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SA Superannuants Established 1927

Unite – Protect – Represent

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2020-21 Pre-budget submission to the Australian Government

From: S.A. Superannuants representing the interests of its members who receive defined benefit superannuation pensions from an untaxed source.

Summary

Introduction: this provides an outline of the features that distinguish untaxed-source pensions from other superannuation income.

Section A: this contains five proposals for changes to existing retirement income arrangements, along with supporting argument. The proposals are listed below.

1. People aged 65 and above be permitted to make non-concessional contributions to superannuation without having to satisfy the work test.
2. Age pension income to be tax-free for all recipients.
3. In the determination of a person's transfer balance cap the single valuation factor of 16 currently being applied to defined benefit pensions, without regard to the pension recipient's age, be changed to an actuarially determined, age-related factor.
4. The indexation of commonwealth superannuation pensions (CSS and PSS), which is currently Consumer Price Index (CPI) only, become the better of the CPI and the Pensioner and Beneficiary Living Cost Index (PBLCI).
5. Where after-tax, personal contributions by themselves are sufficient to create a tax-free component for a defined benefit pension greater than 10% of the pension's gross value the 10% cap on the component of the pension not counted in the age pension income test should not apply.

Section B: this sets out a basis for questioning two assumptions commonly made about untaxed-source defined benefit pensions. These assumptions being that:

- a) recipients enjoy a tax advantage over other retirees; and
- b) the pensions are generous by community standards

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Introduction

SA Superannuants (The Association) has, until recently, represented mainly members of South Australia's State Pension Scheme. It has about 1500 members of this scheme as financial members. When the corresponding organisation that was representing the interests of members of the Commonwealth's defined benefit schemes (Superannuated Commonwealth Officers Association, SCOA) closed down in 2019 SA Superannuants adjusted its constitution to allow members of the Commonwealth schemes to join its ranks. More than 220 commonwealth retirees have, so far, joined SA Superannuants and there are three former SCOA members serving on the Association's Executive Committee.

There are other organisations representing the interests of Commonwealth retirees and the Association has made known to these organisations the requests it has put forward in this pre-budget submission.

There has always been much common ground between the retirement interests of people receiving the South Australian pension and those receiving Commonwealth pensions such as the CSS pension. This is due to the fact that both pensions are untaxed-source pensions which means that no tax has been paid by the source delivering the pension prior to its commencement. As a consequence of this, the pensions, on commencement, are taxed, and assessed for the medicare levy, as normal income when the recipient is less than 60 years old. After this age they continue as taxable income on which a 10% tax offset can be claimed. At least 90% of the pension income is counted in the age pension income test. Where there is additional, taxable income (including age pension) it is added to the superannuation pension income and taxed at the marginal rate for the combined income. The medicare levy is also paid on the additional income.

The norm for Australian Superannuation pensions is to be paid entirely from a taxed source which means that the source has, since 1 July 1988 paid a 15% contribution tax and up to 15% tax on earnings. Prior to age 60, pensions from a taxed source attract a 15% tax offset and after age 60 they are tax-free and exempt from the medicare levy. Any additional, taxable income is taxed, and assessed for the medicare levy, as if it is the only income. So, a retiree, by using both the tax-free threshold of \$18,200 and tax offsets, is able to have an additional taxable income (including age pension) well in excess of \$18,200 p.a. on which he/she pays no tax or medicare levy.

The Association acknowledges that untaxed-source defined benefit pension recipients must expect to pay more tax on their pensions than people receiving pensions paid from a taxed source because those latter pensions have been reduced in their gross values by the tax collected prior to pension commencement. However when all retirement income factors are taken into account people receiving a pension from an untaxed-source do not have any advantage over those receiving superannuation pensions (either defined benefit or account-based) from a taxed source.

Previously, when the Association has made proposals for change to retirement income tax and means testing arrangements that would increase net incomes for its members the response from government has invariably involved a refusal based on assertions that:

1. the additional taxable income of untaxed-source pension recipients is taxed fairly in comparison to people receiving taxed-source pensions because no tax was paid prior to pension commencement and the additional tax paid in retirement on the superannuation pension and other taxable income (including age pension) is merely a 'catch-up'.
2. Public sector defined benefit pensions are 'generous by community standards'.

The Association has a concern that these assertions have been repeated so often, and organisations representing the interests of its members (including the Association itself) have done so little to challenge them that they have become accepted without there ever being a close examination of their validity. For this reason the Association has decided to include in this pre-2020/21 budget submission

information and argument that challenges each of the assertions. The information and argument is built around South Australian defined benefit pensions in the range \$40,000 - \$80,000 p.a. and is set out in Section B of the submission under the heading ‘dispelling myths about untaxed-source defined benefit pensions’.

Net incomes delivered by the South Australian pensions are compared with those delivered by superannuation account balances in the range \$400,000-\$800,000.

Section A: requests for changes to retirement income arrangements

The Association does not claim to represent a group of people who are all doing it tough in retirement. Most of its members have secure retirement incomes between the modest levels of \$27,913 p.a. for singles and \$43,601 p.a. for couples set by the *Association of Superannuation Funds of Australia* (ASFA) for 65 year olds and the comfortable levels of \$43,787 p.a. and \$61,786 p.a. A significant number would have net incomes in excess of the comfortable level. None of the proposals set out below involve large improvements in net incomes for any of the people the Association represents and none will have a large impact on the budget. The proposals are put forward as modest changes that improve the integrity of the retirement income system as well as improve the net incomes of the Association’s members.

1. Access to the superannuation system for people aged over 65

The Association requests that all people aged 65 and above be permitted to make non-concessional contributions to superannuation without having to satisfy the work test.

This will involve no cost to government and would be of benefit not just to people with untaxed-source superannuation but all elderly Australians. The Association proposes that the following tax arrangements would apply to the contributions and the earnings.

- No tax deduction would be allowed for the contributions and no contributions tax would be payable on them.
- The contributions and earnings would have to be held in an accumulation account with annual earnings subject to tax.

To maintain the integrity of the superannuation system these contributions should be subject to annual limits.

This set of arrangements is aimed at assisting people of modest means to get a better return on their savings. The Association believes that the arrangements can only be a winner for the government. The individuals who chose to make use of the arrangements will have to take into account the greater short-term risk that is associated with saving through the superannuation system as compared to bank accounts. The incentive for them to do so is the larger return that superannuation funds are certain to provide over the medium to long term.

It has been put to the Association that people wanting a larger return on their savings can purchase shares and/or invest in managed funds. Our response to this is that many older people have had little experience in making share purchases, or with managed funds, and see these methods of saving as unfamiliar and risky. Superannuation funds, by comparison, are familiar savings vehicles which would be much preferred. Indeed, if investing in shares or managed funds was a viable option for most retirees it would not have been necessary for the Government to allow the proceeds of house downsizing to be placed in the superannuation system.

The calculations set out below demonstrate how superannuation accounts could work to the advantage of fully retired people with little risk of reducing taxation revenue or increasing Centrelink outlays. A bank account interest rate of 2% is compared with a before-tax, and after expenses, return of 6% from a superannuation account.

Example 1: the fully retired person is currently not paying any tax and has \$20,000 in a bank account earning 2% p.a. This delivers \$400 interest to the person and no tax to the government. If the \$20,000 is transferred to the superannuation system it is likely to deliver a 6% return before tax. So the person's superannuation account balance will increase by \$1,200 before tax. The superannuation fund will pay as much as \$180 of this in tax to the government and the person's account balance will increase by at least \$1,020 i.e. by at least \$620 more than the increase that would have occurred had the money stayed in the bank account.

Result: the government has gained up to \$180 in tax revenue and the person has gained at least \$620.

Example 2: the fully retired person is currently paying tax at the rate of 19% and has \$20,000 in a bank account earning 2% p.a. and the reasoning of example 1 is repeated.

Result: the government gains up to \$104 (\$180-\$76) in tax revenue and the person gains at least \$696.

Example 3: the fully retired person is currently paying tax at the rate of 32.5%, plus the medicare levy of 2%, and has \$20,000 in a bank account earning 2% p.a.

Result: the government has gained up to \$42 (\$180-\$138) in tax revenue and the person has gained at least \$758.

Impact on age pension outlays: where this strategy produces superannuation account balances larger than the original bank account balances, and the person is getting an age pension payment, that age pension payment is going to be reduced. The account balance increases will increase the deemed income used in the age pension income test and increase the value of assets used in the age pension asset test. This is another factor that can only work in the Government's favour.

2. Age pension income to be tax free

The Association requests that age pension income be tax-free for all recipients.
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Age pension is already tax-free for the overwhelming majority of recipients. The 2007 'Simpler Super' reforms had the effect of making any taxable income, being received in addition to the tax-free superannuation income, taxed as if was the only income. If there was additional income then no matter how large the tax-free superannuation pension income was tax and medicare levy did not become payable on that additional income until it was well in excess of \$18,200 p.a. In 2017 a limit was set on the amount of tax-free superannuation that could be received before tax would be payable on any additional income. This limit was \$100,000 and half of any amount in addition to \$100,000 was counted as taxable income. People with taxed-source pensions less than \$100,000 p.a. continue to have their taxable income taxed as if it is their only income.

Recipients of untaxed-source pensions, after 2007, continued to receive superannuation income that was taxable (with a 10% tax offset) and all additional taxable income (including age pension) was added to the superannuation income and taxed at the marginal rate for the combined income. This still applies to all untaxed-source defined benefit pensions.

The Association is confident that members of untaxed-source defined benefit schemes are the vast majority of Australians who pay tax on age pension income. Nearly all other Australians who receive age pension income pay no tax on that income.

3. Valuation of defined benefit pensions for transfer balance cap purposes

The Association requests that the single factor of 16 currently being applied to defined benefit pensions, without regard to the pension recipient's age, be changed to an actuarially determined, age-related factor.
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Account-based superannuation pensions have a transfer balance cap (TBC) amount that was set initially at \$1.6 million without regard for the account holder's age. It was reasonable to set the amount at the same value as the account balance because:

1. the pension recipient could realise that amount by cashing in the pension, and
2. \$1.6 million dollars would fund payment of a CPI indexed pension of \$100,000 p.a. for the life expectancy of a 65 year old.

Where an account balance exceeds the \$1.6 million cap the difference must be withdrawn from the superannuation system or transferred to an accumulation account where earnings will be subject to tax.

Once a transfer balance cap amount had been assigned to account-based pensions the Association agrees that fairness required defined benefit pensions to be assigned a corresponding value. But it is not fair to assign the value for defined benefit pensions without taking account of a person's age because, unlike an account-based pension, a defined benefit pension cannot be cashed in except in strictly prescribed circumstances during a short period after the pension commences. To assign a fair value to a defined benefit pension the recipient's age must be taken into account.

In previous representations made in support of the Association's request for this change to be made we were advised by the former Assistant Treasurer, Hon Stuart Robert MP, that 'Using different age-based factors to value DBPs could deliver perverse results- Older retirees would have more space under the transfer balance cap than their younger counterparts. This is not the intention of the TBC.'

To decide what the intention of the TBC is we have referred to the Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016. Extracts from this legislation are shown in the box below

294-1 What this Division is about

There is a cap on the total amount you can transfer into the retirement phase of superannuation (where earnings are exempt from taxation).

294-5 Object of this Division

The object of this Division is to limit the total amount of an individual's superannuation income streams that receive an earnings tax exemption.

We can see no object here, or anywhere else in the legislation, that requires, or justifies, applying a valuation factor to defined benefit superannuation pensions for the purpose of preventing older retirees having more space under the transfer balance cap than their younger counterparts. Indeed use of the single amount of \$1.6 million to set the transfer balance cap amount for account-based pensions has the predictable effect of ensuring that an older person with \$1.6 million backing an account-based pension can receive a larger account-based income stream, that is entirely exempt from earnings tax, than a younger person. Or the older person can take a \$100,000 p.a. pension and have another \$600,000 that will not be needed to fund the pension but will still be exempt from earnings tax. Consider these examples:

Example 1: a person aged 75 receiving a CPI indexed pension of \$100,000 p.a. This person has a life expectancy of about 10 years and the value of the lump sum sufficient to pay the pension for this period is about \$800,000. For a person aged 80 years with a life expectancy of about 5 years the corresponding lump sum is about \$500,000. A fair conversion factor for the pension of the 75 year old is not 16, but about 8 and for the eighty year old, about 5.

Example 2: two people each have a transfer balance account amount of \$1.6 million being used to deliver a \$100,000 p.a. (indexed) account-based pension. One of these people is aged 65 and the other 80,

Using the assumptions of Mr Robert's letter, for the person aged 65, the entire \$1.6 million will be needed to pay the pension for life. This person has in their account the amount of money needed to deliver their pension and the earnings of this money is entirely exempt from tax. If they have additional superannuation it will be subject to tax on earnings.

For the person aged 80 the \$1.6 million will far exceed the amount needed to fund a lifetime indexed pension of \$100,000. Let us suppose the amount needed to fund the pension for life is \$1 million. This older person has \$600,000 in their pension account which is escaping tax on earnings after the account has funded a pension of the same amount being received by the 65 year old. This older person also has the option of receiving a pension well above \$100,000 p.a. without earnings tax being collected on the assets backing the pension.

As well as seeking fair treatment for the very small fraction (less than 1%) of members of the South Australian State Pension Scheme and the Commonwealth's CSS and PSS schemes, who have pensions above \$100,000 p.a., the Association has a concern that acceptance of the 16-covers-all-ages pension valuation factor might see it used in other circumstances affecting many more of its members.

4. Improved indexation for Commonwealth pensions

The Association requests that the indexation of commonwealth superannuation pensions (CSS and PSS), which is currently Consumer Price Index (CPI) only, become the better of the CPI and the Pensioner and Beneficiary Living Cost Index (PBLCI).

The Association has always been a supporter of Commonwealth pensions being indexed on the same basis as the age pension. This has been repeatedly rejected by both Coalition and Labor governments. The change being proposed by SA Superannuants this year can be viewed as a step in the right direction.

The only argument against age pension indexation that the Association gives any credence to is the one which says that the age pension is a safety net payment as well as an income support payment and a separate pillar of Australia's retirement income system. We are suggesting the better of CPI and PBLCI as a way of proceeding that maintains the distinction between the superannuation and age pension pillars.

It might also be argued that increasing the indexation rate for CSS and PSS pensions amounts to the Commonwealth government supplementing superannuation for its former employees years, and decades, after employment has ceased. This is something for which there is no precedent in the private sector. This would be a valid argument against any improvement to indexation if the Commonwealth had fully funded its pensions and paid them from the taxed-source environment. The rapid accumulation of assets in the Future Fund is clear evidence that it has always been capable of doing this and has made a considered decision against doing so. The Association considers that this puts the Commonwealth under a unique obligation to seriously consider adjusting the CSS and PSS indexation rates upwards.

On the cost of going to the better of CPI and PBLCI it should be remembered that:

- a) the CSS closed to new members in 1990 and the PSS in 2005.
- b) a majority of the people receiving the improved indexation will be age pension recipients and so 50% of the cost of improved indexation for those people will be recovered in the form of reduced age

pension payments. Most of those who are not receiving an age pension payment will pay more than 30% of the improved indexation in tax and medicare levy. All the untaxed-source defined benefit couples of Table 1 will return more than 50% of their improved indexation to the Commonwealth government.

5. Relaxation of the 10% cap on the proportion of a defined benefit pension not counted in the Centrelink income test.

The Association requests that where after-tax, personal contributions by themselves are sufficient to create a tax-free component greater than 10% of the pension's gross value the 10% cap should not apply

From the 'Simpler Super' superannuation reforms of 2007 until 1 January 2016 the tax –free component of taxed-source defined benefit pensions was calculated taking account of both the amount of contributions a pension recipient had paid from after-tax income and the proportion of service completed before 1 July 1983. This component of the pension was not only tax-free income after age 60 it also was not counted in the Centrelink age pension income test. The inclusion of pre-July 1983 service in the determination of the tax-free component saw some pensions acquire high tax free components (up to 50% of the gross pension value). Effective from 1 January 2016 the Federal Government introduced a 10% cap on the amount of tax-free component that is not counted in the income test. Since then at least 90% of every defined benefit pension (taxed-source and untaxed source) must be counted in the income test.

There is a small fraction of defined benefit pension recipients whose personal after-tax contributions are sufficient to produce a tax-free component of more than 10%. The Commonwealth's PSS scheme pensions, and its CSS non-indexed pension, stand out from other defined benefit pensions as far as having pension recipients in this category is concerned. The small number of people involved ensures that the cost will have little impact on the budget.

Section B-dispelling myths about untaxed-source defined benefit pensions

No tax paid prior to pension commencement?

The South Australian pension recipient would have paid 6% of gross salary from after-tax income for 30 years. Salary throughout those thirty years would have had a marginal tax rate of at least 32.5%. In order to pay this 6 % contribution the person had to use at least 8.9% of their annual salary and so paid at least 2.9% of annual salary as a contribution tax. Today every worker gets 9.5% of salary paid by their employers as the superannuation guarantee (S.G.) without being required to make any personal contributions. The 15% contribution tax on this uses up 1.4% of salary leaving 8.1% of salary to be added to their account balance. So the South Australian pension recipient has paid more tax on their personal contribution than is payable on the larger S.G. contribution which all Australian employees receive.

This is not to deny that when the total contributions (personal and employer) needed to fund the South Australian pension are taken into account, along with taxes on contributions and earnings that would be payable if the pensions were being paid from a taxed source, the total amount of tax payable would be greater than what a South Australian pension recipient pays on their personal contributions. But it is not the case that the South Australian pension recipient has paid no tax prior to pension commencement. And throughout retirement most couples receiving these pensions will pay a significant fraction of the pensions as tax and medicare levy.

Generous compared to the community standard?

Australia has a three pillar retirement income system made up of:

1. S.G. contributions paid by employers. This began at the rate of 3% of salary in 1992 rising to 9% in 2002. Currently the S.G. is 9.5% of salary increasing to 12% by 2025
2. voluntary savings including voluntary superannuation contributions
3. age pension and, before age pension age, access to retirement income support from the Newstart allowance.

The Association does not dispute that the employer contributions needed to fund South Australian and Commonwealth untaxed-source, defined benefit pensions are much higher than the S.G. But comparing the generosity of South Australian and Commonwealth defined benefit pensions with the community standard requires that all three pillars of the retirement income system be taken into account along with taxation and medicare levy differences. A comparison that satisfies all these requirements is made below.

The account-based figures in Table 1 were obtained using an *Association of Superannuation Funds of Australia* (ASFA) calculator. The figures for the SA untaxed-source defined benefit pension were calculated using current income tax, means testing, tax offset and medicare levy parameters. Each pension has a tax-free component of 5% derived from the after-tax, personal contributions of the pension recipients. This component is also not counted in the age pension income test. The total net income values were checked against online calculators. More detail about the sources of the figures is provided in the Appendix.

All figures in Table 1 correspond to the first year of retirement after reaching age pension age. The ASFA calculator refers to this fact by saying to users 'Please note this illustration provides a snapshot of the first year of your retirement split between the age pension and your super. It will change over time'. Other assumptions listed for the ASFA calculator include the assumption that over the full retirement period the retirement income for account-based superannuation will increase at a rate greater than the Consumer Price Index (CPI).

Table 1: comparison of total net incomes delivered by account-based pensions with those delivered by SA untaxed-source defined benefit pensions.

Account-based superannuation 'community standard'				South Australian untaxed-source, defined benefit pension			
Account balance (\$)	Age pension (\$p.a.)	Account drawdown (\$ p.a.)	Total net income (\$p.a.)	Gross pension (\$p.a.)	Age pension (\$p.a.)	Tax and medicare levy (\$p.a.)	Total net income (\$p.a.)
400,000	35,588	24,271	59,859	40,000	21,586	1,613	59,973
500,000	28,451	35,637	64,088	53,000	15,411	4,408	64,003
600,000	20,801	46,498	67,299	64,000	10,186	6,753	67,433
700,000	13,669	56,614	70,283	71,500	6,622	7,910	70,212
800,000	6,588	66,472	73,060	79,000	3,061	9,042	73,019

The Figures of Table 1 indicate that:

- the Federal Government is paying, at the start of retirement, **much more in age pension to each couple with account-based superannuation** than to the corresponding couple in receipt of a South Australian untaxed-source defined benefit pension. The gap will get greater throughout retirement.
- **Every couple in Table 1 with an account-based superannuation pension** is likely to receive a full, or near-to-full, age pension for much of their retirement.

- **No couple in Table 1 receiving a South Australian pension** is ever likely to receive anywhere near a full age pension.
- **No couple in Table 1 with an account-based superannuation pension** will ever pay tax or the medicare levy
- **Every couple in Table 1 with a South Australian pension** will certainly pay tax and medicare levy for all, or most, of their retirement.

Retirement before age pension age

Most people receiving South Australian pensions (and Commonwealth pensions) commence those pensions before reaching age pension age and will proceed to age pension age without any Federal government income support and with pensions that are less than those of Table 1. A couple with one of the account balances of Table 1, retiring before age pension age, will be able to claim the Newstart allowance which is currently about \$26,000 p.a. They can do this by delaying commencement of their account-based pension and making tax-free lump sum withdrawals from their superannuation until they reach age pension age. Neither the amounts withdrawn, nor the account balance, affects their entitlement to Newstart.

Access to the Newstart allowance for retirement income support prior to reaching age pension age goes a long way towards ensuring that, at age pension age, a couple of Table 1 with account-based income, will still be able to enjoy much the same standard of living over their retirement as the corresponding couple with a South Australian pension.

Early death of the retirees

When the member of a Table 1 couple who is in receipt of a South Australian pension dies their partner receives two thirds of the pension. In the same situation the surviving partner of the couple with account-based superannuation retains the entire, remaining account balance. With the South Australian pension, if the surviving partner dies soon after there is no payment to the estate except if the pension has been getting paid for less than a total of 4 years. This is also the case if the South Australian pension recipient is single throughout retirement.

In Table 1 the estate values of the account-based superannuation, drawn down at the rate which provides the same total net retirement income as the corresponding South Australian pension, remain substantial until each member of the couple has had many years of retirement.

Having made the point that the South Australian pensions of Table 1 have little or no estate value soon after commencement the Association acknowledges that the pensions do guarantee secure income for those fortunate enough to live beyond normal life expectancy. This is a fact to be taken into account when comparing the pensions with the community standard.

Comparison with taxed-source defined benefit pensions

In the years following introduction of the current dual system for taxation of superannuation income most public sector superannuation pension schemes opted to become taxed-source schemes. All the existing corporate schemes were compelled to do so. There were no complaints made by members or employers of the schemes that became taxed-source schemes. Members of the schemes whose pensions had commenced before 1 July 1988 continued to receive their full pensions and their employers did not have to pay tax on the contributions and earnings of assets backing the pensions. The maximum rate of taxation payable on superannuation contributions and earnings from 1988 has been 15%. As people retired after 1 July 1988 pensions were reduced by increasing amounts in proportion to the fraction of their service completed after 1 July 1988. If one third of service had accumulated after this date then the pension was reduced by 5% (one third of 15%). If two thirds had accumulated the pension reduction was 10%.

The Commonwealth Government handled its employee contributions in the taxed-source superannuation environment but paid its share of pensions from general revenue and this component of

the pensions is untaxed-source superannuation income. The South Australian government handles both employee and employer contributions in the untaxed-source superannuation environment. It does this by exploiting a constitutional limitation on the taxation power of the Commonwealth which allows for a state government (not a private employer) to elect to have its funds ‘constitutionally protected’ from payment of taxation.

Receiving a pension paid from an untaxed-source is disadvantageous, not advantageous, for most (not all) recipients of such pensions. This disadvantage can be illustrated as follows using the pension values of Table 1.

The pensioner’s service commenced 40 years ago in 1979, with the percentage of service completed after 1988 being $31/40 \times 100 = 77.5\%$. The pension reduction would be 77.5% of $15\% = 11.6\%$. The taxable component of the pensions in Table 1 is 95% of the gross value and if the pensions were paid from a taxed source this component of the pension would have to be reduced by 11.6% in order to become taxed-source income. For all but the \$40,000 p.a. pension this reduction in gross income produces a significant increase in net income.

For example, when this reduction is applied to the pension of \$64,000 p.a. it reduces by \$7052 p.a. to become \$56,948 p.a. This reduction sees the tax and medicare levy reduced by \$6,753 p.a. and age pension increased by \$3,528 for a net gain of \$3,229 p.a.

The Association considers that, in order to justify the statement that a South Australian untaxed-source defined benefit pension is generous compared to the community standard, it would need to be shown that the S.G. paid for forty years of employment and 8.9% paid for thirty years as additional personal contributions (8.9% of salary paid by salary sacrifice being the same financial commitment as the 6% paid from after-tax salary by a SA pension recipient) into a taxed-source fund would be insufficient to produce the retirement account balances of Table 1. Estimates of what these contributions would deliver as account balances at retirement are provided in Table 2.

Table 2: Account balances and retirement incomes arising from 40 years of S.G. contributions at 9.5% p.a. of salary and 30 years of personal contributions at 8.9%

1	SA defined benefit super pension of Table 1 (\$ p.a.)	40000	53000	64000	71500	79000
2	Retirement income from the SA defined benefit pension (\$p.a.)	59973	64003	67433	70212	73019
3	Retirement salary (\$ p.a.)	53300	70700	85300	95300	105300
4	Salary 40 yr ago (\$ p.a.)	18500	24500	29500	33100	36500
5	Account balance from 9.5% contributions made for 40 yr (\$)	284441	376704	453557	508909	561208
6	Salary 30 yr ago (\$p.a.)	22984	30438	36650	41122	45346
7	Account balance from 8.9% contributions made for 30 yr (\$)	167577	221939	267229	299776	330632
8	Account balance at retirement (\$)	452018	598643	720786	808685	891840
9	Retirement income estimated by the ASFA calculator (\$ p.a.)	62091	67165	70739	73198	75457
10	Advantage of account-based superannuation (\$p.a.)	2118	3162	3306	2986	2438

The figures in Table 2 indicate that, for each of the South Australian pensions of Table 1, the S.G. for 40 years and 8.9% of salary for thirty years, when paid by salary sacrifice (which is the norm) would produce higher account balances at retirement (and, therefore, higher retirement incomes) than the South Australian pensions. Details of how the figures in Table 2 were obtained are provided in the Appendix.

Summary

The Association acknowledges that South Australian and Commonwealth untaxed-source defined benefit pensions require an employer contribution well above the S.G. but a large part of this additional employer contribution flows to the Commonwealth government in the form of smaller age pension payments made to, and larger tax and medicare levy payments collected from, the pension recipients.

The analysis set out in Section B is complicated and if there are serious flaws in it the Association will be only too glad to have them pointed out. But we would expect the information and argument that reveals the flaws to also be provided. A criticism we anticipate is that the S.G. has not been available to everyone for 40 years. The Association's response to this criticism is that before the S.G. was introduced members of South Australian and Commonwealth, defined benefit schemes were compelled to join those schemes and make personal contributions from after-tax income at higher marginal tax rates than apply today. In 1980 the average wage was \$14,300 and personal income tax rates were 46% for income over \$17,239 p.a. and 60% for income over \$34,478 p.a. The corresponding figures for 1990 are average wage \$30,628, 38.5% tax rate for income above \$20,700 and 42.5% for income above \$35,000 p.a.

Appendix

Details of the calculations that produced the Figures of Table 1 and Table 2

Table 1:

Net incomes from account balances: these have been obtained using the *Association of Superannuation Funds of Australia* (ASFA) calculator ‘Retirement tracker tool’ which is located at the web address:

<http://www.superguru.com.au/ExternalFiles/calculators/retirement-tracker/#/>

Net incomes from South Australian pensions: these have been obtained using online calculators.

Age pension amounts obtained with the calculator at:

<https://www.noelwhittaker.com.au/resources/calculators/age-pension-calculator/>

Tax payable on taxable income checked with the calculator at:

<https://www.ato.gov.au/Calculators-and-tools/Host/?anchor=STC&anchor=STC#STC/questions>

Medicare levy payments obtained with the calculator at:

<https://www.ato.gov.au/Calculators-and-tools/Host/?anchor=MedicareLevy#MedicareLevy/questions>

Senior Australian and pensioner tax offset amounts obtained with the calculator at

<https://www.ato.gov.au/Calculators-and-tools/Host/?anchor=BTOSAPTO&anchor=BTOSAPTO#BTOSAPTO/questions>

Low income tax offset(LITO), and low and middle income tax offset(LMITO), amounts were calculated in accord with information provided at the web address

<https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Low-and-middle-income-earners/>

Table 2:

Rows 1,2 and 9 contain figures from Table 1

Salary at retirement(Row 3): this has been calculated assuming that the SA pension is 75% of salary at retirement

Salaries 30 and 40 years ago(Rows 4 and 6): these have been calculated by discounting salary at retirement by 2.75% p.a.

Account balances from 9.5% contributions made for 40 yr and 8.9% contributions made for 30 yr (Rows 5 and 7) have been calculated assuming salary inflation of 2.75%, earning rate of 5% and using the calculator at:

<https://www.noelwhittaker.com.au/resources/calculators/super-contributions-indexed/>

Account balance at retirement (Row 8): this is the sum of the figures in Rows 5 and 7.

Total net income advantage of account-based superannuation (Row 10): this is the figure in Row 2 minus that in Row 9.