ASSOCIATION OF STATE SUPERANNUANTS
ACTUARIAL STUDY OF IMPROVEMENTS TO PENSION INDEXATION
EXPLANATORY NOTE

State government employees who started employment before 15 May 1999 and who contributed to the government's defined benefit contributory scheme, receive a pension which is indexed to the Consumer Price Index (CPI). As at 30 June 2011 there were 8,177 State superannuants receiving indexed pensions, and a further 9,758 State government employees eligible for indexed pensions from this scheme, which was closed in 1999.

CPI indexation of State and Commonwealth public sector pensions began in 1973, following recommendations made by Professor A. H. Pollard in his report "Enquiry into Superannuation Pension Updating" based on, amongst other criteria, **the maintenance of the pension's purchasingpower**. At that time all wages adjustments were by movements in the CPI which reflected the cost of living.

During the early 1990's shelf prices of products which are included in the calculation of the CPI began to be discounted for changes in quality, in keeping with international best practice. As a result the **CPI no longer approximates the movement in actual shelf prices, or street prices**, of a basket of goods. The Australian Bureau of Statistics (ABS) states on its website "The Analytical Living Cost Index (ALCI) measures the impact of changesin prices on the out-of-pocket expenses incurred by households to gain access to a fixed basket of consumer goods and services. The CPI,on the other hand, is designed to measure price inflation for the household sector as a whole and is **not** the conceptualideal measure for assessing the changes in the purchasing power of the disposable incomes of households." The ABS further states that CPI has failed to keep pace with the rising living costs of Australian households, and that the discrepancy is greatest in the 'government transfer recipients households' (ie defined benefit pensioners)

It follows that since the change in CPI calculation in the early 1990's,pensions indexed by CPI no longer maintain purchasing power, contrary to Professor Pollard's recommendation in 1973 and as implemented by the Commonwealth and State governments.

The Tasmanian Association of State Superannuants (TASS) commissioned an independent and professional actuarial study in 2012 to compare CPI indexation with Centrelink pension indexation, initially also by CPI, but in 1998 effectively indexed to Male Total Average Weekly Earnings (MTAWE) "so that pensioners share in improved community living standards as measured by wages" (Prime Minister John Howard)

The study covers two periods in time. One is the historical period 1999 to 2011, with a common start pension of $17,000, and the other is a future period 2012 – 2022 starting with a common pension of $27,253. Although presented in the report in tabular and simple graph formats, the results are presentedas a graph over time, for each period, showing the difference between CPI and MTAWE indexed pensions as a percentage of the MTAWE indexed pension.

The graph **"The erosion in value of CPI indexed Tasmanian RBF superannuation when compared withMTAWE indexed superannuation"** starkly depicts the constantly declining value of the CPI indexed pension when compared with a MTAWE Indexed pension. This is the best indication we have how far todays CPI is falling behind what is happening to street prices, the prices consumers have to pay in the shop.