



Association of Independent Retirees, Inc.

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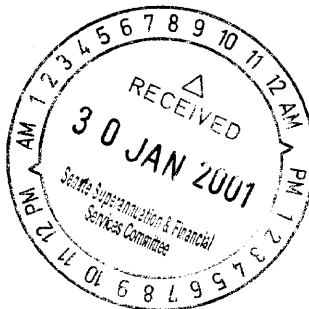
(Canberra Branch)

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Canberra Branch President
P.O. BOX 206 LYNEHAM ACT 2602
phone/fax (02) 62497935

25 January 2001

The Secretary
Senate Select Committee on
Superannuation and Financial Services
Parliament House
CANBERRA ACT 2600



Dear Sir/Madam

I am making this submission to the current enquiry into matters relating to Commonwealth public sector and defence force unfunded superannuation schemes more as a personal one rather than official Association of Independent Retirees (AIR) policy. However, at this month's meeting of the Canberra Branch of the Association it was decided that as President of the branch I should refer to you a copy of a proposal that is currently being considered by a committee set up by AIR's National Council.

Members of the Select Committee would probably be aware that AIR was created to represent the interests of people who have contributed to (or are contributing to) their retirement income through superannuation/investments etc. Even though some of our members receive a part rate age pension it is practice to refer to those who have at least partially funded their retirement income as 'independent retirees' or 'self-funded retirees'.

At present the matter of indexation of government superannuation schemes is being considered by an Association committee. The proposal that gave rise to this consideration is aimed at superannuation pensions under public sector and similar schemes being subject to increases in line with average male weekly earnings.

Attached is a copy of the proposal and the stated rationale behind it.

As indicated in the rationale the CPI index is not at all representative of the majority of self-funded retirees as it does not reflect their expenditure patterns. Application of the CPI to what is usually at least the major component of their income thus results in erosion as time goes by of their living standards. This is an important consideration given that most people on retirement are faced with a drop in income that is greater than any reduction in outgoings they might enjoy. What was thought to be an adequate level of retirement income can thus become insufficient. One result of this can be that a person who had no intention or expectation of becoming an age pensioner finds that they are eligible for a part pension.

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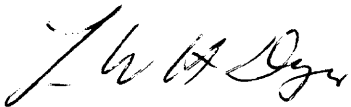
It is significant that changes in parliamentary superannuation pension payments are not based on the CPI but are subject to indexing on a different basis. It is clear that elected representatives recognise that the CPI is an unsatisfactory basis for retaining the real value of the income of superannuants.

I urge that in the name of fairness and evenhandedness that all government superannuation schemes should be indexed on a consistent basis. In recognition that retired people generally have different expenditure patterns to the average person, in addition to having suffered reduced income, it should not be the CPI, that index being completely unrelated to the situation of most retirees.

The CPI is from time to time revised. In a talk to the Canberra Branch of AIR by a highly respected financial adviser he pointed out that this leaves the way open for manipulation of the index to serve the purposes of a government. Whilst this may not have occurred in the past the possibility of changes that further impact adversely on them is a matter of some concern to self-funded retirees.

I should add that I myself receive a Comsuper pension. I can personally verify that the CPI has not reflected the substantial drop in purchasing power of that pension over time.

Yours faithfully



L W H (Len) DYER
Branch President

**ATTACHMENT TO LETTER FROM L W H DYER TO SENATE SELECT
COMMITTEE ON SUPERANNUATION AND FINANCIAL SERVICES**

The following resolution was submitted for the October 2000 National Conference of the Association of Independent Retirees Inc. The resolution has been referred to a committee for consideration.

That National Council approach Government and other relevant groups to endeavour to have retirees on Commonwealth and similar Superannuation schemes receive increases in their Superannuation pensions aligned/tied to average male weekly earnings.

RATIONALE:

Increases in the Commonwealth Superannuation (Comsuper) pension paid to retirees are determined by rates of CPI increase - a purely cost index. For some time now this has not reflected the true increase in the cost of living as being experienced by retirees, as do some other Government Superannuation Pensions.

There are significant groups in the community including Age Pensioners and Federal Parliamentarians who receive more generous increases aligned to average weekly earnings in their superannuation/pensions. The article by Frank Cassidy in "The Canberra Times" of 28.2.2000 illustrates this.

CPI increases take account of such items as mortgages (no significant increases over the past few years until very recently). Many retirees do not have mortgages by the time they retire but are demonstrably affected by increases in food, fuel, rates, transport, health costs and items such as (the increasing incidence of) government charges on services. Anyone trying to live on a Comsuper pension will verify that their real income has "shrunk" over the past several years.

People on the Age Pension received a \$5/week increase several months ago and are about to receive another of similar order. In addition, Age Pensions are treated generously in the GST package. While it is understood Self Funded Retirees will receive some saving bonuses under these packages it seems that they would need substantial interest from savings to be eligible for the full amount of the bonus, and there are many who would benefit only marginally.