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Senate Standing Committee on Economics - economics.sen@aph.gov.au

SUPERANNUATION – WHY DEFINED BENEFIT PENSIONS SHOULD NOT BE INCLUDED IN THE $1,600,000 PROPOSED CAP

This submission relate to the recent government bills on superannuation, other than the bill dealing with the objectives of superannuation. I refer to the invitation to make submissions at: www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/SuperReformbillsx2

The substance of these comments, plus some of my other comments by me on superannuation, can be found at The Economist: http://www.economist.com/comment/3275303#comment-3275303

In my view any defined benefit pension should not be recalculated as some notional lump sum value, and counted as part of the proposed $1,600,000 cap on funds in a pension account. Instead, I feel defined benefit pensions should be handled completely seperately from that pension account cap.

Defined benefit pensions are generally taxed. Thus they are quite dissimilar to tax free pensions in a typical superannuation pension account. Indeed, many on defined benefit pensions are already paying tax on them close to 15%, which is the amount of tax payable in superannuation accumulation accounts.

It is already proposed to increase the tax rate on defined benefit pensions paying over $100,000 per annum. In my view that is sufficient to increase the amount of tax being paid by the small number of defined benefit pensioners whose defined benefit pension enables them to have a comfortable lifestyle in and of itself.

The $1,600,000 pension phase cap is already extremely low in my view – returning only around $32,000 a year on a capital guaranteed basis of around 2% a year, which is around the full couple aged pension. It should not be reduced further in my view.

Many on part age pensions and defined benefit pensions will have their part age pensions removed as from 1 January 2017, due to tighter asset test requirements from that date applying to the age pensions. In my view is unfair to disadvantage them further as from 1 July 2017.

There is an element of retrospectivity in this proposal, most particularly for those who commence a defined benefit pension and/or a superannuation pension account, on or prior to 30 June 2017. To avoid such a retrospectivity effect those in that situation at least should be grandfathered.

The proposal will be complex to administer. Already it is proposed that individuals who have more than $1,600,000 in superannuation pension phase as at 30 June 2017 will need to move the surplus to an accumulation account as from 1 July 2017 or shortly thereafter. The additional complexity from turning a defined benefit pension into a notional lump sum, then removing that notional lump sum from a pension account to an accumulation account, if the pension account hit $1,600,000 on 30 June 2017, will be difficult for many to do (in particular those in SMSF), and for almost all to monitor if it has been done correctly (including those in industry superannuation funds), particularly in a context where Australian Taxation Office records are not always precisely accurate.

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