

## FAIR INDEXATION BILL

### SAMPLE LETTER 1 TO SENATORS & MPS

(DATE)

(ADDRESS)

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(ADDRESS)

Dear Senator (NAME)

#### **Re: Fair Indexation Bill**

The Senate will shortly consider and vote on the Fair Indexation Bill for DFRB/DFRDB recipients over age 55. This is a rare opportunity for Senators to collectively discharge their responsibility to the nation by showing the Parliament and people of Australia that they understand the *unique nature of military service*. It is also an opportunity for the Senate to show real leadership in recognising Government's obligation for that unique military service with something more than hollow words.

I strongly support the Alliance of Defence Service Organisations (ADSO) position on this Bill. I ask that you put Government spin on this indexation issue to one side and genuinely consider the following factual information before deciding your voting intention.

#### **What is the Bill About?**

Military superannuation pensions are indexed to the Consumer Price Index (CPI). CPI was abandoned over a decade ago for Age and other welfare pensions because Government recognised that today's CPI no longer maintained purchasing power of these pensions. CPI had changed. ADSO research shows that military superannuation pensions eroded by at least 26% over 20 years when compared with an indexed pension that maintains purchasing power.

**63,000 military superannuation pensioners and their families are adversely affected by Government inaction and disregard for the financial security of retired ADF members.**

#### **What's Wrong With CPI?**

The Australian Bureau of Statistics said in 2001 that "...***CPI is not a measure of the cost of living.***" And no fewer than six parliamentary and other inquiries recommended replacing the CPI with a fair method. Even the Jess Committee way back in 1972 recommended that military superannuation pensions "...***be adjusted so that relativity with average weekly earnings is maintained.***" The Government set up yet another inquiry in mid-2008 under actuary Trevor Matthews, but his findings failed to fix the issue. Although the Government clings to the Matthews Report as justification for continued inaction, the demonstrably flawed report has been widely discredited because of its inaccuracies, inconsistencies and omissions.

#### **What About 'Gold Plated' Military Superannuation Pensions?**

A myth. The Government has attempted to *spin* the line that "a lifetime indexed pension" (which has inbuilt diminishing purchasing power over decades) is "*generous*" when compared with the long term nature and benefits of market-linked superannuation investments. But, as Senator Sherry has stated, the reality is that superannuation funds on average rose by around **5% above inflation** each year for the past 35 years – through good economic times and bad.

The average (mean) DFRDB pension, usually supporting a couple, is under \$24,000. It is taxed at the marginal rate (10% offset after age 60). *The median DFRDB pension is significantly lower.* Meanwhile, the couple rate Age pension is more than \$26,000. Other retired superannuants also enjoy tax free benefits. What more needs to be said about the alleged *generosity* of military superannuation?

## What Will Fair Indexation Really Cost?

Senator Wong states that this Bill will impose a \$1.7 billion fiscal cost over four years and increase the Commonwealth's unfunded liability by \$6.2 billion. But this is not the real cost, and the Government knows it. The Government Actuary vindicates the long-held ADSO position that fiscal balance figures, which are designed to satisfy Government accrual accounting requirements, bear no direct relationship to the real cost of indexation and "**great care should be exercised when using fiscal balance figures for decision-making purposes, particularly in the area of unfunded superannuation arrangements.**"

The Government's deliberate focus on long-term accrual costs over 45 years took no account of clawback through increased GST revenue, higher personal tax and lower outlays on social security until very recently. I note that Government now reluctantly acknowledges a **total clawback figure of 30%**. But even this figure is conservative because fair indexation would also generate an increase in GST revenue. And Government still ignores the fact that all compulsory member contributions were and are swallowed by consolidated revenue, to be used for Government's short-term benefit rather than for offsetting the cost of DFRDB member benefits.

Government attempts to mislead and distort the annual budget costs of fair indexation have no doubt influenced the opinion of many members of Parliament and the public on the real costs of fair indexation. Former Finance Minister Tanner readily and reprehensibly admits in his new book, quoted in a 29 April 2011 newspaper, to these "standard tricks" (his words).

These long-term unfunded liability estimates are no more a measure of the true cost of indexation than they would be for the Age Pension or Medicare. How often do we see the Government trumpeting those figures?

ADSO estimates that fair indexation for all DFRB/DFRDB/MSBS military superannuation pensions would not exceed \$16M in FY2011-2012, with an additional \$176M over the forward estimates period **before** clawback. **To suggest that fair indexation is unaffordable is nonsense.** And if fair indexation is affordable for 3.3 million Australians on Age and other pensions, why is it unaffordable for 63,000 former members of the ADF?

## So, What is the Solution?

The Future Fund was established to support the Government's unfunded superannuation liabilities. Payment of Commonwealth superannuation liabilities will be from the Fund by 2020 – or earlier if fully funded – rather than from the annual budget. At December 2010, the Future Fund held \$71.76 billion against a Target Asset Level of \$106.7 billion. The Target Asset Level for the Future Fund is based on unfunded superannuation liabilities that assume an investment return of only 6%. However, the Future Fund's target rate of return on investments is 7.2%, 1.2% higher than the 6% long term bond rate and some 4.5% above CPI. **Future Fund assets could grow to around \$140 billion by 2020 at an assumed earnings rate of 7.2%p.a.**

The differential of 1.2% between the basis for the unfunded superannuation liabilities and the target rate for Future Fund earnings is significant. It reveals the Future Fund's capacity to not only fund current superannuation liabilities but also demonstrates the Fund's capacity to meet the cost of fair indexation if introduced in the short term, i.e. from 2011/12. Employing the Future Fund to fund the provisions of this Bill clearly limits any significant impact on the budget bottom line, allowing the Government to maintain fiscal responsibility. **The ADSO submission to the Senate Inquiry on the Fair Indexation Bill contains a more thorough analysis of the real costs of equitable indexation. I strongly encourage you to read its submission.**

## Australia's Retired Servicemen and Women Need Your Support

Military superannuation pensions must increase twice annually using the same method as the Age pension i.e. the greatest of CPI, PBLCI or MTAW. We do not seek special indexation treatment despite the unique nature of military service, despite the discriminatory tax policy on DFRB/DFRDB benefits, and despite our compulsory contributions of 5.5% of pre-tax pay while in uniform. All I want is equity with my fellow Australians. The Fair Indexation Bill would restore adequate and fair indexation for DFRB/DFRDB recipients over 55 and is a welcome first step.

Fair indexation is **equitable**. Fair indexation is **affordable**. Fair indexation would demonstrate to the Australian people that the Parliament recognises the **unique nature of military service** and takes its obligations to the ADF seriously.

You can stop any more erosion of military superannuation pension purchasing power. I look forward to your advice that you will support the Fair Indexation Bill.

Yours sincerely,

(YOUR NAME)  
(YOUR ADDRESS)  
(YOUR ADDRESS)

## FAIR INDEXATION BILL

### SAMPLE LETTER 2 TO SENATORS & MPS

(DATE)

(ADDRESS)

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(ADDRESS)

Dear Senator or MP (NAME)

#### Re: Fair Indexation Bill

The Senate is considering the Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill. There have been seven inquiries into the indexation of military superannuation pensions (the current review is the eight), all but one (the discredited “Matthews Report”) recommended a different mechanism for indexing pensions the most popular being the same rate as the age pension. Even the Matthews Report, while suggesting the CPI was an adequate measure did say, in Recommendation 4,

*‘That, if a robust index which reflects the price inflation experience of superannuants better than the CPI becomes available in the future, the Australian Government should consider its use for indexing Australian Government civilian and military superannuation pensions.’*

The Unique Nature of Military Service is often discussed but not often well understood. The ADF is the only employment group that surrenders its basic human rights under the Universal Declaration of Human Rights; Article 3. ADF members place their life, liberty and security of person in the hands of the State. In no other calling, occupation or profession has the State the power to accept or demand the surrender of these 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. Voting for this Fair Indexation bill is one way for the Parliament recognising the Unique Nature of Military Service.

There are three extant Military Superannuation Schemes (DFRB, DFRDB & MSBS) and members compulsorily contributed to these schemes though their service life. The indexation by CPI was intended to ensure that pensions received under these schemes maintained the purchasing power of that pension. While the CPI was appropriate when it was one of the major tools for wages determination, it has changed and now the Australian Bureau of Statistics (ABS) have said **CPI no longer reflects costs of living** but rather inflation. The successive Governments have recognised this and changed indexation of other Government payouts but not the Military superannuation pensions.

Funding of fair indexation has been quoted as being in the billions but these figures have not included the net costs but rather gross costs calculated over 45 years, distorting the real dollar cost to Government. The maintenance of “fiscal responsibility” as a Government imperative is appropriate but any discussion on funding must include net costs and the Future Fund (\$71Bn) must be included in any analysis of how funding fair indexation can be achieved.

The Fair Indexation Bill provides a means of restoring adequate and fair indexation for DFRB

and DFRDB recipients over 55 and is a welcome first step. I strongly believe the Bill should be passed by the Senate and is affordable when you consider the net costs and the future fund.

Implementation of the community standard of indexation, as adopted for the Age and Service pensions applied to all components of DFRB/DFRDB/MSBS military superannuation pensions, including the total reversionary pension for partners of deceased military superannuation pensioners and preserved employer benefits, is estimated not to exceed \$16M in FY 2011-2012 and an additional \$176M over the forward estimate period before any clawback, which is estimated at 30% by Department of Finance.

In summary, when considering this Bill I ask that you :

- Agree that the purpose of indexation is to maintain **purchasing power** and agree with the ABS (the relevant Authority on this issue) that the Consumer Price Index has changed significantly, and by itself, no longer represents an adequate index for measuring purchasing power;
- Acknowledge that successive Governments have failed to react to the fact that today's CPI does not protect the purchasing power of Military Superannuation Pensioners (and hasn't done so for over two decades), and have shown a degree of hypocrisy in accepting the inadequacy of the CPI for other Commonwealth Pensions such as the service and age pensions, but not for those who have loyally served their Nation in uniform;
- Recognise that successive Governments have not been upfront on the net yearly costs of fair indexation.
- Vote for an indexation method including the CPI, together with an outlays based living cost index such as the PBLCI, and with reference to a wages based index such as the MTAWWE is fair, equitable and reasonable.
- Recognise that the military superannuant seeks no more and no less than this method in order to protect the purchasing power of Military Superannuation Pensions. They **do not** seek the generous indexation methods applying to certain other Commonwealth superannuation pensions; and
- Recognise that use of the Future Fund provides an ability to fund fair indexation that will not affect the national budget bottom line.

I believe you should fully support the Fair Indexation Bill before Parliament and look forward to your advice that you will.

Yours truly,

(YOUR NAME)  
(YOUR ADDRESS)  
(YOUR ADDRESS)

## FAIR INDEXATION BILL

### SAMPLE LETTER 3 TO SENATORS & MPS

(DATE)

(ADDRESS)

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(ADDRESS)

Dear Senator (or MP), (NAME)

#### **Re: Fair Indexation Bill**

I am one of 63,000 military superannuant pensioners and their families affected adversely by the Government's decision to continue with the unfair and inequitable indexation formula of our superannuation fund. The purchasing power of my military superannuation pension continues to lose its purchasing power. ([Personalise to suit your own circumstance](#))

You ([The Senate](#)) will be considering and voting on the Fair Indexation Bill for DFRB/DFRDB after the Senate's Finance & Public Administration Legislation Committee has reported on the matter. This is a an opportunity for Senators collectively to show real leadership to the Australian people that the Parliament understands and is willing to support both its military covenant (to ensure that ADF members are cared for during and after service) and the unique nature of military service. You and the Gillard Labor Government have the opportunity to correct an injustice

The Bill proposes that the indexation of superannuation pensions for DFRDB and DFRB recipients, over age 55, be the same formula as that of the age, service and welfare pensions. It provides a means of restoring adequate and fair indexation and is a welcome first step to remove an inequity that has resulted in the declining value for all military superannuation pensions relative to its original purpose.

#### **What's wrong with CPI?**

When the DFRDB Scheme began, the CPI was an important tool for wage fixing, and it was an appropriate indexation mechanism for ensuring the purchasing power of the Military Superannuation Pension was maintained; but in the late 1980s, the CPI methodology began to change. The Government responded to these changes in 1997 by progressively increasing the age, service and welfare pensions by adjusting the indexation method to maintain their purchasing power. Currently those pensions are indexed to the higher of, CPI or PBLCI and benchmarked to the 27.5% of MTAW. However, over this time the Government has denied an equivalent justifiable increase to the indexation of Military Superannuation Pensions.

The average DFRDB pension, usually supporting a couple, is under \$24,000 and is taxed at the marginal rate (10% offset after age 60). The couple rate Age pension is more than \$26,000. Over the last twenty one years the cumulative increase in CPI indexed pensions is 75% compared to aged pensions indexation formula increase of 146%.

Why does the Gillard Labor Government fail to acknowledge that today's CPI does not protect the purchasing power of Military Superannuation Pensioners while accepting its inadequacy for other Commonwealth Pensions such as the age, service and welfare pensions?

The current Senate Committee enquiry is the **eighth** on fair indexation of Military Superannuation Pensions. All but one of the previous enquiries and reviews recommended that the indexation be changed to ensure the purchasing power of the Military Superannuation Pension is maintained. The exception was the widely discredited Matthews Report which reached the conclusion that the CPI was an appropriate method of indexing Military Superannuation Pensions which the Government eagerly accepted. This incredulous conclusion was somewhat undermined by its recommendation 4:

*“That, if a robust index which reflects the price inflation experience of superannuants better than the CPI becomes available in the future, the Australian Government should consider its use for indexing Australian Government civilian and military superannuation pensions.”*

Although the Gillard Labor Government clings to the Matthews Report as justification for its no change decision, the Report has been widely discredited because of its inaccuracies, inconsistencies and data omissions especially in its costs assessment.

#### **What Will Fair Indexation Really Cost?**

The Government's Cost Estimates of Alternative Indexation Arrangements for Commonwealth Superannuation Pensions estimates are exaggerated.

Their figures have focused attention on unfunded liabilities over 45 years, taking no account of any form of clawback through increased GST revenue, personal tax and reduced outlays on social security. Furthermore, they have chosen to ignore the fact that members' contributions have been taken into consolidated revenue and used for everyday operations of government. Importantly, they ignore any role of the Future Fund; a fund established for the express purpose of meeting Government superannuation liabilities from 2020 onwards.

The ADSO submission to the Senate Inquiry on the Fair Indexation Bill provides a thorough analysis of the real costs of equitable indexation. The estimated costs of alternative indexation could be reduced by as much as 50% (20% for investment return and 30% for clawback effect).

**It is wrong to suggest the proposed change is unaffordable.** If fair indexation is affordable for 3.3 million Australians, why is it unaffordable for 63,000 former members of the ADF?

The Fair Indexation Bill provides the Senate and the Gillard Labor Government with the means of restoring adequate and fair indexation for DFRB and DFRDB recipients. Equitable indexation **is fair**. Equitable indexation **is affordable**. Equitable indexation is one way you and the Gillard Labor Government can influence the Parliament and demonstrate to the Australian people that it takes its military covenant obligations seriously.

**Australia's defence community of current and past serving men and women and their families need your support.**

**Will you support the Bill? I look forward to your reply.**

Yours sincerely,

(YOUR NAME)  
(YOUR ADDRESS)  
(YOUR ADDRESS)