CHAPTER 8: CLAWBACK

8.1 The unfunded liability referred to in Chapter 7 needs to be seen in the context of the Commonwealth as a whole. It represents the capitalised value of the liability of the Commonwealth in respect of service already provided to the Commonwealth. However, if the Commonwealth did not discharge this liability, then it would incur increased age pension outlays and receive reduced taxation receipts. This theoretical impact on age pension outlays and tax receipts can be looked upon as an offset to the unfunded liabilities. It is referred to as clawback.

8.2 The value of clawback is the capitalised value of the additional costs that would fall elsewhere upon the Commonwealth (either by increased outlays on age pensions or by reduced tax receipts) if the unfunded liabilities were not discharged.

8.3 The estimation of clawback presents special problems. As well as a basic assumption that current taxation and social security legislation will remain in a generally unchanged format, assumptions must be made about:

- future benefit levels and thresholds; and

- the private savings and spending behaviour of ADF personnel.

8.4 Specific assumptions used in the clawback analysis are summarised in Appendix C. Note that the proposed changes to the taxation treatment of superannuation announced in the 2006-07 Budget have not been taken into account.

8.5 On the basis of the assumptions made, the clawback has been approximately estimated as $8 billion. This estimate is quite sensitive to the assumptions, and the subjective and uncertain nature of these assumptions should be noted. The estimate of clawback therefore needs to be interpreted with caution.

Peter Martin FIAA
Australian Government Actuary

8 June 2006