Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Additional Estimates
6 March 2015

Department/ Agency: Treasury
Question: AET 256-259
Topic: Modelling of pension proposals
Reference: SQ15-000106
Senator: Dastyari

Questions:

256. Over what time periods has Treasury conducted modelling on the impact of the proposed change to the indexation of the pension?

257. What is the estimated difference in the value of the pension under current arrangements?

258. What is the estimated difference in the value of the pension under the current arrangement and the proposed arrangement in each year over that period:
   a. Annually
   b. Monthly
   c. weekly

259. What is the total save estimated each year over that period?

Answer:

256. The 2015 Intergenerational Report contains modelling from 2014-15 to 2054-55 of the changes to indexation of the pension as announced in the 2014-15 Budget and 2014-15 MYEFO.

257. The Government announced in the 2014-15 Budget that pension payments would be indexed by the Consumer Price Index from 1 September 2017. The Government further announced in the 2014-15 MYEFO that once the Budget returns to a surplus of 1 per cent of GDP, there will be more capacity to revisit the level of Government support to groups such as Age Pensioners.

     In the 2015 Intergenerational Report, the Budget was projected to reach a 1 per cent surplus in 2028-29. For modelling purposes, the projections for assistance to the aged assumed that indexation of pensions switched from the Consumer Price Index to Average Weekly Earnings in 2028-29. Over the long-run, domestic prices were projected to grow by 2½ per cent a year, consistent with the Reserve Bank of Australia's medium-term inflation target, while wages were projected to grow at around 4 per cent, consistent with domestic inflation and productivity growth of 1.5 per cent.

     The Government announced in the 2015-16 Budget that it will not proceed with the measure to index pension payments by CPI only.

258. See 257.

259. Chart 2.14 on page 70 of the 2015 Intergenerational Report contains estimates of the projected expenditure on pensions as a per cent of GDP out to 2054-55 under alternative policy scenarios.