

Budget Policy Division  
Department of the Treasury  
Langton Crescent  
PARKES ACT 2600

25 November 2011

cc:

Minister for Finance and Deregulation  
Minister for Veterans' Affairs and Defence Personnel

### **Submission for the 2012-2013 Budget**

**(This document supersedes the Submission dated 24 November 2011)**

#### **Background Information on the Alliance of Defence Service Organisations.**

The Alliance of Defence Service Organisations was formally constituted in July of 2010. It was formed as result of the constituent organisations desire to work in a more cooperative and coordinated manner. The membership of the Alliance comprises the Defence Force Welfare Association (DFWA), the Naval Association of Australia (NAA), the Royal Australian Regiment Corporation (RARC); the Australian Special Air Services Association (ASASA); and the RAAF Association (RAAFA).

The objective of the Alliance is to provide a stronger voice on issues impacting the conditions and wellbeing of currently serving and former members of the Australian Defence Force. Its major functions are to:

1. Improve communication, cooperation and collaboration between member organisations;
2. Gain mutual advantage from the differing of expertise of each member organisation;
3. Ensure for each issue being pursued, the appropriate organisation is identified as the "lead organisation" for coordination of the actions undertaken by the Alliance; and
4. Help spread the workload and ensure the resources of the Alliance members are used 2 In particular, the Alliance seeks to achieve this by:
  - monitoring those matters affecting, or likely to affect, the welfare of the defence, ex-service and veteran communities;
  - developing agreed policy positions on matters effecting the defence, ex-service and veteran communities.

- promoting and/or participating as appropriate in activities of mutual interest to the member organisations; and
- advocating as necessary on matters of mutual interest.

### **Underlying Principles for our Submission for the 2012-2013 Budget.**

Two interconnected principles should guide the Government and form the philosophical context within which decisions on employment conditions for service men and women made. These are the “unique nature of military service” and the need to compensate members of the Australian Defence Force (ADF) for that uniqueness in their pay, superannuation, invalidity and death benefits, and other conditions of service. An explanation of what makes service in the ADF unique within the Australian community is attached to this letter. In the above context the Alliance of Defence Service Organisations believes the following areas outline issues where not only are the above principles ignored but in some instances subject serving and former ADF members to discriminatory treatment at the hands of the Government.

These do not constitute the full range of issues for which we seek Government action and in particular, we await the outcome of the review of military rehabilitation and compensation. We believe though, these items warrant attention in the coming budget. We therefore submit the following policy proposals relating to the Government’s support of serving and former ADF personnel for consideration in the 2012-13 Budget.

All of the proposals in this submission have been raised with the relevant Ministers previously.

### **Proposed Budget Initiatives**

1. ***Indexation of all Military Superannuation Payments.*** The present military superannuation payment represents an unacceptable minimal level. Governments must maintain the real value of these payments by adopting an appropriate method of indexation. Military pensions were originally indexed by the CPI to maintain their value relative to national wages. In the last 15-20 years, national standards of living have increased in real terms, which are not reflected if relying on the CPI in its present form. Acknowledging this, in 1997 the then-Government changed the method of indexing the Aged and Service Pensions from CPI to a combination of CPI and Male Total Average Weekly Earnings (MTAWE) and the present Government further extended this formula to include the “Pensioner and 3 Beneficiaries Living Cost Index” to keep pace with increase in prices and improvements in community living standards. Military retirement and invalidity pensions now stand out as being more harshly treated than almost every other long-term Commonwealth payment that is subject to regular indexing to maintain its value.

**Proposal** – We seek the same community standard of indexation, as adopted for the Age and Service pensions to be 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. – The total estimated cost for this initiative for FY 2012-2013 is estimated not to exceed \$20M and an additional \$181M over the forward estimate period. This is a gross figure before clawback. – Such amounts are easily affordable under a number of recent Government initiatives, including:

The DoD Strategic Reform Program which is finding savings of some \$2B a year.

The current Senate Inquiry into the Defence Material Organisation, where the Senate has been asked by Senator Xenophon to find funds to fund this initiative.

The expected passage of the Minerals Resource Rent Tax Bill which will provide significant funds and which the Greens have indicated should be used for such purposes.

2. **Abolition of MSBS Maximum Benefit Limits.** (MBL) MBL's in MSBS are limits on the maximum amount that the military superannuation fund will pay out. They should not to be confused with Reasonable Benefit Limits which limited the amount that could be contributed and accumulated at concessional tax rates. RBL's were abolished in "Better Super" changes but MBL's were not. MBL's include the sum of both Employer and Employee benefits. There are two MBL's;
  - a. All pension MBL at which the member must stop contributing because the member's total payout has peaked; and
  - b. Lower Lump Sum MBL at which the member may stop contributing because the member is getting close but is urged to seek specific advice.

The effect of the application of this measure is that many long serving ADF personnel are receiving no retirement income benefit for their final years of service. The Report of the Review of Military Superannuation recommended that MBLs be scrapped for the MSBS. The combined Ex-Service Organisations response supported that particular recommendation.

**Proposal** – We seek the immediate removal of MBLs in the MSBS superannuation scheme. The exact number of MSBS members affected by this initiative is not available to us at this time but is not substantial. – The cost in FY 2012-2013 is estimated to be at best a minimal figure with the cost over the forward estimates an equally modest amount.

3. **Adjustment of the Veterans Disability Pension Rates.** The Government has stated it understands the impact of rising costs of living and the importance of ensuring that entitlements do not erode in value and is committed to making sure that our disabled war veterans have their pensions adjusted to take account of "not just of the cost of living but also the standard of living". Analysis undertaken as part of the Harmer Review confirmed that at certain times, the rates of change in the out of pocket living costs experienced

by age pensioner households have moved faster than the rate of inflation as measured by the CPI. In 2007 the Parliament recognised this in relation to Veteran Disability Pensioners and provided a “one off” catch up increase and also brought their indexation arrangements into line with the other pensions.

The September 2007 Legislative changes to the indexation arrangements for DVA disability pensions have gone some way to ensuring that the veterans’ benefits did not suffer further erosion but the failure to adjust the rate of the veterans disability pensions in line with the adjustments made to other government pensions in the 2009/10 Budget, has meant that the relative value of the Veterans’ Disability Pensions measured against the other pensions has diminished. We firmly believe that the Nation’s “social contract” obligation to our servicemen and women should be honoured and those who have suffered injury to their person as a result of their service deserve fair and compassionate treatment to alleviate the detrimental effects of that service.

**Proposal** – That all rates for Veterans’ Disability Pensions be adjusted by the same increment that was granted at the time for the Single Rate of Service Pension in the 2009 Budget. – The projected cost to implement this initiative in FY 2012-2013 was estimated to be in the order of \$169M with an additional estimated \$500M over the forward estimates. – It is noted that there has been a reduction in the number of disability pensioners in the past 5 years and this trend is expected to continue (reference p86 of the Military Rehabilitation and Compensation Annual Report 2010-2011).

4. **Unfair Balance of Legal Resources at the Administrative Appeals Tribunal.** Veterans, when appealing to the Administrative Appeals Tribunal against the rejection of a claim for compensation (or the Department is appealing against the acceptance of one) are entitled to Legal Aid funding. This funding covers the preparation of the case, one medical report, the appearance of the author of the medical report at the Tribunal to defend it, and a barrister to argue the case before the Tribunal for one day. But more and more cases are not conforming to these limits. More and more cases are lasting two, three and four days and require more than one medical report. However Departmental legal representatives do not operate within these limits and can take as many days as they like. Neither are they limited in the number of medical reports they commission nor the number of medical specialist appearances at the Tribunal hearing.

To make matters worse, the best qualified doctors are reluctant to provide reports for veterans because Legal Aid funding does not cover their usual fees. They have no such reluctance to provide reports for the Department which pays the higher fees. To make matters even worse, many law firms simply refuse to take on veterans’ cases citing inadequacy of remuneration but exercise no such reluctance in working for the Department which pays higher fees.

**Proposal** – In the interest of fairness, the Department of Veteran Affairs must restrict itself to employing similar legal resources to those available to the veteran and observe the Model Litigant Rules. In this proposal we are

suggesting a rebalancing of financial resources allocation rather than advocating additional funding to cover this proposal.

Yours Sincerely,

Colonel D K Jamison AM. (Retired)  
National President,  
Defence Force Welfare Association,  
on behalf of The Alliance of Defence Service Organisations.