Pension Indexation Fact Sheet – December 2017

Indexation of Commonwealth Superannuation Pensions

When the Commonwealth defined benefit pensions were set up, it was intended that they would be indexed by a wage-based index. Wages were set using a highly centralised wage and salary determination system based on expected increases in the cost of living, as then measured by the Consumer Price Index (CPI), at that time a measure of the living costs of wage and salary earning households. Until 1998, the main purpose of the CPI was for wage adjustment. However, with the emergence of decentralised, enterprise-based wage and salary agreements in the 1990s that use of the CPI became less important.

In 1998 the Australian Bureau of Statistics (ABS) decided to change the CPI to become a measure of pure price inflation for the household sector as a whole, for use by the Reserve Bank and the Treasury as a macroeconomic indicator. The CPI is now based on the international standard developed by the International Labour Organization (ILO) in 2004, based on the resolution concerning consumer price indices adopted by the Seventeenth International Conference of Labour Statisticians in 2003, as a response to the findings of the Boskin Commission (appointed by the United States Senate in 1995). The international standard encouraged more widespread use of quality adjustments to retail prices.

The increased use of quality adjustments tended to lower the measured CPI. In addition, from 1998 onwards, mortgage payments were no longer included in Australia's CPI, at the request of the Reserve Bank. Instead, prices of new owner-occupied houses (minus the cost of land) were included.

In 1998, the Government decided that the Age Pension should be benchmarked to Male Total Average Weekly Earnings (MTAWE), since the CPI was no longer a true cost of living index, but a measure of pure price inflation. At that time, Commonwealth superannuation pensions should also have been linked to MTAWE, but that did not happen. That meant that the prices used in the CPI no longer represented the actual prices that we had to pay, so the purchasing power of our pensions was gradually reduced. However, in 2014 the DFRB and DFRDB pensions were linked to MTAWE, while the CSS, PSS and MSBS schemes remained indexed by the CPI.

What should SCOA ask for?

We should ask for our pensions to be indexed in the same way as the Age Pension. Since the CPI is based on an international standard, there is little point in asking for changes to the CPI.

Is wage-based indexation affordable?

Given slow wage growth, if the Future Fund drawdown is deferred until 2027, and the Future Fund continues to deliver a return of 7.7% per annum, there should be enough money in the Future Fund to pay for wage-based indexation.