



[SUPERANNUATION: DARYL DIXON]

# The cost of keeping pensions up to pace

## Indexation

The Government's fiscal limits prevent it from generously increasing public servants' super

**F**inance Minister Lindsay Tanner had bad news for retired and working federal public servants last month, when he accepted the advice of a leading independent actuary, Trevor Matthews. Matthews had recommended against indexing public servants' superannuation pensions according to wage growth instead of the consumer price index, as now takes place.

For public servants and military employees, this is a highly disappointing decision. Many expected the Government's election commitment to review the indexing arrangement to result in changes.

The case for a change is twofold. First, federal politicians and judges' pensions are already indexed to wage growth, which has been and is likely to continue to be higher than the growth in inflation. Second, the CPI does not accurately reflect the increases in retired people's living costs.

The consumption of retirees is weighted to goods and services whose prices have historically increased at a faster rate than inflation. The Rudd Government has virtually acknowledged this by introducing a new pensioner and beneficiary living-cost index for the age pension when it exceeds changes in the CPI.

The age pension is also benchmarked to the growth in male total average weekly earnings to ensure that it keeps

pace with the community's living standards. This index led to a substantial \$32.49 a week increase in the single age pension in the May budget, and will ensure that age pensioners can maintain their living standards in the future.

Tanner rejected the case for reforming the superannuation indexation arrangements largely because of its cost to taxpayers. In doing so, he relied on Matthews's actuarial assessment, which says there is no need for change. The *Informant* consulted another actuary, who said changing the indexation arrangements for retired bureaucrats could be a costly option that the Government would be extremely unlikely to give priority, given its stated objective of limiting federal spending growth to 2 per cent a year in real terms.

Because the public service super schemes are largely unfunded, any improvement in the indexation arrangements would immediately affect budget outlays. The Government already faces increased pension-funding costs from January 1 this year because of its decision to pay surviving-spouse pensions to same-sex partners of pensioners who die.

These provisions have led to only a small number of claims to date, but the expectation is that they will grow steadily over time. The eligibility criteria are the same as those that apply to partners in heterosexual relationships: the couple must have had an ongoing relationship of at least three years before the age of 65 and at least five years after.

The Government did not consider costs when it decided to remove discrimination against same-sex couples. But, unfortunately for retired

public servants, changing their indexation arrangements would involve significant ongoing extra costs.

The *Informant* sought further background on last month's decision and was told that a key obstacle to improving the bureaucracy's super indexation was the fact that many retired public servants also access a part age pension. As a result, these part age pensioners already have some access to the more generous indexation arrangements that apply to age pensioners.

The *Informant's* source said that retired bureaucrats on lower incomes were partially compensated for the slower increase in their CPI-indexed super pensions by an increase, over time, in their part age pension. Certainly, this may be relevant for public servants who are too young to be eligible for the age pension.

For retired public servants who are already eligible for and receive a part age pension, the May budget decision to increase the Centrelink-administered income-test rate from 40 per cent to 50 per cent will in many cases slow the growth of their age-pension entitlement. The Government has guaranteed that existing age pensioners who are affected by this increase in the income-test rate will not lose their entitlements. However, the future indexation of their age pension will be cut until the full impact of the budget change is reflected in their part pension entitlement.

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Falling behind: The consumer price index is a poor measure of retirees' expenses