Australian Council of Public Sector Retiree Organisations Inc. ABN74202015642

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

State Territory Retirees Commonwealth

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No, Minister, it was not an anomaly.

The Office of the current Minister for Social Services, Mr Porter, seems to have been incorrectly advised that the previous treatment of the tax-free component of public sector superannuation pensions for Centrelink Income Test purposes was an "anomaly". In fact, the treatment was entirely consistent with the 2007 *Better Super* treatment of all tax-paid pensions, from both defined contribution schemes and defined benefit schemes.

The Australian Council of Public Sector Retiree Organisations (ACPSRO) has been advised by someone who helped develop the *Better Super* package that the then-Treasurer was specifically advised that *Better Super's* treatment of all tax-paid pensions would mean that a significant portion of many public sector retirees' pensions would not be included in the Centrelink Income Test. That was accepted. (Mr Porter may wish to have the files searched to try to locate that advice. The point is that the tax-free portion of those defined benefit pensions was not included in the Income Test for a good reason.)

Many public sector retirees who had been members of defined *benefit* funds compulsorily "paid" 5% or 5.5% of their *after tax* income back to the Government. In fact, it was compulsorily deducted from their salary and then in effect used by the Government for the next 20 or 30 years.

After they had retired or resigned, that money was returned to them. In some schemes they were *required* to use 50% of it to purchase an additional pension at a cost to them that had been set by Government actuaries, as laid down in the relevant legislation, and some were able to use the balance to purchase further pension, again with their *after-tax* contributions.

Modern defined *contributions* super schemes rely on *pre-tax* contributions from employers, plus any largely *pre-tax* salary sacrifice contributions from the employee, with all contributions being taxed at 15% upon contribution, plus a further 15% annually of investment earnings within the fund. As a result, the pensions from those funds, called "account-based pensions", are tax-free in the hands of the retiree and, for several years, were not assessed under the Centrelink Income Test for access to a part Age pension. That changed last year but even that deeming measure has been "grandfathered", ie it does not apply to account-based superannuants who were already receiving a part Age pension.

Applying the same logic across both defined benefit and account-based pensions, in the 2007 *Better Super* package the then-Government allowed the tax-free component of a defined benefit pension also to be excluded from the Income Test. The difference, now, is that the new "10% cap" measure has not been grandfathered when applied to defined benefit pensions. *That* is the anomaly, Minister!

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