scoaaustralia
Advocating for a secure retirement

28 August 2018

The Hon Bill Shorten MP
Leader of the Opposition
Parliament House
CANBERRA ACT 2600

Dear Mr Shorten

I am writing to raise a number of issues affecting the members of SCOA Australia, a non-profit organisation representing the interests of some 300,000 former or current government employees who are members of the two Commonwealth defined benefit schemes the CSS, 1976 to 1990, and the PSS, 1990 to 2005.

Both these schemes were Commonwealth defined benefit superannuation schemes which undertook to pay to their employees on retirement a modest pension calculated on length of service and pay level and indexed to the cost of living. SCOA Australia has long argued that the Commonwealth have not honoured their undertaking to index the pensions to the cost of living. Further, when superannuation income was designated tax free in 2007, pensions from the CSS and PSS superannuation funds remained taxable.

We are now seeking from you a statement of the ALP's policy with respect to these two issues. It may be helpful if I outlined the various responses to these two issues we have had from various ministers over the years.

As you know, in 1996 indexation of the age pension was amended from the CPI to the higher of the CPI or of the MTAWE (Male total average weekly earnings). When SCOA applied to have retired government employees' pensions indexed the same way they were told that the amendment was put in place to pass on productivity increases in the economy to age pensioners, however, our group were not entitled to productivity increases because they were no longer working.

There is logic in this although most of our superannuants, and indeed most retirees, participate in the huge volunteer army that adds many billions of un-costed but useful activity to the economy, care of children, care of people with disabilities, care of the aged, care of the environment, mentoring and general community service through a multitude of volunteer organisations being examples. However we suspect that the introduction of a new way of indexing the age pension had nothing to do with giving age pensioners a share in increases in economic productivity but that it was a recognition that even in the years prior to 1996 the CPI was not keeping up with the cost of living and the aged pensioners of Australia who mostly relied on the age pension were slipping into unintended penury.

The Coalition government has strongly argued that the CPI is a cost of living index in spite of the fact that even the Australian Bureau of Statistics (ABS) agrees it is not a measure of the cost of living; it is a measure of inflation which is not the same thing. The ABS argue that the development of a proper cost of living index would be prohibitively expensive and they do not have the resources. Any consumer shopping for necessities, paying for health care, occupancy costs, insurances, rates and local taxes is also aware the CPI bears little resemblance to the actual cost of living.

Therefore we would argue that given the importance of a Cost of Living Index in many decisions made within an economy, the ABS should be properly funded to produce one. The CPI may be a useful measure in some aspects of the economy; certainly a low CPI or inflation figure indicates good government financial management but it is of little use in explaining the decline in the purchasing power of the dollar felt throughout the community.

While the ABS is considering the development of a useful cost of living index, a good start could be to publish the CPI before the application of the rather academic and impractical hedonistic quality adjustments which tend to distort the original findings of movements in prices. The result would not be the best calculation of movements in the cost of living but it would more closely track true movements in the Cost of Living and could be used as an interim measure to adjust CSS and PSS pensions. Alternatively these superannuants could have their pensions adjusted to the higher of the MTAWE or the CPI, as with age pensioners and some of the Military.

The current government has also argued that the CSS and PSS pensions are generous and even if the CPI was not a true measure movement in the cost of living, any indexation is not available to most other superannuants and therefore CSS and PSS pensioners should be grateful. The fact most superannuates now do not have indexed pensions is true. However the government's statement overlooks that CSS and PSS superannuants do not have generous pensions to start with. Most worked in a period when APS salaries were not at all generous, most worked at the bottom classification levels in the States and that consequently their pensions are low. The average pension is $32,000 pa. Often this is for a couple.

In any case these superannuants had little choice in their superannuation arrangements. They had to accept what their employer provided. They were promised, commencing in 1922, that using a retail price index, their modest pensions would be adjusted to the cost of living, a promise successive governments since the 1990's have not kept.

Our members have taken the view that because the schemes are now closed to new members, governments only have to cynically wait and this group will just die off and their complaints about unjust treatment will die with them. They cannot be blamed for such a conclusion; they have been advocating for fair treatment for over 20 years but have had their arguments and requests for fairer treatment passed over at every turn.

The same comment could be made about the taxation of their pensions. In 2007, income from a taxed superannuation fund became tax free in the hands of superannuants over 60 years, except for CSS and PSS superannuants. Their pensions remained taxable. The reason given was that the Commonwealth never paid contributions tax.

This is true; as pensions are paid from consolidated revenue there was no need to accumulate a fund as is the case with most current superannuation funds (now including the Commonwealth). Moreover the government, we assumed, saw no need for the Commonwealth to pay a tax to itself as no money would change hands. The result, however, was that CSS and PSS pensioners were treated as having pensions paid from an untaxed source.

We argue that CSS and PSS superannuants had no control or even knowledge over how the Commonwealth arranged their super responsibilities. They rightly assumed that the Commonwealth would look after their interests, pay their modest pensions when the time came and treat them as any other superannuants in a taxed fund. They are now being penalised as even with the 10% offset (we have never had access to how this was calculated) additional pension income, usually from very lowly paid part time work, is taxed at marginal rates.

We again argue that our pensions should become tax free or at least the rebate be increased to 15% which would ease the imposition of this tax burden for most of our superannuants.

These issues are somewhat complex and we would appreciate your Party's position on these issues so that we may take them to our superannuants prior to the next election.

Are you prepared to take some action to correct what is a clear ongoing case of injustice to CSS and PSS superannuants?

Yours Sincerely

Peter Illidge
PRESIDENT