

19 November

Senator the Hon Zed Seselja
Assistant Minister for Treasury and Finance
PO Box 6100
Senate
Parliament House
CANBERRA ACT 2600

Dear Senator Seselja

I am writing on behalf of SCOA Australia which represent the interests of some 300,000 former federal and state government employees who receive a CSS or PSS pension. I believe you are familiar with many of the issues SCOA has been pursuing over the years, for example the unfair indexation of our pensions.

The particular issue I wanted to raise today which is of great concern to our members, is the way a reversionary benefit is calculated in relation to the \$1.6 million Transfer Balance Cap (TBC). The attached document shows how the reversionary benefit is calculated. Many surviving spouses may find that they have exceeded the TBC and must make arrangements to reduce it.

In late February 2018, I had the opportunity to meet with the then Minister for Revenue and Financial Services, the Hon Kelly O'Dwyer's superannuation and taxation adviser, and raised the issue then. At the meeting, SCOA was informed that the government was aware of the anomaly and was working on arrangements to correct it.

We understand that the error was an unintended consequence of the legislation that introduced the \$1.6 million Transfer Balance Cap which has now been in place since 1 July 2017. We have been informed a number of times by Minister O'Dwyer's office that the government is still working on correcting the error. In the absence of any news, I recently wrote to the Treasurer, the Hon Josh Frydenberg, and the Assistant Treasurer, the Hon Stuart Robert as per the attached letter but have yet to receive a response.

I would appreciate your advice as to what the government is doing in this respect and also when we might expect to see the error corrected. Some of our members are becoming angry and frustrated at the length of time it has taken so far.

I look forward to hearing from you at your earliest convenience.

Yours sincerely



Peter Illidge
PRESIDENT



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8 October 2018

Hon Josh Frydenberg MP
Treasurer
PO Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Treasurer

SCOA Australia and Commonwealth superannuants

I write to congratulate you on your recent appointment as Treasurer and to introduce myself and my organisation to you. In early January 2018, I was appointed President of SCOA Australia, a not-for-profit organisation representing the interests of some 300,000 former federal and state government employees who receive a CSS or PSS pension.

A number of measures introduced in recent years have affected many of our members adversely, for example the restriction to 10% of a CSS or PSS pension that can be excluded from the income test for the age pension. This caused some severe hardship for many of our members who told SCOA that their part age pension had been cut in some cases by as much as \$378 per fortnight.

The particular issue I wanted to raise today of great concern to our members, is the way a reversionary benefit is calculated in relation to the new \$1.6 million Transfer Balance Cap (TBC). Upon the death of a primary pensioner, the TBC is calculated on the full amount of the pension although the reversionary pension is typically only around 66% of the full pension. As a result of this, some surviving spouses may find that they have exceeded the TBC and must make arrangements to reduce it. Had the TBC been calculated on the actual amount the reversionary pensioner receives, i.e. 66% of the primary pension, this anomaly would not have occurred in most cases.

In late February 2018, I had the opportunity to meet with the then Minister for Revenue and Financial Services, the Hon Kelly O'Dwyer's superannuation and taxation adviser and raised the issue then. At the meeting, SCOA was informed that the government was aware of the anomaly and was working on arrangements to correct it.

We have followed up a number of times with Minister O'Dwyer's office (before the ministerial reshuffle in August) and have had correspondence with the Minister for Finance, Mathias Cormann and also raised the matter with Senator Jim Molan during a meeting in May 2018.

We are told that the government is still working to find a way to correct the anomaly and I am writing to ask that you please inform SCOA what progress has been made in this regard.



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We acknowledge that the error was an unintended consequence of the legislation that introduced the \$1.6 million Transfer Balance Cap. However, this has been in place since 1 July 2017. I would have thought that nearly 18 months later, the government might have found a way to correct it.

We have informed our members that the government is aware of the issue; many of them are becoming angry and frustrated at the length of time it is taking for the government to find a resolution to it.

I look forward to receiving your response.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Illidge', written in a cursive style.

Peter Illidge
PRESIDENT

cc: Hon Stuart Robert, Assistant Treasurer

Additional notes regarding the \$1.6 million Transfer Balance Cap (TBC)

In general, SCOA supports the government's efforts to limit access to tax free superannuation pensions, in particular for high income earners.

However, there are some unintended consequences of the legislation that came into effect on 1 July 2017 in relation to reversionary pensions which affect eligible spouses of a CSS or PSS pensioner who dies while receiving the pension.

- Eligible spouses are entitled to 67% of original pension;
- Legislation requires that an amount equal to 7 pension payments be paid to reversionary beneficiary after death of original pensioner;
- The TBC of the reversionary pensioner is based on the pension amount of the original pensioner, not the 67% amount that is actually being paid;
- If eligible reversionary pensioner, in addition to receiving the reversionary pension, has superannuation balance of his/her own, this could easily take the person past the \$1.6 million TBC.

Example:

Bill receives a CSS pension of \$60,000.

His TBC is $60,000 \times 16 = \$960,000$.

Bill dies.

His wife Elsie is his eligible spouse and entitled to receive a reversionary pension of 67% of his original pension = \$40,000 (roughly, nice round figure).

Elsie continues to receive the original pension amount for 7 payments (or an amount equivalent to it), so at the time when Elsie commences her reversionary pension, her TBC is based on Bill's original pension, i.e. \$960,000.

Elsie is not a member of the CSS but has her own superannuation account in a taxed superannuation fund. Her balance at the time of Bill's death is \$800,000. This takes Elsie past the \$1.6 million TBC ($960,000 + 800,000 = \1.760 million). She must therefore withdraw some of her own money from her own superannuation fund to get under the \$1.6 million cap.

Had her TBC, at the time of Bill's death, been based on the *actual amount she will receive*, i.e. \$40,000, Elsie's TBC would have been $(40,000 \times 16 + 800,000) = \1.440 and she would have been under the \$1.6 million TBC.

The government is aware of this anomaly but has yet to make any amendments to the legislation.

October 2018.