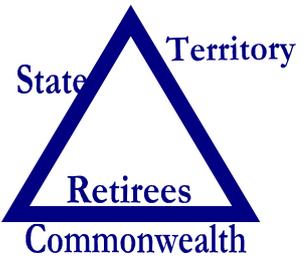


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# Australian Council of Public Sector Retiree Organisations Inc.

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ABN 74 202 015 642



Peak Council representing Commonwealth, including military, State, Territory and other public sector retirees.

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12 Muresk Street, Farrer ACT 2607

17 November 2016

## **Submission to Senate Economics Legislative Committee on the Superannuation (Excess Transfer Balance Tax) Imposition Bill 2016**

ACPSRO is the peak council for organisations representing retired civilian and military public sector workers from the Commonwealth, State and Territory governments. Our member organisations have long and extensive experience with defined benefit superannuation.

In the period 27 September to 10 October the Treasury invited comment on an Exposure Draft of the present Bill and accompanying Explanatory Materials. These documents contained a proposal to value all Defined Benefit (DB) pensions with a factor of a flat sixteen times the amount of the annual pension (without any regard for life expectancy) to be counted as part of individual's cap space of \$1.6m.

That crude approach attracted adverse comment in the press and in several submissions to the Treasury, including from this organisation.

Dr David Knox, Senior Partner of Mercer, a firm highly regarded for the excellence of its actuarial advice, personally proposed to Treasury after the closing date the alternative of a simple table reproduced here.

<b>Age on 1 July 2017 or when the pension commences, if later</b>	<b>Factor</b>
Under age 70	16
70-74	14
75-79	12
80-84	10
85-89	8
90 and over	6

Dr Knox has stated that "Although not perfect, I believe this is both simple to administer and fairer than the current proposals."

Regrettably the Treasury has not taken up this suggestion. It has attempted to explain its opposition in para 3.226 of the present Explanatory Memorandum as follows:

**3.226** The use of a single factor of 16 is consistent with the general transfer balance cap. The general transfer balance cap is set at \$1.6 million regardless of the age or gender of a retiree, the earnings they are able to achieve on their assets or the rate at which these are drawn down. Using variable age-based factors would produce anomalous outcomes. For example, lower factors for older individuals would result in the individual having more cap space than their younger counterparts despite having lower life expectancy. It would also be inconsistent to use a single threshold above which income streams are subject to additional tax, while using different valuation factors.

Sadly this must be called for what it is; a confusion of ideas without any cogency at all.

The proposed cap of \$1.6m will allow a citizen, without the burden of a DB pension on 1 July 2017, to have a superannuation equity of \$1.6m which is commutable at any time in whole or in part, which provides a hedge against contingencies such as medical expenses and access to care and on which earnings in the pension phase are tax free.

Why should a DB pension the value of which approaches zero value in its final years, which is not commutable and which is taxable income in the hands of the recipient impact at all on this facility available to citizens generally?

The reason, in the eyes of many, is that a DB pension is a taxation expense. This is because in the main DB schemes are not funded and that is because the authority at the time (Government/Treasury) thought it did not need to put aside an amount equal to 15.4% (the current level of public sector employer contribution) to fund its DB pension schemes. Should DB pensioners be required to wear the consequences of that?

If the Economics Legislative Committee feels that the value of a DB Pension should be counted as part of an individual's cap space that value should reflect the reality that in its later years a DB pension has a diminishing worth. The value certainly should not be more punitive than the simple proposal put to Treasury by Dr Knox.

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