

**AUSTRALIAN VETERANS AND DEFENCE
SERVICES COUNCIL INCORPORATED
“ AVADSC ”**

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Standing Committee on Finance and Public Administration
Legislation Committee
The Senate
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INQUIRY INTO DEFENCE FORCE RETIREMENT AND DEATH BENEFITS
AMENDMENT
(FAIR INDEXATION) BILL 2010

Introduction

On 24 March 2011, the Senate agreed that the Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010 together with the amendment circulated by Senator Ronaldson on sheet 7027, and proposed mechanisms for funding the bill, be referred to the Finance and Public Administration Committee for inquiry and report by 10 May 2011. Subsequently, via its letter of 28th March, this Committee invited the Australian Veterans and Defence Services Council (AVADSC) to provide a written submission addressing any of the issues that may be of relevance to it. AVADSC appreciates the opportunity to make this submission on this important Fair Indexation Bill 2010.

Background

Bills Digest No 55, 2010-11, prepared by Leslie Nielson Economics Section, and issued by the Parliamentary Library on 7 March 2011 for the proposed bill, is a well researched background into the genesis to the Defence Force Retirement and Death Benefits (DFRDB) Scheme and the changes which have since occurred to it. Specifically it highlights that the indexation of DFRDB pensions has been a contentious issue since the scheme commenced in 1972. Furthermore, it also highlights that the method of indexation of military superannuation pensions has recently been considered by a number of inquiries and reviews, notably:

- The Review of Military Superannuation Arrangements submitted 31 July 2007 and released in December 2007 (the Podger Review), and
- the Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes submitted 24 December 2008 and released 21 August 2009 (the Matthews Review).

AVADSC made comprehensive submissions to both of these reviews which highlighted that the method of indexation of military pensions related to CPI was causing them to fall behind other pensions in the community which are linked to increases in Male Total Average Weekly Earnings (MTAWE) and advised that the resultant discontent of defence force retirees was widespread. Following the release of these reviews and the realization that the Government was not going to change the indexation method, AVADSC has undertaken a project to collect case studies to gain a first hand understanding of the actual implications of the current method of indexation of military pensions.

In addition to AVADSC, other Ex Service Organisations (ESO's) eg DFWA and RSL made submissions to the reviews and have continued to follow up them up with additional reports/submissions. All of these submissions continue to identify that the key issue (as also identified in the Bills Digest) is whether the indexation methodology currently applied to military superannuation pensions achieves its stated aim of maintaining pension purchasing power.

This Fair Indexation Bill, which has now been referred to your Committee, is the first indication that at least some parliamentarians are acknowledging the inequity of the different approaches to pension indexation, particularly when the indexation to the Social Security age pension was changed in 1998 as the Government has recognized that the CPI does not maintain purchasing power. The inequity has led to widespread frustration and anger throughout the veteran community and belittles the unique service given by military personnel, who have served and who are still serving in the defence force, which contributes so much to the achievement of Australia's national objectives. It therefore follows that as a representative of the veteran community, AVADSC strongly support the Bill as a starting point to address the inequity displayed to the veteran community when compared with others in the community who have not contributed to the Australian nation in such a direct way as the veterans. It is just not fair to the veterans that they should be short-changed in such an obvious way to the general community.

The submission will focus on the findings of the case studies and the inequity of the indexation methods. It will not address the funding mechanisms for the bill.

Results of AVADSC Case Studies

The results of the case studies follow.

Rank on Discharge

Replies to the request for case studies were received from personnel who had served in all three services including senior Non Commissioned Officers (NCO's), Warrant Officers and officers of the ranks equivalent of major, lieutenant colonel and colonel – a small number were received from more senior officers.

Number of Years' Service

In the majority of cases the personnel had taken early retirement after 20 to 30 years service and had sought civilian employment. One was medically discharged before completing 20 years.

Age on discharge

Of those who had completed 20 or more year's service, the age on discharge was late 30's and with the majority in their 40's while some officers had retired in their 50's having served until their retirement age..

Retired pay on discharge

The retired pay on discharge of the personnel ranged from \$9,000 to just over \$16,000 with the majority about \$15,000.

Current retired pay under military superannuation

For other than very senior officers, the superannuation payments ranged from \$18,000 to \$41,000. More than half of the respondents receive in excess of \$25,000, most of whom are officers. About 30 percent receive less than \$25,000 per annum, most of these being NCO's.

Employment and superannuation history after discharge

Most of the officers obtained steady employment on discharge which contributed statutory superannuation funds while the NCO's reported some difficulty in finding steady employment.

Employment and superannuation history of spouse

Very few spouses of the respondents had careers which contributed to the superannuation benefits of the couple – in some cases posting cycles had prevented continuation of careers of spouses.

Home ownership factors, ie, whether still paying a mortgage

Nearly all respondents reported current mortgage commitments.

Sources of income other than superannuation and social welfare

About one third of respondents reported additional income from Department of Veteran Affairs in the form of Gold Card and small disability pensions and the same number reported additional income from small investments.

Annual rate of pay for same rank in Defence Force

Not surprisingly, all respondents reported current rates of pay for the same rank at which they departed the ADF as very much higher.

Access to social welfare.

A little under half of the respondents reported the need for assistance from social welfare via the safety nets available from Centrelink.

From the replies received from AVADSC's request for actual case studies, the conclusions which can be drawn are:

- a. Officers who have retired after more than 20 years service are now receiving military pensions in the high \$20,000's and \$30,000's. In addition, most of them have been able to find long term employment which has added to their income in retirement.
- b. Non Commissioned Officers who have retired after 20 years service are receiving military pensions of less than \$25,000 and in some cases only in the order of \$15,000. Also, such personnel have found it more difficult to find long term employment to supplement their military pension.
- c. Few spouses of retired military personnel have careers which have contributed to the retirement income of the couple.
- d. Many retirees are still paying mortgages.
- e. Only about half of the retirees receive supplementary benefits from the Department of Veterans Affairs – the others do not receive social welfare assistance.
- f. Salary levels of military personnel have increased significantly and are now probably more in line with civilian salaries.

A more general conclusion is that the current military pensions of Senior NCO's and the lower officer ranks who retired during the 1970's and 1980's, and before, are not adequate enough to maintain the purchasing power necessary to maintain reasonable living standards (AVADSC has previously presented views on the complexity of the principle of maintaining living standards in its comment on the Review into Military Superannuation Arrangements). Indeed, the loss of purchasing power is such that many veterans, including senior officers who served until retirement have seen their living standards, which they expected to be maintained by their superannuation, severely eroded. Those who have been able to maintain their expected standard of living do so only by supplementing their income from additional superannuation, private investments, or the safety net provided in some cases by DVA.

However, for those who do not have Qualifying Service, and many veterans do not, there is no access to the DVA pensions and services. Therefore these veterans, as well as some who do have Qualifying Service, have no option but to seek assistance via the safety nets available from Centrelink, a deplorable situation for those who served all, or a large percentage of their working life in the ADF, and were assured that superannuation arrangements were in place to maintain a reasonable standard of living in retirement. For these veterans, in the terms of their employment in the Services, the Government is perceived to have failed the test of being a responsible employer. Furthermore, at a time when the government is trying to reduce community dependence on welfare, it is exacerbating the situation by adding to the numbers needing to seek welfare because the Government will not provide the same indexation of military superannuation pensions as it does to the Social Security Age pension and other pensions.

Conclusion

This proposed Fair Indexation Bill, which applies only to veterans over 55, will not overcome the financial problems of all veterans and AVADSC does acknowledge that safety net mechanisms do exist under other Government programs for those who do have severe financial problems in their retirement. However, those over 55 will have been relying on their military superannuation for the longest period and have thus seen its purchasing power decline for the longest period. So it is a start.

Furthermore, it does recognise for the first time that is not fair that the indexation of the Social Security age pension has been adjusted to maintain purchasing power of the pension whereas the method used for military superannuation pensions does not achieve this. Indeed this is reflected in the very name of the bill of "Fair Indexation". It is the unfairness in the treatment of the veteran community in comparison with others in the community which has angered the veteran community and which concerns AVADSC. To overcome this inequity and to be fair to the veterans AVADSC strongly supports the acceptance of the Bill.

Yours sincerely

Ian Crawford
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National President