

The Secretary
Senate Community Affairs Committee
PO Box 6100
Parliament House
Canberra ACT 2600

SUBMISSION TO SENATE COMMUNITY AFFAIRS COMMITTEE
INQUIRY INTO THE COST OF LIVING PRESSURES ON OLDER AUSTRALIANS

relating to sub-clause (d) of the Terms of Reference:

(d) the adequacy of current tax, superannuation, pension and concession arrangements for older Australians to meet these costs

Submitted by (Dr) O.J. Raymond

INDEXATION OF COMMONWEALTH SUPERANNUATION PENSIONS

I am a retired Commonwealth public servant and a superannuant in the Commonwealth Superannuation Scheme (CSS). My CSS pension is indexed to the Consumer Price Index (CPI).

The unfairness of CPI indexation was recognised in April 2001 by a Senate Select Committee which (among other things) recommended examination of the feasibility of adopting an indexation method other than the CPI for Commonwealth Public Sector and Defence Force superannuation pensions, to reflect more adequately actual increases in the cost of living.

Another Senate Select Committee in its December 2002 report on Superannuation and standards of living in retirement recommended (among other things) “that the Government consider indexing Commonwealth funded superannuation benefits to Male Total Average Weekly Earnings (MTAWE) or the Consumer Price Index (CPI), whichever is the higher, *in order that recipients share in the increases in living standards enjoyed by the wider community* [my emphasis].”

The first year gross cost of wage-based indexation was at that time estimated by the Department of Finance and Administration (DoFA) to be approximately \$25 million. The impact on the budget of wage-based indexation for Commonwealth superannuants would be very small indeed. The December 2002 Senate Select Committee report also stated that “under favourable fiscal conditions the cost of such a change could be absorbed.” “Favourable fiscal conditions” have prevailed ever since; there has been a succession of very large budget surpluses. The Government’s positive economic forecasts show clearly that the change sought to pension indexation is easily affordable now and into the future.

What is more, there would be offset savings through increased tax revenue and reductions in Age Pension outlays. The National Centre for Social and Economic Modelling at the University of Canberra has estimated these savings to be almost 40% of the gross cost. I am aware that DoFA states that Governments do not normally take such savings into account in considering Budget proposals. Be that as it may (it is an oddly illogical position to take as it results in overstating the true net cost of a policy decision), the savings would occur and should not be ignored in the consideration of policy.

The Government’s Intergenerational Report stated that there will be a significant reduction in outlays on Commonwealth superannuation as a percentage of GDP over the next forty years. This will further reduce the extremely small financial impact of wage-based indexation of Commonwealth pensions.

Some Commonwealth superannuants will benefit from the tax changes to superannuation which took effect on 1st July 2007. However, being tax-based, they will not flow to many of these superannuants who receive a low income and already pay little, if any, tax. Welcome as these tax changes are, they are irrelevant to the current subject. The changes do not address the crucial issue of the purchasing power of Commonwealth superannuation pensions.

The Government has recognised the inappropriateness of the CPI as an index in its wide application of wage-based indexation, for example, to the Age Pension, war veterans' pensions, Reserve Bank superannuation pensions and Parliamentary pensions. Such pensions are typically accorded indexation by the better of CPI or wage-based indexation. The Government has in these cases recognised the fairness and equity of this. In the words emphasised in my third paragraph, these *recipients share in the increases in living standards enjoyed by the wider community*. The Government's present position regarding indexation of Commonwealth superannuation pensions is very unfair and very inequitable. What is fair and equitable for Age Pensioners and the others I have listed would be so also for Commonwealth superannuants who, like them, should share in improvements in community living standards.
