What you should know about 'indexation'

If a government wants to reduce your TPI, Service or other pension in the sneakiest way, it may choose to change the pension's 'indexation'.

This is because, at first, the change to the pension is almost unnoticeable. It is only after a few years of its cumulative effect that the true damage becomes evident.

What, you ask, is 'indexation'.

Our pensions remain static whilst the cost of living rises and wages increase. So every six months an amount is added to our pensions so they can catch up to these increases.

This is known as 'indexation'.

It is important to understand that 'indexation' does not 'increase' the real value of your pension, it simply allows it to catch up.

In simplified terms, our present indexation allows pensions to catch up to increases in the cost of living or increases in the average wage, whichever is the greater.

It is important that both 'cost of living' and 'wages' are included in the indexation calculation because, except for recent post Global Financial Crisis (GFC) years, increases in the average wage have significantly outpaced increases in the cost of living. It is inevitable that increases in the average wage will, in the future, again significantly outpace increases in the cost of living.

So if a government wants to decrease your pension it can change the indexation method to only take into account increases in the cost of living, ignoring the greater increase in the average wage.

Our present government introduced legislation into parliament to do just this. The only reason it did not proceed was that the Labor, Greens, Jacqui Lambie and other cross benchers in the Senate made it clear they would defeat the legislation should it come before them.

But it is a tactic the government clearly approves of. It may be on the back-burner now but what of a future in which the Coalition has control of the Senate as well as the House of Representatives.

Should a government succeed in so changing the indexation method, whilst we would not notice much difference in the early stages, the cumulative effect over time would be financially devastating.

The government may spin such changes in two ways.

First it may, with soft voice, assure us that the change won't make much difference. This would be a lie.

Secondly it may plead that such changes are a sacrifice we must make to help repair the budget deficit. But why pick on those least able to pay and anyway, haven't war veterans sacrificed enough?.

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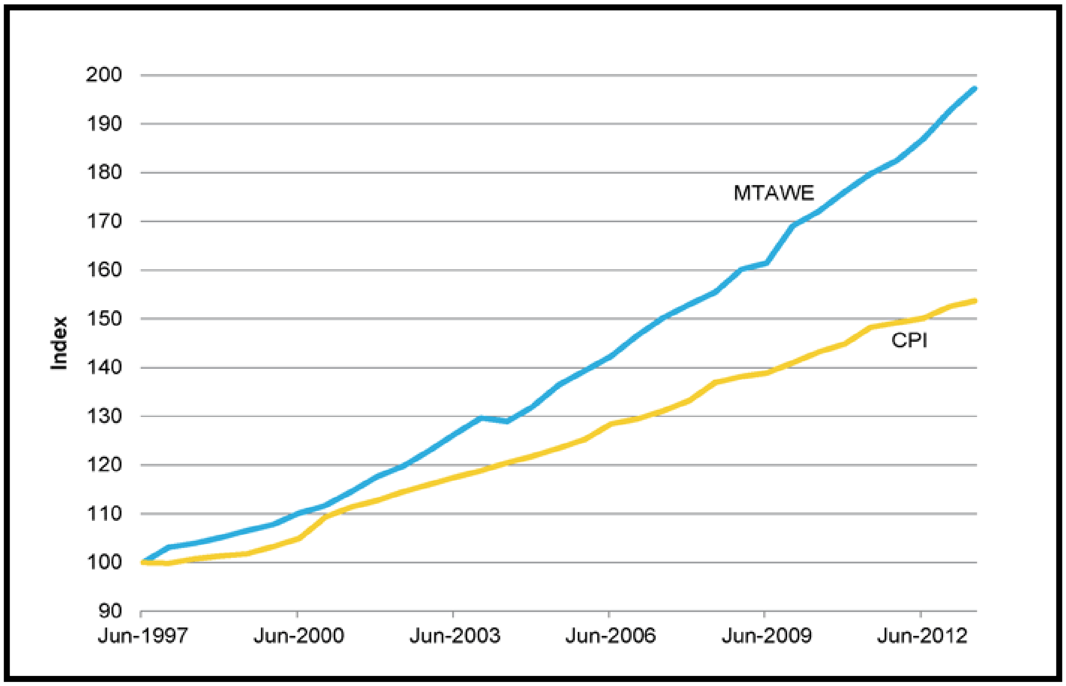
We fought for ten years for fair indexation for the TPI Pension. That is, indexation that included in its calculation the increase in the average wage as well as increases in the cost of living.

We won concessions along the way and in 2007 we succeeded in having fair indexation applied to the whole pension.

Now, because of those successes, the TPI Pension is worth some $5,000 a year more than it would have been without them.

This, of course, would be wound back over time if 'increases in the average wage' were not included in the indexation calculation.

We must be prepared to fight again.



The graph above compares increases in the average wage with increases in the cost of living from June 1997 to June 2012.

Whilst there has been a much narrower margin since the GFC, it is inevitable that the gap will widen again in the future.

The indexation of Veterans Affairs pensions must be calculated using the greater of increases in the average wage and the cost of living.

Otherwise the financial position of Veterans Affairs pensioners, already under strain, will be seriously eroded.