

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Finance and Administration Portfolio

ComSuper

Budget Estimates Hearing – May 2007

Question: F84

Outcome 1, Output 1

Topic: Plan to Simplify and Streamline Superannuation

Written Question on Notice

Senator Evans asked:

- a) Mr Bator have there been any special difficulties faced by ComSuper compared to other superannuation funds in relation to the changes to the taxation of superannuation announced in last year's budget?
 - Can you confirm whether any members of the schemes administered by ComSuper will be worse off under the new proportioning rules that come into effect from 1 July 2007?
 - Have you been made aware of any adverse effects of proportioning on any of these members?
- b) Was ComSuper consulted prior to the May 2006 Budget announcements regarding the superannuation changes? If so what advice did ComSuper give regarding the impact of those changes on the members of the schemes they administered?
- c) Mr Bator the Government sought submissions on a Plan to Simplify and Streamline Superannuation as a part of the consultation process prior to the final drafting of the legislation. I note ARIA made a public submission but that neither ComSuper nor the DFRDB Authority did so. Why didn't ComSuper or the DFRDB Authority make a submission?
- d) Did you raise the issue of proportioning and any other adverse effects of the legislation on DFRDB members and the members of other schemes with Treasury in lieu of making a public submission?
- e) Have you been negotiating with Treasury officials over the regulations? Have they been robust discussions? Are those negotiations continuing? What steps have you taken as DFRDB Authority Chairman to make sure that your members are not disadvantaged by these tax changes? Are you confident that the regulations now in place and the announcement of Minister Dutton on the 12th of April, will mean that no member of the DRRDB will be worse off in regard to the taxation of commuted lump sum benefits?
- f) Are you aware whether uncertainty over this issue had caused concern amongst DFRDB members? Did these concerns impact significantly on ComSuper's service standards through any spikes in telephone or written queries and complaints? Through

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your liaison with the Department of Defence are you aware whether this issue has impacted on personnel areas of the armed services? Are you aware if it has led to a mass of resignations amongst highly skilled experienced military personnel?

g) In your discussions with the MilitarySuper Board and Treasury are you aware of any lobbying by MilitarySuper to make sure that MilitarySuper members aren't worse off under the tax changes? Has ComSuper lobbied Treasury to make sure that MilitarySuper members aren't worse off under the new proportioning rules?

h) Are you aware whether uncertainty over this issue had caused concern amongst MilitarySuper members? Did these concerns impact significantly on ComSuper's service standards through any spikes in telephone or written queries and complaints?

i) In your capacity as Commissioner for Superannuation have you discussed the superannuation taxation changes issues with the bodies representing retired public servants and military personnel and raised any concerns about the superannuation taxation changes as the Commissioner for Superannuation.

j) In your capacity as Chairman of the DRRDB Authority have you discussed any concerns about the tax changes (including your own concerns as Chairman) with the bodies representing retired military personnel and passed their concerns on to Treasury?

Answer:

a) ComSuper administers both defined benefit and accumulation superannuation funds. While the superannuation changes have raised a number of complex technical and administration issues, as changes often do to defence benefit schemes, ComSuper has been adequately resourced to put the changes into effect before 1 July 2007.

(i) and (ii) I can confirm that a DFRDB member will have exactly the same tax treatment applied to their benefit payment prior to and on or after 1 July 2007, other than the introduction of the 10% tax offset at age 60.

The proportioning changes have no effect on DFRDB members and the current rules for applying a tax-free amount to member's benefit (both commutations and retirement pay) will continue as before. The choice is up to the member.

From 1 July 2007 proportioning rules will NOT affect members of MilitarySuper who access their entire benefit. However, the proportioning rules will affect members of MilitarySuper who access part of their benefit. Any part payment will include both tax-free and taxable components in the same proportions as exist in their total benefit.

Before 1 July 2007, there was no law on which components should be paid first. MilitarySuper made partial benefit payments in the most tax advantageous way for the member.

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- b) While ComSuper was not consulted prior to the May 2006 Budget announcements, we were included in consultations and negotiations with Treasury, the Department of Finance and the Department of Defence after the announcement. Prior to and during the development of the legislation, we were involved in work on the detail of the changes, we provided advice on the implications of the changes on the funds we administer, and we discussed the practical implementation of the new measures.
- c) While ComSuper did not make a submission on the Plan to Simplify and Streamline Superannuation, we consulted with ARIA before they made their submission. Implications of the changes for DFRDB members were discussed as part of the consultation process prior to and during the development of the legislation. ComSuper also held discussions with the Department of Defence.
- d) ComSuper has had ongoing discussions and consultation with Treasury regarding the impact of the superannuation changes.
- e) ComSuper was involved in substantive discussions with Treasury prior to the passage of the law and regulations. In particular, we have made sure that Treasury understood how all of the ComSuper administered funds operate.
- f) Before the regulations were finalised there was some concern among DFRDB members.

In order to allay member concerns, ComSuper responded quickly and instigated a number of measures to ensure that accurate and reliable information was provided to members. We sought assistance from Department of Defence used a traditional method of communication and issued a DEFGRAM to all members of the Australian Defence Force detailing certain aspects of the new taxation arrangements and addressing particular member concerns. Fact sheets were also sent to DFRDB members explaining the taxation changes and the effects of the changes on their superannuation benefits. These were also made available to members through the DFRDB website along with detailed examples.

Many members did call the ComSuper contact centre for clarification of the issues. However this did not adversely effect the service standards available to members.

We do have anecdotal evidence that circulation of ill-advised rumours resulted in a number of complaints and consideration of resignation by some individual members. However there was not an increased amount of DFRDB members that discharged prior to 1 July than normally experienced.

- g) ComSuper outlined the impact of the proportioning rules on members of MilitarySuper to Treasury.

See response to F83b

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Many members did call the ComSuper contact centre for clarification of the issues. This is the purpose of the contact centre. However this did not adversely effect the service standards available to members.

i) ComSuper held a number of focus group meetings to ensure that members understood the messages regarding the superannuation changes. Participants included members of the various schemes as well as members of the Returned and Services league (RSL), Regular Defence Force Welfare Association (RDFWA), Superannuated Commonwealth Officers' Associations (SCOA) and Vietnam Veterans Association of Australia (VVAA). ComSuper referred any issues raised by these Associations to Treasury for their consideration.

j) See response to Question F84 (i). However, the proportioning rules do not affect members of the DFRDB.