum of 0.75 times the relevant Higher Office Allowance (based on the rates of these allowances at retirement).

In cases where a Member holds multiple higher offices, the additional pension is calculated in respect of each individual higher office and then aggregated. However, the aggregated amount cannot exceed 0.75 times the **highest** Higher Office Allowance associated with an individual office held by a Member.

Example: Calculation of a Higher Office Benefit (using salary rates as at 1 July 2013)

Service period as Member of Parliament	=	20 years
Period as Minister	=	5 years
Period as Government Whip in the Assembly	=	5 years
Age at Retirement	=	60 years
Basic Salary (Back bencher)	=	$148,638
Minister - Higher Office Allowance	=	$118,910
Government Whip Assembly – Higher Office Allowance	=	$26,755

Pension Entitlement:

Basic pension	=	0.75 x $148,638 = $111,479
Higher office pension	=	[5 x $118,910, x 0.0657] = $39,062
	+	[5 $26,755 x 0.0657] = $8,759
	=	$39,062 + $8,789 = $47,851
Total Pension	=	$111,479 + $47,851
	=	$159,330 per annum

Lump Sum Option

Members who are entitled to a pension can choose to convert **all or part** of their pension to a lump sum.

The Act provides that an election to commute an annual pension entitlement to a lump sum payment must be made no later than three months after the date of retirement. This election is once only and is irrevocable.

In the event that a former Member has commenced receipt of a pension and then decides to take the commutation option within the prescribed three month period, then pension payments received which equate to that portion of the gross pension which is to be commuted must be repaid before the lump sum is payable.

For ease of administration, it is preferable that a Member who intends to exercise their commutation option makes their election at retirement.

The commutation factor used to convert the elected pension amount to a lump sum varies according to the Member's age at retirement.

For each year of age below 65	Age 65	For each year of age above 65
The commutation factor increases by 0.1 to a maximum of 14 at age 45 or less.	The commutation factor is 12.	The commutation factor decreases by 0.5 per year

Example:

Below age 65 retirement:

Retiring Age	Conversion Factor
65	12
64	(12 + 0.1) = 12.1
60	(12 + 0.5) = 12.5
55	(12 + 1.0) = 13

Above age 65 retirement:

Retiring Age	Conversion Factor
65	12
66	12 - (1 x 0.5) = 11.5
70	12 - (5 x 0.5) = 9.5
75	12 - (10 x 0.5) = 7.0

To illustrate the calculation of a commuted lump sum benefit, consider a Member who retires at age 65 with a hypothetical total pension entitlement of $100,000 per annum and elects to commute 50% of their pension.

Pension amount to be commuted	=	0.50 x $100,000 = $50,000
Commuted lump sum benefit	=	$50,000 x 12
	=	$600,000
Residual pension	=	$100,000 - $50,000 = $50,000 per annum

COMMUTATION Ready Reckoner			
Age at Retirement	**Commutation Factor**	**Age at Retirement**	**Commutation Factor**
45 and below	14.0	58	12.7
46	13.9	59	12.6
47	13.8	60	12.5
48	13.7	61	12.4
49	13.6	62	12.3
50	13.5	63	12.2
51	13.4	64	12.1
52	13.3	65	12.0
53	13.2	66	11.5
54	13.1	67	11.0
55	13.0	68	10.5
56	12.9	69	10.0
57	12.8	70	9.5

Ill Health Retirement

Members who have contributed to the PPS for a minimum of 7 years may retire for health reasons and receive a pension, provided the Board is satisfied that retirement is on ill-health grounds.

Pensions paid in respect of ill health retirements cannot be commuted to a lump sum.

Death and Spouse Benefits

Death benefits are payable to the legal spouse or de facto partner of Members under three possible scenarios:

1. Members who die while holding office

If a Member dies during their term as a Member of Parliament, the legal spouse or de facto partner will be entitled to a pension benefit equal to the **greater** of:

- two thirds of the pension that would have been received had the Member retired on the day of death; or
- two thirds of the pension that would have been received if the Member had served for 16 years as a Backbencher (basic Member) and had retired on the day of death.

For Example:

Membership Period = 10 years (no higher offices held)

Basic Salary at time of death = $148,638

Spouse pension payable:

(a) Based on retirement at Date of Death -

= (2/3) x [Pension factor 10 years membership x Basic Salary]

= (2/3) x 0.526924 x $148,638

= $52,214 per annum

(b) Based on 16 years membership as Backbencher -

= (2/3) x [Pension factor 16 years membership x Basic Salary]

= (2/3) x [0.660772 x $148,638]

= $65,477 per annum

Spouse pension payable is greater of (a) and (b)

Spouse pension = $65,477 per annum

2. Former Members who die and are in receipt of a pension at the time of death, who retired from Parliament *before* 26 December 1986

The spouse or de facto partner of a former Member receiving a pension who retired prior to 26 December 1986 is entitled to spouse pension which is the *greater* of:

- two thirds of the pension that was being paid or would have been paid to the former Member if they had not died and had not converted any of their pension entitlement to a lump sum; or
- two thirds of the pension that would have been paid to the former Member if they had retired on the day of serving 16 years as an ordinary Member and had not converted any of the pension entitlement to a lump sum.

3. Former Members who die and are in receipt of a pension at the time of death, who retired *on or after* 26 December 1986

A. The surviving spouse or de facto partner of a Member who retired on or after 26 December 1986 and who had *not* converted any of his or her pension entitlement to a lump sum at retirement is entitled to a benefit which is the greater of:

- two thirds of the pension that the former Member would have received had they not died; or
- two thirds of the pension that would have been paid to the former Member if they had served 16 years as an ordinary Member and retired on the date of death.

B. The surviving spouse or de facto partner of a a former Member who retired on or after 26 December 1986 and who converted *less than 100%* of their pension entitlement to a lump sum at retirement is entitled to a benefit which is the *greater* of:

- two thirds of the pension that the former Member would have received had they not died; or
- two-thirds of the pension that would have been paid to the former Member if they had served 16 years as an ordinary Member and retired on the date of death, and had not converted any of the pension entitlement to a lump sum – **reduced by the same percentage of the former pension that was so converted to a lump sum by the Member**.

If a former Member who retired on or after 26 December 1986 had converted all of their pension entitlement at retirement to a lump sum, no death benefit is payable from PPS to a surviving spouse or de facto partner.

Child Allowance

In circumstances where a Member dies in office, or a former Member in receipt of a pension dies, a child allowance may be payable in relation to any child of the Member who is under the age of 16, or is a full time student between ages 16 years and 25 years.

Where there is a surviving spouse, the benefit for each dependent child is equivalent to 5 percent of the current basic salary per annum. The benefit for each dependent child increases to 10 percent of current basic salary per annum if there is no surviving spouse.

No child allowance is payable where a former Member had converted all of their pension entitlement to a lump sum at retirement.

Death Benefit – No Surviving Spouse or Dependants

Where a Member dies and they are not survived by a married spouse, de facto partner or dependent children, the Member's estate will be paid the amount of the Member's contributions to PPS, plus 10% interest calculated on these contributions. This may be supplemented by any additional amount required to meet minimum benefit requirements under the Commonwealth's *Superannuation Guarantee* legislation.

Where a former Member who is receiving a pension dies and they are not survived by a spouse or dependent children no further benefit is payable from PPS after the former Member's death.

Commutation of Spouse's Pension

The surviving spouse or de facto partner of a Member who dies in office, or of a deceased former Member who was receiving a pension at the time of death, can commute up to 100% of their spouse pension to a lump sum. Any election by the spouse to exercise this commutation option must be made within 6 months of becoming entitled to a spouse's pension.

The commutation factor to convert the spouse pension to a lump sum is 10 where the spouse is aged 65 years or less. This factor reduces for each year over age 65 by 0.5 per year

Example

Age of Spouse	Conversion Factor
65 or less	10.0
66	9.5
67	9.0
70	7.5

Benefit where there are Two Spouses

Under a scenario where a deceased Member dies in office or a former Member in receipt of a pension dies, and they are survived by a legal and a de facto spouse, both spouses would meet the spouse pension qualification criteria under the Act. In these circumstances, the Act provides that the Board will pay the equivalent of one spouse's pension to both spouses in the proportion it so determines.

Benefits of Former Members Who Again Become Members

If a former member of the PPS again becomes a Member of Parliament and they are eligible to again become a contributory member of PPS, any pension being received in respect of their prior term of office will cease. The PPS benefit of the Member upon ceasing to be a Member of Parliament a second time will be based according to which of the following categories they fall:

1. If the Member was previously non-pensionable following their first term of office they can repay their lump sum termination benefit to PPS and have previous service recognised in calculating their benefit at the end of their second term of office. If repayment occurs within 3 months of rejoining PPS, no interest will be charged on these monies. If repayment occurs after three months, interest will be incurred.
2. If the Member had qualified for a pension after their first term in Parliament and they had not commuted any of their pension entitlement to a lump sum, they will have previous service recognised in calculating their benefit at the end of their second term of office.

Because no commutation of pension occurred, no reduction will apply to their pension calculated at the end of their second term in relation to pension payments they received between the end of the first term of office and commencement of their second term.

3. If the Member commuted all or part of their pension entitlement on retirement after their first period of office, they will have their previous service recognised in calculating their pension benefit at the end of their second term of office. However, their pension entitlement on retiring for the second time will be adjusted to take account of the benefits previously received (commuted lump sum paid, plus pension payments between first and second term of office).

Post Retirement Pension Increases

Pensions are adjusted twice yearly in accordance with movements in the Consumer Price Index (CPI).

Adjustments are made in the first pay periods of April and October to account for CPI movement in the preceding six monthly periods ending 31 December and 30 June respectively.

Full indexation will apply to pensions that have been paid for a least six months prior to the end of each six month period. Where a pension has been paid for three months but less than six months before the end of each period one-half of the relevant increase in the CPI will apply. No adjustment will be made to pensions that have been paid for less than three months before the end of a period.

Reduction of Pension in Certain Cases

Should a former Member who is receiving a pension from the PPS become a Member of the Federal Parliament, the Parliament of any other State or hold an ‘office of profit under the Crown’, the pension will be reduced by the amount the remuneration received, together with two thirds of the pension, exceeds the basic salary paid to members at the relevant time.

Any reduction to a former Member’s pension under the above provisions will be limited to a maximum of two thirds of the full pension. That is, a minimum of one third of the full pension is payable from the PPS regardless of the level of the other income received.

Actuarial Valuation

The Government Actuary is required under the Act to report on the actual and contingent liabilities of the Consolidated Revenue Fund with respect to pensions and benefits under the Act and the cost of administering the Act.