Australian Council of Public Sector
Retiree Organisations Inc. ABN74202015642

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

MEDIA STATEMENT

2 February 2016

Collateral damage from the 2015 Budget “10% Cap” measure

Just over six weeks since many defined benefit superannuants were first advised of its impact on *them*, and only a couple of weeks since they saw the outcome of the 2015 Budget “10% Cap” measure on their bank accounts, the real effects of the measure are becoming clearer.

The measure reversed a policy that has applied since the 2007 *Better Super* package by reducing to a maximum of 10% the percentage of a defined benefit pension that could be excluded from the Centrelink Income Test to establish eligibility for a part Age pension. That apparently dry, technical decision was initiated by the then-Minister for Social Services, Mr Morrison, ostensibly to stop defined benefit retirees on pensions of up to $120,000 pa from being able to draw a part Age pension.

Instead of the 16,000 retirees claimed by Mr Morrison, 34,820, or more than double his number, were affected. The Department estimated that fewer than 2,000 would actually lose all access to a part Age pension. Those who did so would have lost only a very small amount of money, some as little as $5 to $10 per week.

That probably explains why the department's initial estimate of the *average* reduction in part Age pensions was only $2,150 pa – the full financial effect of this measure has fallen mainly on those retirees whose total income was already well below the part Age pension cut-off, leading to reductions in some cases of over $10,000 pa. for a couple. (Readers might like to consider how that might affect *them* if they were living on a joint total (super plus part Age pension) income of $40-60,000 pa, with fixed outlays and very limited prospects of being able to earn any additional income.)

The retirees affected have not all been retired State or Commonwealth public servants; they have included retired clergy and university staff, as well as retired police officers, teachers, nurses and firefighters.

As explained in the attachment, and contrary to the 25 January newspaper article by the current Minister, Mr Porter, there was no “anomaly” in the 2007 *Better Super* package associated with the treatment of pre-1983 contributions and, in any case at least some retirees who have now lost retirement income had no pre-1983 service at all, so it could not have been only that. Even if there had been an anomaly or there were “unintended consequences” in 2007, does anyone really believe that it would, or should, have taken eight years to fix it?

The result has been an inadequately notified and hastily applied measure, apparently aimed at 16,000 supposedly well-off retirees, but which in fact has seriously affected the livelihoods of 35,000 mainly lower income retirees. The 2 current Ministers responsible for its introduction are, by doing so, implicitly critical of one of their predecessors for purportedly creating an “anomaly” it has taken eight years to supposedly identify and correct.

Whatever the merits of the current Minister’s contention that this measure will restore equality with other retirees for entitlement to age pensions, at the very least he should immediately institute a process of identifying those retirees seriously affected by the deficient measure he has introduced, and provide them with compensatory relief.

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Attachment to ACPSRO's 2 Feb 2016 media statement

Treatment of Defined Benefit Pensions when developing the 2007 *Better Super* package

ACPSRO has received advice from former public servants who were involved in developing the *Better Super* package. Please note that those advisers are not affected by the new 10% Cap measure – their super pensions are above the part Age pension cut-off, so they have no conflict of interest. Note also that the *Better Super* package was a "package", designed to share its benefits reasonably equitably using the various administrative mechanisms available to suit all the different retirement income arrangements that existed; almost any *Better Super* measure that affected one of those superannuation systems could be viewed as an "anomaly" compared with others. If one benefit of that package is now to be wound back then presumably all should be at the same time and to an equal extent.

[Advice begins]
Before 1 July 2007 the deductible amount for age pensions was the amount of contributions paid into the superannuation fund by the member divided by the life expectancy at the commencement of the age pension.

This changed from 1 July 2007 when the deductible amount in relation to defined benefit income streams became the tax-free component of the defined pension as determined by the taxation legislation.

The tax free component was determined as that portion of the defined benefit income stream that was funded by the crystallised segment of the member's equity plus member contributions paid by the member from 1 July 2007. The crystallised segment was determined as at 30 June 2007 as:

- the concessional component,
- post-June 1994 invalidity component,
- undeducted contributions,
- CGT exempt component,
- Pre-July 1983 component

In the majority of cases the crystallised segment comprised the pre 83 component and undeducted contributions to 30 June 2007.

There were winners and losers after this change. The Government was well aware at the time that some people with an eligible service period commencing many years before 1 July 2007 could have a large crystallised segment and the tax –free component of their pension would be high in proportion to their total pension. It was not an unintended consequence, they were fully aware of this. It seems very strange that it would take 8 years to discover an unintended consequence as those that received the best advantage of this change were those that commenced their defined benefit income streams shortly after 1 July 2007.