



Parliament of Australia
The Senate

SENATOR MARK BISHOP

Senator for Western Australia



Ref:cons.tgny.applx/017-11

1st September, 2011

Mr. G. Darcy,
14 Tuart Lane,
APPLECROSS, W.A, 6153

Dear Mr. Darcy,

Thank you for your letter of 12th August, 2011 in response to the Senate's recent vote on the Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010.

I must point out at this point however that I am a Senator for the Australian Labor Party and not the Deputy Leader of the Australian Greens.

Military superannuation is an important component of Defence's attractive and compelling employment offer. It forms part of a member's retirement income after separation from the Australian Defence Force.

In an appendix to the report into his Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes, Mr Trevor Matthews costed alternative indexation methodologies.

Based on actuarial advice commissioned by the Department of Defence and the Department of Finance and Deregulation, Mr Matthews found the most significant cost of changing indexation methodology would be to the unfunded superannuation liabilities, which are accrued liabilities that the Government would have to meet as members retire.

Recent advice from the Australian Government Actuary indicates that changing indexation arrangements from 1 July 2011 for recipients of Defence Force Retirement and Death Benefits (and Defence Force Retirement Benefits) pensions over 55 years of age would immediately increase the unfunded liability by \$6.2 billion.

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The increase in unfunded liability would be even greater if changed indexation arrangements were applied to all military superannuation pensions. These are significant costs and as responsible economic managers, the Government believes now is not the time to be considering changes to indexation methodology.

I enclose a fact sheet in relation to the indexation issue for your information.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mark Bishop', written in a cursive style.

SENATOR MARK BISHOP
LABOR SENATOR FOR WESTERN AUSTRALIA

Encl.



FACT SHEET – INDEXATION OF MILITARY SUPERANNUATION PENSIONS

- Superannuation is a means by which Australians can manage their living standards in retirement - it is not designed to provide a replacement for income earned over a working life.
- To this end, Australia's retirement income system is based on what is described as the three pillars:
 - (i) compulsory superannuation savings for all employees under the superannuation guarantee regime;
 - (ii) voluntary superannuation contributions and other private savings; and
 - (iii) a publicly funded, means tested Age Pension and associated social security arrangements.
- The three pillars function to provide all qualifying Australians with, at least, a minimum retirement income with the Age Pension as a safety net. A retired ADF member may qualify for the Age Pension (subject to age, income and assets tests) should their superannuation pension be below minimum income levels. As the Age Pension is a safety net benefit it is appropriate to index the Age Pension in a different way to other superannuation pensions.
- The Government views military superannuation as a key element of the competitive remuneration and conditions of service package for Australian Defence Force members.
- Each of the military superannuation schemes reflect the special nature of military service and provide members with life time indexed pensions and also death, invalidity and reversionary benefits. (Reversionary benefits are those benefits paid to eligible surviving spouses on the death of a military superannuation scheme pensioner and a portion of that pension 'reverts' to the eligible surviving spouse).
- The majority of superannuation schemes in the private sector are accumulation schemes that provide a lump sum on retirement.
- Military superannuation arrangements are based on salary and the length of the member's period of service - they are not based on, nor reflect, a member's needs in retirement.
- Superannuation pensions paid by the Government to its retired civilian employees and military personnel are indexed twice annually to reflect quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the Consumer Price Index population group, which includes social welfare beneficiary and superannuant households.
- To change military superannuation indexation arrangements would effectively mean a change to a member's pre-retirement conditions of service after the member has retired.
- The Government honoured its commitment to review the indexation arrangements for superannuation pensions it pays to retired civilian employees and military personnel.
- The Review of Pension Indexation Arrangements in Australian Government Civilian and Military Superannuation Schemes was conducted by Mr Trevor Matthews who recommended no change to indexation arrangements.
- Mr Matthews identified very significant additional costs that would be incurred if indexation methodology was changed.
- The significant costs of higher indexation would have to be found from the Consolidated Revenue Fund or from Defence's existing budget. This will jeopardise the funding of other initiatives.