



# VVAA - SPECIAL RATE SUBMISSION

## A fresh approach



### A MODEL

#### **Introduction**

The Vietnam Veterans Association of Australia (VVAA), together with a large number of other ex-Service organisations and capping bodies, including the National Kindred Organisations Committee (KOC) and the Australian Veterans and Defence Services Committee (AVADSC) continues to support the contention that it is necessary to review and increase the rate of the Special Rate pension due to its continual erosion and the lack of effective indexing.

In June 2000, the Association indicated to the government that it was willing to contribute to an immediate review of the Special Rate Pension, recognising the need to re-establish a formal basis that would see it adjusted regularly as to the actual cost of living/Consumer Price Index varied.

We also indicated that we believe that the Special Rate Pension and other disability payments from Department of Veterans Affairs (DVA) must be excluded as income when receiving payments from Centrelink. These changes, if accepted, should address some concerns, in particular for all those former members of the defence force who are in receipt of disability pensions from DVA but who do not have operational service. This would include those receiving payment of the Special Rate.

Since October 2000 a project officer and sub-committee have produced a number of discussion papers on the Special rate issue culminating with the presentation of a detailed discussion paper and proposal to our National Congress in Adelaide in May 2001. All discussion papers and draft proposal were distributed widely for members' input and comment.

The VVAA is aware of other submissions already put to government and the Department of Veterans Affairs and is mindful that any proposal, if accepted, should not be at the expense of other payments or programs conducted by the Department of Veterans Affairs.

We could not support any proposal that involves any legislative changes that may impact on the integrity of the Veterans' Entitlement Act. We do not agree with the general thrust of the other proposals and as a consequence wish to put forward our own model.

#### **Background**

In seeking a model, the VVAA acknowledges that there are three fundamental criteria that must be met. That any proposal:

- incorporates a real increase in the Special Rate of pension to a sustainable rate, and
- is based upon agreed measures that move in accordance with the Australian economy and real wages, in order that it may be revisited and reviewed from time to time, and
- is acceptable both to the ex-Service community and government.

With this in mind we put forward a model that addresses a substantial net rise in the Special Rate pension that is based on a real monetary figure. The model is based on the Average Collective Bargain Wage<sup>1</sup>(ACBW) as issued by the Australian Bureau of Statistics for the year 2001. The ACBW is a new indexing of wage movement, is a real monetary figure, is registered with the Industrial Relations Commission (IRC) and can be indexed in net terms against the MTAW and CPI.

In choosing this figure we also considered the Average Weekly Wage and the Work Place Agreement Wage. In rejecting the Average Weekly Wage like the MTAW we note that it is a statistical figure for the year and is not a monetary value in real terms. Likewise we rejected the Workplace Agreement Wage as this figure, though a real monetary wage represents only those on incomes of \$45,000 or higher per annum.

In developing our model we took into consideration a number of factors and made a number of assumptions:

- the Special Rate is a compensation measure initiated by government to recompense veterans under 65 years of age who because of their war or defence caused disease or injuries, cannot engage in remunerative employment and generate wealth;
- each individual has a different capacity to generate wealth depending upon age, qualifications, intellect and so on – the real monetary value must cover a spectrum of capacity to earn;
- the real monetary figure, though reviewed every three years, is to be paid for life, whereas in the workforce individuals plan their wealth generation to be complete at age 65 or even younger;
- payment of Service Pension and benefits will not change;
- all TPIs would be issued with a DVA concession card;
- all calculation are based on March 2001 figures;

## **The Model**

The factors noted above can be used as the basis for a number of decisions upon which the model is based: (See Table 1)

- The basis of the model is 60% of the ACBW. The deduction of 40% is based upon the fact that the payment is tax-free for the life of the recipient; other wage and salary earners plan to cease work at age 65; there is no requirement to contribute to Medicare or other levies; and no requirement to contribute to superannuation. This deduction equates to \$284 per fortnight.
- The model includes a base rate tax deduction of 17%. This is only a deduction in the model to cover the tax element that would normally be paid if the veteran worked until he/she was 65 at the full base wage. The Special Rate pension is still tax free for life.
- The model can be used in calculating the General Rate and Intermediate rate within a separate formula.

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<sup>1</sup> Refers to Federal registered Agreement, Collective, Average Weekly Total Earnings. ABS Publication 6306.0 dated May 2000 released March 2001.

- In regard to non-economic loss we benchmarked all Special Rate recipients at 70% of the General Rate of pension. This figure was chosen because it is the lowest level of the General Rate at which the veteran is able to qualify for the Special Rate.
- The ACBW published by the Australian Bureau of Statistics every year, would in the model, be reviewed every three years. The Special Rate payment arrived at in the model will be subject to increase in the CPI or MTAWWE whichever is the highest.

**Table 1 - Proposed formula to calculate Special Rate Pension**

Item	Week	Fortnight	Annual
Average Collective Bargain Wage - 2001	\$711.00	\$1,422.00	\$37,073.57
Rate of payment 60% <sup>2</sup>		\$853.20	\$22,244.14
Less non economic loss (70% General Rate)		\$188.08	\$4,903.51
<b>Sub Total</b>		<b>\$665.12</b>	<b>\$17,340.63</b>
Less Base taxation figure 17% <sup>3</sup>		\$73.95	\$1,927.91
Compensation after tax formula component		\$591.17	\$15,412.72
Add on non economic loss component		\$188.08	\$4,903.51
<b>Special Rate Payment</b>		<b>\$779.25</b>	<b>\$20,316.23</b>

**Table 2 - Example of Proposed Married Rate with Full Service Pension and receiving Carer's allowance**

Item	Fortnight	Annual
Special Rate	\$779.25	\$20,316.23
Service/equivalent pension <sup>4</sup>	\$671.00	\$17,493.93
<b>Sub Total</b>	<b>\$1,450.25</b>	<b>\$37,810.16</b>
Carer's allowance <sup>5</sup>	\$82.00	\$2,137.86
<b>Total</b>	<b>\$1,532.25</b>	<b>\$39,948.02</b>

**Table 3 - Calculation of Budget Variance - Special Rate only**

Item	Year 1	Year 2	Year 3
Number of TPIs	24,244	25,250	26,250
Annual Rate <sup>6</sup>	\$20,316.23	\$20,316.23	\$20,316.23
Annual Cost (New Rate)	<b>\$493m</b>	<b>\$513m</b>	<b>\$533m</b>
Current Cost	\$448m	\$466m	\$485m
<b>Net Increase this year</b>	<b>\$45m</b>	<b>\$47m</b>	<b>\$48m</b>
<b>Net Cumulative Difference</b>	<b>\$45m</b>	<b>\$92m</b>	<b>\$140m</b>

### Summary

The model represents an increase of \$60.75 per fortnight in the Special rate. It is based upon a sustainable formula that can be recalculated when cost of living indices move. It represents an additional expenditure by government of approximately \$140m over three years.

This submission and model is offered to the government and ex-service organisations for discussion as a preferred model, and notified to the Minister of Veterans Affairs as a means of resolving the current impasse.

<sup>2</sup> Variable if level of erosion is identified

<sup>3</sup> Calculated on \$17,340.63 less the tax threshold of \$6000.00 or \$11,340.63

<sup>4</sup> Approx 50% on Special rate are in receipt of full service pension, 25% part service pension and 25% no service pension

<sup>5</sup> Centrelink criteria must be met - currently less than 15% are in receipt of this payment

<sup>6</sup> No allowance has been made for any adjustments of this rate after March 2001 figures

## **Recommendations**

The VVAA recommends that; in the absence of any organised review of Special Rate payment that a joint working party be established with representatives from Ex-service Organisations and the Department of Veterans Affairs.

This group should establish a 'Terms of Reference' to determine an agreed level of erosion of Special Rate payments, and to identify an effective model whereby the payment can be revisited and reviewed from time to time ensuring that living standards of the recipients are maintained.

## **Distribution**

Copies of this Submission have been sent to:

- Minister Of Veterans Affairs, Hon Bruce Scott MP;
- Shadow Minister of Veterans Affairs, Senator Chris Schacht MP;
- Australian Democrats spokesperson on veterans issues, Senator Andrew Bartlett;
- Member for Cowan and Vietnam Veteran, Hon Graham Edwards MP;
- Secretary, Department of Veterans Affairs, Dr Neil Johnston;
- National President, Returned and Services League of Australia, MAJGEN Peter Phillips; and
- Federal President, Australian Federation of T&PI Servicemen and Women, Mr John Ryan.

## **Acknowledgement**

This document is the VVAA's contribution to the current debate on the erosion of the Special Rate payment. The VVAA National Council wishes to thank the members of the Association for their constructive input and significant contribution to this model over the last 12 months. It has been a team effort