From: s22 [redacted]
To:
Subject: FW: DBsuper_mar07_DB_nomiss_20.xls [SEC=UNCLASSIFIED]
Date: Tuesday, 9 June 2015 10:06:02 AM
Attachments: DBsuper_mar07_DB_nomiss_20.xls

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s22 [redacted]
Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

From: s22 [redacted]
Sent: Thursday, 5 April 2007 3:04 PM
To: s22 [redacted]
Subject: DBsuper_mar07_DB_nomiss_20.xls [SEC=UNCLASSIFIED]

Hello

AS discussed, attached is a table for defined benefit schemes with a deductible amount more than 20 per cent of the Gross Super Income.

s22 [redacted] has provided top level product code and three letter product type so that you can determine whether these are unlikely to have such high deductible proportions, or whether the frequency code for deductible or gross super amounts may be the issue.

happy to discuss

s22 [redacted]

Defined benefit Schemes

N of count

	Ded Amt Prop	All
PRODUCT	s47F [redacted]	
Assets Test Exempt Defined Benefit Income Stream		
Assets Tested Defined Benefit Income Stream		
–		

s47F

[redacted]

Min corro scenario

	DBIS	ABIS	
DB income	$ 20,000		
Deductible amount	10%		
Assessable income	$ 18,000		
ABIS		$ 400,000	
Drawdown 5%		$ 20,000	
Deemed income		$ 12,160	
Assessable income	$ 18,000	$ 12,160	
Age Pension under IT	$ 15,445	$ 18,365	
Assessable assets	$ -	$ 400,000	
Age Pension under AT	$ 22,365	$ 14,643	
Age pension	$ 15,445	$ 14,643	
Before tax income	**$ 35,445**	**$ 34,643**	-$ 802

Min corro scenario

	Bob	Jane	
BEFORE CHANGE			
DB income	$ 35,000	$ 55,000	
Deductible amount	30%	30%	
Assessable income	$ 24,500	$ 38,500	
Financial assets	$ 200,000		
Deemed income	$ 5,660		
Assessable income	$ 30,160	$ 38,500	
Age pension	$ 9,365	$ 5,195	
Before tax income	**$ 50,025**	**$ 60,195**	$ 10,170
AFTER CHANGE			
DB income	$ 35,000	$ 55,000	
Deductible amount	10%	10%	
Assessable income	$ 31,500	$ 49,500	
Financial assets	$ 200,000		
Deemed income	$ 5,660		
Assessable income	$ 37,160	$ 49,500	
Age pension	$ 5,865.20	0	
Before tax income	**$ 46,525**	**$ 55,000**	$ 8,475

From: s22 [redacted]
To:
Subject: FW: FM_Defined Benefits_Average Deductible AMT.XLS [SEC=UNCLASSIFIED]
Date: Tuesday, 9 June 2015 10:05:29 AM
Attachments: FM_Defined Benefits_Average Deductible AMT.XLS
Network Blitz Bkgrd.gif
image001.png

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s22 [redacted]
Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

From: s22 [redacted]
Sent: Tuesday, 3 April 2007 11:01 AM
To: s22 [redacted]
Subject: FM_Defined Benefits_Average Deductible AMT.XLS [SEC=UNCLASSIFIED]

As requested.
s22 [redacted]
Section Manager
Research and Publications
Seniors and Means Test Branch
s22 [redacted]

Distribution of Average Deductible Amounts as a Proportion of Gross Super Income for Defined Benefit Income Stream Products for all pensioners (current and suspended).

	Deductible amount as a Proportion of Gross Super Income									All
	Nil	0-10%	10-20%	20-30%	30-35%	35-40%	40-45%	45-50%	>50%	
No. of Products	6776	104389	1617	372	111	97	64	72	597	114095

Distribution of Average Deductible Amounts as a Proportion of Gross Super Income for Defined Benefit Income Stream Products with a deductible amount, for all pensioners (current and suspended).

		Deductible amount as a Proportion of Gross Super Income								
	Nil	0-10%	10-20%	20-30%	30-35%	35-40%	40-45%	45-50%	>50%	
No. of Products	0	7225	1617	372	111	97	64	72	597	10155

*Data is as at March 07, Defined Benefit products for all current or suspended pensioners
*NB Other Pensions are around 10 per cent of all pensions with defined benefit products.

Average Deductible Amounts for Defined benefit Income stream products, for PARTNERED reduced rate pensioners with assessable income more than income test lower threshold ($2964 pa each)

		Gross Super Income									All
		Nil Gross Inc.	$0-$10k	$10k-20k	$20k-$30k	$30k-$40k	$40k-$50k	$50-$60k	$60k-$70k	>$100k	
No. of Products	N	653	9,754	13,920	13,289	7,439	2,478	386	17	1	47,937
Gross Super Income	Mean	0	$5,572	$15,343	$24,663	$34,263	$43,846	$53,531	$62,892	$319,042	$20,752
Deductible Amount	Mean	0	$411	$163	$171	$308	$442	$785	$1,599	$0	$259
Deductible Amount as a Proportion of Gross Super Income	Mean	0	14%	1%	1%	1%	1%	1%	3%	0%	3%

Average Deductible Amounts for Defined benefit Income stream products with a deductible amount, for PARTNERED reduced rate pensioners with assessable income more than income test lower threshold ($2964 pa each)

		Gross Super Income							All
		$0-$10k	$10k-20k	$20k-$30k	$30k-$40k	$40k-$50k	$50-$60k	$60k-$70k	
No. of Products	N	874	1528	1593	1350	537	109	4	5995
Gross Super Income	Mean	$6,400	$15,165	$25,083	$34,542	$44,098	$54,293	$61,930	$24,221
Deductible Amount	Mean	$4,506	$1,481	$1,427	$1,699	$2,041	$2,780	$6,797	$2,034
Deductible Amount as a Proportion of Gross Super Income	Mean	141%	10%	6%	5%	5%	5%	11%	26%

Average Deductible Amounts for Defined benefit Income stream products, for SINGLE reduced rate pensioners with assessable income more than income test lower threshold ($3328 pa)

		Gross Super Income								All
		.	$0-$10k	$10k-20k	$20k-$30k	$30k-$40k	$40k-$50k	$50k-$60k	$60k-$70k	
No. of Products	N	430	16,416	19,150	10,658	1,555	8	1	1	48,219
Gross Super Income	Mean	.	$5,309	$15,046	$23,942	$32,490	$42,276	$59,225	$69,288	$14,259
Deductible Amount	Mean	.	$67	$54	$109	$332	$2,531	$0	$0	$80
Deductible Amount as a Proportion of Gross Super Income	Mean	.	1%	0%	0%	1%	6%	0%	0%	1%

Average Deductible Amounts for Defined benefit Income stream products with a deductible amount, for SINGLE reduced rate pensioners with assessable income more than income test lower threshold ($3328 pa)

		Gross Super Income					All
		$0-$10k	$10k-20k	$20k-$30k	$30k-$40k	$40k-$50k	
No. of Products	N	783	924	770	249	3	2,729
Gross Super Income	Mean	$5,944	$15,116	$24,529	$33,192	$40,485	$16,817
Deductible Amount	Mean	$1,383	$1,112	$1,514	$2,070	$6,750	$1,397
Deductible Amount as a Proportion of Gross Super Income	Mean	25%	8%	6%	6%	17%	12%

From: s22 [redacted]
To:
Subject: (070329)Standard Deductible Amount for all Defined Benefit Income Streams(20% DA limit).XLS [SEC=UNCLASSIFIED]
Date: Tuesday, 9 June 2015 10:03:08 AM
Attachments: (070329)Standard Deductible Amount for all Defined Benefit Income Streams(20% DA limit).XLS

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s22 [redacted]
Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

Costing of Proposal to introduce a Standard Deductible Amount for Defined Benefit Income Streams

s34(1)(d)

[redacted]

Costing of Proposal to introduce a Standard Deductible Amount for Defined Benefit Income Streams

s34(1)(d)

[redacted]

s34(1)(d)

[redacted]

From: s22 [redacted]
To:
Subject: (070903)DBsuper_mar07_DB_nomiss_20 (2).xls.XLS [SEC=UNCLASSIFIED]
Date: Tuesday, 9 June 2015 10:01:59 AM
Attachments: (070903)DBsuper_mar07_DB_nomiss_20 (2).xls.XLS

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s22 [redacted]
Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

Defined benefit Schemes

N of count

s47F

	Ded Amt Prop	All
PRODUCT	[redacted]	
Assets Test Exempt Defined Benefit Income Stream		
Assets Tested Defined Benefit Income Stream		
–		

From: s22 [redacted]
To: [redacted]
Subject: Analysis - Cap Deductible Amount for DBIS - May 2015.XLSX [DLM=For-Official-Use-Only]
Date: Wednesday, 24 June 2015 4:04:54 PM
Attachments: Analysis - Cap Deductible Amount for DBIS - May 2015.XLSX

Regards,
s22 [redacted]

s22 [redacted]
Financial Markets Section | Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]
s22 [redacted]

Analysis of Deductible Amount for Defined Benefit Income Streams

Annual income from DBIS	Total	%	Acc %
\$0 -< \$5k	2517	5.3%	5.3%
\$5k -< \$10k	4295	9.0%	14.3%
\$10k -< \$15k	4888	10.2%	24.5%
\$15k -< \$20k	5998	12.6%	37.0%
\$20k -< \$25k	5810	12.2%	49.2%
\$25k -< \$30k	5585	11.7%	60.9%
\$30k -< \$35k	4271	8.9%	69.8%
\$35k -< \$40k	3776	7.9%	77.7%
\$40k -< \$45k	3507	7.3%	85.1%
\$45k -< \$50k	2795	5.8%	90.9%
\$50k -< \$55k	1651	3.5%	94.4%
\$55k -< \$60k	1227	2.6%	96.9%
\$60k -< \$65k	662	1.4%	98.3%
\$65k -< \$70k	415	0.9%	99.2%
\$70k -< \$75k	170	0.4%	99.5%
\$75k -< \$80k	95	0.2%	99.7%
\$80k -< \$85k	56	0.1%	99.9%
\$85k -< \$90k	24	0.1%	99.9%
\$90k -< \$95k	16	0.0%	99.9%
\$95k -< \$100k	6	0.0%	100.0%
> \$100k	14	0.0%	100.0%
\$105k -< \$110k	4	0.0%	100.0%
\$110k -< \$115k	3	0.0%	100.0%
\$115k -< \$120k	1	0.0%	100.0%
\$120k -< \$125k	1	0.0%	100.0%
Total	47787	100.0%	

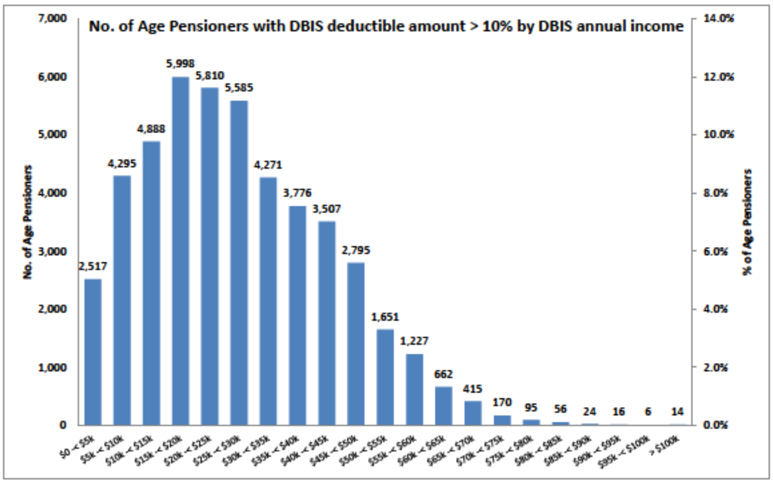
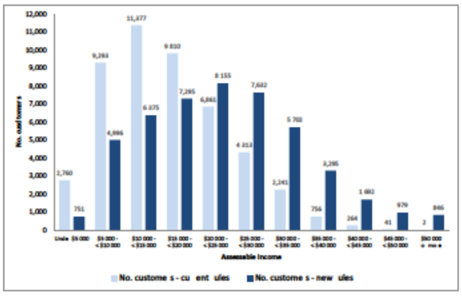
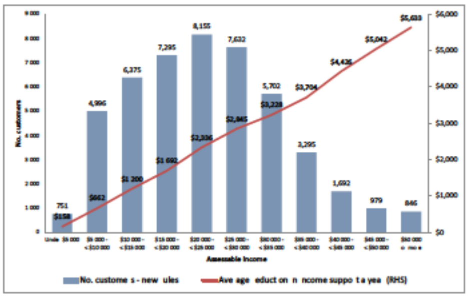


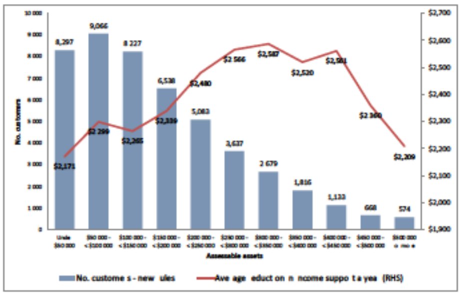
Table All income support recipients

Assessable income ranges	No. customers - current rules	No. customers - new rules	Average reduction in income support a year (RHS)
Unde $5,000	2,760	751	$158
$5,000 - $10,000	9,293	4,996	$662
$10,000 - $15,000	11,377	6,375	$1,200
$15,000 - $20,000	9,810	7,295	$1,692
$20,000 - $25,000	6,861	8,155	$2,336
$25,000 - $30,000	4,313	7,632	$2,845
$30,000 - $35,000	2,241	5,702	$3,228
$35,000 - $40,000	756	3,295	$3,704
$40,000 - $45,000	264	1,692	$4,426
$45,000 - $50,000	41	979	$5,042
$50,000 o mo e	2	846	$5,633
	47,718	47,718	$2,347





Assessable assets ranges		No. customers - new rules	Average reduction in income support a year (RHS)
Unde $50,000		8,297	$2,171
$50,000 - $100,000		9,066	$2,299
$100 000 - $150,000		8,227	$2,265
$150 000 - $200,000		6,538	$2,339
$200 000 - $250,000		5,083	$2,480
$250 000 - $300,000		3,637	$2,566
$300 000 - $350,000		2,679	$2,587
$350 000 - $400,000		1,816	$2,520
$400 000 - $450,000		1,133	$2,561
$450 000 - $500,000		668	$2,360
$500 000 o mo e		574	$2,209
Total		47,718	$2,347



Analysis: Deductible amount for a person in a defined benefit scheme

	Unisuper	PSS	NSW State Super	Tasmania RBF
Annual salary increase	2%	2%	2%	2%
Member contributions	7%	5%	5%	5%
Employer upfront contributions	14%	17%	15%	17%
Earnings on prior year balance	7%	7%	7%	7%
Deductible amount - 10 years	24.4%	16.6%	18.3%	16.6%
Deductible amount - 20 years	17.0%	11.6%	12.7%	11.6%
Deductible amount - 30 years	11.7%	7.9%	8.7%	7.9%
Deductible amount - 40 years	7.8%	5.3%	5.8%	5.3%

Unisuper

Year	Salary	Member contribution	Employer contribution	Balance	Earnings for prior year
1	$45,000	$3,150	$6,300	$9,450	$662
2	$45,900	$3,213	$6,426	$19,751	$1,383
3	$46,818	$3,277	$6,555	$30,965	$2,168
4	$47,754	$3,343	$6,686	$43,161	$3,021
5	$48,709	$3,410	$6,819	$56,411	$3,949
6	$49,684	$3,478	$6,956	$70,793	$4,956
7	$50,677	$3,547	$7,095	$86,391	$6,047
8	$51,691	$3,618	$7,237	$103,294	$7,231
9	$52,725	$3,691	$7,381	$121,596	$8,512
10	$53,779	$3,765	$7,529	$141,402	$9,898
11	$54,855	$3,840	$7,680	$162,819	$11,397
12	$55,952	$3,917	$7,833	$185,967	$13,018
13	$57,071	$3,995	$7,990	$210,969	$14,768
14	$58,212	$4,075	$8,150	$237,961	$16,657
15	$59,377	$4,156	$8,313	$267,088	$18,696
16	$60,564	$4,239	$8,479	$298,502	$20,895
17	$61,775	$4,324	$8,649	$332,370	$23,266
18	$63,011	$4,411	$8,822	$368,869	$25,821
19	$64,271	$4,499	$8,998	$408,186	$28,573
20	$65,557	$4,589	$9,178	$450,526	$31,537
21	$66,868	$4,681	$9,361	$496,105	$34,727
22	$68,205	$4,774	$9,549	$545,156	$38,161
23	$69,569	$4,870	$9,740	$597,926	$41,855
24	$70,960	$4,967	$9,934	$654,683	$45,828
25	$72,380	$5,067	$10,133	$715,710	$50,100
26	$73,827	$5,168	$10,336	$781,314	$54,692
27	$75,304	$5,271	$10,543	$851,819	$59,627
28	$76,810	$5,377	$10,753	$927,577	$64,930
29	$78,346	$5,484	$10,968	$1,008,960	$70,627
30	$79,913	$5,594	$11,188	$1,096,369	$76,746
31	$81,511	$5,706	$11,412	$1,190,232	$83,316
32	$83,141	$5,820	$11,640	$1,291,008	$90,371
33	$84,804	$5,936	$11,873	$1,399,187	$97,943
34	$86,500	$6,055	$12,110	$1,515,296	$106,071
35	$88,230	$6,176	$12,352	$1,639,895	$114,793
36	$89,995	$6,300	$12,599	$1,773,586	$124,151
37	$91,795	$6,426	$12,851	$1,917,014	$134,191
38	$93,631	$6,554	$13,108	$2,070,868	$144,961
39	$95,503	$6,685	$13,370	$2,235,884	$156,512
40	$97,414	$6,819	$13,638	$2,412,853	$168,900

PSS

Year	Salary	Member contribution	Employer contribution	Balance	Earnings for prior year
1	$45,000	$2,250	$7,650	$9,900	$693
2	$45,900	$2,295	$7,803	$20,691	$1,448
3	$46,818	$2,341	$7,959	$32,439	$2,271
4	$47,754	$2,388	$8,118	$45,216	$3,165
5	$48,709	$2,435	$8,281	$59,097	$4,137
6	$49,684	$2,484	$8,446	$74,164	$5,192
7	$50,677	$2,534	$8,615	$90,505	$6,335
8	$51,691	$2,585	$8,787	$108,212	$7,575
9	$52,725	$2,636	$8,963	$127,387	$8,917
10	$53,779	$2,689	$9,142	$148,135	$10,369
11	$54,855	$2,743	$9,325	$170,573	$11,940
12	$55,952	$2,798	$9,512	$194,822	$13,638
13	$57,071	$2,854	$9,702	$221,015	$15,471
14	$58,212	$2,911	$9,896	$249,293	$17,451
15	$59,377	$2,969	$10,094	$279,806	$19,586
16	$60,564	$3,028	$10,296	$312,717	$21,890
17	$61,775	$3,089	$10,502	$348,198	$24,374
18	$63,011	$3,151	$10,712	$386,434	$27,050
19	$64,271	$3,214	$10,926	$427,624	$29,934
20	$65,557	$3,278	$11,145	$471,980	$33,039
21	$66,868	$3,343	$11,367	$519,729	$36,381
22	$68,205	$3,410	$11,595	$571,116	$39,978
23	$69,569	$3,478	$11,827	$626,399	$43,848
24	$70,960	$3,548	$12,063	$685,858	$48,010
25	$72,380	$3,619	$12,305	$749,792	$52,485
26	$73,827	$3,691	$12,551	$818,519	$57,296
27	$75,304	$3,765	$12,802	$892,382	$62,467
28	$76,810	$3,840	$13,058	$971,747	$68,022
29	$78,346	$3,917	$13,319	$1,057,006	$73,990
30	$79,913	$3,996	$13,585	$1,148,577	$80,400
31	$81,511	$4,076	$13,857	$1,246,910	$87,284
32	$83,141	$4,157	$14,134	$1,352,485	$94,674
33	$84,804	$4,240	$14,417	$1,465,815	$102,607
34	$86,500	$4,325	$14,705	$1,587,453	$111,122
35	$88,230	$4,412	$14,999	$1,717,985	$120,259
36	$89,995	$4,500	$15,299	$1,858,043	$130,063
37	$91,795	$4,590	$15,605	$2,008,301	$140,581
38	$93,631	$4,682	$15,917	$2,169,481	$151,864
39	$95,503	$4,775	$16,236	$2,342,355	$163,965
40	$97,414	$4,871	$16,560	$2,527,751	$176,943

NSW State Super

Year	Salary	Member contribution	Employer contribution	Balance	Earnings for prior year
1	$45,000	$2,250	$6,750	$9,000	$630
2	$45,900	$2,295	$6,885	$18,810	$1,317
3	$46,818	$2,341	$7,023	$29,490	$2,064
4	$47,754	$2,388	$7,163	$41,105	$2,877
5	$48,709	$2,435	$7,306	$53,725	$3,761
6	$49,684	$2,484	$7,453	$67,422	$4,720
7	$50,677	$2,534	$7,602	$82,277	$5,759
8	$51,691	$2,585	$7,754	$98,375	$6,886
9	$52,725	$2,636	$7,909	$115,806	$8,106
10	$53,779	$2,689	$8,067	$134,668	$9,427
11	$54,855	$2,743	$8,228	$155,066	$10,855
12	$55,952	$2,798	$8,393	$177,111	$12,398
13	$57,071	$2,854	$8,561	$200,923	$14,065
14	$58,212	$2,911	$8,732	$226,630	$15,864
15	$59,377	$2,969	$8,906	$254,369	$17,806
16	$60,564	$3,028	$9,085	$284,288	$19,900
17	$61,775	$3,089	$9,266	$316,543	$22,158
18	$63,011	$3,151	$9,452	$351,303	$24,591
19	$64,271	$3,214	$9,641	$388,749	$27,212
20	$65,557	$3,278	$9,833	$429,073	$30,035
21	$66,868	$3,343	$10,030	$472,481	$33,074
22	$68,205	$3,410	$10,231	$519,196	$36,344
23	$69,569	$3,478	$10,435	$569,454	$39,862
24	$70,960	$3,548	$10,644	$623,507	$43,646
25	$72,380	$3,619	$10,857	$681,629	$47,714
26	$73,827	$3,691	$11,074	$744,108	$52,088
27	$75,304	$3,765	$11,296	$811,257	$56,788
28	$76,810	$3,840	$11,521	$883,407	$61,838
29	$78,346	$3,917	$11,752	$960,914	$67,264
30	$79,913	$3,996	$11,987	$1,044,161	$73,091
31	$81,511	$4,076	$12,227	$1,133,554	$79,349
32	$83,141	$4,157	$12,471	$1,229,531	$86,067
33	$84,804	$4,240	$12,721	$1,332,560	$93,279
34	$86,500	$4,325	$12,975	$1,443,139	$101,020
35	$88,230	$4,412	$13,235	$1,561,805	$109,326
36	$89,995	$4,500	$13,499	$1,689,130	$118,239
37	$91,795	$4,590	$13,769	$1,825,728	$127,801
38	$93,631	$4,682	$14,045	$1,972,255	$138,058
39	$95,503	$4,775	$14,326	$2,129,414	$149,059
40	$97,414	$4,871	$14,612	$2,297,955	$160,857

Tasmania RBF

Year	Salary	Member contribution	Employer contribution	Balance	Earnings for prior year
1	$45,000	$2,250	$7,650	$9,900	$693
2	$45,900	$2,295	$7,803	$20,691	$1,448
3	$46,818	$2,341	$7,959	$32,439	$2,271
4	$47,754	$2,388	$8,118	$45,216	$3,165
5	$48,709	$2,435	$8,281	$59,097	$4,137
6	$49,684	$2,484	$8,446	$74,164	$5,192
7	$50,677	$2,534	$8,615	$90,505	$6,335
8	$51,691	$2,585	$8,787	$108,212	$7,575
9	$52,725	$2,636	$8,963	$127,387	$8,917
10	$53,779	$2,689	$9,142	$148,135	$10,369
11	$54,855	$2,743	$9,325	$170,573	$11,940
12	$55,952	$2,798	$9,512	$194,822	$13,638
13	$57,071	$2,854	$9,702	$221,015	$15,471
14	$58,212	$2,911	$9,896	$249,293	$17,451
15	$59,377	$2,969	$10,094	$279,806	$19,586
16	$60,564	$3,028	$10,296	$312,717	$21,890
17	$61,775	$3,089	$10,502	$348,198	$24,374
18	$63,011	$3,151	$10,712	$386,434	$27,050
19	$64,271	$3,214	$10,926	$427,624	$29,934
20	$65,557	$3,278	$11,145	$471,980	$33,039
21	$66,868	$3,343	$11,367	$519,729	$36,381
22	$68,205	$3,410	$11,595	$571,116	$39,978
23	$69,569	$3,478	$11,827	$626,399	$43,848
24	$70,960	$3,548	$12,063	$685,858	$48,010
25	$72,380	$3,619	$12,305	$749,792	$52,485
26	$73,827	$3,691	$12,551	$818,519	$57,296
27	$75,304	$3,765	$12,802	$892,382	$62,467
28	$76,810	$3,840	$13,058	$971,747	$68,022
29	$78,346	$3,917	$13,319	$1,057,006	$73,990
30	$79,913	$3,996	$13,585	$1,148,577	$80,400
31	$81,511	$4,076	$13,857	$1,246,910	$87,284
32	$83,141	$4,157	$14,134	$1,352,485	$94,674
33	$84,804	$4,240	$14,417	$1,465,815	$102,607
34	$86,500	$4,325	$14,705	$1,587,453	$111,122
35	$88,230	$4,412	$14,999	$1,717,985	$120,259
36	$89,995	$4,500	$15,299	$1,858,043	$130,063
37	$91,795	$4,590	$15,605	$2,008,301	$140,581
38	$93,631	$4,682	$15,917	$2,169,481	$151,864
39	$95,503	$4,775	$16,236	$2,342,355	$163,965
40	$97,414	$4,871	$16,560	$2,527,751	$176,943

Analysis: Deductible amount for a person in a defined benefit scheme

	Unisuper	PSS	NSW State Super	Tasmania RBF
Annual salary increase	4%	4%	4%	4%
Member contributions	7%	5%	5%	5%
Employer upfront contributions	14%	17%	15%	17%
Earnings on prior year balance	7%	7%	7%	7%
Deductible amount - 20 years	17.7%	12.1%	13.3%	12.1%
Deductible amount - 30 years	12.8%	8.8%	9.6%	8.8%
Deductible amount - 40 years	9.2%	6.3%	6.9%	6.3%

Years of services prior to 1/7/1983	6	8	10	16	20	24
Years from 1/7/1983 to 30/6/2007	24	24	24	24	24	24
Deductible amount prior to 1/7/2007	10%	10%	10%	10%	10%	10%
Additional deductible amount	20%	25%	29%	40%	45%	50%
Deductible amount from 1/7/2007	**30%**	**35%**	**39%**	**50%**	**55%**	**60%**

Comparison of PSS to Challenger Lifetime Annuity

	Recipient	Example
PSS Lump sum	$ 124,000	$ 100,000
Conversion factor	10.00	10.00
Annual CPI indexed pension in first year	$ 12,400	$ 10,000
Annual payment from Challenger CPI indexed lifetime annuity per $100,000	$4,272	$4,272
Annuity pricing valid 17/2/2016		
Lump sum required to purchase lifetime CPI indexed annuity	$ 290,262	$ 234,082
Deductible amount percentage	24.45%	24.45%
Undeducted purchase price (PSS lump sum multiplied by DA %)	$ 30,318	$ 24,450
Revised deductible amount percentage	10.45%	10.45%

Analysis of deductible amount by number of years of service

Annual Salary Increase of 2%

	Unisuper	PSS	NSW State Super	Tasmania RBF
Annual salary increase	2%	2%	2%	2%
Member contributions	7%	5%	5%	5%
Employer upfront contributions	14%	17%	15%	17%
Earnings on prior year balance	7%	7%	7%	7%
Deductible amount - 20 years	17.0%	11.6%	12.7%	11.6%
Deductible amount - 30 years	11.7%	7.9%	8.7%	7.9%
Deductible amount - 40 years	7.8%	5.3%	5.8%	5.3%

Annual Salary Increase of 4%

	Unisuper	PSS	NSW State Super	Tasmania RBF
Annual salary increase	4%	4%	4%	4%
Member contributions	7%	5%	5%	5%
Employer upfront contributions	14%	17%	15%	17%
Earnings on prior year balance	7%	7%	7%	7%
Deductible amount - 20 years	17.7%	12.1%	13.3%	12.1%
Deductible amount - 30 years	12.8%	8.8%	9.6%	8.8%
Deductible amount - 40 years	9.2%	6.3%	6.9%	6.3%

s22

From: [redacted]
To:
Cc:
Subject: FW: Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 [SEC=UNCLASSIFIED]
Date: Thursday, 18 June 2015 4:53:45 PM
Attachments: Supplementary Submission to Senate Committee - Cap deductible amount for DBIS.DOC
image001.jpg
image002.png

Hi,

Here's our contribution to the supplementary submission.

Happy to discuss.

Thanks,
s22 [redacted]

From: s22 [redacted]
Sent: Thursday, 18 June 2015 3:02 PM
To: s22 [redacted]
Subject: FW: Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 [SEC=UNCLASSIFIED]

Any comments appreciated. Don't really want to say too much.

s22 [redacted]
Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

From: WHITECROSS, Andrew
Sent: Wednesday, 17 June 2015 6:23 PM
To: s22 [redacted]
Cc: s22 [redacted]
Subject: FW: Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015 [SEC=UNCLASSIFIED]

[UNCLASSIFIED]
For action, please.

Sent with Good (www.good.com)

From: s22 [redacted]
Sent: Wednesday, 17 June 2015 5:17:06 PM
To: s22 [redacted]
Cc: WHITECROSS, Andrew; Seselja, Zed (Senator); Community Affairs, Committee (SEN); Forkert, Joshua (SEN); 'Parliamentary.Committees@health.gov.au'
Subject: Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015

Dear s22 [redacted]

Thank you for the Department of Social Service's submission to the Community Affairs Legislation Committee's inquiry into the Social Services Legislation Amendment (Fair and Sustainable Pensions) Bill 2015.

On 16 June 2015, the Senate agreed to extend the reporting date for this inquiry to 10 August 2015. The committee has decided to table an interim report on 22 June 2015 into schedules 1 (defined benefit income), 3 (asset test) and 4 (seniors supplement).

The committee has requested a further response from the department to concerns raised in the submissions received so far on schedules 1, 3 and 4. In particular, the committee seeks a response to modelling outlined in Industry Super Australia's submission. We note a number of these concerns have already been addressed in the original submission.

We would be grateful for your response by **COB Friday 19 2015** if possible, to include in the interim report.

Please don't hesitate to contact me if you have any questions regarding this request.

Yours sincerely

s22 [redacted] Secretary

Senate Standing Committees on Community Affairs and
Senate Select Committee on Wind Turbines | Department of the Senate
s22 [redacted]
www.aph.gov.au/senate

cid:image006.gif@01CFD3F2.C172DB30

Fair and Sustainable Pensions - Schedule 1: Defined benefit income streams

Thank you for the opportunity to respond to issues raised in submissions regarding the measure to increase, for some income support recipients, the proportion of their defined benefit income stream that is assessed under the social security income test by capping the proportion of income that is excluded from assessment (the deductible amount) at ten per cent from, 1 January 2016.

The original DSS submission addresses many of the concerns raised in the submissions; however there are two areas regarding which we wish to provide further information.

Components of the Deductible Amount

There appears to be confusion regarding what constitutes the deductible amount. Some submissions have stated that the deductible amount for social security income test purposes represents only their after-tax contributions to their defined benefit income stream. However, this is not the case.

As stated in the original submission, the change in the calculation of the deductible amount resulted in people with service prior to 30 June 1983 having a significant amount of upfront employer contributions treated as personal after-tax contributions. This resulted in a higher deductible amount, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient in terms of their contributions or the amount of income they receive each year from their income stream provider.

This was a change introduced in 2007 as part of the Simpler Super taxation changes, which were designed to simplify a complicated system of taxation for superannuation benefits. However, this created an unintended outcome whereby the deductible amount used by the social security income test exceeded a person’s own after-tax contributions for some defined benefits income streams.

For social security purposes the deductible amount should reflect the return of personal after-tax contributions, if any, made by the employee to their defined benefit income stream. Taxable income and income assessed for social security support are assessed differently because the two systems have different purposes. The Australian Taxation Office measures a person's capacity to pay taxes and contribute to Australia's general revenue through the Australian tax system. In contrast, Centrelink makes an income assessment to measure a person's current need for income support and their capacity to contribute towards their own support.

In general, the income test assesses the gross ordinary income of people and measures income from all sources. Under social security law, all income earned, derived or received for a person’s own use or benefit is counted under the income test. The only exceptions are those items specifically exempted under social security law. This ensures social security income support payments are targeted to those who need them most.

Grandfathering

The measure provides a fairer assessment of an individual’s personal contributions to their defined benefit income stream. The Simpler Super taxation changes in 2007 created an unintended change which increased the deductible amount in the income test treatment for some defined benefits income streams. The measure addresses this anomaly. Given this, it is not appropriate to grandfather the deductible amount for existing income support recipients who may have benefited from the anomaly.

s22 [redacted]

From:
To:
Subject: RE: DBIS customer data [DLM=For-Official-Use-Only]
Date: Monday, 11 May 2015 3:42:21 PM

Median DBIS income - $22,586
Median deductible amount – 0%

Kind regards,
Stuart

s22 [redacted] **MEANS TEST POLICY SECTION**
s22 [redacted]
Rates and & Means Testing Policy Branch | Social Security Policy Group
Department of Social Services

The Department of Social Services acknowledges the traditional owners of country throughout Australia and their continuing connection to land, sea and community. We pay our respect to them, their cultures, and to the elders both past and present.

From: s22 [redacted]
Sent [redacted]15 3:34 PM
To: s22 [redacted]
Subject: RE: DBIS customer data [DLM=For-Official-Use-Only]

Thanks s22 [redacted]

Are the medians much different?

s22 [redacted]
Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

From: s22 [redacted]
Sent: Monday, 11 May 2015 3:27 PM
To: s22 [redacted]
Subject: DBIS customer data [DLM=For-Official-Use-Only]

s22 [redacted]

Here are the averages for DBIS income and deductible amount:

- No. of income support recipients with DBIS where deductible amount is greater than 0 per cent - 61,044
- Average DBIS annual income - $26,439
- Average DBIS deductible amount per year - $7,182

Kind regards,
s22 [redacted]

s22 [redacted] **MEANS TEST POLICY SECTION**
s22 [redacted]
Rates and & Means Testing Policy Branch | Social Security Policy Group
Department of Social Services

The Department of Social Services acknowledges the traditional owners of country throughout Australia and their continuing connection to land, sea and community. We pay our respect to them, their cultures, and to the elders both past and present.

From: s22 [redacted]
To:
Subject: DBIS before and after 2007 [DLM=For-Official-Use-Only]
Date: Tuesday, 9 June 2015 3:43:52 PM
Attachments: image001.png

H s22 [redacted]

I thought you might find the following data useful.

Pensioners with defined benefit income streams - deductible amount in 2006 and 2014

Year	0%	0-10%	10-20%	20-30%	30-40%	40-50%	>50%	Total	No with DA > 10%	% with DA >10%
Number 2006	6,776	104,389	1,617	372	208	136	597	114,095	2,930	2.6%
Percentage 2006	5.9%	91.5%	1.4%	0.3%	0.2%	0.1%	0.5%			
Number 2014	79,480	20,009	10,265	7,690	6,960	7,771	8,227	140,402	40,913	29.1%
Percentage 2014	56.6%	14.3%	7.3%	5.5%	5.0%	5.5%	5.9%			

Kind regards,

s22 [redacted]
MEANS TEST POLICY SECTION
s22 [redacted]
Rates and & Means Testing Policy Branch | Social Security Policy Group
Department of Social Services

The Department of Social Services acknowledges the traditional owners of country throughout Australia and their continuing connection to land, sea and community. We pay our respect to them, their cultures, and to the elders both past and present.

Capping the Income Test Deductible Amount for Defined Benefit Income Streams

A defined benefit income stream is a superannuation pension which is paid from a public sector or other corporate defined benefit superannuation fund. The superannuation pension paid from these schemes generally reflects years of service and final salary. Because of this general quality, defined benefit income streams are not assessed under the assets test as they do not generally have an underlying asset value.

Income payments from a defined benefit scheme are usually indexed and scheme members have no ability to access capital or lump sum payments. In these schemes employers usually fund the income streams as liabilities arise.

Generally employees do not provide any of their own contributions towards these income streams. Where an employee does provide their own contribution, a proportion of their defined benefit income stream can be excluded from the social security income test (i.e. the deductible amount) to reflect that it is a return of their own personal after-tax contributions.

As part of the 2007 Better Super package, changes were made to the calculation of 'deductible amount' for tax purposes. 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 resulted in some people having an amount of their funded employer contributions included in the 'deductible amount' of their pension for the purpose of the Age Pension income test. Those persons with service prior to 30 June 1983 had the most significant impact.

<u>Comparison with other assessable income</u>

It should be noted that defined benefit income streams are paid for life and usually indexed. The change will not impact the amount of income people receive from their defined benefit income stream. It will only enable a fairer assessment of a person's need for income support under the income test. In this regard, it is useful to look at the total private income of various couples under the Age Pension system to illustrate the intended effect of the present policy.

- A couple with no additional income or assets receives around $33,980 per year from the Age Pension.

- A couple with an indexed lifetime annuity of $30,000 per year purchased from a life company will receive an asset tested part-rate Age Pension and around $46,000 per year in total.

- A couple with a defined income stream providing $30,000 per year under the recent changes will receive an income tested part rate Age Pension – around $54,000 per year in total.

- But before 1 January 2016, that same couple (with a defined benefit income stream of $30,000) and a deductible amount of 40 per cent, would have received around $59,000 per year.

A critical factor affecting the size of the anomaly is the number of years of service prior to 1 July 1983. For example, a person with eight years of service prior to 1 July 1983 and a deductible amount of 10 per cent prior to 2007 would have had their social security deductible amount increase to 30 per cent from 1 July 2007 only because of the change in the income tax legislation. A worked example is at <u>Attachment A</u>.

Attachment A

How was the deductible amount calculation changed in 2007?

Prior to 1 July 2007, the taxation arrangements for benefits paid from a superannuation fund to a member depended on whether the member had contributions from a number of components, including:

- Member's own contributions
- Earnings on members own contributions
- Productivity components
- Earnings on productivity components
- Pre June 1994 invalidity components
- Pre 1 July 1983 components

For social security purposes, the deductible amount was the sum of the member's own contributions to their defined benefit scheme.

The deductible amount was a set dollar amount (non-indexed) which was calculated at the commencement of the income stream.

In an effort to simplify this calculation, it was decided to only use the sum of any after tax contributions from the member and/or the employer.

To take account of the other components a ratio was applied to this after tax contributions amount based on: years of pre 83 service / total length of service.

This (ratio) amount was then added to the original sum of after tax contributions to give a total of after tax contributions.

This after tax contributions figure was then turned into a proportion of the member's final lump sum which would then be applied to their income for tax purposes.

However for social security purposes, this significantly increased the deductible amount compared to the previous assessment.

EXAMPLE – CALCULATION OF ASSESSABLE INCOME FOR DEFINED BENEFIT INCOME STREAMS

John has a defined benefit superannuation interest of $100,000 which comprises:

- Original tax-free component (contributions made from John's after-tax income) of $10,000;
- Untaxed / tax employer funded component of $90,000.

John receives an annual payment of $10,000 and has a life expectancy at commencement of 20 years.

John has a pre-1 July 1983 component of 10 years which comprises part of 35 years of total service.

	Pre-1 July 2007	**Post-1 July 2007 (No pre- 1 July 1983 component)**	**Post-1 July 2007 (10 years pre-1 July 1983 component)**
Annual income	$10,000	$10,000	$10,000
Deductible amount	= Own contributions divided by life expectancy at commencement = $10,000 divided by 20 years **= $500** This is a set dollar amount which doesn't change (comparable to 5% at commencement).	= Own contributions divided by total benefit = $10,000 divided by $100,000 **= 10 per cent** = $1,000 As this amount is based on a percentage, it increases where income stream payment are indexed.	= Own contributions + calculated pre-1 July 1983 component*) divided by total benefit = ($10,000 + $28,571) divided by $100,000 **= 38.5 per cent** = $3,857 As this amount is based on a percentage, it increases where income stream payment are indexed.
Assessable income for pension purposes	$9,500	$9,000	$6,143

* Pre-1 July 1983 component calculation
= years prior to June 1983 / total years of service multiplied by tax free components
= 10 / 35 x $100,000
= $28,571

SAS Data - Income support recipients with a defined benefit income stream as at 31 March 2007

Deductible amount	Number of recipients	Percentage %
0%	6,776	5.90%
0-10%	104,389	91.50%
10-20%	1,617	1.40%
20-30%	372	0.30%
30-40%	208	0.20%
40-50%	136	0.10%
>50%	597	0.50%
Total	114,095	
No with DA > 10%	2,930	2.57%

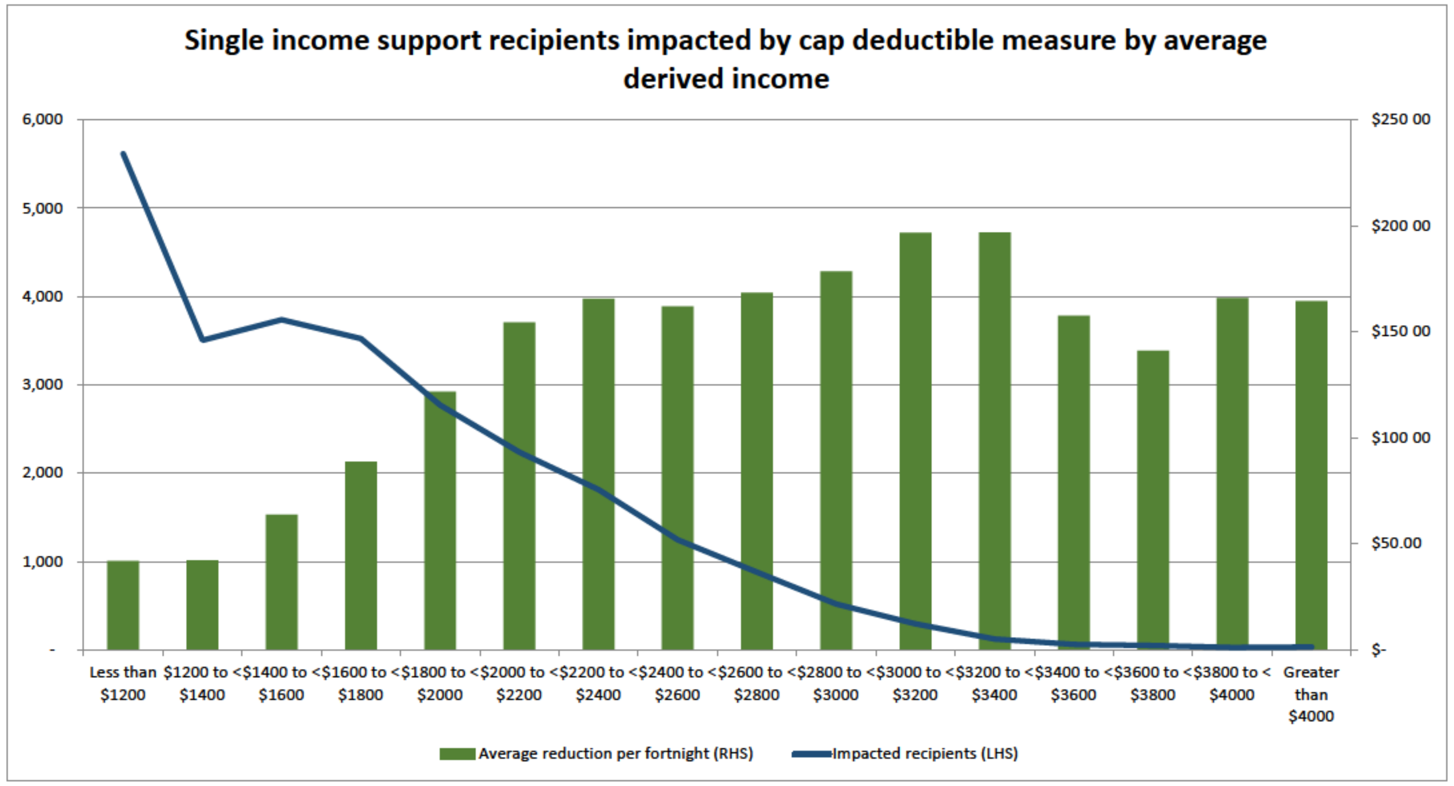
Number 2014
79,480
20,009
10,265
7,690
6,960
7,771
8,227
140,402
40,913
29.10%

Percentage 2014
56.60%
14.30%
7.30%
5.50%
5.00%
5.50%
5.90%

Cap deductible amount measure - Impacted single income support recipients by average derived income ranges

No	Derived income FN	Impacted recipients	Average reduction per fortnight	Average derived income	
-	$0	106	85.52	139.58	
1	$200	493	63.24	320.07	
2	$400	776	63.16	504.45	
3	$600	675	65.27	697.19	
4	$800	987	31.76	925.06	
5	$1,000	2,576	27.52	1,102.46	
6	$1,200	3,502	42.20	1,302.26	
7	$1,400	3,736	63.66	1,499.99	
8	$1,600	3,522	88.65	1,696.12	
9	$1,800	2,771	121.66	1,896.29	
10	$2,000	2,236	154.42	2,095.81	
11	$2,200	1,812	165.52	2,296.95	
12	$2,400	1,243	161.95	2,490.74	
13	$2,600	878	168.36	2,691.39	
14	$2,800	515	178.50	2,886.62	
15	$3,000	293	196.57	3,088.49	
16	$3,200	121	196.75	3,298.46	
17	$3,400	61	157 55	3,496.23	
18	$3,600	47	141.13	3,699.57	
19	$3,800	25	165 88	3,897.61	
20	$4,000	13	183.12	4,114.20	
21	$4,200	9	130.48	4,255.54	
22	$4,400	3	145 21	4,506.39	
23	$4,600				
24	$4,800	3	250 26	4,923.21	
25	$5,000	1	39 94	5,140.97	
26	$5,200				
27	$5,400	1	152.15	5,564.11	
	Total	26,405			

Derived total income range per fortnight	Impacted recipients (LHS)	Average reduction per fortnight (RHS)
Less than $1200	5,613	$ 41.97
$1200 to < $1400	3,502	$ 42.20
$1400 to < $1600	3,736	$ 63.66
$1600 to < $1800	3,522	$ 88.65
$1800 to < $2000	2,771	$ 121.66
$2000 to < $2200	2,236	$ 154.42
$2200 to < $2400	1,812	$ 165.52
$2400 to < $2600	1,243	$ 161.95
$2600 to < $2800	878	$ 168.36
$2800 to < $3000	515	$ 178.50
$3000 to < $3200	293	$ 196.57
$3200 to < $3400	121	$ 196.75
$3400 to < $3600	61	$ 157.55
$3600 to < $3800	47	$ 141.13
$3800 to < $4000	25	$ 165.88
Greater than $4000	30	$ 164.45
Total singles	26,405	$ 93.30



No	Derived income FN	Number - single	Number - couple
-	$0	11,642	3,219
1	$50	5,194	1,625
2	$100	3,364	1,267
3	$150	2,563	1,046
4	$200	1,632	825
5	$250	1,000	713
6	$300	505	553
7	$350	298	485
8	$400	138	399
9	$450	47	265
10	$500	13	181
11	$550	6	85
12	$600	-	61
13	$650	2	23
14	$700	1	8
15	$750	-	5
16	$800	-	4
17	$850	-	1
18	$900	-	2
	Total	26,405	10,767

Average reduction in income support payments	Singles
Less than $50	11,642
$50 to < $100	5,194
$100 to < $150	3,364
$150 to < $200	2,563
$200 to < $250	1,632
$250 to < $300	1,000
$300 to < $350	505
$350 to < $400	298
$400 to < $450	138
$450 to < $500	47
More than $500	22
Total singles	26,405

Average reduction in income support payments	Couples
Less than $50	3,219
$50 to < $100	1,625
$100 to < $150	1,267
$150 to < $200	1,046
$200 to < $250	825
$250 to < $300	713
$300 to < $350	553
$350 to < $400	485
$400 to < $450	399
$450 to < $500	265
$500 to < $550	181
$550 to < $600	85
$600 to < $650	61
More than $650	43
Total couples	10,767

Cap Deductible Amount Change - Impact by State / Fund

	NSW			Victoria			Tasmania			CSS			PSS		
Deductible amount	**Number**	**Average Reduction in income support**	**Reduction in Income Support payments (savings)**	**Number**	**Average Reduction in income support**	**Reduction in Income Support payments (savings)**	**Number**	**Average Reduction in income support**	**Reduction in Income Support payments (savings)**	**Number**	**Average Reduction in income support**	**Reduction in Income Support payments (savings)**	**Number**	**Average Reduction in income support**	**Reduction in Income Support payments (savings)**
0-9%	2,216	$ -	$ -	4,750	$ -	$ -	1,490	$ -	$ -	3,774	$ -	$ -	1,193	$ -	$ -
10-19%	1,543	$ 787	$ 1,213,653	1,996	$ 383	$ 764,954	999	$ 685	$ 684,718	1,795	$ 583	$ 1,046,435	2,656	$ 651	$ 1,728,385
20-29%	2,026	$ 2,515	$ 5,095,700	1,852	$ 1,367	$ 2,532,395	745	$ 1,939	$ 1,444,796	300	$ 1,541	$ 462,155	1,962	$ 1,602	$ 3,143,108
30-39%	2,576	$ 4,667	$ 12,022,589	2,698	$ 2,887	$ 7,788,970	311	$ 3,425	$ 1,065,306	85	$ 2,139	$ 181,831	525	$ 2,193	$ 1,151,175
40-49%	3,325	$ 6,931	$ 23,044,083	3,329	$ 4,358	$ 14,508,866	189	$ 5,744	$ 1,085,675	18	$ 2,933	$ 52,787	111	$ 3,494	$ 387,835
50-59%	4,052	$ 9,149	$ 37,071,288	1,286	$ 6,020	$ 7,741,850	2	$ 3,834	$ 7,669	4	$ 1,324	$ 5,295	38	$ 3,637	$ 138,217
60-69%	1,211	$ 9,919	$ 12,011,415	151	$ 5,889	$ 889,226	1	$ 5,646	$ 5,646	4	$ 3,797	$ 15,186	17	$ 4,664	$ 79,285
70-79%	135	$ 7,178	$ 969,035	16	$ 2,652	$ 42,432	2	$ 3,972	$ 7,944	4	$ 3,595	$ 14,380	9	$ 4,477	$ 40,296
80-89%	43	$ 5,612	$ 241,304	2	$ 6,943	$ 13,886	-	$ -	$ -	2	$ 7,214	$ 14,428	2	$ 3,674	$ 7,348
90-99%	20	$ 6,294	$ 125,884	1	$ 2,319	$ 2,319	2	$ 5,945	$ 11,890	2	$ 7,319	$ 14,637	1	$ 2,296	$ 2,296
100%	47	$ 5,543	$ 260,506	18	$ 3,814	$ 68,654	2	$ 6,760	$ 13,519	5	$ 11,926	$ 59,632	-	$ -	$ -
Total	17,194	$ 5,354	**$ 92,055,457**	16,099	$ 2,134	**$ 34,353,552**	3,743	$ 1,156	**$ 4,327,162**	5,993	$ 311	**$ 1,866,766**	6,514	$ 1,025	**$ 6,677,947**
							2,253	1920.622452							

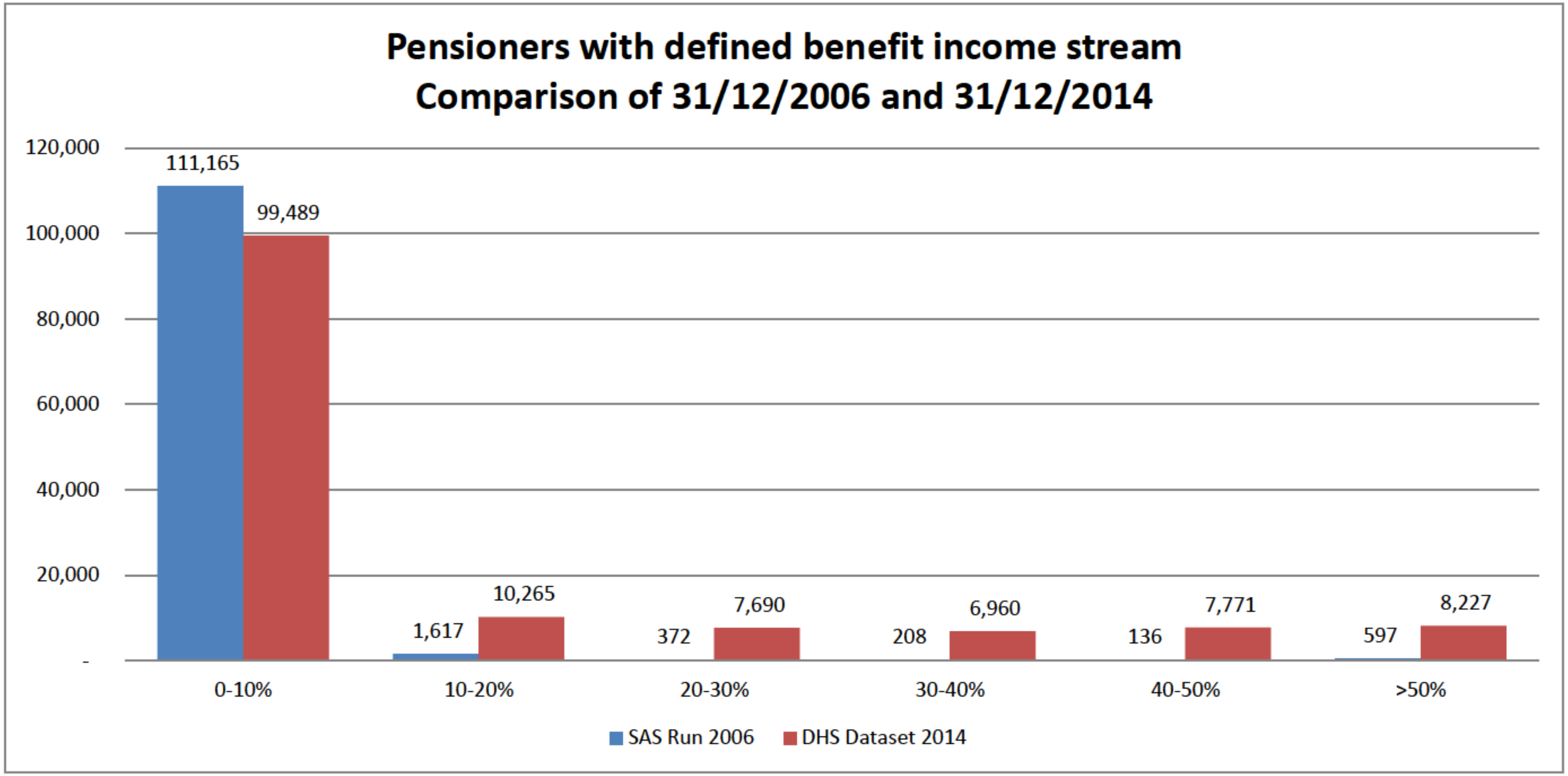
Maximum savings for full year			**$ 154,744,744**	
NSW			$ 92,055,457	59%
Victoria			$ 34,353,552	22%
Tasmania			$ 4,327,162	3%
CSS			$ 1,866,766	1%
PSS			$ 6,677,947	4%
			$ 139,280,885	90%

Number of income support recipients with a DBIS that has a deductible amount greater than 10%

	Scheme	Number	%	Total
Commonwealth	CSS	2,219	5%	
	PSS	5,321	13%	
	Other	93	0.2%	7,633
State	NSW State Super	14,978	37%	
	Victoria ESSS	11,349	28%	
	Tasmania RBF	2,253	5%	
	Other	1,238	3%	29,818
Corporate & Not-for-profit	Not-for-profit: United Church and Church of Christ	723	2%	
	Corporate	2,860	7%	3,583
Total				41,034

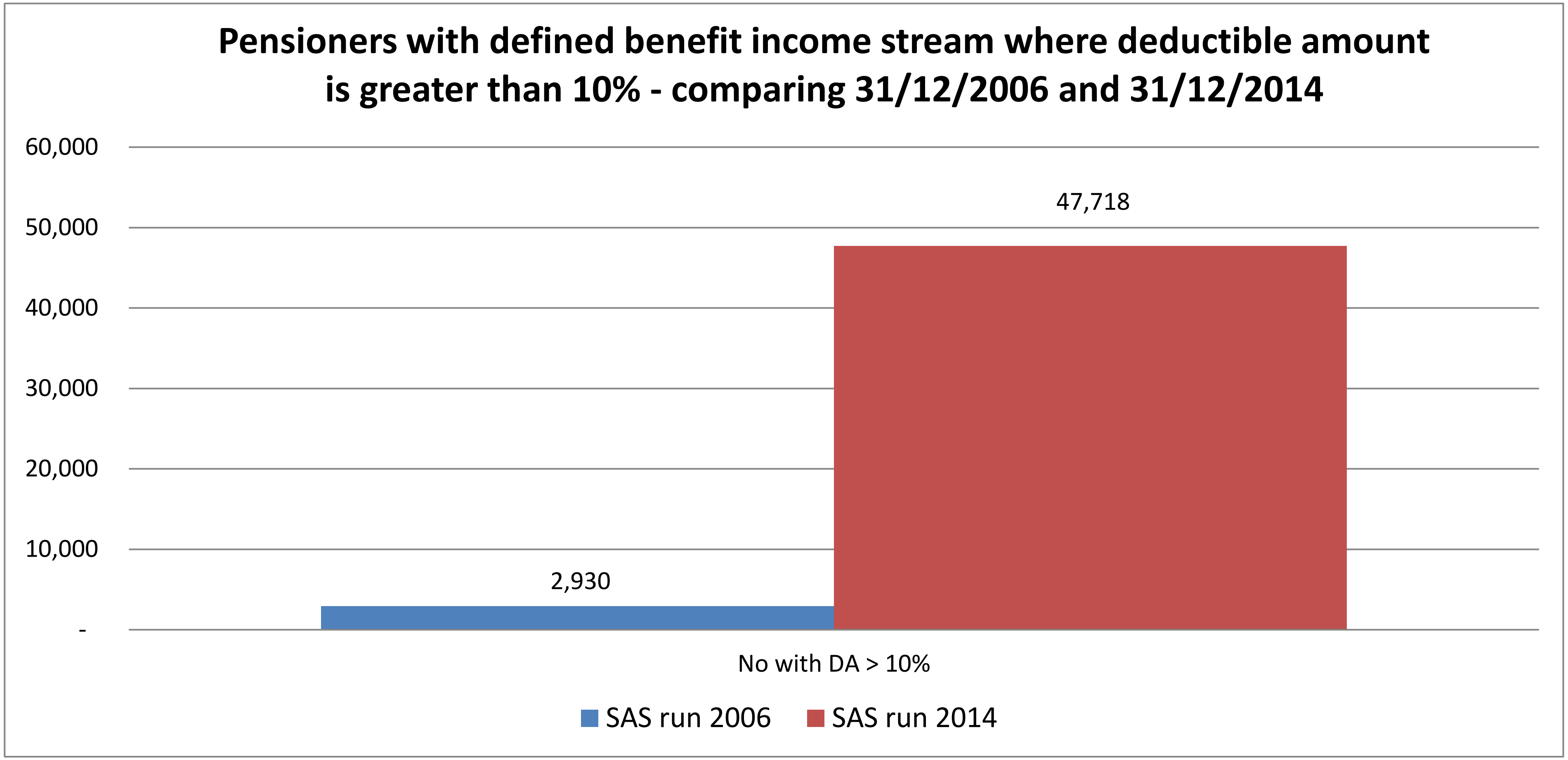
Pensioners with defined benefit income streams - deductible amount in 2006 and 2014

Year	0-10%	10-20%	20-30%	30-40%	40-50%	>50%	Total	No with DA > 10%	% with DA >10%
SAS Run 2006	111,165	1,617	372	208	136	597	114,095	2,930	2.6%
SAS Run % 2006	97.4%	1.4%	0.3%	0.2%	0.1%	0.5%			
DHS Dataset 2014	99,489	10,265	7,690	6,960	7,771	8,227	140,402	40,913	29.1%
DHS Dataset % 2014	70.9%	7.3%	5.5%	5.0%	5.5%	5.9%			
SAS Run 2014		47,718					140,000		34.1%



Pensioners with defined benefit income streams - deductible amount in 2006 and 2014

Year	0-10%	10-20%	20-30%	30-40%	40-50%	>50%	Total	No with DA > 10%	% with DA >10%
SAS run 2006	111,165	1,617	372	208	136	597	114,095	2,930	2.6%
Percentage 2006	97.4%	1.4%	0.3%	0.2%	0.1%	0.5%			
SAS run 2014		47,718					140,000	47,718	34.1%



Australian Government Department of Social Services	**Submission** **MS15-002435**

To **Minister for Social Services, the Hon Christian Porter MP** (for information)

Subject: Implementation of 2015-16 Budget measure on 1 January 2016: cap the deductible amount from defined benefit income streams

Recommendations: That you

1. Note that the 2015-16 Budget measure to cap the deductible amount from defined benefit income streams commences on 1 January 2016.	Noted / Please Discuss
2. Note the attached talking points and Question and Answer documents (Attachments A and B) and background information (Attachments C and D).	Noted / Please Discuss
Minister's signature	**Date.........../.........../2015**
Minister's Comments	

Purpose: To provide you with information and talking points regarding the 2015-16 Budget measure to cap the deductible amount from defined benefit income streams, which commences on 1 January 2016.

Key Points:

1. From 1 January 2016, the level of income from defined benefit income streams that can be excluded from the social security income test (the "deductible amount") will be capped at 10 per cent.
2. A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund (e.g. Public Sector Superannuation Scheme, Commonwealth Bank Officers Superannuation Fund) where the pension generally only reflects years of service and final salary.
3. For some income support recipients, this will increase the proportion of their defined benefit income stream that is assessed under the social security income test, and they may therefore receive reduce income support payments.
4. Defined benefit income streams held by service pensioners and defined benefit income streams from military defined benefit schemes will be exempt from the cap.
5. There are around 140,000 DSS recipients with defined benefit income streams. Of this group, approximately 47,700 are impacted by the change.
6. In the 2015-16 Budget papers, the measure was called "Social Security Income Test — improve integrity of social security income test arrangements".
7. The enabling legislation received Royal Assent on 30 June 2015.

Financial Implications:

8. The 2015-16 Budget included whole of government savings of $465.5 million over the forward estimates for this measure.
9. For the first full year, approximately:
    a. 46,000 DSS recipients will receive a reduced pension/allowance, with an average reduction of $2,150 a year ($82.70 a fortnight); and
    b. 1,700 DSS recipients would have their pension/allowance cancelled because their income support payment has been reduced to zero by the social security income test.

Regulatory Implications: N/A.

Risk Management: N/A.

Programme Office and Delivery Strategy and Operations Group: N/A.

Media Release: N/A.

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Attachments:
Attachment A: Talking points
Attachment B: Questions and Answers
Attachment C: Calculations of the deductible amount
Attachment D: Data

History	None	
Consultation	Budget Development Branch	☐ Yes ☒ No
	Communication & Media Branch	☐ Yes ☒ No
	Project, Risk and Deregulation Branch	☐ Yes ☒ No
	Programme Office	☐ Yes ☒ No
	Delivery Strategy and Operations Group	☐ Yes ☒ No
	Other Department [insert name]	☐ Yes ☒ No
	Group Manager – Paul McBride	☒ Yes ☐ No
	Deputy Secretary – Serena Wilson	☒ Yes ☐ No

Attachment A: Cap the deductible amount for defined benefit income streams

Talking Points

- A defined benefit income stream is a pension paid from an employer fund that generally reflects years of service and final salary.
    - For example, this could be NSW State Super, Public Sector Superannuation Scheme or the Commonwealth Bank Officers Superannuation Fund.
- Generally, employees don't contribute towards these income streams, but where they have made contributions, a proportion of their defined benefit income stream can be excluded from the social security income test (the 'deductible amount) to reflect it is a return of their own personal after-tax contributions.
- Changes to the taxation of superannuation payments in 2007 resulted in the social security income test deductible amount being overstated for some people, resulting in higher income support payments, even though their circumstances haven't changed (see Attachment C).
    - The change in the calculation of the deductible amount resulted in people with service prior to 30 June 1983 having some of their employer contributions treated as personal after-tax contributions.
    - This higher deductible amount was also changed from a fixed amount to a percentage of annual income, which meant it increased as income stream payments increased (through indexation).
    - Together these changes resulted in a higher deductible amount, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient.
- That's why, from 1 January 2016, the income test deductible amount was capped at a maximum of 10 per cent of the gross payment from a defined benefit income stream.
- So, for example, if you receive gross income of $40,000 per year from a defined benefit income stream, the deductible amount for the social security income test would be a maximum of $4,000 per year, making your assessable income a minimum of $36,000.
- This change will enable a fairer assessment of a person's need for income support.
- Around 65 per cent of income support recipients with defined benefit income streams will not be affected by this measure as they have a deductible amount of 10 per cent or less.
- Around 47,700 income support recipients with a defined benefit income stream (approximately 2 per cent of Age Pension recipients) will be affected by the measure.
- It will not apply to military superannuation and Veterans' Affairs pensions.
- The measure will generate savings of $465.5 million over the forward estimates.

Attachment A: Cap the deductible amount for defined benefit income streams

- At a time when expenditure on the Age pension was projected to rise from $39.5 billion in 2013-14 to $72.3 billion in 2023-24 without any changes, the Government considered this to be a fair and reasonable measure designed to support the long term sustainability of Australia's welfare system.
- People who may be impacted by the change were notified by Centrelink via letter in October 2015.

Attachment B: Cap the deductible amount for defined benefit income streams

Questions and Answers

What is the measure?

- From 1 January 2016, the level of income from defined benefit income streams that can be excluded from the social security income test (the "deductible amount") will be capped at 10 per cent.

- This will increase the proportion of some superannuants' defined benefit income stream that is assessed under the social security income test.

- The deductible amount 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.

- Defined benefit income streams are exempt from the assets test as they do not have an underlying capital value. As such, there would be no change to the assets test assessment.

What is a defined benefit income stream?

- A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund (e.g. Public Sector Superannuation Scheme, Commonwealth Bank Officers Superannuation Fund) where the pension generally only reflects years of service and final salary.

- Income payments are set by the rules of the scheme, usually indexed and scheme members have no ability to access capital or lump sum payments from the scheme.

- In these schemes employers usually fund these income streams as liabilities arise. Generally employees do not provide any of their own contributions to these income streams.

- Some of these schemes may include some up front contributions by employers and/or employees towards the future costs of the pension.
  - These up front contributions are the basis of the deductible amounts, even though employer contributions are not a return of the employees own capital.

- There is no underlying capital value for these income streams.

- Nearly all superannuation defined benefit schemes are now closed to new members.

  Example: John has worked for 40 years and is a member of a defined benefit scheme. As per the scheme rules, he does not contribute to his scheme during his working life. He retires on a final salary of $100,000. On his retirement he receives an indexed pension for life of $50,000 a year.

Attachment B: Cap the deductible amount for defined benefit income streams

How do these schemes differ from other superannuation schemes?

- Most people are part of a defined contribution scheme where their superannuation account at retirement is the accumulation of their contributions (super guarantee and voluntary contributions) and investment returns over their working life.

- An account based income stream or annuity can then be purchased using these monies to provide an income in retirement.

  Example: Mark has worked for an accounting firm for 40 years making voluntary contributions to his superannuation on top of the superannuation guarantee payments. He retires with a superannuation account balance of $400,000 and purchases an account based income stream which is assessed under the deeming rules.

What is the impact of the proposal?

- The proposal would generate savings of $465.5 million over the forward estimates for all affected agencies.

- It will enable a better assessment of a person's capacity for self-support.

  Example: A retired State government public servant currently in receipt of Age Pension can receive a defined benefit pension of $40,000 a year with a deductible amount of 50 per cent so that only $20,000 is assessed under the income test.

  Under this measure, the individual's deductible amount would reduce to $4,000, and $36,000 would be assessed under the income test.

How are income support recipients impacted by the change?

- There are around 140,000 DSS recipients with defined benefit income streams. Of this group, approximately 47,700 are impacted by the change:

  - around 20 per cent are provided by the Federal Government,

  - around 75 per cent by State and Local Governments, and

  - around 5 per cent by corporate organisations.

- For the first full year, approximately:

  - 46,000 DSS recipients would receive a reduced pension/allowance by an average of $2,150 a year ($82.70 a fortnight); and

  - 1,700 DSS recipients would be cancelled.

Attachment B: Cap the deductible amount for defined benefit income streams

Why are State government employees impacted more?

- State government-provided defined benefit income streams make up most of the 47,700 DSS recipients impacted by the proposal. For example, NSW State Super comprises 32 per cent of the affected DSS recipients. Other state schemes with high numbers of affected recipients are Victoria and Tasmania.

- Some state government defined benefit schemes have funded most of their pension liabilities upfront. Where funds have done this it results in these employer contributions being counted in the calculation of a person's deductible amount.

- As a result, members of these schemes have a much higher deductible amount for social security means test purposes compared to people in other defined benefit schemes that took a different approach – despite having similar circumstances.

- The change brings the treatment of these groups more into line with other defined benefit income streams which were not pre-funded by their schemes.

Why are Commonwealth government employees generally not impacted?

- Recipients who only have indexed pensions from the Commonwealth Superannuation Scheme are not affected because the pension is entirely employer funded as liabilities arise and there are no relevant up-front contributions resulting in a deductible amount.

- Personal contributions under the Commonwealth Superannuation Scheme are generally taken as lump sums because any resulting defined benefit income stream cannot be indexed.

    - In a small number of cases, retirees have elected to receive their personal contributions as a non-indexed income stream. In these cases the superannuant will have a deductible amount (see Scenario 2).

Why not continue to use actual personal after-tax contributions?

- Following the 2007 changes, superannuation funds were no longer required under the tax rules to distinguish personal after-tax contributions from other components pre-1983 employer contributions.

- This meant that records of people's personal after-tax contributions were no longer available for social security income test purposes.

Why a 10 per cent cap?

- The 10 per cent cap was selected as nearly all income support recipients with a defined benefit income stream (97.6 per cent) as at 30 June 2007 had a deductible amount of less than 10 per cent.

Why are veterans and people with military defined benefit income streams excluding from the changes?

- Veterans are excluded from the change in recognition of the unique nature of their military service.

Attachment B: Cap the deductible amount for defined benefit income streams

When was the measure announced? What information has been provided?

- The measure was announced on 7 May 2015 by the then Minister for Social Services, the Hon Scott Morrison MP, and was part of the 2015-16 Budget. The measure was in a number of media articles in major and regional newspapers.

- Following the Budget, information was included on the Department of Human Services and Department of Social Services websites.

- The legislation process included a senate committee inquiry which received a number of submissions from relevant parties. The legislation received Royal Assent on 30 June 2015.

- The Department of Human Services sent out letters to all income support recipient with a defined benefit income stream in October 2015 about the change.

Why is this measure starting on 1 January 2016 rather than 1 January 2017 with the measure to rebalance the assets test?

- The Simpler Super taxation changes in 2007 created an unintended flow on which increased the deductible amount in the income test treatment for some defined benefits income streams. This measure addresses this anomaly and provides a fairer assessment of an individual's personal contributions to their defined benefit income stream.

- The start date of 1 January 2016 reflects that correction of this anomaly should occur as soon as possible.

Does this measure break the Government's promise for no changes to age pension or superannuation system until after the next election?

- No – the measure only changes a parameter using the income social security income test, and does not impact the superannuation system. It gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.

Why are current pensioners with a defined benefit income stream not being grandfathered?

- The Simpler Super taxation changes in 2007 created an unintended change which increased the deductible amount in the income test treatment for some defined benefits income streams. This change addresses this anomaly.

- As such, it is not appropriate to grandfather the deductible amount for existing income support recipients who may have benefited from the anomaly.

Why are people who have their pension cancelled as a result of this change not automatically given a Commonwealth Seniors Health Card?

- The CSHC income test uses taxable income for the purpose of assessing income from a defined benefit income stream. Capping the deductible amount for the social security income test does not affect the income test for the CSHC.

- Hence, a person who loses eligibility to a part pension as a result of this measure is likely to qualify for the CSHC when they apply for it.

Attachment C: Cap the deductible amount for defined benefit income streams

Calculation of the Deductible Amount

How did we get here?

20 September 1998 – Standardisation of assessment of all income streams

- As part of an overhaul of the social security rules for income streams, the means test treatment for defined benefit income streams was standardised.

- Under the assets test, these income streams were granted an assets test exemption. The exemption reflects that it would not be equitable to assess an asset value, since these income streams do not have a meaningful capital value to assess, and that people with these income streams do not have access to any capital backing the income stream.

- Under the income test, all income was assessable except for a small portion representing the amount of personal contributions (if any) provided directly by the member.
    - This amount is called the deductible amount and was based on the income tax definition.
    - It was set as a fixed dollar amount when the income stream commenced.
    - For example, Bob made personal after-tax contributions of $50,000 over the course of his working life to his defined benefit scheme. When Bob retired, his life expectancy was 20 years. Bob's deductible amount is $2,500 a year ($50,000 divided by 20 years).

1 July 2007 – Better Superannuation package

- Superannuation measures were introduced to simplify the taxation of superannuation payments.
    - One measure changed how the deductible amount was calculated for tax purposes.
    - Social security rules followed because of the link to the income tax legislation.

- The change in the calculation of the deductible amount resulted in people with service prior to 30 June 1983 having some of their employer contributions treated as personal contributions.

- This higher deductible amount was also changed from a fixed amount to a percentage of annual income, which meant it increased as income stream payments increased.

- Together these changes resulted in a higher deductible amount, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient.

Attachment C: Cap the deductible amount for defined benefit income streams

How exactly did the 2007 superannuation changes impact the deductible amount calculation?

Pre 2007

- Prior to 1 July 2007, the taxation arrangements for benefits paid from a superannuation fund to a member depended on whether the member had contributions from a number of components, including:
  - Member's own contributions
  - Earnings on members own contributions
  - Productivity components
  - Earnings on productivity components
  - Pre June 1994 invalidity components
  - Pre 1 July 1983 components
- For social security purposes, the deductible amount was the sum of the member's own contributions to their defined benefit scheme.
- The deductible amount was a set dollar amount (non-indexed) which was calculated at the commencement of the income stream.

Post 2007

- In an effort to simplify this calculation, it was decided to only use the sum of any after tax contributions from the member and/or the employer.
- To take account of the other components a ratio was applied to this after tax contributions amount based on: years of pre 83 service / total length of service.
- This (ratio) amount was then added to the original sum of after tax contributions to give a total of after tax contributions.
- This after tax contributions figure was then turned into a proportion of the member's final lump sum which would then be applied to their income for tax purposes.
- However for social security purposes, this significantly increased the Deductible Amount compared to the previous assessment - see example below.

Attachment C: Cap the deductible amount for defined benefit income streams

Example – Calculation of Assessable Income for Defined Benefit Income Stream

John has a superannuation interest of $100,000 which comprises:

- Original tax-free component (contributions made from John's after-tax income) of $10,000;
- Untaxed / tax employer funded component of $90,000.

John receives an annual payment of $10,000 and has a life expectancy at commencement of 20 years.

John has a pre-1 July 1983 component of 10 years which comprises part of 35 years of total service.

	Pre-1 July 2007	**Post-1 July 2007 (No pre- 1 July 1983 component)**	**Post-1 July 2007 (10 years pre-1 July 1983 component)**
Annual income	$10,000	$10,000	$10,000
Deductible amount	= Own contributions divided by life expectancy at commencement = $10,000 divided by 20 years **= $500** This is a set dollar amount which doesn't change (comparable to 5% at commencement).	= Own contributions divided by total benefit = $10,000 divided by $100,000 **= 10 per cent** = $1,000 As this amount is based on a percentage, it increases where income stream payment are indexed.	= Own contributions + calculated pre-1 July 1983 component*) divided by total benefit = ($10,000 + $28,571) divided by $100,000 **= 38.5 per cent** = $3,857 As this amount is based on a percentage, it increases where income stream payment are indexed.
Assessable income for pension / allowance purposes	$9,500	$9,000	$6,143

* Pre-1 July 1983 component calculation

= years prior to June 1983 / total years of service multiplied by tax free components

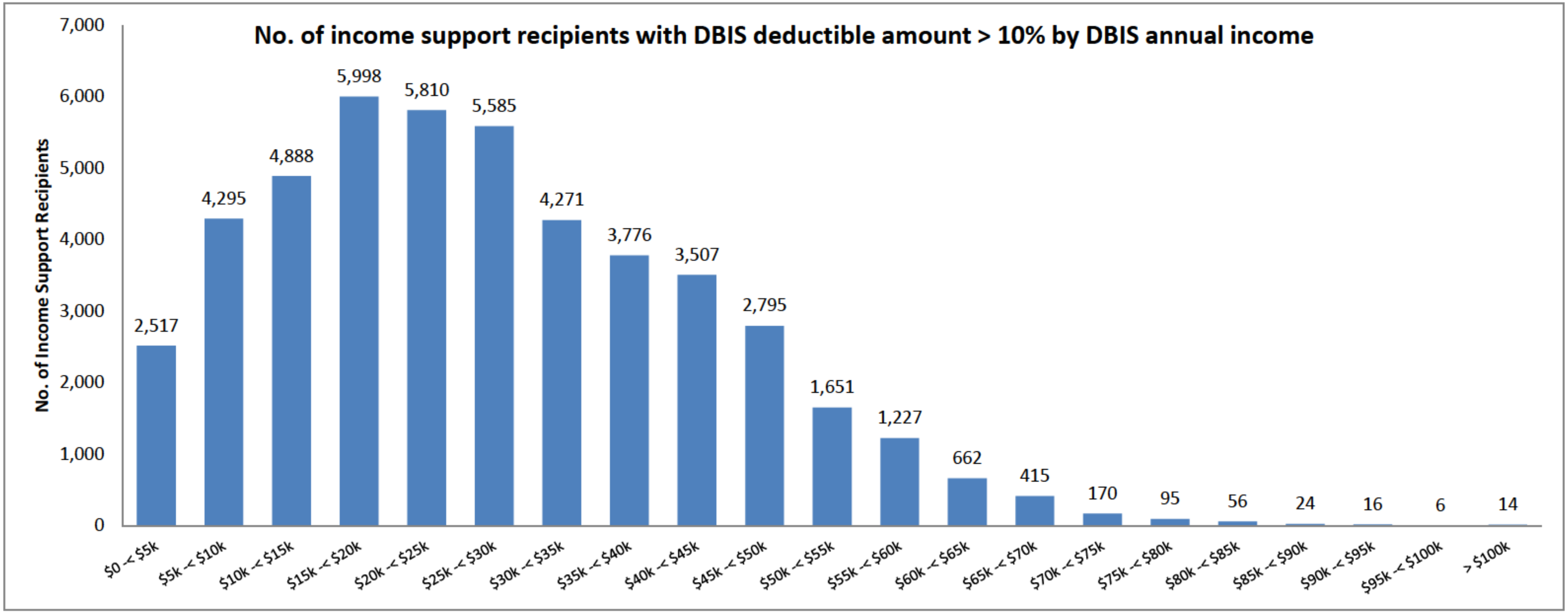
= 10 / 35 x $100,000

= $28,571

Attachment D: Cap the deductible amount for defined benefit income streams

Data

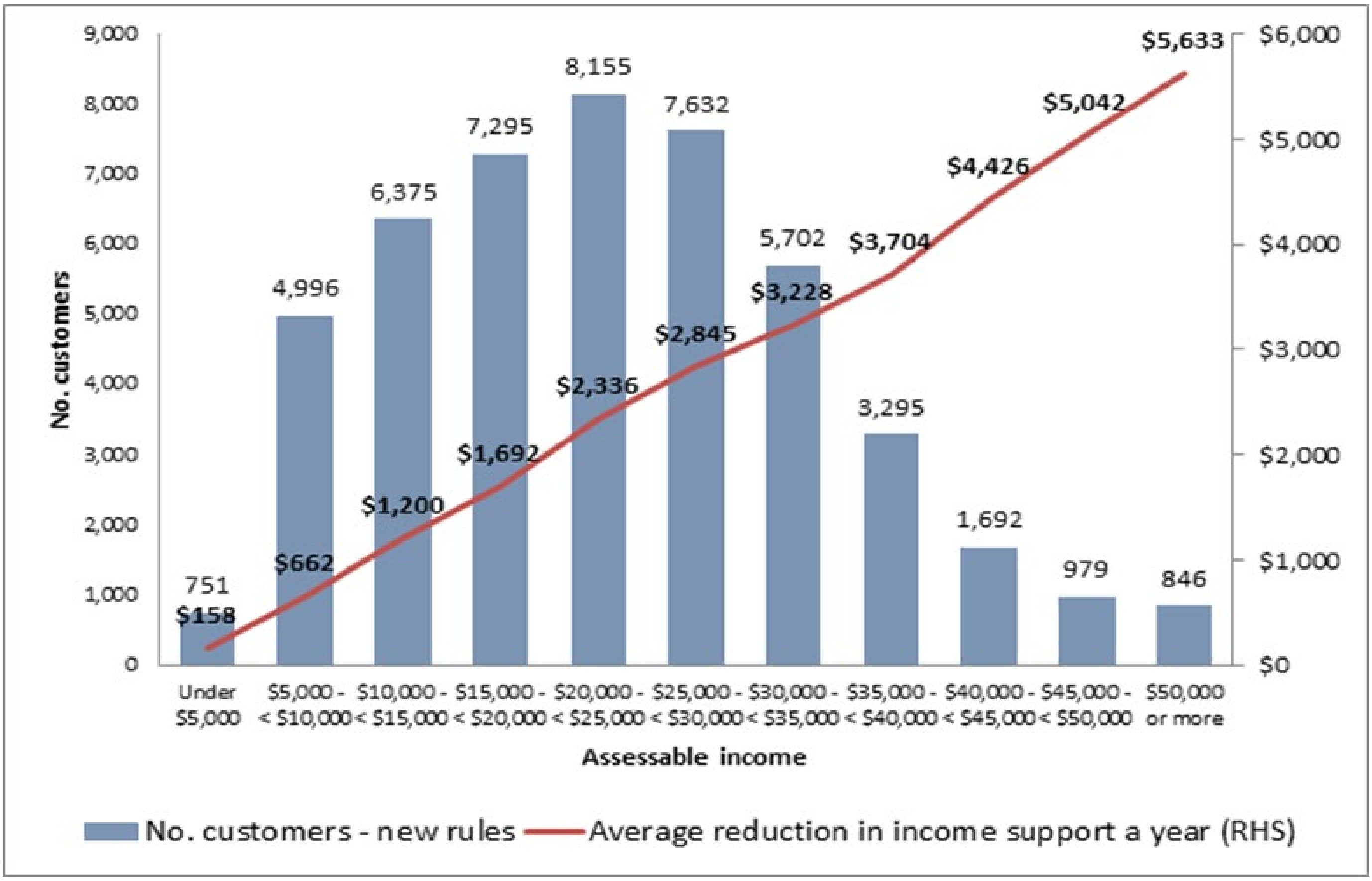
1. **Income support recipients with a Defined Benefit Income Stream that has a Deductible amount greater than 10 per cent**



Note: Defined Benefit Income Stream annual income only. The data does not include income from other sources such as employment, financial investments, real estate or age pension. Defined benefit income streams are paid for life and indexed annually to CPI.

Attachment D: Cap the deductible amount for defined benefit income streams

2. Average reduction in income support by amount of assessable income



Note: Assessable income includes private income from all sources such as defined benefit income stream, employment, financial investments, and real estate.

SS-03 –2015/16 Budget Measure - Capping the deductible amount for defined benefit streams

Background and Context

- A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund (e.g. Public Sector Superannuation Scheme, Commonwealth Bank Officers Superannuation Fund) where the pension generally only reflects years of service and final salary.
- Income payments are set by the rules of the scheme, usually indexed and scheme members have no ability to access capital or lump sum payments from the scheme.
- In these schemes employers usually fund these income streams as liabilities arise. Generally employees do not provide any of their own contributions to these income streams.
- Where an employee does provide their own contribution, a proportion of a their defined benefit income stream can be excluded from the social security income test income test (deductible amount) to reflect that it is a return of their own capital.
- However, some of these schemes, particularly State Government schemes, include some up front contributions by employers and/or employees towards the future costs of the pension.
- These up front contributions are the basis of the deductible amounts, even though employer contributions are not a return of the employees own capital.
- In 2007, a number of superannuation measures were introduced to simplify the taxation of superannuation payments. The flow on to the means test assessment of some defined benefit schemes from the changes was an unintended consequence. It resulted in the deductible amount being overstated for some people, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient.
- There are currently people receiving over $100,000 a year from a defined benefit income stream and also receiving the Age Pension. For example:
  - A retired State government public servant currently in receipt of Age Pension can receive a defined benefit pension of $120,000 a year with a deductible amount of 50 per cent, so that only $60,000 is assessed under the income test.
  - Under this measure, the individual's deductible amount would reduce to $12,000, and $108,000 would be assessed under the income test and the individual would no longer be able to receive any Age Pension.

Key points

- This measure will increase the proportion of a superannuant's defined benefit income stream that is assessed under the social security income test by capping the proportion of income that can be excluded from the income test (deductible amount) at ten per cent from 1 January 2016.
- The legislation received Royal Assent on 30 June 2015.
- It fixes an anomaly in the income test treatment of some defined benefit income streams that resulted in a highly concessional income test deduction for some people.
- The measure gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.
- It makes the means test rules fairer by restoring a more appropriate income test treatment for defined benefit income streams.
- Defined benefit income streams held by service pensioners and defined benefit income streams from military defined benefit schemes will be exempt from the measure.
- There will be no change to the assets test assessment. Defined benefit income streams are exempt from the assets test as they do not have an underlying assessable asset value.
- Around 65 per cent of income support recipients with payments from defined benefit schemes will not be affected by this measure.
- There are around 140,000 DSS recipients with defined benefit income streams. Of this group, approximately 47,700 are impacted by the change:
  - around 20 per cent are provided by the Federal Government,
  - around 75 per cent by State and Local Governments, and
  - around 5 per cent by corporate organisations.
- The measure will generate savings of $465.5 million over the forward estimates for all affected agencies.
- For the first full year, approximately:
  - 46,000 DSS recipients will receive a reduced pension/allowance by an average of $2,150 a year ($82.70 a fortnight); and
  - 1,700 DSS recipients will be cancelled.

Contact: s22 [redacted]
Phone: s22 [redacted]
Group: Social Security Policy Group
Cleared by: Andrew Whitecross
Date first prepared: 6 May 2015
Date last updated: 31 July 2015

SS-09 – Capping the deductible amount for defined benefit income streams

Background and Context

- This measure caps the social security income test deductible amount for defined benefit income streams at 10 per cent of gross payments from 1 January 2016.
- It fixes an anomaly in the income test treatment of some defined benefit income streams that resulted in a highly concessional income test deduction for some people.
- The measure gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.
- Defined benefit income streams held by service pensioners and defined benefit income streams from military defined benefit schemes will be exempt from the measure.
- Around 65 per cent of income support recipients with payments from defined benefit schemes will not be affected by this measure.
- It makes the means test rules fairer by restoring a more appropriate income test treatment for defined benefit income streams.
- The measure will generate savings of $465.5 million over the forward estimates for all affected agencies.

What is a defined benefit income stream?

- A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund (e.g. Public Sector Superannuation Scheme, Commonwealth Bank Officers Superannuation Fund) where the pension generally only reflects years of service and final salary.
- Income payments are set by the rules of the scheme, usually indexed and scheme members have no ability to access capital or lump sum payments from the scheme.
- In these schemes employers usually fund these income streams as liabilities arise. Generally employees do not provide any of their own contributions to these income streams.
- However, some of these schemes, particularly State Government schemes, include some up front contributions by employers and/or employees towards the future costs of the pension.
- These up front contributions are the basis of the deductible amounts, even though employer contributions are not a return of the employees own capital.

What is the change?

- In 2007, a number of superannuation measures were introduced to simplify the taxation of superannuation payments. The flow on to some defined benefit schemes from the changes was an unintended consequence. It resulted in the deductible amount being overstated for some people, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient.
- This measure will increase the proportion of a superannuant's defined benefit income stream that is assessed under the social security income test by capping the proportion of income that can be excluded from the income test (deductible amount) at ten per cent from 1 January 2016.
- There would be no change to the assets test assessment. Defined benefit income streams are exempt from the assets test as they do not have an underlying assessable asset value.
- There are around 140,000 DSS recipients with defined benefit income streams. Of this group, approximately 47,700 are impacted by the change:
  - around 20 per cent are provided by the Federal Government,
  - around 75 per cent by State and Local Governments, and
  - around 5 per cent by corporate organisations.
- There are currently people receiving over $100,000 a year from a defined benefit income stream and also receiving the Age Pension. For example:
  - A retired State government public servant currently in receipt of Age Pension can receive a defined benefit pension of $120,000 a year with a deductible amount of 50 per cent, so that only $60,000 is assessed under the income test.
  - Under this measure, the individual's deductible amount would reduce to $12,000, and $108,000 would be assessed under the income test and the individual would no longer be able to receive any Age Pension.

Savings

- The measure would generate savings of $465.5 million over the forward estimates for all affected agencies.
- For the first full year, approximately:
  - 46,000 DSS recipients would receive a reduced pension/allowance by an average of $2,150 a year ($82.70 a fortnight); and
  - 1,700 DSS recipients would be cancelled.

Contact: Andrew Whitecross
Group: Social Security Policy Group
Date first prepared: 6 May 2015

Phone: s22
Cleared by: Andrew Whitecross
Date last updated: 31 July 2015

From:	s22 [redacted]
To:	DLOs-MinisterMorrison
Cc:	s22 [redacted]
Subject:	RE: Defined benefit pensions [SEC=UNCLASSIFIED]
Date:	Tuesday, 1 September 2015 9:50:02 AM
Attachments:	Analysis - Cap deductible amount for DBIS - May 2015 (2).xlsx

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s22 [redacted]

See attached. The numbers in the table are what Andrew Whitecross read out to the estimates committee.

s22 [redacted]

Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

From: DLOs-MinisterMorrison
Sent: Tuesday, 1 September 2015 9:32 AM
To: s22 [redacted]
Cc s22 [redacted]
Subject: RE: Defined benefit pensions [SEC=UNCLASSIFIED]

Thanks s22 [redacted]

Do you have a table of income levels and numbers that will be impacted – just for the MO's information?

s22 [redacted]

From: s22 [redacted]
Sent: Monday, 31 August 2015 4:33 PM
To: on
Cc: s22 [redacted]
Subject: FW: Defined benefit pensions [SEC=UNCLASSIFIED]

s22 [redacted]

Unfortunately, there is not much more we can say about this. The change was designed to fix an anomaly that applied to some DB income streams. However, the anomaly was not limited to a certain level of income. So to ensure that there is a fairer and more equitable treatment, a range of income levels will be impacted.

See below for some highlighted additional words that we have provided.

Happy to discuss.

s22 [redacted]

Director
Means Test Policy

Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

- The cap to the deductible amount that can be excluded from the income test from defined benefit income streams is designed to address an anomaly.
- From 1 January 2016, the level of income from defined benefit income streams that can be excluded from the income test (the "deductible amount") will be capped at 10 per cent.
- The deductible amount 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 Simpler Super taxation changes in 2007 created an unintended change which increased the deductible amount in the income test treatment for some defined benefits income streams. This change addresses this anomaly.
- The taxation changes in 2007 had the unintended consequence of increasing the social security deductible amount for people who joined their defined benefit superannuation fund prior to 1 July 1983 without any change to the level of their personal after-tax contributions. A critical factor was the number of years of service prior to 1 July 1983. For example, a person with 16 years of service prior to 1 July 1983 and a deductible amount of 10 per cent prior to 2007 could have their social security deductible amount increase to 50 per cent from 1 July 2007.
- The change provides a fairer assessment of an individual's personal contributions to their defined benefit income stream. The change was not designed to target a particular level of defined benefit income streams but to improve the fairness of assessment across all defined benefit income streams regardless of the amount of their income.
- These income streams will continue to receive a full exemption under the social security assets test.

From: DLOs-MinisterMorrison
Sen[redacted]ugust 2015 2:53 PM
To: s22 [redacted]
Cc: DLOs-MinisterMorrison
Subject: FW: Defined benefit pensions [SEC=UNCLASSIFIED]
Importance: High

Hi s22 [redacted]

I would appreciate if your team could put together a response the MP could use to respond to the question about defined pensioners on incomes under $40k being impacted by the changes.

Thanks

s22 [redacted]

s22 [redacted]
Department Liaison Officer
Office of the Hon Minister for Social Services MP

s22 [redacted]

From: s22 [redacted]
Sent: Friday, 28 August 2015 11:55 AM
To s22 [redacted]
Subject: RE: Defined benefit pensions [SEC=UNCLASSIFIED]

s22 [redacted]

Having a further read of my constituent letters, they are quoting two Senate committees. Budget Estimates 4 July 2015 and the Committee on Legislation. The constituents are saying that on these figures very few of the DB pensioners that will be affected will be big earners like the $120k example, and that 36000 of the pensioners affected will be under $40k income.

So I was after a different explanation as I have used most of the standard words without satisfying the pensioners in Tasmania.

Below are the quotes for these committees,

Regards

s22 [redacted]

Senate Budget Estimate 4 July 2015
Mr Whitecross: We know how many pensioners have a defined benefit income stream. That is 140,000.
Senator MOORE: Can the department provide the estimated number of defined benefit pension recipients who will be affected by income bracket?
Mr Whitecross: The total number expected to be affected is 47,700.
Senator MOORE: Do you have that by income bracket?
Mr McBride: Is that the income they get from the scheme or the income that is assessed after it is reduced by the deductible amount?
Senator MOORE: I would think it would be the income they would get from the scheme.
Mr Whitecross: Of the affected people—do you want us to run through it?
Senator MOORE: Yes.
Mr Whitecross: With regard to the income they get from the scheme, 2,517 have a defined benefit income stream of less than $5,000; 4,295, $5,000 to $10,000; 4,888, $10,000 to $15,000; 5,198, $15,000 to $20,000; 5810, $20,000 to $25,000; 5,585, $25,000 to $30,000; 4,271, $30,000 to $35,000; 3,776, $35,000 to $40,000; 3,507, $40,000 to $45,000; 2,795, $45,000 to $50,000; 1,651, $50,000 to $55,000; 1,227, $55,000 to $60,000; 662, $60,000 to $65,000; 415, $65,000 to $70,000; 170, $70,000 to $75,000; and 95, $75,000 to $80,000. And then there are about 120 above that.
Senator MOORE: Would that be $80,000 to $90,000 or higher?
Senator MOORE: On average, how much will these people lose as a result of this measure?

Mr Whitecross: That was the number I gave you before—$2,150.
Senator MOORE: That is the average they will lose, regardless of whether you are in the 2,517 on less than $5,000?
Mr Whitecross: It is the average across the whole group.
Mr McBride: The amount would go up—
Senator MOORE: As you go up. Can you tell me how much the 2,517 are likely to lose, who have less than $5,000?
Mr Whitecross: For less than $5,000, the average reduction is $158.
Senator MOORE: So it is quite a wide spread—$158, and the average is $2,150.
Mr Whitecross: That is under $5,000 of assessable income, not just defined benefit income—

Committee on Legislation
the average annual income drawn from defined benefit schemes is only $27 550,
2.58 The department estimates approximately 47 700 (35 per cent) income support recipients with defined benefit streams would be impacted by the proposed changes.
Of these, the department estimates:
46 000 recipients will receive a reduced pension allowance (average of $2 150 per year / $82.70 per fortnight); and
• 17 000 recipients would be cancelled.
The department noted the measure will generate savings of $465.5 million over the forward estimates.

s22 [redacted]
Electorate Officer
Office of Senator the Hon. Eric Abetz
Leader of the Government in the Senate
Minister for Employment
Minister Assisting the Prime Minister for the Public Service
Liberal Senator for Tasmania
s22 [redacted]

http://abetz.com.au

From: s22 [redacted]
Sent: Friday, 28 August 2015 10:24 AM
To: s22 [redacted]
Cc: s22 [redacted]
Subject: RE: Defined benefit pensions [SEC=UNCLASSIFIED]

Hi s22 [redacted]

The below should be of assistance:

- Under this measure, the social security income test deductible amount for defined benefit income streams will be capped at a maximum of 10 per cent of gross payments from 1 January 2016.
- This will increase the amount of assessable income for income test purposes and reduce income support payments for the impacted group.
- It addresses an anomaly in the income test treatment of some defined benefit income streams that resulted in a highly concessional income test deduction for some people.
- The measure gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.
- Service pensioners will not be affected and defined benefit income streams from military defined benefit schemes will be exempt from the proposal.
- This will save $474 million over four years, starting on 1 January 2016.
- **It will give a fairer assessment of someone's contribution to their pension – which means the government will be able to be more equitable when determining who needs support and who can support themselves.**
- Social security treatment of defined benefit schemes draws on tax treatment. In 2007, a package of measures simplified the taxation of superannuation payments.
- An unintended consequence for social security was to significantly increase the deductible amount, which resulted in less income being assessed.
- The intent of the deductible amount is to avoid counting the return of a person's own contributions as income. However, as a result of the 2007 taxation changes, in some cases the deductible amount is too large and not a reasonable measure of a person's own contributions to their pension.
- This proposal would bring the income test assessment back to the pre-2007 level and give a more equitable measure of an individual's personal contributions to their defined benefit pension.
- **For example, at the moment a couple receiving $120,000 per year from their defined benefit scheme would still be able to claim a part pension of about $7,400 per year. Under the new income test, people with these benefits are recognised as being able to support themselves.**
- **Around 65 per cent of income support recipients with payments from defined benefit income schemes will not be affected by this measure.**
- There will be no change to the asset test assessment - defined benefit income streams are exempt from the assets test as they do not have an underlying assessable asset value.
- Most affected customers would be retired state and federal public servants, and retired executives from closed corporate defined benefit schemes.
- **This is about a fairer and more sustainable pensions system.**

In regards to specific cases you can recommend that the constituent contact their financial advisor or speak with a Centrelink Financial Information Service officer who can be contacted by phoning Centrelink on 132 300.

If you would like you could include:

Furthermore, as asset levels and financial circumstances change over time, retirees should consider contacting Centrelink at future intervals, particularly where circumstances may change, *to discover what eligibility may exist for government support in their particular cases.*

Best,

s22 [redacted]

Media and Backbench
Office of the Minister for Social Services
s22 [redacted]

From: s22 [redacted]
Sent: Wednesday, 26 August 2015 3:36:39 PM
To: s22 [redacted]
Subject: Defined benefit pensions

s22 [redacted]

Senator Abetz is still copping a steady stream of emails and phone calls from Tasmanian defined benefit pensioners. They are basically saying:
They are generally Liberal supporters but very concerned at changes to the pension. They believe these changes could be very costly at the next election. They state that with the defined benefits changes costing 46,000 pensioners an average of $2150 p.a. each, there will be a voter backlash.

They believe the changes to the defined benefit pension that comes into effect 1 January 2016 were not well publicised, and when done so by Government presented as removing an anomaly that would stop the wealthy (income of $120,000) receiving a part aged pension.

But have now discovered that changes to the assessment of modest RBF pensions will cause a loss or $2,000 to $2600 pa,. On Departmental figures 3/4 of part pensioners affected have a gross private income less than $40,000 p.a. The figures they quote are based on evidence from the Dept. of Social Services to Senate Estimates and the Legislative committee.

They have been advised that the change was to fix an anomaly created by change in the tax treatment in 2007 of parts of the Defined Benefits Superannuation, where up to 50% could be 'tax free' and thus excluded from the income test for a part pension and that the 1 January 2016 change is to reduce this to 10% of gross income.

This advice does not satisfy them and I wondered if your office has developed a further response that the one which you provided to me last time I asked for your assistance.

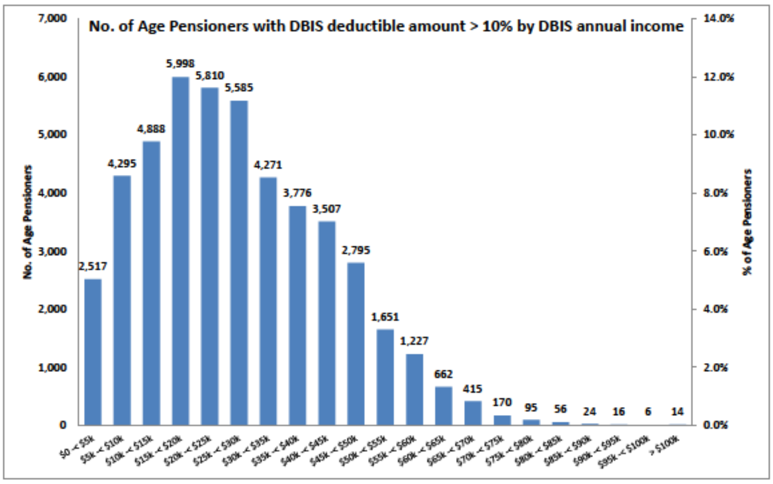
s22 [redacted]
Electorate Officer
Office of Senator the Hon. Eric Abetz
Leader of the Government in the Senate
Minister for Employment

Minister Assisting the Prime Minister for the Public Service
Liberal Senator for Tasmania
s22 [redacted]

http://abetz.com.au

Analysis of Deductible Amount for Defined Benefit Income Streams

Annual income from DBIS	Total	%	Acc %
$0 -< $5k	2517	5.3%	5.3%
$5k -< $10k	4295	9.0%	14.3%
$10k -< $15k	4888	10.2%	24.5%
$15k -< $20k	5998	12.6%	37.0%
$20k -< $25k	5810	12.2%	49.2%
$25k -< $30k	5585	11.7%	60.9%
$30k -< $35k	4271	8.9%	69.8%
$35k -< $40k	3776	7.9%	77.7%
$40k -< $45k	3507	7.3%	85.1%
$45k -< $50k	2795	5.8%	90.9%
$50k -< $55k	1651	3.5%	94.4%
$55k -< $60k	1227	2.6%	96.9%
$60k -< $65k	662	1.4%	98.3%
$65k -< $70k	415	0.9%	99.2%
$70k -< $75k	170	0.4%	99.5%
$75k -< $80k	95	0.2%	99.7%
$80k -< $85k	56	0.1%	99.9%
$85k -< $90k	24	0.1%	99.9%
$90k -< $95k	16	0.0%	99.9%
$95k -< $100k	6	0.0%	100.0%
> $100k	14	0.0%	100.0%
$105k -< $110k	4	0.0%	100.0%
$110k -< $115k	3	0.0%	100.0%
$115k -< $120k	1	0.0%	100.0%
$120k -< $125k	1	0.0%	100.0%
Total	47787	100.0%	



From: s22 [redacted]
To:
Subject: FW: Budget Changes to Defined Benefit Pension [SEC=UNCLASSIFIED]
Date: Tuesday, 23 June 2015 10:40:23 AM
Attachments: image001.jpg
image002.jpg
image003.png
image004.jpg

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s22 [redacted]

Can you quickly check that this person's analysis is right. Need it urgently.

s22 [redacted]

Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services

s22 [redacted]

From: s22 [redacted]
Sent: Tuesday, 23 June 2015 10:38 AM
To: s22 [redacted]
Cc: WHITECROSS, Andrew
Subject: FW: Budget Changes to Defined Benefit Pension [SEC=UNCLASSIFIED]

s22 [redacted]

I have a few cases that I need you to look at urgently – I'm not sure there is enough information here to go on, but your advice would be appreciated.

Thanks

---

s22 [redacted]

Senior Adviser
Office of the Minister for Social Services
Suite MG.51, Parliament House, Canberra

s22 [redacted]

DSS acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, sea and community. We pay our respects to them and their cultures, and to elders both past and present.

From: s22 [redacted]
Sent: Tuesday, 23 June 2015 10:34 AM
To: s22 [redacted]
Subject: FW: Budget Changes to Defined Benefit Pension [SEC=UNCLASSIFIED]

s22 [redacted]
Senior Advisor
Office of Minister Morrison, Minister for Social Services
Suite MG.51, Parliament House, Canberra

s22 [redacted]

SMEmailSignature_MinisterialSS (3)

From: s22 [redacted]
Sent: Wednesday, 17 June 2015 11:29 AM
To: Minister
Cc: s22 [redacted]
Subject: Budget Changes to Defined Benefit Pension

Good morning

We have a query to our office concerning the proposed treatment of defined benefit superannuation in pension eligibility rules. We raised with your office the question of the intended target of those changes, and were advised the target group were only those who had availed themselves of a ruling that allowed classification of some of the defined benefit pension income as capital, not income. Yet these constituents are saying they will be affected, or are so advised by their superannuation fund, when they have not claimed that capital draw-down.

Please clarify whether or not the intended target of the policy were this couple. Here is the anonymised information they have provided for your consideration:

> In 2004 I retired from s47F [redacted] and took 100% of my superannuation as a pension. At no stage have I drawn down any capital amount.
> I also have a small allocated pension that is the result of salary sacrifice from 2005 -2013 when I s47F [redacted]
>
> Our only assets are our home in ******* s47F [redacted] household goods and 2 cars (3 & 10 years old). s47F [redacted] has no income or assets. We have approximately $20,000 in the bank that changes monthly according to the bills that need to be paid.
>
> Below are the details of our financial situation:
>
> Centrelink (the same for each of us):
> Age Pension; $452.01
> Energy supplement: $10.60
> Pensions Supplement: $48.20

Total per fortnight (each): $510.81

ESS:
Deductible proportion notified to Centrelink= 48.38%
Pension, Wife only: $1506.36 (fortnight) = $39,165.36 (year)

This pension is the result of working for 35 years full time s47F [redacted] It is paid to me for life and then 5/8 to s47F [redacted] if I pre-decease him. There is no residual amount to hand on to our children. I cannot convert this pension into a lump sum to earn extra income.
The deductible amount is based on contributions for the 35 years up to 9% of my salary and my employer was expected to put in their share. This pension is paid from a taxed fund.

If the decision to only allow 10% deductible is passed, we will each lose approximately $150 per fortnight, or a total of $7500 per year. This amounts to 1/3 of our pension disappearing forever. It does not seem fair for us to be the unintended consequences of a decision made to stop public servants in Sydney who earn over $120,000 per year from accessing Centrelink benefits.

s22 [redacted]
LLB (Hons) *(Adelaide)* B.IT *(QUT)* GDLP
Chief of Staff & Media Liaison
s22 [redacted]

www.senatorbobday.com.au

Electorate Office
77 Fullarton Road, Kent Town SA 5067
s22 [redacted]

S1.94 Parliament House Canberra ACT 2600
s22 [redacted]

lamberi.jpg

From: s22 [redacted]
To:
Cc: WHITECROSS, Andrew; s22 [redacted]
Subject: RE: query re DB income for means testing [SEC=UNCLASSIFIED]
Date: Thursday, 11 June 2015 5:04:55 PM
Attachments: Submission to Senate Committee - Cap deductible amount for DBIS.DOC
image002.jpg

H s22 [redacted]

Attached for your information is the Defined benefit income stream section of the Department's submission to the Senate Standing Committee on Community Affairs consideration of the *Fair and Sustainable Pensions* Bill. I understand that the submission has been provided to s22 [redacted] earlier this afternoon for their clearance.

The paper should help explain the change that lead to the unintended anomaly and how the measure addresses it.

With regard to your other queries:

1. Military defined benefit schemes

   These schemes were open to members of the Australian Defence Force. There were no restrictions based on whether people saw active service or not.

2. Response to Senator Day

   The measure will increase for some income support recipients the proportion of their defined benefit income stream that is assessed under the social security income test by capping the proportion of income that can be excluded from the income test (deductible amount) at ten per cent from 1 January 2016. The deductible amount is designed to reflect the return of after-tax contributions, if any, made by the employee to their defined benefit income stream.

   The measure will apply to all defined benefit schemes. However, service pensioners will not be affected and defined benefit income streams from military defined benefit schemes will be exempt from the proposal in recognition of the unique nature of military service.

   The measure addresses an anomaly in the income test treatment of some defined benefit income streams that resulted in a highly concessional income test deduction for some people. It gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.

   Recipients and superannuation funds will not need to provide any new information. The Department of Human Services will take the existing calculation of their deductible amount and, if it is greater than 10 per cent of gross income, they will limit the deductible amount to 10 per cent.

   There are around 140,000 DSS recipients with defined benefit income streams. Around 55 per cent of income support recipients with defined benefit income streams currently have no deductible amount. A further 10 per cent have a deductible amount less than 10 per cent.

   Approximately 35 percent, around 47,700, are impacted by the change, of which:
   - around 20 per cent are provided by the Federal Government,
   - around 75 per cent by State and Local Governments, and
   - around 5 per cent by corporate organisations.

3. Response to Senator Leyonhjelm's constituent

s47C [redacted]

   From 1 January 2016, the level of income from defined benefit income streams that can be excluded from the income test (the "deductible amount") will be capped at 10 per cent.

   The measure provides a fairer assessment of an individual's personal contributions to their defined benefit income stream. Amendments to the *Income Tax Assessment Act 1997* in 2007 resulted in an increase to the tax-free component for some individuals. This had the unintended effect of increasing the deductible amount for the purpose of the *Social Security Act*. The measure addresses this anomaly that resulted in a highly concessional income test deduction for some people. As such, grandfathering existing income support recipients with a defined benefit income stream with a deductible amount greater than 10 per cent is not appropriate.

A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund where the pension generally reflects years of service and final salary. They are quite different from account based income streams, which are the accumulation of employee contributions over their working lives, and accordingly are assessed differently. For example, defined benefit income streams will continue to receive a full exemption under the social security assets test.

Veterans' Affairs pensioners will not be affected and defined benefit income streams paid by military superannuation funds will be excluded.

Please call me if you wish to discuss any of this.

Regards

s22 [redacted]

Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

From: s22 [redacted]
Sent: Thursday, 11 June 2015 1:10 PM
To: s22 [redacted]
Subject: FW: query re DB income for means testing [SEC=UNCLASSIFIED]

Hi s22 [redacted]

Appreciate it if you could prepare a short response to this one also.

Regards

s22 [redacted]

Senior Advisor
Office of Minister Morrison, Minister for Social Services
Suite MG.51, Parliament House, Canberra
s22 [redacted]

SMEmailSignature_MinisterialSS (3)

From: s47F [redacted]
Sent: Tuesday, 9 June 2015 3:04 PM
To: s22 [redacted]
Subject: query re DB income for means testing

s22 [redacted]

As discussed, my Senator has noted an interest in responding to this constituent but asked if there's any insight from your office. If there is any explanation for the exclusion of military defined benefit schemes from this policy that would be useful

too. (If you'd prefer these issues be raised in another way please let me know.)
Thanks.

s22 [redacted]

Senior Adviser - Office of Senator David Leyonhjelm
s22 [redacted]

Fair and Sustainable Pensions

Schedule 1: Defined benefit income streams

This measure will increase for some income support recipients the proportion of their defined benefit income stream that is assessed under the social security income test by capping the proportion of income that can be excluded from the income test (deductible amount) at ten per cent from 1 January 2016. The deductible amount is designed to reflect the return of after-tax contributions, if any, made by the employee to their defined benefit income stream.

Service pensioners will not be affected and defined benefit income streams from military defined benefit schemes will be exempt from the proposal in recognition of the unique nature of their military service.

The measure addresses an anomaly in the income test treatment of some defined benefit income streams that resulted in a highly concessional income test deduction for some people. It gives a fairer assessment of an individual’s personal contributions to their defined benefit income stream.

There will be no change to the assets test assessment. Defined benefit income streams are exempt from the assets test as they do not have an underlying assessable asset value.

There are around 140,000 DSS recipients with defined benefit income streams. Around 55 per cent of income support recipients with defined benefit income streams currently have no deductible amount. A further 10 per cent have a deductible amount less than 10 per cent.

Approximately 35 percent, around 47,700, are impacted by the change, of which:
- around 20 per cent are provided by the Federal Government,
- around 75 per cent by State and Local Governments, and
- around 5 per cent by corporate organisations.

The measure will generate savings of $465.5 million over the forward estimates for all affected agencies. For the first full year, approximately:
- 46,000 DSS recipients will receive a reduced pension/allowance by an average of $2,150 a year ($82.70 a fortnight); and
- 1,700 DSS recipients would be cancelled.

<u>Background</u>

A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund (e.g. Public Sector Superannuation Scheme, Commonwealth Bank Officers Superannuation Fund) where the pension generally only reflects years of service and final salary.

Income payments are set by the rules of the scheme, usually indexed and scheme members have no ability to access capital or lump sum payments from the scheme.

In these schemes employers usually fund these income streams as liabilities arise. Generally employees do not provide any of their own contributions to these income streams.

However, some of these schemes, particularly State Government schemes, include up front contributions from both employees and employers towards the future costs of the pension.

<u>How did the anomaly come about?</u>

20 September 1998 – Standardisation of assessment of all income streams

- As part of an overhaul of the social security rules for income streams, the means test treatment for defined benefit income streams was standardised.
- Under the assets test, these income streams were granted an assets test exemption. The exemption reflects that it would not be equitable to assess an asset value, since these income streams do not have a meaningful capital value to assess, and that people with these income streams do not have access to any capital backing the income stream.
- Under the income test, all income was assessable except for a small portion representing the amount of personal after-tax contributions (if any) provided directly by the member.
  - This amount is called the deductible amount and was based on the income tax definition.
  - It was set as a fixed dollar amount when the income stream commenced.

1 July 2007 – Better Superannuation package

- Superannuation measures were introduced to simplify the taxation of superannuation payments.
  - One measure changed how the deductible amount was calculated for tax purposes.
  - Social security rules automatically followed because of the link to the income tax legislation.
- The change in the calculation of the deductible amount resulted in people with service prior to 30 June 1983 having a significant amount of up front employer contributions treated as personal after-tax contributions.
- This higher deductible amount was also changed from a fixed amount to a percentage of annual income, which meant it increased as income stream payments increased.
- Together these changes resulted in a higher deductible amount, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient in terms of their contribution. For example, as at 30 June 2006, only 2.6 per cent of income support recipients had a deductible amount greater than 10 percent.

From: s22 [redacted]
To: DLOs
Cc: NAIKAR, Sidesh; WHITECROSS, Andrew; s22 [redacted]
Subject: Defined Benefit Income Streams measure - actual figures [DLM=For-Official-Use-Only]
Date: Tuesday, 2 February 2016 11:30:00 AM

Hi s22 [redacted]

As requested in January, please find below a table giving the actual pension impact (in dollars per fortnight) on income support recipients by State.

In terms of responding to Senators Abetz (Tasmania) and Seselja (ACT) the figures are:

Tasmania

Actual:

Numbers – 2,982 received a downward variation and 38 were cancelled. Approximately 6.3 per cent of the impacted population of 47,938.

Average reduction - $1,270 a year, which is below the average reduction for the total Australian impacted population at $2,295 a year.

ACT

Actual:

Numbers – 1,973 received a downward variation and 16 were cancelled. Approximately 4.1 per cent of the impacted population of 47,938.

Average reduction - $975 a year, which is below the average reduction for the total Australian impacted population at $2,295 a year.

I'll give you a call to discuss.

s22 [redacted]
Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

Cap Deductible Amount for Defined Benefit Income Streams

Income Support Recipients by State

State

Downward variations ($ a fortnight)

Cancellations ($ a fortnight)

Total Number

Number

Average reduction

Median reduction

Number

Average reduction

Median reduction

NSW

20,663

$120.21

$105.37

1,271

$148.51

$136.97

21,934

VIC

14,655

$67.43

$50.66

166

$121.28

$106.62

14,821

QLD

3,078

$66.22

$36.23

59

$138.80

$145.56

3,137

TAS

2,982

$48.62

$32.02

38

$70.48

$51.87

3,020

ACT

1,973

$37.19

$20.55

16

$76.22

$46.31

1,989

SA

1,874

$35.55

$10.71

11

$84.92

$80.78

1,885

WA

957

$41.16

$18.79

7

$152.16

$160.47

964

Overseas

112

$46.34

$24.37

4

$46.78

$52.05

116

NT

72

$46.66

$16.73

0

N/A

N/A

72

Total

46,366

$86.46

$59.46

1,572

$141.96

$126.62

47,938

Annual

$2,248

$1,546

$3,691.03

$3,292.12

Breakdown of impacts by postcode

MI5003
Total count report

State	Customers with a rate variation equal to or over $50 per fortnight	Customers with a rate variation under $50 per fortnight	Customers who were cancelled	Total	Cancellations	Downward variations
ACT	442	1,554	16	1,996	1%	4%
NSW	15,527	6,667	1,271	22,194	81%	42%
NT	15	58	0	73	0%	0%
OTH	42	78	4	120	0%	0%
QLD	1,329	1,889	59	3,218	4%	6%
SA	443	3,375	11	3,818	1%	8%
TAS	1,055	2,068	38	3,123	2%	6%
VIC	7,524	8,171	166	15,695	11%	31%
WA	229	975	7	1,204	0%	2%
Total	*26,606*	*24,835*	*1,572*	*51,441*		

	Estimate	Actual	Difference	
Downward varia ion	46,000	49,869	3,869	8.4%
Cancellations	1,700	1,572	(128)	-7 5%

Defined Benefit Income Streams measure - actual figures

From 1 January 2016, the level of income from defined benefit income streams that can be excluded from the income test (the "deductible amount") is capped at 10 per cent. The deductible amount 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.

Defined benefit income streams will continue to not be assessed under the social security assets test.

As at 1 January 2016, 47,938 people had their rate of income support reduced. Of this group, 1,572 people had their income support payment cancelled. The change is expected to generate savings of $465.5 million over the forward estimates for all affected agencies.

Tables 1 and 2 below show the impact on single income support recipients and couples who are in receipt of an income support payment in terms of total derived income from the change to cap the deductible amount for defined benefit income streams at 10 per cent from 1 January 2016. Tables 3 and 4 show the number of income support recipients' impact by the change to cap the deductible amount for defined benefit income streams at 10 per cent from 1 January 2016. Please note that:

- Total derived income is the sum of an individual or couple's total income support payments, income from defined benefit income stream, and other assessable income as assessed under the social security income test.

- For the ranges, the average reduction will depend on the individual's defined benefit income stream and the change in their deductible amount which will vary for each individual.

TABLE 1: SINGLE INCOME SUPPORT RECIPIENTS IMPACTED BY CAP DEDUCTIBLE MEASURE BY AVERAGE DERIVED INCOME AS AT 1 JANUARY 2016

Derived total income range a fortnight	Number of impacted single recipients	Average reduction a fortnight
Less than $1,200	5,612	$41.97
$1,200 to < $1,400	3,502	$42.20
$1,400 to < $1,600	3,736	$63.66
$1,600 to < $1,800	3,522	$88.65
$1,800 to < $2,000	2,771	$121.66
$2,000 to < $2,200	2,236	$154.42
$2,200 to < $2,400	1,812	$165.52
$2,400 to < $2,600	1,243	$161.95
$2,600 to < $2,800	878	$168.36
$2,800 to < $3,000	515	$178.50
$3,000 to < $3,200	293	$196.57
$3,200 to < $3,400	121	$196.75
$3,400 to < $3,600	61	$157.55
$3,600 to < $3,800	47	$141.13
$3,800 to < $4,000	25	$165.88
Greater than $4,000	30	$164.45
Total singles	26,404	$93.30

TABLE 2: COUPLES WHO ARE IN RECEIPT OF INCOME SUPPORT IMPACTED BY CAP DEDUCTIBLE MEASURE BY AVERAGE DERIVED INCOME AS AT 1 JANUARY 2016

Derived total income range a fortnight	Number of impacted couples in recipient of an income support payment	Average reduction a fortnight
Less than $1,800	1,205	$49.51
$1,800 to < $2,000	1,146	$67.96
$2,000 to < $2,200	1,445	$94.11
$2,200 to < $2,400	1,421	$114.74
$2,400 to < $2,600	1,434	$145.49
$2,600 to < $2,800	1,396	$195.25
$2,800 to < $3,000	1,046	$257.05
$3,000 to < $3,200	719	$320.31
$3,200 to < $3,400	408	$390.32
$3,400 to < $3,600	205	$426.02
$3,600 to < $3,800	98	$380.34
$3,800 to < $4,000	76	$292.33
Greater than $4,000	168	$270.56
Total couples	10,767	$164.25

TABLE 3: NUMBER OF SINGLE INCOME SUPPORT RECIPIENTS IMPACTED BY CAP DEDUCTIBLE MEASURE BY REDUCTION IN INCOME SUPPORT PAYMENT AS AT 1 JANUARY 2016

Average reduction a fortnight in income support payments	Number of impacted single recipients
Less than $50	11,641
$50 to < $100	5,194
$100 to < $150	3,364
$150 to < $200	2,563
$200 to < $250	1,632
$250 to < $300	1,000
$300 to < $350	505
$350 to < $400	298
$400 to < $450	138
$450 to < $500	47
More than $500	22
Total singles	26,404

TABLE 4: NUMBER OF COUPLES WHO ARE IN RECEIPT OF INCOME SUPPORT IMPACTED BY CAP DEDUCTIBLE MEASURE BY REDUCTION IN INCOME SUPPORT PAYMENT AS AT 1 JANUARY 2016

Average reduction a fortnight in income support payments	**Number of impacted couples in recipient of an income support payment**
Less than $50	3,219
$50 to < $100	1,625
$100 to < $150	1,267
$150 to < $200	1,046
$200 to < $250	825
$250 to < $300	713
$300 to < $350	553
$350 to < $400	485
$400 to < $450	399
$450 to < $500	265
$500 to < $550	181
$550 to < $600	85
$600 to < $650	61
More than $650	43
Total couples	10,767

	Number	Rate	Amount		
tas	2982	48.62	144984.8		
	38	70.48	2678.24		
	3020		147663.1	48.89506	1271.272
act	1973	37.19	73375.87		
	16	76.22	1219.52		
	1989		74595.39	37.50397	975.1031
oz	46366	86.46	4008804		
	1572	141.96	223161.1		
	47938		4231965	88.27998	2295.279

Age Pensioner with DBIS by relationship status - current as at 1 January 2016

Table 1A: Single age pensioner - DBIS income no deductible amount

Income	Assessable income	Reduction	Age Pension
$5,000	$788	$394	$22,148
$10,000	$5,788	$2,894	$19,648
$15,000	$10,788	$5,394	$17,148
$20,000	$15,788	$7,894	$14,648
$25,000	$20,788	$10,394	$12,148
$30,000	$25,788	$12,894	$9,648
$35,000	$30,788	$15,394	$7,148
$40,000	$35,788	$17,894	$4,648
$45,000	$40,788	$20,394	$2,148
$50,000	$45,788	$22,894	$0

Table 1B: Single age pensioner - DBIS income + 10% deductible amount

Income	Assessable income	Reduction	Age Pension	Difference
$5,000	$288	$144	$22,398	$250
$10,000	$4,788	$2,394	$20,148	$500
$15,000	$9,288	$4,644	$17,898	$750
$20,000	$13,788	$6,894	$15,648	$1,000
$25,000	$18,288	$9,144	$13,398	$1,250
$30,000	$22,788	$11,394	$11,148	$1,500
$35,000	$27,288	$13,644	$8,898	$1,750
$40,000	$31,788	$15,894	$6,648	$2,000
$45,000	$36,288	$18,144	$4,398	$2,250
$50,000	$40,788	$20,394	$2,148	$2,148
$55,000	$45,288	$22,644	$0	$0

Table 2A: Age pensioner couple - DBIS income no deductible amount

Income	Assessable income	Reduction	Age Pension
$5,000	$0	$0	$33,982
$10,000	$2,512	$1,256	$32,726
$15,000	$7,512	$3,756	$30,226
$20,000	$12,512	$6,256	$27,726
$25,000	$17,512	$8,756	$25,226
$30,000	$22,512	$11,256	$22,726
$35,000	$27,512	$13,756	$20,226
$40,000	$32,512	$16,256	$17,726
$45,000	$37,512	$18,756	$15,226
$50,000	$42,512	$21,256	$12,726
$55,000	$47,512	$23,756	$10,226
$60,000	$52,512	$26,256	$7,726
$65,000	$57,512	$28,756	$5,226
$70,000	$62,512	$31,256	$2,726
$75,000	$67,512	$33,756	$226
$80,000	$72,512	$36,256	$0

Table 2B: Age pensioner couple - DBIS income + 10% deductible amount

Income	Assessable income	Reduction	Age Pension	Difference
$5,000	$0	$0	$33,982	$0
$10,000	$1,512	$756	$33,226	$500
$15,000	$6,012	$3,006	$30,976	$750
$20,000	$10,512	$5,256	$28,726	$1,000
$25,000	$15,012	$7,506	$26,476	$1,250
$30,000	$19,512	$9,756	$24,226	$1,500
$35,000	$24,012	$12,006	$21,976	$1,750
$40,000	$28,512	$14,256	$19,726	$2,000
$45,000	$33,012	$16,506	$17,476	$2,250
$50,000	$37,512	$18,756	$15,226	$2,500
$55,000	$42,012	$21,006	$12,976	$2,750
$60,000	$46,512	$23,256	$10,726	$3,000
$65,000	$51,012	$25,506	$8,476	$3,250
$70,000	$55,512	$27,756	$6,226	$3,500
$75,000	$60,012	$30,006	$3,976	$3,750
$80,000	$64,512	$32,256	$1,726	$1,726
$85,000	$69,012	$34,506	$0	$0

Assumptions	Fortnight	Annual
Age pension - single	$867.00	$22,542
Age pension - couple	$1,307.00	$33,982
Income test taper rate	50%	50%
Income test free area - single	$162.00	$4,212
Income test free area - couple	$288.00	$7,488

All customers who were impacted by Capped Deductible Measure, number of recipients by Commonwealth Electoral Division, based on 31 December 2015 (all pensions)

DSS total impacted	55,699
DHS total impacted	47,938
Reduction	86.07%

State	Electorate	Number of income support recipients	Adjusted by State
New South Wales	Banks	443	370
	Barton	285	238
	Bennelong	622	519
	Berowra	689	575
	Blaxland	231	193
	Bradfield	497	415
	Calare	702	586
	Charlton	887	740
	Chifley	224	187
	Cook	783	653
	Cowper	735	613
	Cunningham	782	653
	Dobell	669	558
	Eden-Monaro	981	819
	Farrer	421	351
	Fowler	117	98
	Gilmore	1,018	850
	Grayndler	313	261
	Greenway	342	285
	Hughes	608	507
	Hume	648	541
	Hunter	364	304
	Kingsford Smith	376	314
	Lindsay	442	369
	Lyne	975	814
	Macarthur	462	386
	Mackellar	664	554
	Macquarie	984	821
	McMahon	203	169
	Mitchell	648	541
	New England	621	518
	Newcastle	702	586
	North Sydney	304	254
	Page	840	701
	Parkes	293	245
	Parramatta	359	300
	Paterson	927	774
	Reid	348	290
	Richmond	561	468
	Riverina	575	480
	Robertson	842	703
	Shortland	845	705
	Sydney	272	227

	Throsby	585	488
	Warringah	460	384
	Watson	187	156
	Wentworth	243	203
	Werriwa	204	170
	Total	**26,283**	**21,934**
Victoria	Aston	410	355
	Ballarat	809	701
	Batman	256	222
	Bendigo	884	765
	Bruce	409	354
	Calwell	197	171
	Casey	498	431
	Chisholm	546	473
	Corangamite	909	787
	Corio	565	489
	Deakin	691	598
	Dunkley	566	490
	Flinders	687	595
	Gellibrand	253	219
	Gippsland	640	554
	Goldstein	403	349
	Gorton	205	178
	Higgins	276	239
	Holt	204	177
	Hotham	363	314
	Indi	769	666
	Isaacs	368	319
	Jagajaga	611	529
	Kooyong	380	329
	La Trobe	358	310
	Lalor	219	190
	Mallee	491	425
	Maribyrnong	329	285
	McEwen	444	384
	McMillan	529	458
	Melbourne	258	223
	Melbourne Ports	204	177
	Menzies	550	476
	Murray	512	443
	Scullin	343	297
	Wannon	650	563
	Wills	330	286
	Total	**17,116**	**14,821**
Queensland	Blair	66	56
	Bonner	111	94
	Bowman	164	139
	Brisbane	62	52
	Capricornia	48	41
	Dawson	53	45
	Dickson	114	96
	Fadden	162	137

	Fairfax	243	206
	Fisher	278	235
	Flynn	26	22
	Forde	100	85
	Griffith	76	64
	Groom	114	96
	Herbert	109	92
	Hinkler	197	167
	Kennedy	66	56
	Leichhardt	96	81
	Lilley	140	119
	Longman	172	146
	Maranoa	69	58
	McPherson	229	194
	Moncrieff	118	100
	Moreton	95	80
	Oxley	103	87
	Petrie	178	151
	Rankin	64	54
	Ryan	136	115
	Wide Bay	218	185
	Wright	99	84
	Total	**3,706**	**3,137**
South Australia	Adelaide	118	154
	Barker	72	94
	Boothby	244	318
	Grey	66	86
	Hindmarsh	166	217
	Kingston	135	176
	Makin	151	197
	Mayo	172	224
	Port Adelaide	74	97
	Sturt	167	218
	Wakefield	80	104
	Total	**1,445**	**1,885**
Western Australia	Brand	63	60
	Canning	91	86
	Cowan	53	50
	Curtin	70	66
	Durack	24	23
	Forrest	69	65
	Fremantle	66	62
	Hasluck	65	61
	Moore	99	94
	O'Connor	44	42
	Pearce	53	50
	Perth	64	60
	Stirling	76	72
	Swan	100	95
	Tangney	83	78
	Total	**1,020**	**964**
Tasmania	Bass	479	408

	Braddon	409	349
	Denison	898	766
	Franklin	1,183	1,009
	Lyons	573	489
	Total	**3,542**	**3,020**
Northern Territory	Lingiari	12	12
	Solomon	62	60
	Total	**74**	**72**
Australian Capital Territory	Canberra	1,151	1,020
	Fraser	1,093	969
	Total	**2,244**	**1,989**
Overseas	**Total**	**269**	**116**
Total		**55,699**	**47,938**

State	DHS data by State
NSW	21,934
VIC	14,821
QLD	3,137
TAS	3,020
ACT	1,989
SA	1,885
WA	964
Oversea	116
NT	72
Total	47,938

s22 [redacted]

From:
To:
Cc:
Subject: RE: Updated defined benefit standard words - cleared by Minister Porter [SEC=UNCLASSIFIED]
Date: Thursday, 4 February 2016 9:13:13 AM
Attachments: 20160202 - Defined benefit scheme standard words (6) Minor updates.DOCX

Hi DLOs

Thanks for sending through the cleared standard words on the defined benefit income stream measure. We have a couple of suggested changes in the attached document, in track changes.

s47C [redacted]

There are some minor formatting changes in the second last paragraph.

Please advise if these changes are approved. We have four redrafts due today so your early advice would be appreciated.

Thanks

s22 [redacted]
Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

From: DLOs
Sent: Wednesday, 3 February 2016 9:51 AM
To: s22 [redacted]
Cc: WHITECROSS, Andrew; s22 [redacted]
Subject: Updated defined benefit standard words - cleared by Minister Porter [SEC=UNCLASSIFIED]

Hi s22 [redacted]

Minister Porter has cleared the updated standard words on defined benefit income streams. Please see attached for use in preparing ministerial correspondence.

Thanks again for your assistance with updating these words.

Kind regards
s22 [redacted]
Departmental Liaison Officer
Office of the Hon Christian Porter MP
Minister for Social Services
s22 [redacted]

From: DLOs
Sent: Thursday, 28 January 2016 10:20 AM
To s22 [redacted]
Cc: WHITECROSS, Andrew
Subject: RE: Urgent fact check please: defined benefit standard words [SEC=UNCLASSIFIED]

Thanks very much s22 [redacted]

Once the Minister has approved, the standard words will be provided to the Department for use in correspondence etc.

s22 [redacted]

Departmental Liaison Officer
Office of the Hon Christian Porter MP
Minister for Social Services
s22 [redacted]

DSS acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, sea and community. We pay our respects to them and their cultures, and to elders both past and present.

From s22 [redacted]
Sent: Thursday, 28 January 2016 10:10 AM
To: DLOs
Cc: WHITECROSS, Andrew
Subject: RE: Urgent fact check please: defined benefit standard words [SEC=UNCLASSIFIED]

Hi s22 [redacted]

We have a couple of amendments, mostly clarification.

Happy to discuss any of them. I would also appreciate a copy of the final approved words.

Regards

s22 [redacted]
Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

From: DLOs
Sent: Thursday, 28 January 2016 8:56 AM
To: s22 [redacted]
Cc: WHITECROSS, Andrew
Subject: Urgent fact check please: defined benefit standard words [SEC=UNCLASSIFIED]
Importance: High

Good morning s22 [redacted]

The MO has updated standard words on defined benefit income streams based on the recent op ed piece and letter to Senator Abetz. I've attached for review/fact checking, noting that there is no new content, just a consolidation of words that have been recently cleared by the Minister.

The standard words will need to be cleared by Minister Porter while he is in Canberra today so your assistance to review by 10.00am this morning would be greatly appreciated.
Many thanks

s22 [redacted]
Departmental Liaison Officer
Office of the Hon Christian Porter MP
Minister for Social Services
s22 [redacted]

DSS acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, sea and community. We pay our respects to them and their cultures, and to elders both past and present.

STANDARD WORDS – Defined Benefit Income Stream Cap (updated 2 February 2016)

Dear XXX

Thank you for taking the time to contact me in relation to the 2015-16 Budget measure to amend the cap relating to the deductible amount from defined benefit income streams.

By way of necessary background, it is useful to note some of the unique qualities of defined benefit income streams. A defined benefit income stream is, essentially, a pension which is paid from a public sector or other corporate defined benefit superannuation fund. Some notable examples are NSW State Super, Public Sector Superannuation Scheme and Commonwealth Bank Officers Superannuation Fund. The pension paid pursuant to these schemes generally reflects years of service and final salary. Because of this general quality, defined benefit income streams are not assessed under the assets test as they do not generally have an underlying asset value.

Income payments from a defined benefit scheme are set by the rules of the scheme, they are usually indexed and scheme members have no ability to access capital or lump sum payments from the scheme. In these schemes employers usually fund the income streams as liabilities arise. Generally employees do not provide any of their own contributions towards these income streams. Importantly, in the small number of defined benefits schemes where an employee does provide their own contribution, a proportion of their defined benefit income stream can be excluded from the social security income test (i.e. the deductible amount) to reflect that it is a return of their own personal after-tax contributions.

The new 10 per cent cap is 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, on 2 July 2007. The relevant changes caused an anomaly in a minority of cases where the employer also pre-funded some of the future income stream. The anomaly was that persons with service prior to 30 June 1983 had a significant amount of their pre-funded employer contributions included in the deductible amount of their pension for the purpose of the Age Pension income test, even though it was not representative of a return of their own money. As such, it is not appropriate to grandfather the deductible amount for existing income support recipients who may have benefited from the anomaly.

As a result of the 2007 changes, there were people receiving over $100,000 a year from a defined benefit income stream who were also receiving the Age Pension. For example, a retired State government public servant was able to also be in receipt of part rate Age Pension where they were also receiving a defined benefit pension of $120,000 a year with a deductible amount of 50 per cent. For that person it was until recently the case that only $60,000 of the person's exclusive income was assessed under the income test. Under this measure, the individual's excludable amount would reduce to $12,000, and $108,000 would be assessed under the income test and the individual would no longer be able to receive any part rate Age Pension.

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. 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.

It is important to note, defined benefit income streams held by service pensioners and defined benefit income streams from military defined benefit schemes will be exempt from the cap.

It should be noted that defined benefit income streams are paid for life and usually indexed. The change will not impact the amount of income people receive from their defined benefit income stream. It will only enable a fairer assessment of a person's need for income support under the income test. For most people affected it means a reduced rate of part pension (more in line with what the average person with income from another source receives). In this regard, to fairly assess the present policy change it is useful to look at the total private income of various couples under the Age Pension system to illustrate the intended effect of the present policy.

- A couple with no additional income or assets receives around $33,980 per year from the Age Pension.

- A couple with a $600,000 investment property and receiving $30,000 a year in rent receives an asset tested part-rate Age Pension – around $51,500 per year in total.

- A couple with a defined income stream providing $30,000 per year under the recent changes will receive an income tested part rate Age Pension – around $54,000 per year in total.

- But before 1 January 2016, that same couple (with a defined benefit income stream of $30,000) and a deductible amount of 40 per cent, would have received around $59,000 per year.

I understand and appreciate why some recipients of defined benefits are concerned about the changes. While this was a difficult decision for the Government, it was a fair one because it ensures that one group of pension age Australians are not treated more beneficially than another group, simply because their private income comes from a different source.

The measure to cap defined benefit income streams at 10 per cent will impact approximately 47,900 of the 140,000 income support recipients that have a defined benefit income stream. 46,350 recipients will have their income support reduced, and 1,570 recipients will have their payments cancelled.

Ultimately, this change affects a small group of people. The majority of retirees with a defined benefit income stream will not be affected. Of those who are, only a fraction will no longer be able to receive a part pension, and this very small group will continue to receive significant income from their defined benefit schemes. It is only fair that the relatively small number of pensioners who receive significant income from defined benefits should be treated in a similar manner as the much larger number of pensioners who receive income from annuities, shares, rent or superannuation.

The social security means test has long underpinned the Australian Age Pension system. A critical principle of the means test is that every potential recipient's assets and income, with the exclusion of the family home, are assessed to determine whether that person is eligible for a pension. A second critical principle is that, in assessing a person's income, what should matter is the amount of income they receive from sources other than the Age Pension. What should not matter is the source of the income; whether it is from superannuation, private savings, rent or any other source.

In combination these two principles reflect the fact that the Age Pension in Australia has always existed as a non-contributory social security payment. Eligibility isn't based on past income or contributions or taxes paid during a person's working life, but rather is based on comparative need.

Indeed, the fact that the pension system is based on comparative need has never been more important. The number of people of traditional working age for every person aged 65 and over has fallen from 7.3 people in 1974-75 to around 4.5 people today. By 2054-2055, it is projected to nearly halve again to only 2.7 people. There will be a smaller and smaller proportion of people paying taxes available to pay for a larger proportion of people requiring the Age Pension. It is crucial the social security system fairly assesses a person's need for income support so that we can provide better support for those who have less, and less taxpayer support for those who can support themselves.

The goal has always been to assess comparative need in a way that is consistent and fair, with cases that are similar in nature to each other treated alike.

Pensioners whose income support is reduced will continue to receive the Pensioner Concession Card. Those few who may no longer qualify for income support can test their eligibility for the Commonwealth Seniors Health Card (CSHC). The CSHC income test uses taxable income for the purpose of assessing income from a defined benefit income stream. Capping the deductible amount for the social security income test does not affect the income test for the CSHC. Hence, a person who loses eligibility to a part-pension as a result of this measure is likely to still qualify for the CSHC.

Further information can be found at www.humanservices.gov.au/customer/news/changes-to-the-assessment-of-defined-benefit-income-streams or by contacting Centrelink on 13 2300. You may find it useful to arrange an interview with a Centrelink Financial Information Service officer to discuss your individual circumstances. You can contact the local Financial Information Service officer by phoning Centrelink on this number.

Thank you for taking the time to contact me on this matter.

Regards

From: s22 [redacted]
To:
Subject: Military scheme uncapped income deduction [SEC=UNCLASSIFIED]
Date: Monday, 8 February 2016 11:28:49 AM

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s22 [redacted]

s47F [redacted]

s22 [redacted]

Director
Seniors, Disability and Means Test Data Analysis Section
Social Security Performance and Analysis Branch
Department of Social Services
s22 [redacted]

Couple Homeowner

	Fortnightly	Annual		
Age pension - couples	$ 1,317.40	$ 34,252		
Income test threshold	$ 288.00	$ 7,488		
Taper rate	$ 0.50			
Asset test threshold	$ 291,500			
Assets test taper rate	$ 1.50			
Defined benefit income stream	$ 38,000	$ 40,000	$ 41,000	$ 53,000
Deductible amount	40%	40%	40%	40%
Rental income	$ 38,000	$ 40,000	$ 41,000	$ 53,000
Property asset value	$ 760,000	$ 800,000	$ 820,000	$ 1,060,000
AP under IT - DBIS pre 1/1/16	$ 26,596	$ 25,996	$ 25,696	$ 22,096
AP under IT - DBIS post 1/1/16	$ 20,896	$ 19,996	$ 19,546	$ 14,146
AP under IT - rental income	$ 18,996	$ 17,996	$ 17,496	$ 11,496
AP under AT - property	$ 15,981	$ 14,421	$ 13,641	$ 4,281
Total income - Rental property	$ 53,981	$ 54,421	$ 54,641	$ 57,281
Total income - DBIS 10% cap	$ 58,896	$ 59,996	$ 60,546	$ 67,146
Total income - DBIS no cap	$ 64,596	$ 65,996	$ 66,696	$ 75,096

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RECEIVED
28 OCT 2016
Office of the Minister for Social Services

Australian Government
Department of Social Services

Submission
MS16-000944

To: **Minister for Social Services, the Hon Christian Porter MP (for decision)**

Subject: **Uniting Church in Australia Defined Benefit Scheme**

Recommendations for Minister Porter: That you

1. Agree that there should be no change to the current arrangements for means testing of defined benefit income streams.	Agreed / ~~Not Agreed~~
2. Sign the attached letter to the Uniting Church in Australia **(Attachment A)**.	Signed / ~~Not Signed~~
3. Note the attached talking points **(Attachment B)**.	Noted / ~~Please discuss~~
Minister's signature: .... s22 [redacted]	**Date:**....01..../....12..../ **2016**

Minister's Comments

Purpose:

1. To brief you on: the Department's meetings with representatives from the Uniting Church Australia (UCA) regarding assessment of defined benefit income streams; their submission to you via Mr Bert van Manen MP and to recommend that there be no change to the current means testing arrangements.

Key Points:

2. The 2015-16 Budget included the measure *Social Security Income Test — improve integrity of social security income test arrangements*. This measure provides a fairer assessment of an individual's personal contribution to their defined benefit income stream by addressing an anomaly that resulted in a higher concessional income test deduction for some people.

3. From 1 January 2016, the social security income test deductible amount for defined benefit income streams was capped at a maximum of 10 per cent of gross payments. For social security income test purposes, the deductible amount is designed to reflect the return to the recipient of personal after-tax contributions (the employee's own capital), if any, made by the employee to their defined benefit income stream.

Department meeting with representatives from the Uniting Church Australia

4. In March 2016, a representative of the Uniting Church in Australia Beneficiary Fund (UCA scheme) contacted your office regarding the impact of the change on its members in their defined benefit scheme. In particular, the representative put forward that the after-tax contributions received back by members in the scheme was well in excess of 10 per cent, hence the 10 per cent cap penalised the members.

5. You asked that the Department investigate the impact of the change on members of the UCA scheme.

6. The Department met with representatives from the UCA scheme in late April 2016. To inform discussion, the representatives provided the trust deed for the scheme and data on 12 members who are receiving pensions from the UCA scheme in June 2016. The sample data does not include <u>actual</u> member contributions prior to 1 July 1983, as this data was not available. The trustees instead provided an <u>estimate</u> of the members' after-tax contributions.

7. The provided sample suggested that most members did have after-tax contributions in their income stream of greater than 10 per cent (for a detailed breakdown of the sample, see the table in **Additional Information.** Row F shows the estimate of personal after-tax contributions).

8. The Department has modelled the likely deductible amounts for members of the UCA scheme in the circumstances provided by the trustees. Analysis indicates that a deductible amount of greater than 10 per cent is unlikely for most members of the scheme if they have more than 30 years of service and using average superannuation returns for the fund earnings. However, it is possible that some members of the scheme may have personal after-tax contributions of more than 10 per cent.

9. The differences between the trustee's estimates and the Department's modelling are generally quite minor, mainly due to the difference in estimated fund earnings. For example, the estimated deductible amount for a member of the UCA scheme with 38 years of service is likely to be around 9.1 per cent compared to the adjusted deductible amount of 13.1 per cent provided by the UCA scheme.

10. Distributional data was sought from the UCA scheme to determine whether the sample data reflects the impact on all members. However, the UCA representatives informed the Department in mid-July that this was not able to be to be obtained and was only able to provide updated data on the 12 members.

11. Hence, the Department has been unable to determine the extent to which the data for the 12 members of the UCA scheme is representative of the impact on all members of the UCA scheme. The UCA is a small subset of the impacted defined benefit population. Administrative data identifies around 720 out of nearly 48,000 affected people, while the UCA claim the numbers of those affected are around 1,000.

12. There is no clear evidence that there is significant under-assessment of members' personal after-tax contributions for the scheme as a whole.

UCA submission to you via Mr Bert van Manen MP

13. In early October, a proposal from the Uniting Church was provided via Mr Bert van Manen MP, which suggested excluding the UCA scheme from the measure on a similar manner to that provided to military defined benefit income streams. This proposal was based on the arguments that:

a) The government modelling was predicated on public service funds.
b) The UCA scheme had a special tax ruling that allowed for contributions other than personal after-tax contributions to be included in the deductible amount.
c) The UCA scheme was an unintended target of the measure.
d) The impacted UCA scheme members should be granted special treatment because of their age, calling and level of payment.

14. The UCA scheme received a tax ruling in 1989 that allowed all their employer contributions to be treated as after-tax contributions, and hence included in the deductible amount calculation for tax purposes. This percentage was then also used for social security means test purposes. In effect, this tax ruling replicated the anomaly created by the 2007 changes.

15. The Department's policy has consistently been that the deductible amount for social security income test purposes should only reflect a person's after-tax contributions to their defined benefit income stream. Taxable income and income assessed for social security support are assessed differently because the two systems have different purposes. Centrelink makes an income assessment to measure a person's current need for income support and their capacity to contribute towards their own support. The Australian Taxation Office measures a person's capacity to pay taxes and contribute to Australia's general revenue through the Australian tax system.

16. The 1989 tax ruling resulted in members of the UCA scheme being assessed with a deductible amount greater than their actual after-tax contributions. For this reason, the deductible amount for UCA scheme members was greater than 10 per cent prior to the change in 2007.

17. The assertions made by the UCA that their scheme was an unintended target of the measure because of the tax ruling and their status are incorrect. The measure was designed to address an anomaly that resulted in a higher concessional income test deduction for some people, regardless of the defined benefit scheme that the person belonged to or the level of income received. The cap to the deductible amount is designed to reflect the return to the recipient of personal after-tax contributions (the employee's own capital), if any, made by the employee to their defined benefit income stream, once again regardless of the scheme that they belong to.

18. Therefore, the Department does not consider that there is merit in excluding the UCA scheme from the measure in a similar way to military defined benefit income streams.

19. Defined benefit income streams paid by military superannuation funds are excluded from the change in recognition of the unique nature of their military service. Other defined benefit schemes representing emergency services such as police, fire brigades and ambulance services have also sought exclusion for their schemes on this basis. Excluding the UCA scheme from the measure would lead to renewed calls for similar treatment.

Recommendation

20. It is therefore recommended that there be no change to the current arrangements for the assessment of defined benefit income streams to maintain the integrity of the measure. If you agree, a letter advising the Uniting Church in Australia of your decision is provided at **Attachment A** for your signature.

21. Their representatives are likely to seek a meeting with you to discuss your position. Talking points for a possible meeting have been provided at **Attachment B**.

22. Ten per cent is a reasonable limit on a person's deductible amount. 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 3 per cent.

23. A flat cap of 10 per cent provides a fair and consistent method of realistically assessing a person's actual after-tax contributions.

24. In formulating this recommendation, the Department has considered two alternative courses of action to take into account where a person's personal after-tax contributions are more than 10 per cent. The Department's initial appraisal is that neither of these options is suitable because of the reasons outlined below.

a) Individuals (not just those who are members of the UCA scheme) who consider they have personal after-tax contributions of more than 10 per cent could have their deductible amount adjusted if they provide evidence from their scheme. This change would require a legislative amendment, and the Department would need to put in place an ongoing assessment regime. This approach would reduce savings and increase departmental and IT costs for both the Department of Social Services and the Department of Human Services.

   It will also impose a significant financial cost on individuals who request this information from their fund. This is because the defined benefit schemes would need to provide a detailed statement of all personal after-tax contributions going back to when the member first joined, and the cost of obtaining this information would be passed on to the member. Many funds are unlikely to have easy access to this information due to changes in scheme administrators, mergers and poor records management. This is the case for the UCA scheme, which has been unable to locate records detailing member contributions prior to 1 July 1983.

b) The cap on the deductible amount could be increased to a percentage greater than 10 per cent (for example, 15 or 20 per cent) via a legislative amendment. This is less administratively cumbersome than the first option, but it would significantly reduce savings from the measure and is likely to still not address misconceptions of under-assessment of the deductible amount.

25. To ensure equity, any change to the arrangements would need to be applied to all income support recipients with a defined benefit income stream.

Financial Implications:

26. If you agree to the recommendation to keep the arrangements for means-testing defined benefit income streams unchanged, there will be no financial impact.

27. If you wish to make changes to the current arrangements, there will be a fiscal impact that will reduce the savings announced in the 2015-16 Budget. For example, if you increased the maximum deductible amount to 20 per cent, this would reduce the annual savings by an estimated $35 million, or approximately one-third of the annual savings announced in the Budget.

Regulatory Implications:

28. If you agree to the recommendation to keep the arrangements for means-testing defined benefit income streams unchanged, there will be no regulatory impact.

29. If you wish to make changes to the current arrangements, legislation is required for the change to take effect.

Risk Management: N/A

Program Office and Delivery Strategy and Operations Group: N/A

Media Release: N/A

Consultation:

30. The Department has consulted with representatives from UCA. No further consultation has been undertaken.

Attachments:

Attachment A: Letter advising the Uniting Church in Australia of your decision

Attachment B: Talking points

Contact Officer: Anita Davis
Position: A/g Branch Manager
Branch: International and Means Testing Policy
Phone/Mobile: s22 [redacted]

Cleared by: Cath Halbert
Position: Group Manager
Phone/Mobile: s22 [redacted]

Signature: s22 [redacted] Date: 27/10/16

Date Sent to MO: 28 OCT 2016

MS16-000944

Additional Information:

Assessment of Defined Benefit Income Streams

From 1 January 2016, the level of income from defined benefit income streams that can be excluded from the income test (the "deductible amount") is capped at 10 per cent. The deductible amount is designed to reflect the return to the recipient 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 is 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, on 2 July 2007.

The relevant changes caused an anomaly where the employer also pre-funded some of the future income stream. The anomaly was that persons with service prior to 30 June 1983 had a significant amount of their pre-funded employer contributions included in the deductible amount of their pension for the purpose of the Age Pension income test, even though it was not representative of a return of their own money.

Ten per cent is a reasonable limit on a person's deductible amount. 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.

The 10 per cent cap gives a fairer assessment of an individual's personal after-tax contributions to their defined benefit income stream.

The Uniting Church Australia Beneficiary Fund

According to administrative data, around 720 people with defined benefit income streams from the Uniting Church in Australia Beneficiary Fund (UCA Scheme) had their income support payments reduced from 1 January 2016.

The UCA scheme states that members have to make a compulsory payment of approximately 6 per cent of their stipend. It is not clear to the Department whether these employee contributions are before or after-tax.

The UCA scheme received a tax ruling in 1989 that allowed all their employer contributions to be treated as after-tax contributions, and hence included in the deductible amount calculation for tax purposes. This percentage was then also used for social security means test purposes. In effect, this tax ruling replicated the anomaly created by the 2007 changes.

The Department's policy has consistently been that the deductible amount for social security income test purposes should only reflect a person's after-tax contributions to their defined benefit income stream. The 1989 tax ruling resulted in members of the UCA scheme being assessed with a deductible amount greater than their actual after-tax contributions.

For this reason, the deductible amount for UCA scheme members was greater than 10 per cent prior to the change in 2007.

After the changes on 1 July 2007, the deductible amount for UCA scheme members was further impacted by including any pre-1 July 1983 component.

Representatives from UCA scheme provided data to the Department for 12 scheme members showing the total employer contributions, after-tax employee contributions and fund earnings. The examples consisted of 6 members who commenced pensions prior to 1 July 2007 and 6 members who commenced pensions from 1 July 2007.

The sample data does not include actual member contributions prior to 1 July 1983, as this data was not available. The trustees instead provided an estimate of the members' after-tax contributions, based on a historical notional stipend paid to its clergy in 1983, deflated by changes in Average Weekly Earnings.

The deductible amount is intended to reflect that it is a return to the recipient of a member's own personal after-tax contributions. However these percentages include all contributions made by the Uniting Church due to the decision by the ATO which was made in relation to taxation. For this reason, these deductible amounts are significantly higher compared to similar members in other defined benefit schemes.

The Hon Christian Porter MP
Minister for Social Services

1 DEC 2016

MS16-000944

s47F [redacted]
Uniting Church in Australia
s47F [redacted]

Dear s22 [redacted]

Thank you for engaging with my office regarding the impact of the 2015-16 Budget measure to cap the deductible amount for defined benefit income stream holders to 10 per cent and for the proposal, provided via Mr Bert van Manen MP, to exclude the Uniting Church defined benefit scheme from the measure.

Having considered the information provided by the Uniting Church and the trustees, I have decided that a different treatment for members of the Uniting Church defined benefit scheme to those of other schemes is not warranted.

I understand that you met with officials from my department and provided a sample of 12 affected members as it was not cost effective to obtain data for all members.

I note that the sample data provided by the Trustees of the fund does not include actual member contributions prior to 1 July 1983, as this data was not available. The Trustees have instead provided an estimate of the members' after-tax contributions, based on historical notional stipend paid to Ministers in 1983, deflated by changes in Average Weekly Earnings.

I also note that distributional data for the scheme and its members was unable to be provided. This has meant that it is not possible to determine the extent to which the data for the 12 members of the UCA scheme is representative of the impact on members of the UCA scheme.

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 reasonable limit on a person's deductible amount and across schemes.

I appreciate that the 10 per cent cap may not cover every single person's circumstances. However, it remains a fair and reasonable approximation of personal after-tax contributions.

Parliament House Canberra ACT 2600 Telephone (02) 6277 7560 Fax (02) 6273 4122

The social security means test has long underpinned the Australian Age Pension system. A critical principle of the means test is that every potential recipient's assets and income, with the exclusion of the family home, are assessed to determine whether that person is eligible for a pension. A second critical principle is that, in assessing a person's income, what should matter is the amount of income they receive from sources other than the Age Pension. What should not matter is the source of the income; whether it is from superannuation, private savings, rent or any other source.

While this was a difficult decision for the Government, it was a fair one because it ensures that one group of pension age Australians are not treated more beneficially than another group, simply because their private income comes from a different source.

Thank you for bringing the Uniting Church in Australia's concerns to my attention. I have copied this letter to Mr Bert van Manen MP.

Yours sincerely

s22 [redacted]

The Hon Christian Porter MP
Minister for Social Services

Attachment B: Talking points

- Under the change, the social security income test deductible amount for defined benefit income streams was capped at a maximum of 10 per cent of gross payments from 1 January 2016.

- For social security income test purposes, the deductible amount 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 new 10 per cent cap is 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 2007 Better Super package of measures.

- The 10 per cent cap was chosen as an appropriate limit as most defined benefit schemes do not fund their pension benefits from personal contributions. For example, around 55 per cent of income support recipients with defined benefit income streams currently have no deductible amount.

- The measure has always been about a fairer assessment of an individual's personal after-tax contributions to their defined benefit income stream, regardless of the amount of defined benefit income they receive.

- I am unable to justify a different treatment for members of the Uniting Church defined benefit scheme to those of other schemes.

- This change treats people fairly and consistently.

- While the 10 per cent cap may not cover every single person's circumstances, it is a fair and reasonable approximation of personal after-tax contributions.

- While this was a difficult decision for the Government, it was a fair one because it ensures that one group of pension age Australians are not treated more beneficially than another group, simply because their private income comes from a different source.

Capping the Deductible Amount for Defined Benefit Income Streams – Talking Points

- This measure increases the proportion of a superannuant's defined benefit income stream that is assessed under the social security income test by capping the proportion of income from a defined benefit income stream that can be excluded from the income test at ten per cent from 1 January 2016.
- The 10 per cent cap addresses an unintended consequence to the social security system in calculating the deductible amount for tax purposes as part of the Better Super package of measures from July 2007.
- This measure treats people fairly and consistently by ensuring that one group of pension age Australians are not treated more beneficially than another group simply because the income they receive comes from a different source.
- It's only fair that the relatively small number of pensioners who receive income from defined benefits should be treated in a similar manner as the much larger number of pensioners who receive income from annuities, shares, rent or superannuation.
- The measure gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.
  - A couple with no additional income or assets receives around $33,980 per year from the Age Pension.
  - A couple with a $600,000 investment property and receiving $30,000 a year in rent receives an asset tested part-rate Age Pension – around $51,500 per year in total.
  - A couple with a defined income stream providing $30,000 per year under the recent changes will receive an income tested part rate Age Pension – around $54,000 per year in total.
  - But before 1 January 2016, that same couple (with a defined benefit income stream of $30,000) and a deductible amount of 40 per cent, would have received around $59,000 per year.
- The vast majority of retirees with a defined benefit income stream are not affected by this change.
- There are around 140,000 welfare recipients with defined benefit income streams. Of this group, around 34 per cent are impacted by the change.
  - 46,366 income support recipients received a reduced pension/allowance by an average of $2,248 a year ($86.46 a fortnight); and
  - 1,572 income support recipients were cancelled
- Defined benefit income streams held by service pensioners and defined benefit income streams from military defined benefit schemes are exempt from the measure.
- While this was a difficult decision for the Turnbull government, it was a fair one because it ensures that one group of pension age Australians are not treated more beneficially than another group simply because their income comes from a different source.
- The measure will generate savings for Australian taxpayers of $465.5 million over the forward estimates.

Capping the Deductible Amount for Defined Benefit Income Streams

Background

- A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund (e.g. NSW State Superannuation Scheme, Commonwealth Bank Officers Superannuation Fund) where the pension generally only reflects years of service and final salary.
- Income payments are set by the rules of the scheme, usually indexed and scheme members have no ability to access capital or lump sum payments from the scheme.
- In these schemes employers usually fund these income streams as liabilities arise. Generally employees do not provide any of their own contributions to these income streams.
- However, some of these schemes, particularly State Government schemes, include some up front contributions by employers and/or employees towards the future costs of the pension.
- Where an employee does provide their own contribution, a proportion of a their defined benefit income stream can be excluded from the social security income test income test (deductible amount) to reflect that it is a return of their own capital.
- In 2007, a number of superannuation measures were introduced to simplify the taxation of superannuation payments. The flow on to the means test assessment of some defined benefit schemes from the changes was an unintended consequence. It resulted in the deductible amount being overstated for some people, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient.
- Before 1 january 2016, there were people receiving over $100,000 a year from a defined benefit income stream and also receiving the Age Pension. For example:
  - A retired State government public servant currently in receipt of Age Pension could have received a defined benefit pension of $120,000 a year with a deductible amount of 50 per cent, so that only $60,000 was assessed under the income test.
  - Under this measure, the individual's deductible amount reduces to $12,000, and $108,000 is assessed under the income test and the individual is no longer be able to receive any Age Pension.

Proposal

- This measure increases the proportion of a superannuant's defined benefit income stream that is assessed under the social security income test by capping the proportion of income that can be excluded from the income test (deductible amount) at ten per cent from 1 January 2016.
- The legislation received Royal Assent on 30 June 2015.
- Defined benefit income streams held by service pensioners and defined benefit income streams from military defined benefit schemes are exempt from the measure.
- There is no change to the assets test assessment. Defined benefit income streams are exempt from the assets test as they do not have an underlying assessable asset value.
- The measure fixes an anomaly in the income test treatment of some defined benefit income streams that resulted in a highly concessional income test deduction for some people.
- It gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.
- It ensures that one group of pension age Australians are not treated more beneficially than another group simply because income they receive comes from a different source.

Impacts

- The measure only affects a small group of people.
  - The vast majority of retirees with a defined benefit income stream are not affected by this change.
  - Of those who are, only a fraction are no longer be able to receive a part pension.
  - For most people affected it means a reduced rate of part pension more in line with what the average person with income from another source receives.
- As a non-intended result of taxation changes made in July 2007, a small number of Australians (overwhelmingly retired public servants) who happened to receive income from some defined benefit schemes enjoyed an advantage in the income test for access to the Age Pension that other Australians who received income in retirement from other sources did not enjoy.
- The relatively small number of pensioners who receive income from defined benefits will now be treated in a similar manner as the much larger number of pensioners who receive income from annuities, shares, rent or superannuation.
- A couple with no additional income or assets receives around $33,980 per year from the Age Pension.
- A couple with a $600,000 investment property and receiving $30,000 a year in rent receives an asset tested part-rate Age Pension – around $51,500 per year in total.
- A couple with a defined income stream providing $30,000 per year under the recent changes will receive an income tested part rate Age Pension – around $54,000 per year in total.

- But before 1 January 2016, that same couple (with a defined benefit income stream of $30,000) and a deductible amount of 40 per cent, would have received around $59,000 per year in total.
- There are around 140,000 DSS recipients with defined benefit income streams. Of this group, approximately 47,900 are impacted by the change:
  - around 20 per cent are provided by the Federal Government,
  - around 75 per cent by State and Local Governments, and
  - around 5 per cent by corporate organisations.
- The measure will generate savings of $465.5 million over the forward estimates for all affected agencies.
- **At 1 January 2016**:
  - 46,**366 income support** recipients receive**d** a reduced pension/allowance by an average of $2,**248** a year ($8**6.46** a fortnight); and
  - **1,572 income support** recipients **were** cancelled.

Cap Deductible Amount for Defined Benefit Income Streams Income Support Recipients

	Downward variations ($ a fortnight)			Cancellations ($ a fortnight)			Total Number
	Number impacted	Average Reduction	Median Reduction	Number impacted	Average Reduction	Median Reduction	
Total	46,366	$86.46	$59.46	1,572	$141.96	$126.62	47,938
Annual		$2,248	$1,546		$3,691.03	$3,292.12	

Cap Deductible Amount for Defined Benefit Income Streams Income Support Recipients by State

State	Downward variations ($ a fortnight)			Cancellations ($ a fortnight)			Total Number
	Number	Average reduction	Median reduction	Number	Average reduction	Median reduction	
NSW	20,663	$120.21	$105.37	1,271	$148.51	$136.97	21,934
VIC	14,655	$67.43	$50.66	166	$121.28	$106.62	14,821
QLD	3,078	$66.22	$36.23	59	$138.80	$145.56	3,137
TAS	2,982	$48.62	$32.02	38	$70.48	$51.87	3,020
ACT	1,973	$37.19	$20.55	16	$76.22	$46.31	1,989
SA	1,874	$35.55	$10.71	11	$84.92	$80.78	1,885
WA	957	$41.16	$18.79	7	$152.16	$160.47	964
Overseas	112	$46.34	$24.37	4	$46.78	$52.05	116
NT	72	$46.66	$16.73	0	N/A	N/A	72
Total	46,366	$86.46	$59.46	1,572	$141.96	$126.62	47,938
Annual		$2,248	$1,546		$3,691.03	$3,292.12	

Contact: s22 [redacted]
Group: Social Security Policy

Phone: s22 [redacted]
Cleared by: Paul McBride
Last date updated: 27 April 2016

From: s22 [redacted]
To: NAIKAR, Sidesh
Cc: s22 [redacted] WHITECROSS, Andrew; s22 [redacted]
Subject: RE: Correspondence from Uniting Church in Australia re defined benefit income streams [SEC=UNCLASSIFIED]
Date: Wednesday, 2 December 2015 4:12:33 PM
Attachments: image002.png
image004.png
image009.png

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s22 [redacted]

As discussed earlier in the week, please find below some additional information about impacted pensioners with a defined benefit income stream and impacted Uniting Church retired ministers.

I am happy to discuss any of the information below. The response to the letter should be coming through the system today.

Regards

s22 [redacted]

Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services

s22 [redacted]

1. The number of people affected in each category by the defined benefit measure is as set out in the table below. Please note that the numbers of people impacted are about 6,000 less than our costing as the costing was based on administrative data from the system. This data is DHS defined benefit data as at 1 July 2014, which has some other information (eg fund names) relating to the defined benefit income stream (DBIS) but does not have any other information about the recipient (ie income and assets, pension details).

The table does show that the Uniting Church is effectively the only not-for-profit on our system. This would be because very few NFPs would be able to afford a DB scheme in the first place and what others there were have chosen to close their scheme over the years.

Number of income support recipients with a DBIS that has a deductible amount greater than 10%

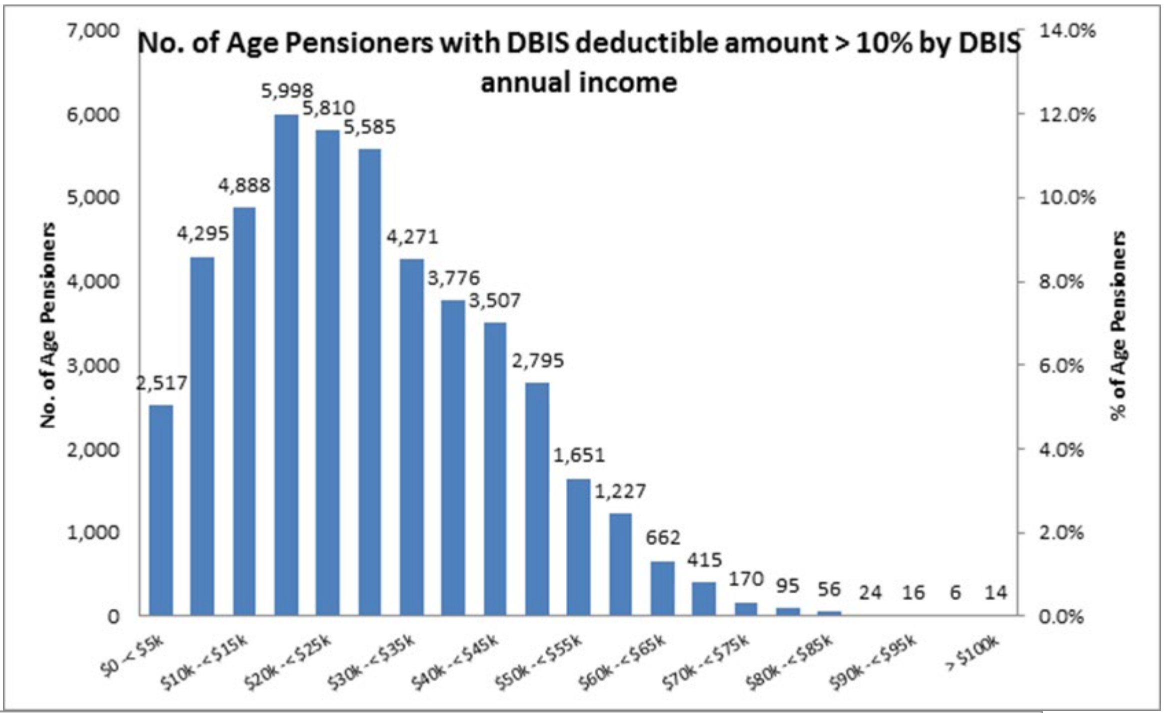
Jurisdiction	Scheme	Number	%	Total
Commonwealth Government schemes	CSS	2,219	5%	
	PSS	5,321	13%	
	Other	93	0.2%	7,633
State Government schemes	NSW State Super	14,978	37%	
	Victoria ESSS	11,349	28%	
	Tasmania RBF	2,253	5%	
	Other	1,238	3%	29,818
Corporate & Not-for-profit schemes	Not-for-profits	723	2%	
	Corporate	2,860	7%	3,583
Total				41,034

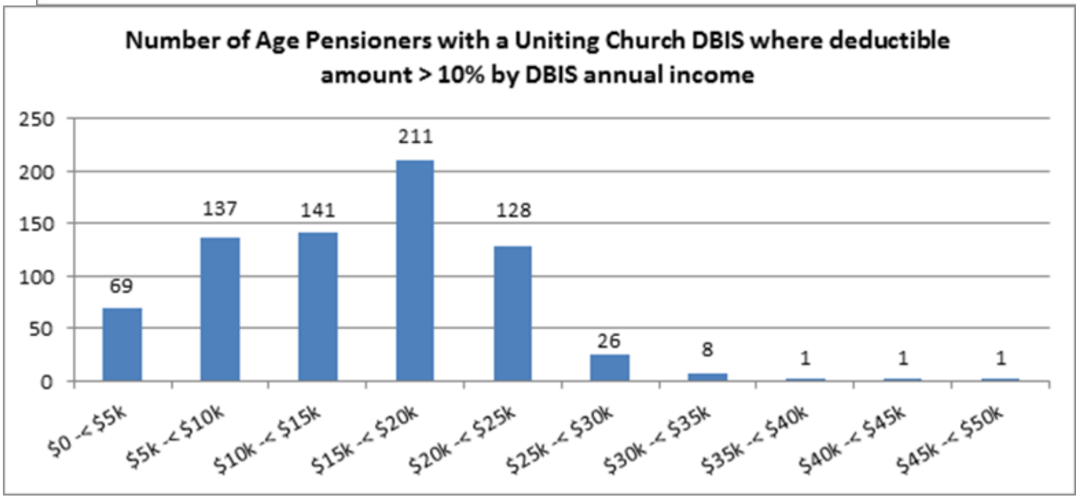
Note: The above analysis is based on DHS data as at 1 July 2014. The number of not-for-profits defined benefit schemes has decreased significantly over the last 5 years to the extent that there are only 2 that have members who are receiving income support payments. These are the Uniting Church and Church of Christ. From anecdotal evidence, most schemes chose to close as it was not cost-effective to continue running the scheme with a small number of members (i.e. less than 100 members).

2. The administrative data does allow us to analyse the characteristics of people affected on the basis of their assessable income, amount of defined benefit income stream and level of deductible amount. Unfortunately we cannot break it down by scheme type. We have tried using the DHS DB data for the Uniting Church for an illustrative comparison where possible – noting the limitations of the DHS DB data.

   Numbers of pensioners impacted by DB income

   The distribution of people impacted in the Uniting Church is similar to the total population although there doesn't appear to be any UC ministers with very large DB income streams (over $50,000). Note that combined DB and Age pension income for most UC Ministers is suggested to be $50,000 pa by the Assembly. This is roughly the ASFA comfortable standard and well above the ASFA modest standard.

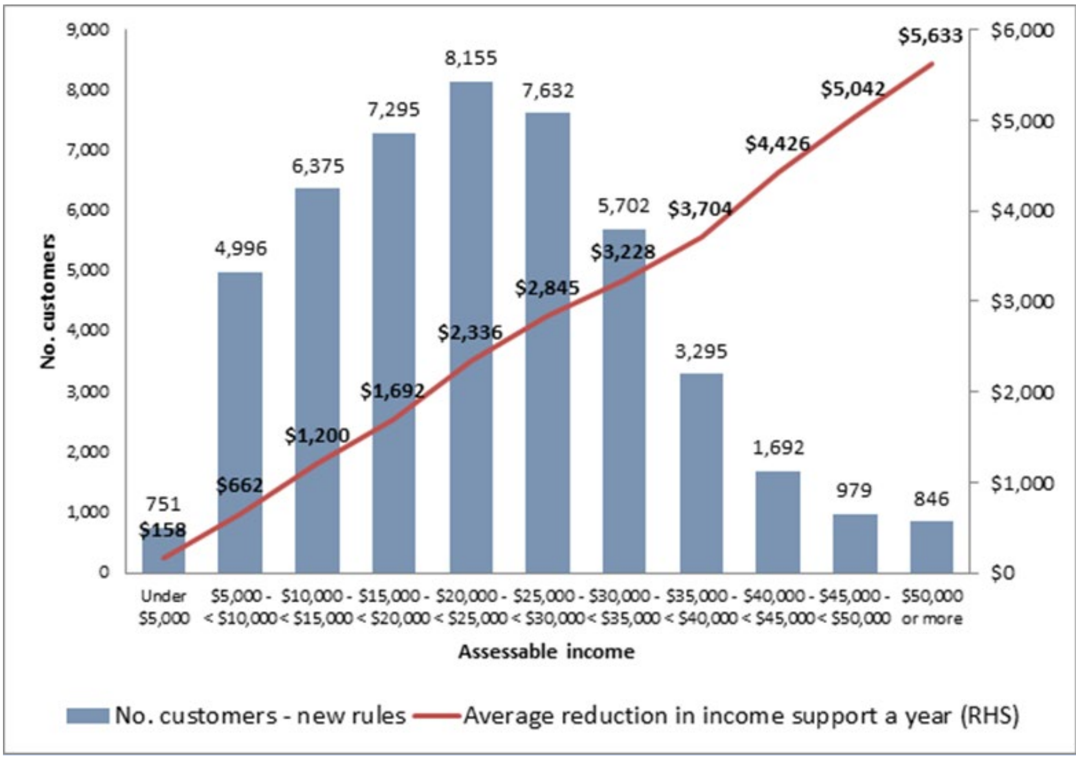




Average reduction in support by assessable income

We are unable to determine pension reductions for UC ministers from the DHS DB data as it is incomplete. However, given their distribution, we would expect it to be similar to that of the total impacted population in the graph below. These are average reductions and the impact for each individual in the assessable income category will vary depending on a range of factors including the amount of the defined benefit income stream, the size of the deductible amount and other income and assets held by the individual and their partner (if any).

While reductions of the size indicated in the UC letter are possible, there will be a range of reductions faced by UC retired ministers. The average reduction faced by UC retired ministers will be greater than the average reduction of the total affected population as this particular cohort is likely to have a large proportion of older members with large levels of pre-1983 service.



From: DLOs
Sent: Monday, 30 November 2015 2:51 PM
To: WHITECROSS, Andrew
Cc: s22 [redacted] Helpdesk.PDMS
Subject: Correspondence from Uniting Church in Australia re defined benefit income streams [SEC=UNCLASSIFIED]

Hi Andrew

I wanted to flag this one with you as the Office would like a response prepared for the Minister's signature by **COB Wednesday 2 December 2015** please. The standard words on defined benefit income streams will need to be modified to address the specific issues raised in the letter. The Office has also requested further detail/advice be provided in an email to Sidesh.NAIKAR@dss.gov.au prior to the response being sent up, including on:

- the number of people affected (including how many people in each category ie not for profit)
- characteristics of people who are likely to lose more than $2,500 (total income etc)

Would you please contact Sid to discuss? s22 [redacted]

MPES –please register and advise the PDMS number (note hard copy arrived today and will be sent back in the next courier run)

Kind regards

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s22 [redacted]

Departmental Liaison Officer
Office of the Hon Christian Porter MP
Minister for Social Services
s22 [redacted]

From: s22 [redacted]
To: DLOs
Cc: s22 [redacted]
Subject: RE: Info on Capping the deductible amount for defined benefit income streams [DLM=For-Official-Use-Only]
Date: Tuesday, 19 January 2016 9:45:30 AM
Attachments: image008.png

Hi s22 [redacted]

1. Numbers affected

At this point in time we are unable to provide information on the number of income support recipients that own a defined benefit income stream with a deductible amount greater than 10 per cent live in the ACT. The Department is expecting to receive actual figures of impacted customers by the end of the month from DHS. I would be happy to provide the figures for the ACT to you to give to Senator Seselja when they become available.

Our original costing did not identify State of residence, only the type of defined benefit fund. That is why we know that of the approximate 47,700 impacted recipients:

- around 20 per cent (9,540) are provided by the Federal Government (CSS and PSS);
- around 75 per cent (35,775) by State and Local Governments; and
- around 5 per cent (2,385) by corporate organisations.

While the majority of CSS and PSS recipients can be assumed to be from the ACT, many (retired) federal public servants live in other parts of Australia. Similarly, there may be recipients of State defined benefit income streams living in the ACT.

Commonwealth Public Servants Affected

The deductible amount is designed to reflect the return of personal after-tax contributions, if any, made by the employee to their defined benefit scheme. The way these after tax contributions were made and benefits were paid out varies from scheme to scheme. This can determine whether the anomaly from the 2007 change had an impact on people's deductible amount.

Relatively fewer Commonwealth defined benefit recipients have a deductible amount greater than 10 per cent because of the way they are required to take their benefits. In particular, CSS members could receive:

- Their employer "contribution" – i.e. a function of years of service and level of salary – as an indexed defined benefit income stream. This is does not attract a deductible amount.
- Their own contributions as either a non-indexed defined benefit income stream or a lump sum. The non-indexed defined benefit income stream would attract the deductible amount.

As a non-indexed defined benefit income stream is not a great deal (it loses value each year due to inflation), the majority of CSS members took their own contributions as a lump sum. Therefore there are relatively few Commonwealth public servants impacted.

s22 [redacted]

Director
Means Test Policy
Rates and Means Testing Policy Branch
Department of Social Services
s22 [redacted]

Sent: Monday, 18 January 2016 10:51 AM
To: s22 [redacted]
Subject: FW: Info on Capping the deductible amount for defined benefit income streams [DLM=For-Official-Use-Only]

Hi Sam

Would you please assist with a response to the below questions on the defined benefit income stream changes raised by Senator Seselja's office?

> Are you able to provide any further information on how many of these affected are based in Canberra? Also, with regard to the Federal Public Servants affected, would you please be able to advise what group of public servants these are and why they are affected and not other commonwealth public servants?

Appreciate it if you could provide advice as soon as possible by 12noon Tuesday 19 January 2016.

Many thanks in advance.

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s22 [redacted]

Departmental Liaison Officer
Office of the Hon Christian Porter MP
Minister for Social Services
s22 [redacted] **E** DLOs@dss.gov.au

DSS acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, sea and community. We pay our respects to them and their cultures, and to elders both past and present.

From: s22 [redacted]
Sent: Friday, 15 January 2016 11:35 AM
To: NAIKAR, Sidesh
Subject: FW: Info on Capping the deductible amount for defined benefit income streams [DLM=For-Official-Use-Only]

Hi Sid thank you for your time on the phone, would really appreciate your help with this, we are getting some heat on this one and the boss would like to understand the situation better before deciding what position to take.

Many thanks

s22 [redacted]

From: s22 [redacted]
Sent: Thursday, 14 January 2016 1:15 PM
To: s22 [redacted]
Subject: FW: Info on Capping the deductible amount for defined benefit income streams [DLM=For-Official-Use-Only]

Hi s22 [redacted]

Are you able to provide any further information on how many of these affected are based in Canberra? Also, with regard to the Federal Public Servants affected, would you please be able to advise what group of public servants these are and why they are affected and not other commonwealth public servants?

Many thanks

Angela

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s22 [redacted]

CHIEF OF STAFF | OFFICE OF SENATOR ZED SESELJA

Liberal Senator for the Australian Capital Territory

s22 [redacted]

s22 [redacted]

www.zedseselja.com.au

From: s22 [redacted]
Sent: Monday 23 November 2015 3:18 PM
To: s22 [redacted]
Subject: FW: Info on Capping the deductible amount for defined benefit income streams [DLM=For-Official-Use-Only]

s22 [redacted] looks like it still holds.

Cheers

s22 [redacted]

Senior Adviser
The Hon Scott Morrison MP
Treasurer

s22 [redacted]

s22 [redacted] CHIEF OF STAFF (acting)
Office of the Hon. Christian Porter MP
Minister for Social Services
MG 51, Parliament House, Canberra ACT 2600

s22 [redacted]

From: s22 [redacted]
Sent: Tuesday, 12 May 2015 10:12 PM
To: Seselja, Zed (Senator)
Cc s22 [redacted]
Subject: Info on Capping the deductible amount for defined benefit income streams [DLM=For-Official-Use-Only]

Senator, below is an explanation – quite complicated and technical.

In short:

- Of the 140,000 DSS pension recipients with defined benefit streams, approximately 47,700 are affected by the change. Of those, only 20%, or about 9500, have income streams provided by the Federal Government (mainly CSS and PSS).
- The reason they are affected is because of the way they have chosen to receive their income streams. The deductible amount applies to the non-indexed portion of the income stream which includes their personal contributions.
- Very few affected by this measure would have their pension cancelled, with most having a reduction in pension of, on average, $82.70 per fortnight.

Full Explanation:

Capping the deductible amount for defined benefit income streams

This measure caps the social security income test deductible amount for defined benefit income streams at 10 per cent of gross payments from 1 January 2016.

It fixes an anomaly in the income test treatment of some defined benefit income streams that resulted in a highly concessional income test deduction for some people. The income test deduction is supposed to reflect the person's own contributions to their defined benefit income stream. The measure gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.

Who is affected?

There are around 140,000 DSS recipients with defined benefit income streams. Of this group, approximately 47,700 (35 per cent) are impacted by the change. Of these 47,700:

• around 20 per cent are provided by the Federal Government (these are mainly Commonwealth Superannuation Scheme and Public Sector Superannuation recipients),
• around 75 per cent by State and Local Governments (e g. NSW State Superannuation Scheme), and
• around 5 per cent by corporate organisations (e.g. Commonwealth Bank Officer Superannuation Fund).

For the first full year, approximately:

• 46,000 DSS recipients would receive a reduced pension/allowance by an average of $2,150 a year ($82.70 a fortnight); and
• 1,700 DSS recipients would be cancelled.

Why are State government employees impacted more by the measure?

State government-provided defined benefit income streams make up most of the 47,700 DSS recipients impacted by the proposal. This is because some state government defined benefit schemes have funded most of their pension liabilities upfront. Where funds have done this, it results in these employer contributions being counted in the calculation of a person's deductible amount under the anomaly. This results in larger deductible amounts.

Relatively fewer Commonwealth defined benefit recipients have a deductible amount greater than 10 per cent because of the way they are required to take their benefits. They can receive:

• their employer "contribution" – i.e. a function of years of service and level of salary – as an indexed defined benefit income stream; and
• their own contributions as either a non-indexed defined benefit income stream or a lump sum.

The deductible amount would apply to the non-indexed defined benefit income stream as it includes their personal contributions. However, people generally take a lump sum from their own contributions rather than an income stream that diminishes in value over time, and therefore they have no deductible amount.

Trust this helps

Regards

Charles

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s22 [redacted]
Chief of Staff
Office of the Minister for Social Services
Suite MG 51, Parliament House, Canberra
s22 [redacted]

Capping the deductible amount for defined benefit income streams

Talking Points

- This measure caps the social security income test deductible amount for defined benefit income streams at 10 per cent of gross payments from 1 January 2016.
- It fixes an anomaly in the income test treatment of some defined benefit income streams that resulted in a highly concessional income test deduction for some people.
- The measure gives a fairer assessment of an individual's personal contributions to their defined benefit income stream.
- Defined benefit income streams held by service pensioners and defined benefit income streams from military defined benefit schemes will be exempt from the measure.
- Around 65 per cent of income support recipients with payments from defined benefit schemes will not be affected by this measure.
- It makes the means test rules fairer by restoring a more appropriate income test treatment for defined benefit income streams.
- The measure will generate savings of $465.5 million over the forward estimates for all affected agencies.

Contact: Andrew Whitecross
Group: Social Security Policy
Date first prepared: 6/05/2015
Phone: 02 6146 0074/ 0408 354 781
Cleared by:
Date last updated:

BACKGROUND

What is a defined benefit income stream?

A defined benefit income stream is a pension paid from a public sector or other corporate defined benefit superannuation fund (e.g. Public Sector Superannuation Scheme, Commonwealth Bank Officers Superannuation Fund) where the pension generally only reflects years of service and final salary.

Income payments are set by the rules of the scheme, usually indexed and scheme members have no ability to access capital or lump sum payments from the scheme.

In these schemes employers usually fund these income streams as liabilities arise. Generally employees do not provide any of their own contributions to these income streams.

However, some of these schemes, particularly State Government schemes, include some up front contributions by employers and/or employees towards the future costs of the pension.

- These up front contributions are the basis of the deductible amounts, even though employer contributions are not a return of the employees own capital.

What is the change?

In 2007, a number of superannuation measures were introduced to simplify the taxation of superannuation payments. The flow on to some defined benefit schemes from the changes was an unintended consequence. It resulted in the deductible amount being overstated for some people, and consequently higher income support payments, even though nothing had changed for the defined benefit recipient.

This measure will increase the proportion of a superannuant's defined benefit income stream that is assessed under the social security income test by capping the proportion of income that can be excluded from the income test (deductible amount) at ten per cent from 1 January 2016.

There would be no change to the assets test assessment. Defined benefit income streams are exempt from the assets test as they do not have an underlying assessable asset value.

There are around 140,000 DSS recipients with defined benefit income streams. Of this group, approximately 47,700 are impacted by the change:

- around 20 per cent are provided by the Federal Government,
- around 75 per cent by State and Local Governments, and
- around 5 per cent by corporate organisations.

Contact: Andrew Whitecross
Group: Social Security Policy
Date first prepared: 6/05/2015

Phone: 02 6146 0074/ 0408 354 781
Cleared by:
Date last updated:

There are currently people receiving over $100,000 a year from a defined benefit income stream and also receiving the Age Pension. For example:

- A retired State government public servant currently in receipt of Age Pension can receive a defined benefit pension of $120,000 a year with a deductible amount of 50 per cent, so that only $60,000 is assessed under the income test.
- Under this measure, the individual's deductible amount would reduce to $12,000, and $108,000 would be assessed under the income test and the individual would no longer be able to receive any Age Pension.

Savings

The measure would generate savings of $465.5 million over the forward estimates for all affected agencies.

For the first full year, approximately:

- 46,000 DSS recipients would receive a reduced pension/allowance by an average of $2,150 a year ($82.70 a fortnight); and
- 1,700 DSS recipients would be cancelled.

Contact: Andrew Whitecross
Group: Social Security Policy
Date first prepared: 6/05/2015

Phone: s22
Cleared by:
Date last updated: