



## DEFENCE FORCE WELFARE ASSOCIATION

A member of the Alliance of Defence Service Organisations

### **MONTHLY UPDATE #286 – January/February 2015**

**‘UPDATE’ is an e-letter produced by the Defence Force Welfare Association to inform the Service and ex-Service communities of those current issues that are of most concern to them. Distribution is intended to a wide audience that includes Members of Parliament, media outlets, Senior Public Service Officers, members of DFWA, their families and supporters, and all members of the Alliance of Defence Service Organisations.**

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### **INTRODUCTION**

There is little question that at this very time last year the veterans’ community was in high anticipation of how both the House and the Senate would vote when the Coalition Government’s long-promised ‘Fair Indexation’ Bill was finally tabled. Of course, it was all good news because all sides of politics unanimously supported the long battle to have the principle accepted that the use of a CPI only methodology to index pensions was indeed manifestly unfair. If for the moment not all would benefit, at least the retirees over 55 who were DFRB and DFRDB recipients would have their pensions indexed to the higher of the CPI, the Pensioner Beneficiary Living Cost Index (PBLCI) or the Male Total Average Weekly Earnings (MTAWE). The Government deserved high credit for delivering on a promise they first made as long ago as 2009 while in Opposition at the time.

If the passing of the Fair Indexation legislation was ‘good news’, that was arguably the last real good news anyone still serving or retired in the veterans community would hear from the Government again. The bad news started barely two months later with the 2014-2015 Budget. It contained an array of unwelcome surprises, one of which included an inexplicable wind back of the method by which Veteran Disability Pensions are indexed. Without warning and explanation, out the door flew the indexation principle championed by all side of politics and back marched the CPI only formula previously championed by so many to be so ‘unfair’. The budget removed MTAWE and PBLCI from playing a part in indexing these pensions.

Seemingly also to be forgotten completely for fair treatment in this milieu of decision budgetary processes were the under 55 DFRB/DFRDB recipients and MSBS members. For good measure, ignored as well were those disability veterans who suffered when they were denied the structural indexation granted to Aged and Service Pensions in 2009. That denial had the effect of reducing the yearly purchasing power of TPI pensioner family incomes by at least \$3,300. Fair? Not by any measure, notwithstanding the Government’s dilemma in its generally understood need to bring budget spending under control.

As 2014 rolled to an end the ‘bad news’ to the hip pockets of the Defence family everywhere continued to mount at every turn. Next came the revelation that an ADF/Commonwealth pre-arranged pay agreement would only yield a far-below inflation rate pay increase of 1.5% per annum over three years. Permanent ADF and Reserve members were effectively asked to take a pay cut, a bitter pill made almost impossible to swallow when that offered ‘increase’ was to be at the cost of foregoing some previously approved leave provisions and a forced downgrade of several other conditions of service. More to follow on this matter in later paragraphs of this Update!

Other major issues appearing as ‘bad news’ on the horizon included the new ADF Super Scheme which seems on early evidence not to recognize the uniqueness of military service, and the looming decision by Government on whether to privatize Defence Housing Australia or not.

## NEW ADF SUPER SCHEME

Perhaps taking the ‘hottest’ and most imminent issue first, namely the new ADF Super Scheme. Particularly for those who may not already be aware, the current situation is summarized below. Included is commentary on what DFWA, along with its ADSO partners, is putting to Government.

### The Government’s Proposal

The proposed new ADF Super Scheme will be an ‘accumulation’ one commencing on 1 July 2016. It will be the default fund for ADF members who do not nominate an alternative scheme. By logical consequence, the Commonwealth Superannuation Corporation (CSC) will be its administrator.

From the said date, MSBS will be closed to new members. Those in the scheme will be able to transfer to the new one but there will be no compulsion to do so. However, those choosing to join will not at least at this time be permitted to transfer their ‘employer’ component of their MSBS benefit to the new scheme. That means that the bulk of their entitlement will remain ‘preserved’ under the present arrangements. DFRB/DFRDB contributing members will not be permitted to join.

In brief summary, the Government’s proposal is as follows:

- Employer contribution rate will be 15.4 per cent, increasing to 18 per cent during periods of war-like service. The latter is in apparent recognition of the ‘unique nature of military service’, at least for those actually involved in war-like operations.
- Death and invalidity cover under the new arrangements will be at least equivalent to current MSBS benefits. This is to be the subject of separate legislation and will be known as ADF Cover.
- Individual choice will be available as to which superannuation scheme the member wishes to join. ADF members may join ADF Super or a commercial scheme if they so wish.
- ADF members may at their free will transfer their accumulated benefits to another fund if they leave the ADF before preservation age.
- ADF members will not be required to contribute to ADF Super.

**DFWA Position:** An ‘accumulation’ scheme for the ADF is supported in principle. However, what must be recognised above all is that the ‘**unique nature of military service**’ is something universal that should apply to all service men and women without exception. Otherwise, the DFWA position on the proposed ADF Super Scheme can be summarized as follows:

- We believe the appropriate employer contribution should be set at 18% of gross salary, that being the base rate for MSBS. That minimum rate would recognize the extra demands placed on ADF members because of the unique circumstances of service in the ADF for which there is no equivalent in any other occupation in Australia;
- We do not support a differential rate with a proposed higher contribution (18%) for those on operational deployment. This goes against the team ethos of ADF service. It implies members not on operational deployments somehow have normal community workplace conditions rather than being subjected to the demands and risks inherent in training and preparing for operational service. In the words of the CDF himself, a differential rate would be “clunky to administer”;
- We do not support the exclusion of the ‘employer benefit’ entitlement from the proposed portability provisions for those members transferring from MSBS to ADF Super.
- We believe ADF Super could be extended to include part time members of the ADF Reserves – no offsetting provisions should apply. This needs to be the subject of discussion because of tax implications that may be associated with Reserve duty.

We support the proposed death and disability provision of ADF Cover being equal to or better than that in MSBS. We also welcome the proposal that salary for superannuation purposes will include the member's full pay and allowances but excluding 'reimbursement' allowances such as rent and travel.

On evidence available and always subject to professional financial advice, it appears that those ADF members who serve for relatively short periods of time (the average being in the order of 8-10 years) will be better off under the proposed ADF Super. Those who make the ADF their career and serve through to preservation age may need to consider their position closely. Again, under ADF Super the risk will be transferred from the Commonwealth to be born entirely by the member. That will mean early access to timely and expert finance advice must be an imperative all members should note.

**The Way Forward:** Constructive dialogue on all the forgoing issues has commenced at Ministerial and senior levels of Government. Discussions indicate that the Government is receptive to arguments put and will examine the practical applications of what we have proposed. Further early discussions are planned - we will keep all informed as the draft legislation evolves.

## DEFENCE HOUSING

### Potential Sale of the Defence Housing Australia

The Federal Government is about to consider as part of its May budget a yet-to-be released report by consultancy firm Lazard. That report purportedly recommends the sale of Defence Housing Australia (DHA). Government's claim that it was committed to supporting the housing needs of members of the ADF, and maintaining the relatively high quality of such housing, will be keenly tested. There is a strong fear in the Defence community that at least the Department of Finance will be persuasive enough to convince the Government that a one-off financial windfall will be of such benefit to the budget's bottom line that a sale should go ahead regardless of the consequences.

**DFWA Position:** Reacting to strong ADF member sentiment, we do not support any proposed sale, believing that it could effectively result in ADF families being eventually thrown onto the private rental market. While there are known to be some who are not fully satisfied with the service DHA provides, in the main, most agree that they are doing a good job in providing ADF families with quality housing, particularly in areas where housing is at a premium. We believe that its sale would jeopardize all that. At potential risk also is that yet another condition of service would be eventually degraded, meaning the housing rental subsidy ADF members enjoy at the moment being at least partially lost in the future.

## WORKPLACE REMUNERATION ARRANGEMENT

The fallout from what the Defence Force Remuneration Tribunal (DFRT) decided about ADF pay continued into the New Year. ADF members overall remain incredulous to what the 2014 Workplace Remuneration Arrangement (WRA) delivered as a pay rise. For the next three years they were asked to suffer a morale-sapping 1.5% per year increase that no one accepts is anything other than an actual pay cut. And that is notwithstanding that the imposed 'productivity initiatives' were thankfully withdrawn in early December 2014. When examined more closely those initiatives, by removing various leave provisions and other previously approved arrangements, did little else except degrade ADF conditions of service.

What made the WRA outcome even worse was that it was barely half the expected annual inflation rate, and an even lesser proportion of the expected rise in annual living costs over the three-year period of the Arrangement. The rise seemed to give no credit to either the unique nature of military service, or even reflect the high value that the Government said it places on ADF personnel and their service to the nation.

The upshot - it should not have been a surprise to anyone that the ADF community by way of a survey was almost universal in expressing outrage and bitter disappointment that once again the purchasing power of ADF pay was being eroded. At the very time, many observed, when the Government was dispatching yet another new contingent of highly trained service men and women to the ongoing and seemingly endless conflicts in the Middle East.

**DFWA Position:** The meagre nature of the 'Offer' was firmly opposed by DFWA in its formal submission to the Defence Remuneration Tribunal. That submission also strongly advocated that ADF wages at least match the movement of the 'Employee Living Cost Index'. Anything less, we firmly contended, represented a pay cut which ADF members should not be expected to accept. We further argued that the costs imposed on ADF members such as married quarter rents, uniform and ration charges should not exceed any salary increase over the next three years.

That very position was also put to the Prime Minister himself in a letter endorsed by the national leaderships of virtually all the Ex-Service Organisations making up the membership of the Ex Service Round Table (ESORT). He was strongly urged to intervene personally by instigating a rework of the Commonwealth's position on the WRA.

The Prime Minister did reply and, while re-affirming his strong commitment to the unique nature of military service, he in essence advised that due to the need to '*restore the budget*' he was not able to intervene in the pay outcome of the WRA. The reply was disappointing to say the least. It put into stark relief in this Centenary year of the ANZAC landings the thanks service personnel have been accorded by politicians in real terms for the sacrifices, including the ultimate one, they have been asked to make on their nation's behalf. Restoring fairness to the way ADF serving personnel and veteran are treated during policy development should not be too much of a big ask.

## **BUDGET's CONTINUED IMPACT ON DISABLED VETERANS**

### **The Indexation Issue**

That very same letter to the Prime Minister mentioned in the previous paragraph also raised the burning issue of the disappointing effect the last budget had on reducing the compensation payments of all disabled veterans, particularly those on Special Rate or TPI Pensions, War Widows Pensions and those on Income Support Supplements. The Prime Minister was apprised of the fact that, despite every recent utterance by all sides of politics that CPI alone was simply not a fair index to keep pace with the cost of living, the budget unilaterally reversed that principle for the disabled. The budget effectively wound back to the pre 2007 period of indexing the Veterans' Disability Pension. The Pensioner and Beneficiary Living Cost Index (PBLCI) and Male Total Average Weekly Earnings (MTAWE) consideration were to be henceforth excluded from the indexing formula.

Could it have been a budgetary late night drafting slip-of-the-pen mistake? For many, the thought that the Government would want to revert back to the use of CPI only by deliberate intent was unbelievable. The Prime Minister was asked to intervene personally and to inject a sense of fairness towards the nation's veterans, war widows and service personnel. He was effectively asked to reconsider the Government's approach to the '2014 Budget Measure No 5' Bill.

The Prime Minister's reply was once again disappointing on this issue too. He acknowledged the concerns of the ESORT leadership group but merely stressed that '*under the measures announced in the 2014-15 Budget (to come into effect from 1 July 2017), no pension will be cut and the Government will continue to increase pensions twice yearly*'.

**DFWA Position:** The Veterans' Disability Pension, clearly a compensation measure, should not have been caught up in the general provisions relating to the range of social security payments that are administered by Centre Link. DFWA, together with its ADSO partners and the majority of the ESORT



leadership group, opposes any change to the way Special Rate or TPI Pensions, War Widows Pensions and those on Income Support Supplements are indexed. All sides of politics have been asked to vote down the indexation changes proposed in the Budget Measure No 5 Bill.

## Other Budget Outcomes Affecting Veterans

Other than the indexation issue, the budget contained a collective of numerous other unwelcome changes as follows:

- Axing the three-month backdating of Veterans Disability Pension claims – a long standing benefit acknowledging the unique nature of military service;
- Axing the Seniors Supplement of Gold Card holders who do not receive income support - this amounts to \$876.20 annually;
- Withdrawing the Government's share of an agreement with the States to fund Service Pensioner's Concessions for travel, electricity, phone and council rates;
- Withdrawing the provision to not count as income Military Superannuation when applying for a Commonwealth Seniors Health Card; and
- Withdrawing indexation on the Clean Energy Supplement added to Veterans Affairs pensions and payments causing it to quickly lose real value over time.

To the veterans' community each of these issues appears as an unprecedented attack on their long-held benefits. The indexation issue included, there are three Bills before Parliament that, if passed, will bring about a series of unwelcome changes. The three Bills are as follows:

- [Social Services and Other Legislation Amendment \(2014 Budget Measures No. 5\) Bill 2014.](#)
- [Social Services and Other Legislation Amendment \(Seniors Supplement Cession\) Bill 2014.](#)
- [Social Services and Other Legislation Amendment \(2014 Budget Measures No. 4\) Bill 2014.](#)

**DFWA Position:** The combination of the proposed changes would, as the years pass, drag disabled veteran and war widow pensioners further and further behind community income standards. This is unacceptable by any measure and unfair in the extreme. DFWA, together with its ADSO partners, opposes the changes. All sides of politics have been asked to vote down the measures contained in each of the Bills mentioned.

## VALE BRIGADIER (BILL) EARL CHARLES LORD OBE (RETD)

**20 MARCH 1917 – 14 NOVEMBER 2014**

***Founding Father of the Regular Defence Force Welfare Association in 1959***

***Honorary Life Member of the Association and the NSW Branch***

***Tirelessly worked throughout his life fostering the best interests of all serving members of the ADF and their families, including the veterans' community.***

***Bill's legacy will remain an enduring one. He is sorely missed.***

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### ADSO comprises:

The Defence Force Welfare Association (DFWA), the Naval Association of Australia (NAA), the RAAF Association (RAAFA), the Royal Australian Regiment Corporation (RARC) and the Australian Special Air Service Association (ASASA); and the RAAF Association (RAAFA), the Australian Peacekeepers and Peacemakers Veterans Association (APPVA), the Vietnam Veterans Association of Australia (VVAA), the TPI Federation of Australia, and the Partners of Veterans Association of Australia.