

SUPERANNUATED COMMONWEALTH OFFICERS' ASSOCIATION



Submission to

**Dr JEFF HARMER – AUSTRALIA'S FUTURE TAX SYSTEM  
PENSION REVIEW**

## ABOUT SCOA

The **Superannuated Commonwealth Officers' Association (Federal Council) Inc. (SCOA)** is over 80 years old, apolitical, not for profit and financed entirely by its members.

SCOA represents the interests of:

- Retired Australian and Territory Government employees and Government business enterprise employees;
- People in the public service will receive a Commonwealth superannuation benefit (or lump sum) on retirement;
- Former employees who have deferred (preserved) their pension entitlement; and
- Spouses and or dependants of the above.

At 30 June 2007, there were 401,194 members of the CSS and PSS schemes, being

- 163,525 contributors;
- 122,481 pensioners;
- 107,844 deferred PSS and CSS beneficiaries; and
- 7,344 pensioners in the old 1922 scheme.

SCOA has a national (Federal Council) office in Canberra and separate branches in the ACT and each of the States. Its branches are staffed by volunteers. SCOA has links with Defence and State superannuant organisations and with other key organisations which represent the interests of older Australians.

SCOA's objectives are to:

- Improve and safeguard the retirement interests of its members and constituency;
- Protect the value of members' superannuation entitlements and related benefits;
- Secure fair and equitable treatment compared with other retirees and pensioners;
- Provide information to members on issues such as superannuation, taxation, Age and other Social Security and Veterans' Affairs benefits, health and aged care, concessions, compensation, employment of older workers and general investment matters; and
- ensure that its members who have work related injuries or illnesses receive their correct compensation entitlements.

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## **SUMMARY OF RECOMMENDATIONS:**

### **Recommendation 1**

The Government consider the abolition of the income test for the Age Pension and instead restrict eligibility to an assets test, and

The Age Pension Income Test be applied to compensation payments made to the Government's employees who receive Comcare payments as a result of a work related accident or illness.

### **Recommendation 2**

The single rate of Age Pension be increased to and maintained at 30% of Male Total Average Weekly Earnings, and

The combined married rate of Age Pension be increased to and maintained at 43% of Male Total Average Weekly Earnings.

### **Recommendation 3**

The Government investigate the feasibility and suitability of varying Age Pension fortnightly payments to match the seasonal variations in the cost of living.

### **Recommendation 4**

The qualifying limits for the Commonwealth Seniors' Health Card be increased from \$50,000 to \$56,000 (single persons) and from \$80,000 to \$90,000 for couples, and that these limits are revised six-monthly and adjusted by the same percentage increase as that for the Age Pension.

### **Recommendation 5**

The Federal Government renews its negotiations with the States to extend their rafts of age pensioner and low income earner concessions to self funded retirees who are in receipt of the Commonwealth Seniors' Health Card.

### **Recommendation 6**

The Federal Government renews negotiations with the States and Territories to establish ongoing cost sharing with the States to ensure that Seniors Card discounts have mutual recognition for travel across Australia.

### **Recommendation 7**

- a) The Federal Government, in cooperation with State and Territory Governments, introduces a nationally recognised Carers' Card, similar to the existing Seniors Cards, to provide additional benefits for carers with the aim of increasing participation of carers in the community and providing some financial benefits for carers, and
- b) the Federal Government investigate the options for providing insurance coverage for carers whilst undertaking their caring role.

- c) Consideration be given to examining ways to ensure that there is more equitable accessibility to concessions for Age Pensioners.
- d) Review concessions for seniors so that they are not adversely impacted by any carbon trading scheme.
- e) In cooperation with State and Territory Governments provide a means for public liability insurance for those would-be volunteers who are currently uninsurable because they are over the age limit (usually 70) of existing public liability policies.
- f) Extend the Superannuation Co-contribution Scheme to individuals who are not in the paid workforce because of caring or volunteer responsibilities.

### **Recommendation 8**

- a. Commonwealth superannuation pensions paid from an untaxed source be tax free for recipients on reaching age 60,
- b. That superannuation pensions paid from an untaxed source be paid as after tax non-assessable income so that they are not added to non-superannuation income to determine the marginal tax rate to be applied to that non-superannuation income.
- c. Superannuation payments to Commonwealth superannuants who are married or partnered and who meet that definition as specified in their superannuation scheme's legislation be able to split equally their superannuation pension with their wife/husband/partner.

### **Recommendation 9**

Regardless of the findings of the Government's review of the indexation of Commonwealth superannuation pensions by Mr Trevor Matthews, that those pensions be indexed in line with the percentage movements in the Age Pension.

### **Recommendation 10**

- a) Arrangements be made to ensure that the indexation of all Government funded payments, including Commonwealth superannuation pensions, is suitably adjusted to provide an after tax percentage increase in disposable income equal to the pre tax percentage increase.
- b) The indexation of all Government payments and income limits affecting entitlements be standardised.
- c) Wherever a wage-based index is used to adjust Government payments and income limits that determine eligibility for items such as the Commonwealth Seniors Health Card, CSHC, that the index used is adjusted for non-salary remuneration that is not currently included in ABS wage indices.

## INTRODUCTION:

The Superannuated Commonwealth Officers' Association, SCOA, represents the retirement interests of former Commonwealth and Territory public servants and their dependents.

The *Background Paper* for this review tasks the review to investigate “*measures to strengthen the financial security of seniors, carers and people with disability including the Age Pension.*” The people SCOA represents cover all such Australians.

### SCOA's Constituency:

SCOA represents the retirement interests of more than 600,000 Australians. This includes those receiving a Commonwealth superannuation pension, those contributing to a Commonwealth superannuation scheme, those with preserved superannuation benefits and includes the spouses/partners/dependents of these people.

Although our constituency is often believed to be those who receive only a superannuation pension by virtue of their employment as a public servant, many also receive a part Age Pension because their average Commonwealth super pension is approximately \$23,000. The average pension for female Commonwealth superannuants is approximately \$18,000.

Some also receive a Carers Allowance, or a reversionary superannuation pension, (payable on the death of their superannuant partner) and some have been retired from the public service on disability grounds and so whilst not necessarily receiving a Disability Support pension, they receive a disability pension as provided for under their Commonwealth superannuation scheme. Others receive a fortnightly compensation payment from Comcare due to a work related illness or accident. All other payments Comcare clients receive affect the amount of compensation they receive.

### Social Security Design Principles:

SCOA applauds the “Design principles” as listed on page 4 of the Pension Review Background paper. In particular we applaud an Australian social security system that embodies the principles of seniors being able to enjoy a basic, acceptable standard of living, that treats them equitably and recognises and promotes self provision.

The observations and recommendations in this submission are guided by those fundamental principles.

### The Need for an All Encompassing Review:

SCOA notes that this review is to be a part of the Dr Henry review of Australia's tax system and congratulates the Government for embracing the important issue of taxation in any social security system review. Clearly, disposable retirement income and therefore standards of living are affected not only by the amount of income a senior receives but also by:

1. The taxation of all their income,
2. The value AND ACCESSIBILITY of all concessions, and
3. The indexation of ALL payments, allowances and concessions.

Our submission therefore includes references to all of the above components.

### **How Inadequate Retirement Income Affects Senior Australians:**

Inadequate retirement income affects older Australians in a number of ways including their health, financial stability, independence, mobility, socialisation and their general living standards and quality of life.

#### **Health:**

- Rising utility costs can result in older Australians reducing their use of utilities to save money, and result in living in environments that are too hot or too cold and a corresponding increased risk of illness. Whereas some utility cost increases are now tied to wage movements, some seniors' income is indexed by a non wage-based index. This has the potential to result in increased health costs to the Commonwealth.
- Rising costs of staple foods can result in compromised nutrition as older persons adjust their food purchases to fit their budget. Again, this brings with it a risk of unnecessary health care costs to the Commonwealth.
- Diminishing access to the Commonwealth Seniors' Health Card through non-indexation of the qualifying limits for this concession card could be compromising health for those unable to afford full price pharmaceuticals. There is again, a risk of increased health costs to the Commonwealth if hospital admissions occur as a result.
- Rising costs of living can reduce mobility and socialisation (see below) which can then impact both mental and physical health.
- High costs of dental services cause older Australians to under-utilise the services and subsequently suffer significant discomfort and avoidable ill-health.
- High costs of health insurance (rising faster than CPI) are causing aged people to drop this service; resulting in longer waiting times for elective (quality of life) surgery.

#### **Financial Stability:**

- Financial stability is being eroded because the indexation of income for many older Australians is not keeping pace with the costs of living.
- Adverse events such as fire and storm can cause financial stress as a result of underinsurance due to high general insurance costs (due to heavy taxation on insurance).
- Older people often have limited means of supplementing income to meet increasing costs of living and sometimes have no choice but to draw on savings and increase their exposure to financial stress.

### Independence:

- Declining health which may be significantly contributed to by cost of living pressures (see Health above) can subsequently affect older peoples' independence in a profound way.
- Rising costs of home maintenance and home insurance may force older people to move into aged accommodation even though they would prefer to maintain their independence.

### Mobility & Socialisation:

- Rising costs in petrol and travel costs (including public transport) can result in reduced independence (people stay home more), increased social isolation, reduced ability to support dependants and reduced leisure activities.
- Rising road transport fees and charges now indexed to the wage price index rather than the CPI are increasing the cost of running motor vehicles and hence reducing mobility.

### Living Standards/Quality of Life:

- Commonwealth superannuants, (civilian and Defence) are 'having their living standards eroded through the use of the CPI alone, rather than the higher of the CPI or a wage-based index such as AWOTE or MTAW<sup>1</sup>'.
- Impacts of the cost of living pressures on each of older peoples' health, financial stability, independence, mobility and socialisation, as described above, all contribute to declining living standards and quality of life for older people.
- Impacts of the cost of living pressures on older people ultimately impact on the quality of life of their carers, children, grandchildren, friends, and even the general community.

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<sup>1</sup> Select Committee on Superannuation 'Superannuation and standards of living in retirement' report of December 2002.

## **PENSION LEVELS:**

### **Progress in Increasing the Base Rate of Pensions:**

The review's Background Paper shows a developing trend by successive Governments to progressively increase the Age Pension to levels that quite rightly improve the prospects of recipients enjoying an improved standard of living. This has also been supplemented by other allowances and concessions.

### **Increased Assistance to Many Australians:**

Over the past ten to fifteen years successive governments have also reduced the rates of income tax, introduced the Family Tax Benefit and generally introduced policies that have improved the living standards of many Australians. SCOA fully supports such measures.

Similarly the *Better Super* arrangements have provided a tax free status for superannuation payments from a taxed superannuation fund received by a superannuant on reaching age sixty. This is clearly a very tangible means of encouraging self provision in retirement. It has however, proved to be discriminatory to members of untaxed super funds, namely Commonwealth superannuants. This discrimination is discussed later in this submission.

### **Inequitable Treatment of Australia's Seniors:**

Whilst the social security initiatives detailed above have rightly assisted a very large percentage of Australians, senior Australians have by comparison been left behind to a large extent. They deserve better. These Australians have made a significant contribution during their working lives to the prosperous country we enjoy today. In retirement they also make an invaluable contribution to the social capital of Australia through their varied contributions as volunteers and carers. These contributions are valued at billions of dollars and unquestionably avoid calls on the national budget.

It is now ten years since the Age Pension was tied to 25% of Male Total Average Weekly Earnings, MTAW. The Federal Government's policy decisions affecting working Australians including those with families, have improved the standard of living of those affected. However, senior Australians have not been so fortunate. This has caused a widening gap in the standard of living between senior Australians and those yet to reach that stage and it is time that this trend was corrected.

### **Commonwealth Superannuation Pensioners:**

In considering the relative standard of living and financial security of Australia's seniors, it is important to recognize that Commonwealth superannuants, i.e. civilian and Defence superannuants, receive an annual average pension of less than \$23,000 and that in many cases this pension supports both members of a couple.

That average pension of less than \$23,000 at 30 June 2007 was almost \$1,000 less than the married rate of Age pension.

The average female Commonwealth superannuation pension at 30 June 2007 was approximately \$18,000.

## Means Testing:

In the past, means tests were used not only to target the pensions of those in most need, but also to discourage workforce participation in one's later years. At first, means tests tested only income, but then it was discovered that some people had arranged their affairs to keep their income low enough to get an Age Pension, while keeping assets in the form of property or low-interest bank accounts.

As a result, assets tests were introduced which effectively deemed assets to yield a certain rate of return which some investors believed was higher than what was achievable in the prevailing economic conditions. Today, income tests have one big drawback - they penalise people who want to help themselves.

Since we now have an ageing population, low unemployment and lots of job vacancies, Governments are keen to encourage older people to work as long as possible. One way of achieving that would be to remove the income test on the Age Pension and instead rely on the assets test alone, applying it once a year, while providing more and better incentives to keep people working longer. The Institute of Actuaries has written a paper that promotes this approach.<sup>2</sup>

Whilst it would cost more at first, with more people working and spending more, the Government would claw back some of the extra pension expenditure through additional income tax and GST receipts. In the longer term, more people would lose pensions through the assets test, which would also save money. In addition, there should be not inconsiderable savings through Centrelink reducing some of its administrative costs.

SCOA assists its members who receive compensation payments due to work related accidents and illnesses, to receive their correct compensation entitlements. These are Federal Public servants, who receive compensation payments from the Government's compensation agency, Comcare. Through that work we are aware that whereas there is a loss of 40 cents in the dollar for income received by Age Pensioners and Disability Support pensioners, Comcare's clients have their compensation payments reduced on a dollar for dollar basis. That income testing is out of step with that applied to other Government payments. It is most harsh and affects the Government's employees who are already having to exist on 70% of their former salary.

## Recommendation 1.

*The Government consider the abolition of the income test for the Age Pension and instead restrict eligibility to an assets test, and*

*The Age Pension Income Test be applied to compensation payments made to the Government's employees who receive Comcare payments as a result of a work related accident or illness.*

## Pension Rate Increase:

To reduce the gap in living standards between senior Australians and other Australians SCOA believes that the single rate of Age Pension needs to be increased to at least 30% of Male Total Average Weekly Earnings. The Government's 2007/08 Senate Inquiry into Cost

<sup>2</sup> 'Discussion Paper on Age Pensions and Retirement Incomes reform' – August 2008

*of Living pressures on Older Australians* found that whereas all Age Pensioner groups were financially pressured, single Age Pensioners deserved particular consideration.

The 2007/08 Senate Inquiry heard that whilst not as pressured as single rate Age Pensioners, Age Pensioner couples were also in need of an increase to their base rate of pension. SCOA considers that an increase to between 40% and 45% of Male Total Average Weekly Earnings is necessary to help close the widening gap in living standards between senior Australians and younger Australians.

### **Recommendation 2.**

*The single rate of Age Pension be increased to and maintained at 30% of Male Total Average Weekly Earnings, and*

*The combined married rate of Age Pension be increased to and maintained at 43% of Male Total Average Weekly Earnings.*

## **FREQUENCY OF PAYMENTS:**

SCOA has not sought nor received feedback from our constituency on the suitability of the frequency of payments for the Age Pension. It seems however that if changes were to be made then those changes might best consider matching the amount of fortnightly payments to those times of the year when living costs are greatest. e.g. it may be that pensioners in very hot or cold climates would prefer to receive a pension greater than one twenty sixth of their annual pension for periods in which they have to meet higher utilities charges such as gas and electricity due to extremes in temperature, and lower fortnightly amounts at other times of the year.

This would surely reduce the risk of pensioners inadequately heating or cooling their homes and should ensure improved quality of life and reduced illnesses that can occur with inadequate heating and cooling.

There are naturally issues regarding pensioners being either “overpaid” or “under paid” at the time of their death. Any overpayments could, where there is a surviving spouse, be recovered by reducing subsequent Bereavement payments.

### **Recommendation 3.**

*The Government investigate the feasibility and suitability of varying Age Pension fortnightly payments to match the seasonal variations in the cost of living.*

## **STRUCTURE AND PAYMENT OF CONCESSIONS OR OTHER ENTITLEMENTS:**

### **Non-indexed qualifying limits on concessions:**

Accessibility for older persons to the Commonwealth Seniors' Health Card is reducing because the qualifying limits have never been indexed. Older persons' corresponding diminished ability to access reduced price pharmaceuticals can significantly affect their household budget and in some cases their health.

This can not only adversely affect the health and well being of those concerned but can also add to health care costs for the Government if restricted access to pharmaceuticals results in adverse health outcomes.

#### **Recommendation 4.**

*The qualifying limits for the Commonwealth Seniors' Health Card be increased from \$50,000 to \$56,000 (single persons) and from \$80,000 to \$90,000 for couples, and that these limits are revised six-monthly and adjusted by the same percentage increase as that for the Age Pension.*

### **Inaccessibility to State Government Concessions:**

The Federal Government had initiated negotiations with the States and Territories with a view to extending the concessions, accorded by States and Territories to Age pensioners, to holders of the Commonwealth Seniors' Health card. Regrettably the negotiations stalled for a number of reasons including the Commonwealth offer being of a start up nature rather than ongoing. In the meantime the Commonwealth Government has provided the target group with an indexed (CPI) utilities allowance beginning at \$200 per annum which is far less valuable than the concessions to age pensioners and low income earners.

#### **Recommendation 5.**

*The Federal Government renews its negotiations with the States to extend their rafts of age pensioner and low income earner concessions to self funded retirees who are in receipt of the Commonwealth Seniors' Health Card.*

### **Limited Concessions for Self Funded Retirees:**

Concession arrangements for self funded retirees whose income includes no Age Pension component are inadequate and are largely restricted to the benefits of State or Territory Seniors' Cards. Regrettably Seniors' Cards have little or no recognition across State and Territory borders, especially for transport.

#### **Recommendation 6.**

*The Federal Government renews negotiations with the States and Territories to establish ongoing cost sharing with the States to ensure that Seniors Card discounts have mutual recognition for travel across Australia.*

## Community Participation for Carers:

Older persons who care for grandchildren or elderly family members face additional budgetary pressures brought about by their dependants' needs, their subsequent reduced capacity to earn income, and in many cases reduced independence and mobility leading to increased social isolation.

### Carers' Card:

Such carers deserve assistance to provide their most valuable services. The introduction of a carer's card could provide concessions for:

- *Public transport to and from their place of caring.*
- *Petrol discounts when using their private vehicle for caring duties, (there would obviously need to be adequate controls in place to prevent/minimize abuse of this concession.)*
- *Motor vehicle registration - there may well be others.*

## Superannuation Co-contribution for Carers:

The present superannuation rules do not allow for payment of the co-superannuation contribution unless contributors are in the paid work force. This is most discriminatory and discourages some senior Australians from taking up carer roles or becoming volunteers. Instead, those wanting to provide further for their retirement will elect to participate in paid employment.

## Personal Accident/Injury Insurance:

As there can be a risk of personal accident/injury to carers whilst undertaking their caring role it is considered appropriate that the Government provide some form of compensation coverage for them. This might be managed by the Government's compensation authority, Comcare or could perhaps involve the reimbursement of insurance premiums that cover personal accidents/injuries whilst undertaking careering or volunteer roles.

Seniors over the age of 70 are generally not insurable for personal accident/injury and this must restrict their willingness to participate as carers or volunteers. With an ageing population Australia must remove any barriers that hinder the uptake of carer or volunteer work by those still able to make this valuable contribution.

## Accessing concessions:

The issue of a concession card provides varying levels of benefit for pensioners, depending on their circumstances, e.g. pensioners residing in rural areas and other areas with no or limited public transport are denied the opportunity or have limited capacity to receive transport concessions on public transport.

Pensioners paying rent either privately or in a retirement village cannot access the discount for council rates because such payments are invariably made by their landlord. There will

no doubt be other examples of why some senior Australians receive limited benefits from their concession card and this must impact on their standard of living and quality of life.

The alternative of an optional concession payment is clearly difficult because the cost of concessions the card holder enjoys is mostly met by State or Local governments. Any such change would cost shift the value of these concessions to the Commonwealth. However, is there not scope to offset this cost shifting via reduced GST transfers or reduction in special purpose grants from the Commonwealth to the States? It is recognized that there is also the difficulty of attempting to place a value on a concession card.

A review of concessions for older people in relation to utility costs is also necessary in view of the likely disproportionate impact of carbon trading schemes on older people.

### **Recommendation 7.**

- f) The Federal Government, in cooperation with State and Territory Governments, introduces a nationally recognised Carers' Card, similar to the existing Seniors Cards, to provide additional benefits for carers with the aim of increasing participation of carers in the community and providing some financial benefits for carers, and*
- g) the Federal Government investigate the options for providing insurance coverage for carers whilst undertaking their caring role.*
- h) Consideration be given to examining ways to ensure that there is more equitable accessibility to concessions for Age Pensioners.*
- i) Review concessions for seniors so that they are not adversely impacted by any carbon trading scheme.*
- j) In cooperation with State and Territory Governments provide a means for public liability insurance for those would-be volunteers who are currently uninsurable because they are over the age limit (usually 70) of existing public liability policies.*
- f) Extend the Superannuation Co-contribution Scheme to individuals who are not in the paid workforce because of caring or volunteer responsibilities.*

## INTRODUCTION OF FAIRER TAXATION ARRANGEMENTS FOR ALL SENIOR AUSTRALIANS:

### “Better Super” Tax Arrangements:

The former Government’s *Better Super* arrangements, introduced from July 2007, were designed to encourage self provision in retirement. Those arrangements did this by removing tax for those aged 60 or more, on superannuation they receive from a taxed superannuation fund. Taxed superannuation funds are generally those to which people in private enterprise belong.

Most Commonwealth and Defence superannuants are denied this tax-free status because successive Governments have chosen not to invest monies in a superannuation fund/s from which to pay their employees’ superannuation pensions. Therefore the superannuation pensions Commonwealth superannuants receive are deemed to be paid from an untaxed source.

This decision has disqualified almost 200,000 senior Australians currently receiving a superannuation pension from this favourable tax treatment. There are also almost 400,000 future Commonwealth superannuants who are either contributing to a non taxed scheme or who have preserved their benefits in such a scheme whose Commonwealth super pension will also be denied a tax-free status.

This is inconsistent with the principle of promoting self provision as listed on page four of your review’s Background Paper because these superannuants had to compulsorily contribute a portion of their salary into a superannuation fund all of their working life. Through no fault of their own they are denied a tax free status for their superannuation pension.

### “Better Super” 10% Tax Offset:

Whereas the Better Super arrangements do provide for a ten per cent tax offset for superannuation received from an untaxed fund, many Commonwealth superannuants receive no or little benefit from the 10% tax offset because of the operation of the Senior Australian Tax Offset, SATO.

The former Government’s *Better Super* taxation arrangements have been welcomed by some of SCOA’s constituency especially those whose superannuation pensions and any additional income ensures they are able to take advantage of the full 10% tax offset.

However very many, whose pensions and other income afford them partial or no access to the 10% tax offset, do not believe the changes are adequate. Being a tax-based change, those who pay the most tax achieve the best outcome and those who pay little or no tax, achieve little or no benefit. (Please refer to **Attachment B** – A report from the National Centre for Social and Economic Modeling, NATSEM.)

### Discriminatory Tax Treatment of Non-Super Income:

A further blow to Commonwealth superannuant pensioners occurs in the way that any non super income they have is taxed on reaching age 60, compared to the tax treatment of non super income received by those who belonged to a taxed superannuation fund.

Commonwealth superannuants pay a much higher rate of marginal tax on any non super income because their super pension is added to their non-super income to arrive at their marginal tax rate. People who belonged to taxed superannuation funds will not have their superannuation income added to their non super income to arrive at the tax rate for the latter because they pay no tax on their super. They therefore pay a lower rate of tax on their non super income and this is discriminatory.

### Income “Splitting”:

The tax treatment of Age Pensioners is also quite different to that for Commonwealth Superannuants. Each member of an Age Pensioner couple receives a pension in their own right and each member of such a couple pays tax, if their income is within the tax threshold, on the separate amount of pension they each receive and any other income they may have in their own name.

Conversely, a Commonwealth superannuant receives a superannuation pension that mostly supports both members of a couple. That pension is obviously intended to provide for the living costs of both members of a couple because on the death of the primary superannuant, his/her surviving spouse/partner receives a reversionary pension of 67% of the pension paid to the primary superannuant.

Despite that superannuation pension being paid to support both members of a couple, it is taxed as income received by only one member of the couple. This means that an Age Pensioner couple and a Commonwealth superannuation pensioner couple receiving the same amount of income can have different amounts of disposable income because of the discriminatory, differential tax treatment of Commonwealth superannuants.

### Recommendation 8.

- d. Commonwealth superannuation pensions paid from an untaxed source be tax free for recipients on reaching age 60,*
- e. That superannuation pensions paid from an untaxed source be paid as after tax non-assessable income so that they are not added to non-superannuation income to determine the marginal tax rate to be applied to that non-superannuation income.*
- f. Superannuation payments to Commonwealth superannuants who are married or partnered and who meet that definition as specified in their superannuation scheme’s legislation be able to split equally their superannuation pension with their wife/husband/partner.*

### Indexation of Retirement Incomes:

The Background paper to this review details succinctly the history of indexation of social security payments in Australia. Whilst that paper demonstrates the gradual movement to a wage-based indexation for most income support payments/benefits, it also highlights the fact that not all payments are indexed the same way.

### Need for Standardised Indexation:

It is SCOA’s view that once a level or rate of payment is determined, then its indexation/adjustment methodology should be the same for all payments made by the

Government. If it is the intention to set the rate of Government funded payments/allowances etc. so that a standard of living relativity is to be maintained with other Australian citizens, then it follows that such relativity can only be maintained if the same indexation methodology is used across all such payments. To do so is only fair and decent, principles the now Prime Minister espoused frequently during the last election campaign.

The former Government's decision in 1997 to index the Age Pension and many other Government payments to the better of the CPI and 25 of Male Total Average Weekly Earnings was made to ensure *"that the maximum basic single rate of pension will always be at least 25% of Male Total Average Weekly Earnings. This ensures pension rates remain in line with the cost of living and that pensioners share in improvements in community living standards as measured by wages."* (Page 5, Centrelink's News for Seniors, Issue 61.)

## **INDEXATION OF RETIREMENT INCOMES CONCESSIONS AND ALLOWANCES:**

### **Indexation of Commonwealth Superannuation Pensions:**

Page 7 of the Background Paper to this review claims that improvements in community living standards are passed on to pension payments by the link to 25% of MTAW.

That statement is only partly true because several hundred thousand senior Australians continue to have their superannuation pension indexed to the CPI, despite three Senate Inquiries recommending it be linked to movements in wages. Since the former Government moved to a wage-based index for the Age Pension, (1998), those pensions have rightly increased by 51% whereas Commonwealth superannuants' pensions have increased by only 21%. (Please refer to **Attachment A**).

Whereas Commonwealth superannuation pensions are not welfare payments, they deserve the same indexation methodology as other Government funded pensions because as for many Age Pensioners, they form their main source of retirement income. In addition, they average less than the married rate of Age Pension.

Commonwealth and Defence superannuants are having their relative standard of living eroded as a result of an inadequate method of indexing their main source of retirement income. 'The CPI is not a measure of the cost of living and its application to Commonwealth public sector and Defence force superannuation pensions has not enabled Commonwealth and Defence force superannuants to maintain parity with living standards in the community.

### **The Consumer Price Index:**

According to a Treasury paper (Carnahan), the CPI weights are derived for the whole Australian population, not for particular subgroups (such as older Australians) within that population. The use of disaggregated household expenditure survey (HES) data to calculate CPI weights for subgroups such as older Australians is not statistically valid, due to the impossibility of correcting for under-reporting of expenditure and the lumpiness of reporting on consumer durables.

Most Commonwealth and Defence superannuation pensions (almost 80%) are less than \$30,000 per annum. About half are below \$20,000 per annum; The average (June 2007) was less than \$23,000. which is less than the combined Age Pension for a married couple. If there is little non-superannuation income to top up their pension, Commonwealth and Defence superannuants receive little or no benefit from the 10% superannuation tax offset provided under the Better Super arrangements introduced in July 2007. Their need to maintain purchasing power can only be achieved by increasing income. To this end, SCOA has, for many years, been lobbying for fairer indexation of Commonwealth and Defence superannuation pensions.

### **Fairness and Equity - Review of Indexation of Commonwealth Superannuation Pensions:**

The present Government announced a review into the indexation of Commonwealth pensions earlier this year. That review, headed by a noted actuary, Mr Trevor Matthews, commenced in July and is due to hand down its report to the Government by Christmas.

Whilst there has been no indication of what that review may recommend, SCOA is concerned that when in Opposition, the present Government indicated over a period of some years, that if elected, it may not necessarily improve the indexation of Commonwealth superannuants' pensions or that if it did, then it may limit any improvement to that part of those pensions equal to the single rate of Age Pension.

If the Government is serious about fairness and equity then SCOA's constituents say that it will align the indexation of their pensions with percentage movements in the Age Pension and that the alignment will be on the whole, not a part of their pension. They have already suffered considerable erosion of their standard of living due to the continued use of the CPI which the former Government ceased using to index the Age Pension and most other pensions in 1998.

Since that time the Age Pension has rightly increased by 51% whereas Commonwealth superannuation pensions have increased by only 29%. That is hardly fair, decent or equitable.

### **Recommendation 9.**

*Regardless of the findings of the Government's review of the indexation of Commonwealth superannuation pensions by Mr Trevor Matthews, that those pensions be indexed in line with the percentage movements in the Age Pension.*

### **Indexation that Recognises After-Tax Disposable Income:**

An issue that seems to have gone unnoticed for many years is that applying a percentage indexation methodology, regardless on what the percentage is based, does not necessarily increase the **disposable income** of those affected by the indexation percentage increase.

That is because where the recipient of the payment pays income tax, the percentage increase in their **disposable income** will be less than the indexation percentage applied to increase their payment.

With the operation of the Low Income Tax Offset and the Senior Australians Tax Offset this anomaly would not affect all Australians whose Government payment is increased by a percentage however it must affect a not inconsiderable number.

### **Wage Indices and Non-Salary Remuneration:**

With a move to wage-based indices for many Government payments and allowances, these indices are understated to the extent of any non wage/salary remuneration. There is an increasing tendency for employees to be offered benefits such as gym membership, lap top computers, mobile phones, motor vehicles, health insurance premiums, sporting equipment etc. Whereas this was once restricted mostly to employees in senior positions, it is now filtering down the line to employees in non managerial positions.

If wage indices are to be used to set the indexation of Government payments then either the indices need to capture such non salary remuneration or a suitable percentage adjustment to the wage index needs to be made.

**Recommendation 10.**

- d) *Arrangements be made to ensure that the indexation of all Government funded payments, including Commonwealth superannuation pensions, is suitably adjusted to provide an after tax percentage increase in disposable income equal to the pre tax percentage increase.*
- e) *The indexation of all Government payments and income limits affecting entitlements be standardised.*
- f) *Wherever a wage-based index is used to adjust Government payments and income limits that determine eligibility for items such as the Commonwealth Seniors Health Card, CSHC, that the index used is adjusted for non-salary remuneration that is not currently included in ABS wage indices.*