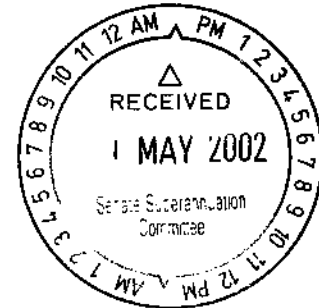


The Secretary  
Senate Select Committee on Superannuation  
Parliament House  
Canberra  
ACT 2600

15.04.2002

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SECRETARY and HONOURABLE MEMBERS,

### **INTRODUCTION**

Firstly if I could outline who I am, and why I feel compelled to make this submission to your Committee.

I started work as a Technician in Training with the P.M.G in 1958, and accepted redundancy from TELSTRA NDC in 1998.

Prior to finishing work, I was an NDC Technical Area Manager responsible for all internal network construction for the city of Newcastle and surrounding areas in NSW.

In the years leading up to my retirement, in addition to my normal duties, I was a well known Superannuation Consultant to NDC in general, and played a leading role in providing information to staff, when Telstra offered an alternative Superannuation Scheme (TSS), to the existing CSS Scheme, I disseminated this information. I have written several documents covering the various Superannuation schemes, taxation etc.

To some extent the submission I make is hopefully to improve my own lot, however, I believe I have pointed out good points, bad points, areas that can be improved, and finally how that can be achieved with benefits to all concerned.

I do most sincerely hope that decisions made now will benefit not only Superannuation contributors, but also Government and the general Australian community.

I would add that the people of my era, as in previous era's, helped develop the Australia you enjoy today, and we are asking you for a fair system, so that our retirement, and yours in the future, will be an enjoyable time for all.

**1. PROBLEM: 3% PRODUCTIVITY SUPERANNUATION**

No where near the funding requirements of individuals in retirement.

**Suggested solution**

Increase employer funded contributions from 3% to 10%. At the same time, it is fair to expect that employees also make a contribution towards their Superannuation, and I would suggest a compulsory contribution by employees also 5%.

The Employee contributions would be treated as they are now (undeducted contributions). In addition employees to be able to select their Superannuation Fund, (providing it meets Government requirements), and balance of portfolios within that investment.

**2. PROBLEM: 15% (reducing to 10%) SURCHARGE TAX**

At the moment Superannuation savings are reduced by this totally unpopular tax. When it was first brought in, POLITICIANS touted the fact that it would only affect those people who earned more than \$70,000 p.a.. However a person who worked in an industry and earned a taxable income of \$65,000 p.a., found they were taxed under this legislation, because employer funded Superannuation contributions were 'added' onto the \$65,000, for purposes of assessment for this tax.

In addition, a person who for example has set up on allocated pension fund, in retirement and at some stage withdrew say \$40,000, to buy a new car or some other item, found that this sum is then added onto the pension being taken from the fund for that year. Giving them a surcharge situation. Collin's dictionary defines 'surcharge' as 'an excessive sum charged', how true.

**Suggested Solution**

Without a doubt this tax inhibits Superannuation savings during working life, in retirement, and therefore should be totally abolished.

**3. PROBLEM: 15% TAX OF SUPERANNUATION FUND EARNINGS**

Again this tax effects savings of returns from funds drastically, and from my personal experience, during the 'Rollover' stage, makes a 1% annual interest return reduction on investment in such a fund.

That may not appear to be much, but if you add it to the fund management fee of 1.6%, and you have a September 11<sup>th</sup> incident, you find your total return for the year is either negative or 1-2% maximum.

## Suggested Solution

At the very least, this tax should be reduced by 50% if the Government does not want a huge Social Security bill in the future. The reduction in the tax would also be offset by increased contributions to funds as proposed to Productivity Scheme, as out lined in point 1.

### 4. PROBLEM: CSS or COMMONWEALTH GOVERNMENT SUPERANNUATION INDEXED PENSIONS

At the moment these pensions are taxed at the marginal rate, and fully assessable for Social Security purposes. When you consider tax treatment and Social Security evaluation for allocated pensions and Government approved annuities, this is totally unfair.

## Suggested Solution

These CSS pensions, including any additional lump sums, should be taxed and assessed for Social Security in the same manner as income streams, lump sums received from allocated pension funds and Government compliant annuities. After all, they are a Superannuation funded income stream. It also needs to include a review of the TAX-FREE THRESHOLD as discussed in the next point.

### 5. PROBLEM: TAX OF RETIREMENT PENSION STREAMS

When a person 'converts' funds held in a rollover fund, to a combination of allocated pensions and Government approved Annuities, the total income stream from these become the PREDOMINANT source of income, for a husband and wife family situation. However evaluating the tax-free threshold, it is dealt with as follows (example assumes husband and wife situation of super funded pensions in husband's name only):

#### Example

Assume

- (a) Age 60 (both husband and wife)
- (b) Total allocated pension \$16 853.93
- (c) Total annuity pension \$16 391.25
- (d) Total income stream **\$32 245.18** (after other tax rebates)
- (e) No Social Security

Tax free threshold wife: \$6 000 nil tax

Tax free threshold husband \$6 000 nil tax

However only the husbands \$6 000 is used, because the income streams are funded from his Superannuation. Total tax in this case payable is **\$7 873.55**.

It can be argued that only the husband provided the Superannuation, so he is the only person it applies to, but during her retirement, she is also dependant on this income stream.

Also if the husband dies, the income stream reverts to the wife, so I believe she has just rights in being equally treated, during all periods of dependency on these income streams.

## 6. SENIOR AUSTRALIAN TAX OFFSET

This is not, as I first thought, a Tax Free Threshold, but works as follows:

1. A couple must have a combined taxable income of less than **\$58 244**, and be of pension age.
2. A couple can have a Taxable income of up to **\$16 306** each and receive the maximum Tax Offset of **\$1 602** each.
3. If the taxable income of either exceeds **\$16 306**, the tax offset is reduced by **12.5 cents** for each dollar over \$16 306.
4. An individual member of the couple can transfer his or her tax offset to the other partner.

This scheme is quite good, especially point 4 (and this method also needs to be incorporated with the problem previously mentioned relating to 'Tax Free Thresholds'), it is a pity this was not a 'real Tax Free Threshold' as such.

## 7. TO SUMMARISE RETIREMENT INCOMES

### Comment

A couple who own their own home, and reach retirement age, and have made no provision for their retirement, can get a combined pension of **\$18 460 p.a.**, they can also receive and outside income of up to **\$5 200 p.a.**, with no reduction to pension, and pay no tax.

On the other hand if a person saves for their retirement, they are penalised by taxes and conditions all the way, and this must change.

### **Solution for retirement incomes**

#### TAX

- (a) Retain present 15% rebate of Superannuation pension streams.
- (b) Retain Tax Free component calculated from undeducted contributions.
- (c) Retain Senior Australians Tax Offset.
- (d) Allow a partner to transfer unused Tax Free Threshold.

\* NOTE: (a) to (d) should also apply to Commonwealth Superannuation income streams.

(c) If a person invests at least 50% of total Lump Sum in Government compliant annuities, then any other Lump Sum invested in Allocated pension, would only be 60% assessable for Centrelink Assets Test. For the individual this has the added 'spin-off' of now qualifying them for the pension RBL.  
For the Government, this means that the person has a CPI indexed pension for life of both partners, which of course reduces Social Security commitments.

(f) PROPOSED METHOD OF TAXING

Assume one partner has a superannuation generated income stream of **\$37 000 p.a.**, (Tax Assessable), after application of (a) to (d) of above points. The other partner has a tax assessable income of **\$2 000 p.a.**

1. Partner with \$2 000 is not taxed (i.e. below \$6 000 threshold, which is now transferred to other partner).
2. Tax = **\$37 000 - \$12 000** (new tax free threshold)  
= **\$25 000**

NEW METHOD OF TAX CALCULATION

(Assumes partner transfers \$6 000 tax free threshold to the other partner).

**\$37 000** tax assessable income.

**\$37 000 - \$12 000** (tax free threshold) = **\$25 000**

Tax on **\$12 001 - \$20 000** = 17c per \$ = **\$3 400** (20 000 \* 0.17)

Tax on **\$20 002 - \$50 000** = 30c per \$ = **\$1 500** (5 000 \* 0.30)

**TOTAL TAX = \$4 900**

\* NOTE: DIFFERENT USE OF TAX SCALES

Same example, current system \$6 000 Tax Threshold

**\$37 000 - \$6 000 = \$31 000** (tax free threshold)

**\$0 - \$6 000** (tax free threshold) = **\$31 000**

**\$6 001 - \$20 000** = 17c per \$

\* **\$20 001 - \$50 000** = 30c per \$ = **\$31 000 \* 0.30 = Total tax \$9 300**

**\$50 001 - \$60 000** = 42c per \$

**above \$60 000** = 47c per \$

The total combination of (a) to (f), would not only achieve the objective of reducing Social Security outlays in the long term, but it would be a fairer system for those who have saved for their retirement.

## 8. AREAS THAT ARE ACCEPTABLE & NEED LITTLE CHANGE

### (a) RBL (Reasonable Benefits Limit)

The Government of Mr Keating recognised that this area was totally confusing and prior to 1994, extremely complex to calculate (you needed at least 2<sup>nd</sup> year university maths to calculate). So his Government brought in flat dollar limits as from 01/07/1994, however he forgot initially that this disadvantaged a large group of people who had been Superannuation contributors since the 1950's.

After intense lobbying by the financial industry, and myself a 'transitional RBL' was calculated for those people affected, and I was one of these people. The lesson to be learnt here, is that most people are locked into their financial life plans by the age of 45, and any new changes must be (1) NON RETROSPECTIVE, (2) take a transitional approach to any alteration that could affect such people.

### (b) LUMP SUM TAXING & PRESERVED COMPONENT

The existing system I believe is a fair one, it takes into consideration pre 83 service, post 83 service and your own contributions. Some people find it difficult to understand, but myself, I have no difficulty. For example:

First of all be aware of the basic rules:

(1) The main components are:

PRE 83 (Taxed as 5% of pre-1983 component at marginal tax rates  
POST 83 part taxable, over age 55 taxed at 15% plus Medicare levy  
UNDEDUCTED CONTRIBUTIONS no tax (your super contribution)  
POST 83 NON TAXABLE no tax (indexed, currently \$105 843)

(2) If rolled over, then the post 83 period increases by 1 year for each year in a rollover fund.

#### **EXAMPLE:**

Assume:

- (1) Superannuation accrued lump sum at \$500 000
- (2) Age 58
- (3) Pre 83 service 10 years
- (4) Post 83 service 30 years
- (5) Undeducted contributions \$42 000
- (6) Marginal tax rate of 30c in the dollar

Total years of service 40 years  
Pre 83 component:  $10/40 = 0.25 = 25\%$   
Post 83 component:  $30/40 = 0.75 = 75\%$

Since undeducted contributions are tax-free:  
(total lump sum)  $\$500\,000 - \$42\,000 = \$458\,000$

Pre 83 tax =  $\$458\,000 * 0.25 = \$114\,500$   
Taxable component =  $\$114\,500 * 0.05 = \$5\,725$   
Taxed at a marginal rate =  $\$5\,725 * 0.30$   
TOTAL PRE 83 TAX =  **$\$1\,717.50$**

Post 83 Tax =  $\$458\,000 * 0.75 = \$343\,500$   
Minus tax free component =  $\$343\,500 - \$105\,843 = \$237\,657$   
Taxed at 16.25% =  $\$237\,657 * 0.1625 = \$38\,619.26$

Total tax payable on total lump sum  
= pre 83 + post 83 tax  
=  $\$1\,717.50 + \$38\,619.26$   
=  **$\$40\,336.76$**

The same method is then used, if only withdrawing a part of lump sum. So in my opinion there is no need for change, the present scheme discourages lump sum withdrawals, and coupled with the present methods of evaluating pension income streams, encourages people to stay predominantly in this mode. Meaning that whilst they might make a part lump sum withdrawal for a purchase such as a car, they will mainly stay with income streams. Preserved component should also remain as is.

(c) **Superannuation not counting as an asset whilst in Rollover situation for Social Security**

This is an extremely good idea that encourages people to accumulate funds in a rollover fund, and allows those funds to build up so that when that time comes to convert to pension streams all parties are winners! i.e. the Government has less to pay out in Social Security in the long term, and the individuals get help to increase assets and become self-funding.

This was originally also brought in by the Keating Government, removed by the first Howard Government, then replaced by the third Howard Government!

Plea to POLITICIANS please leave it alone if you are serious about reducing Social Security outlays in the longer term!

(d) **Social Security assessment of Allocated pension funds and Government compliant Annuities**

Basically **Allocated pensions** are assessed as follows:

- (1) Lump Sum held in fund assessable totally for Assets Test (Assume  $\$300\,000$ ) minimum scale, age 60
- (2) Income Test

To calculate assessable income:

$$\begin{aligned}\text{Deductible amount} &= \text{Purchase Price} / \text{Life Expectancy (from tables)} \\ &= \$300\,000 / 20.5 \text{ years} \\ &= \mathbf{\$14\,634.14}\end{aligned}$$

$$\begin{aligned}\text{Amount of Allocated Pension} &= \text{Total Purchase Price} / \text{Minimum Pension Factor} \\ &= \$300\,000 / 17.8 \text{ (male aged 60)} \\ &= \mathbf{\$16\,853.93}\end{aligned}$$

$$\begin{aligned}\text{Therefore Social Security Assessable Amount} &= \$16\,853.93 - \$14\,634.14 \\ &= \mathbf{\$2\,219.79}\end{aligned}$$

$$\begin{aligned}\text{So to Summarise: Assets test} &= \mathbf{\$300\,000} \\ \text{Income Test} &= \mathbf{\$2\,219.79}\end{aligned}$$

**Government Approved Annuities** are assessed as follows:

- (1) Purchase Price not assessable for assets test therefore = \$0, but must qualify Government conditions.
- (2) INCOME TEST is exactly the same as the previous example, and \$2 219,79 is income assessable (if same purchase price was used).

It can be seen it is very important to get the mix, or cocktail of income streams, right at the time of conversion from a rollover situation.

Ideal situation is a blend that will allow a small part of Social Security Pension, (even \$10 a fortnight, which then gives various concessions), part allocated pension, and part annuity. So the system existing is fair, and should remain, with the exception of previous suggestion, that only 60% of Lump Sum in Allocated funds, be assessable for Centrelink Assets test.



## LAST WORD

To increase National Savings, Superannuation must be less taxed, and structured to encourage maximum participation in retirement, taking careful consideration of any changes not being retrospective, or alternately covering participants with transitional arrangements.

The end result is a better system for all concerned, whilst reducing Government Social Security Commitments in the longer term.

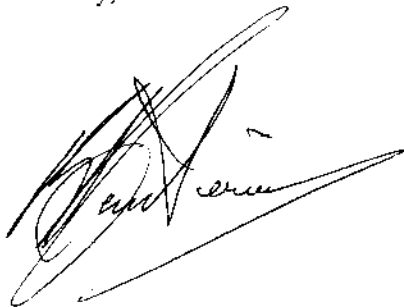
A person planning, and involving themselves in retirement, covers some 30 years, Politicians in some cases only have a forward view of 3-6 years, on this subject, it is critical, that view changes.

Mr Secretary and Honourable Members of the Senate Select Committee on Superannuation, I thank you for allowing me to forward you this submission. I hope my experience firstly as a Superannuation contributor for 40 years, then a member of a 'rollover' facility for the past 4 years, and lastly researching for a transition shortly to a combination of retirement income streams, will hopefully, with your help, be of benefit to all concerned.

If the measures discussed were addressed, the extra income would also address health issues, i.e. being able to afford private health cover, and self-funding of aged care if necessary.

I will be away from home between 19<sup>th</sup> May 2002, to 11<sup>th</sup> August 2002, but can be contacted on mobile number 0429 450 148 if required.

Yours Faithfully,

A handwritten signature in black ink, appearing to read 'Barry Robin Nankervis', with a long horizontal flourish extending to the right.

Barry Robin Nankervis