South Australian Government Superannuated Employees Association Inc.

trading as:

S.A. Superannuants *Established 1927*

Newsletter

Website–www.sasuperannuants.org.au

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From the President

In many respects the Association is in good shape. Membership, at 1,700, is higher than ever before and the organization has financial reserves sufficient to meet any foreseeable contingency. But there is another very important respect in which we are struggling. I am referring here to our dependence on volunteer labour.

We are going to the 2008 AGM with four of the six committee positions vacant and without a guest speaker coordinator. The incumbent Treasurer, Secretary and Membership Officer have all indicated their willingness to continue in 2008 but should any of these people not be able to, the place from where a replacement will come is difficult to see.

The State Pension scheme was closed to new members in 1986 and so the reality is that the Association has a declining constituency. There are the Police and Electricity Industry Pension schemes, and the State Lump Sum scheme, that might be a source of additional members but these were also closed to new members long ago. The Southern State Superannuation scheme (SSS) is the ongoing government scheme and this has about 100,000 active and preserved members.

The SSS is very different from the Pension scheme but there are important, common interests as you will see when you read the item *Transition to Retirement.* Perhaps the Association is destined to evolve into an organization representing the superannuation interests of all state government employees.

Another item that I urge you to read carefully is *Tasmanian Pensions After 1-7-2007.*

At the end of 2007 the Executive Committee wrote to other organizations, similar to SA Superannuants, seeking their views on the payment of a Universal Age Pension. We expect to hear back from these organizations in time to publish an item on this topic in the May Newsletter. Universal Age Pension was the subject of a letter from Willy Hajszan published in the August 2005 Newsletter.

Ray Hickman

CPI Change: The Adelaide Consumer Price Index increase for June 2007 – December 2007, was 1.75% and this same adjustment will be made to Super SA pensions from the first pension payment date in April, 2008.

Annual General Meeting

Monday, 25 February, 2008, at 1 p.m.
Pilgrim Centre, 12 Flinders Street, Adelaide

Agenda:

1. Apologies
2. Minutes of the 2007 Annual General Meeting
3. Annual Reports: President, Treasurer
4. Election of Officers and Committee for 2008

Guest Speaker:
Julie Pettett, Conservation Council of South Australia

Speaker Program for General Meetings:

March-June, 2008

(Speakers and topics subject to change without notice)

March 31: Meg Lees, CEO of the Multiple Sclerosis Society of SA and NT, Inc. Formerly Senator and Leader of the Australian Democrats.

April 28: Major Andrew Craib Salvation Army. *The work of the Salvation Army in S.A.*

May 26: Merry Branson Australian Bureau of Statistics: *The Consumer Price Index (CPI).*

June 30: Ian Mawby *Hearing loss, hearing aids and all things hearing.*

Change of Federal Government

Indexation of Pensions: During the election campaign Labor gave an undertaking to appoint an independent person to report to it on the indexation issue if it achieved government. This person is to have particular regard to a change which would see the amount of a superannuation pension equal to the age pension indexed to the better of CPI or wages, with the balance of the superannuation pension remaining indexed to the CPI alone.

Labor will now be under pressure from the organizations representing Commonwealth superannuants to deliver quickly on this undertaking. The position that these organizations are taking on the suggestion that improved indexation might be applied to just part of a superannuation pension is that this would be a first step towards improved indexation for the entire pension.

If the Commonwealth agrees to improved indexation for its superannuation pensions it will not be automatic for the state governments to follow suit. The New South Wales government has still not agreed to twice-yearly indexation of its superannuation pensions.

Any improvement in the indexation of superannuation pensions will be more costly than was the move from once-yearly to twice-yearly CPI adjustments. Furthermore it will be more costly for a state government to do this than is the case for the Commonwealth.

The Commonwealth will recover a substantial part of its cost for improved indexation in the form of increased tax on the larger pension income and reduced age pension outlays. For many people receiving an untaxed source pension, like a Commonwealth or Super SA pension, and some age pension, every dollar of additional superannuation income received provides the Commonwealth with 21.5 cents additional tax revenue and reduces age pension entitlement by 40 cents.

Once the new government has appointed its independent expert to report on indexation of Commonwealth pensions it will be important for the Association to have an input to the inquiry.

Taxation of non-superannuation income: During the election campaign the Association wrote to every South Australian Senator and Member of the House of Representatives (MHR) asking to be advised of his/her position on the matter of taxation of non-superannuation income.

The responses obtained from Senators and MHRs were mostly to tell us that they had referred the matter to a Minister or Shadow Minister. Senator Cory Bernardi was the only person to write and tell us that he personally supported the Senate Committee recommendation.

Senator Minchin, the then Minister for Finance, wrote to say that the 10% tax offset on untaxed source pensions already compensated recipients of those pensions for the fact that they had to pay more tax on their superannuation income than recipients of taxed source pensions. This remarkable assertion was made without any explanation.

The Labor Party sought to amend the original *'Simpler Super'* legislation to provide for separate taxation of superannuation and non-superannuation income when it was in opposition and so we have high expectations of it doing so now that it is in government.

Senator Nick Sherry (Tasmania) is the Minister responsible for superannuation in the new government and the Association wrote to him soon after the election to say that we were expecting to hear the government's intentions on taxation of non-superannuation income in the very near future. *RH*

Agreement Reached on Unwelcome Regulation

In the May 2007 issue of this newsletter an account was given of the addition of a section 59 (1a) (d) to the Superannuation Act, 1988. This section allows for a regulation to be made which can cause any part of the Act to not apply.

Following representations made by the Association, and by the Superannuation Federation, the State Treasurer, Hon Kevin Foley, MP has indicated that, when the Act is next considered for amendment, section 59 (1a) (d) will be changed to ensure that it does not apply to the State Pension Scheme or State Lump Sum Scheme. These are the two main, and original, schemes covered by the Superannuation Act, 1988 and section 59 (1a) (d) will be changed so that it applies only to other schemes recently brought into the scope of the Act .

Mr Foley has also given an undertaking to the Superannuation Federation that section 59 (1a) (d) will not be used in connection with the Pension and Lump Sum schemes during the period before it is changed. All this is very pleasing. *RH*

Transition to Retirement (TtR)

The South Australian government has introduced legislation which, when passed by the Parliament, will change the rules for access to superannuation for members of the Pension, Lump Sum, and Southern State Superannuation (SSS) schemes. The changed rules will allow a person access to at least part of his/her accrued benefit without the requirement to retire fully from government service (as currently applies).

The proposed new arrangements are:

1. the person must move to part-time, or lower paid, employment, and

2. after the change in employment status, whatever fraction of income the person has surrendered is the fraction of the accrued benefit he/she can begin to receive, and
3. the person must have reached his/her superannuation preservation age (55 increasing to 60 for people born after 30/6/1964).

Arrangements applying elsewhere in Australia: To compare the transition to retirement arrangements proposed for South Australia with those already in place elsewhere one must first distinguish between the Lump Sum and Pension schemes, which are unfunded defined benefit schemes, and the SSS scheme which is a fully funded, accumulation scheme.

Accumulation schemes and TtR: Members of private sector accumulation schemes and members of all other government accumulation schemes, including the Commonwealth government scheme, have had full access to their accrued benefits at preservation age and, regardless of their work status, from as long ago as 1 July, 2005 when this first became permitted by Federal legislation.

Defined benefit schemes and TtR: Queensland and West Australian defined benefit schemes are the only schemes of this type which currently permit any access to the defined benefit at preservation age without a person also having to meet one of the additional requirements of retiring fully, or changing employer at age 60, or reaching age 65.

The reason why early access to defined benefits is uncommon, while early access to accumulation benefits is more or less universal, is that Federal legislation gives an employer the right to instruct a superannuation fund in matters that involve an increase in its contributions.

Early access to a defined benefit, increases employer cost of the benefit, particularly where it is unfunded, whereas allowing a person early access to a fully funded accumulation benefit has no implications for employer costs. Consequently employers can instruct funds over access to defined benefits but not accumulation benefits.

In Queensland and West Australia, where the state economies are booming, governments have accepted increased costs for their defined benefits as the price of retaining older, and experienced, employees beyond age 58-60. This is the popular retirement age range for members of defined benefit schemes and, in particular, pension schemes. Neither the Commonwealth government nor any other state government has yet allowed TtR provisions for members of defined benefit schemes.

In South Australia, Pension Scheme members retiring at 58-60 commonly have a retirement benefit of about 70% of salary while the maximum benefit, regardless of age and length of service, is 75% of salary. The relatively small increase after reaching age 60 makes it unattractive for Pension Scheme members to continue working past that age. In fact, a Pension Scheme member who wants to work past 60 is often better off retiring from government service and taking another job afterwards.

Although the South Australian proposals for early access to the defined benefits are not as good as those provided in Queensland and West Australia they should still be attractive to some members.

Consider the case of a pension scheme member who is aged 60, has a salary of $60,000 p.a. and has an accrued benefit of 70% of salary. The table below compares net income from full-time and half-time employment for this person under the government's proposed arrangements. The 10% tax offset has been taken into account.

	Full-time work	Half-time work
Work Income	$60,000	$30,000
Pension Income	$0	$21,000
Gross Income	$60,000	$51,000
Net Income	$46,500	$42,435

The net income for the person working half-time is 91% of that for full-time work. For a person who wants to continue working for the government beyond age 60, but not full-time, this should be an incentive for doing so.

There is a hold-up with the passage of this legislation because the Superannuation Federation, **with the full support of SA Superannuants,** has successfully argued in the Legislative Council for amendments that allow SSS members access to their benefits without the need to go to lower paid employment. The main elements of the Federation's case are:

- unlike the Pension Scheme, access to superannuation by SSS members who remain in full-time work after preservation age has no cost implications for the government;
- access to super after age 60, while still working, would allow SSS members an opportunity to significantly increase their superannuation savings in the years before eventual retirement. Most SSS members have small accrued benefits and so it is important for them to have this opportunity.

The government has not yet indicated whether it will accept the amendments made in the Legislative Council and Parliament does not sit again until February, 2008. *RH*

Tasmanian Pensions After 1-7-2007

Until 1-7-2007 Tasmanian state superannuation pensions were untaxed source pensions taxed in the same way as Super SA pensions. Now, however, Tasmanian pensions are about 30% taxed source and

70% untaxed source pensions. The actual percentages vary from superannuant to superannuant, according to a person's employment and contribution history, but the split is usually about 30/70. The taxed source component of the pension is that which has been funded by the member's personal contributions.
What makes this Tasmanian development very interesting is the fact that the total gross pension value remains the same. This leads to an obvious question: **If Tasmania can pay the component of its pension funded by members as a taxed source pension without any reduction in the gross pension value, why not South Australia?** In October the Association wrote to the State Treasurer asking for an answer to this question.
Any part of a pension that is paid from a taxed source is tax-free if the person receiving it is aged 60 or more. If the person is aged between 55 and 60 he/she can claim a 15% tax offset on the taxed source component of a pension. If a person is in receipt of an invalid pension he/she can claim a 15% tax offset against the part of the pension paid from the taxed source from the time the pension commences until age 60 when this component becomes tax-free.

The effects of having a 30% pension component which is from a taxed source (the Tasmanian situation) compared to a pension which is entirely from an untaxed source (the South Australian situation) may be summarised as follows:

1. For people aged over 60 tax becomes payable on a South Australian pension at about $31,000 p.a. For a Tasmanian pension, tax becomes payable at about $44,000 p.a. The tax payable on a South Australian pension of $44,000 p.a. is $3,210.
2. For people aged under 60, tax becomes payable on a South Australian pension at $11,000 p.a. and on a Tasmanian pension at $15,700 p.a. for those aged 55-59 (or those Tasmanians in receipt of invalid pensions who are less than 60).
3. Where a person must pay the Medicare levy, a Tasmanian pension recipient aged 60 will pay 70% of the amount payable by a South Australian receiving the same total pension. So a Tasmanian, age 60, with a $44,000 p.a. pension will pay no tax and a Medicare levy of $462. A South Australian, age 60, with a $44,000 p.a. pension will pay $3,210 in tax and a Medicare levy of $660.
4. Where a person receiving a Super SA pension is already paying no tax on the super pension (e.g. a single person aged 60 with a pension less than about $31,000 p.a.) the only difference between the South Australian and a Tasmanian receiving a pension of the same value will be that the Tasmanian will pay less Medicare levy.

All the above points have been made for the case of a person who is single. For people with partners the difference between a South Australian and Tasmanian couple will usually be less, depending on the income of the person's partner. *RH*

2007 Executive Committee

President: Ray Hickman
Vice-President: Clive Brooks
Secretary: Vic Potticary
Assistant Secretary: Christine Venning
Treasurer: Michael Evans
Membership: Willy Hajszan

Committee Members:
Lawrie Bennett, John Reddaway, Maureen Goodwin, Willy Hajszan, Bob Scott, Queenie Inshaw

From the Treasurer: Now that we are operating with a separate Treasurer and Membership Officer I request that you direct all membership inquiries to Willy Hajszan in the first instance. The inquiries that come direct to me have usually had to be referred to Willy and so are better sent to him in the first place.

Payment of fees by electronic funds transfer is going quite well and I want to encourage members to use this facility **BUT please make sure you identify yourself whenever you make an electronic transfer to SA Superannuants' account.** If you are not confident about doing this it will be better for you to pay by the traditional method. *ME*

Our bank is **Bank SA** and other details are as follows:
BSB 105-900,
Account number 950313840,
Account name SA Superannuants.

Membership Form

#Cut here and post to:

SA SUPERANNUANTS
8 Eden Court, Aberfoyle Park, 5159

Existing Life Members should ignore this section (unless notifying change of address). Membership inquiries should be directed to Willy Hajszan, Tel 8387 2076.

Your membership category is on the envelope.

MEMBERSHIP 2008

Renewal 2008/New Application /Life Membership
(Delete as necessary)

Please find enclosed the amount of $....……....OR

I have made an electronic payment of $…………

For *S.A. Superannuants Annual/Life Membership*

FULL NAME (please print) ....

ADDRESS (please print)……..………………………

…......................................……........ Post Code.......

Tel.:………………….. Date of Birth....../…../19…..

SIGNED..................................…………………...

DATE...…../……..../2008

***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)