THE VOICE of Pensioners and Superannuants

4 November 2020

Pension indexation next time round: what will happen?

FIRST-UP, the inflation numbers for the September 2020 quarter (July, August, September) are irrelevant to pension indexation.

The pension is indexed every six months, and indexation uses March and December quarters.

But if the September quarter was used to index the pension, what would happen?

The Consumer Price Index (CPI) went up from 114.7 in the June quarter to 116.8 in the September quarter.

Based on that, you would think that the pension would go up but would it?

No.

This is because the December 2019 CPI number was 117.1. For the pension to go up, the new CPI would need to be higher than 117.1. Until the CPI goes above 117.1, there will be no pension increase.

However, the CPI is not the only way of indexing the pension. There is also a Pensioner and Beneficiaries Cost of Living Index (PBLCI). If it produces a higher pension, it would be used.

So, what happened to the PBLCI?

The PBLCI went up from 115.6 in the June quarter to 116.5 in the September quarter. In the December 2019 quarter the PBLCI was 116.3.

116.5 is greater than 116.3. Therefore, the pension would go up.

But, again, the September 2020 quarter will not be used. We will have to wait to see what happens in the December quarter.

In the December 2020 quarter, either the CPI will have to be greater than 117.1 or the PBLCI will have to be greater than 116.3 for the pension to be increased.

But what happened in the September 2020 quarter will not count.

IMF: Tax cuts for workers, hikes for pensioners

SO far, besides some cash handouts to pensioners and seniors the Australian Government's approach to the nation's economic recovery has focused on getting young people back into work and spending more money.

To be fair, September 2020 recorded 520,000 unemployed people aged between 15 and 34. That is a 25 per cent increase from September 2019. So, the focus on getting young people back into work may be reasonable but recent calls for tax reform may cross the line.

The International Monetary Fund's (IMF) recent report has recommended tax reform that would force older people to take on an increased tax burden. The IMF's report detailed how 20 of the world's largest economies, Australia included, should respond to the ongoing COVID-19 pandemic. The IMF recommended that Australia increase GST and property tax and suggested increased spending on childcare to get women back into work.

The IMF is suggesting these actions will help set the Australian economy on a path to recover but at what cost to older Australians?

GST reform has been a hot topic in Australia over the past few months. Accounting firm PricewaterhouseCoopers (PwC) said in a July report that increasing the GST rate and removing GST exemptions would help fix structural issues with Australia's tax system including an "over-reliance on personal and corporate taxes".

PwC suggested that increasing the GST to 12.5 per cent and adding GST to currently exempt goods such as fresh food and healthcare will be essential for Australia's economic recovery.

Property tax reform would most likely look like a shake-up to current stamp duties. The NSW Government has shown interest in abolishing the current stamp duty and replacing it with a land tax. An annual land tax combined with ever-increasing council rates would place significant pressure on households with low, fixed incomes, including pensioner households.

These recommendations come at a time when the Australian Government has fast tracked personal income and corporate tax cuts that will cost the government approximately $50 billion in forgone revenue.

Can you insure yourself against death?

DAYTIME television is rife with ads for funeral insurance. The way it works is that you take out a policy, like a car insurance policy, and as long as your premium is paid up, you're insured. If you die, your estate gets a pay-out to cover funeral costs.

But in some important ways funeral insurance is very different from car insurance.

First, death is certain, a car accident where you are at fault isn't.

Car insurance works because the majority of drivers don't have major accidents.

But funeral insurance? Everyone dies eventually.

Unlike a car accident, death is not a risk but a certainty.

So, for funeral insurance to be profitable to insurance companies, there has to be a catch.

The catch is that at some point the amount you have paid in funeral insurance premiums exceeds the eventual pay-out.

But if you stop paying premiums, you won't even get the pay-out. What do you do?

The simple answer is not to get into funeral insurance at all. Put the premiums you would have paid in the bank, and you will have a nice little sum to cover your funeral.

Funeral insurers play on people’s emotions and lack of knowledge about how the funeral insurance industry works.

The Australian Financial Complaints Authority (AFCA) recently found against a funeral insurer called Youpla in two separate cases. AFCA found that it was most likely the complainants did not understand that the insurance premiums would increase with age or that the premiums paid would likely exceed the benefit payable.

There are plenty more complaints against funeral insurers with ACFA.

The only way you can make funeral insurance work for you is to take it out today and die tomorrow.