

CHAPTER TWENTY NINE

EROSION AND ADEQUACY OF PAYMENTS

29

INTRODUCTION

29.1 This chapter examines claims made in submissions to the Committee that the rates of disability compensation pensions, particularly the special rate pension, have eroded in value over time and are consequently inadequate to meet veterans' financial needs. The chapter reviews how the total package of payments made through the special rate and war widow's pension have compared with community wage income over the past 30 years, and draws conclusions on the adequacy of disability compensation payments generally. Details of the calculations made here, together with supporting details for the graphs included in this chapter, can be found in Appendix 15.

ISSUES RAISED IN SUBMISSIONS

29.2 Many submissions raised concerns over the adequacy of disability compensation payments, claiming in many cases that their value had eroded over time. A range of statistical data, analysis and comment was submitted in support of those concerns.

29.3 Submissions from four major ex-service organisations – the TPI Federation, the Vietnam Veterans' Federation, the Vietnam Veterans Association of Australia and the Returned & Services League of Australia (RSL) – are summarised below. These four submissions, taken together, encompass the range and variety of most submissions received on this topic.

29.4 The **TPI Federation** recommended that totally and permanently incapacitated (TPI) payments be increased progressively to 75 per cent of Male Total Average Weekly Earnings (MTAWE) over three Budgets. The Federation went on to recommend that TPI payments should be indexed to MTAWE or the Consumer Price Index (CPI), whichever was the greater, and that this indexation should be made retrospective to March 1998.

29.5 The **Vietnam Veterans Association of Australia** proposed a model for calculation of TPI pension rates based on a minimum of 62 per cent of the Average Collective Bargain Wage (ACBW), arguing that this index represented a 'real monetary figure'. The Association also recommended discounting of the ACBW by 38.5 per cent in recognition of the fact that a TPI veteran would not be working and therefore would not incur work-related costs.

29.6 The **RSL** submitted that TPI payments should be indexed to the CPI or MTAWE, whichever was the greater, and be benchmarked to MTAWE. The League also expressed the view that TPI payments should be increased by at least \$60 per fortnight, in light of the perceived erosion in their value.

29.7 The **Vietnam Veterans' Federation** recommended that the TPI pension should initially be increased by \$30 per week and thereafter increased in instalments to 'something more respectable' (i.e. about 60–70 per cent of the 'average wage'). They also recommended that the TPI pension be indexed to increases in the CPI or the 'average wage'. The Federation expressed a clear belief that families of TPI veterans 'should expect a standard of living comparable to the average Australian family'.

29.8 Three common questions arise from these submissions;

- Has there been erosion in the value of compensation payments in comparison to general income levels in Australia?
- What are appropriate benchmarks to use in establishing an adequate level of compensation payments?
- What is an appropriate index for use in maintaining the value of these payments?

Views of the Repatriation Commission

29.9 The Repatriation Commission submission to the Committee acknowledged that, prima facie, there had been an erosion of the TPI pension against MTAWE until around 1980, 'with broad maintenance over the past 20 years'. The Commission then pointed out that in assessing the impact of erosion it must be recognised that disability pensions have not been regarded as income in the assessment of the service pension since 1982.

29.10 The Commission pointed out that the Hon Mr Justice Toose, in his 1975 examination of the benchmarking question, used the basic and minimum wages as indicative values but did not endorse their use as benchmarks.

29.11 The Commission also argued that it was not appropriate to use MTAWWE as an index for the TPI pension, as that benefit contains notional elements of both compensation and income support. The Commission reasoned that compensation payments are normally and more properly indexed to CPI and income support payments are appropriately indexed to MTAWWE.

Restoration of TPI Pension to 1941 Value

29.12 Arguments were put to the Committee that there should be a retrospective adjustment to the special rate to compensate for the reduction since 1941 in its value as a proportion of MTAWWE.

29.13 The Committee found this approach overly simplistic, as it did not take into consideration significant changes in welfare provision in Australia and in the total package of support for special rate recipients. In the latter case, there have been notable changes in the assessment of the service pension and in assistance through other elements of the disability compensation package. The Committee saw no basis for a retrospective adjustment to the special rate.

BENCHMARKS AND INDICES

29.14 Submissions proposed a number of different statistical measures as benchmarks for disability compensation payments and as indices for comparison of disability compensation income with community wage incomes.

29.15 A distinction must be made between a benchmark and an index. For the purposes of this Report, a benchmark will mean the standard against which the level of disability compensation payments can be set at a particular point in time and an index will mean the mechanism for maintaining that standard in the future.

29.16 A brief description of these statistical measures follows, addressing their suitability for use as benchmarks and/or indices. The measures fall into two categories: measures of movements in purchasing power over a period (in this case, the CPI), and measures of income level and distribution.

Consumer Price Index

29.17 The CPI is based on changes in the price of a fixed 'basket' of goods and services characteristically bought by Australian households, and shows how the price of this basket varies over time. The basket includes a wide range of goods

and services, arranged into 11 groups: food; alcohol and tobacco; clothing and footwear; housing; household furnishings, supplies and services; health; transportation; communication; recreation; education; and miscellaneous goods and services. It is adjusted periodically, based on changes in consumption patterns. The Australian Bureau of Statistics (ABS) measures CPI quarterly.

29.18 CPI is a well-known, readily available and accepted measure that provides an understandable measure of prices faced by consumers or households.

Measurement of Income

29.19 Incomes have many sources and vary greatly. The measures discussed below concern wages and salary income only (which together make up 'earned income' or income from personal exertion). They do not include other income sources, such as property or investment income. Over the years, many measures have been developed and applied at different times for differing purposes.

29.20 Income measures fall into two groups. The first uses the level of wages determined through the industrial system, such as the basic wage and the federal minimum wage. The second uses such figures as Average Weekly Earnings (AWE) and MTAW, which measure distribution of income from earnings. This second group is based on regular surveys, conducted by the ABS, of wage and salary income levels in Australia.

Basic Wage

29.21 The basic wage arose in 1907 from the findings of Mr Justice Higgins in the Harvester wage case. It served as the Commonwealth minimum wage, forming the basis of pay for most Australian workers over the following 60 years.

29.22 In the Harvester case, the wage was determined on the basis of family needs. Higgins declared that an unskilled labourer should receive a minimum of seven shillings for an eight-hour working day, this being sufficient to sustain a worker and his family in 'frugal comfort' in accord with current human standards (AWM 2000). He used this as his gauge to determine the 'fair and reasonable' minimum wage for unskilled labourers. Single-income families were the norm at that time.

29.23 Over time, this standard was applied to federal awards throughout the country, with the wage being adjusted by different price indices to reflect regional variations in living costs. The basic wage structure stabilised with 34 separate basic wages set for the capital cities, 26 larger country towns and two

localities. It was not until the 1960s that a common, nationwide basic wage was determined (Plowman, n.d., p. 257).

29.24 The basic wage derived from the Harvester case provided a foundation wage to cover living costs. Another outcome of the case was that margins for skill would be added to this set wage.

29.25 Margins for skill maintained the relativity that existed between unskilled and skilled workers' pay before the unskilled rates were adjusted. The Harvester ratio of 7:10 (where the former was the daily rate for unskilled workers and the latter for skilled workers) was a benchmark that was approximated by the Commonwealth Court of Conciliation and Arbitration in subsequent margins or secondary wage test cases. While there was a common minimum foundation wage, this constituted the minimum wage only for those not receiving any additional award payments. In time, very few award employees did not receive some payment above the basic wage. Consequently, the basic wage and its state equivalents, which were usually termed the 'living wage', provided a poor index of what minimum wages had to be paid or of the true lowest wage rate (Plowman, n.d., pp. 259–60).

29.26 The basic wage concept established a number of principles that are still relevant today. Important here is the principle that wages should be sufficient income to allow the recipient to provide frugal comfort in accord with community standards (i.e. that there is a direct relationship between wages and living standards).

29.27 As the basic wage was abolished in 1967, the year following introduction of the 'minimum wage', it is not possible to use the basic wage as a benchmark or index for disability compensation payments (Plowman, n.d., p. 259). It is also doubtful that it is relevant to use a 1907 concept of 'frugal comfort' as the basis for setting an income level almost 100 years later.

29.28 It is worth noting that some submissions to the Committee expressed a belief that in 1920, Prime Minister W M Hughes promised publicly that the TPI rate would be indexed to the basic wage for all time. Investigation by the Committee's researchers failed to uncover any such statement at that time by Mr Hughes or any member of his government.

29.29 The Committee did find that, in 1920, the TPI rate equated to 93.5 per cent of the basic wage. Over the period 1920–1967, the rate of TPI payments fluctuated between a maximum of 125 per cent of the basic wage in 1933 and 79 per cent in 1953 and 1954. For most of the period, TPI payments remained within 10 per cent either side of the basic wage (Toose 1975, p. 737).

Federal Minimum Wage

29.30 The federal minimum wage (FMW) was established in 1966. The FMW is set each year by a Safety Net Review and provides a wage level below which no federal award employee wage should fall. It therefore serves a purpose similar to the basic wage of earlier periods.

29.31 The Australian Industrial Relations Commission set the current FMW at \$431.40 per week in May 2002. This rate will apply until May 2003, as the FMW is adjusted annually.

29.32 Because FMW covers only that small part of the workforce not covered by agreements, it is unsuited for use as a benchmark or index for disability compensation payments.

Average Collective Bargain Wage

29.33 Australian industrial relations law currently allows employee pay to be set by award, or by collective or individual bargaining. The pay of employees classified into the collective bargaining category is set by a collective agreement that may be registered or unregistered. These collective agreements, whether registered or not, set terms of employment, including pay, for a group of employees. The ACBW is revised every two years and provides an indicator of the wage outcomes of collective bargaining processes. In 2000, 36.7 per cent of employees were covered by collective agreements (35.2 per cent by registered agreements and 1.5 per cent by unregistered agreements) (ABS 2001a, p. 7).

29.34 ACBW is an indicator of outcomes of industrial relations processes covering some 14 awards. It is not a consistent or inclusive measure and is, therefore, not suitable for use as a benchmark or index for disability compensation payments.

Average Weekly Earnings and Male Total Average Weekly Earnings

29.35 The AWE statistic denotes average gross earnings of employees. It is calculated quarterly from data collected through the Survey of Average Weekly Earnings. These employer-based surveys commenced in 1981. The AWE is calculated by dividing estimates of gross weekly earnings by estimates of the number of employees. This enables estimates to be made of average weekly earnings per employee job in a number of categories.

29.36 Data from the AWE survey can be compiled in a number of ways; for example, they may be divided into gender, sector, industry and state/territory groupings (ABS 2001c, p. 112). MTAW is derived from AWE by using only

male employee information. Neither index relates to average award pay rates or to the earnings of the 'average employee' (ABS 2001c, p. 102). Each is a measure of the average wage bill per employee (ACTU 2001, p. 170).

29.37 Because MTAWWE is calculated using male employee information only, it relates better to normal working hours, as females represent a high proportion of the part-time and casual workforces. It also removes gender differentials in wage rates.

29.38 The earnings of several groups of employees are not included in the AWE survey. These groups include Australian Defence Force (ADF) employees and workers in the agriculture, forestry and fishing industries (ABS 2002f, p. 2). Agricultural, fishing and forestry employees are excluded to avoid seasonal and cyclical distortions in the data that are not reflected in other industries. ADF employees are excluded because the level and structure of allowances paid to ADF personnel are not reflected in civilian employment.

29.39 Three factors affect the level of MTAWWE, increasing it and making it a relatively generous measure of income. This relative generosity must be kept in mind when considering the use of MTAWWE as a possible benchmark or index for disability compensation payments.

29.40 The first, and most significant, of these factors is the influence of unequal income distribution on MTAWWE, biasing the average upwards. This bias arises from the fact that the wage-earning population includes a large number of individuals with relatively low incomes and a small number with very high incomes. In 1999–2000, the top 20 per cent of Australian wage earners accounted for 48.5 per cent of total wage income, while the bottom 20 per cent earned 12.7 per cent and the middle 40 per cent earned 38.8 per cent (ABS 2001b, p. 3).

29.41 The second factor is that MTAWWE, because it includes additional payments such as overtime and penalty payments, exceeds the earnings level for standard working hours. This is outlined further below, in the discussion of average weekly ordinary time earnings. The third factor inflating MTAWWE relates to workforce issues such as changes in working hours, the current shift from full-time to part-time and casual employment, and increasing workforce participation by women.

29.42 These influences combine to remove from the sample much of the part-time and casual workforce (this being mainly female), and to remove gender-based wage differentials (since MTAWWE is based only on male earnings).

29.43 MTAWWE, therefore, provides an estimate of income that is on the high side of income distribution in Australia. For the 12 months ending in May 2002

(ABS 2002e, p. 6), MTAW was \$826.10 (compared to overall AWE of \$686.90 and female AWE of \$540.10). It was also nearly twice the FMW.

29.44 MTAW is a regularly collected, readily understandable statistic that provides a simple tool for comparing income levels from various sources over time. MTAW is used as a benchmark for income support payments made under the *Veterans' Entitlements Act 1986* (VEA) and the *Social Security Act 1991* (SSA).

Median Weekly Income

29.45 An alternative approach, which avoids the distorting effects of income distribution inequalities, is provided by the median weekly income (MWI). The MWI is the level of income that divides the wage earner group into two equal halves; that is, 50 per cent of wage earners earn more than MWI and 50 per cent earn less.

29.46 While MWI is affected by the same workforce factors as MTAW, it better reflects the common incomes of individuals by avoiding the income distribution bias. MWI produces a somewhat lower measure of earnings than AWE.

29.47 In 2000, for example, the ABS survey of employee earnings and hours, using a slightly different database from the AWE survey, calculated MWI for male employees at \$700.00, compared to male AWE of \$780.20 (ABS 2001a, p. 4).

29.48 MWI is not regularly collected or published and is used as an analytical tool. It is not widely understood and is not used as an index or benchmark by any government department. For these reasons it is not suitable for use as a benchmark or index for disability compensation payments.

Average Weekly Ordinary Time Earnings

29.49 Many analysts prefer to focus on average weekly ordinary time earnings (AWOTE) to minimise variations in average weekly earning statistics. AWOTE is calculated quarterly by the ABS and comprises base pay and payment by measured result (earnings that vary according to the measured performance of the job holder). Overtime payments are not included in AWOTE (ABS 2001c, p. 101).

29.50 AWOTE is not affected by cyclical variations in overtime, as it is based solely on the ordinary hours of full-time adult workers. It is subject to workforce compositional changes that affect all wage-bill measures and its growth may be slightly affected by longer-term changes in ordinary hours worked (ACTU 2001, p. 172). Changes in penalty payments, changes in allowances and changes in

bonuses, which may or may not relate to an individual's work performance, are not included in changes to hourly rates (ABS 2001c, p. 109).

29.51 AWOTE is a complex measure based on gross earnings and provides analysts with a useful measure of normal working wages. It is a suitable index for comparisons, but is not currently used as a benchmark or index for income support payments and is not widely recognised or understood.

The Measure Adopted by the Committee

29.52 MTAWWE is a readily available and regularly updated measure of wage income. It is generally well understood and is used as an index for income support payments.

29.53 The Committee noted that AWOTE is a higher figure than MTAWWE because, unlike MTAWWE, it is not affected by the earnings of casual and part-time employees and does not represent the normal population. However, the Committee considered that MTAWWE, which includes full-time, part-time and casual employees, is a more representative estimate based on the spectrum of Australian workers and average earnings than AWOTE, which is an estimate, based solely upon full-time earnings.

29.54 While acknowledging that MTAWWE is a generous measure, the Committee has concluded that MTAWWE is the best available tool to use as a benchmark and index for compensation payments that relate to a veteran's income. MTAWWE will, therefore, be used to consider the question of whether special rate and war widow's payments have eroded over time.

TPI and War Widow's Payments Compared to MTAWWE, 1972–2002

29.55 This section will use MTAWWE to compare the rate of TPI and war widow's payments with community after-tax wage incomes over the 30 years since 1972. This period has been chosen in the light of the considerable difficulty in obtaining accurate data on income support assessment before that date and the significant changes in income and assets testing of the service pension since then. Data available from this 30-year period allow a reasonable comparison over the time during which the current system of disability compensation was consolidated.

29.56 To compare like with like, total cash benefits paid to a veteran or widow (i.e. including income support payments) are compared with after-tax take-home pay.

Use of After-tax Figures for Community Wage Levels

29.57 Because special rate payments are tax-free, it is necessary to adjust any index chosen for community wage levels to after-tax, post-Medicare levy amounts. This approach allows a direct comparison of disposable income.

29.58 This approach also compensates for changes in taxation systems and rates over the years, and discounts the effects on net income of 'bracket-creep' (the increase in proportion of gross income payable in income tax as gross income increases).

Inclusion of Income Support Payments to Special Rate Veterans and War Widows

29.59 All special rate and war widow pensioners are potentially eligible for income support payments; Department of Veterans' Affairs (DVA) data indicate that around 85 per cent of special rate recipients receive VEA or SSA income support, some 60 per cent of these at the maximum rate. Income support payments must, therefore, be included in any comparison of disability compensation payments with community wage incomes.

29.60 Maximum rates of income support payments are used in the comparison: they represent the lowest total income available to a special rate veteran. This is because income support pensions are only partially discounted by additional income. A single veteran or a veteran couple with additional income have more total income than their counterparts with no other income apart from their pensions. The calculations used in the following analysis do not include dependent child add-on payments that are now paid as part of the family tax benefit, and therefore produces a lower income than that received by veterans with dependent children.

29.61 To summarise, a comparison is made between after-tax community wage income as indicated by MTAW, and the total income package available to special rate veterans and war widows (excluding child add-ons).

29.62 Furthermore, this comparison does not include any consideration of the Repatriation Health Card – For All Conditions (Gold Card) and other benefits available to special rate veterans and war widows. These effects are considered later in this chapter.

Post-1972 Consolidation of the Disability Compensation System

29.63 As noted above, the past 30 years saw a consolidation of the present system of disability compensation payments. Important events were the

extensive review into the repatriation system conducted by Mr Justice Toose between 1971 and 1975 and the subsequent introduction of the VEA.

29.64 Between 1971 and 1975, disability compensation payments were adjusted twice yearly but were not indexed to the CPI. Since 1976, the twice-yearly adjustments have been linked to changes in that index. Although indexed to the CPI, the single rate of the service pension is currently maintained at 25 per cent of MTAWE. The relativity between married and single rate service pensions and the war widow's pension has also changed within this 30-year period.

29.65 One significant change was the progressive exemption of the special rate and other rates of disability compensation as income in the assessment of the service pension. The result of this process has been that, since 1983, a special rate recipient with qualifying service and no other income has been able to receive the maximum rate of the service pension.

29.66 A more recent change, made in 2000, to the income test on the service pension was the discounting of the effect of additional income above a threshold amount on service pension payment rates. This means that the service pension is now reduced by 40 cents per dollar earned, compared to a previous reduction of 50 cents per dollar earned.

29.67 In a related development during this period, legislative change enabled persons who had served in the Australian armed forces between 7 December 1972 and 6 April 1994 to receive VEA disability compensation payments under certain conditions without qualifying for the service pension. These veterans are in a similar position to those World War II veterans who receive disability compensation payments but do not have qualifying service.

29.68 Members of these two groups can receive income support payments through the social security system (but not under the VEA). Such payments are subject to social security income and assets tests, which include disability payments as income. These persons therefore receive reduced income support payments compared to their peers who have qualifying war service under the VEA. This issue was widely raised in submissions to the Committee.

29.69 There is no evidence indicating that this differentiation was meant to create two classes of veterans, based on disability compensation. The Toose Report (1975, pp. 104, 404) and later statements made in parliamentary debates indicate that the focus throughout was on discounting the effects of disability compensation payments on the service pension. This focus excluded consideration of the situation of those veterans without qualifying service.

29.70 One significant change to TPI payments, not generally mentioned in submissions, was the decreasing importance over this period of the earlier system of dependants' pensions. This process, outlined in Chapter 24, meant

that those payments, which were once significant elements in the compensation package, became much less important. They were not maintained because of changes in social security provisions, including the introduction of initiatives such as child endowment and wives' pensions (both now defunct), and more recently of dependant tax rebates, family allowance and family tax benefits (which are a significant government contribution to the costs of raising children).

29.71 The period since 1972 also saw significant social change, with the transition from single- to double-income families as the norm. This change had significant impact on household income levels and the lifestyle expectations of Australian families. It should be kept in mind that MTAWWE represents income per wage earner, not total household income.

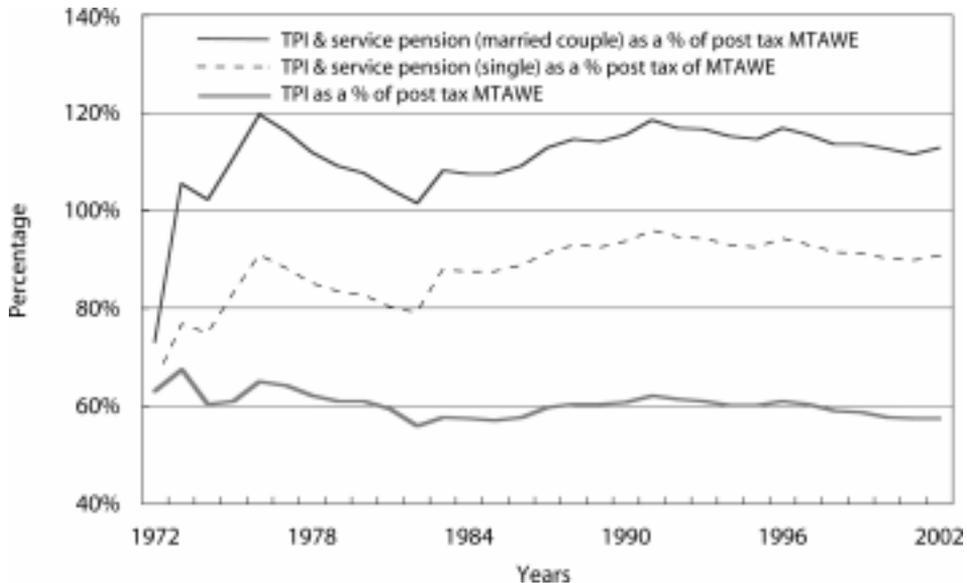
29.72 Around 51 per cent of special rate recipients receive income support at the maximum amount of payment. This indicates that a significant proportion of special rate recipients have no other significant source of income, and that they reside in a single-income household. The implications of this for special rate recipients of working age are discussed below when the adequacy of the disability compensation package is considered.

29.73 Figures 29.1–29.3 use MTAWWE data from the ABS and payment rate information from DVA. They show the special rate of disability pension (TPI) and war widow's payments as a percentage of MTAWWE over the period from 1972 to 2001, the latest date for which full-year data are available.

29.74 Figure 29.1 shows that special rate payments alone have stayed close to 60 per cent of after-tax MTAWWE. The early part of the period shows some fluctuations, but these have stabilised over the past 10–15 years.

Figure 29.1

Veterans with qualifying service: special rate only, special rate plus maximum single rate of service pension, and special rate plus maximum combined married rate of service pension as a percentage of after-tax MTAW, 1972–2001

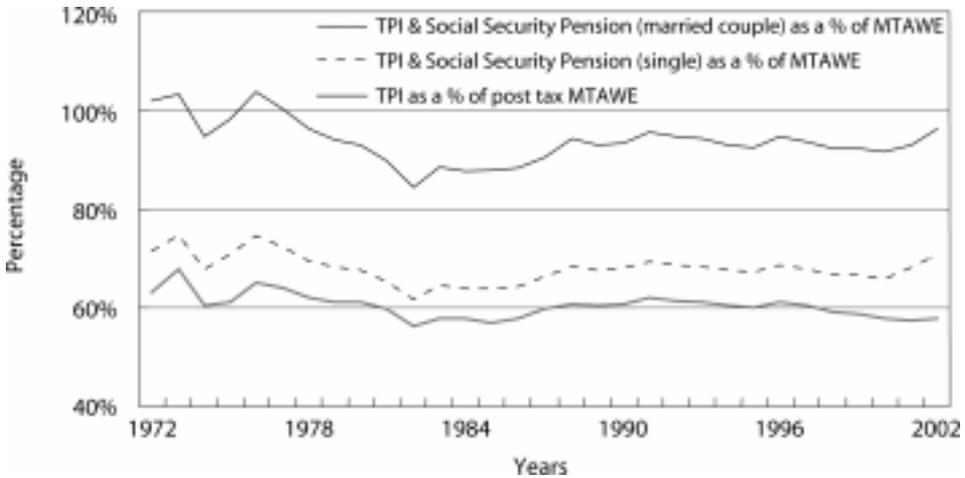


29.75 During the mid-1970s, there was a significant increase in the special rate plus single rate service pension as a percentage of after-tax MTAW. This increase coincided with the gradual discounting of the income test as it applied to disability compensation payments and twice yearly adjustment of income support payments. In recent years, the total package of the special rate and maximum single service pension has remained close to 90 per cent of after-tax MTAW, with a slow reduction since about 1990 owing to the indexation of the special rate to the CPI only.

29.76 During the past decade, the total payments to a married veteran and partner in receipt of the special rate and maximum married rate of the service pension (this being the total amount paid to the couple) have averaged around 115 per cent of the after-tax MTAW. While Figure 29.1 has been prepared on the basis that the spouse of a special rate veteran receives the married rate of service pension, because of eligibility criteria for those payments this is not the situation in all cases.

Figure 29.2

Veterans without qualifying service: special rate only, special rate plus maximum single rate of social security income support, and special rate plus maximum combined married rate of social security income support as a percentage of after-tax MTAW, 1972–2001



29.77 Figure 29.2 reveals trends similar to those in Figure 29.1. The main difference is that Figure 29.2 shows the effects on total income of the reduction of social security payments according to the level of disability pension received. The two graphs together reveal the overall lower level of payments made to veterans without qualifying service, caused by income testing of the special rate against the income support payments.

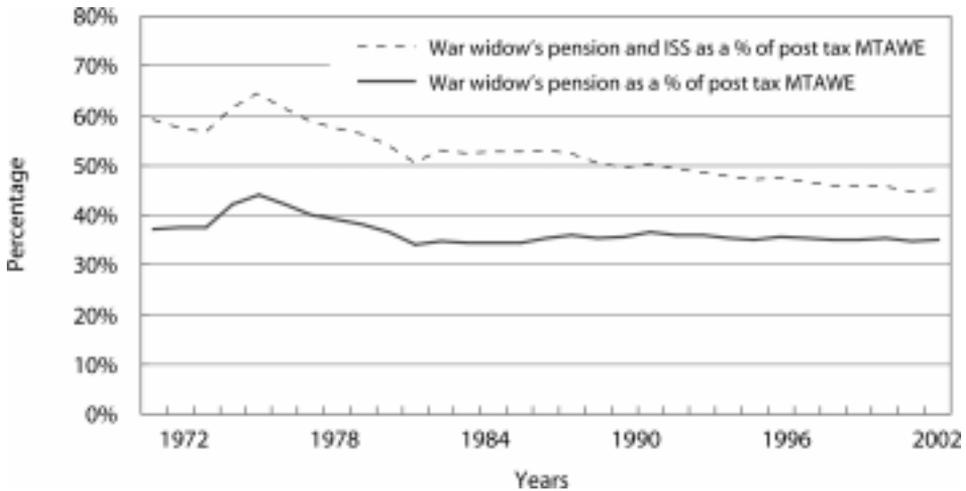
29.78 The result is that the total income package to a single veteran without qualifying service is in the range of 65 to 70 per cent of after-tax MTAW for most of the period, compared to 85–90 per cent for a veteran with qualifying service. The total household income of a veteran without qualifying service and partner has remained steady at around 90–95 per cent of after-tax MTAW since the mid-1980s. This is less than the income level of a married veteran with qualifying service in receipt of the special rate and service pensions.

29.79 Eligibility criteria for payments to spouses differ greatly between the VEA and the SSA, and it cannot be assumed that giving eligibility for payment under the VEA would lead to similar eligibility for social security pensions.

29.80 The assumption has been made in Figure 29.2 that the spouse is eligible to receive social security payments at the married rate. As in Figure 29.1, this is not so in all cases.

Figure 29.3

War widows: rates of payment with and without income support supplement (ISS) added as a percentage of after-tax MTAW, 1972–2001



29.81 Figure 29.3 shows that indexation has kept war widow's pension payments steady at around 35 per cent of after-tax MTAW for the past two decades. The 1986 freeze on income support supplement (ISS) caused a steady decline in the total benefit payable to war widows, from 50 per cent of after-tax MTAW in 1986 to around 45 per cent in 2001. This trend should cease following the 2002–03 Budget decision to index the ISS to movements in the service pension rates. (Note: no data was available on ISS prior to 1972.)

29.82 The Committee notes that a war widow might face difficulties arising from a sudden significant reduction in household income following the death of her spouse. Chapter 30 addresses this issue.

29.83 The only other income support payments made by a Commonwealth agency to widows who are not eligible under the VEA are made under social security provisions. The level of payment to war widows is higher than social security payments to widows. Because of the ISS and an additional (frozen) payment of \$12.50 per week, war widows receive weekly payments approximately 30 per cent higher than the social security payments made to other widows. War widows also receive the Gold Card.

FINDINGS

29.84 In summary, it can be stated that:

- special rate payments alone have fluctuated at around 60 per cent of after-tax MTAWÉ since 1972;
- since 1983, special rate recipients have had access to full income support payments;
- over the past 30 years, special rate recipients with the service pension have received, depending on family structure, total payments of between 90 and 115 per cent of after-tax MTAWÉ;
- while their total package has risen slowly over the period, special rate recipients without qualifying service who receive social security payments have received, because of income test provisions, a lower level of benefit amounting to 70–95 per cent of after-tax MTAWÉ;
- a large proportion of special rate recipients reside in single-income households, whereas the community norm is a two-income household;
- the war widow's pension (without ISS) has remained steady compared to after-tax MTAWÉ over the 30-year period;
- war widow benefits with ISS included have eroded slowly over the period, following cessation of indexation of the ISS in 1986; and
- this erosion has been addressed by the introduction of ISS indexation in the 2002–03 Budget.

29.85 Over the past decade, the average annual growth rate of special rate payments has been 3.05 per cent. This rate is less than the growth rate of MTAWÉ (3.88 per cent) but above the growth rate of the CPI (2.75 per cent).

ADEQUACY OF DISABILITY COMPENSATION PAYMENTS

29.86 To evaluate the adequacy of disability compensation payments, it is necessary to have a clear picture of the total package available to special rate recipients and war widows. This must include the effects of other sources of income and of the various benefits available to veterans receiving disability compensation payments, which reduce demands on their income. Such benefits include, for example, the Gold Card and the Veterans' Children Education Scheme (VCES).

29.87 The repatriation system cannot be considered in isolation from support programs provided by other government and non-government agencies to Australians generally. These programs significantly assist many veterans and

their families. The family tax benefit, which provides assistance with family costs at times of high demand, is particularly important.

29.88 The Vietnam Veterans Association of Australia, in its submission to the Committee, suggested that the rate of special rate payments should be discounted, as the recipients would not incur work-related costs. The Committee was unable to obtain a clear picture of these costs and was also concerned that any such savings could be offset at least partially by additional costs arising from, for example, increased involvement in leisure or volunteer activity. Other costs, such as power costs, might increase because a greater proportion of time is spent at home. However, on balance, the costs of working are greater than the costs of a veteran staying at home.

29.89 The Vietnam Veterans' Federation also argued that an amount equivalent to 70–100 per cent of the general rate payable within the special rate should be regarded as a veteran's compensation for non-economic loss (i.e. pain and suffering and lifestyle effects). The Federation argued that this element of the special rate is comparable to lump sum compensation payable for non-economic loss under the Military Compensation Scheme. The implication of this view is that the non-economic loss compensation element should be deducted from the special rate in comparisons against wage indices to determine the adequacy of economic loss compensation to veterans.

29.90 The Committee notes, however, that the repatriation system has never distinguished the elements of non-economic and economic loss within the special and intermediate rates, although a natural divide would appear to be either 70 or 100 per cent of the general rate. These divides have only become relevant since 1986, when they were first introduced as threshold tests for the special and intermediate rates (first at 100 per cent in 1986, and then at 70 per cent in 1988). The TPI Federation argued strongly for no distinction to be made between the elements and, in fact, sought equivalence of the whole special rate with 75 per cent of MTAW. In Chapter 30, the Committee proposes a new structure for disability pension rates that identifies the elements and recommends appropriate levels for each element.

Effect of Additional Income

29.91 The preceding comparison of rates of TPI and war widow's payments with the MTAW is based on figures for veterans with no other source of income, or whose income from other sources is below the threshold at which it would affect the rate of income support payments. The operation of the income and assets tests on the service pension is outlined in Chapter 25.

29.92 The overall effect of another source of income (e.g. superannuation, property or investment income, spouse earnings) will be to increase the overall

income of the veteran and family. A single veteran can receive additional weekly income of up to \$58.00 and a married veteran up to \$102.00 before there is any effect on the level of service pension payments. A veteran with dependent children has this 'free area' increased by \$12.30 for each dependent child under 18 years of age.

29.93 There are elements of double penalty on additional income through the combined effects of income testing and taxation. These elements can act as a disincentive to a veteran's spouse who, following the societal trend towards two-income families, is considering entering the workforce to supplement family income. The proposals outlined in Chapter 30 include measures to provide increased incentives for a veteran's spouse to undertake employment.

29.94 Despite these factors, receipt of additional income improves a veteran's overall financial situation. For example, a single veteran can currently receive fortnightly income of up to \$1204.00, and a married veteran up to \$2010.50, before service pension payments cease.

29.95 The range of special allowances outlined in Chapter 25, while available only to a small proportion of veterans, provides additional financial assistance to veterans who are significantly disabled or have special needs.

Repatriation Gold Card Benefits

29.96 Special rate recipients and war widows have the Gold Card and are thereby entitled to a range of benefits. While these benefits are not income, they reduce demands on the income of the cardholder and leave more disposable income for other needs.

29.97 The holder of a Gold Card is not required to pay for health care and treatment, whether or not the conditions being treated are related to a veteran's service. The range of health services available through the Gold Card is more extensive than that covered by private health insurance and the cardholder is not usually required to make any 'gap' payments. The exception to this is that veterans and war widows must make a contribution towards the cost of their pharmaceutical prescriptions until they reach a safety net limit, after which pharmaceuticals are provided free of charge. Cardholders also receive financial assistance towards the costs of transport associated with health care, access to Veterans' Home Care, and free provision of aids and appliances.

29.98 A community wage earner on an equivalent income may choose to take out private health cover. By doing so, the wage earner will incur the insurance cost and may also have to contribute towards the costs of treatment. A wage earner with no health cover is required to meet a higher proportion of these costs.

29.99 The Gold Card provides war widows with significant health care cost advantages compared to widows receiving social security payments.

29.100 A Gold Card holder is required to meet the health care costs of family members. A veteran in this situation who wishes to provide private health cover for family members is required to pay full costs for that cover, even though the veteran's health care costs are already paid by the Commonwealth. This issue is discussed further in Chapters 22 and 30.

29.101 It should also be recognised that all income support recipients, including special rate recipients and war widows, are also entitled to the Pensioner Concession Card, which provides a number of additional benefits and concessions available through state government, local government and non-government agencies.

Veterans' Children Education Scheme

29.102 The VCES assists with the education costs of the dependent children of special rate recipients and war widows. This assistance includes provision of living allowances and assistance with tertiary education costs. It can significantly improve the ability of a veteran's child to achieve educational and vocational goals at reduced cost to the veteran.

29.103 While this assistance may not be great while the veteran's children are young, it becomes more significant as the children become older. In addition, the VCES living allowance is not subject to a means test based on parental income, whereas the children of a community wage earner on equivalent income could have their youth allowance reduced through such a test.

29.104 The VCES provides family assistance during a particularly expensive period in the life of a special rate recipient or war widow and family.

Value of the Total Package throughout a Veteran's Life

29.105 The total income package available to a special rate recipient compares favourably with after-tax MTAW. Currently, a single veteran with qualifying service receives approximately 90 per cent and a married veteran (and spouse) approximately 115 per cent of after-tax MTAW. The equivalent rates for veterans without qualifying service are lower, being approximately 70 per cent and 95 per cent of after-tax MTAW, respectively.

29.106 Thus, in comparison to this generous earnings indicator, the income levels, together with the contribution of other cash and non-cash benefits available to special rate recipients, represent adequate compensation. It is important to note that special rate payments are made at the same level throughout the whole life of the recipient. This is in contrast to the societal

norm, in which a person's income usually reduces significantly on retirement. How the total benefits are targeted and distributed can affect their adequacy for particular groups of veterans. This issue is given attention in Chapter 30.

29.107 It is acknowledged that the above comparisons are based on single-income families. For various reasons, which are outlined below, this is a common situation for special rate recipients but contrasts with the two-income family norm. This puts a special rate recipient and family at a disadvantage compared to the rest of the community. The Committee notes that, generally, unless occupied fully with caring, a spouse can work, although combined effects of tax and income tests can provide disincentives to undertake work. A proposal addressing this issue is outlined in Chapter 30.

29.108 While a special rate recipient may, therefore, enjoy a comfortable financial situation in the longer term, they may face short-term financial difficulties that are most likely to appear when they are establishing a home and family.

29.109 War widow's payments, when ISS is taken into consideration, are approximately 30 per cent higher than social security payments to other widows. When the other benefits available are considered, and now that both war widow's and ISS payments are indexed, there appears to be no case for substantial revision of these payments.

29.110 As noted earlier, a significant issue facing some war widows is the sudden drop in household income following the death of their spouse. A proposal addressing this issue is outlined in Chapter 30.

Situational and Life-cycle Issues

29.111 The Committee recognises that there are many different family structures in Australia and that each family has its own unique package of issues and aspirations. It is reasonable to assume that this diversity is reflected in the veteran community. It is inappropriate for the Committee to make statements about what it regards as desirable or preferable living standards, as these issues are more properly the private business of families themselves.

29.112 It is, however, the Committee's responsibility to make recommendations on the special and other rates of disability pensions. In doing so, the Committee has kept in mind the need to ensure that these payments are adequate to meet the needs of the recipients and their families.

29.113 The 1907 basic wage concept, of an income sufficient to sustain a recipient in 'frugal comfort', is no longer relevant in the early 21st century. The Committee believes that a more relevant approach is to establish and maintain a package that will permit the recipient to enjoy the lifestyle and reasonable

aspirations of the average Australian family. Certainly, current community living standards and community expectations are set at a higher level than 'frugal comfort'.

29.114 To establish and maintain this package for special rate recipients and war widows, it is necessary to consider the broad range of circumstances and associated pressures that they face. These circumstances range from a young single person of few financial resources with an injury sustained in a peacekeeping operation, through to a World War II veteran who lives with his wife in their own home and has enjoyed a long and relatively successful working career.

29.115 Between these extremes fall situations such as those of veterans who have succumbed to a service-related condition in late middle age and are no longer able to continue working. They may or may not have access to substantial financial resources such as superannuation, property or investment income, but may have incurred substantial debts in efforts to sustain employment or a business whilst coping with failing health.

29.116 Also of concern are those veterans who have been discharged early from the armed forces because of injury or illness, with little superannuation cover and a negligible capital base.

29.117 Veterans, irrespective of their situation, face a number of common demands: the need to provide for self and family; pressures to cater for the educational needs of their children; and the need to establish and ensure security of accommodation. Within this framework, each veteran, single or married, faces another, unique set of financial pressures.

29.118 Two groups of veterans face particular difficulties. The first group consists of those veterans without qualifying service, who receive a lower income because their income support payments are subject to an income test. The second group is made up of those veterans whose need for care prevents their spouses or partners from engaging in employment. It should also be recognised that a veteran might fall into both these groups.

29.119 Periods of particular financial pressure are another consideration. These typically include those times when children are born, when they begin education, when they make the transition from one educational level to another, and when the family makes major financial commitments, such as buying a home.

29.120 It is apparent that the current system of disability compensation, with a 'one size fits all' approach that provides payments at the same level throughout the recipient's lifetime, cannot meet the demands created by these circumstances.

29.121 Submissions to the Committee pointed out that the current system provides few real incentives for partners to engage in employment, while also providing inadequate compensation for those who must give full-time care to a veteran partner. The system is thus not consistent with the two-income family societal norm. Chapter 30 includes a proposal addressing this issue.

29.122 A related issue raised in submissions is the difficulty faced by veterans when they lose employment due to their war-caused disabilities and are unable to maintain loan repayments on their housing. Some lose their homes and the greater part of their equity.

29.123 These difficulties may be linked to the single-income family of many special rate recipients. Their capacity to service housing loans would be improved if their partners were also working. The Committee discusses this further in Chapter 30.

29.124 In summary, it appears that the current disability compensation package, which evolved over many years in response to changing demands, requires further development to meet the variety and range of demands in early 21st century Australian society.

CONCLUSIONS

29.125 The Committee concludes that MTAWÉ, being a generous measure of average earnings across the Australian workforce, provides a suitable benchmark for disability compensation payments.

29.126 The total benefit of the special rate payment and income support for a veteran with qualifying service is currently close to after-tax MTAWÉ for a single person (90 per cent) and significantly more than after-tax MTAWÉ for a couple (115 per cent), and has remained at this level for some years. When other non-cash benefits are included, the total special rate package provides benefits above the level indicated by income alone (i.e. the overall situation of a special rate recipient or war widow is better than that indicated by a comparison only of his or her income to MTAWÉ).

29.127 Despite this, the current special rate package does not adequately meet the changing needs of recipients and their families throughout their lifetimes.

29.128 Special rate payments provide inadequate levels of assistance and security to many younger recipients facing the financial challenges of raising a family and buying a home, while providing levels of assistance to older recipients that may exceed their needs.

29.129 The Committee has determined that there is a need to restructure the disability compensation package to better meet demands that vary through the life of the veteran and his family. Chapter 30 presents a proposal to this end.

29.130 In reviewing the level of payments to war widows, the Committee has noted that, while there is no clear benchmark for the level of these payments, a war widow receives some 30 per cent more than social security payments to other widows after the war widow's ISS payments are included. A war widow also receives a Gold Card, which is a significant additional benefit not available to other widows. As both the war widow's pension and ISS payments are now indexed, there appears to be no basis for further increases in the overall level of financial assistance to war widows, except for the most needy of war widows who rent in the private market and do not receive rent assistance. This matter is further discussed in the next chapter.