ALLIANCE OF DEFENCE SERVICE ORGANISATIONS

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MILITARY SUPERANNUATION INDEXATION – THE ISSUE IN A NUTSHELL

Very simply military superannuation is only indexed to CPI. It is also referred to as "retirement pay" because this is a superannuation issue not a welfare payment matter. Every member of the ADF contributed/(s) a percentage of his or her after taxed salary into a Government mandated superannuation scheme.

In the late eighties (due to international political pressure), the international standard for the CPI was redefined and tinkered with to be more a measure of pure inflation. This resulted when 'quality offsets' were applied against the measured basket of goods and services. In addition, the abandonment of the Wages Accords 1 & 2 in the early nineties saw the final nail driven into the CPI coffin with respect to its influence in wage arbitration and that of Military superannuation.

As a consequence of the CPI changes, adjustments to the welfare pension mechanism (that incorporated a wages component) became necessary to protect a pensioner's purchasing power. These changes were enacted by the Howard Government in 1997 but they refused to apply the same protection measure for Military retirees. 20 years on (1990 – 2010) and military superannuation across the board has eroded by approximately 40% below that of MTAWE. The graph on the reverse side demonstrates the impact of how living standards have been impacted by this retrospective change to a retiree's defined benefit pension. The Commonwealth wins because their outstanding unfunded obligation is reduced dramatically.

The Age Pension was also tied to CPI but following agitation by pensioners from the mid-nineties they were successful in negotiating additional increases and eventually the Pensioners and Beneficiaries Living Cost Index (PBLCI) was adopted. The Age pension is now the higher of CPI or PBLCI measured bi-annually but referenced to not fall below 27.7% of MTAWE (it was until recently 25%). So the Age Pensioner and (war) Service Pensioner are protected from inflation, supply and demand cost fluctuations on a 'basket' of goods appropriate for elderly people and then assessed against wage movement (27.7% of MTAWE). The higher index wins and their pension rises to a level that is considered consistent with community standards.

All + 57,000 DFRDB superannuants only receive CPI adjustments biannually and this includes those forced into early retirement due to invalidity – 'damaged goods' through military service (other than war) and Reversionary Pensions (widows or widowers) of a spouse who died either in military service or in retirement. The military reversionary pensioner receives 62.5% of what the serviceman was received or would have received and it is indexed to CPI. For info the politician's spouse gets 83%. Why the difference?

Finally, those on the current 1991 Military Superannuation Benefit Scheme (MSBS) have their Employer Component withheld by the government until they reach their preservation age (55-60) and then they can access it or convert part or all of it into a defined benefit pension. Whilst the government retains those funds it is only indexed to CPI. At preservation age the ADF member can elect to take a pension that too is only indexed to CPI. A kid who joins the ADF at 18 and serves for 10 years and then leaves cannot take his/her Employee Contribution and roll it into a super fund of his/her choice unlike every other worker in the nation. When they finally access their Employer's Component they will find its value could be as much as $360,000 less than what may have occurred if they were able to roll it into private super (based on Government figures).

A 2001 Senate Review Committee found and concluded that the original intent of Commonwealth provided retirement pay/pensions was to maintain purchasing power and that CPI was insufficient to meet that contractual obligation. 11 years on and they are still "spinning their wheels"!

What do we seek?

WE SEEK THE SAME PERCENTAGE INCREASE AND PAYMENT FREQUENCY AS THAT GRANTED TO AGE PENSIONERS.

This would see the restoration of an earned legal entitlement, not a retrospective change as asserted by the Government. What would happen if a private company behaved like this?