

CHAPTER SEVEN

NEW MILITARY COMPENSATION SCHEME

7

INTRODUCTION

7.1 The Military Compensation Scheme (MCS) provides members of the Australian Defence Force (ADF) with workers' compensation and rehabilitation. The Commonwealth Government has agreed to introduce a new MCS. It is planned that the new scheme will be a single, self-contained military compensation scheme for peacetime service. The scheme is to cover only military personnel and is to recognise the different nature of military service from civilian employment. The definition of peacetime service, for the purposes of the new scheme, encompasses all service short of declared war.

7.2 In the Committee's letter of commission, the Minister for Veterans' Affairs, the Hon Danna Vale MP, asked the Committee to become familiar with the Government's policy objectives with the new MCS and to keep them in mind when framing recommendations. The development of the new MCS was significant for the deliberations of the Committee.

7.3 This chapter, therefore, provides an overview of:

- the current MCS;
- the need for a new scheme;
- the policy objectives of the Government with the new scheme; and
- how those objectives have been relevant to the Committee's deliberations.

THE CURRENT SCHEME

7.4 The term MCS describes the legislative arrangements to compensate members of the ADF for injury or death related to service. There are currently four pieces of legislation that make up the MCS:

- the *Safety, Rehabilitation and Compensation Act 1988* (SRCA), which also applies to other Commonwealth employees;
- specific enhancements for the ADF that were made to the SRCA by the *Military Compensation Act 1994* (MCA);
- the *Veterans' Entitlements Act 1986* (VEA); and
- additional benefits under the *Defence Act 1903*, Defence Determination 2000/1.

7.5 The effect of this legislation is to provide a complex structure of eligibility for compensation. Some members of the ADF have coverage under only the SRCA as supplemented by the Defence Determination 2000/1, some have coverage under the VEA only for certain service and some have dual entitlement under the SRCA and the VEA.

7.6 The SRCA replaced the *Commonwealth Employees Compensation Act 1930* and the *Compensation (Commonwealth Employees) Act 1971*. By transitional arrangements in the SRCA, the provisions of the previous Acts continued to operate in respect of injuries or deaths that occurred during the respective periods covered by those Acts. The application of these provisions is administered by the Military Compensation and Rehabilitation Service (MCRS), which is a part of the Department of Veterans' Affairs (DVA). The terms MCS and MCRS are often confused or used interchangeably. The MCS is the scheme of legislation, while MCRS is the administrative service.

7.7 The SRCA also has an important interface with military superannuation schemes with regard to invalidity benefits where offsetting arrangements apply to some income support provisions.

7.8 Table 7.1 summarises the compensation cover that is provided under the current scheme. It illustrates the complex interrelationship between the different types of service and the cover provided by the SRCA, the VEA or both.

7.9 From Table 7.1 it can be seen that the compensation cover available to current members of the ADF depends on the type of service, date of injury and date of enlistment. Since 1994, access to the VEA is available only for members who undertake warlike or non-warlike service. This means that there will continue to be a number of ADF personnel who will have dual eligibility for some periods of service, that is:

- warlike service (operational service under s.6F of the VEA); and
- non-warlike service (operational service under s.6F of the VEA):
 - hazardous service (hazardous service under Part IV of the VEA); and
 - peacekeeping service (peacekeeping service under Part IV of the VEA).

Table 7.1
Guide to MCS Eligibility

Type of service	If injury occurred during service:		
	On or after 7 December 1972 and before 22 May 1986	On or after 22 May 1986 and before 7 April 1994	On or after 7 April 1994
Peacetime continuous full-time service (CFTS)			
Enlisted on or after 7 April 94	na	na	SRCA
Enlisted on or after 22 May 86 (and have completed 3 years continuous service by 6 April 94)	na	SRCA and VEA	SRCA
Enlisted on or after 22 May 86 (and have <i>not</i> completed 3 years continuous full time service by 6 April 94)	na	SRCA	SRCA
Enlisted before 22 May 86 (and have continually served up to after 7 April 94)	SRCA and VEA	SRCA and VEA	SRCA and VEA
Part-time service (reserves, cadets, etc.)	SRCA	SRCA	SRCA
Operational service (warlike service)	VEA	VEA	SRCA and VEA
Peacekeeping service (non-warlike service)	SRCA and VEA	SRCA and VEA	SRCA and VEA
Hazardous service (non-warlike service)	Not declared	SRCA and VEA	SRCA and VEA

na = not applicable

Notes:

- For service prior to 7 December 1972, members are covered under the SRCA (and its predecessors) for peacetime service, and the VEA for operational and peacekeeping service. There was no provision for hazardous service.
- Members who enlisted on or after 22 May 1986 and did not complete three years continuous full-time service before 6 April 1994 but were discharged as medically unfit may claim under the VEA.
- Hazardous service is service that has been declared, in writing, by the Minister for Defence to be hazardous.
- Warlike or non-warlike service is service that has been declared, in writing, by the Minister for Defence to be warlike or non-warlike.

7.10 The SRCA component of the MCS is based on the workers' compensation model and, since 7 April 1994, has covered all ADF members for all types of service. It has been a clear intention of previous governments that the ADF should be covered by a modern compensation scheme, specific to the military, based on a workers' compensation model. This was foreshadowed in 1986, when the creation of the MCS was mooted. The process began in 1994 when the MCA began to phase out dual eligibility. Dual eligibility post-1994 is

applicable only to members who enlisted before 22 May 1996 and those who deploy on warlike and non-warlike service; otherwise, any injury incurred on any service is covered by the SRCA.

7.11 While it contained other provisions, the principal effect of the introduction of the 1994 MCA was to remove coverage under the VEA for peacetime service for the majority of ADF members and to provide dual eligibility (SRCA and VEA) for ADF members on operational service.

THE MOVE TO A NEW SCHEME

7.12 There have been a number of opportunities in recent years to rationalise compensation arrangements for the military, most notably with the VEA in 1986, the SRCA in 1988 and the MCA in 1994. On each of these occasions there had been active consideration of the need for a separate single scheme for the military, but the necessary reform of military compensation arrangements was not delivered.

7.13 The push for reform gained momentum again in 1995 in response to the case of a young soldier who was severely injured in a training accident in the Northern Territory. The accident resulted in the soldier becoming a quadriplegic. He was married with three young children and did not own a home. He was eligible for compensation benefits under both the VEA and SRCA, but neither of these schemes, either individually or combined, provided adequate support for the reasonable needs of a severely injured service member. Essentially, the quantum of an SRCA lump sum and/or the VEA pension was insufficient in the view of Defence to provide access to a reasonable standard of living, including housing, so important for a severely impaired person and his or her family.

7.14 The Black Hawk accident in 1996 provided a further example of the inconsistencies of the military compensation system. Members injured and the dependants of those killed in this accident received different compensation entitlements depending on the member's date of enlistment, which in turn determined whether he had dual compensation entitlements (VEA and SRCA) or not.

7.15 Following the Black Hawk accident, the Government initiated an inquiry into military compensation arrangements. The internal Department of Defence inquiry recommended increases in compensation benefits for ADF members who were severely injured and the dependants of those who were killed in service. The Government agreed to the additional compensation benefits, which were implemented in 1998 through a Defence Determination under the *Defence Act 1903* and added to benefits under the SRCA.

7.16 While the inquiry outcomes dealt adequately with the issues of entitlements, particularly for death and severe injury, they did not deal with the multiple legislation and complexity of the current scheme. In June 1997, after considering the recommendations, the Government directed that work proceed on developing a single, self-contained military compensation scheme covering only military personnel and recognising the different nature of military service from civilian employment.

7.17 Mr Noel Tanzer AC was appointed in May 1998 to conduct a review of the military compensation scheme (the Tanzer Review). His primary recommendation was the establishment of a new self-contained safety, compensation and rehabilitation scheme for the ADF covering all service short of a mass mobilisation and based on the distinct nature and needs of military service.

7.18 Following the Tanzer Review, Defence proposed to the Government that a new compensation scheme be established for the ADF (Department of Defence 1999). The new scheme proposals were based largely on the recommendations contained in the Tanzer Report. After lengthy consideration, the Government has agreed to proceed with the introduction of a new military compensation scheme.

THE SCHEME CURRENTLY PROPOSED

7.19 The Department of Defence submission to the Committee outlined the Government's objectives with the new MCS. These are explained in the following paragraphs, which draw heavily from the submission.²⁰ Much of the description below has been in the public domain for some time and has been well known to the veteran community. It reflects the Government's stated response to the Tanzer Report. The Committee has been aware that the advice in the Defence submission has been the subject of a formal consultation with the veteran community on the detail of the scheme. That consultation has been occurring during the life of the Committee. The Committee has noted that some of the original intentions of the new scheme may possibly change as a result of the Government's deliberations on the present debate with the veteran community and, indeed, in the light of future public debate on the scheme's draft legislation when released.

7.20 The Government's stated key aim with the new scheme has been to reduce much of the complexity and confusion that exists in the present compensation arrangements, principally through the removal of dual eligibility. The scheme would provide much-improved access and visibility to those

²⁰ Submission 2339, Department of Defence.

members and ex-members making compensation claims. The new scheme would apply to all military service, both in Australia and overseas, and provide a better focus on specific military service requirements.

7.21 The new scheme would be based on the best-practice principles and attributes of a modern compensation system, with an appropriate emphasis on prevention and rehabilitation. It would promote a more integrated approach to injury prevention and management in the Defence Force with closer integration of safety, rehabilitation, resettlement and compensation.

7.22 The new scheme would operate prospectively. Existing entitlements would be preserved. They would not change for those who are eligible under the present VEA and/or SRCA scheme or who can establish their eligibility in relation to an injury that occurred before the commencement date of the new scheme.

7.23 There would be no change to current VEA entitlements and those presently entitled to VEA benefits would remain completely unaffected. With the introduction of the new scheme, the VEA would be reserved for use in situations to be determined by Government, such as a mass mobilisation.

7.24 The benefits structure in the new scheme would be based largely on the benefits provided in the current scheme: that is, the benefits from the current SRCA plus the additional compensation made payable under Defence Determination 2000/1, as well as some additional benefits from the VEA. The VEA aspects would include:

- a minimum level of compensation payment for widows with a one-time choice between the new scheme payment and a VEA-style pension payment;
- provision of health care cards including the Repatriation Health Card – For All Conditions (Gold Card) for the severely injured;
- access to the service pension for those with warlike service;
- automatic treatment for specific diseases; and
- more beneficial standard of proof for warlike and non-warlike service.

7.25 The DVA assessments systems, suitably modified where necessary, would be adopted: the Statements of Principles (SOPs) would be used to determine initial liability, and the Guide to Assessment of Rates of Veterans' Pensions (GARP) would be used to assess permanent impairment lump sums.

7.26 The new scheme would provide financial compensation for death and permanent impairment in a lump sum form and income support would be provided until retiring age for those who are incapacitated for work. Attendant care, household services and car and home modifications would be provided. The emphasis on vocational training to assist in return to work would be a major

feature of the new scheme, with vocational rehabilitation compulsory where the member is capable of undertaking such rehabilitation.

7.27 Where it could be demonstrated that certain categories of claimants may be worse off under the new scheme compared to current arrangements, then consideration would be given to the establishment of a safety net.

7.28 It was originally intended that an exposure draft of the legislation for the new scheme would be available for comment with a view to a Bill being introduced into Parliament in 2003, for commencement of operation in early 2004.

IMPACT ON REVIEW OF VETERANS' ENTITLEMENTS

7.29 In April 2002, the Department of Defence and the Repatriation Commission provided a briefing for the Committee on the background and policy objectives of the planned new MCS. In March 2002, the departments of Defence and Veterans' Affairs and the Repatriation Commission set up a consultative forum with the major ex-service organisations (ESOs) on the detail of the proposed scheme. From that point, the departments and the Commission have kept the Committee informed of the progress.

7.30 The Committee itself actively sought to keep abreast of progress. Several ESOs also relayed to the Committee through supplementary submissions their concerns about aspects of the consultation process on the MCS and issues that were emerging in the debate. Of particular interest to the Committee was the work of the agencies and the debate about the safety net of compensation levels for severely disabled members. Also of interest was the question of whether or not additional levels of compensation would be provided under the new scheme for ADF members who had warlike service.

7.31 Initially, the Committee understood that there was a possibility that the draft MCS legislation would be released at approximately the same time as the Committee's Report. However, it became apparent that the draft legislation would take longer to produce than was originally anticipated, due to the consultation process and the enormity of the task for the two agencies involved. Hence, the Committee's Report would precede the release of the draft legislation. The Committee, therefore, decided to continue with its deliberations against its terms of reference while remaining aware of the Government's stated objectives and the possibility of the emergence of a new MCS.

7.32 The Committee has taken into account the MCS developments in several ways, as detailed below.

Impact on Eligibility Issues

7.33 The Committee has been conscious that the new MCS, if passed by Parliament, would apply to all military service both in Australia and overseas, would operate prospectively and would preserve existing entitlements. There would be no change to current VEA entitlements and those presently entitled to the VEA benefits would remain completely unaffected.

7.34 The new scheme would thus end future eligibility under the VEA for injuries or deaths after the legislation commencement date by removing future dual eligibility for operational service. In other words, the VEA would be confined to past service (that is, service before the effective date of the new MCS).

7.35 This meant for the Committee that its deliberations on eligibility and pension rates under the VEA related to past service and not to future service. The Committee's main focus needed to be on the veterans' compensation system, which would remain in place and untouched, rather than the proposed, new, future system for the ADF. The Committee notes that its recommendations might have implications for the new MCS if it emerges.

7.36 The Committee is also aware of the Government's stated intention to carry forward into the new MCS the concepts of non-warlike and warlike service. This indicated to the Committee that the Government was reasonably satisfied with the robustness of the system of service categorisation, even though the Department of Defence had initiated a review of the nature of service classifications to improve the system. This gave the Committee confidence in using the system to examine perceived anomalies in service since World War II. The Committee notes the intention that, under the new scheme, non-warlike and warlike service would continue to attract the generous 'reverse criminal' standard of proof for compensation claims that they now do under the VEA. The Committee notes that warlike service would continue to attract service pension eligibility, although the Committee was unsure how that would be achieved legislatively for future service.

Impact on Pension Issues

7.37 The Committee has been cognisant of the principle espoused by Tanzer of like compensation for like injury regardless of the nature of the incident that gave rise to the injury. This principle relates to the level of compensation rather than to questions of determining entitlement, such as the standard of proof to apply to claims. It was clear that the Government's intention was to pursue this principle through the new scheme, although there would be differences in the standard of proof for claims, between warlike and non-warlike service on the one hand and normal peacetime service on the other. Notwithstanding the

principle of like compensation for like injury, the debate with the veteran community on the detail of the new scheme raised the question of whether the level of compensation should be different depending on whether the member had warlike service. The Committee has observed that this issue is yet to be resolved by the Government.

7.38 The Committee has been aware of analysis, undertaken by the Department of Defence and DVA and presented to the ESO members of the MCS consultative forum, on the levels of different benefits available to severely disabled members under the VEA and the SRCA. However, the Committee has proceeded to examine pension and benefit levels under the VEA in the light of the submissions it received (see Chapter 29).

7.39 The DVA/Defence analysis showed the significant additional compensation available for veterans with dual entitlement under the VEA and SRCA compared to those with single cover under one of the schemes. This additional benefit results from the opportunity for the veteran to choose benefits from the different legislative provisions. The Committee finds this situation inequitable and unfair. Although it was stated that the Government intended to remove this advantage for future service, it would remain for past service. Elsewhere in this Report (Chapter 30) the Committee argues that this advantage in favour of existing dually entitled veterans be curtailed for those who have not yet exercised their rights to claim benefits. Such a change would simplify current eligibility provisions and administrative processes and make the VEA more equitable.

7.40 In developing its proposals for restructuring the disability pensions (see Chapter 30), the Committee has been aware of the Government's stated objective of basing the new MCS on the best-practice principles and attributes of a modern compensation system by retention of the fundamental benefits structure of the SRCA.

7.41 The Committee has sought to understand the best-practice principles and attributes of modern compensation schemes and has been keen to ensure that any restructuring of the compensation pensions under the VEA is consistent with those features. An example is the clear delineation in modern compensation schemes between economic and non-economic loss. A brief analysis of modern compensation schemes is in Chapter 27.

7.42 It was clear that the levels of benefits proposed for the MCS would need to be considered by the Government in the light of the Committee's recommendations, if these are acceptable to the Government. Nevertheless, the Committee has undertaken its own analysis of current pensions and benefits under the VEA and made recommendations it believes to be appropriate for the VEA.

7.43 The current ADF is a fully superannuated workforce with coverage under either the old *Defence Force Retirement and Death Benefits Act 1973* or the newer Military Superannuation and Benefits Scheme. ADF members thus have access to good superannuation. Given that some of these members already have VEA compensation entitlement for operational service, the Committee has been aware of this superannuation availability in developing its proposals for a new compensation structure under the VEA. The interaction between superannuation benefits and compensation under the SRCA is relevant. This interaction has not been a feature in the VEA disability pension structure.

7.44 The Government has also stated its desire to incorporate the Repatriation Medical Authority SOPs and the GARP, suitably modified, into the new scheme. This indicated to the Committee an acknowledgment by the Government of the robustness of those instruments. While these instruments were not the subject of the Review, the Committee has worked on the basis that these instruments would continue to operate for determinations of eligibility and pension levels under the VEA.

Impact on Rehabilitation Issues

7.45 The Committee has been aware of the Government's intention to retain a strong emphasis on rehabilitation, in particular vocational rehabilitation, in the new scheme and to ensure an integration of safety, prevention, rehabilitation, resettlement and compensation. This integration and focus on rehabilitation is an important feature of most modern compensation systems. This has encouraged the Committee to recommend a stronger focus on rehabilitation in the veterans' system. Chapter 31 proposes a substantial change in philosophy and culture in the veterans' system with regard to rehabilitation.

CONCLUSION

7.46 The Committee has been kept broadly informed on the progress of the planned new MCS and the debate between the Government and the veteran community on the many issues that remain unresolved. It has noted the Government's stated objectives for the scheme and borne them in mind to the extent it was able to, given the many issues unresolved. The Committee has, however, remained focused on the VEA system and its own terms of reference.

CHAPTER EIGHT

NUMBERS AND EXPENDITURE

8

INTRODUCTION

8.1 The terms of reference for the Review require the Committee to ‘bear in mind the commitment of the Government to responsible economic management’. In assessing the potential costs of its recommendations, the Committee has examined current and potential numbers of veterans and Department of Veterans’ Affairs (DVA) beneficiaries, as well as expenditure levels. The characteristics of the veteran population, the levels of claims activity and the Department’s expenditure need to be understood to put the policy issues before the Committee into perspective. This chapter gives some background statistical information about the veteran population.

8.2 The Department has assisted greatly in providing the information for this chapter; all figures quoted have been provided by or confirmed with DVA representatives. Unless otherwise specified, the figures are correct at 30 June 2002.

DVA EXPENDITURE

8.3 Of DVA’s total annual expenditure of approximately \$8.9 billion, representing about 5.5 per cent of government outlays, by far the greatest proportion goes to benefits and services for the veteran community (referred to as administered expenditure). About \$252 million, or 2.8 per cent, relates to departmental running costs. The breakdown of the administered expenditure and departmental running costs by major outcome is shown in Table 8.1.

Table 8.1
DVA expenditure 2001–02

Outcomes	Total administered expenses \$'000	Costs of departmental outputs \$'000	Total \$'000
Compensation and support	5,415,594	95,049	5,510,643
Health	3,228,079	90,641	3,318,720
Commemorations	19,663	9362	29,025
Service delivery	10,772	47,222	57,994
Military Compensation and Rehabilitation Service (MCRS)	– ^a	10,421	10,421
Totals	8,674,108	252,695	8,926,804

^a Scheme costs for the MCRS are paid from the Defence portfolio.

8.4 The Department's overall real and absolute expenditure has been increasing over the past decade. This increase is mainly due to several factors:

- indexation of pensions;
- growth in war widow's pension, totally and permanently incapacitated (TPI) rate and extreme disablement adjustment (EDA) recipient numbers, and a steady rise in the average general rate disability pension;
- increased health costs flowing from the demands of an ageing population and from rising general community health care costs; and
- new government programs, including extensions of eligibility for various benefits to different groups.

8.5 The Department has a staff of around 2500. This number has been fairly constant in recent years, with additional resources provided for new initiatives counterbalancing efficiency reductions.

SURVIVING VETERANS

8.6 At the end of June 2002, there were an estimated 463,800 surviving veterans of the Australian armed services and World War II Australian Merchant Navy who were potentially entitled to benefits under the *Veterans' Entitlements Act 1986* (VEA). There were also about 81,000 surviving British, Commonwealth and allied (BCAL) veterans in Australia at this time. A breakdown of the projected veteran survivor population to 2010 is provided in Table 8.2.

Table 8.2
Department of Veterans' Affairs projections of Australian veteran survivors, 30 June 2002–2010

Year	Projected number of survivors								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
World Wars I and II — total ^a	203,700	187,700	171,900	156,400	141,200	126,400	112,200	98,700	85,900
Other pre-1972 service ^b	76,200	75,200	74,100	73,000	71,800	70,600	69,200	67,900	66,400
Post-1972 service ^c	183,800	183,100	182,200	181,300	180,300	179,300	178,200	177,000	175,700
Australian totals^d	463,800	445,900	428,200	410,700	393,300	376,300	359,600	343,500	328,000

^a Includes service in Australia and overseas, Australian Merchant Navy and British Commonwealth Occupation Force (Japan).

^b Includes service in Korea, Malaya and Far East Strategic Reserve, Vietnam and Ubon Air Base, Thailand.

^c Includes Gulf War, Namibia, Somalia, Cambodia, East Timor and peacetime Defence Force.

^d Totals, which include those potentially eligible for the service pension and/or the disability pension, exclude BCAL veterans and have been rounded. There are some minor overlaps between various conflicts.

8.7 Of approximately 993,000 Australian armed services personnel who served in World War II, about 953,600 survived the war. Of those alive at the war's end, about 203,700 were still alive at the end of June 2002. The corresponding approximate figures for Korea are 9900 still living out of 17,900 and for Vietnam 51,400 out of 58,400.

8.8 At the end of June 2002, there were an estimated 230,000 surviving veterans of the Australian armed services with qualifying service and 233,800 without qualifying service.

8.9 The magnitude of these numbers might surprise the general community, as there is a general perception that the number of surviving veterans is declining more rapidly, especially of World War II veterans.

8.10 The estimated veteran survivor population has been declining by about 5.6 per cent per year for the past few years. However, the reduction masks two counterbalancing trends. On the one hand, more veterans are becoming potentially eligible as a result of recent deployments (peacekeeping and serving members but principally East Timor, with an estimated 15,000 East Timor veterans entitled to claim under the VEA at some future time). On the other hand, the estimated annual number of deaths among World War II veterans is expected to peak at about 16,000 per year at the end of June 2003 and then start to decline to about 13,000 per year in 2010. The proportion of expected deaths to

the number of survivors will continue to rise, from about 8.5 per cent in 2003 to about 14.9 per cent in 2010.

NUMBERS OF BENEFICIARIES

8.11 At the end of June 2002, about 255,900 veterans and 261,100 dependants of deceased and incapacitated veterans were receiving some form of benefit from DVA, such as pension payments, health care or pharmaceutical cards, or a combination of these and other benefits.

8.12 The numbers of beneficiaries at the end of June 2002, by general category of benefit and with some overlap between benefits, were:

Income support	378,108 (veterans and partners)
Compensation	271,551 (veterans, war widows and orphans)
Health treatment card holders	340,716 (veterans, war widows and orphans)

INCOME SUPPORT PENSIONS

8.13 At the end of June 2002, 155,099 veterans and 124,419 partners were receiving a service pension and a further 83,741 war widow/ers (hereafter referred to as war widows) were receiving an income support supplement.

8.14 Service pension numbers have been reducing steadily over the past decade with the falling numbers of World War II veterans, who make up about 64 per cent of veteran service pensioners. The service pension population includes 49,070 BCAL veterans and their partners. Most service pensioners (184,580 or 66 per cent) receive the maximum rate of service pension. The take-up rate of veterans with qualifying service for the service pension is about 66 per cent. In 2001-02, DVA made about 5400 new grants of service pension, compared to 7400 new grants in the previous financial year.

8.15 Income support supplement (ISS) numbers have been increasing at an average of about 3000 per year, in line with the growth in numbers of war widows. About 74 per cent of war widows are paid ISS and, of these, about 97 per cent receive the maximum rate of ISS.

8.16 The Department spends about \$2.8 billion annually on service pensions and ISS, out of total expenditure of around \$8.9 billion.

COMPENSATION PENSIONERS

8.17 Of the numbers receiving compensation payments at June 2002, 159,425 veterans received a disability pension, 113,059 widows received a war widow's pension and 344 orphans received an orphan's pension.

8.18 Veteran disability pension numbers have been constant for the past few years. The breakdown by rate at June 2002 is shown in Table 8.3.

Table 8.3
Disability pension numbers

Disability pension	Number of recipients
Special rate	26,423
Intermediate rate	984
Extreme disablement adjustment (EDA)	12,510
100 per cent general rate	25,225
10–95 per cent general rate	94,283
Total	159,425

Note: From June 2002, DVA changed the methodology used to count pensioner populations. Figures before June 2002 were found to be overstated in some cases where a veteran's 'payment' details did not match with 'eligibility' details. DVA now counts only those veterans receiving a fortnightly payment.

8.19 The Department spends about \$1.2 billion annually on disability pensions and related allowances. About \$490 million of this amount is spent on TPI pensions.

8.20 The breakdown of the disability pensioner population by conflict is shown in Table 8.4.

Table 8.4
Disability pensioners by service, June 2002

Conflict	Number of disability pensioners
World War I	3
World War II	96,788
Korea and Malaya	7107
Far East Strategic Reserve	2690
Vietnam	27,558
Gulf War	162
East Timor	401
Peacekeeping forces	803
Peacetime Defence Force	23,497
Total	159,009^a

^a Total excludes 416 pensioners where conflict is unknown.

Note: Veterans who served in multiple conflicts are counted in the conflicts in which they first served. For this reason, numbers for some conflicts may be slightly understated.

8.21 World War II veteran disability pensioner numbers have been reducing slowly in recent years, but this trend has been negated by the increasing number of disability pensioners who served in Vietnam, have peacetime service (1972–94) or have served with peacekeeping forces. Of all disability pensioners, 96,788 (61 per cent) were from World War II, while 27,558 (17 per cent) were from the Vietnam War.

8.22 The level of disability claims received has remained consistent over the past decade, averaging around 27,000 per year, with a fairly consistent 27 per cent being first-time claims. Grants of disability pension for 2001–02 were 7261, having dropped steadily from 9250 in 1997–98, while deaths have averaged over 8800 each year since 1997–98. Some 55 per cent of disability pensioners (88,166 people) also receive a service pension, while an estimated 14,500 (nine per cent) are also paid social security pensions and benefits (December 2001).

8.23 A more detailed analysis of the disability pensioner population is provided below.

8.24 War widow's pension numbers have continued to increase at a steady rate of about 2500 to 4000 per year over the past six years. Most (105,713 or 94 per cent) are war widows of World War II veterans. Widows of Korean War and Vietnam War veterans have been increasing in absolute numbers, but remain a small proportion of the total.

8.25 Orphan numbers have decreased over the past 10 years from 561 in June 1992 to 344 in June 2002.

8.26 Other dependent pensioners (wives, widows who are not war widows, and children) have been reducing at an accelerating rate. These pensions ceased to be granted from 1985 and the amounts of payment were frozen. The reduction reflects deaths and marriages among wives and widows. By June 2002, 48,420 wives, widows and children were still receiving these dependants' pensions.

HEALTH CARE

8.27 At the end of June 2002, over 340,716 veterans and their dependants were eligible for health care at DVA's expense. This population is often referred to by DVA as the 'eligible treatment population'. It comprises 281,448 holders of the Repatriation Health Card – For All Conditions (Gold Card), of whom 170,045 are veterans and 111,403 are war widows; and 59,268 holders of the Repatriation Health Card – For Specific Conditions (White Card), including 8397 British Commonwealth veterans who receive a White Card as part of agency agreements between Australia and other countries. In addition to the 340,716 Gold and White Card holders, there are a further 21,726 BCAL veterans

who have a Repatriation Pharmaceutical Benefits Card (Orange Card), introduced on 1 January 2002, entitling them to access the Repatriation Pharmaceutical Benefits Scheme.

8.28 The eligible treatment population comprises 64 per cent males and 36 per cent females. A high proportion is in the older age groups, reflecting the age distribution of the surviving veteran and war widow populations. Interestingly, the male veterans aged 80 years or more in the eligible treatment population make up 40 per cent of the total Australian male population of the same age group. The current age distribution of all holders of Gold and White Cards is shown in Table 8.5.

Table 8.5
Gold and White Card holders (June 2002)

Age	Total	Percentage
Under 55	36,491	11.0
55–59	17,980	5.0
60–64	9,324	2.0
65–69	11,236	3.0
70–74	25,579	7.5
75–79	103,056	30.0
80–84	91,283	27.0
85–89	35,412	10.5
90 or over	10,252	3.0
Unknown	103	1.0
Totals	340,716	100.0

Percentages have been rounded

8.29 Extensions of eligibility for the Gold Card since 1998 have added about 42,000 to the number of cardholders.

DISABILITY AND WAR WIDOW COMPENSATION PENSIONERS

8.30 As indicated above, disability pension claims have remained at a fairly high level over the past decade. This appears to be due to the ageing of the veteran population, an expanded program of commemorative events, and improved knowledge of veteran entitlements. The trend has kept disability pensioner numbers relatively constant despite declining World War II veteran numbers. However, the mix of veteran disability pensioner numbers has been changing, with a steady shift towards higher rates.

Table 8.6
Disability pensions payable to incapacitated veterans
by conflict and rate, at 30 June 2002

Conflict	Special rate	Inter-mediate rate	EDA	General rate 100%	General rate 10–95%	Total
World War I	0	0	0	1	2	3
World War II	8035	415	11,798	19,200	56,504	96,788
Korean War	1598	52	532	1220	3705	7107
Far East Strategic Reserve	540	13	62	351	1724	2690
Vietnam	14,248	311	100	2409	10,490	27,558
Gulf War	24	0	0	21	117	162
East Timor	29	1	0	17	354	401
Peacekeeping forces	170	8	0	69	556	803
Peacetime defence service	1752	184	11	818	20,732	23,497

Special Rate Recipients

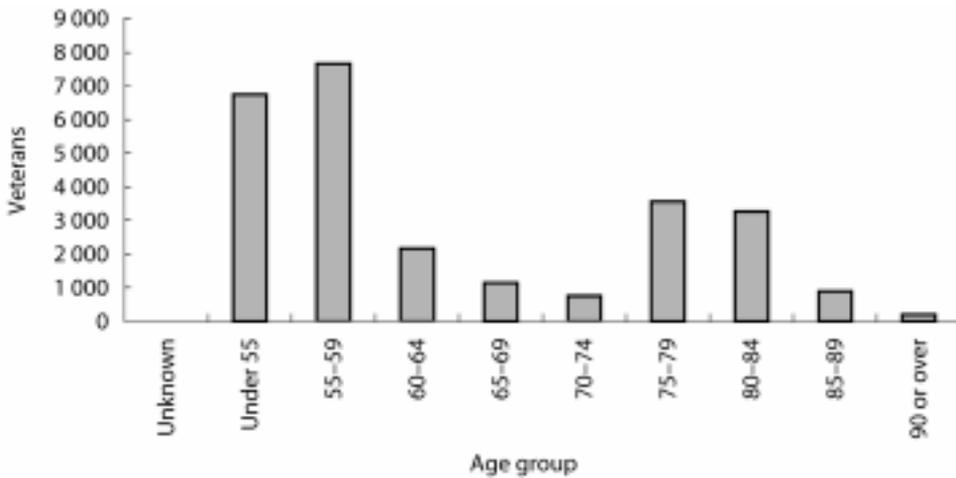
8.31 Special rate recipients fall into three groups: TPI, temporarily totally incapacitated (TTI) and totally blinded. Special rate numbers have been increasing by about 1200 to 1500 per year during recent years. The age distribution of special rate recipients is shown in Table 8.7 and Figure 8.1.

Table 8.7
Special rate disability pensions, by age group and category

Age group	Blind	TPI	TTI	Total	Percentage
Unknown	0	1	0	1	0.0
Under 55	4	6610	127	6741	25.5
55–59	8	7629	24	7661	29.0
60–64	5	2169	3	2177	8.0
65–69	1	1150	1	1152	4.5
70–74	11	747	0	758	3.0
75–79	170	3390	1	3561	13.5
80–84	214	3050	0	3264	12.0
85–89	101	796	0	897	3.5
90 or over	25	186	0	211	1.0
Total	539	25,728	156	26,423	100.0

Percentages have been rounded

Figure 8.1
Special rate disability pensioners, by age group



8.32 This distribution reflects Australia’s involvement in two major conflicts, with 8035 World War II veterans aged 75 or more and 14,248 Vietnam veterans aged mainly 55–65 years. There are 24 Gulf War veterans in receipt of special rate pensions. In total, there are 6742 special rate pensioners aged under 55 years. The youngest special rate veteran is 22 years old and the oldest is 101.

8.33 New TPI pension grants over the past decade have more than doubled, but appear to have started to plateau over the past two years (Table 8.8).

Table 8.8
New TPI grants over past decade

Year	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01	2001–02
No. of grants	1117	1458	2050	2129	1571	1978	2595	2532	2475

8.34 Most TPI pension grants are being made to Vietnam veterans as this cohort moves into an age where their disabilities are becoming more manifest and are affecting their ability to retain or regain employment. For example, of 2475 grants of TPI pension in 2001–02, 74 per cent were to Vietnam veterans. The distribution of TPI grants made to Vietnam veterans at June 2002 is shown in Table 8.9.

Table 8.9
TPI grants to Vietnam veterans, 2001–02

Age group	Number of TPI grants to Vietnam veterans	Percentage of Vietnam veterans TPI grants
50 and under	17	1
51–55	875	48
56–60	819	45
61–65	108	6
66 and over	14	1
Total	1833	100

Percentages have been rounded.

8.35 Most of the grants of TPI pension since the Repatriation Medical Authority Statements of Principles were first gazetted in 1994 have involved posttraumatic stress disorder as the dominant disability suffered by the veteran. The Department advises that the other major disabilities are sensorineural hearing loss, followed by alcohol abuse or alcohol dependence.

8.36 Of the special rate veterans, 20,319 (77 per cent) also receive a service pension: 7,441 on the grounds of age and 12,851 on the grounds of invalidity. A small proportion of the balance receive a social security pension or benefit, and the remainder receive no income support pension.

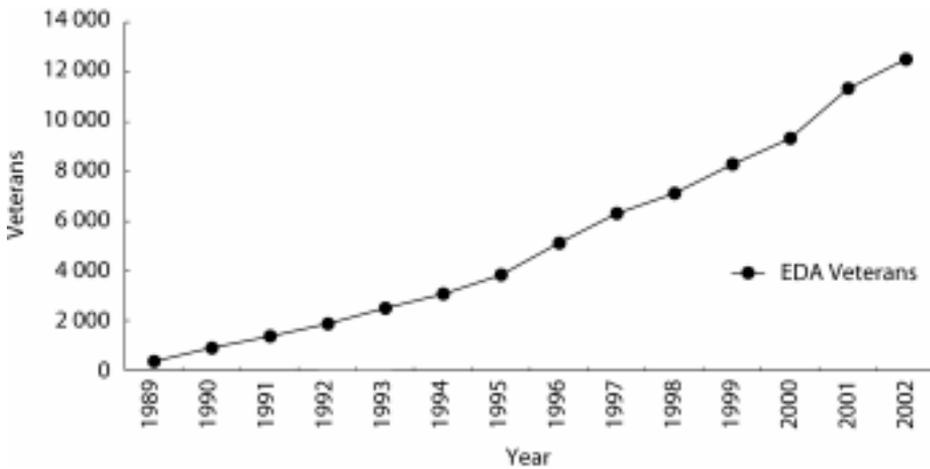
Intermediate Rate Recipients

8.37 The number of intermediate rate pensioners has been fairly constant in recent years at around 1000. Of these, the largest proportion are World War II veterans (415), followed by Vietnam veterans (311) and former ADF members (184).

Extreme Disablement Adjustment Recipients

8.38 Numbers of EDA recipients have been increasing rapidly, from 9326 in June 2000 to 11,331 in June 2001 and 12,510 in June 2002. Growth since the introduction of the EDA in 1988 is shown in Figure 8.2.

Figure 8.2
Growth in EDA disability pensioner numbers



8.39 In 2001–02, 3469 new EDA grants were made, exceeding the number of deaths in this group (2167). As a veteran has to be aged more than 65 years to obtain the EDA, most (94 per cent) of the EDA veteran group are World War II veterans. The bulk (80 per cent) of EDA recipients are therefore aged 75–85 years. About 79 per cent of EDA recipients receive the service pension. Veterans in receipt of EDA have a high annual death rate of around 15 per cent; this is due to their significant and multiple disabilities, as well as advanced age.

General Rate

8.40 The general rate veteran population has been reducing slowly in recent years. The average payment on the general rate scale (10–100 per cent) is 56 per cent. However, there has been a steady increase in this average over the years from 50.8 per cent five years ago. About 25,000 of the general rate population receive 100 per cent of the general rate. Most general rate pensioners are World War II veterans.

8.41 The Department receives about 18,000 applications annually for increased disability pension for accepted disabilities and about 60 per cent of these applications are granted. This number has been fairly constant in recent years.

War Widows

8.42 The majority (105,713 or 94 per cent at June 2002) of war widows are widows of World War II veterans. There are only 240 war widowers, so the

population is almost totally female. The Department receives about 7000 claims for the war widow's pension annually, and this figure has remained constant for several years. War widow deaths have averaged over 5500 each year during the past three years.

PROPORTIONS OF VETERAN GROUPS IN RECEIPT OF COMPENSATION AND INCOME SUPPORT PAYMENTS

8.43 Table 8.10 shows the proportions of surviving veterans from different wars and conflicts who receive pensions.

Table 8.10
Pensions paid to veterans

Service	Veteran service pensioners	Veteran disability pensioners	Overlap between service and disability pensioners
World War I	4	3	2
World War II (including mariners)	100,972	96,788	63,280
Korea and Malaya	8298	7107	5470
Far East Strategic Reserve	2669	2690	1923
Vietnam War	17,360	27,558	15,631
Gulf War	24	162	24
East Timor	8	401	8
Peacekeeping forces	73	893	73
Peacetime Defence Force	510 ^a	23,497	510
Commonwealth and allied veterans and mariners	24,962	0	0
Others (includes unknown)	219	416	206

^a These veterans would have other service entitling them to service pension.

8.44 Of the surviving Vietnam veteran group, 26 per cent (13,809) receive a TPI pension, compared to three per cent (7745) of World War II veterans. A further 13,564 Vietnam veterans are on other rates of disability pension.

8.45 Of the Gulf War veteran population, 162 receive disability pension, 12 receive service pension and 24 receive both.

8.46 Of veterans of peacekeeping forces, excluding East Timor, 803 receive a disability pension, including 170 at the TPI rate.

8.47 Of veterans who served in East Timor, 401 receive a disability pension. There are 15 East Timor veterans receiving the TPI pension and another 14

receiving the TTI pension, although these benefits may be related not to East Timor service alone, but to prior eligible service or a combination of both.

PREVALENCE OF CONDITIONS IN THE VETERAN POPULATION

8.48 Among the living veteran population with accepted disabilities,²¹ the most common conditions claimed over the past six years have been sensorineural hearing loss, osteoarthritis (or osteoarthritis) and ischaemic heart disease. However, 2001–02 saw ischaemic heart disease drop from third most claimed, to be replaced by tinnitus.

8.49 Among this population, the condition determined with the highest acceptance rate for the past six years (averaging 98 per cent) has been sensorineural hearing loss. Posttraumatic stress disorder averaged 92 per cent for four years before dropping to 85 per cent. Other conditions that have high acceptance rates are tinnitus (96 per cent), chronic solar skin damage (98 per cent) and acquired cataract (93 per cent).

8.50 Table 8.11, reproduced from the Repatriation Commission's 2001–02 Annual Report, shows the most commonly determined conditions covered by Statements of Principles and the acceptance rates for each in 2001–02. This pattern of commonly determined conditions has been fairly consistent in at least the past five years, except for the increase in claims for tinnitus referred to above.

8.51 The figures reveal the high proportion of hearing loss claims (over a quarter), heart and respiratory conditions (about 20 per cent), cancers (about 15 per cent), posttraumatic stress disorder (10 per cent) and musculoskeletal disorders (10 per cent).

8.52 The overall acceptance rate for all conditions determined by the Repatriation Commission at the primary level (without recourse to appeal) is 59 per cent, including those referred to in Table 8.11.

8.53 The relative incidences of particular diseases in the veteran community and in the general population are shown in Table 8.12.

8.54 The estimates for the general community have been adjusted to account for differences between the age distributions of the two groups under study: veterans and war widows, and the general community (community rates are those that would be expected if the general community had the same age

²¹ 'Accepted disability' means that the Repatriation Commission has accepted the disability as being related to service. The Repatriation Commission is the first determining authority and the acceptance rates quoted do not include outcomes of s.31 VEA reviews, or decisions of the Veterans' Review Board or Administrative Appeals Tribunal.

distribution as veterans and war widows). The information gathered for the study related to medical conditions (illness, injury or disability) that have lasted at least six months, or that the respondent expects to last six months or more.

8.55 Table 8.12 shows that males in the general population are more likely to report no long-term illness (four per cent) than veterans (one per cent). There are no observable differences for females (one per cent both for war widows and for their counterparts in the general population).

8.56 Compared with their community counterparts, veterans are significantly more likely to experience long-term illness from diseases of the musculoskeletal system and connective tissue; arthritis; diseases of the circulatory, respiratory and digestive systems; diseases of the skin and subcutaneous tissue; and neoplasms (cancers). For females, the largest prevalence difference occurred for diseases of the respiratory system.

Table 8.11
The 15 most frequently claimed disabilities covered by Statements of Principles, 2001–02

Statements of Principles title	No. of disabilities accepted	No. of disabilities rejected	Acceptance rate (%)	Total no. of disabilities determined
Sensorineural hearing loss	7467	104	99	7571
Osteoarthritis	1344	2426	36	3770
Tinnitus	2850	113	96	2963
Ischaemic heart disease	1840	950	66	2790
Posttraumatic stress disorder	2205	404	85	2609
Chronic bronchitis and emphysema	1987	408	83	2395
Solar keratosis	2099	265	89	2364
Lumbar spondylosis	892	1366	40	2258
Non-melanotic malignant neoplasm of the skin	1804	244	88	2048
Acquired cataract	1738	105	94	1843
Hypertension	332	1316	20	1648
Alcohol dependence or alcohol abuse	980	561	64	1541
Gastro-oesophageal reflux disease	890	580	61	1470
Cerebrovascular accident	764	505	60	1269
Diabetes mellitus	653	514	56	1167
Totals	27,845	9861	74	37,706

Table 8.12
Long-term illness identified in veteran population, compared to general community

	Male		Female	
	Veterans %	Community %	War widows %	Community %
Diseases of nervous system/sense organs	96	89	96	94
Diseases of musculoskeletal system and connective tissue	61	43	65	62
Diseases of circulatory system	57	48	62	58
Arthritis	50	34	59	53
Diseases of respiratory system	36	27	38	29
Diseases of digestive system	27	18	17	19
Endocrine, nutritional and metabolic diseases, and immunity disorders	24	22	26	25
Neoplasms (cancers)	14	6	7	5
Diseases of genitourinary system	9	7	7	9
Diabetes	8	10	6	7
Symptoms, signs and ill-defined conditions	7	5	7	7
Diseases of skin or subcutaneous tissue	6	3	5	2
Mental disorders	5	4	5	4
Disability, NEC	3	2	0	1
Diseases of blood or blood-forming organs	1	1	4	4
Injury and poisoning	0.7	1.1	1.4	0.9
Congenital abnormalities	0.3	0.1	0.0	0.1
No long-term illness reported	1	4	1	1

Source: Veteran information from Covance Pty Ltd (1999); community information from ABS (1995)

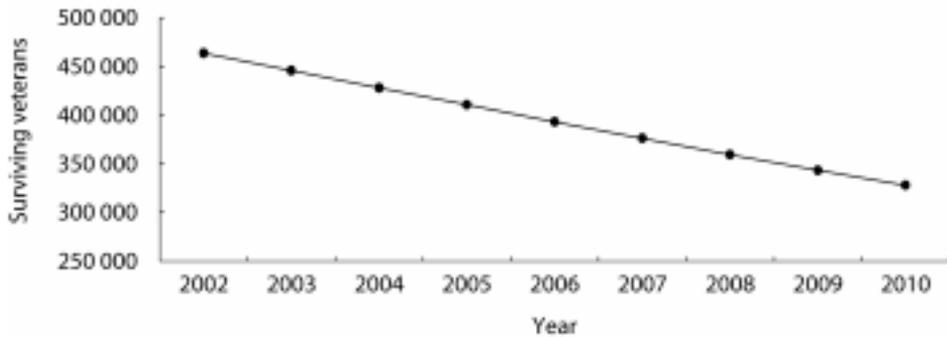
PROJECTIONS OF SURVIVING POPULATION, BENEFICIARY NUMBERS AND EXPENDITURE

Survivors

8.57 The surviving veteran population potentially able to claim VEA compensation is expected to reduce steadily over the next two decades. The

Department’s projections of the survivor population are shown in Figure 8.3; they may change with additional commitments of Australian forces.

Figure 8.3
Projected surviving veteran population



8.58 Many submissions to the present Review discussed the expected rapid decline in numbers of Australian World War II veterans and hence the reducing cost of extending the Gold Card to this group. The Department’s projections for Australian World War II veteran numbers (Figure 8.4) show a reduction of about nine per cent per year for the next five years. The projections for BCAL veterans (Figure 8.5) show a similar trend.

Figure 8.4
Projected surviving Australian World War II veterans

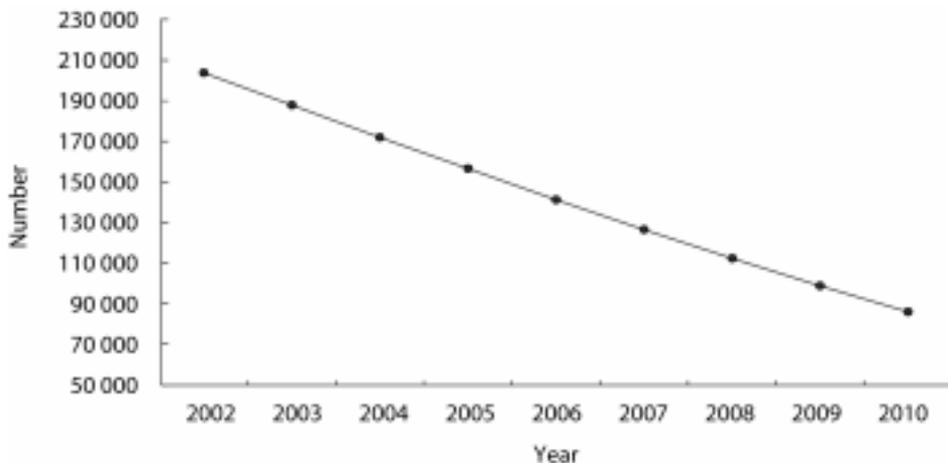
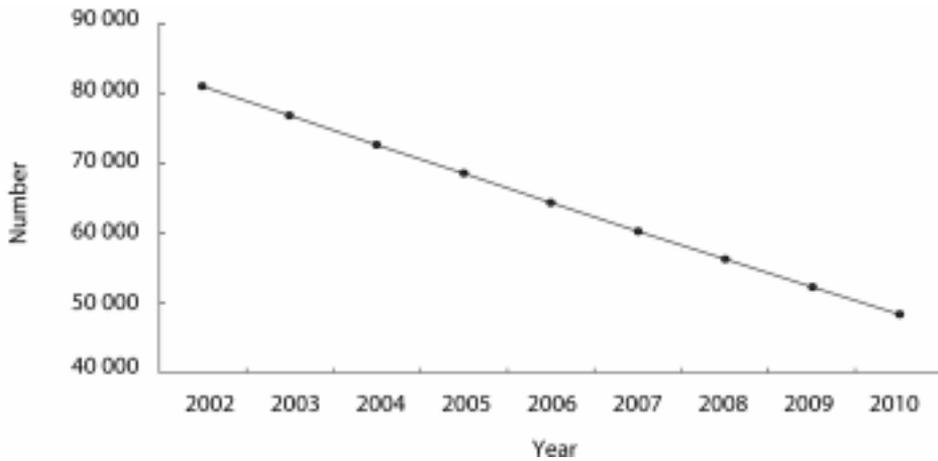


Figure 8.5
Projected surviving BCAL veterans in Australia



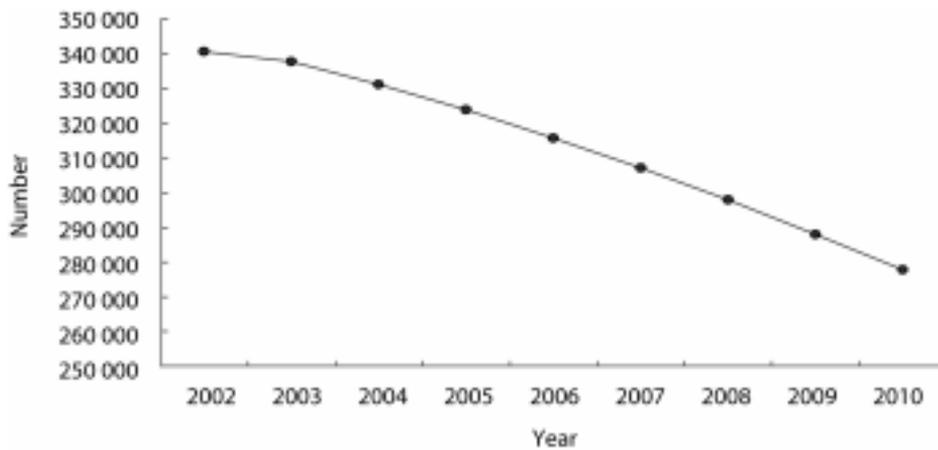
Eligible Treatment Population

8.59 The eligible treatment population is expected to decline by about 18.5 per cent over the next eight years to around 277,800. However, there will be a significant change in the age and gender distribution of the population: it will become older and contain an increasing proportion of females (war widows). The projected breakdown by age is shown in Table 8.13 and Figure 8.6.

Table 8.13
DVA health treatment card holders, actual and projected numbers by selected age groups, June 2002 to 2010

Age group	Actual	Projected							
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Under 55	36,491	34,400	31,900	30,500	29,400	28,500	27,900	27,100	26,300
55–59	17,980	22,200	25,500	24,800	23,100	20,300	17,700	15,400	14,100
60–64	9,324	9,500	10,000	13,300	17,000	21,400	25,500	28,700	27,900
65–69	11,236	10,800	10,800	11,000	11,200	11,400	11,400	11,800	15,300
70–74	25,579	21,900	18,300	15,300	13,600	12,900	12,600	12,500	12,500
75–79	103,056	87,600	70,500	54,300	41,600	33,100	26,700	20,900	16,500
80–84	91,283	100,900	107,800	110,900	107,300	97,900	86,100	73,800	60,800
85–89	35,412	39,300	43,600	49,000	55,800	62,800	69,200	74,300	77,600
90+	10,252	11,100	12,700	14,600	16,500	18,700	20,900	23,400	26,600
Unknown	103	100	100	100	100	100	100	100	100
Totals	340,716	337,900	331,300	323,900	315,800	307,200	298,000	288,000	277,800

Figure 8.6
Projected total treatment population, June 2002 to 2010



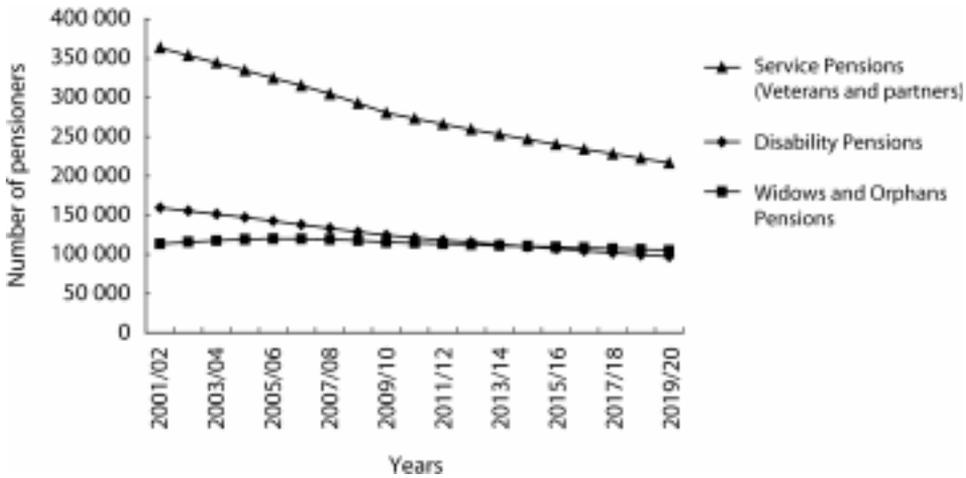
Pensioner Projections

8.60 Table 8.14 and Figure 8.7 show the projected pensioner populations over the next decade.

Table 8.14
Disability, war widow's, service and spouse pensioners,
30 June 2002 to 2010

	Actual	Projections							
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Disability pensioners	159,425	155,500	151,400	147,100	142,500	137,800	133,200	128,700	124,300
War widows	113,059	115,400	117,300	118,700	119,400	119,400	118,800	117,300	115,100
Service pension veterans	155,099	147,700	140,500	133,500	126,500	120,000	113,200	106,200	99,300
Service pension spouses and widows	124,419	119,200	114,100	109,100	104,000	99,200	94,200	88,900	83,600

Figure 8.7
Projected number of pensioners at year's end



Disability Pension Numbers and Expenditure

8.61 Disability pensioner numbers are expected to decline at a slow, constant rate, after falling to about 142,500 by 2006 (Table 8.14). However, the average rate of disability pension is expected to continue to rise. On current trends, TPI and EDA numbers should continue to rise for some years. The slow rise in the average general rate can also be expected to continue. These trends, combined with pension indexation and various extensions of eligibility, have kept disability pension expenditure (\$1.2 billion in 2001–02) rising in absolute terms; that expenditure is expected to increase marginally in the next two years and then begin to fall slowly.

War Widow’s and Orphan’s Pension Numbers and Expenditure

8.62 According to current projections, war widow’s pensioner numbers will continue to rise for another five years, to a peak of about 119,400 in 2007, and then start to decline slowly. With increasing numbers of war widow’s pensioners and pension indexation, expenditure has risen steadily (about \$60 million per year), and will continue to do so in real terms for at least another five years.

Service Pension Numbers and Expenditure

8.63 Service pension numbers are expected to reduce steadily with the deaths of World War II veteran recipients. Service pension expenditure has been falling at a constant rate over the past decade and will continue to fall steadily.

Health Care Expenditure

8.64 Recent extensions of health care entitlements, the ageing of the veteran population and increases in general community health costs have kept DVA's health care expenditure rising. On the basis of current programs, expenditure will continue to rise in real terms for some years, despite a decline in the eligible treatment population.

Overall Expenditure

8.65 The Committee has produced long-term projections of the Department's expenditure on all pensions and health care, based on published DVA forward estimates of expenditure for the next four years and client projections. These projections, shown in Figure 8.8, assume no changes in current policies or programs and incorporate trends in average pension rates and health care costs per entitled beneficiary. Price inflation is also built into the projections, but a discount figure of two per cent is applied to bring the out-year projections back to current day prices.

8.66 The Department provided the Committee with advice on factors underlying these expenditure trends. However, it has not endorsed the projections.

8.67 Figure 8.8 has no scale on the vertical axis because the values of expenditure for each year are subject to variables due to differing assumptions. To show exact values would be misleading. However, the shape of the graph is more critical than the absolute values.

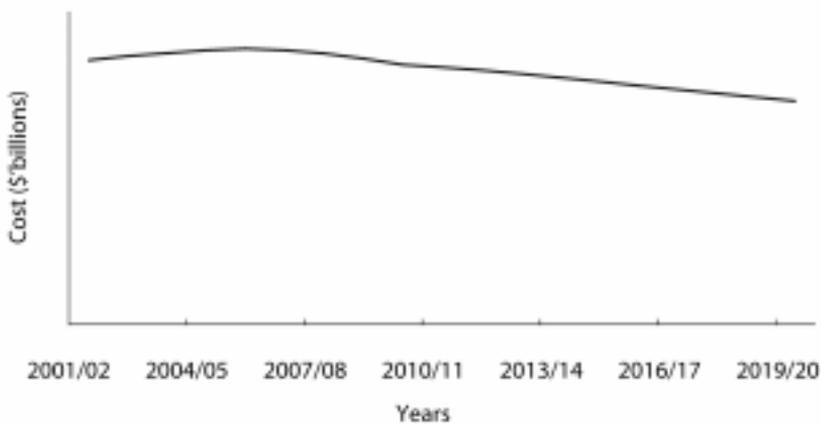
8.68 The figure shows that the Department's expenditure will continue to rise, even without additional programs, for at least the next few years before falling in real terms from around 2007-08.

8.69 The trends underpinning this picture differ between major categories of expenditure. The Department's expenditure on service pensions will continue to fall steadily with the declining number of World War II veterans and their partners. However, there will be counterbalancing increases in expenditure on war widow's pensions and health care costs, and disability pensions expenditure will increase marginally in the short term before a slow decline.

Overall, DVA’s expenditure is not expected to fall dramatically, as some submissions to the Committee have argued.

8.70 When the anticipated turnaround of expenditure in real terms occurs, surviving World War II veterans will be reaching their mid-80s and most Vietnam veterans will be in their 60s. This ageing of the population will drive up per capita health care costs and will mitigate some of the expenditure reduction from a declining eligible population base. Therefore, significant long-term reduction in expenditure will take longer than many intuitively expect.

Figure 8.8
Current system cost projections



CONCLUSION

8.71 The figures and graphs in this chapter reveal trends in beneficiary numbers and costs that are important to grasp, and they provide a quantifiable context to the concerns of the veteran community and to some of the policy issues facing the Government, which are the subject of this Review. Some trends explained above might surprise the veteran community and the public, because they defy common perceptions. For example, the real levels of expenditure on all pensions and benefits, including health care, is not reducing, and will not reduce for some years to come, despite the decline in numbers of entitled World War II veterans.