

The Secretary  
Senate Community Affairs Committee  
PO Box 6100  
Parliament House  
Canberra ACT 2600

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Dear Secretary,

In accordance with the Terms of Reference (TOR) for your committee's inquiry into the cost of living pressures on older Australians, I offer the following submission. This submission will focus on Terms Of Reference a, d and e, and in particular, the impact of the cost of living pressures on military retirees who rely on their DFRB/DFRDB pensions to sustain their quality of life in retirement.

#### **Cost Pressures (TOR a.)**

I expect the Committee has received expert advice on the average increases in household running costs in recent years. However, statistics being what they are, can often mask the real impact of cost increases, particularly on those in the senior community who may have limited means to cope with such increases. To illustrate, I have analyzed a number of largely non-discretionary costs affecting my household between calendar year 02 and calendar year 07. Some examples are:

Council Rates and Charges:	increase +40.9%
Electricity:	increase +48.6%
House Insurance	increase +149%
Car Registration	increase +10.2%
Health Insurance	increase +29.3%
Car Comp Insurance	increase +24%
Household Contents Ins	increase +66%
Dog Registration	increase +37.9%

Clearly, other household essentials such as food and fuel have also increased. Whilst I don't have precise records to measure the rises, I conservatively estimate that my food costs have increased by at least 30% and fuel by 40%.

**Over the same period, my CPI adjusted DFRDB pension increased by 14.5%.**

This is my reality and the reality of many other military retirees who rely on their pension income in retirement.

The impact of the mismatch between rising essential household expenditure and inadequate pension increases should be glaringly evident. Living standards are falling. Whatever level of discretionary income may once have existed has been and continues to be eroded to pay for basic living costs.

When the ABS reports, for example, that CPI increases for essential items such as food, fuel and Government charges are offset by reductions in child minding costs, holidays or the latest audio visual/computing technology, it is perhaps understandable that military pensioners feel marginalized. And when Government ministers then attempt to defend the CPI as a suitable measure for indexing DFRB/DFRDB pensions (as several in the previous Government did), it is hardly surprising to find rising frustration among retired military pensioners. For many, their capacity for discretionary spending has either evaporated or is rapidly disappearing. They have little or no spare income to spend on holidays or on other technological comforts. For them, it is largely irrelevant whether the cost of such items is reducing, or for that matter, which way the cost of child care is moving!

Membership fees and other costs in belonging to organizations that support retired lifestyles have also risen over the years, and when renewals fall due, this can be a vulnerable area of discretionary expenditure when retirees are faced with hard financial choices. The risk is that they become more socially isolated from community groups to which they once belonged.

### **Current Taxation Arrangements (TOR d.)**

Under the better super legislation that took effect on 1 July 2007, most super retirees over the age of 60 receive tax free benefits from their superannuation. An exception to this new provision is retired military personnel who are members of the DFRB/DFRDB schemes because they are defined as unfunded schemes; the benefits being paid from untaxed consolidated revenue.

Contributions to the DFRB and DFRDB schemes were compulsory and since the Government chose not to maintain a dedicated fund for members' contributions, they had no choice over whether or not contributions and earnings taxes were paid. The Government introduced a 10% tax rebate for members of unfunded schemes as a form of compensation, but for military retirees, this is not the same as having legislated tax free benefits. The residual tax impost faced by many military pensioners simply reduces the disposable income available to meet the increasing costs of living outlined above.

### **Government Policy (TOR e.)**

There are a number of perceived injustices and anomalies with the current DFRB/DFRDB Superannuation Schemes which have been raised with the previous Government over many years. It has remained steadfast Government policy to disregard military retirees' representations, and as a direct consequence, cause them to be financially disadvantaged when compared to other sections of the community. The issues of greatest concern are:

- inadequate indexation of pensions
- the unfair tax burden for those over the age of 60
- out of date life expectancy factors for the calculation of commuted lump sums
- failure to restore the full pension after commuted amounts have been repaid.

### **Indexation**

The Government recognized the flaws in the CPI measure as far back as 1997 when legislation was introduced to change the indexation method for age and service pensions

to the higher of the CPI and MTAW. At that time, the Government justified the change to allow older Australians to enjoy the benefits of Australia's improving standard of living. Because the same benefit was not extended to military superannuation recipients, military pensions have fallen more than 20% behind the increases in the age pension over the past ten years. The clear inference is that many of those who have served their country in peace and war are not deserving of maintaining their standard of living in contemporary Australia. Such a position is untenable.

The Committee would be aware that two previous Parliamentary committees have recommended changes to a fairer wage based index system for DFRDB pensions and the recent Defence review of military super reached a similar conclusion. The time for a change in Government policy on this issue is long overdue. Further erosion in the value of DFRDB pensions needs to be halted now.

### **Superannuation Taxation (Better Super)**

It was deliberate Government policy that introduced the better super rules which discriminate against military pensioners, leaving them financially disadvantaged compared with other retired superannuates. It is worth noting that many DFRB/DFRDB retirees completed much of their service before 1988 when the tax on super fund contributions and earnings was first introduced, i.e. there was no difference between funded and unfunded schemes before this date. Consequently, there is no justification for the better super legislation treating these military pensioners any differently from private super fund retirees in similar circumstances.

The current super rules have a further detrimental impact in having any additional income earned then taxed at the retiree's marginal rate. This is a significant financial disincentive and disadvantage compared with those on tax free super pensions.

If fairness is the criterion by which the Government better super policy is judged, then it clearly fails the test in relation to military retirees. It appears yet another bizarre example of the way the Government chooses to recognize the 'unique' nature of military service.

### **Commutation and Life Expectancy Factors**

DFRDB pensioners who take a lump sum payment on retirement repay the amount through a reduced pension which is calculated on the life expectancy tables in the legislation. These 1962 tables are hopelessly outdated and unfairly reduce the retirement pension paid. Moreover, once the nominal life expectancy age is reached, a DFRDB pensioner continues to be paid at the reduced rate for the remainder of his/her natural life even though the commuted amount has been fully repaid. Both of these anomalies significantly disadvantage recipients of DFRDB pensions, and both could be rectified by a change in Government policy to amend the DFRDB legislation to keep the scheme relevant to contemporary standards. Implementation of these changes would assist DFRDB pensioners to meet the rapidly increasing cost of living pressures they face.

## Summary

Military pensioners are seeking nothing more than a fair go in relation to their DFRB/DFRDB entitlements to help them cope with today's cost of living pressures. Having served their country for at least twenty years, and in many cases, much longer, these career members of the ADF believed there was an implicit Government undertaking that their compulsory superannuation scheme would adequately provide for their retirement. Over the last ten years in particular, they have watched the steady erosion in their pensions as CPI increases failed to keep pace with the escalating costs of living. Discriminatory tax policy and other outdated features of the schemes only exacerbate the effects of an inadequate indexing system. The consequential fall in living standards, at a time when Australia's prosperity is increasing, does not do justice to their service. They deserve better.

Yours sincerely,

Ray Gibson, AM  
QLD

26 January 2008