

## **Submission to Treasury**

### **Proposed Superannuation Reform Package –Tranche 2**

You have sought comment on Tranche 2. Herewith my comments on our CSS DB superannuation.

My wife and I have been on the CSS Defined Benefit (DB) Scheme now for over 20 years. My wife also has a CSS unindexed component based on her contribution, which she left in the fund. We also have self-funded private superannuation; I have some salary income with some 9.5 % superannuation accumulating. We are both 82.

Our CSS superannuation terminates on death and with widowhood a benefit to the survivor of 2/3 of the deceased CSS superannuation.

The Tranche 2 explanation is very long and unsummarised. Fortunately there have been some Canberra Times articles that have provided key commentary. It deals with the interaction of DB superannuation with the proposed limit of \$1.6m that one may have in a new superannuation accumulation account in 2017. It proposes to count any DB income, capitalised by a factor of 16, in the \$1.6m limit.

The following comments can be made on the proposals:-

- CSS DB superannuation is already fully taxed, except for the 10% post tax offset. Other jurisdictions have managed to change the status or pay the tax. The Federal Government should have recorded the tax as paid by book entry at the time of its accumulation.
- The proposed superannuation limit may result in double taxation; particularly with any widowhood in our case.
- The proposed 16 multiplier seems like one size fits all. It seems ok for much younger retirees.
- In our case we have an expectation of life of less than 10 years according to the published data. The outlay Present Worth for us at 2 % CPI and using a 5 % discount rate for 10 years is about \$560,000. Using the multiplier of 16 for a CSS annual outlay initially of \$63,500 it becomes just over \$1m capital value. The multiplier results in a much larger capitalisation than the likely cost to the Commonwealth. This seems unreasonable and suggests using diminishing factors depending on age; in our case a factor of 10 would be appropriate. So an age based factor would make a lot of sense.
- In the case of an unindexed CSS component the capital value by the 16 multiplier method is much larger than the original amount that determined the component superannuation. This seems unfair.
- CSS DB superannuation cannot be commuted in contrast with the current accumulation schemes; in our case it may be most beneficial to have our CSS commuted..

Older DB retirees have lost a lot of purchasing power over the years. More recently the 10 % Cap and the loss of offsets, particularly medical offsets, has resulted in higher taxation and higher living costs.

Geoff Henkel (10/10/16)