

10% Cap Examples

Introduction

This paper deals with the consequences of the recent Act of Parliament, *Social Services Legislation Amendment (Defined Benefit Income Streams) Act 2015*, for retired Commonwealth public servants receiving superannuation pensions from the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS).

The CSS was closed to new members on 1 July 1990 and the PSS was closed to new members on 1 July 2005. Until 1 July 2008, members of the CSS had to pay five per cent of their post-tax salary into the scheme (and could not claim a tax rebate). Similarly, members of the PSS had to make contributions of between 2 and 10 per cent. The current superannuation scheme for public servants is the Public Sector Superannuation accumulation plan (PSSap).

On retirement, a CSS pensioner receives a pension based on their level and length of service, indexed by the CPI, plus a lump sum based on their own contributions. They can use the lump sum to purchase an additional unindexed pension. That option has not been popular – in 2009 only 8% of retiring CSS members had chosen that option.

On retirement, a PSS pensioner receives a lump sum based on their level and length of service, and can take the 100% lump sum option or must convert a minimum of 50% of that lump sum to a CPI-indexed pension. They use the rest of the lump sum to purchase additional CPI-indexed pension if they wish. Many PSS pensioners have chosen to do that.

Please note: The gross PSS/CSS pension less any tax free component is included in the income test for the Age Pension.

Most CSS pensions, especially those where the pensioner didn't convert any lump sum into a non-indexed pension, have a zero tax free component and are therefore not affected by the 1.1.2016 income assessment changes. Most PSS pensioners have a tax free component of around 25% or less and therefore for most PSS pensioners the effect of the 1.1.2016 changes would be lower than in the examples below.

CSS and PSS pensioners can see the current tax-free component on their 6 monthly statements from CSC (formerly ComSuper). It is the first of the three tax figures listed in the second half of the first page of the statement. If this is more than 10% of the gross PSS/CSS pension, then the Age Pensions will be reduced as of 1.1.2016 if the Age Pension is paid based on the income assessment.

General Comments

The 10% cap will inflict severe hardship on low-income single PSS pensioners and any single CSS pensioners who have used their member contributions to purchase additional unindexed pensions. Low-income couples with only one PSS or CSS pension will not be affected quite so badly. If a person has both CSS and PSS pensions, the 10% will be calculated separately for each pension (they will not be added together).

Couples

Currently, the few CSS and PSS pensioner couples with pensions that are 50% tax free can currently have incomes of up to \$150,904 before they lose access to a part Age

Pension because the income test limit is \$75,452 for a couple. With the 10% cap, the new limit for total income would be \$83,830 (\$83,830 - 10% = \$75,452). These numbers set the top limits at which Commonwealth public service retirees can still draw a part Age Pension.

Singles

Similarly, single CSS and PSS pensioners whose pensions are 50% tax-free can currently have incomes of up to \$98,592 before they lose access to a part Age Pension (the income test limit for a single person is \$49,296). With the 10% cap, the new limit for total income would be \$54,770 (\$54,770 - 10% = \$49,296).

Payment rates for Age Pension

There are different rates of Age Pension payments for single people and couples. Your rate also depends on your income, assets, and other circumstances.

Family Situation				
Pension rates per fortnight	Single	Couple each	Couple combined	Couple each separated due to ill health
Maximum basic rate	\$788.40	\$594.30	\$1,188.60	\$788.40
Maximum Pension Supplement ^[16]	\$64.50	\$48.60	\$97.20	\$64.50
Energy Supplement ^[17]	\$14.10	\$10.60	\$21.20	\$14.10
TOTAL	\$867.00	\$653.50	\$1,307.00	\$867.00

From: <http://www.humanservices.gov.au/customer/services/centrelink/age-pension/print>

CASES

The following examples assume that the CSS and PSS pensioners own their own homes – SCOA research in 2006 showed that 82% of our members owned their own homes. Note that the majority of the low-income pensioners will be female. The examples assume that these pensioners have only a CSS or PSS pension and a *part Age Pension*, and that *both are over Age Pension age*.

PSS PENSIONER SINGLES

1) Single PSS pensioner with a pension of \$14,000 per annum, 50% tax-free

Before 10% cap

He/she will get a part Age Pension of \$813.88 per fortnight or \$21,160 per annum.

His/her net after tax income will be \$33,431 per annum. The poverty line for a single person not in the workforce is \$827.34 per fortnight or \$21,511 per annum.

The maximum pension for a single person is \$867.00 per fortnight (\$788.40 basic pension plus supplements).

The maximum pension can only be paid if the pensioner's assessed income is no greater than \$162.00 per fortnight or \$4,212.00 per annum. Therefore the total Age Pension payment for a single person with an assessed income of \$7,000 would be \$813.38 per fortnight.

After 10% cap

After the 10% cap has been introduced, \$12,600 of the PSS pension will be included in the Age Pension income test. The total Age Pension payment for a single person with an assessed income of \$12,600 would be \$705.69 per fortnight, or \$18,348 per annum. He/she will lose \$107.69 per fortnight, or \$2,800 per annum.

2) Single PSS pensioner with a pension of \$30,000 per annum, 50% tax-free

Before 10% cap

He/she will get an Age Pension of \$659.50 per fortnight or \$17,147 per annum. His/her net after tax income will be over \$46,000 per annum.

After 10% cap

After the 10% cap has been introduced, his/her Age Pension will fall to \$428.77 per fortnight or \$11,148 per annum. He/she will lose \$230.77 per fortnight of his/her part Age Pension. His/her net after-tax income will be less than \$41,000 per annum (because the part Age Pension is smaller, he/she will have to pay less tax).

3) Single PSS pensioner with a pension of \$40,000 per annum, 50% tax-free

Before 10% cap

He/she will get an Age Pension of \$563.30 per fortnight or \$14,646 per annum under the current rules.

After 10% cap

After the 10% cap has been introduced, his/her Age Pension will fall to \$255.70 per fortnight, or \$6,648 per annum. He/she will lose \$307.69 per fortnight of his/her part Age Pension, or \$8,000 per annum.

PSS PENSIONER COUPLES

4) PSS pensioner couple with PSS pension \$14,000 per year, 50% tax-free

Before 10% cap

With 50% excluded from the income test, they get couple rate of the Age Pension \$653.50 per fortnight each.

After 10% cap

The 10% cap will affect them. Their Age Pension will be reduced to \$604.34 per fortnight each. They will each lose \$49.16 per fortnight, or \$1,278 per annum.

5) PSS pensioner couple with PSS pension \$20,000 per year, 50% tax-free

Before 10% cap

With 50% excluded from the income test, their Age Pension will be reduced to \$629.34 per fortnight each.

After 10% cap

The 10% cap will affect them. Their Age Pension will be reduced to \$552.42 per fortnight each. They will each lose \$76.92 per fortnight, or \$2,000 per annum.

6) PSS pensioner couple with PSS pension \$30,000 per year, 50% tax-free

Before 10% cap

Now have a 50% tax-free pension, and only \$15,000 counted in the income test. They will both get a part Age Pension of \$581.27 per fortnight.

After 10% cap

The 10% cap will affect them. Their Age Pension will be reduced to \$465.88 per fortnight each. They will each lose \$115.39 per fortnight, or \$3,000 per annum.

7) PSS pensioner couple with PSS pension \$40,000 per year, 50% tax-free

Before 10% cap

Now have a 50% tax-free pension, and only \$20,000 counted in the income test. They will each get a part Age Pension of \$533.19 per fortnight.

After 10% cap

After 1 January 2016, \$36,000 will be counted in the income test. Each member of the couple will get a part Age Pension of \$379.34 per fortnight, a decrease of \$153.85 per fortnight, or \$4,000 per annum.

Annette Barbetti
Federal President
Superannuated Commonwealth Officers' Association

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