

Indexation Fact Sheet – May 2010



The Issue:

The issue is unfair pension indexation for more than 300,000 Commonwealth superannuant pensioners (former Federal Government and Defence Force employees), and their dependants. Their Commonwealth superannuation pensions are indexed by the CPI, and as such, are not keeping up with the cost of living.

After 20 years, the use of the CPI to index a \$20,000 commencing pension results in the recipient receiving \$7,000 p.a. less than he/she would have received had their pension been indexed by percentage movements in the Age Pension - the 20 year cumulative loss is almost \$70,000.

The CPI was formally abandoned as a sole indexation tool more than decade ago for other Government funded pensions. The continued use of CPI indexation for Commonwealth superannuation pensions is blatant discrimination.

The average Commonwealth superannuation pension is less than the combined married rate of Age Pension.

What is being sought?

SCOA wants fair indexation for Commonwealth superannuants, so that, like other Government funded pensions, their pensions will maintain their purchasing power over time.

What's wrong with the CPI?

The Australian Bureau of Statistics (ABS) says that the "CPI is not a purchasing power or cost of living measure." When calculating the CPI, the ABS reduces the shelf prices of products in the CPI basket of goods, to account for any improvements to the products such as computers, audio visual equipment and cars. The problem with this is that the discounted CPI, which is then used to index Commonwealth superannuation pensions, does not increase pensions to the level needed by consumers to purchase the goods at the higher shelf prices.

Broken Promise:

Kevin Rudd promised fairness to all Australians prior to the 2007 Federal election, yet his Government has accepted the recommendations of a lone actuary (Matthews Review of Pension Indexation 2008), and rejected the collective wisdom of 29 Senators involved in three Senate Inquiries which had previously recommended fairer wage-based indexation. Despite this, Mr Rudd claims he is an evidence based politician. Three of those Senators are now Government Ministers: Penny Wong, Nick Sherry and Stephen Conroy. Those who were influenced to vote Labor have been betrayed. The Coalition also refuses to accept that the CPI is an unfair indexation tool. The Greens support a change.

What will Fair Indexation Cost?

SCOA is confident that the Government's estimate of the first year's gross cost of \$42m is overstated because of incorrect actuarial assumptions relating to PSS members. In any case, \$42m is tiny in budgetary terms.

The University of Canberra says that there will be indisputable *claw back* of approximately 40% due to increased income tax and GST collections and a reduction in Age Pension expenditure. Improved indexation will mean a reduction in the amount of Age Pension some Commonwealth superannuants receive.

The first year's net cost to the Government, after *claw back*, would therefore be around \$25m.

The Future Fund:

Allegedly created by the Coalition to fund long term Commonwealth superannuation liabilities, in Dec 2009 it held \$66.2 billion. Without further cash injections it will grow to \$113.22 billion or \$142.92 billion based on growth rates of 5% and 8% respectively.

2010 Intergenerational Report:

This shows unfunded Commonwealth superannuation liabilities halving from 0.4% of GDP to 0.2% of GDP over the longer term.

Further Information:

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