South Australian Government Superannuated Employees Association Inc.
trading as:

S.A. Superannuants *Established 1927*

Newsletter

Issue No. 11
August, 2004

Website- http://www. homepages.ihug.com.au/~reddaway

President: Ray Hickman
24 Castle Street, Modbury, S.A. 5092
Tel: (08) 8264 4146
e-mail: raywen@bigpond.net.au

Treasurer/Membership: John Reddaway
7 Mead Street, Paradise, S.A. 5075
Tel: (08) 8337 2425
e-mail: reddaway@iweb.net.au

Secretary: Vic Potticary
27 Torrens Street, Torrensville, S.A. 5031
Tel: (08) 8352 6504
e-mail: cosme@senet.com.au

From the President

AT the time of writing this newsletter the signs are not good concerning a change in the indexing arrangements for public sector superannuation pensions. Details of Association activities in connection with this matter are given elsewhere in this newsletter. I believe that in the course of arguing for an indexation change the Association has, in any event, made important progress in correcting the erroneous view that public sector superannuation pensions provide retirement incomes that are 'already very generous by community standards'. There has been no challenge made to our claim that this is not the case once you take into account the taxation and Centrelink treatments of the pensions.

Whatever happens with the indexation issue this year, organisations representing the interests of public sector superannuants must challenge the 'already very generous by community standards' line whenever it is advanced. We must insist that proponents of this view backup their position with calculations that take account of all the factors contributing to the value of retirement incomes derived from superannuation.

Unfunded liability is another matter that is commonly misinterpreted when public sector superannuation pensions are discussed. The unfunded status of nearly all these pensions leads to suggestions that they could not have been offered to Government employees as fully funded schemes, and that the responsibility for funding them has been cynically passed to future generations. I have put a view about unfunded liability in a following item.

The Association conducts its affairs believing that members have secured for themselves the foundation of a satisfying retirement through their personal contributions made to the pension scheme over a working lifetime. Pension scheme members were prepared to make a big commitment to superannuation when many others were not.

Our goal should be to ensure that this foundation is not eroded and that improvements in retirement incomes which occur as a result of tax and Centrelink changes flow to us just as they flow to other Australians of comparable means.

Ray Hickman

CPI Change: in the six months to June 2004, the Adelaide CPI increased by **1.64%.** Pensions will be increased by this percentage amount on and from the first pension payment date in October, 2004.

Annual General Meeting

Monday, 28 February, 2005, at 1 p.m.
Pilgrim Centre, 12 Flinders Street, Adelaide

Agenda:

1. Apologies
2. Minutes of the Previous Annual General Meeting
3. Annual Reports: President, Treasurer
4. Subscription Fees:
5. Election of Officers and Committee for 2005

Guest Speaker:

Professor Lloyd Sansom
Chair, Pharmaceutical Benefits Scheme Advisory Committee

General Meetings

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

Speaker Program August-November, 2004

August 30: Mr Peter Brice, South Australian Sea Rescue Squadron.

September 27: Ms Ros Sumner, Super SA Board Member.

October 25: Macquarie Day Cutten

November 29: Professor Don Bursill, Water Quality in South Australia

Unfunded Liability

AN unfunded liability exists when the value of assets held by a superannuation fund is less than the value of the fund's liability for accrued benefits. At 30-6-2003 the South Australian Superannuation Scheme, which includes the pension and lump sum schemes, had assets of $2.7 billion and a liability for accrued benefits of $7.1 billion, giving an unfunded liability of $4.4 billion.

The liability for accrued benefits is determined by an actuary who calculates the benefits payable by the fund. To do this the actuary must make assumptions about rates for retirement, resignation, disability and death. Assumptions must also be made about investment return and increases in the consumer price index and wages. From these assumptions the actuary is able to estimate the level of contributions needed to maintain full funding.

How does an unfunded liability develop then?

A fund like ours will only be fully funded if the necessary employee **and** employer contributions are made **and** the expected investment returns are achieved **and** the assumptions of the actuary remain valid.

The large unfunded liability of the pension and lump sum schemes exists primarily because, until 1994, the required employer contributions were not being made while members were still at work and, instead, benefits were being paid as members retired. **This was not something that occurred by accident or default, it was planned.** Most Australian Governments planned to run their defined benefit schemes in this way. However, in 1994 the S.A. Government adopted a new policy of paying its employer contribution into the fund for those members of the pension and lump sum schemes still at work. It also commenced a program of making a contribution for past service liability. These contributions are intended to make the schemes fully funded by 2034.

In the Table below some figures are presented which show how unfunded liability has fluctuated in the period 1997-2003. The monetary amounts are millions of dollars ($M). The sources of the figures in the table are annual reports of the South Australian Superannuation Board. However, responsibility for the accuracy of the figures, and validity of the views put in this article, rests entirely with the writer.

Year	Unfunded Liability ($M)	Standard Employer Contribution ($M)	Cont. for Past Liability ($M)	Earnings ($M)
1997	4,100	135	2	287
1998	3,780	138	359	205
1999	4,070	138	147	204
2000	3,770	128	229	485
2001	3,570	118	2	95
2002	4,130	113	212	−157
2003	4,440	113	134	−11

There are three years, 1998, 2000 and 2001, when the unfunded liability declined relative to its value in the previous year. In 1998 and 2000 you will notice that the combined value for the past service liability and fund earnings are $564 million and $714 million respectively. These large inflows led to the reduction in unfunded liability in those two years. In 2001 there was also a decline in unfunded liability even though the combined past service liability and earnings value was only $97 million. The explanation is that the actuary altered his assumptions about liabilities in a way that saw them reduce. This more than compensated for the low values of earnings and past service contribution. Here we are seeing demonstrated the fact that unfunded liability is an estimate only. What is eventually paid may be more or less than this estimate.

The increase in unfunded liability in 2002/3 is clearly due to the negative investment returns for those years.

What is the significance of the unfunded liability?

Government superannuation schemes are not unfunded because Governments have been unable to fund them. They are unfunded because most Australian Governments have chosen to keep Government revenue outside the superannuation system. The fact that the Queensland Government has maintained its superannuation schemes fully funded makes it clear that this has always been an option for Governments and most simply chose to do things the unfunded way instead. The attraction of the unfunded way has been that it gives a Government more flexibility in its use of revenue.

In the table above the amounts in the 'Standard Employer Contribution' column are the amounts that represent the cost of keeping the pension and lump sum schemes fully funded for the period 1997-2003 **if they had been fully funded from inception.** Cost is declining because the schemes are closed to new members.

According to (non-expert) calculations done by the writer the maximum cost of keeping the pension scheme fully funded peaked in 1984 at $217 million (expressed in 2003 dollars). In 2003 the cost to the Government of meeting its superannuation guarantee (SG) obligation was about $311 million and this obligation is being fully funded. Clearly the pension scheme could also have been kept fully funded throughout its life without the cost to the Government ever exceeding the current cost of the SG. This is consistent with Queensland having maintained full funding of its schemes.

Unfunded liability should be viewed as money which is owed to members and which the Government has guaranteed to pay. It would certainly be better for members if the scheme was fully funded and it is interesting to note that the Parliamentary Scheme is this State's only fully funded government pension scheme.

Unfunded liability should not deter us from seeking improvements to our scheme when that is justified.

Indexation of Pensions

AS reported in previous newsletters public sector retiree organisations are seeking a change in the indexation of government superannuation pensions from the Consumer Price Index (CPI) to the better of CPI or wages. The Australian Council of Public Sector Retiree Organisations (ACPSRO) has continued to press hard on this issue as has the Superannuated Commonwealth Officers Association (SCOA).

ACPSRO has made it clear that, while it is seeking changes to Commonwealth Schemes in the first instance, it is doing so with the view that changes made at the Commonwealth level should flow through to State schemes.

In June ACPSRO conducted a briefing on the indexation proposal that was attended by 20 coalition members of the Federal Parliament. The briefing drew favorable comment at the time and some written expressions of support were received afterwards. However, follow-up letters to the Prime Minister, John Howard and the Minister for Finance, Senator Nick Minchin have drawn nothing more than a repeat of the Government's now familiar line that CPI indexation is considered to be adequate.

In South Australia the Association has made a detailed submission to all the State's Federal Members of the House of Representatives and the Senate. The submission highlighted the fact that both the South Australian and Commonwealth superannuation pensions are taxed as normal income and assessed very harshly under the Centrelink income test. Following distribution of the submission we met with Mrs Trish Draper (Member for Makin, Liberal) and Ms Penny Wong (Senator for South Australia, Labor). We put our views in person to both these people and obtained a commitment that they would ensure that the proposed change continued to be discussed within their respective parties. Neither was prepared to support the proposal outright.

The committee members who participated in these meetings agree that neither major party seems very interested in making the indexation change. When we made it known that the change was supported by the Australian Democrats we got the predictable response that 'it is easy for minor parties to support matters they have little chance of being called on to implement'. This may be the case but it may also be that minor parties attract support because each major party hesitates to do anything that the other is not doing.

The Taxed Fund Issue

THE State Government continues to maintain its silence on this issue and the silence becomes ever more interesting. Examination of the record of parliamentary debates has turned up an exchange between Government and Opposition that occurred during the passage of the legislation establishing the pension scheme as an untaxed scheme in 1989. The exchange goes as follows:

The Hon S.J. Baker (Member for Mitcham) during the second reading stage of the bill on 26-9-89 said–

'Some people have done calculations and they have suggested to me that the employee is worse off than if the scheme had been taxed at the front end. There is much confusion about that . . . While public servants might have some security as to their ultimate benefits in dollar terms which may still be well preserved, in terms of what their net return may be, they could be worse off.'

Parliamentary Debates, 1988-89, Vol. 1, p. 865

Later Mr Baker asked this question:

'Has the minister or his staff undertaken calculations, based on today's taxation system (given that we will never be able to predict where taxation is leading us) to determine whether public service employees are better off paying the 15 per cent on the earnings of the fund now or waiting until the end of their working lifetime and then paying the appropriate rate on their payments?'

Parliamentary Debates, 1988-89, Vol. 1, p. 867

The Hon. Frank Blevins (Treasurer) answered:

'As the member for Mitcham stated in his second reading contribution the PSA is happy with the Bill presently before us. If the PSA is happy with it, one can only assume that the provision is in its interests.'

Parliamentary Debates, 1988-89, Vol. 1, p. 867

The mention made of the PSA here is presumably a reference to the Superannuation Federation where many different public sector unions and our own Association, as well as the PSA, make decisions. Records in our possession show that the Federation was given two days in which to comment on the legislation. No opposition was raised against it by the PSA, or anyone else, because no real opportunity to do so was given.

As time goes by and the Association learns more about this issue, it all points ever more clearly towards the remarkable conclusion that S.A. State Governments of both types have, for years, been running a suite of superannuation pensions in a way that sees the members pay more tax than is necessary.

In all our approaches to the State Government we have made it clear that we only expect the Government to change the tax arrangements if this will advantage many members, be cost neutral for the Government and put no member at a disadvantage. Our approaches thus far have yielded responses just as evasive as that which was given in the Parliament in 1989.

Superannuation: Federal Developments

(a) Member choice of fund: As of 1-7-2005 many more Australian workers will be able to determine the fund into which their superannuation guarantee contributions are paid. Currently it is the employer who decides this.

(b) Proposal for a contributions tax reduction: The Labor party has adopted a policy of reducing the tax on superannuation contributions from 15% to 13% and possibly eliminating the tax altogether.

[Continued next page]

(c) Market-linked pensions: These pensions, also known as growth pensions, become available in September this year. They resemble allocated pensions in that a person receives a pension that reflects the actual earning rate of the money they have used to buy the pension. As is also the case with an allocated pension any money remaining at death is payable to the person's estate.

A significant difference between allocated and growth pensions is that money invested in a growth pension cannot be withdrawn as cash before the recipient of the pension dies. However, growth pensions will have the advantage that only half the money invested will be counted as an asset. This will allow people whose age pension entitlement is determined by the asset test, rather than the income test, to obtain more age pension than they would get with the same amount invested in an allocated pension. The entire amount invested in an allocated pension is counted as an asset by Centrelink when age pension entitlement is determined.

Pension Bonus Scheme

AFTER a lifetime of work most superannuants look forward to doing other things—anything but going to work! However after a time, for various reasons, some may want, or need, to get a job. This is where the Pension Bonus Scheme (PBS) needs to be thoroughly understood to get an advantage from it. It has been operating since 1 July 1998 but there have been only a limited number of people successfully accessing it.

Although there have been press articles about making the scheme more accessible Centrelink advises that no changes to the scheme have been made nor is there, to their knowledge, any legislation on changes before parliament.

Under the PBS if you defer claiming the Age Pension and stay in the workforce, you can get a tax free lump sum bonus at the end of your working life. It is entirely voluntary. You can choose to participate in the PBS or claim Age Pension. Some important points are:

- You can only be paid the bonus if you have not received income support payments (excluding Carer Payment) since reaching Age Pension age. Income support payments include Age Pension, Disability Support Pension, Special benefit, Austudy payment, Widow Allowance and Veterans' Affairs pensions.
- You must register to become a member of the PBS, then pass a "flexible work test" for at least 12 months from the date your membership commenced.
- If you do not work but your partner does, their work may still earn you a bonus.
- Only one bonus is ever payable.
- You must claim the bonus at the same time you claim Age Pension, that is, when you eventually retire from the workforce. If you cannot get any Age Pension you cannot get a bonus.

As can be seen the rules are quite complicated. It is advisable to read the 22-page booklet *Pension Bonus Scheme* available at Centrelink Customer Service Centres, or download it from their website.—VP

From the Association Treasurer

1. As a means of cost saving (in both money and volunteer labour) accounts are not sent out. Instead, your current financial position is shown as the first line of the address on the envelope in which you received this newsletter. If it reads PAID TO LIFE it means you are a life member and do not need to make a payment. If it reads PAID TO 31/12/04 it means you are financial to the end of 2004 and your next payment will need to be made by early in 2005. In any case you will be sent the first newsletter for 2005 and if you have not renewed your membership by then the newsletter (not the envelope) will be stamped SUBSCRIPTION NOW DUE and payment will be required to keep your membership active.

2. It is apparent that some members are reluctant to 'cut up' their Newsletter as I receive photocopies of the renewal slip or slips from previous newsletters. As long as I can identify you, your name and address on the flap of the reverse side of the envelope or enclosing a piece of paper with your name and address is all I need to check that my records are correct, thereby saving you having to cut up your newsletter.

3. Also as a cost saving measure receipts are not sent out unless a stamped self-addressed envelope is forwarded with your payments.

4. Even though the Newsletters are now four months apart, each time there is a mail-out, several envelopes are returned NOT AT THIS ADDRESS. This is very disappointing as once we lose you as a member there is no way of establishing your new address. If you move, PLEASE do not forget to tell me of your new address.—John Reddaway

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......./........../200.....

***Fees:** Annual = $8. Life *(once only fee)* Under Age 60 = $160; Age 60-65 = $120; Over Age 65 = $90.

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