

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 30 May – 1 June 2006

Question: bet 1

Topic: **New Superannuation proposals concerning Commonwealth
Superannuation and Defence pensions**

Hansard Page: **Written**

Senator LUNDY asked:

Questions on the Treasurer's *'A Plan to Simplify and Streamline Superannuation, May 2006'*, especially in relation to the new superannuation proposals concerning Commonwealth superannuation and Defence pensions:

1. What is the average pension rate per annum received currently by Commonwealth and Defence Force superannuants?
2. How does this rate compare with the combined married rate of the Age Pension?
3. Of current recipients of ComSuper and Defence pensions which are lower than the rate of the Age pension, including widows and dependants, what percentage are female?
4. What is the reason/rationale for the different methods of calculating increases in Age Pensions and Commonwealth Superannuation and Defence pensions (i.e. including wage-based calculations for the Age Pensions as against using only the CPI index as the measure for ComSuper and Defence pensions)?
5. How will the proposed changes in the taxation of superannuation affect or benefit ComSuper or Defence pension recipients who receive average, or lower than average, pension rates [see Question 1]? At what pension rate would a superannuant experience a significant benefit resulting from the taxation changes?
6. What are the forecasted fiscal effects of the proposed taxation changes applying to superannuation benefits over, say, a ten-year period, and how are these effects expected to impact on services to an ageing population?
7. What estimation has been made of the effect of the proposed taxation changes on the supply of rental property, and in particular on the supply of rental property available to lower income groups?

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Answer:

1. As at 1 July 2006:
 - The average pension rate for Commonwealth civilian superannuants was around \$23,000 per annum.
 - The average pension rate for Defence Force superannuants was around \$20,400 per annum.
2. As at 1 July 2006, the full rate age pension for a couple (combined) was \$834.40 per fortnight (\$21,694.40 per annum).
3. As at 1 July 2006:
 - 43.3 per cent of all Defence Force superannuation pensions under \$12,992 per annum (the single rate of age pension) were paid to females.
 - 14.6 per cent of all Defence Force superannuation pensions under \$21,694 per annum (the combined couple rate of age pension) were paid to females.
 - 62.5 per cent of all Commonwealth civilian superannuation pensions under \$12,992 per annum were paid to females.
 - 58.3 per cent of all Commonwealth civilian superannuation pensions under \$21,694 per annum were paid to females.
4. The purpose of indexation of Australian Government superannuation pensions is to ensure that pensions are not eroded by inflation and that they are adjusted to compensate for increases in the cost of living. These pensions are indexed twice yearly by the upward movement in the Consumer Price Index (CPI).

The Government considers that the CPI indexation method provides an equitable and satisfactory method for calculating pension increases and protects the living standards of retired Australian Government civilian employees and members of the Defence Force.

The Australian Bureau of Statistics (ABS) has indicated that the CPI provides a reasonable measure of the cost of living. This view is apparent in the ABS article entitled 'Analytical living cost indexes for selected Australian household types: update to June 2005', which provides an analysis of the cost of living of retirees. The Bureau found that, for the period from June 1998 to June 2005, the CPI increased by 22.6%, while the living cost index for self-funded retiree households increased by 21.3%. Based on these results, the ABS article concluded that 'the CPI provides a reasonable estimate of changes in living costs for each of the selected household types over this period'. The ABS findings further reinforce the Government's belief that the CPI provides a reasonable measure of the cost of living, and that the living standards of retired Australian Government civilian employees and members of the

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Defence Force are not being eroded.

There are fundamental differences between the superannuation benefits paid to former employees of the Australian Government and the income support that the Australian Government provides to certain members of the Australian community.

Superannuation is provided to Australian Government employees and members of the Defence Force as part of their remuneration package. Australian Government superannuation pensions are payable by the Government as a part of its obligations as an employer. The amount of pension is generally therefore related to a beneficiary's period of eligible employment and salary at or near retirement. Other income or assets of the pensioner do not affect those entitlements. By comparison, the age pension is a benefit provided to older Australians as income support for those with limited means. As such, eligibility for the age pension is subject to a means test.

5. Under A Plan to Simplify and Streamline Superannuation, the taxation treatment of superannuation pensions will be different for pensions paid from an untaxed source as opposed to from a taxed source. Given their mostly unfunded nature, Commonwealth civilian and Defence Force superannuation pensions are typically (although not exclusively) paid from an untaxed source. This means that the benefit has not been previously subject to tax in the superannuation fund.

Under the plan, from 1 July 2007 pensions paid from an untaxed source to an individual aged 60 or over will be taxed at marginal tax rates with a 10 per cent tax offset. Currently, these pensions are not entitled to any tax offset. The value of the offset will be equal to 10 per cent of the taxable component of the pension - for example, a pension of \$25,000 that is fully taxable would attract a tax offset of \$2,500. Pensions paid from an untaxed source to those below the age of 60 will be taxed at marginal rates without an offset (as is the case currently).

Any component of a pension that is paid from a taxed source (for example, a component attributable to the member's own after tax contributions and investment earnings on those contributions) will be tax free from 1 July 2007 where the recipient is aged 60 or over. Pensions paid from a taxed source to individuals below the age of 60 will be taxed broadly as they are now, with a more generous tax free component.

6. The fiscal impacts of the Government's simplified superannuation plan over the forward estimates period were set out in a joint press release issued by the Treasurer and the Minister for Revenue and Assistant Treasurer on 5 September 2006. While there are no publicly available estimates of the fiscal impacts of the plan beyond this period, the cost of the superannuation proposals are sustainable and there is no evidence available that services to an

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ageing population will be adversely affected. In fact, by establishing the Future Fund, the Government is relieving future fiscal pressures.

7. No estimation is available.