Australian Council of Public Sector
Retiree Organisations Inc. ABN74202015642

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

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Public sector retirees – effect of the 2015 Budget 10% Cap policy

The "10% cap" reduces the percentage of a defined benefit pension that is exempted from the social security income test, which in some cases could be as much as 50% or more, to only 10%. That then reduces any part Age pension received. The Australian Council of Public Sector Retiree Organisations (ACPSRO) welcomes the fact that this matter is now receiving (belated) publicity. Although applied from 1 January 2016, it will only become visible to many retirees on their first pension day in January. We attach a copy of our 9 November media statement, and draw attention to the lateness of the eventual pre-Christmas advice from Centrelink to the affected retirees.

The 2015 Budget policy change seems to have been based inadequate knowledge of its financial impact on retirees, for example many of the State super schemes which were fully "funded" and re-structured to provide tax-free pensions years ago are now being hit very hard while Commonwealth public sector retirees on the lowest pensions are also receiving disproportionately severe cuts. Alternatively the Budget policy, which has been made in advance of any community-wide reform of national retirement income policy, was based primarily on an ideological dislike of public servants.

The change does not fix an anomaly, as the Government has suggested. It *overturns* a policy which the then-Government deliberately introduced to provide equitable treatment of these particular retirees as part of its 2007 *Better Super* package.

The measure affects only retirees whose superannuation pensions are so small that they have been receiving a part Age Pension. Those on higher superannuation pensions remain unaffected because they do not receive any part Age pension, although the then-Minister seemed to suggest that they were the primary target .

The number of pensioners who are affected appears to be much higher than the 16,000 originally claimed by the then-Minister in early May 2015. That seemed to be corrected very quickly by the Department of Social Services in evidence to the Senate inquiry, which referred on 11 June to 47,700 being affected. ACPSRO has been advised that 5,500 Tasmanian State superannuants alone are known to be affected, so the total for all the other States and Territories, plus the Commonwealth, plus non-government retirees on schemes like UniSuper and residual corporate defined benefit schemes, seems likely to be much higher, even before affected families are included.

The public sector retirees who are affected include not only what some might like to think of as just paper-shuffling bureaucrats, but retired teachers, firefighters, nurses and police, people whom almost all of the public would recognise as being useful citizens.

The Parliamentary consideration of the legislation was confused and rushed.

Attached are details provided by two fairly typical retiree couples, plus a worked example of a Commonwealth pensioner on a very modest pension. ACPSRO suggests that the media should inquire of the then-Minister for Social Services, who proposed this budget measure, whether he and his staff are prepared to make equivalent personal financial sacrifices to restore the budgetary situation.

The Government created this problem so it is for the Government to fix it, however one obvious lesson to be learned is that retirement incomes arrangements can be very complex, due largely to frequent Government retirement incomes policy changes since 1983, and any further changes need to be based on expert knowledge.

Media Contact: Richard Griffiths
National President ACPSRO
0412 164 404
GriffithsRD@gmail.com

Attachment to ACPSRO media statement of 5 January 2016

Examples of the effect of the 10% Cap measure as legislated

The following is the text of an e-mail received by the Tasmanian State Superannuants organisation. [Names have been withheld.]

> "Hi ……..
> Just confirming our telephone conversation of yesterday that we are dismayed at centrelink's action in cutting …….'s and my pension by $81.70 each per fortnight (combined fortnightly reduction of $163.40).
>
> We have no assets to speak of (only a 13 year old caravan and car) and our combined income as used by centrelink to calculate our income is $21,114 (the entire income is from ………'s RBF).
>
> I used my super to buy back time for ……….'s defined benefits. Both of us have spent all our working lives saving towards a retirement income that would support us with the help of the Old Age Pension.
>
> As we see it how do we know the Government are not going to "find more loopholes" in the future. If the basic advices given to the population in order for them to manage their future is not right then how can we be punished for their mistakes?
>
> As advised we will be taking this up with both Federal and local politicians."

ACPSRO explanation: until 1 January 2016, this couple's combined superannuation plus part Age pension income was $53,898 pa, which is almost the level ASFA has said constitutes a "comfortable" retirement. With the 10% cap measure, their total income will now be $49,634, **a $4,264 or 8.9% reduction in total income**, and that's with a superannuation pension worth just $21,114 pa.

As another example, here is the effect on one single Commonwealth public sector retiree (most likely a widow, given the modest superannuation pension):

> **Single PSS pensioner with a pension of $14,000 per annum, 50% exempt from income test.**
> Before 10% cap
> He/she will get a full age pension of $788.40 per fortnight or $20,498 per annum.
> His/her net after tax income will be $33,431 per annum. The poverty line for a single person not in the workforce is $827.34 per fortnight or $21,511 per annum.
> The maximum pension for a single person is $867.00 per fortnight ($788.40 basic pension plus supplements).
>
> The maximum pension can only be paid if the pensioner's assessed income is no greater than $162.00 per fortnight or $4,212.00 per annum. Therefore the total age pension payment for a single person with an assessed income of $7,000 would be $813.38 per fortnight.
>
> After 10% cap
> After the 10% cap has been introduced, $12,600 of the PSS pension will be included in the age pension income test. The total age pension payment for a single person with an assessed income of $12,600 would be $705.69 per fortnight, or $18,348 per annum. **He/she will lose $107.69 per fortnight, or $2,800 per annum.**

Comment: this pensioner would probably have very limited scope to adjust to a $2,800 pa reduction in their total income.

As an example of the complexity of this issue for some defined benefit pensions, here are details provided to ACPSRO of the impact on a **Victorian State Government pensioner couple,** showing the effects of various Governments' policy decisions.

The couple are homeowners. The husband worked for Vic PS and contributed regularly to the (Victorian) ESSBoard Super Pension scheme. Wife was not employed. For a time, he also contributed "Spouse" contributions to build up a separate small VicSuper (accumulation) fund in his wife's name. He retired at age 60 and took full Pension option, but later took a partial cashout of $25,000 at age 65, leaving most as a residual fortnightly Pension.

> Notes:
> Under the Victorian ESSB scheme, "retirements" between ages 55 and 65 allow cashout options at retirement and again at 65th birthday, but not at other times (except for a special one-off scheme about 2000, when Vic Govt Assets sales were used to reduce the Unfunded Liability).
>
> "Resignations" (including retrenchments) before age 55 allow a full withdrawal of previous (after-tax) contributions plus calculated interest/earnings on those contributions (commonly called the 54/11 option), leaving a residual (state-only funded) pension which can be claimed on or after age 55, and which has a zero Tax Free component.

The effects of the "10% cap" on these retirees are as follows:

From ESSB (Pension fund) statement, as at 3/12/2015:
Current Super Pension = $2,025.70 per fortnight (pf)
Current Tax free Component calculated = $1,088.99 p.f. [ie 53.76%]

From (both) Centrelink statements "Your Age Pension", 17/12/2015:
Combined Annual Income = $47,587.08 pa (ie State super pension)
Part Age Pension payment 11/12/2015-24/12/2015, due on 24/12/2015 = **$487.69 pf**
Regular Payment from payment date 25/01/2016 = **$276.93 pf** (incl. Energy and Pension Supplements)

Age Pension reduction = $219.76 pf (each) (down 45%)
= $439.52 pf couple, combined
ie **$11,427.52 pa** (combined), a 15% reduction in total income

Note also the Tax Free (exempted) component would have been increased for those still contributing to the Victorian scheme in about 1994 by a decision of the Kennett Govt to reduce its notional Super contributions (actually potential increases in the state's Unfunded Liability) to the minimum Super Guarantee rate set by the Commonwealth. It is believed that contributers to the existing Super Pension scheme were given 2 options: either paying an extra 2% of salary to make up the shortfall in the Fund; **OR** to "freeze" their current entitlement (in the same way as if they had resigned from the service, leaving a Deferred entitlement to be claimed after age 55), and instead "start again" with the Govt paying just the minimum Super Guarantee rate into a new VicSuper accumulation fund (or into another fund of the employee's choice). Employees taking this option could then choose whether or not to keep adding their own contributions.

ACPSRO provides this complex set of calculations and employee choices over several decades to demonstrate the severe nature of an apparently minor policy change like the “10% cap” to a couple on a relatively modest retirement income, and to suggest that it resembles the actions of a policy bull in a china shop.