Thornton's Response to the May 2011 Senate Report Regarding the 'Defence Force Retirement and Death Benefits Amendment (Fair Indexation) Bill 2010'

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This document is a general release document containing information that formed a formal response to the Senate Legislation Committee for Finance and Administration regarding their May 2011 Senate Report and a number of Departmental submissions. Unfortunately, as history would now attest, the Ronaldson Private Members Bill was dastardly defeated in the Senate in June. Irrespective of this fact, the reader will quickly gather that the Parliament has once again been grossly misled by the Department of Finance and Deregulation and its subsidiaries and is now aided and abetted by elements with the Department of Defence. This outward bureaucratic deception has not only been at the initial expense of 56,000 DFRB/DFRDB Military retirees; it continues to be at the direct and consequential detriment of all current and future public sector retirees (both Military and Commonwealth) who have an eligibility for a Commonwealth provided defined benefit retirement pay/pension. 600,000 eligible members (not including their spouses) should be duly outraged!

INTRODUCTION

This document is a general release document collating information from the author's submission and the formal response to the Legislation Committee for Finance and Administration's May 2011 Senate Inquiry Report; targeting specifically some of the comments and analysis presented in Departmental submissions to the Inquiry.[1]

Whilst information contained within this document is focused specifically on Military schemes, the themes of bureaucratic "data errors, ill-conceived ideas and false assumptions" permeates equally in importance to Commonwealth Officer retiree scheme's also.[2]

At the outset, I think it would be fair to say after watching the Senate debate live back in April 2011; that I and many others were perplexed and dismayed by the conduct of the subsequent Senate Inquiry into the Ronaldson Private Members Bill and the content and final recommendation of the Committee's report.[3]

This paper aims to address some of the particular comments made by the Departments of Defence and Finance/Government Actuary authors and provides additional evidence to the author's April 2011 research paper for the Parliament and the individual reader's consideration more generally. The reader will surely find this follow up evidence and analysis to be quite compelling and equally damming of bureaucratic failings.

GENERAL

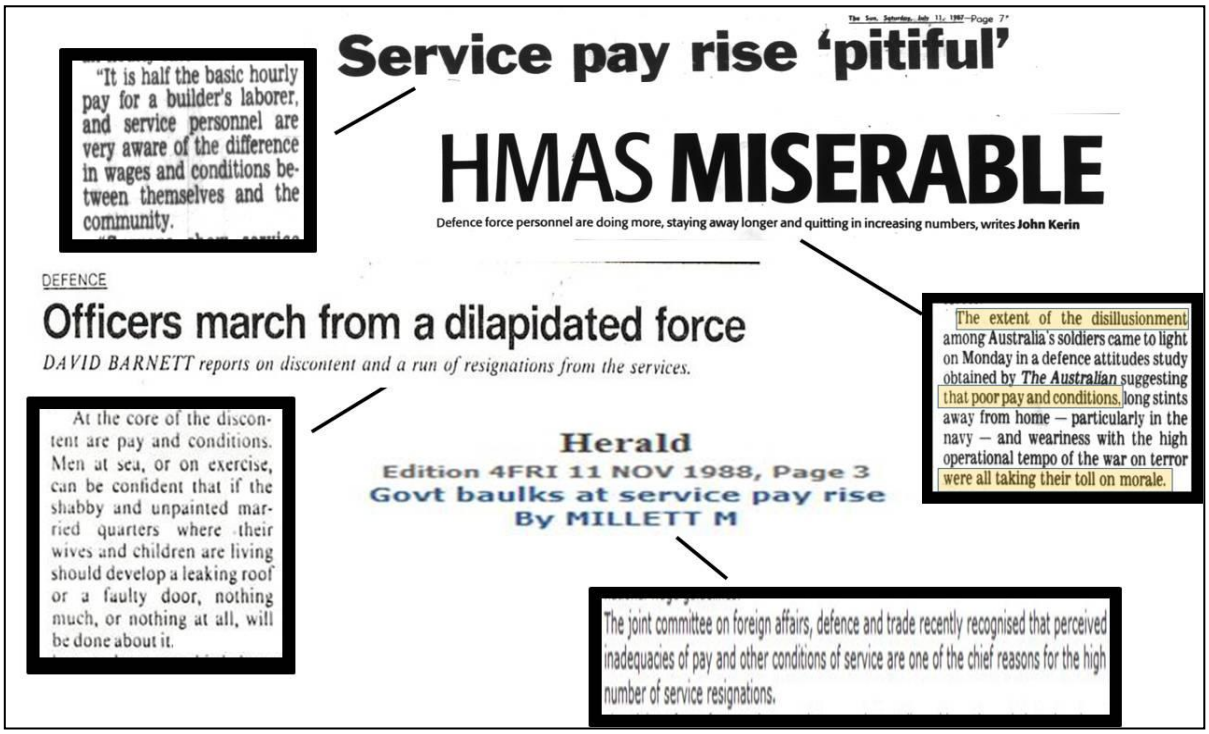
Comments On The Department of Defence Submission

At the outset, the Department of Defence's (DoD) submission to the Senate Inquiry can only be considered a work of fiction and collusion with the Department of Finance because its initial focus continues to spawn the myths and falsities of the now discredited Matthews' Review.[4]

Why is it a work of fiction? Well statements made within the DoD submission (which have clearly influenced the Committee's recommendation) explicitly state that Military personnel were "adequately compensated" during their service through adequate pay, allowances and other inducements such as "subsidised housing" that somehow addressed the "Uniqueness of Military Service". Clearly the DoD submission was not authored or vetted by Service Chiefs or other senior military executives, because if it had have been, then I feel quite confident that the submission would have read quite a bit differently.

The reason? Because military executives would have informed the Committee about the abysmal pay that prevailed during the late 1970s/1980s/1990s and early into last decade: a sacrifice (we were informed) that was necessary to provide a "retirement pay" that would maintain our standard of living and purchasing power in retirement.

[1] The author provided a written response which is substantially repeated here within this document to the Senate Committee in the form of a letter, dated 8 June 2011.
[2] Specifically the 1922 Commonwealth Scheme, CSS and PSS.
[3] The sole purpose and mandate of the Committee's Inquiry was supposedly to investigate and report back to the Senate with a number of recommended funding options: not analyse, deliberate upon or make other recommendations.
[4] The DoD submission can be found here: https://senate.aph.gov.au/submissions/comittees/viewdocument.aspx?id=e3634e2b-c0a9-418e-a936-625c87847460



"It is half the basic hourly pay for a builder's laborer, and service personnel are very aware of the difference in wages and conditions between themselves and the community.

Service pay rise 'pitiful'

HMAS MISERABLE

Defence force personnel are doing more, staying away longer and quitting in increasing numbers, writes John Kerin

DEFENCE

Officers march from a dilapidated force

DAVID BARNETT reports on discontent and a run of resignations from the services.

The extent of the disillusionment among Australia's soldiers came to light on Monday in a defence attitudes study obtained by *The Australian* suggesting that poor pay and conditions, long stints away from home — particularly in the navy — and weariness with the high operational tempo of the war on terror were all taking their toll on morale.

At the core of the discontent are pay and conditions. Men at sea, or on exercise, can be confident that if the shabby and unpainted married quarters where their wives and children are living should develop a leaking roof or a faulty door, nothing much, or nothing at all, will be done about it.

Herald

Edition 4FRI 11 NOV 1988, Page 3

Govt baulks at service pay rise

By MILLETT M

The joint committee on foreign affairs, defence and trade recently recognised that perceived inadequacies of pay and other conditions of service are one of the chief reasons for the high number of service resignations.

Figure 1

This fact is highlighted by just the small number of newspaper headings above in Figure 1, which form but a small subset of the many that the Author has in his possession. These 4 headlines alone give an indicator of the dire situation that Service Personnel had to endure over at least a 25+ year period.

As an example, the article ***'Service Pay Rise 'Pitiful''***, details specifically how **the pay rise in 1987 was so poor by community standards (after 4 years of no pay rises at all) that the rise itself was equivalent to only half the hourly rate of pay received by a builder's labourer** and it was predicted that mass defections would continue from the Defence Force. This fact is certainly underpinned by the information contained in the fore dated article *'Officers march from a Dilapidated Force'* and the subsequent 2005 article *'HMAS Miserable'*.[5]

I am sure Dr. Mike Kelly MP, Mr Stuart Robert MP and Mr Andrew Wilkie MP (not least) could vouch for such matters. These facts can be further substantiated and illustrated historically from the Hansard where (in Opposition) Senator Jocelyn Newman had the following to say in a Senate debate dealing with the mass exodus of personnel from the Defence Force[6]:

QUOTE:

"We are witnessing the greatest exodus from the forces in the history of the Defence Force. Since 1983, over 44,000 men and women have fled from the forces. This cannot be passed off as part of a natural cycle or turnover. Last financial year the forces recruited 8,483 staff, but lost 9,327. This is no Vietnam hump, as suggested by the Minister; this is the deliberate resignation of many frustrated and disillusioned men and

[5] The articles above can be sourced as follows: - 'HMAS Miserable': The Australian – 24 May 2005; 'Service Pay Rise Pitiful': The Sun – 11 July 1987; 'Officers March From Dilapidated Force': The Bulletin – 7 Oct 1986; and 'Government balks at Service Pay Rise': Hearald Sun – 4 Nov 1988.

[6] Senate Debate on the 10th of November 1988

women, as is demonstrated by the fact that 41 per cent of those quitting the forces last year were not eligible for pensions. These people could not even wait long enough to claim any benefits accruing from their years of service." .....

AND

"For the most part, they are not leaving because they do not like the job; they are leaving because the job simply is not viable in terms of pay, service conditions and career structure. It simply does not compare with what is available in other work sectors." .....

AND ....

"..... British officers are earning an average of $10,500 more than their Australian counterparts, which must be the first time that that has occurred for at least 30 years; but worse, some of our lower ranks and trainees have to rely on welfare supplements to make ends meet."

END QUOTE[7]

Of course lower ranks couldn't make ends meet: not only were they receiving poor rates of pay and allowances, military personnel were required to pay a mandatory 5.5% of their after tax salaries into a Government retirement scheme. They were forced to seek and draw upon welfare because, depending upon ones marginal tax rate at the time, this was on average a net reduction in their disposable incomes of 7-8%.

In addition to the foregoing, senior military executives would have also informed you about the poor standard of Defence Housing that members and their families had to endure until at least the mid to late 1990s: A standard that was so poor in some cases (e.g. Wacol Army Barracks QLD) that even the Department of Immigration rejected Defence houses for Vietnamese refugees because the houses were assessed as being well below community standards; yet Defence families were still living in them at the time!

To qualify this fact about the poor standard of Defence Housing the Hansard reflects that a then Labor Government MP, Mr Lindsay, had the following to say (in April 1988) regarding matters surrounding and subsequent to the '1986 Hamilton Report - Supporting Service Families':

QUOTE

"In September 1985 there was a meeting .... between a group of Defence Force spouses and the new Minister for Defence (Mr Beazley). The defence spouses at that meeting placed before the Minister their concerns as to their role as spouses of serving personnel. Their concerns included pay and allowances, housing, the unreasonably long working hours of their spouses, their children's future and education and, ultimately, the long term career prospects of their spouses."

AND THAT

".... The* [Defence] *Housing Authority quickly publicised the fact that almost half of the stock of defence service housing in this country, that is, approximately 12,000 houses occupied by service personnel and their

[7] Full transcript is here http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;orderBy=customrank;page=0;query=exodus%20defence%20force%20personnel%20pay%201988;rec=1;resCount=Default (once at the initial search page please hit the "Next" button at the top of the page to navigate the relevant material)

families, was below standard. ***As Mrs Hamilton was able to ascertain, this was a major contributing factor to the poor morale in the Australian Defence Force."***

END QUOTE[8]

Whilst many left the Defence Force in disgust and sought a better and more equitable future, what recompense is now afforded to those members who continued served on and provide long tenures of dedicated service? Answer – they receive an eroding retirement benefit caused by direct Government policies that is so bad that retirees have to progressively seek and draw upon welfare support in order to make ends meet.

On another point raise by the DoD, and whilst I will address issues associated with the "Notional Employer Contribution Rate" (NECR) a little further on in this paper, DoD's dialogue regarding the NECR seems somewhat disproportionate in the whole scheme of things when the Department bemoans the requirement to find savings of $20Billion but is seemly incapable of finding an additional notional $18Million; all of this on the back of recent media reports of an $8Billion blow out in project expenditures and other bureaucratic failings.[9]

However, there is one point where I agree with their submission, and that is: that there should be equal treatment of retirement benefits for all schemes (both Military and Civilian) where retirees are affected by broken indexation caused by previous Government policies.

Whilst I will refrain from any detailed treatise on Public Sector schemes here, I believe that in the context of Military schemes the MSBS scheme should also be afforded the same indexation treatment because older retirees of this scheme were subjected to the same indignation of poor pay and allowances and other substandard inducements as were the members of the DFRB/DFRDB schemes.[10]

Comments Regarding the Department of Finance Submission

It seems almost contemptible but certainly not surprising to see that the Department of Finance & Deregulation (DoFD) could only manage a 5 page illusory submission rabbitting on about the discredited Matthew's Review with a 2 line dodgy cost estimate.

Perhaps more disappointing is that the Senate Committee just blindly accepted DoFD's flawed advice even though the Committee had in its possession a 25 page document (i.e. Annex A to the author's submission) detailing some major flaws in DoFD's recent Matthews' Review "Update".[11]

THE 'NOTIONAL EMPLOYER CONTRIBUTION RATE' (NECR) – THE SAGA CONTINUES

One is always entertained when the Establishment uses NECR figures as some sort of scary actuarial tool to ward off evil blood sucking money spirits and potential Parliamentary spend-a-holics who actually do care.

When commenting on aspects of the DFRDB NECR, DoFD states (and this theme permeates through to the DoD submission also) that:

[8] http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;adv=yes;orderBy=customrank;page=0;query=Content%3A%22defence%20housing%22%20Content%3A%22poor%20standard%22;rec=5;resCount=Default

[9] I undertake a more compelling treatise of the nebulous NECR statistic later in the paper

[10] As I will demonstrate later, fair indexation should be extended to all retirees, both military and civilian.

[11] My sub is here: https://senate.aph.gov.au/submissions/comittees/viewdocument.aspx?id=ace0d478-9846-47f7-a9a7-c039cc8282b7

"The Bill, would in effect, represent a retrospective upgrade of the Terms and Conditions of Service of the DFRB and DFRDB pensioners, although they are no longer in service".[12]

Parliament needs to clearly understand that, and contrary to how this figure has been portrayed by the Establishment, the NECR figure for DFRDB is derived directly from the remaining contributors (i.e. it is a calculation that is derived directly from the superannuation salaries of currently serving members). It has absolutely nothing to do with current retirees.

Given that there are only approximately 4,200 contributors left representing approximately 7.2% of the scheme, it seems rather odd and certainly deceptive that this statistic would be used as some sort of lame justification to deny fairness to the 56,000 retirees who are in receipt of an eroding and broken benefit averaging only $22,500 for the primary member; particularly when I have demonstrated the poor rates of pay, allowances and other substandard inducements in the foregoing.[13]

In fact, the NECR figure would miraculously standstill if all of a sudden all the DFRDB contributors just up and left. It has no true relationship to current retirees per se'.

Don't believe me? Well this matter can be easily substantiated because the AGA himself states in his DFRB report that:

"There is no impact on the notional employer contribution rate as there are no serving ADF members in DFRB." [14]

Of course the NECR for DFRDB will look high by comparison to the other schemes (i.e. the CSS, PSS and MSBS) because the scheme has been closed to new members since 1991; the remaining contributor base is (as a percentage) small by comparison to the entire schemes membership (i.e. 7.2%); and the average superannuation salary of current contributors is approximately $93,235. This implies that the remaining contributors are, on average and in all probability, senior ranking with long tenures of service.[15,16]

Finally, I would find it hard to believe that on the basis of all the evidence that has been presented (and that will be presented further within these pages), that the Parliament could continue to hold out on a social justice issue affecting 56,000 retirees of whom 75% receive a retirement benefit of less than $25,000 because the Government has now, after nearly 30 years, finally come to its senses and is paying service personnel a reasonable salary.

In my opinion, the resulting NECR for DFRDB and its comparison to other schemes is just a quirk of actuarial mathematics and is totally irrelevant for the purposes of policy decisions regarding retiree benefits.

Comments Regarding the Australian Government Actuary's Analysis

Firstly, I would like to commend the AGA for providing (for the first time ever I believe) an open, transparent

[12] DoFD Submission, dated April 2011, pg 3, Para 15.
[13] Basically, what this means is that the NECR figure would miraculously disappear if all the contributors just up and left. It has no true relationship to current retirees per se'.
[14] Here's the link http://www.finance.gov.au/superannuation/DFRBLetter.html
[15] Based upon the AGA's information of gross annual Superannuation Salaries of $430M and 4612 contributors.
[16] By comparison, the MSBS is still open, has a high number of contributors ranging across diverse pay scales which dilutes and reduces the average salary for superannuation purposes down to a point that reflects a lower NECR.

and detailed account, including considerable data and explicitly stating the underlying assumptions of the schemes that he was asked to analyse.[17] Now back to the critical review!

THE "INDEPENDENT ACTUARY" AND THE ILLUSION OF A PEER REVIEW

The Senate Inquiry Report refers to (as does DoFD Matthew's 'Update') that an "Independent Actuary" has supposedly validated the DoFD / AGA figures and given them a clean bill of health.[18]

The Parliament should ask if this was the same independent actuary (i.e. Crumpston Sarjeant) who in Dec 2010 explicitly stated that they ***'were not asked* [by Finance] *to assess the base assumptions used'*** and that the assumption pertaining to the MSBS/PSS schemes of ***'take up rates'*** was ***'reasonable but highly uncertain'***?[19]

Crumpston Sarjeant also state that ***'In discussions, Michael Burt* [from the AGA] *indicated that the change in pension take-up represented perhaps 20-30% of the initial increase in liability, although he had not directly quantified it.'***[20] In other words, the assumption has just been plucked out of thin air!!

THE RAW DATA NOW REVEALED!

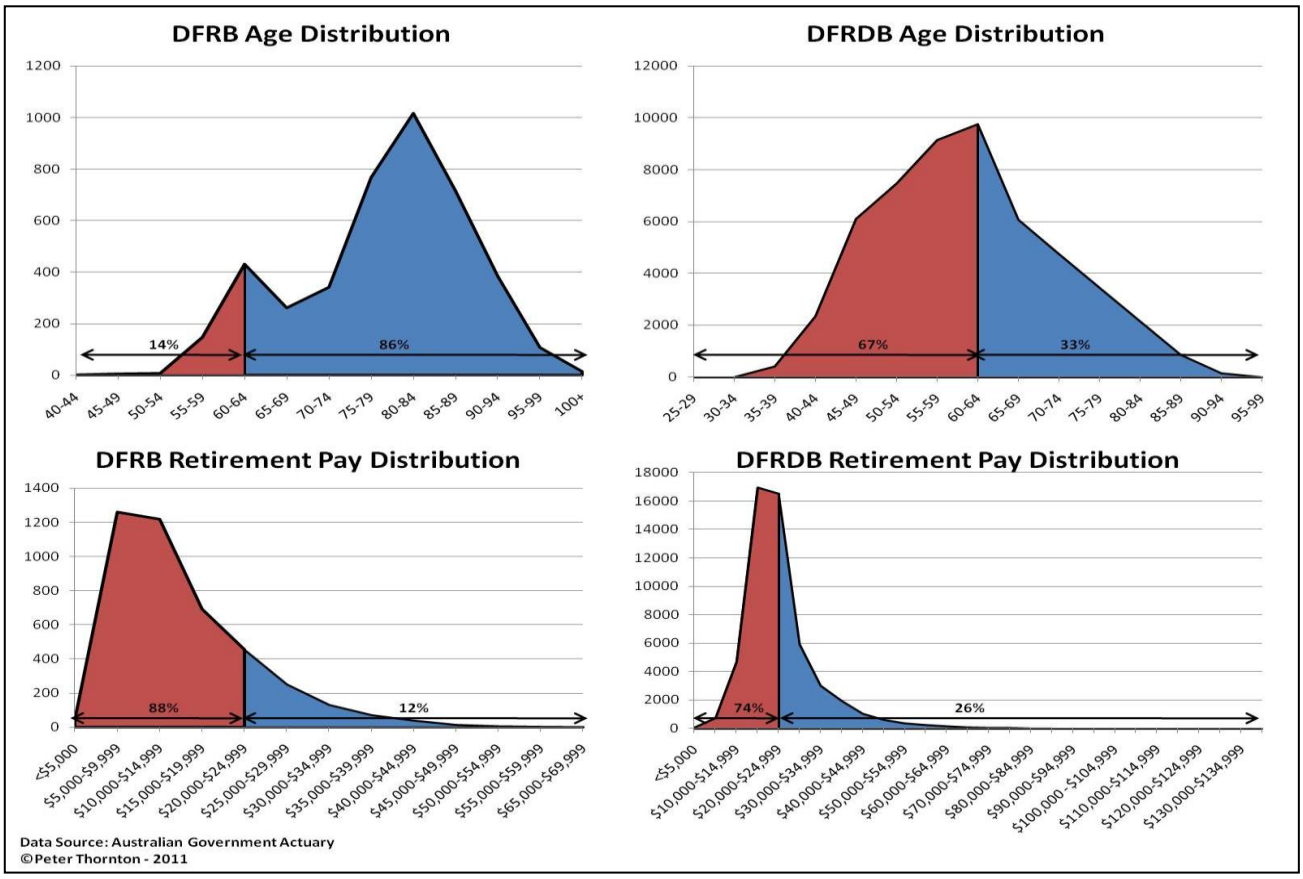


Figure 2

[17] The three AGA analyses are here: http://www.finance.gov.au/superannuation/UpdatedSuperannuationPensionIndexationEstimates.html
[18] May 2011 Senate Committee Report – Para 1.44 refers. I raised the issue of this "Peer Review" in Annex to my sub.
[19] At times Crumpston Sarjeant would use the term "reasonable" due to some of the small percentages involved even though some of these small percentages amounted to billions of dollars.
[20] For more information and links to Crumpston Sarjeant's report, please see page 19 of Annex A to my Senate Submission at http://www.aph.gov.au/Senate/committee/fapa_ctte/defence_retirement_benefits/submissions.htm

Figure 2 above provides the discrete age and retirement pay data distributions for both the DFRB and DFRDB schemes, with percentage break points at age 65 years and retirement pay at $25K.

Figures 3 & 4 below provide a detailed view of the combined data (as compiled by the author) for both of these schemes.

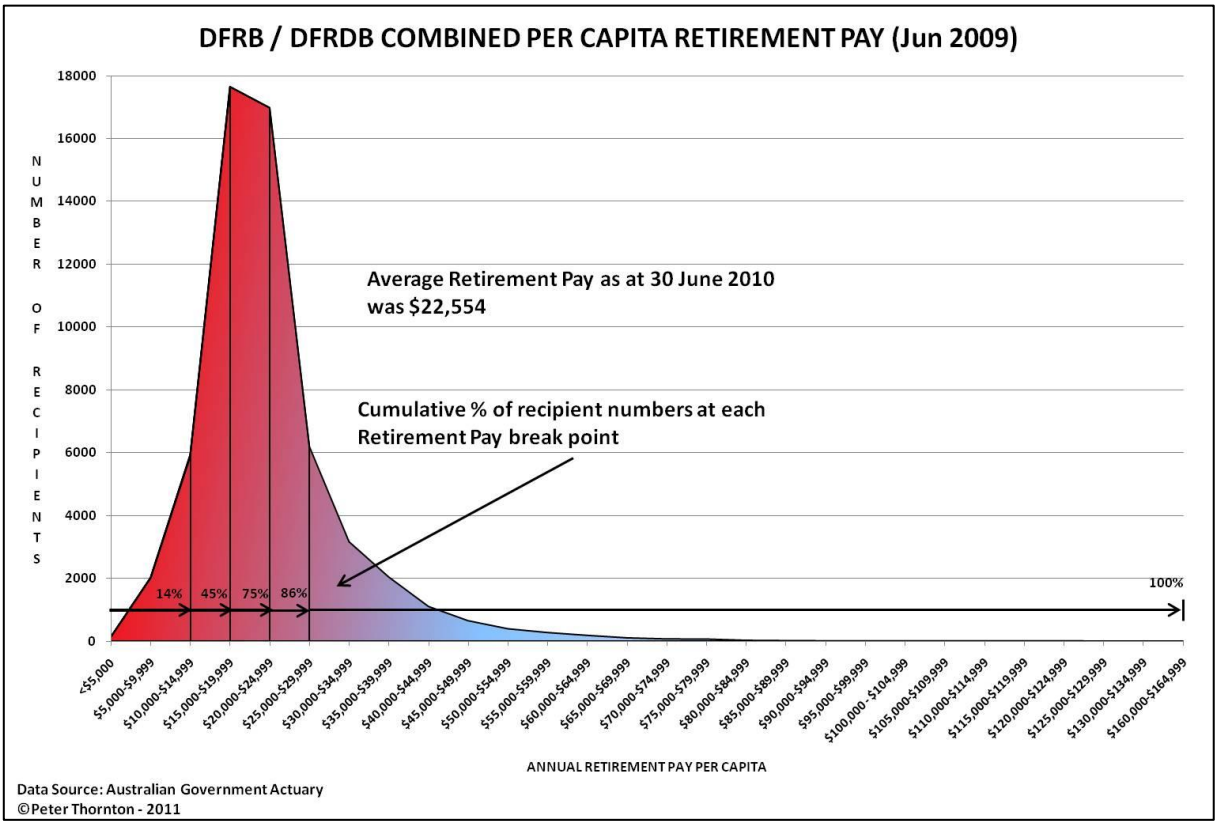


Figure 3

As can be seen in Figure 3, as at 30 June 2010 the average retirement pay of a DRFB/DFRDB retiree was $22,554.[21] 45% or 25711 recipients of the combined schemes receive a retirement pay of less than $20,000 and 75% or 42,681 receive a retirement pay of less than $25,000. If these retirement pays are the primary benefit then the reversionary spouse benefit is approximately $12,500 and $15,625 respectively.

These percentage figures and the respective break points bring into serious question the averages that the Establishment has continually presented to the Parliament in the past and reinforces my view that their averages grossly overstate the situation faced by many retirees.

These figures should also give Policy Makers reason to pause and reflect upon how these paltry sums compare to the benefits that are afforded to (not least) pre-2004 Parliamentary Pension recipients and/or their reversionary beneficiaries.[22]

[21] This figure was derived directly from COMSUPER annual report data and is contained in Table 1 of the author's April 2011 research paper, where after extensive research by the author, significant errors have been uncovered in 15 years of reporting to Parliament of the average pension statistic.

[22] Reversionary benefits paid under the pre-2004 Parliamentary Pension Scheme equate to 83% of the primary benefit and remain indexed in line with increases in Parliamentary salaries.

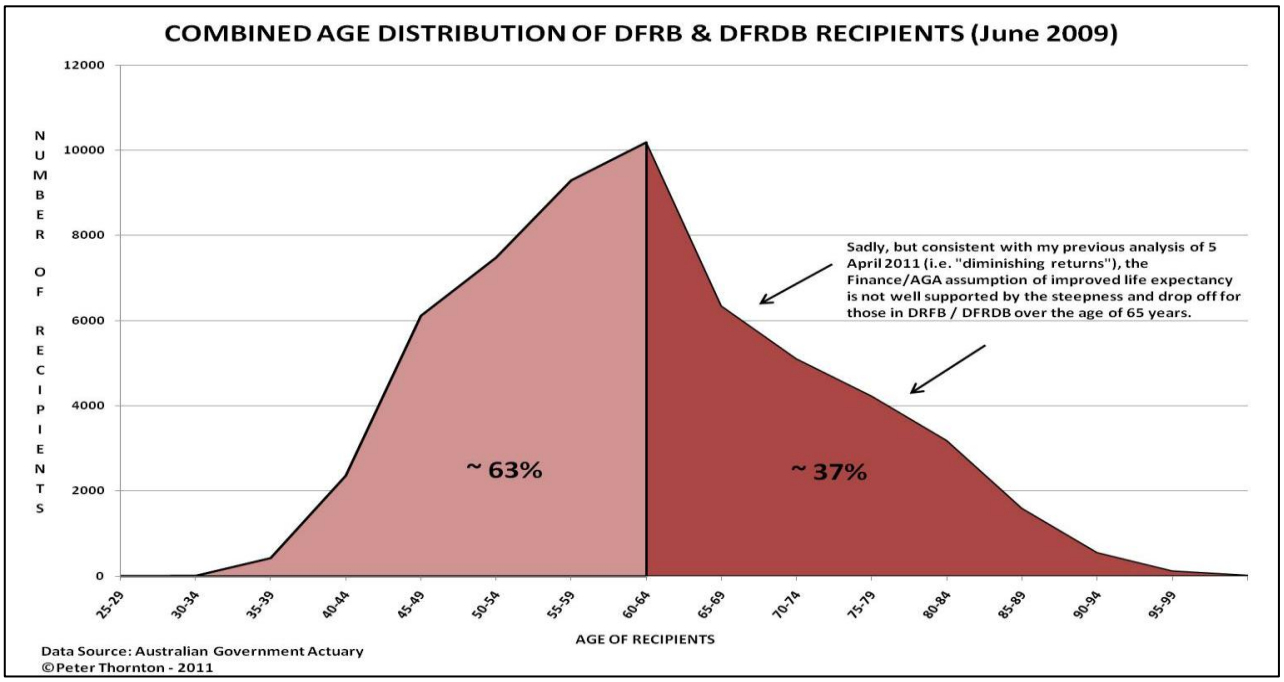


Figure 4

HAS THE AGA FOUND THE FOUNTAIN OF YOUTH?

Figure 4 provides the reader with a combined view of the overall age of DFRB/DFRDB recipients as at 30 June 2009.

What is obvious from the preceding age graphs for both DFRB and DFRDB is that the there is a large percentage of retirees that are over the age of 65 years. This is certainly true when you look at the DFRB statistics where 86% of all recipients are aged 65 years or older with 53% actually being over the age of 80 years.

As per the data contained in Figures 5 & 6, the most recent advice on Australian life expectancy from the Australian Bureau of Statistics (ABS) and the United Nations is 18.7 years for males and 21.8 for females at age 65.[23]

LIFE EXPECTANCY (ADDITIONAL YEARS OF LIFE) FOR PEOPLE AT SELECTED YEARS OF AGE

	Males				Females			
	at 0	at 25	at 45	at 65	at 0	at 25	at 45	at 65
1975-1977	69.6	46.9	28.3	13.1	76.6	53.1	34	17.1
1985-1987	72.7	49.5	30.8	14.6	79.2	55.4	36.1	18.6
1995-1997	75.6	51.8	33.1	16.1	81.3	57.1	37.7	19.8
2004-2006	78.7	54.7	35.7	18.3	83.5	59.2	39.7	21.5
2007-2009	79.3	55.2	36.3	18.7	83.9	59.5	40.1	21.8

Source: Reproduced in Part from the ABS - Australian Social Trends, Mar 2011

Figure 5

[23] Link is here: http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features10Mar+2011

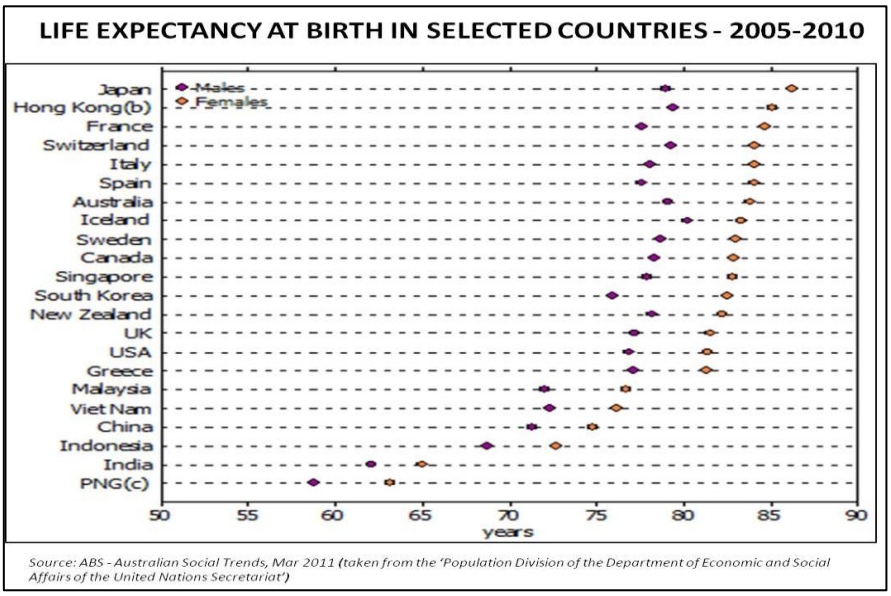


Figure 6

However, the AGA would have you believe (when referring to his "Comments on Results" in the DFRB letter) that:

"Extra annual cash expenditure for MTAWE indexation in nominal dollars would be expected to peak after about 15 to 20 years time at around $7m." [24]

Again in the DFRDB letter he states:

"Extra annual cash expenditure in nominal dollars for MTAWE indexation would be expected to peak after about 35 years time at around $860m". [25]

A peak in 15 - 20 years for DFRB and 35 years for DFRDB ... surely he is not serious?

Given that Military Service was predominately male orientated historically; and using the ABS statistic of male life expectancy of 18.7 years for a 65 year old in 2009, it could be reasonably assumed that a large proportion of the 37% of the total population of the combined schemes will have passed on by the 20 year mark.

In addition to this, if the downward projection of those over age 65 as exhibited in Figure 4 holds true into the future, then it could be reasonably assumed that at least another 15-20% of those aged under 65 years will not be alive in 20 years either.[26]

This, together with all the other data errors, ill-conceived ideas and subsequent false assumptions as highlighted in Annex A of my Senate submission brings into serious question, once again, the validity of the estimates that have been generated!

[24] DFRB Letter to DoFD under "Comments on Results" - http://www.finance.gov.au/superannuation/DFRBLetter.html
[25] DFRDB Letter to DoFD - "Comments on Results" - http://www.finance.gov.au/superannuation/DFRDBLetter.html
[26] This figure is based upon the downward slope of the curve being approximately 45 degrees and applying that rate of change to the 55-64 years population

THE FISCAL BALANCE ESTIMATES, ACCRUAL ACCOUNTING AND THE "INTEREST" CONUNDRUM

What is interesting when you review the Actuary's 'Fiscal Balance' tables is that he has assumed and factored in full "interest" into his calculations and this seems to be consistent with the Establishment's overall approach. This interest can be substantial as is highlighted in the "Additional Interest" column from just one of the AGA's tables at Annex A to this document.[27]

Whilst an interest cost is plausible under certain circumstances (i.e. when the Commonwealth budget is in deficit), I believe the AGA/DoDF's approach in the application of interest is flawed on two fronts.

The first flaw is that they assume outright that the liability would have to be fully funded from borrowings. This idea of funding from borrowings is true during times of deficit but it is ill-conceived if you are providing an estimate over a 40 year period. The reason? Because recent history would show that 7 out of 10 budgets handed down by the previous Liberal Government were balanced or surpluses: and looking forward; the current Labor Government is suggesting and predicting a balanced or surplus budget by 2012-2013 and beyond.

This then begs the question: How can the current Government or the Parliament for that matter accept the DoDF / AGA estimates when interest is not likely to be payable in the future?

The second flaw is where the "interest cost" assumption fails to apportion only a percentage of borrowings against superannuation liabilities without taking into account the Commonwealth's expenditure on overall commitments under other programs.

Even if there was an interest bill during times of deficit, the Establishment has applied an interest cost (with its compounding effects) against the full projected cash outlay liabilities over a 40 year period. Is it any wonder the projected estimates are extraordinarily large![28]

Given that there is a political imperative on all sides of Parliament to balance the budget and indeed produce surpluses, it stands to reason that interest calculations should be struck from the estimates. If interest calculations were struck from the estimates then I firmly believe (now) that the current balance of the Future Fund would extinguish any and all underlying liabilities for all schemes outright.

Perhaps then DoFD will concede that there are indeed assets to fully cover new indexation for not only the schemes being considered under this Bill but for all schemes affected by poor indexation.

Members Of The 'Military Superannuation Benefits Scheme' (MSBS) Deserve Equal Consideration

Whilst the Senate Committee was commissioned to only consider those schemes under the proposed Bill, I think it would be fair to say that many concerns have been raised over the lack of consideration for those retirees under (not least) the Military Superannuation Benefits Scheme.

[27] The link to the table is here: http://www.finance.gov.au/superannuation/DFRDBLetter.html

[28] Since the release of my original response to the Senate Committee another independent commentator, David Richardson from The Australia Institute, has also brought into serious question the Government's budget estimates, particularly issues surrounding the vagaries of "interest". David's excellent paper can be found here: https://www.tai.org.au/index.php?q=node%2F19&pubid=865&act=display

As a consequence, I would like to briefly introduce some of the raw data and make a few comments regarding the MSBS for your consideration.

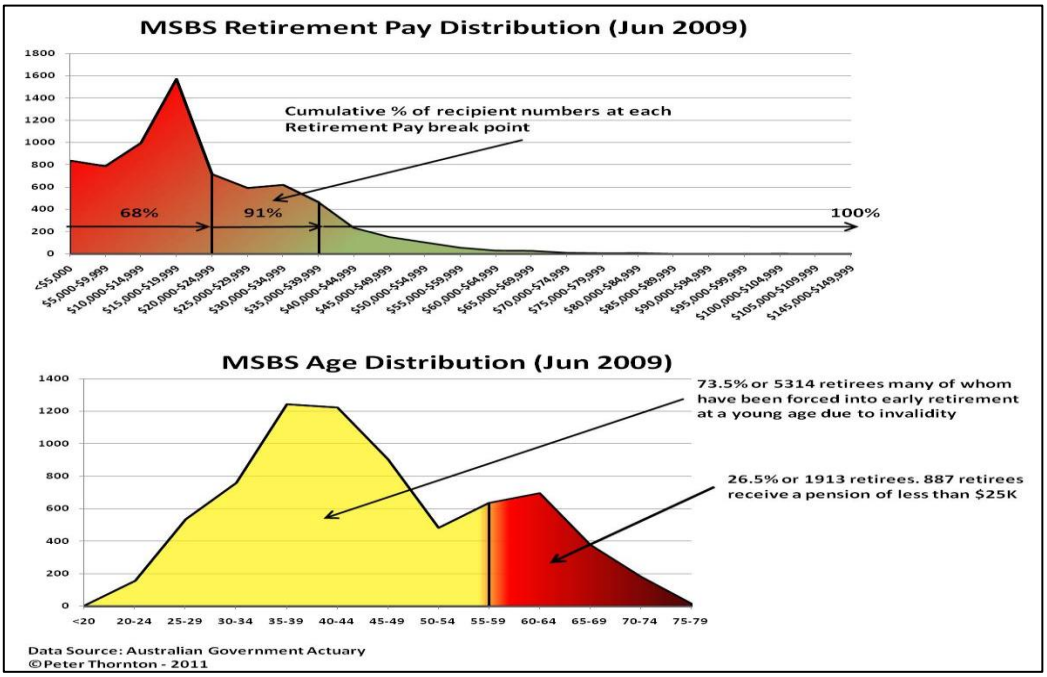


Figure 7

The foregoing information regarding low rates of pay and poor conditions of service apply equally to the plight of many older MSBS retirees who are seeking indexation reform because they too suffered the same indignations during their service. Whilst I have not yet advanced an MSBS analysis to any great extent, the graphs presented in Figure 7 nevertheless provide an initial look at the age and retirement pay distributions.

On initial inspection one can quickly see that the age distribution reflects the fact that to a large extent retirees are of a young age because of high invalidity rates. This is of no surprise or peculiar to MSBS because 40 years of annual reports for the DFRB / DFRDB show that high invalidity rates were common for personnel in the 20-24 year age bracket.

This again should also be of no particular surprise to the Senate Committee for Finance because it was afforded similar data last year in my submission regarding the proposed amalgamation of Commonwealth and Military super schemes.

Table 1 of that submission illustrated that approximately 54% of all pensions in force for the MSBS were on invalidity grounds as opposed to the contemporaneous PSS scheme, which exhibited an invalidity rate of 11.5% by comparison.[29] Sadly, invalidity in various forms is a key element and reality that Defence personnel face and which underpins the "Uniqueness of Military Service".

Whilst I don't have specific numbers, it could be reasonably assumed that given the age and the imminent decline in numbers of DFRB / DFRDB members; any additional liabilities presented by the inclusion of the small number of MSBS retirees into the Bill (and into the future) will be offset by: the substitution effect of MSBS replacing the DFRB / DFRDB liability; the abhorred policy of income offsetting between

[29] The link to my 2010 sub is here: https://senate.aph.gov.au/submissions/comittees/viewdocument.aspx?id=792afb24-a01d-44fd-93f3-2039762bc73b

superannuation and compensation benefits (particularly for younger members); the fact that the earnings of preserved benefits reduce the longer term superannuation liability of the Commonwealth's notional employer contribution; and finally and most importantly, the majority of MSBS members are not able to draw retirement pay until after they reach 55 years of age.[30]

The 'Net Cost Analysis'

Annex B of my current submission provided a brief analysis that I had undertaken back in 2009 to address a major deficiency and to try and fill the information void left by the Matthews' Review (i.e. the Review did not comply with its mandate to provide policy makers with a true 'Net Cost' for proposed new indexation).

On this note, and in early 2009 when all the doom and gloom abounded with respect to the GFC, I announced (to the disbelief of many) that the Future Fund would seize upon the opportunities presented by the "blood in the streets on world markets" and would achieve returns exceeding 10% over the short to medium term. I formalised this announcement in a draft document in June of that year (by utilising industry and my own proprietary growth estimates), with a final iteration of that document being subsequently released in November of 2009.

Since that time, the projected returns of the Future Fund as per the graphical analysis below has proven extremely accurate (i.e. as per the yellow line) in that the Future Fund produced an annualised return of 10.7% for 2009-2010, and according to its latest report (i.e. 31 March 2011); a likely annualised return of 11.7% for 2010-2011 (with a revised asset value balance of the fund being $74.62Billion as at the date of that report).

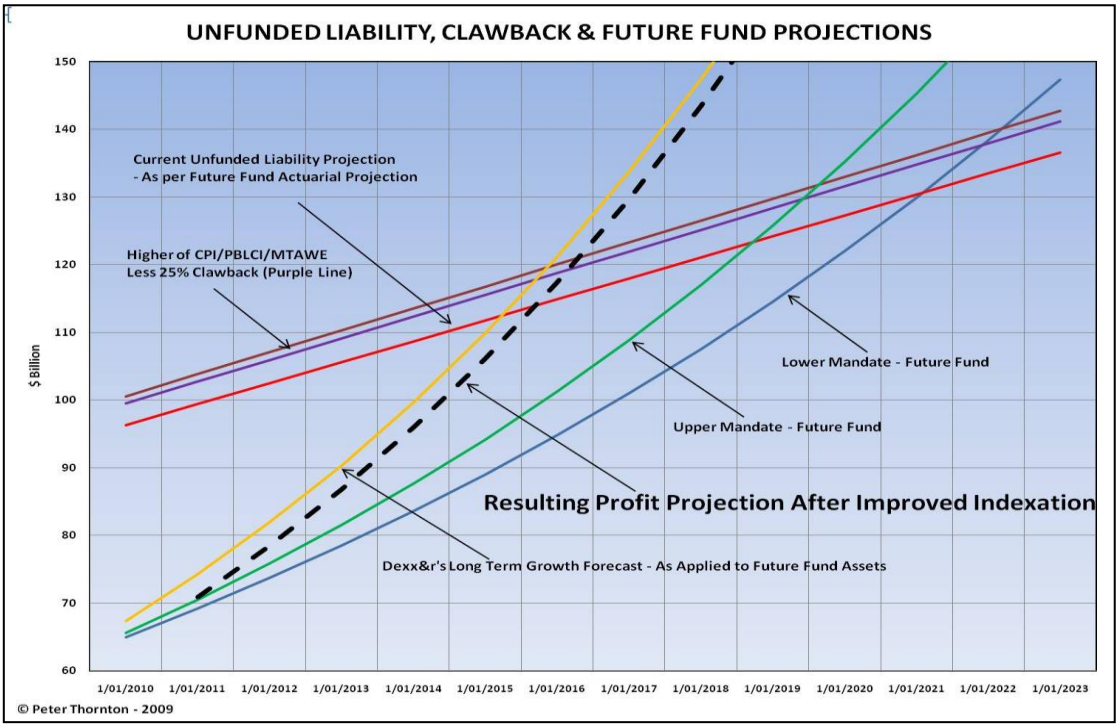


Figure 8

[30] Page 13 of Annex A to my submission to this review provides further information about how the earnings of ARIA help to reduce the Commonwealth's employer contribution liability with respect to MSBS and PSS.

With the foregoing in mind, and as you can see from the projections in the graph above (which has not been altered since it was originally released), the earnings of the Future Fund has and is tracking close to the yellow line. If this projection holds true into the future, which I believe it will, then Commonwealth Superannuation liabilities should be substantially extinguished by 2016 even with new "improved indexation" for schemes including the broader Commonwealth schemes as illustrated by the black dashed line.

However, as I have highlighted above, the interest bill that has been applied by the Establishment to the unfunded liability estimates clouds the whole analysis and if interest was stripped out of the analysis (which I believe it should) then it is highly probable that the current assets of the Future Fund exceed the future liability (with new indexation included) to fund payments on a cash cost basis.

As proposed in Annex B of my submission, if the Future Fund was utilised to ameliorate our broken indexation then the black dotted line would be the resultant effect of what would occur if that new indexation was to the higher of CPI, PBLCI or MTAWE for all Commonwealth provided superannuation. This standard of indexation unashamedly recognises that <u>our retirement pay is not welfare</u> and should be afforded an appropriate mechanism that recognises the long and dedicated service and the sacrifice of all retired members, both Military and Civilian.

As also stated, the additional cost of new indexation could be kept "off book" from the main budget allowing the Government of the day to conduct its program agenda without hindrance and without any additional "on book" budget liabilities affecting its fiscal position.

CONCLUSION

The aim of this paper was not only to provide a response to the Senate Committee's Report back in April of 2011 but to introduce new evidence that has only been revealed to the author since the Inquiry's closure.

What is particularly disheartening is when Representative Organisations and individuals alike have tried (for over a decade) to work in an amicable way to find real solutions such as the 'Net Cost Analysis' to help the Parliament address the issue of broken indexation, but as a whole, we are continually confronted by bureaucratic recalcitrance perpetuating the flawed assumptions and rubbery figures of not least the discredited Matthew's Review and the more recent 2011 DoFD Mathew's Review 'Update'.

What is perhaps more disheartening is how the current Government can (in a heartbeat) find $292Million over the forward estimates to shift its burden of 4,000 or so illegal immigrants off shore (i.e. at $80K pa per refugee), but at the same moment in time it is incapable of finding, by my estimate, $302Million (forecasted over 10 years and before savings) from $8Billion sitting in cash in the Future Fund to ameliorate the indexation woes of 56,000 retired Australians (not including the those equally deserving in the MSBS) who were willing to offer long periods of unrestricted service and put their lives on the line.

I hope and trust that the Senate / Parliament will find this additional evidence to my submission and its Annexes, together with information presented in a number of other well crafted submissions, to be compelling in laying a solid foundation in resolving the issue of proper indexation for all affected retirees.

About the Author

Peter Thornton is a retired member of the Defence Force and the Commonwealth who acts as an independent researcher and commentator on matters relating to Commonwealth and Military Superannuation. Peter's independence aims to support all affected retirees and to aid the representational activities of national peak bodies such as the Defence Force Welfare Association (plus alliance partners), the Superannuated Commonwealth Officers Association, member associations of the Australian Council of Public Sector Retiree Organisations, and the Returned Services League; many of which he is an ordinary member. Peter has graduate qualifications in Economics and Engineering with post-graduate qualifications in Management and is a long standing member of the Foundation for the Study of Cycles.

Annex A

AGA's "Fiscal Balance" Table[31]

- Highest of MTAWE, PBLCI and CPI

Year	Opening additional liability $m	Additional accrual cost $m	Additional interest cost $m	Additional payments $m	Closing additional liability $m	Additional fiscal balance $m
2011/12	8,676.7	30.9	520.9	19.6	9,208.9	551.8
2012/13	9,208.9	25.1	551.9	47.9	9,738.0	577.0
2013/14	9,738.0	20.4	582.6	77.9	10,263.2	603.0
2014/15	10,263.2	16.6	613.0	109.6	10,783.2	629.6
2015/16	10,783.2	13.0	643.2	142.9	11,296.4	656.1
2016/17	11,296.4	10.3	672.8	177.9	11,801.7	683.2
2017/18	11,801.7	7.8	702.0	214.4	12,297.0	709.7
2018/19	12,297.0	5.8	730.5	252.5	12,780.8	736.3
2019/20	12,780.8	4.3	758.3	292.1	13,251.4	762.7
2020/21	13,251.4	3.2	785.3	333.0	13,706.9	788.5
2021/22	13,706.9	2.4	811.4	375.2	14,145.5	813.8
2022/23	14,145.5	1.5	836.4	418.6	14,564.9	837.9
2023/24	14,564.9	1.0	860.2	463.1	14,963.0	861.2
2024/25	14,963.0	0.5	882.8	508.6	15,337.7	883.2
2025/26	15,337.7	0.2	903.9	554.9	15,686.9	904.1
2026/27	15,686.9	0.1	923.4	602.0	16,008.3	923.5
2027/28	16,008.3	0.0	941.3	649.7	16,299.9	941.3
2028/29	16,299.9	0.0	957.4	697.8	16,559.4	957.3
2029/30	16,559.4	0.0	971.5	746.2	16,784.7	971.5
2030/31	16,784.7	0.0	983.6	794.5	16,973.8	983.6
2031/32	16,973.8	0.0	993.5	842.7	17,124.6	993.5
2032/33	17,124.6	0.0	1,001.2	890.4	17,235.4	1,001.2
2033/34	17,235.4	0.0	1,006.4	937.5	17,304.3	1,006.4
2034/35	17,304.3	0.0	1,009.2	983.6	17,329.8	1,009.2
2035/36	17,329.8	0.0	1,009.4	1,028.5	17,310.8	1,009.4
2036/37	17,310.8	0.0	1,007.0	1,071.8	17,246.0	1,007.0
2037/38	17,246.0	0.0	1,001.8	1,113.2	17,134.6	1,001.8
2038/39	17,134.6	0.0	994.0	1,152.5	16,976.0	994.0
2039/40	16,976.0	0.0	983.4	1,189.3	16,770.2	983.4
2040/41	16,770.2	0.0	970.1	1,223.2	16,517.1	970.1
2041/42	16,517.1	0.0	954.0	1,253.9	16,217.2	954.0
2042/43	16,217.2	0.0	935.2	1,281.0	15,871.4	935.2
2043/44	15,871.4	0.0	913.7	1,304.2	15,480.9	913.7
2044/45	15,480.9	0.0	889.7	1,323.2	15,047.4	889.7
2045/46	15,047.4	0.0	863.3	1,337.7	14,573.0	863.3
2046/47	14,573.0	0.0	834.6	1,347.3	14,060.3	834.6
2047/48	14,060.3	0.0	803.7	1,351.7	13,512.2	803.7
2048/49	13,512.2	0.0	770.8	1,350.7	12,932.3	770.8
2049/50	12,932.3	0.0	736.2	1,344.2	12,324.3	736.2

Source: Australian Government Actuary

[31] AGA Letter to DoDF regarding DFRDB, dated 12 November 2010, pg 6-7