

REVIEW OF CPI INDEXED COMMONWEALTH SUPERANNUATION  
PENSIONS - SUBMISSION TO SENATE ENQUIRY 2001 BY  
WING COMMANDER L.C. WILLIAMSON RAAF (retired)

**Background**

**Author.** The author, Wing Commander Lindsay Williamson, has been retired for twenty-two years. On retirement, the DFRDB pension received was 44% of retirement pay, less a few hundred dollars in the annual pension owing to maximum commutation of four times the uncommuted yearly pension - the commonly exercised option.

**Effect of Annual CPI Adjustments - Personal Evidence.** Using the scales and calculations under the DFRDB Act and the current salary of a wing commander, the author finds that his DFRDB pension is about 11% less than it would have been had he retired now. In money terms, this is about \$3,000. The accumulative loss over the years is considerable.

**CPI Adjustment Assumption.** The author shares the widely held and reasonable assumption about the Cost Price Index annual adjustment guaranteed by the relevant legislation. The assumption has been, and remains, that the adjustment would assure DFRB/DFDRB, and (under a later scheme) Commonwealth Superannuation, pensioners a continuing standard of living during retirement. This submission is based on that assumption.

**Responsible Advice.** If the intention was to allow a continuing degradation of the quality of life through a persistent diminution of the purchasing power of pensions, this ought to have been made clear to allow the exercise of financial planning and/or employment options. No caveat was ever issued.

**Deprivation of an Annual Adjustment.** Germane to annual adjustments, the Senate Committee might graciously care to consider a small matter in its deliberations. Some years ago, and contrary to legality and morality, one annual CPI increase was withheld, without serious benefit to the national economy. The amount of that withheld increase was never returned in "better times" to the deprived DFRB/DFRDB and Commonwealth superannuants - many of them, including widows, depending solely on meagre pensions.

**Goods and Services Tax and Retrospectivity.** Years later, with the recent introduction of the Goods and Services Tax, no immediate adjustment was given to any DFRB/DFRDB or Commonwealth Superannuation pensioners [Commonwealth superannuants]. By comparison, other Commonwealth pensioners were compensated in advance. Any compensation to Commonwealth superannuants will now rely upon a prospective annual CPI adjustment. Meanwhile, as is the retrospective nature of the annual CPI adjustments, Commonwealth superannuants will have suffered interim reductions in purchasing power. In simple terms, they will have had less income to accommodate rising prices. However, some of these pensioners would have benefited from the compensatory grants made to eligible self-funded retirees.

**CPI Retrospectivity Generally.** A common complaint among Commonwealth superannuants is that a yearly retrospective CPI adjustment always leaves them out of pocket. They have less income to meet rising costs as they occur. There seems no sensible alternative to retrospective adjustments, but more frequent increments should at least follow the quarterly release of CPI figures.

**Effect of Annual CPI Adjustments - Anecdotal Evidence.**

For three years, the author was President of the RAAF Staff College Association. Thus, he had, and has, maintained, wide contact with very many retired RAAF officers, and knows many Navy, Army, and Commonwealth Public Service superannuation pensioners. All have maintained the firm view that the CPI adjustments have not retained the value of their pensions in terms of a continuance of reasonably expected standards of living. Moreover, enquiries with many friends and shoppers over the years have revealed a frank disbelief in the veracity of the CPI.

**Other CPI Measurements.** There are other cost-price indices that throw clear doubt on the realism of the Australian Bureau of Statistics (ABS) CPI figures as a reflection on actual living costs. The Macquarie Bank's ASSIRT (retirement index) is an example.

**Inequity of Differing Retirement Times.** The training, qualifications, experience, and work value, of practically all currently serving members of the Australian Defence Force could not be said to be higher than those who served previously. Accordingly, the disparate circumstances between those at the same grades who retired at different times is an inequity that ought to be addressed. This is in addition to the need to rectify the diminishing value of pensions.

**CPI Basis for Adjustments**

The manifestly diminishing ability of Commonwealth superannuants to maintain standards of living establishes that the CPI has not totally reflected rising costs, and improving standards in the quality of life of most Australians. Thus, unless this can be clearly and cogently dismissed, the only logical conclusion is that the CPI is fundamentally flawed. Therefore, either the manner of determining the CPI needs revision, or the existing ABS CPI as a basis for pension adjustment needs replacing.

13<sup>th</sup> Review by the ABS of the CPI. In 1997, the Australian Bureau of Census and Statistics conducted a review of the purposes for and the methodology of arriving at the CPI. One of the terms of reference was to determine if there should be differently assessed CPI for different purposes. Three different needs were identified.

Submission by the Author. At Annex A is an extract from the author's submission, arguing for two types of annual CPI. One CPI was for national economic planning. The other was essentially for pension adjustments. The CPI pension adjustment formula suggested would have been simple, lacking arguable value judgements, uncomplicated, and comprehensively representative of the community (all those on Average Weekly Earnings - AWE). [On later reflection, the author would have suggested that the pension CPI be issued more than once a year.]

Result of 13<sup>th</sup> CPI Review. The result of the ABS review was the preservation of single quarterly CPI estimates based on value (even moral) judgements and debatable regimen (with some changes), still with complex and esoteric formulae, and again with disparate objectives. No wonder so many people affected by it doubt its validity, and cannot understand it.

Continued Use of CPI Adjustments. Nevertheless, the use of some sort of CPI for adjusting pensions seems to be one fair and sensible approach - say based on the principles at Annex A to this submission. This is provided it truly reflects contemporary lifestyle and living costs. In this respect, the AWE could be argued to be closer to lifestyle expectations and living costs.

### Average Weekly Earnings

The proposition might be advanced that the AWE figure mirrors solely a greater sharing of increasing national prosperity. However, the reality is that, in the absence of the old "basic wage" or CPI adjustments, the only way most workers can receive cost of living increases is through industrial initiatives, which lead to the AWE. Of course, as the Honourable Senators will be well aware, the follow-on effect of the industrial initiatives leading to AWE rises are increases in demand resulting in cost of living rises (the wage-spiral/inflation effect).

Conceivably, the AWE more closely reflects a true CPI than the questionable one presented quarterly by the ABS. The ever increasing gap between AWE and the CPI in itself strongly suggests the inaccuracy of the ABS CPI against rising costs. The decision to link Federal parliamentary salaries, and consequently MPs' pensions to the AWE could be seen to support this proposition about the nexus between the AWE and the cost of living in its broad sense.

There have been media and other suggestions that the use of the AWE to adjust parliamentary salaries, and thus the linked pensions, is excessively over-generous. Aside from the question of the AWE being more realistic than the CPI, in all fairness, MPs do work very hard, live difficult lifestyles domestically, and face insecure employment prospects.

There is the valid corollary. Members of the Australian armed forces also work very hard, live even more difficult lifestyles domestically, and face potentially precarious employment prospects through the very nature of their training and operational commitments.

Nevertheless, in respect of Federal MPs, if, as seems reasonable, the AWE more closely represents rising costs and quality of life improvements, then the AWE linking is neither unfair nor unreasonable. After all, most Australian workers receive periodic increments in weekly earnings. On a parallel basis of simple equity, the linking of Commonwealth superannuation pensions with movements in the AWE would appear to be equally fair and reasonable.

On the other hand, if the AWE can be shown to be significantly in excess of cost of living rises, then to apply it to Commonwealth superannuants might be held to be excessive. Also, owing to the greater numbers of pensioners involved, vis-à-vis retired Federal MPs, the costs might be hard to justify - supposing the AWE rises historically and significantly above actual living costs.

#### Linking with Contemporary Salaries

Another way to assure Commonwealth superannuants of continued standards of living, as expected at retirement, would be to link the pensions with the changed and changing salaries of the positions at which each pensioner retired. For example, adjustments would be made to a retired captain's DFRDB pension whenever the pay of serving captains increases.

The problem with this means of adjustment might be that it could be a complex arrangement. This could stem from the greatly varying differences in the retirement circumstances of individuals. The bureaucratic cost overheads might be high too.

Conversely, after the initial setting up of a suitable computer system, such a scheme might well be feasible. But such a scheme would also depend upon service pay being regularly reviewed and, unfortunately, during about three decades of ADF service the author experienced many long periods of markedly lagging pay levels.

## Options

These would seem to be the options:

**Do nothing.** To retain the status quo would be an injustice. That Commonwealth superannuation pensions degrade over time is surely uncontestable.

**Change the CPI.** Changing the way the ABS arrives at the CPI to make it more reflective of actual living costs would be an approach. But if this conflicts with economic planning needs, then a separate purpose driven CPI (as suggested at Annex A) would be a more realistic and just approach.

**Use Current Pay Levels.** An efficacious way to reflect what was surely the intention and understanding with the use of the CPI would be to adjust pensions to the current levels of remuneration applicable to the retirement positions of individual pensioners. After all, this merely reflects the method of pension adjustments for retired Federal MPs.

**Use the AWE.** If the AWE more accurately reflects costs and living standards rises, then this would seem the fairest and most practical approach as putatively quite reasonably used by Federal MPs.

**A Safety Net Combination - Method 1.** If the ABS will not, or cannot, change its way of calculating the CPI, or adopt a special formula, then a "safety net" option might be an approach. This would be to continue using the present CPI, with all its faults, but to have a three yearly(say) adjustment based on the AWE movements over the previous three years.

**A Safety Net Combination - Method 2.** Alternatively, the flawed CPI could be used with a three yearly adjustment based on current grade/rank pay levels related individually to every Commonwealth superannuant.

#### Conclusion

There is the assumption by Commonwealth superannuants, never responsibly officially countered if appropriate, that the CPI adjustment of pensions was always intended to maintain living standards to modern levels despite rising costs. The widespread experience and view is that the ABS CPI has failed in this. In a 1997 review, the ABS raised the question of the CPI's suitability for pension adjustments, but no significant change resulted in the interests of Commonwealth superannuants.

Not only is the value of Commonwealth superannuation pensions perceived widely as having diminished (to degrees depending on individual retirement dates and pay). But, also, the necessarily retrospective nature of only once a year adjustments, the introduction of the GST, and the loss of the payment of one year's adjustment, have exacerbated the situation. Moreover, different retirement dates among individuals, as against changing rates of pay, have created disparate income levels between superannuants who retired at the same ranks or grades.



All these shortcomings and inequities could be rectified easily. Either a special purpose CPI, or the AWE, or extant rates of pay, could be the basis of periodical (preferably more than once a year), or occasional (against pay rate rises), adjustments. And either the AWE, which arguably more approximates the cost of living, or up-to-date pay rates, could be used to ensure that pensions retain their full original value against living costs and the quality of life expectations.

#### Recommendations

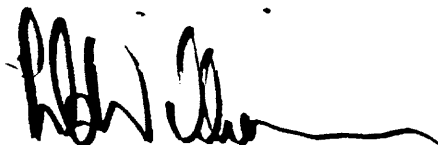
A recommendation is respectfully submitted that Commonwealth superannuation pensions be adjusted quarterly either by movements in the AWE, or through a specific purpose devised CPI. Such CPI should truly reflect the rising costs of superannuants living standards at the levels they could have reasonably expected to experience when they retired.

A further recommendation is that, whatever the basis for periodic adjustments, every three years a "safety net" increment be made on the basis of movements in the AWE over the preceding three years; or adjusted individually against contemporary pay scales, as changes occur.

Furthermore, the distinguished Senate Committee is earnestly asked to seek the repayment to pensioners of what they lost in the withholding of one year's CPI adjustments. (This is an easily ascertainable amount.)

A final recommendation is that there be some form of compensation made for the one-off effects of the introduction of the Goods and Services Tax. However, this should exclude those Commonwealth superannuants who did benefit from the grants made to self-funded retirees.

23 January 2001



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ANNEX A

EXTRACT FROM SUBMISSION TO ABS 13<sup>TH</sup> REVIEW OF THE CPI -  
BY WING COMMANDER L.C. WILLIAMSON

[CONCLUSION]

30. The present CPI system attempts to satisfy different purposes without satisfactorily meeting the distinctly separate requirements. The bifurcation of the CPI to a yearly National Inflation-Deflation Index (NIDI) and an annual Cost of Living Index (COLI) should satisfy the three purposes cited in the Information Paper.

31. Unless there are compelling contrary reasons, these statistics should be on an annual basis, thus allowing the better use of resources and consequent wider and more accurate data collection. The evolution of a NIDI could well involve deeper, possibly separate, economic and statistical expertise and basic reappraisal.

32. Conversely, the design of a COLI based on the simple concept of an annual statistic embracing the widest possible population target, centred on those on average weekly earnings, and covering, without judgemental or assumptive inputs, all goods and services consumed by the target group is recommended. Effort on researching and debating complex issues should be avoided, unless there is clear and unequivocal evidence that such issues would significantly influence the basic aim. This aim being the simple measurement of what it totally costs the best feasible sampling of the population to live each year, with the difference being the percentage rise or fall in costs from the previous year.

33. Finally, the system should be easily understood by all affected by it. In this respect it must be seen to be equitable and reasonable and not the product of convoluted and esoteric thinking.