Issues for Commonwealth Superannuation Pensioners

1. The 10% Cap

Last year legislation was passed to limit to 10% the amount of a defined benefit pension that can be excluded for the income tests for the Age Pension and some other Centrelink pensions. The government said first that the aim of the measure was to stop people on big pensions from "double-dipping", then they said that it would ensure that the part of the pension purchased using pre 1 July 1983 employer contributions was included in the income test. Now the government say that they do not have data about the pre 1983 contributions, but they have provided data about the incomes of those affected by the 10% cap. Apparently they came up with the policy without access to data about pre 1983 contributions. Their data show that most of those affected by the 10% cap are on very modest defined benefit pensions. This measure should be repealed because it is unfairly targeting people who have contributed 10% or more of their after-tax salary to purchase additional pension. Some of them did not even have any pre 1983 service. This measure is treating return of capital as interest, which is not fair.

2. Age Pension Taper Rate

The change to the Age Pension taper rate, to come into effect from 1 January 2017 is going to cause a great deal of hardship. It will particularly harm those who assets cannot be readily converted into cash, such those on small farms or rural rental properties – many of them will lose access to the Age Pension and its associated concessions. Because this measure has not been grandfathered, people with money in account-based super funds, self-managed super funds or bank accounts may decide to spend some of their money to keep the Age Pension after 1 January 2017. In the longer term, this measure will discourage saving for one's old age and will lead to increased reliance on the Age Pension. Given the present very low bank interest rate and poor returns on investment, the taper rate should be kept at its present more realistic level.

3. Indexation

CPI indexation reflects increases in inflation, but fails to provide adequate compensation for increases in the cost of living. SCOA believes that indexation should be the higher of the CPI and the rate of increase of MTAWE.

4. $500,000 Lifetime Cap on Non-concessional Contributions

The cap is unreasonably low given present low interest rates. Furthermore, the Budget papers say that this measure will apply to defined benefit funds as well as to accumulation funds, but provide scant detail about how it will be administered. They say that consultation will be required to work out what to do in cases where individuals belong to both defined benefit and accumulation funds. SCOA welcomes any opportunity for consultation.

5. $1.6 Million Cap on the Size of a Superannuation Fund in Pension Phase and Cap on 10% Tax Offset for Untaxed Defined Benefit Funds

The aim of this measure is to limit the amount of tax-free superannuation income. Those who have assets of over $1.6 million in the pension phase before 1

July 2017 will be required to transfer the excess above $1.6 million back into the accumulation phase where earnings will be taxed at 15%. Note that if the former Reasonable Benefit Limit (RBL) had remained in place, the cap would have been $2.5 million.

The unfunded components of the CSS and PSS pensions should not be included in the $1.6 million cap because the resulting pensions are already taxed at marginal tax rates and, because they are unfunded, there are no earnings. Consultation will have to be undertaken about how to deal with those who are members of both accumulation and defined benefit schemes.

Another issue is the treatment of retired persons over the age of 75 who no longer have a fund in the accumulation phase. It would be sensible to grandfather the superannuation arrangements of all persons over 75 and/or to amend the Superannuation Industry (Supervision) Regulations Act 1994 Regulation 7.04 to permit people aged over 75 to make non-concessional contributions to superannuation. SCOA welcomes any opportunity for consultation.

6. Retrospectivity

SCOA members are alarmed at the retrospective nature of the cap on non-concessional contributions, the short time to be provided for people to rearrange their affairs, the absence of grandfathering and the lack of consultation so far.

7. Unfair Taxation of Non-Superannuation Income of Commonwealth Superannuation Pensioners

Unlike other defined benefit pensions, Commonwealth Superannuation pensions are taxed, and any other income is taxed at their marginal tax rate. Three Senate inquiries recommended that they be treated as a separate head of taxation.

8. Proposed Cuts to Medicare

SCOA is opposed to the continuation of the freeze on Medical Benefits Schedule fees until 30 June 2020, and the proposed changes to the Medicare Safety Nets.

9. New Dental Scheme

SCOA welcomes the extension of the dental scheme to adult concession holders, but has concerns that the requirement for all services to be delivered in the public scheme will lead to unacceptable delays in receiving treatment in timely fashion. The health of elderly patients can be seriously affected by such delays.

10. Proposed Cuts for Australian Pensioners Travelling or Living Overseas

The Coalition is still proposing to reduce the period that the means-tested Age Pension and the Disability Support Pension can be paid to people living outside Australia from 26 weeks to six weeks. SCOA opposes this policy as it is unfair and weakens Australia's case for getting fair indexation of UK pensions in Australia.

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