"Remember! The first line on the envelope address shows your financial status"—JR

South Australian Government Superannuated Employees Association Inc.

trading as:

S.A. Superannuants Newsletter

Established 1927

Issue No. 17
August, 2006

Website–www.sasuperannuants.org.au

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: rjreddaway@adam.com.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 about the same time as the previous issue of this newsletter was on its way to you the Federal Treasurer, the Hon Peter Costello, MP, in his 2006 budget statement, announced some unanticipated Federal Government proposals for changes to the taxation of superannuation benefits. The proposal which has attracted most attention is the one which, if implemented, will see nearly all superannuation pensions and lump sums become tax-free after 1-7-2007 where the recipient is aged 60 years or more. **But these are pensions and lump sums paid from taxed sources.**

Super SA pensions, Tasmanian pensions, West Australian pensions and the Commonwealth Government's main superannuation pensions are paid from untaxed sources and will remain taxable, **but, as of 1-7-2007, these untaxed source pensions will become eligible for a 10% tax offset where the recipient is aged 60 years or more.** This is very good news for all the above public sector superannuants who are currently taxpayers.

This newsletter is accompanied by an insert that discusses the Federal Government proposal in some detail. Included in the discussion is the relevance that this Federal Government proposal has for a change in taxation status of the pension scheme.

The Federal Government has called for submissions on its superannuation proposals with the closing date being 9 August, 2006. The Association has made a submission and this is posted on our website.

* * *

A change has been made to pension scheme rules which is of some concern to the Association. This change was part of a Bill designed mainly to allow Super SA to take responsibility for additional superannuation schemes. An account of this matter is given in the item 'Resolution of Doubts and Difficulties'.

* * *

I am sure members have noticed that the Association has been somewhat critical of State Government policies on superannuation over the last four years or so. This makes it important for me to say that there is nothing to suggest that the current Labor Government's superannuation policies and practices are any different from those that a Liberal Government would have pursued.

* * *

Some members have reported long waiting periods between retirement and receipt of their first pension payment. The Association has raised this matter with the Super SA office and their helpful response is outlined in the item 'Pension Commencements'.

—Ray Hickman

CPI Change: The Adelaide Consumer Price Index increase for Jan – June, 2006, was **2.27%** and this same adjustment will be made to Super SA pensions on and from the first pension payment date in October, 2006.

General Meetings

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

Speaker Program: August-November, 2006

August 28: Valerie Lillington, The Dickensian Society. *The Life and Times of Charles Dickens*

September 25: John O'Flaherty, Super SA. *Recent and Future Developments at Super SA*

October 30: Natalie Warburton, S.A. Police. *Community and Home safety*

November 27: Moira Deslandes, Volunteering SA. *Opportunities for volunteering in S.A.*

Pension Commencements

FOLLOWING information provided by members to the effect that they had experienced long delays between retirement and the initial pension payment the Association wrote to Super SA inquiring about this, and about the commencement of surviving spouse pensions.

Retirement pensions: Where long delays are experienced it may be due to payroll offices not providing member details to Super SA in a timely fashion.

The Association has written to the Premier, the Hon Mike Rann, MP, asking him to look into the matter with a view to ensuring that all State Government payroll offices have procedures in place which reduce to a minimum the time between retirement and receipt of the first pension payment.

We have suggested that it should be possible for a person to arrange his/her retirement so as to allow for payment of the pension to commence within a fortnight of retirement and that all pensions should have commenced by the end of the second pension payment period following retirement. **The proviso is, of course, that the member has been diligent in making his/her retirement arrangements.** It must also be remembered that a pension cannot commence until the period of any unused annual leave has elapsed.

Surviving Spouse Pensions: Cessation of pension payments on the death of a superannuant has the potential to create a severe difficulty for a surviving spouse. Set out below is the full text of the advice that the Association has received from the Super SA Office concerning what must happen on the death of superannuants having partners eligible for a surviving spouse pension.

"In the event of a superannuant's death, an eligible spouse (including putative spouse) will be required to complete the following forms:

- *Superannuants Application for Widow's Widower's and Children's Entitlements*
- *Tax File Number Declaration*

The eligible spouse will also be required to forward certified copies of their Birth certificate, Marriage certificate and the member's Death certificate.

Upon receiving all of the required forms and certified documents, payment of the spouse pension can commence within approximately one fortnight of the spouse application. Written confirmation will then be provided to the member spouse regarding their pension entitlement and commutation options and entitlements.

Super SA monitors the deaths of superannuants through the public notices. Super SA then writes to the spouse of a member within a few days to express condolences over the death of the member and to offer assistance to the spouse to make necessary arrangements for the spouse to commence receiving a Spouse Pension.

The reason for Super SA's current practice is that experience has shown that waiting until the member's spouse contacts us greatly increases the likelihood of a significant pension overpayment to the deceased member, which then needs to be recovered from the spouse or the estate. In addition, the spouse may not even be aware of the need to contact Super SA, or that they may have an entitlement to a Spouse Pension.

Super SA makes every effort to ensure that all dealings with bereaved spouses of members are handled compassionately and sensitively."

All this information from Super SA should assist members, their spouses and their families in being prepared to cope with a difficult circumstance.—*RH*

Resolution of Doubts and Difficulties

THE Superannuation Act, 1988 contains a *Section 56 Resolution of Doubts and Difficulties.* Until recently this section read as follows:

If, in the opinion of the Board, any doubt or difficulty arises in the application of this act to particular circumstances, the Board may give such directions as are reasonably necessary to resolve the doubt or difficulty and this Act will apply subject to a direction given by the Board under this section.

Now Section 56 reads:

(1) If, in the opinion of the Board, any doubt or difficulty arises in the application of this Act to particular circumstances or the provisions of this Act do not address particular circumstances that have arisen, the Board may give such directions as are reasonably necessary to resolve the doubt or difficulty or to address the circumstances (but only insofar as the Board determines it to be fair and reasonable in the circumstances) and any such direction will have effect according to its terms.

Two additional subsections have also been added to Section 56 giving the Board powers to waive waiting periods and procedural steps. These added subsections are not contentious.

What Could be Contentious About the new 56(1)?

The contentious part of the new 56(1) is its inclusion of the words 'any such direction will have effect according to its terms'.

Several years ago a member approached the Association to say that his retrenchment pension had been suspended for the reason that he had, on his retrenchment, received a payment made in lieu of notice. The pension had already commenced but a determination was made that it should not have commenced until the period of notice for which the member had been paid had elapsed.

The Superannuation Act, 1988 provides for the notional extension of a person's employment period but only in the particular circumstance of the person having unused annual leave. So the Act provided no specific authority for extending the period of employment in the case of a person receiving a payment made in lieu of notice. Furthermore, payments made in lieu of notice are eligible termination payments and they do not even delay a person's eligibility to receive a Centrelink pension.

The Association advised the member to appeal and provided him with some assistance in setting out his argument. **The appeal was successful but it might not be successful now.** A direction by the Board to notionally extend a person's employment period to cover the period corresponding to a payment made in lieu of notice would now be more likely to stand because the Act now provides for such a direction to 'have effect according to its terms'.

This change has been made via the *Superannuation (Administered Schemes) Amendment Bill, 2006* which had as its main purpose the authorisation for Super SA to take responsibility for superannuation schemes in addition to those which it has responsibility for now.

A draft of the Bill provided to the Association late in 2005 did not include an amendment of Section 56. This amendment only appeared when the Bill was introduced, without further consultation, on 31 May, 2006. Once noticed by the Association, in the course of its monitoring of Hansard for proposals affecting the pension scheme, this amendment became the subject of opposition from the Association.

The failure to provide us with a copy of the draft bill containing the amendments to Section 56 is not the first time the Government's intentions over changes to the pension scheme have remained out of our view until a late stage.

Proposals for the splitting of superannuation benefits in the event of marriage breakdown were persistently represented as having intended outcomes quite different from what was actually intended. On that occasion, last minute lobbying by the Association saw this matter resolved to our satisfaction.

Our lobbying against the amendment of Section 56 was not entirely successful but we did succeed in having the words *(but only insofar as the Board determines it to be fair and reasonable in the circumstances)* inserted into the new Section 56. This is thanks largely to the Hon Sandra Kanck, MLC, who, following a meeting with Vice-President Clive Brooks and myself, was prepared to consult the Parliamentary Council over an amendment which we had suggested. This suggested amendment would have inserted the words 'in the best interests of the members affected'.

Ms Kanck's amendment was opposed by the Government in the Legislative Council but had the support of all non-government members and so was adopted first in the Legislative Council and then in the House of Assembly. We can count ourselves fortunate that South Australia has a House of Review.

In the Legislative Council debate on the amendment the Hon Paul Holloway, MLC, in an answer to a question asked by Ms Kanck about consultation over the amendment, said that the version of the Bill circulated to organisations representing pension scheme members in late 2005 'was the same as the Bill currently before us'. Mr Holloway and Ms Kanck have both now received a letter from the Association pointing out this error and backed up with a copy of the draft of the legislation actually circulated.

During the debate on Ms Kanck's amendment, made on our behalf, the Opposition Leader in the Legislative Council, the Hon Rob Lucas, MLC, referred to the Association as *'An important organisation'* that was *'assiduous and relentless'* in lobbying to ensure that *'changes in legislation are not to the detriment of superannuants in South Australia'.*

Given that our 'assiduous and relentless' lobbying was only partly successful in this matter we should not get too carried away with these remarks. However, I do believe they are a sign that the Association is being seen by an increasing number of MPs as the organisation most capable of defending member interests when legislative changes affecting the pension scheme are being considered.—*RH*

The Indexation and Income Splitting Issues

THE Australian Council of Public Sector Retiree Organisations (ACPSRO) has been working for some time on a campaign to have the indexation of public sector superannuation pensions changed from CPI indexation to the better of CPI or wage increases.

ACPSRO has recently advised us its indexation campaign is 'on the back burner' until the recent proposals for the pensions to be eligible for a 10% tax offset have been made law.

ACPSRO made a submission to the Federal Government for retirees of pension age to be allowed to lodge a joint tax return. This has not been taken up by the Government but the proposal for a 10% tax offset will achieve a similar outcome.—*RH*

New Association Website

This is now posted at www.sasuperannuants.org.au and our member, Ron Day, has agreed to take responsibility for its maintenance.

Members' Column

Dear Sir,

I refer to the article in issue #16 newsletter regarding eligibility for Association membership. Whilst I certainly agree with the sentiments and conclusions of the article namely that the Association should only represent those on SA state pensions including police and electricity industry employees, I draw the Committee's attention to what happened to the managers of the former State Bank of SA.

Some of these managers were members of the State Superannuation Pension Scheme. The government of the day altered the conditions of the pension scheme for this particular group of recipients. Since there were only a small number who were affected the Government was able to "get away with it".

The reason I raise this issue with the Committee is in relation to the number of persons, both members of the Association and non-members, who are in receipt of a State Super pension. Eventually the number of such recipients will decline to a point where it may become politically palatable for a government to make unilateral changes to the pension scheme. Furthermore a future government might, like Victoria, offer pension members the opportunity to commute and in today's climate of favourable tax concessions, quite a few members may take up this option again leaving a rump with little political clout to fight any forced changes.

Congratulations and well done to the Committee for its persistence in the pursuit of the final Mercer Report. Your hard work on behalf of myself as a member of the Pension Scheme is recognised and appreciated.

Yours faithfully,
Bill Fraser

* * *

Dear Sir,

In late May, I wrote to my local Liberal member of federal parliament seeking clarification on several matters relating to the superannuation issues contained in the federal budget.

For example, it appears that, subject to the passage of appropriate legislation, recipients of pensions from taxed schemes will no longer be required to declare that income on their tax returns. Effectively this means that if they receive additional income, the first $6000 will also be tax free.

However, in the case of Super SA pensions these will still need to be declared and any additional income taxed at marginal rates. This provides another reason why the conversion of our pensions to a taxed scheme could prove beneficial to many members.

Yours sincerely,
Mike Duff

Current Executive Committee

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

From the Treasurer: Membership numbers for our organisation are quite "fluid" with new members joining and others "dropping off" the list. As a result of the membership drive carried out last October courtesy of Super SA, and by word of mouth of members, we gained 147 members. On the other side of the ledger we lose members through having wrong addresses or failing to renew their membership.

Your financial position is included on the envelope of your Newsletter each time so that you will know when your membership is due. Many members are now renewing their membership early in the year, but a few still require a gentle reminder that they are unfinancial.

Membership is important to you and the organisation, for a strong membership enables us to have a strong voice when advancing our causes.—*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 2006

Renewal 2006 / 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)

Federal Government Superannuation Proposals: 'Simpler Super'

IN his May, 2006, budget statement the Federal Treasurer outlined proposals for changes to taxation and other rules applying to superannuation benefits. The full set of proposals has been presented under the heading **'Simpler Super'**. The official version of 'Simpler Super' can be obtained by going to the website **http://simplersuper.treasury.gov.au**.

The proposal most relevant to people in receipt of Super SA pensions is outlined in some detail below. **You should keep in mind that all the 'Simpler Super' proposals are only proposals at this stage.**

Taxation of Super SA Pensions

It is proposed that, after 1-7-2007, Super SA pensions (and all other pensions being paid from untaxed funds) will be eligible for a 10% tax offset on the taxable amount of the pension, provided that the superannuant is aged 60 or more. Under age 60 current arrangements will continue to apply.

A quick way for you to make a rough estimate of how this proposal will affect you (once you have turned 60) is to proceed as follows:

1. estimate the amount of tax you are likely to pay this financial year (2006/7)
2. subtract the deductible amount from your gross pension to obtain its taxable amount (e.g., \$30,000 -\$1,000 = \$29,000) and then calculate 10% of this value (\$2,900)
3. take the result obtained in 2. from 1. and this is the amount of tax you will pay in 2007/8.

Some points to keep in mind about tax offsets are:

1. they can only reduce tax payable to zero. Where tax offsets exceed tax payable the excess is of no use.
2. most people are already eligible to receive certain tax offsets.

In the table immediately below figures are presented to illustrate how an individual will be affected by availability of the 10% tax offset depending on the value of the superannuation pension, age, marital status and other income.

The figures, which are rounded off to the nearest \$5, are for a notional superannuant 'Barney' in a variety of circumstances. The amounts for the Senior Australians Tax Offsets have been calculated using the 2005/6 calculator posted on the Australian Tax Office website (the 2005/6 calculator is the latest posted). The actual values for 2006/7 and 2007/8 will be different but the conclusions to be drawn will remain unchanged.

Notice that when Barney is married and aged 60-65 he only gets an advantage of \$2,010 from his \$2,900, 10% super tax offset. This is because being married provides Barney with access to a Dependant Spouse Tax Offset of \$1600 and this gives him total tax offsets that exceed his tax payable by \$890. This \$890 of tax offset is useless to him.

If Barney's super pension was less he would have more tax offset that he could not use. If his pension was bigger, or he had other taxable income (e.g., age pension), he would be able to use it all. If Barney's wife had more income then his Dependant Spouse Tax Offset would be reduced, also assisting him to use more of his 10% super tax offset.

All this demonstrates that many members of untaxed pension schemes like ours stand to gain substantially if the Federal Government proposals are implemented. However, members who pay no tax will make no gains.

Even so, this is better, by the proverbial 'country mile', than what was proposed in the Mercer Report where a change in taxation status for the pension scheme would see no member obtain an advantage, and married members with dependant spouses worse off because they would be assumed to be single. This strategy has actually been applied to the pensions of the Electricity Industry Superannuation Scheme. The implications of all this for a change in taxation status of the pension scheme are discussed overleaf.

Barney's Income and Taxation Items	Barney at age 60-65 years				Barney at age 65+ years			
	Single		Married		Single		Married	
	2006/7	2007/8	2006/7	2007/8	2006/7	2007/8	2006/7	2007/8
Gross Super Pension	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
Deductible Amount	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Taxable Amount	\$29,000	\$29,000	\$29,000	\$29,000	\$29,000	\$29,000	\$29,000	\$29,000
Other Income	\$0	\$0	\$0	\$0	\$3,000	\$3,000	\$7,000	\$7,000
Total Taxable Income	\$29,000	\$29,000	\$29,000	\$29,000	\$32,000	\$32,000	\$36,000	\$36,000
Tax on Taxable Income	\$4,050	\$4,050	\$4,050	\$4,050	\$4,950	\$4,950	\$6,150	\$6,150
10% Super TO	\$0	\$2,900	\$0	\$2,900	\$0	\$2,900	\$0	\$2,900
Low Income TO	\$440	\$440	\$440	\$440	\$320	\$320	\$160	\$160
Dependant Spouse TO	\$0	\$0	\$1,600	\$1,600	\$0	\$0	\$0	\$0
Senior Australians TO	\$0	\$0	\$0	\$0	\$980	\$980	\$2,050	\$2,050
Net Tax Payable	\$3,610	\$710	\$2,010	\$0	\$3,650	\$750	\$3,940	\$1,040
Medicare Levy	\$435	\$435	\$435	\$435	\$480	\$480	\$540	\$540
Net Income	\$25,955	\$28,855	\$27,555	\$29,565	\$28,870	\$31,770	\$32,520	\$35,420
Barney's Gain in 2007/8		**+\$2,900**		**+\$2,010**		**+\$2,900**		**+\$2,900**

Taxation Status of the Pension Scheme

THE Federal Government proposal to provide a 10% tax offset on pensions being paid from untaxed sources is highly relevant to the question of whether or not an individual member of the pension scheme (such as you) will actually gain any more by having his/her pension converted to a taxed source pension.

On the face of it a taxed source pension might still seem attractive because pensions paid from taxed sources will be tax-free after 1-7-2007 if the Federal Government proposals are implemented. But conversion of a current (untaxed source) Super SA pension to a taxed source pension will usually mean a reduction in the gross amount of the pension.

Here we need to keep in mind what the Mercer Report assumes will happen if Super SA pensions are changed to become taxed source pensions. The pensions will be reduced so as to ensure that the recipients are 'no better off and no worse off' assuming that a person is single, and using income tax rates applying at the time the pension commences. This is the method that the Mercer Report says is already being used by the Electricity Industry Superannuation Scheme (EISS) here in South Australia. This method of pension reductions produces larger reductions than the method used by the New South Wales public sector pension funds.

The table below compares three scenarios that might apply to Barney in 2007/8, when he is single and aged 60-65, if the Federal Government's proposal for a 10% tax offset on untaxed source pensions is in place.

The scenarios are:

Scenario 1: Barney's pension has remained as a $30,000 p.a. untaxed source pension on which he can claim the new 10% tax offset.

Scenario 2: Barney's pension has been converted by the method outlined in the Mercer Report to become a taxed source (and tax-free) pension of $25,610 p.a.

Scenario 3: Barney's pension has been converted by a modified NSW method to become a taxed source (and tax-free) pension of $27,500 p.a.

Barney's Gross and Net Pension Income in 2007/8

Scenario	Gross Income	Net Income
1	$30,000 p.a.	$28,855 p.a.
2	$25,610 p.a.	$25,610 p.a.
3	$27,500 p.a.	$27,500 p.a.

So we see that if Barney retains his Super SA pension in its current form he will, in 2007/8, be more than $3,000 p.a. better off than he would be if it was changed to a taxed source pension by the method outlined in the Mercer Report. What's more, he will be better off than he would be even if his pension was changed to a taxed source pension by a method comparable to that used in NSW.

The reason for this is that, at $30,000 p.a., the tax payable on the pension after the 10% tax offset has been claimed is a smaller amount than the amount by which it would be reduced if converted to a taxed source pension by the NSW method. In a nutshell, for pensions like Barney's, and smaller pensions, the Federal Government proposals will, if implemented, deliver improvements as good as, or better than, those available through conversion to the taxed form.

However, as pension values increase above $30,000 p.a. a stage is soon reached where conversion to the taxed form via the NSW method may be advantageous for the superannuant. This means that many members might remain interested in receiving taxed source pensions.(see also Mike Duff's letter in the Member's Column)

Question: So, what is the Association position on taxation status now?

Answer: The same as it has always been.

In particular, if there is a change in taxation status of the pension scheme, S.A. Superannuants will defend two things to the bitter end:
Firstly, choice of participation for **every member**
Secondly, all net tax savings to be passed to members who have chosen to participate in the change. Adjustment of pensions by the method outlined in the Mercer Report will not be acceptable.

While the Association welcomes the Federal Government proposal for a 10% tax offset on pensions like ours this proposal could be a disappointment to anyone who had intentions to apply to our pensions the strategy for pension reductions being used by the Electricity Industry Superannuation Scheme (EISS). Incidentally, the Association is still waiting for a response from the Treasurer's Office to our suggestion that this pension reduction strategy is invalid in terms of the relevant state legislation.

The Mercer Report clearly identified the incentive for use of the EISS strategy on our pensions as a saving of between $450 million-$788 million to be made by State Government employers over the remaining life of the pension scheme. But now the Federal Government proposals, if implemented, will hand the lion's share of these savings directly to members as reduced tax payable on their existing pensions.

My assessment is that any plans to apply the EISS pension reduction strategy to our pensions now 'lie dead in the water' **unless** the Federal Government proposal for a 10% tax offset on our pensions is shelved. **Shelving of the proposal might breathe some life back into the afore-mentioned plans.**

For this reason I caution members against assuming that the 10% tax offset is already 'in the bank'. I will be writing, in a private capacity, to my local member of the Federal Parliament, and to Senators, letting them know that I am looking forward to the tax offset and will be very disappointed if it is delayed. I hope other members will consider doing the same.—*RH*