

# Superannuated Commonwealth Officers' Assn. (WA) Inc.



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## Comparison of 1922/CSS/PSS Pensions with ABP/SMSF Superannuation Pensions

Several responses from government have included comments concerning indexing, lifetime payments and reversionary benefits together with the 1922/CSS/PSS pensions not having to bear any investment risk. Some have also included the comment “*defined benefit schemes compare favourably with superannuation arrangements in the general community*”. This is not true, please see the following points

### 1. Indexation:

Since 1998, the Centrelink Age pension has been indexed by whichever is the higher of the Consumer Price Index (CPI), and Male Total Average Weekly Earnings (MTAWE). An additional index, the Pensioner and Beneficiary Living Cost Index (PBLCI), was introduced in 2009 and now the Age pension is indexed by the higher of the CPI and the PBLCI, and then benchmarked against the MTAWE (27.7% for singles and 41.76% for couples)

- the Reserve Bank, and the TPI pensioners, had their pensions indexed in the same manner as the Age pension 17 to 18 years ago
- the DFRB, and the DFRDB pensioners, had their pensions indexed in the same manner as the Age pension 11 years ago
- the 1922, CSS and PSS pensioners still have their pensions indexed solely by the CPI
  - a much lower level.

### 2. Lifetime Payments:

- it is claimed that the 1922, CSS and PSS pensioners have their pension paid for life - and that this is a benefit over other superannuation schemes
- whilst this is true it should be noted that recipients of Account Based Pensions (ABP), or Self Managed Superannuation Funds (SMSF), are, almost, in the same category
  - apart from the past 12 months, almost all ABP/SMSF accounts earn, at least, between 7% and 9% per year (the Future Fund has averaged 8.3% over the past 10 years), and it is not until the ABP/SMSF person reaches the age of 85 that they would be required to withdraw more than their fund is earning - up until then their fund would be increasing in value as mandatory withdrawal of 9% is only reached after the person turns 85 (it is 7% for those between the ages of 80 and 84)
  - if, for example, the fund did actually diminish quite drastically, then the ABP/SMSF person would have access to the Centrelink Age pension (which is paid for life).

### 3. Reversionary Benefits/Residual Amounts:

- when a single 1922/CSS/PSS pensioner passes away there is **no residual amount** credited to his/her estate
  - if there is a wife/partner involved, then that person receives a reversionary pension (67%) until they pass on
    - after that, there is nothing that is credited to any estate
- when compared to a retiree in possession of an ABP (or a SMSF income), then whenever that person dies the balance of their ABP/SMSF is passed on to their dependants.

### 4. Investment Risk:

- whilst it is true that the 1922/CSS/PSS pensioners do not bear any investment risk it should be accepted that over any lengthy period of time (e.g. 10 to 20 years), the Share Market has continued to increase in value and the lack of any investment risk by the 1922/CSS/PSS pensioners should be viewed in that concept
  - this is not a major issue
    - if an ABP/SMSF person ever did come to lose their superannuation income, they would have immediate access to the Centrelink Age pension (which is paid for life).

The comment “*defined benefit schemes compare favourably with superannuation arrangements in the general community*” is not true when closer examination is given to the very generous tax concessions available to the general community. There have been many changes made to the economic circumstances surrounding retirement incomes in the last 19 years and it does seem that the government has not taken these changes into account when replying to correspondence. For example

### 5. Contributions:

- retirees in receipt of 1922/CSS/PSS pensions did not receive any tax concessions for (compulsory) payments into superannuation throughout their working life
  - their normal marginal tax rates applied - 34.5% and 39% (at the time)

- recipients of Account Based Pensions (ABP), or Self Managed Superannuation Funds (SMSF), paid their contributions before tax was calculated (i.e. did not pay income tax on their contributions), but did pay 15% entry tax when putting money into their accounts
  - a very generous tax concession (designed to encourage people to contribute to superannuation).

#### 6. Tax Concessions:

- the general community (i.e. the ABP/SMSF people), were required to pay 15% tax on earnings whilst their funds were in the Accumulation phase, but received their pensions (and any lump sums), **tax free** (after reaching the age of 60)
  - being tax free there is (in a high level of cases), **no Medicare levy** payable by these people
  - there is a limit of \$2 million (\$4 million for couples), for the tax-free component, but then they only pay 15% on the earnings of any additional funds - and there is no limit in this category
- 1922/CSS/PSS pensioners pay **full income tax (plus Medicare)** on receipt of their pensions (32% & 39%)
  - a 10% tax offset does apply, but still is a marked difference in favour of the ABP/SMSF pensioners
  - the 1922/CSS/PSS also pay tax at their marginal rate for any income received from Bank accounts.

#### 7. Additional Income:

- any additional income (Bank interest, dividends, casual employment etc.), for people in receipt of an ABP, or in a SMSF, starts off at zero for taxation purposes
  - zero up till \$18,200 then 18% up to \$45,000
- additional income (including Bank interest etc.), for a 1922/CSS/PSS pensioner is added on to the total of their pension and is taxed at the appropriate marginal tax rate (usually 32% and 39%)
- if an additional \$15,000 (separate to their superannuation pension), was received by an ABP/SMSF retiree, then they are subject to the \$18,200 tax free threshold, and would **pay no tax**
- in comparison, if a 1922/CSS/PSS pensioner receives additional income of \$15,000 they would then pay tax at their marginal rate
  - quite likely at the 32% rate which equates to **\$4,800**.

#### 8. Lump Sum Withdrawals:

- normal superannuation schemes allow lump sum withdrawals (tax free) for (a) overseas holidays, (b) house renovations, (c) new vehicles, (d) loans/gifts to children etc. etc.
- recipients of 1922/CSS/PSS pensions do not have access to such lump sum withdrawals.

#### 9. Contributions (Duplication):

- Age pensioners have contributed no additional income tax than what a 1922/CSS/PSS pensioner has paid throughout their working life
- in most cases, the 1922/CSS/PSS pensioner paid the normal income tax that everyone pays, but was also required to pay (compulsory), towards their 1922/CSS/PSS pensions
  - in other words, it could be claimed that the 1922/CSS/PSS pensioner is actually contributing for two pensions (their 1922/CSS/PSS pension, and the Centrelink Age pension).

#### 10. Co-Contributions to Superannuation:

- there is a facility available to people on a lower income to receive a \$500 co-contribution (maximum), from the Federal government when a cash payment of \$1,000 (or more) is made to their superannuation account
  - income limits of \$47,488 and \$62,488 apply
- there is no similar co-contribution available to the 1922/CSS/PSS pensioners which relates to contributions to their 1922/CSS/PSS superannuation schemes.

There are many areas where the 1922, CSS and PSS pensioners are disadvantaged in comparison to the various concessions available to the general community. Bearing this in mind, we cannot accept any government statements that contain the words "*defined benefit schemes compare favourably with superannuation arrangements in the general community*".

We would also like to remind everyone that membership of these 1922/CSS/PSS schemes was compulsory - we did not have any opportunity to elect not to contribute and, instead, put money aside for investment in superannuation funds that were available to the general community.

It is also true that the government of the day chose to place our contributions into General Revenue, and, as a result, no tax was paid - now we are suffering the consequences of such an unfair and unjust decision.

In addition, we need to remind ourselves that the 1922 scheme closed in **1976**, the CSS scheme closed in **1990** (35 years ago), and the PSS scheme closed in **2005** (20 years ago) - these are very old schemes.

R. de Gruchy  
President