

PRESIDENT'S REPORT – February 2003

THE principal objective of SA Superannuants is to maintain and improve the real value of retirement incomes for the majority of Super SA pension scheme members. The Association has limited resources but in order to generate well-argued submissions to government a great deal of research and discussion is required. I must thank the committee for their outstanding efforts and tireless dedication in pursuit of this objective throughout the year.

Matters that have been addressed by the Association include:

- The untaxed status of Super SA. Vice-President Ray Hickman carries the heavy workload of this project.
- Wage based indexation of superannuation pensions.
- A fairer application of the Centrelink means test by adding contribution investment earnings to the income deductible amount. This would increase the allowable income before the Age Pension is reduced.
- Family Law changes associated with division of superannuation in event of marriage breakdown.
- Freedom of information requests for the Commonwealth Heads of Government Agreement on Superannuation and the 1998 report on the Tax Status of SA Government Superannuation Funds.
- The adequacy of spouse pensions.
- Revision of the Association's constitution
- Income splitting of super for tax purposes
- Federal funding of State concessions for senior Australians

Many of these issues are ongoing.

The Association continued its involvement at the Federal level through its affiliation with the Australian Council of Public Sector Retiree Organisations (ACPSRO). Based in Canberra, ACPSRO is in a position to influence matters covered by Commonwealth legislation and has developed a network of important contacts, culminating in a meeting with the Prime Minister during August. SA Superannuants is a significant contributor to ACPSRO activities.

In July 2002, I appeared with other ACPSRO councillors as a witness before the Senate Select Committee on Superannuation during the inquiry into superannuation and standards of living in retirement. The Select Committee's report is the topic of a separate news article.

With the objective of recruiting new members, regular presentations outlining the activities of the

Association have been given to employees at Super SA pre-retirement seminars. SA Superannuants is also represented, together with industrial organisations, on the SA Government Superannuation Federation, a body normally consulted by the State government on changes to superannuation legislation.

SA Superannuants membership has been maintained at around 1,500 and attendance at our monthly meetings has averaged about 100, reflecting the popularity of our program of high profile speakers.

After four years as president I will not be seeking re-election this year. It has been an exceptionally interesting and personally rewarding four years. I am confident that the Association will gain strength as it goes forward and I wish the incoming committee well.—Frank Morony

STOP PRESS

Adelaide CPI increased by 1.73% in the six months to 31 December. Super SA pensions will be adjusted by this amount in April.

ANNUAL GENERAL MEETING Monday, February 24, 2003, commencing 1 p.m. in the Pilgrim Centre, 12 Flinders St., Adelaide

Agenda:

1. Apologies
2. Minutes of previous Annual General Meeting
3. Annual Reports: President, Treasurer
4. Review of subscription fees (no increase proposed)
5. New Constitution: It is proposed that—
 - (a) the existing constitution be repealed, and
 - (b) the new constitution be adopted.
6. Election of Officers and Committee for 2003
All Officer and Committee positions fall vacant. Some incumbent members will not be renominating and all members should consider nominating for a position on the incoming Committee.

A requirement that the Committee comprise at least two female members has previously been difficult to attain. Thus all female members are encouraged to seriously consider nominating. Committee meetings are generally held prior to General meetings.

GUEST SPEAKER PROGRAM FOR NEXT 6 MONTHS

- Feb. 24: Hon. Dean Brown, Shadow Minister for Human Services, Ageing, and Disability Services
March 31: Mr. Albert Prowse, chairman, Aust. Shareholders' Assoc.
April 28: Mr. Jim Crowe May, Low Vision Centre
May 26: Mrs. Win Haseloff, aural historian and author
June 30: Mr. Lewis O'Brien, an elder of Kurna people
July 28: Prof. Gary Andrews, director, Centre for Ageing Studies

Venue: The Pilgrim Centre, 12 Flinders Street, Adelaide
Time: 1.00–2.30 p.m.

DISCUSSION ON TAXED v UNTAXED STATUS OF SA SUPER FUND

In an earlier newsletter members were advised of approaches made to the previous Liberal Government on the taxation status of the pension fund. What follows is an up-to-date summary of the Association's understanding of this issue.

It is a lengthy and demanding item for a newsletter but we now know for certain that the pension benefit can be delivered in a more tax efficient way, and that the previous government had received an expert report suggesting that these efficiencies might be realised without being passed on to members. For this reason it seems appropriate to proceed on the basis of keeping members as well informed as possible.

In October, 2002, the Association obtained, via a Freedom of Information application, a copy of a document entitled **Study of the Taxation Status of the SA Government Superannuation Funds** which was presented to the previous Liberal Government in January, 1998.

This document confirmed the general validity of the case which the Association had made to the previous government. This was that an untaxed pension fund must be inherently less efficient at delivering benefits than a taxed pension fund. In principle the advantage of a pension delivered from a taxed source arises as follows:

1. The maximum reduction in a pension needed to convert it to a taxed source pension **without increasing the employer's cost** is 15%. If a person's marginal tax rate is 30% (plus 1.5% medicare) then they would have only received 68.5% of the 15% anyway, i.e. 10.3% of the pension. The taxed form of their pension, while lower, qualifies them for a 15% tax offset on the reduced pension, therefore they regain 12.8% (15% of 85%) for a net gain of $12.8 - 10.3 = 2.5\%$.

2. Most members of the pension scheme have an appreciable amount of pre-1 July 1983 service and the effect of this is that their pension will not have to be decreased by 15% but by a lesser amount. For example a person commencing their pension in 2003, who commenced work for the Government in 1963, will only experience a pension reduction of 7.5%. This is because half their service occurred prior to 1 July 1983 and so their pension is reduced by only half the maximum amount of 15%. Conversion of the pension to a taxed form provides this person with a net gain of 8.8% of the original pension.

Of course, a person who does not pay tax cannot be better off if their pension is reduced but the expert report referred to above made it clear that people in this position would simply continue to receive their existing pensions and remain ineligible for the tax offset.

It seems possible that the pension fund is destined to become a taxed fund. While it remains in its present form a significant fraction of the money used to fund it is simply State money paid directly into the Federal

Treasury rather than to members. This serves neither the interests of members nor the interest of the State.

It also seems certain that conversion of the fund to the taxed form will occur without any member being disadvantaged but it must be remembered that taxation changes made in 1988, which led to the creation of two different taxation regimes for superannuation funds, were designed to **improve benefits** delivered as lifetime pensions from taxed funds. These benefits have not been received by Super SA pensioners because the fund continues in an entirely untaxed form.

The taxation study referred to above made the claim that if conversion of the pension fund to a taxed form occurred then "*multi-million dollar savings to the Government in present value terms may be feasible*". It went on to say:

The Government may need to cope with demands from members of the pension scheme that they, as well as the Government, should share in the gains achieved. An important part of the response would be that these people are still members of schemes which have been closed because of their generosity, and yet their benefits have been continued. Thus they should have little to complain about if the advantage of applying the PJFC is not passed through to them, so long as they are not detrimentally affected. A critical point is that the benefit reductions should be such as to remove the windfall gains, but not to the extent of causing detriment to any members.

This outrageous statement is not necessarily endorsed by any government. However, its dismissal of the right of pension fund members to enjoy the same improvements in retirement income which have already flowed to many other Australians should be taken as a warning. The fact of the matter is that the Federal Taxation Laws applying to Superannuation Pension Funds since 1988 are intended to provide improved retirement incomes and were never intended to provide any saving for employers. The employer is protected from any increase in costs by provisions that allow pensions to be reduced by the amount needed to pay tax **but pension reductions beyond this point cannot be justified.**

In fairness to the Government (current and previous) it does appear that the intrinsic advantage of taxed pension funds can only be realised if money flows into them at a rate greater than that needed to pay current benefits. The State Government, for very good reasons, may not wish to accelerate its funding of the pension scheme. If this is the case then there is still the component of pensions funded by member contributions to be considered. Conversion of this fraction of the benefit to a taxed form would yield worthwhile improvements to most fund members.—
R.H.

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.

NEW CONSTITUTION

During 2002 John Carter and Vic Potticary worked through the current constitution with a view to ensuring that the language was gender-neutral and the content matched to current requirements for the Incorporation of Associations.

As a result a number of references to a particular gender have been replaced and new sections dealing with the appointment of a Public Officer and use of a Common Seal have been included. There has also been a change to the rule dealing with membership which will extend membership to contributing members of the pension scheme.

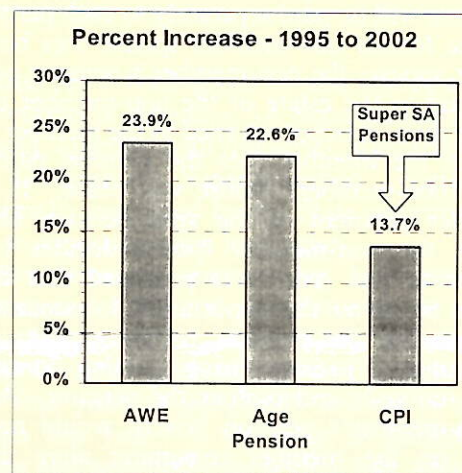
At the AGM it is proposed to repeal the existing constitution and replace it with the new constitution drafted by John and Vic.—R.H.

SENATE SELECT COMMITTEE ON SUPER MAKES NEW RECOMMENDATIONS

The Senate Select Committee on Superannuation is conducting an inquiry into superannuation and standards of living in retirement. In December 2002 the Committee made 28 recommendations, many of which are directed at workers still accumulating superannuation benefits. Recommendations that may affect retirees include:

1. That, in the long term, the superannuation contributions tax be gradually removed and replaced with a new approach to taxing end benefits. *[Editor's note: This could impact on the Taxed Fund Issue mentioned elsewhere.]*
2. That the current arrangements for access to the Commonwealth Seniors Health Card scheme be reviewed to ensure that it focuses on those in greatest need.
3. That the uptake of complying annuities be monitored to ensure that the restrictions imposed do not inhibit the attractiveness of complying annuities.
4. That appropriateness of current minimum draw-down limits for allocated annuities be reviewed.
5. That options be examined by which those who wish to could draw an income stream from their owner-occupied housing assets for retirement income purposes, including health and aged care expenses.
6. That the Government consider indexing Commonwealth funded superannuation benefits to Male Total Average Weekly Earnings or the Consumer Price Index, whichever is the higher, in

order that recipients share in the increases in living standards enjoyed by the wider community. SA Superannuants has been pursuing wage based indexation for Super SA pensions for some time and this last recommendation (6) for Commonwealth schemes strengthens the argument for SA schemes to receive similar treatment. The accompanying graph illustrates how Super SA pensions lost value between 1995 and 2002.



Recommendations by the bipartisan Select Committee do not automatically become Government policy, but it does place these matters positively before the Federal Government.—F.M.

NEW FINANCIAL REPORTING BY SUPER SA WELCOMED

The Association has, over the last two years been making representations to the Super SA Board concerning additional information of a financial nature which should be made available to fund members.

This year, for the first time, members have received in their annual reports a statement of financial position which includes previous year figures as well as those for the current year.

Also for the first time, the full Annual Report, which is available to members on request, includes the dollar amounts paid to Board members last year. These payments are as follows:

Presiding Member	\$27,200
Elected Employee Representatives	\$18,700
Employer Representatives	\$0

Other information indicates that the payments to the presiding member and employee representatives have increased by about 300% in two years.—R.H.

MEMBERSHIP

It's that time of the year again when membership is due for renewal. There is something else new this year. On your address slip will be shown whether you are a life member or an annual member, with the date you are financial to. If you have any queries regarding this information telephone the Membership Officer at 8337 2425 or email to reddaway@iweb.net.au to sort the matter out.

Again it is requested that if you change address, please inform the Membership Officer of your new address. It is very frustrating when we have a mail out and letters are returned marked "no longer at this address". Don't let it happen to you, advise your correct address and you will receive our newsletters keeping you abreast of what is happening within the Association. Also our website address is www.homepages.ihug.com.au/~rhick/sagsea

Hoping to see many of you at our monthly meetings.

JOHN REDDAWAY (Treasurer/Membership Officer)

MARRIAGE BREAKDOWN LEGISLATION

The State Government is in the process of making changes to State Superannuation legislation to complement changes in Federal Family Law. The changes deal with splitting superannuation assets in the event of marriage breakdown.

In the case of a pension that is already being paid the parties may agree, or the Court may rule, that the pension will be split and thereafter the relevant proportion will be paid separately to each party.

If the former non-member spouse dies before the member spouse, the non-member's pension continues to be paid to the estate of the non-member until the member dies. It is not returned to the member.

When the member dies the pension paid to the former (non-member) spouse will cease. If, a short time after payment of the split pension has commenced, the non-member spouse decides to avoid exposure to this risk, it is proposed that the non-member be given the opportunity to commute their proportion of the pension. The problem is that commutating a pension using existing commutation factors seriously undervalues the pension. Although the non-member's pension benefit would no longer depend on the member remaining alive the non-member would be taking an inferior benefit.

There is an alternative. The parties may agree, or the Court may rule, that the non-member will receive at the outset a benefit in the form of a cash lump sum. It is understood that the value of the member's pension will then be assessed using factors reflecting more accurately the worth of the pension and consequently the cash lump sum received by the non-member will be higher than in the case of a non-member pension that is subsequently commuted. The cash option is not available to the member spouse but the outcome is likely to be more satisfactory for both parties, especially in so far as it may affect division of property other than superannuation.

At the time of writing the pension valuation factors that will apply to cash lump sum settlements had not been approved. The Association has, however, given in-principle support to the proposed changes.

Members involved in a marriage breakdown property settlement are strongly advised to obtain professional advice.—F.M.

MEMBER SUCCEEDS WITH APPEAL

In our last newsletter we reported on a member whom SA Superannuants had advised to appeal a decision regarding the suspension of his pension because he had been paid money in lieu of notice when retrenched. We have pleasure in reporting that the member's appeal was successful.

S.A. SUPERANNUANTS' 2002 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

NEW GOVERNMENT PROPOSALS REGARDING FUNDS SA OPPOSED


Funds SA is the independent authority responsible for the investment of superannuation money on behalf of government employees. Treasurer, Kevin Foley, has introduced into the parliament, a Bill to amend the Act under which Funds SA operates. This would give the Government power to:

1. Replace Funds SA Board members appointed by the Government for any reason which the Treasurer sees fit. Currently these members of the Board are appointed for a 3 year term after which they may be replaced. Otherwise they may be replaced only for specific reasons set out in the Act. The Treasurer is not seeking any power to replace the two Board members representing members.
2. Direct the Funds SA Board in any matter other than the making of a specific investment decision or the casting of a vote. Currently the Act provides for the Government to request the Board to have regard for Government policy but the Board cannot be directed to act in accord with Government policy.
3. Extend the functions of Funds SA to allow it to receive Government money for investment. Currently the Act allows the corporation to receive only superannuation contributions.

The Superannuation Federation, of which SA Superannuants is a member, is opposed to all the Treasurer's proposals. The basis for opposition is:

- That superannuation money should be maintained separate from other employer money and
- That those responsible for the investment of superannuation money should not be subject to direction or coercion by the employer.

These very important principles are the foundation for the security of superannuation benefits of Australians and are quite explicit in the Federal Government's Superannuation Industry (Supervision) Act, 1993.—R.H.

 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

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...../...../..... * FEES: Annual = \$6 per year. **Life (once only)** 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)