

REGULAR DEFENCE FORCE WELFARE ASSOCIATION INC NATIONAL OFFICE

ABN 49 929 713 439



PO Box 4166, KINGSTON ACT 2604
Tel: 02 6265 9530 Fax: 02 6265 9776

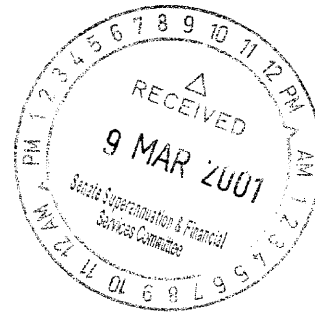
Patron: His Excellency Sir William Deane, AC, KBE
Governor-General of the Commonwealth of Australia

RDFWA

Ref: 51.01
7 March 2001

The Secretary
Senate Select Committee on Superannuation and Financial Services
Parliament House
CANBERRA ACT 2600

cc: The President of the Senate, the Hon Margaret Reid



Dear Madam,

INQUIRY INTO THE BENEFIT DESIGN OF COMMONWEALTH PUBLIC SECTOR AND DEFENCE FORCE UNFUNDED SUPERANNUATION FUNDS AND SCHEMES

I refer to the Senate Hansard relating to the above inquiry.

The following correspondence, which is relevant to the inquiry, is forwarded for information of the Committee:

- . RDFWA letter to Minister Scott dated 18 May 2000;
- . Minister Scott's reply dated 29 June 2000;
- . RDFWA letter to Minister Scott dated 8 August 2000; and
- . Minister Scott's reply dated 14 December 2000.

This information is considered particularly relevant to the answers given to the Committee by Defence officials at page 134 of Hansard 15 February 2001.

Also enclosed is a copy of the letter written by the President of the Senate, Senator the Hon Margaret Reid, to the Minister for Finance and Administrative Services, the Hon John Fahey, confirming his undertaking to examine the indexation of Commonwealth public sector and military pensions. This matter was raised by

the Chairman with officials from the Department of Administrative Services at the Committee public hearings on Thursday 15 February - page 124 of Hansard refers.

From the correspondence you will understand the view of this Association that the officials concerned have been particularly 'economical with the truth'.

Yours sincerely,

H J P Adams

H J P Adams
National President

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Patron: His Excellency Sir William Deane, AC, KBE
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RDFWA

Ref: 51.01

18 May 2000

The Honourable Bruce Scott
Minister for Veterans' Affairs and Minister Assisting the Minister for Defence
Parliament House
CANBERRA ACT 2600

Dear Minister,

MILITARY SUPERANNUANTS

You will be aware that retired military personnel receive their superannuation in the form of fortnightly payments from ComSuper depending on the particular scheme to which they contributed. This may be the DFRB or DFRDB schemes or the MSBS. Widows of deceased superannuants receive a proportion of their former husband's superannuation: if their former spouse died whilst serving the widow receives a pension under the death and disability provisions of the particular scheme.

All these schemes are indexed to the CPI. Representations have been received in recent years in our national office that CPI indexation has been insufficient to enable living standards of retired personnel to be maintained, and that compared to Male Total Average Weekly Earnings (MTAWE) indexation - the yardstick for federal government pensions - our people are becoming increasingly disadvantaged.


In bringing this situation to your attention it is appropriate to point out that recommendation 6 of the Jess Report, on which the DFRDB Act was based, offered two proposals by which retired pay could be increased annually. These were to either tie benefits to changes in remuneration of the rank held on retirement, ie a sergeant in retirement would have his fortnightly benefit tied to a percentage of a serving sergeant's pay, or to adjust the pension annually to maintain relativity with average weekly earnings. The first of these proposals is similar to the parliamentary pension scheme. However, when legislated by the Whitlam Ministry this Jess recommendation was not accepted and CPI indexation adopted instead.

With Defence responsible for funding the fortnightly benefits paid to some 55,000 former military personnel and their widows, I suggest that it is timely to review the indexation of these payments with a view to amending the relevant legislation to ensure that living standards of retired personnel are not eroded.

It will be known to you that the CPI, on at least two occasions over recent years, has been negative or just above zero. Whilst retirement benefits are not reduced following such annual results, a subsequent positive CPI is applied retrospectively to take account of previous negative figures and the ensuing increase (if any) is a lesser benefit.

These are complex issues and while considerable material is held by the Association which shows the disadvantage which has occurred, particularly in the past decade, we feel that this is a matter primarily for the Department of Defence in view of its responsibility for policy in respect of military pay including the fortnightly benefits paid to retired ADF members. Accordingly, this Association requests that you give consideration to setting up an internal study (but including this Association and ComSuper) to inquire into the extent to which those in receipt of fortnightly benefits under the military superannuation schemes have been disadvantaged through inadequate indexation. The inquiry, if instituted, should also be tasked to make recommendations for correcting future disadvantages.

Yours sincerely,


H J P Adams
National President



N. 1

5 July
5/01

MINISTER FOR VETERANS' AFFAIRS
MINISTER ASSISTING THE MINISTER FOR DEFENCE

PARLIAMENT HOUSE
CANBERRA ACT 2600

Commodore H J P Adams (Retd)
National President
Regular Defence Force Welfare Association Inc
PO Box 4166
KINGSTON ACT 2604

29 JUN 2000

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2 5/01

Dear Commodore Adams

Thank you for your letter of 18 May 2000 concerning the indexation arrangements for military superannuation pensions.

When the benefits are taken as a pension, the scheme design requires that in July each year that pension is adjusted to reflect any increase in the Consumer Price Index (CPI) over the preceding 12 month period ending in the March quarter of that year. Specifically, that index is the all groups consumer price index number for the weighted average of the 8 capital cities published by the Australian Bureau of Statistics in respect of the March quarter each year. Pensions are adjusted from 1 July following if there is an increase in the index. If the index decreases, the pension is not changed and the impact of that decrease will be taken into account when future adjustments to the pension are made following an increase in the index. Thus, pensions maintain their real value over time.

The basis for establishing a rate of pension is entirely different from the basis for establishing a rate of pay and, once retired, a maintenance of the real value of a member's pension is not comparable with changes in the salaries for current serving members of the Australian Defence Force (ADF). Nor is it appropriate for an indexation factor to be used which measures changes in current salaries because changes in current salaries are not necessarily relevant to pensions, except to the extent that they affect inflation and general price levels.

Changes in salaries arise for a number of reasons including the need to attract and retain suitably qualified people, the need for salaries to be competitive and the employer's capacity to pay. These factors are not relevant to the pension entitlements of former members of the ADF. Moreover, an index such as Average Weekly Ordinary Times Earnings (AWOTE) that measures changes in salaries, is a composite measure that is of dubious value as a means of adjusting pensions as it is a measure of changes to the earnings of current employees across all sectors of employment.

A fairer and more reasonable way of adjusting pensions is to have regard to changes in inflation and general price levels to ensure that the real value of the pension is maintained. The CPI is a reasonable measure of such changes.

The Government still considers that the CPI increase method provides the most equitable and satisfactory method of calculating pension increases for retired military personnel in that it maintains the real value of pensions. Moreover, rates of increase in earnings will not always exceed rates of increase in the CPI. A link to earnings in these instances would clearly be unreasonable as the real value of pensions would not be maintained.

The military superannuation pensions are determined by the rules of the particular scheme and the Government has no plans at this time to change these arrangements, nor direct that an independent review of these arrangements be undertaken.

Yours sincerely



BRUCE SCOTT MP

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Patron: His Excellency Sir William Deane, AC, KBE
Governor-General of the Commonwealth of Australia

RDFWA

Ref: 51.01
8 August 2000

The Honourable Bruce Scott
Minister for Veterans' Affairs and Minister Assisting the Minister for Defence
Parliament House
CANBERRA ACT 2600

Dear Minister,

Your letter of 29 June 2000, responding to this Association's request of 18 May to conduct an inquiry into the adequacy of current indexing of military superannuation pensions, is acknowledged. We hasten to say how disappointed we are at your almost summary dismissal of the indexing issue and how surprised we are at the reasons advanced for rejecting our request. This is because the reasons you cited are completely at odds with your Government's initiative in 1997 to move away from the indexing of pensions by the CPI alone.

In 1997 the Government legislated to link the indexing of Social Security and Veterans' service pensions to Male Total Average Weekly Earnings (MTAWE) as well as the CPI, whichever is the higher, when these pensions are indexed twice yearly. This legislative change was the *Social Security and Veterans' Affairs Legislation Amendment (Male Total Average Weekly Earnings Benchmark) Bill 1997*. The Government (McGauran) said, "Pensions are indexed twice a year - in March and September - according to movements in the CPI, ensuring the real purchasing power of the pension is maintained. However, CPI indexation, by itself, may not enable pensions to keep pace with changes in the living standards of the rest of the community. By legislating to maintain the single rate of pension at 25 percent of Male Total Average Weekly Earnings, the Government is demonstrating its commitment to ensure that pensioners share in increases in community living standards". Labor in Opposition (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".

A wage linkage is also used in indexing pensions for politicians under the Parliamentary Contributory Superannuation Scheme. This comes about because the parliamentary scheme, like the military and other Commonwealth public sector schemes, is a defined benefits scheme with the pension being a percentage of salary at retirement. Parliamentary salaries are based on the backbench salary which the Remuneration Tribunal adjusts against increases in Average Weekly Ordinary Time Earnings (AWOTE). In turn the AWOTE indexed increase in salaries flows through in full to a parliamentary

pension as well as that of a surviving spouse of a politician. Thus parliamentary pensions also increase as a result of increases in community living standards as well as prices.

Minister, in view of the Government's stated commitment for pensioners to share in increases in Community living standards which is denied when CPI indexing alone is used, as well as the manner in which parliamentary pensions are indexed to allow retired politicians also to share in increases in community living standards, it is very difficult for us to accept what you have said at paragraph 5 of your letter. For ease of reference your letter said, "A fairer and more reasonable way of adjusting pensions is to have regard to changes in inflation and general price levels to ensure that the real value of the pension is maintained. The CPI is a reasonable measure of such changes".

We agree that the CPI is now a 'Price Inflation' measure but the adjustment of any pension requires more than this. Furthermore, if such a method is fair and reasonable why does the Government apply a different standard for the adjustment of its own retirement pensions and that of Social Security and Veteran Service pensioners? Another relevant question is why did the Government bother to legislate as it did in 1997?

Since receipt of your letter of 29th June, you will be aware of my letter to you of 5th July that the Minister for Finance and Administration, the Hon John Fahey, has undertaken to examine indexation arrangements for Commonwealth public sector retirees with a view to correcting the current disadvantage. The general terms of his undertaking are set out in Senator Reid's letter of 30th June (copy attached).

Minister, military superannuants are volunteer military people who undertook a variety of operational service during their careers: they are people your government has been at pains to stress have a special place in the community. It should therefore be a matter of concern to you to know that their living standards have been eroded significantly over the past decade. This makes your reply not to look into the matter particularly disappointing.

Having regard to Mr Fahey's undertaking, together with the fact that the updating of indexing of all military and other public sector pensions should have been addressed and rectified as part of the Government's tax reform package, we now believe there is no need for this issue to become the subject of a review process. Instead, it would be entirely appropriate for action to be taken by Government without further delay for the pensions in question to be indexed twice yearly against MTAW or the CPI whichever is the higher.

Your further advice would be appreciated, specifically whether Defence will be making a submission to the inquiry being undertaken by the Minister for Finance and Administration referred to above.

Yours sincerely,



H J P Adams
National President



MINISTER FOR VETERANS' AFFAIRS
MINISTER ASSISTING THE MINISTER FOR DEFENCE

PARLIAMENT HOUSE
CANBERRA ACT 2600

21 Dec 00
14 DEC 2000
CNP
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Commodore H P J Adams (Retd)
National President
Regular Defence Force Welfare Association Inc
PO Box 4166
KINGSTON ACT 2604

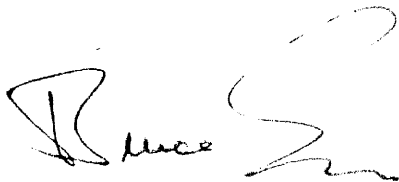
Dear Commodore Adams *Harry*

Thank you for your letters of 5 July and 8 August 2000 seeking further information about the indexation arrangements that are applied to the military superannuation pensions of former members of the Australian Defence Force.

My reply to you of 29 June 2000 provided details of the underlying reasons for the use of the Consumer Price Index (CPI) for the indexation of military superannuation pensions. The indexation arrangements are provided for in the legislation and scheme rules covering the military superannuation arrangements. There are no plans to change the indexation arrangements.

I am forwarding copies of your recent correspondence on this subject and this letter to the Minister for Finance and Administration, the Hon John Fahey MP, for his information and any action he may wish to take on this matter.

Yours sincerely


BRUCE SCOTT MP