



ALLIANCE OF DEFENCE SERVICE ORGANISATIONS

FAIR INDEXATION “FACTS” and FACTS

WHO DO YOU BELIEVE?

The Government recently commissioned what it calls a “Fact Sheet” in response to ADSO* letters asking for fair indexation of military superannuation pensions. Their MPs and Senators now routinely enclose this “fact” sheet when replying to constituent requests for fair indexation.

The Government “fact” sheet is inaccurate, avoids the key indexation issues, and is economical with the real facts. It is a triumph of spin over substance.

But don’t take ADSO’s word for it. Make up your own mind...

(*ADSO partners are the Defence Force Welfare Association, the Naval Association of Australia, the Royal Australian Regiment Association, the Australian Special Air Service Association and the Royal Australian Air Force Association)

FACT SHEET — INDEXATION OF MILITARY SUPERANNUATION PENSIONS

• ***Superannuation is a means by which Australians can manage their living standards in retirement - it is not designed to provide a replacement for income earned over a working life.***

We agree. Who says otherwise? But surely a military super pension is not meant to **erode** so dramatically over a military retiree’s life, is it?

• ***To this end, Australia's retirement income system is based on what is described as the three pillars:***

(i) ***compulsory superannuation savings for all employees under the superannuation guarantee regime;***

True but tricky. Today’s civilian super schemes compel **employers** to contribute. Military super schemes compel **employees** (sailors, soldiers and airmen & women) to contribute. Meanwhile, the Government (employer) contributes nothing up front to the military schemes. Why does the “fact” sheet not say so?

(ii) ***voluntary superannuation contributions and other private savings; and...***

But voluntary personal contributions to DFR(D)B are forbidden. Tax-efficient voluntary (but capped) contributions to MSBS in addition to compulsory pre-tax contributions are a recent innovation. The “fact” sheet is again economical with the facts.

(iii) a publicly funded, means tested Age Pension and associated social security arrangements.

• The three pillars function to provide all qualifying Australians with, at least, a minimum retirement income with the Age Pension as a safety net. A retired ADF member may qualify for the Age Pension (subject to age, income and assets tests) should their superannuation pension be below minimum income levels.

As military super pensions continue to erode, the Government's unfair indexation regime pushes more and more ex-service people and their widows/widowers towards Centrelink.

And the "fact" sheet does not say that military super pensions are counted **in full** as income before a means tested Age Pension is granted, while today's civilian super scheme pensions are heavily discounted for means test purposes.

Unfair indexation plus a discriminatory means test regime mean that ex-service people lose twice. Why does the "fact" sheet not say so?

As the Age Pension is a safety net benefit it is appropriate to index the Age Pension in a different way to other superannuation (sic) pensions.

The only reason to index **any** pension is to maintain – not increase or decrease – its purchasing power over time. Age pension indexation is fair because it maintains pension purchasing power.

How can it be "appropriate" to maintain the purchasing power of one indexed pension (Age) while equally "appropriate" to decrease the purchasing power of another (military super pension)?

And why are certain other taxpayer-funded super pensions indexed so generously that a beneficiary's purchasing power actually **increases** in retirement? How is this "appropriate"?

• The Government views military superannuation as a key element of the competitive remuneration and conditions of service package for Australian Defence Force members.

And so it should. So should all employers. Nothing special here for ADF members.

• Each of the military superannuation schemes reflect (sic) the special nature of military service...

Military service is far more than special. It is unique. No other calling **requires** its members to give up their human rights in the service of their nation – even to the point of giving up their lives.

Meanwhile, ADF people compulsorily contribute to their super, get only their money back with no interest if they serve for less than 20 years (DFRDB), and pay income tax on their super pension! Is that what the "fact" sheet means by "special"?

...and provide members with life time (sic) indexed pensions and also death, invalidity and reversionary benefits. (Reversionary benefits are those benefits paid to eligible surviving spouses on the death of a military superannuation scheme pensioner and a portion of that pension 'reverts' to the eligible surviving spouse).

Most Australians do not contribute to their super. They rely on employer contributions. But ADF people compulsorily contribute 5.0% (MSBS) or 5.5% (DFRDB) of their pre-tax wage to Consolidated Revenue. In turn, military super pensions are paid in full (DFRDB) or in part (MSBS) from that source.

Almost all of today's civilian superannuation schemes have death and disability cover that can be adjusted, if required, by paying extra. ADF personnel do not have this flexibility. They pay for it if they need it or not. That's not necessarily a bad thing in ADSO's view, but the "fact" sheet's implication that death etc benefits are unique to military schemes is, to put it kindly, inaccurate.

And if a civilian accumulation scheme beneficiary dies, his/her super becomes part of the estate. Reversionary beneficiaries, usually a widow/er, then get access (usually to a lump sum). Meanwhile, a military widow receives 62.5% of her deceased husband's DFRDB super pension. Compare this with an MP's widow, who receives 83% of her deceased husband's PCSS (pre-2004) super pension.

• The majority of superannuation schemes in the private sector are accumulation schemes that provide a lump sum on retirement.

And the lump sum can then be invested in a tax-protected superannuation environment, from which a tax free super pension can be paid to the beneficiary. Meanwhile, military super pensions are liable for income tax. Why does the "fact" sheet ignore this fact?

• Military superannuation arrangements are based on salary and the length of the member's period of service – they are not based on, nor reflect, a member's needs in retirement.

ADSO does not say anywhere that military super pensions ***should*** necessarily reflect a "*member's needs in retirement*". Why does the "fact" sheet imply otherwise? More spin?

Nevertheless, the Prime Minister said recently* that "*Australian retirees deserve the lifestyle they have come to expect during their working life.*" Does the PM include ex-service people here?

(* *The Weekend Australian* 20-21 August 2011, p14)

• Superannuation pensions paid by the Government to its retired civilian employees and military personnel are indexed twice annually to reflect quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the Consumer Price Index population group, which includes social welfare beneficiary and superannuant households.

More spin. The Australian Bureau of Statistics said a decade ago that CPI is not a cost of living measure. CPI is a measure of inflation. The two are not the same. That's why CPI was dropped as the sole indexation measure for the Age Pension in 1997. Why does the "fact" sheet not say so?

In addition, the "fact" sheet conveniently omits to say that the Age Pension is now (since 2009) indexed to the better of CPI or the new Pensioner and Beneficiary Living Cost Index (PBLCI), with reference to Male Total Average Weekly Earnings (MTAWE). Full marks to the Government for introducing fair indexation for Age pensioners. Why won't it do the same for military super pensioners? Why is the "fact" sheet again economical with the facts?

- ***To change military superannuation indexation arrangements would effectively mean a change to a member's preretirement conditions of service after the member has retired.***

Of all the misrepresentations, spin and omissions in the “fact” sheet, this claim is the most mind-blowing. It is not true. The authors, and the Government, should hang their heads in shame.

The Department of Finance and Deregulation (DoFD) in its 2011 Senate submission on the Fair Indexation Bill, which addressed DFRDB but not MSBS, stated that fair indexation “... would be a retrospective upgrade to the terms and conditions of service.” The “fact” sheet repeats the false DoFD claim. Fair indexation is certainly not a “retrospective upgrade”.

The clear intent of the DFRDB scheme (i.e. the “employer” promise) was always to guarantee a pension that would maintain purchasing power. That’s no longer true. Indexation to the then CPI was adequate in the 1970s through the period of the ‘80s Wages Accord until around the early to mid ‘90s. CPI then changed. The name stayed the same but the measure was, and is, now different.

Indexation to **today’s** CPI does not maintain purchasing power. That’s why successive Governments adjusted the indexation method for Age and other welfare pensions in 1997 and again in 2009. But military super pensions remain pegged to CPI.

ADSO is seeking the **restoration** of an eroded condition of service. To claim otherwise, as the “fact” sheet does, is wrong to the point of peddling a deliberate untruth.

- ***The Government honoured its commitment to review the indexation arrangements for superannuation pensions it pays to retired civilian employees and military personnel.***

Ex-service men and women well remember the reassuring visits by the then Shadow Minister for Veterans’ Affairs prior to the 2007 election, and the many promises made by the then Opposition to fix the unfair indexation of military superannuation pensions.

The “fix”, in more ways than one, was the discredited Matthews Report. See below.

- ***The Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes was conducted by Mr Trevor Matthews...***

The Matthews Review’s credibility suffered from restrictive Terms of Reference, an opaque appointment process for the reviewer and his team, no independent costing research from non-DoFD sources, questionable unsupported assumptions, skewed presentations so that costings in particular appeared in the worst possible light, omissions that the uninformed reader would not necessarily detect, recommendations that are not supported by facts, and an eight month delay between the Report’s presentation to Government and its public release on a Friday afternoon as Parliament rose for a recess – too late for the weekend news cycle.

...who recommended no change to indexation arrangements.

Yes he did, albeit in the shallow fashion that is the Report’s hallmark. The “fact” sheet is wrong yet again. The Report’s Recommendation #4 says, ***“That, if a robust index which reflects the price inflation experience of superannuants better than CPI (ADSO emphasis) becomes available in the future, the Australian Government should consider its use for indexing Australian Government civilian and military superannuation pensions.”***

Astoundingly, the Government announced this very index with much fanfare just days after releasing the Report. The index is the Pensioner and Beneficiary Living Cost Index (PBLCI – see earlier). PBLCI may not perfectly reflect “*the price inflation experience of superannuants*” but, given that military super pensioners are overwhelmingly retired and are therefore affected by the exact same factors as “pensioners and beneficiaries”, it is clearly and obviously “*better than CPI*”.

Why has the Government taken no steps in the two+ years since the Report’s release to redress the indexation issue in accordance with Recommendation #4? All it has to do is say that military super pensions will increase twice each year by the same percentage as the Age pension.

- **Mr Matthews identified very significant additional costs that would be incurred if indexation methodology was changed.**

He did indeed. But the content and presentation of his numbers are skewed to the point of bias. And don’t take ADSO’s word for it; former Finance Minister Lindsay Tanner admits as much. Mr Tanner’s admission in his book “*Sideshow – Dumbing Down Democracy*”, as reported in *The Weekend Australian* 30 April-1 May 2011 and elsewhere, casts serious doubt on the Review’s veracity, remembering that DoFD was the sole source of the Review’s costing data.

Mr Tanner says, “*Misuse of government spending information is a favourite artifice...As a shadow minister and Minister for Finance I became adept at these dark arts using some of what are now the standard tricks employed to maximise political appearances: switching between cash and accrual accounting; using nominal, real or proportion of gross domestic product indicators of spending according to which indicator suited the argument better; ...making commitments beyond the forward estimate years...*”

The Matthews Report is a prime example of Mr Tanner’s “dark arts”. The Report:

- published gross costs without quantifying offsets such as members’ compulsory contributions and “clawback” to Government through higher taxes and lower welfare pension expenditure.
- reported the total **gross** costs of change to both the civilian and military schemes and then skewed these numbers even further by projecting them way beyond the normal forward estimate period of four years to an astronomical 45 years. No wonder the numbers are huge.
- chose not to compare its 45 year indexation cost projections with the 45 year costs of, say, Age pensions or certain parliamentary or judicial super pension schemes (which are indexed to MP salaries), meaning that the lay reader has no benchmarks to decide by way of comparison whether or not fair military super pension indexation is affordable or reasonable.
- obscured the average gross (i.e. pre-tax) potential benefit per military superannuant, forcing dogged readers to do their own sums using numbers in tables on page 5 & page 66! (The answer, a tiny \$~254 per superannuant per annum in 2010-11, may be why the Report concealed it.)
- buried the \$16m gross (pre ‘clawback’) cost of one year’s fair military super pension indexation (2010-11) on page 66 of a 68 page report, leaving it open for latter day critics of fair indexation to allege that the costs will be “billions & billions” with little fear of their bias being discovered.
- used highly questionable cost assumptions, including assigning an indefinite life to MSBS despite the major 2007 report (still before the Government!) which said otherwise.
- dismissed the unique nature of military service in just 11 lines because it was not specifically in the Terms of Reference but defended the pre-2004 MP super scheme (while grudgingly admitting to its generosity) even though the Parliamentary scheme was also not in the TOR.
- said that “*The Future Fund is currently not funded to meet these liabilities*” without revealing that the present Government has never added a cent to the Future Fund.

- claimed to compare Australian military and civilian super scheme indexation with certain overseas schemes but conveniently overlooked non-cash benefits such as free medical and PX/ Commissary privileges accorded to US – but not Australian – military retirees. (Non-cash benefits maintain their “purchasing power” because they are free or subsidised.)
- used statistical tricks such as employing the measure that best suited the desired outcome. For example, the Report says on page 62 that the average (*mean*) DFRDB pension at December 2008 was \$21,286pa. That’s true, but it exceeds the *median* DFRDB pension by some \$2,000pa (calculated from Table 2.3 on page 7). The median is a much more valuable and significant number because 50% of military super pensioners receive more than the median while 50% receive less. Parliamentary decision-makers need to know that. A mean, as used in isolation in the Report, inflates the perceived cost and makes military super pensions look bigger than they really are.

The above “dark arts” are not the only ones in the Report. It is difficult to escape the conclusion that the Report had a preordained goal of misleading both parliamentarians and taxpayers.

- ***The significant costs of higher indexation would have to be found from the Consolidated Revenue Fund or from Defence's existing budget.***

Even Matthews said that the first year gross cost of fair indexation would only be around \$16m. ADSO now (2011) estimates a first year gross cost of perhaps \$20m (some \$14m after “clawback”). The gross cost compounds with time but so does “clawback”.

Are these “*significant costs*”, as the “*fact*” sheet asserts, noting they represent about 0.000064% of 2009-10 budget expenses (*before* “clawback”) as well as a *falling* percentage of GDP over time? You decide – after considering the taxpayer dollars squandered through certain Government programs.

- ***This will jeopardise the funding of other initiatives.***

Rubbish. What higher priority “*other initiatives*” costing around \$14m net this year will be jeopardised by granting fair indexation to 63,000 former sailors, soldiers and airmen & women – and to those they too often leave behind?

Serving and retired members of the Australian Defence Force are not second class citizens.

If fair indexation is affordable for some 3.5m Age pensioners and other welfare beneficiaries, and if very generous indexation is affordable for certain parliamentary and judicial superannuation pensioners, why is fair indexation not affordable for military superannuation pensioners?

ADF people deserve substance, not “*fact*” sheet spin and obfuscation. So do parliamentary decision-makers of all parties and, importantly, so do the taxpayers – who pay all of any government’s bills.

All we want is a fair go. Military superannuation pensions must increase twice each year by the same percentage as the Age pension.