

SA Superannuants (the Association) is an organisation representing the interests of members of the South Australian State Pension Scheme. This scheme pays untaxed-source defined benefit pensions to about 15,000 former employees of the South Australian Public Sector. About 1500 of these people are financial members of the Association.

With the next state election due early next year we are making this contact to ask you to consider the changes to State superannuation arrangements set out in parts A and B below for inclusion in the policies you take to the election.

A: Changes to Contribution and Benefit Arrangements for Pension and Lump Sum Schemes

The pension scheme

1. On the death of a contributor a surviving spouse to receive a payment equivalent to the full pension continuing to be paid for a specified period e.g. 1 month, 2 months.

Reason for making this change: On the death of a pension scheme member, who has a legal or putative spouse, the survivor is entitled to a pension of two thirds the amount that was being paid to the deceased person. This represents a substantial decrease in income that can occur unexpectedly. In the cases of the age pension and Commonwealth superannuation pensions when one member of a couple dies the survivor receives a payment to ensure that, for a specified period, his/her income is maintained at the same value as the couple's income prior to the death. The specified period is about 14 weeks for both age pension and Commonwealth superannuation pensions. With Commonwealth superannuation pensions the maintenance of income is achieved by making a lump sum payment to the surviving spouse which is equal to the difference between the full pension and surviving spouse pension for the 14 week period.

There would be a cost for making a change like this and the Association's estimate of the cost across the entire pension scheme is approximately \$1 million p.a. for each month that the payment covered.

2. Contributors to be allowed to pay their contribution by salary sacrifice. No cost to the government.

Reason for making this change: currently members of both the pension and lump sum schemes must make their personal contributions from after-tax salary. The standard contribution rate is 6% and paying this from after-tax salary requires a person to commit more than 6% of their gross salary to their personal superannuation contribution. For example, if the person's marginal tax rate is 32.5% (plus the 2% medicare levy) then 9.3% of gross salary is used up making the 6% after-tax contribution.

An alternative for a pension scheme contributor would be:

salary sacrifice 6% into the pension scheme and salary sacrifice the other 3.3% into the SSS. The result would be that the person has additional superannuation at their retirement.

There would be some reduction in the net value of the pension resulting from use of this alternative. It would reduce the tax-free amount of the pension but this would be more than offset by income obtained as an allocated pension funded by the 3.3% of salary sacrificed into the SSS or as investment income obtained in some other way.

The lump sum scheme

1. Contributors to be allowed to pay their contribution by salary sacrifice. No cost to the government.

Reason for making this change: this is essentially the same reason as for the pension scheme and will result in people having larger personal account balances than can be obtained by paying personal contributions from after-tax income. The small disadvantage of the extra tax payable when the lump sum is cashed in, or rolled over, would be more than offset by the increase in the gross amount of the lump sum.

2. People still at work to be allowed to access their own contributions, and the associated investment earnings, without utilising the employer component of their benefit for transition to retirement purposes. This will remove the need for them to move to lower-paid (e.g. part-time) employment as they transition to retirement. No cost to the government.

Reason for making this change: currently a member of the lump sum scheme using a transition to retirement strategy must move to lower-paid employment in order to access any part of their accrued lump sum entitlement. The current Government's argument used to justify this restriction is that the earlier a person accesses a defined benefit the greater is the cost to the Government. The personal contributions of lump sum scheme members produces a simple accumulation entitlement that is separate from the defined benefit entitlement funded by employer contributions. Consequently there will be no cost to the Government if a person utilises only the money in their personal account to fund a transition to retirement pension and leaves the employer-funded defined benefit component untouched. This will allow them to build up additional superannuation during the transitional period while retaining the same disposable income that they had before their transition to retirement pension commenced.

B: Review of Governance Arrangements

S.A. Superannuants is on the record as having the view that South Australian superannuation arrangements are out-dated. The Association believes that there should be a review of the South Australian legislative arrangements and a comparison of those arrangements with the corresponding arrangements in other jurisdictions. We believe that a suitably qualified panel that is independent of the Treasury would, on examination of the South Australian arrangements recommend changes that included some, if not all, of the eight changes listed below.

1. Reform of the Super SA Board that moves it towards the arrangements that are the norm for private sector funds and public sector funds in all other Australian jurisdictions. Super SA is a Trustee entity for some relatively small schemes that it

administers but not for the pension scheme or the other main schemes. It cannot be a trustee for these other main schemes because they are all untaxed-source (constitutionally protected) schemes with assets that are property of the crown. But this does not stop the Super SA Board being reformed to become a Board that more closely resembles the norm for Boards of Australian Superannuation Schemes.

2. The Super SA board to be subject to direction by the Minister only in specified circumstances. For example, where a discretionary Board decision would have the effect of increasing Government costs for superannuation. This is the norm in the private sector and the other Australian jurisdictions.
3. Board decisions to require a two thirds majority concurring. This is the norm in the private sector and the other Australian jurisdictions. Decisions of the Super SA Board require only a simple majority concurring and the Government appoints 3 out of the five voting members of the Board.
4. The Board to have a legal obligation to act in the best interests of members. This is the norm in the private sector and the other Australian jurisdictions.
5. Section 5 Superannuation arrangements to be published. These arrangements can involve variation to the provisions of the *Superannuation Act 1988* and probity demands that the variations made be public knowledge.
6. Increase in the number of Board members from 5 to 7 or 9 with member representatives being elected by members of each of the main schemes. Very few, if any, substantial superannuation entities have only 5 members as is the case with the Super SA Board. With such a small Board there is a risk of it not having the breadth of expertise and experience needed to meet trustee responsibilities.
7. The Heads of Government Agreement on Superannuation to be part of all superannuation acts administered by Super SA. This agreement has been signed by all states and in other jurisdictions is acknowledged in the relevant legislation and/or scheme rules. In South Australia there is no mention of the Agreement in legislation or rules.
8. The Board to be bound by the SIS covenants. This is the norm in the private sector and the other Australian jurisdictions. These covenants are fundamental to a superannuation Board meeting its responsibilities to members. There is nothing in the South Australian superannuation legislation that is the equivalent of the SIS covenants.

C: A Commonwealth issue affecting our members and other elderly South Australians

All the matters set out in Parts A and B above are matters for the South Australian Government and there is another matter which is a Commonwealth responsibility that the Association wishes to bring to your attention. This is to do with elderly people being assisted to continue living in their own homes.

The Commonwealth offers a Home Care Package program which we regard as a quality program. Recent reforms have improved it further. We believe the program has the support of most members of the Federal Parliament. However, total funding available means that some people assessed as eligible for a particular level of package are queued until one is available or may be offered a lower level package until their assessed level is available. These delays can cause considerable distress to recipients wanting to stay in their own home and avoid having to go into residential care; the very objectives of the program and a saving to taxpayers.

If you require more information about the superannuation matters set out in Sections A and B the contact details for the Association's Research and Information Officer are set out below.

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Yours sincerely,
Christine Venning, Secretary