



**Mike Kelly AM MP**

Member for Eden Monaro

**Senator Kate Lundy**

Senator for the ACT

**Bob McMullan MP**

Member for Fraser

**Annette Ellis MP**

Member for Canberra

The Hon Lindsay Tanner MP  
Minister for Finance and Deregulation  
Parliament House  
Canberra ACT 2600

14 September 2009

**Re: ComSuper and Defence Force Pensions**

Dear Minister Tanner

We welcome the release on 21 August 2009 of the report of the Matthews *Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes*, December 2008, whilst acknowledging the depth of frustration that had built up among ComSuper and Defence Force superannuants at the eight months delay in releasing the report.

Understandably, there is huge disappointment in both the findings and the Government response announced on the same day.

It had been widely expected that the recommendations would have supported a change to the method of indexation of these pensions, to that of whichever is higher: MTAW or CPI consistent with the pension, following the earlier Senate and other inquiries.

Significantly, many people genuinely believed that prior to the 2007 election, the ALP had committed to determining a "fairer" method of indexation, and 'a review' would provide the direction, so the immediate acceptance of the recommendation of no change in the Government response is being seen as a reversal of the pre-election position espoused by the ALP in campaign material.

The Matthews report was prepared in 2008, and presented to the Government in December 2008, and in the meantime (i.e. 8 months), the ABS has been working on an ALP "election commitment to index pensions by a measure that best reflects pensioners' living costs."<sup>1</sup>

The culmination of this ABS work was announced on the very next working day after the release of the Matthews Report and the Government response announcing **no change** in indexation arrangements for Australian Government civilian and defence force pensions: Minister Jenny Macklin announced, on 24 August, the new Pensioner and Beneficiary Living Cost Index (PBLCI) which "will better reflect price increases in goods commonly purchased by pensioners".

The base pension rate will now be adjusted twice each year by whichever is the greater of the (Consumer Price Index) CPI or the PBLCI. In addition the effective benchmark for single pensioners will increase from 25 to 27.7 per cent of Male Total Average Weekly Earnings (MTAWE). It is worth noting at this point that these changes were celebrated again earlier this week in another public statement from Minister Macklin which promotes the fact that the new PBLCI indexation even surpassed the MTAWE indexation factor.

The confluence in timing of the PBLCI announcement coming a day after the release of the Matthews Review has caused a great deal of consternation and served to sharpen the anger and frustration of Australian Government civilian and defence force pension recipients for the following reasons:

- a) The Government in its response to the Matthews Review appears to have failed to consider the PBLCI formula as a possible alternative indexation method (evidenced by lack of consultation on the specific issue with stakeholders) despite the Report being withheld for so long by the Government, and the clear opportunity provided by Recommendation 4 of the Report, and
- b) The Government, despite honouring the election commitment to conduct a review *per se*, has abandoned the *spirit* of the election commitment to a *review that would address the inadequacy and inequity* of the indexation method which has not kept up with the cost of living for Australian Government civilian and defence force pensions.

We respectfully request that you respond to both of these points and clarify the Government's stance, particularly since correspondence issued during the election enthusiastically pressed the point of finding a fairer method of indexation through the process of review.

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<sup>1</sup> Jenny Macklin MP, Minister for Families, Housing, Community Services and Indigenous Affairs, Media Release, "Improved indexation for Australia's pensioners" 24 August 2009.

Given the delay in releasing the Matthews findings and the Government response, we submit that there is a way forward that is both necessary and desirable to honour the position Federal Labor took to the last election and thereby restore confidence in the Government in the eyes of our constituents affected by this indexation policy.

Recommendation 4 of the Matthews Report states:

4: That, if a robust index which reflects the price inflation experience of superannuants better than the CPI becomes available in the future, the Australian Government should consider its use for indexing Australian Government civilian and military superannuation pensions.

Given the PBLCI has been developed, adopted as policy and applied to age pension, and is soon to be applied to veterans as well, since Matthews delivered his report to the Government in December 2008, this recommendation to the Government is to "...to consider its use....".

By way of background, it is also important to note the Matthews Report acknowledges the inadequacies in the CPI as a measure "to maintain the purchasing power of pensions" but concluded that its use should be retained (for ComSuper and Defence pensions) in the absence of – as yet (i.e in 2008) – a better index.

The Matthews Report did consider the use of an Analytical Living Cost Index (ALCI)<sup>2</sup> but considered that use of such an index could have the disadvantages of being implemented only annually, or of falling below the CPI rate. Note that the recent announcement on the inclusion of the PBLCI component for pension indexation has easily overcome both of these objections.

There would therefore appear to be no reason why the Government could not announce that the development of the PBLCI since the Matthews Review has opened the way for Australian Government civilian and defence force pensions now to be indexed -- as for age and other pensions -- twice each year by whichever is the greater of the CPI or the PBLCI. If Matthews is correct in his assumptions that there may be little or no resulting financial benefit in such a move, the cost argument would not apply<sup>3</sup>.

On this basis, and in order to honour the election statements, we urge the immediate adoption of the following policy as an interim measure to permit further consultation with the community directly affected: the introduction of the indexation method of adjustment twice each year by whichever is the greater of the (Consumer Price Index) CPI or the PBLCI for Australian Government civilian and military superannuation pensions. If cost should be thought to be still an issue, perhaps a cut-off point could apply to pensions above a certain level.

<sup>2</sup> Matthews Report Sections 6.7 and 7.1.

<sup>3</sup> However a new announcement from Minister Jenny Macklin, 6 September 2009, states that the new PBLCI will result in a September 2009 increase to single pensioners of 45 cents per week, and 70 cents per week for couples.

It is entirely appropriate, fair and consistent with our election commitment that the introduction of this improved indexation arrangement should coincide with that for pensions and benefits as announced by Minister Macklin.

Such an announcement would be entirely consistent with the findings of the Matthews Report and the Government Response to it, and would demonstrate the goodwill of the Labor Government to this now-disaffected group.

The organizations representing more than 300,000 ComSuper and Defence pensioners are committed to continuing their campaign for what they see as justice. They contend that the Government long ago abandoned the belief that the CPI was a measure for cost of living adjustments, and that this has now been irrefutably demonstrated by changes to indexation arrangements for other pension and superannuation schemes.

It is our view that the fair and reasonable way forward we have described is the best course of action because it honours the spirit and the letter our election commitment in the first instance, and secondly, opens the way for consultation and further progress towards fairness in the future.

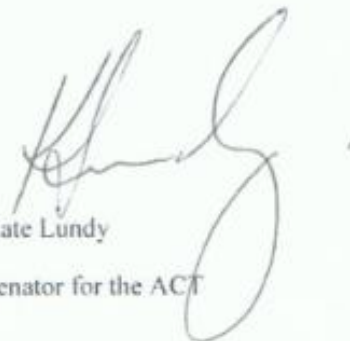
We look forward to meeting you at your earliest possible convenience regarding this important matter.

Yours sincerely



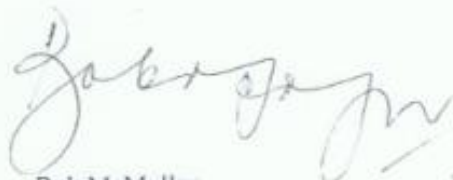
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