

**DEFENCE FORCE RETIREMENT AND DEATH
BENEFITS AMENDMENT (FAIR INDEXATION)
BILL 2010**

First Reading

Senator RONALDSON (Victoria) (9.58 am)—I move:

That the following bill be introduced:

A Bill for an Act to amend the *Defence Force Retirement and Death Benefits Act 1973* to provide for fairer indexation, and for related purposes.

Question agreed to.

Senator RONALDSON (Victoria) (9.59 am)—I present the bill and move:

That this bill may proceed without formalities and be now read a first time.

Question agreed to.

Bill read a first time.

Second Reading

Senator RONALDSON (Victoria) (9.59 am)—I move:

That this bill be now read a second time.

I seek leave to have the second reading speech incorporated in *Hansard*.

Leave granted.

It gives me great pleasure to introduce the *Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010* to the Senate. I am introducing this Bill on behalf of my colleague in the other place, the Coalition's spokesperson on military superannuation and the Shadow Minister for Defence Science, Technology and Personnel, Mr Stuart Robert MP.

This Bill meets the Coalition's commitment made on 27 June 2010 to provide fair indexation for Defence Force Retirement and Death Benefits (DFRDB) Scheme and Defence Force Retirement Benefits (DFRB) scheme superannuation pensioners.

Under this Bill, from 1 July 2011, DFRDB and DFRB superannuants aged 55 and over will have their superannuation pensions indexed in the same way as Australian Government income support pensions are indexed. Twice yearly, in line with present practice and using the pre-determined 'pension MBR factor', pensions will be indexed to the higher of the Consumer Price Index (CPI), Male Total Average Weekly Earnings (MTAWE) or the Pensioner Beneficiary Living Cost Index (PBLCI).

The 'pension MBR factor' is the measure used to determine increases in Australian Government income support pensions, including the Service Pension. It is determined in consultation with statistics provided by the Australian Statistician. The measures in this Bill will ensure that over 56,000 retired Australian Defence Force personnel who are members of the now closed DFRDB and DFRB schemes have their superannuation pensions indexed more fairly and in a manner which better reflects changes in the costs of living.

The Coalition is committed to beginning the process of military superannuation reform. These changes are being made as part of the Coalition's recognition of the unique nature of military service and our commitment to introducing a fair, equitable and fiscally responsible military superannuation system.

Widows of DFRDB superannuants will also benefit from the announced changes. The cost is estimated to be \$98 million over the forward estimates. This Bill brings into line the indexation of a DFRDB and DFRB member's superannuation with those of aged and service pension recipients. Currently, DFRDB and DFRB superannuation pensions are indexed according to the CPI only. If the indexation rate had increased in line with the aged pension, in March 2010 military superannuants would have received up to an extra \$28.40 per fortnight in their pension.

Labor failures

Labor has failed veterans when it comes to military superannuation reform. Labor broke its 2007 election promise to 'fix' the issue of military superannuation indexation. Labor has lost its way on reform of military superannuation. In 2007, Labor promised to release the findings of the previous Coalition government's Review into Military Superannuation Arrangements, otherwise known as the Podger Review. Labor's release of the Podger Review – on Christmas Eve, 24 December 2007, almost three years ago – was seen by Labor as the end of their commitment to reform. Their consultation produced no outcomes; in fact, for most of 2010, the former minister for veterans' affairs promised that he would soon be responding to the consultation but, not surprisingly, he failed to deliver anything.

Under pressure from the veteran and ex-service community to deliver on their commitment to reform, Labor commissioned Mr Trevor Matthews to conduct a review of government superannuation schemes. Mr Matthews' review investigated all commonwealth government superannuation schemes, not just the military schemes which have always been legislated for separately to civilian schemes by the Australian Parliament. Mr Matthews' review found against the need to reform the indexation of military superannuation pensions, despite the wealth of evidence and representations made from ex-service organisations, evidence heard at several Senate committees of inquiry, and indeed the Podger

Review.

The Matthews' Review continues to be held in low regard by the veteran and ex-service community. Labor's wasteful and reckless spending in so many other areas has left them unable to meet their commitment of 2007 to 'prevent further erosion [of veterans' pensions] due to unfair indexation'. After spending so much money on pink

batts, Green Loans and the failed BER school halls programme, Labor was and is unable and unwilling to find the funds necessary to meet their commitment to veterans about military superannuation reform.

The Coalition's alternative

The Coalition listened closely to, and consulted with, the veteran and ex-service community. Through this consultation we were able to carefully develop a proposal which met the requests for action by the ex-service community and their leadership. The leadership shown by various ex-service organisations, including but not limited to the Defence Force Welfare Association (DFWA), the Returned and Services League of Australia (RSL), the Naval Association of Australia, the Royal Australian Air Force Association, the Royal Australian Regiment Association and the Australian Special Air Service Association lead to this positive announcement by the Coalition on 27 June 2010.

The Coalition commissioned Dr Andrew Podger to review military superannuation arrangements in 2006. The Review team was tasked with analysing the present military superannuation schemes and, where necessary, making recommendations to ensure the efficient operation of those schemes.

In Recommendation 14 of Podger's review, he writes: If the Government is willing to go beyond the envelope of current costs, it should consider indexing DFRDB/DFRB pensions for those over 55 on a similar basis to that applying to age pensions. (...)

The Coalition agrees with this recommendation and, through the measures contained within this Bill, we will implement this recommendation. The Coalition recognises that the issue of military superannuation indexation remains the greatest issue of concern in the veteran and ex-service community. It was the number one issue for action ahead of the last election and remains at the top of the 'wish lists' of the various ex-service organisations.

However, this is by no means the end of the reform process; the Coalition believes changing indexation arrangements is the first and most important step in a wider process to reform military superannuation arrangements. We look forward to an ongoing dialogue with the ex-service community about further areas for reform, particularly those which seek to improve the lives of those most in need of support. I would like to recognise the contribution to this policy commitment of all members of the Coalition, but particularly the former shadow ministers in this area, Bob Baldwin MP and Louise Markus MP. They were indefatigable advocates for this reform behind closed doors and did much work to identify a policy solution in this area.

What Labor would have you believe – spin over substance

Labor had no military superannuation policy at the last election. It continues to have no policy on military superannuation reform. Labor is suffering from massive policy paralysis. After the Coalition released its *Real Action Plan for Veterans and their families*, the Labor Party began a smear campaign, attacking the Coalition's commitment on military superannuation reform. Labor's smear campaign was designed to hide the fact that they did not have a military superannuation policy of

their own. They used typical-Labor tactics to blame others for their own mistakes and shortcomings.

Labor claimed, using two-year old, “for information only” figures from the Australian Government Actuary, which hadn’t previously been released publicly, that the Coalition had an \$8 billion hole in our commitment. This was proven to be totally false; in fact, the Australian Government Actuary’s own figures confirmed that the Coalition had been conservative in its costings.

Labor spent more energy criticising the Coalition’s plan than coming up with one of their own. Labor used more paper criticising the Coalition’s plan to tackle an important and pressing issue in the veteran community than actually setting out a plan to tackle it themselves. The Actuary’s report which Labor used to criticise the Coalition’s commitment contained a number of false assumptions about the Coalition’s plan, including:

- Calculations that the commitment would begin from 1 July 2009. The Coalition committed to a 1 July 2011 start date;

- The data used in the calculations was current at 30 June 2007 – making it more than three years old when Labor tried to use it;
- The Actuary advised that: “The costings have been subject to a lesser degree of checking than would normally be the case. I have no problem with you providing a copy of this advice (...) for information only”; and
- The Actuary also advised that the information was provided to the Government “on a confidential basis for information only”.

Whilst the Actuary found that “Additional Commonwealth cash expenditure in the first few years after any change would be relatively small”, Labor claimed the Coalition had an immediate \$8 billion black hole as a result of our commitment. Labor selectively-picked information from the Actuary’s report but its negative-strategy backfired badly.

If veterans and ex-service people were not already disappointed by Labor’s refusal to act on military superannuation reform, this misleading performance from Labor during the last few days of the election campaign in August infuriated them. Labor really did break the heart of Australia’s veterans with this appalling display of ‘freak-o-nomics’.

In 2007, the Podger Review found that to index DFRDB/DFRB superannuation pensions at the higher rate only after the superannuant had turned 55, would cost \$4.2 billion over the almost 45-year estimated remaining life of the scheme. Updating Dr Podger’s calculations to reflect 2010 dollars, this increased to just \$4.8 billion over 45 years. An entirely affordable commitment, which is even more affordable when we consider that the first four years of the scheme will cost less than \$100 million over that period.

On 12 August this year, when discussing Labor’s scare campaign on military superannuation reform, the Leader of the Opposition told Brisbane radio’s Michael Smith:

“You can turn this into a huge figure. In any one year, it is bearable and we should bear it.”

Using Labor’s logic, Labor would have to provide now for the 45-year out-year costs for schools, hospitals and Defence. Yet in three separate documents between the Budget and Election Day, Labor could not accurately predict the size of the Budget deficit next year, let alone what it might be in 45 years’ time. Labor’s costing difference between the announcement of Kevin Rudd’s Resource Super Profits Tax and Julia Gillard’s compromise Mining Resource Rent Tax were so significant that despite major policy changes, Labor was able to make up the difference with heavily increased resource prices. What made this so remarkable was that the figures Mr Rudd relied upon were only six weeks older than the same figures Prime Minister Gillard used. On this basis, how can we trust Prime Minister Gillard and the Labor Party on their figures? After all, these figures were manipulated to benefit the Gillard Labor Government when it suited the Labor Party.

Labor’s opposition to military superannuation reform as being too expensive is odd when compared with their farcical waste on the National Broadband Network scheme. Labor will spend some \$43 billion on broadband, some 10 times the amount required for fiscally-responsible military superannuation reform.

The Future Fund

The Future Fund, established by the previous Coalition government, will be pivotal in meeting the long-term cost of delivering this commitment. It was the previous Coalition government which established the Future Fund for the purpose of meeting the long-term cost of the Commonwealth’s superannuation liability. The Future Fund was established by the previous Coalition government to ensure that the long-term cost of Australia’s civilian and military superannuation liability was made affordable.

This was to be done by locking away today’s savings for tomorrow. Over the first three years of the Fund’s existence, the Coalition locked away billions of dollars into the Fund, dollars which had been saved by paying off Labor’s debt and reducing interest payments on that debt. The Coalition was investing for the long-term needs of all Australians, especially those whose service was unique service, like military service. Under the plan for military superannuation reform announced by the Coalition, future savings from the Budget will continue to be invested in the Future Fund to meet the long-term liability of this commitment for military superannuation reform. It is worth recognising that the unfunded liability of commonwealth superannuation is already quite large; this commitment, whilst increasing the liability slightly, relatively speaking, is entirely affordable in the long-term.

Who will benefit from the Coalition’s reforms to military superannuation?

The Coalition’s plan will benefit over 56,000 DFRDB and DFRB superannuants. For almost 30,000 superannuants already aged 55 or over, the benefit of the Coalition’s plan will be felt immediately from the 1 July 2011 start date when the new indexation arrangements are scheduled to come into effect.

For those superannuants not yet aged 55, the benefits of the Coalition's commitment will be felt in the future when they do turn 55.

Conclusion

There are many Members and Senators who have expressed their support for improved indexation arrangements for our veterans and ex-service personnel. This Bill begins that process in an affordable and economically responsible fashion. With the support of honourable Senators, this Bill can progress to the House of Representatives for further debate. I am confident, given statements by others in this place, that there is support for the measures contained in this Bill in this place.

Finally, I call on the Gillard Labor Government to drop their petty opposition to military superannuation reform. With their bipartisan support, veterans and ex-service people across Australia can look forward to more fairly indexed superannuation payments from 1 July 2011 – a fair outcome which reflects the unique nature of military service.

I commend the Bill to the Senate.