2014

2015/2016 Budget Submission

SUPERANNUATED COMMONWEALTH OFFICERS' ASSOCIATION (FEDERAL COUNCIL) INC.

ADVOCATING FOR A SECURE RETIREMENT.

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

Contact details:

Dr Annette Barbetti
Federal President
SCOA (Federal Council) Inc.
PO Box 107
MAWSON ACT 2607

Phone 02 6286 7977
Email fedpres@scoa.asn.au

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Executive summary

Superannuated Commonwealth Officers' Association (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;
- 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 continuing indexation of the income thresholds for the Commonwealth Seniors Health Card (CSHC);
- Lowering the single-person Pharmaceutical Benefits Scheme (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 ComSuper and Comcare clients to receive their correct entitlements.

As public sector superannuants, we also pursue broader issues affecting ageing Australians, including access to dental care, improved aged care accommodation and home care service issues.

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 the real movements in the actual prices of goods and services.

Key messages

The key messages that SCOA wishes to be reflected in the budget outcomes for 2015-2016 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; and
- Equity in assessing income. Those on similar incomes should be able to access the same benefits.

We wish to point out that:

- Our recommendations 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 all Commonwealth and Defence Superannuation Pensions are indexed by an index that reflects the real movement in the actual prices of goods and services and that the existing arrangements for the indexation of the Age Pension and equivalent Veterans' Affairs pensions should remain.

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 1 July 1988, should be treated (for tax purposes) in the same manner as superannuation pensions paid from a 'taxed source' that commenced before 1 July 1988.

4) The Pharmaceutical Benefit Scheme (PBS) and Medicare Safety Net limits for single persons aged over 65 should be 65% of the Safety Net limits for couples or families.

5) That workers' compensation legislation should be amended to ensure that injured persons continue to receive workers' compensation payments until they have reached Age Pension age.

6) Medicare should be extended to cover dental benefits for all who hold either a Pensioner Concession Card or a Commonwealth Seniors Health Card.

7) Medicare should be extended to cover dental benefits to all those who have reached Age Pension age and have a chronic illness.

8) 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) be removed.

9) Full access to the Net Medical Expenses Tax Offset (NMETO) should be restored for those who have reached Age Pension age.

10) That each of the thresholds for the Commonwealth Seniors Health Card should be increased by $10,000, and that the annual indexation of the thresholds be continued.

Recommendations in detail

Recommendation 1

The Government should ensure that Commonwealth and Defence Superannuation pensions are indexed by an index that reflects the real movements in the actual prices of goods and services and that the existing arrangements for the indexing of the Age Pension and equivalent Veterans' Affairs pensions should remain.

The average Commonwealth superannuation pension in 2013/14 was less than the combined couple rate of 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 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. Furthermore, the military's DFRB and DFRDB pensions are indexed to the highest of CPI, PBLCI and MTAWE, whereas MSBS pensions are only indexed to the CPI.

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.

Commonwealth superannuation pensions are usually the main source of retirement income for Commonwealth superannuation pensioners and their spouses/partners. Due to the inadequate indexation of those pensions, most Commonwealth superannuation pensioners will eventually need to receive a part Age Pension as well. Note that the 2010 *Intergenerational Report* estimated that Commonwealth superannuation unfunded liabilities would fall from 0.4% of GDP in 2009/10 to 0.2% of GDP in 2049/50. The impending closure of the last Commonwealth defined benefit superannuation scheme, the MSBS, will significantly reduce the estimated superannuation unfunded liabilities in future.

Since 1998, increases in Commonwealth superannuation pensions have not maintained parity with the Age Pension, as the graph at Attachment A indicates. However, Commonwealth superannuation pensioners over Age Pension age have been able to rely on the more adequately indexed Age Pension as a safety net. Therefore SCOA views with alarm the 2014-15 Budget proposal to index all government pensions and allowances by the CPI from 1 July 2017, because that would result in an unacceptable level of hardship for full Age Pensioners and many part Age Pensioners, including the high proportion of our members who rely on a part Age Pension.

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 received by a person receiving an untaxed superannuation income stream (from an "untaxed source") is inequitable when compared to that of a person receiving a 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 payable on $60,000	$0	$11,047
Less CSS pension rebate (10%)	$0	$4,000
Low income tax offset	$0	- $100
Net tax on total income	$0	- $6,947
Plus Medicare Levy on total income	$0	- $1,200
Total tax liability incl. Medicare Levy	$0	$8,147
Net total income	**$60,000**	**$51,853**

Marginal tax effect on $20,000

Type of income	Superannuation income stream element taxed	Superannuation income stream element untaxed
	Pensioner A	Pensioner B (CSS/PSS/1922 Act)
Tax liability on additional non-superannuation income (@32.5%)	$0	$6,500
Medicare Levy on $20,000 (@ 2%)	$0	$400
Total tax liability incl. Medicare Levy	$0	$6,900*

* This represents an effective marginal tax rate of 34.5% on non-superannuation income.

Former Commonwealth employees should not be penalized because employer contributions were paid on their behalf into Consolidated Revenue rather than to a taxed superannuation fund. This is inequitable, especially because the marginal tax rate is then applied to any additional non-superannuation income.

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 Economics Committee 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 4 reads:

"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 3

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

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.

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

That the Pharmaceutical Benefits Scheme (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 medical 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. It is inequitable that single people should have the same safety net limits as couples or families.

Recommendation 5

That workers' compensation legislation should be amended to ensure that injured persons continue to receive workers' compensation payments until they have reached Age Pension age.

The Act that covers Commonwealth public servants is the *Safety, Rehabilitation and Compensation Act 1988*. The Act should be amended to replace all references to "the age of 65" with "the Age Pension age, as amended from time to time".

Recommendation 6

Medicare to be extended to cover dental benefits for all who hold either a Pensioner Concession Card (PCC) or a Commonwealth Seniors Health Card (CSHC).

The scheme that provided dental benefits to such people was closed in 2011. Although there had been some problems with that scheme (it involved a great deal of paperwork and was unpopular with dentists), it provided valuable assistance to many elderly people and helped them to maintain a healthy diet in old age.

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

Recommendation 7

Medicare should be extended to cover dental benefits for all those who have reached Age Pension age and have a chronic illness.

The scheme that provided dental benefits to such people was closed in 2011. It provided valuable assistance to many elderly people. That scheme was regarded as being of particular benefit to those with chronic illnesses because of the effects of poor dental health on those with diseases such as diabetes and heart disease.

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

Recommendation 8

That retirees aged over 65 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 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.

SCOA opposes age discrimination. The Henry Tax Review (2009) recommended the abolition of the age limit for non-compulsory superannuation contributions (recommendation 20). SCOA supports the implementation of that recommendation.

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 increase 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 2015.

Recommendation 9

Full access to the Net Medical Expenses Tax Offset (NMETO) should be restored for those who have reached Age Pension age.

Older people with multiple medical conditions can often have high out-of-pocket expenses outside of the three remaining categories that can be claimed. Typically, they have difficulty in paying for pharmaceuticals and dental expenses.

Recommendation 10

That each of the thresholds for the Commonwealth Seniors Health Card (CSHC) be increased by $10,000 and that the annual indexation of the thresholds be continued.

The CSHC was introduced in 1994, and was intended to provide health benefits to those retirees of pensionable age who had just missed being eligible for the Age Pension. Eligibility was based on taxable income.

After 1 January 1999, eligibility for the CSHC was based on adjusted taxable income, as defined from time to time. It should be noted that until recently the adjusted taxable income consisted of the sum of taxable income, foreign income, total net investment losses, employer-provided benefits and reportable superannuation contributions. From 1 January 2015 it will also include deemed income from assets in account based superannuation funds in the pension phase, but the present treatment of existing superannuation income streams of current CSHC holders will be grandfathered.

On 1 July 2001, the eligibility levels were raised to $50,000 for singles, and $80,000 for couples. They remained at those levels until the introduction of CPI indexation of the income test limits on 20 September 2014. The limits are now $51,500 for singles, $82,400 for couples and $103,000 for couples separated by illness.

SCOA believes it is time for a rational examination of the changes that have occurred in the last thirteen years, and that the current thresholds are well overdue for an increase that reflects the changes in the cost of living between 2001 and 2014.

While SCOA welcomes the indexation of the thresholds of the CSHC, we believe that the present thresholds for singles and couples should be increased by at least $10,000 per person so that older people can cope with the extra expenses associated with the proposed Medicare co-payment, increases in the cost of pharmaceuticals, etc.

Attachment A: Cumulative percentage increase in: Age Pension, Commonwealth superannuation pensions and MPs' pensions to September 2014.