

2025-26 Pre-Budget submission

From: *The Association of Public Sector Superannuants Inc*, an organization representing people in receipt of defined benefit pensions paid from South Australian and Commonwealth superannuation schemes.

Proposal 1: Age pension income to be declared non-taxable income

Supporting argument: Commonwealth and South Australian defined benefit pensions remain taxable income for life and any additional income, including age pension, is added to the superannuation income and taxed at the marginal tax rate for the combined income. Medicare levy is also paid on the combined income.

Most superannuation pensions become non-taxable income from age 60 and any age pension, or other income, is taxed as if it is the only income. The effect of this is that most Australian retirees can have substantial superannuation incomes, supplemented by age pension and investment income, without paying tax or medicare levy on any of those income components.

In contrast to this a substantial fraction of the people that PS Superannuants represents pay tax and medicare levy on all of superannuation, age pension and investment income. Furthermore, where either a single person or one member of a couple, relying on a Commonwealth or South Australian defined benefit pension is receiving an age pension, and enters aged care, there is a further penalty that applies. The entire age pension income of such a person is counted when the age care fee is calculated. This amounts to a tax on a tax for people of relatively modest means who are already in an often-difficult circumstance.

PS Superannuants acknowledges that the defined benefit pensions of its members represent a good return on their investment. However, we consider that the common assertion of the pensions being generous by community standards does not stand up to close examination when all three pillars of the retirement income system are taken into account, along with taxation differences and aged care costs.

We claim that the pensions are ***'Good, but not better than the Superannuation Guarantee'***. If these pensions were made generally available today our expectation is that most Australians would opt to continue with the Superannuation Guarantee. There is ample evidence that the Superannuation Guarantee, supplemented by the personal contributions at the level required of our members, would produce at least the same level of reliable income, well past life expectancy, along with higher estate values in the event of earlier deaths. The Federal Government's December 2023 discussion paper entitled 'Retirement Phase of Superannuation' refers repeatedly to the strong preference shown by Australian (and overseas) retirees for account-based pensions over lifetime income products.

Concluding comment on Proposal 1: If age pension income is declared non-taxable for all Australians the cost to tax revenue will be relatively small and will decrease over time.



PS Superannuants

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Proposal 2: Where after-tax, personal contributions by themselves are sufficient to create a tax-free component greater than 10% of a defined benefit pension's gross value the 10% cap currently being applied to the amount of the pension that is not counted in the age pension income test should not apply.

Supporting argument: From the 'Simpler Super' superannuation reforms of 2007 until 1 January 2016 the tax-free component of taxed-source defined benefit pensions was calculated taking account of both the amount of contributions a pension recipient had paid from after-tax income and the proportion of service completed before 1 July 1983. This latter component of the pension was not only tax-free income after age 60 it also was exempt income for the purpose of the Centrelink age pension income test. The inclusion of pre-July 1983 service in the determination of the tax-free component saw some pensions acquire high tax free components (up to 50% of the gross pension value) with all the tax-free income also being exempt income in the determination of age pension entitlement.

Effective from 1 January 2016 the Federal Government introduced a 10% cap on the amount of tax-free component that is not counted in the income test regardless of how much of the pension was being funded from personal contributions made from after-tax income. Since then at least 90% of every defined benefit pension (taxed-source and untaxed source) must be counted in the income test.

The Government's justification for imposing this cap was to say that a mistake was made in 2007 when the pre-1 July 1983 component of a tax-free amount was also exempt from the age pension income test. In other words, the Government was arguing that only the part of the pension that was capable of being funded from personal, after-tax contributions was intended to be exempt income for the purpose of the income test. **That is what this Association is asking for with this second proposal.**

This is a matter where it is revealing to compare treatment of defined benefit pensions with that of the recently introduced Comprehensive Income Products for Retirement (CIPRs). The CIPR available from QSuper pension has only 60% of its purchase price counted in the age pension asset test up to the purchaser's life expectancy and only 30% after life expectancy. The same percentages apply to the CIPR income for income test purposes.

By allowing this the Federal government's **additional age pension costs** are a substantial portion of the income provided by the CIPR. Many CIPRs would have been purchased entirely with concessional tax money, and the law is allowing for only 60% of this tax-free income to be counted in the age pension income test and 60% of the purchase price in the asset test. And yet we have another law that says where a defined benefit pension recipient has paid after-tax contributions sufficient to fund more than 10% of the pension, he/she can only claim 10% as income that is exempt from the income test.

There are defined benefit pension recipients whose personal after-tax contributions are sufficient to produce a tax-free component of more than 10% of a pension's gross amount. The Commonwealth's PSS scheme pensions, and its CSS non-indexed pensions, stand out from other defined benefit pensions as far as having pension recipients in this category is concerned.

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www.pssuperannuants.org.au



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Our organization believes that both of the changes we are proposing will, in addition to providing fairness for our members, simplify Australia's retirement income system and provide some additional incentive for Australians to stay in, or re-enter, the workforce after age 67. The impact the proposals, if implemented, have on tax revenue and age pension costs will be small and decreasing.

Inquiries on these proposals should be made by e-mail to: apssuper1927@gmail.com

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