

RESEARCH PAPER
‘MILITARY SUPERANNUATION AND OTHER MATTERS’
BY
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(Extract of an email sent to Parliamentarians - dated 12 Sep 2012)

INTRODUCTION

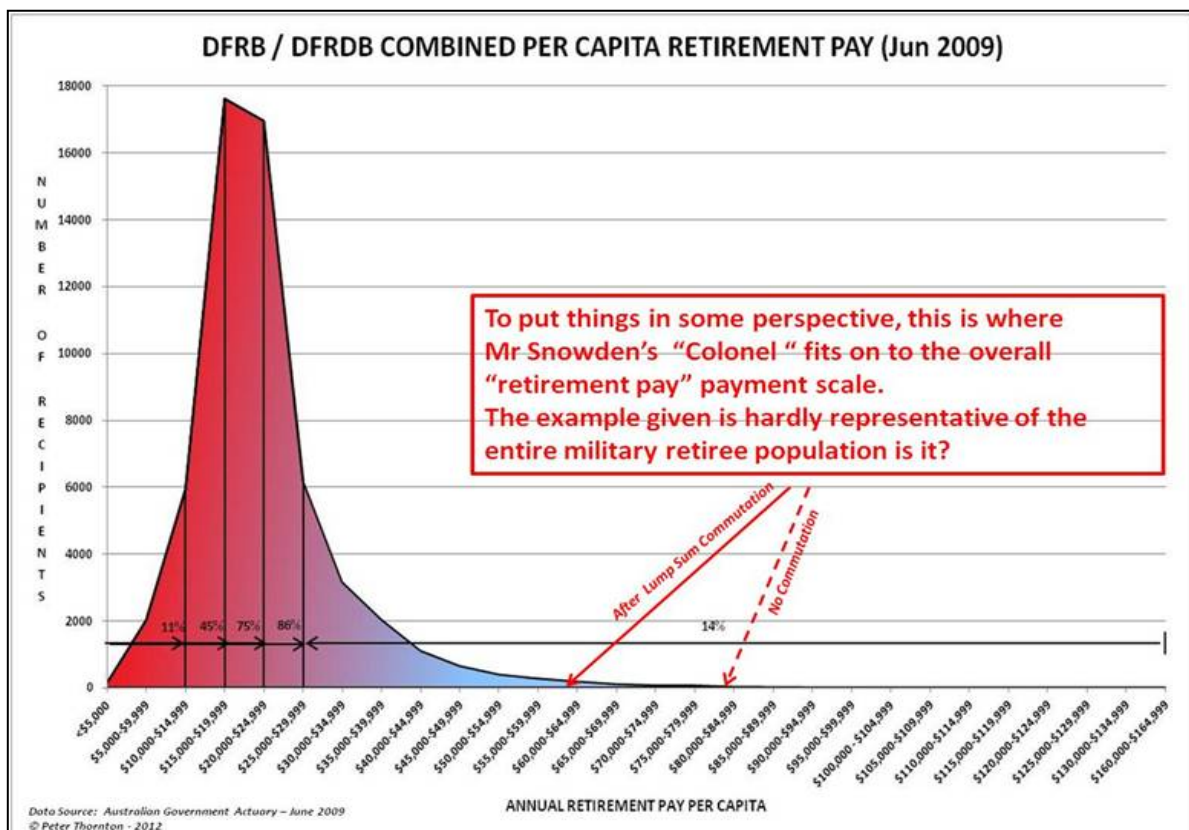
As readers may or may not be aware, on the 22nd of August 2012 a debate ensued in the Lower House about issues surrounding the ‘Veterans’ Affairs Legislation Amendment Bill 2012’. As you or may not know, the Opposition introduced, for consideration, an amendment to this Bill in a bid to help fix long outstanding issues surrounding Military Superannuation (an amendment that unfortunately only dealt with the older schemes of the DFRB / DFRDB). Whilst the Opposition’s amendment was rejected, the Government as represented by the Minister for Defence, Science and Personnel (Mr Snowden) made a number of statements regarding Military superannuation, statements which I feel require some serious comment. This together with some other research thrown in for good measure will I hope be compelling reading for all concerned ... particularly in the continuance of Mr. Oakeshott’ Private Members Bill debate, which is before the Lower House at present.

EXTREME EXAMPLE ONLY PERPETUATES OBFUSCATION

Firstly, the Government through Mr. Snowden said in part and I quote:

“For example, a Colonel aged 55 with 35 years of service, retiring at the beginning of 2012 would, it is estimated, receive a payment without commutation of approximately \$84,000 a year. If they decided to commute a proportion of it, they would receive a lump sum of \$420,000—that is, five times their annual pay—and a reduced annual payment of \$64,000 per year.”

Whilst I don’t doubt that the Government’s example might be correct, I think Parliamentarians as a whole might like to consider the Government’s example in the broader context of the entire population of DFRB/DFRDB military retirees (and whilst not shown, the bulk of MSBS retirees also affected).



Whilst the underlying data projection for 2009 is now a little dated, I feel many fair minded readers will now see that and consider the Government's example as extreme and non-representative. In delivering this example, the Government failed to appraise you of the fact that the part of the pension that is available for lump sum commutation is not indexed if it is retained as part of the pension yes that's right ... contrary to Parliament's original intent, the \$20K Mr Snowden cites as foregone in pension each year is not subject to any form of indexation if it was indeed to remain in pension form.

The Government fails to appraise you of the fact that for the better part of that Colonel's career, s/he was somewhat financially bound to the Commonwealth because in addition to the 20 year pension entitlement threshold, all commissioned officers were subjected to a notional retiring age for rank; an age detriment where the officer concerned would have suffered a 3% reduction of pension for every year that s/he retired prior to their notional retiring age. As the reader may or may not know, the notional retiring age for a Colonel under the DFRB / DFRDB scheme was/is 50 years of age. This maybe the very reason why 75% of members did not complete their 20 years and why (presumably) Dr. Mike Kelly MP made the move to MSBS ... because he could ill afford to remain servitude to his former employer ... the Department of Defence.

HISTORY REVEALS THE TRUTH AND NOTHING BUT THE TRUTH

Whilst military wages might have, in recent times, been upwardly adjusted to ensure that the Government could meet its foreign policy objectives of not least Iraq, East Timor and Afghanistan, history reveals that the recent wages situation is atypical of the experience felt by many former members of the Defence Force who served over the last 40 odd years or so; an experience felt by the great majority of current military retirees (and their families) that are now in receipt of a DFRB, DFRDB and MSBS retirement pay / pensions. Whilst not shown, this situation was equally felt by Commonwealth retirees also.

The Australian Herald, Friday, 11, 1988 - Page 3

Service pay rise 'pitiful'

HMAS MISERABLE

Defence force personnel are doing more, staying away longer and quitting in increasing numbers, writes John Kerin

DEFENCE

Officers march from a dilapidated force

DAVID BARNETT reports on discontent and a run of resignations from the services.

Herald
Edition 4 FRI 11 NOV 1988, Page 3
Govt balks at service pay rise
By MILLETT M

At the core of the discontent are pay and conditions. Men at sea, or on exercise, can be confident that if the shabby and unpainted married quarters where their wives and children are living should develop a leaking roof or a faulty door, nothing much, or nothing at all, will be done about it.

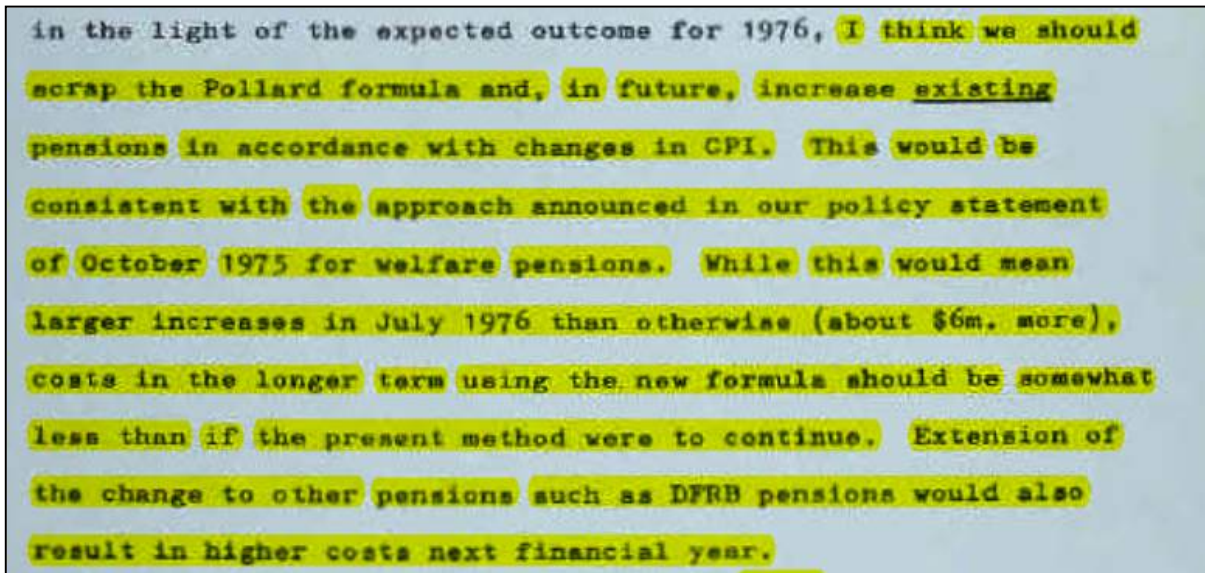
"It is half the basic hourly pay for a builder's laborer, and service personnel are very aware of the difference in wages and conditions between themselves and the community."

The extent of the disillusionment among Australia's soldiers came to light on Monday in a defence attitudes study obtained by The Australian suggesting that poor pay and conditions, long stints away from home — particularly in the navy — and weariness with the high operational tempo of the war on terror were all taking their toll on morale.

The joint committee on foreign affairs, defence and trade recently recognised that perceived inadequacies of pay and other conditions of service are one of the chief reasons for the high number of service resignations.

The Government continues to extol the discredited Matthews' Review as their sole authority for doing nothing ... not only during Mr Snowden's speech in the Parliament but also again as recently as the 5th of September at the Community In Cabinet meeting in Western Australia. **After a question on military super that was posed to the Prime Minister from the floor, Mr. Snowden again continued the Government's mantra that Military Superannuation entitlements are not the same as a Social Security benefits, therefore implying that such retirement pensions should not be afforded the same purchasing power protection as that of Social Security provisions.**

Well this is where history serves to dissolve such unfounded notions and political spin because in January of 1976, a Confidential Cabinet document (Attachment B to Cabinet Document No. 54, pg 23-24) reveals very clearly that the then Treasurer, the Hon Phillip Lynch and Assistant Treasurer, the Hon R.V. Garland, had recognised some shortfalls in the “Pollard Formula”; a formula that was originally designed by Professor Pollard to protect the purchasing power of retiree pensions. Unfortunately, the “lesser of” limitation of the formula was perceived to fail in protecting the purchasing power of retiree pensions at the time, and as such, this is what the then Treasurer had to say:



in the light of the expected outcome for 1976, I think we should scrap the Pollard formula and, in future, increase existing pensions in accordance with changes in CPI. This would be consistent with the approach announced in our policy statement of October 1975 for welfare pensions. While this would mean larger increases in July 1976 than otherwise (about \$6m. more), costs in the longer term using the new formula should be somewhat less than if the present method were to continue. Extension of the change to other pensions such as DFRB pensions would also result in higher costs next financial year.

As the graphic above clearly illustrates, irrespective of the perceived cost at the time, the Fraser Government decided to lock all Government payments (irrespective of entitlement and/or benefit type) to a single input measure to try and protect the purchasing power of retirement pensions. **This policy action effectively created a platform of relativity between various Government payments, but more importantly, it locked retirement pay / pensions directly to the centralised wage arbitration system, a system that was principally underpinned by the then CPI at the time.** This in turn set in place what was seen as a *de jure* and/or *de facto* standard by many employees who offered (and continue to offer) long tenures of dedicated service on the presumption that in retirement their purchasing power and standard of living would be protected.

For those Labor stalwarts that will remain intransigent in their thinking ... perhaps because “that was a Liberal Government policy ...” then this is again where history comes to the rescue. It was in fact only a few short months later after this Cabinet document was tabled that the Hon. Frank Crean had the following to say in the main debate in the House regarding the new pension updating of the DFRB/DFRDB. Mr Crean said in part and I quote:

“.... they [pensions] should be adjusted for changes in living costs and whether the consumer price index, average weekly earnings or the minimum wage is used the adjustment has to be applied to the whole pension.”

.... AND

“I do not know why the Government does not simply say that in future pensions will be automatically adjusted according to changes in the CPI, if the CPI survives.”

.... BUT MOST IMPORTANTLY

“But now, having the flat rate of contributions and believing that those who contribute to pension funds are entitled in their retirement to some standard that had relation to their end earnings, the only sensible thing to do is to adjust the whole payment by whatever one decides to be the fair living index reference.” (here's the full [link](#))

As you can see, Mr. Crean Snr. a former Labor Government Treasurer and the astute economist that he was, did not lock himself purely to the CPI indeed he mentions a number of plausible inputs that could underpin the indexation mechanism, and clearly raises the spectre that the CPI might not survive as a viable consideration. The Cabinet document and subsequent Hansard dialogue clearly reveals that the Government / Parliament were grappling with some perceived limitations at the time of Professor Pollard's indexation formula (*for those who aren't aware, the "Pollard Formula" was an indexation mechanism that applied the lesser of 1.4 x CPI or Average Weekly Earnings (AWE) to the Government portion of pensions and the basis of this formula was enacted on 3 separate occasions between 1973-1976*).

Mr. Crean Snr. was clearly of the view that the CPI was not necessarily the only valid input that could be used in the purchasing power mechanism. The very fact that he questions the validity of the CPI at this juncture only demonstrates more fully that they were not just looking for an input ... they were indeed looking for viable inputs that would underpin the updating mechanism to protect the purchasing power of pensions, thereby ensuring that retirees were afforded a "fair living".

Therein lies the moral of this story, the Parliament's original intent was to protect the purchasing power of pensions as originally articulated by the well respected actuary Professor Pollard (and also as previously recommended by the Jess Parliamentary Review). Shortly thereafter, the CPI was decided upon to be the best option at that time. This decision effectively created and solidified a point of relativity and control between various aspects of the economy.

THE ISSUE HAS NEVER BEEN SOLELY ABOUT "CPI" ... IT HAS ALWAYS BEEN ABOUT PROTECTING "PURCHASING POWER"

If there are Parliamentarians (particularly those within the Government) that remain ambivalent of this complex issue, then perhaps consideration of what the ABS has stated and formally published over time might help. One such statement in 1997 was:

'Historically, the CPI was developed with the principal purpose of providing input to the highly centralised wage and salary determination process then existing in Australia' ... AND THAT 'successive CPI reviews [up to that time] have served to ensure that refinements to the index have resulted in a measure increasingly more suited to its principal purpose.' (ABS, [Outcome of the 13th Series Australian Consumer Price Index Review 1997](#), Para 19., p. 5.)

... AND THEY GO ON TO SAY IN THE 13th SERIES REVIEW THAT

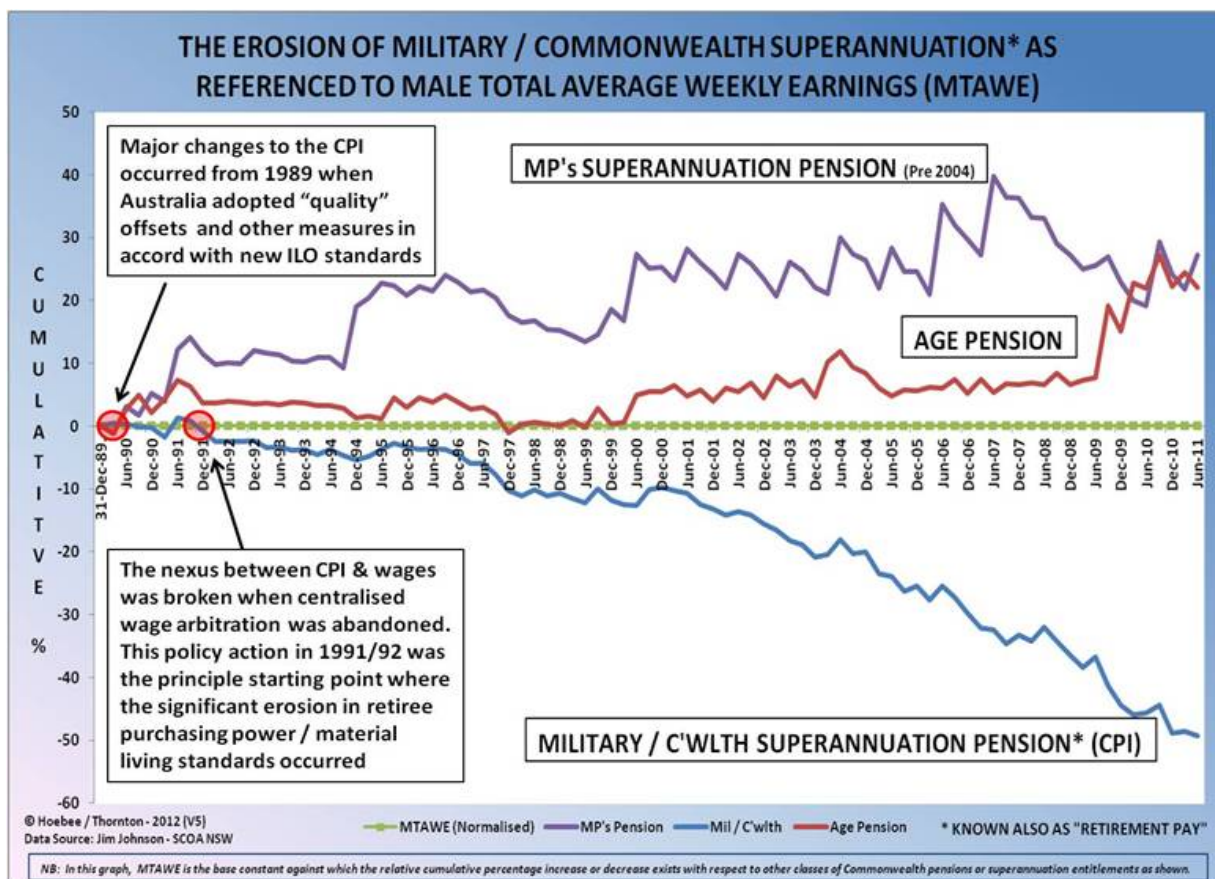
'...the ABS has reached the conclusion that, on balance, the Australian community would now be better served by a CPI designed specifically to provide a general measure of price inflation for the household sector.' (ABS, [Outcome of the 13th Series Australian Consumer Price Index Review 1997](#), Para 23., p. 6.)

... BUT MORE IMPORTANTLY

'Material living standards rise when income and wealth increase more rapidly than prices (i.e. when income and wealth increase in real terms). This increases people's capacity to borrow, consume goods and services, save and invest. In other words, it increases their purchasing power.' (ABS, ['Purchasing Power', dated 2007](#))

By deduction, **purchasing power can therefore only be maintained if it has some direct relationship with wages and wealth in real terms.** As can be seen in the chart below, this situation no longer exists for former employees now in retirement, and therefore, the original legislative intent and the employment contract to protect their purchasing power in retirement has been broken and it's been broken since at least 1992. This together with the considerable structural changes in the CPI over time (i.e. with the adoption of offsetting parameters as introduced and in adherence of international standards (e.g. 'quality offsets' as introduced from 1989) only demonstrates more fully what has happened to the retirement pay / pensions of former employees. The chart below clearly

shows that through direct Government policy action, and whether intentional or not, the relativity of social security and wages to that of superannuation entitlements had been severed once and for all.



CONCLUSION

In conclusion, I hope this short Research Brief will help provide Parliamentarians with some clarity in what has been and remains a complex policy issue. I trust the reader will now better appreciate the context in which legitimate claims are being mounted by all affected retirees about the erosion of purchasing power of their retirement pensions ... both Military and Commonwealth. All they seek is the same percentage increase that is derived from the now *de facto* standard for pension updating: the Age Pension ... with some retrospectivity thrown in for good measure I say.

As I originally recommended in 2009 and have commented many times since, the Future Fund stands ready to ameliorate this situation now ... and for all concerned ... without it prejudicing the Government's / Parliament's current "on-book" budgetary bottom line or program of events.

I look forward to receiving your considered responses but more importantly, I look forward (if I am physically able) to watching you live in explicitly supporting Mr Oakeshott' motion (and the equal intentions of the Opposition also) in the upcoming continuance of this debate before the house.

Warm regards

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"All for One ... and ...One for All"

PS I have read with interest the correspondence released by Mr. Bert Hoebee where he rightly draws attention to a phrase within Mr. Oakeshott' current motion ... and that is ... "consider increasing". I totally agree with Mr Hoebee that this phrase needs to be amended to "immediately increase" because the Parliament itself found in 2001 that it was denying former employees "a fair and reasonable retirement". Here we are now, 11 years later, and the Parliament is still spinning its wheels ...

About the Author

Peter Thornton is a retired member of the Defence Force and the Commonwealth who acts as an independent researcher and commentator on matters relating to Commonwealth and Military Superannuation. Peter's independence aims to support all affected retirees and to aid the representational activities of national peak bodies such as the Defence Force Welfare Association (plus alliance partners), the Superannuated Commonwealth Officers Association, member associations of the Australian Council of Public Sector Retiree Organisations, and the Returned Services League; many of which he is an ordinary member. Peter has tertiary qualifications in Economics, Engineering and Management.