



PS Superannuants

The Association of Public Sector Superannuants Inc.
Formerly SA Superannuants
Established 1927

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treasurer.dtf@sa.gov.au

Dear Treasurer,

I am making this contact with you on behalf of the *Association of Public Sector Superannuants Inc* (the Association) to ask the following questions.

1. Is the South Australian Government receiving additional financial support, from the Federal Government, because it has chosen to operate its defined benefit pension schemes as untaxed-source schemes?
2. Is the fact of Member and Employer contributions for the State Pension Scheme being held as property of the Crown, rather than as the property of a superannuation fund trustee, having a positive impact on South Australia's Credit Rating?

We ask these questions aware that the State Pension Scheme is approaching full funding. The most recent triennial report on the pension scheme predicts that this will be achieved in 2034. South Australia will, thereafter, be running a fully funded pension scheme as a constitutionally-protected, and therefore, untaxed-source scheme. The scheme's pension recipients will be in the unique position of receiving their pensions from a source that is fully funded but paying pensions that are still subject to income tax and Medicare levy.

The Association acknowledges that the current situation has been policy of all South Australian Governments, and our request is made, not to criticize or complain, but in a matter-of-fact way to see if the pensions can be delivered more efficiently, without increasing State Government cost for the pensions and without risk to the welfare of any member.

The Association understands that, where other state governments decided to fund their pensions without using constitutional protection some of the funding was required to pay tax. This cost was met by reducing gross pension values where the pension recipient had post-July 1988 service. If a pension recipient had no post-July 1988 service, the pension became tax free without any reduction being required. In other cases, the reduction was up to 15% in line with the proportion of post-1 July 1988 service. Where pensions were reduced in their gross amounts net incomes increased.

Through the interactions which the Association has with members of these interstate schemes we know that they see themselves as having been advantaged by the change in taxation status of their pensions. This improvement in the circumstances of pension recipients appears to have been achieved by these other state governments without an increase in their costs for the schemes. If this is the case the combination of no additional cost for the state governments and increased net incomes for pension scheme members would be having a positive impact on each state economy.

Unite – Protect – Represent

www.pssuperannuants.org.au



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The Association now represents members of Commonwealth defined benefit schemes as well as members of the South Australian scheme and there is a similarity between the South Australian arrangements for its defined benefit pensions and those of the Commonwealth. When the Commonwealth Government established the Future Fund, this move was represented as having the purpose of funding Commonwealth defined benefit pensions. That has not happened, and the employer component of the pensions is paid as untaxed-source income. The effect of this is to ensure that the Commonwealth recovers a substantial fraction of the cost for its pension schemes in the form of additional tax and Medicare levy paid by its former employees on both their superannuation income and other taxable income, along with reduced age pension outlays to those former employees. The current balance for the Future Fund is more than \$200 billion with unfunded liabilities for the Commonwealth's CSS and PSS schemes being about \$160 billion. By holding this \$160 billion in the future fund, rather than putting it in the hands of a superannuation trustee, the Commonwealth is likely to be getting a second advantage in the form of a strengthened financial position and higher credit rating than would otherwise be the case.

A plausible explanation for South Australia's decision to retain constitutional protection for its pensions, even though they are being funded, would be that the state has negotiated an arrangement with the Commonwealth. This arrangement would see some of the financial advantage that flows to the Commonwealth, as a result of South Australian pensions being paid from an untaxed source, coming back to South Australia via Federal funding. It is this possibility that has led us to request answers to the two questions set out above. If it is occurring, we believe it would be appropriate for this long-standing policy to be reviewed and with our Association being involved in the review.

Yours sincerely,

Barry J Grear AO

Secretary



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