"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

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From the President

IT appears that the taxed fund might, finally, be on its way to South Australia.

In December 2005, Clive Brooks, Vic Potticary and I met with the State Treasurer, Hon Kevin Foley, MP; Mr Deane Prior, the Superannuation Director (Policy); and Mr Paul Summerton, Ministerial Adviser.

The meeting was arranged by Hon Bob Such, MP, Speaker of the House of Assembly and Member for Fisher. The taxation status of the pension scheme was discussed.

Somewhat to our (pleasant) surprise we were advised that the Department of Treasury and Finance was already working on a change in tax status for the pension scheme. The earliest date for the change will be 1 July 2007. The basic parameters include the requirement that it be cost neutral for the Government but Mr. Foley said there is no intention to make savings for the Government at the expense of members. **Of course, proof of the pudding will be in the eating.**

This newsletter is accompanied by an insert devoted entirely to the taxed fund issue and I urge all members to read it carefully. Full details are posted on the Association website.

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The item 'RBLs and Super SA Pensions' should be of interest to members receiving invalid or retrenchment pensions. This item deals with a matter raised initially by a member and then followed up by the Association.

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Our sister organisation in West Australia has recently gone out of existence due to falling membership and inability to maintain an active committee.

This makes the item 'Keep the Association Strong!' a timely one.

* * *

Thanks are due to the Super SA Office for including an Association flyer in the October, 2005 mailout to all 15,000 superannuants. This resulted in recruitment of 100 new members —*Ray Hickman*

CPI Change: The Adelaide Consumer Price Index increase for June – December, 2005, was **1.52%** and this same adjustment will be made to Super SA pensions on and from the first pension payment date in April, 2006.

Annual General Meeting

Monday, 27 February, 2006, 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. Life membership proposal (John Reddaway)
5. Election of Officers and Committee for 2006

Guest Speaker:

Mr Glen Todman
(Goldsborough Group)
Financial Adviser/Writer
Financial Planning for Retirees

General Meetings

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

Speaker Program: March-May, 2006

March 27: Lindsay Simmons (Council on the Ageing); ***The Work of COTA***

April 24: David Dircho (Adelaide City Council): ***Population Growth in the City***

May 29: Keith Konings (Metropolitan Fire Service): ***Fire Safety in the Home***

Keep the Association Strong!

THE news that our sister organisation in West Australia has folded is a reminder of the importance of recruiting new members and maintaining an active committee.

The main Association tasks that must be performed on an ongoing basis include—

- **Treasurer duties:** receipt of fees; payment of accounts; maintain the list of financial members; administration of investments.
- **Secretarial duties:** meeting minutes; correspondence; liaison with other bodies, for example Super SA.
- **Guest Speaker Program:** recruitment of, and liaison with, guest speakers.
- **Newsletter Production:** writing/editing of three newsletters annually with mailout to 1500 members.
- **Website Development and Maintenance**
- **Preparation of Submissions**

To ensure that these tasks continue to get done we need new people coming forward into Committee positions. We must also maintain the Association membership at least at its current level of 1500 and, preferably, increase it significantly.

If you know people who are currently not members, but who are eligible to join, then encourage them to do so. If you are in a position to help the Association carry out its work then please consider doing so through membership of the Committee. It meets from 10.30 a.m. till noon prior to each general meeting.

Over the next year or two the current incumbents in the positions of Treasurer, Secretary and President may be looking to stand down from those positions. It is very important that willing replacements be available. —RH

RBLs and Super SA Pensions

REASONABLE Benefit Limits (RBLs) are the amounts of concessionally taxed superannuation benefits that a person may receive in a lifetime. There are essentially two types of RBL.

Lump Sum RBL: this is the amount of cash, in the form of lump sums, a person may receive from a superannuation source without having to pay more than 15% tax on it. In 2005/6 this amount is $648,946. The amount is indexed annually.

Pension RBL: where a person collects superannuation as a pension the maximum amount that is subject to concessional tax rates can, in 2005/6, be as high as $1,297,866 provided that the pension meets certain standards, and provided that its value represents half the value of the total superannuation assets held. $1,297,866 is the current Pension RBL.

Note: the value of a pension like ours is calculated using a formula included in the Superannuation Industry (Supervision) Act, 1993 (SIS) regulations.

If a pension meets the SIS standards it is said to be a complying pension and the pension RBL applies to it. Otherwise the pension is said to be non-complying and the lower, lump sum RBL applies to it.

Ordinary allocated pensions do not meet the SIS standards for complying pensions because (among other things) they can be cashed in at any time. If a person has (say) $800,000 invested in an ordinary allocated pension he/she will only be able to claim the 15% superannuation tax offset on the taxable amount of the pension which is funded by an amount equal to the lump sum RBL i.e. $648,946. The tax offset cannot be claimed on the pension income derived from the balance of the $800,000 invested.

The recently introduced Term Allocated Pensions (TAPs), once commenced, cannot be cashed in until the recipient dies. Even though they have a residual value on death the Federal Government treats them as complying pensions and the pension RBL applies to them. Consequently, if the person above invests $400,000 in a TAP and $400,000 in an ordinary allocated pension then he/she will be able to claim the 15% superannuation tax offset on the entire taxable amount of income received from the two pensions.

Until TAPs were introduced all complying pensions had to be payable for a person's lifetime (or life expectancy), were not commutable (except in restricted circumstances) and had no residual value at death (except in restricted circumstances).

What has all this to do with Super SA pensions?

Our Super SA pensions are lifetime pensions and might have been expected by members to be complying pensions subject to the pension RBL.

This expectation is consistent with the fact sheet on RBLs published by Super SA until recently, but S.A. Superannuants has now learned, from Super SA, that, while retirement pensions are complying pensions, invalid pensions and retrenchment pensions are not.

The Australian Tax Office has declined to accept these two categories of pensions as complying pensions because their commutation arrangements do not meet the SIS standards. Consequently the lump sum RBL applies to invalid/retrenchment pensions.

The Association pointed out the ambiguity in the published fact sheet and it has now been altered to make clear that retrenchment and invalid pensions are currently non-complying pensions to which the lower, lump sum RBL applies. We understand that this matter is the subject of ongoing discussions between Super SA and the Tax Office.

Complying or Non-Complying, does it matter?

As things now stand no person receiving any type of Super SA lifetime pension gets any concessionally taxed superannuation income unless he/she has additional investments in superannuation. This is because the Super SA lifetime pensions are subject to normal (i.e. non-concessional) income tax rates. To exceed either RBL a person must receive money which is concessionally taxed.

People receiving invalid and retrenchment pensions will only be affected as follows:

1. Where they have significant additional investments in superannuation and/or

2. Where the pension scheme is shifted to the taxed environment and their pension is relatively large.

As far as the second point goes the Association has included the non-complying status of invalid and retrenchment pensions on a list of high priority items that it wants the Government to settle before any change in tax status of the pension scheme occurs.

In the meantime the writer strongly suggests that any person who thinks he/she could be affected by this matter should consult a licensed financial adviser and/or seek further information from Super SA. —RH

Splitting Superannuation

AS of 1 January, 2006 a person will be able to split his/her superannuation contributions, including superannuation guarantee (SG) contributions, with a spouse. This will have two important tax effects:

1. The couple will be able to take advantage of two RBLs rather than the one RBL which would have applied if the contributions had been made in the name of just one person.

2. Until now a couple having all the superannuation in the hands of one partner could withdraw up to a certain amount tax-free. This amount is indexed annually and in 2005/2006 is $129,751. After January 1, 2006, any money which one partner has contributed on behalf of another will be subject to a separate tax-free threshold.

What has all this to do with Super SA pensions?

In a word—nothing. These arrangements for splitting of superannuation contributions only apply to accumulation-style benefits and then only to contributions made after January 1, 2006.

However, the introduction of these arrangements for splitting of future superannuation contributions highlights the fact that public sector defined benefit pensions are highly taxed income streams.

The Australian Council of Public Sector Retiree Organisations (ACPSRO), of which S.A. Superannuants is an affiliate, has responded to this by making a pre-2006 Budget submission to the Federal Government which argues for **couples of age pension age** to be allowed to lodge a joint tax return. The basic submission is that the tax thresholds applying to couples lodging a joint return will be double the thresholds applying to individuals. —RH

'Super shortfall: Budget cuts loom'

THIS was a front-page headline in *The Advertiser*, on 20-10-2005. The story referred to a $600 million "blowout" in SA's estimated, unfunded superannuation liability.

Treasurer Kevin Foley was quoted as saying "We will have less to spend on Government services" and "the changing liability will cost around $40 million a year".

But he also said "This new estimate does not reflect any change to the underlying liability. Rather, there has only been a change to how it is measured." We will return to this point later.

Unfunded liability depends on the level of contributions being made, investment income received, and assumptions made concerning future price inflation (CPI), wage inflation and **fund earning rate**.

In the last two years all scheduled contributions have been made and the investment returns have been very good (18% and 15%). But still we read about superannuation "blowouts and shortfalls" and the need to respond by cuts in public spending.

There has been no real blowout in unfunded liability and the change is due to the adoption of a new accounting standard. It is now a requirement that unfunded liability be calculated assuming that the future fund earning rate will be the long term government bond rate (or equivalent). In 2005/6 this requirement will see the future fund earning rate set at 5.3%. The investment return actually achieved in 2004/5 was 15% and the average, actual return for the past ten years has been about 10%. Funds SA, which is the organisation that invests the State's superannuation assets, expects an annual return of at least 7% over the long term.

The Table shows the effect of a difference in earning rate on the annual contribution needed to achieve a particular savings target ($100,000) over a 30 year period. The impact of even a small difference in earning rate is apparent.

Earning Rate (%)	*Annual Contribution ($) needed to accumulate $100,000 over 30 years*
5.3	1,360
7	990
10	550

If the Government actually expected to get a long term return of 5.3% on our superannuation investments then, yes, it would have to allocate more money than would be the case if the investments return 7% or more (as is likely). **But the Government expects to get 7% or more.** It has no intention of investing solely in bonds and will go on maintaining a diverse portfolio of superannuation investments with the confident expectation of getting a return well above the long term bond rate.

So the new standard for future fund earning rate is both highly conservative, and artificial. As Mr Foley has said "This new estimate does not reflect any change to the underlying liability. Rather, there has only been a change to how it is measured."

In the writer's opinion there is no reason for anyone to claim that the South Australian Government now has less to spend on services because more money is needed to fund the pension scheme. —RH

Members' Column

To the Editor:

I am particularly interested in the Victorian Advantage! I encourage the Association in its efforts.

May I add some information to the UPP (Undeducted Purchase Price) item in the August Newsletter. If a spouse is entitled to all or part of the Superannuant's pension on his/her death then the calculation of the Deductible Amount uses the life expectancy of the younger spouse.

Also it is important to know that the UPP has to be calculated carefully to get the *maximum amount*. The UPP as it applies to payments to Super SA can be obtained from Super SA and is usually given to retirees in a letter from the fund on first retiring. However, there are additional UPP amounts that can be added to this amount from Super SA.

Members will remember that we could claim deductions for payments for super in our income tax return *prior to 1983* with a limit of $1200. (As I remember this also covered payments for Life Insurance). Amounts paid annually over $1200 then became Undeducted Purchase Price amounts and can be added to the UPP as given to you by Super SA.

For those who have no records of these *before 1983 UPP* amounts, the Tax Office will supply the amounts. This is a good thing to know as it gives us a larger deduction on our tax return!

Also some of the members of Super SA may also have had private super funds which will also have a UPP if members have used this Super to create a pension. This also is available as a tax deduction and can, of course, be added to the UPP.

I thought this additional information could be useful to members. BRING ON THE 15% TAX OFFSET AS VICTORIA HAS!!

Regards,
Barrie Hartley

*[**Editor's Note:** Other members have made a contact with the Association following publication of UPP information in the August Newsletter and also in the Super SA Annual Report sent to members in October. These contacts made the following additional points about UPP which members may not be aware of:*

- *UPP is also used to increase a person's age pension entitlement under the Centrelink income test.*
- *If a person does not ask for his/her UPP to be taken account of in the year when it first becomes available the Tax Office will allow for some retrospectivity in making the claim at a later date, but Centrelink will not. Details of the Tax Office procedure for late claims should be sought from the Tax Office.]*

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, Maureen Goodwin, Willy Hajszan
Estelle Scott (three positions remain unfilled)

From the Treasurer: Each time the "Newsletter" is posted, 10-15 are returned marked "NOT AT THIS ADDRESS". So, about 50 members a year are "lost" to the organisation. This is not just a financial loss but also it means that 50 people are not kept abreast of what is happening with their superannuation.

Australia Post offers a mail redirection and holding service. If you hold a Centrelink Pension Card, Dept of Veteran Affairs or Dept of Health and Aged Care cards then this service is available to you for a period of up to 12 months at no cost. So, if you are moving in the near future then remember to obtain a "Mover's Kit" checklist from your local Post Office which will explain what you need to do to have your mail redirected to your new address.

The membership drive carried out in conjunction with the Super SA mail out of its annual report to all pension scheme members was very successful as we gained more than 100 new members. —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) ....

.... 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)

The Taxed Fund: As We Can See It Now

THE following two items are entitled "The New South Wales Advantage" and "The Tasmanian Advantage". Each item makes use of information obtained from the Trustees of pension schemes in those two states.

When the NSW pension scheme was changed from untaxed to taxed, its members, like those in Victoria, were made better off, but this has not been the case in Tasmania. Even though the Tasmanian pension scheme (called the Contributory Scheme) has been changed to a taxed scheme there has been no change for members. The tax advantage inherent in conversion of a pension fund from untaxed to taxed has, in Tasmania, been diverted to the Government and away from members of the pension fund.

So, we now know that when a pension fund changes from untaxed to taxed, large taxation savings are made. **The question is who gets the savings?**

South Australia and West Australia are the only States continuing to run untaxed pension funds. This means they are the only States where the substantial savings are not yet being made. This cannot go on much longer. I believe that South Australia has been dithering over a change in pension fund tax status for at least eight years. I am expecting the definite commitment to make the change to be announced early in the life of the next State Government and regardless of who is in government. **But the question is will South Australia adopt the approach of New South Wales and Victoria or will it adopt the approach of Tasmania?** This is something that might depend on what Government we have after March, 2006. —RH

The New South Wales Advantage

IN our August 2005 Newsletter there was an item headed "The Victorian Advantage" describing the improvement in after-tax income which the change in taxation status of the Victorian fund provided for members who retired prior to 1 July, 1988.

Now we have obtained a letter from the SAS Trustee Corporation of New South Wales. This is the Trustee for the New South Wales State Superannuation Scheme (SSS) which is a pension scheme comparable to ours. This letter confirms our expectation of how people, retiring after 1 July, 1988 have been affected by the change in fund taxation status. The letter says:

All SSS pensioners, regardless of when their pensions commenced, are eligible to claim up to the 15% rebate.

The current application of the benefit reduction provisions provides that only the part of the employer financed benefit that is attributable to a member's service since 1 July, 1988, can be reduced. This means that a member with a larger proportion of pre-1 July, 1988, service receives a smaller benefit reduction than a member with a lesser amount of pre-1 July, 1988, service.

We have no current information that indicates any member was worse off as a result of the change in tax status of SSS.

Consider now the situations of two fictional characters, Thelma and Louise. Each commenced work with the relevant State Government employer on 1 July, 1965, and then retired on 1 July, 2005, aged 60 years. Louise is a South Australian and her pension on retirement was $40,000 p.a. Thelma worked for the New South Wales Government and would have also received a pension of $40,000 p.a. except for the fact that the New South Wales pension scheme to which she belongs changed from untaxed to taxed on 1 July, 1988. Because of the change in taxation status the pension that Thelma receives is not $40,000 p.a., but a lesser amount.

Using the information provided by the SAS Trustee Corporation, and highlighted above, we estimated Thelma's pension at $38,000 p.a. It must be emphasised here that the SAS Trustee Corporation has not been consulted about the correctness of this calculation and so it cannot be said that the SAS Trustee Corporation agrees with it.

However, as long as our estimate of Thelma's pension is at least "near to the mark" the figures in the table show that the change of the NSW pension scheme from untaxed to taxed must have created a substantial difference between Thelma's after-tax income and that of Louise, from South Australia. This is **"The New South Wales Advantage"**:

Taxation Item ($ p.a.)	Thelma (NSW)	Louise (SA)
Gross Pension ($pa)	38,000	40,000
Medicare ($pa)	570	600
Tax Payable ($pa)	7,260	7,860
Super Tax Offset ($pa)	5,700	0
Net Tax to Pay ($pa)	1,560	7,860
Net Income ($pa)	35,870	31,540
NSW Advantage ($pa)	+4,330	

"The New South Wales Advantage" of $4330 p.a., which Thelma gets, has cost the NSW Government nothing. Furthermore, if Thelma and Louise each have spouses, then, when they reach age pension age, Thelma and her spouse might move even further ahead of Louise and her spouse in after-tax income. This is because Thelma and her spouse, having a smaller gross superannuation income, might receive extra age pension (about $800 p.a.). This will depend on the total income of each couple. —RH

The Tasmanian Advantage

THE Association's inquiries of the Tasmanian superannuation authorities have established that Tasmania has changed its pension scheme from untaxed to taxed using a different approach from that of NSW and Victoria.

The Tasmanian pension scheme is called the **Contributory Scheme (CS)** and while it is a taxed pension scheme it has the remarkable feature that its members cannot claim the 15% superannuation tax offset. The reason appears to be that Tasmania has made the Contributory Scheme part of a single fund that also includes the **Tasmanian Accumulation Scheme (TAS).** TAS is the scheme into which the Tasmanian Government pays its superannuation guarantee contributions for its other employees.

Having the CS and TAS as different schemes within a single fund creates a single taxation entity. This appears to allow the Tasmanian Government to claim for itself the tax savings that would otherwise have passed to CS members, and which did pass to members of the schemes in NSW and Victoria.

The method used by the Tasmanian Government to divert tax savings from its Contributory Scheme members to itself is probably as follows: schemes like the Contributory Scheme have associated with them a capacity to claim a tax deduction against contributions corresponding to the funding of benefits which accrued prior to 1 July, 1988. Instead of claiming this deduction for its contributions made to fund the Contributory Scheme the Tasmanian Government appears to have an arrangement with the fund trustee which sees the tax deduction claimed against its contributions made to fund the Tasmanian Accumulation Scheme. This creates a large tax refund which, instead of being passed to members, is used to fund the Contributory Scheme and reduce the Tasmanian Government's costs for the scheme. **This is the Tasmanian Advantage.**

If the above outline is near the mark, an essential part of the arrangement is the inclusion of the Contributory Scheme and Tasmanian Accumulation Scheme in the same fund. Analogous arrangements made in South Australia will require our pension scheme to be made part of a single fund which includes the Southern State Superannuation Scheme.

These Tasmanian arrangements appear to be unique in Australia and it is the Association's intention to ensure that they remain unique. **We do not want them duplicated in South Australia.**

However, there is one feature of the Tasmanian arrangements which is useful to us. Tasmania's Contributory Scheme, even though it is taxed, pays the same pensions it would pay if it was untaxed. This confirms our understanding that members of a taxed fund can be given the option of continuing with their pensions in an unchanged (untaxed) form. —RH

Changes to the Income Tax Act

THE Association's pursuit of this taxed fund matter took an interesting turn late in 2005 when we learned about a change made, in 2001, to the Federal Government's Income Tax Assessment Act, 1936 (ITAA).

This was the insertion of a clause (159SM (3)) which makes retired members of an untaxed fund ineligible to claim the 15% superannuation tax offset when the fund becomes taxed.

The clause was inserted following representations made to the Federal Government that must have been either initiated, or consented to, by the South Australian State Government over the period 1998-2000. We know this from our possession of documents obtained on 2 September 2005 pursuant to the Freedom Of Information Act, 1991. The changes to the ITAA were sought as part of the shift of the Electricity Industry Superannuation Scheme (EISS) to the taxed environment.

An obvious possibility to consider here is that this income tax rule is designed to facilitate adoption of the Tasmanian approach to a change in the taxation status of a pension fund.

Consequently, the Association has written to both major parties asking each to declare its intentions for superannuation tax reform in South Australia. At the same time we are lobbying South Australian Senators and Members of the House of Representatives for removal of the offending clause. —RH

The Association's Position

The Association's position on a change in pension fund taxation status is as follows:

1. **Members of the pension scheme to have the right to continue with an unchanged (untaxed) pension.**
2. **The change in taxation status to be cost neutral for the State Government.**
3. **The change in taxation status must provide improved benefits for a substantial fraction of pension scheme members.**
4. **All savings net of tax and administration costs to be passed to pension scheme members who elect to have their pensions changed from untaxed to taxed.**
5. **The Southern State Superannuation scheme to continue as a completely separate scheme from the Pension Scheme.**

This position has been communicated to the major political parties.

It has also been made clear to the political parties that no other organisation has been authorised to speak for S.A. Superannuants in this taxation matter. We speak for ourselves.