Issue 55 May 2019

THE SUPERANNUANT

Newsletter of the South Australian Government Superannuated Employees Association Inc.
Trading as SA Superannuants Established 1927 www.sasuperannuants.org.au

Membership Applications/Renewals
The Membership Officer, SA Superannuants, P.O. Box 348, Modbury North SA 5092
T (08) 8522 6885 *E* pmjahn@bigpond.com

General Correspondence
The Secretary, SA Superannuants, GPO Box 2036, Adelaide SA 5001
T (08) 8339 4871. *E* venncm@gmail.com

From the President

The approval at our recent Annual General Meeting of constitutional changes that broadens our membership base to include persons in receipt of Commonwealth Government pensions has had some immediate benefits. Firstly, two former executive members of the soon to be disbanded Salaried Commonwealth Officers Association (SCOA) have accepted invitations to join our Executive Committee - James Vandenberg and Alan Raftery. They will join Barry Grear AO and a returning Dr Ray Hickman to give us the strongest Executive Committee for some years - 10 members and office bearers, one long time observer, Eileen Pritchard, and our Website Content Manager and Public officer, Peter Frick: 12 persons in total. It would be great if we could fill the remaining two committee positions with two female members. Secondly, I am pleased to be able to report that a number of SCOA members have already applied to join our Association, and we are expecting more in the coming months. I hope that within 12 months we will not have to ask committee members to carry more than one office bearing position as is now the case.

Last year we reached an agreement with the South Australian Public Service Association and the South Australian Branch of the Australian Education Union to promote our association through their excellent newsletters. I hope that we can shortly reach a similar agreement with the South Australian Branch of the Nurses Federation. Super SA continues to support us by allowing us to place a promotional flyer each year in a letter they send to new retirees.

A few years ago we recognised some awkward facts about our Association. Our membership had peaked and was declining and our executive committee was not only ageing but struggling to fill positions. Our committee has put considerable energy into trying to turn this position around. It is possible that we may have done so, at least for a few years. It would be nice to celebrate our 100 years of existence in 2027, even though some of us will not be around for the occasion.

Peter Fleming

Welcome to our new members from SCOA.

All the required constitutional arrangements have been made for your full membership.

The Membership Officer is anxious to receive your membership applications, some of which have already arrived.

At $15 per year, our fee is apparently a lot cheaper than the one you're used to.

Disclaimer: *Readers should not act, or refrain from acting, solely on the basis of information in this newsletter, but should consult the relevant authorities and advisers.*

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Speaker Program 2019

Meetings commence at 1.00 p.m. at the Pilgrim Centre, rear of 12 Flinders Street, Adelaide.

Speakers and topics subject to change without notice.

April 29: Arthur Davies, retired researcher and lecturer, *"The two Iron Ladies, Thatcher & Merkel. Their lives & legacies"*.

May 27: Brian Thom, retired Gawler Councillor**,** "*Experiences in the Role of Councillor".*

June 24: Janice Sprachman, "*Assisting Disadvantaged Families".*

July 29: Dani Griffiths, *"Animal Welfare League".*

August 26: Peter Bucklow, "*The History of Books"*. Owner of East Avenue Books.

September 30: David Jarman, *"The Warriparinga Wetlands".*

SA Superannuants Committee for 2019

President: Peter Fleming
Vice-President: Dr. Ray Hickman
Secretary: Christine Venning
Treasurer: Dr. Michael Evans
Membership Officer: Max Jahn
Assistant Secretary: vacancy
Guest Speaker Coordinators:
Ian Beckingham & Peter Fleming
Committee members:
Arnulf Anders, Barry Grear AO,
James Vandenberg, Alan Raftery
Observer:
Eileen Pritchard

Funds SA, Managing Contributions

This article just missed the February edition.
Editor

Thank you for the opportunity to contribute to the SA Superannuants newsletter. Financial markets have been quite volatile recently so in the article below we talk about some of the key themes underlying this volatility. We hope you find it of interest.
Sincerely,
Jo Townsend
CEO Funds SA

Funds SA is the dedicated funds management specialist to the State Government and manages the funds of the schemes administered by Super SA.

Market returns period ending 31 December 2018

Asset class	1year returns % p.a.	10year returns % p.a.
Cash	1.9	3.1
Government bonds	5.1	4.5
Australian shares	-3.1	8.9
Global shares	-7.4	10.1

Australian and global shares (local currency) produced negative returns for the 2018 calendar year while defensive investments produced modest positive returns.

Although Funds SA's managed portfolios are not immune to the volatility stemming from share markets, the asset mix, including high quality bonds, property, private equity and other unlisted assets, helps to lessen market gyrations and deliver a smoother return profile for investors. Thus Funds SA's diversified portfolios delivered low positive returns for the calendar year.

For the 10 years ending 31 December 2018, shares have performed strongly. Of note is that returns recorded during the GFC are no longer reflected in the 10 year period.

Two key themes impacted markets:

1. Rising US interest rates
2. Geo-political concerns.

Interest rate environment
The ultra-accommodative policy measures used to help stabilise economies after the global financial crisis continued to be wound back in 2018.

The US Federal Reserve increased interest rates over the year from 1.5% to 2.5% and continued unwinding its asset purchase program. Similarly, the UK, Canadian and European central banks began to follow suit despite economic growth appearing to soften.

Global economic growth was positive but slowing in China, Europe and Japan whilst US growth remained relatively strong. The US economy continued its strong performance, growing over 3% p.a. as the government's tax changes and spending initiatives reached their maximum impact. Unemployment continued to decline falling below 4% with inflation beginning to show signs of moving higher.

Australia performed relatively well growing just under 3% over the year, assisted by an accommodative monetary policy environment and growing exports and infrastructure spending. Consumer spending was steady despite concerns surrounding falling house prices and potential credit squeeze resulting from the banking enquiry. Spending however, was supported by a fall in the savings rate given the slow growth in wages and soft credit growth which also kept inflation in check.

Although US economic growth remained strong, fears of rising US interest rates coupled with ongoing trade tensions and softening global growth undermined investor confidence.

Political environment

The theme of populist political elections and dysfunctional parliaments continues. This time, countries impacted included: Australia, US, Britain (Brexit) and France, where rioting forced President Macron to step away from introducing controversial taxes.

US-Chinese trade tensions however caught much of investor's attention with the tit-for-tat tariff war undermining confidence and Chinese exports.

Near the end of the year, US mid-term elections resulted in the Democrats controlling the House of Representatives which investors speculated was likely to raise the prospects for high-stakes political gamesmanship as witnessed by the extended government shutdown in December, adding further to market volatility.

The Manager, Jane Dharam, would welcome requests for information from members. Let our President know of your requests. Ed.

Budget 2019: Tax & Super SA Pensions

Income tax- the Government announced in the budget that the Low and Middle Income Tax Offset (LMITO) will increase immediately from $530 to $1080 for taxable incomes from $48,000 to $90,000. For taxable incomes below $37,000 it will be $255 and this amount will increase incrementally to $1080 as taxable income exceeds $37,000. For taxable incomes above $90,000 it decreases incrementally to become $0 at $126,000. The Labor Opposition is offering a similar package but people with taxable incomes under $37,000 will get a larger tax offset of $350.

People with Super SA and Commonwealth pensions, who are paying tax, will benefit from these changes. Most retirees aged over 60 will not benefit because their superannuation pensions are not taxable income and they are already paying no tax or medicare levy.

The item below this refers to discussions the Association is having with the State Treasurer over the possibility of giving people with Super SA pensions an entirely voluntary option of converting the member-funded component of their Super SA pensions to non-taxable income. This would require people participating in the change to accept a pension reduction. The alternative to not being pro-active in this discussion is to risk a change like the one made to the *Electricity Industry Superannuation Scheme* (EISS) being thrust upon us at short notice.

The work test and superannuation- in its lobbying during the run-up to the election the Association argued for the work test to be lifted for non-concessional contributions made by people aged over 65. We argued that these people should be allowed the option of shifting savings from bank accounts to superannuation accounts as non-concessional contributions. The reason for doing this would be to have a better chance of getting higher returns.

The Government said it would set aside the work test for people up to age 67 for both non-concessional and concessional contributions. The age for spouses to receive contributions from their partners would rise from age 70 to 74. Whoever wins the election the Association will continue to argue for total lifting of the work test on non-concessional contributions for people aged over 65. *Ray Hickman*

Taxation Status of Super SA Pensions

The Association is currently engaged in discussions with the State Treasurer, Rob Lucas, over the possibility of offering members of the State Pension Scheme an entirely voluntary option of having the member-funded component of their pensions converted to income that is non-taxable after age 60.

This would require each person choosing this option to accept a reduction in the pension's gross value. The reduction is needed to compensate the scheme for tax that would have to be paid to convert income that is currently subject to normal income tax rates (with a 10% tax offset available after age 60) to income that is, like most superannuation income, non-taxable from age 60.

Our discussions with Mr. Lucas have 2 purposes:

1. to persuade him to get an assessment done of the feasibility of a proposal we have for improving net incomes for a significant fraction of pension scheme members.

2. to make him aware of ongoing concerns we have about the precedent set by tax changes made by the previous government to the *Electricity Industry Superannuation Scheme* (EISS) in 2002.

A full account of this matter is provided on the Association's website on the 'Matters of Interest' page under the heading 'Tax and Super SA pensions'.

Ray Hickman

Our Secretary, Christine Venning

After retiring from primary school teaching, I found myself on the committee of SA Superannuants. From there it was Assistant Secretary, then Secretary. I do front of house for two amateur theatre companies, and am a community speaker for the Red Cross, Emergency Rediplan and volunteer in at the Art Gallery of SA. In my spare time, I belong to the Adelaide Hills University of the Third Age. I enjoy circle dancing, Mah Jong, and a travel club.

On a float in the Barossa Vintage Parade:
"Planting a garden is to believe in tomorrow".

Coordinator Report

Having coordinated a complete annual output of "The Superannuant", I have a better idea of the problems we face in putting out a perfect job.

In my favourite scientific magazine, "Cosmos", the articles are arranged with a particularly relevant excerpt picked out, enlarged and displayed centrally on the page to attract the eye, and promote the article as very readable. For one article this was the excerpt:

"Nature doen't just fill
the vacuum of space
with virtual particles."

Now that scientific magazine's articles are written by journalists, the publication is constructed by professional assemblers, no doubt proof read by professionals and printed by a reputable company, and yet they all missed the absent "s".

In our February "The Superannuant", in the Irish Proverb, line 8,

"Count your kind deads instead of your mean;"

the error "deads" slipped through in my original, and in the newsletter after at least four committee members and two proof readers had perused prior to publication.

I now ask the question, "How come?"

Well the answer is simple. The brain understands the context and assumes what should be there, and glosses over the reality. Perception is not necessarily accurate and sometimes only approximate. Sometimes the error is so obvious that it being unnoticed is unbelievable, but, because it is so obvious, is why it gets missed. I add that, in this article, my spell check is picking, "deads" up.

I remember standing at the fence of a country oval, where sponsoring companies had advertising boards along the fence and I counted 5 spelling errors.

Where context doesn't help, such as dates, they slip through much more easily.

We all do our best to produce the best and most accurate "The Superannuant" we can, and I will let you know if we ever produce perfection. Meanwhile I signed up a new proof reader who picked up this lot. It gives you an extra reason to read the newsletter thoroughly too, doen't it?

Max Jahn

Fill one ear with jelly and the other ear with custard and you'll be a trifle deaf.

Franking Credits & Taxation

A summary of a talk at the March meeting.

This is a complex area and I cannot cover all situations likely to occur. I have chosen to look at three hypothetical cases, a relatively high superannuation pension/dividend amount ($50,000 pension & $10,000 grossed-up dividend $7,000 dividend and $3,000 franking credits), a medium superannuation pension/dividend amount ($35,000 pension & $5,000 grossed-up dividends), and a low superannuation pension/dividend amount ($20,000 pension & $2,500 grossed-up dividends). This is big picture stuff and I have ignored factors such as other offsets that may affect the details, but these will not greatly alter the overall picture.

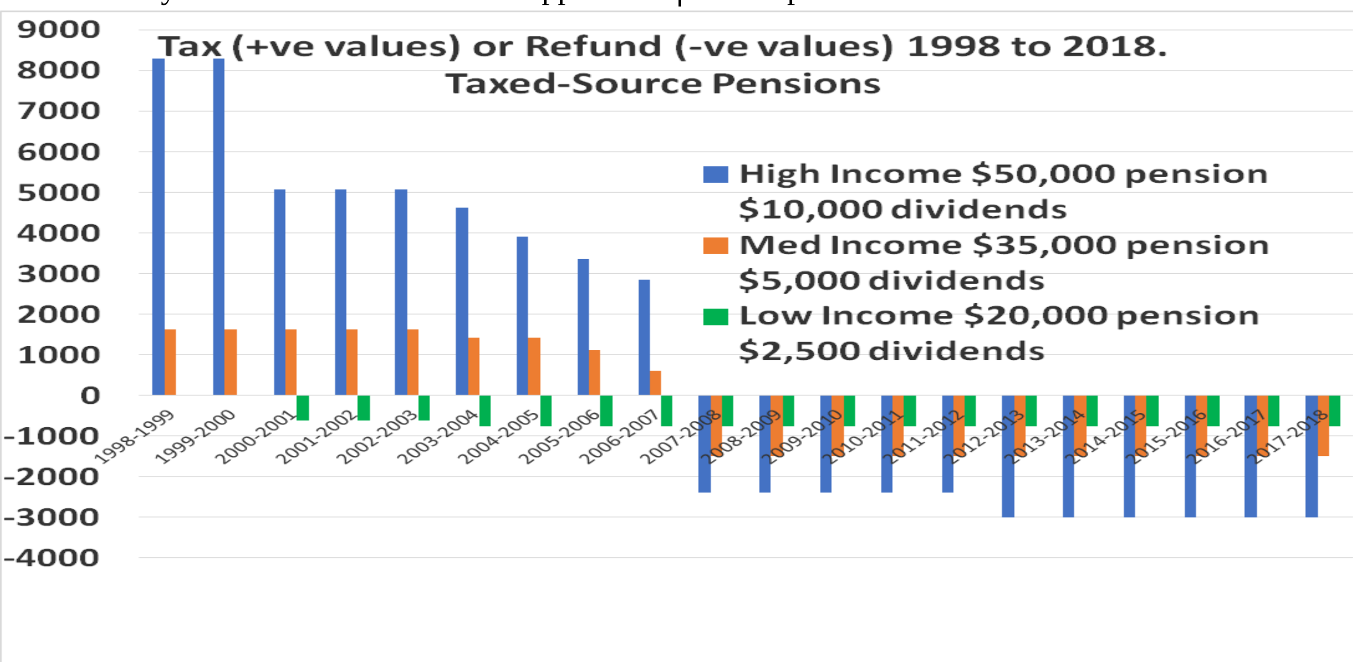
Franking credits were introduced in 1987 by Keating. The rationale for franking credits was that the company had paid tax on the income from which it paid the dividend and so taxing the dividend in the hands of the recipient was taxing the same money twice. Franking credits worked like a 'normal' tax offset, i.e. if the offset was greater than the calculated tax, the tax payable was zero and the unused portion of the tax offset was forfeited. This arrangement persisted until 2001, with little complaint that it was unfair.

The refunding of unused franking credits was introduced by Costello in 2001. This went well beyond the original rationale for introducing franking credits, - avoiding double taxation; since the recipient of the dividend was not paying tax (if he/she was, there would be no excess franking credits) there was no double taxation to be compensated for. Costello was quite specific in his budget speech - the change was to benefit low-income earners, and as the first nine clusters of bars in my chart shows this is what happened.

As far as taxed-source pensioners were concerned, after 2001 only people with smallish pensions and franked dividends would have received a payment from the ATO (see the green bars on my chart), these were people for whom the 15% tax offset that these pensions received at that time was roughly enough to offset any tax the pension attracted, leaving little or no taxable income on which to use their franking credits. However, most shareholding taxed-source pensioners would still have paid tax, because their 15% tax offset plus their franking credits would have been less than their assessed tax.

The situation changed dramatically in the 2007 budget which made taxed-source pensions no longer count as taxable income. The 2007 changes show in the groups of bars from 2007 to 2018 in my chart, a high pension/dividend pensioner went from paying ~$2800 in tax in 2006 to receiving a $2,400 refund in 2007. Another considerable increase came in 2012 with the raising of the tax-free threshold from $6,000 to $18,200. A medium pension/dividend pensioner went from being a taxpayer in 2006 to receiving a payment from the ATO in 2007. A low pension/dividend pensioner, who had received a payment from the ATO from 2001 to 2006 (when the high pension/dividend pensioner was still paying tax) saw no increase in payment from the ATO in 2007 or 2012. So, while the 2001 refunding of excess franking credits favoured lower income pensioners, the 2007 changes were regressive.

A fuller version of this article is on our website, as well as another article, Franking Credits and Tax, which details the terms used in connection with Franking Credits, and the relationships between them; it also has several worked examples. *Michael Evans*



From Your Membership Officer

I receive many letters of apology for late payment of fees, most showing feelings of contrition, but others sharing many other thoughts and feelings. This one tickled my fancy, and the writer has given me permission to include it in the newsletter for you to enjoy too. Her hand writing is a sight to behold: beautifully rounded, straight lined on blank paper, clearly formed and a picture in its own right, but I've had to put it in formal print, which is a shame. She must be our most senior member. However you can enjoy the content, which I have reproduced exactly as she wrote it.

"Tuesday 5-2-19

Dear Sir,
I am sorry that this payment is overdue but I only received your joining and renewal notice today. Two problems, Aust post not as efficient as it used to be and I have never owned a computer so I have no email address.
Besides everything else I thoroughly enjoyed the three bits of philosophy and/or humour which found its way into the latest publication.
I'll hand on 2 interesting ones that I came by recently & you may not have heard.

1. *Old age is not for wimps.*
2. *It's better to wear out than to rust out.*

As a 96 yr old who lives entirely alone & has done so for 20 years I can vouch for the validity of both of them.
Sincerely Betsy Boundy."

On the follow up phone call to ask for her permission to include it in the newsletter, she declares she is a bit hard of hearing. However she does recognise some of the names that appear in the newsletter from time to time, as she declares she was on the committee for sometime up to 11 years ago, although she suspects it was only to make up the female component. Maybe some of you can remember her, a truly delightful lady. *Max Jahn*

From a children's TV show:
Fly 1 to fly 2, "Do you know how long we live?"
Says fly 2 to fly 1, "About 1 month."
Fly 1, "Bugger."
Fly 2, "Why, what's the matter with you?"
Fly 1, "I just bought a mobile phone",
Fly 2, "so?'
Fly 1, "on a 2 year contract!"

Funds SA, Investment Governance

Funds SA is the dedicated funds management specialist to the State Government and manages the funds of the schemes administered by Super SA.

Funds SA's governance framework ensures the Corporation is well placed to fulfil its investment management responsibilities. Key elements of the governance structure include the Funds SA Board and the Audit and Risk Committee.

<u>The Funds SA Board</u> is directly responsible for the management of the Corporation and comprises up to seven directors. Each director brings personal skills, attributes and experience to the role. The Chair of the Corporation, Paul Laband, was appointed to Funds SA's board in April 2016, and appointed Chair in July 2018.

Paul Laband brings to the Board significant portfolio and investment experience from a career in investment management and asset consulting. His former roles which include, Head of National Asset Management (NAM), Head of Asset Consulting at Towers Perrin Australia and Russell Investment Group (Australia) and Managing Director Asset Management at Abbey Life Investment Services in the UK, along with his most recent management roles at UniSuper as Head of Public Markets (listed asset classes both domestically and globally) and subsequently Head of Strategic Tilting, contribute to his role on the Funds SA Board. Paul is currently a Director of JCP Investment Partners, Board Observer at ReturnToWorkSA and member of Investment Committees for Telstra Super and the Salvation Army (Southern Territory).

<u>The Audit and Risk Committee</u> is established pursuant to the Funds SA Act and is a sub-committee of the Board. The Committee comprises independent non-executive members of the Funds SA Board and operates under a Charter specifying the following key functions:

- Review of the Corporation's financial statements;
- Coordination and management of the external and internal audit functions; and
- Review of the adequacy of internal controls regarding accounting, reporting, financial, taxation, and risk and compliance systems.

All meetings are attended by the Chief Executive Officer, Chief Operating Officer, Manager, Governance, Risk and Compliance, Internal Audit

(PwC) and External Audit (Auditor-General's Department) plus members of the Operations Team as required. Meetings regularly include a closed session where Directors meet with the external and internal auditors without Funds SA Management being present.

Kathryn Presser
chairs the Audit and Risk Committee and has been a Funds SA Director since December 2014. Ms Presser brings to the Board extensive experience in all aspects of financial, risk and management accounting. She has widespread company secretarial experience in public listed and private companies in a wide range of industries and in particular over 18 years' experience at Beach Energy Limited. She also has broad governance and legislative experience through company director positions. Kathryn is currently a Director of KP Advisory Pty Ltd, Police Credit Union SA & NT, and the South Australian Government Financing Authority (SAFA), and Council Member of the University of Adelaide and Walford Anglican School for Girls. She is also the Independent Chair of the Department of Treasury and Finance Risk and Performance Committee. *Jane Dharam*

On Line Applications & Renewals Instructions

Open website

Ctrl click to follow link

(*http://www.sasuperannuants.org.au/*)

click "*membership*",

or

click "*how to join*".

At the top of that page,

click "*New Members*"

or

click "*Renewing Members*"

Fill out the appropriate form,

click "*SUBMIT*"

email *pmjahn@bigpond.com*

to inform Membership Officer of details

"The **beauty** of a woman must be seen from her **eyes**, because that is the **doorway** to her **heart**, the place where love resides."
Audrey Hepburn

Joining & Renewing

Fees And How to Pay

Current Fees:

Annual Member: $15, partner = $5.

Life Member: age under 60 = $270,

60-65 = $220, 66-70 = $160, over 70 = $130.

Partner Life Member = $50.

***Receipts** will be sent for Life Memberships. Please include a stamped self-addressed envelope for others.*

a) Paying by cheque or money order

Please send your postal payment to:

Membership Officer
S.A. Superannuants
P.O. Box 348
Modbury North SA 5092

Email: pmjahn@bigpond.com

b) Bank transfers & personal deposits

*Please make sure that the payment is accompanied by your name and suburb, **and** please notify the membership officer of its date and sufficient details to identify you as the payer:*

Bank SA: BSB 105-900
Account number: 950313840

Account name: SA Superannuants

c) New members

When paying by one of these methods, please send a membership application form to the Membership Officer so that your necessary details can be recorded.

On the next page a form is provided for new members to join, and existing members to renew their annual membership, convert it to a life membership or notify a change of address.

Member Details & Payments

Existing Members
Our records show your details as:

Please indicate errors or changes:
....
....

New Members Title .... Gender ....
First Name Last name
____

Postal Address ____________________________

____

Year of Birth ....

Home phone ....

Mobile phone ....

New *and* Renewing Members

Payment Amount $.....................
Purpose of payment (tick relevant box)
- ☐ Renew annual membership ($15 p.a.)
- ☐ Life membership (see scale page 7)
- ☐ Change Annual to Life (see page 7)
- ☐ Partner annual membership ($5 p.a.)
- ☐ Partner life membership ($50)

Newsletter by **post** ☐ **email** ☐
Email address

...................................@.....................................

Signature................................. Date..................