DEFENCE FORCE WELFARE ASSOCIATION

Commentary on the
Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010

This paper draws heavily on the BILLS DIGEST NO 55, 2010-11 of 22 December 2010 (ISSN 1328-8091) prepared by Mr. Leslie Nielson of the Parliamentary Library.

It expands on that paper by providing the views of the Association in order to provide another perspective on the issues raised in the Bills Digest and to provide an objective overview of the matter of indexation of DFRB and DFRDB pensions.

The Association acknowledges and is grateful for the work of Mr. Nielson in preparing the Bills Digest, particularly for the historical and background information which it contains.

Canberra
18 January 2011

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Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010

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Abbreviations

Abbreviation	Meaning
ABS	Australian Bureau of Statistics
ADF	Australian Defence Force
ADSO	Alliance of Defence Service Organisations
Age Pension	Pension paid by Centrelink under the *Social Security Act 1991* to a person who is at or over age pension age (65 to 67 depending on date of birth) and who otherwise qualifies for this payment
ARIA	Australian Reward Investment Alliance – Commonwealth civilian superannuation scheme trustee board. It is responsible for the PSS and CSS.
AWE	Average Weekly Earnings as calculated by the ABS
CPI	Consumer Price Index for 8 Australian capital cities as calculated by the ABS
Comsuper	Commissioner for Superannuation
CSS	Commonwealth Superannuation Scheme (Commonwealth civilian superannuation scheme between 1976 and 1990)
DFRB	Defence Force Retirement Benefits Scheme (military superannuation scheme between 1948 and 1972)
DFRB Act	The Defence Force Retirement Benefits Act 1948
DFRDB	Defence Force Retirement and Death Benefits Scheme (military superannuation scheme between 1972 and 1990)
DFRDB Act	The Defence Force Retirement and Death Benefits Act 1973
DFWA	Defence Force Welfare Association
Indexation	The increase in the annual rate at which a pension is paid. Usually expressed as an increase of x per cent per annum
Jess Review	Review of Defence Forces Retirement Benefits Legislation chaired by JD Jess MP
Matthews Review	Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes chaired by Trevor Matthews
MSBS	Military Superannuation and Benefits Scheme (current military superannuation scheme).
MTAWE	Male Total Average Weekly Earnings as calculated by the ABS
PBLCI	Pensioner and Beneficiary Living Cost Index as calculate by the ABS
Podger Review	Review of Military Superannuation Arrangements chaired by Andrew Podger
PSS	Public Sector Superannuation Scheme (closed to new members in 2005)
Service Pension	The age service pension paid by Department of Veterans' Affairs to veterans who have qualifying service and the partner service pension paid to eligible partners, widows and widowers from age 60.

Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010

Purpose

The Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010 (the Bill) amends the *Defence Force Retirement and Death Benefits Act 1973* (DFRDB Act) so that the pension paid under this Act to a retired defence force member over 55 years of age is increased bi-annually by the greater of the following percentage increases (as calculated by the Australian Bureau of Statistics (ABS)):

- the Consumer Price Index (CPI),
- the Pensioner and Beneficiary Living Cost Index (PBLCI), or
- Male Total Average Weekly Earnings (MTAWE).

The rate at which a pension increases is known as the 'indexation rate'. Currently all Commonwealth military and civilian superannuation pensions except for certain parliamentary and judicial superannuation pensions are indexed by increases in the CPI.

Background

The Bill was introduced by Senator Ronaldson and has not, at the time of writing, been referred to any Committee. Senator Ronaldson presented the Bill in fulfilment of a Coalition pre-election promise to implement a fair approach to the indexation of military superannuation.

Currently, military superannuation pensions are paid to retired Australian Defence Force members from three separate schemes:

- the Defence Force Retirement Benefits Scheme (DFRB), closed to new members in 1972
- the Defence Force Retirement and Death Benefit Scheme (DFRDB), closed to new members in 1990, and
- the Military Superannuation and Benefits Scheme (MSBS) which is open to new members.

The proposed amendments of this Bill are intended to affect current (and future) retired DFRDB members over the age of 55 who have commenced to receive their Military Superannuation Pension (also known as retirement pay) and we understand there will be a similar amendment to include members of the earlier DFRB scheme.

The Bill does not affect ADF members on MSBS.

This table shows the membership of each of the above schemes as at 30 June 2010:

Table 1: Military superannuation scheme members as at 30 June 2010[1]

Scheme	Contributing	Receiving pension
DFRB	0	3978
DFRDB	4246	53,003
MSBS	54,525	7684

Given that the DFRB scheme closed to new members in 1972, its existing members are well over 55 years of age. There are no remaining contributors to this scheme. The overwhelming majority of DFRDB members are well over 39 years of age[2]. The number of both contributors and recipients in these schemes is declining. The second reading speech suggests that about 30,000 DFRDB and DFRB members would benefit from the proposed changes from 1 July 2011[3]. Reference to DFRDB pensions in this discussion also includes DFRB pensions.

The Indexation Debate

The indexation of DFRDB pensions has been a contentious issue since the scheme commenced in 1972. The DFRDB was based on the work of Joint Select Committee on the Review of Defence Forces Retirement Benefits Legislation which reviewed the operation of the *Defence Force Retirement Benefits Act 1948* (the DFRB's enabling legislation), under the chairmanship of JD Jess, (Liberal member for the seat of La Trobe 1960–1972) (the Jess Review)[4]. The Whitlam Government reviewed the report soon after its election and did not accept all of its recommendations. It did however decide to appropriate all DFRB funds contributed by the compulsory superannuation levy on most ADF members to the Consolidated Revenue Fund (CRF) and mandate that the levy from ADF members for the replacement DFRDB scheme be paid into the CRF. It is this decision that is the genesis of the present day unfunded Commonwealth liability for the military superannuation schemes.

Importantly the Jess Review recommended that military superannuation pensions *'be expressed as a percentage of final pay and be adjusted annually so that relativity with average weekly earnings is maintained'*[5].

The enabling legislation for the DFRDB scheme, the DFRDB Act, as first passed by the Parliament, did not provide for the indexation of DFRDB pensions[6]. Rather, DFRDB pension increases were authorised by separate annual Acts between 1 October 1972 and mid 1976 under both Labor and Coalition governments.

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[1] The DFRDB Authority, *Annual report to parliament 2009–2010*, 21 September 2010, p. 30, p. 32 and p. 48, , http://www.dfrdb.gov.au/_lib/pdf/annualreportparli_0910.pdf; The Military Superannuation Board, Annual report to parliament 2009–2010, September 2010, pp.71, 72 and 85, http://www.militarysuper.gov.au/_lib/pdf/MS_ARtoPARL_2009-10.pdf

[2] Ibid, pp. 30, 31.

[3] Senator Ronaldson, 'Second reading speech: to the Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010', Senate, *Debates*, 18 November 2010, p. 7.

[4] JD Jess CBE, MP, Chairman–Joint Committee on Defence Force Retirement Benefits Legislation 1970–1972), *Report of the Joint Select Committee on Defence Forces Retirement Benefit Legislation*, Parliamentary Paper no. 74, 18 May 1972.

[5] Ibid. Recommendation 6, p. 1.

[6] Sections 98A–98F, DFRDB Act.

The indexation basis was the lesser of:

- 1.4 times the increase in the CPI, or
- increases in male average weekly earnings[7].

By using these mechanisms to index the DFRDB military superannuation pension the Government recognised that the CPI was not a tool that would meet the Jess requirement to 'maintain relativity with average weekly earnings'.

The sections requiring the DFRDB pension to be indexed to changes in the unadjusted CPI were added to the DFRDB Act by the *Defence Forces (Retirement and Death Benefits Amendments) Act 1977*. The rationale for these particular amendments to the DFRDB Act was set out in the second reading speech, as follows:

> "In essence, therefore, the pension updating arrangements encompassed by this Bill achieve the earlier stated aim of consistency with those currently applying to the comparable classes of pensioners under the Commonwealth Public Service superannuation schemes"[8].

It should be noted that this amendment finally put paid to the Jess Review Recommendation that updates to the Military Superannuation Pensions be expressed as a percentage of final pay and be adjusted annually so that relativity with average weekly earnings is maintained.

Thus the government of the day (the Fraser government) sought consistency in the manner in which all Commonwealth retirement income streams, whether pensions or retirement pay, were indexed[9].

The CPI

In 1977, when the Fraser Government decided to change the method of indexation, CPI was an appropriate mechanism. The Hawke Government used CPI as an essential tool for wage fixing under the Accord. However, over the intervening years the CPI changed significantly, to the point where the Australian Bureau of Statistics stated (15 Feb 2001) to a Senate inquiry that:

> *'…the CPI is not a measure of the cost of living. It is a measure of inflation and there are differences between those two things.'*

To quote the Matthews Report of 2009:

> *With regard to the perception that the CPI has broken down, it is well documented that the principal purpose of the CPI changed in 1998 following the Thirteenth Series Australian Consumer Price Index Review. Until that time, the CPI was a measure of the purchasing power of wage and salary earner household incomes. Its most important use was as an input to the income adjustment process and prices were, therefore, measured using an outlays or payments method. The review, however, concluded that the context in which the CPI was used had changed and that the needs of the community would be better*

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[7] See *Defence Forces Retirement Benefits (Pension Increases) Act 1973*, subsection 4(2), *Defence Force Retirement and Death Benefits (Pension Increases) Act 1976*, sections 6–7 for increases between 1973–74 and 1975–76.

[8] John McLeay MP, (Minister for Construction and Minister Assisting the Minister for Defence), 'Second Reading Speech: Defence Force (Retirement and Death Benefits Amendments) Bill 1977', House of Representatives, *Debates*, 17 February 1977, pp. 196–197.

[9] . For a fuller discussion on the origins of the DFRDB pension indexation see L Nielson, 'Military Superannuation – myths and realities', *Research Paper*, No 16, 2007–2008, Parliamentary Library, Canberra, 16 January 2008, pp. 5-8, viewed 19 November 2010, http://www.aph.gov.au/library/pubs/rp/2007-08/08rp16.pdf

> *served by a CPI designed to measure price inflation for the household sector through an acquisitions approach.*

Since 1998 the CPI has essentially been a measure of inflation rather than a measure of purchasing power.

Subsequent Inquiries

The question of whether, and by what method, military superannuation pensions should be indexed was subsequently considered by a number of inquiries and reviews after Jess:

- The Senate Select Committee on Superannuation and Financial Services, 'A reasonable and secure retirement? – the benefit design of the Commonwealth public sector unfunded superannuation funds and schemes' of April 2001 (A reasonable and secure retirement[10]).
- The Senate Select Committee on Superannuation, 'Superannuation and Standard of Living in Retirement', December 2002 (Standard of Living)[11].
- The 'Review of Military Superannuation Arrangements', July 2007 (released end December 2007) (Podger Review).[12]
- The Senate Standing Committee on Community Affairs, 'A decent quality of life – inquiry into the cost of living pressures on older Australians', of March 2008 (A decent quality of life)[13], and
- the 'Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes',[14] December 2008 (released 21 August 2009) (Matthews Review)[15].

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[10] . Senate Select Committee on Superannuation and Financial Services, *A reasonable and secure retirement? – the benefit design of the Commonwealth public sector unfunded superannuation funds and schemes*, Canberra, April 2001, viewed 19 November 2010, http://www.aph.gov.au/Senate/committee/superfinan_ctte/completed_inquiries/1999-02/govsuper/report/report.pdf

[11] Senate Select Committee on Superannuation, '*Superannuation and Standard of Living in Retirement*, Canberra, December 2002, viewed 19 November 2010, http://www.aph.gov.au/Senate/committee/superannuation_ctte/completed_inquiries/2002-04/living_standards/report/report.pdf

[12] A. Podger (Chair), D Knox and Air Commodore L Roberts, *Report of the Review into Military Superannuation Arrangements*, July 2007, viewed 19 November 2010, http://www.defence.gov.au/MILITARYSUPERREVIEW/msr_report07.pdf

[13] Senate Standing Committee on Community Affairs, *A decent quality of life – inquiry into the cost of living pressures on older Australians*, Canberra, March 2008, viewed 19 November 2010, http://www.aph.gov.au/Senate/committee/clac_ctte/older_austs_living_costs/report/report.pdf

[14] This review was undertaken in response to a Labor 2007 election commitment to review the indexation of Commonwealth civilian and military pensions. N. Sherry, (then Minister for Superannuation and Corporate Affairs), *Indexation of Australian Government Superannuation Schemes to be Examined*, media release, No. 39, Canberra, 26 June 2008, viewed 19 November 2010, http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/039.htm&pageID=003&min=njs&Year=2008&DocType=0

[15] Australian Government, Department of Finance and Deregulation, *Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes*, December 2008, viewed 19 November 2010, http://www.finance.gov.au/superannuation/docs/Pension_Review.pdf

Table 2: Summary of recommendations on Commonwealth Pension indexation (also see DFWA Fact Sheet #3)

Report	Recommendation
Jess Review 1972	Pension is expressed as a percentage of final pay and be adjusted annually so that relativity with average weekly earnings is maintained.
A reasonable and secure retirement	Government to examine the feasibility of using an indexation method other than CPI to more adequately reflect actual costs of living increases
Standard of Living in retirement	The Government consider indexing Commonwealth superannuation benefits to either changes in CPI or MTAWE, whichever is greater
Podger Review	If government is willing to incur higher costs, index DFRDB/DFRB to greater of CPI or MTAWE increases for those over 55 years of age only. Alternatively, change indexation of pensions only for DFRDB/DFRB members over 65 years of age. MSBS indexation remains unaltered
A decent quality of life	Government to review and standardize the method by which all Commonwealth superannuation pensions are indexed. Change to CPI or MTAWE based indexation, whichever is higher, as a temporary measure pending a longer term review
Matthews Review	Change not justified on any grounds, unless a more 'robust' measure of price inflation is available

Recent debate on military superannuation pension indexation has been framed by the recommendations of these reviews. With the exception of the Matthews review, all reviews recommended a change in the indexation method so that ADF pensions could maintain their purchasing power. Podger only recommended an indexation change for DFRDB, not MSBS.

While Matthews recommended that the CPI was appropriate until a better (‘more robust’) indexation method was developed, many including DFWA saw the report as shallow and lacking in rigorous analysis of the adequacy of current indexation of military superannuation pensions. DFWA’s paper dated 30 September 2009 to the Minister for Finance and Deregulation discusses this aspect in depth.

Podger Review

The relevant recommendation of this review was:

Recommendation 14 If the Government is willing to go beyond the envelope of current costs, it should consider indexing DFRDB/DFRB pensions for those over 55 on a similar basis to that applying to age pensions. Because of the costs involved, this option does not warrant the priority attached to the other recommendations. An alternative option the Government could consider is to limit this change to pensions paid from age 65[16].

[16] Podger Review, op. cit., p. xvi.

As can be seen this recommendation is very close to the changes proposed by this Bill.

Matthews Review

The Matthews Review made the following recommendations in respect of the indexation of all Commonwealth superannuation pensions, noting that Matthews' Terms of Reference excluded certain parliamentary and judicial superannuation schemes:

Recommendation 1: That pensions from the Australian Government civilian and military superannuation schemes continue to be indexed against the effects of inflationary price increases.

Recommendation 2: That the same indexation methodology continue to apply to all civilian and military pensions.

Recommendation 3: That pensions from the Australian Government civilian and military superannuation schemes continue to be indexed by the CPI as the most suitable index to protect pensions against inflationary price increases available at this time.

Recommendation 4: That, if a robust index which reflects the price inflation experience of superannuants better than the CPI becomes available in the future, the Australian Government should consider its use for indexing Australian Government civilian and military superannuation pensions[17].

DFRDB and other Superannuation Schemes

Both the Podger Review and the Matthews Review asserted that retirement pay made to DFRDB members was quite generous compared with superannuation payments available to the workforce at large, particularly if a member accumulated 20 or more years of service[18].

<u>The first reason asserted</u> is that it is comparatively generous is because the level of employer contribution is said to be high. This surely is a misleading statement as the notional figures are not really a superannuation employer contribution rate in the normal sense as they do not represent contributions to a fund as such but represent the cost of paying military superannuation pensions as they fall due.

In adopting this methodology, governments have denied themselves the opportunity to build an "investment fund" to partially finance the Commonwealth's liability and minimise the direct costs. In essence they have chosen to fund their liability at the highest possible cost to the taxpayer. In this context the following table shows the notional employer contribution to a Commonwealth employee's superannuation benefits as a percentage of that person's salary for superannuation purposes as at 30 June 2008[19]. This unsatisfactory situation was recognised by the Government in 2006 when it established a Future Fund to meet unfunded superannuation liabilities, contribute to national savings and increase net worth. The intention is that the unfunded liabilities of all Commonwealth Superannuation schemes, including the military superannuation schemes, would eventually be covered by the assets of the Future Fund.

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[17] Matthews Review, op. cit., p. xii.

[18] Podger Review, op. cit., pp. 3, 14 and 60; Matthews Review, op. cit., pp. 14 and 44.

[19] Salary for superannuation purposes is not the same as salary that a person receives at the time of exit in all cases. For example for the MSBS and PSS the superannuation salary is the average of the salary received over the three years preceding resignation or retirement. For the CSS the superannuation salary is that received on the person's birthday preceding retirement.

Table 3: Notional employer contribution rate as a percentage of superannuation salary[20] as at 30 June 2008

Scheme	Notional percentage
DFRDB[21]	33.4
MSBS[22]	27
CSS	21.4 [22]
PSS	16.3[23]
SG (actual required contribution)	9

In this table the term 'SG' stands for Superannuation Guarantee regime. Under this regime an employer is required to contribute the specified percentage of their employee's ordinary time earnings (currently a minimum of 9%) to a superannuation fund on the employee's behalf. This 9% level of employer superannuation contribution is generally enjoyed by a wide cross section of the Australian private sector, although public service and other public sector members usually enjoy a higher employer contribution rate.

As can be seen above, DFRDB notionally receives the highest level of employer support of all current non-parliamentary/judicial Commonwealth superannuation schemes, noting that the comparison is not fully 'like with like' because of the different compulsory contribution rates by members of each military and public service superannuation scheme, and noting that members of the wider Australian community are not required to contribute from their salary to their own superannuation.

Direct Commonwealth outlays required under the current method of funding benefits, projected for the next 44 years and expressed as a percentage of Gross Domestic Product (GDP), show the annual Government superannuation cash outlays for the military superannuation schemes dropping from approximately 0.15 per cent of GDP at present to around 0.11 per cent of GDP in the longer term.

<u>The second reason</u> asserted is the amounts paid to members. All other things being equal a higher rate of contribution leads to a higher benefit payout. One way of gauging the level of benefit payout is to compare the average annual pension paid by Commonwealth government schemes other than parliamentary or judicial schemes as follows:

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[20] Government support of the Parliamentary Contributory Superannuation Scheme (now closed to new members) and the judicial scheme is higher than these figures.

[21] The notional employer contribution rate has been calculated to illustrate the effective cost of the defined benefits being provided by the Commonwealth as a percentage of the superannuation salaries of scheme members. It represents the estimated contribution rate that would be required to fund the defined benefits accruing to serving members over the next three years on the basis that benefits are attributed to periods of service under the AASB 119 accrual methodology. In other words, if the scheme was exactly fully funded in respect of AASB 119 accrued benefits at the beginning of the three years and contributions were made at calculated rate, then the scheme would be expected to be exactly fully funded at the end of the period. (Australian Government Actuary, *Military superannuation scheme and defence force retirement and death benefits scheme – long term cost report*, 2009.)
The notional employer contribution rates for MSBS quoted in the Matthews Report are; First 7 years = 18%; 8-19 years = 23%; 20+ years = 28%.

[22] Includes 3% employer productivity contribution

[23] Includes 3% employer productivity contribution

Table 4: Average annual pensions 2006-07 to 2009-10, $ p.a.

Year	2006-07	2007-08	2008-09	2009-10
CSS	24 703	26 292	26 058	26 963
DFRDB	20 478	21 486	22 092	23 549
MSBS	18 000	19 196	19 690	21 967
PSS	17 598	18 879	18 616	19 631
Sources: DFRDB, MSBS and ARIA Annual reports to Parliament - various years[24]				

This table addresses mean (average) pensions, not median pensions. So do most tables upon which decision-makers rely, even though median figures usually give a more accurate and less inflated picture. Median military superannuation pensions are significantly smaller than median civilian (CSS/PSS) superannuation pensions. According to the tables at page 7 of Matthews, 46% of civilian pensions are under $19 999 while 58% of military pensions are under $19 999. At the other end of the spectrum, 0.1% of military pensions are over $80 000 while 0.3% of civilian pensions are over $80 000. If military superannuation pensions were as 'generous' as some claim, the median military and civilian pension percentages would be reversed.

The average (mean) DFRDB pension is lower than CSS but higher than MSBS and PSS. It is important to note that this is not necessarily due to any perception of relative 'generosity' between the schemes but rather because the older CSS and DFRDB schemes each contain more people who have retired for longer than the other two schemes. The observer is not necessarily comparing like with like. It is also important to understand that the amount of DFRDB paid is dependent on years of service as illustrated below:

Table 5: Retirement pay as a percentage of annual salary[25]

Completed years	Amount of annual salary
15	**30.00**
16	**31.00**
17	**32.00**
18	**33.00**
19	**34.00**
20	**35.00**
21	**36.50**
22	**38.00**
23	**39.50**
24	**41.00**
25	**42.50**

[24] The Military Superannuation Board, Annual Report to Parliament – various years, viewed 2 December 2010, http://www.militarysuper.gov.au/publications/reports.html The Defence Force Retirement and Death Benefits Scheme Authority, Annual Report to Parliament – various years, viewed 2 December 2010, http://www.dfrdb.gov.au/_lib/pdf/annualreportparli_0910.pdf Australian Reward Investment Alliance, Annual Report to Parliament – various years, viewed 2 December 2010, http://www.aria.gov.au/annualreport/index.shtml

[25] Defence Force Retirement and Death Benefits Authority, Defence Force Retirement and Death Benefits Scheme: about your scheme, Australian Government, September 2007, p. 13, viewed 20 December 2010, http://www.dfrdb.gov.au/_lib/pdf/dfrdbbk.pdf

26	**44.00**
27	**45.75**
28	**47.50**
29	**49.25**
30	**51.25**
31	**53.25**
32	**55.50**
33	**57.75**
34	**60.25**
35	**62.75**
36	**65.25**
37	**67.75**
38	**70.50**
39	**73.50**
40 (or more)	**76.50**

By way of example: a 42-year-old Squadron Leader with 22 years of effective service has decided to retire from the Defence Force. He has a salary for superannuation purposes of $78,916. Using the Table above, the percentage to apply to his final salary is 38. His annual retirement pay is $78 916 x 38% = $29 988.08 per year.

But if a Squadron Leader with 22 years service retired at age 40, a not uncommon occurrence for a person joining the RAAF at age 18, his (or her) retirement pay would be only $78 916 x (38 – 6)% = $78 916 x 32% = $25,253.12 per year. This is because of the penalty of 3% per year, called "detriment", which is applied to any officer who retires before his/her notional retiring age for his/her rank. The notional retiring age for a Squadron Leader is 42.

"Detriment", which in this example generates a significant penalty of $4 734.96, is rarely acknowledged by either members or critics of military superannuation possibly because it only applies to officer members.

<u>The third reason asserted</u> is because of the age at which benefits can be paid. Generally, all other superannuation benefits are paid when:

- the person has retired, and
- the person has passed their 'preservation' age for superannuation purposes. This age is at least 55 for those born before 1960 and gradually rises to age 60, according to date of birth.

The DFRDB pension is generally paid upon a person's retirement from the ADF after 20 or more years' service. Most DFRDB members have left the ADF by age 55, often well before that age. That being the case, DFRDB pensions are often paid for a longer period of time than those that are paid to members of the wider community. While some DFRDB pensioners receive benefits well before the general "preservation" age of 55 years, their military superannuation pensions are small and are fully taxed. These individuals must accumulate additional superannuation cover before leaving the workforce in order to ensure they achieve a reasonable and secure retirement.

These two assertions need to be put in the context of the design of the DFRB/DFRDB schemes. The ability to access a DFRB/DFRDB superannuation pension at a relatively early age is a recognition that service in the ADF is unique. When DFRDB was designed, compulsory retirement ages for ADF members were low compared with community standards (e.g. 47 years for most enlisted personnel and many officers, including the Squadron Leader in the earlier example)[26]. This was for good reason. No government wants an old ADF. It is in the national interest for the average age of the ADF to be low in comparison with, say, the public service and the structure of military superannuation schemes should assist this national interest objective. It is not in the national interest to have platoons of 64 year old infantrymen in Afghanistan awaiting their 65th birthdays.

It was understood that former ADF personnel would need to establish themselves in a local community. They would need to start a second career which would inevitably mean a drop in salary plus facing additional hurdles because of the need to "start over" in the civilian workforce where there was no ready recognition of the equivalency of most skills gained from military service.

<u>The fourth reason asserted</u> is that these pensions are generous in their tax treatment after age 60. DFRDB and other Commonwealth superannuation pensions are paid from an 'untaxed' source, that is, a source that has not been subject to the normal contribution taxation arrangements applying to most civilian superannuation funds today. Before the DFRDB recipient reaches age 60 these pensions are taxed as ordinary earned income.

It should be noted that this situation comes about because successive governments chose not to fund their future superannuation liabilities as they arose. There are no funds to tax. In any event, it is not necessarily rational for the Commonwealth to pay superannuation contribution tax to itself.

Further, it is fair to say that the government has had use of funds compulsorily contributed by ADF etc members from their salaries during all of their service. In other circumstances these compulsory contributions (5.5% of salary in the case of DFRDB) would be owned by the "employees" and unavailable for ordinary government expenditures.

In partial recognition that this has placed an unfair burden on military superannuation pension recipients, after age 60 they qualify for a special tax rebate (often called a tax offset). This rebate is equal to 10% of the gross value of the pension[27]. When combined with the low income offsets available to all Australians, DFRDB pensions below about $38 125 per annum are effectively tax free[28]. But other Australians over 60 enjoy totally tax free superannuation pensions. Their superannuation pension is not included in tax considerations if the pensioner earns additional non pension income. This is not the case for military superannuation pensioners. All non pension income is added to their superannuation pension and is *taxed at the military superannuation pensioner's marginal rate*.

While pensions paid from a 'taxed-source' (being a superannuation fund that is subject to the ordinary superannuation contribution tax arrangements) are also tax free after age 60, they do not have the same degree of security as government pensions such as DFRDB (and other government schemes mentioned above). While security is perceived to be a major beneficial provision for defined benefit schemes, Senator Sherry, when he was the responsible minister, stated on a number of occasions that Australian superannuation schemes over 30 years have returned about 5% above inflation. The argument about the added security of the DFRB/DFRDB schemes is clearly overstated.

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[26] 1 July 2007 the maximum age for service in the ADF was increased to 60.

[27] Section 201-100, *Income Tax Assessment Act 1997.*

[28] As calculated by Parliamentary Library taking into account the pension tax offset and the low income tax offset only.

Military Pensions Indexation: Overseas Comparisons

Generally, the military pension schemes of the United States, United Kingdom, Canada and New Zealand and South Africa are all indexed to movements in prices – not wages[29]. The following table summarises the indexation methods applying to military superannuation schemes in selected countries. However, to look at indexation in isolation without examining the provisions of each scheme and how each operates along with their entitlement provisions and benefits leads to misleading conclusions.

Table 6: Military pension indexation method in some other countries

Country	*Indexation Method*
Canada	CPI adjustment [30]
NZ	No pension paid, lump sum benefits only
UK	Retail price index adjustment[31]
USA	Cost of living adjustment

Details of some cash and non-cash retirement benefits available in other countries are addressed in DFWA's 30 Sep 2009 response to the Matthews report. For example, the US scheme is non-contributory and military retirees enjoy access to medical and concessional retail facilities not available to other Americans. These cash and non-cash benefits for foreign military retirees are rarely, if ever, acknowledged by critics of Australia's military superannuation schemes.

DFRDB, Social Security, and Veterans' Affairs Service Pensions

The relationship between military superannuation on the one hand and Social Security/Veterans Affairs payments on the other is complex but they are two clearly separate issues. Superannuation is just that, while Veterans' Affairs Service Pensions are part of the social security safety net in order to ensure that former service personnel with "qualifying service" have an adequate income in retirement. And of course Age Pension payments are available to other eligible Australians for the same purpose.

While all retired full time service persons are eligible for the military superannuation pension to which they have contributed, not all such pensioners are able to claim a Veteran's Affairs service pension. Servicemen and women are not necessarily "veterans". Service pensions are made to those retired service men and women that have also served in a theatre of war, conflict zone or other highly dangerous situations (that is 'qualifying service')[32]. Not all military superannuation pensioners have so served. Conversely, there are some who do not qualify for a military superannuation pension (such as short term members of the ADF, members of the merchant marine during World War Two and other World War Two veterans) who can qualify for a service pension by virtue of their qualifying service.

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[29] Podger Review, op. cit. p. 15; Matthews Review, op. cit., pp 12 to 20.

[30] The Canadian CPI is different to that produced by the ABS.

[31] The use of the Retail Price Index is an attempt by the UK Government to ensure the buying power of a pension is maintained however the Government is the UK is now seeking to index Government pensions to the CPI to save some $170bn as the Retail Price Index is generally 0.7% per year higher than the CPI. The Australian Tuesday 6 Jul 10 page 27

[32] Department of Veterans Affairs, 'Qualifying service', *Fact sheet*, IS56, viewed 21 December 2010, http://factsheets.dva.gov.au/factsheets/documents/IS56%20Qualifying%20Service%20Overview.htm

However, all military superannuation pensioners, whether veterans or not, are eligible to claim a Centrelink age pension if they otherwise qualify.

The method used to index the military superannuation pensions is a major source of disquiet within the retired defence force community[33]. The second reading speech to this Bill emphasised that the purpose of the proposed changes was to bring the method of indexation of the DFRDB pension into line with the method used for the age pension and service pension, which would remove this source of disquiet at least for DFRB/DFRDB members[34]. Indexation of the Social Security age pension and the Veterans' Affairs service pension is determined under the *Social Security Act 1991* and the *Veterans' Affairs Act 1986* respectively.

Under changes contained in the *Social Security and Other Legislation Amendment (Pension Reform and Other 2009 Budget Measures) Bill 2009*, from 20 September 2009 the single Social Security Age Pension and Veterans' Affairs service pension are indexed using the higher of the CPI and the Pensioner and Beneficiary Living Cost Index (PBLCI) and benchmarked to 27.7 per cent of Male Total Average Weekly Earnings (MTAWE). The couple's pension rate is benchmarked to 41.76 per cent of MTAWE. If increases in these statistical series indexes produce a greater rate of pension than the above mentioned MTAWE benchmarks, those increases apply[35].

The formal provisions linking the Social Security age pension and Veterans' Affairs Service Pension to increases in MTAWE commenced in September 1997. However, it had been a matter of informal government policy that the basic age pension rate not fall below 25 per cent of Average Weekly Earnings (AWE) since about 1975. The provisions enacted in 2009 formalised what had previously been general government policy since the mid 1970s[36].

The answer to the question of whether it is appropriate to apply the indexation method used for Age and Service Pensions to Military Superannuation Pensions is simple. CPI indexation alone does not protect pension purchasing power. CPI/PBLCI indexation with reference to MTAWE does protect pension purchasing power. The issue is not one of comparing the *purpose* of welfare pensions with the purpose of superannuation pensions. The issue is simply that one *method* protects purchasing power and the other does not.

DFRDB Superannuation Pensions and the Age/Service Pensions have different purposes and are paid under different conditions. <u>But the fundamental premise is the same – indexation is intended to maintain the purchasing power of the pensions</u>.

As noted above, a person in receipt of DFRDB retirement pay may also access the Age or Service Pension if they otherwise meet the relevant eligibility requirements and pass the relevant income or assets tests.

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[33] Fair Go (a group of ex-serviceman's associations), 'Time for MPs to stand by their commitments', *media release*, 29 September 2010, viewed 22 November 2010, http://www.dfwa.org.au/images/2010/DFWA%20FAIR%20GO%20-%2029%20Sept%20100.pdf

[34] Senator Ronaldson, op. cit.

[35] These changes were accompanied by an increase in the pension income test taper rate, for income in excess of the income test free area, from 40 cents in the dollar to 50 cents in the dollar. That is, the income test applying to the payment of the social security and veteran's affairs pensions became more severe.

[36] Policy of indexing the Age Pension to increases in average earnings was first implemented in 1975, see *Social Services Act No. 3 1975*.

For example, a person receiving the average DFRDB pension of $23 549 as at 20 September 2010 may also be eligible for the following amounts of age/service pension:

Table 8: Possible total retirement income, as at 20 September 2010

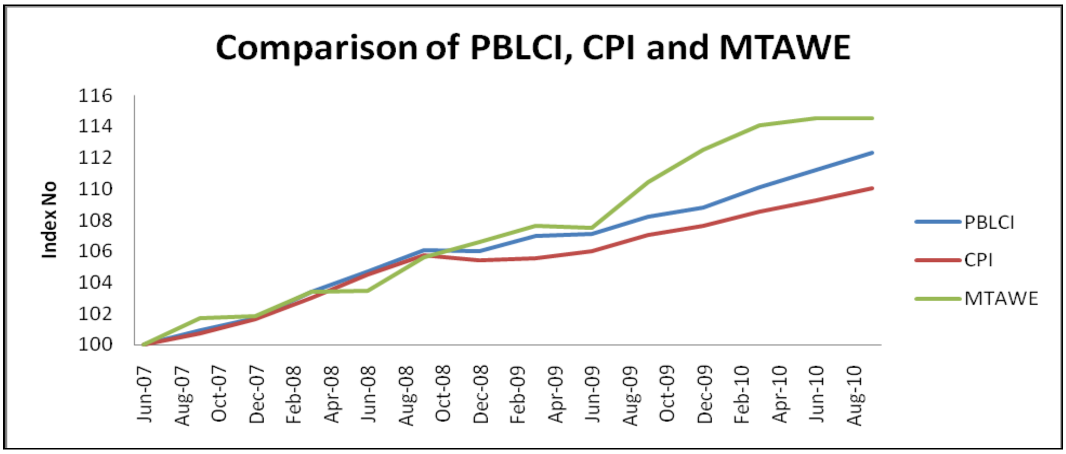
Pension Category	Average DFRDB Pension $p.a.	Pension amount paid taking into account average DFRDB pension $p.a.	Total retirement income $p.a.
Single age/service pension entitlement	23 549	8742	32 291
Couple age/service pension entitlement	23 549	19 642	43 191

Source: Parliamentary Library

This table assumes that the DFRDB pensioner receives no other retirement income and does not have assets which would affect the rate of pension payable. As noted above, military retirees often have additional superannuation based income in retirement. In addition, the DFRDB pension increases according to increases in the CPI. However, the income test thresholds for the age and service pensions increase according to the indexation method applied, effectively by the greatest of increases in the CPI, PBLCI or MTAWE. If increases in MTAWE or PBCLI continue to be greater than increases in CPI, this will currently lead to a situation where the proportion of a DFRDB pensioner's total retirement income made up of either age or service pension will increase over time. This is due to the faster rate of increase in the age/service pension income test thresholds compared to the rate of increase in the DFRDB pension.

Potential Effect of New Indexation Method

Application of the proposed indexation method to DFRDB superannuation pensions will increase the level of these payments. The following graph illustrates the rate of change in the CPI, PBLCI and MTAWE in recent years.



The reason for choosing June 2007 as the base is that data only exists for PBLCI from June 2007. The problem is that when comparing data from economic based models three years is but a moment of time and there is a risk that any assumptions based on these figures can be skewed. Therefore, June 2007 has been set to equal 100 and each subsequent quarter indicates the percentage difference between that quarter and the base year. The graph demonstrates that if a DFRDB superannuation pension had been indexed to MTAWE it would be higher than it currently is. This clearly illustrates the loss of purchasing power of DFRDB Superannuation Pensions in recent years, let alone since indexation reform was first introduced to Age and Service Pensions.

In the next twenty years, wages growth is likely to be quite strong. This is due to the demographic ageing of the population and the consequent relative labour shortage. In these circumstances wages growth may well continue at a higher rate than either the CPI or PBLCI increases as employers pay higher wages to compete for scarce labour resources. This is speculative but if it turns out to be the case and the Bill is enacted, the rate of DFRDB retirement pay is likely to increase significantly, along with increased MTAWE which is entirely appropriate if the intent is to maintain the purchasing power of Military Superannuation Pensions.

Veterans' Other Benefits

It is inappropriate to compare Veterans benefits which are generally a compensation for injury and/or death while serving and Military Superannuation. Some retired servicemen and woman are eligible for a range of other benefits administered by the Department of Veterans' Affairs. These benefits include continuing health care, special disability pensions and other benefits[37]. These benefits are provided as compensation for the continuing adverse affects of military service. Injured (ex)service men and women are eligible to receive health care associated with accepted injuries or disabilities upon application, assessment and approval by the (independent) Repatriation Commission or the Military Rehabilitation and Compensation Commission. Assessments for entitlement to ongoing health care are determined independently of the government through the relevant commissions. The availability of these benefits should not be taken into account when deciding whether to further increase the indexation rate of DFRDB retirement payments.

These provisions are akin to workers compensation benefits which provide compensation and ongoing care for work place accidents. Veterans' benefits in this respect are not unique in the Australian community.

Policy Position of Government/Non-Government Parties and Independents

The former Rudd Government accepted the recommendations of the Matthews Review and did not support the proposed changes to the indexation of any Commonwealth civilian or military pension.[38] However, most of those not in government saw the report as flawed and lacking in rigorous analysis of the adequacy of current indexation methodology. Rightly or wrongly, many saw that Matthews was accepted by the Government because it was the only report of many that recommended what the government wanted.

The current Gillard government has not, to date, commented publicly on this particular matter and indications from at least one minister are giving out a mixed message.

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[37] Department of Veterans Affairs, 'Overview of DVA benefits and services', *Fact Sheet*, DVA03, August 2010, http://factsheets.dva.gov.au/factsheets/documents/DVA03%20Overview%20of%20DVA%20Benefits%20and%20Services.pdf

[38] L Tanner (Minister for Finance and Deregulation), *The indexation of Commonwealth civilian and military superannuation pensions*, *media release*, 52/2009, 21 August 2009, http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/4IHU6/upload_binary/4ihu60.pdf;fileType=application%2Fpdf#search=%22Tanner%22

The Greens have included fair indexation in their published policy but have made no comment on this particular bill[39].

Mssrs Oakshott, Katter and Windsor have made no public statement on this particular bill but have previously stated they support fair indexation for military superannuation pensions. Mr Wilkie has publicly stated his support for fair indexation. Senator Fielding supports the proposal and is sponsoring a petition in support of fair indexation for military superannuation pensions [40]. The position of Senator Xenophon is unknown at this stage.

During the 2010 election campaign the Coalition undertook to introduce legislation to index DFRB and DFRDB retirement payments received by those over the age of 55 by the greatest of changes in:

- CPI
- PBLCI, or
- MTAWE.[41]

The Bill satisfies this undertaking. Notably, this Private Member's Bill adopts a position which is different to the one taken by the previous Coalition government, which declined on several occasions to implement similar changes[42].

Position of Major Interest Groups

The serving and retired ADF community strongly supports the proposed reform as a first step in rectifying what it sees as discriminatory treatment on military superannuation pension provisions[43].

Financial Implications

The second reading speech notes that the estimated budget cost will be $98 million over the forward estimates (generally next four years)[44]. Over the longer term the proposed changes would cost some $4.2 billion over the next 45 years, which is the estimated remaining life of the DFRDB[45]. The Matthews Review

[39] "Give Commonwealth and Defence Retirees a fair deal", 8 July 2010.

[40] S Fielding, 'A fairer go for our veterans', *personal website page*, viewed 22 November 2010, http://www.stevefielding.com.au/a_fairer_go_for_our_veterans_petition/

[41] Liberal Party of Australia, Coalition Election Policies 2010, *The Coalition's plan for real action for veterans and their families*, p. 2, viewed 22 November 2010, http://pandora.nla.gov.au/pan/22107/20100826-0009/www.liberal.org.au/_/media/Files/Policies%20and%20Media/National%20Security/Veterans%20Policy.pd

[42] *Government response to the recommendation of the Senate Select Committee on Superannuation report on superannuation and standards of living in retirement*, 14 February 2005, p. 19, http://www.aph.gov.au/Senate/committee/superannuation_ctte/completed_inquiries/2002-04/living_standards/gov_response/government_response.pdf *Government response to the report of the Senate Select Committee on Superannuation and Financial Services on the benefit design of Commonwealth public sector and defence force unfunded superannuation schemes*, 5 February 2003, p. 2, http://www.aph.gov.au/Senate/committee/superannuation_ctte/govt_response/gv11.pdf

[43] Fair Go (a group of ex-serviceman's associations), 'Time for MPs to stand by their commitments', *media release*, 29 September 2010, http://www.dfwa.org.au/images/2010/DFWA%20FAIR%20GO%20-%2029%20Sept%20100.pdf

[44] Senator Ronaldson, op. cit.

[45] Ibid.

noted that if DFRDB pensions were indexed to the higher of CPI or MTAWE then the notional employer contribution would rise from 33.5 to 46.3 per cent of wages[46].

The former Howard Government established the Future Fund specifically to provide funds for superannuation and the fund assets now stand at $69.31bn (30 Sep 10) so funding should be available that does not affect the budget's bottom line.

The Department of Finance and Deregulation has been asked by Senator Gary Humphries to provide figures for the net cost to government of fair indexation. A response was due 3 Dec 10 but has yet to be delivered.

Key Issue

The key issue is whether or not the indexation methodology currently applied to military superannuation pensions achieves its stated aim of maintaining pension purchasing power.

Arguments in Favour of Increase

The possible arguments for the increase proposed by this Bill are:

- The original DFRDB scheme contained a wage-based indexation element which was removed in the mid-1970s when the Government decided to apply the CPI to a wide range of social security and superannuation pensions (see above for details). The original recommendation of the Jess Committee in proposing how to index the DFRDB superannuation pension was;
  "That retired pay and invalid pay be expressed as a percentage of final pay and be adjusted annually so that relativity with average weekly earnings is maintained."(Recommendation 6).
- In 1998 and 2009 the Government changed indexation arrangements for social security pensions to include a wage-based component in order to maintain the purchasing power of these pensions.
- Due to changes to the way the CPI was calculated in 1998, CPI indexation does not maintain the purchasing power of pensions.
- The CPI is now formulated to measure inflation not purchasing power.
- DFRDB recipients have limited choice between pensions and lump sums, which is confined to the once-only commutation election at the point of separation from the Australian Defence Force. Commutation is the conversion of a part of the DFRDB pension to a lump sum[47].

The argument to include a wage-based element in the indexation formula is based on the realisation, now accepted by successive governments, that CPI on its own is no longer an appropriate measure of movements in purchasing power. When the DFRDB was first established indexation was not automatic but depended on specific Government legislative action. In 1977 the change to CPI indexation was a move to a more consistent indexation method and brought automatic adjustment to all Commonwealth funded superannuation schemes. However, as stated above, the 1998 changes to the way the CPI was calculated made it an inappropriate index to use if the intent is to maintain the purchasing power of the DFRB/DFRDB superannuation pension.

It is also noted that, while there is a limited commutation option for the DFRDB (maximum lump sum is five times the annual pension amount), commutation results in a reduced pension for life. And if the DFRDB beneficiary chooses not to commute, that part of his/her pension that could have been commuted is not

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[46] Matthews Review, op. cit., p. 67.

[47] Podger Review, op. cit., p. 60

indexed at all, not even to CPI. It seems clear that successive governments have encouraged commutation with a combination of 'carrot and stick' provisions within DFRDB.

A once-only option for taking superannuation entitlement as a lump sum applies to the MSBS, CSS and PSS.

Arguments Against Increase

The arguments against indexation reform for DFRDB retirement pay, with DFWA comments, are below:

- *Employers, including the Australian Government, provide superannuation for their employees as part of their reward for service. Where that superannuation includes a defined benefit pension (as it does in this particular case), it is usual for it to be indexed against erosion by inflation[48]. Any enhancement of such indexation arrangements would constitute an additional reward for no additional service[49]. This is especially so in the context of the reversionary quality of retirement payment. That is, 5/8 of the entitlement reverts to the spouse of a former ADF member in the event of their death.*
    - "Inflation" and "purchasing power" are not synonymous. CPI does not maintain purchasing power.
    - DFWA is not seeking an enhancement. It is merely seeking what was intended when the scheme was introduced, that is, maintenance of the purchasing power of the military superannuation pension.
    - DFRDB reversionary benefits, which are significantly less than those enjoyed by certain other Commonwealth superannuation scheme members, help recognise the unique nature of military service. In no way can widow/widower reversionary pensions be considered an "enhancement". Even if that was the case, reversionary benefits and indexation reform have no linkage. DFWA can enlarge on this issue if required.
- *Any change in current indexation arrangements would increase the real value of a pension post-retirement and provide an additional financial benefit that would not be available to those military personnel who did not receive a pension, for example, those who took all their superannuation benefit as a lump sum[50].*
    - DFWA is not seeking any '*increase (in) real value*'. The outcome sought is an indexation mechanism that maintains the purchasing power of the military superannuation pension. DFWA is seeking to prevent further *loss* of real value.
    - The only military superannuation scheme that a person can take all their superannuation as a lump sum is MSBS, which is not under consideration for this Bill. DFRDB members cannot take "*all their superannuation benefit as a lump sum".*
    - The very few DFRDB members who choose not to commute are financially penalised because that portion of their pension that could have been commuted is not indexed at all, not even to CPI. Indexation reform will benefit those who did or did not choose to commute.
- *A failure to increase military pensions in line with the age and service pensions is not inequitable. The latter are different benefits provided for different purposes and are not comparable with*

[48] This is not a valid statement as in the case of DFRDB, the indexation arrangements were to maintain its overall value (i.e. its purchasing power).

[49] Again this is not valid as there is no claim for "enhancement" just to maintain purchasing power as originally intended.

[50] Again this is not valid as there is no "increase in real value" just maintenance of purchasing power and there is no provision for DFRDB all to be taken as a lump sum.

military superannuation pensions in general and the DFRDB pension in particular. If they were to be compared, it is notable that although the age and service pensions may be increased to achieve a minimum benchmark, the proposed changes place no such restrictions on DFRDB retirement pay. Further, civilian and military pensions have advantages that do not apply to the age and service pensions.

  - By indexing the Age Pension using the CPI and the PBLCI (benchmarked to 27.5% of MTAWE) successive governments recognised that CPI alone will not maintain the purchasing power of that pension.
  - On the other hand, successive governments have claimed that CPI alone will maintain the purchasing power of a Military Superannuation Pension. This is incongruous. Both claims cannot be correct.

- *The Matthews Review did not find any evidence that the CPI understates inflation*[51] *as it affects Australian households in general—although it did acknowledge that the CPI may not represent the average experience of a particular sub-group, such as self funded retirees.*
  - There is no argument that the CPI measures inflation but the terms 'inflation' and 'cost of living' are, wrongly, used interchangeably in this debate. The CPI does not measure cost of living, therefore it is an inappropriate index to be used in isolation to index Military Superannuation Pensions if the intent is to maintain pension purchasing power.
- *CPI indexation is generous when compared to most contemporary civilian superannuation schemes that may only provide account-based pensions at the members' risk.*
  - Noting that the previous responsible minister (Senator Sherry) is on record as saying over the last 30 years Australian superannuation funds have returned 5% above inflation (CPI) it is difficult to see how CPI indexation could be described as generous. Certainly there is no risk with the government defined benefit schemes but, over the longer term, account based pensions have an excellent performance history.
- *Changing the DFRDB indexation method would be expensive and would require significant additional funding over an extended period of time, well beyond the forward estimates period*[52]
  - This ignores "claw back" and the Future Fund's ability to contribute to these additional costs.
- *The proposed changes would also add pressure for a similar change to the CSS, PSS and MSBS pension indexation provisions, at considerably higher long-term cost.*
  - That may eventuate but is no reason not to protect military superannuation pension purchasing power from further erosion. Each case should be considered on its merits. Regardless, if cost is the only consideration, then age, service and certain other Commonwealth pensions should all be indexed to CPI alone.
- *Military superannuation pensions are occupational pensions. They are not compensation for stress and injury experienced in this occupation. Such compensation is provided to retired ADF members by the Department of Veterans' Affairs, under the VEA, the Safety, Rehabilitation and Compensation Act 1988 (SRCA) and the Military Rehabilitation and Compensation Act 2004 (MRCA). Therefore, any claim to enhance the DFRDB retirement pay on the grounds that warlike ADF service is especially dangerous (which it undoubtedly is), may be construed as an attempt to 'double dip'*[53]*.*

[51] The issue is not inflation but maintenance of purchasing power and the ABS states that the CPI is not the appropriate index for this.

[52] This ignores "claw back" and the future fund ability to contribute to these additional costs.

[53] Enhancement is not sought only maintenance of purchasing power as envisaged by the Jess Committee.

- Under these later Acts (SERCA & MRCA), there are provisions to consider the impact of superannuation pensions on those veterans also receiving a compensation pension. Incredibly complex offsetting measures are in place which are under review as part of the current Review of Military Compensation being conducted by the Department of Veterans' Affairs. There is however no claim to enhance the DFRDB superannuation pensions and nothing in the Bill that can be construed as an attempt to 'double dip'

- Military superannuation pensions and military compensation must not be confused or linked. DFWA agrees that Military Superannuation Pensions certainly are not "*…compensation for stress and injury".* A superannuation pension is to fund retirement. Compensation is payment or medical assistance where a member was 'broken' as a result of their service in the ADF. The wider Australian populace enjoys compensation cover for work related injuries through the various workers compensation acts.

Unintended Exclusions

The second reading speech claims that the proposed amendments will alter the pension indexation arrangements for both the DFRB and DFRDB pensions[54]. However, the proposed amendments are only made to the DFRDB Act and only affect pensions paid under this particular Act. The proposed amendments do not apply to pensions paid under the DFRB Act although the opposition has guaranteed that this will be amended to include the DFRB scheme.

DFWA believes that indexation reform should apply to all military superannuation schemes but recognises that this Bill only applies to DFRDB. We welcome the inclusion of DFRB and look forward to the inclusion of MSBS in due course.

Concluding Comments

The intent of indexation of military superannuation pensions was and is to maintain pension purchasing power. This was the basis of the Jess Report and is why, for a little time, indexation included a wage based formula.

When the Fraser Government changed the indexation arrangements of all Commonwealth pensions to the CPI, it was at the time an appropriate index. But changes to the CPI in 1998 meant that it measured inflation rather than the cost of living, so it became inappropriate as the sole indexation method. The Government recognised this and changed the indexation parameters for the Age and Service Pensions. But it chose not to similarly reform the indexation method for military Superannuation Pensions even though military superannuation pensioners suffered the same inexorable loss of purchasing power as did age and service pensioners. The former still do.

Notions of fairness are subjective. What may seem fair to one group may be seen as unfair to another. But while Age and Service Pensions are designed to alleviate poverty in retirement and Military Superannuation Pensions are a condition of service, it is reasonable for each to have their purchasing power maintained. And it is at best inconsistent and at worst discriminatory to say that CPI protects Military Superannuation Pension purchasing power but does not protect Age and Service Pension purchasing power. Aligning the indexation methodology is, by any standard, fair. And fair indexation is not an enhancement. Nor is it a further reward.

DFWA and its partners in the Alliance of Defence Service Organisations (ADSO) want no more than fair Indexation.

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[54] Senator Ronaldson, op. cit.