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SUMMARY - CSS and PSS PENSIONS

Recent correspondence from several federal politicians have included the words *"the CSS and PSS schemes provide benefits that compare favourably with superannuation arrangements available to the broader community."*

This is not true.

Following are some points of difference between CSS/PSS pensions, and superannuation pensions available to the *"broader community"* - recipients of the Centrelink Age pension are included, where appropriate.

Contributions:

- retirees in receipt of CSS and PSS pensions did not receive any tax concessions for (compulsory) payments into superannuation throughout their working life
  - normal marginal tax rates applied - 34.5% and 39%
- recipients of Account Based Pensions (ABP), or Self Managed Superannuation Funds (SMSF), paid their contributions before tax was calculated (i.e. did not pay income tax on their contributions), but did pay 15% entry tax when putting money into their accounts
  - a very generous tax concession (designed to encourage people to contribute to superannuation).

Tax Concessions:

- the ABP/SMSF people were required to pay 15% tax on earnings whilst their funds were in the Accumulation phase, but received their pensions (and any lump sums), **tax free** (after reaching the age of 60)
  - there is a limit of $1.6 million ($3.2 million for couples), for the tax-free component, but then they only pay 15% on the earnings of any additional funds - and there is no limit in this category
- CSS and PSS pensioners pay **full income tax** on receipt of their pensions (34.5% and 39%)
  - a 10% tax offset does apply, but still is a marked difference in favour of the ABP/SMSF pensioners.

Additional Income:

- any additional income (Bank interest, dividends, casual employment etc.), for people in receipt of an ABP, or in a SMSF, starts off at zero for taxation purposes
  - zero up till $18,200 then 21% up to $37,000
- additional income (including Bank interest etc.), for a CSS/PSS pensioner is added on to the total of their pension and is taxed at the appropriate marginal tax rate (usually 34.5%)
- if an additional $15,000 (separate to their superannuation pension), was received by an ABP/SMSF retiree, then they are subject to the $18,200 tax free threshold, and would **pay no tax**
- in comparison, if a CSS/PSS pensioner receives additional income of $15,000 they would then pay tax at their marginal rate
  - quite likely at the 34.5% rate (up to $90,000), which equates to $5,175.

Residual Amounts:

- when a single CSS/PSS pensioner passes away there is **no residual amount** credited to his/her estate
  - if there is a wife/partner involved, then that person receives a reversionary pension (67%) until they pass on
    - after that, there is nothing that is credited to any estate
- when compared to a retiree in possession of an ABP (or a SMSF income), then whenever that person dies the balance of their ABP/SMSF is passed on to their dependants.

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Lump Sum Withdrawals:

- normal superannuation schemes allow lump sum withdrawals (tax free) for (a) overseas holidays, (b) house renovations, (c) new vehicles, (d) loans/gifts to children etc. etc.
- recipients of CSS and PSS pensions do not have access to such lump sum withdrawals.

Pensions Paid For Life:

- it is claimed that CSS and PSS pensioners have their pension paid for life - and that this is a benefit over other superannuation schemes
    - whilst this is true (but no residual value), it should be noted that the ABP/SMSF pensioners are, almost, in the same category
- almost all ABP/SMSF accounts earn between 7% and 9% per year (the Future Fund has averaged 9.2% over the past 10 years), and it is not until the ABP/SMSF person reaches the age of 85 that they would be required to withdraw more than their fund is earning - up until then their fund would be increasing in value
    - mandatory withdrawal of 9% is only reached after the person turns 85 (it is 7% for those between the ages of 80 and 84)
    - if, for example, the fund did actually diminish quite drastically, then the ABP/SMSF person would have access to the Centrelink Age pension (which is paid for life).

Contributions (Duplication):

- Age pensioners have contributed no additional income tax than what a CSS/PSS pensioner has paid throughout their working life
- in most cases, the CSS/PSS pensioner pays the normal income tax that everyone pays, but is <u>also</u> required to pay (compulsory), towards their CSS/PSS pensions
    - in other words, it could be claimed that the CSS/PSS pensioner is actually contributing for two pensions (their CSS/PSS pension, and the Centrelink Age pension).

Indexation:

The final point that must be made is that, since 1998, the Centrelink Age pension has been indexed by whichever is the higher of the Consumer Price Index (CPI), and Male Total Average Weekly Earnings (MTAWE). An additional index, the Pensioner and Beneficiary Living Cost Index (PBLCI), was introduced in 2009 and now the Age pension is indexed by the higher of the CPI and the PBLCI, and then benchmarked against the MTAWE (27.7% for singles and 41.76% for couples)

- the Reserve Bank, and the TPI pensioners, had their pensions indexed in the same manner as the Age pension 10 to 12 years ago
- the DFRB, and the DFRDB pensioners, had their pensions indexed in the same manner as the Age pension 4 years ago
- CSS and PSS pensioners still have their pensions indexed solely by the CPI
    - a much lower level.

We sincerely hope that you can now accept that the CSS/PSS pensions "***do not compare favourably** with superannuation arrangements available to the broader community."*

(R. de Gruchy)
President