UniSuper

# Social Services Legislation Amendment (Fair & Sustainable Pensions) Bill 2015

**Submission by UniSuper**

**19 June 2015**

UniSuper

# Introduction

## ABOUT UNISUPER

UniSuper is the superannuation fund dedicated to people working in Australia's higher education and research sector. With almost 400,000 members and over $50billion in net funds under management, UniSuper is one of Australia's largest superannuation funds and has one of the very few open defined benefit schemes.

This submission has been prepared by UniSuper Management Pty Ltd (ABN 91 006 961 799), which acts as the administrator of the Trustee, UniSuper Limited (ABN 54 006 027 121).

UniSuper Management Pty Ltd would welcome the opportunity to discuss the submission further and to provide additional information in respect of the comments made in this submission. Should you have further queries, please contact Benedict Davies, Manager Government & Industry Policy,

## Fair & Sustainable Pensions Bill

We welcome the opportunity to make a submission on the Fair & Sustainable Pensions Bill. Our submission is on one issue only: the proposed 10% cap applying to defined benefit income streams.

We are concerned that this policy will affect members in receipt of non-commutable lifetime pensions, most of whom would not have the option to modify their drawdown from their superannuation income stream because, by definition, defined benefit pensions are fixed payments.

Consequently, any reduction to a person's Age Pension resulting from these changes would directly reduce the member's income in retirement and their standard of living.

## Budget announcement to improve the integrity of the social security income test arrangement

*The Government will ensure fairer treatment of defined benefit superannuation income for pensioners. From 1 January 2016, the level of income from defined benefit superannuation that can be excluded from the pension income test will be capped at 10 per cent.*

*This measure mainly affects former public sector employees. However, around two-thirds of those involved in these schemes will be unaffected. Their superannuation income will not be reduced. Department of Veterans Affairs Pensions and defined benefit income streams paid by military superannuation funds are exempt from this measure.*

'Fairness in Tax and Benefits', Commonwealth of Australia (2015) p. 15

We highlight to the Committee the above statement about the proposed policy to 'ensure fairer treatment of defined benefit superannuation income for pensioners'. The statement also suggests that the proposal 'mainly affects former public sector employees…around two-thirds involved in these schemes will be unaffected'.

Our reading of the statement suggests to us that two-thirds of the recipients of public sector defined benefit schemes will not be affected by the proposed changes because they have tax-free components of less than 10%. However, in the case of UniSuper's membership, we have roughly the opposite numbers: that is, two-thirds of our defined benefit pensioners have defined benefit pensions with tax-free components greater than 10% and consequently, two-thirds of our defined benefit pension members could be negatively affected by this proposal.

## UniSuper's unique history

To understand how our members come to have defined benefit pensions with tax-free components in excess of 10%, it's important to highlight our unique history and product design.

UniSuper was established in 1983 as a defined benefit scheme modelled on then-contemporary schemes in the Australian public sector. The benefit design from its outset was a fully-funded scheme, with full portability of benefits across all participating employers, along with coverage of all permanent employees in the higher education sector, including general, academic and professional staff.

The multi-employer and inclusive nature of UniSuper led to some important distinguishing features from its commencement, in particular:

- a fixed contribution rate of 14% of salary p.a. for employers and 7% for members;
- by covering the whole university sector, members can maintain defined benefit membership when transferring between employers;
- members can defer their benefits (so maintaining membership) through periods when not employed in the university sector; and
- a formula-based benefit related to member's salary, tenure and employment experience.

While we have since added an accumulation alternative to defined benefit membership (as well as MySuper product from November 2013), UniSuper's Defined Benefit Division (DBD) remains a key feature of employment in the higher education sector.

The DBD is funded by a 14% employer contribution (which ultimately adds to a defined benefit pension's taxable component) and a 7% standard member contribution (which ultimately adds to a pension's tax-free component). Members can make their standard contribution via salary sacrifice contributions, and for those who do so, contributions increase the pension's taxable component.

Although our members can reduce their standard member contributions below the standard 7% (possible since 2006), the vast majority of members still contribute at the full rate. Consequently, we have a significant number of members with tax-free components in excess of 10% resulting directly from the design of our product.

**Potential member impacts**

Our records indicate that roughly 64% of our 7,000 current defined benefit pensioners have tax-free amounts greater than 10%. Further, 40% have tax-free amounts greater than 20% and 28% have tax-free amounts exceeding 30%.

| Tax free percentage | Number of defined benefit pensions | Percentage of defined benefit pensions |
|---|---|---|
| Less than 10% | 2,515 | 35.3% |
| 10% - 20% | 1,707 | 24.0% |
| 20% - 30% | 880 | 12.4% |
| 30% - 40% | 876 | 12.3% |
| Greater than 40% | 1,147 | 16.1% |

Based on our member data, we suggest that this measure has a larger impact than that anticipated in the paper *Fairness in Tax and Benefits,* with up to two-thirds of our defined benefit pensioners affected, potentially numbering about 4,600 pensioners.

Soon after the Budget announcement of the proposed changes to the income test, we received feedback from members concerned about the effects these proposals would have on their pension entitlements. Some of our members have asked us to highlight their concerns. One member, who receives a $25,000 defined benefit pension (approximately) and has about $125,000 of other superannuation savings, by his own calculations, stands to lose $3,300 of Age Pension - he expressed concerns that he is not wealthy and only has a “moderate” income.[1]

**UniSuper’s proposed changes**

We therefore encourage the Committee to give consideration to the unintended impacts of this policy, particularly on members of non-public sector defined benefit schemes. We strongly encourage the Committee to further investigate the policy basis for the proposed 10% cap. If the policy has been framed with reference to public sector defined benefit schemes, the policy in its current form may have particular application to those schemes, but to those schemes *only*. We submit that there are different effects on member of non-public sector schemes, such as UniSuper, and we believe that there should be a higher “deduction amount” of at least 35%.[2]

Defined benefit schemes rely on stable long-term policy settings. People who make a decision about defined benefit pensions are, generally, making irrevocable lifetime decisions. Many of our defined benefit pensioners commenced their pensions years ago and are in no position to make up the lost income from additional superannuation withdrawals. Therefore, we encourage the Committee to give due consideration to the issues highlighted in this submission and recommend a higher deductible amount of at least 35%. We would also be happy to provide further information and analysis of the potential member impacts throughout the consultation process.

[1] We have no data on our members’ Age Pension status or entitlements. However, the median defined benefit pension in 2014/15 across our membership is approximately $32,400 per annum.

[2] Our proposal is based on our members making standard contributions of 7% to an employer’s 14% i.e. of the funding comes from contributions that generally end up as a tax-free component of a pension.