

INDIVIDUAL SUBMISSION

TO

THE SENATE INQUIRY – DEFENCE FORCE RETIREMENT AND DEATH BENEFITS
AMENDMENT (FAIR INDEXATION) BILL 2010

BY

WING COMMANDER PAUL RAYMOND JOHNSON (RAAF ACTIVE RESERVE)

I wish to submit to the Enquiry my own circumstances as an example of the way in which the current indexation of DFRDB Pensions has led to an erosion of value.

All statistics of annual Consumer Price Index (CPI) and Average Weekly Earnings (AWE) used in this submission were sourced from the Australian Bureau of Statistics (ABS).

By way of background, I transferred from the Permanent Air Force to the Air Force Reserve on 01 Jun 94 after 25 years of full time service. I have continued to serve in the RAAF Active Reserve to the current date (total 42 years ADF service).

As I was a member of the DFRDB Scheme and was over the age of 45, I was entitled to a full DFRDB pension on transfer, which, as you will be aware, was based on salary at transfer/retirement and length of service. At that time my salary for pension calculation was \$54045, which entitled me to an after-commutation pension of **\$20435** per annum. Note that in 1994, base salary for pension calculation purposes excluded any service related allowances.

Since 1994 the DFRDB Pension has been indexed by CPI, initially annually but latterly on a twice-yearly basis. As a result, my current pension is **\$32061** per annum.

For comparison purposes if I was retiring today in identical circumstances (i.e. Wing Commander with 25 years full time service at the same age), my after commutation DFRDB entitlement would be about **\$45060** per annum. This is based on the current Wing Commander salary of about \$128000 per annum. Note that, as a result of various restructuring of the salary scales since 1994, this salary now includes a number of former allowances in the base rate.

A comparison of my original DFRDB Pension indexed against Average Weekly Earnings since 1994 is also revealing. If indexed against Seasonally Adjusted AWE for the All Employee category, my current pension would be about **\$37500**.

Indexed against Seasonally Adjusted AWE for the Public Sector category, my current pension would be about **\$39850**.

By any comparison, it is obvious that, under indexing by CPI, my pension value has been seriously eroded since 1994.

If the current indexation continues unchanged, the value will be further eroded to the point that I will qualify for a partial old age pension at age 65. Whilst this situation has been described by some as “a safety net”, it also leads to the ridiculous situation of one person being administered by two departments (three if in receipt of a partial Veterans Affairs pension). Administratively, this is a wasteful nonsense.

The issue of cost has been raised in previous enquiries. I submit that the above “double handling” will significantly add to bureaucratic cost. If a fairer indexation methodology is introduced, any increased cost will be only transitory due to the fact that there have been no new DFRDB members since the introduction of MSBS in 1992, and consequently, the number of DFRDB recipients decreases every year.

All recipients of DFRDB benefits have served this nation for a minimum of 20. The least that they deserve is the implementation of a process that preserves the value of their entitlements and dignity into old age, without resort to the welfare system.

Therefore, I request that the members of the committee:

1. Support a fairer indexation of DFRDB entitlements.
2. Support a degree of retrospectively to any changes to restore the previous erosion of DFRDB benefits.

Wing Commander Paul Raymond Johnson