Superannuated Commonwealth Officers' Association Inc.

2014/2015 Pre-Budget Submission

This submission was prepared by the Superannuated Commonwealth Officers' Association (SCOA) (Federal Council Inc.).

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Executive summary

The Superannuated Commonwealth Officers' Association (SCOA)

SCOA represents the interests of:

- Retired Australian and Territory Government employees and Government business enterprise employees;
- People in the public service who will receive a Commonwealth superannuation benefit or lump sum on retirement;
- Former employees who have deferred (preserved) their pension entitlement; and
- The dependants of all of the above.

SCOA's current priorities include:

- Fair indexation of Commonwealth superannuation pensions;
- Changes to the taxation of superannuation pensions to remove discrimination against public sector pension recipients;
- Increase in and indexation of the income thresholds for the Commonwealth Seniors Health Card (CSHC);
- Lowering the single-person Pharmaceutical Benefits System (PBS) and Medicare safety nets to 65% of the family safety nets.

SCOA participates in Government reviews and committees and makes submissions regarding legislative reform on retirement income, compensation, taxation, concessions, health and ageing. SCOA assists individual Commonwealth/Territory superannuants and Comcare clients to receive their correct entitlements. We also pursue broader issues affecting ageing Australians, including access to dental care, and improving aged care accommodation and home care services.

SCOA has made a number of submissions to Government inquiries, notably to:

- The Matthews Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes;
- The Harmer Pension Review;
- The Henry Tax Review; and
- The Cooper Review of Superannuation.

All SCOA's submissions have pointed out the need for the Government to develop a comprehensive and coherent retirement incomes policy to simplify current arrangements and to ensure that those receiving the Age Pension and public sector superannuation pensions are able to maintain their purchasing power by having a pension index that reflects street prices.

The average Commonwealth superannuation pension was $28,368 p.a. in 2012/13, or $545.54 per week. In the same period, the average weekly earnings (all employees) were $1,105, equivalent to an annual income of $57,460.
The Henderson Poverty Line for a pensioner couple is $29,288.

Key messages

The key messages that SCOA wishes to be reflected in the budget outcomes for 2014/2015 are:

A Government that has committed itself to:

- Maintaining the purchasing power of retirement incomes to keep pace with increases in the real cost of living;
- Indexation which retains the value of Commonwealth superannuation pensions;
- Equitable tax treatment. No discrimination against people according to the source of their pension;
- Equity in assessing income. Those on similar incomes should be able to access the same benefits.

We wish to point out that:

- Our requests are affordable.
- We are not seeking special treatment for our constituents.
- We are asking for the removal of anomalies that result in discrimination.

SCOA's recommendations

SCOA recommends that:

1) The Government should ensure that Commonwealth and Defence Superannuation Pensions are indexed by an index that reflects movements in street prices, such as the indexation percentage increase for the Age Pension.

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

3) The superannuation pensions paid from an 'untaxed source', where superannuation benefit accruals commenced before 1st July 1988, be treated (for tax purposes) in the same manner as superannuation pensions paid from a 'taxed source' that commenced before 1st July 1988.

4) The CSS and PSS pension income that is from an 'untaxed source' should be excluded from the income test for the Commonwealth Seniors' Health Card (CSHC) and the Senior Australian and Pensioner Tax Offset (SAPTO).

5) The current income thresholds for the CSHC should be increased to $60,000 for singles, and to $90,000 for couples, and be indexed annually in the same way as the thresholds for the Age Pension.

6) That the PBS and Medicare Safety Net limits for single persons aged over 65 should be 65% of the Safety Net limits for couples or families.

7) That the provisions of the NDIS (Disability Care Australia) be extended to all Australian citizens regardless of age.

8) 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 who hold a Centrelink Pensioner Concession Card.

9) Medicare to be extended to cover dental benefits for all those over 65 who hold either a Pensioner Concession Card or a Commonwealth Seniors Health Card and/or have a chronic illness.

10) That retirees aged over 65 should be able to transfer funds into superannuation, at the prescribed contribution levels, without having to satisfy any work test; and that the age limit for non-compulsory contributions (currently 75) should be removed.

11) That access to the Net Medical Expenses Tax Offset (NMETO) be retained or at least be retained for people aged over 65.

Recommendations in detail

Recommendation 1: The Government should ensure that all Commonwealth and Military Superannuation pensions are indexed by an index that reflects movements in street prices such as the same percentage increase for the Age Pension.

Recipients of Government pensions, allowances, and health cards have many things in common such as low incomes and increasing need for health and aged care services. Yet the indexation applied to the range of pensions, allowances and thresholds is inconsistent, resulting in inequity across the senior community.

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 a percentage of Male Total Average Weekly Earnings (MTAWE). However Commonwealth superannuation pensions are indexed to the CPI only, an indexation methodology abandoned for the Age Pension in 1998 when it became apparent that CPI indexation was insufficient to maintain pensioners' living standards.

Further, the fees levied in retirement villages are increased in line with increases in the Age Pension, whereas Commonwealth superannuation pensions are indexed by usually smaller increases in the CPI; that is discriminatory.

Increases in Commonwealth superannuation pensions are not maintaining parity with the Age Pension, as the graph at Attachment A indicates. While they are almost equal now, in ten years the Age Pension for a couple can reasonably be expected to be about 20% higher than the average Commonwealth superannuation pension, if the latter remains indexed by the CPI. Commonwealth superannuation pensions are usually the main source of retirement income for Commonwealth superannuants and their spouse/partners. Three Senate Committees (2001, 2002 and 2008) all supported a change to a wage-based means of indexing Commonwealth superannuants' pensions.

The Government has rightly promised fair indexation for some military superannuants which is an acknowledgement that the CPI is an inappropriate and unfair way to index pensions.

Fair indexation is affordable and can be provided without affecting the budget bottom line.

The Future Fund, established to pay Commonwealth superannuation pensions from 2020, contained $91.7 billion at 30 September 2013. With appropriate legislative change, it could be used to meet the cost of funding fair pension indexation for Commonwealth superannuants without adversely affecting its capacity to pay Commonwealth superannuation pensions from 2020, pensions that are easily affordable from annual revenue collections.

The latest cost estimate for fair indexation for the four years to 2014/15 was $209 million, based on its introduction in 2011/12. The cost of improved indexation would be further reduced by clawback from increased tax revenue and reduced Age Pension expenditure. This clawback has been estimated by the Government to be 30% and some believe that it is an even higher figure.

Annual budget outlays on Commonwealth superannuation pensions have already peaked and are now in decline. They are expected to decrease from 0.4% of GDP in 2009/10 to 0.2% by 2049/50 (2011 Intergenerational Report). It is more realistic to look at future annual budget outlays than to look at the unfunded superannuation liability due to defined benefit schemes. All of the civilian defined benefit schemes have closed to new members and the only defined benefit scheme still open is the military defined benefit scheme, the MSBS. Its closure was recommended in the Podger Review's report. If that recommendation were accepted, it would significantly reduce future increases in unfunded superannuation liabilities.

The change from pure CPI indexation for the Age Pension, to indexation benchmarked to a percentage of MTAWE, cost approximately five to ten times as much as it would have cost to increase Commonwealth superannuation pensions by the same percentage as the Age Pension. The cost of that change was readily absorbed without the need for the creation of a Future Fund.

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

The tax treatment of additional non-superannuation taxable income applied to a person receiving an element untaxed superannuation income stream (from an "untaxed source") is inequitable when compared to that of a person receiving an element taxed superannuation income stream (from a "taxed source). The following example illustrates this.

Assumptions: Taxpayers are over 60 with private health insurance.

Type of income	Superannuation income stream element taxed	Superannuation income stream element untaxed
	Pensioner A	Pensioner B (CSS/PSS/1922 Act)
Superannuation pension	$40,000	$40,000
Non-superannuation income	$20,000	$20,000
Total income	$60,000	$60,000
Tax	$0	$6,947
Medicare Levy	$0	$1,200
Net income	$60,000	$51,853
Tax on $20,000 non-superannuation income	$0	$6,800
Medicare Levy on $20,000	$0	$400
Total tax and Medicare Levy on $20,000	$0	$7,200

The additional $20,000 non-superannuation income for Pensioner B is taxed at the rate of 36%. The tax is as follows:

32.5% marginal tax rate ($20,000 x 32.5%) =	$6,500
1.5% tax rate for loss of low income tax offset ($20,000 x 1.5%) =	$300
2.0% Medicare Levy ($20,000 x 2.0%) =	$400
Tax on additional $20,000 non-superannuation income	$7,200

On the other hand, the additional $20,000 non-superannuation income received by Pensioner A is not taxed.

The calculation is as follows:

0% marginal tax rate for $18,200 ($18,200 x 0%) =	$0
19% marginal tax rate for $1,800 ($1,800 x 19%) =	$342
Less low income tax offset	-$342[1]
Net tax before Medicare Levy	$0
Reduced Medicare Levy	$0
Tax on additional $20,000 non-superannuation income =	$0

The $7,200 difference between the two outcomes stems from when the employer chose to pay superannuation contributions for their employees. Former Commonwealth employees should not be penalized because the Commonwealth chose to defer payment of employer contributions until the person applied for a pension instead of paying contributions when the person was employed. This is inequitable, especially in regard to the marginal tax rate applied to non-superannuation income and the reduction in the low income tax offset (LITO). No other employer could do this under existing superannuation laws.

We suggest that the income stream from an untaxed superannuation source be separated out as special income and taxed separately, as is the case with income from a taxed income stream. This would be more equitable. All other non-superannuation income should be assessed as normal assessable income.

The Senate Standing Committee on Economics report of February 2007 on the review of "Tax Laws Amendment (Simplified Superannuation) Bill 2006 (Provisions and related bills)" supported this change (Recommendation 4 of the report).

Recommendation 3: The superannuation pensions paid from an 'untaxed source', where superannuation benefit accruals commenced before 1st July 1988, be treated for tax purposes in the same manner as superannuation pensions paid from a 'taxed source' that commenced before 1st July 1988.

To accomplish this, the Government should make regulations in accordance with Division 307 of the Income Tax and Assessment Act 1997 to specify that CSS and PSS benefits that accrued before 1 July 1988 be treated as element taxed in the fund.

Before 1 July 1988 superannuation funds did not pay 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", benefit recipients aged sixty 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.

[1] The balance of the low income tax offset is non-refundable.

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 sixty 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 regards to CSS and PSS superannuation benefits, there is no mechanism to ensure equity with funded superannuation schemes for benefit accruals before 1 July 1988.

Attachment B provides more detail about the tax inequity applying to Commonwealth Superannuation Scheme pensions with benefit accruals before 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 effect as applying Pre-1 July 1988 Funding Credits to the CSS and PSS in respect of benefits that accrued before 1 July 1988. This would then enable a fair and equitable tax treatment for CSS and PSS pension recipients.

Recommendation 4: The CSS and PSS pension income that is from an "untaxed source" should be excluded from the income test for the Commonwealth Seniors' Health Card (CSHC) and the Senior Australian and Pensioner Tax Offset (SAPTO).

Income streams from taxed superannuation funds are not subject to income tax, and therefore do not form part of taxable income. Therefore they are not included in the income test for the CSHC or SAPTO.

However, income streams paid from an untaxed superannuation fund, such as the Commonwealth's CSS indexed pension and the unfunded component of the Commonwealth's PSS indexed pension, are counted as income for the income test for the CSHC and for SAPTO.

It is unfair and discriminatory for retirement incomes paid from an untaxed superannuation fund to be included as income for the income test of the CSHC and SAPTO whilst retirement incomes from a taxed superannuation fund are excluded. There is no reason why retirement incomes from untaxed superannuation funds should be treated differently from income from *taxed* superannuation funds.

The only difference between the income streams from the two types of superannuation funds is when the employer chose to pay the employer contributions in relation to providing superannuation benefits for their employees. Former Commonwealth employees should not be penalised because the Commonwealth chose to defer payment of employer contributions until the person claimed their pension, instead of as they fell due while the person was still an employee.

We understand that some defined benefit funds have been declared to be taxed funds, yet Commonwealth funds have not. We do not understand why this should be the case. We also understand that declaring our funds to be taxed funds could be done by regulation and that it would not require an Act of Parliament.

Recommendation 5: The current income thresholds for the CSHC be increased to $60,000 for singles, and to $90,000 for couples, and be indexed in the same way as the thresholds for the Age Pension.

We urge the government to also consider a one-off increase in the thresholds to catch up with increases in the cost of living since 2001.

The current Commonwealth Seniors Health Card eligibility limits were set in July 2001. Since then, the CPI has risen over 48% and the Age Pension by 105.7% but the CSHC eligibility limits have not changed. SCOA believes that a comparable increase in the income thresholds for both single persons and couples is long overdue and proposes that the new thresholds be set at $60,000 and $90,000 respectively. Since only an estimated 32,000 retirees would benefit from the proposed increases, the cost of the change would be readily affordable.

We welcome the announcement prior to the recent election that the Coalition government would make arrangements to index the income thresholds in the same way that the Age Pension thresholds are indexed.

Recommendation 6: That the PBS and Medicare Safety Net limits for single persons aged over 65 should be 65% of the PBS and Medicare Safety Net limits for couples or families.

Low-income older single people with multiple conditions often have difficulty paying for their prescriptions, particularly in the cold winter months when they also have to contend with big electricity and gas bills. Typically, they do not reach the applicable PBS Safety Net limit until towards the end of the calendar year. Furthermore, their situation will become even more difficult when the Net Medical Expenses Tax Offset is phased out. It is inequitable that single people should have the same safety net limits as couples or families.

Recommendation 7: That the provisions of the NDIS (Disability Care Australia) be extended to all Australian citizens regardless of age.

It appears that Disability Care Australia is designed to suit the needs of those whose disabilities are not age-related, whereas Living Longer Living Better is designed to cater for those with disabilities caused by old age.

Some people now over the age of 65 may have disabilities that were originally caused by accidents or illness before they reached 65. These disabilities might have been aggravated by the natural ageing process, but were not originally caused by ageing. We fear that many people may fall through the cracks as it were, because they are not eligible to receive benefits under either scheme.

The legislation may not provide adequately for otherwise fit and healthy persons aged over 65 (who might well still be in the workforce) who incur a non-age-related disability (e.g. loss of a limb due to a motor vehicle accident), even though such persons would be subject to the additional 0.5% Medicare Levy for the NDIS, due to come into operation on 1 July 2014. The Senate Community Affairs Committee, in its inquiry into the NDIS Bill, recognized this problem and said:

"**4.38** *The committee recommends that the government, through COAG processes, identify mechanisms by which to provide adequate specialised disability support for people 65 and over who have disabilities not resulting from the natural process of ageing.*"

Recommendation 8: 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 receiving the Age Pension.

Age Pensioners are provided with a Pensioner Concession Card (PCC) entitling them to free hearing aids and associated services provided certain requirements are met.

SCOA recommends that the same concessional treatment be granted to those retirees who are holders of a CSHC.

Recommendation 9: Medicare to be extended to cover dental benefits for all those over 65 who hold either a Pensioner Concession Card (PCC) or a Commonwealth Seniors Health Card (CSHC) and/or have a chronic illness.

Under the Howard/Costello government, there was a scheme that provided dental benefits to such people, but that scheme was closed in 2011. Although there were some problems with that scheme, it provided valuable assistance to many elderly people.

A person's general health can be seriously affected if they have dental problems that prevent adequate maceration. If for example they have poorly fitting dentures, people will often eat only soft foods which can compromise their dietary requirements.

SCOA recommends that the feasibility of a new scheme to improve the dental health of the elderly be investigated.

Recommendation 10: That retirees aged over 65 should be able to transfer funds into superannuation, at the prescribed levels, without having to satisfy any work test; and that the age limit for non-compulsory contributions (currently 75) be removed.

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. SCOA believes that this test is an outdated, arbitrary hurdle of little practical value, and we therefore request that it 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 they find that they are denied the benefits from receiving a concessional income from a superannuation fund. It is noted that there are statutory limits on the amounts that a person can contribute to 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 their 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.

The *Superannuation Guarantee (Administration) Act 1992* was amended by the *Superannuation Guarantee (Administration) Amendment Act 2012* by repealing paragraph 27(1)(a) of that Act which removed the age cap of 75 years for the payment of superannuation guarantee contributions. Consequently, since 1 July 2013, an employer must pay employer contributions even if the employee is over the age of 75 years.

Rule 4.1.5 of the PSS Trust Deed does not allow members to make contributions to the PSS once they turn 75 years of age. As the member is not permitted to make contributions, there is also no matching employer contribution and no increased accruals of the ongoing multiple.

In order for the PSS defined benefit plan to be consistent with the Government's objectives regarding superannuation for Australian employees, it is requested that the Government remove the age 75 cap from the PSS Trustee Deed and allow members over age 75 years to contribute to the PSS defined benefit plan from 1 July 2014.

Recommendation 11: That access to the Net Medical Expenses Tax Offset (NMETO) be retained or at least be retained for people aged over 65.

According to Joe Hockey's statement of 6 November,"*the NMETO provides an offset for people when their medical expenses are high. The phasing out will allow current claimants to remain eligible for the offset until 2014-15. The Government provides support for people with high medical expenses through Medicare safety nets. The NMETO provides no assistance to those with high medical expenses but no tax liability*".

According to information on the ATO website, NMETO covers some items that are not covered by Medicare safety nets, such as disability aids, aged care, optical and dental work. These days, many older people require dental work because, unlike people from older generations, they still have some teeth. Furthermore, as people age, even those with false teeth often need a new pair due to shrinkage of their gums. Approximately 50% of the general population has some kind of vision impairment. This of course is also aggravated by ageing.

Under the Howard Government's Chronic Disease Dental Scheme, closed by the Gillard Government on 30 November 2012, older people with chronic diseases could get dental work done free of charge, but now such people have to choose between a very long wait in the public system or more speedy but expensive treatment in the private sector.

The statement, "*The NMETO provides no assistance to those with high medical expenses but no tax liability*" is not true. Those with franking credits can benefit from the NMETO even though they have no net tax liability. Some older Australians who receive an income from Australian shares with franking credits would benefit from the retention of NMETO.

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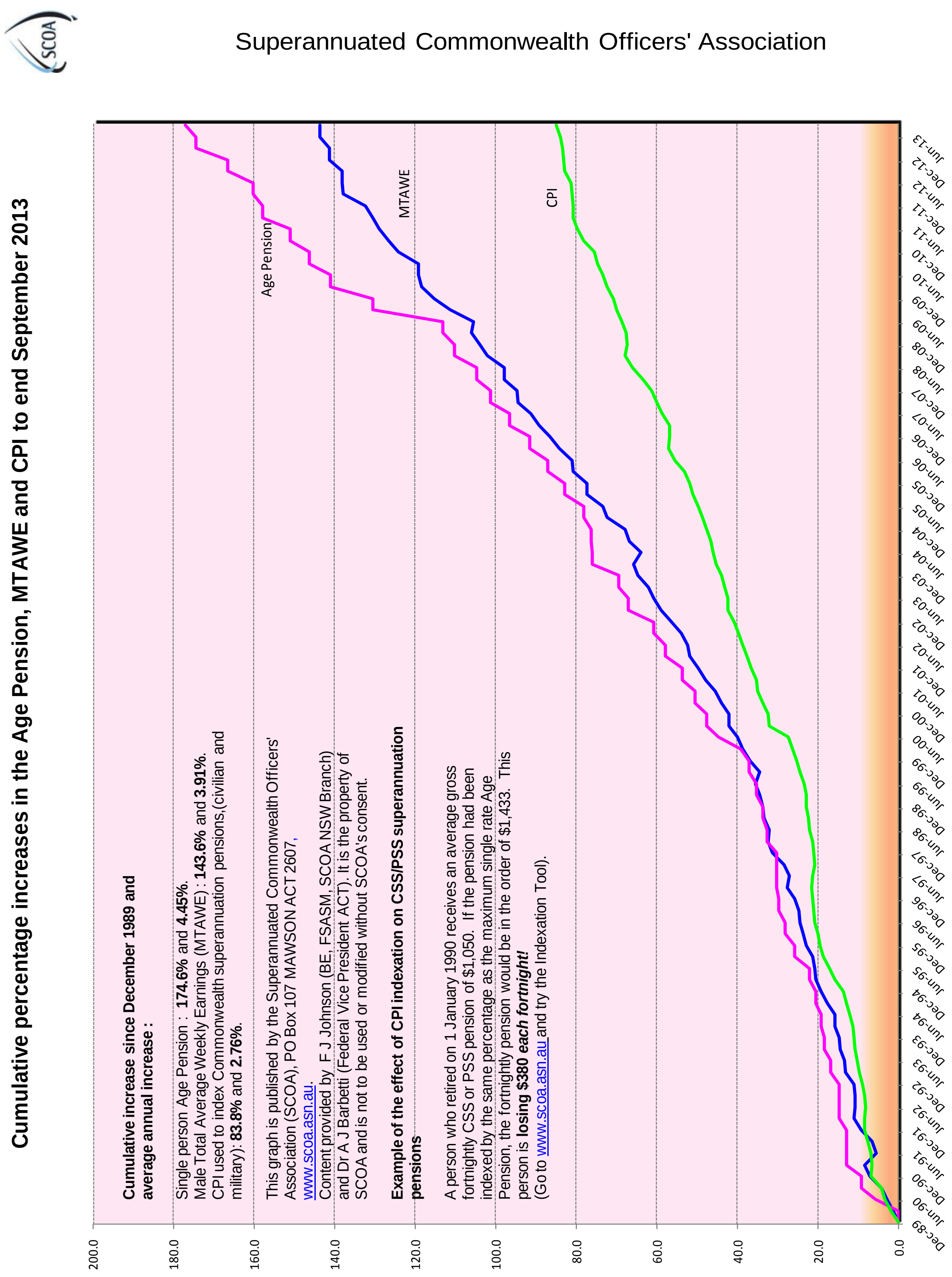
Attachment A: Cumulative percentage increase in: Age Pension, MTAWE and CPI.



Attachment B: Elaboration on the tax inequity applying to Commonwealth Superannuation Scheme pensions with Benefit Accruals before July 1988

The tax inequity applying to Commonwealth Superannuation Scheme pensions with benefit accruals before July 1988 arises through 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. This mechanism is designed to ensure that superannuation benefits that accrued before 1 July 1988 in an unfunded superannuation scheme are regarded as if they were funded from a taxed source and accordingly taxed as element taxed. This saves benefits that accrued before 1 July 1988 from being taxed as untaxed benefits once the recipient reaches 60 years. This is necessary as tax was not applied to contributions to or earnings of superannuation funds before 1 July 1988 and accordingly no taxes were applied to such accruals in funded or unfunded superannuation schemes.

A good description of Pre-1 July 1988 Funding Credits and their purpose is provided at paragraph 9.2, Chapter 9 of the Explanatory Memorandum to the *Tax Laws Amendment (2006 Measures No. 3) Act 2006.*

The paragraph states:

> *"9.2. Since 1 July 1988 most contributions (e.g., employer and other deductible contributions) to superannuation schemes have been subject to a 15 per cent tax. Funding credits were granted to unfunded superannuation schemes so that contributions made after 1 July 1988 to fund benefits that accrued prior to 1 July 1988 are not taxed. This ensures equity with funded superannuation schemes which only pay tax on contributions from 1 July 1988."*

However, with regards to CSS and PSS superannuation benefits, there is no mechanism to ensure equity with funded superannuation schemes for benefit accruals before 1 July 1988. Pre-1 July 1988 Funding Credits cannot be used by the CSS and PSS Trustee. As a result, when benefits are paid out of the CSS or PSS, the component of the payment that accrued before 1 July 1988 is taxed as if it were paid from an untaxed superannuation scheme. Unfunded State Public Sector superannuation schemes were able to utilise Pre-1 July 1988 Funding Credits to ensure that tax is applied equitability against the payment of their superannuation benefits, that is, no tax paid on benefit accruals before 1 July 1988.

The reason why Pre-1 July 1988 Funding Credits cannot be applied in the CSS or PSS appears to be due to the way the Commonwealth chose to pay CSS and PSS retirement benefits. The Trustees of unfunded State Public Sector superannuation schemes chose to pay their superannuation benefits out of their respective superannuation funds after receiving unfunded contributions from the employer at the time of retirement or benefit payment. When the unfunded employer contribution is paid into the superannuation fund at the time of benefit payment, no contributions tax is effectively paid on that part of the employer contribution that is funding accruals before 1 July 1988, as the tax that would have been paid on those employer contributions is offset by Pre-1 July 1988 Funding Credits.

Therefore, even though benefits that accrued before 1 July 1988 were not funded until the time of retirement or benefit payment, and with no contributions tax effectively being paid on those employer contributions (similar arrangement to the CSS and PSS), the benefit payment is regarded as being paid from a taxed source and is taxed accordingly.

The difference between the CSS and PSS and other unfunded superannuation schemes that are entitled to utilise Pre-1 July 1988 Funding Credits is that the Commonwealth chose to pay CSS and PSS retirement benefits out of Consolidated Revenue rather than out of the CSS superannuation fund. That is, when a benefit becomes payable the member's accumulated member and productivity contributions in the CSS or PSS superannuation fund are paid out of the CSS or PSS superannuation fund and into Consolidated Revenue.

The Commonwealth then adds employer contributions to the benefit payment and pays the CSS or PSS superannuation benefit to the benefit recipient out of Consolidated Revenue. This process is prescribed in section 112 of the *Superannuation Act 1976* and section 16 of the *Superannuation Act 1990*.

The Commonwealth's method of payment of unfunded superannuation benefits (as opposed to the States' method), has resulted in no employer contributions actually being paid by the Commonwealth into the CSS or PSS superannuation fund. The result is that the Commonwealth generates no contribution tax liability to enable Pre-1 July 1988 Funding Credits to offset any tax liability. This means that unfunded pre 1988 accruals in the CSS and PSS are element untaxed, and taxed accordingly, while unfunded pre 1 July 1988 accruals in other unfunded superannuation funds are regarded as element taxed, and not subject to tax where the recipient is aged 60 and over.

The method of paying CSS and PSS superannuation benefits is grossly unfair, especially as the Commonwealth Government has set up a mechanism for benefit recipients of other unfunded superannuation schemes to receive equitable tax treatment with funded superannuation schemes. CSS and PSS superannuation scheme benefit recipients miss out on equitable tax treatment of their superannuation benefits only because the Commonwealth Government chose to pay superannuation benefits through the Consolidated Revenue Fund rather than through the CSS or PSS superannuation fund.

There is no cost difference in the end result irrespective of the payment mechanism other than the loss of the application of Pre-1 July 1988 Funding Credits and CSS benefit recipients paying tax on Pre-1 July 1988 accruals, which is tax free for everyone else. Accordingly, SCOA believes that there is no reason why CSS and PSS benefit recipients should not be taxed the same way as other recipients of unfunded superannuation scheme benefits in respect of their unfunded superannuation benefits that accrued before 1 July 1988.