

***“Remember! The first line on the envelope address shows your financial status”—ME***

South Australian Government Superannuated Employees Association Inc.

trading as:

**S.A. Superannuants** *Established 1927*

**Newsletter**

Website—[www.sasuperannuants.org.au](http://www.sasuperannuants.org.au)

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## From the President

Tasmania has been paying, since 1-7-2007, the component of its state superannuation pension funded by member contributions as a taxed-source pension (30% of the total pension), and the balance as an untaxed-source pension (70% of the total pension). This involves no reduction in the gross pension. **But the State Treasurer has advised the Association that this will not be possible for the member-funded component of South Australian pensions.**

The reason is that South Australia holds members' money, paid from personal, after-tax income, in an untaxed superannuation fund, and to change the fund to a taxed fund now it will be necessary to pay tax that would not have been payable if the money had always been held in a taxed fund. This is discussed in some detail in the item *No Tasmanian Pensions for SA*.

The amount of money involved here is \$1.5 billion and this is just the pension scheme. The lump sum scheme holds \$600 million, and the SSS scheme \$760 million, of members' money paid from personal, after-tax income. This is \$2.9 billion in total. As members receive this money many of them must pay tax on the earnings component at a higher rate than would have been payable if the money had been held in a taxed fund. The only other state that holds money paid from after-tax income in untaxed funds is WA and even that state has now ceased doing this for its scheme that is open to new members.

The Association will be using the difference between Tasmanian and South Australian pensions to highlight the need for a credible authority to review this unusual SA policy of holding money paid from personal, after-tax income in untaxed funds.

\* \* \*

There are two 'good news' items in the newsletter and these are *Surviving Spouse Pensions* and *Transition to Retirement*. The former item outlines recent changes to eligibility criteria for a surviving spouse pension and the latter reports passage of legislation which will allow increased access to the pension after the attainment of preservation age.

The item *Sharemarket Ups and Downs* presents a summary of investment returns for the pension scheme over the last 12 years. Investment returns do not affect our pensions but we still have an interest in returns being up to expectations over the long term. The *Universal Age Pension* item reports on responses received from interstate organizations to the proposal that there be no means testing for the age pension. In the item *Electricity Industry Super Scheme* the difficulty that members of the scheme are having getting access to an appeals tribunal is outlined.

\* \* \*

The newsletter has a single leaf insert. On one side is our annual, audited financial statement. On the other side of the insert is the item *Undeducted Contributions* which outlines some unexpected outcomes from the federal superannuation reforms of last year. It describes changes in the way undeducted contributions are now used by the Tax Office and Centrelink to assess Super SA pensions.

Ray Hickman

## General Meetings

Venue: Pilgrim Centre, 12 Flinders Street,  
Adelaide, 1 p.m.-2.30 p.m.

### Guest Speakers, May-August, 2008

(Speakers and topics subject to change without notice)

**May 26: Merry Branson** Australian Bureau of Statistics: *The Consumer Price Index (CPI)*.

**June 30: Ian Mawby** *Hearing loss, hearing aids and all things hearing.*

**July 28: Marita Aldridge** Cancer Society: *Nutrition, lifestyle and cancer prevention.*

**August 25: Dr Rob Morrison**, Senior South Australian of the year, 2008: *Extinction as a fashion statement: the role of the modern zoo.*

**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.

## No Tasmanian Pensions for SA

As reported in the January 2008 newsletter Tasmanian Government Superannuation pensions have been paid, since 1-7-2007, as part taxed-source and part untaxed-source pensions without there having been any reduction in the total gross amount of pension paid. The taxed-source component of a Tasmanian pension is about 30% of the total pension and is the component funded by member contributions paid from after-tax income.

We also know that when NSW pensions were reduced as a result of becoming taxed-source pensions the fraction that was funded by member contributions, paid from after-tax income, was not affected regardless of the date on which the pension commenced. This Tasmanian and NSW experience demonstrates that the fraction of pensions funded from member contributions was able to be delivered from a taxed fund without the need for that fraction to be reduced. **But not if the fund has waited too long to become a taxed fund.**

The Association has now received a reply from the State Treasurer, Hon Kevin Foley, MP, to the question of whether the fraction of South Australian pensions funded by member contributions (about 20%) can be paid as a taxed source component without there being any reduction in the total amount of the pension paid.

**The answer is no and this is the answer that the Association had anticipated.**

South Australian pensions would have to be reduced in order for the component funded by member contributions to be payable as a taxed source component of the total pension.

The basic reason for this is that South Australia (under both Labor and Liberal governments) has insisted on holding member contributions, and the earnings of those contributions, in an untaxed superannuation fund rather than a taxed superannuation fund. This is in spite of the fact that, had the same money always been held in a taxed superannuation fund, the amount of tax payable would have been zero or nearly zero.

The main reasons why little or no tax would have been payable if member contributions had been held in a taxed superannuation fund since 1988 are:

1. the contributions are paid from after-tax income and a taxed superannuation fund does not pay the 15% contributions tax on these contributions. This would be double taxation.
2. the earnings of assets which are being used to back pensions that have commenced is exempt from taxation. Most of the assets that the pension fund holds are backing the pensions being paid. Consequently only a small part of earnings incur a tax liability.

3. A fund operating in the taxed environment can claim tax deductions for expenses and can make use of dividend imputation to reduce any tax bill it might have.

Once all these factors are considered it is not hard to understand how the member-funded component of a pension might be delivered from a taxed fund at little or no tax cost.

*Consider the case of Mary, who retired at age 58 in June 1988 and who is still a South Australian state pension scheme member today at age 78.*

When Mary retired her contributions, and the earnings, which we will assume to total \$100,000, would have been capable of funding about 20% of her pension. The exact percentage and amount is not important.

If the South Australian superannuation fund had been subject to tax from 1 July 1988 (when taxes first became payable) it would not have had to pay any tax on the \$100,000 it held to fund 20% of Mary's pension when she retired and it would not have had to pay any tax on the earnings of this money since 1988.

Now, in 2008, suppose that the assets held to pay 20% of Mary's pension, for the remainder of her life, have a value of \$70,000. It does not matter what the exact value is. To change 20% of Mary's pension to a taxed source pension this \$70,000 will have to be treated as an eligible termination payment (ETP) rolling over from an untaxed fund to a taxed fund and tax will be payable on it. This is a consequence of a provision of the Income Tax Act that was put in place effective from 1-7-2000.

By this date all other states (except WA) had shifted at least that fraction of the assets derived from member contributions to the taxed environment and without a requirement to comply with the income tax rule that now prevents South Australia from doing so except by incurring a tax cost.

Even though only 20% of the total pension is involved here the tax cost will be substantial over the life of the scheme. Pension payments in 2006/7 were \$404 million and 20% of this amount is about \$80 million. The tax payable on most of this \$80 million would be zero if member contributions had been held in a taxed fund. Instead a substantial fraction is subject to a tax rate of 20% (plus 1.5% medicare).

There may also be a Centrelink cost to members of their contributions having been held in an untaxed fund. This is currently being clarified but in any event questions need to be asked about why South Australia has been holding members' superannuation contributions in an untaxed fund for the last twenty years when the Commonwealth, and all but one other state, have held the corresponding money in taxed funds.

RH

## Surviving Spouse Pensions

There have been some important changes made to the eligibility of a person to receive a surviving spouse pension on the death of a superannuant.

**Legally married couples:** until recently, where a superannuant married or remarried after the pension had commenced, the spouse did not become eligible to receive a surviving spouse pension unless the date of death was at least five years after the date of the marriage. Where a marriage occurred before the commencement of the pension there was no waiting period.

Now there is also no waiting period for a person who becomes a spouse through marriage to a superannuant already receiving his/her pension at the date of the marriage. The change that has occurred for couples who are legally married is illustrated below:

**Up until recently:** if pension scheme member Cyril married Beryl on Tuesday before commencing his pension on Wednesday then dying on Thursday (all in the same week) Beryl was entitled to a surviving spouse pension equal to two thirds of Cyril's pension and payable from the date of Cyril's death.

However, if Cyril commenced his pension on Tuesday, married Beryl on Wednesday and then died at any time before the expiration of five years from the date of the marriage, Beryl had no entitlement.

**Now and in the future:** Beryl will be entitled to the same surviving spouse pension in both the above scenarios.

**Couples who are not legally married:** until recently where partners were not legally married only heterosexual relationships could lead to a surviving spouse entitlement. The basic requirement to be met was that the relationship had to be of at least 5 years duration at the time of the death of the pension scheme member.

Now the meaning of a spouse includes a same-sex partner for the purpose of deciding eligibility for a surviving spouse pension. There has also been a reduction from 5 years to 3 years in the period for which an eligible relationship, that is not a legal marriage, needs to have existed at the time of the death of the pension scheme member.

These changes have occurred as a result of the passage of the *Statutes Amendment (Domestic Partners) Act, 2006*. This Act has swept away a large number of discriminatory provisions in South Australian legislation and among these discriminatory provisions were restrictions on access to superannuation where partners were not legally married or where a legal marriage had occurred after the date of the commencement of a pension. The arrangements now applying in South Australia are similar to those in place, or pending, in other parts of Australia.

RH

## Transition to Retirement

The legislation providing for members of South Australia's public sector superannuation schemes to have access to superannuation at preservation age (55 years increasing to 60 for people born after 30-6-1964) has now been passed.

The Association understands that, from 1-7-2008, Pension Scheme members who have reached their preservation age will be able to access their pensions without having to first resign from Government employment (as is currently the case).

The requirement will be that the person must make a new employment arrangement with their Government employer which sees them receiving less salary. For example, a person could move from full-time employment to part-time employment in the same job or remain full-time but go to another job which is lower paid.

Once the above requirement has been met the person will be able to receive a fraction of their accrued super pension which equals the fraction of salary they have foregone.

RH

## Sharemarket Ups and Downs

As a consequence of the retreat in world sharemarkets over the last six months most Australian superannuation funds are likely to report a negative earning rate (investment return) for the 2007/8 year.

The table below displays the earning rates and consumer price index (CPI) changes for the period 30 June 1997 – 30 June 2008. The figures for the year ending 30 June 2008 are pessimistic estimates. The source of the earning rates is the Super SA reports.

Year	Earning Rate	CPI	Year	Earning Rate	CPI
1996/7	20.5	0.0	2002/3	-0.9	3.7
1997/8	12.9	0.3	2003/4	18.2	3.0
1998/9	9.1	1.0	2004/5	15.3	2.2
1999/0	16.8	3.2	2005/6	19.8	3.8
2000/1	3.2	5.9	2006/7	19.5	1.7
2001/2	-5.4	3.0	2007/8	-10	4.5
<b>12 Year Averages: Earning Rate 9.9; CPI 2.7</b>					

The earning rate target for the pension scheme is a real earning rate of 4.5% p.a. over the long term. The real earning rate is the difference between the actual earning rate and the CPI.

We see from the table that the real earning rate averaged over the past 12 years has been at least 9.9% – 2.7% = 7.2% p.a. (the figures for 2008 are pessimistic). Well above target. Clearly the poor earning rate expected for 2007/8 should not require any change to the Government's schedule of funding for the pension scheme aimed at bringing it up to full funding by 2034.

RH

## Universal Age Pension

A number of organizations have now replied to our request, made last year, for an indication to be given of whether or not the organization supports, in principle, the removal of all means testing from the age pension.

From the replies received we know that in-principle support exists within organizations similar to our own in Tasmania, Victoria and New South Wales. However, the Superannuated Commonwealth Officers Association (SCOA) has advised that it does not support removal of means testing.

The implications of means testing removal will now have to be considered in some detail to see if a substantial commitment to such a goal should be made. If you have a view about this you should make it known to the Committee. *RH*

## Electricity Industry Super Scheme

Members of the Electricity Industry Superannuation Scheme (EISS) are still waiting to be granted access to the Superannuation Complaints Tribunal (SCT). This is the federal authority responsible for dealing with complaints from superannuation fund members when those members have not been able to get satisfaction from their fund.

EISS is established under state legislation but has private sector employers now that the state electricity assets have been sold. The involvement of private sector employers prevents EISS members from making use of the State Ombudsman and/or the District Court to appeal against decisions of the Fund Trustee.

The EISS Trustee has agreed to allow members access to the SCT and made its application for the fund to be recognised by the tribunal. This happened more than a year ago and the members are still waiting for the federal authorities to make the necessary arrangements. This delay is disgraceful given that the legislation under which the SCT is established provides for access by funds operating under state legislation should that be requested by the fund trustee. It is to be hoped that the new federal government deals with this matter quickly. *RH*

### 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:*

Willy Hajszan, Queenie Inshaw, Roger Tilmouth,  
Claire Withers, Mike Duff (observer)

## From the Association 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.

## PLEASE READ THIS!!!

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.

Some members have paid their membership fee by depositing the money at a bank branch. Please do not do this because once again the money cannot be recognised as coming from a particular member.

*Michael Evans*

Our bank is **Bank SA** and other details are as follows:  
**BSB** 105-900,  
**Account number** 950313840,  
**Account name** SA Superannuants.

## Membership Form

*# Cut here and post to:*

### 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)*

## Undeducted Contributions

Undeducted contributions are contributions to a superannuation fund for which a tax deduction has not been claimed.

Before 1 July, 1983, contributions made to the pension scheme were tax deductible up to a certain dollar amount. If a person made contributions above the allowed deductible amount the excess contributions are undeducted contributions. After 1 July, 1983, member contributions to the pension scheme were not deductible and so all contributions made after this date are undeducted contributions.

During retirement, pension scheme members who have undeducted contributions can claim a tax deduction each year. For people whose pensions commenced before 1 July, 2007, the amount of the deduction is calculated by dividing the amount of undeducted contributions by a life expectancy value.

If a person is single, the life expectancy used is that person's life expectancy but if the person has a spouse it will be the longer life expectancy of the two.

This approach has been in use for many years and will continue to apply for people who commenced their pensions before 1-7-2007. But for people commencing their pensions after 1-7-2007 a different approach will be used. To illustrate the difference we will use the cases of Fred and Barney who are getting Super SA pensions.

**The case of Barney:** Barney is 60 years old and married to Wilma who is 57. He retired just before 1-7-2007. The life expectancy value applicable to Barney's pension will be about 28 years. His undeducted contributions are \$50,000 and he is able to claim an annual tax deduction of  $\$50,000/28 = \$1,786$ . This is a fixed dollar amount and though Barney's pension increases through indexation each year the amount he can claim as a deduction does not change.

**The case of Fred:** Fred is also 60, also has a wife aged 57, has the same undeducted contributions of \$50,000 as Barney and gets the same pension which is \$40,000 p.a. But Fred retired just after 1-7-2007. The deduction Fred can claim is determined as follows:

Fred's pension is assigned a notional value by using Australian Tax Office factors. For a 60 year old the factor is 16.513 and so the notional pension value for Fred's pension will be

$$\$40,000 \times 16.513 = \$660,520$$

**Note:** this notional value far exceeds what Fred would get if he commuted the pension. The commutation value of a \$40,000 p.a. Super SA pension being paid to a 60 year old is \$420,000 (before tax).

The amount of undeducted contributions is now expressed as a percentage of the notional value. This percentage is:

$$\$50,000/\$660,520 \times 100 = 7.6\%$$

The annual tax-free amount of Fred's pension will be 7.6% of \$40,000 = \$3,028. This means that retiring just after 1-7-2007, as opposed to just before, has had the consequence of allowing Fred to claim a tax deduction which is \$1,242 p.a. greater than what Barney can claim for the same amount of undeducted contributions.

This translates into an extra \$267 p.a. of net income for Fred. The figure of \$267 has been arrived at by assuming that the net rate of tax and medicare payable is 21.5% (30% tax minus the 10% tax offset plus 1.5% medicare). This is not much but it is, as the saying goes, 'better than a poke in the eye with a sharp stick'. And it gets better as the years go by.

By the time Fred and Barney have reached age pension age their pensions will have increased to about \$46,000. Barney's tax-free amount will still be \$1,786 but Fred's will be 7.6% of \$46,000 which is \$3,496. This means that Fred's tax advantage over Barney has increased from \$267 p.a. to \$368 p.a.

Finally there is a Centrelink difference between pensions commenced before and after 1-7-2007. When Fred and Barney get to age pension age Centrelink will use the tax-free amount of their pensions as the deductible amount for the Centrelink income test.

Although Barney and Fred have the same income, in Barney's case, Centrelink will count \$46,000 - \$1,786 = \$44,214 but in Fred's case it will count only \$46,000 - \$3,496 = \$42,504. This is \$1,710 p.a. less than it counts for Barney. Age pension entitlement reduces by 40 cents for every \$1 of income counted in the income test and so Fred gets an extra 40% of \$1710 = \$684 p.a. in age pension. This amount, like his tax advantage over Barney, will increase steadily over time.

This difference between people retiring before 1-7-2007 and those retiring afterwards was not made clear in the publications circulated by the previous Federal Government in the course of its consultations over superannuation reform. For example, in its 5 September, 2006, document *A Plan to Simplify and Streamline Superannuation: Outcomes of Consultation*, in the section headed *Age Pension Arrangements*, we read:

**'The current income test treatment of superannuation pensions will remain unchanged'**

There are also differences now between members of untaxed funds and taxed funds as far as application of the Centrelink income test is concerned. The August newsletter will outline these differences and what, if anything, the Association might be able to do about them.

RH