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# Australian Council of Public Sector Retiree Organisations Inc.

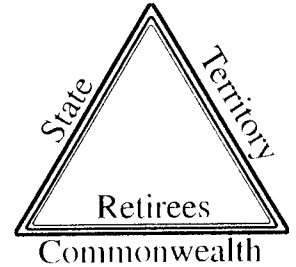
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ABN 74 202 015 642

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

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PO Box 4166 Kingston ACT 2604



Ref: 10/04

22 September 2004

Member Organisations

## PROGRESS REPORT NO 3/2004

1. The Executive has continued to lobby for a change in indexation of Commonwealth pensions which, if achieved, we expect to flow to the states because of the *Heads of Government Agreements*. Attached are copies of letters we have sent to Senator Minchin refuting his arguments for maintaining CPI indexation only, and the reply we received from his office.
2. The President and Past President met with the PM's Chief of Staff and his Economics Adviser on 20 August. Attached is a copy of the report of that meeting. Following the election announcement on Sunday 29 August we sought a follow up meeting but our letter was not answered.
3. On 8 September we sent a letter to all Coalition MPs and a copy of that letter is attached. We sent a copy to the PM and Minchin with a suitable covering letter, as a matter of courtesy.
4. Since then, executive members have had two meetings with a consultant who has provided advice on the way to make indexation an election issue. After several iterations, this has resulted in the development of a media release and interviews with media representatives which the consultant will arrange. Following this activity, we would expect the media to pick up the issue and thus gain the publicity we have not yet received. The media release is expected to be published in two days time, on Friday 24 September and the interviews are currently being organised. The consultant has helped us draft a letter to parliamentarians in the marginal seats to bolster the argument and gain their support to change the Government's stance. This letter will be posted tomorrow, 23 September. Copies of the media release and the letter to the marginals will be tabled at the AGM.
5. The cost of the exercise with the consultant is expected to be of an order which would almost exhaust our funds. Therefore, we are foreshadowing a proposal for discussion at the AGM (27 October 2004) to increase the annual subscription for, say, a few years until our funds build again. We are shaking the Government about this issue and we believe we are now presented with a chance of winning an indexation change.

J A Paule  
National Secretary

Ref: 50/01  
5 August 2004

Senator The Hon Nick Minchin  
Minister for Finance and Administration  
Parliament House  
CANBERRA ACT 2600

Dear Minister,

Thank you for your letter of 19 July enclosing comments on indexing by Mr P McCarthy of the Australian Bureau of Statistics and comments on the costs of changing from CPI to MTAWWE indexing (source not stated).

We thank Mr McCarthy for the explanation he has given on cost of living indexation. While none of this is new to us, it is valuable to have ABS views on the record in the context of the current debate. We are happy to accept Mr McCarthy's statement that the ABS has not been in the business of framing its conclusions in terms that the Government wants to hear, and we apologise for the perception to the contrary. That perception must therefore have its genesis in other causes. Some light on this will be cast below.

In commenting on our document *Indexing of Public Sector Pensions*, Mr McCarthy, quite surprisingly, is in error when he says in his short reply that 'It is apparent that the author does not understand the differences between changes in relative living standards and changes in living costs'. It is exactly that specific difference that is at the heart of our objections to the CPI being the measure used to index public sector pensions, and our campaign to have it replaced by wages linked indexation - just as age pensioners, Reserve Bank retirees, and politicians do. Our document is replete with quantitative evidence of the gap between changes in relative living standards (as measured by wages-linked indexation) and changes in costs (as measured by the CPI).

Mr McCarthy criticises what we say in para 27 of our document. Our comments in that paragraph stemmed from your using the SFRI index and the ABS conclusions from it (with no elaboration or explanation) as justification for continuing to adjust our superannuation by the CPI rather than MTAWWE. And it is precisely here that the question of ambiguity arises. It just did not occur to us that you, Minister, would miss the essence of our whole representations, namely that we were arguing against our loss of parity with general community living standards. We took it that you were responding to that request and, in effect, saying that our superannuation was adequate judged on that basis. We have never criticised the CPI as a measure of what it has been designed to monitor, namely the changes in costs of a selected basket of goods and services. It was the exclusion from that process of any allowance for more general improvements in living standards that lies at the base of our representations. The conceptual distinction is portrayed very clearly in Mr McCarthy's contrast between *Absolute and Relative Standards of Living*.

Some conclusions can be drawn from this exchange. The first is that it would help to obviate misunderstanding - or worse, potential or perceived misuse - of conclusions stated by the ABS if an indication of the context in which they apply were to accompany them. Phrases like *costs of living* and *living costs* can mean different things to different people and, when they are used with quite specific connotations, the latter should be explicitly stated.

The second conclusion Minister follows from your use of the SFRI results as justification for continuing to use the CPI to adjust public sector pensions. Such a stance seems to indicate that the Government considers it fair and just to keep military and retired public service superannuation anchored to a standard which is falling further and further behind that enjoyed by the working population, Reserve Bank retirees and retired politicians.

Context is also important when considering the relevance of the 1974 Pollard/Melville recommendation on indexing superannuation. That was not a time when community living standards were moving substantially ahead of price movements, reflecting improvements in productivity and policies of economic reform as well as the further freeing up of international trade and commerce. That the changed circumstances had rendered the CPI alone an inappropriate method of indexing was recognised by the Howard Government in 1997 when it moved to link social security pensions to the wages base.

As to the costs of changing to a more equitable system of indexation for public sector pensions Minister, your repeated responses, emphasising in particular that unfunded liabilities would increase by \$7 billion, disregard your Government's *Intergenerational Report* statement that the unfunded liability as a percentage of GDP is falling. This statement is also made in the *Government Actuary's Triennial Report*. Furthermore, the Senate Select Committee on Superannuation, in their report on the issue, said that the costs involved in improving indexation from CPI to MTAWA would be quite manageable within budgets.

As to the offsets that might be involved, whatever the difficulty in estimating them, there is little doubt that they would be considerable. Centrelink and the Department of Veterans Affairs hold very detailed information on those civilian and military retirees who receive a part age pension top up. Aggregation of the total super involved and the total top up would not appear to be a problem. Then the aggregated amount or part age pension being paid would be reduced by \$40 for every \$100 of indexing paid to the aggregate of superannuants. This would produce a starting figure for the social security offset. Presumably, extrapolation into the future would not be more difficult than the various extrapolations that have had to be done in order to calculate the unfunded liability, the fiscal balance and the cash outlays. Tax claw back estimates would be more difficult, given both the complexity and opacity of our tax laws and also the larger number and the fine structure of the parameters involved.

The general benefits for self-funded retirees catalogued in your letter certainly help but they do not compensate for the failure to provide equitable indexation. Selective presentation might be said to gild the lily somewhat. We refer to your example 'in 1995-96, before the Government came to power, a self-funded retiree with an income of \$20,500 would have paid \$3,177.50 in income tax and Medicare levy'. By contrast, as you point out, paying no income tax or Medicare levy today, he has the full \$20,500 as disposable income. This is true. What you do not mention is that in 1995-96 he would have been left with \$17,322.50 after-tax income in 1995-96 dollar value, whereas the \$20,500 he has now is in 2003-04 dollar value. These comments you may have mistakenly assumed to be just too obvious to mention. But this is not so, because they prompt the need to do a calculation. Between 1995-96 and 2003-04 the CPI went up by approximately 23 per cent. An amount of \$20,500 in 2003-04 dollar value would therefore equate in purchasing power to about \$16,667 in 1995-96, some \$655 less than the after-tax income he actually had at that time. Making the comparison in 2003-04 dollar value, we find the

purchasing power of \$17,322.50 in 1995-96 equates to approximately \$21,307 in 2003-04, compared with \$20,500 under your Government. Either way, the self-funded retiree, whom you have selected to show the generosity of your Government, was considerably better off under the previous Government.

Your case gets no better when you single out a senior couple with combined income of \$33,612 who, given the SATO deduction, pay no tax in 2003-04. A couple on that income in 1995-96, with income split equally, would each pay tax of \$2,281 and a Medicare levy of \$252, thereby leaving them with a combined after-tax income of \$28,546. Your \$33,612 would have had a purchasing power of \$27,327 in 1995-96. The couple would have been better off under your predecessors by \$1,219 in 1995-96 dollar value and by \$1,500 in 2003-04 dollar value

Minister, in previous letters you have sought to cloud the issue by saying that one cannot compare the indexation provisions in respect of public sector superannuation pensions with those applying to social security pensions because of the restrictive conditions attached to the latter. The point that you have sought to make is completely irrelevant. ACPSRO has been endeavouring to convince you that we are not debating the rules or regulations, which determine an entitlement to any pension. The essential point we make is that once pensions are granted to recipients under the relevant schemes, *the values of those pensions should be maintained relative to each other and general community living standards.*

You know quite well that this is not the case and that public sector superannuants, including retired military personnel, have fallen well behind and will continue to do so unless your Government acts honourably by acceding to the recommendations made to Government by the Senate Select Committee on Superannuation as well as delivering to public sector retirees John Howard's much promised 'Fair Go for all Australians'.

Yours sincerely,



R H Dean  
National President

Ref: 50/01  
5 August 2004

The Hon Nick Minchin  
Minister for Finance and Administration  
Parliament House  
CANBERRA ACT 2600

Dear Minister,

Thank you for your letter of 19 July enclosing comments on indexing by Mr P McCarthy of the Australian Bureau of Statistics and comments on the costs of changing from CPI to MTAWA indexing (source not stated).

We have set out our detailed reply on these matters in the attached letter.

I should also mention that we have written to other Parliamentarians, including Ministers, on this matter and we have received almost verbatim the responses that you have provided to us. You no doubt feel that it is incumbent upon you, given your Ministerial portfolio, to brief your colleagues on this subject. It nevertheless seems from these responses that you are personally unwilling to give us a fair hearing and must bear a substantial degree of responsibility for the inequitable and shortsighted attitude being maintained by the Government.

This Peak Council represents more than half a million retired public sector workers and military personnel. We will continue to press for the change in the indexation system to give a fair deal to our members. Your intransigence on this matter has the potential to bring down the Howard Government at the forthcoming election.

Yours sincerely,



R H Dean  
National President



# SENATOR THE HON NICK MINCHIN

Minister for Finance and Administration  
Deputy Leader of the Government in the Senate

16 AUG 2004

Mr R H Dean  
National President  
Australian Council of Public Sector Retiree Organisations Inc  
PO Box 4166  
KINGSTON ACT 2604

*File  
17 Aug 04*

Dear Mr Dean,

I refer to your recent letter to Senator Minchin dated 5 August 2004, and note there has been a series of correspondence on this issue between yourself and this office.

The Government continues to believe that indexation based on the CPI is fair, as it protects the real value of your Commonwealth superannuation. The ABS study in 2003 confirmed the reasonableness of the CPI as an accurate measure of the cost of living. Therefore it cannot be argued that standards of living are being eroded, since the ABS report reflects this is not the case. In fact, since 1998 CPI has increased by 16.8% which compares favourably with the living cost index for self-funded retirees which increased by 16.1% over the same period.

The Government understands that the Commonwealth's superannuation schemes should make an equitable and appropriate contribution to the retirement living standards of Commonwealth employees and will continue to monitor the schemes to ensure that they meet retirement income objectives.

I expect that you will continue to argue for more generous arrangements but present government policy is that the current long-standing arrangements are fair. There is little more I could add to this argument in any further correspondence on this issue with you.

Yours sincerely

**David Wawn**  
Chief of Staff

ACPSRO Executive  
20 August 2004

5/10/04  
L. Angus

### REPORT OF MEETING WITH PM'S CHIEF OF STAFF

The meeting with Arthur Sinodinos, Chief of Staff and Peter Crone, Economics Adviser commenced at 3.05 PM in the PM's suite on Friday 20 August 2004. Ron Dean accompanied by Gordon Johnson represented ACPSRO Inc.

A key points for discussion paper was handed to the PM's staffers and a copy is attached. The meeting followed this key points paper but with considerable expansion about the various matters listed.

There was no serious disagreement with points covered under 'The Issue' and 'Smokescreen' headings but our presentation paper to the backbenchers and Minchin criticising the ABS attracted attention within Government circles. Peter Crone indicated they didn't much like what was said. Reference was then made to ACPSRO's reply to Minchin and a copy was given the Sinodinos and Crone drawing attention to the fact that we apologised etc but at the same time destroyed Minchin's further arguments.

Point 6 (Costs) under 'Smokescreen'. This part did result in a reasonable amount of discussion and we pressed the point that the figures being quoted by Minchin and others were unexplained accrual accounting figures and that the unfunded liabilities of \$7 billion being quoted was a long term 40 year estimate and did not take account of the reported reduction in unfunded liabilities in the Government Actuaries Triennial Report, the Inter-generational report or the closing of the PSS scheme.

We made it clear that the actual cost to budget in year one would be about \$25m for Commonwealth, civilian and military, retirees which would be offset by reductions in Centrelink payments and tax clawback. The cumulative aspect was also covered and we pointed out that this is occurring with all indexing now, the only difference being the higher amount when MTAWA is ahead of CPI.

At no point during the discussion did Sinodinos/Crone attempt to maintain the Minchin line that CPI indexing is appropriate.

The points covered under the heading 'The Reality' attracted questions re the average pensions and the averages as at 30 June 2003 were quoted as, CSS = \$19,982; PSS = \$14,047; DFRDB = \$18,617; MSBS = \$14,830. They thought they were low, particularly the military pension averages.

Interest was shown in the Reserve Bank change to MTAWA indexing for their pensions and we covered the matter of the States and the requirement under HofG Agreements for them to follow the Commonwealth lead but the Commonwealth must give that lead in the first place.

Peter Crone said the Government had been very generous with the Senior Australian Tax Offset policy introduced and that those on about \$20,000 PA paid no tax. This

was countered by pointing out that it didn't compensate for the continuing loss of value of retirement pensions and our response on this issue in ACPSRO's last letter to Minchin was pointed out to Crone. He was told that SATO wasn't the panacea he believed it to be.

We were questioned about what we were planning and it was made clear that we are involved with PR consultants planning to make our unjust treatment an election issue and our planning was well advanced. Sinodinos also asked if we had received any commitment from Labor and they were told no and the reasons why we believed Labor was non committal.

It also became clear to us that the indexing issue was receiving a lot of attention. Sinodinos said it was under very close analysis by the PM with recognition that it affected a large section of the community. He also said Gary Nairn had a meeting with the PM a couple of days previously and it was obviously receiving a lot of attention by many Members of the Coalition.

Crone was reminded that at the meeting with the PM on 29 August 2002 which he Crone attended, the PM agreed ACPSRO would be the organisation recognised by the Government for discussion on superannuation issues and that we were available at any time for such discussion and negotiations on the indexing issue.

We left the meeting which ran for 45 minutes feeling that we have made a breakthrough in what we have been doing and could be close to receiving a favourable outcome. One cannot be certain of course but the signs are encouraging.

Prepared by G. Johnson  
20 August 2004

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Australian Council of Public Sector  
Retiree Organisations Inc.

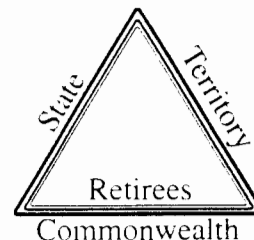
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ABN 74 202 015 642

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

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PO Box 4166 Kingston ACT 2604



Ref: 50/01

8 September 2004

Dear

You will be aware that this Council and its associated member organisations, which represent in excess of 500,000 superannuated Commonwealth, State and Territory employees, civilian and military, has been in correspondence with the Howard Government for some years on the important issue of pension indexation.

Minister Minchin, who has carriage of this matter, has been intransigent in refusing to meet our request that Commonwealth retirees have their superannuation pensions index-linked to wage levels in order to maintain their relative standard of living. The Minister has maintained that it is 'fair' to deny comparable indexation to that provided to social security pensioners, some Veterans' pensions and Parliamentary pensions, and claims that it would cost too much.

The Government's arguments were not accepted by the Senate Select Committee on Superannuation. The Committee considered that the cost would be manageable within budgets. Furthermore, the Government's own Intergenerational Report states that as a percentage of GDP the unfunded liability for superannuation is diminishing. The closing of the Commonwealth PSS scheme will increase the rate of diminution of the unfunded liabilities.

In short, the arguments supporting the Government's stance have been found to be untenable in principle and in detail. Further analysis is set out in the attachment.

Accordingly, we seek your support and early action to help persuade the Howard Government to change the inequitable policy line it has been following and to make an immediate commitment to introduce wages linked indexation for Commonwealth civilian and military superannuation pensions.

In the absence of an announcement to this effect by the Government well before the election, this Council and its constituent organisations have no alternative but to pursue this matter as a vital election issue.

We have identified Government held seats, which have substantial numbers of recipients of Commonwealth superannuation pensions. For instance the seat of Eden Monaro, held by 3.3 per cent on a preferred two-party basis, has some 3,634 Commonwealth superannuation pensioners, effectively 42 per cent of electors. Other Coalition marginal seats where significant numbers of Commonwealth civilian and military superannuants reside include La Trobe, McEwen, Paterson, Solomon, Canning, Petrie, Deakin, Dunkley, Adelaide, Corangamite, Dickson, Herbert, Hindmarsh, Kalgoorlie, Lindsay, Longman, Makin, Moreton and Parramatta.

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The number of Commonwealth superannuation pension recipients voting in the election will, of course, be augmented by their dependants. State and Territory superannuants, as you know, are also very angry about the erosion of their pensions. The Commonwealth must take the lead before the States will move because of the existing Heads of Government Agreements.

We urge your very prompt attention to change the stance of your Party and of the Government on this matter.

Yours sincerely,

R H Dean  
National President

## Indexation for all

CT 16 Aug 84

A RECENT news item in another paper reported that the Government was concerned that its original plan to index the \$600 family bonus to inflation would over time erode its value, and legislation would be introduced to link it to wages growth, as are MP's pensions, the Age Pension and some welfare payments.

Defence Force and Commonwealth superannuants, in spite of numerous approaches to the Government, still have their pensions linked to inflation, ie, the CPI. It would seem that people bonking for this country are favoured over those fighting or otherwise working for it.

BILL DEANE  
Chapman