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Submission to the review of the CPI.

The CPI is the factor used to adjust the value of Service pensions. It is on this basis that I am lodging this submission.

Background

Upon retirement from the ADF, I was entitled to a service pension under the DFRDB scheme. This followed compulsory contributions of 15% of my salary for all of my service life.

Since retirement the value of the Superannuation has been degraded by a number of factors. These include:

- Taxation of the superannuation payment.
- Discounting of the CPI rise by the Government as a one off measure “to break the inflation cycle”.
- Failure to provide “employer contributions” introduced in lieu of pay rise to the general community, a measure that did not translate to superannuation, even where the recipient was in the workforce and paying tax.
- The non representative nature of the CPI in reflecting increases in household costs.

The Consumer Price Index is the adjusting mechanism for the Service Pension, as such there is an expectation that this measure will continue, to reflect the changes in costs over time.

Issues

– Uses of the Consumer Price Index

The CPI does not accurately reflect the changes in the cost of living.

The Minister for Finance, the Hon Lindsay Tanner MP, when questioned on the devaluation of service pensions conceded that they had not kept pace with increases in the cost of living.

The cost of age and disability pensions – once linked to CPI had been decoupled because the measure was no longer an accurate indicator of changes in the cost of living.

Mr Tanner indicated that there was an expectation that the CPI would continue to serve as the key measure. The effect of this is to reduce the Government’s unfunded liability to its retirees and ex-servicemen. Clearly it is in the Government’s interest to ensure that the CPI understates

the rises in cost of living.

- **Uses of Other ABS indices** – are used as defined price escalators in commercial agreements, for example, the Labour Price Index reports the annual increase in wages across various trades and geographically. This allows a multi year contract to be adjusted to reflect changes in costs on a regular basis. This in turn allows contract fees to be set with a degree of confidence.

- **Basis for using of ABS Indices**

Where indices are used for specific purposes such as the brief descriptions above it is important to consider the end uses of the data. To ignore the purpose and function of the tool produced is to have lost site of reason for having the tool.

For example: When the Chief Cook requested a nine “shifter” from the engineering workshop the shipwright was alarmed. What on earth would a cook need a spanner for? He was much relieved to find that it was being used to hammer open a stuck tap. There was nothing wrong with the tool, it was a know quantity perfectly fitted for its designed role. The problem resided with using it as a hammer and more so that it was being used to overcome an unrelated problem.

Likewise, the Consumer Price Index, used as a long term measure of consumer price inflation to adjust salaries, pensions etc has become alienated from that role.

Conclusion

The review of the CPI and its methods of calculation should bear in mind the uses to which it is put.

If those uses are not appropriate, then it is essential that the review identify the improper use of the index and maybe even suggest a more appropriate one.

If the CPI is in fact the appropriate measure for use in adjusting benefits such as pensions etc, then it should be made to operate in such a way as to fulfil that role.

Thank you for the opportunity to provide my comments to this review.

Brian Hobsbawn