Submission to Senate Economics Legislative Committee on the Superannuation (Excess Transfer Balance Tax) Bill 2016 (Provisions) in Relationship to the Proposed Defined Benefit Superannuation Valuation Factor of 16

1. This submission indicates the background to the Government treatment of Defined Benefit CSS/PSS Superannuants over the years and then focuses on the proposed method of valuation for Defined Benefit (DB) superannuation pensions for inclusion in the $1.6m cap calculation in the Bill under consideration by the Senate.

2. I made a Tranche 2 submission to Treasury on this matter (Attached). I have considered Treasury proposals in the Bill and read a number of the other Tranche 2 submissions concerning the valuation factor of 16 for the determination of the capital value of DB pensions, still proposed by Treasury.

3. My wife and I, now both 82, are both on a moderate CSS DB pension and for over 20 years. We have other sources of superannuation. We also support needy members of our large family. We have lost considerable purchasing powers over the period of our retirement; we think the loss has been 1-1.5 % pa purchasing power with our CSS pensions over 22 years (25-40 % in total) through the use of CPI compared to MTAWE, the wage method used for Age Pensions.

4. Our CSS pension, generally based on final salary, has been subject to poor CPI indexation (inflation method and not really based on COL), rather than the more appropriate Age Pension indexation which has been predominantly wage based (best of 3 indices). Better indexation was considered to in the Matthews Report on CSS/PSS indexation (stating that it be indexed on a proper COL basis); and as well several earlier Senate Reports favoured better indexation than CPI, when affordable. The ABS has stated that the CPI does not measure the COL or street pricing, because it uses quality discounting. The 2001 Senate Report, "A reasonable and secure retirement", recommended that the Government consider the adoption of an index other than CPI to more adequately reflect the actual Increases in the COL. This has not occurred.

5. The CSS Pension has been fully taxed, apart from the 10 % post-tax offset, whereas self-funded superannuant pensions are untaxed.

6. Since the Hockey Budget in 2014, older Australians have lost offsets, particularly medical offsets, and finally the early application of the 10 % offset cap with DB recipients for Part Age Pensioners. Older people have been subject to dis-proportional tax increases and DB Part Age Pensioners have been discriminately against unfairly being subject to Age Pension reductions 1 year earlier and have not received grandfathering with the 10 % cap application compared to the intention for other Part Age Pensioners.

7. Now we come to the proposed superannuation reform package in the Bill under consideration.

8. CSS/PSS superannuation is not subject to recipients being able to seek any commutation provision. It is a taxed annual payment. As stated in my Tranche 2 submission its capital value, if actuarially determined on a life expectancy basis, is only some 10 times its annual value; rather than the 16 times figure proposed by Treasury in the Bill. Other DB schemes have been commented on this in the various Tranche 2 submissions; the proposed special value proposed in

the Bill (using the 16 factor) can be double the commutation value. In one submission, it is suggested that the special value or valuation factor (16 proposed) ought to be 10 for an Age 60 DB superannuant and reduced to 7 for an Age 70 superannuant and even 3 for an Aged 90 superannuant. Other suggestions are to vary the valuation factor from 16 (basic) at Age 70 or younger, 10 at Age 80 and 6 at Age 90.

9. It is not fair and acceptable to DB superannuants as stated by Treasury in Section 3.225 and 3.226 of the explanatory notes that for a capped DB pension then a single factor of 16 is necessary as it provides a simple valuation " based on general actuarial considerations ". Really!
Treasury also states that a variable age-based valuation factor would produce anomalous outcomes on the basis of older individuals having more cap space than in contrast with those having longer life expectancy. So what!
Yet, in Section 3.233 a debit value of a lifetime pension is the residual of its special value or the amount for which a lifetime pension or annuity can be fully commuted - the commutation value. This seems to be inconsistent to how a DB pension is to be valued.

10. It is considered that the Senate Committee ought to adopt for the Bill an age based pension valuation factor as the fairest and actuarially correct approach; this would vary from say 16 for Age 70 and below and then successively be reduced for older DB superannuant pensions.

11. In this regard, I have become aware that Dr David Knox, Senior Partner and the Senior Actuary at Mercer, a firm highly regarded for the excellence of its actuarial advice, personally proposed to Treasury after the closing date of Tranche 2 submissions the alternative of a simple table reproduced here.

Age on 1 July 2017 or when the pension commences, if later	Factor
Under age 70	16
70-74	14
75-79	12
80-84	10
85-89	8
90 and over	6

Dr Knox has stated that "Although not perfect, I believe this is both simple to administer and fairer than the current proposals." I concur.