

**Senate Select Committee on
Superannuation and Financial Services**

**The benefit design of Commonwealth public
sector and defence force unfunded
superannuation funds and schemes**

Submission No. 11

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Re:- Senate Select Committee on Superannuation and Financial Services.

In response to the Committee's invitation seeking comment on "The benefit design of Commonwealth public sector and defence force unfunded superannuation funds and schemes", the following individual submission, which refers to the P.S.S. and C.S.S. schemes, is submitted for consideration.

SUBMISSION SUMMARY....The terms of reference, in particular item (a), are seen to indicate that the method of indexing pensions used by the trustees is considered to preserve the pension's real value. When considered in isolation from other income, the current method can only partially meet the trustee's (apparently) intended objective. This is because the vast majority of pensions are above the taxable income threshold.

Apart from the question of whether the basket of services used to assess the C.P.I. is a suitable basis for pension indexation, any change in the CPI has to be applied to increase the net value of the pension. i.e. its after tax value.

Whilst implying a need for per pensioner calculations, the current system does not need to change provided it is supplemented by a readily annually calculated shortfall which, within each tax rate bracket, is a constant add on value. For example, given a price index change of 3%, alternatively 5%, the add on figure (using FY2001 tax rates) for each pension range is:-

PENSION RANGE (\$)	INFLATION RATE(%)	ADD ON VALUE (\$)	INFLATION RATE(%)	ADD ON VALUE (\$)	
0 - 6000	3	nil	5	nil	See attach-
6001 - 20000	3	37	5	61	ment for
20001 - 50000	3	155	5	259	greater
50001 plus	3	498	5	829	detail.

Between 1984 to 2000 the average annual increase in the C.P.I. was 5.06%. As pre FY2001 tax rates were higher, the above add on values would be about 15% higher and higher still for pensions in the range \$38000 to \$50000.

The Government Actuary's Life Tables assess that a person retiring in 2001 at age 65 may expect to receive their pension for 16.21 years (males) and 19.88 years (females). Whilst the above Table indicated that most pensions will not be increased annually by much more than the present system provides for, a continuing low annual C.P.I. increase of 3%, will still, over 16 to 20 years, result in a progressive and significant reduction in the pension's real value.

The Committee may decide to recommend retention of the existing system, but in doing so should be fully aware that, as the C.P.I. progressively increases, the pension's real value progressively decreases. Over the years, pensioners have become aware of this and, as a corollary, increasingly dissatisfied with a system that fails to do what is understood to be claimed for it, namely preserve their pension's real value.

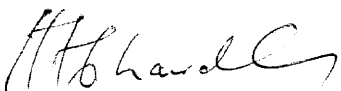
TOR (c).....COSTGiven a forecast ongoing 3% inflation and about 110,000 superannuants who would annually receive an extra average \$50 increase in their pension, the additional annual cost would be about \$5 Million. However, taxation would result in the return of some of this. In addition, a reduction in age pension and age pension rebate would occur for those who are eligible. The probable total annual cost is estimated at \$4 Million, but would be less or more if inflation is not maintained at 3%.

TOR (f)..... "Any other issues related to the scope of this inquiry"

From time to time, Governments may combat tax bracket creep by varying tax rates or tax rate thresholds. It cannot be fairly claimed that these retain the real value of pensions because they benefit all taxpayers and are not specifically designed to preserve the real value of superannuation pensions.

Whilst this submission relates to the C.S.S. and P.S.S pensions, it may also apply to Defence force pensions.

Some saving in ongoing administrative costs could occur if payment of pensions which are currently less than \$100 per fortnight were made monthly or quarterly or, alternatively, an optional concluding lump sum payment be offered.



Harold Frank Chandler

INFLATION RATE 5 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	7000	7350	10000	10500
Notional Tax (\$)	170	229.5	680	765
Net Pension (\$)	6830	(1) 7120.5	9320	(1) 9735
Real Increase in Net Pension		4.25%		4.45%
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 7171.5		(2) 9786
ALTERNATIVE METHOD CALCULATE CONSTANT (\$K) AND ADD TO GROSS PENSION AT 1/7 CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.83 (1 MINUS MARG TAX RATE 17 cts)				
Constant (\$K)		61		61
Gross Pension (\$) at 1/7 plus Constant (\$K)		7411		10561
Notional Tax (\$)		239.87		775.37
Adjusted Net Pension (\$)		(3) 7171.13		(3) 9785.63

NOTE THAT THE TECHNICALLY CORRECT VALUE (2) AND THE DERIVED VALUE (3) ARE VIRTUALLY EQUAL. MINOR DISCREPANCIES ARE DUE TO ROUNDING.



Attachment to submission by Harold Frank Chandler

INFLATION RATE 5 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	19000	19950		
Notional Tax (\$)	2210	2371.5		
Net Pension (\$)	16790	17578.5		(1)
Real Increase in Net Pension		4.70%		
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 17629.5		(2)
ALTERNATIVE METHOD CALCULATE CONSTANT (\$)K AND ADD TO GROSS PENSION AT 1/7 CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.83 (1 MINUS MARG TAX RATE 17 cts)				
Constant (\$K)		61		
Gross Pension (\$) at 1/7 plus Constant (\$K)		20011		
Notional Tax (\$)		2383.3		
Adjusted Net Pension (\$)		(3) 17627.7		(3)

NOTE THAT THE TECHNICALLY CORRECT VALUE (2) AND THE DERIVED VALUE (3) ARE VIRTUALLY EQUAL. MINOR DISCREPANCIES ARE DUE TO ROUNDING.

INFLATION RATE 5 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	21000	22050	35000	36750
Notional Tax (\$)	2680	2995	6880	7405
Net Pension (\$)	18320	(1) 19055	28120	(1) 29345
Real Increase in Net Pension		4.01%		4.36%
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 19236		(2) 29526
ALTERNATIVE METHOD CALCULATE CONSTANT (\$)K AND ADD TO GROSS PENSION AT 1/7 CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.70 (1 MINUS MARG TAX RATE 30 cts)				
Constant (\$K)		259		259
Gross Pension (\$) at 1/7 plus Constant (\$K)		22309		37009
Notional Tax (\$)		3072.7		7482.7
Adjusted Net Pension (\$)		(3) 19236.3		(3) 29526.3

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INFLATION RATE 5 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	47000	49350		
Notional Tax (\$)	10480	11185		
Net Pension (\$)	36250	(1) 38165		(1)
Real Increase in Net Pension		4.50%		
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 38346		(2)
ALTERNATIVE METHOD CALCULATE CONSTANT (\$K) AND ADD TO GROSS PENSION AT 1/7 CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.70 (1 MINUS MARG TAX RATE 30 cts)				
Constant (\$K)		259		
Gross Pension (\$) at 1/7 plus Constant (\$K)		49609		
Notional Tax (\$)		11262.7		
Adjusted Net Pension (\$)		(3) 38346.3		(3)

NOTE THAT THE TECHNICALLY CORRECT VALUE (2) AND THE DERIVED VALUE (3) ARE VIRTUALLY EQUAL. MINOR DISCREPANCIES ARE DUE TO ROUNDING.

INFLATION RATE 5 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	50000	52500		
Notional Tax (\$)	11380	12430		
Net Pension (\$)	38620	(1) 40070		(1)
Real Increase in Net Pension		3.75%		
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 40551		(2)
ALTERNATIVE METHOD CALCULATE CONSTANT (\$K) AND ADD TO GROSS PENSION AT 1/7 CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.58 (1 MINUS MARG TAX RATE 42 cts)				
Constant (\$K)		829		
Gross Pension (\$) at 1/7 plus Constant (\$K)		53329		
Notional Tax (\$)		12778.18		
Adjusted Net Pension (\$)		(3) 40550.82		(3)

NOTE THAT THE TECHNICALLY CORRECT VALUE (2) AND THE DERIVED VALUE (3) ARE VIRTUALLY EQUAL. MINOR DISCREPANCIES ARE DUE TO ROUNDING.

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INFLATION RATE 3 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	7000	7210	10000	10300
Notional Tax (\$)	170	205.7	680	731
Net Pension (\$)	6830	7004.3	9320	9569
Real Increase in Net Pension		2.55%		2.67%
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 7034.9		(2) 9599.6
ALTERNATIVE METHOD CALCULATE CONSTANT (\$)K AND ADD TO GROSS PENSION AT 1/7				
CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.83 (1 MINUS MARG TAX RATE 17 cts				
Constant (\$K)		37		37
Gross Pension (\$) at 1/7 plus Constant (\$K)		7247		10337
Notional Tax (\$)		212		737,29
Adjusted Net Pension (\$)		(3) 7035		(3) 9599.71

NOTE THAT THE TECHNICALLY CORRECT VALUE (2) AND THE DERIVED VALUE (3) ARE VIRTUALLY EQUAL. MINOR DISCREPANCIES ARE DUE TO ROUNDING.

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INFLATION RATE 3 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	19000	19570		
Notional Tax (\$)	2210	2306.9		
Net Pension (\$)	16790	17263.1	(1)	(1)
Real Increase in Net Pension		2.82%		
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 17293.7		(2)
ALTERNATIVE METHOD CALCULATE CONSTANT (\$K) AND ADD TO GROSS PENSION AT 1/7 CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.83 (1 MINUS MARG TAX RATE 17 cts)				
Constant (\$K)		37		
Gross Pension (\$) at 1/7 plus Constant (\$K)		19607		
Notional Tax (\$)		2313.19		
Adjusted Net Pension (\$)		(3) 17293.81		(3)

NOTE THAT THE TECHNICALLY CORRECT VALUE (2) AND THE DERIVED VALUE (3) ARE VIRTUALLY EQUAL. MINOR DISCREPANCIES ARE DUE TO ROUNDING.

INFLATION RATE 3 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	21000	21630	35000	36050
Notional Tax (\$)	2680	2869	6880	7195
Net Pension (\$)	18320	(1) 18761	28120	(1) 28855
Real Increase in Net Pension		2.41%		2.61%
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 18869.6		(2) 28963.6
ALTERNATIVE METHOD CALCULATE CONSTANT (\$)K AND ADD TO GROSS PENSION AT 1/7 CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.70 (1 MINUS MARG TAX RATE 30 cts)				
Constant (\$K)		155		155
Gross Pension (\$) at 1/7 plus Constant (\$K)		21785		36205
Notional Tax (\$)		2915.5		7241.5
Adjusted Net Pension (\$)		(3) 18869.5		(3) 28963.5

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INFLATION RATE 3 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	47500	48925		
Notional Tax (\$)	10630	11057.5		
Net Pension (\$)	36870	37867.5	(1)	(1)
Real Increase in Net Pension		2.71%		
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 37976		(2)
ALTERNATIVE METHOD CALCULATE CONSTANT (\$)K AND ADD TO GROSS PENSION AT 1/7 CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.70 (1 MINUS MARG TAX RATE 30 cts)				
Constant (\$K)		155		
Gross Pension (\$) at 1/7 plus Constant (\$K)		49080		
Notional Tax (\$)		11104		
Adjusted Net Pension (\$)		(3) 37976		(3)

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INFLATION RATE 3 %				
	Value at 30/6	Value at 1/7	Value at 30/6	Value at 1/7
Gross Pension (\$)	50000	51500		
Notional Tax (\$)	11380	12010		
Net Pension (\$)	38620	(1) 39490		(1)
Real Increase in Net Pension		2.25%		
TO PRESERVE PENSION'S REAL VALUE INCREASE NET VALUE BY INFLATION RATE				
Net Pension value at 30/6 plus inflation		(2) 39778.6		(2)
ALTERNATIVE METHOD CALCULATE CONSTANT (\$)K AND ADD TO GROSS PENSION AT 1/7 CONSTANT (K) = (2) MINUS (1) DIVIDED BY 0.58 (1 MINUS MARG TAX RATE 42 cts)				
Constant (\$K)		498		
Gross Pension (\$) at 1/7 plus Constant (\$K)		51998		
Notional Tax (\$)		12219,6		
Adjusted Net Pension (\$)		(3) 39778.84		(3)

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