South Australian Government Superannuated Employees Association Inc.
trading as:

S.A. Superannuants *Established 1927*

Newsletter

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President: Ray Hickman
24 Castle Street, Modbury, S.A. 5092
Tel: (08) 8264 4146
e-mail: rhick@iweb.net.au
Treasurer & Membership: John Reddaway
7 Mead St. Paradise, S.A. 5075
Tel: (08) 8337 2425
e-mail: reddaway@iweb.net.au
Secretary: Vic Potticary
27 Torrens St. Torrensville, S.A. 5031
Tel: (08) 8352 6504
e-mail: cosme@senet.com.au

From the President

AT the Association's AGM this year Mr Dean Brown, former premier and now shadow minister for human services was guest speaker. Mr Brown commenced his address by congratulating SA Superannuant members for their commitment to providing for their own retirement incomes through their membership of the state pension scheme.

He reminded us of the fact that of all the Australians who had a similar opportunity to provide for their own retirement incomes there were relatively few who did.

It was encouraging to hear a prominent parliamentarian say these things because it is common for membership of the pension scheme to be described as something that was only ever available to a privileged few. I want to encourage all members of the pension scheme to think about their superannuation benefit as something which they have because they were prepared to make the financial commitment needed for its purchase over a working lifetime. This was a commitment that a large majority of those eligible to join were not prepared to make. Even today there are few making a similar commitment.

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A difficult issue currently being dealt with by the Association is the splitting of the state super pension in the event of marriage breakdown. The relevant Bill is still before the State Parliament and the Association is working hard to protect the interests of the pension scheme member as well as his/her former spouse.

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The Association continues to pursue a change in the indexation of pensions from the current CPI adjustment to one that is based on wage increases or CPI whichever is greater. The crucial development in this matter will be a move by the Commonwealth to allow this change for its superannuation schemes.

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The Committee has undertaken to increase the number of newsletters sent to members in 2004 from two to three. The additional newsletter will provide members with details of Committee changes, and financial position of the Association, as well as various other items.

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A new initiative of the Association in 2004 will be an attempt to set up a limited number of meetings in country areas where members live.

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Members may have noticed newspaper advertisements inviting nominations for election to the Boards of Super SA and Funds SA.

I encourage all members to vote in these elections. It is important that the people elected have a sound grasp of superannuation principles and a strong commitment to put the interests of fund members before all other interests.

Ray Hickman, President

CPI Adjustment, October 2003

Adelaide CPI increased by 1.98% in the six months to 30 June. Super SA pensions will be adjusted by this amount in October.

PROGRAM: AUGUST–FEBRUARY, 2004

Venue: The Pilgrim Centre, 12 Flinders St., Adelaide
1 p.m.–2.30 p.m.

Visitors Are Welcome

25 Aug. 03	**Dr. David Schultz,** Adelaide Zoo Vet
29 Sept. 03	**Mark Thomson,** Author of "Men in Sheds"
27 Oct. 03	**Mr Tony Harris,** Royal Flying Doctor Service
24 Nov. 03	**Mr Rick Harper,** Funds S.A.
23 Feb. 04	**AGM,** Speaker to be announced

Meeting at Victor Harbor

MEMBERS residing at Victor Harbor and nearby centres are advised that a meeting will be held at **Quality Resort McCracken, McCracken Drive, Victor Harbor, 11a.m–1p.m. Wednesday, 3 September** This is an initiative to 'test the water' as far as interest in face-to-face contact between country members and officers of the Association is concerned.

There is no formal agenda for the meeting but members attending will be briefed on the main matters being pursued by the Association.

Indexation of Pensions

THE Association has now made its first formal approach to the State Government over the possibility of the indexation of the pension being changed to a wage basis. It is well known that wages increase more rapidly than the CPI.

Pensions indexed to wages are already being paid to Federal Parliamentarians and Reserve Bank employees. A recent Senate inquiry has recommended that the Commonwealth Government consider wage based indexation for its retirees.

Our latest information is that the Commonwealth retiree organisation, the Superannuated Commonwealth Officers Association (SCOA), and the Australian Council of Public Sector Retiree Organisations (ACPSRO) are making an impact with the campaign to obtain the change in indexing arrangements for Commonwealth retirees.

Our approach to the Treasurer Mr Foley has been to alert him to the fact that when the Commonwealth makes this change we will expect SA to do the same.

SCOA and ACPSRO are pointing out, quite correctly, that the Commonwealth will claw back about half the cost through increased tax payments and reduced Centrelink outlays. This does not apply directly to States but the States should be able to argue for compensation via intergovernment financial agreements.

South Australia has contributed to the Federal campaign through the gathering of information which demonstrates the inferiority of CPI indexing compared to wage indexing.

The Taxed Fund Issue

WE have been advised by the State Treasurer, Mr Foley that we can be assured the State Government will make no change to the taxation status of the pension fund which has the effect of reducing the after-tax value of any person's pension.

We have expressed to Mr Foley our appreciation of him giving this assurance but the Association's own understanding is that if the Government does proceed to change the taxation status of the pension fund it should be possible to ensure that many members receive an increase in the after-tax value of the pension and **at no cost to the State Government.**

We concede that this is a highly technical matter and our intention is to wait and see what proposals the Government brings forward.

'Generous by Community Standards?'

IT is common to hear public sector pension schemes such as ours described as being **'already generous by community standards'**.

This claim does not stand up to close examination. The pension scheme costs the employer 20% of salary paid for 30 years and it costs the employee 6% of salary paid for the same period from after-tax income. The current government SSS scheme costs the employer 9% (the superannuation guarantee, SG) of salary paid throughout a working lifetime. Employee contributions are not required but can be made by salary sacrifice or after tax.

A typical pension scheme member retires at about age 60 after a working lifetime of about 40 years. For an investment earnings rate of 7% p.a. the SG paid over 40 years is equivalent to 15% of salary paid for 30 years.

Compared to a pension scheme member, a SSS member contributing at the same level, via salary sacrifice, has the tax office making a contribution on his behalf of 2.7–5.7% of salary for 30 years depending on the marginal tax rate. We can now compare the two schemes as set out in the table below. The numbers in the table are percentages of salary paid for 30 years.

Age	NCFs	SCFs	CVFs
55	11.5	18.2	15.7
60	10.5	16.6	14.0
65	9.5	14.8	12.2

These figures reveal that an SG scheme, which receives voluntary employee contributions at the same level as the state pension scheme, has about the same intrinsic capacity to deliver benefits.

The pension scheme is a good benefit but no better than that which will be received by people who are prepared to make the same level of personal contributions to a modern SG scheme.

Marriage Breakdown Legislation

IN the February, 2003, newsletter the Association's understanding of how the State Government intended to provide for the splitting of superannuation benefits in the event of marriage breakdown was outlined. At that time we understood a non member spouse pension would be convertible to a lump sum using actuarial factors.

Actuarial factors were of critical importance because the non member spouse share of the pension, if taken as a pension, terminates on the death of the member. This means that every non member spouse will be forced to commute and the Association, for obvious reasons, could never support use of normal commutation factors for a commutation which is forced on a person.

The hazard faced by a non member spouse who elects to receive the pension which will be offered can be seen from the fact that, in a communication to the Association from the Department of Treasury and Finance, the pension has been referred to as one which *'Hopefully, no one will be silly enough to take . . .'*.

These pensions that 'Hopefully no one will be silly enough to take' will also be hazardous for the member spouse and this is a cause of great concern. The hazard arises from the fact that current commutation factors seriously undervalue the pension and so it will be an objective fact that the non member spouse has received a share of the benefit less than intended. **The member will then be exposed to a claim for compensation.**

Our in-principle support for the proposals given in October, 2002, made clear that they were only acceptable if commutation of non member spouse pensions was at actuarial rates.

Continued Next Column

We were assured that actuarial rates would apply but now have learned that the normal commutation factors are to be used. We have withdrawn our support and are lobbying parliamentarians on the matter.

Mrs Trish Draper (Liberal member for Makin) and Senator Nick Sherry (Labor, Tasmania) have advised us of the Federal Government's intention to pay a pension which continues for a person's lifetime. This seems to be a fair approach that we are now seeking to discuss with the State Treasurer.

Surcharge Commutation Factors

A LITTLE known fact is that very high value commutation factors are in use for the payment of the contributions surcharge tax by pension scheme members. This tax is payable by members with adjusted taxable incomes above $94,691 p.a. and it is paid on the notional employer contribution made to the scheme on their behalf.

In the table below values are presented for normal commutation factors (NCFs), surcharge commutation factors (SCFs) and commonwealth valuation factors (CVFs) applicable to pension schemes such as ours.

Age	NCFs	SCFs	CVFs
55	11.5	18.2	15.7
60	10.5	16.6	14.0
65	9.5	14.8	12.2

It can be seen that surcharge commutation factors (SCFs) already in use in SA are **very** high.

Now, it is reasonable that surcharge commutation be allowed at high rates because a person is compelled to pay the surcharge tax and the amount payable reflects the true value of the pension. However, if a non member spouse is to be forced to commute the pension then the same argument must apply.

UPP and the Centrelink Income Test

IN a previous newsletter (August, 2002) the term undeducted purchase price (UPP) and its use in reducing tax payable was discussed.

UPP also affects the Centrelink entitlement of people receiving pensions like the SuperSA pension. Centrelink uses the UPP for these pensions to calculate the amount of the super pension that is **not counted as income** just as the tax office uses it to determine the amount which is not taxed.

For an income stream purchased with a lump sum, Centrelink uses the entire amount of the lump sum to calculate the amount of the income stream which is not assessed. For example, if a male aged 60 purchased a pension of $30,000 p.a. using a lump sum of (say) $450,000 then the amount of the pension which is not assessed is $450,000/20.05 = $22,444

Membership

What can you get for $6 these days? Not much! Three loaves of bread, four litres of milk, two blocks of chocolate. Or for $6 you can get membership of our Association which is working hard in your best interests as superannuants and also provides you with newsletters (three in 2004) and with ten quality guest speakers at our monthly meetings.

Membership is important. You are urged to retain your membership and if you have friends who receive a SuperSA pension, encourage them to become members too. If your friends are still at work and contributing to the pension scheme advise them that they are now eligible to join. It is not necessary for a person to have an application form, all they need to do is send their name and address and $6 to me at 7 Mead Street, Paradise, 5075.

Remember, gains we make are brought about by our strength of membership. A strong membership ensures we have a strong voice to argue our cause. So, fill out the renewal form in this Newsletter and pay for 2004 now, before you forget, and help keep our membership strong.

If you move **PLEASE** remember to advise us of your new address so we can keep in touch with you through our newsletters—John Reddaway.

p.a. (20.05 yrs is the life expectancy for a 60 year old male). This person's Centrelink entitlement will be calculated using $30,000–$22,444 = $7,556 p.a. as his income even though he receives $30,000 p.a. The principle is that a person gets credit for having purchased the income stream and this is quite fair.

However, for the SuperSA pensioner also getting $30,000 p.a. the amount not counted is much less because he is only allowed a reduction based on his own contributions. Typically these would be about $40,000 for a $30,000 p.a. pension and the amount of the pension not counted would be about $40,000/20.05 = $2,000. So, the Centrelink entitlement of the Super SA superannuant is calculated using an income of about $30,000–$2,000 = $28,000 p.a. and he receives a much smaller Centrelink entitlement.

The difference has arisen partly because the **earnings of the contributions** of the SuperSA pensioner have not been included in the calculation. The Australian Council of Public Sector Retiree Organisations (ACPSRO) is lobbying the Federal Government seeking a change to the Centrelink rules so that public sector superannuants are given credit for the money which their contributions have earned.

Senior Australians Tax Offset (SATO)

MEMBERS may have seen the item in "The Advertiser" on 30-6-2003 entitled **'Many retirees missing out on tax break'**. An Australian Tax Office source was quoted as saying 'We know that not all senior Australians are claiming entitlements, particularly the Senior Australian Tax Offset, available to all seniors'.

Males aged 65 or females aged 62 are eligible for SATO. A single person will get an advantage from this if his/her income is less than $37,840 p.a. The rules applying to couples are more complex but there is an advantage when the partners have incomes less than $29,122 p.a. Partners with equal incomes pay no tax until their combined income exceeds $32,612 p.a.

If you meet the age requirement and are not getting some tax relief via SATO then, unless you are certain that your income does not allow you to pay reduced tax, you should consult a tax agent.

$800,000 To Keep Up With Pension?

THE day after the above SATO article appeared in "The Advertiser" another item appeared claiming that a couple needed $800,000 in interest-bearing assets 'to be as well off as Centrelink aged pensioners.'

This article said that interest income of $32,000 would be reduced to $20,000 by 'tax and management fees'. The source of this claim was a financial consultant who, presumably, had not read the previous day's item which made it clear that, due to SATO, no tax would have been payable on this income.

Current Executive Committee

President: Ray Hickman
Vice-President: Clive Brooks
Secretary: Vic Potticary
Treasurer and Membership: John Reddaway
Committee Members:
Mike Duff, Maureen Goodwin, Willy Hajszan, Don Prewett, Mary Schumacher
Observer: Brian Hannaford

Longstanding Committee Members Depart

Frank Morony and John Carter have both resigned from the Committee after long terms of dedicated service. Both are thanked for their contribution to the progress of the Association over many years.

Frank served as President and was the prime mover in the Association's successful attempt to obtain twice-yearly indexation of pensions. Frank has also been an effective representive on the national body, ACPSRO.

John Carter served as Secretary and last year, with Vic Potticary, conducted a review of the Association's constitution which led to the adoption of a new constitution at this year's AGM.

Membership Form

Cut here and post to:

John Reddaway, Treasurer
SA SUPERANNUANTS
7 Mead Street, Paradise, SA 5075

Existing Life Members should ignore this section (unless notifying change of address). Membership inquiries should be directed to John Reddaway, Tel 8337 2425.

Your membership category is on the envelope.

Membership 2004

Renewal 2004 / New Application / Life Membership
(Delete as necessary)

Please find enclosed the amount of $............* for *S.A. Superannuants* Annual/Life Membership

FULL NAME (please print)...

....

ADDRESS (please print)...

....

POST CODE.................TEL.....................

DATE OF BIRTH ...../...../19......

SIGNED...

DATE......./......./20......

***Fees:** Annual = $6. ***Life** (once only fee)* under age 60 = $120; age 60-65 = $90; over age 65 = $70.

(Receipts will not be posted unless a stamped, self-addressed envelope accompanies the application)