Mr Adam Cunningham
Inquiry Secretary
House of Representatives Standing Committtte
On Ageing
Parliament House
CANBERRA ACT 2600

Dear Mr Cunningham

Thank you for your letter of 18 July 2002, addressed to the former Federal President of the Superannuated Commonwealth Officers' Association (SCOA), Mr John Brigg.

SCOA is pleased to submit the attached documents to the INQUIRY INTO THE LONG-TERM STRATGEGIES TO ADDRESS THE AGEING OF THE AUSTRALIAN POPULATION OVER THE NEXT 40 YEARS.

Our current President, Mr Terry Fawl, and the National Secretary, Mr John Coleman have consulted with SCOA Branches across Australia on a range of subjects in the preparation of this submission.

Please do not hesitate to contact this office should you require further information or clarification on any points.

Yours sincerely

Trish Burgess
Assistant National Secretary
for
John Coleman
National Secretary
SCOA Federal Council

26 November 2002

SUPERANNUATED COMMONWEALTH OFFICERS' ASSOCIATION (SCOA)
P.O Box 107
Mawson ACT 2607

Ph 6286 7977

FUTURE DIRECTIONS FOR AGEING AUSTRALIANS

Submission to the House of Representatives
Standing Committee on Ageing
Inquiry Into Long-Term Strategies To Address
The Ageing Of The Australian Population
Over The Next 40 Years.

November 2002

SCOA
Superannuated
Commonwealth
Officers'
Association Inc.

ABOUT SCOA

The **Superannuated Commonwealth Officers' Association** (SCOA) Inc is nearly 80 years old – it is non-political, not for profit and financed entirely by its members. It represents the interests of:

- retired civilian Australian Federal Agency and Territory Government employees and their families;
- people in the public service who will receive a Commonwealth superannuation benefit (or lump sum) on retirement; and
- former employees who have deferred (preserved) their pension entitlement.

SCOA has a National (Federal Council) Office in Canberra and separate branches in each State and the ACT. SCOA branches are staffed by volunteers.

The Association has links with State and Defence superannuant organisations and with other key organisations concerning older persons and seniors.

SCOA's objectives are to:

- improve and safeguard the retirement interests of our members;
- protect the value of members' superannuation entitlements and related benefits;
- secure fair and equitable treatment compared to other retirees and pensioners; and
- provide information to members on issues such as - superannuation; taxation; age and other Centrelink and Department of Veterans' Affairs benefits; health and aged care; concessions; compensation; employment of older workers; and general investment matters.

At 30 June 2002 there were 376,763 members of the CSS and PSS schemes, comprising:

- 169,715 contributors;
- 123,505 pensioners, and
- 83,543 deferred beneficiaries.

CONTENTS

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 1: *a) This Committee recognise the limited sources of income available to the majority of retired persons and the factors which tend to reduce the real value of such incomes over time.*

b) The present treatment of allocated pensions and annuities in assessing Age Pensions and Veterans' Affairs Service Pensions, be maintained.

RECOMMENDATION 2: *This Committee recognise the delay by the Government in responding to the Senate Select Committee's April 2001 report A "Reasonable and Secure" Retirement? and request the Government to expedite its response to SCOA and other relevant parties.*

RECOMMENDATION 3: *That future policies regarding initiatives such as that introduced to offset the effects of the GST, be applied to all affected Australians .*

RECOMMENDATION 4: *Appropriate amendments be made to the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 to enable superannuants to have the option to split their superannuation pensions with their spouse for tax planning purposes.*

RECOMMENDATION 5: *The Government expedite its consultation with interested parties in examining the complexity of contributions splitting for defined benefit members.*

RECOMMENDATION 6: *That the Government amend the Senior Australian Tax Offset provisions to include a definition of 'taxable income' that excludes any moneys resulting from cashing in a superannuation lump sum or ETP during the year having to be included as 'taxable income'.*

RECOMMENDATION 7: *a) Taxation policies be reviewed and amended to ensure that superannuation moneys are taxed only once and that point of taxation should be on earnings of invested superannuation moneys prior to payment to superannuants.*

b) The 15% contributions tax on funds be abolished, ensuring that present retirees or persons with money presently in a superannuation fund who have already incurred the 15% tax on superannuation contributions and income are not discriminated against. In particular, *i) the 15% tax rebate on superannuation pensions not be reduced or abolished:*

ii) the tax on ETPs of taxpayers who presently have moneys in superannuation funds be abolished or not be increased.

RECOMMENDATION 8: *That the 15% tax offset for Australian superannuation annuities and pensions be introduced for the employer provided pension paid to Commonwealth superannuants.*

RECOMMENDATION 9: *That the Government adjust income taxation scales twice yearly based on increases in a wage based index or the CPI whichever is the higher.*

RECOMMENDATION 10: *That policies and funded programs be put in place, as a matter of priority, to address current problems associated with mature age unemployment.*

RECOMMENDATION 11**:** *a) That additional funding be provided for computer training of mature age Australians where the demand indicates this is necessary.*

b) The Committee recommend that the Government fund regular education campaigns to increase the awareness of all Australians of the need to save for retirement and not rely solely on the superannuation guarantee and/or the Age Pension.

c) The Committee recommend that funding be provided to educate Australians on superannuation/investment matters.

RECOMMENDATION 12: *a) This committee examine the hospital funding issue with the objective of removing the disincentive of privately insured patients to be treated as private patients.*

b) The Government place a high priority on the resolution of the issues causing the withdrawal of doctors from Medicare bulk billing arrangements.

RECOMMENDATION 13: *The Federal Government, in cooperation with the States and Territories, develop a national dental health policy and provide funding for a national dental health program on a matched funding arrangement with the States and Territories similar to the Home and Community Care (HACC) Program.*

1.0 INTRODUCTION

1.0.1 The Superannuated Commonwealth Officers' Association appreciates the opportunity to participate in this most important inquiry. Our Association has made several submissions to various Senate Standing Committees in the past two years, mostly in relation to superannuation. Some of the issues raised in those submissions are contained in this document as they are relevant to the terms of reference for your enquiry. Many of the issues discussed in this submission affect not only Commonwealth superannuants but also Defence Force personnel, State Government superannuants and other self funded retirees. Whilst this submission often refers to Commonwealth superannuants, SCOA would like your Committee to consider the matters raised in a broader context, as they often affect a range of retiree groups in addition to Commonwealth superannuants.

1.0.2 SCOA was pleased to note that your Committee's terms of reference are sufficiently wide to cover the key elements relating to the standard of living of ageing Australians. As mentioned in SCOA's presentation to the Senate Select Committee's Inquiry into Superannuation and Standards of Living in Retirement in July this year, a whole of Government approach is becoming increasingly necessary in determining the standard of living retirees will have into the future. For too long, successive Governments have introduced policies affecting older Australians in a sometimes piecemeal and fragmented manner.

1.0.3 Examples of this are contained in this submission and relate to matters such as taxation, income splitting, fee setting for nursing homes and indexation of superannuation pensions.

1.0.4 Our Association is disappointed with the conflicting advice contained in two major statements made by the Government in the past year. I refer to the *National Strategy for an Ageing Australia* and the *Intergenerational Report*, released in the last Federal Budget. In the former document, the Prime Ministerial statement said:

> *Good economic management and strategic long term thinking have positioned Australia well to both meet the challenges and take advantage of the opportunities of an older Australia. Our retirement income system is sound. The reforms of our taxation system have provided a strong revenue base to support an ageing population. Our health reforms have enabled millions more Australians to take responsibility for their own health and medical care and eased the growing pressure on the public system.*

1.0.5 A few months later, on page 3 of the "In Brief" version of the *Intergenerational Report* accompanying the last Federal Budget, it says:

> *Australia like most industrialised countries, is experiencing an ageing of its population. This is already beginning to place some pressure on government spending. However, much larger pressures are expected to emerge when the "baby boomer" generation starts reaching old age in the middle of the next decade.*

1.0.6 The latter statement not only contradicts the Prime Minister's statement of February this year, but also sends messages to Australia's baby boomers that they are going to be a burden on future generations. That message is not only contradictory but it also fails to recognise the considerable contribution baby boomers have made, and continue to make, to the great society we all enjoy. It is hardly the way to reward or even recognise such a significant contribution and can only have raised fears in the minds of many of these Australians about the Government's capacity to adequately assist them as they age.

1.0.7 SCOA wishes to contribute to your Committee's Inquiry in a positive manner but has serious concerns about such messages.

1.0.8 This submission will discuss issues under the key themes as outlined in the Committee's media release of 26 June 2002.

2.0 CURRENT AND FUTURE ADEQUACY OF RETIREMENT INCOMES

2.0.1 The Committee's attention is drawn to what SCOA sees as the key ingredients of a retirement income that meets the retirement needs of **all Australians**. Those ingredients are:

- **Income** that ensures an acceptable standard of living. In the chapter headed **Retirement Income System** in the Government's *National Strategy For An Ageing Australia*, it states two goals:

  A secure and sustainable retirement income, and

  A retirement system providing an adequate retirement income for all Australians, and supporting and encouraging individual contributions to retirement savings throughout working life.

  The actions required to meet those goals include "maintaining the value of the means tested aged pension, with adjustments being made in line with movements in cost of living and wages".

  SCOA supports the goals stated in the strategy document **but notes the failure of that important Government strategy paper, to acknowledge the appropriateness and fairness of maintaining the value of superannuants' pensions.** That is, the actions proposed in the document will not achieve the first mentioned goal of **"**A secure and **sustainable** retirement income" for superannuants whose pensions are inappropriately indexed.

- **Maintenance of retirement income** through an indexation system that permits **all retirees** to share in the benefits of productivity gains or increases in community standards and for their pension income to **maintain relativity with the wage on which it was based at the time the superannuation was first paid**. (In calculating the initial superannuation pension to be paid to Commonwealth superannuants, the formula uses the salary figure of the employee prior to retirement.) **The use of the CPI rather than a wage-based indexation destroys that relativity**.

- **Taxation policies that do not erode the real benefit of retirement incomes** and that do not discriminate against particular groups of retirees. Commonwealth superannuants and some other superannuants continue to receive discriminatory taxation treatment in a number of ways which are detailed later in this submission. In July SCOA appeared before the Senate Select Committee on Superannuation's Inquiry into the adequacy of the tax arrangements for superannuation and related policy, to address the retirement income and aged and health care needs of Australians.

3.0 INCOME

3.0.1 For superannuants this may comprise a mix of superannuation, paid employment, investment earnings and Centrelink or Department of Veterans' Affairs pensions.

3.1 Superannuation

3.1.1 Contrary to a widely held view, many Commonwealth, Defence Force and State superannuants are not well off. At 30 April 2002, Commonwealth superannuants' pensions were as follows:

- 19.0% receive less than $10,000 per annum.
- 38.5% receive $10,000-$19,999 per annum.
- 27.3% receive $20,000-$29,999 per annum.
- 10.8% receive $30,000-$39,999 per annum.
- 3.1% receive $40,000-$49,999 per annum.

3.1.2 This means that 57.5% receive **less than** $20,000 per annum. In many instances this superannuation pension must support BOTH members of a couple. It approximates the combined married rate of Age Pension once the value of fringe benefits is considered.

3.1.3 Superannuation is a condition of service and not a welfare provision. Commonwealth superannuants made compulsory contributions to their superannuation over many years. They were employed with an expectation that they had a superannuation scheme that would enable them to maintain a reasonably equivalent standard of living in retirement or in the event of disability.

3.1.4 The capacity of the Commonwealth Superannuation Scheme, CSS, and the Public Sector Superannuation Scheme, PSS, to provide an adequate retirement income has been progressively eroded by the application of the CPI for indexation purposes. This has in many cases resulted in more Commonwealth superannuants drawing on the welfare system. That is at odds with successive governments' policies of reducing Budget outlays on retirement incomes. A survey of SCOA members indicated that more than 50% of Commonwealth superannuants receive a part Age Pension. The CPI is also used to index superannuation pensions for many State Government superannuation schemes.

3.1.5 Between March 1997 and March 1998 there was a 0.2% negative movement in the CPI. This meant that Commonwealth and State superannuants, whose pensions were CPI indexed, did not receive an increase for 2 years. During the same period, Average Weekly Earnings increased by 4%.

3.1.6 The present Government has clearly acknowledged the deficiencies in using the CPI and in 1997 legislated to maintain the single rate of Age Pension at 25% of Male Total Average Weekly Earnings. In his second reading speech, the Hon Phillip Ruddock, representing the then Minister for Social Security said: "….. *However, CPI indexation, by itself, may not enable pensions to keep pace with changes in the living standards of the rest of the community. By legislating to maintain the single rate of pension at 25% of Male Total Average Weekly Earnings, the Government is demonstrating its commitment to ensure that pensioners share in increases in community living standards."*

3.1.7 SCOA wishes to draw your Committee's attention to the recommendations of the Senate Select Committee on Superannuation's Report of April 2001, *A "Reasonable and Secure" Retirement?* that recommended the examination of the feasibility of adopting alternative indexation methodologies for both Commonwealth and State Superannuants. The Government has failed to respond to that report after 19 months. Commonwealth, Defence and State superannuants naturally see this as blatant discrimination that adversely affects them compared to Age Pensioners whose pensions are indexed in accordance with the greater of the CPI and Male Total Average Weekly Earnings. This discrimination affects approximately 184,000 current Commonwealth and Defence Force superannuants. It will also affect a further 350,000 Commonwealth and Defence Force contributors and deferred beneficiaries when they become superannuants.

3.1.8 Our association has obtained independent and credible information from the National Centre for Social and Economic Modelling that clearly demonstrates the considerable cost offsets associated with a change to a wage based index. See *Attachment A*. Those cost offsets, due to increased PAYG/GST tax revenue and reductions in Age Pension outlays, are conservatively estimated at 37% of the gross cost of moving to a wage based index. The Intergenerational Report notes that Government outlays on Commonwealth superannuation will fall significantly, as a percentage of GDP, over the period under review.

3.2 Investment Earnings

3.2.1 Most retired Australian Public Service employees did not enjoy a sufficiently generous salary to enable them to accumulate assets that could contribute significantly to their retirement needs over and above the superannuation pension received. On entering the Australian Public Service, they generally accepted a salary less than their private sector counterparts as a trade off for job security and an adequate retirement income. A retirement that would not progressively be eroded by the application of an inappropriate index.

3.2.2 Investment earnings form an important part of some superannuants' retirement incomes. While recognising that there are significant economic benefits in lower interest rates, the considerable drop in rates that has occurred in the last decade has impacted negatively on the retirement income of many superannuants and retirees generally. For some superannuants, this may qualify them for a part Centrelink or Department of Veterans' Affairs pension or an increase in these pensions.

3.2.3 This is clearly at odds with the Government's policy of reducing reliance on welfare payments in retirement. A drop in interest rates may also cause retirees to draw down on their savings to compensate for reduced income from interest yielding investments. Again, this reduces the self-sufficiency of retirees by eroding their investment base**.** SCOA recognises the benefits of low interest rates to the Australian economy. **However, the combined impact of eroded superannuation pensions through inappropriate indexation and reduced interest income due to falling interest rates, significantly reduces the standard of living of affected retirees and causes them to turn to the welfare system or attempt to return to the workforce to try and maintain a reasonable standard of living. Attempts to return to work often cause more disillusionment as it is difficult for mature age Australians to find work.**

3.3 Centrelink and Department of Veterans' Affairs Pensions

3.3.1 As reported in SCOA's submission to the Senate Inquiry in January 2001, it is widely recognised that Commonwealth superannuants believed they would not have to rely on an Age Pension or Veterans' Affairs Service Pension to supplement their superannuation pension. They believed this because they have had to contribute, **compulsorily**, 5% of their salary for the whole of their public service life. These contributions, plus income thereon, can be taken as a **non-indexed** pension or converted to a lump sum. Some of course, contributed up to an additional 5% to further ensure their non-reliance on welfare payments.

3.3.2 Further, having contributed a compulsory 5% they were led to believe that their employer would provide a pension which would maintain a comparatively reasonable standard of living, particularly having regard to the large employee contributions.

3.3.3 In a privately conducted survey commissioned by SCOA in 2001, it was established that 53% of respondents relied on the Age Pension to supplement their superannuation. **That number can only grow until indexation and taxation policies ensure the real value of superannuation pensions is not eroded.** Whilst SCOA does not have figures indicating the reliance on the Age Pension by other groups of superannuants, it is likely that a good percentage of those superannuants also rely on this form of retirement income.

3.3.4 The favourable treatment of allocated pensions and annuities in assessing the amount of Age Pension and DVA Service Pension paid, provides an effective incentive for Australians to invest for their retirement and thereby reduce their dependence on an Age or DVA Service Pensions. SCOA urges the Committee to recommend the continuance of the treatment these investments receive in assessing Age Pensions.

RECOMMENDATION 1: a) This Committee recognise the limited sources of income available to the majority of retired persons and the factors which tend to reduce the real value of such incomes over time.

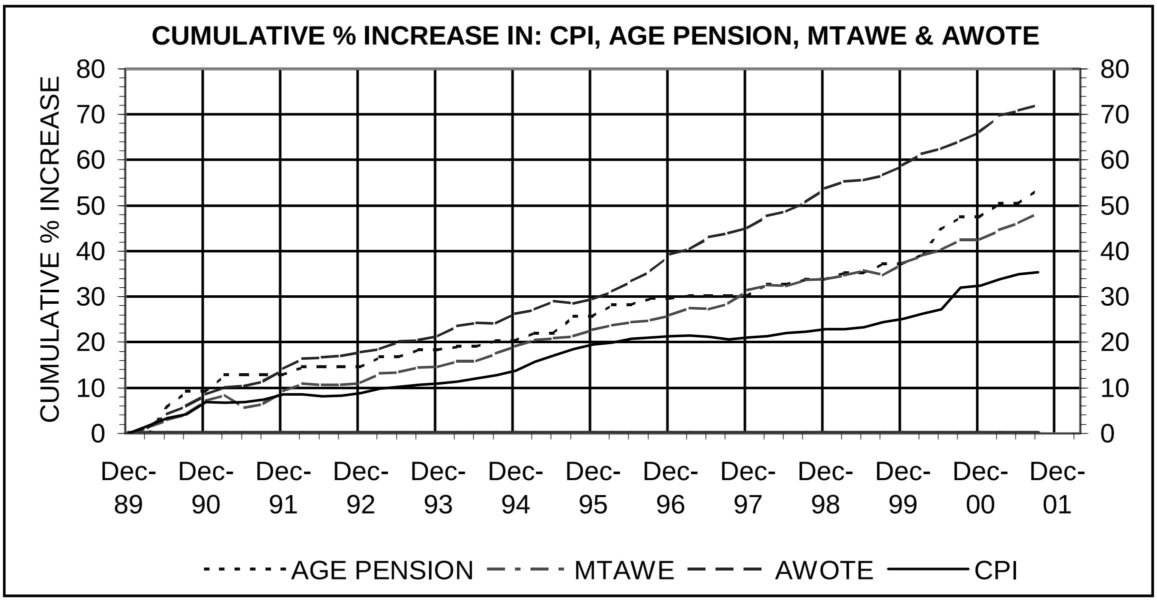
b) The present treatment of allocated pensions and annuities in assessing Age Pensions and Veterans' Affairs Service Pensions, be maintained.

4.0 MAINTENANCE OF RETIREMENT INCOME

4.0.1 The maintenance of the real value of their retirement income is paramount to all Australians. This includes self-funded retirees. The Senate Select Committee on Superannuation was presented with considerable evidence during its Inquiry in 2001 into the benefit design of Commonwealth public sector and Defence Force superannuation funds and schemes, which demonstrated the unfair annual CPI indexation of superannuated Commonwealth public sector pensions, relative to other Australians' retirement incomes. SCOA's evidence presented during that earlier inquiry, showed that in the 10-year period, 1990 - 2000, CSS and PSS pensions increased by 24 per cent.

4.0.2 However, over the same period, Average Weekly Earnings (AWE) increased by between 37 and 47 per cent, and Australian Public Service salaries by an average of 40 per cent. The Senate Select Committee on Superannuation recognised the inappropriateness of the CPI as a method of indexation by not only recommending that it be replaced by a wage-based index for Commonwealth superannuants, but by also recommending that State Government schemes also adopt a wage-based index.

4.0.3 The following table clearly demonstrates the considerable disadvantage to superannuants, of the application of the CPI to index their superannuation pensions. The use of the CPI has resulted in CSS and PSS pensions **falling behind by more than 20%** over the last decade compared with movements in wages.



Source: Parliamentary Library, Research Paper 30, 1999-2000 and ABS Cat No 6301 and 6401.

4.0.4 The following estimated movements in CPI, AWOTE and AWE further emphasises the erosion the continued use of the CPI will have on Commonwealth, Defence Force and some State Government superannuants' pensions.

Estimated Movements in CPI, AWOTE, AWE 2001-02 to 2006-07

Measure	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
CPI	2.3%	2.6%	2.8%	1.6%	1.1%	2.2%
AWOTE	4.5%	3.7%	4.4%	4.8%	3.8%	3.9%
AWE	4.2%	3.6%	4.3%	4.7%	3.3%	4.0%

Source: Access Economics

4.0.5 The Government has failed to respond to the recommendations in the Senate Select Committee on Superannuation's 2001 Report, *A "Reasonable and Secure" Retirement?* other than to approve the bi-annual indexation of pensions in the 2001/2002 Budget. This silence continues despite the Government's regular announcements of achievements in sound economic management and the importance of maintaining the real value of retirement incomes. It is now 19 months since release of the Senate Committee's report.

4.1 A Fair Measure

4.1.1 There is ample evidence of the recognition that the CPI has outlived its use as a proper measure of price increases and that its appropriateness as the means of indexing retirement incomes is equally outlived.

4.1.2 The Australian Bureau of Statistics (ABS) in its evidence to the 2001 Senate Inquiry into the CSS, PSS and Defence Force Superannuation Schemes said: "the adequacy of the index depends on the particular purposes intended". They judged that the index was perfectly adequate to measure price rises in certain items in the basket of goods over the period under review. However, they added that "to the extent that fixed basket of goods and services becomes less and less representative of an overall living standard, then the CPI will not pick it"**. The ABS added that: "The CPI is not a measure of the cost of living. It is a measure of inflation and there are differences between the two things."** The ABS concluded that if the purpose of the CPI was to maintain a relative standard of living with other sectors in society then "an earnings measure of some sort would be a more appropriate vehicle for indexation".

RECOMMENDATION 2: This Committee recognise the delay by the Government in responding to the Senate Select Committee's April 2001 report A "Reasonable and Secure" Retirement? and request the Government to expedite its response to SCOA and other relevant parties.

5.0 TAXATION POLICIES

5.01 Another major factor affecting the maintenance of retirement incomes is taxation. Commonwealth superannuants and some other superannuants have been particularly discriminated against in several ways due to the application of unfair taxation policies.

5.02 On the introduction of the Goods and Services Tax (GST) in 2000, the Government approved a 4% adjustment to Centrelink pensions to compensate for the resultant GST cost increases. SCOA, whilst being fully supportive of that decision, sees it as inequitable that this adjustment was not approved for the 118,000 Commonwealth superannuants who are already disadvantaged due to CPI based indexation. Commonwealth superannuants who also receive a part Centrelink or Veterans' Affairs pension must surely wonder why separate components of their retirement income were treated so differently. In addition, superannuants had to bear those GST cost increases until July the following year when their superannuation pension was increased in line with CPI price movements. This is a clear example of fragmented and discriminatory policy formulation because superannuants were denied the GST "catch up" payment. This denial occurred, despite the fact that Age Pensions are indexed more favourably than Commonwealth superannuants and many State Superannuants.

RECOMMENDATION 3: That future policies regarding initiatives such as that introduced to offset the effects of the GST, be applied to all affected Australians .

5.1 Income Splitting

5.1.1 A major concern of Commonwealth superannuants is their ineligibility to divert or notionally split their superannuation pension with their partners for tax planning purposes. They see this as particularly unfair when members of a couple who are in receipt of Centrelink Age Pensions and DVA Service Pensions, have those pensions paid separately to each member of a couple. This inequity further disadvantaged some Commonwealth superannuants because their inability to split their income rendered them ineligible for the one-off Self Funded Retiree Bonus of up to $2,000 paid in 2000.

RECOMMENDATION 4: Appropriate amendments be made to the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 to enable superannuants to have the option to split their superannuation pensions with their spouse for tax planning purposes.

5.2 Superannuation Contributions Splitting

5.2.1 The 2002/2003 Budget provided for superannuation contributions splitting arrangements to commence from 1 July 2003. SCOA supports contributions splitting because of the tax and other advantages it offers. However, that arrangement has been restricted to accumulation fund contributors, denying defined fund benefit members its benefits. This is a further example of discrimination against a particular category of self-funded retirees. Senator Coonan in her July 2002 Consultation paper on this matter, stated that "*There are a number of additional complexities and issues in extending contributions splitting to defined benefit members with a defined benefit interest. Therefore the Government does not propose to extend contributions splitting at this time to defined benefit interest members*." Once again, SCOA is disappointed that particular groups have been denied this initiative.

5.2.2 SCOA was advised by a member of Senator Rod Kemp's staff prior to the last Federal election that the proposal was confined at this stage to members of accumulation schemes because of advice from the superannuation industry that there were technical difficulties associated with extending it to defined benefit schemes such as the CSS and PSS and the Commonwealth's Defence Force superannuation schemes. SCOA was assured that the Government was not opposed 'in principle' to the proposal being extended to defined benefit schemes and that it would continue to work through the issue in consultation with the industry. To date SCOA is unaware of approaches to interested parties to work through those complexities that Senators Coonan and Kemp have referred to. SCOA's disappointment with the exclusion of this initiative for defined benefit members was relayed to the Treasury Superannuation Unit managing Senator Coonan's Consultation paper on 26 August 2002.

RECOMMENDATION 5: The Government expedite its consultation with interested parties in examining the complexity of contributions splitting for defined benefit members.

5.3 Treatment of Eligible Termination Payments (ETPs) Under Calculations for the Senior Australians Tax Offset (SATO)

5.3.1 SCOA has drawn the attention of the Australian Taxation Office (ATO) to an apparent inequity in relation to the income test for the higher tax rebates or Senior Australian Tax Offset announced in the 2001/2002 Budget.

5.3.2 The upper threshold for a couple is a combined taxable income of $58,244. However, if either party receives an ETP by way of cashing in a superannuation lump sum or receipt of a 'golden handshake' during the year, it is added to their "taxable income' for the threshold test, even if the ETP is taxed at a lower rate including 0%. SCOA is aware that for the year ended 30 June 2002, the assessable amounts of ETPs are taxed at a lower rate, up to the threshold of $105,843, following AWOTE adjustments.

5.3.3 The inequity is best illustrated by the following extreme example.

	Zero Taxed ETP cashed	**Other Taxable Income**	**Total "Taxable" Income**
	$	**$**	**$**
Spouse A	25,632	16,306	41,938
Spouse B	NIL	16,306	16,306
	25,632	32,612	58,244

5.3.4 If Spouse A had not cashed in the ETP, neither spouse would pay any tax nor would they have to lodge a tax return. However, because of having cashed out an ETP neither spouse gets any benefit of the higher SATO.

5.3.5 The ATO response is that they are merely following the letter of the law. They advise that there is no specific definition of the term 'taxable income' within the SATO provisions. As there is no specific definition, they use the general definition as stated in Section 6 of the *Income Tax Assessment Act 1936.* There are no provisions in this Act or the 1997 Act that allow the exclusion of certain payments such as ETPs from taxable income for SATO calculation purposes. If the inclusion of an ETP in a person's taxable income means that their taxable income is greater than the income limit to be eligible for SATO, then the person will not be eligible for SATO in that particular year.

5.3.6 This situation seems to be totally inequitable and a back-door way of taxing superannuation lump sums that otherwise attract no tax. On the other hand, however, it may have been overlooked in the development of the SATO and associated legislative changes and may be an unintended consequence.

RECOMMENDATION 6: That the Government amend the Senior Australian Tax Offset provisions to include a definition of 'taxable income' that excludes any moneys resulting from cashing in a superannuation lump sum or receipt of other ETP during the year having to be included as 'taxable income'.

5.4 Multiple Taxation

5.4.1 The multiple taxation of superannuation monies is a significant issue for all superannuation contributors. There is clearly an inconsistency with this multiple taxation policy and the taxation policy applied for example to franked dividend payments in the hands of shareholders. SCOA has made recommendations to the recent Senate Select Committee on Superannuation to address this multiple taxation matter. Its recommendations to that Committee on this matter are:

RECOMMENDATION 7: a) Taxation policies be reviewed and amended to ensure that superannuation moneys are taxed only once and that point of taxation should be on earnings of invested superannuation moneys prior to payment to superannuants.

b) The 15% contributions tax on funds be abolished, ensuring that present retirees or persons with money presently in a superannuation fund who have already incurred the 15% tax on superannuation contributions and income are not discriminated against. In particular,

> ***i) the 15% tax rebate on superannuation pensions not be reduced or abolished:***
>
> ***ii) the tax on ETPs of taxpayers who presently have moneys in superannuation funds be abolished or not be increased.***

5.4.1 A previous Government introduced discrimination against Commonwealth superannuants receiving a pension paid by their employer (the Government) by limiting the '15% tax offset for Australian superannuation annuities or pensions' to private enterprise superannuants.

RECOMMENDATION 8: That the 15% tax offset for Australian superannuation annuities and pensions be introduced for the employer provided pension paid to Commonwealth superannuants.

5.5 "Bracket Creep"

5.5.1 "Bracket Creep" is a major concern of retirees, including SCOA members, as it is increasingly reducing their disposable income. They are particularly concerned at forecasts by reputable analysts that unless immediate action is taken to address the adverse impacts of "Bracket Creep" on retirees and other low and middle income wage earners that the income of these people will soon be subject to the top taxation rate.

5.5.2 This and other aspects of "bracket creep" have received considerable coverage in the press recently and have been raised in Parliament. SCOA's preference would be for taxation scales to be indexed twice yearly to a wages based index or the CPI whichever is the higher.

RECOMMENDATION 9: That the Government adjust income taxation scales twice yearly based on increases in a wage based index or the CPI whichever is the higher.

6.0 WORKFORCE PARTICIPATION

6.01 Unfortunately this is not always an available option for mature age Australians due to the general reluctance of employers to hire mature age staff, particularly where they are seeking full-time employment.

6.0.2 This fact has been recognised in the Government's "*National Strategy For An Ageing Australia*" paper. That document says the Access Economics research shows that three out of every five people who are made redundant do not wish to be made redundant; they wish to remain in the workforce. However, after age 45 for men and age 40 for women, it has become very difficult for such people to re-enter the workforce once they have left it. Unemployment is often psychologically and financially devastating for mature age people and for those who are dependent on them. Associated difficulties are accentuated by people having children later in life and often still having pre and/or school age children at the time of being made redundant.

6.0.3 SCOA applauds the *National Strategy's* employment goals and proposed actions to address mature age employment issues contained in this important Government policy document. The Government's review into Age Discrimination, headed by the Attorney General's Department is also welcomed by SCOA. SCOA believes high priority should be given to this issue in terms of development of policies and funded programs. Despite the existence of the *National Strategy for an Ageing Australia,* SCOA is unaware of any significant funding in the last Budget to assist mature age Australians to obtain employment. SCOA has noted however, approval of limited funds in the last Budget for computer training for mature age Australians.

6.0.4 Increasingly, mature age Australians need paid employment to supplement their eroded superannuation/investment income/s. One way of easing this problem would be to change the indexation arrangements for those superannuants whose pensions are indexed in accordance with CPI, to a wages based indexation or the CPI whichever is greater, i.e, to the same indexation method as that for Age Pensioners and Members of Parliament.

6.0.5 The effect of this would be to reduce competition between mature age workers and younger Australians for available jobs. This would have a number of benefits including helping to reduce the high level of youth unemployment, freeing up potential mature age workers to undertake valuable volunteer work and reducing social security benefit outlays because younger people with dependants draw more from the public purse than do unemployed older people without dependants. The estimated value of volunteer work in Australia is $155 billion annually. That is not to say that older Australians who wish to work should be discouraged from doing so. SCOA recognises that some mature age Australians want to work for reasons other than remuneration.

6.0.6 SCOA recognises that there would be Budget implications for this suggestion. However, there are indisputable cost offsets through increased PAYG tax and GST, plus there would be reductions in Age Pension Outlays for those superannuants receiving such payments. Independent, reliable estimates put these offsets at a minimum of 37% of the cost.

RECOMMENDATION 10: That policies and funded programs be put in place, as a matter of priority, to address current problems associated with mature age unemployment.

7.0 AGED CARE

7.0.1 One of the largest costs some ageing Australians will have to meet will be the cost of securing and maintaining a place in a residential aged care facility. This is of particular concern to Commonwealth superannuants and other retirees, whose superannuation is not indexed according to movements in wages. Fees for residents of aged care facilities are linked to Age Pension payments, which are indexed in accordance with movements in wages.

7.0.2 We know that some superannuants face considerable ongoing financial hardship because their superannuation pension is not tied to the same index as that of Age Pensioners. Their capacity to draw on their assets to bridge this gap in their income is limited because of the bond they have already paid to secure their place in the residential care facility. The number being placed in this difficult position is set to rise, as the Intergenerational Report clearly indicates.

7.0.3 This causes many older Australians considerable worry at a time in their life when they are least able to manage it because of their age and their health

7.0.4 No recommendation is made here because Recommendation 2 applies.

8.0 EDUCATION

8.0.1 The capacity of some mature age Australians to re-enter the workforce is not only restricted by the attitude of some employers towards older Australians but sometimes by their lack of computing skills. The Government's initiative in the last Budget to provide $5.8m per year for the next four years to facilitate the training of mature age people in computer information technology is applauded. However, that amount will fund the training of 11,500 mature age people. SCOA believes that this amount of funding may be insufficient to fund all those whose employment prospects are affected by this lack of computer skills.

8.0.2 A recommendation SCOA made to the Senate Select Committee on Superannuation in July referred to the importance of informing Australians at an early age, of the importance of making adequate provision for their retirement. It is most likely that many Australians believe that the Superannuation Guarantee alone will do this. SCOA believes that there must be far greater publicity of the need to make voluntary savings for retirement. This is particularly so if they are to be able to afford the lifestyle they have planned.

8.0.3 Associated with this form of education, is the need to educate Australians about investment matters, including how to select a superannuation fund that will maximise their investment income. With the freedom of choice of superannuation funds legislation currently before Parliament, such education must be hastily introduced if those affected are to make well informed decisions on where to make their contributions.

RECOMMENDATION 11: a) That additional funding be provided for computer training of mature age Australians where the demand indicates this is necessary.

b) The Committee recommend that the Government fund regular education campaigns to increase the awareness of all Australians of the need to save for retirement and not rely solely on the superannuation guarantee and/or the Age Pension

c) The Committee recommend that funding be provided to educate Australians on superannuation/investment matters.

9.0 HOUSING AND HEALTH

9.1 Public Hospitals

9.1.1 The health care of ageing Australians is of great importance to the standard of living they will experience. It is widely accepted that health care is a paramount concern for ageing Australians. SCOA in its pre-Budget submission to the Government, requested that sufficient funding must be available to support an effective public hospital system.

9.1.2 At present, the public hospital system can be utilised by both patients with and without private health insurance. Patients with private health insurance can elect to be treated as a public patient and will usually do so to avoid having to meet the cost of gap payments. This then consumes Medicare funding rather than private health insurance funds that would have been used had the patient elected to be treated as a private patient. Often, the patient will be treated by the same doctor/s and receive the same standard of care that they would as a private patient.

9.1.3 The obvious solution would seem to be to remove the disincentive to be treated as a private patient, i.e, gap payments.

9.2 Bulk Billing

9.2.1 A matter of major concern to many older and lower paid Australians is the significant reduction in the number of doctors who bulk-bill patients. This withdrawal of "free" medical services is disturbing and can only cause worry and possibly neglect of health care for those affected. The Medicare system was a welcome health initiative and SCOA asks that the Committee make appropriate recommendations to the Government to facilitate the return of free medical care to those Australians whose financial circumstances often prevent them from seeking medical care.

RECOMMENDATION 12:* a) *This committee examine the hospital funding issue with the objective of removing the disincentive of privately insured patients to be treated as private patients.

b) The Government place a high priority on the resolution of the issues causing the withdrawal of doctors from Medicare bulk billing arrangements.

9.3 Dental Health

9.3.1 The dental health of older people is vital to their overall health. It impacts on their dietary intake and if neglected, can lead to serious gastro-intestinal disorders. SCOA believes that the funding of a Commonwealth Dental scheme similar to that which existed several years ago, be reintroduced. The costs of such a scheme would be significantly offset by the reduction in health outlays due to improved nutritional intake.

RECOMMENDATION 13: The Federal Government, in cooperation with the States and Territories, develop a national dental health policy and provide funding for a national dental health program on a matched funding arrangement with the States and Territories, similar to the Home and Community Care (HACC) Program.

NATSEM

National Centre for Social and Economic Modelling
• University of Canberra •

Impact of indexation change on the Commonwealth's superannuation schemes

APPENDIX A

NATSEM REPORT

Impact of indexation change on the

Commonwealth's superannuation schemes

NATSEM

National Centre for Social and Economic Modelling

• University of Canberra •

The National Centre for Social and Economic Modelling was established on 1 January 1993, and currently receives core funding from the University of Canberra and the federal departments of Family and Community Services, Health and Aged Care, Education, Training and Youth Affairs, and Employment, Workplace Relations and Small Business.

NATSEM aims to be a key contributor to social and economic policy debate and analysis by developing models of the highest quality, undertaking independent and impartial research, and supplying valued consultancy services.

Policy changes often have to be made without sufficient information about either the current environment or the consequences of change. NATSEM specialises in analysing data and producing models so that decision makers have the best possible quantitative information on which to base their decisions.

NATSEM has an international reputation as a centre of excellence for analysing microdata and constructing microsimulation models. Such data and models commence with the records of real (but unidentifiable) Australians. Analysis typically begins by looking at either the characteristics or the impact of a policy change on an individual household, building up to the bigger picture by looking at many individual cases through the use of large datasets.

It must be emphasised that NATSEM does not have views on policy: all opinions are the authors' own and are not necessarily shared by NATSEM or its core funders.

Director: Ann Harding

Report for the Superannuated Commonwealth Officers' Association

23 August 2002

National Centre for Social and Economic Modelling
University of Canberra ACT 2601 Australia
170 Haydon Drive Bruce ACT 2617

Phone + 61 2 6201 2750 Fax + 61 2 6201 2751
Email natsem@natsem.canberra.edu.au
Website www.natsem.canberra.edu.au

1 Introduction

The Superannuated Commonwealth Officers' Association (SCOA) is requesting the Government to amend the method of indexation of the Commonwealth's superannuation schemes, specifically the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme, from an index based on the Consumer Price Index, CPI, to an index that more adequately reflects the actual increase in the cost of living, in keeping with the recommendations of the Senate Select Committee's report of April 2001, "A Reasonable and Secure Retirement? ". While SCOA recognises that this will increase the government's overall liabilities, the impacts of decreased Age Pension outlays and increased taxation receipts have not been fully considered. These impacts, referred to as 'clawback', are the subject of this report.

2 Clawback

Clawback in regards to increasing superannuation payments is considered to consist of three parts:

- Additional income taxation revenue;
- Reduced Age Pension outlays; and
- Extra GST receipts.

Each of these is considered in the following paragraphs and then they are combined to provide the overall clawback.

An important part of the calculations is that any increase will be based on the current superannuation pension being received. This means not everyone on a superannuation pension gets the same amount. For example, say, a one percent increase in the pension is given. A person on a pension of $10,000 will get $100 extra while a person on a pension of $50,000 will get $500 extra. In Table 1 the difference between the numbers of people on various pensions is compared with the proportion of any 'increase pool' that would flow to that group.

The calculations in this report are based on the proportions of the 'increase pool', rather than the number of people.

Table 1 **Civilian Pensions in Force, 30 April 2002**

Pension	Mid-point Pension	Pensioners	Proportion of Pensioners	Proportion of any 'increase pool'
	$	Number	%	%
< $10,000	5,000	22,501	19.0	4.9
$10,000 - $19,999	15,000	45,504	38.5	29.6
$20,000 - $29,999	25,000	32,251	27.3	35.0
$30,000 - $39,999	35,000	12,811	10.8	19.5
$40,000 - $49,999	45,000	3,697	3.1	7.2
$50,000 - $59,999	55,000	1,069	0.9	2.6
$60,000 +	65,000	455	0.4	1.3
Total		118,288	100.0	100.0

Note: Assumes any increase is paid as a percentage of current pension

Source: NATSEM calculations based on COMSUPER report, 30 April 2002

2.1 Additional income taxation revenue

A change to the indexation method would result in higher rates of pension being paid to Commonwealth superannuation pensioners. Tax will have to be paid on these higher amounts. As the tax rate is a function of taxable income, the amount of tax will depend on the total taxable income of the superannuant. This total income information is not available but a major component is available from COMSUPER.

According to COMSUPER, there were 118,288 civilian pensions in force on 30 April 2002 and their income is distributed as shown in Table 1. While the data only reflects income paid by COMSUPER, this is the most significant income source for most Commonwealth superannuants. Other reports, such as the *PSS and CSS Long Term Cost Report*, have assumed that all Commonwealth superannuants have other income equal to five percent of average weekly earnings (Towers Perrin 1999 p.44) but in this case we assume they have no other income. The impact of this assumption is that the figures in this report represent a LOWER LIMIT.

Of the 118,288 superannuants, 57.5% receive a pension of less than $20,000. These pensioners would not pay any tax as they are below the taxation threshold of $20,000 (basic threshold plus senior's rebate). Some 41.2% of pensioners receive a pension of $20-50,000. They would pay 30 cents in tax for every additional dollar in pension they received. Similarly, 0.9% receives a pension of $50-60,000 and would pay 42 cents in tax for every additional dollar in pension received. Finally, 0.4% has a pension of $60,000+ and would pay 47 cents in tax for every additional dollar in pension.

As stated above, this is a lower limit as it does not include the 1.5% Medicare levy and assumes no other income to move these people into higher tax brackets.

Based on the number of superannuants in each income group and their allocation of the 'increase pool', a $1 million increase in the Commonwealth's superannuation outlay would result in $202,130 being returned to the Commonwealth as additional taxation revenue.

2.2 Reduced Age Pension Outlays

The Age Pension is means-tested on both income and assets. The higher income associated with wages indexation of superannuation would result in some superannuation pensioners having their Age Pension entitlement reduced and thus the government outlay on the Age Pension would reduce.

It is assumed in these calculations that the entitlements of Age Pension are limited by the income-test not the asset-test.

To qualify for the full Age Pension a single person must have an income of less than $116 per fortnight ($3,024 per annum) and a couple must have income of less than $204 per fortnight ($5,318 per annum). As only 19% of superannuation pensioners had a pension of less than $10,000, the following assumes that there are zero superannuation pensioners receiving the full Age Pension entitlement. All superannuants are receiving a part Age Pension or none at all.

The Age Pension has disqualifying income limits of $30,810 for singles and $51,454 for a couple. Above these cut-offs no pension is paid and below the cut-offs the pension reduces by 40 cents for every dollar of additional income.

According to ABS statistics, 60 per cent of people aged 65 and over are members of a couple and 40 per cent are single. Assuming superannuation pensioners are typical of the population, the assumption is made superannuants can be divided 60/40 into married and single at all income levels.

Upper limit on reduction in Age Pension outlays

Using the COMSUPER statistics on pensions paid, again:

- 84.8% receive a pension of less than $30,000 and all of them (both single members and members of couples) will lose 40 cents in age pension for every additional dollar in superannuation pension, and

- 13.9% receive a pension of $30-50,000. The single members in this group will already have exceeded the income threshold for a part-pension and cannot have their Age Pension reduced any further. The 60% who are members of a couple are still below their threshold and will lose 40 cents in Age Pension for every additional dollar in superannuation pension.

This is an upper limit as any extra income or assets may already have reduced their Age Pension.

Based on the number of pensioners in each income group, 60% being married and their allocation of the 'increase pool', a $1 million increase in superannuation would result in Age Pension outlays reducing by $342,080.

Typical reduction in Age Pension outlays

Based on the COMSUPER statistics alone, 87.2% of superannuation pensioners would be entitled to a part-pension. A small survey conducted for SCOA suggested that in fact around 50% of superannuants were in receipt of a part-pension.

Assuming the half of superannuants on the Age Pension must be the proportion of the population in the lowest income groups, the lowest 50% of superannuants would receive 28.7% of any increase. Therefore, a $1 million increase in superannuation would result in Age Pension outlays reducing by $114,800.

2.3 Extra GST Receipts

The following calculation assumes that all extra income will be spent and 90% of any additional income received by a superannuation pensioner will be spent on items that have GST as a component of the price. In other words a maximum of 10% of the additional income is spent on groceries that are GST-free (i.e. basic food) or GST-free items (some energy costs). In other words, we are assuming that 90% of the additional money is not used to buy more food or pay utility costs. GST is assumed to be 10%, that is, 1/11th of the price paid.

The outcome of this estimate is heavily influenced by the accuracy of the 90% assumption. The reliability of this assumption is unknown.

Based on these figures, a $1 million increase in superannuation (after tax and age pension adjustments) would result in GST receipts increasing by $37,292 under the upper limit outcome and $55,888 under the typical outcome.

3 Overall Outcomes

The above analysis provides two sets of results – an upper limit outcome and a typical outcome. The calculations show that for every extra dollar that the Commonwealth spends in superannuation payments, it claws back between four-tenths and six-tenths. Under the upper limit scenario, 58% is returned to the Commonwealth ($581,502 of every $1 million) through reduced age pension outlays, increased income taxation and greater GST receipts and under the typical scenario 37% is returned ($372,818 of every $1 million).

DOFA have estimated that applying AWOTE indexation to the CSS/PSS would have the following impact on the Budget. In Table 2 the results for the years 2002-03 through 2004-05 are presented.

Table 2 Impact on Budget outlays, various years

	2002-03	2003-04	2004-05

	$m	$m	$m
Fiscal balance	-605	-595	-630
Underlying cash	-25	-65	-105

Note: Assumes AWOTE increases at 1.5% above CPI

Source: Letter from Senator Nick Minchin to Senator Margaret Reid, 16 May 2002

The *Underlying cash* is the additional cash payments for pensions in the given year while *Fiscal balance* is the increase in future liabilities. In Table 3 the *Underlying cash* values are presented after the reductions have been clawed back. In comparing the year-by-year cost after applying clawback (both the typical and upper limit estimates) a somewhat different result is found.

Table 3 Impact on Budget outlays and clawback, various years

	2002-03	2003-04	2004-05
	$m	$m	$m
DOFA Underlying cash	-25	-65	-105
Upper clawback	15	38	61
Typical clawback	9	24	39
SCOA Underlying cash - Upper	-10	-27	-44
SCOA Underlying cash - Typical	-16	-41	-66

In summary, the introduction of a superannuation indexation based on earnings growth rather than CPI will increase Budget outlays. However, a large proportion of these outlays, between 37% and 58%, will be returned to the government through reduced age pension outlays, increased income taxation and greater GST receipts. Omission of the returned amounts cause the costs attributed to the initiative to be significantly overstated.