HOW the CSS and PSS work

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We are regularly contacted by members asking about the functions and features of the CSS and PSS schemes, in particular about the pension, the spouse pension, also known as the reversionary pension, and how the schemes are funded and why their pensions are taxed.

We thought it would be useful to give you a summary style account of the basic workings of the two schemes.

The following is not meant to be a legal document and not financial advice, because SCOA is not licensed to provide financial advice.

It is merely meant as a guide to the very basic functions of the CSS and PSS.

The Commonwealth Superannuation Scheme (CSS)

The Commonwealth Superannuation Scheme (CSS) was established under the Superannuation Act 1976 "to provide superannuation services and products to eligible employees of the Australian government and participating employers".

CSS pension - there are two types

The CSS is a so-called hybrid scheme, meaning it is a combination of two types of funds, a defined benefit fund and an accumulation fund. When you retire as a CSS member, you will of course receive your indexed defined benefit pension, but in addition, you can choose to receive a non-indexed pension or a lump sum payout of your contributions plus any earnings.

Indexed pension

In very simple terms, your defined benefit pension is calculated using a formula based on your final salary, your length of contribution and your age when you retire. Your defined benefit pension is paid out of the Consolidated Revenue Fund, into which your employer made contributions on your behalf while you were working in the public service.

Your pension is paid as long as you live and is indexed by the CPI. If you pre-decease your spouse/partner he/she, if eligible will receive 67% of your pension, also for life and also indexed by the CPI.

However, when you retire, you have the option to reduce your own pension to 93% of the full amount, which will give your surviving spouse a higher pension of 85% of your pension.

Your pension is taxed, albeit with a 10% offset for those aged 60 and over.

Non - indexed pension

Whilst your employer made contributions to the Consolidated Revenue Fund on your behalf, under the scheme rules you also had to make member contributions as well.

A small part of your employer's contributions, the so-called productivity component, together with your contributions, were paid to what is known as the Commonwealth Superannuation Corporation and invested on your behalf.

This part of your benefit can be taken as either a lump sum or additional, non indexed pension, the non-indexed pension is also worked out according to a formula and paid for life. Your surviving, eligible spouse/partner receives 67% (or 85% see above) of your pension.

Whether you choose the lump sum or the non-indexed pension, these are tax free for those aged 60 and over as they are funded by money that has already been taxed.

Why is your defined benefit pension taxed?

Many CSS members are not aware that contributions are made to the Consolidated Revenue Fund on their behalf during their employment in the public service.

The size of the contributions is determined by actuarial calculations based on the number of current pension receipts, their age and life expectancy and the size of their pension. Over the years, this has been between 22% to 26% of salary. The money currently being paid to the Consolidated Revenue Fund by employers on behalf of CSS contributing members is used to pay for those who have already retired.

The employer contributions made to the Consolidated Revenue Fund were not taxed. If these contributions had been paid to a taxed superannuation fund, they would have been taxed, and you would not have to pay tax on your pension once you reach age60.

SCOA does not believe that it is fair that CSS pensioners should pay tax on their pension just because their employer contributions, which were considered part of your 'package', were paid to Consolidated Revenue rather than a taxed superannuation fund.

SCOA has been lobbying for several years to have this gross disadvantage overturned, so far without any success. However, we will continue our campaign and believe that we are making some progress.

The Public Sector Superannuation Scheme (PSS)

If you thought the CSS was complicated, let's take a look at the PSS. It doesn't get any easier or simpler!

The Public Sector Superannuation Scheme (PSS) was established under the Superannuation Act 1990 "to provide superannuation services and products to eligible employees of the Australian government and participating employers".

So far, so good. It was established when the CSS was closed to new members, and in addition to being the compulsory superannuation fund for permanent government employees (this was in the days before "choice of fund"), as opposed to the CSS, the PSS also allowed employees on part time or short term contracts to join.

Your PSS pension

Your PSS pension generally consists of three components including contributions made by you and your employer to the Consolidated Revenue Fund as well as the employer financial component payable at the time you retire and claim your pension.

Depending on the circumstances, A PSS retirement benefit can be taken as a CPI indexed pension, or a lump sum amount, or a combination of both.

As a PSS member, you may make a contribution equivalent to a minimum 2% of your after tax income. You can contribute more if you wish (up to a maximum of 10%), which will increase your 'accrued benefit multiple', one of the figures used to calculate your pension.

Your "productivity component" is part of the fortnightly contributions made by your employer on your behalf.

The formula used to calculate your final benefit is based on your contribution rate, your average final salary (last three years) and length of membership, known collectively as your "accrued benefit multiple"

Finally, this is the most significance difference between the CSS and the PSS, there is your employer financed component. This is paid by your employer and determined when you leave the PSS and claim your benefit. Its value is the remaining balance after your member and productivity components (plus investment earnings, as applicable) are deducted from your total lump sum benefit. In other words, it is the amount of money required to pay for your defined benefit pension for the rest of your life.

What is the role of the Futures Fund?

The CSS was closed to new members in 1990; the PSS followed in suit in 2005. As a result, the number of *contributing members* is diminishing and therefore the funds being paid to the Consolidated Revenue Fund, as described above, are also diminishing.

The Future Fund was established in 2006 to make sure the government of the day was able to meet its "*unfunded liability*". This is the amount of funds required to pay for every PSS and CSS pension in the next forty years or so. Under the legislation, the funds in the Futures Fund cannot be accessed until either the year 2020 or until the Fund has accumulated at least $140 billion. As at 31 December 2013, the Future Fund had $96.56 billion in funds under management.

ComSuper

As we wrote in the February 2014 issue of SuperTime, ComSuper is the government agency which is responsible for the *administration* of the CSS and PSS schemes. If you have access to the Internet, ComSuper has a section on their website set aside for CSS and PSS pensioners called "pensioner services online".

Call ComSuper to get an access number which enables you to log on to your own pension account where you change your payment details; update your address, check your pension payment history and view and print your indexation advice letters and much more.

If you would rather speak to someone about some aspects of your pension, you can call ComSuper on 1300 001 777.

Source: *css.gov.au; pss.gov.au; comsuper.gov.au*