



**Superannuated Commonwealth Officers' Association**  
Building a secure retirement

# **BUDGET SUBMISSION**

## **2011-12**

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## Executive Summary

### The Superannuated Commonwealth Officers' Association (SCOA)

We are a not-for-profit member organisation representing close to 500,000<sup>1</sup> people nationwide. SCOA has branches in each Australian State and the ACT. Our Federal Office is in Canberra. For more than 85 years, SCOA has represented the interests of:

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

SCOA's current priorities include:

- Fair indexation of Commonwealth superannuation pensions;
- Changes to superannuation taxation to remove discrimination against public sector pension recipients;
- A review of changes to Age Pension eligibility; and
- Simplification of the tax system.

SCOA participates in Government reviews and committees and makes submissions regarding legislative reform on retirement income, compensation, taxation, concessions, health and ageing. SCOA assists individual ComSuper and Comcare clients to receive their correct entitlements. As public sector superannuants, we also pursue broader issues affecting ageing Australians including implementation of the proposed National Dental Scheme, improved aged care accommodation and home care service issues.

In the past two years SCOA has made a number of submissions to Government inquiries notably to:

- the Matthews Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes;
- the Harmer Pension Review;
- the Henry Tax Review; and
- the Cooper Review into Superannuation.

All SCOA submissions have pointed out the need for the Government to develop a comprehensive and coherent retirement incomes policy which simplifies current arrangements and which ensures that those receiving the Age Pension and other public sector pensions are able to maintain their purchasing power.

- ❖ **The average Commonwealth Superannuation pension is about \$1000.00 p.a less than the combined couple rate of the Age Pension. In many cases it supports both members of a couple.**
- ❖ **In June 2010, the average pension for CSS recipients was \$26,963.00. For PSS recipients it was \$19,631.00.**

The key messages SCOA wishes to be reflected in the budget outcomes for 2011-2012 are:

- **Maintain the purchasing power of retirement incomes to keep pace with increases in the real cost of living;**
- **Indexation which retains the value of ComSuper pensions and is comparable to the indexation applied to the base rate of the single person Age Pension, ie the national standard for indexing other Government funded pensions;**
  - ❖ **The cost of providing fair pension indexation can be achieved without affecting the Government's desire to return the budget to surplus. See Recommendation 1.**
- **Equitable tax treatment. No discrimination against people according to the source of their pension;**
- **Equity in assessing income. Those on similar incomes should be able to access similar benefits;**

<sup>1</sup> Includes Commonwealth CSS, PSS, PSSap, 1922 Act and PNG scheme members who are contributors, have preserved benefits or are receiving a Commonwealth superannuation pension as at 30/06/09 (Source: ComSuper Annual Report 2009/10).

- **Policies which treat senior Australians wanting to remain in work equitably. Target welfare measures to support them; and**
- **Better arrangements for Public Dental Health programmes for seniors, improved home and community and aged care services.**

Our submission argues that despite the GFC, major floods and the unfunded liabilities relating to fair pension indexation often quoted, our requests are affordable. We are not seeking special treatment for our constituents. In some recommendations, we are asking for anomalies which result in discrimination to be removed. In other cases we are asking for regulations to be changed. This would not involve additional funding at all.

### **SCOA recommends that:**

- 1 The Government should ensure that Age Pensions, Centrelink Allowances, Vet Affairs Pensions, Commonwealth and Defence Superannuation Pensions, Comcare Payments, Commonwealth Health Care Card, Commonwealth Seniors' Health Card and their associated thresholds be indexed by the same percentage increase as applies to the base rate of a single person Age Pension.
- 2a The taper rate for the Age Pension income test should be reset to the former rate of forty cents in the dollar; and
- 2b Transitional arrangements applying to those receiving a part Age Pension prior to 20 September 2009 be withdrawn.
- 3 Superannuation pensions paid from an "untaxed source" be paid as after tax non-assessable income and not added to non-superannuation income to determine the marginal tax rate to be applied to that non-superannuation income.
- 4a The superannuation pensions paid from an 'untaxed source', where superannuation benefit accruals commenced before 1<sup>st</sup> July 1988, be treated for tax purposes in the same manner as superannuation pensions paid from a 'taxed source' that commenced before 1<sup>st</sup> July 1988.
- 4b To accomplish this, the Government should make regulations in accordance with Division 307 of the Income Tax and Assessment Act 1997 to specify that CSS and PSS benefits that accrued before 1 July 1988 be treated as element taxed in the fund.
- 5 The CSS and PSS transitional arrangements for surviving spouses should be extended to surviving spouses of 1922 Superannuation Act beneficiaries.
- 6 The Government amends current policies so that non-super assets can be liquidated without incurring Capital Gains Tax when placed in a superannuation fund within six months.
- 7 Persons over the age of 60 should be exempted from the inclusion of "salary sacrifice to superannuation" in the income tests associated with Centrelink and DVA benefits and a range of tax offsets.
- 8 No work test or age restriction should be applied on the investment of Non-Concessional Contributions into superannuation.
- 9 The CSS and PSS pension income that is "untaxed superannuation income" should be excluded from the income test for the Commonwealth Seniors' Health Card (CSHC) and the Senior Australian Tax Offset (SATO).
- 10 The Commonwealth should fund State and Territory Governments to facilitate the immediate implementation of its Public Dental Health Programme, particularly as it affects Senior Australians.
- 11 Additional funding, personnel and infrastructure be provided to strengthen and enhance residential aged care.
- 12 Federal, State and Territory Governments work co-operatively to strengthen the funding, effectiveness and operation of the Home and Community Care Programme.

## Recommendations in detail

- 1. The Government should ensure that Age Pensions, Centrelink Allowances, Vet Affairs Pensions, Commonwealth and Defence Superannuation Pensions, Comcare Payments, Commonwealth Health Care Card, Commonwealth Seniors' Health Card and their associated thresholds be indexed by the same percentage increase as applies to the base rate of a single person Age Pension;**

During its 2007 Federal election campaign the ALP acknowledged that many seniors found it increasingly hard to make ends meet and that the ALP understood the need for Government to help ease the everyday financial pressures faced by seniors. Recipients of Government pensions, allowances, and health cards have many things in common such as low incomes and increasing need for health and aged care services. Yet the indexation applied to the range of pensions, allowances and thresholds that impacts their standard of living is inconsistent resulting in inequity across the senior community.

For example, Age, Service and War Widows pensions are indexed in line with the greater of the CPI or the Pensioner and Beneficiary Living Cost Index (PBLCI), benchmarked to 27.7% of Male Total Average Weekly Earnings (MTAWE). However Commonwealth superannuation pensions are indexed at the CPI rate only, an indexation methodology abandoned for the Age Pension more than a decade ago. Income and asset test thresholds are also indexed by the CPI. Eligibility for the Commonwealth Health Care Card and the Commonwealth Seniors Health Card depends on the different tax rules applying to a person's income assessment for tax purposes. Removing the current inconsistencies would demonstrate justice and equity for all seniors and would be simpler to administer.

Our recommendation 1 is a general statement of principle that is consistent with Labor's long held principles of fairness and equity. We do not want favoured treatment; just the community standard for pension indexation, as is applied to other Government funded pensions.

Indexation of Commonwealth superannuation pensions remains the most critical issue for Commonwealth superannuants. With the majority of these people having a dependant spouse or partner, the total number of Australians currently affected by the present inequitable Consumer Price Index (CPI) indexation for Commonwealth superannuation pensions is more than 300,000<sup>2</sup>. Later in the recommendation we suggest how providing fair pension indexation could be met without affecting the budget bottom line.

Prior to the 2007 election the Labor Government created great expectations for fair pension indexation for Commonwealth superannuants by writing letters to them. The Government's refusal to deliver fair pension indexation for Commonwealth superannuants following the election was seen as a betrayal by many of those affected. They say that it demonstrated a failure of the Government to stand by the ALP's long held principles of fairness and equity. They feel as if they are being treated like second class Australians.

The Government unreservedly accepted the Trevor Matthews report in which he strongly stated his view that the purpose of pension indexation was to maintain the purchasing power of those pensions. The Australian Bureau of Statistics says "the CPI is not a purchasing power or cost of living measure".<sup>3</sup>

Increases in Commonwealth superannuation pensions are not maintaining parity with the Age Pension as the graph at Attachment A indicates. While they are almost equal now, in ten years the Age Pension for a couple

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<sup>2</sup> Based on the no. of Commonwealth civilian and Defence superannuants receiving pensions, with a 60% loading for dependents, as at 30/06/10, excluding PSSap members (Based on figures from ComSuper Annual Report 2009/10), p.115 Appendix A.

<sup>3</sup> ABS – *A Guide to the Consumer Price Index: 15<sup>th</sup> Series 2005*, Cat. No. 6440.0

will be about 20% higher than the average Commonwealth superannuation pension, if the latter remains indexed by the CPI. Three Senate Committees (2001, 2002 and 2008) all supported a change to a wage-based means of indexing Commonwealth superannuants' pensions.

At 30 June 2010, the average pension for CSS recipients was \$26,963.00. For PSS recipients it was \$19,631.00.<sup>4</sup> Over 50% of CSS pension recipients were male. Over 50% of PSS pensioners were female. There is a gender equity dimension. Many women have had discontinuous work service resulting in lower pensions on retirement. Poor indexation adversely affects them.

SCOA acknowledges the Government's desire to return the budget to surplus by 2012-13. **Fair indexation is affordable and can be provided without affecting the budget bottom line.** The Future Fund, established to pay Commonwealth superannuation pensions from 2020 contained **\$69.3 billion** in September 2010. With appropriate legislative change it could be used to meet the cost of funding fair pension indexation for Commonwealth superannuants without adversely affecting its capacity to pay Commonwealth superannuation pensions from 2020, pensions that have traditionally been payable from annual revenue collections.

The gross cost of indexation in the first four years would be \$208m; a very small portion of the total annual budget<sup>5</sup>. This cost would be reduced due to clawback from increased tax revenue and reduced Age Pension expenditure. This clawback was estimated to be a minimum of 37% in 2002. Despite reductions in tax rates and the tightening of the Age Pension income test taper rate since then, the aggregate clawback would still be significant.<sup>6</sup>

Unfunded Commonwealth superannuation liabilities are expected to decrease from 0.56% to 0.32% of GDP over the next 40 years (2007 Intergenerational Report). Annual budget outlays on Commonwealth superannuation pensions have already peaked and are now in decline. There is no unfunded superannuation liability for the PSSap.

Twelve years ago, a change from CPI indexation to indexation by the better of the CPI and 25% of MTAW for the Age Pension cost approximately five to ten times as much as increasing Commonwealth superannuation pensions by the same percentage as the Age Pension. The cost of that change was readily absorbed.

- 2a. That the taper rate for the Age Pension income test be reset to the former rate of forty cents in the dollar; and that**
- 2b. the transitional arrangements applying to those receiving a part Age Pension prior to 20 September 2009 be withdrawn<sup>7</sup>.**

CSS and PSS pensioners regard the Age Pension as a safety net that they can fall back on when the purchasing power of their CSS or PSS pensions has been eroded by inflation. The increase in the taper rate for the income test means that those who were ineligible to apply for the Age Pension before 20 September 2009 will now have to wait longer before they can access it.

If people receiving the Age Pension before 20 September 2009 wish to supplement their CSS or PSS pension by returning to part-time work, they will now have to report their earnings to Centrelink once a fortnight. Their continuing eligibility for the Age Pension will be assessed fortnightly under both the old and the new rules (they will no longer be able to average out their income for a period longer than a fortnight). This will increase their

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<sup>4</sup> ARIA Annual Report 2009-2010, table 22, p.38

<sup>5</sup> Matthews Report Appendix J, p.66

<sup>6</sup> National Centre for Social and Economic Modelling - *Impact on Indexation Change on the Commonwealth's Superannuation Schemes, 2002.*

<sup>7</sup> The indexation of their pensions by the CPI until such time as they would receive a higher pension under the new rules (May 2009 pension increases; indexation by the higher of the CPI and the PBLCI, benchmarked to 27.7% of MTAW; and access to the new Work Bonus).

chance of losing their Age Pension and/or becoming subject to the fifty-cent taper rate. It should also be noted that since the inclusion of salary sacrifice in the income test for the Age Pension, they may be discouraged from salary sacrificing to another superannuation fund to provide for their old age. We suggest that the taper rate for the Age Pension Income Test should be reset to forty cents in the dollar.

**3. That superannuation pensions paid from an “untaxed source” be paid as after tax non-assessable income and not added to non-superannuation income to determine the marginal tax rate to be applied to that non-superannuation income.**

The tax treatment of additional non-superannuation taxable income applied to a person receiving an element untaxed superannuation income stream is inequitable when compared to that of a person receiving an element taxed superannuation income stream. The following example illustrates this.

Assumptions: Taxpayers are over 60 and do not have private health insurance.

Type of income	Superannuation income stream element taxed	Superannuation income stream element untaxed
	<b>Pensioner A</b>	<b>Pensioner B (CSS/PSS/1922 Act)</b>
Superannuation pension	\$40,000	\$40,000
Non-superannuation income	\$20,000	\$20,000
Total income	\$60,000	\$60,000
Tax	\$ 751	\$ 8,150
Net income	\$59,029	\$51,850
Tax on \$20,000 non superannuation income	<b>\$ 751</b>	<b>\$ 7,100</b>

The additional \$20,000 non-superannuation income for Pensioner B is taxed at the rate of 35.5%. The tax is as follows:

30% marginal tax rate	$\$20,000 \times 30\% =$	\$6,000
4% tax rate for loss of low income tax offset	$\$20,000 \times 4\% =$	\$ 800
1.5% Medicare levy	$\$20,000 \times 1.5\% =$	<u>\$ 300</u>
Tax on additional \$20,000 non superannuation income		<b>\$7,100</b>

On the other hand, the additional \$20,000 non superannuation income received by Pensioner A is taxed at the rate of 3.76%. The tax is as follows:

0% marginal tax rate for \$6,000	$\$6,000 \times 0\% =$	\$ 0
15% marginal tax rate for \$14,000	$\$14,000 \times 15\% =$	\$2,100
Less full low income tax offset		\$1,500
Reduced Medicare levy		<u>\$ 151</u>
Tax on additional \$20,000 non superannuation income		<b>\$ 751</b>

The \$6349.00 difference between the two outcomes stems from when the employer chose to pay superannuation contributions for their employees. Former Commonwealth employees should not be penalized because the Commonwealth chose to defer payment of employer contributions until the person applied for a pension instead of paying contributions when the person was employed. This is inequitable especially in regard to the marginal tax rate applied to non-superannuation income and the reduction in the low income tax offset (LITO).

We suggest that the income stream from an untaxed superannuation source be separated out as special income and taxed separately, as is the case with income from a taxed income stream. This would be more equitable. All other non superannuation income should be assessed as normal assessable income.

The Senate Standing Committee on Economics report of February 2007 on the review of “Tax Laws Amendment (Simplified Superannuation) Bill 2006 (Provisions and related bills)” supported this change.

- 4a. That the superannuation pensions paid from an ‘untaxed source’, where superannuation benefit accruals commenced before 1<sup>st</sup> July 1988, be treated for tax purposes in the same manner as superannuation pensions paid from a ‘taxed source’ that commenced before 1<sup>st</sup> July 1988.**
- 4b. To accomplish this, the Government should make regulations in accordance with Division 307 of the Income Tax and Assessment Act 1997 to specify that CSS and PSS benefits that accrued before 1 July 1988 be treated as element taxed in the fund.**

Before 1 July 1988 superannuation funds did not pay tax on earnings or on employer contributions. Accordingly, before 1 July 1988, there was no difference between a taxed and an untaxed superannuation scheme as all pension benefits paid from superannuation schemes and funds were taxed at marginal tax rates.

Under “Better Super”, benefit recipients aged sixty and over do not pay tax on superannuation benefits paid from a taxed source. This means that from 1 July 2007 no tax has ever been paid (by the taxed superannuation fund or its benefit recipients) on superannuation benefits that accrued before 1 July 1988. Commonwealth (CSS and PSS) superannuation pension recipients, however, still pay tax on Pre-1 July 1988 benefit accruals.

It is inequitable that tax is applied to unfunded CSS and PSS pensions that have an accrual period before 1 July 1988, when pension recipients from other non Commonwealth unfunded superannuation schemes pay no tax at all on their superannuation pensions (including the Pre-1 July 1988 component) once they have reached sixty years of age. The inequity arises out of the inability to apply Pre-1 July 1988 Funding Credits to CSS and PSS superannuation retirement benefits.

The *Income Tax Assessment Act 1997* contains a provision to allow unfunded superannuation schemes to utilise Pre-1 July 1988 Funding Credits. However, with regards to CSS and PSS superannuation benefits, there is no mechanism to ensure equity with funded superannuation schemes for benefit accruals before 1 July 1988.

Attachment B provides more detail about the tax inequity applying to Commonwealth Superannuation Scheme pensions with benefit accruals before July 1988.

A possible solution to correct the inequitable tax treatment applied to CSS and PSS benefit recipients with accruals before 1 July 1988 would be for the Government to make regulations in accordance with division 307 of the *Income Tax Assessment Act 1997* to specify that CSS and PSS benefits that accrued before 1 July 1988 be treated as element taxed in the fund. This would have the same affect as applying Pre-1 July 1988 Funding Credits to the CSS and PSS in respect of benefits that accrued before 1 July 1988. This would then enable a fair and equitable tax treatment for CSS and PSS pension recipients.

- 5. The CSS and PSS transitional arrangements for surviving spouses should be extended to surviving spouses of 1922 Superannuation Act beneficiaries.**

Under current arrangements, surviving spouses/partners of deceased CSS and PSS pensioners are entitled to receive (via a lump sum payment), the full superannuation pension payment for seven pay days (six fortnights) after the death of their partner, before reverting to the lower pension rate of 67% of the former full rate. However, surviving spouses/partners of 1922 Act beneficiaries who retired before 1 July 1976, most of whom

would now be over 80 years of age, revert immediately to the lower rate of payment after the death of a spouse/partner.

The continued denial of this bereavement package to the surviving spouses of 1922 Act beneficiaries is unfair and discriminatory. They are the only recipients of retirement benefits or other pensions paid by the Commonwealth who revert immediately to the lower rate of payment after the death of a partner. With usual delays in notifying the date of death and submission of an application for a spouse pension to ComSuper, the surviving spouse is therefore often faced with having to repay overpaid pension. This adds to their difficulties at a very emotional and difficult time, and also adds an unnecessary administrative burden to ComSuper.

Given the number of people affected represents a small fraction (around 400) of the total Commonwealth superannuants, the cost of the change would be miniscule.

**6. That the Government amends current policies so that non-super assets can be liquidated without incurring Capital Gains Tax when placed in a superannuation fund within six months.**

Under current policy, non- superannuation assets such as shares and property attract Capital Gains Tax when applied to superannuation funds to create retirement income streams. This policy conflicts with the Government's policy of encouraging Australians to self-fund their retirement. It encourages Australians to sell off and spend the proceeds from these assets prior to retirement, so as to maximise their Age Pension payments, which then limits their retirement income earning capacity.

Research by the National Centre for Social and Economic Modelling (NATSEM) found that half of all female baby boomers had less than \$8,000 in superannuation and half of the male baby boomers had less than \$30,700 in superannuation. Urgent Government action is needed to provide more incentive for workers to invest more into superannuation.

SCOA believes that if the present Capital Gains Taxation impediment were removed, Australians would have a far greater incentive to use their assets to increase their retirement income. The resultant reduction in Age Pension outlays and the possible increase in income tax at the point of benefit payment (depending on the selected income stream) are likely to balance or exceed the loss of removing the Capital Gains Tax.

SCOA believes that funds should be placed into a super fund within six months of receipt of the proceeds from sale of assets.

**7. Persons over the age of 60 should be exempted from the inclusion of "salary sacrifice to superannuation" in the income tests associated with Centrelink and DVA benefits and a range of tax offsets.**

SCOA strongly recommends this exemption because:

- The inclusion of salary sacrifice in the income test may discourage mature age people from continuing to salary sacrifice and perhaps even working. Even though salary sacrificing their earnings will still reduce their tax liability to some extent, they will still have to pay more tax than in previous years.
- This measure appears to be inconsistent with other Government policies that seek to encourage people to continue working beyond 60 years of age.
- This measure is most likely to affect female superannuants, since their Commonwealth superannuation pensions are generally smaller than those of male superannuants, and they have a greater need to provide for their old age.

**8. No work test or age restriction should be applied on the investment of Non-Concessional Contributions into superannuation.**

Continuance of a work test for those aged 65 – 75 appears to be inconsistent with other Government policies that seek to encourage continuing work beyond 60 years of age. It also discriminates against casual workers who may not undertake 40 hours of work over a 30 day period. The current work test means that members who currently supplement their superannuation income from fully taxed interest, dividend and rental incomes are generally denied the opportunity of re-investing the underlying investments into superannuation (e.g. through a commercial product or a self-managed fund).

Why should this be the case? The life expectancy of those who have reached 65 to 75 years is over 80. Denying these people the opportunity to re-arrange investments into superannuation denies them benefits which younger Australians will be able to achieve after age 60 – notably tax free returns within the superannuation fund, and tax free pension payments. Unrestricted access to superannuation investments would provide some cost offsets by reducing Age Pension outlays

**9. The CSS and PSS pension income that is “untaxed superannuation income” should be excluded from the income test for the Commonwealth Seniors’ Health Card (CSHC) and the Senior Australian Tax Offset (SATO).**

In the 2009-10 Budget the Treasurer announced that income streams from a taxed superannuation fund would not be included in the income test for the CSHC or SATO.

Accordingly, income streams such as allocated and account based pensions paid from a *taxed* superannuation fund are not income for the income test for the CSHC or SATO. However, income streams paid from an untaxed superannuation fund such as the Commonwealth’s CSS indexed pension and the unfunded component of the Commonwealth’s PSS indexed pension are counted as income for the income test for the CSHC and for SATO.

It is unfair and discriminatory for retirement incomes paid from an untaxed superannuation fund to be included as income for the income test of the CSHC and SATO whilst retirement incomes from a taxed superannuation fund are excluded. There is no reason why retirement incomes from untaxed superannuation funds should be treated differently from income from *taxed* superannuation funds.

The only difference between the income streams from the two types of superannuation funds is when the employer chose to pay the employer contributions in relation to providing superannuation benefits for their employees. Former Commonwealth employees should not be penalised because the Commonwealth chose to defer payment of employer contributions until the person claimed their pension instead of when they fell due while the person was still an employee.

We understand that some defined benefit funds have been declared to be taxed funds, yet Commonwealth funds have not. We do not understand why this should be the case. We also understand that declaring our funds to be taxed funds could be done by regulation and that it would not require an Act of Parliament.

**10. The Commonwealth should fund State and Territory Governments to facilitate the immediate implementation of its Public Dental Health Programme, particularly as it affects Senior Australians.**

In November 2007, the Howard Government introduced a Medicare dental scheme under which people with chronic medical conditions (such as cancer, diabetes) could access up to \$4250 in dental work.

Following the Budget, on 13 May 2008 the Minister for Health and Ageing Nicola Roxon issued a media release *Taking Responsibility for Dental Health* announcing the Rudd Government’s new Dental Health Programme.

Ms Roxon asserted that the new Programme would slash “the 650,000-long waiting list for public dental services.”

The introduction of the Programme was based upon savings from the Howard Government scheme mentioned above, which was to be abolished. In order to establish the new Dental Health Programme, in September 2008 the Government introduced a Bill to abolish the former Medicare scheme. The Senate voted down the Bill.

The current Programme has two components: a teen dental scheme of \$490m over five years and a scheme to cut public waiting lists by spending \$290m over three years.

SCOA notes that funds were found to implement the 'teen dental' scheme. However, funding for the scheme to cut waiting lists for low income Australians has yet to be found. Therefore, while people with chronic medical conditions are still able to readily access public dental health care, nothing has changed for those on the public dental services waiting list who do not meet this criterion.

The waiting list has increased from 650,000 to some 700,000. The waiting time in some States still exceeds 5 years. Commonwealth superannuants are predominantly low income earners whose pensions average less than the combined couple rate of the Age Pension.

SCOA has reservations about the adequacy of the proposed funding of \$290m over three years (i.e. about \$148 per year per person on the waiting list). We are particularly concerned about the Government's intention to phase out the previous Government's \$385 million scheme and instead restrict assistance to only those who are chronically ill. We also consider that revised Medicare levy thresholds may encourage people to opt out of private health cover, including their dental component. Those people will then become reliant on public dental health and hence exacerbate the extent of the current massive waiting lists.

Against this background it seems that the Government will be providing much less funding for public dental health. Waiting lists will get longer and the general health and well being of many Australian citizens will continue to be adversely affected. Reduced general population health will increase Medicare expenditure.

It is widely accepted in the medical profession in Australia, that the successful delivery of primary health care services and good dental health are integral to a positive experience of ageing and avoidance of ill health. However, there are growing inequalities in access to, and provision of, dental care for adults, particularly for older Australians on low incomes.

Termination of the Commonwealth Dental Health Programme in 1996 has effectively closed the door on dental services to many Australians and has resulted in a situation that is inequitable and discriminatory. Essentially, the provision of public dental health services now depends entirely on the whim of individual State/Territory Governments and how they allocate funding for health care.

Access to health care (including dental health care) in Australia should be universal and the establishment of a Dental Health Programme is not only consistent with a policy directed at an holistic approach to individual health management, but also strongly reflects and reinforces the spirit and intention of Australia's National Oral Health Plan 2004–2013, which is professionally motivated and politically independent.

#### **11. That additional funding, personnel and infrastructure be provided to strengthen and enhance residential aged care.**

Despite the introduction of strengthened certification and accreditation arrangements since 1997, many of our members continue to report that standards of care in some nursing homes are unsatisfactory. Inadequate training, low pay and poor morale among staff in hostels and nursing homes are exacerbating problems in the aged care sector.

There is a growing shortage of hostel and nursing accommodation for people who cannot afford the cost of private care. This is adding pressure on public and private hospital systems. People on waiting lists for residential aged care places are occupying hospital beds for varying periods, reducing the availability of hospital beds for those needing hospital care.

**12. That Federal, State and Territory Governments work co-operatively to strengthen the funding, effectiveness and operation of the Home and Community Care Programme (HACC).**

Most older people wish to stay at home for as long as possible and do not want to use, or will want to delay the use of, residential care. Whilst our members speak highly of services provided through the Home and Community Care Programme (HACC) and Community Aged Care Packages (CACPs), they consistently draw attention to growing pressures being experienced by HACC, particularly in the provision of home care services.

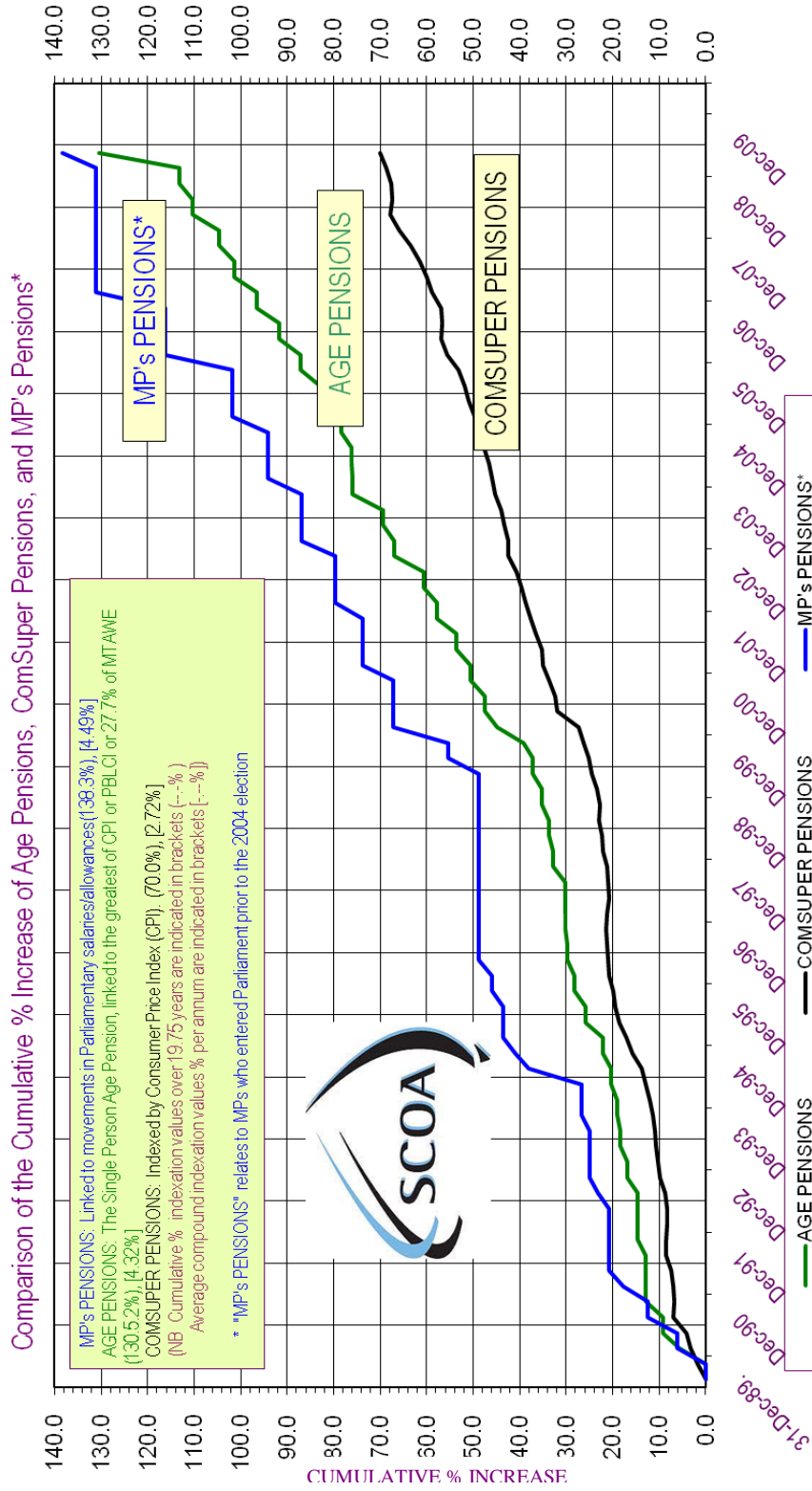
Within the last two years, many new applicants have been advised that service cannot be provided due to lack of funding. When this happens, they are not advised how long this inability will continue. They are not adequately followed up at a later date by the HACC providers to check if they are coping or have been able to make other acceptable arrangements.

Existing HACC clients are finding that their services are often delayed or are temporarily reduced or postponed due to inadequate resources and staffing. The situation has been aggravated by early discharge policies pursued by hospitals and the use of HACC funding to meet post/early discharge rehabilitation needs.

Many older people suffer reduced living standards and declining health because of a lack of basic support services. Results can include unnecessary stress, premature admission to residential aged care, hospital admission or at worst, death.

SCOA has been pleased with the additional allocation of Federal, State and Territory funding to health services and understands that an appropriate component of this will be directed to the HACC programme. SCOA is willing to assist in any continuing evaluation of the programme or proposed changes.

# Attachment A: Cumulative % Increase in: Age Pension, C'Wearth Super Pensions, and MPs' Pensions



This graph is published by the Superannuated Commonwealth Officers' Association, PO Box 107 MAWSON ACT 2607. Further information can be found at [www.scoa.asn.au](http://www.scoa.asn.au). Content is provided by F. J. Johnson. BE. FSASM. SCOA NSW Branch (Version 16, 30-09-09, last edited 15-01-10)

## Elaboration on the tax inequity applying to Commonwealth Superannuation Scheme pensions with Benefit Accruals before July 1988

The tax inequity applying to Commonwealth Superannuation Scheme pensions with benefit accruals before July 1988 arises through the inability to apply Pre-1 July 1988 Funding Credits to CSS and PSS superannuation retirement benefits.

The *Income Tax Assessment Act 1997* contains a provision to allow unfunded superannuation schemes to utilise Pre-1 July 1988 Funding Credits. This mechanism is designed to ensure that superannuation benefits that accrued before 1 July 1988 in an unfunded superannuation scheme are regarded as if they were funded from a taxed source and accordingly taxed as an element taxed. This saves benefits that accrued before 1 July 1988 from being taxed as untaxed benefits. This is necessary as tax was not applied to contributions to or earnings of superannuation funds before 1 July 1988 and accordingly no taxes were applied to such accruals in funded or unfunded superannuation schemes.

A good description of Pre-1 July 1988 Funding Credits and their purpose is provided at paragraph 9.2, Chapter 9 of the Explanatory Memorandum to the *Tax Laws Amendment (2006 Measures No. 3) Act 2006*. The paragraph states:

*“9.2. Since 1 July 1988 most contributions (e.g., employer and other deductible contributions) to superannuation schemes have been subject to a 15 per cent tax. Funding credits were granted to unfunded superannuation schemes so that contributions made after 1 July 1988 to fund benefits that accrued prior to 1 July 1988 are not taxed. This ensures equity with funded superannuation schemes which only pay tax on contributions from 1 July 1988.”*

However, with regards to CSS and PSS superannuation benefits, there is no mechanism to ensure equity with funded superannuation schemes for benefit accruals before 1 July 1988. Pre-1 July 1988 Funding Credits cannot be used by the CSS and PSS Trustee. As a result, when benefits are paid out of the CSS or PSS, the component of the payment that accrued before 1 July 1988 is taxed as if it were paid from an untaxed superannuation scheme. Unfunded State superannuation schemes were able to utilise Pre-1 July 1988 Funding Credits to ensure that tax is applied equitably against the payment of their superannuation benefits, that is, no tax paid on benefit accruals before 1 July 1988.

The reason why Pre-1 July 1988 Funding Credits cannot be applied in the CSS or PSS appears to be due to the way the Commonwealth chose to pay CSS and PSS retirement benefits. The Trustees of unfunded State superannuation schemes chose to pay their superannuation benefits out of their respective superannuation funds after receiving unfunded contributions from the employer at the time of retirement or benefit payment. When the unfunded employer contribution is paid into the superannuation fund at the time of benefit payment, no contributions tax is effectively paid on that part of the employer contribution that is funding accruals before 1 July 1988, as the tax that would have been paid on those employer contributions is offset by Pre-1 July 1988 Funding Credits. Therefore, even though benefits that accrued before 1 July 1988 were not funded until the time of retirement or benefit payment, and with no contributions tax effectively being paid on those employer contributions (similar arrangement to the CSS and PSS), the benefit payment is regarded as being paid from a taxed source and is taxed accordingly.

The difference between the CSS and PSS and other unfunded superannuation schemes that are entitled to utilise Pre-1 July 1988 Funding Credits is that the Commonwealth chose to pay CSS and PSS retirement benefits out of Commonwealth revenue rather than out of the CSS superannuation fund. That is, when a benefit becomes payable the member's accumulated member and productivity contributions in the CSS or PSS superannuation fund are paid out of the CSS or PSS superannuation fund and into Commonwealth revenue.

The Commonwealth then adds employer contributions to the benefit payment and pays the CSS or PSS superannuation benefit to the benefit recipient out of Commonwealth revenue. This process is prescribed in section 112 of the *Superannuation Act 1976* and section 16 of the *Superannuation Act 1990*.

The Commonwealth's method of payment of unfunded superannuation benefits (as opposed to the States' method), has resulted in no employer contributions actually being paid by the Commonwealth into the CSS or PSS superannuation fund. The result is that the Commonwealth generates no contribution tax liability to enable Pre-1 July 1988 Funding Credits to offset any tax liability. This means that unfunded pre 1988 accruals in the CSS and PSS are element untaxed, and taxed accordingly, while unfunded pre 1 July 1988 accruals in other unfunded superannuation funds are regarded as element taxed, and not subject to tax where the recipient is aged 60 and over.

The method of paying CSS and PSS superannuation benefits is grossly unfair, especially as the Commonwealth Government has set up a mechanism for benefit recipients of other unfunded superannuation schemes to receive equitable tax treatment with funded superannuation schemes. CSS and PSS superannuation scheme 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 CSS or PSS 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 and CSS benefit recipients paying tax on Pre-1 July 1988 accruals, which is tax free for everyone else. Accordingly, SCOA believes that there is no reason why CSS and PSS 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.