



For Public Release 19 March 2008

COMMENTS ON THE REPORT OF THE REVIEW INTO MILITARY SUPERANNUATION ARRANGEMENTS

The Australian Council of Public Sector Retiree Organisations (ACPSRO), which is a peak body consisting of eleven Commonwealth, State and Territory organisations representing Defence and other public sector retiree bodies, welcomes the opportunity to comment on the proposals in the Report of the Review of Military Superannuation Arrangements.

ACPSRO is disappointed in the Report and the proposals put forward in it.

The Report is far from convincing in many aspects and it certainly cannot be taken as a blueprint for the development of new superannuation for the Defence forces. This is not just a matter of meeting the reasonable expectations of the members of our military services. It has the capacity to directly affect the effectiveness of the Defence Force and our national interest.

The Review was asked to take account of the unique nature of military service and the risks involved and the need to compensate members of the defence force accordingly, having regard also to the importance of maintaining adequate levels of recruitment and retention of men and women in the services.

It recognised that there were problems with the existing arrangements for the provision of superannuation and related benefits but did not proceed to the examination of feasible ways in which those problems could be overcome and the cost of doing so.

Rather, the Review appears to have presumed from the outset that the new scheme should be a defined accumulation or contribution scheme based on the Better Superannuation arrangements introduced by the previous Government. As a result, its Report seems to devote more attention to advocacy of the fundamental change this involves, rather than a careful and dispassionate analysis of the benefits, costs and risks of the changes proposed.

The essential features of the proposed scheme are that it would be a defined contribution scheme whereby specified contributions by the defence member and the Government would be paid into a fund and accumulated with earnings by the fund until the time came for retirement. At that stage, members could draw on their equity, in whole and invest it elsewhere, or gradually in the hope

that the equity would be sufficient to provide for whatever years the retiree and spouse lived, or purchase a lifetime pension at an unsubsidised price. The existing defined benefit scheme allows a member to purchase a lifetime pension at a heavily subsidised price based on length of service and final salary.

A crucial difference between these two categories of schemes is that members of defined contribution schemes carry all the investment risk, whereas under the existing defined benefit scheme they are assured of a specified level of benefit, almost always in the form of a lifetime pension. The Review's proposals transfer all investment risk from the Government to the individual.

The Report does not adequately address the reasonableness of placing this additional burden on service personnel. Our military personnel are probably the most deserving in our community of a secure income in their retirement. The existing scheme meets that requirement whereas the new scheme by the impost of risk and by severely discouraging the use of pensions is a huge step away from it.

The new scheme will improve access to lump sums in certain situations such as for short stays but in other situations will result in a reduction in pensions available to retiring service personnel. This is particularly the case for personnel who devote their whole career to military service.

The Report examines five typical service careers which in each case terminate at retirement at age 55 after between 25 and 37 years of service. The equity of each of the five in the fund at retirement is extremely dependent on the earning rate of the fund. For a fund earning rate of 6% pa the lifetime pension that each of the five could purchase is markedly less than the pension that can be purchased under the existing scheme. For a fund earning rate of 8.5% pa three of the five would be able to purchase a pension marginally better than can be purchased under the existing scheme. A fund earning rate of 8.5% pa over the long term is undoubtedly an ambitious expectation.

The Report claims, on a number of assumptions, that its proposals would cost no more than the existing scheme introduced in 1991 but, among other things, there is no examination of whether the new scheme would, in reality, result in greater demands by ex-service personnel upon the age pension system.

In short, the Review of Military Superannuation has come forward with proposals for a fundamental shift in the nature of superannuation provision for members of the Services, which entail serious risks and raise questions about other aspects of the scheme, without clear and cogent analysis to justify them.

Far more careful and critical study of this subject needs to be made.



Ron Dean, National President.

Contact: Ron Dean 02-6273-7878 or Tom Hayes (VP) 02-6247-2529