



DEFENCE FORCE WELFARE
ASSOCIATION

PO Box 4166
KINGSTON, ACT, 2604

Phone:

02 62659530

Faxsimile:

02 62659776

Email:

national@dfwa.org.au

Web Page:

www.dfwa.org.au



NAVAL ASSOCIATION OF
AUSTRALIA

GPO Box 711
Canberra ACT 2601

Phone:

1300 780054

Email:

natsecna@bigpond.net.au

Web Page:

www.navalassoc.org.au



ROYAL AUSTRALIAN AIR
FORCE ASSOCIATION

PO Box 83
MITCHELL ACT 2911

Phone:

02 62590865

Email:

[Raafa.hq@bigpond.net.au](mailto:raafa.hq@bigpond.net.au)



RETURNED AND SERVICES
LEAGUE OF AUSTRALIA

GPO Box 303
CANBERRA, ACT, 2601

Phone:

02 6248 7199

Email:

business_manager@rsl.org.au

Web Page:

www.Rsl.org.au

REVIEW OF PENSION INDEXATION ARRANGEMENTS IN AUSTRALIAN GOVERNMENT CIVILIAN AND MILITARY SUPERANNUATION SCHEMES

JOINT SUBMISSION BY:

RETURNED AND SERVICES LEAGUE OF
AUSTRALIA

DEFENCE FORCE WELFARE ASSOCIATION

NAVAL ASSOCIATION OF AUSTRALIA

ROYAL AUSTRALIAN AIR FORCE ASSOCIATION

DATED 16th JULY 2008

David Jamison,

David K Jamison AM,
National President DFWA,
PO Box 4166,
Kingston ACT 2604

Les Dwyer

Les Dwyer,
National President NAA,
GPO Box 711
Canberra ACT 2601

Bill Crews

MAJGEN Bill Crews AO (Rtd),
National President RSL,
GPO Box 303,
Canberra ACT 2601

Roxley McLennan

AVM Roxley McLennan AO (Rtd),
National President RAAFA,
PO Box 83,
Mitchell ACT 2911

SUBMISSION TO THE REVIEW OF PENSION INDEXATION ARRANGEMENTS IN AUSTRALIAN GOVERNMENT CIVILIAN AND MILITARY SUPERANNUATION SCHEMES

INTRODUCTION

1. This submission by the Returned and Services League (RSL), the Defence Force Welfare Association (DFWA), the Naval Association of Australia (NAA) and the Royal Australian Air Force Association (RAAFA), reflects the positions of the major ex-service organisations as previously presented in their response to the recent military superannuation review report. Collectively these organisations represent a very significant number of current and former members of the Australian Defence Force (ADF).
2. In this submission we are particularly addressing the Terms of Reference as they affect members, or their eligible dependents, of the three extant military superannuation schemes. In saying that, we acknowledge that the comments also have synergy with members of the Australian Public Service and their superannuation schemes. Together with their representative organisations such as the Superannuated Commonwealth Officers' Association (SCOA), we have made coordinated representations to previous indexation inquiries.

THE OCCUPATIONAL NATURE OF THE SCHEMES

Background on Military Superannuation

3. There are three superannuation schemes currently operating for serving and former members of the ADF and their eligible family members:
 - The Defence Force Retirement Benefit Scheme - DFRB
 - The Defence Force Retirement and Death Benefit Scheme - DFRDB
 - The Military Superannuation Benefits Scheme - MSBS
4. DFRB dates from a major 1948 review and covers only a very few long retired pension recipients who left ADF service before 1973. All serving DFRB members at the time of the introduction of DFRDB were automatically transferred to the new scheme in 1973.

5. DFRDB dates from a major enquiry (the Jess Review) undertaken between 1971 and 1972 and provides eligible members with death benefits and a defined benefit pension calculated as a percentage of final salary based on years of service. The resultant superannuation pensions were and are indexed to movements in the consumer price index – CPI. The scheme was closed to new members in 1992 and there is a decreasing number of serving members covered by DFRDB, although the number of retired members remains substantial.
6. MSBS dates from a major review in 1991 / 1992 and remains the current scheme for most current ADF members and all new ADF members post – 1992. This scheme is a hybrid: members' contributions are placed within an accumulation superannuation scheme but the employer benefit remains a defined benefit, calculated as a percentage of final average salary over three years and convertible to a pension at defined rates. The resultant MSBS superannuation pensions are indexed to movements in the consumer price index – CPI.
7. All three schemes were compulsory for serving members of the ADF and each required a minimum contribution from members' salary. The size of that contribution varied in DFRB, depending upon rank / age, but in DFRDB and MSBS it was and is of the order of 5% of military salary.

The Unique Nature of Military Service

8. The three military superannuation schemes were intended to reflect the '*Unique Nature of Military Service*' as acknowledged in their core legislative and foundation documents.
9. The Government's most recent expression of the characteristics applying to this Unique Service was included in the Terms of Reference for the 2007 Review into Military Superannuation (Annex A). In short the main characteristics of military service as described in those Terms of Reference are:
 - liability for combat operations;
 - a military discipline a regimented way of life;
 - long and irregular working hours;
 - statutory retiring ages well below the community norms;
 - high standards of physical fitness;
 - frequent relocation; and
 - separation from family.

ADF personnel are subject to both the civil legal code and a separate Defence Force disciplinary code. The disciplinary code supports the command structures necessary for effective conduct of combat operations and training. The Defence Force disciplinary code imposes restrictions on personal conduct; it demands different standards from those generally acceptable within the community; and it impinges on the individual's family life and leisure time.

THE FORM AND VALUE OF BENEFITS PAYABLE UNDER THESE SCHEMES

Current Arrangements

10. The number of current members of the schemes, the amounts of current pensions and the cost to government are available from COMSUPER, through the annual reports of each scheme. However, for indicative purposes the numbers and appropriate pensions at 30 June 2007 were:

Annual Pension	%	Cumulative % Military Pensioners
<\$10K	7.39	7.39
\$10 - \$19K	50.63	58.02
\$20 - \$29K	29.93	87.94
\$30 - \$39K	8.15	96.09
\$40 - \$49K	2.45	98.55
\$50 - \$59K	0.92	99.47
\$60+K	0.53	100
63,728 Total		

Source: COMSUPER as at 30 June 2007

11. Notwithstanding the conclusion reached in the foundational review (Jess Review) that:

“the adjustment should be related to average weekly earnings and the relativity of retired pay with that index maintained(to)... ensure that the man in retirement will be able to maintain his position in relation to rising community standards and he will obtain those increases when needed”; and

the recommendations of four subsequent Senate Committee enquiries that indexation have some linkage to changes in average wages, indexation of ADF superannuation schemes continues to be linked to movements in the consumer price index – CPI.

12. Importantly, the Australian Bureau of Statistics, which compiles the CPI, declares in its publication 6440.0 - A Guide to the Consumer Price Index: 15th Series, 2005, that the “*CPI is not* [emphasis added] *a purchasing power or cost-of-living measure*”. Rather it is what its name suggests, a measure of changes in the price of a defined (but changeable) basket of goods and services.
13. This less than subtle difference has been acknowledged by Government in recent years by Government’s decision to reform the indexation

arrangements of other government payments such age/service and veteran pensions by linking them to movements in a wage based index – generally Male Total Average Weekly Earnings (MTAWE) - and more recently, in the 2008 budget, to the living cost index for age pensioner households. This reform was justified in public and parliamentary debates as an acknowledgement of changes in community living standards flowing from a range of factors including productivity and national wealth considerations. This justification was reinforced by a Government minister's remarks to a gathering of veteran representatives as recently as 2 July 08 stating that, '*the recent changes to Department of Veteran's Affairs payments adjustments* (using the indexing methodology we seek) *have now introduced a "fair system of indexation".*

14. We applaud the recent Government reform to veteran pensions. However, we believe the same fair system of indexation is long overdue for military superannuation pensions. Access to a similar “fair standard of living” indexation methodology for DFRB, DFRDB and MSBS superannuants is the core of the Defence Superannuants and ex-service communities’ reform representations.

Previous Reviews and Considerations

15. The matter of changes to indexation methodology is not new. Over recent years it has been the subject of repeated parliamentary scrutiny, including Senate Committees. These scrutinies include:
 - April 2001. Senate Select Committee on Superannuation and Financial Services. “A Reasonable and Secure Retirement” recommended that *DFRDB and Public Service pensions be adjusted on “other than CPI”*
 - December 2002. Senate Select Committee on Superannuation. “Superannuation and Standards of Living in Retirement” recommended that *DFRDB and Public Service pensions be adjusted on “CPI or MTAWE, whichever is the greater”*.
 - July 2007. Report of the Review into Military Superannuation Arrangements recommended a partial indexing of some military retirement pensions to “*a similar basis to that applying to age pensions*”. The ESO community strongly objected to these recommendations on the basis of flawed logic, inappropriate costing and manifest inequity. The outcomes of this Review are yet to be announced by Government. A synopsis of the Ex-Service Organisations (ESO) response to the Review’s Report, as it applies to indexation is at Annex C.
 - March 2008. Standing Committee on Community Affairs. The March 2008 Committee Chairman’s key outcomes (Annex B refers) are summarised below:

“The report on the cost of living pressures for older Australians has recommended the Government immediately move to index Commonwealth superannuation pensions to both CPI and Male Total Average Weekly Earnings (MTAWE).

There are two recommendations which are absolutely key;

First, we have recommended that the Government urgently review current pension levels to determine whether these are sufficient to provide a decent standard of living.

Second, we have recommended that while the Government is conducting such a review, Commonwealth and Defence superannuation pensions should immediately be brought in line with other government pensions by indexing these to both CPI and MTAWE.”

Election Campaign 2007

16. Community campaigns were conducted before the most recent federal election. Support from now government and then opposition members for our position were expressed publicly. The following is an example:

Response from Political Parties. DFWA recently wrote to the major political parties on a range of issues. The response from the ALP – is reproduced below:

“Labor believes that defence superannuation is a vital factor in the nation’s ability to recruit and retain talented and capable people for the Australian Defence Force. It is also a key entitlement for exservice personnel. For these reasons, defence superannuation is an issue on which Government policymaking must be transparent and open to engagement with serving and former defence personnel. The Howard Government has made a number of reforms to superannuation, most of which are supported by Labor. However, there is clearly much more to be done to address a range of longstanding issues in defence’s superannuation.

Issues of great concern to the defence and ex-service community include indexation, invalidity benefits, overall taxation arrangements, outdated life tables, and alignment between the preservation age for ADF members and the normal ADF compulsory retirement age. [Emphasis added]

Labor has been urging the Howard Government to ensure that defence superannuants are not left worse off by the recent ‘Better Superannuation’ reforms. In particular, the new proportioning rule imposed a new tax on Military Super members’ part commutation lump sums for those who retire earlier. The Howard Government has finally brought in regulations to address this problem for MSBS members, although regulations for the DFRDB scheme have not yet been tabled.*

Labor has been calling on the Howard Government to release the report of the Military Superannuation Review, to enable proper discussion on how current arrangements could be improved, and how these longstanding problems could be addressed. It is concerning that the Howard Government has refused to be answerable to the public and to the Opposition on these issues. The Howard Government has been promising the ex-service community all year that this review would address their concerns. It is unacceptable that the Government has had this report since July but has continued to refuse to release it. This is not the first time that the Howard Government has hidden an independent review into an important policy area. The Clarke Review into veterans' entitlements in 2004 was not released for some time and the Government then ignored most of its recommendations. Labor hopes that this is not the Government's strategy in 2007 and is calling for both the report and the Howard Government's response to be released before the election. Not to do so would confirm that the Government is not prepared to be open and honest with the many Australians who are deeply affected by these issues. Should Labor win government, it will be able to consider and review a range of these matters properly. It is time that this was done. Serving and former defence personnel deserve no less."

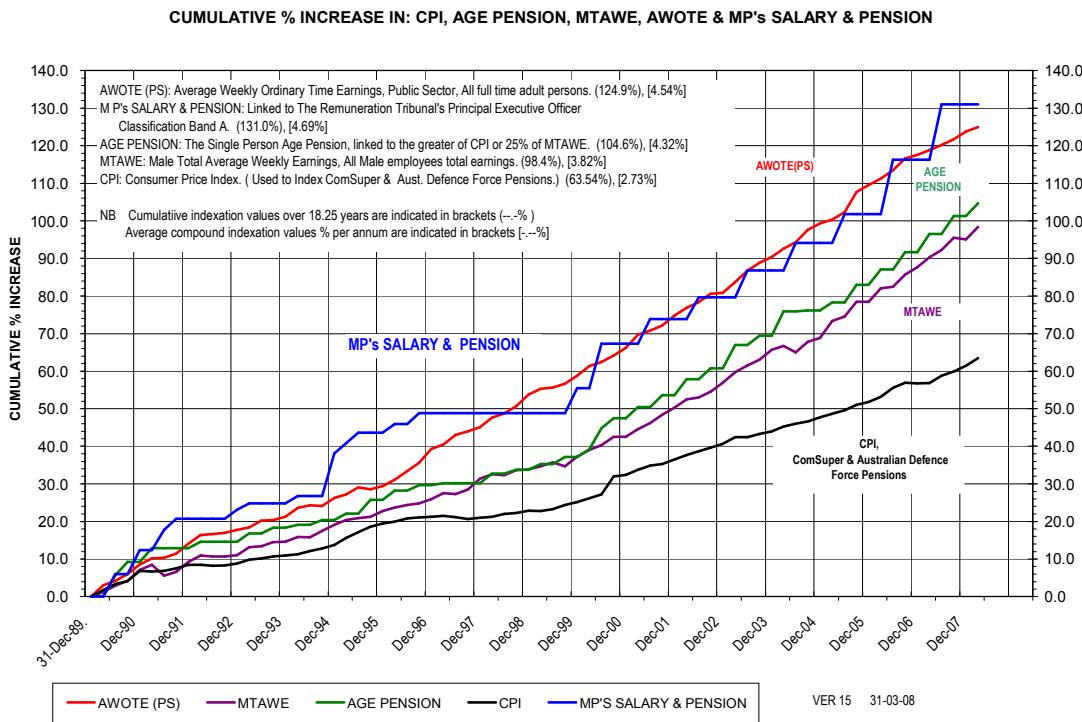
*Best wishes,
 Alan Griffin MP
 Shadow Minister for Veterans' Affairs
 Shadow Minister for Defence Science and
 Personnel*

*Senator Nick Sherry
 Shadow Minister for Superannuation
 Intergenerational Finance, Banking and
 Financial Services*

INDEXATION ARRANGEMENTS IN SIMILAR DEFINED BENEFIT SCHEMES IN AUSTRALIA

The Current Disadvantage

17. The current disadvantage suffered by military superannuants when compared with superannuants on other indexation arrangements is illustrated in the following graph:



18. The inequitable CPI indexation of military superannuation pensions has resulted in their relative value being some 35% below what they otherwise would have been had there been a linkage to a wage based indexation (e.g. MTAWE) such as has been applied to the age/service pension. Such a disparity denies current and former members of the ADF an equal and appropriate share in the nation's productivity outcomes and in reality seriously erodes their standard of living.
19. As explained above, the inequity and disadvantage of the current arrangements have been consistently recognised by members of Senate committees and a wide range of current parliamentary representatives across the party spectrum. We remain very perplexed that for so long successive Governments have chosen not to act and continue to treat Australia's military superannuants so inequitably.
20. Adding to the sense of inequity, the Government in the last Budget also recognised that many seniors are concerned that their cost of living may rise faster than the consumer price index. To address this concern, the Government announced: "*that it will guarantee that the Age Pension will increase in line with the higher of the consumer price index, increases in male total average weekly earnings or the living cost index for age pensioner households. These arrangements will ensure that the Age Pension keeps pace with increases in prices and improvements in community living standards*". (http://www.budget.gov.au/2008-09/content/overview2/html/overview_23.htm). Again other parts of the community receive greater attention than those who have willingly put themselves in harms way at the direction of successive Australian

governments. Military superannuants hold identical concerns in relation to their ability to maintain a contemporary standard of living and we strongly believe an equivalent mechanism must be implemented for them.

Indexation Changes Being Sought

21. We seek equitable reforms in the indexation of military superannuation pensions. We are not asking for special indexation treatment for military superannuants, despite the unique nature of military service providing solid grounds for special treatment. We merely seek equity with age, veteran and parliamentary pensioners. Again we strongly believe as a matter of simple equity, that a change to indexation in line with the methodology applied to aged, veterans and other government pensions should now apply to military pensioners. Specifically, we seek the ability to maintain contemporary living standards.
22. We also seek the rectification on an anomaly to DFRB/DFRDB retirement pensions where currently indexation is not applied to the full amount of pension for those members who do not commute a portion of their pension to a lump sum. We seek indexation of the whole of military superannuation pensions in these circumstances.

THE FULL COST TO THE COMMONWEALTH & THE INTERACTION WITH GOVERNMENT SAFETY NET BENEFITS

Costs

23. We note with considerable satisfaction that one of the requirements of this review is to define the full cost to government. The debate on costings has been characterised historically by wildly different and arguably inaccurate estimates because of a consistent refusal by the previous government to release the basis of its costing to implement a change of indexation methodology. A public, detailed and substantiated exposition of the costs is needed to restore our confidence in the motivation and fairness applied by the federal administration in its dealings on this topic and would be welcomed by the ex-service community.

‘Clawback’

24. While ascertaining the full cost to the Commonwealth will involve detailed analysis we would highlight that such analysis should include the ‘clawback’ to Commonwealth outlay from additional tax collections and consequential adjustments to other government payments.

Net Cost

25. We strongly believe that the *net* cost, not the gross cost, is the only reasonable and equitable basis for establishing the cost of these reforms.

CONCLUSION

26. We confine our representations to issues affecting serving and former members, and their eligible dependents, of the three extant military superannuation schemes. We hold the firm opinion that there is no rationale or excusable argument for the continued inequitable indexation of military superannuation pensions but in saying that we acknowledge that there is some synergy the various Australian Public Service superannuation schemes.
27. We:
- Seek changes in the indexation methodology for military superannuation pensions in line with that now applying to other Government payments i.e. index all retirement pensions using the now established benchmark methodology that applies to Age/Service and DVA disability pensions;
 - Do not seek special indexation treatment for military superannuants. We merely seek indexation equity;
 - Seek specifically that for DFRB/DFRDB military superannuation pensions that indexation be applied to the whole amount; and
 - Seek a public, detailed and substantiated exposition of the full costs to the Commonwealth.

16 July 2008

Annexes:

- A. AN EXTRACT FROM THE TERMS OF REFERENCE FOR THE REVIEW INTO MILITARY SUPERANNUATION – 2007
- B. MARCH 2008. STANDING COMMITTEE ON COMMUNITY AFFAIRS.
- C. THE REVIEW INTO MILITARY SUPERANNUATION COMBINED ESO SUBMISSIONS RE INDEXATION MATTERS

ANNEX A

AN EXTRACT FROM THE TERMS OF REFERENCE FOR THE REVIEW INTO MILITARY SUPERANNUATION – 2007**The unique nature of military service**

1. The Terms of Reference, among other matters, require the Review Team to have regard to the unique nature of military service. In view of this requirement, the following paragraphs outline the characteristics of military service which, when taken collectively, distinguish it sharply from employment in broader society.

2. The main characteristics of military service are:

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

3. The principal distinguishing feature of military service is the liability for combat operations. This liability is both compulsory and continuous and includes the very real possibility of being exposed to the risk of physical or mental invalidity or death. No other form of employment has a similar liability. Other special features flow from this liability.

4. ADF personnel are subject to both the civil legal code and a separate Defence Force disciplinary code. The disciplinary code supports the command structures necessary for effective conduct of combat operations and training. The Defence Force disciplinary code imposes restrictions on personal conduct; it demands different standards from those generally acceptable within the community; and it impinges on the individual's family life and leisure time.

5. The discipline code also impacts on the ADF collectively. For example, ADF members are precluded from engaging in industrial action. The creation of the Defence Force Remuneration Tribunal to determine pay and allowances for the ADF is recognition of the ADF's unusual industrial situation.

6. Another industrial aspect of ADF service is the liability to work long and irregular hours. Operational tasks, assistance to the civil community and training activities cannot be tied to set hours. The requirement to work extra hours is unpredictable and often arises at short notice. More importantly, ADF members are obliged to work whatever hours are demanded to complete an assigned task. No overtime is payable but some allowances, particularly Service Allowance, recognise the disability and provide some compensation.

7. Allied to the long working hours is separation from families. The periods of separation can be considerable, particularly for members in operational units. Separation causes stress to both members and families.

8. Another major cause of stress is the necessity to post members at irregular intervals to meet ADF manning requirements. Not only do postings involve geographical relocations, sometimes to relatively unattractive places, but also employment in positions demanding acquisition and utilisation of new or different skills. The limited capacity to laterally recruit exacerbates the posting frequency and employment in unfamiliar environments. Family life in particular can be adversely affected. Spouse employment opportunities and the quality and continuity of children's education can be adversely affected.

9. Operational tasks and training for combat are demanding activities. Technology in many cases reduces physical effort but ADF service requires that members maintain a high standard of physical and mental fitness. The consequence of failure to satisfy the ADF standard is severe. A member is discharged from military service where any medical condition precludes effective ADF employment.

10. The demands of ADF service also lead to statutory retiring ages which are considerably lower than the community norm. Most ADF personnel can serve to age 55. However, most ADF members resign prior to attaining statutory retirement age as vocational options are perceived to diminish with age. This suits current ADF personnel management practices.

11. Of the major characteristics of military service the liability for combat and the military discipline code are, of course, peculiar to the Defence Force. Other characteristics of military service are derived from or related to these characteristics. Some of these characteristics do also occur in other occupations but only individually. It is the cumulative impact of all the features which constitutes the special nature of the ADF and which distinguishes it from other occupations.

12. The special nature of military service makes it necessary for the ADF to design conditions of service that will continue to attract and retain personnel despite the hazards and hardships of military life.

13. The unique nature of military service poses challenges for the ADF when recruiting and retaining personnel beyond those encountered by other employers in the economy. The ADF has structured its conditions of service accordingly and those conditions, including the retirement, invalidity and death benefits, are generous relative to normal workforce standards.

14. It is important to maintain that relative distinction so that people considering joining the ADF and those already serving can recognise the adequacy of their conditions, given the additional hardships and risks inherent in ADF service. A diminution in the relative value of these benefits could have adverse effects on the ADF's ability to recruit and retain the personnel it needs to fulfil its functions. This could affect the viability of the ADF workforce as a whole which would have significant implications for the Government's ability to maintain its national security policies.

ANNEX B

MARCH 2008. STANDING COMMITTEE ON COMMUNITY AFFAIRS.

Date: Wednesday, 26 March 2008

Subject: HUMPHRIES CALLS FOR JUSTICE FOR COMMONWEALTH PENSION SUPERANNUANTS Author: Sen. Gary Humphries

Liberal Senator for the ACT Gary Humphries has called for the Government to immediately implement the recommendations of the Senate Community Affairs Committee handed down late last week.

The report on the cost of living pressures for older Australians has recommended the Government immediately move to index Commonwealth superannuation pensions to both CPI and Male Total Average Weekly Earnings (MTAWE). [Emphasis Added].

ACT Senator Gary Humphries was Chair of the inquiry until last month, and has since served as Deputy Chair. He has strongly backed the report and urged the Government to immediately act on its recommendations.

"Our report has made 15 recommendations on how the Government should go about improving the living standards of older Australians, all with multi-partisan support," Senator Humphries said.

"There are two recommendations which are absolutely key. First, we have recommended that the Government urgently review current pension levels to determine whether these are sufficient to provide a decent standard of living. Second, we have recommended that while the Government is conducting such a review, Commonwealth and Defence superannuation pensions should immediately be brought in line with other government pensions by indexing these to both CPI and MTAWE. [Emphasis added].

"As many Canberrans well know, these pensions are gradually falling behind other government benefits because of the inequity in indexation, and this needs to be addressed urgently.

"If the Government cares about much needed improvements to the lives of older Australians they should act now and make this issue a priority," Senator Humphries said.

THE REVIEW INTO MILITARY SUPERANNUATION RSL & DFWA SUBMISSIONS RE INDEXATION MATTERS

Response to Review into Military Superannuation Report

Recommendation 14

If the Government is willing to go beyond the envelope of current costs, it should consider indexing DFRDB/DFRB pensions for those over 55 on a similar basis to that applying to age pensions. Because of the costs involved, this option does not warrant the priority attached to the other recommendations. An alternative option the Government could consider is to limit this change to pensions paid from age 65.

Commentary

40. In this area of the report the Review Team has demonstrated an alarming level of inconsistency. On the one hand they concede "it is also true that DFRDB and MSBS pensions generally provide only modest incomes to retired ADF members" and provide a table showing DFRDB and MSBS pension levels to support this statement, but on the other hand they state "The DFRDB is already a particularly generous scheme for those in receipt of pensions" and "MSBS provides very generous benefits to long-serving members with a choice of an indexed pension or lump sum, or both".
41. The Review Team also asserts, "Indexation based on the CPI does, in fact, adjust pensions for the costs of living". This is at direct odds with the view of the **Australian Bureau of Statistics**, which compiles the CPI, declaring in its publication [6440.0 - A Guide to the Consumer Price Index: 15th Series, 2005](#), that the "**CPI is not a purchasing power or cost-of-living measure**"
42. The Review Team further asserts "there is no evidence that, over time, the costs of living of pensioners such as DFRDB and MSBS benefit recipients increase faster than those of the broader Australian community around which the CPI index is based". This discredited belief was rejected by the previous government when, in 1997, with bipartisan support, it decided to alter the method of indexing the age and service pensions from CPI to effectively the higher of CPI and MTAWE. Since that date a large number of other Government funded pensions, allowances and disability payments have been aligned with this new "benchmark" indexation method. The Review Team

acknowledges that originally the DFRDB scheme provided wage based indexation that was removed in the mid 1970 when CPI indexation was adopted for a wide range of superannuation and welfare payments. Now that this policy has been substantially reversed it has become a matter of equity and justice that the same benchmark indexation method be applied to all military superannuation pensions. It would have been a useful and instructive exercise for the Review Team to have been briefed on the policy issues that led the previous Government to change the indexation method for the range of pensions and benefits that are now effectively indexed to the higher of CPI and MTAWE. The underlying rationale for this change is also applicable to military retirement pay especially if the unique nature of military service is to be recognized.

43. The Review Team states "Most importantly, changing the indexation method would be expensive, and the additional expense could not be absorbed within the envelope of the costs of current arrangements, which the Review Team has aimed to achieve with its recommendations" It is considered that in applying a cost restraint that was not a requirement of the TOR, the Review Team has neglected a number of important factors that were contained in the TOR. Indexation is one of those factors. The cost of changing indexation of all military superannuation pensions would be approximately \$20 million in the first year but possibly nothing if, as seems possible, CPI exceeds MTAWE in the near future.
44. The Review Team's costing of changing the indexation of DFRDB pensions for over 55s and the consequent increase in unfunded liability is based on Annex H to the report. At Annex H the Government Actuary has outlined the cost of changing indexation from CPI to AWOTE. This information is grossly misleading. AWOTE indexation has never been sought, is not used for the age pension and figures from the Australian Bureau of Statistics show it is significantly higher than the benchmark CPI/MTAWE indexation measure. If as explained by the Review Team in subsequent discussions, the reference to "AWOTE" did not equate to the ABS defined AWOTE index, this should have been made clear. Never-the-less, our point that "fair" indexation would be achieved by adoption of the methodology applying to the age/service and DVA range of pensions remains valid.
45. The Team's use of the Government policy on preservation arrangements for the general community, to come to the conclusion that "there is no case to increase the generosity of benefits payable prior to age 55, but there is a case for older DFRDB pensioners" is at odds with the two principles embedded in the Terms of Reference (i.e. the unique nature of military service and the need to compensate members of the ADF for that uniqueness in their superannuation, invalidity and death benefits). To exclude the under 55 year old DFRDB recipients ignores the fact that the features of the DFRDB scheme were designed to recognize the uniqueness of military service and the application of general community standards in this way is a retrograde step. We acknowledge the Team's partial recognition of the need for a change to the indexation method but believe it should apply to all in receipt of military retirement pensions.

Position Recommendation 14

If this recommendation were to be implemented, it would provide immediate relief for some 53,000 DFRDB recipients who are aged 55 years or more with another approximately 4,000 having to wait 1 – 10 years. On that basis we feel compelled to provide qualified endorsement of this recommendation.

The Review Team in formulating this recommendation has recognized the need to adjust the indexation method however the recommendation as it stands does not go far enough. We strongly believe it should be replaced by a general recommendation to index the total amount of DFRDB payments using the now established benchmark that applies to Age/Service and DVA disability pensions.

Recommendation 15

There should be no change to the MSBS pension indexation arrangements.

Commentary

51. The Team notes MSBS provides lump sum benefits, with a choice to convert at least 50% of the lump sum employer component into an indexed pension. The conversion factor of 12 at age 55 means that on reaching the current preservation age, an eligible member who converts their lump sum employer benefit, will receive 1/12th of the lump sum as an annual pension. They declare this to be a very generous option, especially when compared to the actuarial value of the indexed pension, which would be in the order of 1/20th of the lump sum on a cost-neutral basis. The report then states it would be difficult to justify an even higher subsidy for pensions by indexing them on the basis of earnings rather than prices. This line of thought completely misses the point. The MSBS scheme was designed to meet the needs of the ADF and its members. Use of the term “subsidy” in describing some of its features is misleading and not relevant. The point is that once a retirement benefit is paid the only way for the recipient to maintain a standard of living is for that retirement income to have some linkage to wage movements. This is in keeping with the Guiding Principles for military superannuation established by the Review Team. Clearly the Government has recognized that using the CPI as the basis of maintaining a relative standard of living is inadequate and it is time the Nation’s former servicemen and women were treated with the same degree of concern for their welfare as other segments of the Australian community.

52. In essence on this issue the Review Team has abandoned its stated principle of ‘Adequacy’ which it describes “military superannuation for all members of the ADF, both short term and long term should facilitate the maintenance of living standards both on and through retirement”.

Position Recommendation 15

We do not agree with Recommendation 15. We believe very strongly that it should be replaced by a general recommendation to index all MSBS retirement pensions using the now established benchmark methodology that applies to Age/Service and DVA disability pensions. However a proposal for a stepped implementation of indexing MSBS payments using this benchmark in a planned and legislated move over the life of the present parliament would gain the general support of the Defence and Veteran community.