



**VIETNAM VETERANS
ASSOCIATION OF AUSTRALIA**

**SUBMISSION TO THE REVIEW COMMITTEE OF THE
VETERANS' ENTITLEMENT ACT**

**Part 1
SPECIAL RATE PENSION (TPI)**

17 April 2002

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SPECIAL RATE OF PENSION (TPI) – VVAA SUBMISSION

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SPECIAL RATE OF PENSION (TPI) – VVAA SUBMISSION

Introduction

ESOs agree the need to review and increase TPI

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 Council (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.

Exclusion of Special Rate payments as income by Centrelink

In June 2000, the Association indicated to the Government that it was willing to contribute to an immediate review of the Special Rate Pension and 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.

The VVAA also indicated its view 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, would address some of the concerns expressed - in particular, all those former serving members of the Defence Force who do not have qualifying service but are in receipt of disability pensions from DVA. This would include those receiving payment of the Special Rate.

Papers presented to VVAA National Congress 2001

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 the proposal were distributed widely for members' input and comment. This paper represents the consensus of input.

Not to be at the expense of other payments or programs

This Association is mindful that any proposal for indexation and increase should not be at the expense of other payments or programs conducted by the Department of Veterans' Affairs. The members will not support any proposal that involves legislative changes that may impact on the integrity of the Veterans' Entitlement Act.

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Discussion

Three criteria for the VVAA model In seeking to identify an appropriate model, the VVAA acknowledges that there are three fundamental criteria that must be met.

- First, that the proposal incorporates a real increase in the Special Rate of Pension to a sustainable rate.
 - Second, that the proposal 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 on a regular basis.
 - Third, that the proposal is acceptable both to the ex-Service community and government.
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Based upon Average Collective Bargain Wage With this in mind the VVAA submits a model that addresses a substantial net rise in the Special Rate of Pension that is based on a real monetary figure. The model is based on the Average Collective Bargain Wage¹(ACBW) as issued by the Australian Bureau of Statistics (ABS) for the year 2001. The ACBW is a real monetary figure, negotiated by the union movement and employer representatives, and is registered with the Industrial Relations Commission (IRC).

Disadvantages of MTAW as an index. In accepting the MTAW as the measurement indicator we put the special rate in the position of being eroded again in the future as the factors used in ascertaining the MTAW fluctuate from time to time increasing and decreasing as the indicators fluctuate in the Australian economy.

Indexing ACBW against MTAW or CPI The ACBW is a new measurement of wage movement that can be indexed in net terms against the MTAW or CPI whichever is the greater.

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¹ Refers to Federal registered Agreement, Collective, Average Weekly Total Earnings. ABS Publication 6306.0 dated May 2001.

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Discussion, Continued

Other measures considered In choosing this indicator we also considered the Average Weekly Wage and the Work Place Agreement Wage. In rejecting the Average Weekly Wage represented in statistics such as the MTAWWE we note that it is a statistic calculated for the year, taking into consideration movements in both wages and purchasing power. It is not a monetary value in real terms.

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

- The Special Rate of Pension is a compensation measure initiated by government to recompense veterans less than 65 years of age or those over 65 to whom special circumstances apply – those, who because of their war or Defence caused disease or injuries, cannot engage in remunerative employment for more than eight hours per week and continue to make provision for retirement.
- 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 make provision for retirement 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 calculations are based on March 2002 figures.

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The Model

Assumptions incorporated into the model

The factors noted above are incorporated into the model: (See Table 1 - Proposed Formula to Calculate Special Rate Pension on page 5).

Model based on 62% of ACBW

The basis of the model is 62% of the ACBW. The deduction of 38% is based upon the fact that the payment is tax-free for the life of the recipient. Considerations include that while 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 \$193.97 per fortnight. The model will operate with alternative values.

Model considers tax deductions

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 s/he was 65 at the full base wage. The Special Rate pension is still tax free for life.

Can be used as a basis for General and Intermediate rate but not EDA

The model can be used in calculating the General Rate and Intermediate rate within a separate formula. It does not include a calculation formula for Extreme Disablement Adjustment (EDA).

Non-economic loss considerations

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.

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The Model, Continued

Periodic adjustment The ACBW published by the Australian Bureau of Statistics every year, would in the model, be reviewed every three years, and increased to the new ACBW rate negotiated for the year of review. All calculation using the model formula will be recalculated for a new net increase. The Special Rate net payment arrived at in the model will be adjusted twice yearly in accordance with rises in the CPI or MTAW (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 62% ²		\$881.64	\$22,985.61
Less non economic loss (70% General Rate)		\$193.97	\$5,057.08
Sub Total		\$687.67	\$17,928.53
Less Base taxation figure 17% ³		\$77.78	\$2,027.85
Compensation after tax formula component		\$609.89	\$15,900.68
Add on non economic loss component		\$193.97	\$5,057.08
Special Rate Payment		\$803.86	\$20,957.76

See Table 2 for married TPI/ Service pension recipient Details of total income of a married TPI in receipt of the full service pension/equivalent pension is demonstrated at Table 2 - Example of Proposed Maximum Married Rate with Full Service Pension and Receiving Carer's allowance on page 6.

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² This percentage figure may vary when the level of erosion has been identified

³ Calculated on \$17,340.63 less the tax threshold of \$6,000.00 or \$11,340.63

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The Model, Continued

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

Item	Fortnight	Annual
Special Rate	803.86	\$20,957.76
Service Pension ⁴	\$710.00	\$18,510.71
Sub Total	\$1,513.86	\$39,468.47
Carer's allowance ⁵	\$82.00	\$2,137.86
Total	\$1595.86	\$41,606.33

Budget variance

The VVAA has calculated the three-year budget variance required to implement the model for the Special Rate only. This model is at Table 3 - Calculation of Budget Variance - Special Rate Only on page 6.

Table 3 - Calculation of Budget Variance - Special Rate Only

Item	Year 1	Year 2	Year 3
Number of TPIs	25,238	25,750	26,250
Annual Rate	\$20,957.76	\$20,957.76	\$20,957.76
Annual Cost (New Rate)	\$529m	\$540m	\$550m
Current Cost	\$466m	\$476m	\$485m
<i>Net Increase this year</i>	\$63m	\$64m	\$65m
<i>Net Cumulative Difference</i>	\$63m	\$127m	\$192m

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⁴ 50% of TPI's are in receipt of full service pension, 25% part and 25% none at all

⁵ Centrelink criteria must be met - current less than 15% of TPI's are in receipt of this payment

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The Model, Continued

Summary The model represents an increase of \$73.16 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 \$192m over three years.

Recommendation

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- Recommendation**
- 1. The VVAA recommends that the Veterans Entitlements Review committee propose that government:**
 - (a) adopt this model for calculation of the Special Rate of Pension; and**
 - (b) adjust the rate (a minimum of 62% is proposed) to derive an outcome which compensates for the erosion of the Special Rate of Pension from 1941 and restores the quality of life of the recipients; and**
 - (c) identify an effective means whereby the payment can be revisited and reviewed twice annually or automatically indexed , to ensure that living standards and quality of life of the recipients are maintained.**
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ANNEX A

Historical Background

Acknowledgements

In compiling this brief history of the Special Rate pension the Association acknowledges the following documentary and individual sources:

- “Veterans’ Entitlements Law” *Robin Creyke and Peter Sutherland*”; The Federation Press
 - “Veterans & Pension Advocacy” *Graham MacLeod*
 - “History of Veterans’ Disability Pension Systems, December 1999”, *Bruce Topperwien*.
 - Department of Veteran Affairs Canberra and NSW Offices
 - “Statistical Information and Historical Research”, Australian Bureau of Statistics “Document 6302.0 and 6305.0”
 - “Historical Legislation and Hansard” Australian Parliamentary Library
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Disability pensions, 1593

The history of payment of disability pensions for veterans can be traced back to 1593 where veterans were paid regularly in England on a statutory basis for soldiers and sailors who were sick, hurt or maimed in the Spanish Armada battle.

Amendments and new Acts were introduced throughout the centuries to ensure that sick, injured or maimed soldiers and sailors were compensated by way of pension for their disabilities.

Basis in Defence Act 1903

In Australia the concept of compensation at rates to be prescribed, for a member of the Defence Force or his widow and family who was killed on active service or on duty or was incapacitated from earning his living from wounds or disease contracted on active service or on duty, was enshrined in the Defence Act 1903 s57.

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Historical Background, Continued

1914 War Pension Act

After the outbreak of World War 1 the government introduced the War Pension Act 1914 to cover injury or death to members of the armed service. As Justice Toose noted in his report Vol 1, 19, “*The 1914 War Pension Act provided war pensions for persons enlisted, or appointed for, or employed on active service outside Australia or employed on a ship of war, and who suffered death or incapacity which resulted from employment in connection with warlike operations*”.

1915 and 1916 amendments

By amendment in 1915 it was made clear that compensation was payable for any disease contracted on service. In 1916 the Act was amended to extend its provisions to those who were appointed or enlisted for home service.

These provisions supplanted any rights eligible members and their dependants would have had otherwise under the Defence Act 1903.

Soldiers Repatriation Act 1920

The Australian Soldiers Repatriation Act (the title of which was shortened in 1950 to the Repatriation Act 1920) was introduced in 1920. It served as the basis for the payment of pensions and benefits to the ex-service and defence community for over 60 years.

Dr Evatt’s description of the Act

The Attorney General and Minister for External Affairs the Right Hon Dr HV Evatt KC, MP described the legislation in 1944 in these terms;

“The Australian Soldiers’ Repatriation Act 1920-1943 is not based upon any well-known type of legislation. Though it may have something in common with Workers’ Compensation, it is an instrument, which is largely sui generis. It represents the desire of the Australian people, through their National Parliament, to ensure that members of Australia’s gallant fighting forces who have become wounded or sick as a result of their service shall be properly cared for. That they and their dependants, and the dependants of deceased members shall be provided for by a war pension and otherwise assisted in the economic struggle of life. The bearing of these forces in the fields commands the administration of the world, and too much cannot be done in the way of repatriation to recompense them for the sacrifice they made for the sacred cause of liberty”.

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Historical Background, Continued

**Veterans’
Entitlement Act
1986**

In 1985 the government repealed the Repatriation Act 1920 and introduced the Veterans’ Entitlements Act 1986. This Act is the subject of this Review.
