

South Australian Government Superannuated Employees Association Incorporated.

Trading as:

**S.A. Superannuants**

Established 1927

# Newsletter

Issue No. 6  
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## CPI Indexation – Is It Enough?

FOR several years SA Superannuants has been drawing attention to how the standard of living of Super SA retirees is gradually falling behind the rest of the community due to the declining real value of CPI linked pensions.

The accompanying graph illustrates the cause of our concern by using average weekly earnings (AWE) to measure changes in community living standards.

The Federal Government recognises that CPI is not an adequate measure of changes in the cost of living (COL) and Centrelink Age Pensions are now linked to AWE. Space precludes a detailed discussion of why CPI is not a true COL index, but the graph clearly shows that our pensions are losing ground, and the longer you are retired the larger the gap becomes.

CPI and AWE moved more or less in concert prior to 1990 but a marked divergence has now developed. The divergence since 1995 is especially pronounced and there is no sign of a reversal in the trend.

In April 2001 the Senate Select Committee on Superannuation and Financial Services recommended that the Federal Government:

- Examine the feasibility of adopting an indexation method other than the CPI for Commonwealth public sector and defence force superannuation schemes, to more adequately reflect the actual increases in the cost of living;
- Ensure, where appropriate, that changes to the Commonwealth public sector schemes flow through to State public sector schemes.

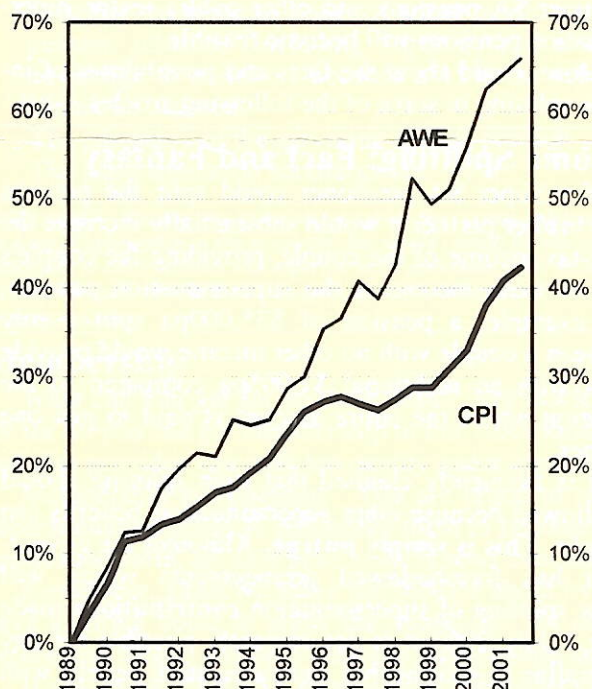
So far the State Government has failed to act on the Select Committee's recommendation.

SA Superannuants will continue to bring the matter to the notice of government, with a view to having a form of wage-based indexation introduced.— FM

## STOP PRESS

*Adelaide CPI increased by 1.83% during the six months to 30 June. Super SA pensions will be adjusted by this amount in October.*

Adelaide CPI  
compared with  
SA Average Weekly Earnings  
Cumulative 6 Month Increase Since 1989



## PROGRAM

Venue: The Pilgrim Centre, 12 Flinders St., Adelaide  
1:00pm – 2:30pm

Visitors Are Welcome

- 26 Aug 02 **Mr S H Tully** (Electoral Commissioner)  
*Elections – More than Meets the Eye*
- 30 Sep 02 **Eugene Biganovsky**  
*State Ombudsman*
- 28 Oct 02 **Professor V A Gostin** (Adelaide University)  
*Climate Change and Human Development*
- 25 Nov 02 **Super SA:** Kelly Bonato (Director, Member Services) and Deane Prior (Director, Policy):  
*What's Happening in Super SA*
- 24 Feb 03 **Annual General Meeting \***  
*A high profile speaker is being sought*

\* The AGM of SA Superannuants will be held at 1:00pm on Monday, 24 Feb 2003 in the Pilgrim Centre, 12 Flinders St., Adelaide. The order of business will be:

- Tabling of financial statements
- Reimbursement of committee expenses
- A proposal to update the Association rules, including changing the date of effect for subscription increases
- Review of member subscription fees
- Consideration of appointment of Hon. Life Members
- Election of office bearers and committee\*\*
- Other business

**\*\*Members are urged to nominate for election to the incoming Committee.**



## Family Law and Superannuation

Condensed from "The Trustee" - Winter 2002

The Family Law Legislation that enable superannuation interests to be divided when a marriage breaks down will commence on 28 December 2002 (unless an earlier date is proclaimed). Superannuation will be considered as matrimonial property and the parties will be able to make an agreement setting out how it is to be split on marriage breakdown.

An agreement will allow parties to determine whether superannuation is to be divided and in what proportion. To be binding the agreement must be in accordance with the Act and each party must obtain independent legal advice as to the effect of the agreement.

If there is no agreement the Family Court can divide the superannuation as part of a property order.

Super funds must divide the superannuation in accordance with an agreement or court order.

The new rules will apply to:

- All marriages, including those dissolved prior to the commencement date, provided the Court has not made a final order in relation to property. The law does not apply to de facto relationships;
- Super funds of all types including self managed funds, Public Sector schemes, Approved Deposit Funds, Retirement Savings Accounts, Superannuation Holding Account Reserve;
- Accumulation and defined benefit interests.

Superannuation will be able to be split in the growth phase (the member is still in employment) or in the payment phase (the member has retired and is receiving regular superannuation payments).

If parties want to defer the decision about their superannuation the interests can be flagged. Superannuation interests that are split are subject to preservation rules and the person receiving the interest must satisfy their own condition of release.—FM

## Retrenchment Pensions

A member has approached the Association with a concern about the withholding of his retrenchment pension for the reason that his termination payment included a payment made in lieu of notice.

The Executive Committee believes that he has a strong case for reimbursement of the full amount of the pension withheld and has advised him to appeal the original withholding decision.

The basis for the Executive view is that the Superannuation Act, 1988 specifies that pensions are to be withheld until the period of any accumulated recreation leave has elapsed but provides for withholding in no other circumstance.

Any other members who have had their pensions withheld for payments made in lieu of notice are encouraged to advise the Association in order that we may ensure pensions are withheld only in those circumstances specifically authorised by the Act.—RH

## Income Splitting, the Big Picture

One of the things dear to the hearts (and hip pocket nerves) of public sector superannuants in receipt of a pension such as a Super SA pension is income splitting. SA Superannuants supports attempts being made by the Australian Council of Public Sector Retiree Organisations (ACPSRO) to achieve this and members of the Executive Committee have given considerable thought to the development of arguments helpful to the case.

Existing and proposed Federal Government policies already provide for some forms of retirement income splitting, including:

- Centrelink pensions;
- Spouse superannuation contributions;
- Transfer of unused tax offsets for pensioner couples and other couples aged over 65 years.
- Distribution of super assets between marriage partners in the event of marriage breakdown.
- Splitting of super contributions to accumulation funds made after 1 July 2003.

Of these arrangements the one listed last is most likely to lead to general splitting of super assets. Once super contributions can be split between partners, with both receiving a tax free threshold and reasonable benefit limit when a lump sum benefit is collected, the case for splitting pension benefits corresponding to service after 1 July 2003 will be very strong. The government has said it has no in-principle objection to the extension of the arrangement to pension funds. However, it believes that there are some technical difficulties.

Unfortunately this does not promise much for existing Super SA pensioners because our benefits correspond to pre-2003 service. However, if Australians are given the right to split lump sum benefits derived from past contributions then income splitting of Super SA pensions and other public sector superannuation pensions will become feasible.

More is said about the facts and possibilities of income splitting in some of the following articles.—RH

## Income Splitting: Fact and Fantasy

If a Super SA pensioner could split the pension with his/her partner it would substantially increase the after-tax income of the couple, providing the couple's sole or main income is the superannuation pension. For example, a pension of \$35,000pa split evenly between a couple with no other income would provide them with an additional \$1,905pa compared to the situation where the entire amount is paid to just one partner.

It is frequently claimed that such splitting should be allowed because other superannuation benefits can be split. **This is simply untrue.** Although the government has foreshadowed arrangements which will allow splitting of superannuation **contributions** made after 1 July 2003 it is not currently possible for any Australian to split his/her superannuation benefit with a partner in a way which allows the tax payable on the benefit to be reduced. (Continued, on Page 3)



The only way a superannuation benefit can be transferred to a partner is for the holder of the benefit to receive it as a lump sum payment and give the lump sum to his/her partner. However, tax is payable when the lump sum is received from the superannuation fund therefore the money received by the partner is reduced. The benefit has been split, in a sense, but not in any way that has reduced the tax payable on it. Super SA Pension Scheme members can do this if they wish by commuting their pensions to a lump sum on retirement.

SA Superannuants and ACPSRO (Australian Council of Public Sector Retiree Organisations) have asked the Federal Government to consider allowing superannuation pensions to be split. But there is no point deluding ourselves with a belief this request can be justified by reference to splitting of superannuation benefits which is already allowed for some Australians but not public sector employees. As far as splitting of superannuation benefits is concerned Australian tax laws place the same restrictions on all Australian employees.—RH

## Senate Inquiry

The president of SA Superannuants (Frank Morony) appeared as a witness before the Select Committee on Superannuation at a public hearing in Parliament House, Canberra on 1 July 2002.

SA Superannuants provided substantial input for a consolidated submission presented to the Select Committee by Australian Council of Public Sector Retiree Organisations (ACPSRO). The submission dealt with:

- Splitting of super benefits for tax purposes
- The inadequacy of CPI as a means of adjusting public sector superannuation pensions and the desirability of linking the pensions to Average Weekly Earnings or CPI, whichever is the higher.
- Whether the untaxed status of some public sector pension schemes (including Super SA) is a disadvantage to members because a 15% tax rebate cannot be claimed.
- The adequacy of the surviving spouse pension.
- The superannuation surcharge tax.—FM

*DISCLAIMER. Readers should not act, or refrain from acting, solely on the basis of information in this newsletter, but should consult the relevant authorities or other advisers with expertise in the particular field. Neither SA Superannuants nor the Editor accepts any responsibility for actions taken by readers.*

## Membership

What can you get for \$6 these days? Not much! Three loaves of bread, 4 litres of milk, 2 blocks of chocolate. Or for \$6 you can get membership to our Association which is working hard in your best interests as superannuants and also provides you with ten quality guest speakers at our monthly meetings.

Membership is important. You are urged to retain your membership and if you have friends who receive a superannuation pension, encourage them to become members too. It's only \$6 a year. It is not necessary to have an application form, all they need to do is send their name and address to me at 7 Mead Street, Paradise, 5075.

Remember, gains we make are brought about by our strength of membership. A strong membership ensures we have a strong voice to argue our cause. So, fill out the renewal form in this Newsletter and pay for 2003 now, before you forget, and help keep our membership strong.

If you move **PLEASE** remember to advise us your new address so that we can keep in touch with you through our twice-yearly newsletter.—JR

## Undeducted Purchase Price (UPP)

Any Super SA pension where the member made contributions after 1 July 1983 will have an undeducted purchase price component. This is because personal contributions made after this date were not tax deductible in the income year they were paid. However, the contributions can be claimed as a tax deduction once a superannuation benefit is paid.

If contributions made *before* 1 July 1983 were in excess of the deductible limits applying at the time, these are also tax deductible.

A Super SA pensioner unsure of their undeducted purchase price amount should examine their own tax records then consult Super SA and the tax office.

For lump sum payments, including part commutation of a Super SA pension, the undeducted purchase price component is tax free. When a person commutes part of their pension they can elect to take the undeducted contributions as part of the lump sum or leave it associated with the pension received after the partial commutation.

The undeducted purchase price associated with a Super SA pension has two important effects:

1. It creates a deductible amount (DA) for the pension which is calculated as:

$$DA = UPP \div \text{Life Expectancy}$$

The deductible amount is subtracted from gross pension. Tax is paid only on the reduced amount.

2. It also reduces the amount of the superannuation pension assessed as income under the Centrelink means test, increasing any Centrelink entitlement.

*Note:* For a Super SA pension Undeducted Purchase Price (UPP) is the same as Undeducted Contributions (UC). It is the price a person has paid in order to obtain a superannuation benefit and for which that person has not received a tax deduction.—RH

### SA SUPERANNUANTS' EXECUTIVE

*President:* Frank Morony

*Vice-President:* Ray Hickman

*Secretary:* John Carter

*Assistant Secretary:* Barbara Bray

*Treasurer Membership Public Officer:* John Reddaway

*Committee Members:*

Betsy Boundy, Clive Brooks, Maureen Goodwin, John Hanlon,

Vic Potticary, Don Prewett

*Auditor:* Neville Smith (Crea & Co.)

*Observers:* Brian Hannaford and Mike Duff



## Superannuation Fund "Losses"

Members may have read the story headed "Budget Blow as Super Fund Loses \$500m" in *The Sunday Mail* on 30 June 2002. According to this story "the State Government's superannuation fund faces long-term losses of almost half a billion dollars, punching an unexpected hole in the looming State budget". It went on to quote the State Treasurer as saying that partly because of these losses there would have to be "very big budget cuts . . . and . . . taxpayers will have to fork out another \$30 million from this budget on-wards to pay for this poor performance."

The SA Government funds the pension scheme by making contributions and by using the investment return of the fund. Before 1994, governments of both persuasions ran the scheme on an emerging costs basis. Government contributions were made to meet current pension costs but not the accumulating liability for future pensions. In 1994 the Liberal Government adopted a policy of making additional contributions with the aim of having the scheme fully funded within a specified period. However, in 2000/2001 this same government declined to make a contribution for past service liability.

It is not for us to tell any government how to fund the scheme but the current liability of the scheme is entirely a consequence of past government decisions about its own rate of contribution. The poor investment return this year will not affect the long-term cost of the scheme because it is more than compensated for by returns in earlier years that exceeded the investment target. If the government has to make a contribution larger than it hoped for, the reason is its history of contributions made (or postponed) over many years, not this year's poor investment return.

On a positive note, the current poor performance of most Australian superannuation funds highlights an important feature of defined benefit funds such as the pension scheme. Investment performance (good or bad) has no impact on member benefits. Accumulation scheme members are learning this year that high returns do not go on forever and to take advantage of good investment years you have to accept the consequences of a bad year.—RH

## Divorce – a tax perk for older couples?

This was the heading of an item published in *The Advertiser* on 6 May 2002. The article referred to a couple with a combined superannuation benefit of \$1,000,000 split as \$850,000/\$150,000.


According to the article changes in Family Law provisions "could force elderly couples to divorce and remarry to save up to \$250,000 in superannuation taxes." The solution that the writer proposed was "allowing retiring couples to split superannuation when they retire". However, the fact is that this couple could use the entire \$1,000,000 benefit to provide themselves with retirement income without paying even \$1 in tax on their million dollar asset.

The partner with \$850,000 has the option of deploying \$425,000 to purchase a complying income stream (very much like a Super SA pension) and the remainder as an allocated pension. The other partner can deploy his/her \$150,000 benefit to purchase a separate allocated pension.

In this way no tax is payable on the \$1,000,000 lump sum and very little is payable on the income derived from the pensions. The couple still has the option of withdrawing the money in their allocated pension accounts (up to \$575,000). Their withdrawals will be subject to a tax rate well below the maximum rate of 15%.

The major thrust of Federal Government policy (Labor and Liberal) since 1988 has been to provide tax incentives for people prepared to use superannuation assets to provide income for their retirement. Tax laws do not force people to do so, but they do ensure that those who take their superannuation as a lump sum pay more tax than those who are prepared to fund their own incomes over a longer period.

The recent changes to Family Law that provide for the splitting of superannuation assets in the event of marriage breakdown are an attempt to deal justly with a difficult issue. While it may be claimed this development provides some basis for allowing all superannuation benefits to be split, the changes have not created anomalies that *force* happy couples to divorce. They deserve the support of all fair-minded Australians whether or not this ultimately leads to more general income splitting arrangements.—RH

 Cut here and post

John Reddaway, Treasurer  
SA SUPERANNUANTS  
7 Mead Street, PARADISE, SA 5075

Existing Life Members should ignore this section (unless notifying change of address).  
Membership inquiries should be directed to John Reddaway. Telephone 8337 2425

**Your membership grade is on the envelope**

**Renewal for 2003 / New Application / Change of Address** (Delete as necessary)

Please find enclosed the amount of \$ ..... \*for S.A. Superannuants Annual / Life membership

FULL NAME (please print) .....

ADDRESS (please print) ..... POST CODE .....

TELEPHONE ..... DATE OF BIRTH ...../...../19.....

PRE-RETIREMENT OCCUPATION ..... SIGNED .....

DATE .... / .... / 20 .... \* Fees: Annuua = \$6 per year. Life (once only fee) Under Age 60 = \$120; Age 60–65 = \$90; Over Age 65 = \$70  
(Receipts will not be posted unless a stamped, self-addressed envelope accompanies the application)