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My Ref S22186467

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

Dear Secretary

Please see my individual Submission to the Senate Select Committee on Superannuation and Financial Services into the design of Commonwealth public sector and defence force unfunded superannuation funds and schemes.

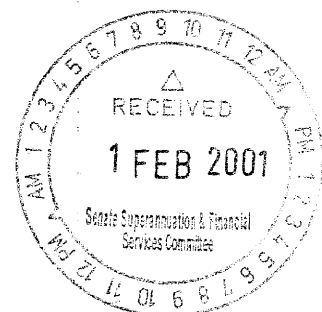
As a recipient of a pension since 8 December 1987 in accordance with the provisions of the Superannuation Act 1922 and 1976, I welcome the opportunity to provide brief comments on your current inquiry.

Retirees major concerns with the Commonwealth Public Sector Superannuation Scheme is the declining value of their payments, which comes under terms of reference (f).

#### **Unfair and discriminatory indexation arrangements**

Unlike age pensions, Commonwealth public sector superannuation pensions are only indexed to the Consumer Price Index (CPI) as opposed to Age Pensions, which are indexed to both the CPI and Male Total Average Weekly Earnings (MTAWE). Whilst age pensions are indexed twice a year (in March and September), Commonwealth superannuation payments are indexed only once a year, in March.

In some years, superannuants have received little or no increases in their payments, as a result of low inflation. In 1998 when the CPI was officially recorded in the negative, superannuants received no increase at all. Whilst under legislation, pensions cannot be reduced, they can be discounted by a similar amount of inflation in the following year. This is unfair and discriminatory; it is noted here that there are no provisions for the discounting of age pensions when the level of inflation is negative.



A further anomaly, which the committee needs to address, is that for Commonwealth Sector Superannuants, only the standard pension is subject to inflation, with any additional pension purchased with the members own funds, these are not indexed to inflation.

One of the major inconsistencies here is the treatment of retired public servants with those of others in the community. Politicians' superannuation is linked to increases in both CPI and living standards.

Another area of unfair treatment is that parliamentary superannuation pensions are adjusted by a wages mechanism. **Importantly, this means that increases in current members' salaries automatically flows to retired parliamentarians.**

Retired Politicians under the current formula will receive an increase in their pension in line with the wages component incorporated in their base pension. Parliamentary pensions are also based on a proportion of the salary of serving politicians and the minimum superannuation pension is 50 per cent of a backbenchers salary for a person who has been in Parliament for at least 8 years. Subsequent to changes arising from *the Workplace Relations Act (1996)* and the *Employment (Consequential and Transitional Provisions) Amendment Act 1999* resulted in accepting recommendations that future increases in politicians salaries (which would boost politicians superannuation pensions) be linked to Average Weekly Ordinary Time Earnings (AWOTE).

It is noted here that this wages measurement is the highest available - and that even the age pension has been linked to the lesser level of MTAW.

Not only do politicians enjoy extremely beneficial superannuation arrangements, they are also allowed immediate access to their superannuation - unlike the rest of the Australian community, who must wait till the preservation age (currently 55), unless a case of extreme hardship is proven.

What all of this means is that, as time goes on retired public servants face a decline in their standard of living. This is, **we believe discrimination on the basis of age** and is, in essence, inequitable treatment for superannuants. **Retired Commonwealth employees are being treated like second class citizens.**

Of serious concern, is this serious decline in the living standards of superannuants and the failure to ensure a mechanism that maintains the relativities of their incomes with those of the rest of the community.

Consider, for instance, that over the last decade superannuants' pensions have increased by 24 per cent, average weekly earnings have increased by 47 per cent and male total average weekly earnings have increased by 37 per cent.

### **The age pension and superannuation**

It is recognised that in most cases retired commonwealth public sector employees receiving pensions are almost in all cases better off, than for example, those who live on the basic level of pension. We also recognise that some of the tax reform changes have meant that many superannuants now receive a small part pension, as a result, mainly of the loosening of the Pension withdrawal rate from 50 to 40 cents in the dollar. However, we point out that many superannuants did not receive the savings bonuses because of the strict eligibility rules, whilst others received little relief in terms of tax cuts, yet these people are still having to contend with the devaluing of their savings and higher price rises as a result of the Goods and Service Tax.

### **Recommendation**

That the Committee develop a suitable formula to address the concerns raised above over the indexation of superannuation pensions, to ensure that the living standards of retired Commonwealth employees is maintained relative to increases in the living standards of the rest of the community.

I hope that these comments have been of some assistance to the inquiry. Please do not hesitate to contact me if you require further information, or if you would like me to provide verbal evidence at a public hearing of the inquiry.

Yours sincerely



Ray Merchant