"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

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From the President

THE Association has now obtained a copy of the latest review of the taxation status of the Pension Scheme (The Mercer Report, 2004). It was prepared by Mercer Human Resource Consulting. This entity is presumably, an associate of William M. Mercer Pty Ltd which prepared an earlier report of January, 1998.

One very interesting feature of this latest report is what it has to say about pensions being paid from the Electricity Industry Superanuation Scheme (EISS). This was formerly the ETSA scheme and it changed in taxation status effective from 1 July, 2000. As a result of the change pensions being paid to members retiring after 1 July, 2000, are being reduced.

In a few words, EISS pensions are being reduced with substantial tax savings being made, **but the savings go to the employer and not to the member.**

A covering letter from DTF, which accompanied the release of the Mercer report, 2004, stated that it had not been considered by the Treasurer or the Government and that it is possible no change in taxation status of the Pension Scheme will occur.

However, I urge members to carefully read the insert included with this newsletter. It discusses the Mercer report, 2004, in some detail.

Very significant changes to superannuation continue to be made by the Federal Government. One recent example is Transition to Retirement Allocated Pensions (TRAPs). The essential features of a TRAP are set out in the item "The Different Species of Allocated Pensions" and a comparison is made with corresponding features of pensions like ours.

At its meeting of 27 March the Executive Committee resolved that any EISS member who approached it for advice concerning the method used for reduction of his/her pension would be responded to as if he/she was a member. This is pending clarification of just who is eligible to join the Association. In the item "Eligibility for Association Membership" I have expressed a personal view about this issue. ***—Ray Hickman***

General Meetings

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

Speaker Program: May-August, 2006

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

June 26: David Dann
How to remain living independently at home

July 31: Michael Talbot
The State Library of South Australia

August 28: Valerie Lillington
The life and times of Charles Dickens

Annual General Meeting, 27 February 2006

- More than one hundred members attended.
- Honorary Life Membership was conferred on John Reddaway in recognition of many years service as Treasurer, Membership Officer, and Public Officer. In accepting his certificate of life membership John acknowledged that his wife, Rosemary, while not a member of the Association herself had, nevertheless, done as much for the Association as he.
- The Audited Financial report was presented and the full details are set out on the next page.
- Elections were conducted by Mike Duff. All the 2005 Officers and Committee Members were re-elected. In addition, Mike Evans was elected to the Committee, leaving one vacancy
- Vice-President, Clive Brooks, introduced the Guest Speaker, Mr Glen Todman. Glen's topic was "Financial Planning for Retirees.

S.A. GOVERNMENT SUPERANNUATED EMPLOYEES ASSOCIATION INC.

AUDITED FINANCE STATEMENT - 01/01/2003 TO 31/12/2005

INCOME		**2003**	**2004**	**2005**
TO:	BALANCE BROUGHT FORWARD	3,895.49	4,508.37	4,075.14
	SUBSCRIPTIONS - ANNUAL	2,237.50	2,210.00	3,872.00
	- LIFE	1,960.00	3,742.00	3,700.00
	- PRE-PAID	1,974.00	1,720.00	1,646.00
	BANK INTEREST	16.08	22.49	17.50
	RAFFLES (NETT)	127.50	208.20	175.40
	DONATIONS	111.00	60.00	85.00
	SUNDRIES	37.10	-	35.30
	INTEREST ON INVESTMENTS	-	1,001.33	-
		$ 10,358.67	$ 13,472.39	$ 13,606.34
EXPENDITURE				
BY:	HALL HIRE	1,044.00	924.00	946.00
	GOVT. DEBITS TAX	20.40	26.00	13.60
	FEES	100.00	300.00	230.00
	POSTAGE	855.00	2,679.00	-
	EXECUTIVE EXPENSES	1,084.50	997.70	1,338.06
	PETTY CASH	17.55	17.35	19.75
	SUNDRIES	1,172.95	846.05	1,431.66
	TAXATION	1,005.90	1,035.00	983.08
	DONATIONS	150.00	200.00	-
	PHOTOCOPIES/STATIONERY	400.00	1,485.00	66.35
	INSURANCE	-	887.15	887.15
	NEWSLETTER (PRINTING AND POSTAGE)	-	-	4,562.70
	BALANCE CARRIED FORWARD	4,508.37	4,075.14	3,127.99
		$ 10,358.67	$ 13,472.39	$ 13,606.34

1 All monies received during the year were banked and all accounts were passed for payment at the respective committee meeting and all accounts were paid.
2 Newsletter costs (previously shown separately as postage and photocopies/stationery) have been accounted for as one item.
3 Sundries included the special printing for the Super SA letter of 1.10.05 for the new member drive.
Executive expenses included costs associated with two committee members attending the A.C.P.S.R.O. Annual General Meeting in Canberra.
5 Annual subscriptions included new members gained from membership drive.

INVESTMENT ACCOUNTS

INVESTMENT ACCOUNT	**VALUE 2003**	**VALUE 2004**	**VALUE 2005**
MACQUARIE FINANCIAL SERVICES			
ADELAIDE BANK (LIFE MEMBERS ACCOUNT)	$21,502.97	-	-
C.B.F.C.	$16,570.75	$17,540.14	$17,540.14
ESANDA	$11,853.63	$12,381.12	$13,062.08
BANK S.A.	-	$23,204.79	$24,435.24
BANK OF QUEENSLAND	$21,475.18	$21,475.18	$22,473.78
TOTAL	$71,402.53	$74,601.23	$77,511.24
CASH ON HAND (PETTY CASH)	$13.80	$7.90	$14.10
CASH AT BANK	$4,508.37	$4,075.14	$3,127.99
TOTAL	$75,924.70	$78,684.27	$80,653.33

Eligibility for Association Membership

THE relevant rule in the Constitution of the Association is 3.2 which reads: *To be eligible to join the Association, a person must be in receipt of, or be eligible, to receive a pension or an annuity from the South Australian Superannuation Fund.*

The South Australian Superannuation Fund is established under the Superannuation Act, 1988 and has two divisions which are: the Pension Scheme and the Lump Sum Scheme. The Act contains a section **52-Annuities,** which reads:

(1) The Board may, with the Minister's approval, provide annuities on terms and conditions fixed by the Board.

(2) The Board can only undertake to provide an annuity-

(a) to, or in relation to, a contributor, or

(b) to, or in relation to, a person who is, or has been, a member of some other public sector superannuation scheme.

(2)(b) above would appear to make it possible for the Association to consider membership applications from any person who has ever been a public sector employee. But would this be wise?

In my experience SA Superannuants' members see themselves as members of the organisation which represents the interests of "members of the state pension scheme". If we were to begin claiming that we can properly represent a far wider interest than that then I believe we will undermine, rather than reinforce, our standing with Governments and with our own members.

But this is not to say that we should adhere rigidly to a requirement that all members belong to the state pension scheme or lump sum scheme. What has happened with the Electricity Industry Superannuation Scheme demonstrates that a development of vital importance to the Association can arise elsewhere.

This suggests to me that the Association should encourage membership applications from members of the pension divisions of the Electricity Industry Superannuation Scheme and the Police Superannuation Scheme. To the best of the writer's knowledge there is no organisation currently representing the interests of these retirees.

Now, the reality is that we do not check whether or not a person is eligible to join. For most practical purposes anyone who pays our fee becomes a member. But currently, we only defend those interests which members have under the Superannuation Act, 1988. If we encouraged other superannuants to join us we would have to defend their interests as well.

This matter is being considered by the Executive Committee and I encourage any member to make his/her views known by writing to the Secretary or otherwise contacting any Committee member.—RH

The Different Species of Allocated Pensions

THE thing that all allocated pensions have in common is that they are account-based. The person receiving the allocated pension firstly deposits a sum of money in the allocated pension account. This money earns interest that accumulates in the account just as it would in a bank account.

The person who owns an allocated pension account is required to draw a pension from the account and the amount drawn each year can be varied within limits set by Federal Government rules. The account balance over time reflects the net effect of the amount of pension taken and interest earned. It may reach zero and,if so, pension payments cease.

Super SA pensions, and all lifetime pensions, are not account based. The contributions accounts into which member contributions, and earnings, are paid are not related in any way to the amount of the pension.

Until recently there was only one type of allocated pension but now there are now two additional types. These are Term Allocated Pensions (TAPs) and Transition to Retirement Allocated Pensions(TRAPs) In the table, the key properties of TAPs and TRAPs are compared to those of standard allocated pensions (SAPs).

	SAPs	TAPs	TRAPs
Minimum Age	55y	55y	55y
Do you have to cease work (or change jobs)?	yes	yes	no
When can you commute?	Any time	At death	At retirement or age 65
% counted as an Asset by Centrelink	100	50	100
Estate Value	Account Balance	Account Balance	Account Balance

This set of allocated pensions makes lump sum superannuation benefits very flexible compared to a Super SA pension but they lack the advantage of being guaranteed for life as are Super SA pensions.

Unlike allocated pensions, Super SA pensions cease to have any estate value after payments totalling 4.5 times the annual pension value have been made. Many Australians would see this as a disadvantage.

To commence a Super SA pension a person must first retire or resign from his/her current position and then he/she has a three-month period in which the pension can be commuted. TRAPs allow a person to continue full-time or part-time in his/her job and commence an allocated pension as well. When the person retires (or reaches age 65) the TRAP can be commuted or converted to another type of allocated pension.

With the introduction of TRAPs it would seem reasonable for pension scheme members still at work to be allowed to commence their pensions while still continuing in their jobs if they so wish.—RH

Members' Column

Mr John Reddaway
Treasurer

Dear John,

As a past active member of the ETSA Superannuation Scheme I was impressed by the comments some of my colleagues who heard the lecture by Dr. Ray Hickman have made about the desirability of giving support to the efforts of the S.A. Government Superannuated Employees Association to align us with our counterparts in New South Wales and Victoria.

I wholeheartedly support your efforts. I am happy to make an application to join the SA Superannuants. I enclose a cheque for $10 as a joining fee. Do you have a set of rules?

With best wishes for your efforts on our behalf – I must admit that I did not know of your Association's existence.

Yours truly,
James A. Nelson

*[**Editor's Note:** members of the ETSA superannuation scheme who retired prior to July 2000 were transferred to the State pension scheme and now receive their pensions from the Super SA office rather than from the Electricity Industry Superannuation Scheme.]*

Pension Commencements

Several members have made inquiries of the Association as to the period of time between retiring and receiving their first pension payment. It appears that some people experience long delays, for example, 6 weeks.

Clearly a wait of 6 weeks is unacceptable if a person has given adequate notice of his/her retirement date. Ideally a person should be able to make arrangements with their employer which allow Super SA to make the first pension payment within two weeks of retirement.

However, it should be kept in mind that the Superannuation Act, 1988, provides for a person's service period to include any period of unused recreation leave. Pensions can not commence until this period has elapsed.

The Association has written to Super SA asking what the situation currently is concerning commencement of pensions.

It may be that long delays are due to employers rather than the Super SA office. If so the matter will need to be taken up with the relevant employer.—RH

Website Change: Members are advised that our website address is being changed and it will not be accessible until early June.

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, Mike Evans (1 vacancy)

From the Treasurer: It is amazing how quickly things can change. The last newsletter (No. 15, February, 2006) contained information regarding mail re-direction offered by Australia Post. Since then Australia Post has moved the goalposts and no longer offers free-of-charge mail re-direction to eligible card-holders.

As from April 24, 2006, Australia Post will offer the mail re-direction service to eligible card-holders at a concessional rate equal to 50% of the current "Private Household" rate. These concessional rates for re-direction of mail within Australia are as follows:

1 Month	3 Months	6 Months	12 Months
$5.50	$11.50	$17.00	$33.00

With the very interesting developments in the taxed/untaxed pensions matter we should all encourage anyone we know who is in receipt of a state superannuation pension to become a member as there is strength in numbers.—***John Reddaway***

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.)

Mercer Report, December, 2004 and Electricity Industry Superannuation Scheme

Background

On 23 December, 2004 the South Australian Department of Treasury and Finance (SADTF) received a report dealing with the taxation status of the pension scheme. It was prepared by Mercer Human Resource Consulting.

The Association had been aware, since early in 2002, that the report was being prepared and we had made it clear that once it had been received we would want to see it. We had been given access to an earlier report on the same matter and so we were surprised when we were refused access to the 2004 report. The matter was taken to the State Ombudsman and he directed that the report be released. We obtained a copy on 15 March, 2006.

Our interest in the Mercer Report arises from our belief that the pension scheme is being run in a way that sees many members pay more income tax than is necessary. We claim that by changing the scheme the after-tax incomes of many members could be increased. **This would be at no cost to the State Government and any member who did not wish to participate in the change need not do so.** This claim is based on first principles, and on our knowledge of what has already happened with the Victorian and New South Wales pension schemes.

We are quite sure that the state superannuation authorities know the pension scheme is being run inefficiently, as far as taxation is concerned. Yet both the current Treasurer Hon Kevin Foley, MP, and his predecessor, Hon Rob Lucas, MLC (now Shadow Treasurer) seem reluctant to concede this point when asked about it by their Parliamentary colleagues.

Now that the latest Mercer Report has been dragged into the light of day there is an opportunity for us to use it as a means of getting past the 'smoke and mirrors' which prevents the issue from being seen clearly by those MPs who have been prepared to show an interest in it. The two main aspects of the Mercer Report, 2004 are:

1. the magnitude of the tax savings to be made by changing the fund from untaxed to taxed
2. the effect of the change on the pensions of individual members.

The Magnitude of Tax Savings:

The Mercer Report confirms that tax savings could be made by changing the pension scheme from an untaxed scheme to a taxed scheme, and the report estimates these savings to be in the range \$450 million-\$788 million over the remaining lifetime of the scheme, depending on its rate of funding. **Note here that these are savings estimated for the future only and do not include savings that have already been lost.**

You might think that savings of this magnitude would have begun to be claimed by now but the Mercer Report includes the following statement: **"The defined benefit funds have been closed for many years and are in 'run off' mode. Does it make sense to go through a very complex exercise for these entities".** In other words, the savings might not be worth the trouble. This leaves a person wondering how large the savings would have to be before they definitely become worth pursuing.

To make tax savings, without increasing the employer cost of the scheme, a person's pension will usually have to be reduced when the change in taxation status occurs. Those who remain taxpayers after the change has occurred will be better off as a result of their ability to claim the 15% superannuation tax offset on their new, reduced pensions. For superannuants who already pay little or no tax the change will provide a marginal improvement at best and might be disadvantageous. **This is why the Association's policy is that any change must be voluntary for every member.**

The Effect on Pensions

At one point the Mercer Report states: "*In the Lump Sum Scheme/Pension Scheme there is a net tax advantage in moving from an untaxed environment to a taxed environment. These advantages could be used to increase members' benefits and/or reduce employer costs.*"

A little later it says "*To ensure that employer contributions remain the same (before and after the fund becomes taxable) other superannuation funds have adjusted benefits . . . to the following level:*

Current (untaxed) benefit x (1 – 0.15B/C x P)
Where
B = the period in days that began on 1/7/1988
C = the period in days of contributory service
P = the proportion of the benefit deemed to be employer financed.

The formula above is the one being used by the New South Wales pension fund and it allows pensions to be reduced by 0–12% (approximately) depending on the proportion of a person's service completed before 1/7/1988. In New South Wales, a person retiring before this date experienced no reduction and a person whose period of service did not commence until after 1/7/1988 would experience a reduction of about 12%. The NSW pension scheme, like ours, has been closed for many years and few, if any, members would experience a reduction as large as 12%.

Notwithstanding all this, the Mercer Report goes on to outline a scenario in which South Australian pensions would be reduced by 0–17.6%. The Report proposes changes for pensions as summarised in the table. **No account is to be taken of a person's service period.**

Current Annual Pension	Pension Reductions for Equal Net Value to Pensioner
$6000	0.0%
$10,000	6.8%
$20,000	11.9%
$30,000	17.2%
$40,000	17.6%

The reductions set out in the table are the reductions that see the superannuant 'no better off and no worse off'. This is because the pensions have been recalculated so that after-tax income is the same when the superannuation tax offset is taken into account.

Consider the case of a $30,000 p.a. pension: In 2004, this would have been reduced by 17.2% to $24,840 p.a. because, for tax rates applying in 2004, a pension of $24,720 p.a., on which the 15% tax offset could be claimed, had the same after-tax value as a pension of $30,000 p.a. on which the tax offset could not be claimed.

Under this method of pension reductions no account is taken of a person's service history, but it is the person's service history that largely determines the amount of tax that has to be paid by the fund.

For example, where a person's service commenced in the 1960s, as is likely for many current superannuants, **tax would be payable at the rate of 15% on a relatively small part of the value of the pension. But the Mercer proposal would see a $30,000 pension reduced by 17% of its total value.** In this way the tax saving that might have been passed to the member (as was the case in NSW and Victoria) will be passed to the employer.

If any South Australian Government attempts to force these pension reductions on members of the State Pension Scheme, the Association will resist to the bitter end.

For a typical superannuant, reduction of a $30,000 pension to about $28,000 p.a. would be sufficient to ensure that the employer costs did not increase and the member would get a substantial improvement in his/her after-tax income (about $3,000 p.a.). **Provided that this reduction is made with the superannuant's informed agreement (that is, it is voluntary) this would be supported by the Association.**

As far as the current State Government's intentions over this matter are concerned, it is important for the Association not to jump the gun here. A covering letter sent with the Mercer Report said that the report had not been considered by either the Treasurer or the Government and that there might be no changes made to the existing tax arrangements.

In December, 2005, Vice-President Clive Brooks, Secretary, Vic Potticary and I met with Mr Foley and the Superannuation Director (Policy), Mr Deane Prior to discuss the taxed fund issue. We were told that the Labor Government only wanted to be sure that the cost of the scheme did not increase and net tax savings would be passed to members if the fund changed from untaxed to taxed.

One could take this to mean that the method of pension reductions outlined in the Mercer Report is a long way from being endorsed by any SA State Government, **but one would be wrong.**

The Mercer Report makes it clear that reduction of pensions by the method it proposes is already occurring in the Electricity Industry Superannuation Scheme (EISS). This was formerly known as the Electricity Trust of South Australia Superannuation Fund. EISS changed its taxation status effective from 1-7-2000 and all members retiring after that date have had their pensions reduced on the basis set out in the Mercer Report.

The Association is in contact with a member of this Scheme whose pension was reduced by more than 17% when the tax cost of converting it would have been less than 7%.

While the Association accepts Mr Foley's assurance about the Labor Government's intentions with respect to our pension scheme, we continue to prepare for all possibilities that we can foresee and particularly for changes that are not in the best interests of members.

It seems unlikely that the author of the Mercer Report, 2004 has made his proposal for the method of pension adjustment on his own initiative. This proposal was first made in the Mercer report of 1998 and then it was implemented when the EISS changed in taxation status in 2000. In light of these facts it is much more likely that the author of the Mercer Report, 2004 was instructed to assume this would be the method used for any change in taxation status of the pension scheme. If this instruction did not come from a Treasurer, it must have come from a high level within a Treasurer's Department.

An interesting thing about the reduction of EISS pensions is that the method used appears to be in contravention of the legislation under which the scheme is operating. This legislation says that reductions should be to the extent which avoids an increase in employer costs. The Association has now written to Mr Foley, asking him to set out the authority which the EISS Trustee is using as the basis for the pension reductions it is making.

In fairness to Mr Foley, we must keep in mind that the EISS arrangements were in place before he assumed office. Perhaps his advisers have not advised him of what EISS is doing. From the answer we get to our inquiry we should be able to draw a reliable conclusion about this.—RH