Senate Community Affairs Committee

ANSWERS TO ESTIMATES QUESTIONS ON NOTICE

SOCIAL SERVICES PORTFOLIO

2016-17 Supplementary Estimates Hearings

Outcome Number: 1.6 Income Support for Seniors **Question No: SQ16-000318**

Topic: Defined Benefits Income

Hansard page: Written

Senator Rachel Siewert asked:

Why was pre-30 June 1983 service given as the sole justification for the 10% Cap measure in relation to defined benefits pensions if the Department held no data on affected retirees' pre-30 June 1983 service?
a) If pre-30 June 1983 service was the sole issue, why did the Department apply a blanket administrative measure like the 10% Cap which also affected retirees with no pre-30 June 1983 service?
b) To protect invalidity retirees, why did the legislation not have a sunset clause to exempt persons born after 1965, because such persons would be too young to have had any significant pre-1 July 1983 service?
c) Why were defined benefit retirees with other tax-free components of their defined benefit pensions not offered the same grandfathering provisions as account-based pensioners have been up to 1 January 2015?
d) Did the Department advise Minister Morrison of the likely effect of the 10% Cap measure on poorer defined benefit retirees?
e) What could be done now to ameliorate the effects of the measure on poorer retirees?

Answer:

a) - b) The deductible amount for social security income testing purposes is designed to reflect the return of personal after-tax contributions (the person’s own capital), if any, made by the employee to their defined benefit income stream.

The 10 per cent cap on the deductible amount for defined benefit income streams, which was introduced on 1 January 2016, was designed to address an unintended consequence to the social security system resulting from the calculation of the deductible amount for tax purposes as part of the Better Super package of measures announced by the then Treasurer, the Hon Peter Costello MP, on 2 July 2007.

Social security rules were automatically affected at the same time because of a link to the income tax legislation. The change in calculation of the deductible amount had the unintended result of a significant amount of funded employer contributions being included in the ‘deductible amount’ of their pension for the purpose of the Age Pension income test, even though it was not a return of their own money. This was particularly the case for persons with service prior to 30 June 1983.

The 10 per cent cap also addresses where any other component, such as the invalidity component, was added into the deductible amount calculation after 1 July 2007. These components are not a return of the individual’s personal after-tax contributions.

c) As the 2015 measure was designed to fix an unintended consequence, it is not appropriate to grandfather the deductible amount for existing income support recipients who may have benefited from it since 1 July 2007.

d) - e) Prior to the taxation changes on 1 July 2007, the proportion of people with a deductible amount greater than 10 per cent was less than three per cent. After the taxation change on 1 July 2007, this proportion increased to around 33 per cent even though there was no other change in circumstances from that group. Given this analysis, and acknowledging that trustees collect data based on the 2007 income tax requirements, it was considered that a cap of ten per cent was a fair and reasonable approximation of personal after-tax contributions.

The 2015 measure has always been about a fairer assessment of an individual's personal contributions to their defined benefit income stream, regardless of the amount of defined benefit income they receive. It will enable an assessment of a person's need for income support under the income test more in line with what the average person with similar income from another source receives. This is no different to the assessment of account-based income streams or annuities, which are assessed the same way regardless of the amount of income received or assets held. This change treats people fairly and consistently.