

# Coalition Senators' (Dissenting) Report

## BACKGROUND & OVERVIEW

The *Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010* will provide fair indexation for Defence Force Retirement and Death Benefits (DFRDB) Scheme and Defence Forces Retirement Benefits (DFRB) scheme superannuation pensioners.

The Coalition made a commitment on 27 June 2010 to provide fair indexation for DFRDB and DFRB scheme superannuation pensioners. This Bill meets that commitment and demonstrates the Coalition's unwavering recognition of the unique nature of military service and our commitment to introducing a fair, equitable and fiscally responsible military superannuation system.

Under this Bill, from 1 July 2011, DFRDB and DFRB superannuants aged 55 and over will have their superannuation pensions indexed in the same way as Australian Government income support pensions are indexed. Twice yearly, in line with present practice and using the pre-determined 'pension MBR factor', pensions will be indexed to the higher of the Consumer Price Index (CPI), Male Total Average Weekly Earnings (MTAWE) or the Pensioner and Beneficiary Living Cost Index (PBLCI).

This Bill brings the indexation of a DFRDB and DFRB member's superannuation into line with those of aged and service pension recipients. Currently, DFRDB and DFRB superannuation pensions are indexed according to the CPI only.

The measures in this Bill will ensure that over 56,000 retired Australian Defence Force (ADF) personnel who are members of the now closed DFRDB and DFRB schemes have their superannuation pensions indexed more fairly and in a manner that better reflects changes in the costs of living.

Military superannuation reform is the number one issue in the veteran and ex-service community.

The changes contained within this Bill have long been sought by veterans' organisations as part of military superannuation reform. The Coalition is committed to beginning the process of military superannuation reform and believes it is the right thing to do given the unique nature and risks of military service.

Conversely, the Labor Party continues to oppose this Bill. The Labor Government's continuing opposition to this Bill is rooted in its broken 2007 election promise to fix military superannuation. The then Labor opposition's election document for veterans

stated that it would work hard to achieve six goals for veterans. The first of these goals stated that a Labor government would:

*“restore the value of compensation and prevent further erosion due to unfair indexation.”*

The Matthews Review, which was commissioned by the Labor Government, is the only report into Commonwealth civilian and military superannuation schemes that has *not* recommended changes to indexation arrangements, yet the Labor Government continues to subscribe to the widely discredited recommendations made by the Matthews Review.

It is also worth noting that on Christmas Eve 2007, Labor released the Podger Review of Military Superannuation Arrangements. They have never acted on, or publicly acknowledged support for, any of the recommendations in Dr Podger’s paper.

The Labor Government continues to hide behind the discredited Matthews Review and Coalition Senators are extremely disappointed that the submissions by both the Department of Finance and Deregulation and the Department of Defence fail to acknowledge past reports and inquires into this matter.

Coalition Senators support this Bill.

## **POSITION OF EX-SERVICE ORGANISATIONS**

At the outset, it is important to note that of the 17 submissions received by this Committee only two do not support the Bill. The two submissions that do not support the Bill were submitted by the Department of Finance and Deregulation and the Department of Defence.

Of the 15 submissions in support of the Bill, seven originate from Ex-Service Organisations (ESO) and eight from individuals. All eight submissions made by individuals support the Bill.

Coalition Senators determined that as the issues canvassed in the eight individual submissions are largely, if not totally, covered within the varying ESO submissions, this report will focus on the submissions made by the ESOs; who by their very nature represent a large proportion of those affected by the Bill.

The ESO submissions are widely comparable in the themes they raise. Three major themes arising from the submissions include:

---

## 1. Unique Nature of Military Service:

All submissions contend that military service is sufficiently unique that those serving in the ADF should be entitled to special financial and non-financial benefits, and that a fairer indexation regime would satisfy this objective.

The submission made by the **Alliance of Defence Service Organisations** (*submission No. 7*) notes that:

*“In no other calling, occupation or profession has the State the power to accept or demand the surrender of these rights [Universal Human Rights]. The Unique Nature of Military Service deserves unique solutions and also places a great burden on the Government as the “employer” to ensure that ADF members are looked after both during and after Service.”*

The submission made by the **Vietnam Veterans’ Federation of Australia** (*submission No. 1*) also notes that ADF members have suffered conditions of service far less favourable than civilians, and that service in the ADF includes:

*“Liability for high risk combat operations, restriction of liberty in a regimented way of life, compulsory long and irregular working hours, compulsory statutory retiring ages well below the community norms, compulsory high standards of fitness, frequent compulsory relocation.”*

The submission made by the **Returned & Services League of Australia (RSL)** (*submission No. 5*) further argues that the nexus between legislating for military superannuation schemes and other Commonwealth superannuation schemes is a policy aberration and notes that:

*“An examination of legislation for the Australian Defence Force shows that in almost all respects, the Parliament has been consistent since Federation in regarding the nation's armed forces as a separate and quite distinctly different part of Australian society.”*

Coalition Senators fully appreciate the unique nature of military service and believe that Australia’s service personnel, past and present, after giving so much to their nation, deserve to live out their lives in the knowledge that they have financial security.

## 2. Method of indexation versus the cost of living:

The second major theme apparent across the ESO submissions relates to the use of the Consumer Price Index (CPI) to index military pensions. All ESO

submissions contend that the CPI is no longer a relevant index and that the continued use of the CPI to index military pensions has resulted in the deterioration of living standards for DFRDB and DFRB members.

Coalition Senators note that the Australian Bureau of Statistics (ABS) also states that the CPI is one of many relevant living cost indexes and continues to apply a suite of living cost indexes rather than the CPI as a stand alone measure of the cost of general household inflation.

The **RSL** (*submission No. 5*) in its submission noted that:

*“The Consumer Price Index is “not a measure of the cost of living. Rather it is a measure of inflation and, as such, it cannot keep up with costs relative to general community standards of Living.” This definition recorded by a Senate Select Committee in 2001 accords with advice it received from the Australian Bureau of Statistics and appears to have general acceptance.”*

The **Vietnam Veterans’ Association of Australia, Queensland Branch** (*submission No. 9*) further noted that:

*“We believe that the only fair way [to index military pensions] would be to have exactly the same methods of indexation for all schemes which would be to use CPI, MTAW or PBCLI whichever is the greater. This would be the only fair way and would be acceptable to the Veteran Community.”*

The Coalition agrees with the ESO submissions that the current sole reliance on the CPI to index military pensions is having a detrimental affect on the living standards of DFRDB and DFRB members. The submission made by the **Australian Veterans and Defence Services Council** (*submission No. 11*), which includes the analysis of a self initiated survey, notes that:

*“A little under half of the respondents [military superannuants] reported the need for assistance from social welfare via the safety nets available from Centrelink.”*

Coalition Senators believe that on the balance of evidence provided through the submissions to this Committee, along with the wealth of evidence made available through seven past inquiries on this issue, that the CPI on its own is not an adequate indexation tool for the purposes of indexing DFRDB and DFRB military pensions. This has contributed to a decline in the standard of living for members of these schemes.

### 3. Matthews Review:

The third major theme that appears across the ESO submissions concerns the *Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes*, also known as the Matthews Review.

The Matthews Review was commissioned by the Labor Government and released in August 2009. It is the only review out of eight reviews into military superannuation over the past three decades that does not support a positive change to the indexation of military superannuation pensions.

The Senate has previously enquired four times into this issue. The inquiries were the:

1. Senate Select Committee On Superannuation And Financial Services: The benefit design of Commonwealth public sector and defence force unfunded superannuation funds and schemes (Feb 2001);
2. Senate Select Committee On Superannuation And Financial Services: The benefit design of Commonwealth public sector and defence force unfunded superannuation funds (Apr 2001);
3. Senate Select Committee on Superannuation: Superannuation and Standards of Living in Retirement (2002); and
4. The Senate Standing Committee on Community Affairs: A Decent Quality of Life: Inquiry into the Cost of Living Pressures on Older Australians (2008).

The submission made by the **Alliance of Defence Service Organisations** (*submission No. 7*) notes that:

*“After careful analysis, the Matthews Review was widely discredited within the ESO Community because of its flaws, inaccuracies, omissions and superficial approach to important issues.”*

The submission made by the **RSL** (*submission No. 5*) further notes that:

*“The RSL asserts that the principle of Parliament is paramount and the omission of this principle from the terms of reference provided to Mr Matthews makes the findings of his review questionable and his recommendations unsafe.”*

Coalition Senators have previously expressed similar concerns with the Matthews Review. We agree with the objections the ESO submissions, and others, make with regard to the validity of the Matthews Review. Furthermore, Coalition Senators consider the Matthews Review as having been politicised by the Labor Government in

an effort to white wash its broken 2007 election promise to address military superannuation reform.

## **POSITION OF THE DEPARTMENT OF FINANCE AND DEREGULATION AND THE DEPARTMENT OF DEFENCE**

As previously noted, of the 17 submissions received by this Committee only two do not support the Bill. The two submissions that do not support the Bill are the submissions from the Department of Finance and Deregulation and the Department of Defence.

Coalition Senators note with some concern that the submissions made by both the Department of Finance and Deregulation and the Department of Defence (the Departments) were submitted after the deadline for submissions to this Committee.

The arguments contained in the Departments' submissions revolve in large part around the recommendations and conclusions contained within the Matthews Review. The Coalition Senators stated position with regard to the Matthews Review applies equally to the submissions by the Departments, particularly where each submission cites the Matthews Review for the purposes of arguing against the proposed changes in this Bill.

Coalition Senators are also disappointed that neither of the Departments made reference to any of the seven reports and inquiries into military superannuation schemes initiated prior to the release of the Matthews Review (such as the Podger Review). Coalition Senators consider this to be more than an oversight; rather, it is a deliberate attempt to dismiss a field of evidence acquired over three decades on this matter.

Coalition Senators are also extremely concerned that each of the Departments reached different conclusions regarding the scope of this Bill. In their respective submissions, each of the Departments differently and selectively quoted advice from the Australian Government Actuary (AGA) with regards to how the provisions in this Bill will apply to DFRDB and DFRB members.

For instance, the **Department of Defence** (*submission No. 15*) in its submission states that:

*“On 13 January 2011 the Australian Government Actuary (the Actuary) provided Defence with an analysis of the increased costs involved in changing from current indexation by the Consumer Price Index to the methodology proposed in the Bill. The analysis indicated that the Bill, as drafted and amended, does not deliver indexation for the best of the Consumer Price Index, Male Total Average Weekly*

---

*Earnings and the Pensioner and Beneficiary Living Cost Index. Instead it falls short of that objective.”*

However, the **Department of Finance and Deregulation** submission states that:

*“However, as reflected in the AGA’s advice to the Department of Defence it appears that the Bill would provide for better indexation arrangements than those currently applying to Age and Service Pensions.*

Coalition Senators are extremely concerned that the submissions of two government departments have reached different conclusions on the Bill while citing the same analysis provided by the Australian Government Actuary.

As the Departments were unable to reach a mutually agreed outcome (in fact they reached completely opposite conclusions) regarding the advice provided by the AGA, it stands to reason that their submissions should be regarded with a high degree of scepticism.

## **COSTS AND SAVINGS**

Coalition Senators remain committed to introducing a fair, equitable and fiscally responsible military superannuation system. This Bill reflects these objectives and importantly, remains affordable over the forward estimates and into the future.

Submissions made to this Committee are widely cognisant of the need to pay for the changes contained within this Bill. While the submissions make different assessments of the costs, and indeed propose different solutions, it is important to note that the Department of Finance and Administration also makes different cost estimates within its submission.

Coalition Senators are of the opinion that the submission tendered by the Department of Finance and Administration is designed to confuse and mislead readers with regard to the costs of this Bill.

The **Department of Finance and Administration** submission states that:

*“the Bill would have an immediate increase in the Government’s unfunded superannuation liability of \$6.2 billion which would worsen the Government’s balance sheet. The fiscal impact is \$1,667 million and the cash impact is \$175 million over the forward estimates.”*

The submission does not make available any data to support these cost estimates, nor does it seek to contextualise these figures. For this reason, it is plain to see why the **Alliance of Defence Service Organisations** (*submission No. 7*) said that it:

*“condemns the Government for its deceptive scare tactics by not being transparent in its calculations of the net costs of fair indexation”*

Coalition Senators agree that the submission put forward by the Department of Finance and Deregulation is deliberately misleading regarding the costs of this Bill. No other spending commitments made by the Labor Government have been spoken about in terms of the costs over the life of the programme; rather, they are spoken about in terms of their costs over the forward estimates.

This point is reinforced by advice from the Australian Government Actuary (AGA). In a letter from the Finance Minister, Senator Wong, to Senator Ronaldson dated 22 Mar 2011, the enclosed AGA advice states that:

*“The additional cash expenditure provides an estimate of the future cash impacts on the Commonwealth’s cash budget from the benefit improvement.”*

Where as the advice from the AGA regarding the fiscal balance figures states that:

*“Fiscal balance figures are used for accrual accounting purposes. They are also mandatory for cabinet submissions. However, great care should be exercised when using fiscal balance figures for decision making purposes, particularly in the area of unfunded superannuation arrangements.”*

In echoing the advice provided by the AGA, Coalition Senators consider the cash expenditure figures as the most appropriate basis on which to cost this Bill. Furthermore, given the Coalition’s record of strong economic management, and in accordance with its own strict rules of financial accountability, it has ensured that the policy is affordable in the longer term and over the forward estimates.

In proposing this legislation, the Coalition identified offsets, over the forward estimates, which *exceed* even the most inflated cost estimates provided by the Labor Government. Identified savings will be achieved by reducing the *growth* of Australian Public Servant (APS) employees in the Department of Defence (including the Defence Materiel Organisation (DMO)) by 33%.



---

The Coalition believes that the Government has not justified the expansive growth in the civilian Defence bureaucracy. The *Defence Portfolio Additional Estimate Statements 2010-11* forecasts the bureaucracy to grow by 12.6% over the forward estimates at a cost of \$718.2 million. This growth is taking place parallel to the Government's Defence Strategic Reform Program that is designed to reduce expenditure by \$2 billion per annum over 10 years. Accordingly a savings measure to provide a more equitable indexation regime for retired Defence personnel should be funded from within the Defence Department.

Importantly, this strategy will see the number of civilian staff in the Department of Defence (including DMO) still grow in size by 8.3% by FY 2013-14 compared to a budgeted 12.6%. This growth rate is still generous, particularly in comparison to the military growth rate, which is only 2.3% over the same period.

Furthermore, during a sitting of the *Joint Standing Committee on Foreign Affairs Defence and Trade Defence Subcommittee* on 25 March 2011, a senior Department of Defence official confirmed that a growth reduction of 33% in the Defence APS workforce was already being considered by the Department. This reinforces the Coalition's view that the strategy to offset the costs of this Bill is an entirely realistic proposal.

As part of the Coalition's own strict rules of financial accountability, funds accrued in the Future Fund will be used to offset the long term costs associated with this Bill. Furthermore, the Coalition has committed to investing future savings into the Future Fund to offset the commitments made in this Bill. Coalition Senators note that excluding the sale of Telstra shares, the Labor Government has not added a single cent to the Future Fund since coming to government.

## **CONCLUSION**

In developing this Bill, the Coalition spent a considerable amount of time widely consulting with veterans, ex-service people, ex-service organisations and current ADF personnel. The Coalition concluded that the overwhelming view held by interested groups and individuals was for the introduction of a more equitable indexation method for DFRDB and DFRB members.

The Coalition's approach to dealing with superannuation reform is in stark contrast to the approach adopted by the Labor Government, which has exerted more energy on criticising the Coalition's plan than coming up with one of its own.

The Labor Government had no military superannuation policy at the last election and continues to have no policy on superannuation reform now. Worse still, the Labor

Government is attempting to block this Bill, which will provide approximately 56,000 DFRDB and DFRB members a higher quality of life in their retirement.

On 1 July 2011, approximately 30,000 DFRDB and DFRB superannuants will immediately benefit from the changes proposed in this Bill.

Coalition Senators note that the submissions made to this Committee overwhelmingly support the introduction of this Bill. Indeed, the Coalition remains committed to introducing a fair and equitable military superannuation system and it remains equally steadfast in its commitment to ensuring that all schemes remain fiscally responsible and affordable.

### **Recommendation 1**

**Coalition Senators recommend that the Bill be supported.**

**Senator Mitch Fifield  
The Liberal Party of Australia  
Senator for Victoria**

**Senator Helen Kroger  
The Liberal Party of Australia  
Senator for Victoria**

**Senator the Hon Michael Ronaldson  
The Liberal Party of Australia  
Senator for Victoria**