



## ***Open Letter to the Prime Minister and Leader of the Opposition From the President, Defence Force Welfare Association***

### **Penny Pinching Military Superannuation Pensions**

In 1997 the Government recognised Australia's standard of living was improving and wages had been for many years rising faster than the cost of living. However government pensions were indexed so that they increased only in line with the consumer price index (CPI) which is a measure of inflation, not cost of living. This meant pensioners were not sharing in Australia's improving standard of living with their payments losing value compared with rising community incomes. Recognising this, the Howard government adjusted the indexation of the Age, Wife, Disability Support, and Widow's Pensions, the Parenting and Carer Payments, Service, Partner Service, Income Support and the War Widow's Pensions so that these would increase by at least the CPI but also reflect increases in living standards and not fall below a certain percentage of the average wage.

But, military retirement pensions, also indexed by CPI, did not share in the benefit of this. Instead, they were left to languish, losing value compared with those other government pensions and falling further and further behind Australia's rising standard of living. Former Australian Defence Force members on military retirement pensions do not have to be told by the Bureau of Statistics that the CPI is not a measure of cost of living. They experience the reality that the CPI does not adequately reflect cost of living changes much less the improvements to living standards being enjoyed by the wider Australian community, the reason why indexation was changed for the range of payments listed above. This failure to re-index military superannuation pensions when the government re-indexed so many of its other pensions has left military superannuants many, many thousands of dollars out of pocket. It is time that loss was halted.

The Defence Force Welfare Association has analysed the cost of implementing this change and we believe the increase for FY 2006/2007 for example would have been less than \$18M. This figure is a mere **0.1 of one per cent** of the estimated 2006-07 **Budget surplus of \$17.3 billion** and well short of the oft quoted but in our eyes discredited Treasury figures which have been used by Government Ministers to dismiss this well overdue initiative out of hand.

### **DFRDB Superannuation "Commutation" Rip Off**

Most Defence Force Retirement & Death Benefit (DFRDB) superannuants opted to receive a 'commuted' lump sum payment with a compensating reduction of their fortnightly pensions. The amount of this reduction was calculated by dividing the lump sum payment by the number of years the recipient had to live according to a life expectancy factor which was in fact the 1962 Australian Life Expectancy Table. Other things being equal the longer the recipient had to live the less each pension payment had to be reduced to compensate for receiving the lump sum. But life expectancy has increased markedly in the last 45 years and the life table used has not been updated. This means that the amount of money deducted from each fortnightly pension to compensate for receiving the lump sum far exceeds the amount that would apply if relevant up to date Life Expectancy Tables had been used. To add salt to this wound, only the "uncommuted" part of the DFRDB retirement pension is indexed whether or not this



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option has been taken up, thus further reducing the amount paid to the member or surviving partner.

The continued use of old out of date life expectancy factors is oppressive and unfairly reduces the retirement pension of the former ADF members subject to this treatment by the Government.

### **Taxation Discrimination**

Payments from 'taxed' superannuation funds are no longer subject to taxation but payments from 'untaxed' superannuation funds, including the DFRDB and Military Superannuation Benefits (MSBS), schemes receive only a limited tax concession. Contributions to DFRB/DFRDB/MSBS were compulsory and contributors could not choose to pay or not pay tax on their contributions. There having been no choice it seems unfair to deny veterans tax-free pensions. This discrimination has imposed a double disadvantage on military superannuants. Firstly, their retirement pensions are not fully tax-free. Secondly, unlike those whose payments are not taxed, any additional income is added to military superannuants' retirement pension in calculating the individual's taxable income, and then taxed at their marginal tax rate.

### **Recognition of the Unique Nature of Military Service**

Ministers over the years have made much of the fact that they recognise the "unique nature of service in the Australian Defence Force". What Governments have failed to do adequately though, is carry forward this recognition when considering conditions of service particularly those that effect ADF members after they are discharged from the Service. Real substance needs to be added to these words of recognition.

### **Remedies Needed**

The Defence Force Welfare Association on behalf of serving and former members of the Australian Defence Force, request you the Prime Minister and you the Leader of the Opposition to commit to the following policies;

- To index the whole amounts of DFRDB/MSBS military superannuation pensions so that they increase at no less than the % rate applicable to the Age, Service, and War Widows etc pensions.
- To restore DFRDB military superannuation pensions to the full amount once the retired member has reached 'notional' life expectancy and that up to date life expectancy figures be used for all future commutation calculations.
- To remove income tax on DFRDB/MSBS military superannuation including invalidity pensions. In the event this is rejected for normal military retirement pension income, we ask that the pension be excluded when calculating a recipient's tax obligation in relation to other income. However, there is no justification for taxing permanently "retired" Class A invalidity pensions at all – they have been "retired", in all senses of the word, because of their service to the Nation.

### **Contacts**

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