South Australian Government Superannuated Employees Association Inc.

*trading as:*

# S.A. Superannuants *Established 1927*

# Newsletter

Issue No. 20
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Website–www.sasuperannuants.org.au

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## From the President

Members will have seen by now the effect of the Federal Government’s 10% tax offset on the net value of their Super SA pensions. I hope that the effect is, more or less, as items in previous issues of this newsletter have been predicting.

The change resulting from the 10% tax offset is likely to be a talking point among pension scheme retirees, many of whom will not have had a clear idea of what its impact would be because they are not members of the Association. This is an opportunity for those of us who are members to encourage eligible people to join, using the argument that membership of the Association is a good way of being well informed about superannuation matters. This is why a flyer promoting membership has been included with this newsletter. If you know someone who is a potential member please consider giving it to them.

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The item “A Case for Improved Indexation” sets out the arguments being used in attempts to persuade the Federal Government to change the indexation of Commonwealth pensions from CPI to the better of CPI or wages.

The Federal Government has previously rejected these arguments and has provided its reasons for doing so in the form of a sheet that some Federal Government MPs have been sending to their constituents. A copy of this sheet is included as an insert to the Newsletter. Make up your own mind about whether the Government’s refusal to move from CPI indexation has a sound basis.

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A large majority of Australians of age pension age are eligible to receive at least some age pension, and income from this source can be an important part of a person’s retirement income. In the item “Centrelink Income and Asset Tests” the amount of age pension a Super SA pensioner receives is compared with the amounts that people with other types of superannuation income/assets receive.

You may have noticed errors in the sixth and seventh columns, last row of the Table included in the item “How the 10% Tax Offset will Work” on the insert to the May newsletter. The amounts $150 and $1650 should be $300 and $1800. This does not alter, or significantly detract from, the point being made that Super SA pensioners, after 1-7-2007, will pay more tax on their other income than members of taxed pension funds.

*Ray Hickman*

***CPI Change:*** The Adelaide Consumer Price Index increase for December, 2006 - June 2007, was **0.94%** and this same adjustment will be made to Super SA pensions on and from the first pension payment date in October, 2007.

## General Meetings

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

**Speaker Program: August-November, 2007**

**August 27:** Greg Evans, Consumer Affairs Services

**September 24:** Jane Ferguson, Funds SA

**October 29:** Senior Constable David Steward, Australian road rules refresher

**November 26:** Mark Parnell, MLC, Greens Party

## Newsletter Overview

This issue of the Newsletter deals with CPI indexation of our pensions and their assessment under the Centrelink income and assets tests. These are non-taxation matters having an impact on the retirement incomes of members.

There have been requests made for the Newsletter to provide an account of how the CPI change is determined so as to explain what it measures and why it is perceived to underestimate the cost increases we actually experience. I hope that an item can be produced for the January 2008 issue. In the meantime interested members are directed to the *Australian Bureau of Statistics* website at www.abs.gov.au. *RH*

## A Case for Improved Indexation

For many years now wage increases have been running well ahead of Consumer Price Index (CPI) increases, with the result that public sector superannuation pensions, including Super SA pensions, have increased much less than wages and much less than the age pension which is indexed to the better of CPI or wages.

It is a goal of all the organizations representing members of public sector superannuation pension schemes to have these pensions indexed on the same basis as the age pension. There is little prospect of any State Government doing this until the Federal Government moves to change the indexation of its mainstream pensions. For this reason all current efforts are being directed at the Federal Government and Federal Opposition.

The arguments being used to support the case for improved indexation include the following:

1. Two separate Senate enquiries have recommended that consideration be given to an improved indexation method for Commonwealth, Defence and State superannuation pensions.
2. Indexation of superannuation pensions should have the purpose of maintaining the relative standard of living of retirees compared with other groups in the community and the CPI, by itself, has not been achieving this for many years now.
3. Federal parliamentarians have their pensions indexed to parliamentary salaries.
4. Over a 20 year retirement period CPI indexation will see the value of a superannuation pension fall about 30% behind the value that a wage of the same initial value would have at the end of the period.
5. Because most public sector pension schemes were closed years ago the cost of the improved indexation arrangement will be relatively small and declining.
6. At least in the case of pensions funded by the Federal Government, any increased cost of improved indexation would be offset by reduced age pension payments and increased taxation receipts from members of untaxed schemes. Of course, this would not apply to pensions funded by State Governments.

The Federal Government, the Federal Opposition and all the State Governments have rejected these arguments claiming, among other things, that any increase in the cost of pension schemes cannot be justified because the schemes are already more costly than today's standard schemes.

The details of the Federal Government's reasons for declining to make a change in indexation arrangements have been set out in a sheet which has been included as an insert to this newsletter. **The sheet is exactly as issued by the Government.**

Recently (with an election looming), there are reports that both the Federal Government and Federal Opposition have indicated some willingness to consider a change to indexation arrangements that would see part of a superannuation pension indexed as the age pension is indexed. For example, the first (say) $20,000 of a superannuation pension might be indexed this way with any balance of the pension indexed just to the CPI.

This change would be most effective for people who have gained relatively little (perhaps nothing in some cases) from the 10% tax offset. Having this in mind the Executive Committee has resolved to request the *Australian Council of Public Sector Retiree Organisations (ACPSRO)* to pursue this form of indexation change as a first step towards having the entire amount of all pensions indexed on the same basis as the age pension. This will be raised at the ACPSRO AGM in October. *RH*

## Centrelink Income and Assets Tests

When a person, who has reached the eligible age, applies for the age pension he/she is assessed under both an income test and an assets test. Each test will usually produce a different entitlement and the entitlement actually paid is the smaller one.

Each of the income and assets tests involves thresholds, taper rates and cut-out points. **Thresholds** are the income or asset amounts below which a full age pension is paid; **taper rate** is the rate at which age pension entitlement reduces as a person's income or assets exceeds the threshold; **cut-out point** is the value of income or asset beyond which a person has no entitlement to age pension.

The tables 1 and 2 below are for the assets and income test respectively. In each table there are two "Allocated Pension" columns designated "Type A" and "Type B". Type A is a standard allocated pension which the owner can cash in (commute) at any time. Type B is a term allocated pension which the owner cannot commute but any account balance remaining at the owner's death is payable to his/her estate.

The Tables compare three home-owner couples, aged 65. Two couples have $450,000 in super which they have used to buy allocated pensions. One couple has purchased a standard allocated pension (Type A) and the other a term allocated pension (Type B). In both cases, in 2007/8, the gross pension income is $40,000. The third couple receive a Super SA pension of $40,000 and this includes an annual undeducted purchase price (UPP) amount of $2,000.

**Table 1: Asset test**

| | **Allocated Pension** | | **Super SA Pension** |
|---|---|---|---|
| | **Type A** | **Type B** | |
| Account Balance | $450,000 | $450,000 | $0 |
| Asset Test Value | $450,000 | $225,000 | $0 |
| Age Pension<br>a)Before 20/9/07<br>b)After 20/9/07 | <br>$6,300<br>$14,626 | <br>$22,953<br>$22,953 | <br>$22,953<br>$22,953 |

**Asset Values:** the standard allocated pension couple have their entire account balance ($450,000) as the amount that is used in the asset test. This reflects the fact that they can cash it in at any time. The term allocated pension couple also have an account balance of $450,000 but the asset value is only half this amount recognising that while they own the $450,000, and any balance passes to their estate when they are dead, they cannot cash it in.

The Super SA pension couple have no account balance because, except for a short period after the pension commences, they cannot exchange it for cash, and on death there is no money transferred to the pensioner's or spouse's estate except in very restricted circumstances. This is why all Super SA pensions have an asset value of $0.

Table 1 shows that the asset test is to be substantially relaxed after 20/9/2007. The taper rate is to be halved and this will produce a substantial increase in age pension entitlement for many people receiving allocated pensions. The standard allocated pension couple will be eligible to receive an extra $8,326 p.a. in age pension under the asset test. The term allocated pension couple will be unaffected because the asset value of their pension is below the threshold and so they are already entitled to a full age pension under the asset test. **But what any of these three couples actually receive can only be decided after the income test has been applied as well.**

**Table 2: Income Test**

| | **Allocated Pension** | | **Super SA Pension** |
|---|---|---|---|
| | **Type A** | **Type B** | |
| Gross Pension | $40,000 | $40,000 | $40,000 |
| Income Test Value | $17,500 | $17,500 | $38,000 |
| Age Pension | $18,366 | $18,366 | $10,166 |

**Income Values:** for all three couples Table 2 shows that the amount of income which Centrelink counts in its income test is less than the gross pension value.

For the Super SA pension the lesser amount is calculated using the pension's undeducted purchase price (UPP) which is (to a good approximation) the sum of the personal contributions the Super SA pensioner made after 1 July 1983. This amount is divided by the life expectancy of the pensioner or his/her spouse (whichever life expectancy is greater, and taken to be 20 years in these three cases).

This produces an annual amount for the UPP that is then subtracted from the gross pension amount to provide the amount which Centrelink counts. For nearly all Super SA pensions Centrelink will count at least 95% of the gross value in its income test.

For the allocated pension couples the lesser amount is calculated by dividing the entire account balance by life expectancy. Here people are being given credit for not just personal contributions but employer contributions as well, and the earnings that personal and employer contributions have achieved. This sees much less of the gross value of the allocated pensions being counted in the Centrelink income test. The result is a larger age pension entitlement for allocated pension recipients under the income test compared to Super SA pensioners.

Now we are in a position to compare the age pensions that will actually be received in 2007/8 by these three couples. This has been done in Table 3.

**Table 3: Age Pension Actually Paid**

| | Before 20/9/2007 | After 20/9/2007 |
|---|---|---|
| Simple Allocated Pension | $6,300 | $14,626 |
| Term Allocated Pension | $18,366 | $18,366 |
| Super SA Pension | $10,166 | $10,166 |

The couple receiving the standard allocated pension receive age pension determined by the asset test because this is less than their entitlement under the income test. This couple's entitlement will change during 2007/8 because of the relaxation of the asset test due to occur on 20/9/2007. Up until 20/9/2007 they will be paid at the rate of $6,300 p.a. ($242 per fortnight) and after 20/9/2007 at the rate of $14,626 p.a. ($563 per fortnight).

The couple receiving the term allocated pension and the Super SA couple both receive age pension determined by the income test because this is the lesser of their two entitlements. The Super SA couple receive much less ($10,166 p.a. or $391 per fortnight) than the term allocated pension couple ($18,366 p.a. or $706 per fortnight) because this latter couple has much less of their income counted in the income test.

**Income test rationale:** the reason for counting less than the entire gross amount of a superannuation pension in the Centrelink income test is to compensate people for the fact that the income is derived from money that they might have taken and spent rather than set aside for use in retirement. In other words Government policy has been to reward people for making provision to fund their own retirement incomes.

This is quite reasonable but it leads to the question of why so much of the income provided by pensions like Super SA pensions is counted when so little of an allocated pension is counted?

The asset test has been relaxed after the Federal Government has accepted that it was too harsh. It seems appropriate to now make a case that the income test is too harsh on people receiving Super SA pensions, and similar pensions, and should be relaxed for that type of superannuation benefit.

At the very least the component of Super SA and other comparable pensions that has been funded by member contributions (20-25% of the pension's gross value) should be exempt from the Centrelink income test.

The taper rate for income in the Centrelink income test is 40 cents in the dollar and so if Super SA pensions were assessed at 75-80% of their gross values rather than the common 95% or more this would lead to quite worthwhile increases in age pension entitlement.

At the ACPSRO AGM the Association will be arguing for ACPSRO to pursue this change to the Centrelink income test. *RH*

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## Tidying up Some Loose Ends

1. In the August 2006 issue it was reported that the Association had written to the Premier, Hon Mike Rann, MP to request measures to reduce instances of some people having to wait lengthy periods between ceasing work and getting their first pension payment. Mr Rann has responded suggesting that delays are probably due to members and so are not likely to be eliminated by Government action.

In some cases this would be true but we have some reason to believe that a real problem does exist. Anyone having a well-documented case to show that he/she had to wait a long time for the first pension payment, after having done everything right, is encouraged to contact the Association.

2. Another letter sent last year to the Hon Jay Weatherill, MP, Minister for Family and Community Services suggesting that Super SA invalid pensioners, aged less than 60, be given the same concessions as are provided by the State-funded Seniors Card has also been responded to. The decision is no, based on the argument that this could not be fairly restricted to Super SA invalid pensioners. *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.

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## *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 2007**

**Renewal 2007/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...…../……..../2007

***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)