



1 March 2010

Committee Secretary
Senate Standing Committee on Finance and Public Administration
PO Box 6100, Parliament House
CANBERRA ACT 2600

Dear Sir/Madam,

MILITARY SUPERANNUATION INDEXATION

1. As you will be aware, your Government has recently endorsed the four recommendations of the Matthews Review into the indexation of Military and other Commonwealth Superannuation. This means that those on Military Superannuation pensions will remain disadvantaged compared to other pension superannuees by continuing to have their superannuation pensions indexed by the Consumer Price Index (CPI). Welfare and Age Pensions are indexed at a higher rate (the greater of CPI or Pensioner and Beneficiary Living Cost Index (PBLCI) or Male Total Average Weekly Earnings (MTAWE)). In addition it should be noted that before-2004 MPs and High Court Judges pensions are wage-based indexed to the salaries of serving backbench MPs. In the period 1989 to 2008 pension increases have been as follows:
 - a. Military superannuation pensions rose by 68%.
 - b. Age Pensions rose by 110% and,
 - c. Retired MP's pensions rose by 131%.
2. The purpose of pension indexation is to maintain the purchasing power of pensions. Until 1997 the CPI was considered the relevant index but the Australian Bureau of Statistics (ABS) concluded at that time that "*the tight nexus between movements in the CPI and wage and salary adjustments no longer exists.*" In 2001 the ABS said that "*...the CPI is not a measure of the cost of living*".
3. In 1997 the Government acted to maintain the purchasing power of Age and other Welfare pensions by changing indexation to CPI or MTAWE whichever was the greater. More recently it included another index factor, the New Pensioner and Beneficiary Living Cost Index (PBLCI).
4. Nothing however have been done for Military Superannuants even though a number of Senate inquiries have recommended a form of wage-based indexation be introduced. Unfortunately these recommendations were rejected by previous Governments. The current Matthews Review has recommended that the CPI should remain the basis of indexation for military superannuation pensions and Commonwealth Public Servants' pensions. Not surprisingly the

Government accepted this recommendation, with Minister Tanner stating in words to the effect that it would cost the Australian taxpayers too much to implement a higher indexation factor. The Chair of the recent ‘Senate Inquiry on the Effect of Cost of Living Increases on older Australians said that: *“It is hard to explain to Commonwealth superannuants why their pensions, to which they contributed during their working life, should fall behind the pension increases of those who have generally not made provision for their retirement.”* This includes DFDB/DFRDB superannuants.

5. 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. The same formula that is used for Age/Service pensions should be adopted for all components of Military retirement pensions (DFRB/DFRDB/MSBS).
6. Table 7 of the Department of Finance and Deregulations (DOFD) submission to the Matthews Review of Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes indicates the gross budgetary costs before “claw back”. (“claw back” is estimated to be in the range of 37– 58% by the National Centre for Economic and Social Modelling) due to consequent increased tax revenue and reduction of support payments to be as follows:

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

7. This “claw back” will be substantial as many military superannuants also receive the Service Pension. As recipients superannuation increases, the amount of Service Pension decreases. In addition many military superannuants will have passed on by 2019. Unfortunately Treasury has not extrapolated these figures but the figure of \$255 Million in 2019 to 2020 could be grossly exaggerated when “claw back” from Service Pensions and the decreasing number of recipients of pension superannuation [and Service Pension]) is taken into account. In any event it is a decreasing liability each year.
8. To me it appears that the Federal Governments reported spending of some \$680million, annually on welfare payments to refugees when compared to spending on military pensions denigrates the contribution made by military personnel in the service of their Nation. This amount is exponentially greater than the projected costs for introducing a higher indexation for military superannuants, as outlined above. The Government continues to seem immutable on the subject of improving the quality of life of its veterans and ex-ADF members, many of whom have served our Nation for 20 years or more! This is morally and ethically wrong particularly as there are military superannuants who are currently living on an income that is below the Henderson Poverty Line.
9. I must emphasise that while I have a great deal of empathy with Commonwealth Public Service pensioners and I would support any similar claim proposed by them, I believe that military superannuation and associated indexation must be considered separately. DFRB/DFRDB pension qualification took 20 years or more continuous service in the ADF. I

find it difficult to understand why such service to the Nation and the Australian people at the behest of the Federal Government is discriminated against in comparison to most other pension superannuants in the Australian community.

10. I would appreciate your answers to the following questions:

- a. Are you aware of the Mathews Report Recommendations?
- b. Do you consider the Mathews recommendation that will see a further erosion of the military superannuation pension purchasing power to be fair and equitable in comparison to most other pension superannuants in the Australian community?
- c. Do you agree that military superannuation pensioners are being discriminated against by the current method of indexation?
- d. Do you support the proposal to introduce an indexation benchmark that is comparable to most other pension superannuants in the Australian community?

11. I look forward to receiving your reply.

Yours faithfully,

Hugh Petty
Military Retiree