

Why does the government keep changing public servants' defined benefits?

by
**Stephen
Easton**

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TAGS

Defined benefit pension plan, economics, Employment compensation, Financial economics, Financial services, Investment, Labor, Minister, Pension, Personal finance, Retirement



Scott Morrison has moved to close a defined benefit super 'loophole'. They might have thought they'd be left alone in retirement, but thousands of former state bureaucrats got one more blast from the tabloid press yesterday.

Social Services Minister Scott Morrison has uncovered tens of thousands of “public service fat cats” who are still riding a taxpayer-funded “gravy train” even in their retirement, according to a scoop his office presumably provided to *The Daily Telegraph* yesterday.

In this case, however, there is a fair point behind the hysterical headline. Through an adjustment to superannuation tax rules to take effect on January 1, 2016, no longer will a group of about 16,000 retirees on defined benefit superannuation schemes – many of them former state public servants – be able to claim age pensions they do not need.

The minister says he recently discovered that a 2007 change to tax rules was inadvertently allowing about 48,000 retirees to “fly under the radar” of means testing for the pension, which although intended as a social safety net for older people, is seen by many older Australians as an entitlement earned through a

lifetime of paying taxes.

But he estimates only about one third of that group will be cut off from the pension by his move to close the “loophole”, which he estimates will save \$470 million over the forward estimates.

Morrison explained in a press conference yesterday:

For most people with a defined benefit income stream, the gross income they receive from those schemes is subject to the income test for the pension. However, for some, particularly for those who are part of some large state government public sector schemes, significant portions of their income are disregarded in assessing their eligibility for a pension under the income test. The reason for that is to reflect what is seen as the voluntary after-tax contributions made when they were working, but the amounts being deducted in these cases are in excess of those notional contributions.

In some cases, couples getting up to \$120,000 a year from their superannuation are claiming half of that income as tax-free capital draw-downs, allowing them to qualify for a pension, Morrison said. In this example, the couple could declare the remaining \$60,000 as their income and claim a \$7500 pension. The minister explained:

We will be closing this loophole by applying a 10 per cent cap on the amount that can be deducted for these purposes as we believe this represents a fairer assessment of these types of arrangements.

About two-thirds of the 48,000 people in defined benefit schemes he is targeting are already deducting less than 10% of their income, he added.

The new 10% cap will not apply to military or veterans’ pensions. For others, however, the act of maximising one’s income under the system, according to the minister, is just one of the “rorts” he is “cracking down on”.

He also clarified:

The change will also not affect the means test treatment of income streams purchased for retail providers of these products such as AMP and AXA and funds of that nature, self-managed superannuation funds and small APRA funds as they don’t operate in this way.

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