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The Hon Warren Snowdon MP
Minister for Veterans' Affairs
Minister for Defence Science and Personnel
Minister for Indigenous Health
Minister Assisting the Prime Minister on the Centenary of Anzac

The Hon John Murphy MP
Chairman
House Standing Committee on Petitions
PO Box 6021
Parliament House
CANBERRA ACT 2600

Dear Mr Chairman

Thank you for your letters of 4 July and 22 August 2011 to the Minister for Defence, the Hon Stephen Smith MP, concerning a response to a petition which called on the House to consider and pass the Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010 (the Bill). As this matter falls within my portfolio responsibilities, your correspondence has been passed to me for response. I apologise for the delay in responding.

At the outset, I think it is important for the Committee to appreciate the rationale for superannuation in Australia. There are many superannuation schemes that provide different benefits in different forms and values, which generally reflect the underlying scheme membership. In the main, it is only public sector schemes that provide indexed superannuation pension benefits with a reversion of part of the pension to a surviving spouse and most of these are now closed. Schemes in the private sector and schemes for new public servants and Members of Parliament are accumulation schemes that provide lump sum benefits only.

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, but more so to assist and encourage people to achieve a higher standard of living in retirement than would be possible from the age pension alone.

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

- compulsory superannuation savings for all employees under the superannuation guarantee regime (and the Australian Government, as an employer, is obliged to comply with the superannuation guarantee laws);
- voluntary superannuation contributions and other private savings; and

- a publicly funded, means tested age or service pension and associated social security arrangements (which the Australian Government, as the body which sets policies, provides services and creates laws and regulations, provides to all Australians who satisfy the requirements to be able to access these entitlements).

The three pillars ensures all Australians have security and dignity in retirement by providing them with, at least, a minimum retirement income with the age or service pension as a safety net. Military superannuation pensions are a retirement income related to prior employment and are provided by the Government as an employer to honour its obligations under the superannuation laws that apply to all employers; they are not based on need, just as the salaries on which they are based are not linked to need.

Retired Australian Defence Force (ADF) members may qualify for the age or service pension, subject to age, income and assets tests, if the superannuation pension provided by the Government, as an employer, is below minimum income levels. As the age or service pension is a safety net benefit, the Government has decided that it is appropriate to index this pension in a different way to other superannuation pensions it might provide as an employer.

The Bill has not been introduced into the House because it did not get the support of the Senate when it was considered on 16 June 2011. It was tabled in the Senate on 18 November 2010 and on 24 March 2011; the Senate referred the Bill to the Finance and Public Administration Legislation Committee for inquiry and report.

The Committee report, tabled in the Senate on 10 May 2011, did not support the proposed change to the indexation to Defence Forces Retirement Benefits (DFRB)/ Defence Force Retirement and Death Benefits (DFRDB) pensions. Coalition Senators on the Committee submitted a dissenting report recommending that the Bill be supported.

The explanatory memorandum for the Bill indicated the Coalition was committed to introducing a fair, equitable and fiscally responsible military superannuation system. The Bill and proposed amendments did not provide that fairness and equity because it did not apply to:

- DFRB scheme and DFRDB scheme pension recipients less than 55 years of age;
- Military Superannuation and Benefits (MSB) scheme benefit recipients of any age who are in receipt of a MSB pension; and
- MSB scheme current contributors.

It is estimated that of the more than 204,000 superannuants, preserved benefit or contributing members at 30 June 2011, some 158,000 or 77 per cent of these, were not covered by the proposed legislation. Further, and despite the title of the Bill, some 14,000 DFRDB recipients under age 55 were excluded.

The Australian Government views military superannuation as a key element of the competitive remuneration and conditions of service package for ADF members. Each of the military superannuation schemes set up by the Government for its employees reflect the unique nature of military service and provide members with life time indexed pensions and also death, invalidity and reversionary benefits.

The DFRDB benefit is a pension based on 35 per cent of final salary on completion of 20 years of service, increasing to a pension based on 76.5 per cent of salary for 40 or more years of service. The rate of accumulation of the employer component of a MSB scheme benefit is 18 per cent of final average salary for the first seven years of service, 23 per cent of final average salary for the next 13 years and 28 per cent of final average salary for each year in excess of 20 years of service.

Although the MSB benefit is a lump sum benefit, a member can convert 50 per cent or more of the employer benefit to pension at rates that are far more generous than those that might apply in the private sector.

The 2008 “*Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes*”, undertaken by Mr Trevor Matthews, honoured a Rudd Government election commitment to conduct a review of pension indexation arrangements for seven Australian Government civilian and military superannuation schemes.

Mr Matthews did not find any conclusive evidence that the Consumer Price Index (CPI) understates inflation, as it affects Australian households in general. This finding was supported by the views expressed in a paper prepared by Australian Bureau of Statistics on the Australian CPI for the Matthews Review. Those views made it clear that the CPI is a robust measure of general price inflation for the household sector, and the best available broad measure of changes in the cost of living faced by Australian households.

I trust that this information is of assistance to you.

Yours sincerely

WARREN SNOWDON

19 OCT 2011