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Submission by the
DEFENCE FORCE WELFARE ASSOCIATION
to the Australian Bureau of Statistics
in regard to the
Sixteenth series review of the Consumer Price Index

DFWA is an Australia wide Ex Service Organisation with the National Office located in Canberra and Branch Offices in Brisbane, Sydney, Melbourne and Perth. We also have representatives in Tasmania, South Australia, the Northern Territory, North Queensland and country New South Wales. Our role is to:

- a. watch and foster the interests of members of the Australian Defence Force in any matter likely to affect them during their service or in retirement; and
- b. advise or assist any serving or retired member of the Australian Defence Force, or their dependants, as required, in matters affecting their welfare.

The fundamental reason for making this submission is to highlight the inadequacy of the CPI as a measure of the cost of living and its inappropriate use for indexing military superannuation pensions.

OUR SUBMISSION

A current and major policy issue being pursued by the Association is the implementation of a fairer indexation methodology for military superannuation pensions to ensure the purchasing power of military superannuation pensions is maintained – so that military retirees can maintain their standard of living during retirement.

Military superannuation pensions are indexed (by legislation) to the CPI. Yet the CPI in 2008-09 is a different creature from 1973-74. Then, as noted by the Australian Bureau of Statistics (ABS):

“...the CPI [historically] was developed with the principal purpose of providing input to the highly centralised wage and salary determination process then existing in Australia”

The ABS then concluded in 1997 that

“the tight nexus between movements in the CPI and wage and salary adjustments no longer exists.”

And even more definitively ABS said in 2001 that

“...CPI is not a measure of the cost of living.”

In other words, the post-1997 CPI was and is different in its principal purpose from the pre-1997 CPI. It is no longer a measure of cost of living or purchasing power. Rather, today's CPI is a measure of inflation, not purchasing power or cost of living, and the damaging effects on purchasing power caused by the CPI change have been, and remain, a principal complaint of military and other Commonwealth retirees and their various representatives, including DFWA.

Significantly, CPI can be vulnerable to significant price swings in any one element of the index, which can significantly skew the final result. This was clearly evident in July 2007 when military retirees received a zero percentage increase in indexation because the price of a single item, bananas, decreased so dramatically compared with the previous period that it effectively offset all the price rises of other index items, notably petrol. The banana skew caused significant and enduring damage to the purchasing power of military superannuation pensioners and reversionary beneficiaries. The damage compounds over time and is irretrievable.

Over the past 20+ years, the continuing use of CPI to index military superannuation pensions has resulted in their relative value of pensions being some 35% below what they otherwise would have been had there been a linkage to a wage based indexation such as has been applied to the age/service pension. Such a disparity, caused by the continual use of a changed CPI, denies current and former members of the ADF an equal and appropriate share in the nation's productivity outcomes and in reality seriously erodes their standard of living.

The original intent of military superannuation – as articulated in the Jess Review (1971 – 1972), was that indexation adjustments:

“ ... should be related to average weekly earnings and the relativity of retired pay with that index maintained ... (to)... ensure that the man in retirement will be able to maintain his position in relation to rising community standards and he will obtain those increases when needed”

In other words, to maintain relativities with the purchasing power of the original pension (and also to benefit from community productivity gains).

It is clear that the CPI no longer meets this requirement.

CONCLUSIONS

1. CPI in its current form is unable to maintain its original (1970's) aim in that it is no longer able to maintain the purchasing power of military superannuation pensions.
2. The use of CPI in its current form for indexing military superannuation pensions should be discontinued and replaced with an index that ensures the original intent of adjustments to military superannuation pensions – to maintain their purchasing power – is fulfilled.

The DFWA would be happy to elaborate on any matter raised in this brief Submission.

A handwritten signature in dark ink, consisting of the letters 'LB' followed by a long, sweeping flourish that extends to the right.

Les Bienkiewicz
Executive Director

11 March 2010