

**Deputy Premier Attorney-General Treasurer
Minister for Justice Minister for the Arts**

Mr T Hall
10 Brooks Place ULVERSTONE TAS 7315

Dear Mr Hall

Tasmania

INDEXATION OF RETIREMENT BENEFITS FUND LIFE PENSIONS

Thank you for your email dated 12 November 2010 sent to the Tasmanian Labor Party in which you raise concerns regarding the use of the Consumer Price Index (CPI) as the basis for indexing your RBF life pension. As Minister with portfolio responsibility for public sector superannuation your email has been forwarded to me for a response.

The sufficiency of superannuation in retirement is an issue for many retirees, including public sector employees receiving an RBF pension. However, I advise that the Government is of the view that the indexation of pensions by CPI is the most appropriate method for a number of reasons.

The CPI measures the national price level for a representative basket of goods and services. By keeping RBF pensions indexed to the CPI, the real value of the RBF pension is maintained, relative to that basket. Although the basket of goods and services for each household will be different, the movement over time in the prices of the goods and services included in the CPI basket is an appropriate measure of the changes in overall prices faced by the vast majority of households.

CPI indexation was a core design element of the RBF Defined Benefit Scheme. Had a different indexation basis been chosen, other aspects of the scheme design may have been different. For example, if Average Weekly Ordinary Times Earnings (AWOTE) had been used as you suggest, pensions would increase at a greater rate as the growth in average weekly earnings is generally higher than CPI. This would result in higher costs to the Government in meeting pension benefits and to compensate for this, the scheme design would need to have changed and other benefits may have been less generous or employees required to contribute a higher percentage of salary.

While wages have generally grown at a faster rate than CPI, this growth reflects increases in labour productivity and other labour market supply and demand issues. Those issues are not relevant to the maintenance of pensions in retirement.

Each superannuant of the Defined Benefit Scheme had a choice as to how they received their benefit. It would therefore be highly inequitable to alter the indexation basis as you propose as this would provide additional benefits to RBF pensioners, but not to those who took all or part of their benefit as a lump sum or allocated pension on the basis that their RBF pension would be indexed by CPI. This could lead to those who chose to take lump sum benefits making representations to the Government that they have been disadvantaged, as they would not have made that choice had they known that the pension indexation arrangements would change.

I also advise that the CPI is the basis currently used by all other jurisdictions, including the Commonwealth, to index their superannuation schemes. In December 2008 the Commonwealth Government commissioned a review of the pension indexation arrangements for seven Australian Government civilian and military superannuation schemes, the "Review *of* Pension Indexation Arrangements in Australian *Government* Civilian and *Military* Superannuation Schemes".

In this report the author Mr Matthews advises that although "he *received many* submissions that the CPI is failing to maintain the purchasing *power o f* pensions", he "did not find *any* conclusive *evidence* that the *CPI* understates *inflation* as it *affects* Australian households in general." Furthermore, Mr Matthews also advises that he has "looked at the issues objectively and cannot *find* that there is a case for an employer to *be required* to *update a former employee's* retirement income in line with changes in community living standards-that is, to *provide former* employees with a share o *f* *productivity* increases."

Mr Mathews also concluded that "neither have I found that it is inequitable that pensions are not increased in *line* with Age and Service Pensions. These are different benefits *provided for different purposes and are not comparable. If* they were to *be compared*, it is notable that although the Age and Service Pensions *may be increased* to achieve a minimum benchmark, civilian and military pensions have advantages that do not *apply* to the Age *and* Service Pensions. *For example*, civilian *and military* pensions *are guaranteed* lifetime benefits that are *payable from* younger ages than the Age and Service Pensions."

In conclusion, for the reasons I have outlined above, the Tasmanian Government considers that CPI remains an appropriate form of indexation to ensure that RBF life pensions are protected from the impacts of inflation.

Thank you for bringing this matter to my attention.

Yours sincerely

Lara Giddings