

Background information relevant to the January 2021 member survey on Key Directions for the Association

1. Indexation of defined benefit pensions to be the better of PBLCI and CPI

Relevant information: PBLCI stands for Pensioner and Beneficiary Living Cost Index and CPI for Consumer Price Index. Attempts made over more than 20 years to have Commonwealth civilian defined benefit pensions indexed on the same basis as the age pension have not yielded success. Age pension indexation is the better of PBLCI and CPI and if that sees age pension fall below a wages benchmark an additional increase occurs. This objective seeks an indexation rate that would not keep pace with wages over the long term but would be better than CPI only indexation.

If this happened everyone with a defined benefit pension would gain in line with increasing pension values.

2. Age pension to be non-taxable income

Relevant information: most retirees receiving age pension income pay no tax or Medicare levy on that income. This is due to the fact that most superannuation income is exempt from both tax and the Medicare levy. Any other taxable income is taxed as if it was the only income and is subject to a tax-free threshold of \$18,200.

If this happened it would see people who are currently paying tax and receiving age pension become better off.

3. Valuation factor for defined benefit pensions for transfer balance cap purposes to be changed from 16 for pension recipients of all ages to an actuarial, age-related factor

Relevant information: defined benefit pensions cannot be cashed in except in very limited circumstances and they do not have an asset value assigned to them for age pension means testing purposes. But recently they did have an asset value assigned to them for a different purpose (to calculate a transfer balance cap amount) and this is being done by multiplying the annual pension amount by a factor of 16 no matter what the age is of the pension recipient. On this basis a person aged 85 (or more) with (say) a \$50,000 p.a. pension is treated the same as another 85-year-old with \$800,000 in a superannuation account. This would seem to be a dangerous precedent to leave unchallenged.

If the valuation factor was related to age this would allow people who have account-based superannuation, as well as a relatively large defined benefit pension, to have more of their account balance backing an additional (allocated) pension.

4. Removing the 10% cap on defined benefit pension income that is exempt from the age pension income test

Relevant information: before 2007 the component of a defined benefit pension that was exempt from the age pension income test was calculated using after-tax contributions only. Between 2007 and 2015 the fraction of service completed before 1 July 1983 was included for people receiving taxed-source pensions. This saw people start paying no tax on their superannuation income and at the same time receive significantly more age pension income on which they also paid no tax. This objective aims to allow the amount of exempt income to exceed 10% provided it has been calculated taking account only of personal contributions made from after tax income before retirement.

If this happens people who made relatively large after-tax contributions will have less of their superannuation pensions counted in the age pension income test and, if eligible for age pension, will receive a larger payment. Of Super SA, CSS and PSS pension recipients it is PSS members who are most likely to gain from this measure.

5. Removal of means testing on eligibility for the Commonwealth Seniors Health Card (CSHC)

Relevant information: CSHC eligibility is subject to an income means test but not an asset test. Where a person has financial assets they are deemed to determine an income amount and that decides whether the person is eligible for a CSHC. Under current deeming rates a couple with financial assets of \$4 million will be eligible to receive the CSHC but a couple with a Super SA, CSS or PSS pension income of \$90,000 p.a. will be ineligible. A single person with \$2 million in financial assets is eligible to receive the CSHC while a single Super SA, CSS or PSS pension recipient with a \$56,000 p.a. pension is ineligible..

If this happens it will remove discrimination against people receiving their retirement income in the form of untaxed-source defined benefit pensions.

6. Removal of the work test for non-concessional superannuation contributions made to accumulation accounts by people aged over 65.

Relevant information: currently there are complex work test rules governing the eligibility of people aged over 65 to make superannuation contributions. Many retirees complain about the poor return they are getting on money held outside the superannuation system in bank accounts. If the complex work test rules applying after age 65 were removed for non-concessional contributions made to accumulation accounts retirees would have the option of shifting funds from low risk and low return bank accounts into higher risk and higher return superannuation accounts. If the money is restricted to accumulation accounts the Government will receive additional tax revenue compared to what it receives from money held in bank accounts of most retirees.

If this happens all retirees are likely to seriously consider making the shift of funds from bank accounts to superannuation accounts with people in receipt of untaxed-source superannuation pensions having the biggest incentive for doing so.