Superannuated Commonwealth Officers' Association Inc.

**Federal Office**
PO Box 107
MAWSON ACT 2607
Phone: (02) 6286 7977
Fax: (02) 6286 7999
E-mail: fedoffice@scoa.asn.au
ABN: 66 313 469 900
www.scoa.asn.au

The Secretary
Senate Standing Finance and Public Administration
PO Box 6100
PARLIAMENT HOUSE
CANBERRA ACT 2600

**Inquiry into the Provisions of the Superannuation Amendment Bill 2007**

Dear Secretary,

Please find attached a submission to the above inquiry from the Superannuated Commonwealth Officers' Association (Federal Council) Incorporated.

This submission has been approved by our Federal President, Mr Ewan Hazell.

Marita Linkson
Federal Secretary

28 June 07

**SUPERANNUATED COMMONWEALTH OFFICERS' ASSOCIATION**

Submission to

THE SENATE STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

# *Inquiry into the Provisions of the Superannuation Amendment Bill 2007*

## TABLE OF CONTENTS

## ABOUT SCOA

The **Superannuated Commonwealth Officers' Association (Federal Council) Inc. (SCOA)** is over 80 years old, apolitical, not for profit and financed entirely by its members.

SCOA represents the interests of:

- Retired Australian and Territory Government employees and Government business enterprise employees;
- People in the public service sho will receive a Commonwealth superannuation benefit (or lump sum) on retirement;
- Former employees who have deferred (preserved) their pension entitlement; and
- Spouses and or dependants of the above.

At 30 June 2006, there were 400,205 members of the CSS and PSS schemes, being

- 178,022 contributors;
- 119,562 pensioners;
- 102,621 deferred PSS and CSS beneficiaries; and
- 7,843 pensioners in the old 1922 scheme.

SCOA has a national (Federal Council) office in Canberra and separate branches in the ACT and each of the States. Its branches are staffed by volunteers. SCOA has links with Defence and State superannuant organisations and with other key organisations which represent the interests of older Australians.

SCOA's objectives are to:

- Improve and safeguard the retirement interests of its members and constituency;
- Protect the value of members' superannuation entitlements and related benefits;
- Secure fair and equitable treatment compared with other retirees and pensioners;
- Provide information to members on issues such as superannuation, taxation, Age and other Social Security and Veterans' Affairs benefits, health and aged care, concessions, compensation, employment of older workers and general investment matters; and
- Ensure that its members who have work related injuries or illnesses receive their correct compensation entitlements.

## INTRODUCTION

In this submission to the Senate Standing Committee on Finance and Administration the Superannuated Commonwealth Officers Association (SCOA) focuses on the following provisions in the Bill:

- Making contributions to the Commonwealth Superannuation Scheme (CSS) voluntary;
- Allowing members of the Public Sector Superannuation Scheme (PSS) to leave the PSS and make other superannuation arrangements for future contributions; and
- Providing for the restoration of pensions for remarried widows and widowers.

In its Pre 2007-2008 Budget submission lodged with Treasury in November 2006 SCOA recommended that the Government allows CSS and PSS-defined benefit scheme members to salary sacrifice their member contributions before tax. SCOA outlined how this could be done by grossing up the members' contribution to include 15% tax on contributions. This would have put Commonwealth Public servants contributing to their employer's superannuation schemes (the CSS and the PSS) on the same footing as all other contributors to superannuation schemes. That is, tax on contributions would be paid at 15%. To date the Government has not done this. Tax on contributions to the CSS and PSS is maintained at the marginal rate. SCOA believes this is highly discriminatory.

SCOA notes this Superannuation amendment Bill does nothing about the unfair marginal taxing of superannuation contributions to the CSS and PSS schemes but provides for opting out of contributing to the CSS and for leaving the PSS entirely. SCOA has noted the savings against this provision in the 2007 May Federal Budget will be made to the disadvantage of contributors who access either of these ungenerous options. Those who cease CSS contributions will degrade the 54/11 provision that they may access in the event of early retirement or redundancy. Those who leave the PSS will lose the matching employer contribution as well as the Government **co-contributions.** This would need careful balancing against the payment of contributions at the marginal tax rate. All in all, contributors are presented with a 'Hobson's choice' by this legislation. Importantly many may not have the knowledge to recognise it.

SCOA supports the amendment providing for the restoration of pensions for remarried widows and widowers.

## EXECUTIVE SUMMARY

**Recommendation 1**
That the Government allows CSS and PSS-defined benefit scheme members to salary sacrifice their member contributions before tax as well as the option to opt out of making member contributions.

**Recommendation 2**
That Government provides full information to contributors prior to their opting out of making contributions to the CSS including the impact it would make on future benefit entitlements such as the '54/11' provision.

**Recommendation 3**
That prior to their leaving the PSS under this amendment, the Government instructs the ARIA Board and ComSuper to provide full information to contributors, including the impact their leaving the fund would make on future benefit entitlements.

**Recommendation 4**
That the Government

- Conducts an extensive media campaign to assist in the identification of widows and widowers who lost their reversionary benefit (pension) when they remarried, in order to inform them their pensions may be restored and to contact ComSuper;
- Instructs the ARIA Board and ComSuper to use its newsletters to call upon contributors and pensioners to inform anyone who could be affected by this change to contact ComSuper; and
- Sets the date of effect for the recommencement of all previously cancelled pensions due to remarriage to 1 January 2008, and not to the date that the application for recommencement is received.

## RECOMMENDATIONS AND REASONS

### Recommendation 1

**That the Government allows CSS and PSS-defined benefit scheme members to salary sacrifice their member contributions before tax as well as the option to opt out of making member contributions.**

**Reasons**
The Government proposals to simplify and streamline superannuation as announced in the 2006 Federal Budget on 9 May 2006 will provide considerable benefits for retired people aged 60 and over. In particular, superannuation benefits paid to those aged 60 and over from a taxed source will only have one taxing point, that is, tax applied at 15% of the contributions paid by their employer into their superannuation fund.

Accordingly, superannuation contributions paid into a superannuation fund by a person's employer will be taxed at 15% when paid into the superannuation fund and be tax free when paid out of the superannuation fund to a person aged 60. This will also apply to salary sacrifice superannuation contributions where the member arranges with their employer for superannuation contributions to be deducted from salary or wages 'before tax' is applied and paid directly into their superannuation fund. The tax rate paid in respect of the person's salary paid as superannuation contributions into the superannuation fund is 15%.

This situation contrasts sharply with a superannuation member that pays superannuation contributions into a superannuation fund 'after tax' has been paid on their salary. The effective rate of tax on the contributions paid by this superannuation member is the applicable marginal tax rate. For example, a person on an income of $85,000 per annum would be paying a tax rate of 41.5% on member contributions paid into their superannuation fund.

We note that the majority of employers allow salary sacrifice of member contributions to superannuation funds with the majority of superannuation funds accepting salary sacrifice superannuation contributions.

This arrangement is a feature of State Government and private sector superannuation funds and also includes the PSS accumulation plan.

The ability to salary sacrifice member contributions is also a feature of many defined benefit funds including defined benefit funds operated by UniSuper and State Governments.

Allowing members of the CSS and PSSdb the option to pay their member contributions 'before tax', through salary sacrifice arrangements instead of the present arrangement where member contributions are paid 'after tax', would provide members of the CSS and PSSdb access to the same tax concessions available to the general community.

## Recommendation 2

**That Government provides full information to contributors prior to their opting out of making contributions to the CSS including the impact it would make on future benefits such as the '54/11' provision.**

**Reasons**
The CSS scheme has a defined benefit component namely an indexed pension on retirement that is generated by years of service, age and final salary. It also has an accumulation component. The accumulation component is the CSS fund which the ARIA Board manages. The member's contributions plus earnings less tax comprises a lump sum the member will access on retirement. Should the member opt to cease contributions to the CSS, the lump sum will continue to grow but the ultimate lump sum will be less. This outcome is cost neutral to the government.

If a CSS member retires prior to 55 years of age (say 54 years and 11 months) or is made redundant at any age then the member may opt to receive a pension based on their accumulation in the CSS fund. A member who has ceased contributions to the fund is more likely to find this has become a less attractive option compared to the years of service, age and salary approach to setting their pension. Herein lies the Government saving.

## Recommendation 3

**That prior to their leaving the PSS under this amendment, the Government instructs the ARIA Board and ComSuper to provide full information to contributors, including the impact their leaving the fund would make on future benefits.**

**Reasons**
In the case of the PSS member contributions may range from 2% to 10%. These attract a matching Government contribution. Together with fund earnings less tax they comprise the lump sum which can be converted in whole or part to an indexed pension component. Anyone opting to leave the PSS fund foregoes the matching Government's contribution and the additional value ascribed to the indexation of the pension component above.

### Recommendation 4

**That the Government**

- **Conducts an extensive media campaign to assist in the identification of widows and widowers who lost their reversionary benefit (pension) when they remarried, in order to inform them their pensions may be restored and to contact ComSuper;**
- **Instructs the ARIA Board and ComSuper to use its newsletters to call upon contributors and pensioners to inform anyone who could be affected by this change to contact ComSuper; and**
- **Sets the date of effect for the recommencement of all previously cancelled pensions due to remarriage to 1 January 2008, and not to the date that the application for recommencement is received.**

**Reasons**
SCOA supports the amendment providing for the restoration of pensions for remarried widows and widowers. However we remind the Legislators that other jurisdictions made this provision at same the time that their legislation was changed allowing widows and widowers to retain their pensions irrespective of remarriage. This was as long as three decades ago. Equity and fairness in this instance has been a long time coming. So long ago most are gone and the few who remain may be difficult to find. It is therefore incumbent on the Government, The ARIA Board and ComSuper to do their upmost to find them and provide the benefit of this long overdue change.

Many widows and widowers who had their pensions cancelled on remarriage may not immediately become aware of their entitlement to have their previously cancelled pensions restored. It would be unfair to these people if they lost their entitlement to a pension only because they had not become aware that their previously cancelled pensions could be restored. For these reasons SCOA suggests that the effective date of recommencement of all such pensions be 1 January 2008 rather than the date the application for restoration is received by ComSuper. This will enable those who become aware of their entitlement at a later date to be paid their pensions (which they have been entitled to) retrospectively back to 1 January 2008.