

Senate submission on:
Fairer indexation of military pensions under the
Defence Force Retirement and Death Benefits (DFRDB) scheme

Dear Senators,

I joined the Royal Australian Air Force in 1980 and served for over 27 years; a period which included two operational tours in the Middle East. I transferred from the permanent forces in March 2007 from which time I have received a pension under the DFRDB scheme although I still continue to serve as an active Defence Reservist for up to 30 days per year.

Under the current indexation regime linked to Consumer Price Index (CPI), annual increases are very small indeed. Actual inflation as reported by the Reserve Bank of Australia (RBA), often seem to exceed the reported CPI increases. As an example, in June 2007, ComSuper reported to me that the Australian Bureau of Statistics (ABS) had announced that there was no upward movement in the CPI over the six months from September 2006 and March 2007 and therefore no rise in the DFRDB pension. Whilst I understand and can accept that this may happen from time to time, when using the RBA on-line inflation calculator for the period from 2006 to 2007 (annual increments are the smallest), the increase was 2.3 %. This example may not stand as empirical evidence that the reported rate of inflation can exceed a position or change in the CPI, it at least demonstrates irregularities which will concern most DFRDB pension recipients.

If the present form of CPI indexation of pensions were to continue, I am quite convinced that over time, the pension on which I and many other loyal and long serving ex-service men and women of Australia will rely on almost exclusively during retirement, will be eroded to an amount that will barely sustain us. It should be remembered that the average military service pension is actually less than the age pension, yet as I understand it, does not draw an entitlement to many pension related subsidies such as those for public transport and many car and home related expenses. Section 1191 of the *Social Security Act 1991* provides that the Age Pension increases in line with increases in the CPI. However, section 1195 of the same Act mandates provisions that the Age Pension is also increased so that it is not less than 25 percent of Male Total Average Weekly Earnings (MTAWE). Military pensions are not underpinned in this way therefore, even where a military pension may start at a higher level than the Age Pension, over time any advantage in quantum of a military pension is effectively eroded in real terms.

Therefore, in order for military pension schemes to achieve an equitable pace with other retirement schemes, indexation for DFRDB must be adjusted to a fairer system to take into account the broader effects of real inflation of living costs. Without this change, I will see my pension over time, being eroded to a payment which could be insufficient to maintain a reasonable lifestyle.

Although perhaps not identified yet, a form of indexation which can adequately keep pace with the actual rises in living expenses as well as maintaining rises as the Age Pension does against MTAWE, should be a priority for this inquiry.

I thank the Senators and all concerned considering this matter for hearing my submission.

Yours sincerely

Bernard Nebenfuhr

10 April 2011