South Australian Government Superannuated Employees Association Inc.

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S.A. Superannuants *Established 1927*

Newsletter

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President: Ray Hickman, 24 Castle Street, Modbury, SA 5092. Tel: (08) 8264 4146
e-mail: raywen@bigpond.net.au

Treasurer: Michael Evans, 40 Esplanade, Pt. Willunga, SA 5173. Tel: (08) 8557 8184
e-mail: mmeevans@picknowl.com.au

Secretary: Vic Potticary, 27 Torrens Street, Torrensville, SA 5031. Tel: (08) 8352 6504
e-mail: cosme@senet.com.au

Membership: Willy Hajszan, 8 Eden Court, Aberfoyle Pk., SA 5159. Tel (08) 8387 2076
e-mail: whajszan@senet.com.au

From the President

At the May meeting, members present heard and saw an excellent presentation on the Consumer Price Index (CPI) made by Ms Judy Hensen and Ms Christine McLaughlin from the Australian Bureau of Statistics. For the interest of members unable to get to monthly meetings this issue of the Newsletter contains an insert on CPI determination. This is a response to requests made last year for such an item to be included in a newsletter. The item might be heavy going and is not compulsory reading!

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Two Federal Government reviews of relevance to the interests of Association members are now underway in Canberra. One of these is a review of the indexation arrangements applying to Commonwealth-funded military and civilian superannuation pensions. The outcome of this review will indicate whether or not the Commonwealth is going to change the indexation arrangements from the current CPI indexation to the better of CPI or wages.

The other review is a more general review of Australian retirement incomes and will address the issue of the adequacy of the age pension. There is a strong push being made for the base rate of the age pension to be increased. Both reviews are scheduled to report to the Government within about 6 months.

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Unanticipated outcomes from the 'Better Super' reforms of 1 July 2007 continue to be seen. Pensions paid from taxed sources now have a new component which enhances age pension entitlement for some members of taxed pension funds. The matter is rather complex and is described in the item *New Component for Some Super Pensions.* *Ray Hickman*

CPI Change: The Adelaide Consumer Price Index increase for December 2007 – June 2008, was **2.76%** and this same adjustment will be made to Super SA pensions from the first pension payment date in October, 2008.

Speaker Program for General Meetings:

September-November, 2008

(Speakers and topics subject to change without notice)

September 29: Ray Tuckfield, retired Australian embassy official. *Life in an Australian Embassy.*

October 27: Law Society of South Australia

November 24: Dr Victor Gostin, University of Adelaide. *Climatic Crisis and Human History*

Indexation of Commonwealth Super Pensions

On June 26 the Federal Government announced a review of the current indexation arrangements for 'Australian Government Civilian and Military Superannuation Schemes'. The review is to be conducted by Mr Trevor Matthews who is a prominent actuary in the United Kingdom.

Terms of reference for the review are as follows:

1. the occupational nature of those schemes
2. the form and value of the benefits payable under those schemes
3. indexation arrangements in similar defined benefit schemes in Australia
4. the interaction with Government safety net benefits; and
5. the full cost to the Commonwealth.

Submissions were required by 19 July and Mr Matthews conducted hearings on 24 and 25 July. The review is expected to be concluded within the 2008 calendar year.

Age pension, retirement incomes review

This review is being conducted by Dr Jeff Harmer, Secretary of the *Department of Families, Housing, Community Services and Indigenous Affairs*. The review is required to report to the Minister, Hon Jenny Macklin, MP by February, 2009. A government website refers to the review as follows:

> *"The Rudd Government knows that many pensioners are finding it tough to make ends meet. Cost of living pressures like groceries, bills and petrol mean it is harder and harder to cope.*
>
> *A key component of the inquiry will be to look at the adequacy of existing support for seniors and carers, and investigate measures which could strengthen their financial security in the long term.*
>
> *Dr Harmer will consult with representatives from seniors, carers, disability and community groups, as well as other experts, to ensure the review reflects the views and aspirations of those most affected by any reforms*
>
> *The Government will be calling for public submissions following the release of a Pension Review background paper in August."*

Federal budget, 2008

Taxation: in 2008/9 the 15% tax rate will apply up to an income of $34,000 ($30,000 in 2007/8) and the low income tax offset will increase to $1,200 ($750 in 2007/8). The income value at which this offset begins to reduce will remain at $30,000. These tax changes will assist Super SA pensioners who were still taxpayers in the 2007/8 year and the effect should have been noticeable in pension payments received recently.

The budget did not include any move to permit separate taxation of superannuation income and other income. This means that in the 2008/9 taxation year Super SA pensioners aged over 60 will continue to pay tax on their non-superannuation income (including age pension) at a relatively high marginal tax rate while members of taxed funds aged over 60 will pay tax on their other income as if it was their only income.

Salary sacrifice: one of the most popular uses of salary sacrifice is to make superannuation contributions. The tax payable on money salary-sacrificed into superannuation is 15% which is only half the most common income tax rate of 31.5% (30% tax plus 1.5 % medicare). Salary sacrifice currently also reduces the amount of income that is counted in assessing eligibility for Commonwealth payments and benefits.

From 1-7-2009, and provided that the necessary legislation is passed by Parliament, amounts salary sacrificed into super will be counted in determining eligibility for Commonwealth payments and benefits.

Commonwealth Seniors Health Card: this is currently provided to people of age pension age who are not in receipt of an age pension provided they meet the eligibility criterion of having a taxable income less than $50,000 (single person) or $80,000 (couple). When income from taxed superannuation funds became non-taxable for people aged over 60 this created a relative disadvantage for people getting their pensions from an untaxed source like Super SA. Income received from untaxed superannuation funds continues to be taxable income.

This will still apply for the 2008/9 taxation year but the Government intends to legislate to make income received from a taxed superannuation fund after 1-7-2009 count in determining eligibility for the Commonwealth Seniors Health Card. Any income salary sacrificed into super will also be counted.

The budget did not include a decision to increase the income amounts at which eligibility for the Health card is lost. These amounts have been unchanged since 2001 and the Association will join others in making representations to have the amounts increased to reflect CPI changes since 2001. *RH*

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Eligibility for membership of the Association

The desirability of opening up the membership of the Association to members of schemes other than the State Pension Scheme was discussed at the June Executive Committee meeting.

It was decided that no change be made in eligibility in the near future and that efforts directed at increasing membership of the Association be restricted to superannuants and pension scheme members still at work.

Christine Venning, the Association's Assistant Secretary, is working on strategies to make the existence of the Association, and the work it does, better known to potential members. *RH*

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PAYG payment summaries for 2007/8

A number of members have made contact with the Association over their PAYG payment summaries for the 2007/8 tax year. There appears to be a difficulty with the values being supplied to some people for the related amounts *untaxed element, tax-free component* and *tax offset amount.*

These difficulties can only be sorted out by each person affected taking the matter up with Super SA. However, the Executive Committee discussed this issue fully at the July meeting. A letter has been sent to Super SA outlining some concerns and seeking an assurance that steps are being taken to deal with them. *RH*

New component for some super pensions

Ever since 1 July 1983 superannuation benefits paid as lump sums have had a component called the *pre-1 July 1983 component* provided that the person receiving the payment was a fund member, or an employee of the employer associated with the fund, before that date. The significance of the date 1 July 1983 is that increased tax became payable on the component of all lump sum superannuation benefits accruing after 1 July 1983.

Generally speaking if one third of a person's total membership period of a fund occurred before 1 July 1983 then one third of the value of a lump sum benefit paid from the fund was referred to as the *pre-1 July 1983 component*. Up until 1-7-2007 this part of the benefit was taxed by adding 5% of its value to the person's annual income where it was taxed at the person's marginal tax rate. This was an effective tax rate of 0-2.5% depending on income. As of 1-7-2007 the *pre-1 July 1983 component* is tax-free.

Until 1-7-2007 pensions did not have a *pre-1 July 1983 component* calculated for tax purposes even if the pension recipient had been a member of his/her pension fund before 1 July 1983. Now there is such a component being calculated for pensions paid from taxed funds, **but not from untaxed funds**.

Consider a taxed fund member who retired at 2 July 2007 after 35 years membership of his pension fund. This person's membership of 35 years must have commenced on 1 July 1972 and so he has 11 years of pre-1 July 1983 service which is 31% of the membership period. Consequently his pension now has *a pre-1 July 1983 component* equal to 31% of the pension's value.

As with the *pre-1 July 1983 component* of lump sums this component of pensions is tax- free from 1-7-2007. **Big deal, I can hear many of you saying, the whole pension is tax-free anyway now.**

Yes, but not until age 60. Even after 1-7-2007 a person aged less than 60 is liable to pay tax on some of his/her superannuation pension and is restricted to claiming the 15% superannuation tax offset on this amount. The newly created *pre-1 July 1983 component* of taxed source pensions is tax-free before age 60 and where a person has income subject to the 30% marginal tax rate (income above $34,000 in 2008/9) this creates a tax saving greater than that provided by the 15% superannuation tax offset.

But the big change produced by this new *pre-1 July 1983 component* of taxed source pensions comes not from reduced tax paid, it comes from an increased age pension entitlement.

The *pre-1 July 1983 component* of a taxed source pension is not only exempt from tax it is also exempt income for the purposes of the Centrelink income test i.e. Centrelink does not count it.

So at age pension age the above person, **if entitled to age pension,** will have an extra entitlement. The amount of the extra entitlement will be 0.4 times the value of the *pre-1 July 1983 component* of the super pension (age pension entitlement increases by 40 cents for every $1 by which assessable income is reduced). The dollar amount of the extra entitlement will be in proportion to the pension's gross value as shown in the Table.

Table: *Pre-1 July 1983 component* and additional age pension for a taxed fund member retiring at July 2007 after 35 years employment/fund membership

Gross Pension	Pre-1/7/83 amount (%)	Pre-1/7/83 amount ($)	Extra age pension ($)
$20,000	31	$6,200	$2,480 p.a.
$30,000	31	$9,300	$3,720 p.a.
$40,000	31	$12, 400	$4,960 p.a.
$50,000	31	$15,500	$6,200 p.a.

Members of taxed funds who had retired before 1-7-2007 but after 1-7-1994 also have a *pre-1 July 1983 component* calculated for their pensions and have received substantial increases in age pension payments or become eligible for age pension when previously they were not eligible. For these people the *pre-1 July 1983 component* is calculated by dividing the years of service completed before 1-7-1983 by the years from the commencement of employment to 1-7-2007. Thus a person who commenced employment in 1960 and retired in 1995 has 23 years of pre-1 July 1983 service. This is divided by 47 years (1960-2007) to give a *pre-1 July 1983 component* of 23/47 = 0.49 (49%).

Members of untaxed pension funds like ours only have a *pre-1 July 1983 component* calculated for their benefit if they take it as a lump sum. So lump sums paid from untaxed pension funds receive the same treatment as lump sums from taxed pension funds but the pensions are now being treated differently. The question that the Association is pursuing with Federal authorities is: **why were untaxed fund pensions not also assigned a *pre-1 July 1983 component* when this was done for the first time with taxed fund pensions?** We also want to know why taxed fund members who retired before 1 July 1994 do not have a pre-1 July 1983 component for their pensions.

In Tasmania where the pensions are 30% taxed source, and 70% untaxed source, a pre-1 July 1983 component is being calculated for the taxed source component of the pension. This sees Tasmanian retirees also getting increased age pension entitlements, but the amounts are proportionately smaller than amounts being received by people with pensions that are entirely from a taxed source. Victorian and NSW pensions are paid entirely from taxed sources. *RH*

Members' Column

To the Editor,

I want to thank Jan Allen, Arnulf Anders, Joan Farrow, M. Pat Harris, Lloyd Isaacson, John Russell and Bob Smith who completed the SWOT analysis questionnaire after the July meeting. The comments were very incisive and relevant. They will be helpful to the Committee as it attempts to recruit more members to the Association.

Please look out for the report in the January Newsletter.

Christine Venning, Assistant Secretary

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Dear Ray,

I attended my first meeting on Monday, May 26th because I have an interest in the factors contributing to the CPI. I found the discussion before and during the address interesting. In your introductory remarks, you asked members to give an indication to the Executive Committee of the issues which the organization should pursue as a priority.

Reference was made to the suggestion that Superannuants over the age of 65 years should receive the age pension. I thought the final comments made by a person in the audience were correct. Economically and politically, this will not occur.

The new Government will continue with means testing so I see little point in pursuing this issue. I trust that SA Superannuants will give priority to those issues which have a reasonable chance of success. Pressure is mounting on the Government to increase the basic pension at some time in the near future. SA Superannuants could do well to ensure that our members can obtain additional top up pension amounts when (and if) the basic pension increases.

Also, I thought the last question posed to the two guest speakers from the ABS was particularly relevant; that is, how independent is the ABS and in particular, the CPI unit, from political influence? A variation of 10 percentage points in arriving at the quarterly CPI must have a significant effect on the quantum of additional expenditure to cover indexed Federal Government pension amounts.

I wonder if the Government statistician is accountable to a Minister? Also, I am aware there is more than one CPI calculated per quarter. This was not made clear at the discussion.

With best wishes in your future endeavours.

Yours sincerely
Peter Grenville

2008 Executive Committee

President: Ray Hickman
Vice-President: Clive Brooks
Secretary: Vic Potticary
Assistant Secretary: Christine Venning
Treasurer: Michael Evans
Membership: Willy Hajszan

Committee Members:
Claire Withers, Roger Tilmouth, Queenie Inshaw

From the Treasurer: Now that we are operating with a separate Treasurer and Membership Officer I request that you direct all membership inquiries to Willy Hajszan in the first instance. The inquiries that come direct to me have usually had to be referred to Willy and so are better sent to him in the first place.

Payment of fees by electronic funds transfer is going quite well and I want to encourage members to use this facility **BUT please make sure you identify yourself whenever you make an electronic transfer to SA Superannuants' account.** If you are not confident about doing this it will be better for you to pay by the traditional method. *ME*

Our **Bank SA** details are as follows:

BSB 105-900,
Account number 950313840,
Account name SA Superannuants.

Membership Form

SA SUPERANNUANTS
8 Eden Court, Aberfoyle Park, 5159

Existing Life Members should ignore this section (unless notifying change of address). Membership inquiries should be directed to Willy Hajszan, Tel 8387 2076.

Your membership category is on the envelope.

MEMBERSHIP 2008

Renewal 2008/New Application /Life Membership
(Delete as necessary)

Please find enclosed the amount of $....……....OR

I have made an electronic payment of $…………

For *S.A. Superannuants Annual/Life Membership*

FULL NAME (please print) ....
…………………………………………………...

ADDRESS (please print)…….……………………

…..................................……... Post Code...........

Tel.:……………….….. Date of Birth....../…../19…..

SIGNED..........................DATE..…../……..../2008

***Fees:** Annual = $10. Life *(once only fee)* Under Age 60 = $200; Age 60-65 = $160; Over Age 65 = $110.

(Receipts will not be posted unless a stamped, self-addressed envelope accompanies the application)

The Consumer Price Index (CPI)

In October Super SA pensions will increase by 2.76%. This is a consequence of the fact that on July 23 the Australian Bureau of Statistics (ABS) published a numerical value called the *Adelaide All Groups CPI.* It publishes these values quarterly and the value published on 23 July was for the June quarter, 2008. The last three *Adelaide All Groups CPI* values are set out in Table 1.

Table 1: Adelaide All Groups CPI Values

Quarter	**All Groups CPI value**
December, 2007	163.1
March, 2008	165.5
June, 2008	167.6

Our pension increase of 2.76% has been calculated from the values in Table 1 as follows:

$$\frac{\text{June, 2008 value} - \text{December, 2007 value}}{\text{December, 2007 value}}$$

$$= (167.6 - 163.1)/163.1$$

$$= 4.5/163.1$$

$$= 0.0276\ (2.76\%)$$

Every six-monthly indexation increase in Super SA pensions is calculated in this way using the last three *Adelaide All Groups Index* values published prior to the month in which the adjustment is made.

What follows is an account of how the *Adelaide All Groups CPI* value is obtained by the ABS. Corresponding values are obtained in the same way for the other Australian state capitals, and for Darwin and Canberra. This account has been written after the author had listened to a very good guest speaker presentation made by two ABS officers at the Association's May meeting. ABS publications have also been consulted but any errors, or other deficiencies, are entirely the writer's responsibility.

The CPI basket of goods and services

In compiling an all groups CPI value the ABS collects prices on about 1000 different items that comprise the *'CPI basket of goods and services'*. Each item is referred to as an *elementary aggregate.* Elementary aggregates are collected into about 90 *expenditure classes* and these into about 35 *sub-groups* and these into 11 *main groups* and these into the single *all groups.* Table 2 shows the relationship between one main group *Housing* and its sub-groups, expenditure classes. The numbers in brackets in the table are weights and these are discussed below.

An example of an elementary aggregate within the housing main group for Adelaide might be a kilolitre of mains water purchased from the SA Water Corporation and another example might be a cubic metre of gas purchased from AGL.

Table 2: Expenditure classes, sub-groups of *Housing*

<table>
<tr><th>Main Group</th><th>Sub-groups</th><th>Expenditure Classes</th></tr>
<tr><td rowspan="8">Housing (19.53)</td><td>Rents (5.22)</td><td>Rents (5.22)</td></tr>
<tr><td rowspan="3">Utilities (3.10)</td><td>Electricity (1.63)</td></tr>
<tr><td>Gas and other household fuels (0.70)</td></tr>
<tr><td>Water and sewerage (0.77)</td></tr>
<tr><td rowspan="3">Other housing (11.21)</td><td>House purchase (7.87)</td></tr>
<tr><td>Property rates and charges (1.16)</td></tr>
<tr><td>House repairs and maintenance (2.18)</td></tr>
</table>

In 1989/90 every elementary aggregate had assigned to it an index value of 100.0 no matter what its price was at the time. As the price has changed the index has changed in proportion. A 10% increase in the price of any item would see the index for that item increase to 110.0.

The determination of price changes

Prices are collected at intervals by ABS field officers who visit the sources from which Australians purchase goods and services. Such sources include supermarkets, department stores, schools, travel agents, restaurants. Prices are also obtained by telephone and internet.

The frequency with which prices of different items are collected depends on the price volatility of the item. If the item is prone to change in price frequently it is monitored frequently. Petrol prices are collected every day and averaged on a monthly basis. Fruit and vegetable prices are collected weekly, meat monthly and school fees annually.

Prices are only collected in capital cities. It is acknowledged that prices are often different outside capital cities but it is assumed that movements in prices are similar. **A fundamental feature of the CPI is that it only measures change in prices.**

Household expenditure survey and index weights

Once the index values for elementary aggregates have been determined for a particular quarter they are combined to calculate index values for every expenditure class, then sub-group, then main group and finally the all groups index. This requires the use of weights.

In CPI calculations, weights are the measures of the percentage of expenditure which is used for a purchase or collection of purchases.

At approximately five-year intervals the ABS determines weights by conducting a procedure referred to as the *Household Expenditure Survey (HES).* A random sample of metropolitan households is used for this purpose.

The last HES was carried out in 2003/4 and for spending on *Housing* it produced the results that can be seen in Table 2 overleaf. The numbers in brackets in Table 2 are the percentages of household expenditure made for each set of purchases listed. Thus the 2003/4 HES concluded that 5.22% of expenditure was on rent, 0.77% on water and sewerage, 2.18% on household repairs and maintenance.

You can see that the weightings for the different expenditure classes comprising each sub-group, when added together, produce the weighting for the sub-group and the weightings of sub-groups when added together produce the weighting for the main group which in this case of *Housing* is 19.53%. *Housing* is just one of 11 *main groups* making up the *all groups* and the HES findings for the 11 main groups are set out in Table 3.

Table 3: Weights for the 11 different main groups

Main Group	**Weight (%)**
Food	15.44
Alcohol and Tobacco	6.79
Clothing and Footwear	3.91
Housing	19.53
Household Contents and Services	9.61
Health	4.70
Transportation	13.11
Communication	3.31
Recreation	11.55
Education	2.73
Financial and Insurance Services	9.31
All Groups	100

It is assumed that the weights determined by the HES conducted in 2003/4 are still valid today. *Food* is assumed to still be 15.44% of household expenditure, *Alcohol and Tobacco* 6.79% and so on.

The significance of weights can be illustrated by referring to changes in index values for the main groups *Food* and *Education* that occurred between the December, 2007 and June, 2008 quarters. These changes are set out in Table 4.

From Table 4 we can see that while the percentage increase in education costs (4.94%) is nearly twice that of food costs (2.63%) it contributes only about one third as much to the percentage change in the all groups index value as food. This is because the weighting for food (15.44%) is about six times that for education (2.73%). The contribution that each main group makes to the change in the all groups index is calculated by multiplying the percentage change in the index for the group by the corresponding weight.

Table 4: the importance of weights

	Food	**Education**
Weight	15.44%	2.73%
December, 2007 index value	182.7	307.5
June , 2008 index value	187.5	322.7
% change from Dec. 2007 to June, 2008	+2.63	+4.94
Contribution to the all groups change of 2.76%	+0.41	+0.13

Can the calculation of CPI changes be ‘fiddled’?

It is sometimes said that items experiencing large increases in prices can be temporarily excluded from the CPI determination in order to save Governments money.

This is not true for the CPI measure used to determine changes in our pensions. No Government Minister can instruct the Commonwealth Statistician to leave an item out of the CPI calculation of an *all groups index* in a particular quarter.

However, from time to time the basket of goods and services used for CPI determinations is changed. There was a time when the basket included house mortgage interest rates and not house prices. Currently house prices are included but not mortgage interest rates.

The Reserve Bank of Australia (RBA) uses a modified CPI measure as it considers what it is going to do in setting interest rates. This measure does have large increases or decreases ‘trimmed’ in the calculation. The RBA measure is often referred to as measuring the ‘underlying inflation rate’. The CPI measure produced by the ABS and used to index our pensions is referred to as measuring the ‘headline inflation rate’. **The headline inflation rate is not subject to ‘trimming’.**

CPI changes and wage changes

In the days of centralised wage fixing the CPI change was an important part of the submissions made to every national wage case. But not anymore. Today CPI changes have only an indirect influence on wage determinations and it may be that this is the main reason why the CPI has been tracking well behind wages for the last 15 years or so. The CPI increase of 4.51% seen during the last twelve months will probably compare more favourably with the wage increases that occurred over the same time. But this seems unlikely to last. *RH*