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Dr Peter Hendy
Member for Eden Monaro
Electorate Office
1/21-25 Monaro St,
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Dear Dr Hendy

On Friday 4 March 16, Ewan Hazell (ACT SCOA Branch President) and I met with you about the 10% cap on the percentage of defined benefit Superannuation income that can be excluded from the income test for the Age Pension. After our discussion, you invited us to send you a paper with a suggested approach to 'grandfathering' the measure to soften the impact of that measure, especially on poorer superannuants.

Attached is a short paper recapping the background, providing the spread of superannuation income across the commonwealth civilian and the military schemes, and two sample 'grandfathering' models.

Further, we referred briefly to the change in the assets test for the age pension from 1 January 17. This change will increase the taper rate from $1 to $3 per thousand dollars in assets. We believe this change will cause considerable hardship in the present when investments have low yields, and rural holdings and other real assets may have optimistic valuations.

I thank you for your time and courtesy.

Yours sincerely

Annette Barbetti

Federal President

SCOA

The Australian Government's 10% cap on defined benefit superannuation that does not count as income towards the age pension income test

Background

On 2 February 2016, Richard Griffiths, National President of ACPSRO (Australian Council of Public Sector Retiree Organisations), issued a press release.

Mr Griffiths's press release entitled, *Collateral damage from the 2015 Budget "10% Cap"measure*, follows verbatim.

> *Just over six weeks since many defined benefit superannuants were first advised of its impact on them, and only a couple of weeks since they saw the outcome of the 2015 Budget "10% Cap" measure on their bank accounts, the real effects of the measure are becoming clearer.*
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> *The measure reversed a policy that has applied since the 2007 Better Super package by reducing to a maximum of 10% the percentage of a defined benefit pension that could be excluded from the Centrelink Income Test to establish eligibility for a part Age pension. That apparently dry, technical decision was initiated by the then-Minister for Social Services, Mr Morrison, ostensibly to stop defined benefit retirees on pensions of up to $120,000 pa from being able to draw a part Age pension.*
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> *Instead of the 16,000 retirees claimed by Mr Morrison, 34,820, or more than double his number, were affected. The Department estimated that fewer than 2,000 would actually lose all access to a part Age pension. Those who did so would have lost only a very small amount of money, some as little as $5 to $10 per week.*
>
> *That probably explains why the Department's initial estimate of the average reduction in part Age pensions was only $2,150 pa – the full financial effect of this measure has fallen mainly on those retirees whose total income was already well below the part Age pension cut-off, leading to reductions in some cases of over $10,000 pa for a couple. (Readers might like to consider how that might affect them if they were living on a joint total (super plus part Age pension) income of $40-60,000 pa, with fixed outlays and very limited prospects of being able to earn any additional income.)*
>
> *The retirees affected have not all been retired State or Commonwealth public servants; they have included retired clergy and university staff, as well as retired police officers, teachers, nurses and firefighters.*
>
> *As explained in the attachment, and contrary to the 25 January newspaper article by the current Minister, Mr. Porter, there was no "anomaly" in the 2007 Better Super package associated with the treatment of pre-1983 contributions and, in any case at least some retirees who have now lost retirement income had no pre-1983 service at all, so it could not have been only that. Even if there had been an anomaly or there were "unintended consequences" in 2007, does anyone really believe that it would, or should, have taken eight years to fix it?*

The result has been an inadequately notified and hastily applied measure, apparently aimed at 16,000 supposedly well-off retirees, but which in fact has seriously affected the livelihoods of 35,000 mainly lower income retirees. The 2 current Ministers responsible for its introduction are, by doing so, implicitly critical of one of their predecessors for purportedly creating an "anomaly" it has taken eight years to supposedly identify and correct.

Whatever the merits of the current Minister's contention that this measure will restore equality with other retirees for entitlement to age pensions, at the very least he should immediately institute a process of identifying those retirees seriously affected by the deficient measure he has introduced, and provide them with compensatory relief.

Relief for Poorer Superannuants has been overlooked

The shock tactics used to blind the Parliament centered on exposing that there were part age pensioners on an annual income of $120,000. The parliament passed the measure referred as the '10% cap' with minimal debate. A more careful scrutiny, which every piece of legislation merits, would have revealed the following facts about Commonwealth defined benefit pensions. These facts are available in the COMSUPER Annual report to the Parliament. Similar annual reports are available for State Government defined benefit superannuation funds and for non-government defined benefit superannuation funds.

As of 30 June 2015,

- The average CSS pension was $34,601 pa
- The average PSS pension was $26,980 pa
- The average of all CSS and PSS pensions was $32.609 (there were 112,972 CSS pensioners, but only 39,993 PSS pensioners, who had worked for an average of only about 8 years)
- The average DFRDB pension was $26,089 pa
- The average MSS pension was $30,691 pa
- The new national minimum wage was increased to $34,159 pa on 1 July 2015
- The average pension for all Commonwealth superannuation pensioners (both civilian and military) was $30,855.

After the increase on 20 September 2015, the base rate of the couple Age Pension was $30,904 pa.

The average civilian Commonwealth superannuation pension is now only a little higher than the couple rate of the Age Pension. However, the average pension for all Commonwealth superannuation pensioners is still less than the couple rate of the Age Pension, and well below the OECD poverty line, defined as half of average weekly earnings. In May 2015, half of the Australian Average Weekly Ordinary Time Earnings (AWOTE) was $742.25 per week, or $38,597 per annum.

(The above superannuation averages are based on information provided in the ComSuper annual report.)

Poorer Commonwealth Superannuants do exist

Where they have little other income besides their superannuation pensions, many Commonwealth superannuants are not well off and there are some whose circumstances could be described as quite straitened. Many older superannuants whose other resources have been depleted over time fall into this category.

In the past, Governments have used 'grandfathering' when making changes to the interface between the age pension and other income. For example, a few years ago when the taper rate was changed for the age pension income test, a mechanism was put in place to ensure that no one in receipt of a part age pension would lose their part age pension due directly to the change in the taper rate. The practice of 'grandfathering' is commonly used to avoid sudden adverse change in peoples' financial circumstances due to changes in government policy. In the recent press brouhaha about the possible cessation of negative gearing there was some mention of grandfathering.

Grandfathering models:

Grandfathering to ameliorate the effects of this change in the treatment of the tax-free component of defined benefit pensions could have been done in many ways, including the following examples:

1. Retaining a 50% cap for current defined benefit pension recipients and setting a 10% cap for new recipients beyond a cut-off date;

2. Retaining the existing 50% cap (or a lesser percentage) for the poorer current defined benefit pension recipients*, while reducing the cap for better-off current defined benefit recipients to 10%, and extending the two tier cap to new recipients beyond a cut-off date.

(*The poorer current individual recipients would have a combined age pension and all other income that was less than the national minimum wage.)

Recommendation:
The Australian Government reconsiders its 10% cap measure and introduces some form of grandfathering that would be, at least, beneficial to the poorer superannuants affected by the 10% cap measure.

Yours sincerely

Annette Barbetti
FEDERAL PRESIDENT