



**Australian Government**  
**Department of Social Services**

MC16-006082

Mr Richard Griffiths  
National President  
Australian Council of Public Sector Retiree Organisations  
PO Box 4166  
KINGSTON ACT 2604

Dear Mr Griffiths

Thank you for your letter of 13 July 2016 and further email of 10 August 2016, to the Minister for Social Services, the Hon Christian Porter MP, regarding the 2015-16 Budget measure to cap the deductible amount for defined benefit income streams. The Minister has asked me to reply to you on his behalf.

In your letter you ask about how many pensioners with a defined benefit income stream that were affected by the change had no service at all prior to 30 June 1983. The department is only allowed to collect information that is used to assess a person's eligibility for income support or their rate of income support. A person's service prior to 30 June 1983 has not been used in the assessment process at any time, so the department does not have this data.

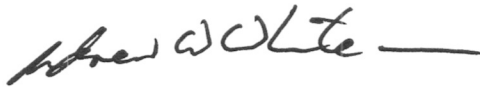
You asked for an explanation of why the 10 per cent cap should apply to all defined benefit pensioners who have a tax-free component. The deductible amount is designed to reflect the return of personal after-tax contributions (the person's own capital), if any, made by the employee to their defined benefit income stream. However, the tax-free component can be different from the deductible amount. For example, the tax-free component can be significantly higher than the deductible amount where an employer chooses to fund some of their pension liabilities upfront (and pay the 15 per cent contributions tax) rather than make all payments when pension payments are made.

In relation to income support recipients with defined benefit income streams who have a deductible amount greater than 10 per cent, prior to the taxation changes on 1 July 2007, the proportion of people in this group was around 2.5 per cent. After the taxation change on 1 July 2007, this proportion increased to around 33 per cent with no other change in circumstances to explain the increase.

You also commented on the example provided by Minister Morrison. While I cannot disclose income support recipient information, I can assure you that these examples were based on actual circumstances of income support recipients. These outcomes were the result of the relevant scheme's particular rules combined with the 1 July 2007 tax changes. Recipients of large defined benefit income streams with high deductible amounts are generally beneficiaries of State superannuation schemes.

Thank you again for writing.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Whitecross', followed by a horizontal line.

Andrew Whitecross  
Branch Manager  
Rates and Means Testing Policy

16 August 2016