



# DEFENCE FORCE WELFARE ASSOCIATION

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*Patron-in-Chief: His Excellency Mr Michael Bryce AM AE*

File: 51.01

23 December 2008

Budget Policy Division  
Department of the Treasury  
Langton Crescent  
Parkes ACT 2600

CC: Minister for Veterans' Affairs  
Minister for Defence Science and Personnel  
Minister for Superannuation and Corporate Governance

### **Background Information on the Defence Force Welfare Association**

Formed as the Regular Defence force Welfare Association, DFVA was established in 1959 as a direct response to the unfair and inequitable provisions then existing in the superannuation conditions for serving and former regular members of the ADF. It has since become a nationwide organisation concerned with the welfare and conditions of service affecting all serving and ex-serving members of the Australian Defence Force.

The Association's principal roles are;

- Advocating improved conditions of service for ADF members,
- Campaigning for fair and equitable treatment and retirement benefits for former ADF members, and
- Providing advocacy services on behalf of serving and retired personnel who may have a claim on Government under various Commonwealth legislation covering superannuation, compensation and veterans' entitlements.

The Association works closely with other ex-service organisations. It is a contributing member of the Australian Council of Public Sector Retiree Organisations, and the Australian Veterans' and Defence Services Council (AVADSC).

### **Underlying Principles for our Submission for the 2009-10 Budget**

Two interconnected principles should guide the Government and form the philosophical context within which decisions on employment conditions for service men and women made. These are the 'unique nature of military service' and the need to compensate members of the Australian Defence Force (ADF)

**REGULAR DEFENCE FORCE WELFARE ASSOCIATION INC**

Incorporated in the ACT: Reg No: 1496

ABN 49 929 713 439

for that uniqueness in their pay, superannuation, invalidity and death benefits, and other conditions of service.

The following are the characteristics of military service which, when taken collectively, distinguish it sharply from employment in the broader Australian community:

- liability for combat operations leading to multiple deployments at short notice;
- a military discipline code;
- a regimented way of life;
- long and irregular working hours;
- retiring ages well below the community norms;
- high standards of physical fitness;
- frequent relocation; and
- separation from family.

DFWA believes that, in the following areas, not only are the above principles ignored but in some instances serving and former ADF members are subjected to discriminatory treatment at the hands of the Government because of their service in the ADF.

We therefore submit the following policy proposals relating to the Government's support of serving and former ADF personnel for consideration in the 2009-10 Budget. All of the proposals in this submission have been raised previously and only a brief explanation of each is included in the annex.

### **Proposed Budget Initiatives**

Recommended Budget policy initiatives:

- Indexation using the general community standard, ie that used for the Aged and Service pensions, as the military pension indexation rate, to maintain the living standards of military pensioners relative to the general community;
- Adjustment of the provisions of "*Better Super*" affecting military retirement and disability pensions;
- Immediate adoption of up to date Life Expectancy Tables for DFRDB commutation arrangements and restoration of the full DFRDB pension after repayment of the lump sum commutation amount for existing DFRDB pension recipients;
- Adjustments to Defence widows' pensions indexation arrangements.

Yours sincerely



David Jamison. AM  
National President

## INDEXATION OF ALL MILITARY PENSIONS USING THE GENERAL COMMUNITY STANDARD

Military pensions were originally indexed at CPI to maintain their value relative to national wages to provide income support for the pensioner.

In the last 15-20 years, national standards of living have increased in real terms, which are not reflected if relying on the CPI. Acknowledging this, in 1997 the then-Government changed the method of indexing the Aged and Service Pensions from CPI to a combination of CPI and Male Total Average Weekly Earnings (MTAWE). The Parliament further extended this treatment to a whole range of payments to veterans earlier this year. The Government is now reviewing the inadequacies in even this higher indexation method for the Aged and Service pensions.

Military retirement and disability pensions now stand out as being more harshly treated than almost every other long-term Commonwealth payment that is subject to regular indexing to maintain its value.

Table 7 of the Department of Finance and Deregulation's (DOFD) submission to the Matthews Review of Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes indicates the budgetary costs to be as follows:

2009-10	\$1M
2010-11	\$16M
2011-12	\$36M
2012-14	\$59M
2019-20	\$255M

The actual nett cost to government revenue would be considerably less, due to clawback via increased taxes and reduced social welfare benefits.

### **Proposal**

We ask that the same community standard of indexation, as adopted for the Aged and Service pensions, be applied to all components of DFRB/DFRDB/MSBS military superannuation pensions.

## PROVISIONS OF "BETTER SUPER" ADVERSELY AFFECTING MILITARY RETIREMENT AND DISABILITY PENSIONS

Military pensions are paid from what are defined as "untaxed" superannuation funds and, under the taxation changes introduced by the *Better Super* changes, those pensions are not only taxed but also included in pensioners' total income for tax purposes.

The only reason why the military schemes were "untaxed" was because of a Government convention that it did not pay tax to itself. Had it done so, the nett cost to the Government would have been exactly the same. The *Better Super* distinction between "taxed" and "untaxed" schemes is artificial but it leads to distinct disadvantages for military pensioners.

The most obvious disadvantage is that military retirement pensions are taxed.

The present provisions have an additional effect of taxing military pensions at the taxpayers' marginal rate, which puts them at a significant disadvantage when compared with taxpayers receiving pensions from "taxed" funds.

Membership of the military retirement, death and disability schemes is compulsory for ADF personnel. The above are examples of the "unique nature of military service" which, rather than being recognized and compensated for, are in fact being used to create an additional detriment and burden for ADF

personnel. Again the tax treatment of military superannuation pensions now stands out as being harsher than almost every other superannuation scheme.

### **Proposal**

We ask for the removal of income tax on DFRB/DFRDB/MSBS military superannuation pensions, including death and invalidity, in line with the most of the remainder of the Australian community but, at the very least if that is not agreed, we ask for a separation of taxed military pensions from other taxed income on the taxpayers' tax return.

### **ADOPTION OF UP TO DATE LIFE EXPECTANCY TABLES AND RESTORATION OF THE FULL PENSION AFTER REPAYMENT OF THE LUMP SUM COMMUTATION AMOUNT**

Military DFRDB pensioners, who are effectively forced to commute part of their pension into a lump sum, have their pensions reduced permanently by an amount which is calculated to ensure that the lump sum is repaid when the pensioner reaches a life expectancy figure that has been calculated using the 1962 Life Tables.

Life expectancy has increased markedly since the DFRDB Scheme was introduced in 1972/3 which should, logically, reduce the amount to be repaid each year. The continued use of these old and out of date life expectancy factors is unconscionable. It unfairly reduces the fortnightly retirement pension of members of this scheme and is yet another detrimental burden born by ADF members.

### **Proposal**

To remedy this injustice we ask that;

- For current DFRDB pensioners, the full pension should be restored when the pensioner reaches life expectancy as defined in the 1962 Life Tables; and
- The immediate adoption of up to date current Life Tables for all future retirees who are members of the DFRDB scheme.

### **ADJUSTMENTS TO DEFENCE WIDOWS' PENSIONS**

Only a portion of Defence Widows' pensions is indexed and then only at CPI. That means their pension loses relative value even faster than it would have if the Defence pensioner had stayed alive. This is unjust on particularly vulnerable members of the community.

### **Proposal**

We ask that all components of the Defence Widows' pension be indexed, and at the same rate as the community standard, i.e. the Aged and Service pensions. The nett cost to government revenue of this measure is a small fraction of that identified above by the DOFD for adjusting the indexation formula for all military superannuation pensions.