

**Senate Foreign Affairs, Defence and Trade
Legislation Committee**

SUBMISSION COVER SHEET

Inquiry Title: Military Rehabilitation and Compensation Bill
2003 and Related Bill

Submission No: 08

Date Received: 30.01.04

Submitter: Naval Association of Australia

Organisation:

Address: GPO Box 711
CANBERRA ACT 2601

Phone: (02) 6258 6892

Fax: (02) 6258 2664

Email: cookruss@austarmetro.com.au

Name/Contact: Mr Peter Cooke-Russell

Date Authorised:



THE NAVAL ASSOCIATION OF AUSTRALIA

Patron-In-Chief: Her Majesty the Queen
Patron: The Governor-General of Australia

National President
Commodore R.N.Trotter RANR

National Secretary
Commander P.J. Cooke-Russell RAN Rtd

Tel: (02) 6280 0210 NAA
(02) 6258 2664 AH
Fax (02) 6280 0214
email fedsec@navalassoc.org.au

Address all mail to:
National Secretary
National Headquarters, NAA
GPO Box 711
CANBERRA ACT 2601

www.navalassoc.org.au

1426 VA 25

29 January 2004

The Secretariat
Senate Foreign Affairs, Defence and Trade Committee
Suite S1.57
Parliament House
CANBERRA ACT 2000

**Submission to the Inquiry into the Military Rehabilitation and Compensation Bill 2003 and the
Military Rehabilitation and Compensation (Consequential and Transitional Provisions)
Bill 2003**

The enclosed submission is forwarded by the National Council of the Naval Association of Australia, for consideration by the Senate Foreign Affairs, Defence and Trade Committee

R.N. Trotter
Commodore RANR

National President

Enclosure

1. Submission dated 29 January 2004 from the National Council of the Naval Association of Australia to the Senate Foreign Affairs, Defence and Trade Committee Inquiry into the Military Rehabilitation and Compensation Bill 2003 and the Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Bill 2003,

National Council of the Naval Association of Australia

Submission to the

Senate Foreign Affairs, Defence and Trade Committee of Inquiry
into the
Military Rehabilitation and Compensation Bill 2003 and the
Military Rehabilitation (Consequential and Transitional Provisions) Bill 2003.

1. It is the Naval Association's view that overall, the draft legislation provides improved arrangements for coverage of death, disability and rehabilitation benefits for members, former members of the Australian Defence Forces and their dependants. The concept of combining the elements of existing legislation into one piece of legislation will simplify (if ever the word could be used in regard to this legislation) and aid the understanding and implementation of its provisions.
2. There is one particular provision in the Bill on which we wish to express concern. That is the matter of indexation of amounts in **Chapter 11 Section 404**.
3. Indexing the various amounts referred to in this section by the CPI alone means that these amounts over time will erode in value relative to the Normal Weekly Earnings amounts against which the incapacity payments are calculated. This is inappropriate as well as undesirable and will demand revision of these payments at an early date after the Bill is enacted unless action is taken now to change the indexing method.
4. For some time the CPI has been recognised as a price inflation measure only and not a cost of living index. This has been stated by the Australian Bureau of Statistics in appearances before Senate Select Committee and was the reason why the present Government, with full support of the Opposition, legislated in 1997 to change the indexing of Centrelink pensions to the greater of the CPI or 25% of Male Total Average Weekly Earnings (MTAWE).
5. A vigorous campaign has also been in progress pressing the Government and Opposition to agree to change the indexing of Public Sector superannuation pensions, including the military schemes to the greater of the CPI or MTAWE because of the serious erosion of these pension values. This change to the pension indexing is inevitable.
6. The gap between CPI and MTAWE has been constantly widening for the last decade and both the Reserve Bank and other research authorities are saying that this situation will continue for as far ahead as can be forecast. The Reserve Bank has already changed the indexing of their pensions from CPI to a wage base and the Parliamentary superannuation scheme including their surviving spouse pensions are indexed to a wage base and not the CPI.
7. When this issue was raised by the Naval Association at the meeting of 27 June 2003 convened by the Minister for Veterans' Affairs to launch and discuss the original draft Bill, the response made was that compensation cannot be equated to superannuation provisions. We disagree with this view entirely.
8. Compensation incapacity payments are in most cases calculated relative to the individual's earnings prior to injury and defined benefit superannuation payments are pension

payments calculated as a percentage of final average salaries. Accumulation or lump sum pension schemes are based on the same philosophy. Compensation and superannuation are payments made in lieu of wages or salary and the maintenance of their value including the salary reference base over time relative to community living standards, is of equal and prime importance.

9. The Naval Association recently made representations to the Federal Government concerning the indexation of Military Superannuation and given our position expressed in paragraph 7 above, the philosophy used in that submission is equally relevant to the method of Indexation used in the MRCS Draft Bill. The following extract is from that submission.

Whilst the Naval Association of Australia did not make submissions to the Senate Select Committee's inquiries into superannuation, we have considered the Committee's reports and closely studied the evidence presented to the Select Committee hearings of April and December 2001 and noted that recommendations were made to Government to review the indexing process.

The Committee's report of April 2001 recommended that the Government '*examine the feasibility of adopting an indexation method other than the Consumer Price Index (CPI) for Commonwealth public sector and defence force superannuation schemes to more adequately reflect the actual increases in the cost of living*'.

It is now two years since those recommendations were made but the Government is showing no sign whatsoever of acting to rectify this grossly unfair treatment of Naval personnel, who, like all other military retirees during their service, were required to put themselves in harms way on many occasions to defend the rights, freedoms and equality enjoyed by all other Australians.

This Association has also sighted responses originated by Members of Parliament, including your own office and other Ministers, which invariably contain the statement '*The Government still considers the CPI increase method provides an equitable and satisfactory method over a period of years for calculating pension increase.~ and protects living standards of retired Commonwealth employee. The Australian Bureau of Statistics (ABS) has: indicated that while it is not possible to calculate a Perfect measure of the cost of living, the CPI does provide a reasonable measure of the cost of living*'

Minister, the part of the statement above in italics attributed to the Australian Bureau of Statistics is a paraphrasing of some of the evidence given by the Bureau's officials before the Senate Select Committee on Superannuation on Thursday 15 February 2001 and is being used completely out of context. It is quite misleading and gives rise to the firmly held belief among military superannuants, and others, that the Government quotes very selectively from the literature any statements which appear to provide justification for its continued use of the CPI as the indexing process.. (Page SFS 88 of the Senate Select Committee Official Hansard 15 February 2001 paragraph 4 refers).

In various other places of the evidence by the Bureau's senior officials before the Senate Select Committee On 15 February 2001 they state that the CPI is purely a price Inflation Measure. On page SFS 88, paragraph one of the same Hansard, the ABS said that since 1998 '*The CPI has been designed specifically to provide a general measure of price inflation for the household sector as a whole*'.

Responding to a question from the Chair the ABS senior member said 'I would make some observations from the perspective of the use of the CPI in indexation calculations - *the CPI is not a measure of the cost of living. It is a measure of inflation and there are differences between those two things*'. (Page SFS 90 paragraph one of the Hansard record of evidence).

The most significant point made by the ABS before the Select Committee when responding to the Chair was that. '*if the issue becomes the relative standard of living and maintaining that, then the CPI is not your best measure and you should perhaps be looking at alternatives*' (Page SFS 98 paragraph 9 of the same Hansard)

The indexing issue is a matter of maintaining the relative standards of living for all sub- groups in the community and this was acknowledged by both the Government and the Opposition in 1997 when the legislation to change the indexing of Centrelink pensions to the higher of the CPI or 25% of Male Total Average Weekly Earnings was debated and introduced with the full support of both parties. This is what

transpired when the *Social Security and Veterans' Affairs Legislation Amendment (Male Total Average Weekly Earnings' Benchmark) Bill 1997* was introduced:

The Government (McGauran) said. -*'Pensions are indexed twice a year -in March and September - according to movements in the CPI, ensuring that the real purchasing power of the pension is maintained. However, CPI indexation, by itself, may not enable pensions to keep pace with changes in living standards of the rest of the community. By legislating to maintain the single rate of pension at 25 per cent of Male Total Average Weekly Earnings, the Government is demonstrating its commitment to ensure that pensioners share in increases in community living standards'.*

In Opposition, Labor (Baldwin) said, -*'We had a robust commitment to the basic pension and maintaining its adequacy -not just indexing it -so that it kept track of inflation, but linking it to a benchmark that related to community standards and expectations in terms of living standards. Hence we saw the links to average weekly earnings as being absolutely fundamental'.*

This is unquestioning acceptance by the Government and the Opposition that unless all pensions are indexed by a wage based process, recipients of pensions tied to the CPI only method of indexing are being barred from sharing in increases in community living standards. and; as a consequence, fall well behind all other retiree sub-groups.

Effectively. military superannuants are being classified by Government as second class citizens of this great country. This is hardly the 'Fair Go' for all Australians the Prime Minister mentions quite often.

The evidence is absolutely overwhelming that Naval superannuants, as well as all other recipients of military superannuation pensions, have fallen behind the rest of the retired community and have now been in this situation for at least the last ten years. Our members find it incongruous that the Government has not only allowed this to happen but is showing no sign of wanting to rectify this totally unacceptable, inequitable and intolerable situation.

In 1997 the Government claimed it was demonstrating its commitment to ensure that pensioners shared in increases in community living standards. Why then isn't the Government equally committed to ensuring that military superannuants share in increases in community living standards? After all, these are the people who have given exemplary service to all Governments of the day as well as the entire Australian community and are more than deserving of being given a 'Fair Go'.

We are also aware that the Government raises the costs of changing the indexing as an excuse for not acting. In particular, the Government makes a great deal of noise about the unfunded liabilities aspect.

Minister. Governments of both political persuasions have had to confront the unfunded liabilities issue since about 1922 when the first Public Service superannuation scheme commenced but have always elected to allow this accumulation of liabilities to continue. The unfunded liabilities matter rests with the Governments of the day not the retirees and it is the entire responsibility of the Government of the day to maintain the proper value of the pensions of their former employees, both military and civilian. regardless. This is a moral and probably a legal obligation as superannuation is a compulsory part of the employment package for members of the armed forces.

When increases in politician's backbench salaries are declared, Parliamentary pensions increase in parallel because of being indexed to the wages base, not the CPI, but there is never any resistance emanating from the House about the inherent increase in unfunded liabilities of the scheme. notwithstanding that the unfunded liabilities have increased from \$396 million in 1998 to a current level of \$504 million. This very significant increase over five years for a scheme. which comparatively has such a small number of participants. is never considered to be a deterrent for granting increases.

If the Government honestly believes, as it states in its replies to constituents. that the CPI is the proper process for maintaining the real value of Naval and other military pensions. this Association would be pleased to receive an answer to these two questions:

- Why then did the Government legislate to amend the indexing of Centrelink pensions to a wage based index?
- Why is the Parliamentary pension scheme indexed to a wages base instead of the CPI?

10. These two questions have not been answered.

11. The Naval Association considers it important for the indexing provisions made in this Bill to be changed from CPI alone to CPI or MTAWA whichever is the higher and for the indexing to be twice yearly. By not making such a change, incapacitated members of the Defence Force will not be compensated on a fair and reasonable basis over the full range of their possible entitlements

12. We are prepared to appear before the Senate Committee in Canberra should you seek any further comment from the Naval Association.

National Council Naval Association of Australia,

29 January 2004