Superannuated Commonwealth Officers' Assn. (WA) Inc.

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Retirement Income Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Re: Submission to the Retirement Income Review

Dear Chair, Panel Members and Review Secretariat

We are pleased to make this submission. Our members are not "fat cats", nor are they wealthy. The average defined benefit superannuation pensions approximates the combined married rate of the Age Pension and is most cases supports both members of a couple.

Superannuated Commonwealth Officers' Association (WA) Inc. (SCOAWA) is an organisation registered under the Associations Incorporation Act (2015) of Western Australia. Established just after 1945 our primary objective is to seek equity in our pension schemes (Commonwealth Super Scheme CSS, and Public Sector Superannuation Scheme PSS) as currently the system does not produce fair outcomes for our group of Australians. We seek that all (163,000) Commonwealth superannuation pensions, be indexed consistently using the same formula as is used to adjust the Centrelink Age Pension; and, that fair and equal taxation be applied to Commonwealth superannuation pensions.

Along with other similarly focused Commonwealth and State organisations, we seek to protect and advance the interests of those retirees who have funded, in whole or in part, their own retirement. Many of our members are in receipt of the age pension or part age pension. Although we are WA-based, the issues raised in this submission will be of benefit to all retirees throughout Australia. Most of our members are proud of their ability to provide for their advancing years, with some assistance from Government. However, many who strive to remain outside the Age Pension system often experience reduced financial capabilities to fund their retirement.

We welcome this far reaching Retirement Income Review and are supportive around the 3 integrated pillars; the age pension, superannuation and savings. Most importantly the panel should consider the adequacy, sustainability, and of most concern, the fairness of these factors. SCOAWA along with all other associations seek an adequate and fair review outcome, encouraging and ensuring incentives for those who can save for independent retirement and avoid disincentives.

The Superannuated Commonwealth Officers Association Western Australia Inc. (SCOAWA) believes The following should be covered by the Review. Members of SCOAWA would be pleased to meet with you to discuss these matters.

Equity with the Age Pension and Indexation of CSS/PSS Superannuation Pensions

All Commonwealth superannuation pensions should be indexed consistently using the same formula as is used to adjust the Centrelink Age Pension.

This problem of inequality of the method of indexation of CSS/PSS pensions (as compared to the method in use for indexation of the Centrelink Age pension), has been in existence for many years. From 1998, pensions paid to Age Pensioners have been indexed by whichever is the greater of the CPI and MTAWE (Male Total Average Weekly Earnings). In 2009, as a result of the Matthews Report, another index, called the Pensioner and Beneficiary Living Cost Index (PBLCI) came into play.

The PBLCI was developed by the Bureau of Statistics and is claimed to better reflect changes in the cost of living experienced by pensioner and beneficiary households rather than the wider community.

There have been two Senate Select Committees, one in 2001 and one in 2002, that made enquiries into the manner of CSS/PSS indexation and in both cases came up with a recommendation that the CPI should be discarded in favour of a wage-based index such as MTAWE. In addition, there was another Governmental enquiry into the cost of living for older Australians (March 2008), that also recommended abolition of the CPI for Government pensions in favour of whichever index was the greater of the CPI and MTAWE.

The Australian Bureau of Statistics has clearly stated that the CPI should not be confused with a cost of living index. Over the past decade, the CPI has been changed significantly a number of times. The objective of these changes has been to improve its use for setting monetary policy at the expense of reducing its effectiveness as a cost of living index.

This matter of indexation of Comsuper pensions is a diminishing problem. The 2017 Intergenerational Report said that as a percentage of GDP, Commonwealth superannuation unfunded liabilities would fall from 0.30% in June 2018 to 0.07% of GDP in June 2057. This is supported by the fact that the PSS defined benefit scheme was closed off to any new appointees as from July 2005 - the CSS scheme was closed in 1990.

In September 2014, the Federal Government fulfilled a pre-election commitment to adjust the pensions paid to ex-military personnel who are members of the DFRB, and the DFRDB military schemes, by the same method as is used for the Age pension (CPI/MTAWE and PBLCI). Reserve Bank employees and the TPI pensioners had their pensions indexed in the same manner as the Age pension 10 to 12 years ago.

Fairness and equality is sought for all Comsuper recipients.

Equity with the Taxation of CSS/PSS Superannuation Pensions

The tax applying to Commonwealth superannuation pensions paid to our members is inequitable. This inequity arises out of the unavailability of pre 1 July 1988 Funding Credits to Commonwealth superannuation benefits that accrued before 1 July 1988.

This method of paying superannuation benefits is grossly unfair to Commonwealth superannuation benefit recipients especially as the Commonwealth government had set up a mechanism for benefit recipients of other unfunded superannuation schemes to receive equitable tax treatment with funded superannuation schemes. Commonwealth superannuation benefit recipients miss out on equitable tax treatment of their superannuation benefits only because the Commonwealth government chose to pay superannuation benefits through the Consolidated Revenue Fund - rather than through the superannuation fund. There is no difference in the end result, irrespective of the payment mechanism, other than the loss of the application of pre 1 July 1988 Funding Credits.

Accordingly, we believe that there is no reason why Commonwealth superannuation benefit recipients should not be taxed the same way as other recipients of unfunded superannuation schemes in respect of their unfunded superannuation benefits that accrued before 1 July 1988.

The inequity is even more pronounced with regards to those receiving superannuation pensions under the Superannuation Act 1922. All pensions paid in accordance with the Superannuation Act 1922 commenced before 1 July 1976 and should be regarded as being paid from a taxed source as no superannuation fund, funded or unfunded, paid tax on accruals before the payment of these pensions commenced.

There needs to be a mechanism that will enable Commonwealth superannuation benefit recipients to receive equitable tax treatment with funded superannuation schemes which only paid tax on employer contributions and earnings from 1 July 1988. There needs to be a mechanism similar to the way pre 1 July 1988 Funding Credits are applied to other unfunded superannuation schemes that fund pre 1 July 1988 benefit accrual at the time of retirement.

Regulations could easily be made in accordance with section 307-200 of the Income Tax Assessment Act 1997 to specify that benefits that accrued in Commonwealth superannuation schemes before 1 July 1988 be treated as element taxed in the fund. This would have the same result as applying pre 1 July 1988 Funding Credits to the Commonwealth superannuation schemes in respect of benefits that accrued before 1 July 1988. This would then enable equitable tax treatment to apply to superannuation benefits payable from Commonwealth superannuation schemes as was intended for other unfunded superannuation schemes through the application of the pre 1 July 1988 Funding Credits. The unequal treatment of the Comsuper superannuation schemes needs addressing.

Fairness and equality is sought for all Comsuper recipients.

Sustainability of Age Pension

Deeming Rates - Deeming Rates commenced in July 1996 and have been adjusted to accommodate changes in the financial environment since that date. Usually this has occurred about twice a year - although in the years 1997, 2008, 2009 and 2013 the rates were adjusted 3 times. The current figures are 1% (up to $51,800 and $86,200), with 3% levied on any assets/funds in excess of those amounts. They were last changed in July 2019 - by just 0.25% after 5 reductions in the Reserve Bank's cash rate (a total of 1.25%) since March 2015. There has been another reduction in the RBA cash rate since then and a further drop is predicted in the next few months. Deeming rates no longer reflect the market rates of return received by age pensioners. In addition to Age pensioners, Deeming Rates also apply to the Disability Support Pension and Carer Payment, Home Care Packages, Residential Means Tested Care Fee and income support allowances and supplements such as the Parenting Payment and Newstart. None of these people could be considered to be wealthy - nor have large amounts of funds invested in superannuation/shares/property. When compared to the Reserve Bank's Cash Rate of 0.75%, the 10 year Bond Rate of 0.90% and the CPI (currently around 1.7%), this figure of 3% is unacceptably high. Deeming rates no longer reflect the market rates of return received by age pensioners. A *r*eview is required to bring fairness to pensioners.

Taper Rates - from the 1 January 2017 the taper rate has increased from $1.50 per fortnight for every $1000 over the full age pension asset limit, to $3 per fortnight. This new taper rate equates to a "tax" of 7.8% on assets over the age pension asset limit, well in excess of market rates of return available to part-pensioners on these assets, thereby creating an incentive for those on the part-pension to reallocate their assets to meet full age pension eligibility. A review is required to bring fairness to pensioners.

Sustainability of Compulsory superannuation

Superannuation – Although compulsory superannuation began in 1992, the system will not reach maturity until after 2032, when retirees will have had the benefit of 40 years of contributions to superannuation over their working lives. The full benefit of the tax concessions provided to superannuation and the impact that has on reduced demand for the age pension will then become evident. A 2015 Productivity Commission Report estimated around 40% of Australians over the age of 65 have no superannuation, this is in part because SG contributions started at only 3% of wages in 1992. Average super balances at retirement for the majority of Australians are modest.

No changes to super policy without a full regulatory impact statement – individuals plan for their retirement over several decades. On-going changes to superannuation policy erode trust in the system and can result in unintended consequences for the viability of the system. We would argue that no changes to superannuation policy should be made without a full regulatory impact statement, which would also accommodate potential impacts on the other pillars of the retirement system, and grandfathering where appropriate to allow retirees and potential retirees to adjust their plans.

Governance and transparency of superannuation funds

Governance and transparency of these funds must be improved so that members (workers/retirees) of the fund are better informed on, and better engaged in, the money invested on their behalf. Transparency must be improved around:

- Fund performance in the context of unlisted assets,
- Distribution of franking credits between member accounts,
- The use of fund assets in relation to the Sole Purpose Test,

The effects of management fees, taxes and low returns all have an impact on retirement benefits, Superannuation funds should be required to publish financial accounts like companies and Boards of superannuation funds should have the same duties and responsibilities as company directors.

Currently the wide diversity of outcomes and compulsory nature of the SG raises several issues:

Funds into Super - Many older Australians are choosing to continue working after age pension eligibility age, and incentives to encourage them to do so would assist with standards of living in retirement and the sustainability of the retirement system. Those people over the age of 75, and still in the workforce, are now eligible to have the Superannuation Guarantee Levy (SGL), currently 9.5% of salary, paid into a recognised superannuation fund of their choice.

Retirees aged between 65 and 74 who wish to contribute funds to a superannuation fund are required to pass a “Work Test” before they are permitted to do so. In order to qualify, this “test” requires them to be “gainfully employed” for a minimum of 40 hours in any consecutive 30 day period throughout the relevant tax year. This “test” is considered to be an outdated, arbitrary hurdle with negligible practical value.

Provided the funds involved come from an after tax source, and are within the legal limitations regarding maximum amounts in force at the time, we request that this iniquitous age restriction be abolished. It is noted that, in May 2016, the Federal Government announced that legislation would be passed to abolish this “Work Test”; however, a subsequent decision was made not to abolish the Test due unknown circumstances. Abolishing the Work Test for retirees and allowing them to contribute funds to superannuation (in line with contribution caps) would assist in saving for retirement.

Many retirees, in particular women, did not have the benefit of being able to contribute to superannuation during their working lives. Where they could, they invested in other assets such as property and shares but now find that they are denied the benefits from receiving a concessional income from a superannuation fund. This recommendation does not attempt to circumvent any legislation; it simply seeks fairness and equality to allow those retirees to contribute funds into superannuation in the same manner as other people, who happen to be in the workforce. It should be noted that the issue of abolishing an age test was one of the recommendations of the Henry Tax Report in 2009.

Incentive for Saving – The net value of the age pension is over $800,000 per couple. This is supplied by the taxpayer with no effort required or additional savings by the recipients. Retirees who own their own home and have saved for their retirement may derive great pride from their independence from government assistance. However, if they have assets around $863,000 they would find that they are not eligible for the age pension and with the current taper rate their income is no higher than a couple with half their assets. The taper rate and tax concessions offered in superannuation are disincentives to encourage people to save for their retirement.

Remove the minimum income per fortnight floor on super contributions – for those with casual positions, and multiple employers as is common in the “gig” economy, this failure to be included in the superannuation system represents an economic disadvantage for casual workers. We believe that this barrier to participation in the retirement savings system should be removed;

Allow a fractional insurance premium for part-time workers – at present those working in a part time capacity pay the full-time worker insurance premium under group policies. For those working part-time on more modest incomes, many of whom are women returning to work after a period of child care, this represent a substantial erosion of their compounding balance. We would support the introduction of a fractional insurance premium for part-time workers;

Support the retirement covenant and better retirement products e.g. deferred annuities, CIPRs – to this point the Australian superannuation system has been largely focused on the accumulation stage. We strongly support the introduction of the retirement covenant to the SIS Act and the development of products and services by super funds to assist members moving into retirement;

Place an upper limit on the size of member superannuation accounts eligible for tax concessions - Under the changes made by the Government in 2017, the amount that can be held in the tax-free pension phase is now limited to $1.6 million per member. Any excess has to be removed from the tax-free pension phase, and the majority of these excess funds were placed in an accumulation fund where the income is concessionally taxed at 15%. There remain a number of funds with very large balances, in excess of $10 million in both SMSFs and in large superannuation funds. Such large funds are clearly not required for retirement income to supplement or substitute the age pension. The on-going tax concessions for these funds are a current cost to government revenue and indeed tax savings for those on balances over $3.2m exceed the costs of supporting an individual on a full age pension. While such large funds are unlikely to be achieved under current caps, we would support an upper limit on super accounts, in the interests of limiting the use of super tax concessions, and in the interests of intergenerational equity. After the 2017-18 ATO figures are available on the impact of the $1.6m cap on tax free super balances, there may an argument to allow the cap to be increased. We believe that a reasonable cap on high super balances will also restrict any abuse of this system;

Should the SG be increased to 12%?
Compulsory super means that current wages are withheld for future retirement benefits. As lower-income workers are likely to be mainly dependent on the age pension in the future, is this level of forced savings justified? An effective tax rate on wages, compulsorily withdrawn, of 15% inside the fund is higher than some workers pay on their take-home pay. Should some or all superannuation contributions be voluntary for workers below a certain tax level and/or below a certain age? Under the present level of compulsory contributions, will the projected retirement benefits be adequate for a comfortable retirement (expressed as 60% to 70% of net pre-retirement income over future life expectancy of retirees)?

Lump sum withdrawals - In order to maximise the length of time the fund can pay pensions in retirement, should lump sum withdrawals from a superannuation fund be limited to 10% as applies at present to transition-to-retirement income streams?

Voluntary Contributions - people can make voluntary contributions to superannuation to either catch up on contributions missed or to increase the size of their nest-egg. Voluntary contributions may be pre-tax, such as salary sacrifice, or post-tax, usually from personal savings and the sale of other investments. While it is only a relatively small proportion of the population who make voluntary contributions, for those with less certain incomes than PAYE workers such as small business owners, contractors and those who have periods out of the work force, in particular women, the opportunity to make such contributions is an important part of participating in the system. Historically, the limits on after tax contributions were higher for older people in recognition of the higher disposable incomes after family commitments cease, or for women returning to work and catching up for time out of the workforce.

We support the need for flexibility in the system via:

Allowing higher contribution caps for from the age of 50 to allow "catch up" contributions – data on voluntary contributions shows that it is more likely to occur in the age groups 55 to 65 years, and that women are slightly more likely to contribute at that stage than men. We support the implementation of higher voluntary contribution caps for those over 50 years and,

Allow a spousal "roll over" – for a couple where one partner has a much higher balance than the other, for example where one has been out of the workforce or working part-time to accommodate child care, a couple may choose to divide their superannuation savings between the two accounts. We would support a voluntary rollover of superannuation in this manner.

Regardless of age, Comsuper recipients are not unable to avail themselves of any lump sum withdrawal, nor able to make voluntary contributions, this is hardly fair and equal and should be addressed!!

Private savings

In addition to superannuation, the age pension and their own labour, older Australians draw retirement income from a range of sources including bank deposits, investment in shares, ETFs, and property etc. In addition, around half of the wealth for Australians over 65 years rests in the family home. Few retirees draw on the family home as a source of income through equity release or reverse mortgage products, and increasingly this is seen as a store of value for an aged care deposit, should the need arise. For those without superannuation, the Seniors and Pensioners Tax Offset (SAPTO) provides a higher tax threshold for those of age pension age.

Drawing on equity on the family home – we strongly support the recent expansion of the Pension Loans Scheme as a means by which retirees can draw on the value of the family home. However, when compared to the Reserve Bank's Cash Rate of 0.75%, the 10 year Bond Rate of 0.90% and the CPI (currently around 1.7%), the figure of 5.25% that compounds fortnightly, is unacceptably high and almost criminal. This extremely high % rate does not reflect the market rates of return received by senior investors and a review is required to bring fairness and reasonableness to this scheme.

Review access to Seniors and Pensioners Tax Offset (SAPTO) – at present a couple with $3.2m in super between them can also have approximately $160k in tax free super income and, in addition thanks to SAPTO, have another $55k in tax free income. In the interests of inter-generational equity, we would support the application of a restriction on access to SAPTO for those who already access tax-free super income. The SAPTO Tax Offsets should be indexed each year fairly and equally in line with the Medicare Levy low-income threshold.

Taxation on Additional Income/Franking Credits – Additional income and dividend imputation should impact on all recipients equally.

Those retirees who obtain their income from a taxed superannuation scheme are treated differently, for taxation purposes, from retirees who obtain their income from an "untaxed" superannuation scheme i.e. a retired ex-Commonwealth, State or Defence Force employee.

The pension component from a taxed superannuation scheme is disregarded when calculating the tax payable on total income i.e. it has a zero value. Any additional income from outside the superannuation fund is then assessed at normal taxation rates as if it were the sole income for taxation purposes (and so attracting lower marginal tax rates).

However, any pension received from an "untaxed" superannuation scheme is counted towards total income and any additional "outside superannuation" income/dividend imputation is added to this amount, often involving a higher marginal tax rate. There is a concessional 10% tax offset (only from the "untaxed" pension element), but that does not prevent the higher marginal tax rate from still being applicable. The concessional 10% tax offset for CSS and PSS pensions does not alter taxable income which can make it harder for the CSS/PSS pensioner to be eligible for a CSHC compared to 'other' pensioners.

There should be consideration for separately assessing, for taxation purposes, superannuation income streams and assessable income to make it fair and equal for all.

This anomaly was addressed in the Report of the Senate Economics Committee (February 2007), which recommended that the two types of income should be assessed separately for "untaxed" superannuation schemes.

SCOAWA is very supportive of a retirement income system based around the age pension, the superannuation system, and private savings. This review should take account of the interaction between these retirement pillars to investigate the adequacy, sustainability, certainty and fairness of those arrangements. In particular it is important to address:

* an adequate level of retirement income commensurate with pre-retirement income and standard of living Australians should be seeking to attain;
* the objectives of superannuation, taxation and the age pension, how these work together to ensure equity and sustainability of the retirement income system. Further, ensure incentives are in place to encourage those who can save for an independent retirement to do so, and avoid disincentives;
* retirement income policies are set to ensure the maximum degree of certainty for those planning ahead for retirement over decades, and
* since the adoption of compulsory superannuation – where are there gaps or issues which indicate a lack of fairness and equity for current or future retirees, e.g. differences in indexation and taxation rates.

Yours Sincerely

M. Cain
Secretary