South Australian Government Superannuated Employees Association Inc.

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S.A. Superannuants Newsletter

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From the President

Members will be pleased to know that John Reddaway has recovered fully from his illness and is continuing as Treasurer until the Annual General Meeting in February. There is a note from John later in this newsletter.

You might think that providing members of a superannuation fund with access to an actuarial review of the fund's taxation status would be a straightforward matter. **Such a review should only set out the consequences of taxation law.** Where the fund could be run in a different way, with different taxation outcomes, the actuarial review should only outline the taxation consequences of any change.

The Association only wants a change in taxation status of the pension scheme to be considered if that can be advantageous to members without increasing the employer cost of the scheme. But what if the employer sees the possibility of claiming for itself savings that could be passed to members?

This suggestion was included in the previous actuarial review of pension scheme taxation status conducted in 1998. A copy of the review was released to the Association in response to a Freedom of Information application made in 2002. The 1998 review concluded that the taxation laws applying at that time would see considerable savings made if pension fund taxation status was changed. **The review suggested that the savings should go to the Government and not be passed to members.**

Another actuarial review of taxation status has been completed. This was received by the Government in December, 2004 and a Freedom of Information application for access to the review made on behalf of the Association by Mr Angus Redford, MLC, has been refused.

In light of this refusal I believe it is prudent to assume that the Government still has advisers telling it that it would be in order for savings made by a change in the taxation status of the pension scheme to be claimed by the Government and not passed to members. If an attempt to do this is made the Association will certainly be well prepared to contest the issue on behalf of members. This has been an important purpose of submissions made this year to all members of the State Parliament.

I recommend that all Association members carefully read the item **'The Victorian Advantage'** on the third page of this Newsletter.

—*Ray Hickman*

CPI Change: The Adelaide Consumer Price Index increase for January-June, 2005, was **1.20%** and this same adjustment will be made to Super SA pensions on and from the first pension payment date in October, 2005.

General Meetings

Venue: Pilgrim Centre,
12 Flinders Street, Adelaide

1 p.m-2.30 p.m.

Speaker Program—August-November, 2005:

August 29: Barry Grear, AO:
Communities Recovering from Disaster

September 26: Professor Lloyd Sansom, AO:
Pharmaceuticals and the Free Trade Agreement

October 31: Hon R B Such, MP:
Speaker of the House of Assembly

November 28: Ms Pauline Brooks: *Active Ageing*

Executive Committee Profile

Christine Venning: Assistant Secretary. Christine was a primary teacher in the Eduction Department for 30 years. She was an elected member on the Teachers Salaries Board and is now President of the Retired Teachers Association.

Christine works as a volunteer at COTA National Seniors and as a tutor in U3A Adelaide Hills Branch.

"Being involved in SA Superannuants has been a real eye opener," she says. "I can't believe the intricacies of the superannuation schemes and the commitment of Committee members to ensure that superannuants are kept abreast of developments that may affect their pensions."

Commutation of Invalid Pensions

Invalid pensions being paid under the State Pension Scheme can be commuted at age 60 years in which case the standard commutation factor of 10.5 applies.

There is now an option for up to 20% of an invalid pension to be commuted at any age. In this situation different, and lower, factors will apply. In the table below there is a comparison between the new commutation factors for invalid pensions and the standard factors applying up to age 60 years.

	Commutation Factors	
Age	Invalid Pensions	Standard
55 to less than 60y	7.3 – 6.5	11.5 – 10.5
50 to less than 55y	7.7 – 7.3	N/A
Less than 50y	7.7	N/A

A person commuting $5,000 of an invalid pension prior to age 60y will receive between $32,500 and $38,500 before tax. The same person commuting this amount at age 60y would receive $52,500 before tax.

Commutation of an invalid pension prior to age 60 years is entirely voluntary.—RH

Undeducted Purchase Price (UPP)

The total amount of a person's contributions made to obtain a superannuation pension, and for which a tax deduction has not been claimed, is the undeducted purchase price (UPP) of the pension.

Any Super SA pension where the contributor made contributions after 1 July 1983 will have a UPP component. This is because all personal contributions of employees made after this date were not tax deductible. There were some contributions made before 1 July 1983 that were not deductible and these also contribute to UPP.

A Super SA pensioner unsure of their UPP amount should consult Super SA and the tax office.

For lump sum payments, including commutation of all or part of a Super SA pension, the UPP component is tax free. When a person commutes only part of their pension they can elect to take the UPP as part of their lump sum or leave it associated with the pension received after the partial commutation.

The UPP for your Super SA pension has two effects—

1. It creates a deductible amount (DA) for your pension which is calculated as:

DA = Undeducted Contributions ÷ Life Expectancy.

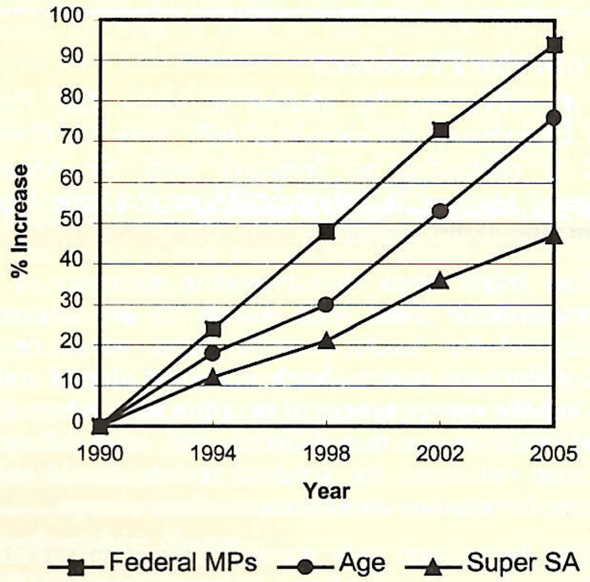
The deductible amount is subtracted from the gross pension and you only pay tax on the balance.

2. It reduces the amount of your superannuation pension which is assessed under the Centrelink income test and so increases your age pension.—RH

Wage-Based Indexation

Our pensions will soon be adjusted upwards by 1.20% this being the Adelaide CPI change for January–June, 2005. We all know that over recent years the CPI increase has fallen behind wages. Consequently our pensions have a declining value relative to the age pension which is adjusted to ensure that its value does not fall behind wages. The decline since 1990 is illustrated in the graph below:

The Widening Pensions Gap



Attempts to have public sector superannuation pensions, like ours, indexed on the same basis as the age pension are currently focussed on getting the Federal Government to agree to this form of indexation for Commonwealth superannuation pensions.

Unfortunately, Federal MPs (Government and Opposition) see no inconsistency between the fact that their superannuation pensions are indexed to Parliamentary salaries (which increase faster than general wage movements anyway), and the Federal Government position that CPI indexation is adequate for rank and file public sector retirees.

With the indexation issue there is no escaping the fact that the change we are seeking will increase the cost of the schemes. If this was not so, there would be no point in seeking the change. Federal MPs had no difficulty imposing this extra cost on the public purse when the scheme involved was their own.

The Victorian Advantage

The Association has recently asked some questions of the Government Superannuation Office (GSO) in Victoria concerning the 1995 change in taxation status of the Victorian Pension Funds.

One question we asked of GSO was: ***Where a pension had commenced prior to 1 July 1988 did the pensioner become able to claim the 15% tax offset while still receiving the same gross pension?***

The answer obtained was: ***Yes, if there was no eligible service period on or after 1 July 1988 the gross of pension was not changed by this change in Fund tax status. These pensioners were given the advantage of the 15% tax offset with no reduction in gross pension.***

This answer lets us see how large the improvement in individual after-tax incomes was when the Victorian pension funds changed from untaxed to taxed in 1995. Examples of the improvement are presented in the Table and labelled as 'The Victorian Advantage'.

Gross Pension	The Victorian Advantage
$20,000	$3000
$30,000	$4,500
$40,000	$6,000

The Victorian Advantage is the reduction in the amount of tax that Victorians (who had retired prior to July, 1988) had to pay once their fund was changed in taxation status. In this way the Victorian Government, **at no cost to itself**, arranged for its public sector retirees to have more after-tax income to spend in the Victorian economy.

There are still thousands of members of the South Australian Pension Scheme in receipt of pensions which commenced prior to July, 1988. **The writer estimates that the extra income tax paid by such members in 1995/96 was $30 million. The total extra tax paid since 1995 is hundreds of millions.** The tax is extra tax because it is tax that Victorians, with the same retirement incomes, earned from similar employment, have not had to pay.

The obvious question here is: why has South Australia not done the same thing as Victoria? The writer believes it is because South Australian Governments are still listening to advice that the Government can claim the savings rather than pass them to members.

This was the advice given to the previous SA Government in 1998 when taxation status was reviewed. The current SA Government received another review from the same source in 2004 and has refused to give us access to it. The Association intends to see this refusal appealed to the State Ombudsman if necessary.

Our position is that, in any change of fund taxation status, all net tax savings must pass to members. The Association will not accept the proposition that the Government can make the change on the basis that every member ends up with the same after-tax income.—RH

MPs' Response to the Taxed Fund Issue

The majority of MPs have made no active response but some have expressed considerable interest and have done something constructive as well.

Ms Frances Bedford (Member for Florey, Labor): Ms Bedford has met with the Association and obtained a response from the Treasurer to the claims made in our first submission. At the time of writing this newsletter she is attempting to convene another meeting at which Treasury Officers will be present. She has urged the Treasurer to take us seriously.

Mr Iain Evans (Member for Davenport, Liberal): Mr Evans sought a response to our claims from the Treasurer and supplied us with a copy of what he received. We pointed out one very blunt error in the response and a number of statements it contained which, while not incorrect, are somewhat misleading. Mr Evans then asked the Treasurer to respond to our criticisms.

Mr Angus Redford, MLC (Liberal):
Mr Redford met with the Association and offered to liaise with Vice-President Clive Brooks to provide support with questions asked in Parliament and Freedom of Information applications (FOI). He has sought access to the latest actuarial review of the pension scheme via the FOI procedure. The application was refused but Mr Redford is following the matter up. He also has placed questions on notice in Parliament.

Dr Bob Such (Member for Fisher, Independent): Dr Such, who is now Speaker of the House of Assembly, wrote to us after receiving our first submission to say that he considered the issue we had raised to be valid and important. He sought information from the Treasurer and provided us with access to the response he got. We provided Dr Such with a copy of our criticisms of the Treasurer's response and he has asked the Treasurer to respond to these criticisms.

Many other MPs have chosen to defer to their party spokesperson rather than become involved themselves. A number of opposition MPs have told us that the Shadow Treasurer, Hon Rob Lucas, MLC, will be responding on behalf of the Liberal Party and we are awaiting that response with interest.

Mr Lucas was the State Treasurer when our Victorian colleagues began to receive their 'Victorian Advantage'.

The Association's most recent submission to MPs is built around 'The Victorian Advantage'. The submission leaves little scope for anyone to doubt that changes in fund tax status have been very beneficial for pension fund members in other States, and for the economy of those States as well.

Perhaps our 'Victorian Advantage' submission will have the effect of seeing more MPs take an active interest in what we are putting to them.

All submissions made by the Association are now posted on the Association website at the address shown on our Newsletter's masthead.—RH

Members' Column

Universal Age Pension: What do others think?

On 6-3-2005 there was a discussion on "Business Sunday" on the Super industry and the host of the show suggested that, rather than increase the compulsory super contribution by employers on behalf of their employees, the money could be used to pay for a universal age pension. The panel included Assistant Treasurer, Mal Brough and Labor Superannuation spokesman Nick Sherry but neither would comment on this suggestion.

In the "News for Seniors, Issue 58" on page 3 it is stated that the Government expects to pay $18 billion to some 1.85 million pensioners this year with 78% of eligible citizens receiving some pension.

Now, if everyone was paid the full age pension the number of pensioners would increase to 2.37 million (1.85 x 100/78). Dividing $18 billion by 1.85 million pensioners gives an annual pension of $9729.72 paid to each pensioner. If the full pension is paid to 2.37 million pensioners the cost would be $26.24 billion ($11,073.40 x 2.37 = $26.24 billion) and some of the extra cost would be recovered by the Government through taxes and savings on administration costs.

Currently, a Super SA pensioner can only have an extra income of $3,172 before age pension entitlement starts to reduce by $0.40 for every extra dollar giving a single total income of $15,241 before the punitive 40% tax sets in from Centrelink (a couple may have total income of $25,771). And some politicians think that we are generously treated!

The allowable income level is CPI indexed but the age pension is wage indexed and so Super SA pensioners and others miss out more and more as time goes by.

One of the panelists on the "Business Sunday" program was on the Committee when the compulsory super contribution was introduced and she admitted that it did not turn out to be what she expected and the main beneficiaries have been the Super Industry.

I would like to know what other members of SA Superannuants think about a universal age pension with no means testing.—Willi Hajszan

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A Thank you for John Reddaway

Dear John,

Greetings from NSW. I am a life member of your Association and read the newsletter with avid interest. My wife and I are grateful for the good work you have put in over the years to improve the situation of members; especially the half-yearly review of pensions. Thank you for your long service.

We hope we still have lots of acquaintances in the Association. Do drop in if touring in NSW.

—Richard Lewis

Current Executive Committee

President: Ray Hickman
Vice-President: Clive Brooks
Secretary: Vic Potticary
Assistant Secretary: Christine Venning
Treasurer and Membership: John Reddaway
Committee Members:
Laurie Bennett, Maureen Goodwin, Willy Hajszan
(three positions remain unfilled)

From the Treasurer: Remember to check the date on the first line of the envelope in which this Newsletter has arrived and that is the date you are financial to. **Paid to Life** on the envelope indicates that you are a Life Member and have nothing to pay.

I'm back! And thanks to all those members who contacted me enquiring about my health. But, after a short spell in St Andrews Hospital and an operation, I am fully recovered and back in the chair.

However, I consider that thirteen years of looking after the books is long enough and I intend to put my pen and calculator away at the next AGM. So, between now and February think about whether you would like to step into the position. It is not an arduous task and two hours a week is enough to keep on top of the book-work. Think about it, I am sure you will get a lot out of the position and see what goes on behind the scenes.—JR

Membership Form

✂ *Cut here and post to:*

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 2005

Renewal 2005 / 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 = $10. Life *(once only fee)* Under Age 60 = $200; Age 60-65 = $160; Over Age 65 = $110.

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