



Recommendation for restructuring the Separation Payment

**Submission prepared for the Victorian Independent
Remuneration Tribunal**

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Background to this Submission

Deakin University was commissioned by the Parliament of Victoria, in conjunction with the Victorian Parliamentary Former Member's Association (VPFMA), to undertake research on the experiences of members of the Victorian parliament as they transition to life after parliament. Our findings and recommendations were published as **Nethery et al. (2021) *Transitioning to Life after Parliament* (ISBN: 978-0-6452619-0-5)**.

Our research into the transition to life after parliament raised some additional findings on the appropriateness and effectiveness of the current separation payment arrangements for members of parliament when they leave parliament. This submission, prepared for the Victorian Independent Remuneration Tribunal (VIRT), sets out our findings and makes a recommendation for improving these arrangements. In light of our findings, we request that the VIRT give consideration to this submission.

The Victorian Independent Remuneration Tribunal was established under the Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019 and is the body tasked with reviewing Victorian Parliamentary salaries and entitlements. Under this legislation it is required to hold regular public inquiries and receive submissions before making its determinations. Deakin believes that this submission provides valuable evidence which should be made available to VIRT at its next inquiry.

The recommendation comes from the findings of our research into MPs' transition to life after parliament, which includes a survey of 93 former MPs, interviews with 39 former MPs, and a comparative analysis of 34 other Commonwealth parliaments. In addition, the recommendation draws on economic modelling conducted by Mr Daniel Boss of the Victorian Parliamentary Budget Office, who was seconded to assist with this research.

Should this recommendation be implemented, we believe the experience of transitioning out of a parliamentary career will be significantly improved across the range of mental health, wellbeing, financial and employment issues identified in this submission. The recommendation will have a further positive impact on democracy in Victoria by removing a significant disincentive for MPs to leave parliament, thus encouraging regular renewal of members of parliament.

The Transitioning to Life after Parliament research project and this present submission was approved by the Deakin University Ethics Committee (Code number HAE-20-099).

Acknowledgements

Mr Daniel Boss of the Victorian Parliamentary Budget Office was seconded to develop a costing model based on our recommendations; we are grateful for his work on this aspect of the project. We are also grateful to Ms Linda Wollersheim for her research assistance on this project.

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Glossary

FMP	Former Members of Parliament
MP	Members of Parliament
PoV	Parliament of Victoria
VIRT	Victorian Independent Remuneration Tribunal
VPFMA	Victorian Parliamentary Former Members Association

Recommendation:

Restructure the current separation payment to a ‘needs basis’ rather than a ‘time-served basis’.

The Victorian Independent Remuneration Tribunal should give consideration to amending the current separation payment from a ‘time-served basis’ to a ‘needs basis’.

The ‘needs basis’ payment should be structured as follows:

- Six months basic salary to be paid to all departing MPs, terminated when the former MP secures paid employment.
- The basic salary would be the equivalent of a backbencher’s salary.
- If the former MP has not secured paid employment after six months they may apply for a further six month’s salary, on the proviso that they have been actively seeking work, or have medical, mental health or caring responsibilities that preclude them from obtaining employment.
- A further extension of six months (i.e. 18 months in total) would be made available in the circumstances listed above.
- Payment will be in regular instalments.
- The former member will be obliged to notify the Parliament as soon as they obtain paid employment so that the separation payment can be ceased, either fully, or reduced on a pro rata basis if full-time employment has not been secured.
- As is currently the case, the separation payment will be paid to an MP (or their beneficiary) when the MP dies while in office; does not seek re-election; or otherwise ceases to be an MP provided the MP does not lose their seat as a result of corrupt conduct.
- The payment would not be available to MPs who resign their seats before the end of a parliamentary term except for medical, mental health or caring responsibilities.
- The payment would not be available to MPs who are members of the defined benefit superannuation scheme.
- The payment would not be available to MPs who are in receipt of benefits from other superannuation schemes or Commonwealth or State benefits.

Current arrangements

The current separation payment was introduced in 2019 to replace the former resettlement allowance, which was only provided to former MPs who lost their seat at a general election or did not seek re-election due to not being endorsed by their party.

The separation payment is provided to an MP or their dependants when an MP dies while in office; does not seek re-election; or otherwise ceases to be an MP provided the MP does not lose their seat as a result of corrupt conduct.

The payment is also not available to MPs who are members of the (now closed) defined benefit superannuation scheme.

Eligible MPs receive a lump sum which varies according to the time served in Parliament:

- Three months basic salary, if they served one term or less
- Six months basic salary, if they served at least two terms
- A pro-rata sum between three and six months basic salary, if they served between one and two terms.

Evidence Supporting this Recommendation

There are two fundamental problems with the current separation payment arrangements:

- It is available for an insufficient period following an MP's departure from parliament; and
- Qualification for the payment is determined by the amount of time served by an MP in parliament, rather than the specific needs of the MP after they leave parliament.

Our survey found that it took 53 per cent of FMPs at least six months after leaving parliament to secure paid employment, while 28 per cent took between six and 12 months and a further 12 per cent took 18 months or more to find work. The remaining seven per cent reported having not found any new role, although these were mostly former members who had retired, were not interested in paid employment and or only seeking community roles.

Members of VPFMA Welfare Committee have reported instances of FMPs taking up to four years to secure employment, and some FMPs interviewed for this project reported knowing others being unable to secure work three years after leaving parliament.

The survey and interview data confirm that the challenges in securing work after leaving parliament are experienced roughly equally by FMPs who left parliament after a short time and those who have had a long parliamentary career. Some people who depart after one term are able to take up employment immediately, while others find the time in parliament much more disruptive for their career opportunities. Conversely, some people who have had long parliamentary careers transition quickly into other roles, while others take many months or years to get back to full employment. We conclude that time spent in parliament is not a good indicator of whether or not the separation payment is needed.

The interview data reveals that the delay in securing employment is due to a number of factors:

- Many FMPs, regardless of the nature of their departure, recount a period of physical and mental exhaustion after their time in parliament as a result of the high demands of the job.
- In Victoria, elections are held in November. December and January are slow times for recruitment, so it is often two months or more before a FMP begins to look for work.
- Most MPs who depart parliament involuntarily have little or no plan for a career after parliament, and it takes some time for new opportunities to be sought.
- The majority of FMPs, regardless of the nature of their departure, have experienced difficulty securing work as a result of employer bias against employing former MPs due to concerns about impact of partisanship on the company.
- There is not a full understanding of the skills and expertise held by former parliamentarians within the commercial sector and former parliamentarians often fail to articulate their own value-proposition when seeking new employment opportunities.
- The lack of commercial or industry experience (outside of the political sphere) prior to entering parliament limits employment opportunities once they leave parliament.
- When FMPs do secure work, it often does not equate to a full-time load or equivalent income, and may include a combination of paid and unpaid roles. Chronic underemployment may occur for years.

In the interviews, many MPs related the prolonged difficulties they experienced securing post-parliamentary employment and the financial and emotional stress this caused them and their families. As one FMP who lost their seat after one term stated

[I was] four years out of the normal workforce, and...[the] stigma associated with your CV because of the MP thing...can ruin your career. It can end your career. So what then, and you've got a mortgage? Maybe still got a couple of kids...So public service ruins your life.

Another recounted how

I was unemployed. I was the family's main income earner. All of a sudden, things that you take for granted about, like paying for the mortgage...all becomes a bit shaky, so it was hard.

Importantly, the failure to secure employment in the immediate post-parliamentary period was usually not for want of trying, as this respondent who lost their seat recalled:

I started on the Monday [after the election] at my office writing letters...Could you imagine what it was like? It just would have been dreadful...I actually thought my experience was going to land me a job straightaway. That's what I thought...I thought somebody's going to be so impressed by everything that I have done during my eight years [in parliament] that they will want me and they didn't.

A key insight from the interviews is that it typically takes quite a long time to secure employment, sometimes more than a year. One interviewee recalled a former colleague who took more than three years to find work. This is why it is necessary to make the separation payment available to those who need it for up to 18 months.

Time is also needed to develop a post-parliamentary professional profile, because as one FMP, who looked for work eight months before securing a job interstate observed,

I don't think there's any respect for the skills that an ex-MP has. It was well you're completely out of touch, you haven't worked for four years...people don't understand; they go well so you haven't been in management for four years. Well actually [I] managed staff...[and] volunteers...I know how to manage but I couldn't prove that, because MP on your resume says you're not a manager. Having MP on your resume says you don't know what the corporate sector is...So there's that perception that you've lost all of your skillset and haven't gained any.

Applying for jobs is also very time-consuming, especially, as many respondents recounted, they were applying for up to three or four positions per week, often over many months. One FMP even estimated that they applied for at least 100 jobs in 12 months before securing a role that paid less than half their backbench salary.

Having just gone through the ordeal of losing their seat, this FMP believed that they simply were not in the right frame of mind to secure a new role in the 12 months following their departure from parliament, which again demonstrates the need for needs-based transitional financial support.

I was in such a terrible headspace that I probably wasn't applying as much as I should have been, but I don't think I was getting interviews for that reason. I've had friends that have been in this position before over the years, when you're depressed and at a low ebb, you kind of don't get traction with potential employers, because I think there's a vibe around that.

Similarly, another FMP who lost their seat in 2018 and had still not gained employment at the time of being interviewed explained that

I actually stopped applying for a long time, and I stopped because looking at SEEK and LinkedIn and all those sorts of things was sending me into a spiral of deep depression...knowing that they were roles that I could do, but...I didn't have any of the qualifications they wanted. I got to the stage where I was so depressed, I was crying all day, every day, crying myself to sleep every night. I just thought, this is actually not healthy. So I stopped looking.

For many respondents who were not beneficiaries of the defined benefit superannuation scheme, and especially those who lost their seats before the introduction of the current separation payment arrangements, the financial impact of electoral defeat was often acute:

The pension was never important until you realise the discrimination that you're faced that prevents you from the most basic...employment and basic financial security...It would have meant an incredible difference for me and everybody else [who missed out]...Some of [my] colleagues that were in the same situation as me, they couldn't pay the mortgage for six months.

Other respondents who were beneficiaries of the old scheme were also concerned about the impacts of its abolition on their former colleagues:

I think this is a problem when they just cut the pensions off completely. I think hindsight's always a wonderful thing, they should have reduced it...One [former MP once said to me that the pension] 'really saved me because I've got young children'. So...I don't think people quite understand...that it's not like you lose your job in the ordinary world...and then you can just walk into something else. Because the politics make it very difficult.

The old system that we had stood everybody in good stead...I was happy to...work 80 hours a week knowing that I was going to be compensated for that over the rest of my life...I have to say that I do feel for some people who didn't quite make the parliamentary pension.

The old pension scheme is a very big benefit to help the transition, versus now, because you can say, bummer, at least I get something out of it...For a lot of people, having left their jobs to go into Parliament, they can't easily come back to those jobs.

Some FMPs who were in receipt of the pension also expressed concern about the broader consequences of the abolition of the pension for parliamentary democracy in Victoria.

the pension was introduced...on the idea that people take themselves out of the workplace, out of their career for a number of years, and then they can't find their way back in. I don't think that's changed. I think that's remained the same...I think we've got a real problem post 2004...Someone that's on a \$200,000 a year income suddenly drops to nothing is going to be a problem...[It has] been a real disaster...because I think it means two different things. It means that some people will leave too early because they find an opportunity to get a job somewhere...or they stay too long. I think neither of them are good for the body politic. I think the body politic needs to be replenished all the time.

I'd bring back pensions...because what you have when you don't have pensions are oldies that you can't get rid of. They hang out in their seat forever, because they want the pay packet...When the pension was there, the people would be put into the seats and then everyone would count if they'd qualified for their pension, and then if they're good, bad or indifferent you can get rid of them and get a new one in who might be better. But you can't dislodge them if they've got nothing to fall back on.

For many, the pension allowed FMPs to continue to give back to the community and use the skills that they developed in parliament, as this respondent explained:

I ended up with a portfolio of responsibilities...it's this protection of the pension. Didn't matter whether I was being paid. So, chairing the local...community health board, I think I get \$2000 a year to do it [but] I have been known to spend 10 or 15 hours, even more, a week on it.

Recipients of the current separation payment were very thankful, despite the fact that for many it did not see them through to securing employment, even when they scrimped and saved. This again demonstrates the need to restructure the separation payment to become more needs-based, because 'if you can't get a job because you've been an MP that - there needs to be just some sort of safety net'.

MPs can get their \$35,000 or their \$75,000, but still in practical terms they're going to be discriminated for a lot longer than that...[because] if you leave after one term, you're going to suffer the same discrimination as somebody who's been there three terms. So having the 35,000 doesn't cut it, because they're going to be discriminated for just as long as the others. With 35,000, you've got to buy a car, so really that could just be taken up with that. Then you've got to find money ongoing for the mortgage or the rent.

It's good that we've now got the...three month or six-month payment and that does give you a bit of time, but if you're the sole income earner for a family it doesn't last long.

Comparison of current arrangements with other Commonwealth parliaments

The current separation payment is more generous in terms of amount paid, duration of payment and qualification requirements than 23 of the 33 Commonwealth legislatures surveyed and commensurable with three parliaments, namely Australia's Federal Parliament, the Queensland Parliament and the Isle of Man Tynwald.

Seven of the Commonwealth parliaments surveyed provide more generous and/or more needs-based transitional payments than the PoV. With the exception of the Welsh Assembly, these are all Canadian provincial legislative assemblies, which is consistent with the limited literature on parliamentary transitions that finds that the most extensive support to departing MPs is provided in Canada (Jacobson, 2015; Roberts, 2017).

The most comprehensive and needs-based transitional support is provided in British Columbia, which we believe offers a model worth emulating in Victoria. In British Columbia, transitional assistance provides the equivalent of a member's basic salary and benefits in fortnightly payments until they are in receipt of income in excess of the fortnightly transitional assistance amount or 15 months have elapsed, whichever comes first. Should a former member become employed during the transitional period, the transitional assistance allowance will be reduced by the gross amount of any declared employment income and/or member pension benefits.

Members who choose not to stand for re-election or are defeated in a provincial general election qualify to receive the transitional allowance. To qualify for the full 15 months of the transitional assistance allowance, members must have served a full term of parliament. Members elected in a by-election during a parliament, and not running or not elected in the following provincial general election, are eligible to receive the first four months of the transitional assistance allowance, with the remaining 11 months prorated, based on the amount of time served as a percentage of the duration of the parliament. Members who resign or forfeit their seat in the House are not eligible for this assistance. All members who meet the transitional assistance criteria are entitled to receive the first four months of transitional assistance payments, regardless of whether the Members are in receipt of pension or employment income.

Payments made under the Transitional Assistance Allowance for Members are disclosed on the Legislative Assembly's website on an aggregate basis quarterly after each provincial general election.

An additional retraining allowance of up to CAD\$9,000 is also available to former members, upon presentation of receipts for the completion of eligible courses and programmes, including career counselling, tertiary education, professional development, textbooks and other educational costs, including travel costs associated with retraining. To be eligible for reimbursement, training must occur within the 15-month transitional assistance period, except for members not seeking re-election, who may incur costs prior to election day.

Ontario, Manitoba, Nunavut, Quebec, Saskatchewan and Wales also provide more generous and long-lasting transitional support than Victoria. Although the benefits in these jurisdictions are calculated on a time-served basis, the minimum transitional payment as proportion of basic salary or average annual salary remains greater than the three months basic salary provided in Victoria for members who serve at least four years.

Economic modelling

A budget model was constructed to analyse the project's recommended change to the separation payment from the current time-based scheme to a more needs-based scheme, in which payment depends on how long it takes to find secure paid employment. To reiterate, we propose that all departing MPs (subject to the conditions outlined above) would be paid 6 months' salary, and they would all be eligible for payments of up to 18 months' salary via 6-month extensions if they are actively seeking work or have caring responsibilities or health that preclude them from obtaining employment. MPs who secure employment would no longer receive payments, or receive reduced payments, if they have not secured full-time employment.

To estimate the cost of this change if it were introduced prior to the state election in 2022, we assume the following:

- **MPs' salary.** The basic salary for an MP in 2022-23 is forecast from the 2021-22 basic salary.
- **Number of departing MPs.** A central estimate was taken (37 departures) based on recent historical data, with high (52) and low (22) scenarios estimated by adding and subtracting 15 departures, respectively.
- **Time taken to find a new job for eligible MPs.** Excluded from our calculations are the MPs who are eligible for the parliamentary pension scheme, which closed in 2004. For the remainder, we consider two plausible scenarios (based on evidence from the survey): (i) all members take between 0 and 6 months to find work, and on average 3 months; (ii) 80% of members take between 0 and 6 months to find work, and on average 3 months, but 20% wait the full 6 months. The latter scenario takes account of the 'behavioural response' of some members who delay their search for work because of the new scheme.

We estimated the total separation payments following the 2022 election under the current scheme (Model A), under proposed new scheme without the behavioural response (Model B), and under the proposed new scheme with the behavioural postulate (Model C). For comparative purposes, we also considered the new proposal with a low payment, set at the average weekly wage rate in Victoria (computed from the most recent data (November 2020)). This low-cost version of the proposal is calculated under both the assumption of no behavioural response (Model D) and while assuming behavioural change (Model E). The results from these various estimates are summarised in Table 1 below.

It should be noted that there is greater uncertainty in the costings for the proposed new scheme, because the amount that would be paid to each departing MP depends on how long it takes them to find work, which in turn will depend on, amongst other things, the state of the economy and the vibrancy of particular labour markets. By contrast, the basis for payments under the current scheme is simply the number of full terms that have been served, so there is no connection between the overall cost of the separation payment and fluctuations in the economy and labour markets.

There is greater uncertainty in the costings where the time taken to find paid employment is the payment basis. This is because the amount that would be paid to each departing MP is uncertain, unlike the amount that would be paid under the current scheme where the number of full terms served is the payment basis. Due to this uncertainty, the results for all scenarios listed above may not reflect the actual experience following the 2022 election. For example, most MPs that depart after the 2022 election may have served at least 2 terms and find full-time paid employment 2 months after departing parliament. In this instance, most departing MPs would only receive a 2-month separation payment instead of a 6-month payment, resulting in a lower overall cost when comparing the proposed scheme to the existing scheme.

Table 1: Modelling the Cost of the Separation Payment

	Model A Current scheme	Model B Proposal, no behavioural response	Model C Proposal, with behavioural response	Model D Proposal at average wage rate, no behavioural response	Model E Proposal at average wage, with behavioural response
High Turnover	\$3.5m	\$4.1m	\$4.3m	\$2.0m	\$2.1m
Medium Turnover	\$2.4m	\$2.6m	\$2.8m	\$1.3m	\$1.3m
Low Turnover	\$1.4m	\$1.7m	\$1.8m	\$0.8m	\$0.9m

As the table shows, the separation payment is costlier under the proposed scheme as compared with the existing scheme. In particular, the cost estimates model B scenarios (i.e., the proposed scheme without behavioural change) are on average 16 per cent more expensive than the model A scenarios (i.e., the current scheme). Incorporating behavioural change adds another 6 per cent to the expected costs. Nevertheless, it is not excessively so, and the additional payments would provide an important support to FMPs during a period of significant mental, emotional, practical and employment challenges.

As one might expect, if the separation payment were to be based on average weekly earnings instead of an MP's basic salary, the cost of the proposal is significantly lower, and indeed would be considerably cheaper than the current scheme (Models D and E). Adopting the separation payment based on the average weekly earnings instead of an MP's basic salary would also be an acceptable outcome based on our research, and if the other conditions were in place (such as allowing the payment to continue for 18 months if necessary), this would be sufficient to ameliorate many of the acute stressors we have identified in our research. However, we argue that the payment at average weekly earnings might not be enough to remove the disincentives for MPs to leave parliament. For that reason, despite Models D and E being cheaper, we recommend that the separation payment should be the equivalent of an MP's basic salary.

The full details of the economic modelling are contained in Appendix One.

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Appendix One:

Full Economic Modelling

Prepared by Daniel Boss

Background

In 2012 and 2013, Malcolm Hazell conducted a review on Victorian members' salary entitlements, allowances, and other arrangements. One recommendation from the review was that members that lost their seat at an election or did not run for re-election following deselection by their party for reasons other than misconduct are paid a resettlement allowance if they are unable to immediately access a parliamentary pension or access their superannuation (those that joined Parliament after 2004 and do not retire). Some reasons for the recommendation include that the allowance is like a redundancy payment that is common in the community and that it can be difficult for recently departed members of parliament (MPs) to re-join the professional workforce.

The Victorian Parliament enacted this recommendation later in 2013. The resettlement allowance paid to an eligible member was 3 months of the annual basic salary payable for members who served less than 2 consecutive terms and 6 months of the annual basic salary payable for members who served at least 2 consecutive terms. The resettlement allowance was replaced in early 2019 by the separation payment. The separation payment amount was identical to the resettlement allowance amount, except that it was paid to all departing MPs, aside from those that have a parliamentary pension, are convicted of corrupt conduct, or committed a significant and wilful breach. The departing member is required to repay the separation payment if they are re-elected in the term immediately following their departure, either through a by-election in the Legislative Assembly or casual vacancy in the Legislative Council.

Proposed changes

Change the basis of the separation payment from tenure in the parliament to the duration of finding secured paid employment. Specifically, all departing MPs would be paid 6 months salary and would be eligible for payments up to 18 months salary via 6-month extensions, if they are actively seeking work or have responsibilities precluding them from obtaining employment. MPs that secure employment would no longer receive payments or received reduced payments if they have not secured full-time employment.

The costings for all changes to the separation payment are estimated based on these policy specifications.

Costing calculation

The following components are required to be estimated to determine the cost of a change in the separation payment to members that depart following the 2022 election:

- Basic salary at 2022 election
- Average weekly ordinary time earnings in November 2022

- Number of departing MPs after the 2022 election
- Distribution of departing MPs:
 - How many full terms they served
 - Time taken for eligible members to find paid employment

The steps taken to calculate the cost of proposed changes to the separation payment are outlined on the following page.

1. Estimate the MPs basic salary in 2022-23 by forecasting from the 2021-22 basic salary
2. Estimate the Victorian average weekly ordinary time earnings by forecasting from the most recent data from November 2020
3. Estimate the number of departing MPs
 - a. A central estimate was taken (37 departures), with high and low scenarios also estimated by adding and subtracting 15 respectively (52 and 22 departures)
4. Estimate the tenure of departing MPs
5. Estimate the time taken to find a new job for all departing MPs that are eligible for a separation payment
 - a. Those that have a parliamentary pension are ineligible for a payment; the parliamentary pension scheme was changed in 2004
 - b. There are two scenarios in this calculation: all members that take between 0 and 6 months take 3 months on average, and 80% of members that take between 0 and 6 months take 3 months on average with the remaining 20% waiting the full 6 months (a “behavioural response” of members that can easily find employment after departing parliament)
6. Estimate the total separation payments following the 2022 election by multiplying the basic salary or annualised average weekly ordinary time earnings by the respective proportion based on the tenure or time taken to find a new job for departing MPs eligible for the payment, for the four specified options:
 - a. Current scheme
 - b. Replacing payment basis from tenure to time taken to find a new job
 - c. Replacing payment basis from tenure to time taken to find a new job and replacing the basic salary with annualised average weekly ordinary time earnings
 - d. Replacing payment basis from tenure to time taken to find a new job but maintaining the same overall cost
 - i. The salary and percentage change required for this cost neutral policy are also calculated

Assumptions

The estimates are calculated using the following assumptions:

- the MP basic salary and Victorian average weekly ordinary time earnings increase in line with the Victorian wage price index
- the number of departing MPs following the 2022 election is equal to the average number of departed MPs following the 2014 and 2018 elections
- the composition of departing MPs eligible for a separation payment by time taken to find employment is equal to the composition of all departed MPs in the survey conducted by the Deakin Research Team, aside from required manual edits (see Results section)
 - those that did not provide a response to the question of time taken to find employment are assumed to not be looking for work and receive no payment
- all departing MPs that find employment within a set time range take on average the midpoint of the range to find a new job (ie. 3 months for those between 0 and 6 months)

- the exception to this is when a 20% “behavioural response” is applied to the cohort of departing MPs that take between 0 and 6 months to find employment, where those individuals choose to wait the full 6 months until they resume paid employment
- the composition of departing MPs by length of tenure is equal to the composition of all sitting MPs by length of tenure as at the 2022 election
- no departing MP receives a reduced payment; they either receive a full payment or no payment
- no departing MP left parliament due to being convicted of corrupt conduct and did not commit a significant and wilful breach
- no departing MP is re-elected to parliament in the immediate term after their departure
- the impact of members losing seats due to redistributions is similar in 2022 to previous years.

The cost estimates are sensitive to changes in all assumptions and only estimate the cost from departures following the 2022 election.

Results

For all scenarios:

- there is a higher cost when changing the separation payment amount basis from tenure to time taken to find employment
- there is a lower cost when making this change but calculating the payment based on average weekly ordinary time earnings instead of the MP basic salary.

The costs of the two separation payment schemes based on the time taken to find employment increase by a range of 5.5% to 5.9% when the “behavioural response” for the cohort of departing members that take between 0 and 6 months to find employment is accounted for.

These results are driven by both the costing assumptions and discrete nature of the costings (ie. fixed number of departing MPs for each cohort – no decimals used). This is evident in the annual payment for the cost neutral scenario, as the split of departing MPs eligible for separation payment by tenure had to be edited to ensure consistency (see italicised ‘Check’ numbers).

There is greater uncertainty in the costings where the time taken to find paid employment is the payment basis. This is because the amount that would be paid to each departing MP is uncertain, unlike the amount that would be paid under the current scheme where the number of full terms served is the payment basis. Due to this uncertainty, the results for all scenarios listed above may not reflect the actual experience following the 2022 election. For example, most MPs that depart after the 2022 election may have served at least 2 terms and find full-time paid employment 2 months after departing parliament. In this instance, most departing MPs would only receive a 2-month separation payment instead of a 6-month payment, resulting in a lower overall cost when comparing the proposed scheme to the existing scheme.

Excel summary

Excel models and instructions on how to use them are available upon request.

Separation payment costs following 2022 election													
NO BEHAVIOURAL CHANGE													
	TURNOVER			%difference between Curent and Proposed									
<u>Costs</u>	High	Medium	Low	High	Med	Low	Mean						
Current scheme (\$ mil)	3.481	2.432	1.430	16.43836	7.843137	20	14.7605						
Proposed scheme - base salary (\$ mil)	4.053	2.622	1.716										
Proposed scheme - AWOTE (\$ mil)	1.964	1.271	0.832										
Proposed scheme - cost neutral (\$ mil)	3.481	2.432	1.430										
<u>Cost neutral</u>													
Annual payment	163788	176842	158927										
Per cent change	-14.1%	-7.3%	-16.7%										
BEHAVIOURAL CHANGE													
	TURNOVER			Per cent change									
	TURNOVER			TURNOVER									
<u>Costs</u>	High	Medium	Low	High	Medium	Low							
Current scheme (\$ mil)	3.481	2.432	1.430	0.0%	0.0%	0.0%							
Proposed scheme - base salary (\$ mil)	4.291	2.765	1.812	5.9%	5.5%	5.6%							
Proposed scheme - AWOTE (\$ mil)	2.079	1.340	0.878	5.9%	5.5%	5.6%							
Proposed scheme - cost neutral (\$ mil)	3.481	2.432	1.430										
<u>Cost neutral</u>													
Annual payment	154689	167695	150562										
Per cent change	-18.9%	-12.1%	-21.1%										
MANUAL MODEL													
<u>Costs</u>													
Current scheme (\$ mil)	1.907												
Proposed scheme - base salary (\$ mil)	2.336												
Proposed scheme - AWOTE (\$ mil)	1.132												
Proposed scheme - cost neutral (\$ mil)	1.907												
<u>Cost neutral</u>													
Annual payment	155684												
Per cent change	-18.4%												