

Dear

Thank you for your communication of 3 September 2024 (Ref: MC24-010516) in response to questions the *Association of Public Sector Superannuants Inc.* had asked of the Federal Treasurer in our correspondence item of 3 July 2024. In your communication with us you advised that these questions would be more appropriately put to the State Treasurer, the Hon Stephen Mullighan, MP and this has been done. In his response of 24 September Mr Mullighan has let us know that he has been advised by Super SA that South Australia receives no additional financial support from the Commonwealth as a result of holding superannuation assets in the untaxed environment. He was further advised that the current unfunded liability is having a negative effect on the State's credit rating and the achievement of full funding will have a positive effect. A copy of Mr Mullighan's response to us is attached.

Set out below are some comments on other aspects of your 3 September 2024 communication.

The Association readily acknowledges that the Simpler Super changes of 2007, and the recent stage 3 tax cuts have been beneficial for our members who are reliant on untaxed-source pensions. These changes narrowed the gap between the net incomes delivered by taxed-source versus untaxed-source pensions. For people in receipt of relatively small untaxed-source pensions these changes have eliminated tax payable on their pensions. But we believe that for people receiving larger, but still modest, pensions there is the potential for further improvement in net incomes. For example, of retirees, people receiving untaxed-source pensions form a disproportionately large fraction of those who still pay tax and medicare levy on their non-superannuation income. In 2006 just ahead of the Simpler Super reforms the *Australian Reward Investment Alliance (ARIA)*, Trustee for Commonwealth PSS and CSS pensions, pointed out this inequity and proposed that it be removed by declaring that the after-tax value of the pensions become non-taxable income. With respect to the payment of tax and medicare levy on non-superannuation income this would see recipients of untaxed-source pensions treated equally with those receiving taxed-source pensions.

The Association also acknowledges that the Commonwealth does not necessarily benefit from the arrangement where tax is deferred until a pension begins to be paid. We agree it does not benefit if the pension is small enough to see a person receiving the pension already paying no tax and medicare levy. However, the Commonwealth is getting a benefit from many larger, but still modest, pensions on which recipients are paying tax and the medicare levy. To protect the welfare of people with small pensions the Association's policy on any changes to existing arrangements that require a reduction in gross pensions, to avoid an increase in employer costs for the pensions, must be voluntary for every member.

Many pension recipients with quite modest pensions would have larger net incomes notwithstanding any reduction in pension gross amount needed to maintain employer costs the same. This would see many qualifying for additional age pension and no longer having to pay tax and medicare levy on their age pension and other taxable income. Their lower gross income would also see them paying less for aged care.

There is also a pre-pension phase tax and medicare levy advantage that the Commonwealth receives due to the way untaxed-source pensions are structured. This is the requirement that, during the accumulation phase, people must pay their member contribution of 5-10% of gross salary from their incomes after income tax and medicare levy has been paid. This sees the Commonwealth getting more than 30% of the member contribution as tax and medicare levy. Most Australians make

personal contributions from their pre-tax income (i.e. by salary sacrifice) which sees the Commonwealth getting only 15% of the contribution as tax and nothing as medicare levy.

Yours sincerely,