

1 May 2018

The Hon Kelly O'Dwyer MP  
Minister for Revenue and Financial Services  
Minister Assisting the Prime Minister for the Public Service  
Parliament House  
CANBERRA ACT 2600

Dear Minister

I write at the request of a CSS superannuant, Mr William Francis Adams, who has approached SCOA Australia (he is a member) regarding a number of issues he is facing in retirement including the taxation of his superannuation pension as well as health care costs. Mr Adams initially contacted your colleague, the Hon Karen Andrews, the Assistant Minister for Vocational Education and Skills who forwarded Mr Adams' letter to your office for consideration.

Mr Adams has provided copies of your letters of 13 November 2017 and 24 January 2018 to Minister Andrews which he claims contain several inaccurate statements and misleading information.

I respectfully wish to point out that your statement that "... some defined benefit superannuation schemes, including many public sector schemes, involve no employer contributions being made until the person is ready to retire .....", is not entirely correct.

All government agencies make employer contributions on behalf of contributing CSS and PSS members in the form of payments being made to the Consolidated Revenue Fund (CRF). The funds that are paid to CRF in turn are used to pay the pensions for CSS and PSS members who are already retired. The amount required is based on actuarial calculations taking into account the number of current pensioners, the size of their pensions and their life expectancy. It is SCOA's understanding that the payments fluctuate between 22% to as high as 28% of the contributing members' salaries.

The conclusion in your letter of 24 January 2018, that this arrangement is what differentiates the defined benefit schemes from regular taxed superannuation schemes is correct in as much as no tax was paid on the employer contributions paid into the CRF. This is precisely the anomaly that SCOA has been highlighting for a number of years which, even taking into consideration the 10% tax offset, we believe has resulted in the unfair taxation of CSS and PSS pensioners.

The employer contributions paid on behalf of contributing CSS and PSS members were considered to be part of the members' "total package" although many if not most members were not aware of this. However, it became evident when in the late 1990s the then Howard/Costello government introduced the superannuation contribution surcharge, a tax to be paid on "surchargeable" contributions when the member's salary exceeded the threshold for the tax.



SCOA Australia Incorporated  
PO Box 107 Mawson ACT 2607  
Pearce Community Centre, Building 3/8  
Collett Place Pearce ACT 2607  
ABN 20 315 946 727

Phone 02 6286 7977  
Email [scoaaustralia@scoa.asn.au](mailto:scoaaustralia@scoa.asn.au)  
Website [www.scoa.asn.au](http://www.scoa.asn.au)

The surchargeable contributions were the total amount of the productivity contributions as well as the “notional” employer contribution made on behalf of members, which were added to the member’s salary. When the total amount exceeded the threshold, the member was required to pay tax on the notional employer contributions.

In other words, members were required to pay tax on money they never saw and many didn’t even know existed..

The measure was soon modified (and terminated in 2005) and instead of members being required to pay the extra tax, these amounts were set aside as a special surcharge debt which is now being dealt with when the members retire and either take a lump sum payment or an adjusted pension.

Until the introduction of the PSSap in 2005, public servants had no say in how their employer arranged their superannuation or invested their own members’ contributions, which they were obliged to make at a then minimum rate of 5% (CSS) of their after tax salary. They worked in good faith that their employer would discharge their obligation for superannuation and that these arrangements would not disadvantage them in the future but rather provide for a comfortable retirement as prescribed in law.

The inadequacy of the CPI indexation as well as subsequent changes in the tax arrangements, even with the 10% offset, have disadvantaged them compared to most other superannuants. The average pension of this group is around \$32,000 p.a. and often this supports a couple. As SCOA has pointed out on several occasions, the Commonwealth is responsible for this group’s disadvantage and could correct the situation by deeming CSS and PSS pensions tax free.

I recently had the pleasure of meeting with Mr Callum Howard, your Senior Advisor on taxation and superannuation. We discussed the above issues and also identified another issue which has emerged following the introduction of the \$1.6 million Transfer Balance Cap. An unintended consequence of this is that reversionary beneficiaries of a CSS or PSS pensioner may find themselves in breach of the \$1.6 million cap due to the way it is calculated; Mr Howard informed us that your government is aware of this and that steps are being taken to remedy this error. I am wondering if you are able to let me know of any progress that has been made in this regard.

Thank you for your consideration.

I look forward to hearing further from you.

Yours sincerely



Peter Illidge  
**PRESIDENT**