Australian Council of Public Sector
Retiree Organisations Inc. ABN74202015642

Peak Council representing Commonwealth, including military, State, Territory and other public sector retirees.

Mr Michael Callaghan
Chairman
Retirement Incomes Review
Office of the Treasurer
Parliament House
Canberra ACT

20 November 2019

Dear Mr Callaghan

The Australian Council of Public sector Retiree Organisations, ACPSRO, is a peak body that represents the retirement interests of former State, Territory and Commonwealth employees as well as former Military personnel. Most receive a defined benefit superannuation pension and they had to compulsorily contribute to their relevant superannuation scheme during their entire working lives. The issues we pursue also invariably affect the spouses/partners of these senior Australians.

On behalf of the more than one million senior Australians our organisation represents, I wish to submit to your Inquiry a preliminary submission, noting the Treasurer's Press Release of 27 September said that you will be putting out a Consultation Paper during November. We look forward very much to that and being able to comment on the issues it raises. In the meantime this is a preliminary contribution that reflects our special interest in superannuation policies.

The senior Australians we represent are not wealthy. Their average defined benefit superannuation pension approximates the combined married rate of Age Pension and most often supports both members of a couple.

When assessing the effectiveness of the Australian retirement income system, we strongly believe that such an assessment must examine not only the performance of the superannuation system and its interaction with the other two retirement income pillars, but also the methods used to adjust/index all relevant retirement income payments.

We urge the Inquiry to look closely at this element of retirement incomes because to ignore it will compromise the Inquiry's ability to properly and fully inform the Government of a critical factor that affects the living standards of all retirees.

We know, as acknowledged by several Senate inquiries, that State/Territory and Commonwealth defined benefit superannuants' pensions that are CPI indexed, have profoundly lost their purchasing power. This is because the regular long term quality adjustments that are made to the Consumer Price Index, CPI, are mostly downwards. There is clearly a need for an appropriate index that reflects actual street prices and maintains the purchasing power of a pension for the whole of the recipient's retirement.

Indexation Methods – Why are they so different – Do They Achieve Their Purpose?

In Australia there is a wide range of methods used to index the vast array of government income payments, pensions, welfare benefits, associated income/asset cut off/threshold levels, commercial contracts and superannuation annuity payments. For example within and across several Federal Government agencies such as Centrelink, Veterans' Affairs and Comcare, a broad range of income support payments are indexed quite differently. The Consumer Price Index, CPI, Male Total Average Weekly Earnings, MTAWE and the Wage Cost Index, WCI are but some of the myriad of indices used to adjust payments and eligibility thresholds.

Some examples of the significant difference over time in the percentage movement in just a few of these indexation methods is clearly seen in the attached graph. These movements have a significant impact on those affected as they age because their purchasing power is steadily eroded.

We note that a key requirement of the terms of reference for this Inquiry is for it to examine and report on the long term effects of the current retirement income arrangements as they relate to all Australians. In that context, we submit that in examining the variations in different indexation tools, it is critical to appreciate their relative compounding effect over time. The resultant long term effect of the loss of purchasing power on the lives of many senior Australians of a poorly chosen indexation method is enormous. Many such senior Australians are at the lower end of the socio-economic scale.

Questions therefore arise as to why indexation methods vary, what is their purpose and do they need regular review to ensure that they still achieve their intended purpose. Associated with this must surely be a fundamental principle that those affected are treated fairly and that their actual and relative standard of living are not adversely affected by whatever indexation method the Government of the day determines.

Over time, some of these indexation methods have changed across the range of indexed payments and associated entitlement thresholds, e.g. the Age Pension was once indexed by the Consumer Price Index, CPI. From 1997 this was changed and it was benchmarked to 25% of Male Total Average Weekly Earnings, MTAWE. In 2000 it was benchmarked to 26% of MTAWE following the introduction of the GST. It was further changed in 2009 to the better of the CPI and the Pensioner and Beneficiary Living Cost Index, PBLCI and benchmarked to 27.7% of MTAWE.

Earlier this year the need for retirement incomes to be appropriately adjusted was so clearly demonstrated when the Australian Securities and Investments Commission, ASIC, directed superannuation funds to adjust annual superannuation pensions from December this year by 3.2%. i.e. a prices factor, (an assumed CPI of 2%) plus a second factor, (1.2%) to ensure community living standards did not slip.

For too long Australians, and particularly those receiving pensions, have understandably been confused by Government and media reporting using terms such as inflation, cost of living, standard of living etc. They rightly ask are they the same, are they connected, just what do they measure?

A fundamental question needs to be answered – precisely what criteria is used to set the indexation tool for the many retirement incomes and the income/asset entitlement thresholds that ultimately determine the standard of living of millions of older Australians? Is that criteria carefully and appropriately selected to ensure that those same older Australians have their retirement income payment/s adjusted in a fair way to ensure that when they shop, their indexed payment is capable of keeping pace with the actual shop prices they pay from day to day? Is their relative standard of living being maintained? That's hardly too much to expect.

A thorough Inquiry into these Indexation methods and how/why they are chosen is long overdue. They simply can not all be correct and fair.

We recommend therefore that the Inquiry include in their investigations, a thorough assessment of the purpose of indexation and the extent to which that purpose is met across the range of retirement incomes.

Yours sincerely

John Coleman

President