



ORGANISATIONAL  
RENEWAL

MANAGEMENT  
ADVISORY  
COMMITTEE

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## **1. INTRODUCTION AND OVERVIEW**

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This report outlines the findings of a Management Advisory Committee (MAC) project on organisational renewal and the challenge of building ongoing capability within the Australian Public Service (APS) workforce. (Terms of reference for the project are at Appendix A.)

### **KEY ISSUES**

MAC has reviewed the broad demographic shifts in the APS and their implications for organisational renewal, identifying two issues for particular consideration:

- the implications of the ageing profile of the APS and the resignation and retirement patterns of mature-aged workers, including the impact of current superannuation arrangements
- the career intentions and patterns of new graduate entrants and their implications for workforce planning.

### **PROJECT METHODOLOGY**

The project involved:

- an analysis of demographic trends drawn from the Australian Public Service Employment Database (APSED)
- commissioned research on the issues identified above, involving surveys of current and former employees, agency heads and HR areas from eleven agencies
- an analysis including an actuarial study of relevant features of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS).

### **REPORT STRUCTURE**

This Introduction and Overview summarises the main findings and conclusions from the project.

Subsequent sections provide a detailed analysis of the changing APS workforce (Chapter 2) and reports on the research on mature-aged workers, graduates and comparisons of workplace attitudes by age and gender (Chapters 3, 4 and 5). The Appendixes provide background on the research objectives and methodology (Appendixes A and B), together with more detailed information on APS superannuation arrangements and their implications for organisational renewal (Appendix C).

### **MAIN FINDINGS AND CONCLUSIONS**

APS agencies are operating within an environment characterised by devolved employment arrangements; contestability; increased demands for flexibility, responsiveness and performance improvement; and a greater emphasis on innovation and service delivery.

They have both the imperative and the flexibility to design and structure their workforce strategies to meet their particular business capability and renewal requirements.

The APS workforce has been undergoing significant change, including:

- a major reduction in its size and function, though with some increase in staffing numbers over the last three years
- an ageing profile—with an increasing proportion of mature-aged workers, particularly at senior management levels, and declining youth employment
- increasing representation rates for women—with women now outnumbering men overall and, over the last decade, in graduate intakes, and with strong growth at senior management levels
- recruitment patterns that have seen a greater reliance on graduates and more lateral engagement of older people above the base grade level
- greater use of more flexible working patterns and employment relationships
- more streamlined classification arrangements, with a decline in employment at the lower classification levels and a relative growth in middle management.

While a significant core of the APS workforce will continue to be long-term, full-time and employed on an ongoing basis, there will be much greater variation around that core including:

- more movement in and out of the service and with more graduate recruits and young workers leaving within the first few years of entry
- more lateral recruitment, including external engagements at middle and senior management levels
- more people working part-time and other alternative working arrangements and a continued use of contingent forms of labour (e.g. through non-ongoing, contract and labour hire arrangements)
- a greater influence of life stage and work/life balance considerations on career development and working patterns.

The profile of the APS workforce will continue to be an ageing one.

Given wider societal demographic trends, the APS will face increased competition for new entrants into the labour market and pressures on the retention of skilled employees.

These trends have a number of important implications for agencies and the APS as a whole.

### **Workforce planning**

Agencies need to engage in more systematic workforce planning, including:

- understanding their own workforce demographics and characteristics, noting the significant interagency variations on factors such as age
- identifying their particular current and future capability requirements and implementing an integrated human resource management strategy to make sure they are met
- implementing effective succession management to develop bench strength for key roles.

Agencies will need to ensure they understand the attraction, retention and separation factors and trends relevant to their particular organisation. Staff surveys can play an important role in this, including on the intentions and needs of mature-aged workers.

While workforce planning is receiving greater attention in many agencies, progress is patchy. The Australian National Audit Office has highlighted a lack of effective business/people planning at the strategic level and of integration between workforce planning and other people management initiatives<sup>1</sup>.

Greater use could be made of APSED to provide benchmarking data for agencies to reference and compare their own profiles and trends.

Continued focus on organisational renewal at the Service-wide level would also be beneficial, particularly as the operating environment for the APS becomes more competitive. Such a focus can inform and support agencies in their understanding of emerging trends and issues, e.g. in relation to recruitment and mobility and canvass any challenges and opportunities for collaboration.

Looking to the future APS workforce requirements for superannuation arrangements, there is a need to retain valued mature-aged workers in the workforce and also for the benefits of all employees to be portable to and from other schemes. 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 PSS to new members.

### **Mature-aged workers**

The APS is increasingly reliant on mature-aged workers (45 and over), particularly in its senior positions. This varies, however, markedly between agencies.

A key feature of mature-aged employment is the relatively early departure through resignation or retirement of many of its older workers. Superannuation plays a key role in this.

The APS is facing the likely departure of a significant proportion of its workforce (around 23%) over the next five years.

The demographic trends do not present a crisis, but do present a challenge that requires active management by APS agencies. Where this occurs, they can provide the potential for renewal and reinvigoration without excessive disruption or loss of corporate knowledge.

Agencies need to plan ahead and ensure growth of replacement talent and expertise and set in place strategies for appropriate skills and knowledge transfer.

With a continuing ageing of the workforce in prospect, agencies also need to ensure their management and work practices are geared to optimising the contribution of mature-aged workers and encouraging those who are making a valuable contribution to stay longer in the workforce.

The research undertaken for this project highlights some key points in this regard.

Agencies have options available under current arrangements for influencing likely retirement patterns (including departure age) through remuneration packages to address

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<sup>1</sup> Australian National Audit Office (ANAO) 2002, *Managing People for Business Outcomes*, June 2002.

particular superannuation issues (see section below) and more flexible and targeted working patterns.

The current and former mature-aged workers surveyed exhibited a strong preference for more flexible work options. A common perception is that current superannuation provisions act as a barrier to such options, including working part-time, phased retirement and/or moving to a reduced salary. As demonstrated in Appendix C, this is not the case; there is provision for benefits to be accrued on a pro rata basis and for the superannuation salary used for calculating the eventual benefit to be the equivalent full-time salary at retirement. Awareness raising directed at both agencies and employees is required to make this clear.

Providing access to more flexible working arrangements, such as part-time work and phased retirement, would assist in the retention of mature-aged workers. Consideration could also be given to more creative ways to using their skills (e.g. mentoring, skills transfer, and different roles with the opportunity, where desired and appropriate, to phase out managerial responsibilities).

More active management of leave is also required to encourage employees to use their entitlements to recreation and long-service leave as part of a broader management approach for employees to maintain a healthy work/life balance and level of enthusiasm. Senior staff need to lead by example and could be encouraged to take sabbaticals and other development opportunities so as to maintain their drive and expertise.

There appears to be a relatively high incidence of retrenchment for mature-aged workers, notably for the SES and including employees in their late 50s and 60s. Voluntary redundancy has a role in facilitating structural and functional change and some skewing in its uptake to older workers can be expected. However, careful management is required to avoid creating expectations of receiving a redundancy payment to depart, particularly in the light of the abolition of a compulsory retirement age. In addition, redundancy arrangements should not be used as an alternative to rigorous performance management.

Re-engagement of former APS employees on different arrangements (e.g. non-ongoing or contract) has become common, providing valuable flexibility for the organisations concerned and extending the individuals' workforce participation. Such re-engagement should occur only in genuine circumstances and agencies should not engage in contrived arrangements to provide for the continued employment of employees.

Depending on the type of work involved, making best use of former employees will call for tailored management approaches to keep them up-to-date and project ready (e.g. through the establishment of an alumni type network).

### **Superannuation**

The major superannuation schemes for the APS, the PSS and the CSS, provide retirement benefits from age 55. Their basic design therefore supports early retirement. Both schemes have other design features that may influence some older scheme members to leave employment before retirement age, although, in relation to PSS members, an analysis found that the impact is small.

For the CSS, however, some members have been able to receive a better benefit by resigning before retirement and deferring their entitlements than if they had remained in employment until age 55 or later (the '54/11 issue'). This is an unintended consequence

of the original design features of the CSS, which sought to provide an equitable benefit for people who ceased membership before reaching their minimum retirement age. The 54/11 benefit has become attractive for some older members for a number of reasons, particularly because of the high CSS Fund crediting rates in recent years (in market conditions not contemplated by the original benefit design) and is possibly more noticeable at present because the age and salary profiles of CSS members mean they tend to occupy more senior positions. The '54/11 issue' is also more likely to affect men, given women represent only a third of CSS members and are less likely to be faced with such an incentive, due to their broken or late commencing career patterns and lower representation rates of the past.

Despite the past experience, however:

- the incentive to resign before age 55 does not exist for all CSS members and where it does exist, some CSS members may choose not to resign because of personal circumstances
- as the CSS has been closed to new members since 1990, the number of CSS members overall (and consequently the number who may have an incentive to resign before retirement) as a proportion of APS employees is rapidly decreasing
- notwithstanding that this issue will cease to exist within the next ten years or so, the current new investment climate of lower interest rates, compared to the experience in recent years, could be expected to have some effect on the number of CSS members who would materially benefit from this incentive.

Although on an APS-wide basis the number of employees who would be attracted to early retirement is small, for some individual agencies the effect may be significant. In any case, the age structure of the APS suggests that, irrespective of superannuation arrangements, agencies need to encourage those older workers who are making a valuable contribution to stay longer in the workforce and to initiate that action well before targeted staff reach age 55.

Overall, the research indicates that the 54/11 issue is manageable—but that it and the implications of wider APS retirement patterns need to be managed actively by agencies. For example, in addressing the specific incentive that some CSS members have to resign before age 55, one particular option available to employers is for employers and employees, on a case by case basis, to use the flexibility offered by Australian Workplace Agreements (AWAs) to specify a 'superannuation salary' higher than the person's salary, without increasing take home pay.

This is an option to be used in a targeted way to facilitate valuable continuing service. It is not expected that there would be an increase in overall CSS scheme costs if superannuation salary increases to such employees are limited to raising the pension to the level of the deferred benefit pension. Managers should be careful, however, not to allow general expectations of entitlements to develop, and should be mindful that widespread use for employees aged 54, or for other employees, could affect agencies' superannuation contribution rates.

More generally, employers should look to developing more flexible employment options (as mentioned above) to manage the incidence of employees retiring from age 55 when their superannuation benefits become available. Again, AWAs may provide a suitable way to offer phased retirement (through shorter hours and reduced level work) that, under both the PSS and the CSS, allows superannuation benefits to continue to accrue. To some extent, pressure for early retirement will be alleviated as the age at which superannuation

lump sum benefits can be accessed increases to age 60. However, superannuation pensions are not subject to this age restriction and, for PSS and CSS members, this change will not have any effect other than for those members who choose to take a lump sum benefit (instead of a pension).

Appendix C provides more detailed information on the provisions of the PSS and the CSS.

### **Graduates**

The recruitment of graduates (through graduate programs and lateral engagements above base grade levels) is an increasingly important element in agencies' renewal and capability strategies.

The research conducted for this project focused on graduate intakes through formal programs, though it is recognised that many more graduates are recruited through lateral engagement.

Agency heads are generally satisfied with their graduate recruitment, although experiencing some difficulties in certain specialist areas (e.g. economists and accountants). They find agency-based recruitment effective and do not wish to return to centralised arrangements.

The project was, in part, aimed at testing the hypothesis that the APS is facing a move from a predominantly career service to a labour market increasingly interested in APS employment of five to ten years within a broader career.

There is evidence of some decline in retention rates for more recent cohorts of graduates and increasing separation rates for young people generally. While retention patterns will be influenced by the overall state of the labour market, it is likely that the APS is experiencing something of a structural shift downwards in its retention rates for graduates, reflecting different career attitudes of more recent generations of new entrants to the labour force. As the labour market tightens over coming decades, the APS can expect additional pressure on retention.

However, it needs to be noted that the recent decline in retention rates is from a cohort with relatively high retention rates, and its impact on career patterns can be overstated. Graduate recruitment can be expected to generate a continuing core of employees with long-term careers, albeit with a greater focus on skills development. Just over 60% of the 1996 graduate intake, for example, remain in the APS. In addition, while many were uncertain about their career intentions, the bulk of recent graduates surveyed did not come into the APS with an intention to stay only for a short period of time.

The research suggests scope for agencies to improve or at least maintain their retention rates concentrating on the workplace factors important to graduates: favourable employment conditions, job security, and interesting work. Training provided is also an important attraction factor.

Employment conditions are considered to be a particularly important factor attracting and encouraging graduates, and particularly female graduates, to stay in the APS. Given the high proportion of female graduates (consistently outnumbering males since the early 1990s), this is clearly an issue for agencies to focus on.

Retention rates vary between agencies and, while a range of factors is at play, further examination and evaluation of the different agency programs in place and their outcomes could assist in the development of better practice approaches.

The greater openness to mobility of graduates is consistent with research undertaken on the attitudes of Generation X employees that shows, by comparison, a more mobile group than their more senior colleagues and a greater tendency to view their careers as a series of stepping stones in which they augment their skills<sup>2</sup>. This characteristic implies agencies should consider job challenges and design, as well as considering mobility as a managed strategy, perhaps in collaboration with other agencies. The APS should take advantage of its capacity to provide a broad range of employment and skill development opportunities.

The APS-wide dimensions of graduate recruitment and retention also need to be taken into account, including the capacity for offering a wide range of different jobs and opportunities for skills development. While the focus of graduate recruitment is at the agency level, there are wider attraction and retention benefits in reinforcing an appreciation of joining the APS and the opportunities that it provides. The role played by some agencies as a training ground of particular expertise in demand across the Service should also be recognised.

Agencies need to address these considerations in relation to the range of graduate entrants—those entering through formal graduate programs and the increasing number entering through lateral engagement. Their structured learning and development programs will need to recognise the changing nature of engagement patterns.

### **Attraction and retention**

Looking more generally, the APS and individual agencies will face increased pressure to present themselves as a credible employer-of-choice. Attraction and retention strategies need to be aligned to meet changing demographics and capability requirements.

Attraction and retention strategies need to be based on an understanding of what motivates people to work and stay in the APS and particular agencies. They should build on the positive drawcard factors identified in the research—perceptions of job security, interesting work, good working relationships and, for younger employees, the prospects for training and career development.

Agencies and the APS more widely will need to market their organisations as an employer-of-choice, recognising generational differences in perspectives, attitudes and behaviours and possible views about the public sector and, where relevant, working in Canberra. This will involve a holistic approach incorporating recruitment, management, job design and learning and development. Key dimensions suggested by research into intergenerational differences include: a strong commitment to individuals' goal setting and career/skill development; a capacity to balance work and life; engendering a feeling of contribution and being trusted with some control over their work; and clear objectives, job expectations and performance feedback.

As the labour market tightens into the future, there will be increased pressure on attracting the skills required and maintaining competitive remuneration packages which support effective recruitment at the base grade and lateral levels.

Employment conditions and the capacity for work/life balance will be an important element of such packages, and may offer APS agencies a competitive edge. Attention also needs to be given to reward and recognition strategies involving non-financial

<sup>2</sup> See Zemke R, Raines C & Filipczak B 2000, *Generations at Work: Managing the Clash of Veterans, Boomers, Xers and Nexters in Your Workplace*, AMACOM, New York; Tulgan B & Martin CA 2001, *Managing Generation Y: Global Citizens Born in the Late Seventies and Early Eighties*, Rainmaker Thinking Inc; Ruch W 2000, 'How to Keep Gen X Employees from Becoming X-Employees', *Training and Development*, April 2000.

rewards (including both formal agency-wide schemes and more direct and informal acknowledgement of achievement within work groups)<sup>3</sup>.

The possibility of declining retention and the need for a continuous process of organisational renewal will mean that agencies may need to boost their graduate intakes, or at least not cut graduate recruitment programs to the extent that has happened at particular times in the past. For some agencies, depending on the nature of their business and skill requirements, it will also mean a greater reliance on lateral recruitment of people with graduate qualifications.

In considering their approaches to retention, agencies should consider the level of turnover appropriate to their organisation and the right balance between turnover and continuity. Some degree of turnover will be positive from a renewal point of view. To what degree will be affected by the nature of the agency's business and the extent to which 'home grown' specialised skills are required or whether they can be easily bought in.

There may be value for some agencies in considering their classification structures to ensure they provide alternative pathways for attracting young people into the Service (e.g. traineeship arrangements) so as to expand their potential recruitment pool.

Interchange approaches with the private sector could also assist renewal, widening the pool of skills and perspectives available.

### **Flexible working patterns**

Increased flexibility in working patterns and arrangements will be an important part of the response to the demographic changes, recognising the life stage dynamics influencing workforce participation.

The APS has been a leader in providing family friendly work practices (e.g. part-time work, flexible working hours, home based work, purchased leave) and needs to continue in this role through flexible conditions and supportive management approaches as part of its attraction and retention strategy.

APS-wide and agency employment conditions cater for women making different workforce participation choices: for women who are more 'adaptive' in their choices (e.g. access to part-time and casual work, the capacity to move in and out of the workforce) and those who are more 'work centred' (e.g. paid maternity leave and carers' leave). These conditions have been important in lifting women's representation rates and encouraging retention given the professional nature of APS work and the significant investment made in the development of employees. Ensuring the continued growth of women's representation rates at senior levels will be critical.

Elder care responsibilities will be an increasing issue for many employees. A number of agencies have introduced initiatives to assist employees in this regard (e.g. Centrelink's Elder Care Referral assistance program). Consideration could be given to providing greater flexibility in the taking of long-service leave for this and other caring purposes.

### **Agreement making**

The *Public Service Act 1999* (in tandem with the *Workplace Relations Act 1996*) has provided a more flexible employment framework within which agencies can structure their workforce strategies. Agencies should make full use of the flexibility now available, in particular through the strategic use of agreement making (through certified agreements and

<sup>3</sup> See *Performance Management in the Australian Public Service*. Management Advisory Committee. September 2001.

Australian Workplace Agreements to tailor workforce strategies for capability development and meeting particular attraction and retention issues.). AWAs in particular offer significant potential for tailoring remuneration and conditions packages to meet the needs and circumstances of the agency and individual employees (e.g. superannuation, flexible working arrangements and variable career patterns). They also allow for an enhanced focus on performance management.

As noted above, the strategic positioning of remuneration packages will become even more important as labour market conditions become more competitive. Pressures on wages policy and resourcing arrangements can be expected to build.

### **Management and leadership**

Approaches to management and leadership at both the agency and the APS level will need to reflect changing workforce dimensions and organisational requirements. In particular, agencies need to ensure that:

- sufficient 'bench strength' is available to replace key people in middle and senior management and specialist positions likely to leave in the near future
- graduates are provided with the development opportunities and experience to form a strong pool of future leaders, recognising that their progression may be quicker and therefore their breadth of experience more limited than in the past
- employees recruited into the APS at middle and senior management levels receive the development required, particularly in relation to the APS context and approach (e.g. the APS Values and their practical translation within agencies)
- the necessary approaches and skills exist for managing a more varied workforce (e.g. working different hours arrangements and under different employment arrangements)
- their employment framework and conditions support greater flexibility in staff profile and working arrangements and employee acceptance of that flexibility
- more flexible approaches are taken to resource management (e.g. project teams, taskforces)
- managers understand the different attitudes, expectations and life stage concerns of different groups of employees and what that means for working practices, management styles and approaches and occupational health and safety.

Effective systems of performance management will need to form an integral part of workforce planning and succession management. Such systems will be vital for the identification and development of talent and potential, as well as the active management of underperformance. The survey results indicated room for improvement in the quality of performance feedback processes and recognition of effort.

### **Learning and development**

Learning and development strategies will also require adjustment to ensure changing capability needs are met. Specific issues highlighted by the research conducted as part of this project were the need for:

- effective graduate development programs (including mentoring arrangements)

- programs to support accelerated skills development and a systematic exposure to different work experiences given the likelihood of a faster progression through the ranks
- activities to assist those coming in through lateral recruitment to orient them to key elements of the APS values, ethos and processes
- innovative approaches to learning and development attuned to the greater numbers of employees on part-time and other alternative arrangements and to the geographic spread of the APS workforce
- a focus on continuous learning and development for older workers to ensure their skills remain current and to enable their participation in the APS for longer periods
- strategic use of selected mature-aged workers in coaching and mentoring roles
- employees to be provided with development in the areas of stress and time management, maintaining work/life/health balance and career planning.

### **Knowledge management**

Finding ways to efficiently capture knowledge has become an imperative, given the increasing emphasis on ‘knowledge work’ in the public sector, and the risk posed to corporate memory through loss of employees.

Effective knowledge management becomes even more critical for organisations with significant numbers of key people about to depart. Although a number of the agencies surveyed had knowledge management strategies in place, both current and former employees were uncertain as to whether their knowledge had been, or was being, effectively transferred.

A range of strategies may be appropriate (e.g. phased retirement with a focus on skills and knowledge transfer, mentoring and coaching, engagement of key people post departure). A number of agency heads interviewed stressed the importance of knowledge management more generally for their organisations and pointed to recent initiatives on this front (both systems and more people centred). A common response was the use of rotation and movement within their organisation, to ensure greater flexibility and breadth of knowledge and skills.

### **Sustained capability through organisational renewal**

The changing profile of the APS in the context of wider demographic changes poses a number of challenges for the management of the APS and individual agencies to ensure a continual building of the organisational capability required to deliver their outcomes for the government of the day.

Organisational renewal is about a dynamic process of capacity building to ensure that organisations are equipped to succeed in a sustained way within a changing operating environment.

All agencies need to focus on the organisational renewal process ensuring that it is grounded in a thorough understanding of the changing operating environment and emerging demographics and on a systematic approach to workforce planning.

## 2. THE CHANGING APS WORKFORCE

The APS workforce has been undergoing substantial change in its size and composition. Wider demographic trends, notably the ageing of the population and labour force, will also impinge significantly on the APS as both an employer and a service provider, because of the ageing of its client base.

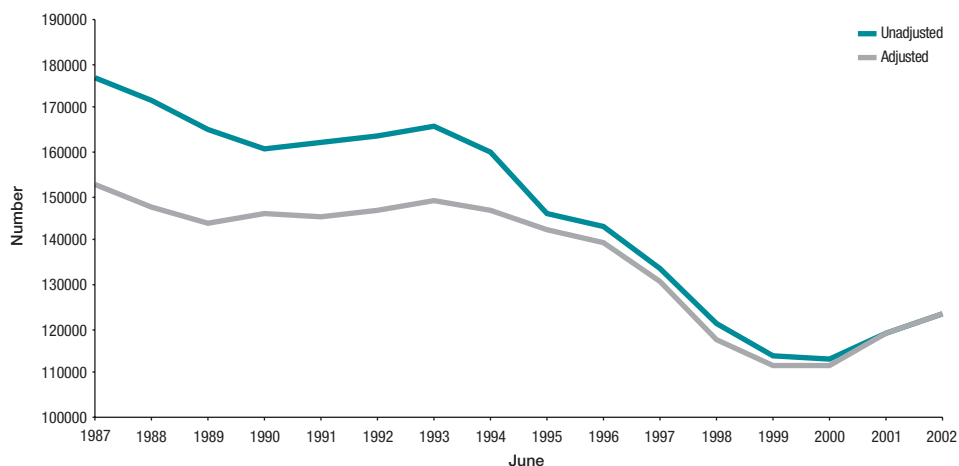
The following analysis of key workforce characteristics is drawn from APSED, complemented by the research commissioned by MAC on superannuation.

### SIZE AND SHAPE OF THE APS<sup>4</sup>

The APS workforce comprises some 123,494 employees (112,123 ongoing and 11,371 non-ongoing), the majority (75%) working in the ten largest agencies.<sup>5</sup> One-third work in Canberra (with almost three-quarters in the ACT, New South Wales and Victoria combined).

Staffing numbers have reduced significantly over recent decades, as shown in Figure 1 below.<sup>6</sup>

**Figure 1: APS staff, 1987 to 2002**



Source: APSED

4 The analysis is of ongoing staff unless otherwise specified. Decimal point figures have been rounded to whole numbers except where their order is such that they require presentation to the first decimal point.

5 Centrelink; Australian Taxation Office; Defence; Family and Community Services; Australian Customs Service; Immigration and Multicultural and Indigenous Affairs; Health and Ageing, Australian Bureau of Statistics; Agriculture, Fisheries and Forestry-Australia; and Environment and Heritage.

6 The upper line represents unadjusted figures (the total number of APS staff in the particular year); the lower line abstracts from changes that occurred in the functions performed in the APS over the period by showing the level of staff employed in those functions that remained in the APS at 30 June 2002.

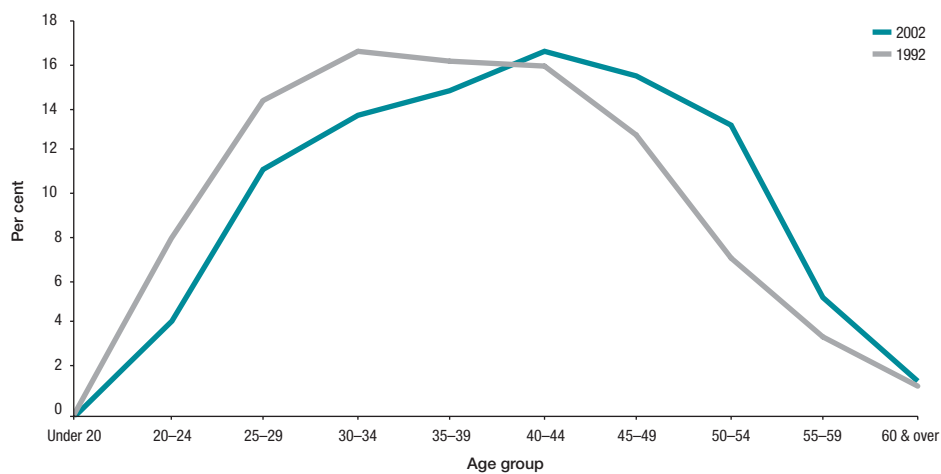
The main reductions in the period from the mid to late 1980s came from the transfer of functions and staff into other Commonwealth entities, and from corporatisation and privatisation. The period between 1996 and 1999 saw a rapid decline in absolute numbers (from 143,236 to 113,627), reflecting a time of significant functional cuts, efficiency improvements and market testing leading to contracting out of functions.

More recently, the long-term decline in the size of the APS plateaued out and then reversed somewhat, with an increase of 9% over the last three years (from 113,627 at end June 1999 to 123,494 at June 2002).

### AGE PROFILE

The APS workforce is ageing and, on average, is now some four years older than a decade ago. The median age is now 41 years (43 for males and 39 for females), compared to 37 (39 and 34 years respectively) ten years ago.

**Figure 2: Age distribution of ongoing staff, 1992 and 2002**

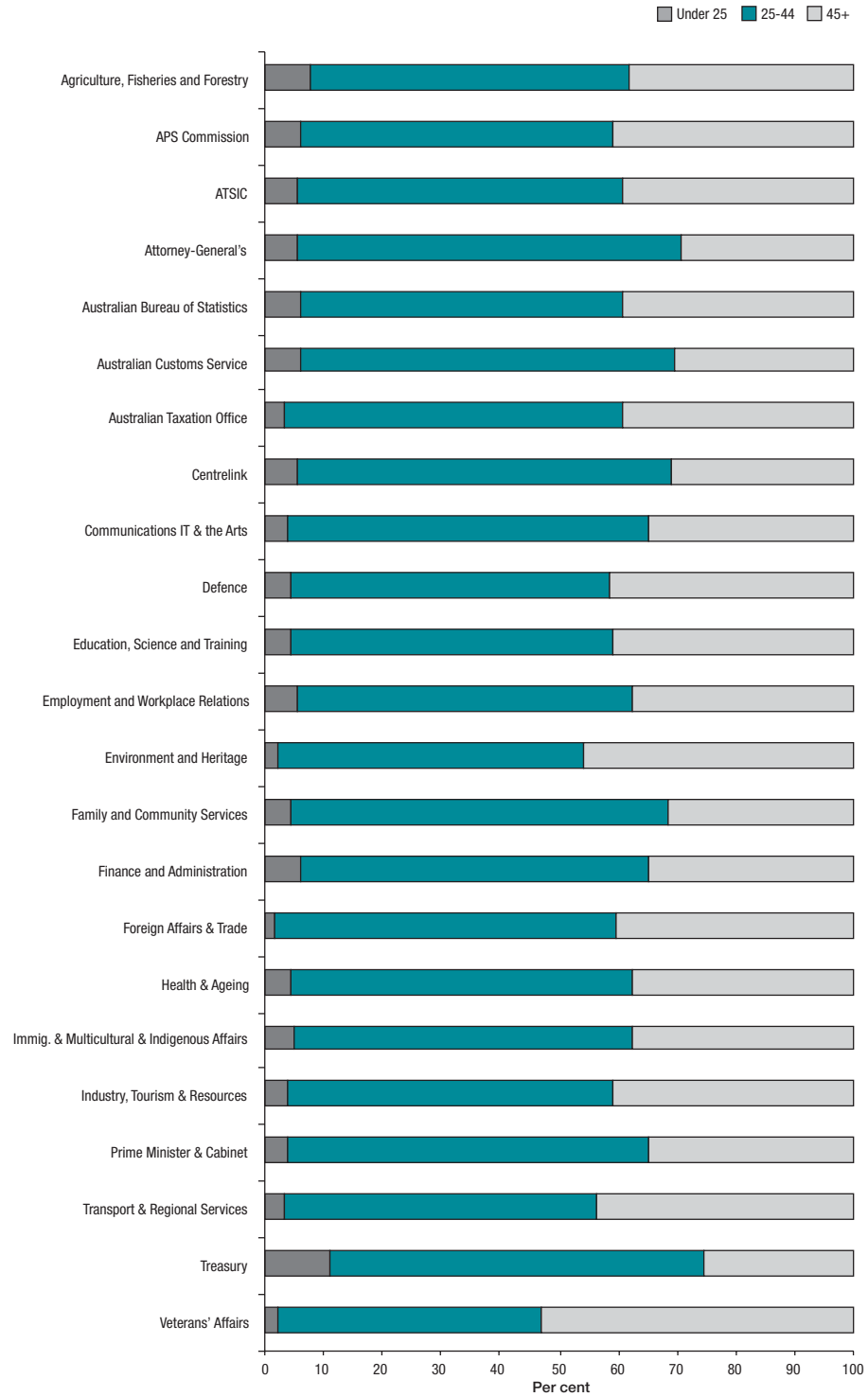


Source: APSSED

The ageing trend is consistent across all states and territories (although the Northern Territory has a slightly younger median age of 40 and Queensland a slightly older one of 42).

There are significant variations in the age profile between agencies.

**Figure 3: Ongoing staff in MAC agencies by age group, June 2002**



Source: APSED

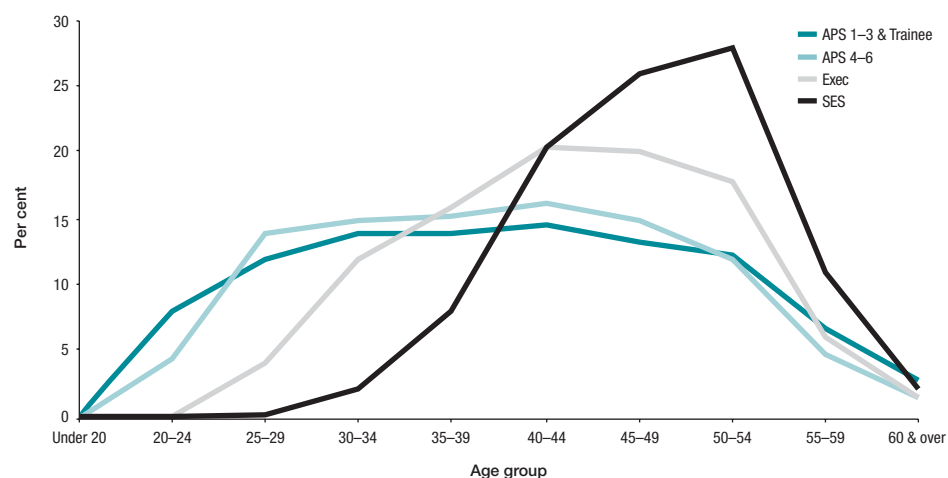
Factors contributing to the age profile of the APS include:

- the relative stability of the workforce
- the large number of ‘baby-boomers’ recruited in the late 1960s and the 1970s as reflected in the rising share and numbers of staff aged 45–54: with 30% of employees aged 45–54 at 30 June 2002 (33,225 employees) compared with 19% (27,347 employees) a decade ago
- a general decline in the proportion of staff aged under 25 over much of the past decade, but for a slight turnaround in recent years: the level falling from 14,029 to 4,192 staff (a drop of 70%) between 30 June 1992 and 30 June 1999, before rising slightly between 1 July 1999 and 30 June 2001. There was a marginal decline in the proportion of ongoing staff aged under 25 in 2001–02, from 4.7% to 4.6%.

The median age has increased across all classifications over the last decade. However, the declining share of ongoing engagements amongst young people, who tend to come in at lower classifications, means that ageing of the APS is accentuated at the lower classifications.

There is a greater concentration of older employees at the higher classification levels. In June 2002, just over two-thirds (69%) of SES employees and 46% of Executive Level employees were aged 45 years or over—up from 59% and 35% respectively ten years ago.

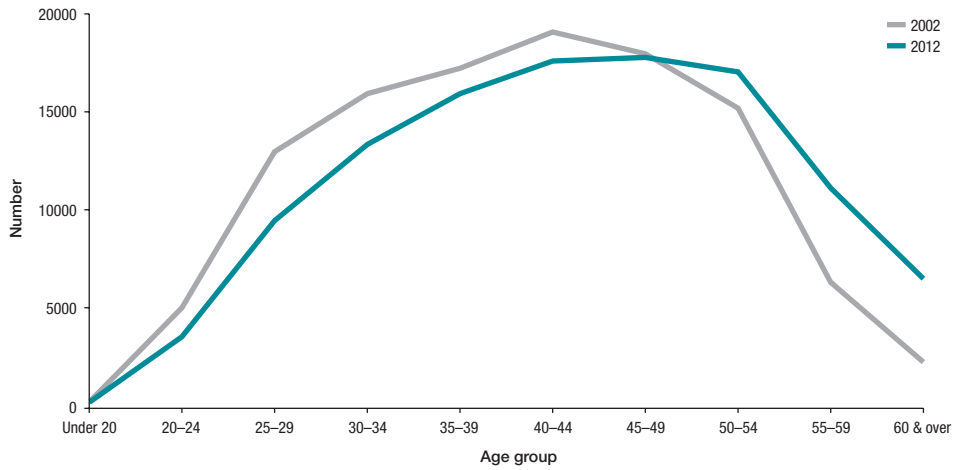
**Figure 4: Classification of ongoing staff by age group, June 2002**



Source: APSSED

Looking ahead, the APS will continue to age as shown in Figure 5. Projections for 2012 show an increase in the age profile. The highest proportion is expected to be in the 45–49 age group, however the peak will be less pronounced than it is now.

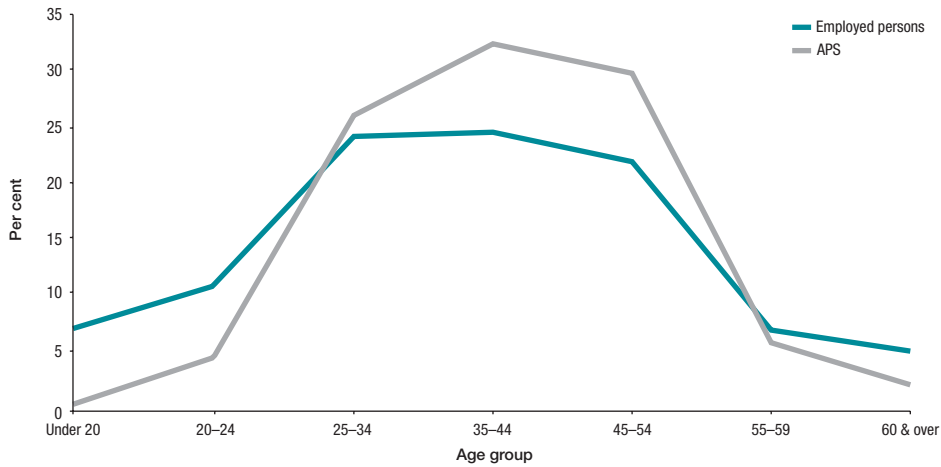
**Figure 5: Projected age profile 2012, and actual age profile 2002**



Source: APSED, Australian Government Actuary projections. These projections assume that the age distributions of new entrants and those leaving are based on engagement and separation age profiles for the past two years. The projections have been derived assuming that the exit rates observed over the two years to 30 June 2002 continue into the future.

As illustrated in Figure 6, the APS tends to be somewhat older than the wider workforce, but has a smaller share of both younger workers and employees over 55.

**Figure 6: Age profile of APS and employed persons, 2002**



Source: APSED, ABS Labour Force

## ENGAGEMENTS

Trends in engagements (that is, recruitment from outside the APS) contribute to the significant shifts occurring in the size and nature of the Service.

Engagements reached a low point of 5,688 in 1996–97, then increased each year until falling back slightly in 2001–02. Recent engagements have largely been influenced by recruitment in the Department of Defence, the Australian Taxation Office and Centrelink.

The median age of recruitment in the APS has risen slightly for men from 32 years to 34 years since a decade ago, while for women it remains at 30 years.

Behind the changes lie some important trends:

- Engagements of employees under 20 years have dropped substantially, from 8% in 1991–92 to 2% in 2001–02.
- This reduction reflects the substantial fall in engagements at APS 1/2 levels from 53% of all engagements in 1991–92 to 17% in 2001–02 (the figure was 85% in 1981–82).
- Engagements of employees aged 20–24 years have increased in number since 1991–92 (2117 that year) but fell slightly in 2001–02 (from 2724 in 2000–01 to 2311).
- There has been a significant increase in recruitment of people aged 25 years and more, from 6987 (71%) in 1991–92 to 9593 (79%) in 2001–02.
- Lateral recruitment has increased, with engagements at APS 5 and above more than doubling over the last decade. Excluding the ATO and Centrelink, the proportion of engagements to middle management levels has increased from 18% in 1996–97 to 34% in 2001–02.
- Base grade recruitment is most common these days at the APS 3/4 levels, with the latter now accounting for 28% of all engagements. While there was a decline in 2001–02, this primarily reflects continued increases in lateral recruitment at higher levels. Up until 2001–02, the share of engagements at APS 3/4 has increased each year since 1992–93.

A 'typical' new starter for 2001–02 would be aged 32 and engaged at the APS 4 level, and is more likely to be a woman than a man.

Reliable data on formal qualifications and previous employment is not available for the majority of new engagements. Of all employees engaged during 2001–02, including those engaged as part of a formal graduate program, and for whom data is available, 62% had tertiary qualifications and 41% were working in the private sector prior to entering the APS.

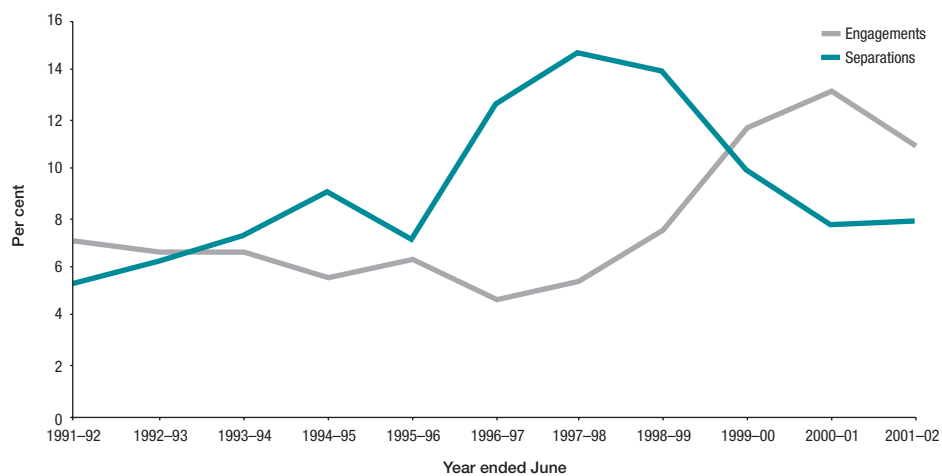
Although base grade recruitment continues to be most common at the APS 3/4 levels, there was a marked decline in the proportion of engagements at that level (from 51% in 2000–01 to 42% in 2001–02). This is the first time since 1992–93 that this group has not recorded an increase in engagements. The proportion of engagements at the APS 1/2 classification levels has dropped dramatically over the last 10 years, from 53% of

engagements in 1991–92, to only 17% in 2001–02, reflecting, among other things, the rise in skill requirements and qualifications of entrants in the Service. The number of engagements at this level, however, increased in absolute and proportional terms between 2000–01 and 2001–02 from 13% to 17% representing a modest reversal of the strong long-term decline.

## SEPARATIONS

As shown in Figure 7, after peaking in the post-1996 downsizing, the incidence of separations declined in 2000–01, before rising slightly during 2001–02, and has been overtaken by the incidence of engagements since 1999–00. However, the incidence of separations still remains higher than during the last period of APS growth in the early 1990s, largely due to increased incidence of resignations by ongoing staff aged 50–54.

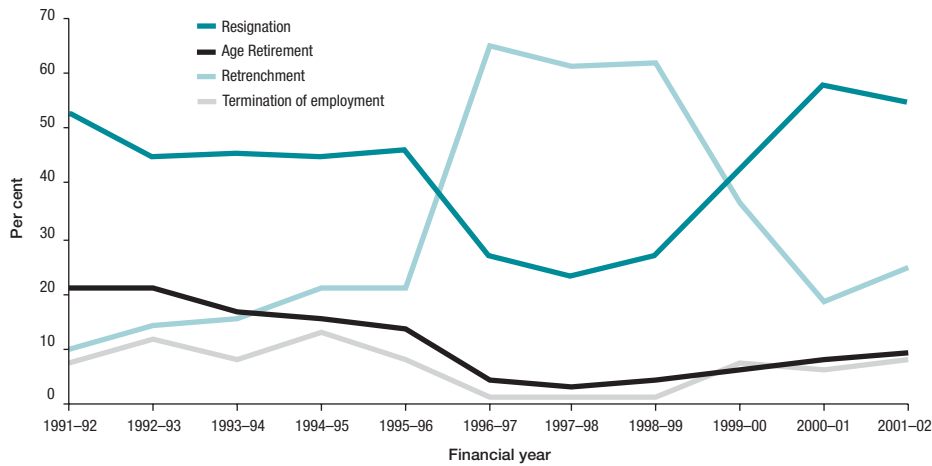
**Figure 7: Ongoing engagements and separations as a proportion of total ongoing staff, 1991–92 to 2001–02**



Source: APSED

From the mid to late 1990s, retrenchments were the major form of separation, but this has been declining over the last three years (see Figure 8). In 2001–02, they accounted for just 25% of all separations and resignations have resumed their role in accounting for the majority of separations.

**Figure 8: Selected types of separation as a proportion of total separations, 1991–92 to 2001–02**



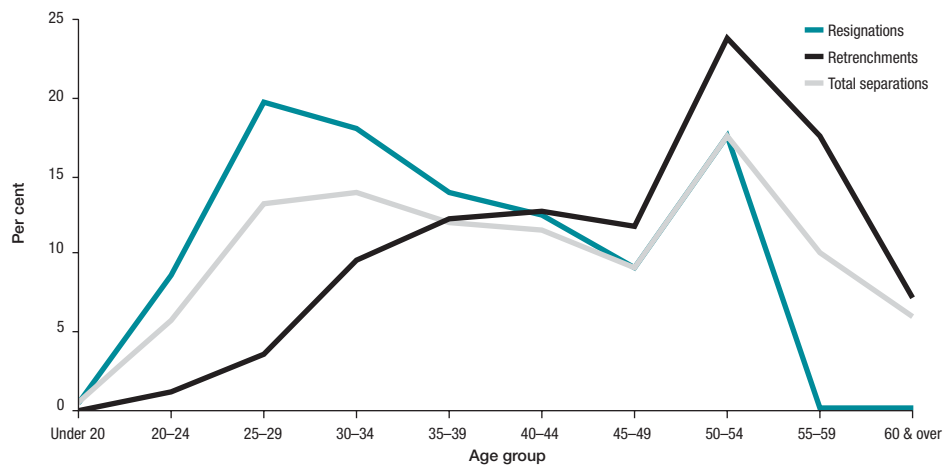
Source: APSED

It is interesting to note that there was a relative decline in the incidence of age retirements and terminations associated with the period of significant downsizing and higher use of retrenchments in the Service.

Age retirement has been increasing slowly in more recent years but not to levels that might have been expected, given the ageing profile of the workforce. A contributing factor is the increase in resignations of employees in the 50–54 age group. The number of terminations has picked up over recent years (from a low base) and, in 2001–02, accounted for 694 or 8% of all separations.

Rates and methods of separation vary quite markedly between older and younger employees, as illustrated in Figure 9. Separation rates are highest for employees in their early 30s and mid-50s.

**Figure 9: Selected separations by age group, 2001–02**

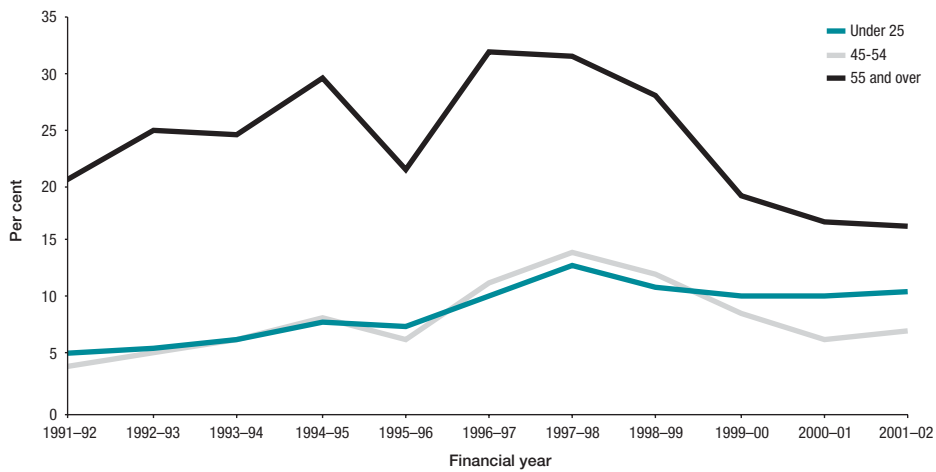


Source: APSED

Note: The drop in resignations is artificial as, from age 55, employees retire rather than resign.

Separation rates for employees under 25 have increased over the last decade, plateauing in recent years as shown in Figure 10. Separation rates for this age group are highest at the APS 1 level, but decrease markedly at the APS 4 level and above.

**Figure 10: Separations as a proportion of total ongoing staff for selected age groups, 1991–92 to 2001–02**

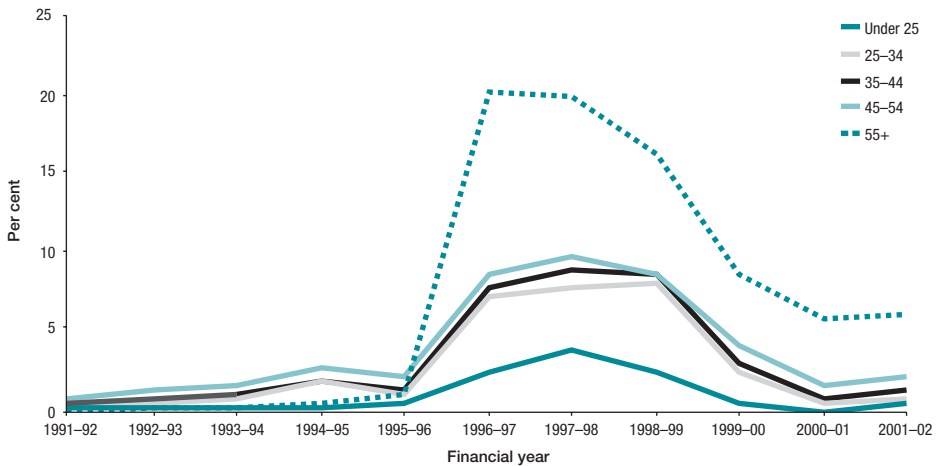


Source: APSED

The decline in separation rates for mature-aged workers (45 and over) slowed in 2001–02. The main separation types for this group in 2001–02 were retrenchment (35%), resignation (34%) and age retirement (21%).

Figure 11 illustrates the impact of retrenchments on all age groups over the past five years with the impact on those aged 55 and over particularly noticeable.

**Figure 11: Retrenchments as a proportion of total ongoing staff by age group, 1991–92 to 2001–02**

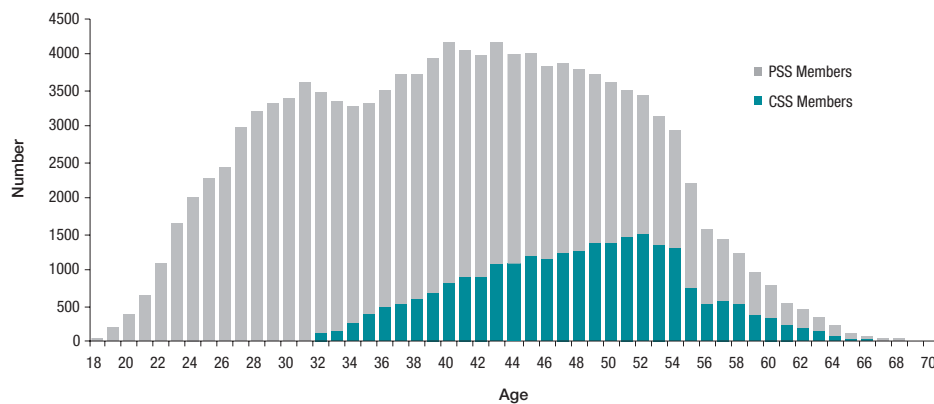


Source: APSED

## Superannuation

The figure below shows the age profile of the 121,587 APS employees who were PSS and CSS members as at 30 June 2002.

**Figure 12: Age profile—APS combined PSS and CSS membership, 30 June 2002**



Source: CSS/PSS data

The PSS now dominates the numbers, with that scheme having 79% (96,530) of overall PSS/CSS members employed in the APS and the CSS having 21% (25,057) as at 30 June 2002. As may be expected, the age profile of the PSS is of a young scheme whereas the CSS is that of a scheme that has been closed for more than a decade and whose membership is ageing.

In the PSS, APS membership numbers peak at age 31 (3,500 members), with ages 28 to 43 each having more than 3,000 members. Members dwindle from this to about 1,000 members at age 56, with very few members being above age 60. In the CSS, the age distribution is indicative of a 'baby boomer' profile, exaggerated by the fact that the scheme has been closed for a considerable time. The age with the highest number of CSS members is 52 and about three-quarters of all current CSS members are aged 40 to 55. There is a sharp decline in members between age 54 and 55 (from 1,318 to 732) dropping to below 400 members at age 59 and with very few members working past age 60.

CSS data shows that, during 2001–02, of the 1,418 APS members of the scheme who were aged 54 at their last birthday, a total of 748 exited the scheme while 670 remained at the end of the year. The number of CSS members who resigned at age 54 during the year was 593, or 41.8% of all members.

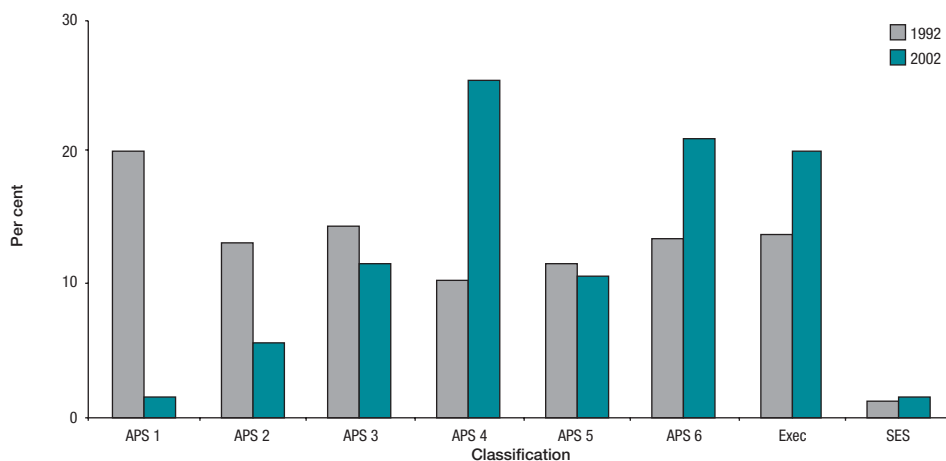
## CLASSIFICATION

Major shifts have occurred in classification arrangements and profiles.

Functional change, multi skilling and technological advances were drivers for significant streamlining and simplification of classification structures in the 1990s. There is now also greater flexibility and variation in how agencies gear their classification structures.

Figure 13 depicts the changing relative size of different classification groups over the last decade.<sup>7</sup>

**Figure 13: Ongoing staff by classification group, 1992 and 2002**



Source: APSED

Key changes have been the significant reduction in the use of APS 1/2 classifications, and substantial growth at the APS 4 level, which now accounts for 26% of employees.

The other main levels to show relative growth have been amongst the middle management grades, particularly the APS 6 and Executive Levels.

### SENIOR EXECUTIVE SERVICE

The past decade involved periods of both growth and decline in the overall numbers of SES employees.<sup>8</sup> Growth through the early 1990s saw the number of SES employees peak at 1,775 in June 1994. Consistent with wider reductions across the APS, the SES then reduced to a low of 1,541 in June 1998 after which it has gradually risen to 1,763 as at 30 June 2002. The SES is now about the same size as it was in June 1992, but now constitutes a higher share of all employees.

Band 1 executives make up the largest group within the SES (74%), with Band 2s comprising 20% and Band 3s about 6%.

The proportion of women in the SES has increased steadily over the last decade. In 1992 women represented 14% of the SES group, doubling to 28% at 30 June 2002.

The majority (76%) of senior executives are aged between 40 and 54, with 11% aged 39 years and under and 14% aged 55 or over.

Promotions from within the APS represent the most significant component of movement into the SES. The filling of vacancies by *internal* recruitment (promotion from within or between APS agencies) has fluctuated—from a low of 71% in 1992–93 to a high of

<sup>7</sup> This Figure uses the eight level classification structure in place since 1998 as a basis for comparison. Note that, within this structure, flexibility currently exists for agencies to set their own rates of pay and to broadband classifications or create an agency-specific structure.

<sup>8</sup> SES data includes employees who are not in SES positions, but who receive a similar level of remuneration.

86% in 1997–98—and figures for the past two years run at around 83%. Meanwhile, *external* recruitment (the engagement of employees from outside the APS) has represented between 14% (2000–01) and 25% (1992–93) of all movements into the SES.

Recruitment from outside the agency (either from outside the APS or from other agencies) has ranged from a low of 25% (1997–98 and 2000–01) to a high of 44% (1992–93). Over the past year, this figure has been at the middle of that range, although it can vary considerably between agencies.

Yearly departures from the SES range from a low of 121 in 1992–93 to a high of 244 in 1999–2000. The reasons for departures vary and can include: Machinery of Government changes moving employees out of Public Service Act employment; resignation (for a wide range of reasons); retirement or retirement with an incentive. The most significant single category of departures is where SES employees accept an incentive to retire.

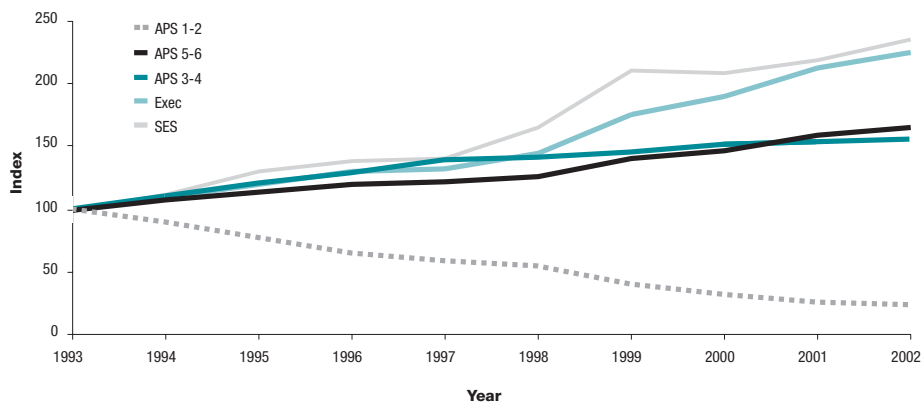
Under the provisions of s.37 of the *Public Service Act 1999*, an agency head may give notice to an employee that they will become entitled to a payment of a specified amount if they retire from the APS (this is the analogue of retrenchment for non-SES employment categories). In 2001–02, 30% of SES separations were in this category.

#### **WOMEN IN THE APS**

The proportion of female employees in the APS has increased since the abolition of the marriage bar in 1966 until, in 2001, women made up just over half of ongoing staff for the first time. Over this period women have predominated in lower level classifications. At June 2002, women comprised 56% of all ongoing staff in the APS classification levels.

Over time, and as numbers of women in the service have increased, women have increased their representation in more senior classifications. As Figure 14 makes clear, there has been strong growth at these levels. Women now make up 37% of Executive level officers and 28% of those in the SES. Over the past decade, women have had a consistently lower length of service before reaching Executive level and the SES. In 2001–02 the median length of service for employees reaching SES Band 1 was 13 years for women and 15 years for men.

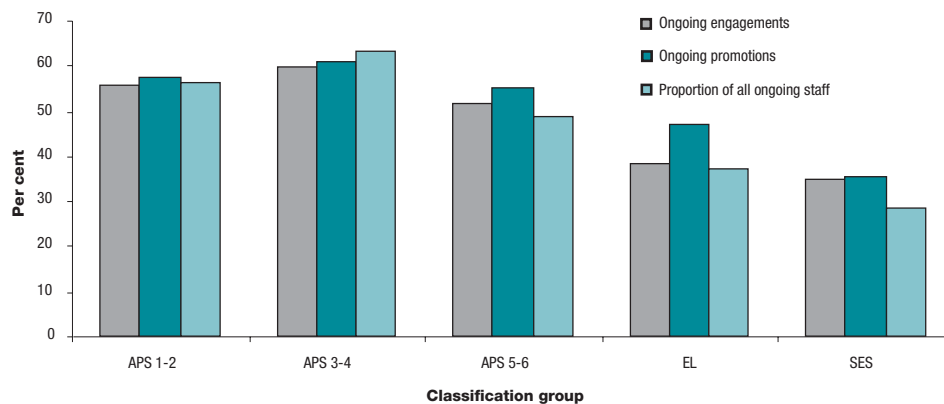
**Figure 14: Change in number of women at selected levels, weighted and indexed, 1993 to 2002**



Source: APSED

On current trends, women’s increasing presence in the APS, and particularly at more senior levels, is likely to be sustained. As shown in Figure 15, women’s rate of lateral recruitment (engagements) and rate of promotion to APS 5–6 levels and above is higher than their representation at those levels. Moreover, as the number of female graduates has increased over time in Australia overall, the representation of women in APS graduate programs has increased correspondingly, with the result that women have outnumbered men in graduate programs since the early 1990s.

**Figure 15: Ongoing staff: engagement, promotion and representation rates for women, 2001–02**



Source: APSED

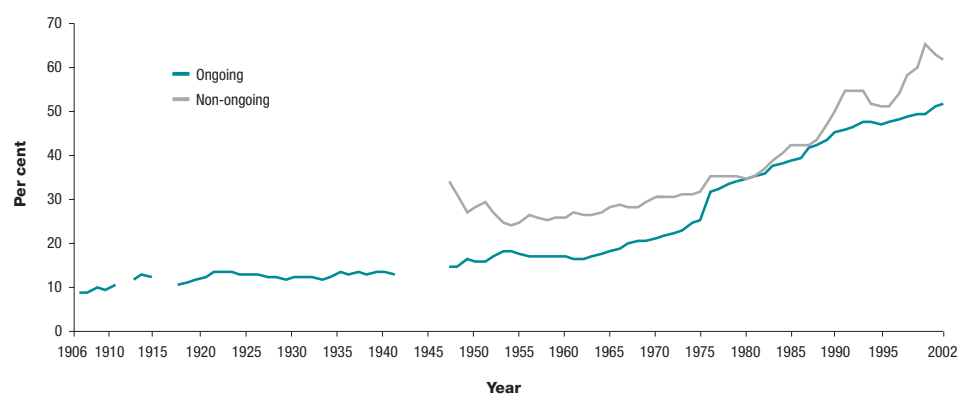
Retention rates of male and female APS employees, including graduates, are much the same up until fifteen years of service, but start to diverge after longer periods of service—with men having higher rates of retention—so that for example, of those with 30 or more years of service, some 83% are males. This pattern probably reflects adjustments in employment patterns following the removal of the marriage bar in 1966. Though women’s representation in the APS began to increase immediately following the bar’s removal, that representation rose more sharply during the 1970s, as Figure 16 indicates. As a result of these historical factors, men have had substantially longer median length of service before separating than women over the past decade (for example, eleven years for men and six years for women in 2001–02).

Following the removal of the marriage bar, the APS introduced over time a number of flexibilities and leading edge practices.

- Paid maternity leave was introduced on a legislative basis in 1973.
- Flexible working hours have been offered since the mid 1970s.
- A variety of flexible leave arrangements has been put in place through agency agreements (e.g. more generous carers’ leave and purchased leave).
- Access to permanent part-time work has increased (particularly since the Workplace Relations Act removed the capacity for restrictive award provisions).
- A range of dependent care arrangements has been established through agency agreements (e.g. school holiday programs and elderly care referral assistance).

These practices have contributed to the strong performance of the APS on women’s employment shown in Figure 16, and are prominent in employee responses to surveys undertaken for the project.

**Figure 16: Women as a proportion of ongoing and non-ongoing staff, 1906 to 2002**



Source: APSSED

Note: Breaks in the graph are due to the unavailability of data for some years

Separation rates from the APS have been much the same for male and female employees over the past four years. However, female APS employees are more likely than males to resign from APS employment (60% of total separations for women in 2001-02 compared to 49% for men) and to resign at a younger age (the median age for women who resigned in 2001-02 was 33 years compared to 39 years for men). The younger resignation age for women is likely, in part, to be related to child bearing, as the resignation rate tapers off after the 35-39 age group. However, the value placed by women graduates on the flexible employment conditions in the APS suggests that there is a strong inclination to combine work and family among this group. There is also a very high rate of return from paid maternity leave in the Service. Of the 1594 women who took maternity leave in 2000-01, only 206 (12.9%) had separated by 30 June 2002.

The next most common reason for separating from the APS, retrenchment, was more common for men (28% of all separations for men) than for women (22%). Again, the median age of retrenched men (52 years) was significantly older than for retrenched women (43 years).

Persistent differences between workforce characteristics of male and female APS employees could indicate different priorities affecting the choices of male and female employees. In chapter 5, survey data gathered for the project is used to examine the nature and extent of any attitudinal differences between male and female employees for both the graduate and the mature-aged groups.

## **EMPLOYEE CHARACTERISTICS**

Changes in the size and nature of the APS have affected the representation rates of other employee groups.

Indigenous employment is significantly higher in the APS (2.4%) than for employed persons overall (1.2%) and roughly equates to the share of Indigenous people in the population as a whole. While Indigenous employment is higher than a decade ago (1.9% at June 1992), it has decreased slightly in recent years due to relatively high rates of separation amongst Indigenous staff (3.1% of separations during 2001-02) and reduced numbers of employees at the APS 1/2 levels. There is some growth in representation at more senior levels and a relatively high representation amongst graduate recruits compared to Indigenous representation overall.

Over the last decade, there has been a consistent decline in the employment of people with a disability, both in absolute numbers and as a share of all staff. The APS now employs a lower proportion of people with a disability than equivalent occupations outside the APS (3.6% compared to 9.7%). People with a disability are over-represented in separations, in particular retrenchments and invalidity retirements.

The proportion of employees identifying as being from a non-English speaking background was 9.6% at June 2002, which is slightly lower than in APS equivalent occupations in industry (12.8%).

## **EMPLOYMENT ARRANGEMENTS**

Recent changes in the APS employment framework (in particular the *Public Service Act 1999*) have provided agencies with greater flexibility to meet labour and skill requirements in what is now a rapidly changing operating environment (e.g. greater contestability and the need for greater responsiveness, flexibility and efficiency in resource management). In this context, changes in the way labour is employed could be expected.

### **Non-ongoing employment**

There has been a general decline in the use of non-ongoing employees over the last ten years, both in actual numbers and as a proportion of total staff, before an increase in 2001–02 (at June 2002, non-ongoing staff represented 9.2% of all staff, up from 8.9% at June 2001, but lower than the 9.4% at June 2000).

Key features of the use of non-ongoing employment as at June 2002 include:

- The proportion of those employed on a non-ongoing basis generally declines with age—from 29% of those aged under 25 to around 6% at the 50–54 age category—but then increases to around 11% for employees aged 55 and over.
- Non-ongoing employment is concentrated in the lower classification levels: making up 57% of all staff at the APS 1 level, 31% of staff at APS 2 level and 12% at APS 3 level but less than 10% for all other classifications. Interestingly, a relatively high proportion of SES Band 3 employees (12%) were non-ongoing in 2002.
- Women have consistently comprised the majority of non-ongoing APS employees and, in June 2002, accounted for almost two-thirds of these employees.
- Fixed-term arrangements are much more common amongst non-ongoing employees than employment for a specified task or on an irregular and intermittent basis.
- There is a wide variation between agencies in the employment of non-ongoing staff, reflecting different functional requirements. For example, at 30 June 2002, the non-ongoing proportion varied from 42% in AIATSIS to 1% in ANAO.

Significant use is also made by many agencies of contract labour and agency hires not engaged under the Public Service Act.

### **Part-time employment**

Part-time work has increased significantly in the APS over the last decade, reflecting the removal of artificial restrictions and preferences amongst agencies and their staff.

At 30 June 2002, 2.8% of men were employed part-time, a marked increase from 0.6% at 30 June 1992. At 30 June 2002, 15.6% of women were employed part-time, compared to 5.8% at 30 June 1992. Use of part-time employment is concentrated in the category of women aged 30–44, with much lower incidence for men and for both men and women aged 45 and over. Part-time work is mostly concentrated at the APS 1–4 level for both men and women.

There is a greater incidence of part-time work among non-ongoing employees (21%—which gives a rate of 11% for total staff).

While part-time work has been growing in the APS, its incidence is well below that for equivalent occupations in the broader public sector (31%) and private sector (33%).<sup>9</sup>

## CAREER PATTERNS

Notions of career and working patterns in the public service have also been undergoing changes.

### Length of service

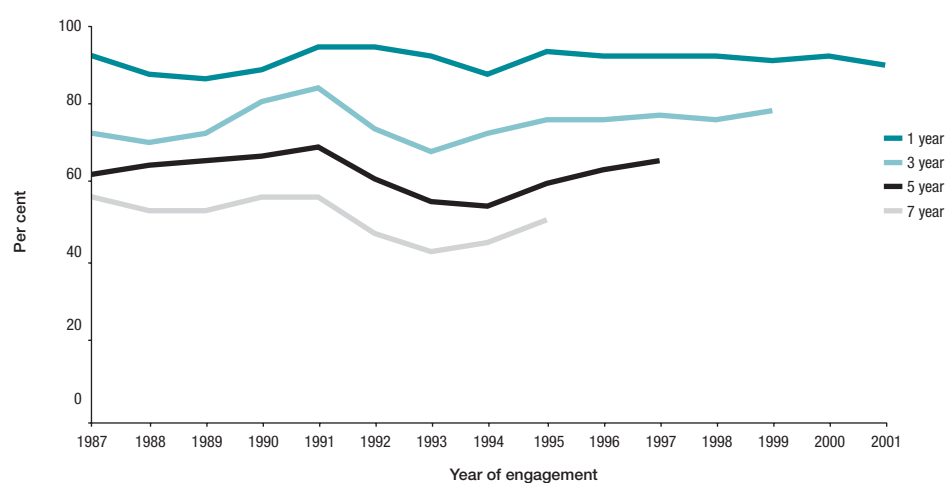
The median length of service of ongoing employees has increased slightly, from seven years in 1992 to nine at June 2002, partly reflecting the gradually increasing proportion of staff aged 55 and over and shorter service amongst younger employees. The median length of service for employees aged 50–54 years has increased over the last 10 years, from 12 years to 15 years. As would be expected, increases in length of service correlate with the increases in age and classification.

Although there has been some variability, men have tended to have a longer median length of service than women over the past decade.

## RETENTION

The median length of service of APS employees before separating has been increasing (to be 11 years for men and six years for women in 2001–02), as reflected in increased retention rates. For example, Figure 17 below shows a trend decline in the proportion of people separating within 5 years of joining the APS (allowing for the cyclical movements during the downsizing that occurred in the mid-1990s).

**Figure 17: Ongoing Staff: Retention by year of engagement 1987 to 2001**



Source: APSED

Retention rates for graduates show somewhat different patterns and are considered later in this section.

<sup>9</sup> The composition of APS equivalent occupations reflects as much as possible the current structure of the APS. It is based on a sub-set of occupations from the ABS's Australian Standard Classification of Occupations that is similar to the type of work done in the APS.

## PROGRESSION

The rate of progression through the classification structure has not changed markedly over the last decade. For example, the median length of service before reaching Executive Level and the SES has remained relatively consistent over the last decade. In 2001–02 the median length of service for employees reaching Executive Level 1 was 6 years while the median length of service for employees reaching SES Band 1 was 14 years.

However, two qualifications to this observation need to be noted:

- Over recent years, employees entering the Service as part of a graduate recruitment program have been advancing more quickly through the classification levels than their counterparts of previous years. As a consequence, the median length of service for graduate employees reaching Executive Levels has decreased.
- Over the past decade, women have had a consistently lower length of service before reaching Executive Level and the SES. In 2001–02 the median length of service for employees reaching SES Band 1 was 13 years for women and 15 years for men.

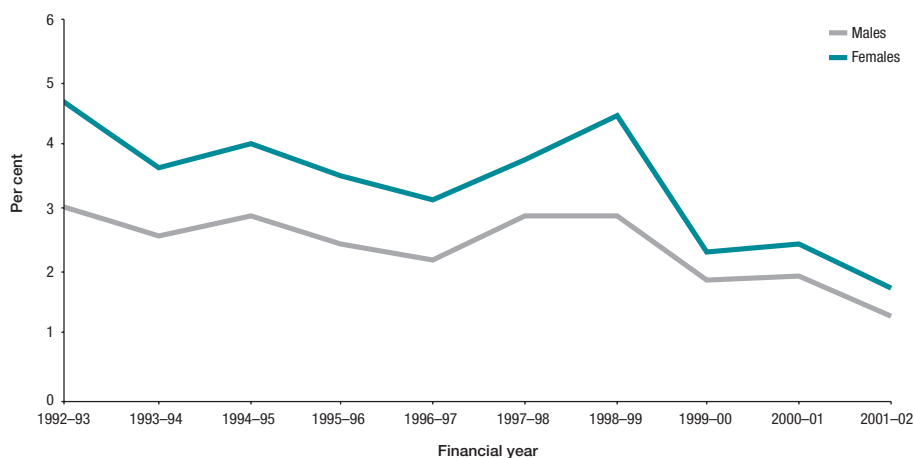
## MOBILITY RATES<sup>10</sup>

As illustrated in Figure 18, overall rates of mobility (including promotions and transfers between agencies) remained fairly constant through the past decade, declining sharply in the late 1990s, recovering slightly and then falling again. Similar trends were evident for both males and females, although women have had a consistently higher mobility rate than men.

The declining mobility reflects in part a greater attention by agencies to internal career and skills development. The increased use of broadbanning could also be a factor.

The mobility rate for all movements between agencies was 1.5% in 2001–02. Rates of mobility were higher for younger employees, with those aged 20–24 years at 1.7%, 25–29 years at 2.5% and 30–34 years at 2.0%. The mobility rate declined for employees aged 35 years and above.

**Figure 18: Mobility rates between agencies, 1992–93 to 2001–02**

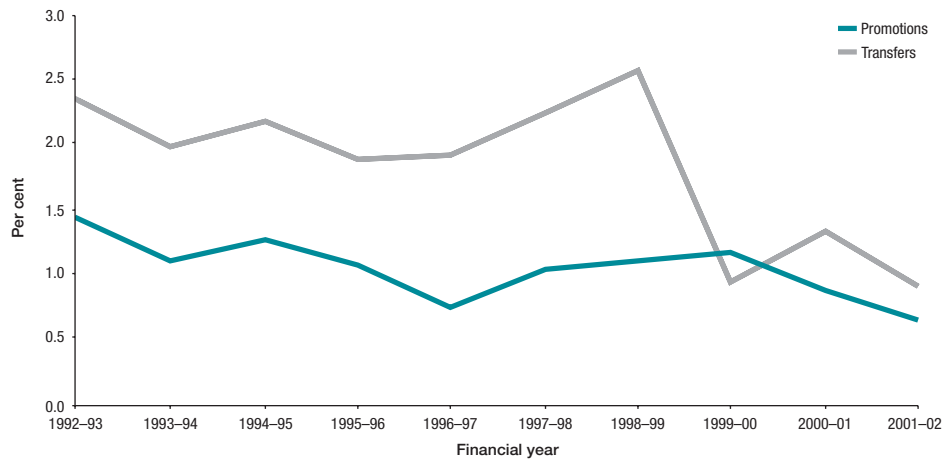


Source: APSED

<sup>10</sup> Mobility rates have been calculated excluding movements from the then Department of Employment, Education, Training and Youth Affairs (DEETYA) to the Department of Social Security (DSS) prior to the establishment of Centrelink. This movement was not an Administrative Arrangement Order (AAO), but the later move from DSS to Centrelink was. Mobility rate is calculated as the number of ongoing promotions and transfers between agencies as a proportion of total ongoing staff. Movements due to AAOs are excluded.

Patterns of mobility show some difference between promotions and transfers, as shown in Figure 19.

**Figure 19: Promotion and transfer rates between agencies, 1992–93 to 2001–02**



Source: APSED

The *promotion rate between agencies* has reduced slightly over the last couple of years.

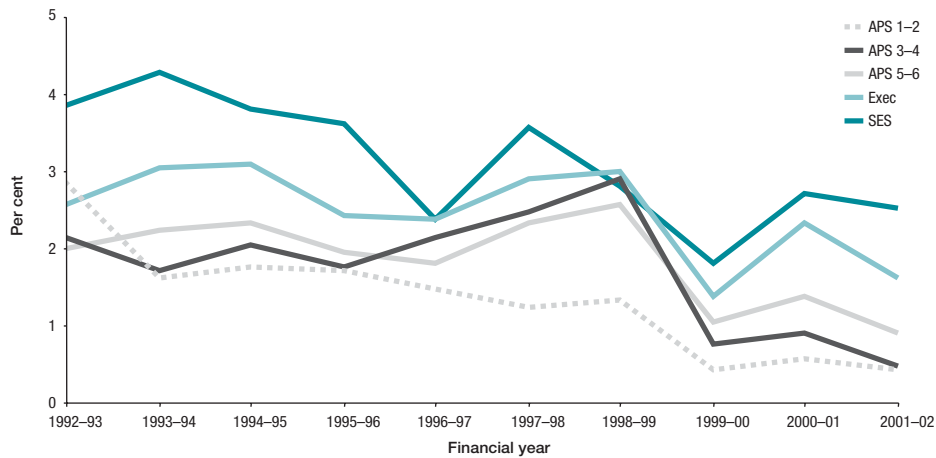
Women have a higher rate of promotion between agencies, although this difference between men and women has declined over the last decade.

In 2001–02, some 92% of all promotions in the APS were *within* agencies, a slight increase compared with recent years. However, the proportion of such internal promotions varies substantially between agencies. Those agencies with high internal promotion rates include the Department of Foreign Affairs and Trade, the Department of Defence and the Australian Bureau of Statistics.

The *transfer rate between agencies* was fairly steady through most of the 1990s. After a sharp decline in the late 1990s, the rate showed a small rise, then returned to its low point in 2001–02.

There are differences in the transfer rate between agencies for employees at different classifications. The transfer rate is low for employees at lower classification levels but increases for employees at higher classification levels. For example, SES has the highest rate of lateral mobility, whereas APS 1–2 have the lowest. Overall, the transfer rates for each classification have declined for the last decade.

**Figure 20: Transfer rates between agencies by classification group, 1992–93 to 2001–02**



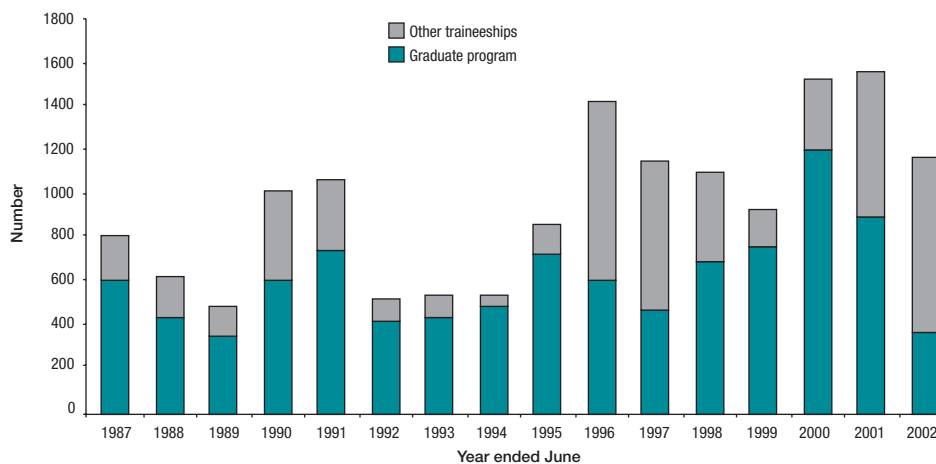
Source: APSED

Women have a consistently higher transfer rate than men although, as with promotions, the difference between males and females has declined over recent years. Women at each classification level have a slightly higher transfer rate than men, except at the SES level where women’s transfer rate is much higher.

**GRADUATE RECRUITMENT AND RETENTION**

Trainee recruitment (which includes graduates and those in traineeships and cadetships) increased significantly over the decade from 539 in 1991–92 to 1573 in 2000–01 and then declined again during 2001–02. As shown in Figure 21, there has been considerable fluctuation in the number of trainees engaged in the APS over the decade.

**Figure 21: Engagements of ongoing trainees, 1986–87 to 2001–02**



Source: APSED

During 2001–02, 372 people were reported by agencies as being engaged as part of graduate programs, representing a marked decline from 936 graduate engagements in 2000–01.<sup>11</sup> The largest recruitment of graduates occurred during 1999 (1,214). This was due mainly to an unusually large intake by the ATO (47% of total graduates for the year). The smallest recruitment of graduates over this period was in 1988–89 (367).

Most agencies displayed variation in the number of graduates recruited each year. Much of the overall variation in graduate numbers is due to the recruitment policies of the Australian Taxation Office (ATO). The ATO recruited 396 graduates in 1985–86 and 578 graduates in 1999–00, but between 1992 and 1994 only recruited 19 graduates. As ATO recruits such a high proportion of graduates overall, any change in its recruitment levels greatly affects the total number of graduates.

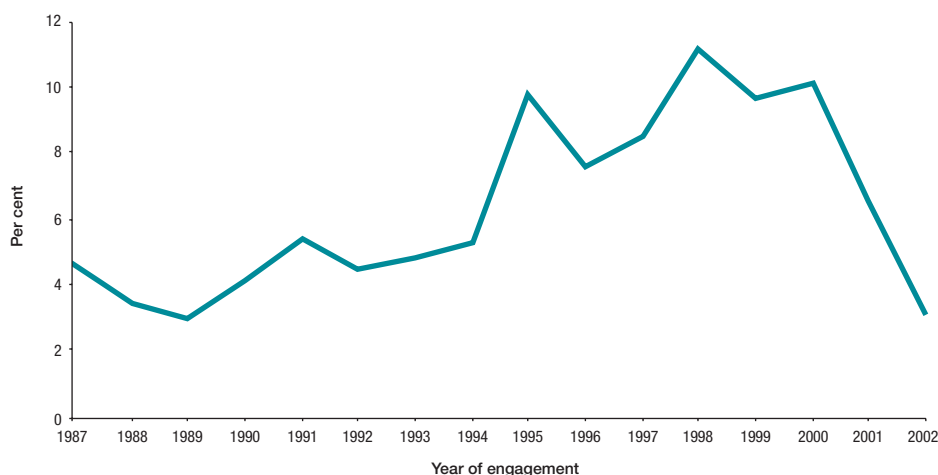
Agencies recruiting a large proportion of the total graduates in 2001–02 include Defence (36%), Australian Bureau of Statistics (19%), Health and Ageing (9%), and Agriculture, Fisheries and Forestry–Australia (9%).

The number of female graduates has increased over time and they have consistently outnumbered males since the early 1990s.

The APS Commission has recently undertaken an analysis of graduate recruitment from 1986 to 2001.<sup>12</sup> The following material is drawn from that analysis.

Between 1986 and 2001, people recruited as part of a graduate program made up 6% of total ongoing engagements. Overall, the proportion of graduate engagements to that of total ongoing engagements increased between 1989 and 1998 (Figure 22). However, in the last few years this proportion has decreased.

**Figure 22: Engagements as part of a graduate program as a proportion of total ongoing engagements**



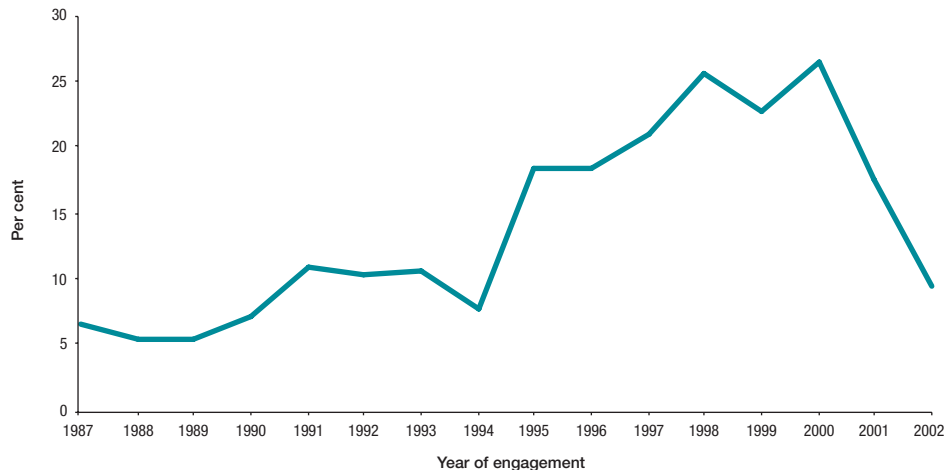
Source: APSED

Since 1994, individuals recruited as part of a graduate program have made up an increasing proportion of total ongoing engagements for employees under the age of 25 (Figure 23), although this has decreased in the last couple of years.

<sup>11</sup> This decline is mainly due to the fact that the ATO did not recruit graduates in 2001–02.

<sup>12</sup> APS Commission, *Graduate Trends* (forthcoming).

**Figure 23: Engagements as a part of a graduate program as a proportion of total ongoing engagements in the APS—for under 25 year olds**



Source: APSED

The median age of these graduates<sup>13</sup> was 23 years for women and 24 for men and has not changed much across the years.

The majority of graduates (88%) had a highest qualification level of a bachelor's degree—with 12% having post-graduate qualifications.

Graduates with qualifications in the business/administration/economic fields have generally been declining since 1986. This is likely to be related to the increasing number of female graduates since this time. Between 1994 and 1999 there was a large increase in graduates from a legal background, however this has tapered off in recent years. Graduates with an arts and humanities background have fluctuated over time. There has been little variation in the proportion of graduates with a science background.

Most graduate recruits (55%) advanced to an APS 4 level at the end of their graduate program year. They were likely to achieve their first promotion faster than ongoing APS employees engaged at the APS 3 or 4 levels. Comparison of the career progression of graduates from the 1986, 1991 and 1996 cohorts shows a much higher progression after five years of the 1996 graduates to Executive Levels than the earlier groups. In addition, after ten years a much higher proportion of graduates from the 1991 cohort had reached an Executive Level than the 1986 cohort.

Most graduate recruits (65%) do not move from their original agency before separating. Of those who did move, 15% did so in their first year, and a further 26% in their second year. In 2001 the median length of service at the original agency before moving to another agency was 2.3 years.

Of those graduate recruits in the cohorts studied who were still in the APS at June 2001, 72% had worked in one agency, 13% had worked in two agencies, 8% had worked in three agencies and 7% had moved across four or more agencies.

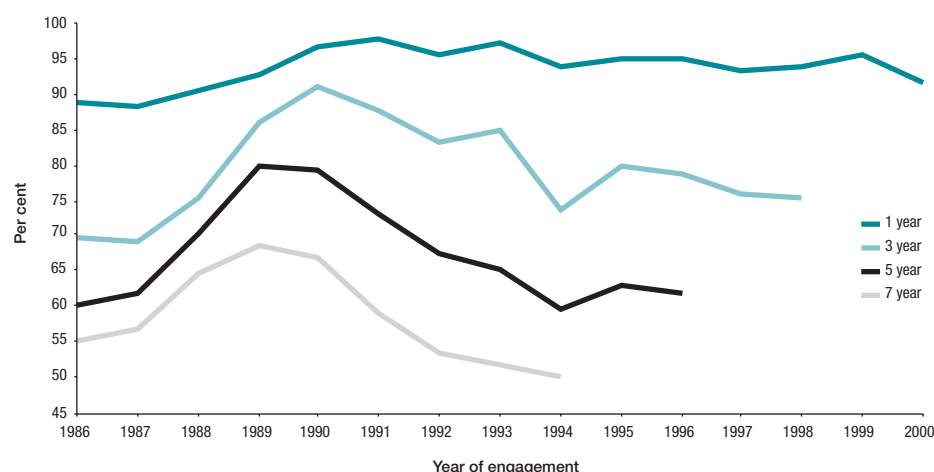
<sup>13</sup> For the purposes of the research paper referred to, a graduate is defined as someone who is engaged at the Graduate APS classification, then advances to APS 3 at the end of their training year (many agencies promote to higher levels immediately after such advancement). The definition excludes a small number of persons engaged following an agency advertisement for graduates but at a classification other than a Graduate APS.

Of graduates recruited since 1986, some 57% had separated by June 2001. For those who had separated, the median length of service was 5.2 years. Almost 10% of graduates separated before they had completed their graduate year.

The highest proportion of graduates (22%) was at an APS 6 level when they separated.

As illustrated in Figure 24, retention rates for the 1986 and 1987 cohorts were relatively low. Retention rates then increased steadily reaching a peak in the 1989 cohort. Since the 1990 cohort, the retention rate of graduates has been declining. For example, 69% of the 1989 cohort was still in the APS seven years later; in contrast, only 50% of the 1994 cohort was still in the APS after seven years. However, this decline is from a cohort with relatively high retention rates, and retention rates for those who have remained for more than five years are similar to those of the mid 1980s.

**Figure 24: Graduates: Retention by year of engagement, 1986 to 2000**



Source: APSED

Graduate recruits in the study remained in their original agency for a median length of four years.

There is considerable variation in retention by agency. In 1996, the eight largest graduate employers in the APS recruited 319 graduates. Of this group, 196 (61%) were still in the APS at June 2001, and a subgroup of 147 (46%) were employed in their original agency. Retention rates varied from almost 100% in the Department of Foreign Affairs and Trade (29 of 30 in the 1996 cohort still employed in 2001) to 25% in the Australian National Audit Office (5 of 20 in the 1996 cohort still employed in 2001). However, in relation to the latter, 55% of the 1996 cohort remained in the APS.

Comparison with anecdotal evidence from the private sector suggests that, in the short term (up to two years), the APS and private sectors have a similar retention rate. However, in the medium to long term it appears that the APS has a higher retention rate overall. This may be a result of APS graduates moving to another agency, while still staying in the APS, while private sector graduates who move do so to a completely different employer.

## **WORKERS' COMPENSATION**

Ageing represents an issue for workplace health and safety and consequently workers' compensation. The issues related to ageing are changes in:

- employment age profile, with an ageing workforce
- claims age profile, as there is a higher risk of injury and illness associated with age
- claims cost, as there are higher annual claims costs associated with claims for mature-aged employees.

Comcare claims data suggests that for the Commonwealth jurisdiction there is an increased rate of injury after age 49. Injury profiles also change: the incidence of claims for 'other diseases' such as hearing loss, heart attack and respiratory diseases for workers 50 years or older is more than twice the rate of younger workers. There is also an increase in average *total* claim cost until the age of 50, (and a decrease thereafter, probably as a result of age 65 incapacity cessation provisions).

On the positive side, in recent times absolute numbers of claims have fallen for all age groups, but especially for older workers, suggesting that there is scope for further improvement. Comcare is preparing a campaign on injury prevention and management for older workers as part of its broader Leadership and Accountability Strategy for the APS.

## **IMPLICATIONS FOR AGENCIES**

Building ongoing capability needs to take account of these changing workforce dynamics.

These trends present a Service-wide picture. There are significant variations between agencies, particularly in relation to age profile. Agencies also vary in the capabilities required, and the degree to which these need to be developed in-house or can be bought in. Agencies need to understand their own demographics, business requirements and skill needs and to structure their workforce planning strategies accordingly.

## **WIDER DEMOGRAPHIC TRENDS**

Wider demographic trends will also have significant implications for the APS as an employer.

As outlined in the *Intergenerational Report 2002-03*, Australia, like other OECD countries, is experiencing an ageing of its population and labour force, driven by declining fertility and mortality rates.<sup>14</sup> Looking ahead, employment growth is expected to slow, reflecting lower labour force growth from lower population growth and declines in overall labour force participation.

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<sup>14</sup> *Intergenerational Report 2002-03*. Budget Paper No. 5 May 2002.

While the population of those of labour force age is projected to increase by just 14%, the number of people aged 55 to 64 is projected to increase by more than 50% over the next two decades. This is expected to be the fastest growing group of labour force age.

In addition, there will be a significant reduction in the number of new entrants coming into the labour market. Access Economics has estimated, for example, that whereas the working age population has recently been growing annually by 170,000, for the entire decade of 2020s it will grow by just 125,000.<sup>15</sup>

Agencies will face increased competition for new entrants to the labour market from the private sector and internationally, an increasing challenge to retain skilled people in a tightening labour market and the need for further expansion in lateral recruitment. The participation of mature-aged workers will need to be maximised, by encouraging older workers to remain in the workforce longer, even if on a part-time or part-year basis, including scope for more phased retirement.

Agencies providing services to the public will also have a clientele with an increasingly ageing profile. This will have implications for the services provided, as well as how they are best delivered. Agencies will need to ensure that their staff training, service standards and systems are attuned to their changing client base. Attention to the style of servicing desired by clients (e.g. preferences for dealing with staff from similar age groups) will need to be considered as part of wider improvements in client service strategies.

As well as needing to respond to these challenges as an employer and service provider, the APS also has a key ongoing responsibility to contribute to the broader economic and social policy objectives of the government of the day in response to the ageing of the population. Optimising the participation of mature-aged workers will be crucial in this regard.

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<sup>15</sup> Access Economics, *Population Ageing and the Economy*, Commonwealth Department of Health and Aged Care, January 2001, page 3.

### **3. MATURE-AGED EMPLOYMENT IN THE APS**

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#### **INTRODUCTION**

Consistent with its ageing profile, the APS is increasingly reliant on mature-aged workers (45 and over).

They now represent 37% of its workforce (up from 25% in 1992). However, this varies significantly between agencies (from 26% in Treasury to 53% in the Department of Veterans' Affairs).

Mature-aged workers in the APS have extensive experience, with a median length of service of 14 years. They are also likely to be well represented in senior positions (69% of SES and 46% of Executive level employees were aged 45 years or over at June 2002).

Engagements of mature-aged workers have increased significantly over the last decade (from 11% to 16% of all engagements).

After declining since the 1990s, separation rates for mature-aged workers have increased slightly in 2001-2002 and now stand at 7% for workers aged 45-54 and 16% for those 55 and over. The main ways they separate are by retrenchment (35%), resignation (34%) and aged retirement (21%). The median age for each is 54, 52 and 59 years respectively.

Research into mature-aged employment was conducted in the context of the following issues:

- The ageing of the APS and the wider Australian workforce and the implications for the APS in terms of this increasing reliance on mature-aged employment, and the need to focus on strategies to maximise the participation of older employees.
- The impact of current superannuation arrangements, in particular the financial incentives for some members of the Commonwealth Superannuation Scheme (CSS) to resign from APS employment at 54 years and 11 months (the 54/11 issue). 54/11 has been examined in the context of the potential loss of skilled and experienced employees in an environment where the APS is looking to facilitate the extended participation of older employees, and from the perspective of the challenges it may pose for the effective management of knowledge.

The research into mature-aged employment explored career and retirement intentions, attitudes to work, and whether changes to employment arrangements would encourage older workers to be retained or re-employed by the APS. Changes explored in the research included alterations to superannuation arrangements and more flexible working conditions to suit the needs of older workers.

#### **METHODOLOGY**

In exploring these issues, current and former employees aged 50 and above were surveyed. Current employees were from all classifications, whilst former employees were either at Executive or SES Level at the time they separated from the APS.

Agencies were surveyed about general strategies used to attract, retain and develop staff, as well as knowledge and succession management. Agency heads were also interviewed to provide an overall perspective on existing workforce planning strategies, and to provide their views on how the 54/11 issue will affect the capability of their agencies, and approaches to managing the issue.

More detailed information about the survey methodology and response rates is at Appendix B.

### KEY CHARACTERISTICS

As shown in Table 1, the key characteristics of the current and former employees surveyed are quite different in some respects, in particular, superannuation membership and classification. These differences are reflected in the varied responses between the two groups on some issues.

**Table 1: Key characteristics of current and former employees**

Key Characteristics	Current employees %	Former employees %
<b>Median Age</b>	53 years	56 years
<b>Gender</b>		
- Male	64	82
- Female	34	17
<b>Median Length of Service</b>	18 years	32 years
<b>Superannuation scheme membership</b>		
- CSS	44	83
- PSS	54	17
<b>Classification</b>		
- APS	71	
- Executive	26	87
- SES	2	13
<b>Employment Status</b>		
- Full-time	97	97*
- Part-time	3	3*

\* Employment status prior to leaving the APS  
 Note: Values may not add to 100% because of 'Unknown' values.  
 Source: MAC Surveys of current and former employees (50+)

**Table 2: Outline of the top 3 qualifications nominated by the two groups**

	<b>Current employees</b>	<b>Former employees</b>
<b>Most common</b>	Associate Diploma/Certificate of Technology (21%) Undergraduate degree or honours (16%)	Undergraduate degree or Honours (32%) Post graduate diploma/ Graduate Certificate (20%)
<b>Third most common</b>	Post graduate diploma/ Graduate certificate (13%)	Associate diploma/ Certificate of Technology (17%)

Source: MAC Surveys of current and former employees (50+)

Fourteen per cent of former employees and 30% of current employees reported that their highest qualification was a Year 12 Certificate and below. Of those current employees with post school qualifications the most common fields of study were engineering, accountancy, administration and science. For former employees with post school qualifications, administration, science, economics and arts were identified as the top four fields of study.

## **SURVEY DATA ANALYSIS**

### **Recruitment issues**

Given that some respondents may have joined the APS or their current or last agency up to 30 years ago, there may be some limitations in analysing the reasons why they joined.

Job security and interesting work were the reasons rated most important by current and former employees for joining the APS or their current or last agency. Location of the job was also an important factor influencing current employees to join, and work related to degree or experience was also an important reason for joining for former employees.

General recruitment strategies used by agencies include employer branding, and marketing workplace factors such as attractive pay and conditions (including flexibility), the opportunity to make a difference, interesting work and training. Agencies reported that recruitment strategies are generally effective in terms of attracting quality applicants.

Interesting work was an important reason for joining the APS for current and former employees, which agencies also identified as an effective recruitment strategy. Agencies did not identify job security as one of the most effective recruitment strategies although employees rated it as an important reason for joining. This may have future implications for attraction strategies aimed at older workers.

Agency heads reported positively on the quality and performance of the employees being recruited, but experience some difficulties resulting from disparities between private and public sector remuneration and in recruiting from specialist fields such as economists and business analysts.

### **Retention**

The median intended retirement age of current employees is 60 years for employees aged 50–54, and 63 years for employees aged 55 and above. This would indicate that a high proportion of current employees intend to work beyond 55.

A number of factors influence employees' resignation and retirement patterns. Current employees stated that retirement (47%), financial security (21%) or superannuation (15%) were the main drivers influencing their decision to leave the APS at their intended retirement age. This does not necessarily mean they intend withdrawing from the workforce as a whole, but may be a life stage change frequently involving re-engagement under different arrangements, which is reflected in a strong preference expressed for greater flexibility.

### **Superannuation**

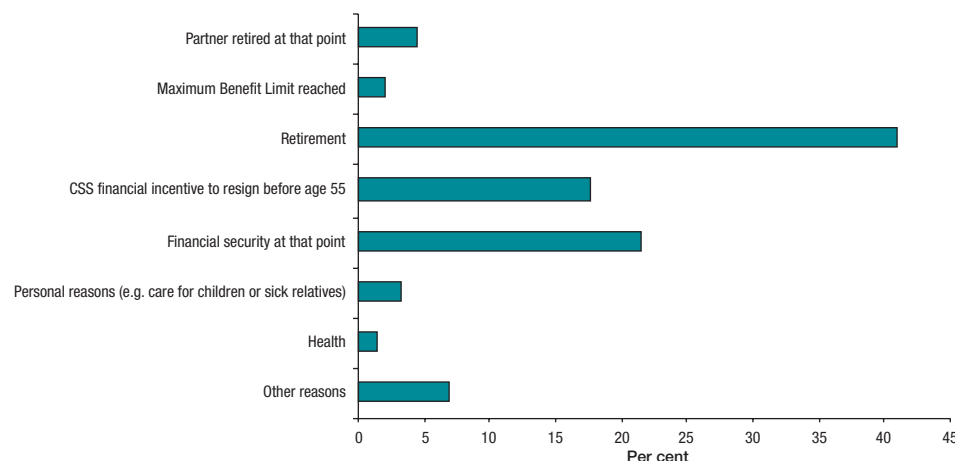
Respondents were asked specific questions about superannuation and intended retirement arrangements, to provide an indication as to the extent to which the 54/11 issue influences retirement decisions and whether changes to employment arrangements would influence retention.

The median intended retirement age for CSS members aged 50–54 is 55 years. This compares with PSS members of the same age for whom the median intended retirement age is 60 years.

Thirty-nine per cent of current employees surveyed aged 50–54 who are CSS members stated their main reason for leaving will be the 54/11 benefit. This should be considered in the context that, of the total population of 50–54 year-olds, only 18% nominated 54/11 as their main reason for leaving. This seems, however, to be concentrated at the senior levels with 39% of SES employees and 31% of Executive Level indicating they intend to leave because of 54/11.

In comparison, 41% of all current employees aged 50–54 years indicated retirement as the main reason for their intentions to leave the APS. This group has generally reported long periods of service and some have indicated 'change fatigue' and 'burnout' as reasons for retiring.

**Figure 25: Main reasons for leaving the APS for current employees aged 50–54 years**



Source: MAC surveys of current and former employees (50+)

Forty-four per cent of former employees aged 50–54 left the APS citing 54/11 as the main reason. This compares with 29% who said that voluntary redundancy was the main reason for leaving the APS, and 1% who retired.

Twenty-two per cent of current employees aged 50–54 and 14% of current employees aged 55 and above said that no loss to superannuation benefits would be the most important reason that would keep them beyond their current intended leaving date. Twenty per cent of current employees aged 50–54 (16% of men and 27% of women) said that more flexible working conditions would be the most important reason keeping them beyond their current leaving date. Seventeen per cent of current employees aged 50–54 and 16% of current employees aged 55 and above said that no financial disadvantage would be the most important reason keeping them beyond their current leaving date.

Agency heads reported that, overall and while acknowledging some risks in terms of loss of expertise and corporate knowledge, the current CSS arrangements do not pose a major problem. Where 54/11 applies, agencies are able to use the present arrangements to retain or re-engage the employees they need, while others have an incentive to leave, providing an opportunity for organisational regeneration.

In addition to 54/11, questions were also asked to gauge how many PSS members would or have reached their Maximum Benefit Limit (MBL). Only 3% of current employees indicated that reaching their MBL would be the main reason to leave, while only 1% of former employees stated they left because they had reached their MBL.

### Preferred working arrangements

Questions were asked about preferred working patterns to provide an indication as to whether more flexible working arrangements targeted at older workers could assist in maximising their workforce participation.<sup>16</sup>

<sup>16</sup> For the purpose of the research, the definition of full-time employment is 5 days a week, 12 months per year. Employees who nominated a preference to work less than full-time hours have been considered to prefer more flexible employment.

Both former and current employees display a preference for more flexible working arrangements, which indicates this could be an important future attraction and retention issue for the APS. For example, of those Executive Level and SES employees that have rejoined the APS, or would consider rejoining, 90% of current employees and 82% of former employees would prefer to work more flexible hours.

Of the former employees surveyed, 30% had worked in the APS at some time since the survey. Eighteen per cent were working with an APS agency at the time of the survey, the majority of whom (78%) were working on a part-time or more flexible basis.

Although only small proportions of current and former employees nominated health and caring for sick relatives as main factors for leaving the APS, ageing issues may mean that more employees will need access to more flexible arrangements if they are to remain in employment.

All agencies surveyed used flexible conditions to retain employees and considered them to be an effective component of overall retention strategies.

As 97% of current and former employees are, or were, working full-time, agencies may need to look at increasing the availability of flexible conditions for older employees.

Some catering for this preference is being made on re-engagement. However, little provision is being made for part-time work as part of ongoing employment and phased retirement approaches for mature-aged workers in the APS.

A number of agency heads reported a preference from some of their senior mature-aged workers for divesting themselves of their managerial responsibilities and being used in specific expert, project and/or mentoring roles. Again a changed role appears to be catered for on re-engagement rather than pre-departure.

There is also an apparent misconception that having a staged retirement by 'going part-time' or moving to a lower level of work (or both) in the years leading up to retirement from the APS has a detrimental effect on the PSS or CSS benefit paid in retirement. This is not the case and equitable arrangements apply to the calculation of PSS and CSS benefits where this occurs. Appendix C provides information and examples about the effect on PSS and CSS benefits of working part-time and of working at a reduced work level. An agency that seeks to offer such flexible working arrangements needs to be familiar with these provisions.

### **Changes to employment arrangements**

Only 28% of current Executive Level and SES employees and 25% of former Executive Level and SES employees said they would not consider working for the APS again. Fifty-three per cent of current APS level employees said they would not consider working for the APS again.

Sixty-five per cent of all current employees, however, indicated that changes to their superannuation and/or employment arrangements (such as no loss to superannuation benefits, no financial disadvantage, more flexible conditions and changing the type of work done) would keep them in the APS for longer than they currently intend.

- 19% of current employees said that no loss to superannuation arrangements would be the most important reason that would keep them beyond their current intended leaving date.

- 19% of current employees said more flexible working arrangements would influence their decision to leave.
- 17% of current employees nominated that they would consider working for the APS past their intended leaving age if there were no financial disadvantage.
- 8% of current employees would reconsider their decision to leave if there were a change in work.

Given the right working conditions, the median period of time that current employees would stay beyond their intended leaving age is 5 years. Given the desire to work more flexibly, it is unlikely that most employees would consider working this additional 5 years on a full-time basis.

### **Attitudes to the workplace**

Information was gathered about the factors encouraging and discouraging current and former employees from seeking to be retained or re-employed by the APS. They were also asked about the importance they place on a range of workplace factors, and their overall satisfaction with these factors.

Overall, current and former employees indicated positive views about the APS, with both current and former employees reporting themselves to be generally satisfied with most workplace factors.

Workplace factors most commonly rated by current employees as the most encouraging to remain in the APS include job security, superannuation and interesting work. Former employees also stated that the factors they liked most about working in the APS were interesting work, job security and commitment to agency goals.

Although both current and former employees generally consider all workplace factors to be of some degree of importance, the three workplace factors that were rated as most important for both groups were the opportunity to utilise skills, good working relationships and interesting work.

As shown in Tables 3 and 4, the importance placed on workplace factors was, for all the surveyed factors, higher than levels of satisfaction.<sup>17</sup> This suggests that employees perceive that there is scope to increase their satisfaction in the workplace. Responses suggest that both current and former employees perceive there is most scope for improvement (that is, the biggest gaps between importance and satisfaction) with recognition for effort. 'Opportunities to utilise skills' was rated by both former and current employees within the top three workplace factors where they view scope for most improvement.

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<sup>17</sup> More than 3 indicates average satisfaction or importance, less than 3 indicates average dissatisfaction or unimportance. Further information about satisfaction and importance scores is at Appendix B

**Table 3: Satisfaction and importance scores with workplace factors for current employees**

Workplace factor	Satisfaction score	Importance score	Net difference*
Recognition for effort	3.05	4.14	-1.09
Opportunities to utilise skills	3.44	4.37	-0.93
Career development	2.87	3.74	-0.87
Regular feedback provided	3.22	4.06	-0.84
Duties/expectations made clear	3.43	4.24	-0.81
Appropriate workload size	3.31	4.09	-0.78
Chance to be creative/innovative	3.28	4.04	-0.77
Training provided	3.29	4.00	-0.71
Interesting work provided	3.65	4.35	-0.70
Chance to contribute to corporate issues	3.15	3.79	-0.63
Good working relationships	3.87	4.45	-0.58
Doing type of work expected to do	3.56	4.03	-0.48

\* Due to rounding the net difference may not exactly add to the difference between the two scores.  
Source: MAC survey of current employees (50+)

**Table 4: Satisfaction and importance scores with workplace factors for former employees**

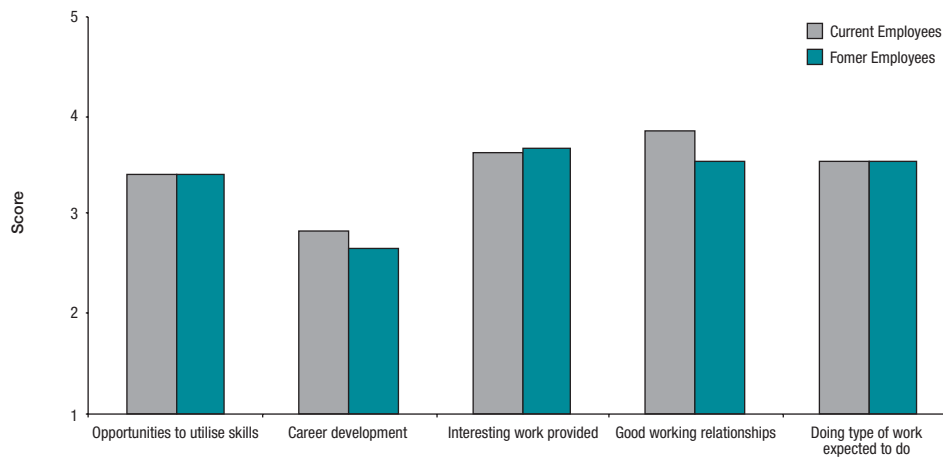
Workplace factor	Satisfaction score	Importance score	Net difference*
Recognition for effort	2.85	4.25	-1.40
Regular feedback provided	2.83	3.98	-1.15
Opportunities to utilise skills	3.44	4.53	-1.09
Chance to be creative/innovative	3.32	4.33	-1.01
Duties/expectations made clear	3.19	4.13	-0.94
Chance to contribute to corporate issues	3.28	4.18	-0.91
Appropriate workload size	3.02	3.90	-0.88
Career development	2.69	3.50	-0.81
Interesting work provided	3.73	4.47	-0.73
Training provided	3.09	3.50	-0.41
Good working relationships	3.59	4.40	-0.81
Doing type of work expected to do	3.59	4.07	-0.48

\* Due to rounding the net difference may not exactly add to the difference between the two scores.  
Source: MAC survey of former employees (50+)

Both groups reported good working relationships, interesting work and doing the type of work they expected to do as the three factors with which they are most satisfied.

Both groups reported being dissatisfied with opportunities for career development.

**Figure 26: Satisfaction scores with selected workplace factors**



Source: APSED

Agencies reported on a number of effective general retention strategies including initiatives through AWAs, job rotation, training and career opportunities, recognition for effort, career progression and attractive pay and conditions. As older employees were reporting dissatisfaction with career opportunities and recognition for effort, agencies may need to revise the targeting of these strategies to better include older workers.

Sixty-five per cent of former employees and 41% of current employees reported that work related factors contributed to their desire to leave the APS: most commonly, poor management and supervision and being overworked or undervalued.

### Re-employment

Current and former employees were asked about career intentions and whether they would consider returning to the APS.

Responses to questions on re-employment suggest that a high proportion of current and former employees would consider working for the APS again, that a considerable number of former employees have returned to APS employment and that most would prefer to return under more flexible arrangements.

Of Executive and SES Level employees, 71% of current employees and 75% of former employees would consider working for the APS again, or have rejoined.

Forty-nine per cent of former employees aged 50–54 and 31% of former employees

aged 55 and above were employed either in the APS or the wider workforce at the time of the survey.

Of those former employees who said their main reason for leaving was 54/11, 34% have worked in the APS again since leaving, and 22% are currently working in the APS. In comparison:

- 26% of employees who were retrenched have worked in the APS since leaving and 15% are currently employed in the APS.
- 34% of employees who said their main reason was retirement have worked in the APS since leaving and 19% are currently employed in the APS.

Flexibility is a critical factor in the decisions of older workers to return to the APS—as discussed previously in the section on preferred working arrangements, of those Executive Level and SES employees that have rejoined the APS, or would consider rejoining, 90% of current employees and 82% of former employees would prefer to work more flexible hours.

Agencies reported having effective strategies in place to re-employ those with valuable knowledge and expertise, including re-employment on contract or consultancy basis and flexible remuneration and conditions.

### **Retrenchment**

There appears to be a relatively high incidence of retrenchment for mature-aged workers.

For the last five years, APSED data show that retrenchments have made up the largest proportion of separations of employees over the age of 50 years, and in 2001–02 accounted for 36% of separations for this group. As a comparison, total retrenchments accounted for just 25% of separations.

Of former employees surveyed, 37% said that voluntary redundancy (VR) was the main reason for leaving the APS, compared with 31% who retired. Of those former employees who were retrenched, 38% have been re-employed by the APS or in the wider workforce. Some 79% of retrenched former employees were employed in the APS at the same time of the survey, or were willing to rejoin it.

An analysis of CSS exits for 2000-01 shows that:

- There were more retrenchments than resignations/deferrals for members aged 47 to 53 at last birthday.
- There were more retrenchment exits than standard pension exits for ages 55, 56 and 57.
- A significant proportion of retrenchment exits continue for members well into their 60s.

The use of VR is now particularly apparent for the SES with around 30% of all departures in this group being effected through the use of a separation payment in 2001–02.

Some higher incidence of retrenchments for mature-aged workers could be expected given that, with their longer length of service, offers of redundancy packages are more likely to be a viable financial option for this group. In addition, with the major structural and functional changes across the Service, there may be skill/requirement mismatches that need to be addressed.

However, there does appear to be a need for agencies to consider the appropriateness and nature of the redundancy packages for people approaching retirement and how to apply performance management systems more rigorously. This is regarded as an issue meriting further examination.

### **Knowledge management**

Both current and former employees were uncertain that their corporate knowledge is, or was, being effectively transferred. This is a concern, given that this view is shared by executive and SES level employees and that many employees have worked in the APS for relatively long periods of time.

Agencies reported use of a number of knowledge management strategies including mentoring and coaching, job sharing, handovers, partnership approaches with consultants, team based approaches, rotations and exposure to a range of work and records management. Agencies rated these strategies as being effective in assisting knowledge transfer.

Although most agencies identified no current problems in terms of loss of upper and middle management skills and knowledge (through general turnover and 54/11) some agencies identified it as a future issue. Half or more of agencies identified program and contract management evaluation as being specific skills and knowledge areas necessary for future capability.

Although some agency heads expressed some loss of corporate knowledge as a result of employee turnover, they were, overall, satisfied with existing knowledge management strategies. Indeed, some agency heads consider manageable levels of general turnover as healthy as it provides opportunities for organisational regeneration.

### **Succession planning**

Agencies were asked to report on existing succession planning arrangements, to identify whether agencies are attempting to minimise the risk of knowledge loss and developing the generation of employees behind the 'baby boomers' to ensure the APS has leadership capability into the future.

Agencies reported using a range of succession planning strategies, including:

- mentoring programs
- identifying those with potential through performance management frameworks
- encouraging employees who show potential through accelerated advancement and higher duties
- project work
- offering broad development opportunities to ensure capability across the organisation

- leadership development programs
- workplace exchange with other agencies or overseas.

Although agencies reported strategies to generally be effective, some agencies identified challenges to succession planning that still need to be overcome, such as lack of coordination, cost, reluctance of managers to release high performers for long-term development and perceptions of inequity in how people are identified as showing potential.

## **CONCLUSIONS**

Responses to the survey suggest:

- A high proportion of Executive and SES Level current and former employees would consider rejoining the APS, and a number of former employees have already done so. Most would prefer to come back on a more flexible basis.
- A high proportion of current employees intend to simply retire, with anecdotal evidence suggesting that some are suffering from change fatigue and burnout.
- Only some CSS members approaching 55 are considering leaving, or have left the APS, because of the 54/11 issue and these employees represent a relatively small proportion of the total population of APS employees.
- Changes to superannuation arrangements could influence some current employees to reconsider their leaving age.
- Changes to employment arrangements, such as flexible arrangements or work, could also influence some current employees to reconsider their leaving age.
- Current and former employees have a strong preference for more flexible working arrangements.
- Although agencies have knowledge management strategies in place, both current and former employees are uncertain as to whether their knowledge has been or is currently being effectively transferred.
- Older employees are generally satisfied with most workplace factors (with the exception of career development), although they perceive scope for improvement.
- There is some misalignment between the perceptions of employees and agency recruitment and retention strategies.
- There appears to be a relatively high incidence of redundancies for mature-aged workers and agencies need to ensure packages are properly targeted.

## 4. GRADUATE EMPLOYMENT IN THE APS

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### INTRODUCTION

The research into graduate employment was conducted in the context of the following issues:

- a perception of declining retention rates among graduates in the APS, and whether this is associated with different expectations of the workplace from those of older employees
- demographic changes which mean that the APS will face increased competition for new entrants into the labour force.

### METHODOLOGY

The research into graduate employment explored recruitment and workplace experiences and career expectations of graduates recently recruited to the APS, together with their views on agency management strategies, in order to determine the reasons why graduates are attracted to APS employment.

In exploring these issues, surveys were conducted of ongoing employees in the agencies covered by this study who were engaged in a graduate program in 2000 or 2001. Their views are supplemented by interviews with agency heads from participating agencies and the findings of agency questionnaires into human resource and workforce planning approaches to graduate employment.

The survey was conducted during the latter half of 2002 and therefore responses exclude those 2000–01 graduates who had separated during their first 18 to 30 months in the APS (approximately 300 graduates).

More detailed information about the survey methodology and response rates is at Appendix B.

The 2000–01 graduate intake to the APS was significantly shaped by the recruitment activity of the Australian Taxation Office (ATO). Of all graduates in the survey population, 63% were from the ATO. Where it is likely that survey outcomes will be so skewed by the ATO effect as to lose their usefulness to other agencies, ATO data has been separately identified. Where this occurs it is made clear in the text.

## KEY CHARACTERISTICS

Table 5 shows the key characteristics of the graduate population surveyed.

**Table 5: Key characteristics of the graduate population**

<b>Key Characteristics</b>	
<b>Median Age</b>	26 years
<b>Gender</b>	
- Male	42%
- Female	58%
<b>Median Length of Service</b>	2 years
<b>Classification</b>	
- Graduate employee	6%
- APS 1/2	1%
- APS 3	38%
- APS 4	23%
- APS 5	19%
- APS 6	12%
- Executive Level 1 or above	less than 1%
<b>Employment Status</b>	
- Full-time	97%
- Part-time	2%

Source: MAC Graduate survey

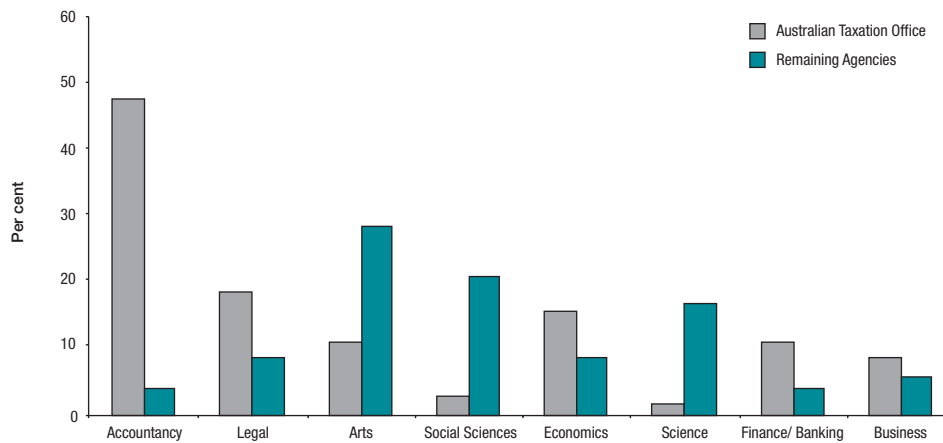
## QUALIFICATIONS

The majority of graduate employees nominated undergraduate degrees or honours (72%) as their highest qualification, with 15% nominating a postgraduate diploma or graduate certificate. The remaining graduates nominated masters, cadetships (still currently studying) doctorates and associated diplomas/certificates of technology as their highest qualification.

## MAIN FIELDS OF STUDY

Figure 27 below shows the six main fields of study for the graduate population (respondents were asked to nominate up to two). ATO data has been separated from the rest of the population because of the differences in the fields of study recruited to the ATO.

**Figure 27: Educational qualifications of ATO graduates vs other**



Source: MAC Graduate Survey

## RECRUITMENT ISSUES

Graduate employees rated, in order, job security, interesting work and training provided as being the most important reasons for joining the APS (although the order of the last two was inverted for the ATO). Although graduates rated remuneration as an important reason for joining the APS, they did not identify it as one of the top five most important factors attracting them to APS employment.

Agencies reported good development programs, type and diversity of work, flexibility in conditions and career opportunities as the main factors attracting graduates to APS employment. Agency responses generally align with the reasons graduates nominated for joining, identifying issues related to interesting work and training and development.

Agencies should, however, also recognise that the perceived security of APS employment is a major factor attracting graduate employees to the APS.

Although agencies nominated the internet as the most effective medium for advertising graduate programs, the graduates surveyed nominated the newspaper (63%) as the most common source from which they learned of APS graduate employment opportunities, compared with 28% who found out via the internet.

Although agencies reported that they are satisfied that existing recruitment strategies enable them to recruit graduate employees of a high quality, they also identified barriers to effective graduate recruitment, including their ability to convey opportunities available, lack of profile, low remuneration and a shortage of applicants in some fields (especially economics and accounting).

Overall, although agency heads reported some difficulties in recruiting from some fields, they were not eager to revert to centralisation of graduate recruitment. They

believed that the recruitment processes used allow them to find high quality graduates and appreciated their flexibility to target and attract graduates with particular skills and backgrounds.

## **RETENTION ISSUES**

Graduates were asked questions about their intentions to leave or stay in the APS, and their intentions to work in other APS agencies.

Only 24% of graduate employees said that they intend to resign from the APS within the next 10 years. Thirty-one percent intend to stay for the next 10 years, and 45% are uncertain.

Interestingly, those who intend to stay in the APS for the next 10 years reported wanting to work in the APS as an important reason for joining, whereas those who intend to leave were more likely to rate this reason as unimportant.

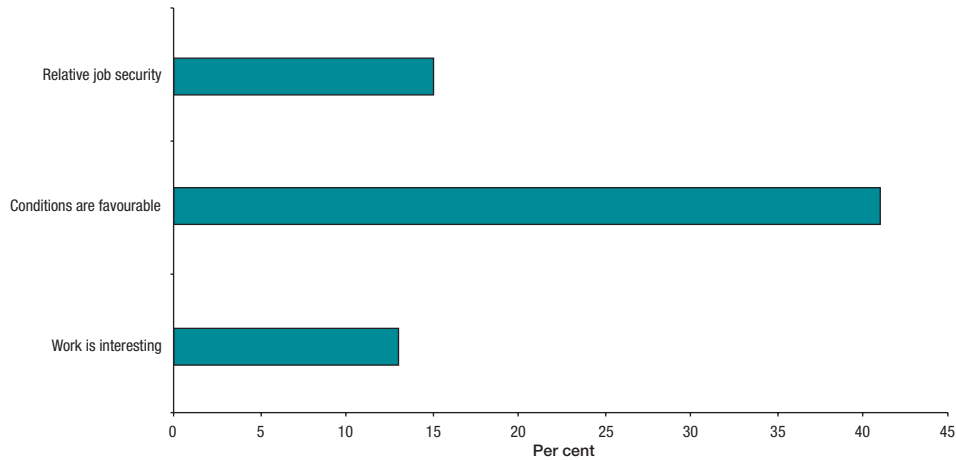
The older the graduate, the more likely the respondent was to report an intention to remain in the APS, peaking at 72% for those aged between 45 and 49. The younger the graduate, the less likely the respondent was to know whether or not they would resign.

Responses suggest a high level of intended movement within the Service, with 59% of non-ATO graduates indicating a desire to work in another APS agency at some stage in their career. This compares with 35% of ATO graduates who intend to work in another agency. The proportion of graduates with intentions to move within the APS varies markedly between agencies.

Nearly all graduates said there were factors encouraging them to stay in the APS, even if they said they intend to resign at some point in the next 10 years. By far the most important factor encouraging all graduates to remain in the APS (whether they intend to stay or leave) is the range of favourable employment conditions available (such as study leave and flexible arrangements). Other important factors encouraging graduates to stay in the APS are the relative job security and interesting work.

Interestingly, female graduates were more likely to regard favourable employment conditions as the main factor encouraging them to remain in the APS, while male graduates were more likely than female graduates to consider job security as the main factor encouraging them to stay.

**Figure 28: Main encouraging reason for staying in APS of all agencies surveyed**



Source: MAC Graduate Survey

Nearly all graduates said there were factors that were discouraging them from staying in the APS, including those employees intending to stay. While 21% of graduates outside the ATO identified interesting work as their main reason for remaining in the APS, 18% of the same group said that their main reason for leaving would be to seek more stimulating work elsewhere. The other main reasons discouraging graduates outside the ATO from staying are better pay elsewhere and poor management or supervision (although these were all less of an issue for ATO graduates than the rate of promotion).

Agencies were aware of the need to provide graduates with interesting work and related development opportunities. While poor management was not identified by them as an issue, quality supervision and in particular mentoring programs were rated as effective retention strategies.

### PROMOTION

Graduates were asked about their experiences, expectations and satisfaction with promotion to provide indications as to the significance of promotion as a retention issue.

Sixty per cent of ATO graduates and 37% of graduates from other agencies were dissatisfied with the rate of promotion.

Forty-eight per cent of ATO graduates had not yet received a promotion, compared with only 12% of non-ATO graduates. Accordingly, there is a disparity between the proportion of ATO and non-ATO graduates at different classifications. For example, 55% of ATO graduates were at the APS 3 level at the time of the survey, compared to 11% of non-ATO graduates. twenty-four percent of non-ATO graduates were at the APS 6 level, compared to only 5% of ATO graduates. This reflects the impact of recent downsizing in the ATO.

Of those ATO graduates who had not yet been promoted, 55% indicated an intention to leave the APS in the next 10 years. Dissatisfaction with the rate of promotion is also the most common main reason discouraging ATO graduates from remaining in the APS. This is not the case for non-ATO graduates.

Fifty per cent of non-ATO graduates reported that they had been promoted at about the time they expected, compared with 28% of ATO graduates. Twenty-four percent of non-ATO graduates and 15% of ATO graduates were promoted sooner than they expected.

Agencies recognised the importance of promotion in retaining graduates. They noted reduced opportunities for advancement beyond APS 6–EL1 as a longer-term constraint on retaining graduates, but cited automatic advancement as a highly effective retention strategy in the short term.

### ATTITUDES TO THE WORKPLACE

Graduates were asked about the importance they place on a range of workplace factors, and their overall satisfaction with these factors.

Graduates rated all workplace factors as being important, in particular, promotion opportunities, good working relationships, interesting work and the opportunity to utilise skills.

Graduates reported that they were generally satisfied with most workplace factors (with the exception of four). The factors with which graduates are most satisfied are generally consistent with their priorities: good working relationships, the provision of training and development opportunities, clear duties/expectations and interesting work. However, as the table below shows, the importance placed on each factor by graduates was higher than their level of satisfaction with that factor.

**Table 6: Satisfaction and importance scores with workplace factors for graduates**

Workplace factor	Satisfaction score	Importance score	Net difference*
Promotion opportunities	2.85	4.63	-1.77
Opportunities to utilise skills	3.12	4.61	-1.49
Recognition for effort	3.08	4.47	-1.39
Provision to discuss career prospects	2.94	4.33	-1.38
Chance to be creative/innovative	2.84	4.15	-1.31
Interesting work provided	3.27	4.55	-1.27
Regular feedback provided	3.19	4.32	-1.12
Duties/expectations made clear	3.31	4.40	-1.09
Chance to contribute to corporate issues	2.93	3.88	-0.95
Appropriate workload size	3.22	4.09	-0.87
Provision of training/development opportunities	3.56	4.42	-0.86
Doing the type of work expected to do	3.10	3.95	-0.85
Good working relationships	3.85	4.63	-0.78

\* Due to rounding the net difference may not exactly add to the difference between the two scores.

Source: MAC Graduate Survey

The factors with which graduates reported themselves dissatisfied are the opportunity to discuss career prospects, the chance to contribute on corporate issues, promotion opportunities and the chance to be innovative/creative. However, the overall data is influenced by recent downsizing in the ATO: when ATO responses are excluded, graduates from the remaining agencies are only dissatisfied with their opportunities to be creative/innovative. This level of satisfaction is consistent with the high proportion (76%) of graduates indicating they will stay in the APS or that they are uncertain of their career intentions.

Agencies and agency heads identified some challenges to retaining graduates, including: a limited ability to offer salaries competitive with the private sector; better opportunities in other agencies or the private sector; the generally higher mobility of younger people; and a perceived misalignment between the reasons why graduates join the APS and the reality of the job.

### **RE-EMPLOYMENT**

Eighty per cent of all graduates reporting they intend to leave the APS in the next ten years stated they would consider rejoining at some stage. This adds weight to the likelihood of an increasing role for lateral recruitment in organisational renewal.

Agencies reported a number of strategies which they use to attract former graduates back to the APS, including direct approaches to individuals, recontracting senior technicians and alumni programs. Such strategies are best supported by maintaining information on past employees including through the use of panel arrangements. More generally, agencies use business planning processes to identify skill gaps and target general advertising.

### **KNOWLEDGE MANAGEMENT**

Forty-three per cent of graduates were certain that their agency or colleagues were passing on necessary corporate knowledge to them. Twenty-two percent are uncertain. A large proportion had no opinion one way or the other.

Agencies, however, reported existing strategies aimed at transferring knowledge to graduate employees as being largely effective. Strategies were largely based on on-the-job learning and exposure to a number of agency functions, including rotations, team-based work and special project work. Individually based coaching or mentoring suited to on-the-job learning supplemented standard induction and records management training.

The uncertainty of graduates suggests that agencies may need to give graduates a clear framework within which they can evaluate their progress in gaining corporate knowledge, particularly as the learning process is highly individualised. Such a framework might involve more structured training, both on-the-job and off-the-job, and more continued training (not just focused on the first year).

### **SUCCESSION PLANNING**

Graduate recruitment is an important component of succession planning, and agencies were asked about the strategies in place to develop graduates who demonstrate the potential to be future leaders.

Agencies report no structural impediments to bringing on selected graduates, though they do report some cultural barriers to 'picking winners'. Development strategies include accelerated work experience through job mobility, rotation and exchanges, and (in agencies where this is possible) international exposure.

Accelerated training is provided through direct involvement in projects and multidisciplinary team work, mentoring and senior management briefing, and development programs including the Career Development Assessment Centre and the Future Leaders program. Formal studies and study assistance are also made available.

AWAs are used by individual agencies to provide attractive remuneration and conditions of employment.

Agencies are, broadly speaking, confident of the effectiveness of their strategies to underpin succession planning.

## **CONCLUSIONS**

Responses to the survey suggest:

- Agency heads believe that graduate programs provide an important recruitment source.
- Agencies and agency heads are generally satisfied with the quality of graduates being recruited, although they experience some difficulties in recruiting graduates from some fields. They find agency-based recruitment effective and do not wish to return to centralised graduate recruitment.
- There is still a significant core of graduates who enter the APS and intend to stay.
- Job security is the key factor attracting graduates to the APS and is underrated by agencies.
- Agencies and agency heads reported some challenges in retaining graduates, including remuneration and the generally higher mobility of graduates.
- A high proportion of graduates could be enticed to stay, if agencies concentrate on the workplace factors that are important to them: favourable employment conditions, job security and interesting work.
- Promotion is an important recruitment and retention issue for the graduate population.
- While graduates reported a gap between all of the workplace factors which were important to them and their satisfaction with those factors, non-ATO graduates were only dissatisfied with their opportunity to be innovative/creative.
- A high proportion of graduates intending to leave within ten years would consider rejoining the APS and some of these are targeted by agencies.
- Although agencies consider existing knowledge management strategies to be effective, many graduates are uncertain as to whether necessary corporate knowledge is being passed on to them and there is room for more structured and continuing learning programs.
- There is some misalignment between the perceptions of graduates and agencies about recruitment and retention strategies.

## **5. COMPARING WORKPLACE ATTITUDES: AGE AND GENDER**

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### **INTRODUCTION**

Agencies need to understand what attracts employees to the APS and, more specifically, to their agency, and what keeps them there (or encourages them to leave). In terms of organisational renewal, it is important to understand whether these factors differ for younger employees and older employees and/or on the basis of gender.

### **METHODOLOGY**

The research conducted for the Organisational Renewal project allows for such comparisons. To explore such differences, the survey data were disaggregated on an age and gender basis and the results for each are outlined below.

For age, the graduate population used has been limited to those aged 20 to 29 years. The attitudes of these younger employees are compared with those of the two groups of older employees (current mature-aged employees and former mature-aged employees).

For gender, the respective views of male and female respondents are analysed separately for the surveys of graduates and of mature-aged workers. A summary draws the main results together.

### **SURVEY DATA ANALYSIS: AGE DIFFERENCES**

#### **Recruitment**

In broad terms, younger and older employees saw factors relating to the nature of the work, workplace conditions and training or career development as being important in their recruitment to the APS or to their latest/last agency. Job security and interesting work were rated as the two most important reasons for joining the APS by all three employee groups.

For all three groups, location of the job was seen as somewhat important in their decision to join an agency or the APS. Graduates also rated training as an important joining factor. While it was given relatively low importance by current mature-aged employees and former mature-aged employees, both groups of older employees attributed some importance to the related factor of career development.

The recruitment strategies human resources sections saw as most effective were, for the most part, aligned with the factors identified as most important by employees, who identified interesting work and training as important factors in their joining the APS or their latest/last agency. Agencies rated agency goals and competitive pay for general recruitment as being more effective strategies than was evident in the importance ascribed to them by employees across both age groups.

#### **Retention**

##### ***Workplace factors***

Both younger and older workers rated all workplace factors (e.g. the opportunity to utilise skills, interesting work and good working relationships) as being important, although

graduates placed higher importance on workplace factors on average than mature-aged employees and former senior APS employees. Consequently the discrepancy between importance and satisfaction scores was greatest for graduates.

Both the graduates and current mature-aged employees placed the greatest importance on good working relationships and both groups also reported this factor as the one with which they had the highest level of satisfaction. Former mature-aged employees rated opportunities to utilise skills as the most important and rated the greatest satisfaction with the interesting work provided.

Recognition for effort and the opportunity to utilise skills were factors that all employee groups rated considerably lower in terms of satisfaction than importance across all three groups.

The recent graduates placed high importance on promotion opportunities (second after good working relationships) but their satisfaction levels for this factor were among their lowest (though this is substantially skewed by responses from ATO graduates).

### ***Reasons for staying***

Some of the current mature-aged employees reported that there were no factors encouraging them to stay in the APS (8%) while all recent graduates and former mature-aged employees felt there were factors encouraging them to stay.

Relative job security, good working relationships and interesting work were reported by high proportions of all three employee groups as factors encouraging them to stay. However, other retention factors differed between younger and older workers. For example, considerably higher proportions of the graduates than older workers indicated that favourable employment conditions, the ability to move between locations or departments, and the training provided were reasons encouraging them to stay in the APS.

Conversely, both groups of older (current and former) employees were more likely to identify superannuation provisions as a factor encouraging them to stay.

These differences between the older and younger workers largely reflect the different life stages of the groups, but also suggest that mobility is of greater interest to younger workers.

In terms of main reasons for staying, relative job security and interesting work featured in the five main factors encouraging all three employee groups to stay in the APS. Once again though, there were some clear differences in the main retention factors across the three employee groups.

Favourable employment conditions was the standout main factor in encouraging the graduates to stay in the APS (reported by 45% of the graduates and followed by relative job security at 14%). This focus on working conditions is in keeping with the graduate group being more likely to be (or planning to) balance a career with family responsibilities, given the age of the group and the higher proportion of women in this group compared with the older workers. It may also reflect their perceptions about conditions relative to pay (see Reasons for leaving).

In contrast, the main factors encouraging the current mature-age workers to stay in the APS largely reflect their stage of life, these factors being relative job security (reported by 19%), superannuation provisions (19%) and interesting work (18%). For the former mature-aged employees, interesting work was predominant as the main reason they liked the APS (reported by 44%). The lower proportions of this group reporting factors such as job security and superannuation provisions is consistent with their having chosen to leave the APS.

### ***Reasons for leaving***

A much higher proportion of the graduates (93%) felt there were reasons discouraging them from staying in the APS than both groups of older workers (41% of current and 66% of former mature-aged employees). This is consistent with the generally greater gap between importance and satisfaction scores for the graduates, and is evidence of the greater openness to mobility of younger workers.

The factors the graduates were most likely to identify as encouraging them to leave differed considerably from those most likely to be identified by the older workers. The reasons commonly reported by the graduates focused on career opportunities outside the APS. These included more stimulating work elsewhere (reported by 50%), skills better developed elsewhere (59%) and better pay elsewhere (47%).

As noted earlier, for the graduates, dissatisfaction with the rate of promotion and with the promotion process were also among the most frequently identified (50% and 42%) as reasons discouraging this group from staying in the APS. This is in accord with the high discrepancy between importance and satisfaction scores for promotion opportunities in this group (most identified amongst the ATO graduates).

In contrast, the mature-aged workers were more likely to identify perceived shortcomings in the workplace, including poor management and supervision (reported by 23% current and 43% of former mature-aged employees), too much work or under-resourced (23% and 43% respectively) and poor working relationships (10% and 17%). The feeling that their work was undervalued was among the commonly reported reasons for the current mature-aged employees (22%) and former mature-aged employees (37%). Once again this is reflected in their importance and satisfaction scores, with the greatest difference in scores occurring for recognition for effort.

In terms of main reasons for leaving, poor management and supervision, and more stimulating work elsewhere were among the five leading factors identified by all employee groups. It was the most commonly reported main factor among the current and former mature-aged employees.

More stimulating work elsewhere was the most commonly reported main factor discouraging the graduates from staying (reported by 19%) followed by dissatisfaction with the rate of promotion (17%) and better pay elsewhere (14%). In terms of their whole remuneration package, this suggests that graduates may see the choice to stay in the APS as one that trades off pay for conditions (as conditions were the main factor encouraging them to stay).

### *Agency perspective*

The perspectives of agencies and employees in relation to retention factors were aligned to some extent. Of the factors used to retain graduate employees, agencies rated interesting work; work/life balance; and agency training, career development and mentoring as the most effective. They also rated promotion opportunities as among the most effective strategies for retaining graduates.

For general retention strategies, performance pay and flexibility were assessed as most effective. Both agencies and employees view recognition as being relatively important, however, while agencies perceived it to be an effective retention strategy this is somewhat at odds with the attitudes of employees (particularly older employees).

### **SURVEY DATA ANALYSIS: GENDER DIFFERENCES**

To analyse any gender differences, the results of the mature-aged employee and graduate surveys need to be considered separately. Overall findings on gender differences are then summarised.

#### **Survey of mature-aged employees**

Key characteristics of the current employees surveyed as part of the project are set out at the beginning of Chapter 3 and in the research methodology at Appendix B. The median age of this group was 53 years.

#### ***Retention***

The 54/11 issue is less likely to influence the retirement/resignation decisions of female mature-aged APS employees as the CSS membership is skewed towards males (68%), with the same proportion applying to members over 50. Thus, significantly fewer women surveyed aged over 50 were members of the CSS scheme (34%) compared to men aged over 50 (50%). Only 8% of women over 50 identified 54/11 as the main reason for expecting to leave the APS at their nominated age compared to 14% of men over 50.

Similar proportions of men and women over 50 identified retirement as the main reason for intending to leave the APS at their nominated age (48% of men and 46% of women), while more women (6.2%) identified their partner retiring at the same time as being the main reason compared with 3.5% of men. Equivalent small proportions of men and women over 50 reported personal reasons such as caring for children or sick relatives as being the main reason for leaving the APS at their nominated age (2.4% and 3.0% respectively).

Mature-aged workers were asked what factors would keep them working beyond the age they currently intended to leave. The most commonly cited main factor identified by men over 50 was no loss to superannuation benefit (21% of men compared with 16% of women). The most common important factor identified by women over 50 was more flexible working conditions (25% of women compared with 16% of men). Around a third of both men and women reported that none of the factors presented would keep them working longer than they intended.

Those employees who were prepared to consider deferring retirement beyond the point at which they currently intended to leave were asked what their preferred working arrangements would be. Only 12% of these men and 7.8% of these women identified a preference for working the standard 5 days per week, 12 months per year pattern. When the same question was put to all the employees in the survey, only 4% of men and 0.9% of women over 50 identified their preferred working arrangements if they did rejoin the APS as the standard 5 days per week 12 months per year pattern. Currently the mature-aged employees in the survey work overwhelmingly on a full-time basis (99% of men and 92% of women).

### ***Workplace factors***

Current mature-aged employees were asked to identify which factors from a range of workplace factors were encouraging them to try and leave earlier than the age they otherwise intended to leave the APS. A number of differences are apparent between men and women. Sixty-five per cent of women aged over 50 reported that nothing was encouraging them to leave earlier compared to 56% of men.

The most common main reason which might induce men to leave the APS earlier than they otherwise intended was poor management/supervision (14% of men compared to 7.4% of women) while the most common main reason for women was too much work/under resourced (8.3% for women and 8.0% for men). Similar proportions of men and women over 50 identified feeling that their work is undervalued (6.8% of men and 5.3% of women), better pay elsewhere (3.9% of men and 3.4% of women) and more stimulating work elsewhere (4.0% of men and 3.2% of women) as being the main reasons they might try and leave earlier than their intended age of departure.

Mature-aged workers were also asked the main reason they were encouraged to stay in the APS. The most common main reason identified by men over 50 was that the work was interesting (19% of men compared with 15% of women) while the most common main reason for women was relative job security (22% of women compared with 18% of men). Similar proportions of men and women identified superannuation provisions (around 18%), location of job (around 5%) and the ability to balance work and family (around 3%). More women identified competitive pay (9.4%) and that conditions were favourable (5.5%) than men (6.9% and 2.8% respectively) as the main reason encouraging them to stay in the APS.

### ***Re-employment***

Gender differences emerged in mature-aged workers' response to the question as to whether they would rejoin the APS some time after they intended to leave. Fifty-six per cent of men over 50 reported that they would consider working in the APS again with 46% of women reporting the same thing. The difference between genders was most stark for those workers aged 55 and over with the comparative data being 55% of men and only 41% of women.

### ***Survey of graduates***

Characteristics of participants in the graduate survey are set out at the beginning of Chapter 4 and in the research methodology at Appendix B. The median age of this group<sup>18</sup> was 23 years for women and 24 for men.

18 For the purposes of the research paper referred to, a graduate is defined as someone who is engaged at the Graduate APS classification, then advances to APS 3 at the end of their training year (many agencies promote to higher levels immediately after such advancement). The definition excludes a number of persons engaged following an agency advertisement for graduates but at a classification other than a Graduate APS.

### ***Recruitment***

When asked about factors that had been influential in their decision to join the APS, female graduates were more likely to place a higher importance on all factors than male graduates. The difference was, however, most marked with respect to the desire for interesting work, and the reputation of the APS as an employer, both of which factors weighed more heavily with women than with men. Job security was critical to both groups, but still more important to women than to men.

### ***Retention***

Many graduates (45%–44.3% female and 45.9% male) were uncertain as to whether they would remain in the APS for the next 10 years. Female graduates (32.7%) were more likely to report their intention to stay than male graduates (29.5%).

Overall, women seem more likely than men to find factors which encouraged them to stay on in the APS. 'Favourable employment conditions' was the standout main factor in encouraging all graduates to stay (46% of female graduates and 33% of male graduates identified employment conditions as the main factor encouraging them to stay). In addition to employment conditions, females were more likely to focus on pay and work and family issues. Male graduates identified only job security, superannuation and career paths as retention factors more frequently than women.

When graduates were asked to identify the main factor discouraging them from remaining in the APS, males were proportionally more focused on going elsewhere to find better rates of pay while females were proportionally more focused on finding more stimulating work and better skills development. Rate of promotion was also a key issue, but as noted in Chapter 4 that finding is heavily influenced by the particular circumstances of a particular agency.

### ***Workplace factors***

Factors in the workplace that were most influential in shaping graduates' attitudes to their employment were the same for both women and men, although women were overall more likely to cite them as important. These were good working relationships, promotion opportunities (particularly for ATO graduates) and opportunities to utilise skills. In addition to women's greater overall emphasis on good working relationships, the greatest differences between females and males were women's greater emphasis on regular feedback and recognition for effort, as well as their interest in having provision to discuss their career prospects.

In terms of their actual satisfaction with these factors, both female and male graduates were most likely to identify working relationships and training as satisfying (although as indicated in the Chapter 4, there were no areas where satisfaction ratings were higher than importance ratings). The only areas in which females were less satisfied than males were 'doing the type of work they expected to do' and the appropriateness of their workload.

It needs to be noted, however, that gender differences on these factors were not large, particularly when compared to the differences between the factors identified as important by both groups.

### **Summary findings on gender differences**

Women now make up just over half of ongoing APS staff and 56% of all ongoing staff in the APS classification levels. Over time, and as numbers of women in the Service have increased, women have increased their representation at more senior classifications, and this pattern is likely to be sustained.

Survey data show some attitudinal differences between men and women.

- The 54/11 issue is less likely to influence the retirement/resignation decisions of female mature-aged APS employees compared to males.
- The most common important factor likely to keep women over 50 in the APS longer than currently intended was more flexible working conditions, while men were more concerned about the impact of staying on their superannuation. This is probably CSS-related and therefore a shorter term issue.
- Fifty six per cent of men over 50 reported that they would consider working in the APS again and 46% of women reported the same thing. Flexible working conditions were also a key factor here: very few individuals would choose to work full-time on return.
- Female graduates were more likely to respond positively when asked about factors inducing them to join and to remain in the APS, and more indicated that they were likely to stay on in the APS.
- Female graduates are more likely to be attracted to the APS by the desire for interesting work and the reputation of the APS as an employer. They are encouraged to leave by the prospect of more stimulating work elsewhere.
- 'Favourable employment conditions' was the standout main factor in encouraging all graduates to stay in the APS, but weighed much more strongly with women.
- While both men and women valued good working relationships, women valued them more strongly, together with regular feedback, recognition for effort, and provision to discuss their career prospects.

## APPENDIX A: TERMS OF REFERENCE

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Focus: To understand and meet the challenges of building organisational capability. The hypotheses to be tested are that the APS is facing:

- the imminent departure of increasing numbers of staff with an incentive to retire prior to the age of 55, which may affect corporate knowledge
  - a move from a predominantly career service to a labour market increasingly interested in APS employment of five to ten years within a broader career.
- (1) Undertake quantitative and qualitative research to determine:
- the rate of overall ageing of the APS workforce and whether its impact is significant at particular levels or in particular career streams
  - career expectations of the ‘baby boomer generation’ identifying intentions to retire at or near 55 and post-retirement options
  - career expectations of newer members of the APS and how these might differ from the past
  - agency views of skills gaps in their current workforce, particularly having regard to expected future requirements.
- (2) Address the implications of the analysis in (1) for strategic workforce planning including the identification of:
- retention and retirement strategies for those approaching 55
  - recruitment strategies including graduate recruitment strategies
  - strategies to identify and develop potential replacement staff
  - knowledge management/transfer programs
  - skills retention and transfer programs.

## **APPENDIX B: RESEARCH METHODOLOGY**

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### **OBJECTIVES**

The project objective can be found earlier in this report. In broad terms this project was designed to assess staff (at all levels and locations) and agency perceptions about the APS as a workforce.

### **SCOPE AND COVERAGE**

The scope of the surveys was the APS as a whole, both as individual employees (graduates and mature-aged workers) and as agencies.

The target populations varied survey by survey. However, all surveys involved the following agencies:

- APS Commission
- Attorney-General's Department
- Australian Bureau of Statistics
- Australian Tax Office
- Department of Defence
- Department of Education, Science and Training
- Department of Environment and Heritage
- Department of Family and Community Services
- Department of Finance and Administration
- Department of Industry, Tourism and Resources
- Department of Veterans' Affairs.

For the agency level surveys Centrelink was also included.

It is important to note that the selection of these agencies was not random. For this reason the results of the surveys are designed to represent the agencies selected for the survey and generalisations to the APS as a whole may not be appropriate. Ten of the agencies were selected as the relevant agency heads compose the membership of the MAC Organisational Renewal Sub-Committee. Defence and Centrelink were both included where possible to cover more APS employees and represent the issues associated with larger APS agencies.

For the current mature-aged employees survey all current on going employees aged 50 or more years in participating agencies were identified using the APS Employment Database and a scientifically based sample of these employees was drawn.

For the former mature-aged employees survey all ongoing Executive Level and SES level employees who separated from the APS (and the participating agencies) in 2000 to 2001 and who were aged 50 or more years when they left were identified using the APS Employee Database. All of the employees identified were selected to participate.

For the Graduate Employees survey all ongoing employees engaged in a graduate program in 2000 or 2001 and located in participating agencies were identified using the APS Employee Database. All of the employees identified were selected to participate.

### **SAMPLING FRAME**

The APS Employment Database (APSED) maintained by the Australian Public Service Commission was used to identify possible respondents to the employee surveys (all the non-agency-based surveys).

During the processing of responses to the project employee surveys it became apparent that in some cases there were discrepancies between the responses furnished by survey participants and the APSED data. Where possible these discrepancies were accounted for during weighting and in the generation of the measurements of sampling error discussed later.

### **STRATIFICATION**

The employee surveys went to all the individuals identified using the frame (APSED), except for the current mature-aged employees surveys where a sample of individuals was drawn from the frame.

For the current mature-aged employees surveys the project team was primarily interested in ensuring that accurate statements regarding the overall population of the participating agencies could be made. Furthermore, there were a number of variables for which accurate survey estimates were required. Specifically:

- age (50 to 54 years and 55 or more years)
- location (ACT and non-ACT)
- level (APS Level, Executive Level and SES)
- length of Service (less than 20 years and 20 years or more).

The accuracy requirements vary between the demographic variables listed above and this leads to differing sampling rates of these demographic variables. For example, to gain the same accuracy for estimates for a small population (such as the SES) a much higher sampling rate would be required than for a larger population (such as APS Level staff). In other words, a higher proportion of SES officers were sampled than APS Level employees. This does not lead to a bias in the population estimates because the responses are appropriately weighted to take these differing sample rates into account. See the section 'Weighting and Estimation' for further details.

Stratification is dividing the population of interest on the basis of auxiliary information. The advantages of stratification are:

- The representation of different groups within the sample can reflect the proportions that occur in the population (e.g. 60% male and 40% female).
- Minority groups can be 'oversampled'. This is useful if estimates are required for minority groups.
- The results are more accurate. Sampling error is reduced if similar, in terms of the characteristics being measured, units are grouped together.
- Different selection or interviewing procedures can be applied to the various strata.
- Separate information can be obtained about the various strata.

To simultaneously satisfy the requirements for a number of demographics we created the strata by cross-classifying the demographic variables (for example age by location by length of service by level leading, in the case of the current mature-aged workers surveys, to 24 strata).

#### **SAMPLE SELECTION**

To enable us to make sound statistical inferences about all mature-aged workers the individuals were randomly selected from each of the strata. Each individual in the strata had an equal chance of selection.

#### **QUESTIONNAIRE DESIGN**

The MAC Sub-Committee for Organisational Renewal provided broad topics that they wished to include in the project in mid-April 2002.

As a substantial number of questions were to be asked only of some officers it was decided to use seven questionnaires for the study. Related questions were grouped to make the project questionnaires easier to understand and complete by respondents.

Two questionnaires were designed for the former mature-aged employees survey of Executive Level and SES level employees that had recently left the APS aged 50 or more years. One questionnaire was tailored to those aged 50 to 54 years and the other to those aged 55 or more years.

Two questionnaires were designed for the current mature-aged employees survey all APS officers that are currently in the APS aged 50 or more years. One questionnaire was tailored to those aged 50 to 54 years and the other to those aged 55 or more years.

Two questionnaires were designed for the agency survey of participating APS agencies. One questionnaire was designed for administration to selected agency heads and the other questionnaire was for the human resource areas of selected agencies.

One questionnaire was designed for the graduate employees survey of recent graduate program participants that were still in the APS.

Though all the questionnaires focused on career intentions of APS employees, their views on the workplace and agency strategies to manage their workforce, the diverse nature of the populations of interest and the differing options available to them required the development of these seven questionnaires. The broad topics covered by the questionnaires are outlined in the table below.

<b>Topic</b>	<b>Former mature-aged employees survey</b>	<b>Current mature-aged employees surveys</b>	<b>Graduate employees surveys</b>	<b>Agency surveys</b>
Demographics	•	•	•	
Importance of workplace factors	•	•	•	
Satisfaction with workplace factors	•	•	•	
Recruitment	•	•	•	•
Retention	•	•	•	•
Re-employment	•	•	•	•
Corporate knowledge management	•	•	•	•
Impacts of superannuation	•	•		•
Strategies for managing workforce				•

A high response rate is crucial to the credibility of any survey. Response rates are affected by a variety of factors, one of these factors being how onerous and time consuming the selected respondent perceives the questionnaire to be on initial inspection. There is often a conflict between the desire to collect as much information as possible from respondents and the aim of maximising the response rate. With this in mind, the questions included in the survey were focused on the main project goals in order to reduce the number of questions, and improve the response rate and thereby enhance the credibility of the survey results.

Another significant factor in determining response rates is the presentation of the questionnaire. The shortened list of questions was presented in a format that would substantially enhance its appearance and minimise the probability of respondents missing relevant questions. Considerable effort was made to ensure that both the wording of the questions and the visual presentation of the questionnaire were of a high standard.

The five questionnaires for current APS employees and former APS employees were tested to ensure the information collected would be valid and useful. Focus groups were carried out in Canberra in mid-May 2002 involving officers from the Australian Tax Office, the Australian Bureau of Statistics and Department of Veterans' Affairs.

The feedback from the focus groups was incorporated into the questionnaires. The five subsequent eight-page questionnaires were approved by the MAC Organisational Renewal Steering Committee and printed around the end of May 2002. The two questionnaires for agencies were approved by the MAC Organisational Renewal Steering Committee in June 2002.

## **DATA COLLECTION**

A questionnaire and a return postage paid envelope were mailed to every selected current APS employee by the APS Commission. However, as the APS employee Database does not contain the addresses of former APS employees, ComSuper was engaged to provide address details for former APS employees. A questionnaire and a return postage paid envelope were mailed to every selected former APS employee by ComSuper. This ensured address details remained confidential to ComSuper.

All the employee surveys were returned to the APS Commission via the normal mail system via the reply paid envelopes provided.

For the agency surveys all participating agencies were sent a questionnaire for completion by the agency human resource area. The agency head was also interviewed by a member of the MAC Organisational Renewal Steering Committee using an interview pro forma.

To enhance response rates, agency heads were requested to provide a high profile to the survey before the questionnaires were distributed. This was successful with many agencies providing valuable publicity (e.g. notices on intranets, etc.). To further enhance response rates, an introductory letter by the Public Service Commissioner was included on the front of the survey questionnaires. General reminders were sent to all selected individuals prior to the intended due date for survey responses.

The questionnaires for the current and former mature-aged employees surveys and the graduate employees survey were dispatched in excess of two weeks prior to the return date. For various reasons associated with mail processes outside the APS Commission it appears many questionnaires arrived late, or not at all. In order to allow for the late arrival of questionnaires, and the dispatch of replacement questionnaires where notified, the due date for responses to these surveys was extended by two weeks.

## **DATA PROCESSING**

Data entry was performed by the Australian Bureau of Statistics. The data entry system provided checks to ensure only questions required to be answered by respondents were answered and that some simple logical relationships were followed (e.g. APS employees had to be aged 15 or more years old).

Comments written on the questionnaires by respondents were reviewed by the questionnaire development team and remedial action taken where appropriate. For instance, new categories of response were added to some questions to show small but noteworthy populations that expressed new reasons for leaving or staying in the APS.

Blank responses were generally coded to non-response categories. The exception to this practice was for where responses were needed for demographic items for weighting purposes. Wherever possible, values for missing demographic answers were imputed using the other available demographic information provided in the questionnaire.

## WEIGHTING AND ESTIMATION

It is important to note that the primary purpose of a sample survey (such as the current mature-aged employees survey) is not to gain information about individual respondents. Rather, it is to use the information provided by the respondents to estimate or infer a result for the total population. To accomplish this, weights are assigned to each respondent and applied to each of the respondents' replies. The weight assigned to a respondent can be thought of as the number of units in the population that that respondent represents.

For these surveys the weights were calculated by dividing the population of each strata by the number of respondents to the survey in each strata. For example, if there are 4000 females in the ACT and 200 respond, the weight assigned to each ACT female is 20. This assumes that respondents respond the same as non-respondents for the characteristics of interest.

The detrimental effects of non-response are difficult to quantify. Applying the weighting method described above, the responding persons are used to represent the non-responding persons. How accurately responding persons represent non-responding persons is very difficult to measure. The published tables are calculated under the assumption that that responding persons answer the same as non-respondents. This should be considered when using the data to make inferences about the population.

## MEASURES OF ERROR AND ACCURACY

Total survey errors occur as a result of sampling errors and non-sampling errors. In this suite of surveys however only the mature-aged employees surveys were sample surveys. The remaining surveys went to *all* the identified respondents.

The following response rates were attained. These response rates exclude responses that were received but were insufficiently complete to provide input into the data generated.

Survey	Response rate (%)
Graduate employees	62.5
Former mature-aged employees	56.9
Mature-aged employees	59.1

This level of response is very creditable for a voluntary, mail-based survey.

All agencies participating in the agency survey completed the human resource questionnaire and the agency head interview.

The difficulty with response/non-response rates is that there is no precise percentage which can be used to judge the credibility of a survey. Rather, it is a question of how closely those who did respond to the survey reflect the views and perceptions of those who did not respond. It is not possible to explicitly measure such differences without exhaustive and expensive follow-up action. In this survey, with anonymous responses, it was not possible to identify the non-respondents. However, there would need to be a marked difference in the views of non-respondents to those of the respondents to alter the overall results to any significant extent.

A low response rate can result in bias affecting the results. Accordingly the estimates for those strata with lower response rates can generally be regarded as being less reliable. No information was available to allow estimates of the extent of this potential bias to be calculated.

For the analysis presented in this publication it was assumed that there was no significant bias between those that responded to the surveys and those that did not respond.

As mentioned above, the non-response (approximately 40% for the employee surveys) can lead to unquantifiable biases. Other non-sampling errors can result from imperfections in reporting by respondents, errors made in the recording and coding of responses and errors made in processing the data. No quantifiable estimates are available on the effect of non-sampling errors, including the effects of non-response. However, every effort was made to reduce the non-sampling errors to a minimum by careful questionnaire design and efficient operating procedures.

For the current mature-aged employees surveys the estimates have been derived from a sample rather than a complete count of the population. Therefore, there will be some variability between the survey results and the results that would have been obtained if the entire population had been approached.

One measure of the variability of estimates which occurs as a result of surveying only a sample of the population is the *standard error*. There are about 19 chances in 20 that a sample estimate will be within two standard errors of the true population value. This is known as the *95% Confidence Interval*.

For instance, we are 95% confident that the estimate of the population that would consider rejoining the APS (once they left) is between 49.1% and 55.5% (an estimate of 52.3% and a standard error of 1.6%).

The following table illustrates the *worst* possible standard errors from the sample design associated with estimates from five key questions in the mature-aged employees survey using the entire mature-aged worker population.

<b>Question</b>	<b>95% Confidence interval</b>
Main reason for leaving at intended retirement age Estimate	± 2.4%
Main reason encouraging to leave before intended retirement age Estimate	± 3.2%
Main reason encouraging to stay in the APS Estimate	± 2.6%
Main reason that would encourage staying beyond intended retirement age Estimate	± 3.0%
Whether would rejoin the APS after leaving as intended Estimate	± 3.2%

## **INTERPRETATION OF SCALES**

Scales are any question that requires a respondent to measure the strength or level of a theoretical construct. In its simplest form in these surveys a scale asks a respondent to rate the level of importance, satisfaction or effectiveness of various workplace properties on a five-point scale.

The scales used in these surveys are generally balanced, that is they allow respondents to express the two extremes of view (e.g. satisfaction and dissatisfaction). These scales are also designed with a midpoint where respondents with a view that is not significant in either direction can enter a 'neutral' style of response.

When interpreting scales it is often important to realise that there is not an ordinal relationship between points in a scale. That is, the strength of opinion to shift a respondent from 'neutral' to 'satisfied' may be much smaller than the strength required to shift a respondent to respond as 'very satisfied' rather than 'satisfied'. Thus the numbering of points on the scale from one to five can be misleading. For this reason it is often preferable to analyse the distribution of responses across each of the categories in order to understand the response pattern.

However, when a summary measure of the distribution of responses is required, such as in this report, the mean of the responses can be used as a proxy. The reason means are not preferable is that this technique generally relies on each response category being assumed to be evenly spaced (ordinal).

When using a balanced five-point scale numbered one to five (as in this report) a mean of 3 generally represents the 'neutral' response. It is important to note that a mean of 3 does not mean the population is not disposed towards the issue one way or the other. Most likely some of the population reported values that were not neutral, but that the number and strength of the population reporting on one side of the 'neutral' point are balanced by the number and strength of the population on the other side of the scale.

In this report a measure of less than or more than 3 indicates the response distribution is biased towards one of the response extremes. The greater the difference between the mean score and the neutral response (3), the greater the bias toward one of the extreme responses (e.g. satisfaction or dissatisfaction).

## **APPENDIX C: SUPERANNUATION FOR APS EMPLOYEES: EFFECTS ON ORGANISATIONAL RENEWAL**

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## **SUPERANNUATION—SUMMARY AND KEY FINDINGS**

The major superannuation schemes for the APS, the PSS and the CSS, provide retirement benefits from age 55. Their basic design therefore supports early retirement. This is evidenced by a sharp decline in members around age 55, with very few members working past age 60. Both schemes have other design features that may influence some older members to retire early.

In respect of the PSS, there is insufficient evidence that the provisions limiting the amount of benefits that can accrue in the scheme for some members (the Maximum Benefit Limit—MBL) are creating a significant retention problem. The scheme design allows sufficient flexibility for most employees to avoid reaching their MBL before their planned retirement age.

An actuarial analysis suggests that very few members are likely to reach their MBL (less than 2% by age 55). Should individual cases arise where a PSS member is likely to reach their MBL and this has the potential to affect retention, agencies have options to deal with this.

For the CSS, some members have been able to receive a better benefit by resigning before retirement and deferring their entitlements than if they had remained in employment until age 55 or later. This is an original design feature of the CSS that has become more attractive for some longer serving members for several reasons including the high crediting rates in recent years.

Actuarial modelling of CSS benefits shows that, for the large majority of CSS members covered by that model, there is some financial incentive to resign and take a 54/11 exit. For some members the incentive is significant.

The number of CSS members who resign at age 54 is currently about 500 to 600 annually. This is about 40% of all CSS members who reach age 55 in any given year (but is only about 20% of all APS employees of that age who were PSS or CSS members).

As the CSS has been closed to new members since 1990, the number of CSS members (including those who may have an incentive to resign before retirement) is rapidly decreasing. Also, the current new investment climate of lower interest rates could be expected to have some effect on the number of CSS members who decide to resign at age 54, given the CSS Fund zero crediting rate in 2001–02 and the current zero exit rates for 2002–03.

Where individual employees are targeted for retention, agencies have a number of options available to them, including where an employer sees a need to negate a perceived or actual disincentive to continue APS employment, such as for CSS members aged 54.

These options include increasing a member's superannuation salary (without increasing their take home pay) or allowing an employee to have more flexible working arrangements. Increasing a member's superannuation salary can negate the incentive for CSS members to resign at age 54 by raising the standard pension on retirement on or after age 55 by a negotiated amount so as to narrow or remove the gap between it and the deferred pension.

For APS employees, there is an apparent misconception that having a staged retirement by ‘going part-time’ or moving to a lower level of work (or both) in the years leading up to retirement from the APS has a detrimental effect on the PSS or CSS benefit paid in retirement. This is not the case and equitable arrangements apply to the calculation of PSS and CSS benefits where this occurs.

Employers are likely to need to develop more flexible employment options, to manage the incidence of valued employees resigning at age 54 or retiring around age 55. Agencies that seek to actively manage this risk by targeting relevant employees with retention strategies, should do this well before the targeted staff have planned their retirement.

An awareness-raising exercise, directed at both employers and employees, could improve the level of knowledge of the options available and their use.

## **THE SUPERANNUATION ENVIRONMENT**

### **Industry regulation and retirement income policy**

The framework for regulation of superannuation is contained in the *Superannuation Industry (Supervision) Act 1993* and regulations (SIS). Among other things, SIS prescribes standards that must be met by funds that have elected to be regulated under SIS. Complying regulated funds are eligible for concessional taxation treatment.

The PSS and CSS are regulated superannuation funds under SIS and must therefore meet the SIS requirements. Some relevant requirements are set out below.

#### ***Restrictions on benefit payment and preservation age***

SIS prescribes the circumstances when a person’s superannuation benefit can be received and requires that lump sum benefits must generally be preserved until preservation age.

Recent government initiatives include:

- New minimum preservation ages gradually increase from 55 to 60 (for people born on/after 1 July 1960). The effect of this is that some younger PSS and CSS members will not be able to access any lump sum component of their preserved benefits until at least their preservation age.
- All member and employer superannuation contributions accrued on or after 1 July 1999 must generally be preserved until preservation age unless they are paid as a pension. The limit on any lump sum benefit that can be paid in cash to a fund member prior to their preservation age is referred to as the ‘SIS Upper Limit’.

#### ***Restrictions on reduction of accrued benefits***

SIS imposes restrictions on altering accrued benefits. Specifically, a beneficiary’s right or claim to accrued benefits and the amount of those accrued benefits must not be altered adversely except in very limited circumstances. These include the consent of the beneficiary or the consent of the Regulator or, for example, to rectify a proven mistake.

## Taxation

The existing superannuation framework operates under a complex system of tax concessions designed to encourage superannuation savings for retirement and to encourage timely receipt of the benefits upon actual retirement.

An important aspect of taxation that, together with the superannuation surcharge, may be relevant to the retention of higher income earners, is the Reasonable Benefit Limit (RBL). This limits the amount of benefit on which taxation concessions are available to any individual and is a flat, indexed to Average Weekly Ordinary Time Earnings (AWOTE) limit which, for 2002–03 is \$1,124,384 for a pension benefit and \$562,195 for a lump sum benefit. Some PSS and CSS members may have a ‘transitional RBL’, higher than the flat rate RBL, as a consequence of the transition from the tiered RBL arrangements that applied previously.

## OVERVIEW OF SUPERANNUATION ARRANGEMENTS FOR APS EMPLOYEES

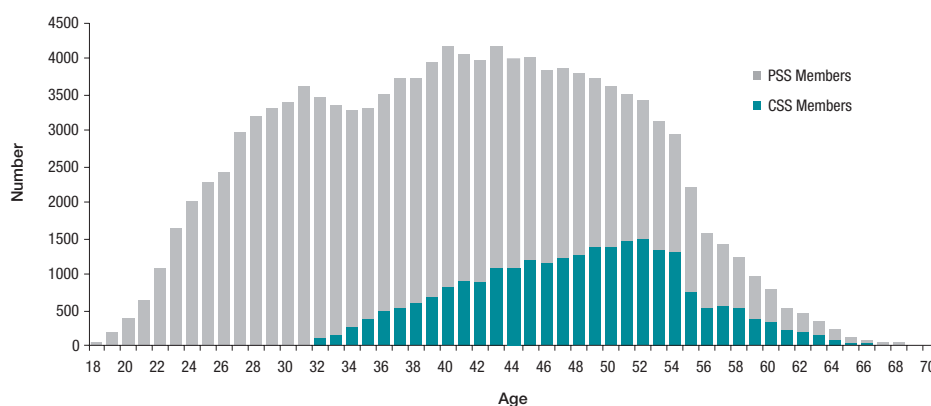
As at 30 June 2002, superannuation arrangements that applied in respect of APS employees consisted of:

- the Public Sector Superannuation Scheme (PSS) of which APS employees were members
- the Commonwealth Superannuation Scheme (CSS) of which APS employees were members
- superannuation guarantee type arrangements, with schemes such as Australian Government Employees Superannuation Trust (AGEST), which applied, generally, to the remaining APS workforce.

The CSS was closed to new members in 1990 and membership of the PSS continues to be mandatory for all new ongoing employees and optional for non-ongoing employees.

Figure 29, below, shows the age profiles of (APS) PSS and CSS members.

**Figure 29: Age profile—APS combined PSS and CSS membership, 30 June 2002**



Source: CSS/PSS Data

## **THE PUBLIC SECTOR SUPERANNUATION SCHEME (PSS)**

### **Background**

The PSS is a fully defined benefit scheme that commenced in 1990. Scheme membership is generally compulsory for ongoing employees (full-time and part-time) and available to certain non-ongoing staff, including casuals, and statutory office holders.

Member contributions are a minimum of 2% and a maximum of 10% of superannuation salary.

Further information on the PSS is available from the PSS Board's website at <http://www.pss.gov.au>, or from ComSuper, the PSS Administrator on phone number 132 366.

### **Benefit accrual**

PSS benefits are expressed in terms of 'Benefit Multiples' which, in most cases, are derived from the member's period of membership and rate of contribution to the scheme.

Member contributions of between 2% and 10% can be varied at any stage during membership. The employer component of the benefit varies according to the level of member contributions but, generally, the more the member contributes the higher the benefit multiple.

For example:

- Where the member contributions are 2% per annum, the benefit multiple that accrues for that year is 0.15.
- Where the member contributions are 5% per annum, the benefit multiple that accrues for that year is 0.21.
- Where the member contributions are 10% per annum, the benefit multiple that accrues for that year, in most cases, is 0.31.

However, there is a '10 year rule' that restricts the level of benefit multiple that may accrue, in certain circumstances. In other words, for a ten year period of membership in the PSS—not necessarily a continuous period or the first ten years—the maximum benefit accrual will be based on an average member contribution of 5% per annum, regardless of whether the member is contributing above that amount.

Also, the PSS benefit accrual is subject to a maximum benefit limit (MBL). This is generally 8 times the member's final average salary (FAS) for lower paid members and reducing for higher paid members.

Simply put, the benefit that accrues is a lump sum benefit of the member's Accrued Benefit Multiple (i.e. the sum of all the member's Benefit Multiples) multiplied by the member's FAS. FAS is generally the average of the member's salary for superannuation on the three birthdays preceding exit. Examples of benefits that might accrue are:

- The retirement benefit of a member retiring with a FAS of \$55,000 and an Accrued Benefit Multiple of 6 will be a lump sum benefit of \$330,000.

- The benefit of a former graduate entrant who leaves the scheme after, say, 15 years of service with a FAS of \$80,000 and an Accrued Benefit Multiple of 3 will be a preserved benefit of \$240,000 at the time of resignation.

The PSS offers a range of benefit options, depending upon the circumstances in which the member leaves the scheme. However, all benefits are based on the lump sum calculated from the sum of the member's benefit multiples applied to the member's FAS.

### **The Maximum Benefit Limit issue**

The MBL is indicative of the maximum amount that the employer is normally prepared to contribute in respect of an employee. When members reach their MBL they cease making contributions to the scheme and real growth of the benefit is limited to salary growth. The '3%' employer productivity contributions also cease; however, employers continue to pay those employer contributions in respect of the employee that are directed to the Consolidated Revenue Fund.

There is some scope for individual members to 'manage' the point at which they reach their MBL. Members are advised of their Accrued Benefit Multiple in their annual PSS statement. It is open to them to reduce their rate of contribution so that the MBL is reached at, or close to, their planned date of retirement.

Actuarial data was compiled to determine if all current PSS members paid future member contributions of 5% of salary, how many are likely to reach their MBL and the age at which they might reach it. The data shows that, allowing for exits from the scheme on current exit trends, only a small percentage of PSS members are likely to reach their MBL by age 55 (less than 2% by age 56).

PSS data shows that after 12 years of scheme operation, only 123 of the 8,000 PSS pensioners were at their MBL when they retired, and of all current PSS members, there are only 131 that have reached their MBL. Of those pensioners/members who reached their MBL about two-thirds were making member contributions at the rate of 10%.

Overall, the available data shows a low incidence of PSS members who have reached or are likely to reach their MBL and the majority of those who did were making member contributions at the maximum member contribution rate. The available evidence suggests that the PSS MBL is currently not a retention issue.

### **Managing the Maximum Benefit Limit**

Despite the fact that there is no evidence the MBL is a retention issue, there are a number of options open to employees and employers to ensure that PSS membership does not adversely impact on APS employment.

First and foremost, employees can actively monitor their Accrued Benefit Multiple to proactively manage this accrual and, assuming they do not want to reach their MBL before retirement, vary their contributions as appropriate so that they reach their MBL close to their planned retirement age.

For a very small number of employees, significant salary growth may mean that their MBL, although still relatively high, is reached earlier than for most other employees.

However, even in this circumstance, employees with, say, an MBL of 6.3 x their FAS (i.e. their average superannuation salary used to calculate this MBL would be approximately \$150,000) would still require around thirty years, at an average contribution rate of 5%, to accrue their MBL.

Where an employee has reached their MBL and the employer regards this as a retention issue that should be addressed, there are options available to the employer both within and outside the superannuation framework that can be used as an incentive to encourage the employee to remain in continued APS employment. For example, the superannuation framework does not restrict employers from, say, increasing an employee's remuneration to reflect the rate of productivity contribution that had previously been paid on behalf of the employee to the PSS Fund.

### **Other strategies for retaining older workers in the APS**

As well as the MBL issue, the PSS design may encourage APS employees to retire at any time on or after age 55. For example, PSS members who reach their minimum retirement age, generally age 55, can retire and receive a pension that is fully indexed to movements in the Consumer Price Index. This benefit may act as an incentive for early retirement.

There are options that an APS employer may wish to offer an employee who is targeted for retention. These options, which rely on changes to an employee's terms and conditions of employment, can be implemented either separately or as a package of incentives.

More specifically, the PSS facilitates more flexible arrangements that may suit those older workers who are considering retirement but who may be attracted to working fewer hours and/or taking a less demanding job. APS employers are also permitted to include superannuation in any salary sacrifice arrangement that might be developed (to an arrangement outside of the PSS, which does not accept salary sacrifice contributions).

Employees considering part-time or reduced level of work would need to ensure that their personal financial circumstances can accommodate the resulting reduction in take home pay including, where relevant, allowing for factors such as continuing to pay employee superannuation contributions on the basis of their former (higher) salary. (Member superannuation contributions are generally based on the recognised superannuation salary and where a salary reduction occurs, superannuation salary would usually continue to be the former higher salary.)

The options outlined above may rely in part on an employer's discretion to alter an employee's terms and conditions of employment including incentives such as remuneration or the form in which that remuneration is paid. There is some evidence that, while this may be possible for APS employees, there is significantly less flexibility for Secretaries and certain statutory office holders, whose remuneration and terms and conditions of employment are subject to legislation and the determinative powers of the Remuneration Tribunal.

## THE COMMONWEALTH SUPERANNUATION SCHEME (CSS)

### Background

The CSS is a part defined benefit and part accumulation superannuation scheme that commenced in 1976. It was designed during an era of the 30 to 40 year APS career service, to meet the retirement income needs of both the employee and his or her spouse in retirement.

Scheme membership was generally compulsory for ongoing employees (full-time and, since the mid 1980's, part-time) and available to certain non-ongoing staff and full-time statutory office holders.

Member contributions are a minimum of 5% and a maximum of 10% of superannuation salary.

Further information on the CSS is available from the CSS Board's website at <http://www.css.gov.au>, or from ComSuper, the CSS Administrator on phone number 132 366.

### Relevant design features

#### *Resignation prior to age 55*

Whenever a member **resigns** at any age prior to reaching age 55 and then chooses to preserve their benefit in the CSS rather than receive an immediate lump sum benefit, the member becomes a 'deferred benefits member'.

The pension benefit that is payable to a deferred benefits member, in prescribed circumstances on or after reaching age 55, is a preserved pension. For convenience, the preserved pension that is payable to a deferred benefits member is referred to here as a **deferred pension**.

The deferred pension is based on a multiple of (2.5 times) the member's own basic contributions (5% of superannuation salary) with interest at the CSS Fund crediting rate and multiplied by the pension conversion factor for the member's age at the point of pension commencement. These factors range from 0.0925 if the deferred pension is taken at age 55 to 0.11 if the pension is taken at age 65. For example, a deferred pension that commences at age 55 based on a member's basic contributions and interest of, say, \$150,000 would be:

$\$150,000 \times 2.5 \times 0.0925 = \$34,687$  per annum.

As well as the deferred pension, the member's accumulated contributions (i.e. all contributions paid and interest accrued) can either be paid as a lump sum or can be used to purchase additional non-indexed pension (generally up to a maximum of a further 20% of equivalent final salary).

Similarly, members can choose to take a refund of their accumulated employer productivity contributions (comprising all employer productivity contributions and interest) or these can be used to purchase additional pension.

### ***Standard pension***

The 'normal' retirement benefit in the CSS is a **standard pension** that is a percentage of final salary, based on the member's age and length of service. For example, the CSS provides, for a member retiring at age 65 after 40 years service, a pension of 52.5% of their final salary.

There is a 'front end loaded' accrual rate for the standard pension, being, at age 65:

- 2% of final salary per complete year of scheme membership for the years 1 to 20.
- 1% of final salary per complete year of scheme membership for the years 21 to 30.
- 0.25% of final salary per complete year of scheme membership for the years 31 to 40.

There is also an additional prorated accrual if the person's last year of membership is a part year.

An APS member can retire at any time from reaching age 55 and, where this occurs, the percentage is calculated as if the person was age 65 and the percentage is then discounted for early payment. The discount rate is 2% per year for each year less than age 65, to age 60, and 3 1/3% per year for each year less than age 60. For example, the percentage of final salary used to calculate the standard pension for a member retiring at age 65 with 30 years contributory service is 50%. However, if the member had been age 63 with 30 years service at retirement, the discount would be 4% of 50%, giving a percentage of 48%.

In addition to this benefit, the member has the same options in respect of accumulated contributions and accumulated productivity contributions as apply in the case of a deferred pension.

Where an APS member retires on age retirement on or after reaching their 55th birthday, the only benefit to which they have an entitlement is a standard pension plus the relevant lump sums or additional pension. **That is, they lose eligibility for the deferred pension unless they have resigned from employment before reaching age 55.**

### **What is the CSS 54/11 issue?**

Some CSS members who are approaching age 55 find that the amount of the standard pension they would receive upon retirement at that age is less than the deferred pension they would receive if they resign at age 54 and 11 months and then take the deferred pension at age 55.

The CSS was not designed with the intention that the preserved benefit should be greater than the defined benefit. The legislative provisions underlying the alternative benefits have been a design feature of the CSS for over 20 years and for most of the years of CSS operation, there has only been a small number of individuals for whom the preserved benefit was higher at age 55. The significant increase in the 54/11 benefit level started in the mid 1990s, when there was a period of high investment returns.

The deferred pension is generally higher where the member has longer service and/or has a 'high' accumulation of basic contributions and interest, relative to their superannuation salary. That is:

- For longer serving members, this may be the result of growth in the comparative standard pension 'falling away' because the 'front end loading' of the pension accrual, as explained above, results in a slower rate of growth later in service.
- The compounding effect of the accumulation of basic contributions plus interest (the basis for calculating deferred pensions) is magnified where there are sustained high interest earnings in later years of membership, and/or a career profile with higher salary growth, with consequential higher member contributions, in earlier years of membership.

In some cases the person may have to continue in employment significantly beyond age 55 to make up the difference. On the other hand, some members have a higher standard pension than a deferred pension and are not affected by the 54/11 issue.

Examples are set out below of two hypothetical members at age 55, with a final salary of \$70,000 per annum:

Example	Member profile	Standard Pension at 55 Percentage of final salary— based on length of contributory membership and age.	Resign 54/11. Take Deferred Pension at 55 Member's basic contributions + interest x 2.5 x a factor relevant to age.
1	<b>Age 55 and 30 Years Service</b>	Percentage is 37.5%	Factor at age 55 is .0925
	Pension Payable	$\$70,000 \times .375 = \$26,250\text{pa}$	$\$150,000 \times 2.5 \times .0925 = \$34,687\text{pa}$
2	<b>Age 55 and 20 years Service</b>	Percentage is 30%	Factor at age 55 is .0925
	Pension Payable	$\$70,000 \times .3 = \$21,000\text{pa}$	$\$85,000 \times 2.5 \times .0925 = \$19,656\text{pa}$

In Example 1 above, the member has 30 years service and the member's own basic contributions accumulated with interest (member contributions) are \$150,000. In this case, the member would be some \$8,000 per annum better off with a deferred pension than with a standard pension.

In Example 2 above, the member has 20 years service and the member's contributions are \$85,000. In this case, the member would be about \$1,350 per annum better off with a standard pension than a deferred pension.

These examples show that members with longer service and a higher ratio of member contributions to final salary are more likely to have an entitlement to a higher deferred pension. In Example 1, with salary growth of 4%, the member would have to work almost until age 59 before the standard pension was a higher benefit than the level of the deferred pension at age 55.

In contrast, members with shorter service have the benefit of the higher CSS accrual rate of 2% of salary per annum in the first 20 years (discounted for retirement at an age below 65).

## **Impact of the 54/11 issue**

### *Actuarial models*

In order to compare the level of the deferred pension and standard pension for the average CSS member and for the longer-serving CSS member, a 'Typical Member' and an 'Age 23 Joiner' were actuarially derived using a range of membership data such as age, length of service and fund crediting rates (including the impact of a sustained period of low crediting rates).

These models found that, for those CSS members covered by the models, the large majority who will reach age 55 over the next 10 to 15 years are likely to have some financial incentive to leave via the 54/11 route. While a sustained period of low interest rates would reduce the financial incentive to resign at 54/11, it is still likely to leave many members who are covered by the model with some financial incentive to do so.

### **How many 54/11 exits are there?**

Normally, data trends over recent years would be used both to determine the current rate of 54/11 exits and to predict future such exits. This was not done, primarily because the years 1997–98 to 1999–2000 were not considered representative of future trends owing to the very large number of redundancies in those years. Data for 2000–01 and 2001–02, were therefore relied on (to estimate trends for future 54/11 exits).

CSS data shows that:

- In the 2000–01 year there were 1,129 CSS members who reached age 55. Of these, a total of 567 left and 562 stayed. Of the ones who left, 438 (or 38% of all members who reached age 55 during the year) resigned while they were age 54.
- In the 2001–02 year there were 1,418 members who reached age 55. Of these, a total of 748 left and 660 stayed. Of the ones who left, 593 (or 41.8% of all members who reached age 55 during the year) resigned while they were age 54.

The number of CSS members who resign at age 54 is currently about 500 to 600 annually. This is about 40% of all CSS members who reach age 55 in any given year (but is only about 20% of all APS members of that age).

Looking forward, around 18,500 APS employees who are CSS members will reach age 55 over the next 15 years. This is about 70% of all current CSS members, many of whom may leave the APS before they reach age 54/11. Of the remaining 30% of current members, about half are already aged 55 or older and half are aged less than 40.

Based on the 2000–01 and 2001–02 data, a trendline was projected to estimate the number of 54/11 exits over that period. This data is highly sensitive to factors including future retrenchment trends, economic conditions (such as the current zero crediting rate) and any successful employer retention strategies that might be employed.

An estimate of 54/11 exits assumes that about 40%, or slightly more, of CSS members who are approaching age 55 will take a 54/11 exit. This would result in about 570 exits in 2002–03, which may rise to just above 600 in 2004–05 then gradually fall to around 300 in 2016–17.

## **MANAGING 54/11**

Where a CSS member is approaching age 55 and has a financial incentive to resign at 54/11 and take a deferred pension, there are several means available to either employees or employers to manage this situation. Overall, whilst these arrangements are not directly designed to address retention issues, they do accommodate employer and employee needs in a range of circumstances.

### ***Resign and return approach***

Some CSS employees resign immediately before reaching age 55 (to obtain entitlement to a deferred pension) and 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.

Where a former employee 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. If they re-enter as ongoing employees they become members of the PSS upon commencement. Where they re-enter as non-ongoing employees they may have the option of PSS membership or a Superannuation Guarantee type arrangement in a scheme such as AGEST.

However, where payment of a person's 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.

Pre-arrangement of a return prior to resigning may, in some circumstances, result in employees being treated as if the membership had continued. That is, the employee would not 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, their future superannuation is provided by that body and it is of no consequence whether or not they are CSS pensioners or deferred benefits members at that time.

### ***Increase CSS salary for superannuation***

There are existing arrangements which allow the employee to remain in continuing employment and retain CSS membership, whilst working on either a full-time or part-time basis, but without financial disadvantage to the employee's eventual pension. This is the ability for the employer to specify a 'superannuation salary' in the member's AWA or certified agreement that is higher than the person's salary (without increasing their take-home pay). This arrangement was introduced for a reason unrelated to the 54/11 issue but nevertheless can be used in this circumstance to raise the standard pension by a negotiated amount so as to narrow or remove the gap between the two alternative pensions.

For employers, this option will not increase the cost of salary paid to the employee but will increase employer superannuation contributions to some extent. The nominal employer superannuation contribution will increase in line with the increase in the

employee's superannuation salary. Also, the contribution rate increases for an agency where its individual overall superannuation salary growth is above average. However, an agency can control this impact by limiting the use of this option to select cases in respect of individual employees. Detailed analysis of the costs an agency could incur by using this option was not conducted because an actuarial triennial review of the overall costs of the CSS, due to be completed during 2002–03, would supersede any such analysis.

For employees, consideration of this option should take into account each employee's own financial circumstances to ensure that they can afford to make contributions on the higher superannuation salary. Those contributions would most likely increase from their next birthday following the increase in superannuation salary.

The following examples illustrate how the superannuation salary could be used to narrow or negate the gap in pensions on retirement:

Example	Age when considering retirement/ (years of membership)	Salary/ Accumulated contributions	Possible CSS pension if resigned 54/11 and retired at age 55	Superannuation salary (ie not necessarily actual salary)	Age at actual retirement/ years of membership	Pension on eventual retirement
3	Age 54/11 (30 years)	\$70,000pa Accumulated contributions \$150,000	\$34,687pa <sup>19</sup> (54/11 benefit possibly paid from age 55)	\$92,500pa (ie employer agrees to higher salary)	55 (30 years)	\$34,687pa
4	Age 54/11 (30 years)	\$70,000pa Accumulated contributions \$150,000	\$34,687pa <sup>19</sup> (54/11 benefit possibly paid from age 55)	\$81,368pa (ie employer agrees to higher salary)	58 (33 years)	\$34,687pa

In example 3 above, a CSS member with 30 years membership at age 54/11, a superannuation salary of \$70,000 and accumulated member contributions and interest of \$150,000 could have a deferred pension of \$34,687 per annum, as compared to a standard pension, if they worked till age 55 and then retired, of \$26,250 per annum (not shown in the table above). In this example, it would be necessary to raise the CSS superannuation salary to about \$92,500 if it were intended to provide the member with a standard pension of \$34,687 per annum at age 55.

Example 4 outlines an alternative option for employers where it may be desirable for an employee to continue in employment for, say three years. In this case the deferred pension payable if the member resigned before age 55 (\$34,687 per annum) would be compared to the standard pension on retirement at an intended retirement age of, say, 58 (i.e. with 33 years service, this would result in a standard pension of 42.630% of final salary). Therefore if the employer increased the final superannuation salary at age 58 to \$81,368 (i.e. \$34687/0.42630) this would preserve the level of standard pension on retirement that would have been payable had the employee resigned at age 54 and subsequently retired.

<sup>19</sup> Had the member continued in employment and retired at age 55 the standard pension in this case with 30 years service would have been 37.5% of final salary or \$26,250 per annum.

It should be noted, however, that neither of the above examples take into account factors such as variations in the standard pension by annual indexation or changes in interest rates, the utility of a higher employment income for additional periods of employment or any value to the employee of negating or merely narrowing the gap between the standard and deferred pensions. Also, these examples do not take into account any impact superannuation salary has on benefits in the event of death or invalidity retirement while a contributor.

An employer wishing to be proactive in retaining such an employee and intending to use this option would need to obtain benefit estimates significantly before the prospective retirement is due and to negotiate retention before the employee starts implementing retirement plans.

As outlined in example 4, this arrangement may be seen to be more useful where the agency seeks to retain an employee for a significant period, such as two or three years. It also enables the agency to target individual employees for retention (i.e. avoids a 'blanket' offer to all employees who are approaching age 55).

Importantly, this increase of CSS superannuation salary strategy may be used to facilitate a staged retirement with a move to part-time employment. However, where an employee seeks (or agrees) to do this, they would need to be aware that their member contributions are generally based on the recognised superannuation salary. Therefore, where a higher superannuation salary is recognised contributions would be likely to be paid on the higher salary, as early as the birthday following the increase, resulting in the employee having less take-home pay while in employment.

#### ***Change to part-time employment***

Unlike the PSS, the CSS does not generally permit membership of the scheme where a member is employed on a temporary part-time arrangement. As a result, an employee who resigns from ongoing employment before age 55 and takes up such employment would cease their CSS membership. (They would then have a choice of the PSS or a Superannuation Guarantee type arrangement with a scheme such as AGEST.)

This arrangement would not assist large numbers of employees to have a phased retirement but can be used in individual circumstances, to mutual benefit, where the employer seeks to retain an employee and the employee is financially able to work part-time.

#### **Other strategies for retaining older workers in the APS**

The above options will specifically assist employers to counter the 54/11 incentive that might otherwise apply in individual cases. However, these options and others can also be used to address the 54/11 incentive and other circumstances where the CSS design may encourage employees to retire at any time on or after age 55. For example, CSS members who reach their minimum retirement age, generally age 55, can retire and receive a pension that is fully indexed to movements in the Consumer Price Index. This benefit may act as an incentive for early retirement.

There are options an employer may wish to offer an employee under their terms and conditions of employment to counter any such incentive. The options outlined below

illustrate either specific incentives available to employers or incentives which could be used as part of a package to encourage employees to continue in the APS.

The existing superannuation framework permits employer agencies to provide 'top up' superannuation through salary sacrifice arrangements as part of the overall salary packaging arrangements within the agency. These arrangements permit the payment of (additional) employer superannuation contributions to complying superannuation schemes other than the PSS or CSS.

The CSS includes other arrangements that may suit older workers who are considering retirement, especially if their main purpose is to work fewer hours or take a less demanding job. These arrangements are discussed in the next section of this Appendix.

Also, some of the options available, which rely on changes to an employee's terms and conditions of employment, can be implemented either separately or as a package of incentives, such as increasing superannuation salary, working part-time and/or working at a lower level. Employees considering any of these options would need to have regard to their own financial circumstances to ensure their income can meet their expenses and provide appropriate retirement benefits, having regard to numerous variables such as taxation and the superannuation contributions they would be required to pay. For example, member superannuation contributions are generally based on the recognised superannuation salary and where a salary reduction occurs, superannuation salary would usually continue to be the former higher salary. Therefore contributions would be likely to be paid on a higher salary than is received, resulting in the employee having less take-home pay while in employment.

Overall, whilst the existing options are not seamless, they do generally accommodate employer and employee needs in a range of circumstances. However, many of the methods that exist do rely on an employer's discretion to alter an employee's terms and conditions of employment including incentives such as remuneration or the form in which that remuneration is paid. There is some evidence that, while this may be possible for APS employees, there is significantly less flexibility for Secretaries and certain statutory office holders, whose remuneration and terms and conditions of employment are subject to legislation and the determinative powers of the Remuneration Tribunal.

Agencies that seek to actively manage the risk of loss of skills and knowledge, would need to decide well before the targeted staff reach their decision point about retirement, whether to adopt a range of strategies available to them under existing superannuation arrangements for retaining or re-engaging key people.

An awareness-raising exercise, directed at both employers and employees, could improve the level of knowledge of the options available and their use.

#### **THE EFFECT ON PSS AND CSS BENEFITS OF WORKING PART-TIME OR AT A REDUCED LEVEL TOWARDS THE END OF AN APS CAREER**

There is an apparent misconception that 'going part-time for the last few years of service' or taking a reduction in level (or both) has a detrimental effect on the PSS or CSS pension paid in retirement. This is not the case. Whilst a PSS or CSS member who moves to part-time employment cannot generally expect to accrue the identical benefit that they would have if they had continued full-time, their existing level of accrual

remains and the future (part-time) service is calculated on a pro rata basis and added to that existing accrual.

The part-time benefit that accrues is a pro rata of the equivalent full-time accrual on the full-time salary. Member contributions are based on the full-time salary apportioned according to the ratio of hours worked to full-time hours.<sup>20</sup>

Where a member has been employed part-time just before retirement, the superannuation salary that is used in the CSS (or that is taken into account in the PSS) to calculate the eventual benefit is the equivalent full-time salary at retirement.

By moving to part-time employment an employee may decide to retire later than they might have done had they continued full-time. In these circumstances they can ‘gain’ from the further growth of the salary on which their final benefit is calculated and by the reduced pension discount factor that is applied to their pension (because they are older when they retire).

Similarly, where PSS or CSS members choose to take a reduction in work level as a transition to retirement, there is no ‘disadvantage’ to the benefits already accrued or, in most cases, to future accruals. In most cases superannuation salary is the ‘pre-reduction increment level’ updated to the current salary value. Therefore, if a member of the PSS or CSS has a reduction in classification their superannuation salary continues to be updated until retirement. If it is not possible to determine an updated salary for the former level, the pre-reduction salary is updated by movements in AWOTE. However there are some exceptions, for example where a CSS member elects to have a lower salary apply, that are not detailed here.

A description of the benefit accrual for part-time and reduced level of work in each scheme, together with some examples of the effect of doing this, are set out in the table at the end of this section. Also, various examples are used throughout this appendix to illustrate how a higher level of income can be maintained through a gradual withdrawal from the workforce by deferring retirement and reducing responsibility (thereby receiving a reduction in salary) and/or decreasing the hours worked. These examples are very broad examples<sup>21</sup> and if such changes to a member’s terms and conditions of employment are contemplated, members and employers would need to seek further specific information that is relevant to each individual’s circumstances from the PSS and CSS Boards or ComSuper at the contact points provided earlier in this appendix.

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<sup>20</sup> Transitional issues about changing from full-time to part-time (or vice versa) or doing this for short periods of time are not covered here. Rather, only a broad description of the principles is set out, for simplicity.

<sup>21</sup> Variables not taken into account in all examples include (but are not limited to):

- the utility to the employee of a higher income as a result of remaining in employment
- the PSS or CSS pension not paid if retirement is deferred
- the updated value of such a pension (e.g. based on increases in the Consumer Price Index)
- the impact of taxation on various income streams and eventual retirement benefits
- the impact of ongoing superannuation contributions if remaining in employment.

Also, the examples used are simple illustrations of the possible impact of reductions in salary and/or part-time employment and do not reflect the exact impact of such an arrangement. For example, transitional arrangements apply for members who move from full-time to part-time employment. Also PSS and CSS rules provide for the superannuation salary prior to a reduction in salary to continue to apply and be updated in accordance with those rules.

## PSS members

### *Part-time work*

For PSS members, the benefit accrual is based on a benefit multiple, which is calculated from the member's level of contribution from time to time and their FAS. When the member works part-time the benefit multiple is calculated in the normal way based on the percentage rate of member contributions and then prorated according to the fraction of full-time hours worked. Thus, assuming the contributor pays the same rate of contribution, say 5% of salary, and works half the full-time hours, the benefit multiple would be half that accrued for an equivalent full-time employee.

Any benefit that is payable to a PSS member employed part-time at retirement would be based on a FAS calculated on the basis of the equivalent full-time salary.

The following examples illustrate very broadly how a PSS member could change from full-time work to part-time work and maintain an income stream that is higher than their pension had they retired instead, while at the same time increasing their eventual superannuation pension.

Example	Age when considering retirement/ (accrued benefit multiple or ABM)	Average salary (hours)	Maximum possible pension if retired at age 55	Actual salary/ hours after reduction	Age at retirement (accrued benefit multiple or ABM)	Maximum possible pension on retirement
5	Age 55 (ABM=5.25)	\$70,000pa 73.5 hours pf	\$30,625pa	\$35,000pa <sup>22</sup> 36.75 hours pf	58 (ABM=5.565)	\$34,171pa <sup>23</sup>
6	Age 55 (ABM=6.3)	\$85,000pa 73.5 hours pf	\$44,625pa	\$68,000pa <sup>24</sup> 58.8 hours pf	59 (ABM=6.972)	\$52,912 pa <sup>25</sup>

Examples 5 and 6 both illustrate how the PSS pension benefit could continue to increase despite a change to part-time hours in the years leading up to retirement. In these cases the accrued benefit multiple has increased (apportioned according to the ratio of part-time hours to full-time hours) and the PSS pension on retirement is also greater because it is based on a higher age at retirement. PSS members who chose to work part-time could manage the lower income by paying a lower rate of contribution although this would result in a slower rate of increase in the accrued benefit multiple.

### *Reduced level of work*

PSS members who have a reduction in classification level also continue to have most, if not all, of their superannuation salary updated by general wage increases until

22 Based on the full-time salary of \$70,000 per annum apportioned by ratio of part-time hours to full-time hours

23 Pension at age 55 is based on 5% employee contributions for 25 years (i.e. which if retired at age 55 would result in a pension of:  $(5.25 \text{ (i.e. } 0.21 \times 25) \times \text{final average salary}) / 12$  (i.e. the pension conversion factor for age 55)  
If the employee continued in part-time employment (50% full-time hours) until age 58, the pension would be:  $(5.25 + (0.21 \times 3 \times 36.75 / 73.5)) \times \text{final average salary} / 11.4$  (i.e. the pension factor for age 58)

24 Based on the full-time salary of \$85,000 per annum apportioned by ratio of part-time hours to full-time hours.

25 Pension at age 55 is based on 5% employee contributions for 30 years (i.e. which if retired at age 55 would result in a pension of:  $(6.3 \text{ (i.e. } 0.21 \times 30) \times \text{final average salary}) / 12$  (i.e. the pension conversion factor at age 55)  
If the employee continued part-time at 80% full-time hours until age 59, the employee's benefit would be:  $(6.3 + (0.21 \times 4 \times 58.8 / 73.5)) \times \text{final average salary} / 11.2$  (i.e. the pension factor at age 59)

retirement. (Some allowances included in superannuation salary may be maintained at the dollar amount without updating.) Therefore, in most cases the member's benefit is not affected by decreases in classification as their FAS will be the same as, or similar to, the salary that would have applied if they had continued working at the former level.

For example, if a PSS member on a salary of \$60,000 per annum reduces to a classification level with a salary of \$40,000 per annum, their superannuation salary on the following three birthdays is determined based on the former salary and updated using one of two methods based on whether the current equivalent of the former designation and salary is known. If it is known, the member's salary will, generally, continue to reflect the salary that would have applied had the reduction not occurred. If the current value of the former salary and designation is not known, the member's salary will be updated according to movements in Average Weekly Ordinary Time Earnings. For example, if the updated superannuation salaries were \$63,000, \$65,000 and \$68,000, the member's FAS at their date of retirement is the average of these amounts i.e. \$65,333.

The following examples illustrate very broadly how a PSS member could reduce their salary and maintain an income stream that is higher than if they had retired while at the same time increasing their eventual superannuation pension payable on retirement.

Example	Age when considering retirement/ (accrued benefit multiple or ABM)	Average salary	Maximum possible pension if retired at age 55	Actual salary after age 55	Age at retirement (accrued benefit multiple or ABM)	Maximum possible pension on retirement
7	Age 55 (ABM=5.25)	\$70,000pa	\$30,625pa	\$60,000pa	58 (ABM=5.88)	\$36,105pa <sup>26</sup>
8	Age 55 (ABM=6.3)	\$85,000pa	\$44,625pa	\$70,000pa	59 (ABM=7.14)	\$54,187pa <sup>27</sup>

Each of the above examples illustrate how a PSS benefit increases during membership irrespective of whether a member has reduced their salary (e.g. through a reduction in classification level) and how a reduction in responsibility might be an effective alternative to retirement, while still increasing PSS benefits. PSS members considering such an arrangement may also consider paying contributions at a lower rate (to compensate for contributions being based on a higher salary that is not being received) although this would decrease the accrued benefit multiple otherwise applicable at retirement.

<sup>26</sup> Pension at age 55 is based on 5% employee contributions for 25 years resulting in a pension of:  $(5.25 \text{ (i.e. } 0.21 \times 25) \times \text{final average salary}) / 12 \text{ (i.e. the pension conversion factor at age 55)}$   
 If salary is reduced and employee continues in employment until, say, age 58, the pension would be:  $(5.25 + (0.21 \times 3) \times \text{final average salary}) / 11.4 \text{ (i.e. the pension conversion factor at age 58)}$   
 Note that in this example the final average salary at retirement is still based on \$70,000 although the average salary in all such examples may have increased according to PSS rules in which case the pension on retirement could be higher.

<sup>27</sup> Pension at age 55 is based on 5% employee contributions for 30 years resulting in a pension of:  $(6.3 \text{ (i.e. } 0.21 \times 30) \times \text{final average salary}) / 12 \text{ (i.e. the pension conversion factor at age 55)}$   
 If salary is reduced and employee continues in employment until, say, age 59, the pension would be:  $(5.25 + (0.21 \times 3) \times \text{final average salary}) / 11.2 \text{ (i.e. the pension conversion factor at age 59)}$

As outlined previously, employees can also combine reductions in salary and part-time employment as a means of gradual retirement. The following examples provide a broad illustration of how this could work:

Example	Age when considering retirement/ (accrued benefit multiple or ABM)	Average salary/hours at age 55	Maximum possible pension if retired at age 55	Actual salary/ hours after age 55	Age at retirement (accrued benefit multiple)	Maximum possible pension on eventual retirement
9	Age 55 (ABM=5.25)	\$70,000pa 73.5 hours pf	\$30,625pa	\$30,000pa <sup>28</sup> 36.75 hours pf	58 (ABM=5.565)	\$34,171pa <sup>29</sup>
10	Age 55 (ABM=6.3)	\$85,000pa 73.5 hours pf	\$44,625pa	\$56,000 <sup>30</sup> 58.8 hours pf	59 (ABM=6.972)	\$52,912pa <sup>31</sup>

Both of the above examples show how the PSS benefit would continue to increase despite the member reducing their salary and hours of work.

### CSS members

For CSS members, benefit accrual is based on length of service and final salary and the age at which the benefit is taken. When working part-time the benefit accrues on a pro rata basis.

#### *Part-time work*

Thus, where a full-time member on \$60,000 per annum and with 25 years service works part-time (on half hours) for four years, the benefit accrual would be equal to 2 years full-time service at full pay. While the member would be paid half the salary they would have previously received (i.e. commencing at \$30,000 and rising with any salary growth), they would normally pay contributions based on the full-time salary but prorated according to the fraction of full-time hours worked. If the member retires after completing four years half-time on a salary of, say, \$32,500 per annum, then their pension would be calculated using the full-time salary of \$65,000 and on 27 years service rather than the 29 years that they would have had if they had continued working full-time.

<sup>28</sup> Based on a full-time salary of \$60,000 per annum apportioned by ratio of part-time hours to full-time hours.

<sup>29</sup> Same assumptions apply as for examples 5 and 7 above.

<sup>30</sup> Based on a full-time salary of \$70,000 per annum apportioned by ratio of part-time hours to full-time hours.

<sup>31</sup> Same assumptions apply as for examples 6 and 8 above.

The following examples illustrate very broadly how a CSS member could work part-time and maintain an income stream that is higher than if they had retired, while at the same time increasing their eventual superannuation pension payable.

Example	Age when considering retirement/ (years of membership)	Super salary/ hours at age 55	Possible pension if retired at age 55	Actual salary/ hours after age 55	Age at retirement/ (years of membership)	Maximum possible pension on retirement
11	Age 55 (30 years)	\$70,000pa 73.5 hours pf	\$26,250pa	\$35,000pa <sup>32</sup> 36.75 hours pf	58 (31.5 years)	\$29,620pa <sup>34</sup>
12	Age 55 (20 years)	\$85,000pa 73.5 hours pf	\$25,500pa	\$68,000pa <sup>35</sup> 58.8 hours pf	60 (24 years)	\$33,660pa <sup>35</sup>

These examples show how the CSS standard pension could continue to increase despite a change to part-time hours in the years leading up to retirement. In the above examples, the years of service (apportioned according to the ratio of part-time hours to full-time hours) and age at retirement used to calculate the pension have increased. Also, other components of the CSS benefit (e.g. the refund of member contributions and interest and the employer '3%' productivity contributions) would also have increased because of additional contributions and interest accrued before retirement.

#### ***Reduced level of work***

If a full-time member of the CSS on a salary of \$60,000 per annum reduced to a lower classification with a salary of \$40,000 per annum, the member's superannuation salary will be determined based on the former salary and updated using one of two methods based on whether the current equivalent of the former designation and salary is known.

If the current value of the former salary and designation is known, the superannuation salary will continue to be increased to the current salary value of the increment level of the classification on which the member had attained the salary of \$60,000 per annum. If the member was on the top of the range prior to the reduction in classification, the member's superannuation benefit will be exactly the same as if they had remained at that level until retirement. Therefore if the current value of the pre-reduction \$60,000 per annum level is \$68,000 per annum at the date the member retires, the member's pension will be calculated on \$68,000 per annum.

<sup>32</sup> Based on the full-time salary of \$70,000 per annum apportioned by ratio of part-time hours to full-time hours.

<sup>33</sup> Standard pension at age 55 with 30 years service is 37.5% of final salary. If the member worked part-time (50% full-time hours) until age 58, the member would accrue a further 1.5 years service resulting in a standard pension at age 58 of 42.315% of final salary.

<sup>34</sup> Based on the full-time salary of \$85,000 per annum apportioned by ratio of part-time hours to full-time hours.

<sup>35</sup> Standard pension at age 55 with 20 years service is 30.0% of final salary. If the member worked part-time (80% full-time hours) until age 60, the member would accrue a further 4 years service resulting in a standard pension at age 60 of 39.6% of final salary.

If an updated salary is not known, the value of the former salary will be updated according to movements in AWOTE.

The following examples illustrate very broadly how a CSS member could reduce their salary and maintain an income stream that is higher than if they had retired and also increase their eventual superannuation pension payable on retirement.

Example	Age when considering retirement/ (years of membership)	Super salary/ hours at age 55	Possible pension if retired at age 55	Actual salary/ hours after age 55	Age at retirement/ (years of membership)	Pension on eventual retirement
13	Age 55 (30 years)	\$70,000pa 73.5 hours pf	\$26,250pa	\$60,000pa 73.5 hours pf	58 (33 years)	\$29,841pa <sup>36</sup>
14	Age 55 (20 years)	\$85,000pa 73.5 hours pf	\$25,500pa	\$70,000pa 73.5 hours pf	60 (25 years)	\$34,425pa <sup>37</sup>

Examples 13 and 14 show how the standard pension payable on retirement would continue to increase in circumstances where there is a reduction in salary<sup>38</sup>. They illustrate how a CSS standard pension could continue to increase during membership even where a member has reduced their salary (e.g. through a reduction in level) and how a reduction in responsibility might be an effective alternative to retirement, while still increasing benefits. CSS members considering such an arrangement should also have regard to the other components of the CSS benefit (e.g. the refund of member contributions and interest and the employer '3%' productivity contributions), which are also likely to increase because of additional contributions and any interest accrued before retirement.

<sup>36</sup> Standard pension at age 55 with 30 years service is 37.5% of final salary. If the member reduced their salary (and did not elect to contribute at the lower salary) the standard pension at age 58 with 33 years service would be 42.630% of final salary.

<sup>37</sup> Standard pension at age 55 with 20 years service is 30.0% of final salary. If the member reduced their salary (and did not elect to contribute at the lower salary) the standard pension at age 60 with 25 years service would be 40.5% of final salary.

<sup>38</sup> Examples 11 and 12 assume that the CSS members do not choose to pay contributions on the lower superannuation salary and do not take into account various factors such as any increases to the former salary (for example, because amount paid at the former level has increased because of general wage increases).

As outlined previously, CSS members could also combine reductions in salary and part-time employment as a means of gradual retirement. The following examples provide a broad illustration of how this could work:

Example	Age when considering retirement/ (years of membership)	Super salary/ hours at age 55	Possible pension if retired at age 55	Actual salary/ hours after age 55	Age at retirement/ (years of membership)	Pension on eventual retirement
15	Age 55 (30 years)	\$70,000pa 73.5 hours pf	\$26,250pa	\$35,000pa <sup>39</sup> 36.75 hours pf	58 (31.5 years)	\$29,620pa <sup>40</sup>
16	Age 55 (20 years)	\$85,000pa 73.5 hours pf	\$25,500pa	\$68,000pa <sup>41</sup> 58.8 hours pf	60 (24 years)	\$33,660pa <sup>42</sup>

In examples 15 and 16, while the pension on eventual retirement would continue to be based on the superannuation salary applicable before the reduction (and including any relevant increases) the percentage used to calculate the pension on retirement would be based on the increased years of service (apportioned for the period of part-time employment) and increased age at retirement.

<sup>39</sup> Based on the full-time salary of \$60,000 per annum apportioned by ratio of part-time hours to full-time hours.

<sup>40</sup> Same assumptions as for examples 9 and 11 apply.

<sup>41</sup> Based on the full-time salary of \$70,000 per annum apportioned by ratio of part-time hours to full-time hours.

<sup>42</sup> Same assumptions as for examples 10 and 12 apply.

**EXAMPLES SHOWING THE EFFECT OF WORKING PART-TIME TOWARDS THE END OF AN APS-CARRIER**

Scheme	Age	Planned Retirement Age	Current Salary and Length of Service (CSS) or Benefit Multiple (PSS)	*Estimated Pension Entitlement If Continued to Work Full-time to Planned Age	Estimated Pension Entitlement If Changed to Part-time Half Hours to Planned Age
CSS	51	55 if F/T 59 if P/T	\$40,000 pa 31 years service	At age 55 would have 35 years service and a salary of about \$45,000 Pension entitlement = 58.4588% \$45,000 x .38438 = \$17,297 pa	At age 59 would have the equivalent of 35 years service and an equivalent full-time salary of about \$50,000 Pension entitlement = 44.5888% \$50,000 x .445888 = \$22,294 pa
	53	57	\$60,000 pa 25 years service	Would then have 29 years service and a salary of about \$70,000 Pension entitlement = 39.690% \$70,000 x .39690 = \$27,783 pa	Would then have the equivalent of 27 years service and an equivalent full-time salary of about \$70,000 Pension entitlement = 38.070% \$70,000 x .38070 = \$26,469 pa
CSS	56	57 or 58	\$120,000 pa 31 years service	At age 57 would have 32 years service and a salary of about \$126,000. Pension entitlement = 40.9085% \$126,000 x .40905 = \$51,540 pa At age 58 would have 33 years service and a salary of about \$132,000 Pension entitlement = 42.630% \$132,000 x .42630 = \$56,271 pa	At age 58 would have the equivalent of 32 years service and an equivalent full-time salary of about \$132,000 Pension entitlement = 42.4289% \$132,000 x .42420 = \$55,994 pa <b>If by working part-time the person decides to continue working half hours to age 60.</b> At age 60 would have the equivalent of 33 years service and an equivalent full-time salary of, say, \$140,000 Pension entitlement = 45.675% \$140,000 x .45675 = \$63,945 pa
	54	56	\$50,000 Benefit Multiple of 6 and contributing at 5%	At age 56 would have a benefit multiple of 6.1 (2.1x2) 6.42 and a final average salary of about \$52,000 = \$333,840 or full pension of \$28,291 pa	At age 56 would have a benefit multiple of 6.1 (2.1x.5x2) 6.21 and an equivalent full-time final average salary of about \$52,000 = \$322,920 or full pension of \$27,366 pa
PSS	56	60	\$120,000 Benefit Multiple of 5.5 and contributing at 10%	At age 60 would have a benefit multiple of 5.5 + (.31x4) = 6.74 and a final average salary of about \$132,000 = \$889,680 or full pension of \$80,880 pa	At age 60 would have a benefit multiple of 5.5 + (.31x.5x4) = 6.12 and an equivalent full-time final average salary of about \$132,000 = \$807,840 or full pension of \$73,440 pa

\* These entitlements show the total benefit for PSS members. CSS members also receive a refund of member contributions, accumulated with interest (or may convert some or all of that amount to an additional (unindexed) pension).