Superannuated Commonwealth Officers' Association Inc.

2013

Pre-election submission

CONTENTS

Executive summary	Page 3
Summary of recommendations	Page 4
Recommendations in detail	Page 5

EXECUTIVE SUMMARY

The Superannuated Commonwealth Officers Association (SCOA) has represented the interests of retired Australian and Territory Government employees, together with those of ex-Government Business Enterprise employees, for the past 90 years. SCOA is also concerned with those people in the public service who will receive a Commonwealth superannuation benefit, or lump sum, on their retirement.

Our current priorities include:

1) Fair indexation of Commonwealth superannuation pensions the purpose of which is to maintain the purchasing power of retirement incomes in order to keep pace with increases in the real cost of living;

2) The removal of discrimination against recipients of public service pensions in relation to Centrelink pensions/benefits and taxation; and

3) Simplification of the tax system including equitable tax treatment and equity in the assessment of non-superannuation income.

SCOA has participated in many Government reviews and has made a number of submissions regarding legislative reform on retirement income, compensation, taxation, various concessions, health and ageing.

***

SUMMARY OF RECOMMENDATIONS

Following, in order of priority, is a summary of the 7 recommendations contained in this submission.

1) That all Commonwealth and Defence superannuation pensions be indexed by an index that reflects the real movements in the actual prices of all goods and services.

2) That superannuation pensions paid from an "untaxed source" be paid as after-tax, non-assessable income, and not be added to non-superannuation income to determine the marginal tax rate of that non-superannuation income.

3) That the upper income thresholds for the Commonwealth Seniors Health Card (CSHC) be immediately increased:

    a. to $60,000 (single person) and
    b. to $90,000 for a couple; and that
    c. these amounts be then automatically increased, on an annual basis, by the same percentage increase as the single rate of the Age Pension.

4) That superannuation pensions paid from an "untaxed source", where those superannuation benefit accruals commenced before 1 July 1988, be treated for tax purposes in the same manner as those superannuation pensions paid from a "taxed source" that commenced before 1 July 1988.

5) That for retirees over the age of 65

    a. They should be able to transfer funds into superannuation, at the prescribed contribution levels, without having to meet any "Work Test"; and
    b. there should be no age discrimination with regard to contributing funds to superannuation (i.e. abolish the current "over 75" limit for non-compulsory contributions).

6) That holders of the Commonwealth Seniors Health Card (CSHC) receive the same concessions for hearing tests, and the fitting and maintenance of hearing aids, as those in receipt of the Age Pension

7) That the Pharmaceutical Benefits Scheme (PBS) Safety Net and the Medicare Safety Net for single persons over the age of 65 be set at 65% of the Safety Net limits for couples/families.

***

RECOMMENDATIONS IN DETAIL

Recommendation 1

That all Commonwealth and Defence superannuation pensions be indexed by an index that reflects the real movements in the actual prices of all goods and services.

The indexation of many pensions, allowances and thresholds is not consistent. For example, Age, Service and War Widows pensions are indexed in line with the greater of the CPI or the Pensioner and Beneficiary Living Cost Index (PBLCI), benchmarked to 27.7% of Male Total Average Weekly Earnings (MTAWE). However, Commonwealth superannuation pensions are indexed at the CPI rate only, a methodology abandoned for the Age Pension 15 years ago when it was recognised that CPI indexation was insufficient to maintain pensioners' living standards.

It is worthy of note that, in the past 15 years (since 1998), the single rate Age Pension has increased by 128% (from $9,219 to $21,018), whilst the CPI, and therefore Commonwealth superannuation pensions for ex-servicemen/women and civilian staff, has only increased by 52%.

Three Senate Inquiries since 2001 have all unanimously acknowledged that Commonwealth superannuants' standard of living is falling due to CPI indexation, and all three inquiries recommended a more appropriate index.

The Trevor Matthews review in 2008 was in contrast to earlier reviews. Matthews concluded that the CPI was suitable for indexation of Commonwealth pensions. That recommendation was accepted by the Government. Matthews acknowledged that the original purpose of indexation was to protect the purchasing power of pensions, but then failed to consider the fact that the Australian Bureau of Statistics says that "*The CPI is frequently called a cost-of-living index, but it differs in important ways from a complete cost-of-living measure".* The CPI has been adjusted, mostly downwards, for more than 20 years to reflect improvements in product quality. It is now a measure of price inflation only, not a true cost of living index. That renders the CPI inappropriate as an indexation tool because it no longer measures the actual prices we pay for goods and services.

One issue often overlooked by many is that this matter of indexation of Commonwealth superannuation pensions will become a diminishing problem. The Government's 2010 *Intergenerational Report* (page 66), said that as a percentage of GDP, Commonwealth superannuation unfunded liabilities would fall from **0.4%** in 2009/10, to **0.2%** by 2049/50.

This is because these civilian defined benefit schemes were closed to any new appointees from July 2005. There is no unfunded superannuation liability for the PSSap superannuation scheme.

The most recent gross cost of fairer indexation in the first 4 years, had it commenced in 2011/12, is $322m reducing to $225m nett after clawback. This clawback comes from (a) increased tax revenue, and (b) reduced Age Pension expenditure. Although the Federal Government estimates the degree of clawback to be 30%, there is a belief that the figure is in excess of 40%.

Recommendation 2

Superannuation pensions paid from an "untaxed source" should be paid as after-tax non-assessable income, and should not be added to non-superannuation income to determine the marginal tax rate of that non-superannuation income.

Those retirees who obtain their income from a taxed superannuation scheme are treated differently, for taxation purposes, from other retirees who obtain their income from an "untaxed" superannuation scheme i.e. ex-Commonwealth, State and Defence Forces employees.

The pension component from a taxed superannuation scheme is disregarded when calculating the tax payable on total income, i.e. it has a zero value. Any additional income from outside the superannuation fund is then assessed at normal taxation rates as if it were the sole income for taxation purposes (and so attracts a lower marginal tax rate).

However, any pension received from an "untaxed" scheme is counted towards total income and any additional income is added to this amount, usually involving a higher marginal tax rate. Although there is a nominal 10% tax offset from the "untaxed" pension element, that does not prevent the higher marginal tax rate from still being applicable.

This anomaly was addressed in the Report of the Senate Economics Committee (February 2007), which recommended that the two types of income should be assessed separately.

"The Committee is of the view that the Government should reconsider the way in which total taxable income is classified for those in untaxed schemes. Instead of combining both a superannuation income stream and additional income to produce a total assessable income, the two types of income should be assessed separately. This would enable additional income received by all superannuation income stream recipients to be assessed for tax purposes from a starting point of zero. The Government should consider separately assessing, for taxation purposes, superannuation income streams and assessable income." (Recommendation 4).

Recommendation 3

That the upper income thresholds for the Commonwealth Seniors Health Card (CSHC) be immediately increased:

- *a. to $60,000 (single person); and*
- *b. to $90,000 for a couple; and that*
- *c. these amounts be then automatically increased, on an annual basis, by the same percentage increase as the single rate of the Age Pension.*

The CSHC was introduced in 1994, and was intended to give some relief to those retirees, of pensionable age but not eligible for the Age Pension, some of the accompanying concessions in relation to pharmaceutical prescriptions. Originally there was both an Income test, and an Assets test. As from 1 January 1999, the Assets test was discarded and eligibility for the CSHC was determined solely on taxable Income. The new levels were then raised to $40,000 for singles (previously $21,000), and to $67,000 for couples (previously $36,000).

On 1 July 2001, the levels were again raised to $50,000 for singles, and $80,000 for couples. In the past twelve (12) years, there has been no change in these eligibility levels. We believe it is time for a rational examination of the changes that have occurred in the last 12 years, and that the current thresholds are well overdue for an increase.

It is a matter of great interest that, in the same period, the Age Pension for a single person has risen by 101% (from $10,452 to $21,018), yet the CPI has risen by only 46%, since 1 July 2001. It is clearly evident that the CSHC has not kept pace with either of these methods of measuring inflation.

Whilst a valid request could be made for a commensurate increase in the limits of the CSHC, we are cognisant of the current financial events that have engulfed the world in the past few years. It is for this reason we are only seeking a modest 20% increase in the eligibility threshold level for a single person (to $60,000), and a 12.5% increase (to $90,000), for a couple.

The main reason for seeking a 20% and a 12.5% increase is to maintain the degree of relativity that now exists between the single rate of Age Pension and the couple rate of Age Pension (since 20 September 2009 the single rate of pension is 2/3 of the rate paid to a couple).

As research shows that there would be approximately 32,000 retirees who would be affected by these increases to $60,000 and $90,000, it is not expected that the granting of this request will be a large financial burden on the Government.

The second part of this recommendation is that in future years the eligibility levels be indexed annually at the same percentage increase as the single rate of the Age Pension.

Recommendation 4

Superannuation pensions paid from an "untaxed source", where those superannuation benefit accruals commenced before 1 July 1988, be treated for tax purposes in the same manner as those superannuation pensions paid from a "taxed source" that commenced before 1 July 1988.

Before 1 July 1988, no superannuation funds paid tax on earnings or on employer contributions. Accordingly, before 1 July 1988, there was no difference between a taxed and an "untaxed" superannuation scheme as all pension benefits paid from superannuation schemes and funds were taxed at marginal tax rates.

Under *Better Super*, recipients aged 60 and over do not pay tax on superannuation benefits paid from a taxed source. This means that from 1 July 2007, no tax has ever been paid (by the taxed superannuation fund or its benefit recipients) on superannuation benefits that accrued before 1 July 1988. Commonwealth (CSS and PSS) superannuation pension recipients, however, still pay tax on pre 1 July 1988 benefit accruals.

It is inequitable that tax is applied to "unfunded" CSS and PSS pensions that have an accrual period before 1 July 1988 when pension recipients from other non-Commonwealth "unfunded" superannuation schemes pay no tax at all on their superannuation pensions, (including the pre 1 July 1988 component), once they have reached 60 years of age. The inequity arises out of the inability to apply pre 1 July 1988 Funding Credits to CSS and PSS superannuation retirement benefits.

The *Income Tax Assessment Act 1997* contains a provision to allow “unfunded” superannuation schemes to utilise pre 1 July 1988 Funding Credits. However, with regard to CSS and PSS superannuation benefits, there is no mechanism to ensure equity with funded superannuation schemes for benefit accruals before 1 July 1988.

A possible solution to correct the inequitable tax treatment applied to CSS and PSS benefit recipients with accruals before 1 July 1988 would be for the Government to make regulations in accordance with Division 307 of the *Income Tax Assessment Act 1997* to specify that CSS and PSS benefits that accrued before 1 July 1988 be treated as element taxed in the fund.

This would have the same affect as applying pre 1 July 1988 Funding Credits to the CSS and PSS in respect of benefits that accrued before 1 July 1988. Such a move would then enable a fair and equitable tax treatment for CSS and PSS pension recipients.

Recommendation 5

That for retirees over the age of 65

a. *They should be able to transfer funds into superannuation, at the prescribed contribution levels, without having to meet any “Work Test”; and*
b. *there should be no age discrimination with regard to contributing funds to superannuation (i.e. abolish the current “over 75” limit for non-compulsory contributions).*

Retirees aged between 65 and 74 who wish to contribute to a superannuation fund are required to pass a “Work Test” before they are permitted to do so. In order to qualify, this test requires them to be “gainfully employed” for a minimum of 40 hours in any consecutive 30 day period throughout the relevant tax year. This test is considered an outdated, arbitrary hurdle with negligible practical value. It encourages the elderly to stretch the truth, or maybe even manipulate the circumstances with family or friends, where that is possible.

Provided the funds involved come from an after tax source and are within the legal limitations regarding maximum amounts in force at the time, we request that this iniquitous restriction be abolished.

Currently, anyone over the age of 75 is prohibited from contributing non-compulsory funds into a superannuation fund. Many retirees over the age of 75 did not have the benefit of being able to contribute to superannuation during their working lives. They had to accumulate their retirement assets under various policy settings that could be restrictive and subject to change.

Consequently (where they could), they invested in other assets such as property and shares but now find that they are denied the benefits from receiving a concessional income from a superannuation fund. It is noted there are statutory limits on the amount of funds allowed to be transferred by a person into superannuation in any tax year.

This request does not attempt to circumvent this requirement. It simply seeks to allow those over 75 years of age to be allowed to contribute funds into superannuation, in the same manner as a younger person.

It should be noted that the abolition of the restriction on those retirees over 75, in regards to them being allowed to contribute to superannuation, was a recommendation of the report "Australia's Future Tax System" (known as the Ken Henry report) in 2009 (recommendation 20). We should not be encouraging discrimination against fellow Australians based purely on age.

Recommendation 6

That holders of the Commonwealth Seniors Health Card (CSHC) should receive the same concessions for hearing tests, and the fitting and maintenance of hearing aids, as those in receipt of the Age Pension.

Age pensioners are provided with a Pensioner Concession Card (PCC) entitling them to free hearing aids up to a certain value, provided certain requirements are met. Aged pensioners are also provided with a free hearing consultation from qualified practitioners. The funding for this concession is controlled by the Federal Government through the Office of Hearing Services (Department of Health and Ageing) in Canberra.

There is no similar concession available to other retirees. We are requesting the same concessional treatment be granted to those retirees who are in possession of a CSHC (i.e. their income is below the current $50,000/$80,000 limits).

Recommendation 7

That the Pharmaceutical Benefits Scheme (PBS) Safety Net and the Medicare Safety Net for single persons over the age of 65, be set at 65% of the Safety Net limits for couples/families.

Currently, a single retiree needs to spend the same amount on pharmaceutical prescriptions before reaching the Safety Net as does a couple. Once the designated Safety Net level is reached (60 prescriptions in a 12 month period), then any additional prescriptions are either free (to a retiree with a Pensioner Concession Card), or reduce to the concessional level applicable to pensioners (currently $5.90) to those retirees not in possession of a PCC. A similar situation exists for the Medicare Safety Net.

There is obvious discrimination in that one person needs to incur the same total expenditure as does a couple before any concessional treatment is allowed. We therefore recommend that the Medicare and PBS Safety Nets for singles be set at 65% of the threshold requirement for couples.

***

This submission was prepared by

Superannuated Commonwealth Officers' Association (Federal Council) Inc.
PO Box 107
MAWSON ACT 2607

Ph 02 6286 7977
`