



Review of TPI Benefits

Department of Veterans' Affairs

November 2019

Disclaimer

Inherent Limitations

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Department of Veterans' Affairs ("DVA") management and personnel consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis. We have relied on the data and information provided by DVA and have assumed that it is prima facie accurate and complete. While generally we have satisfied ourselves that the data and information provided is reasonable and consistent with other data and information provided, and/or with data and information otherwise known to us, we have not sought to verify independently nor establish the reliability, accuracy or completeness of the data and information provided or used for this review. A list of the data provided to us is listed in Appendix A.

Third Party Reliance

This report is solely for the purpose set out in the Scope Section and for DVA's information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

This report has been prepared at the request of DVA in accordance with the terms of KPMG's terms of reference dated 2 January 2018. Other than our responsibility to DVA, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

Executive Summary

Reliances and Limitations

The comments, analyses and conclusions set out in this Executive Summary are intended as a high-level overview only. To obtain a full understanding of our comments, analyses and conclusions, including an understanding of the key assumptions and bases underlying our report, requires an examination and consideration of our report in its entirety.

Background

The Veterans' Entitlements Act 1986 ("VEA") was developed in order to consolidate the majority of separate repatriation legislation into a single Act. The VEA provides a range of benefits to Veterans, including an income stream for life for totally and permanently incapacitated ("TPI") Veterans.

Despite various changes to the administration of the TPI benefit¹ since its initial inception in 1920, the view of the Australian Federation of Totally and Permanently Incapacitated Ex-Servicemen & Women Ltd ("the Federation") and the Disabled Veterans of Australia Network's ("DVANetwork") is that the value of the TPI benefit has eroded over time and is not currently sufficient to meet the needs of its recipients.

A number of reviews of Veteran benefits have been undertaken, including the Productivity Commission Review, which issued a final report in June 2019 ("PC Review"). The Federation made a submission to the PC Review, in particular highlighting their concern around the erosion of the TPI benefit ("Federation's Recommendations").

Scope

KPMG was commissioned by the Department of Veterans' Affairs ("DVA") to:

- Phase 1: Develop a framework to review the Federation's Recommendations, as outlined below. In developing this framework, consider the principles, comments and methodologies in the PC Review report, the Clarke Review, our understanding of the Federation's Recommendations, workers' compensation schemes and insurance product design.
- Phase 2: Using the framework developed and publically available data, or data readily available from DVA, comment on the Federation's recommendations.
- Phase 3: Using the analysis from Phase 1 and Phase 2, comment on the DVANetwork's proposal.

Our detailed scope is provided in section 1.2.

¹ Pension paid on disability to a totally and permanently incapacitated Veteran under the VEA. This is also known as the Special Rate or TPI Rate/Pension)



It was agreed the scope did not extend to:

- Providing Policy recommendations to DVA.
- Providing KPMG's opinion on the Federation's Recommendations or the DVANetwork's Proposal. Rather the focus will be on providing structured information to DVA to assist it in assessing the validity, or otherwise, of the Federation's Recommendations and the DVANetwork's Proposal.
- In providing comments on potential benefit design changes, we will not provide:
 - Detailed comments on the benefit design changes.
 - Cost estimates associated with the change.
 - Comments on the practical issues associated with implementing benefits changes.
- Interviewing TPI Veterans to understand their views regarding adequacy of the benefits they receive.
- Comparing total and permanent benefits under the VEA to the other two applicable Acts².
- Interviewing the DVANetwork.
- Holding discussions with the Federation beyond confirming our understanding of their recommendations.

Framework to Assess the Federation's Recommendations

A framework was developed to assess the Federation's Recommendations and the DVANetwork's Proposal. This framework was based on common principles underpinning workers' compensation schemes and insurance systems, our understanding of the Federation's Recommendations and the DVANetwork's Proposal, and the methodologies and principles of the PC Review and Clarke Review, and common actuarial practice.

The key conclusions from the application of the framework are as follows:

- The TPI benefit can be considered to have the following components:
 - An impairment compensation component equal to the General Rate Disability Pension.
 - An Income Replacement component equal to the amount of the TPI Pension above the General Rate Disability Pension ("Above General Rate Pension").
- The Service Pension is also considered an income replacement benefit for TPI Veterans (i.e. compensation). This is consistent with insurance principles, and the observation that early access to a Service Pension on disability (i.e. before the Service Pension age of 60) represents compensation for lost income and is not considered welfare.

² The Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988 ("DRCA") and the Military Rehabilitation and Compensation Act 2004 ("MRCA")



- Based on the benchmarking analysis undertaken within this report of the Income Replacement (i.e. Above General Rate Pension plus Service Pension) (as outlined in the framework), there was not strong evidence for increasing the TPI Pension benefit for all TPI Pension recipients.
- However the targeting analysis undertaken within this report suggests that some TPI Veterans may be relatively worse off when compared to the average TPI Veteran:
 - There may be a case to consider increasing the TPI benefit for Veterans that were disabled at young ages.
 - There may be a case to consider increasing the TPI benefit for Veterans that were first granted a TPI Pension before 1983.
 - There may be a case to consider increasing the TPI benefit for Veterans that are renting.

The following table summarises the framework, as well as the application of the framework which resulted in the above conclusions:

Area	Details	Application										
Principles	A set of principles should be adopted	The following key principles were adopted: • Australian Government has made a social contract with serving personnel that, in return for service, they (and their families) will be supported if they incur a service related injury, illness or death. • Veterans should be supported because of their contributions to the protection and service of the nation. • The benefit should provide adequate compensation for injury and illness but should not discourage Veterans from engaging effectively in rehabilitation and return to work. • Alignment of total and permanent disability benefits under the different legislation is ideal, and changes made should not make differences more pronounced. • The overall community benefit and the appropriate targeting of limited resources should be considered.										
Separating the TPI benefit	Consistent with the Federation’s view the TPI benefit can be considered to have the following two components: • An impairment compensation component equal to the General Rate Disability Pension. • An Income Replacement component equal to the amount of the TPI Pension above the General Rate Disability Pension.	Application of our framework indicates that the TPI benefit can be considered to have the following components: • An impairment compensation component equal to the General Rate Disability Pension. • An Income Replacement component equal to the amount of the TPI benefit above the General Rate Disability benefit										
Bundle	Consistent with insurance practice the full range of support provided to TPI Veterans should be identified, and grouped into four main categories, as follows: • Impairment compensation: Financial payments to Veterans and their families to compensate for the pain and suffering associated with an impairment due (or death) to service. • Healthcare (and other) costs resulting from an impairment due to service. • Dependent benefits. This is the benefits paid following the death of a Veteran. • Income replacement. This is the residual benefit provided to the Veteran.	Consistent with the framework adopted, the benefits paid to Veterans were classified into 4 buckets (or components), as outlined in the table below, for the purpose of assessing the Federation’s Recommendations. <table><tr><th>Component</th><th>TPI benefits</th></tr><tr><td>Impairment compensation:</td><td> • General Rate Pension </td></tr><tr><td>Healthcare (and other) costs</td><td> • Gold card • Allowances: Attendant, clothing, decoration, recreation transport, vehicle assistance, pension supplement, Veteran supplement, rental assistance, energy supplement, </td></tr><tr><td>Dependent benefits</td><td> • Disability pension, war widow pension, orphan’s pension, bereavement payment, income support supplement, funeral allowance, education allowance, and additional allowances that TPI Veterans could receive. </td></tr><tr><td>Income replacement</td><td> • Above General Rate Pension • Service Pension • Invalidity Superannuation Benefits </td></tr></table> The table illustrates that in addition to the Above General Rate Pension, the Service Pension is also considered an income replacement benefit (i.e. compensation).	Component	TPI benefits	Impairment compensation:	• General Rate Pension	Healthcare (and other) costs	• Gold card • Allowances: Attendant, clothing, decoration, recreation transport, vehicle assistance, pension supplement, Veteran supplement, rental assistance, energy supplement,	Dependent benefits	• Disability pension, war widow pension, orphan’s pension, bereavement payment, income support supplement, funeral allowance, education allowance, and additional allowances that TPI Veterans could receive.	Income replacement	• Above General Rate Pension • Service Pension • Invalidity Superannuation Benefits
Component	TPI benefits											
Impairment compensation:	• General Rate Pension											
Healthcare (and other) costs	• Gold card • Allowances: Attendant, clothing, decoration, recreation transport, vehicle assistance, pension supplement, Veteran supplement, rental assistance, energy supplement,											
Dependent benefits	• Disability pension, war widow pension, orphan’s pension, bereavement payment, income support supplement, funeral allowance, education allowance, and additional allowances that TPI Veterans could receive.											
Income replacement	• Above General Rate Pension • Service Pension • Invalidity Superannuation Benefits											

Area	Details	Application
Offsetting and Means Testing	Consistent with insurance practice the impact of benefit offsetting and means testing should be considered. - Insurance principles indicate that offsetting of benefits does commonly occur. For example, in insurance systems, income protection insurance benefit payments are offset for other income payments received by the insured to ensure the income replacement ratio is within the target level. These other income payments may include other similar income protection insurance, workers' compensation, legal judgement or statute related payments. - Means testing of insurance benefits does not commonly occur. The Income Replacement component should be adjusted for the above where material.	To simplify the benchmarking, and reflect the means testing of the service pension, invalidity superannuation benefits were not included in the Income Replacement component used for benchmarking. No adjustments were made on the basis that: - The TPI Pension and Service Pension do not contain any offsetting rules (Section 8.2.1). - As the Income Replacement component does not include superannuation benefits related to invalidity, adjustments for means testing is only required if the means testing has a material impact due to income/assets not related to service related disability. The analysis undertaken suggests this is not the case (Section 7.3.5).
	Benchmarks commonly have limitations, therefore a range of benchmarks should be adopted to test the adequacy of the Income Replacement component of the TPI benefit. The key ones being: - Average weekly earnings ("AWE"). Compare the Income Replacement component against average weekly earnings after tax. - Erosion. Consider the relativity between the Income Replacement component and the AWE over time. - Different Acts. Compare the benefits under the three legislations (VEA, DRCA and MRCA).	Based on the benchmarking undertaken (as outlined in the framework), there was not strong evidence for increasing the TPI Pension benefit for all TPI Pension recipients. This reflects: - AWE: the Income Replacement component (Above General Rate Pension plus Service Pension) of approximately \$1,800 per fortnight, represents approximately 80 per cent of the male total average weekly earnings ("MTAWE") after tax. A ratio of 80% is not considered unreasonable given the following key comments: <u>Insurance view</u> - Income protection insurance benefits generally provide for monthly benefits up to 75 per cent of the worker's pre injury/sickness income. Additional amounts may also be paid for superannuation contributions, which would take the monthly benefits to 80 to 85 per cent. The benefits are provided up to retirement age (i.e. to age 65). - The Income Replacement ratio of 80 per cent of the MTAWE after tax is commensurate with the income protection insurance benefits paid in insurance systems for up to age 65. Noting that the Income Replacement is paid for life whilst the income protection insurance benefits stop at age 65. <u>Needs view</u> - Based on DVA data, currently 90 per cent of the TPI Pension recipients are 60 years or older, with almost 70 per cent 70 years or older.

Area	Details	Application
		– The Income Replacement benefits provided to TPI Veterans meet the Association of Superannuation Funds of Australia’s (“ASFA”) comfortable retirement standard for couples/singles aged 65 that own their own homes, and the income replacement benchmark adopted by the Grattan institute. • Erosion: the Income Replacement component as a percent of the MTAWVE after tax has increased from 40 per cent in 1972 to around 70% by 1990, and has gradually increased to around 80 per cent over the last 10 years. This result is not unexpected as: – Various changes to the TPI benefit were made between 2007 and 2009. – Since 2009 the TPI benefit has been indexed to MTAWVE. • Different Acts: The analysis presented by the PC Review suggests that compared to the Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988 (“DRCA”) and the Military Rehabilitation and Compensation Act 2004 (“MRCA”), the TPI Pension: – For younger Veterans (30 year old) with a severe impairment and dependents: VEA is likely to provide a benefit lower than the DRCA and MRCA. – For older Veteran (50 year old) with a severe impairment and no dependents: VEA is likely to provide a benefit higher than the DRCA and MRCA. The data provided by DVA suggests that the second scenario is more common than the first scenario, with 75 per cent of current TPI Pensioners aged 50 or above at the time of that started receiving the TPI Pension (i.e. Age at Grant).
Targeting	The application of benchmark ratios provides insight to the reasonableness of benefits for the average TPI Veteran. However, the needs and circumstances of Veterans vary, therefore it is appropriate to consider whether the TPI benefit is appropriate for different TPI Veteran cohorts. In considering the Income Replacement needs of Veterans, the targeting of these payments to the needs of Veterans should be considered.	Consistent with the scope and framework we have considered the targeting of benefits. It is noted that our comments below are based on points identified while undertaking the above analysis to assess the adequacy of the TPI benefit in aggregate. We have not undertaken specific research or analysis (e.g. survey individual TPI Veterans) to identify particular TPI Veteran’s cohorts that are potentially worse off relative to the average TPI Veteran. Our approach to identifying TPI Veterans that may be materially worse off when compared to the average TPI Veteran is summarised as follows: • We gained a high level understanding of the demographic profile of TPI Veterans based on data provided by the DVA, and then • Considered the implications of the demographic results in the context of the findings from our assessment of the TPI benefits in aggregate. The analysis illustrates that the following TPI Veterans may be relatively worse off when compared to the average TPI Veteran (See Section 9 for further details): • <u>Veterans that were first granted a TPI Pension at a relatively young age.</u> This reflects the analysis in Section 8.4 which illustrates that compared to the DRCA and MRCA, the VEA provides a significantly higher financial benefit to a Veteran that is impaired at an older age, compared to a Veteran that is



Area	Details	Application
		impaired at a younger age. It is noted that about 25 per cent of current TPI Veterans were aged below 50 years at the time of their TPI Pension grant, and 2 per cent were below 35 years of age. • <u>Veterans that were first granted a TPI Pension before 1983.</u> This reflects that the TPI Pension was included in the means test for the Service Pension before 1983. On this basis, there may be a case to consider increasing the TPI benefit for Veterans that were first granted a TPI Pension before 1983. It is noted that about 1 per cent of current TPI Veterans were granted a TPI Pension before 1984. • <u>Veterans that don't own their own home.</u> TPI Veterans that are renting are under greater financial pressure than the average TPI Veteran, as the Grattan Institute³ has noted that rent assistance has not kept pace with rent increases since 2003. Further, TPI Veterans that are renting in New South Wales and Victoria could be at higher risk of rent related financial stress than other renters. On this basis, there may be a case to consider increasing the TPI benefit for Veterans that are renting.

³ Money in retirement More than enough, Grattan Institute, 2018



Federation's Recommendations and Findings

The Federation's submission to the PC Review contained four recommendations in relation to the benefits paid to TPI beneficiaries ("Federation's Recommendations"). In addition, during our discussions with the Federation they have also raised two additional concerns. The following table summarises these recommendations/concerns and our findings using the methodology outlined above.

These concerns are also addressed below.

Federation's Recommendation	Level of Evidence Obtained	Comments
Recommendation 1. Maintaining and enhancing the financial wellbeing and the self-sufficiency of eligible persons and their dependants through income support, compensation and other support services should be a centre piece of the PC Review.	Sufficient evidence obtained to support recommendation	The principles underlying our framework are broadly consistent with the Federation's recommendation.
Recommendation 7: Benefits paid to Veterans should be considered in isolation.	Strong evidence was not obtained to support recommendation	The application of our framework found that it is necessary to consider the TPI Pension and the Service Pension in aggregate together in assessing the appropriateness of the compensation paid to TPI Veterans. The rational for this is outlined in Section 6.3. - Assessing the income replacement benefits in aggregate is consistent with insurance principles; - The Service Pension has an element of compensation for TPI Veterans. This reflects: - Service Pension is only payable to healthy Veterans if they have reached the service pension age (i.e. 60 years). - TPI Veterans get access to the Service Pension from the date they are TPI which in many cases may be before Service Pension age. The early access to a Service Pension represents a compensation for lost income and is not considered welfare. - The means testing does not include the TPI benefit.
Recommendation 2: That the TPI Economic Loss compensation be benchmarked to the tax-adjusted minimum wage.	Strong evidence was not obtained to support recommendation	The benchmarking analysis outlined in this report does not provide strong evidence for increasing the TPI Pension benefit for all TPI Pension recipients. However, the analysis suggests that there may be a case to consider whether some more targeting of benefits could occur.
Recommendation 8 and 9: Which broadly recommends that the PC Review focus on fair and equitable treatment of Veterans. The cost of	Sufficient evidence obtained to support recommendation	The principles of our framework are broadly consistent with the Federation's recommendation.



Federation's Recommendation	Level of Evidence Obtained	Comments
repairing or caring for the Veteran should never be considered, with the focus on the welfare of Veterans.		
Additional Concern 1. The Service Pension is not compensation, but rather welfare. The PC Review's analysis does not recognise this.	Strong evidence was not obtained to support recommendation	As stated above for recommendation 7, the Service Pension is considered to have an element of compensation for TPI Veterans.
Additional Concern 2. Compensation is not means tested. The PC Review's analysis does not recognise this	Strong evidence was not obtained to support recommendation	Whilst we agree that compensation is not commonly means tested, we disagree that means testing the Service Pension means it should be ignored for assessing compensation. This reflects that: • Offsetting of benefits is common when determining compensation. There is no offsetting in the TPI Pension and Service Pension. • Means testing produces similar outcomes to offsetting, provided certain conditions hold. The analysis undertaken within this report suggests that these conditions largely hold.



DVANetwork’s Proposal

The DVANetwork’s email to the DVA contained two proposals in relation to the benefits paid to TPI beneficiaries (“DVANetwork’s Proposal”). The following table summarises these proposals and our findings using the methodology outlined above.

DVANetwork’s Proposal	Level of Evidence Obtained	Comments
Proposal 1: As a minimum for “suffering a loss of salary or wages, or of earnings” TPI benefit plus the Service Pension that TPI Veterans should receive should be increased to the ‘Full Time Adult Average Weekly Earnings’ (FTAawe) less income tax liability.	Strong evidence was not obtained to support recommendation	The benchmarking analysis outlined in this report does not provide strong evidence for increasing the TPI Pension benefit for all TPI Pension recipients. However, the analysis suggests that there may be a case to consider whether some more targeting of benefits should occur.
Proposal 2: A TPI Veteran’s access to the Service Pension should be unhindered by means testing against the partner’s earnings.	Strong evidence was not obtained to support recommendation	Although not inconsistent with insurance principles, the analysis performed suggests that this issue is not significant for most TPI Veterans with many benefiting from the assessment including the spouse’s income (due the impact of different Taper Rates applying).

Contents

Disclaimer	i
Executive Summary	ii
1. Introduction	13
2. Benefits Provided to Veterans	16
3. Federation Recommendations	20
4. DVANetwork's Proposal	24
5. Framework to Assess TPI Benefits	25
6. Application of the Framework – Bundling and Component Identification	30
7. Application of the Framework – Means Testing and Offsetting	34
8. Application of the Framework – Benchmarking	39
9. Targeting	46
10. KPMG Comments on the Federation's Recommendations	53
11. KPMG Comments on the DVANetwork's Proposal	56

Appendices

A Appendix – Data	58
B Appendix – Grattan Institute Report	59
C Appendix – PC Report	62
D Appendix – PC Review Framework	69
E Appendix – Clarke Review	72
F Appendix – PC Review Comparison of Legislation	73
G Appendix – Eligibility of Service Pension	76
H Appendix – Toose Report	79

1. Introduction

1.1 Background

1.1.1 Veterans' Entitlements Act 1986 ("VEA")

The benefits provided to Veterans have evolved over time, with specific payments and services depending on when and where a Veteran served, with multiple acts applying.

The Veterans' Entitlements Act 1986 ("VEA") is one of these acts. It was developed in order to consolidate the majority of separate repatriation legislation, applying at that time, into a single Act.

The VEA provides a range of benefits, including an income stream for life for totally and permanently incapacitated Veterans (i.e. TPI benefit or Special Rate benefit).

Despite various changes to the administration of the TPI benefit since its initial inception in 1920, the view of the Australian Federation of Totally and Permanently Incapacitated Ex-Servicemen & Women Ltd ("the Federation") and the Disabled Veterans of Australia Network's ("DVANetwork") is that the value of TPI benefit has eroded over time and is not sufficient to meet the needs of its recipients.

1.1.2 The TPI Benefit

The VEA primarily covers Veterans serving in conflicts abroad prior to 2004. As a consequence, the majority of TPI benefit recipients served in the Vietnam War, with the average age of a person receiving the TPI benefit currently 70 (with 90% of Veterans over the age of 60).

1.1.3 Veteran Benefit Reviews

A number of reviews of Veteran benefits have been undertaken including:

- Toose review in 1975.
- Tanzer review in 1999.
- Clarke review in January 2003.
- Productivity Commission Review ("PC Review"), which issued a final report A Better Way to Support Veterans in June 2019 ("PC Report").

These reviews have recommended various changes, with a range of changes implemented as the consequence of these reviews.

1.1.4 Other Reviews

A range of other reviews have been undertaken that have some relevance to understanding the needs of TPI recipients (primarily people in, or near, retirement). For example:

- Grattan Institute Report 2018: Money in retirement, more than enough (“Grattan Report”). This report considers the retirement income needs of Australians.
- Harmer review in 2009, which considers the basic structure of Australia’s pension system. It is noted this review did not cover benefits provided to Veterans, however there are similarities between the benefits provided to Veterans and non-Veterans.

1.1.5 The Federation’s Views

The Federation made a submission to the PC Review in 2018. This submission made the following key recommendations that relate to the benefits paid to TPI beneficiaries (“Federation’s Recommendations”):

- Recommendation 1. Maintaining and enhancing the financial wellbeing and the self-sufficiency of eligible persons and their dependants through income support, compensation and other support services should be a centre piece of the PC Review.
- Recommendation 2: That the TPI Economic Loss component be benchmarked to the tax-adjusted minimum wage.
- Recommendation 7: Benefits paid to Veterans should be considered in isolation.
- Recommendation 8 and 9: Which broadly recommends that the PC Review focus on fair and equitable treatment of Veterans. The cost of repairing or caring for the Veteran should never be considered, with the focus on the welfare of Veterans.

The Federation also made a supplementary submission to the PC Review which raised concerns regarding the Department of Veterans’ Affairs (“DVA”) submission to the PC Review.

DVA has now requested that KPMG comment on the Federation’s Recommendations.

1.1.6 DVANetwork’s Views

The DVANetwork email to the DVA on 23 March 2019, subject: “Digesting the Veterans Affairs Ministers Meeting in Tangney WA 19.03.2019 The TPI rate. The Disconnect between 1986 Legislated Assurance and 2019 Lived Experience” made the following proposals that relate to the benefits paid to TPI beneficiaries (“DVANetwork’s Proposal”):

- Proposal 1: As a minimum for “suffering a loss of salary or wages, or of earnings” TPI benefit plus the service pension that TPI Veterans should receive should be increased to the the ‘Full Time Adult Average Weekly Earnings’ (FTAAWE) less income tax liability.
- Proposal 2: A TPI Veteran’s access to the Service Pension should be unhindered by means testing against the partner’s earnings.

DVA has now requested that KPMG comment on the DVANetwork’s Proposal.

1.2 Scope

1.2.1 Phase 1 – Research Phase

- Summarise the broad range of direct and indirect economic support provided to TPI Veterans (this includes TPI Pension, Service Pensions, superannuation benefits etc.) with support from DVA.
- Summarise the Federation’s Recommendations based on the submission made to the PC Review.
- Consider whether the report from the PC Review fully considers/addresses the Federation’s Recommendations.
- Develop a framework to review the Federation’s Recommendations. In developing this framework, consider the principles, comments and methodologies in the PC Review report, the Clarke Review, our understanding of the Federation’s Recommendations, workers’ compensation schemes and insurance product design.

1.2.2 Phase 2 – Comment on the Federation’s Recommendations.

- Using the analysis from the research phase, comment on the Federation’s Recommendations.
- In making our comments we will:
 - Use publicly available data or readily available data from DVA to support the comments made.
 - Comment on whether other changes to the income/expense benefits provided to TPI Veterans could be considered (“Other Benefit Changes”).

1.2.3 Phase 3 – Comment on the Disabled Veterans of Australia Network’s

- Using the analysis from Phase 1 and Phase 2, comment on the DVANetwork’s Proposal.

1.2.4 Outside of Scope

- Providing Policy recommendations to DVA.
- Providing KPMG’s opinion on the Federation’s Recommendations or DVANetwork’s Proposal. Rather the focus will be on providing structured information to DVA to assist it in assessing the validity, or otherwise, of the Federation’s Recommendations and the DVANetwork’s Proposal.
- In providing comments on Other Benefit Changes, we will not provide:
 - Detailed comments on the benefit design changes.
 - Cost estimates associated with the change.
 - Comments on the practical issues associated with implementing benefits changes.
- Interviewing TPI Veterans to understand their views regarding adequacy of the benefits they receive.
- Comparing total and permanent benefits under the VEA to the other two applicable Acts.
- Interviewing the Federation.

2. Benefits Provided to Veterans

2.1 Introduction

Consistent with the scope, this chapter summarises the broad range of direct and indirect economic support provided to TPI Veterans (this includes TPI Pension, Service Pensions, superannuation benefits etc.)

This information is based on information contained in the PC Review and advice from DVA.

2.2 Disability Pension (TPI Pension)

2.2.1 Overview of TPI Benefit

The Disability pension for TPI Veterans is paid at the Special Rate (also sometimes referred to as the TPI rate or TPI Pension). It is paid for life and is tax exempt.

Broad eligibility criteria for the TPI Pension are that the Veteran:

- Has 70% or greater incapacity;
- Is aged less than 65 on application;
- Is unable to work more than 8 hours per week due to service related conditions alone; and
- Is suffering a loss of earnings due to service related conditions alone.

For disabled Veterans that do not meet the TPI eligibility criteria, lower rates of pension are paid. Rates payable include the Intermediate Rate, the Extreme Disablement Adjustment Rate and the General Rate.

2.2.2 TPI Pension Rates

TPI Pension rate and the other disablement pensions available to Veterans are shown in the table below.

Pension	Rate	Fortnightly Amount* as at 1 January 2019
Special Rate and Temporary Special Rate	-	\$1,408.00
Intermediate Rate	-	\$956.00
Extreme Disablement Adjustment	-	\$777.90
General Rate [^]	100%	\$500.60
	90%	\$451.31
	80%	\$402.02
	70%	\$352.73
	60%	\$303.44
	50%	\$254.15

40%	\$204.86
30%	\$155.57
20%	\$106.28
10%	\$56.99

Source: <https://www.dva.gov.au/factsheet-dp43-disability-pension-and-war-widower-s-pension-rates-and-allowances>

*including the Energy Supplement.

^additional payments (ranging from \$34.20 to \$681.50) applicable for specific disabilities (e.g. amputations)

2.3 Repatriation Health Card

2.3.1 Overview of Benefits

TPI Veterans receive a Gold Card, which provides DVA funded health treatment and pharmaceuticals (under the Repatriation Pharmaceutical Benefits Scheme) for all conditions regardless of whether or not related to their service.

A range of state, territory and local government and private enterprise concessions are also available to Gold Card holders, such as discounts on driver's licences, utilities, cinema admission tickets etc. The value of the concessions varies according to individual circumstances. These concessions are not controlled by the Commonwealth.

2.3.2 Value of Gold Card

The approximate average value of Gold Card treatment costs is \$24,400 per year (2017-18 estimate determined by DVA). (PC Report, pg. 694).

2.4 Service Pension and Other Pension Benefits

2.4.1 Service Pension

Veterans, including TPI Veterans, with qualifying service may be entitled to an invalidity Service Pension (Veterans must be permanently incapacitated for work) or age Service Pension (Veterans must be aged 60 or older).

The Service Pension is income and asset tested. It is noted that TPI benefit is not included in the income test.

For eligible Veterans, this benefit effectively replaces the Disability Support Pension ("DSP") prior to retirement and the Age Pension ("AP") for retirees.

2.4.2 Defence Force Income Support Allowance ("DFISA") and DSP/AP

TPI Veterans that are not entitled to a Service Pension, can apply for DSP prior to retirement and the AP for retirees.

The DSP and AP are income and asset tested. It is noted that:

- The TPI Pension is included in the income test.
- TPI Veterans are entitled to a DFISA benefit. The DFISA ensures a top up to the equivalent additional amount that would have been paid under the AP/DSP if the TPI Pension was not included

in the income test. This effectively treats the TPI Pension in the calculation of Centrelink income support payments (i.e. DSP/AP) as it is for the Service Pension.

2.4.3 Pension Rates

The Service Pension is up to \$916.30 per fortnight for singles and \$690.70 per fortnight each for couples from 20 September 2018⁴. The DSP and AP rates are the same as these Service Pension rates after allowing for the Maximum Pension Supplement and the Energy Supplement.

2.5 Allowances

A range of minor allowances covering certain circumstances and particular needs may also be paid (e.g. clothing allowance, recreation transport allowance).

Allowance	Amount as at 1 January 2019
Attendant allowance	Up to \$341.00 per fortnight
Clothing allowance	Up to \$14.30 per fortnight
Decoration allowance	\$2.10 per fortnight \$4,541.00 each year (Victoria Cross recipients) \$569.10 per fortnight (Prisoner of war)
Loss of earnings allowance	Lesser of: - Difference between the TPI Pension and the Veteran's present disability pension - Amount of salary, wages or earnings actually lost
Recreation transport allowance	Up to \$91.20 per fortnight
Vehicle assistance scheme	Financial assistance to purchase a new (or modify a) vehicle \$2,371.00 per year (Cost of maintaining a motor vehicle)
Energy supplement	Up to \$21.50 per fortnight
Rental assistance	Up to \$135.80 per fortnight for singles Up to \$128.00 per fortnight for couples
Remote area allowance	\$18.20 per fortnight for singles \$15.60 per fortnight for each couple +\$7.30 for each child if receiving family tax benefit for a child
Pension supplement	Up to \$81.90 per fortnight for singles Up to \$61.70 per fortnight for each couple (incl. Energy Supplement)
Veterans supplement	Up to \$12.40 per fortnight

Source:

<https://www.dva.gov.au/factsheet-dp43-disability-pension-and-war-widower-s-pension-rates-and-allowances>

<https://www.dva.gov.au/factsheet-cep01-energy-supplement>

<https://www.dva.gov.au/factsheet-is74-renting-and-rent-assistance>

<https://www.dva.gov.au/factsheet-is12-remote-area-allowance>

<https://www.dva.gov.au/factsheet-is16-pension-supplement>

⁴ <https://www.dva.gov.au/about-dva/publications/vetaffairs/vol-34-no4-summer-2018/Veterans-pensions-and-allowances-rise>

2.6 Superannuation

Veterans who are medically discharged from service with an incapacity may be entitled to a superannuation pension benefit, based on their years of service, salary in the military, and the level of incapacity. Veterans could be entitled to the following benefits based on their service:

- Defence Force Retirement and Death Benefits scheme: defined benefit scheme that provides a lifetime pension to members who have served a set number of years, on retirement or invalidity.
- Military Superannuation and Benefits scheme: includes both employee contributions and a defined benefit component, a pension payable for life on retirement or invalidity, is provided based on years of service and salary.
- ADF Super: accumulation based superannuation scheme with an invalidity pension payable that involves a basic rate of pension payable for life and a top up pension payable until age 60.

Under the VEA the above pensions are not offset against the TPI Pension received by the Veteran.

2.7 Dependents

Under the VEA dependent family members are eligible for compensation, either in the form of a pension or a lump sum payment, if a Veteran dies:

- As a result of a service-related impairment; or
- And was receiving a pension at or above 100% of the General Rate; or
- And was an ex-prisoner of war.

Wholly dependent partners may receive \$931.50 per fortnight. A single orphan may receive \$104.20 per fortnight and double orphans \$208.30 per fortnight.⁵

Dependents may also be entitled to many of the additional allowances outlined above. In addition eligible partners can receive the following:

	Amount
Bereavement payment	Depends on the pension that the pensioner was receiving prior to death and whether they were single or a member of a couple.
Income support supplement	Up to \$275.40 per fortnight
Funeral allowance	Up to \$2000
Education allowance	Up to \$561.70 per fortnight (incl. Energy Supplement)

Source:

<https://www.dva.gov.au/factsheet-dp43-disability-pension-and-war-widower-s-pension-rates-and-allowances>

<https://www.dva.gov.au/factsheet-cep01-energy-supplement>

<https://www.dva.gov.au/factsheet-is03-income-support-supplement-overview>

⁵ <https://www.dva.gov.au/factsheet-dp43-disability-pension-and-war-widower-s-pension-rates-and-allowances>

3. Federation Recommendations

3.1 Introduction

Consistent with the scope this chapter summarises the Federation submission made to the PC Review included the following recommendations.

- Recommendation 1. Maintaining and enhancing the financial wellbeing and the self-sufficiency of eligible persons and their dependants through income support, compensation and other support services should be a centre piece of the PC Review.
- Recommendation 2: That the TPI economic loss compensation be benchmarked to the tax-adjusted minimum wage.
- Recommendation 7: Benefits paid to Veterans should be considered in isolation.
- Recommendation 8 and 9: Which broadly recommends that the PC Review focus on fair and equitable treatment of Veterans. The cost of repairing or caring for the Veteran should never be considered, with the focus on the welfare of Veterans.

3.2 Recommendation 1

The Federation in their submission to the PC Review recommended that Outcome 1 from DVA's outcomes, programs and purposes needs to be the centrepiece of the Productivity Commission's examination. *"The question needs to be asked – is DVA fulfilling Outcome 1 to the benefit of the Veterans and their families."*

"Outcome 1: Maintain and enhance the financial wellbeing and self-sufficiency of eligible persons and their dependants through access to income support, compensation, and other support services, including advice and information about entitlements."

3.3 Recommendation 2

The Federation in their submission to the PC Review recommended that the "Economic Loss" component of the TPI Pension be benchmarked to the tax-adjusted minimum wage.

The Federation's rationale for this recommendation, as outlined in the submission, is summarised below:

- The TPI Pension payment can be divided into two components, as follows.
 - "Pain and suffering" compensation: which is up to the 100% General Rate and provides compensation for impairments.

- “Economic Loss” compensation: which is above the General Rate and provides compensation for the loss of income earning ability because of a service-related injury, disease or illness.

The Federation cited a number of political and DVA staff expressing this view to support this argument. For example:

- Justice Toose, ‘The Toose Report’, 1975.
- Mr Campbell – Acting secretary DVA (Tuesday, 1 June 204 Senate Estimates – Foreign Affairs, Defence).
- Mr Billson (Dunkley – Minister for Veterans’ Affairs and Minister Assisting the Minister for Defence) – First Reading (Thursday, 20th September 2007).
- Senator Ellison (Minister for Human Services (Second Reading Speech (20th September 2007).
- The Economic Loss component of the TPI benefit should be no lower than the tax adjusted minimum wage as:
 - The TPI Pension was designed for severely disabled Veterans of a relatively young age who could never go back to work and could never hope to support themselves or their families or put away money for their old age. (Arthur Gietzelt, Acting Minister for Veterans’ Affairs, 1985).
 - The TPI Pension has fallen from 80% of the average weekly earnings in 1950 to 43% in 2014. An increase in the Economic Loss component of the TPI Pension up to the effective tax-free minimum wage would restore the whole payment back to a level considered somewhat commensurate with the Parliament’s original intent. The Federation’s analysis is shown below.



Figure 1
Decline of Veteran's Compensation
from 80% of Average Weekly Earnings
to only 43%.

3.4 Recommendation 7

The Federation in their submission to the PC Review recommended that the Veteran's compensation needs are to be considered in isolation and not linked to any other Government or Non-Government compensation scheme.

The Federation cited an article in Camaraderie Vol 49 No 2 to highlight the uniqueness of military service and the support provided to Veterans should reciprocate this:

"Life liberty and security" of ADF men and women "is in the hands of the State. That's unique. No other calling, occupation or profession – including police and emergency services – is required to surrender these rights, although some do voluntarily."

"Support for serving and former ADF men and women must be unique as their service is unique. It is inappropriate, indeed dangerous to attempt to 'normalising' support to community standards."

"Military Service is fundamentally unique. The reciprocal obligation this places on the State is as inescapable as it is enduring."

3.5 Recommendation 8 and 9

The Federation in their submission to the PC Review recommended that the PC Review focus on fair and equitable treatment of Veterans. The cost of repairing or caring for the Veteran should never be considered, with the focus on the welfare of Veterans.



The Federation noted the *"Health and Compensation budgets are uncapped for a reason. That reason should not only be to have finances available should there be another war, but also to pay for the needs of those who have served and now need help."*

"The major principles that should underpin the legislation and administration of the Veteran support system is all encompassing with full health requirements, full welfare requirements and full and fair compensation requirements."

4. DVANetwork's Proposal

4.1 Introduction

This section summarises the DVANetwork's proposal that relate to the benefits paid to TPI beneficiaries. The DVANetwork's proposal is as in the email to the DVA on 23 March 2019, subject: "Digesting the Veterans Affairs Ministers Meeting in Tangney WA 19.03.2019 The TPI rate. The Disconnect between 1986 Legislated Assurance and 2019 Lived Experience" ("the DVANetwork's email").

4.1.1 Proposal 1

The DVANetwork's email proposes that as a minimum for "suffering a loss of salary or wages, or of earnings" TPI benefit plus the Service Pension that TPI Veterans should receive be increased to the 'Full Time Adult Average Weekly earnings' ("FTAAWE") less income tax liability. The DVANetwork's rationale for this proposal, as outlined in the DVANetwork's email is summarised below:

- The TPI rate at \$704 weekly represents 46.28 per cent of the after income tax FTAAWE (\$1,288 weekly).
- A single TPI veteran receives the TPI rate and Service Pension of \$1,121 weekly for compensation for "suffering a loss of salary or wages, or of earnings".
- As a minimum for "suffering a loss of salary or wages, or of earnings" our TPI Disabled are compensated at the equivalent dollar amount to the FTAAWE less income tax liability (\$1,288 weekly).

Effectively the DVANetwork is requesting that the TPI Benefit plus Service Pension be increased from \$1,121 to \$1,288 weekly.

4.1.2 Proposal 2

The DVANetwork's email proposes that a TPI veteran's access to the Service Pension should be unhindered by means testing against the partner's earnings. The DVANetwork's rationale for this proposal, as outlined in the DVANetwork's email is summarised below:

- A single TPI receives the TPI rate and the SP to be compensated for "suffering a loss of salary or wages, or of earnings" amounting to \$1,121 weekly.
- "When the single TPI marries or enters a kind of relationship and the spouse has earnings their compensation for the same suffering a loss of salary or wages, or of earnings is reduced to \$704 weekly."
- The collective financial responsibility for the TPIs welfare is thus transferred from the Commonwealth to the individual spouse. Though there is no change in the health of Veteran the Commonwealth sees fit to reduce the compensation by two fifths of its previous value.

5. Framework to Assess TPI Benefits

5.1 Introduction

Consistent with the scope, this chapter outlines a framework for assessing the Federation's Recommendations.

5.2 Approach to Developing the Framework

5.2.1 Overall Approach

The approach adopted for developing the framework involved the following key elements:

- Establish a set of principles. The set of principles should help guide the development of the framework.
- Consider the broad range of issues and various perspectives around assessing the adequacy of benefits provided to TPI Veterans.
- Develop a framework that reflects the results from the above analysis, as well as actuarial methodologies and practices ("First Principles Approach").
- Test the framework developed from the First Principles Approach against other known frameworks, and make any adjustments as required ("Feedback loop").

The following section outlines a framework that is considered to be 'balanced' and 'objective' for assessing the Federation's Recommendations.

5.2.2 First Principles Approach

In establishing framework principles and considering the range of issues involved in assessing the adequacy of benefits provided to TPI Veterans the following were considered:

- Common principles underlying workers' compensation schemes and insurance systems. These include:
 - Insurance can provide protection against loss associated with:
 - The costs incurred in relation to the insured event. For example workers' compensation schemes provide for reasonable and necessary costs of medical treatments associated with impairment in the workplace, as they are incurred. Some workers' compensation schemes have time limits in place over which medical and treatment related costs can be compensated.
 - Income lost in relation to an insured event. The benefit provided is commonly a monthly income replacement benefit that allows the individual to support their financial commitments (for example mortgage repayments) and maintain a lifestyle that aligns

with their pre-impairment lifestyle. There is usually a maximum and minimum amounts payable each week, and a time limit on the period for payment.

- Suffering in relation to an insured event. This may include a benefit for any actual pain and suffering experienced, future pain and suffering likely to be experienced, loss of enjoyment of life, and any inability to participate in pre-impairment recreational activities, as a result of the impairment.
- Benefits due to the death of the individual. For example, a minimum benefit may cover funeral costs and a modest amount for dependants/estate.
- Benefit levels should balance the needs of the individual, but also encourage them to return to work as soon as they are able to. Income replacement ratios (ratio of benefit payment to pre-disability income) below 100 per cent are common, which recognises some expenses (for example travel to work) are not incurred when the individual is not working and a ratio below 100 per cent is necessary to encourage many individuals to return to work. Some workers' compensation schemes decrease the income replacement ratio with the duration of claim.
- The income replacement ratio should consider all insurance payments and non-insurance benefits related to the insured event. That is, if a person is receiving benefit payments under two insurance policies, the payments made under the first policy reduce the payments made under the second policy (referred to as offsetting in the insurance industry).
- Insurance benefits are not means tested.
- Affordable and financially sustainable for the entity providing the insurance.
- Recognise that Australian Government has made a social contract with serving personnel that, in return for service, they (and their families) will be appropriately supported if they incur a service related injury, illness or death.
- Common actuarial principles of equity and fairness. Some insurance contracts require actuaries to apply judgement and principles of equity and fairness to determine the benefits that are paid to policyholders. Typically actuaries consider a range of factors including:
 - Is the benefit payable meeting the reasonable expectations of the policyholder?

In insurance systems, reasonable expectations are met if reasonable benefits are paid having regards to the circumstances of the policies. Factors that typically need to be considered in determining reasonable expectations include the marketing material provided to the policyholder at the point of sale, past practice, and policy terms and conditions.
 - Are different cohorts of policyholders being treated on a consistent and fair basis?
 - Benchmarks normally have limitations, as they commonly only assess a single or limited set of criteria and can ignore other relevant factors. Therefore, it is common to benchmark against a number of different metrics that cover a range of issues, criteria and factors. Commonly adopted benchmarks for insurance systems and benefit design include: local competitors; industry good practice and industry surveys; indices and comparable international markets.

5.2.3 Feed Back Loop

The following information was considered as part of the feedback loop process:

- Methodologies and principles underlying the PC Review and Clarke Review. Appendix D outlines our views on the methodologies and principles underlying the PC Review. Our high-level review of the Clarke Review suggested that the methodologies and principles underlying the Clarke Review were similar to those of the PC Review. Refer to Appendix E for further details. The PC Review appears to have considered each of the Federations Recommendations at a high level, but did not address some of these recommendations in detail or directly. Appendix C outlines our views on the PC Review's position regarding the Federation's Recommendations.
- The Federation's recommendations and views as summarised in Section 3.
- The DVANetwork's proposal as summarised in Section 4.

5.3 Framework

Based on the approach and analysis outlined in Section 5.2 the following framework was developed.

5.3.1 Framework Principles

Based on the above analysis, the following framework principles have been adopted for assessing the TPI benefits:

- The Australian Government has made a social contract with serving personnel that, in return for service, they (and their families) will be supported if they incur a service related injury, illness or death.
- Veterans should be supported because of their contributions to the protection and service of the nation.
- The benefit should provide adequate compensation for injury and illness but should not discourage Veterans from engaging effectively in rehabilitation and return to work.
- Alignment of total and permanent disability benefits under the different legislation is ideal, and changes made should not make differences more pronounced.
- The overall community benefit and the appropriate targeting of limited resources should be considered.

It is noted that there is a tension between the above principles (e.g. between principles 1 and 2 and principles 3 and 5).

5.3.2 Veteran Benefits "Bundle"

Consistent with principles underlying workers' compensation schemes and insurance systems, the full range of support provided to TPI Veterans should be identified, and grouped into four main categories, as follows:

- Impairment compensation: Financial payments to Veterans and their families to compensate for the pain and suffering associated with an impairment (or death) due to service.

- Healthcare (and other) costs resulting from an impairment due to service.
- Dependent benefits. This is the benefits paid following the death of a Veteran.
- Income Replacement. This is the residual benefits provided to the Veteran.

The support contained within each category should be bundled together and considered as a bundle.

5.3.3 Separating the TPI Benefit into Components

Consistent with the Federation view and views outlined below, the TPI benefit can be considered to have the following two components:

- Impairment compensation component equal to the General Rate Disability Pension. The reason being:
 - The General Rate is paid according to the level of the impairment without any consideration of the Veteran's ability to work, therefore can be considered to compensate for pain and suffering.
- Income Replacement component equal to the amount of the TPI Pension above the General Rate Disability Pension. The reason being:
 - The TPI Pension is paid to severely incapacitated Veterans who are unable to work due to their service related impairment and have suffered a loss of income as a result.

Therefore, the portion of the TPI Pension above the General Rate Disability Pension could be considered to compensate for a loss of income.

5.3.4 Means Testing and Offsetting

As noted above, insurance principles indicate that:

- Offsetting of benefits does commonly occur. For example, in insurance systems, income protection insurance benefit payments are offset for other income payments received by the insured to ensure the income replacement ratio does not breach a threshold level. These other income payments may include other similar income protection insurance, workers' compensation, legal judgement or statute related payments.
- Means testing of insurance benefits does not commonly occur.

The Income Replacement component should be adjusted for the above where material.

5.3.5 Benchmarking

A balanced and objective view on the adequacy of the TPI Pension, for TPI Veterans as an aggregate, can be obtained by comparing the TPI benefits against a range of benchmarks. Some of the different benchmarks that could be adopted to assess the TPI benefits are considered below.

- AWE. The Income Replacement component (defined in section 5.3 above) represents an after tax income for TPI Veterans. Therefore the average weekly earnings after tax indices can be considered a reasonable benchmark for assessing the Income Replacement benefits provided to TPI Veterans. It is noted that the data provided by the DVA indicates that almost 70 per cent of the

current TPI Pension recipients are aged 70 or older. Income needs of retirees are considered to be different to those of working age. Therefore, when benchmarking to the AWE metric, some allowance should be made for the different income requirements of retirees vs the working population.

- Erosion. Consider how level of Income Replacement paid to TPI Veterans, relative to AWE, has varied over time.
- Veteran Benefits under other Acts. At a high level compare the benefits under the three legislations (VEA, DRCA and MRCA).
- Overseas Veteran Benefits. At a high level compare the level of compensation available under the Australian legislation against international Veteran schemes. It is noted that this analysis needs to consider the context applying in each country.
- Workers' Compensation: At a high level consider the level of compensation benefits payable under workers' compensation packages to Commonwealth employees (the SRCA).

For the purpose of this paper, the first three benchmarks are considered the most relevant.

5.3.6 Targeting

The application of benchmark ratios provide insight to the reasonableness of benefits for the average TPI Veteran. However, the needs and circumstances of Veterans vary, therefore it is appropriate to consider whether the TPI benefit is appropriate for different TPI Veteran cohorts.

Therefore, in considering the income replacement needs of Veterans, the targeting of these payments to the needs of Veterans should be considered.

6. Application of the Framework – Bundling and Component Identification

6.1 Introduction

Consistent with the scope, we have applied the framework described in Section 5 to assess and comment on the Federation’s Recommendations and the DVANetwork’s proposal. Our comments are supported by publicly available data and data that was readily available from the DVA.

This chapter covers the first two elements of the framework, the identification of the bundle of benefits paid to the TPI Veteran (Section 5.3.2), and the separation of these benefits into components (Section 5.3.3).

The following chapter covers the consideration of means testing and offsetting (Section 5.3.4) of benefits paid to the TPI Veteran. Chapter 8 covers the benchmarking (Section 5.3.5) of benefits paid to the TPI Veterans.

6.2 Applying the Framework - ‘Bundle’

6.2.1 Classifying the benefits received

Consistent with the framework presented in Section 5, the benefits paid to Veterans should be classified into the following components for the purpose of assessing the Federation’s Recommendations and the DVANetwork’s proposal:

- Impairment compensation component: financial payments to Veterans and their families to compensate for the pain and suffering associated with an impairment (or death).
- Healthcare (and other) costs resulting from an impairment due to service.
- Dependent benefits: these are benefits paid following the death of a Veteran.
- Income replacement component: residual benefits provided to the Veteran

The table below shows the range of benefits TPI Veterans could receive (as outlined in Section 2), allotted into the components above. The rationale for the allotments are provided below the table.

Component	TPI benefit
Impairment compensation	- General Rate Pension
Healthcare (and other) costs	- Gold Card - Allowances: Attendant, clothing, decoration, recreation transport, vehicle assistance, pension supplement, Veteran supplement, rental assistance, energy supplement,
Dependent benefits	- Disability pension, war widow pension, orphan's pension, bereavement payment, income support supplement, funeral allowance, education allowance, and additional allowances that TPI Veterans could receive.
Income replacement	- Above General Rate Pension - Service Pension - Invalidity Superannuation Benefits

The rationale for the allotments of the key TPI benefits to the different components are summarised as follows:

- General Rate Pension: Paid for Veterans with service related impairments. The amount paid varies with the level of impairment, and does not take into consideration whether or not a Veteran is employed. This is therefore considered impairment compensation.
- Healthcare (and other costs).
 - Gold card: covers the cost of a range of public and private health care services, irrespective of whether the impairment treated was related to service or not. While a portion of the Gold Card payments could be considered income replacement, for the purpose of this Report it is assumed that 100% of the Gold Card payments relate to service related impairments.
 - Allowances designed to cover specific financial costs that are associated with an impairment (that may not be incurred if the Veteran was not impaired):
 - Attendant: to cover the cost of an attendant to perform basic functions due to certain service related impairments.
 - Clothing: for exceptional wear and tear or damage to clothing due to service related impairments.
 - Decoration: disability pensioners who were awarded certain decorations for gallantry.
 - Recreation transport: aims to cover the cost of travel to attend recreational activities for a Veteran suffering from severe service related impairments that affect mobility.
 - Vehicle assistance: aims to assist an eligible Veteran (with service related impairments that affect mobility) to purchase and modify a motor vehicle.
 - Pension supplement: paid to help Veterans cover the cost of prescriptions, rates, telephones and internet connections, energy, water and sewerage. It could be argued that some of these costs would be incurred regardless of whether the Veteran was impaired – so represent income replacement, however for simplicity we have not allocated some of these payments to the income replacement component.

- Veteran supplement: paid to reduce out of pocket expenses when Veterans pay the maximum concessional pharmaceutical co-payment.
 - Energy supplement: part of the Household Assistance Package (which also provides for ongoing essential medical equipment payment). The energy supplement was put in place to cover the additional cost of the carbon tax. This component could be considered to partially cover costs related to an impairment (i.e. increased time spent at home, energy expenditure on to medical equipment) and partially cover costs that would have been incurred regardless of the injury (i.e. general energy usage). This component does not materially impact our conclusions within this report, therefore for simplicity we have considered this to be part of the Healthcare (and other costs).
- Income Replacement⁶
 - Above General Rate Pension: the amount above the General Rate Pension within the TPI Pension. Paid to severely incapacitated Veterans who are unable to have a normal working life because of the service related impairment. This is considered to be income replacement.
 - Service Pension: an income support payment for eligible Veterans. This benefit is considered Income Replacement for the reasons outlined in Section 6.3 below:
 - Superannuation Benefits: Superannuation benefits paid due to service related disability and incapacity for civilian work should be considered to be income replacement. To simplify the benchmarking, and reflecting the means testing of the Service Pension (refer to Section 7), superannuation benefits will not be included in the Income Replacement component used for benchmarking.

6.3 Observations on aggregating Above General Rate Pension and Service Pension

The framework in Section 5 states that the income replacement benefits (i.e. Above General Rate Pension and the Service Pension) should be assessed in aggregate for reasonableness, and not separately. This differs from the approach proposed by the Federation.

In our view assessing the income replacement benefits in aggregate is consistent with the insurance principles outlined in Section 5.2.2, but also reflects our view that the Service Pension has an element of compensation. This reflects:

- Healthy Veterans are eligible for a Service Pension from the Service Pension age (60 years).
- TPI Veterans are eligible for a Service Pension from the date they receive a TPI Pension (which in many cases will be before age 60).
- As TPI Veterans are eligible for the Service Pension before age 60, unlike healthy Veterans, the Service Pension can be considered compensation for disability.

⁶ Veterans can also receive a loss of earnings allowance for earnings lost due to absence from work for treatment of service related disabilities or to attend certain appointments. Not included in our analysis as this requires the Veteran to be working.

- In addition, the means testing of the service pension does not include the TPI benefit. This is a form of compensation

7. Application of the Framework – Means Testing and Offsetting

7.1 Introduction

Consistent with the framework (Section 5.3.4) we have considered whether the Income Replacement component should be adjusted for the means testing and offsetting of benefits.

7.2 Offsetting

The TPI Pension and Service Pension do not contain any offsetting rules (e.g. superannuation or incapacity payments that the Veteran may be receiving).

Therefore, no adjustments are required to the Income Replacement component used in the benchmarking calculations (Section 5.3.5) for offsetting.

7.3 Means testing

7.3.1 Introduction

The TPI Pension is not means tested, however the Service Pension is means tested. The following section considers whether the Income Replacement component should be adjusted for means testing.

The Service Pension means test considers a range of assets and incomes.

As the Income Replacement component used in the benchmarking calculations does not include superannuation related invalidity income benefits, adjustments for means testing is only required if the means testing is having a material impact on the level of Service Pension due to income/assets not related to service related disability.

In practice, we have considered whether the Service Pension is being reduced significantly due to:

- The asset means test;
- Income of a spouse;
- Asset/business income;
- Superannuation benefits not linked to the disability of the Veteran.

The following sections consider the above issues in turn using data provided by DVA.

We note the following limitations in the data provided by DVA:

- Where a TPI Veteran is not receiving a Service Pension, DVA does not store up to date information regarding the Veteran. Approximately 8k (29 per cent of all current TPI Veterans) TPI Veterans do not receive a Service Pension, of these:
 - Approximately 6k (23 per cent of all TPI Veterans) have not applied for a Service Pension and therefore have not been assessed and no data is stored by the DVA in regards to income and assets of these Veterans. Therefore these are excluded from the analysis below.
 - Approximately 2k (6 per cent of all TPI Veterans) do not receive a Service Pension due to being assessed under the means test. These are excluded from the analysis below, and considered appropriate given the small number and high level nature of the analysis performed.

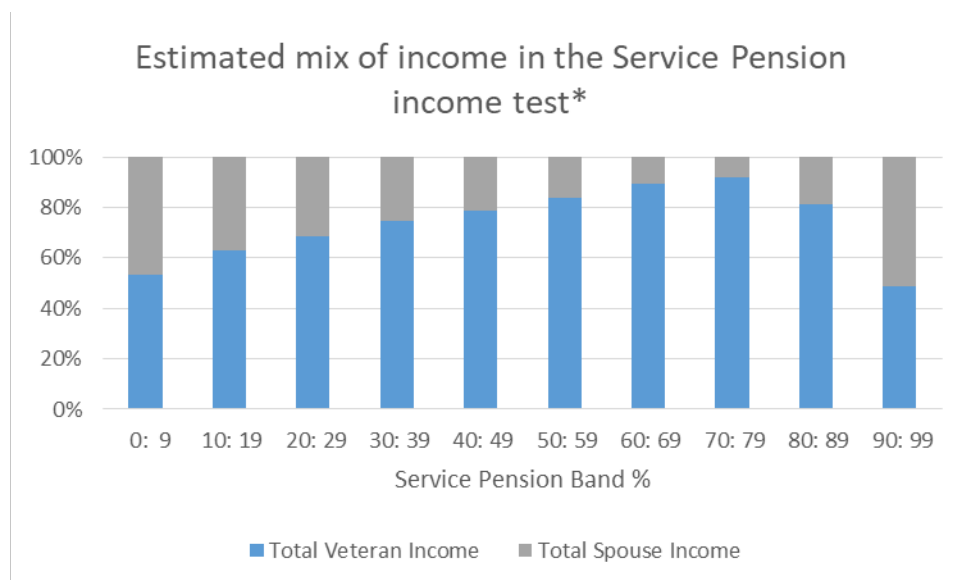
7.3.2 Income Test and Asset Test

Data provided by the DVA indicates that around 40 per cent of TPI Veterans are currently receiving 100 per cent of the Service Pension, and the remaining receive amounts below 100 per cent. The TPI Veterans that are receiving less than 100 per cent of the Service, do so due to the income and assets test.

DVA data indicates that the income test, rather than asset test, is dominant for around 91 per cent of Veterans receiving the Service Pension.

7.3.3 Income of a Spouse

Our analysis on the data provided by DVA indicates that for TPI Veterans on the couple Service Pension rate that are receiving less than the maximum Service Pension due to the income test, the majority of the income is the TPI Veteran's own income.



*Excludes joint income which on average was less than 5 per cent of total income.

Under the income test, the Service Pension for a Veteran decreases by the following amount for every dollar of income above the Income Free Area ("IFA"):

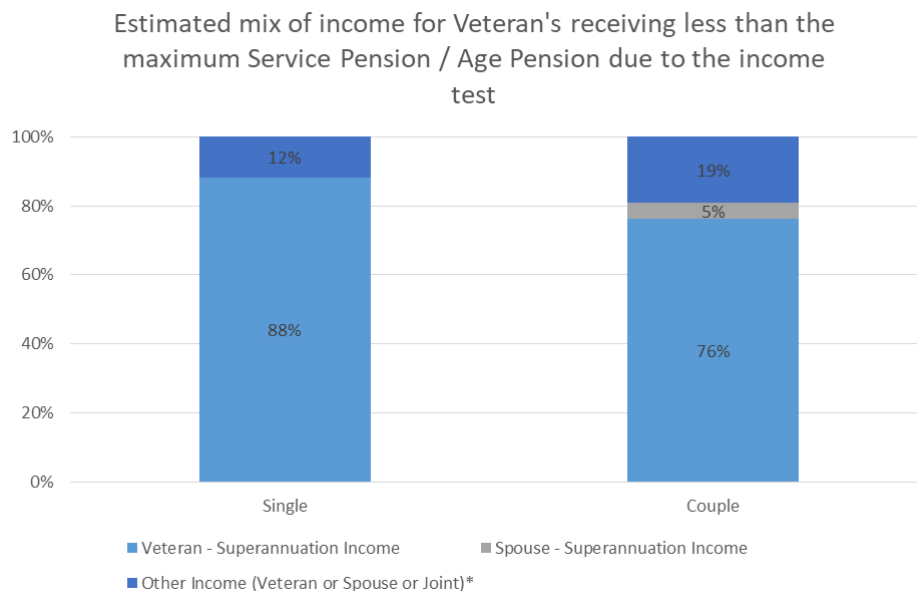
- Single: 50 cents (i.e. Taper Rate of 50%) for each dollar of income above \$174 per fortnight;
- Couple: 25 cents (i.e. Taper Rate of 25%) for each dollar of the combined Veteran and spouse income above \$308 per fortnight.

As the income of the spouse is on average less than the income of the TPI Veteran, and the Taper Rate for the Couple Service Pension rate allows for the inclusion of two incomes, by halving the Taper Rate (i.e. from 50% to 25%), the inclusion of the spouse's income in the means test is likely to benefit most Veterans (assuming a Taper rate of 50% would be adopted if the spouse income was excluded).

7.3.4 Asset/business Income

Our analysis on the data provided by DVA indicated (as shown in the graph below) that when a TPI Veteran is receiving less than the maximum Service Pension (or Age Pension) due to the income test, the majority of the income is related to the Veteran's superannuation income, with only a small component related to asset/business income. This reflects that:

- For TPI Veterans on the singles Service Pension rate, about 88 per cent of their income is superannuation related.
- For TPI Veterans on the couples Service Pension rate, about 76 per cent of their income is related to the Veteran's superannuation and about 5 per cent is related to the spouse's superannuation.
- The remaining income relates to financial assets, business assets, property and earnings of the Veteran or spouse.



*Other Income includes income from financial assets, business assets, property and earnings.

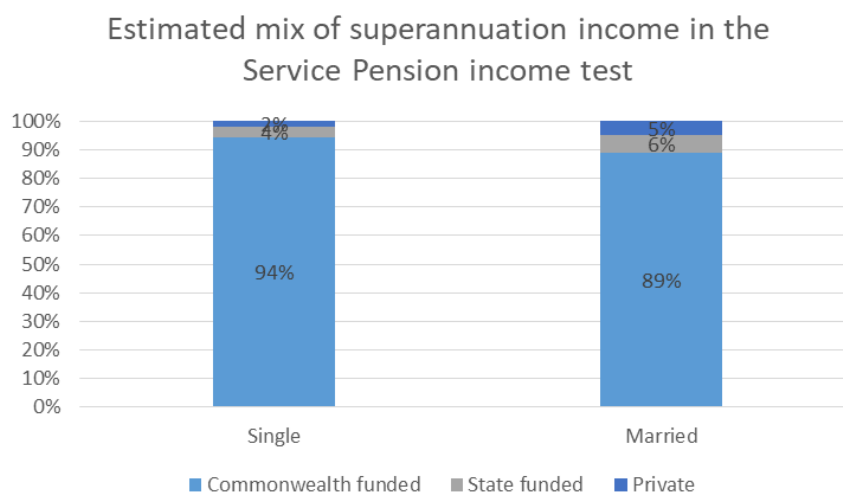
7.3.5 Observation – Superannuation Related Income

Further, data provided by DVA (as shown in the graph below) indicated that vast majority of the superannuation related income (about 94 per cent for singles and 89 per cent for couples) in the Service Pension income test was Commonwealth funded, this could include:

- Military schemes: Defence Force Retirement and Death Benefits scheme, Military Superannuation and Benefits scheme, Australian Defence Force Super; and
- Non-military schemes: such as the Commonwealth Superannuation Scheme and Public Sector Superannuation Scheme.

The remaining superannuation related income (6 per cent for singles and 11 per cent for couples) included:

- State funded superannuation schemes such as State Authorities Board (NSW), State Superannuation Board (Vic), State Police schemes; and
- Private non-government superannuation obtained by the Veteran or spouse.

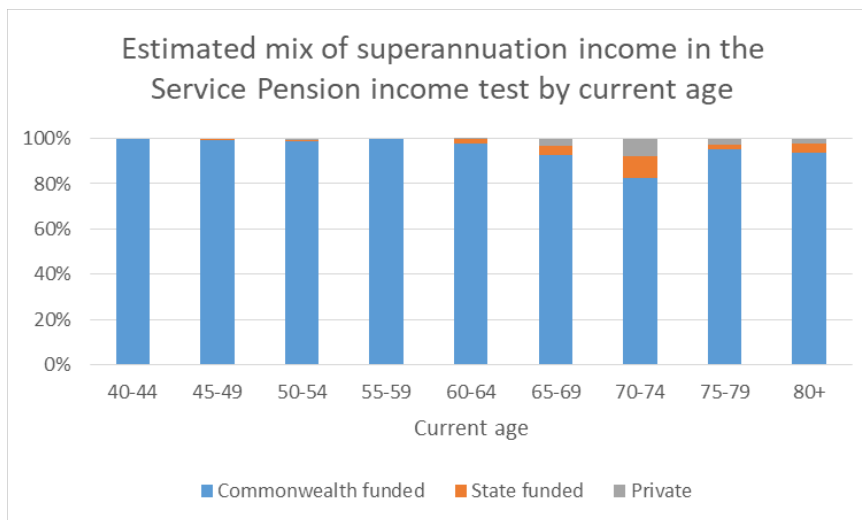
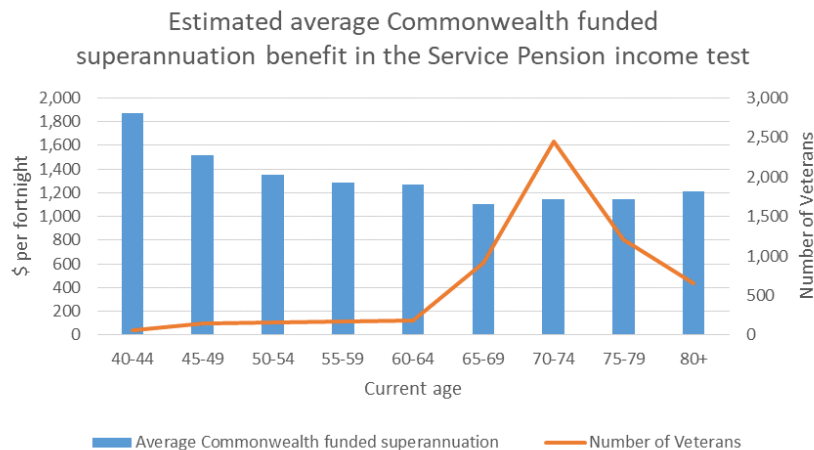


It is noted that it is not clear from the data what proportion is for:

- Military service: accumulated or defined benefit, based on Government contributions and/or Veteran contributions; and
- Invalidity benefits: due to physical or mental impairment while serving.

To determine the above proportions, a review of detailed means testing data provided by a sample of TPI Veterans would be required. DVA advised that this information is stored by other government departments and was not readily available. DVA also advised:

- Veteran's first receiving a TPI benefit after age 55 may be on a retirement pension.
- Analysis of superannuation income by age may provide insight into whether the income was due to physical or mental impairment while serving. In particular TPI veterans under the age of 55 would most likely not be receiving a retirement pension. The following graph summarises this analysis, as well as the mix of superannuation in the income means tests.



The above graphs highlight.

- The mix of incomes pre age 55 is similar to the income post age 55.
- The average superannuation income pre age 55 is similar to the income post age 55.
- The above results don't suggest that material adjustments for the means testing of the service pension for superannuation income are required.

7.3.6 Conclusions

As outlined above, because the Income Replacement component used in the benchmarking does not include superannuation benefits, adjustments for means testing is only required if the means testing is having a material impact on the level of Service Pension due to income/assets not related to service related disability (i.e. Non-disability income impacts).

The analysis above suggests that this is not the case. In addition the income free area and the Taper Rate being 50%/25% also provide some moderating of Non-disability income impacts.

Therefore no adjustment for means testing of the Service Pension has been adopted for benchmarking purposes.

8. Application of the Framework – Benchmarking

8.1 Introduction

This section benchmarks the Income Replacement component determined in Section 6.2 and Section 7 using the framework outlined in Section 5.

8.2 Benchmark to the AWE

8.2.1 AWE Benchmark Ratio Calculation

As at 1 January 2019:

- 100 per cent General Rate was \$500.60 per fortnight.
- TPI Pension was \$1,408.00 per fortnight.

The Above General Rate Pension was, therefore equal to \$907.40 per fortnight (\$1,408.00 – \$500.60).

The Service Pension was up to \$916.30 per fortnight for singles from 20 September 2018.

Therefore the Income Replacement component (Above General Rate Pension plus the Service Pension) can be estimated as \$1,823.70 as at 1 January 2018.

The MTAWA after tax is estimated at \$2,238 per fortnight, based on:

- The average weekly earnings for ‘male, total earnings’ from the Australian Bureau of Statistics as at November 2018.
- Australian resident tax rates for 2018 – 19 from the Australian Tax Office.

Therefore, the Income Replacement component of approximately \$1,800 per fortnight, represents approximately 80 per cent of the male total average weekly earnings (“MTAWA”) after tax.

8.2.2 Observations on the AWE Benchmark Calculation

We make the following observations in relation to our benchmarking calculation above:

- To test that the above calculations align with the PC Review and the Clarke Review we added the General Rate into the Income Replacement component and compared the resulting ratio to the ratio in the PC Review and the Clarke Review (reflecting these reviews included the General Rate component in their calculation).

- Compared to the PC Review: Our calculated ratio of 104 per cent is higher than expected (90 per cent), however we note the PC Review did not publish the exact ratio they calculated but stated that “*it was consistent with the figure estimated in the Clarke Review of about 90 per cent of average weekly (after tax) earnings*”.
 - Compared to the Clarke Review: We also re-calculated this ratio for the early 2000’s (the Clarke Review period) using the same MTAWWE data series, and our re-calculated ratio of about 90 per cent over the 2000 to 2003 period was consistent with the Clarke Review of about 90 per cent of average weekly (after tax) earnings. This gives us comfort that our benchmarking calculations are not unreasonable.
- There are a range of average weekly earnings measures that we could be adopt for benchmarking. We adopted the after tax MTAWWE for benchmarking for similar reasons to the PC Review and the Clarke Review:
 - Data provided by DVA indicated that approximately 98% of the TPI Pension recipients are currently male, therefore the benchmark should reflect predominately male earnings.
 - The TPI Pension is not taxable therefore the benchmark should reflect after tax earnings.
- The Minimum Wage was \$1,438 per fortnight before tax from July 2018. The Income Replacement component represents approximately 144 per cent of the after tax minimum wage.

8.2.3 Observations on Interpreting the AWE Metric

In considering whether a MTAWWE metric of 80 per cent is unreasonable we have considered both an insurance view and a needs based view. The following comments are made:

Insurance View

Insurance systems provide for protection against loss of income in the event of an injury or sickness, in the form of income protection insurance. Income protection insurance generally provides for monthly benefits of up to 75 per cent of the worker’s pre injury/sickness income. Additional amounts may also be provided for superannuation contributions, which would take the monthly benefits to 80 to 85 per cent of the worker’s pre injury/sickness income.

The income protection insurance benefit is reduced for other income payments that the worker may receive so the aggregated benefit does not exceed 75 per cent. For example, the income protection insurance benefit may be reduced to reflect the following; other income protection insurance payments, worker’s compensation, legal judgement, or statute related payments.

Therefore, the loss of income compensation in insurance systems commonly provides for an income replacement that is:

- about 75 per cent of pre injury/sickness income plus superannuation contributions; and
- Paid to age 65.

The Income Replacement ratio of 80 per cent of the MTAWWE after tax is commensurate with the income protection benefit paid in insurance systems for up to age 65.

Needs View

Income protection insurance benefit is paid up to the end of the expected working age (i.e. to age 65), whereas the Income Replacement component is paid for life to TPI Veterans. Economic theory indicates that post retirement age there is no loss of income as an average individual is not expected to be working to earn an income. However individuals require an income to cover their ongoing living expenses and needs. Australians drawdown on their accumulated superannuation or assets for a regular income post retirement, or receive social security benefits such as the age pension.

TPI Veterans may not have had the chance to accumulate superannuation or assets to drawdown on, and, may rely on the TPI Pension and the Service Pension to fund ongoing living expenses and needs. Therefore, in our view, the benefit to the TPI Veterans after retirement age should at a minimum meet their living expenses and needs.

There is considerable research debate regarding the income needs of retirees. For example:

- The Grattan Institute 2018 “Money in retirement: More than enough” report (“Grattan Report”) used a benchmark replacement rate of 70 per cent (i.e. pre-retirement income to post-retirement income) on the basis that most Australians tend to spend less after they retire. Retirees that rent will need to replace a higher share of their pre-retirement incomes in order to cover their higher housing costs through retirement.
- The Grattan Report (pg. 34 – 37) notes that (further details are also provided in Appendix B) the retirement standards produced by the Association of Superannuation Funds of Australian (“ASFA”) are often used to measure retirement adequacy. ASFA produces a ‘comfortable’ standard for both single (\$42,794 per annum) and couple (\$60,264) retired household aged 65 to 85 that own their home outright. However, the Grattan Report’s view is that ASFA ‘comfortable standard’ is too high – noting that more than 70 per cent of single households and about half of couple households aged 55-64 spend less than the ASFA standard. If spending on dependent children is taken into account, the amount that adults spend on themselves is even less. On this basis the Grattan Report estimates only 20 per cent of singles and 40 per cent of couples spend more than the ASFA comfortable standard.

Nonetheless, the Income Replacement component meets or exceeds both of these benchmarks. In particular:

- \$1,800 per fortnight for singles represents about 110% of the ASFA’s comfortable retirement standard for single households aged 65 that own their own home.
- \$2,300 per fortnight for couples represents about 100% of the ASFA’s comfortable retirement standard for couples aged 65 that own their own home.

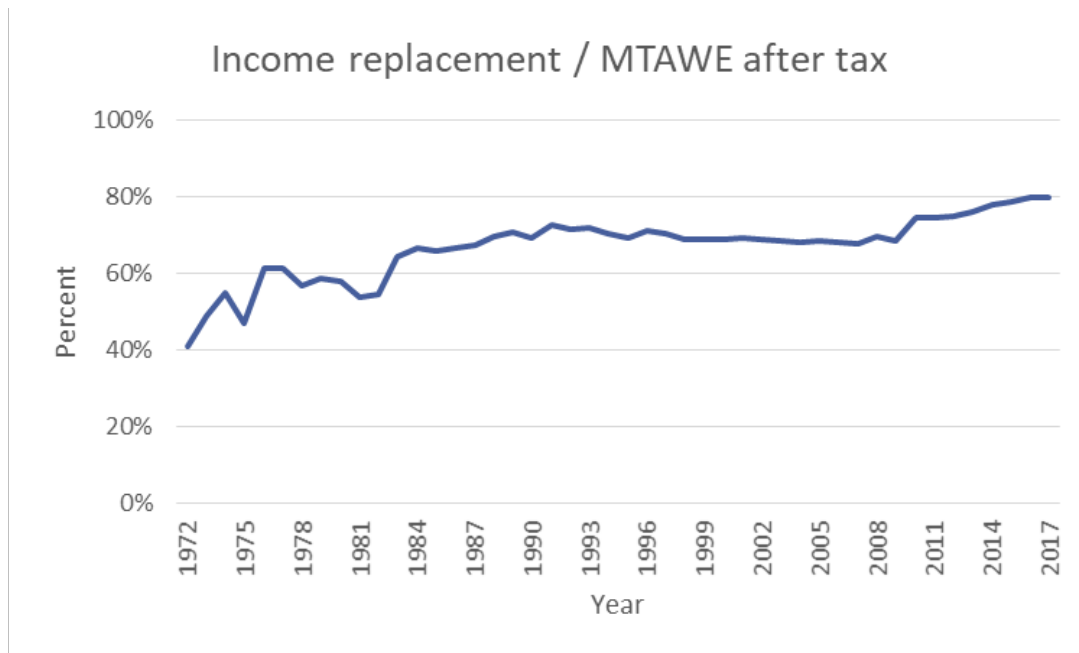
8.2.4 Conclusion - AWE Metric

Based on the comments above, the AWE metric does not provide strong evidence for increasing the TPI Pension benefit for all TPI Pension recipients.

8.3 Applying the Framework – Erosion

8.3.1 Observations – Erosion

The historical Income Replacement component (Above General Rate Pension plus the Service Pension) was compared to the MTAWWE after tax from 1972 to 2017. The following chart summarises the comparison performed.



The following comments are made on the above chart:

- The following inputs were used for the MTAWWE:
 - The average weekly earnings for 'male, total earnings' from the Australian Bureau of Statistics.
 - Australian resident tax rates for 1972 to 2017 from the Australian Tax Office.
- The PC Review noted that *"there does not appear to have been an erosion in the adequacy of the SRDP since the Clarke Review."* Similar to the PC Review, the above analysis also did not show any erosion since the Clarke Review (i.e. since 2003).

We also compared our erosion exercise to the results in the Clarke Review (reflecting that the Clarke Review included the General Rate component in their analysis). Our graph of the TPI Pension and the Service Pension as a percentage of the MTAWWE after tax broadly reflected the Clarke Review's graph – the ratio increased from below 80 per cent in 1972 to about 90 per cent in the early 1990s.

- There does not appear to be any erosion in the Income Replacement component when compared to the MTAWWE after tax. The Income Replacement component as a percent of the MTAWWE after tax has increased from 40 per cent in 1972 to 80 per cent in 2017.
- The graph results broadly aligns with our expectations, reflecting:

- 1972 to 1981: The increase the Income Replacement to MTAWWE after tax ratio ("MTAWWE Ratio") reflects the tapering of the exclusion of the TPI Pension from the means test for the Service Pension.
- Early 90's saw slight erosion in the MTAWWE Ratio due to the TPI and Service Pension being indexed with CPI, which grew at a slightly lower rate than average wage growth. From 1997 Service Pension indexation was benchmarked against MTAWWE and CPI, the TPI was indexed with CPI only.
- The spike increases between 2007 and 2009 reflect
 - 2007: One-off increase of \$50 per fortnight in the TPI Pension.
 - 2008: General Rate increased by 5% and indexed to MTAWWE and CPI.
 - 2009: one-off increase of \$65 per fortnight in the Service Pension.
- The recent increase reflects tax bracket creep impacts. That is:
 - The TPI/Service Pension is indexed to MTAWWE.
 - As the income tax rates are progressive (i.e. tax rates increase with income level), the after tax MTAWWE grows at slower than the before tax MTAWWE.
 - The net impact of the above factors is that the MTAWWE Ratio is expected to increase over time due, with the ratio dropping when the Government makes adjustments to the tax brackets to reverse the impact of bracket creep.

8.3.2 Conclusion – Erosion

Based on the erosion analysis above, there was not strong evidence for increasing the TPI Pension benefit for all TPI Pension recipients.

8.4 Applying the framework – Support under the Different Acts

This section compares the support a Veteran could receive under the different acts: VEA, DRCA and MRCA.

8.4.1 Summary of the PC Review

In section 13 of the PC Report, the PC Review notes the relative generosity of the Veteran support provided under the VEA compared to the DRCA and MRCA depends on the circumstances of the Veteran. The PC Review report presented the following two case studies:

- Young Veteran with a severe impairment and dependents.
- Old Veteran with a severe impairment and no dependents.

The results presented in the PC Report are summarised as follows (Methodology and the detailed results are provided in Appendix F):

- Younger Veteran (30 year old) with a severe impairment and dependents: VEA (with a lifetime equivalent benefit of above \$2m) is likely to provide a benefit that is lower than the DRCA and MRCA (with lifetime benefits between \$2.5m to \$4m).

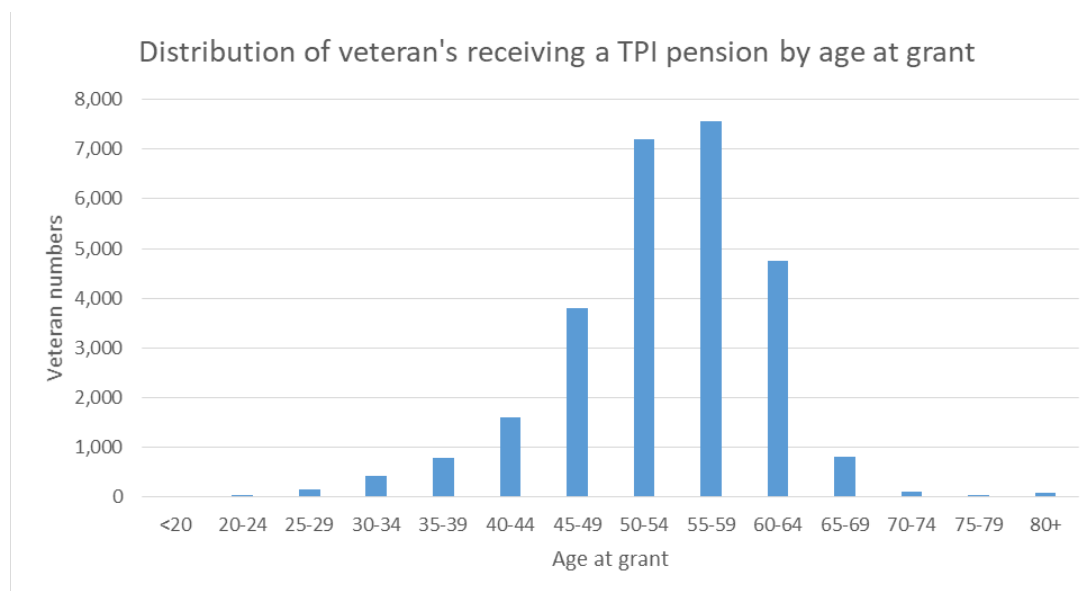
- Older Veteran (50 year old) with a severe impairment and no dependents: VEA (with a lifetime benefit of just over \$2.0m) is likely to provide benefits higher than the DRCA and MRCA (with lifetime benefits under \$2.0m).

The results from the two case studies suggest that compared to the DRCA and MRCA, the TPI Pension is more (less) generous for a Veteran that is impaired at an older (younger) age.

It is noted that we have not undertaken analysis to confirm that accuracy or appropriateness of the PC Review comparison calculations and methodology. This includes undertaking work to compare the benefits under the VEA, DRCA and MRCA.

8.4.2 Observation

The analysis provided by DVA, as shown in the graph below, indicates that 75 per cent of current TPI Pensioners were aged 50 or above at the time of that started receiving the TPI Pension (i.e. Age at Grant).



This suggests that:

- The large majority of current TPI Pensioners (e.g. those that became disabled after age 50) are likely to be better off under the VEA than under the MRCA or DRCA.
- However, a small number of TPI Pensions (e.g. those that became disabled before age 50) are likely to be worse off under the VEA than under the MRCA or DCA.
- In aggregate it would appear payments to TPI Pensioners receiving benefits under the VEA are more generous than the benefits they would receive if they were moved to the MRCA or DRCA.
- An increase in the TPI benefit under the VEA would be inconsistent with the principle *“Alignment of total and permanent disability benefits under the different legislation is ideal, and changes made should not make differences more pronounced”*.

8.4.3 Conclusion – Support under the Different Acts

Based on the analysis performed by the PC Review, and the age profile of Veterans at the time TPI Pension was first granted, there does not appear to be strong evidence for increasing the TPI Pension benefit for all TPI Pension recipients.

8.5 Overall Conclusion

Based on the different analysis performed above, there was not strong evidence for increasing the TPI Pension benefit for all TPI Pension recipients. However (as highlighted in Section 9), some TPI Veterans may be relatively worse off than the average TPI Veteran.

9. Targeting

9.1 Introduction and Approach

Consistent with the scope and framework we have considered the targeting of benefits. It is noted that our comments below are based on points identified while undertaking the above analysis to assess the adequacy of the TPI benefit in aggregate. We have not undertaken specific research or analysis (e.g. survey individual TPI Veterans) to identify particular TPI Veteran's cohorts that are particularly worse off when compared to the average TPI Veteran.

Our approach to identifying TPI Veterans that may be potentially worse off than the average TPI Veteran is summarise as follows:

- Gain a high level understanding of the demographic profile of TPI Veterans. Section 9.3 summarises the TPI Veteran profile based on the high level data analysis performed on the data provided by the DVA.
- Consider the implications of demographic profile results in the context of the findings in Section 5, 6, 7 and 8.

9.2 Summary of Findings

The analysis below illustrates that the following TPI Veterans may be relatively worse off when compared to the average TPI Veteran:

- Veterans that were first granted a TPI Pension at a young age, reflecting the comments in Section 9.4.1.
- Veterans that were first granted a TPI Pension before 1983, reflecting the comments in Section 9.4.2. It is noted that there would be considerable overlap between this cohort and the one above.
- Veterans that don't own their own home, reflecting the comments in Section 9.4.4, with Veterans that rent in New South Wales or Victoria likely be at increased risk of rent related financial stress.

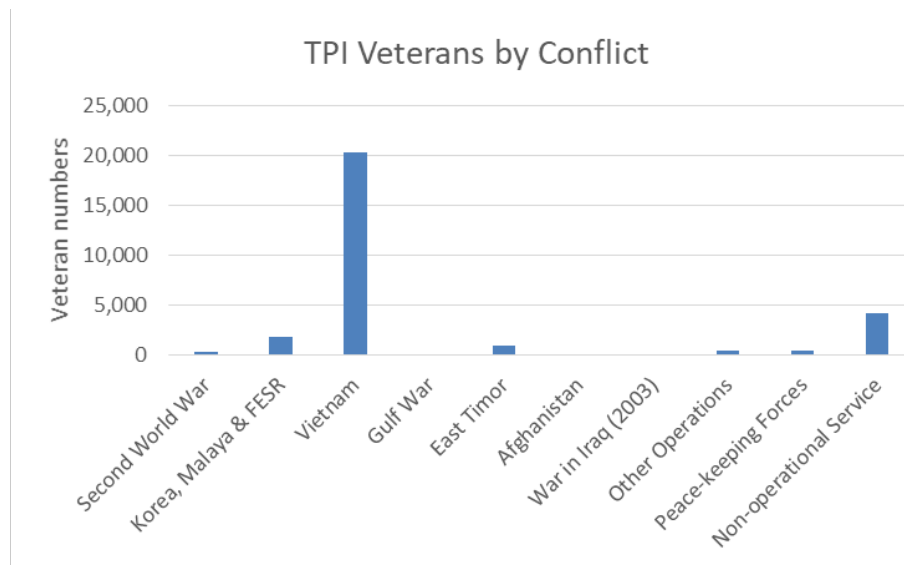
Further details are outlined below.

9.3 High Level Profile of TPI Veterans

This section summaries the TPI Veteran profile based on the high level data analysis performed on the data provided by the DVA.

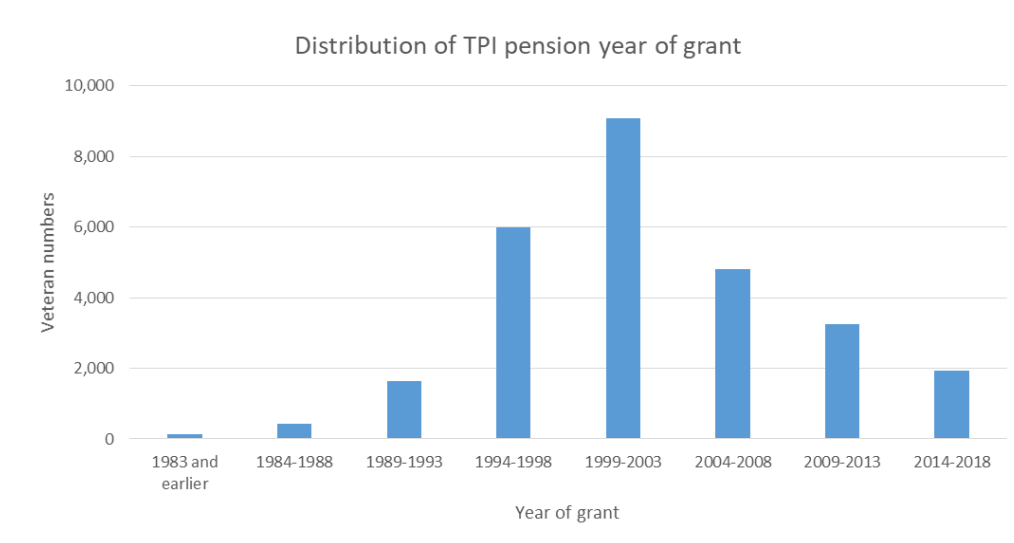
9.3.1 Observation – Majority of the current TPI Veterans served in the Vietnam War

Data provided by the DVA (as shown in the graph below), indicates that a majority of TPI Veterans (about 70 per cent) served in the Vietnam War, with the remainder comprising of Veterans from Korea, Malaya, FESR, East Timor, and other operations. The Vietnam War ended in 1975.



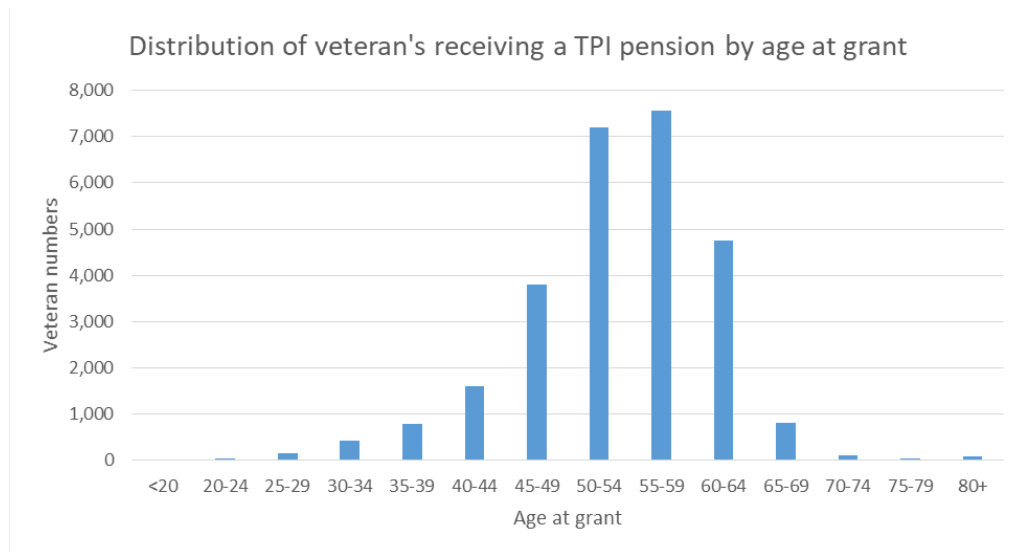
9.3.2 Observation – About 90 per cent of the current TPI Veterans were granted a TPI Pension during or after 1994

Data provided by DVA indicates (as shown in the graph below), about 90 per cent of the current TPI Veterans were granted a TPI Pension during or after 1994. About 1 per cent of the current TPI Veterans were granted a TPI Pension before 1984.



9.3.3 Observation – 75 per cent of the current TPI Veterans were aged 50 or above at the time they started receiving the TPI Pension

The data provided by DVA indicates (as shown in the graph below), that 75 per cent of the current TPI Veterans were aged 50 or above at the time they started receiving the TPI Pension (i.e. Age at Grant).



9.3.4 Observation – Majority of the TPI Veterans are home owners

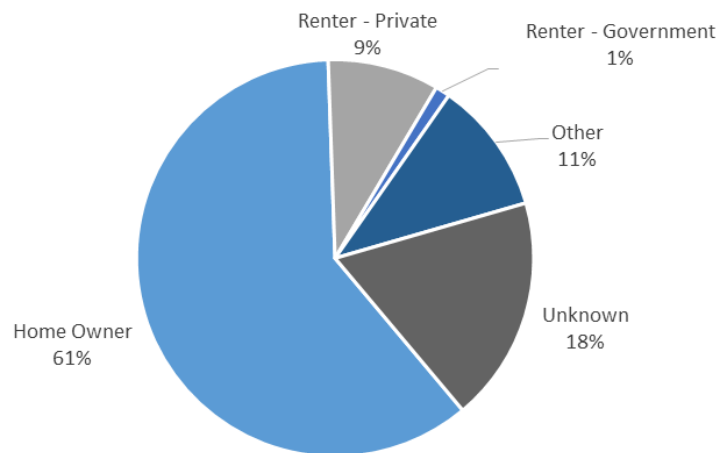
Data provided by DVA indicates that 61 per cent of current TPI Pension recipients were home owners and 9 per cent were private renters, with 18 per cent having an unknown status and 11 per cent falling into other categories (e.g. free accommodation, retirement village, mobile home owner) as at the time of assessment for income support for the Service Pension.

The DVA have noted that they consider the data:

- Is up to date for the TPI Veterans that are being paid a Service Pension (about 70 per cent of TPI Veterans); however
- It may not reflect the current residential status for TPI Veterans that were not paid a Service Pension. For these TPI Veterans the data will show their residential status at the time of the initial assessment for income support – their residential status may have changed since the initial assessment and now. Therefore the actual mix portion of TPI Veterans that are home owners may be different to the mix suggested by the DVA data.

The Service Pension is means and asset tested. The TPI Veterans that do not receive any Service Pension are expected to have higher other income and assets, and therefore home ownership compared to TPI Veterans. Therefore, the limitations in the data are not expected to materially impact the high level observations and conclusions within this Report.

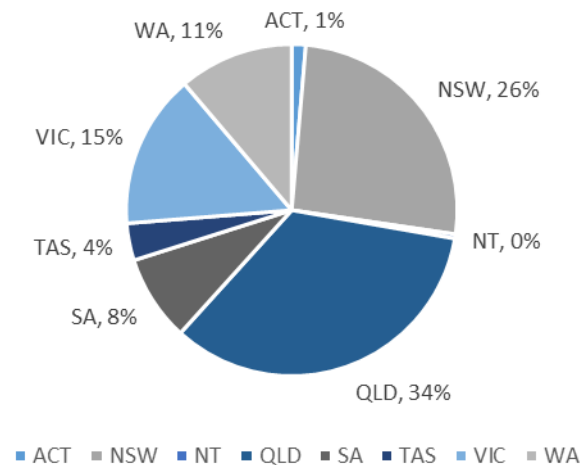
Residential status of TPI pensioners as at December 2018



9.3.5 Observation – Majority of TPI Veterans live in New South Wales and Queensland

Data provided by the DVA indicates that a majority of the current TPI Veterans live in New South Wales (26 per cent) and Queensland (34 per cent).

Location of TPI pensioners



9.4 Detailed Summary of Findings

This section summarises the findings from our analysis using the above results.

9.4.1 Age at Grant

Overview

The following observations suggest that TPI Veterans that were disabled at an early age are worse off than Veterans that were disabled at older ages. This reflects the following

- **MTAWE Ratio.** We can hypothesise that a TPI veteran that was granted a TPI Pension at an earlier stage in life is expected to be worse-off compared to a TPI Veteran that was granted a TPI Pension at a later stage in life. This reflects that the MTAWE ratio is less than 1 (i.e. on average a person working will receive a higher income than a person that is TPI).
- **Income needs of TPI Veterans are different to the general population.** The income needs of an individual depends on lifestyle choices and changes throughout the lifetime on the individual:
 - **Younger ages:** largest expenses generally relate to home ownership in the form of mortgage repayments. Other spending relates to work-related cost, dependents, transport, recreation, food and furnishings.
 - **Older ages/Retirees:** retirees who own a home tend to have paid off their mortgage by retirement, and no longer spend money on children or on work related expenses. As health declines their medical expenses increase and discretionary expenses reduce such as recreation and travel.
- **The generosity of the VEA, compared to DRCA and MRCA, depends on the Veteran's age at impairment.** The analysis in Section 8.4 illustrates that compared to the DRCA and MRCA, the VEA is more generous to a Veteran that is impaired at an older age, compared to a Veteran that is impaired at a younger age.

Conclusion – TPI Veterans that first became impaired at a younger age maybe financially worse off than the average TPI Veteran

Given the above comments it is hypothesised that, on average, that Veterans that first became impaired at a relatively younger age are financially worse off than the average TPI Veteran. On this basis, there may be a case to consider increasing the TPI benefit for Veterans that were first granted a TPI Pension at a young age.

It is noted that 25 per cent of current TPI Veterans were aged below 50 years at the time of their TPI Pension grant, and 2 per cent were below 35 years of age.

9.4.2 Year of Grant

The analysis in Section 8.3.1 illustrates that Veterans that received a TPI Pension before or during 1982 were worse off compared to Veterans that received a TPI Pension after 1982, due to the TPI Pension being included in the means test for the Service Pension before 1983.

Therefore it is hypothesised that, on average, that Veterans that became impaired before 1983 are financially worse off than the average TPI Veteran. On this basis, there may be a case to consider increasing the TPI benefit for Veterans that were first granted a TPI Pension before 1983.

Data provided by the DVA indicates that about 1 per cent of current TPI Veterans were granted a TPI Pension before 1984.

9.4.3 Singles and Couples

The analysis in Section 8.2.3 illustrates that the Income Replacement compared to the AFSA's comfortable retirement standard for households aged 65 that own their own home is about:

- 110 per cent for singles and
- 100 per cent for couples.

Based on this metric single TPI Veterans and couples are not likely to be in significantly different financial positions compared to each other.

9.4.4 TPI Veterans and Rental assistance

Overview

Veterans must pay a minimum amount of rent before rent assistance can be provided (“rent threshold”). For every dollar above the rent threshold, the Veteran can receive 75 cents of rent assistance, up to a maximum amount. The maximum fortnightly rent assistance is \$135.80 (or \$3,531 per year) for singles and \$128.00 (or \$3,328 per year) (combined) for couples.

However, rental assistance for TPI Veterans is income tested with the TPI pension included in the income test. Therefore rental assistance is not provided to TPI Veterans.

The Grattan Institute 2018 report illustrates that rates of financial stress among renting pensioners are much higher than homeowners – this is because renters typically have lower disposable incomes. Since 2003, the value of rent assistance has not kept pace with rent increases. On page 76, the report recommends that the commonwealth rent assistance of \$3,531 per year for a single living alone (\$3,328 for couples) should be increased by 40 per cent. This would bring the relativity of rental assistance to average rents for low-income households back to 2003 levels.

Conclusion – TPI Veterans that rent maybe financially worse off than the average TPI Veteran

It is hypothesised that, on average, that Veterans that are renting are under greater financial pressure than the average TPI Veteran. On this basis, there may be a case to consider increasing the TPI benefit for Veterans that are renting.

It is noted that there is likely to be correlation between TPI Veterans that are renting and the TPI Veterans falling into the above categories.

9.4.5 TPI Veterans and Location

Overview

The Grattan Report notes that the private rentals were ‘severely’ or ‘extremely’ unaffordable across all of Sydney and Melbourne, for single or couple pensioners. In most cases a single pensioner would need to spend at least 60 per cent, or a pensioner couples at least 38 per cent of their total income, on rent to secure housing in Sydney or Melbourne. Rental stress amongst pensioners in the private rental market has worsened due to:

- Increases in Commonwealth rent assistance falling behind increases in private market rents.
- Rents paid by low-income earners growing faster than average rents.
- The stock of lower-rent social housing not keeping pace with population growth.



Conclusion – TPI Veteran and Locations

Following from Section 9.4.4's conclusion that TPI Veterans that are renting could be at risk of rent related financial stress, TPI Veterans that are renting in New South Wales and Victoria could be at higher risk of rent related financial stress than other renters.

10. KPMG Comments on the Federation's Recommendations

10.1 Introduction

Consistent with the scope, this chapter uses our framework (as described in Section 5) and the outcomes from the application of the framework (as described in Section 6, 7, and 8) to comment on the Federation's Recommendations (as summarised in Section 3).

In discussions with the Federation, they have also raised the following key concerns:

- The service pension is not compensation, but rather welfare. The productivity commission analysis does not recognise this. (Additional Concern 1).
- Compensation is not means tested. The productivity commission analysis does not recognise this. (Additional Concern 2).

These concerns are also addressed below.

10.2 Federation's Recommendation 1

The principles underlying our framework are broadly consistent with the Federation's recommendation 1. In particular the following principles underlying our framework appear to be consistent with the Federation's position:

- The Australian Government has made a social contract with serving personnel that, in return for service, they (and their families) will be supported if they incur a service related injury, illness or death.
- The Veterans should be supported because of their contributions to the protection and service of the nation.
- The benefit should provide adequate compensation for injury and illness but should not discourage Veterans from engaging effectively in rehabilitation and return to work.

10.3 Federation's Recommendation 2

The benchmarking analysis outlined in Section 8, does not provide strong evidence for increasing the TPI Pension benefit for all TPI Pension recipients. This is in contrast to the Federation's Recommendation 2 that the "Economic Loss" component of the TPI Pension should increase to be in line with the tax-adjusted minimum wage.

However, the analysis outlined in Section 9 suggests that DVA could consider whether some more targeting of benefits should occur.

10.4 Federation's Recommendation 7

In contrast to the Federation's recommendation, the application of our framework found that it is necessary to consider the TPI Pension and the Service Pension in aggregate together in assessing the appropriateness of the compensation paid to TPI Veterans. The rationale for this is outlined in Section 6, and broadly reflects that in our view:

- Assessing the income replacement benefits in aggregate is consistent with the insurance principles in Section 5.2.2;
- The Service Pension has an element of compensation for TPI Veterans.

10.5 Recommendation 8 and 9

The principles of our framework are broadly consistent with the Federation's Recommendation 8 and 9. In particular the following principles underlying our framework appear to be consistent with the Federation's position:

- The Australian Government has made a social contract with serving personnel that, in return for service, they (and their families) will be supported after if they incur a service related injury, illness or death.
- Veterans should be supported because of their contributions to the protection and service of the nation.
- The benefit should provide adequate compensation for injury and illness but should not discourage Veterans from engaging effectively in rehabilitation and return to work.
- Alignment of total and permanent disability benefits under the different legislation is ideal, and changes made should not make differences more pronounced.

In contrast to the Federation's recommendation, the application of our framework also considers the overall community benefit and the appropriate targeting of limited resources.

10.6 Additional Concern 1

In contrast the Federation's View, in our view the Service Pension has an element of compensation, as outlined in Section 6.3. This reflects:

- Healthy Veterans are eligible for a Service Pension from the Service Pension age (60 years).
- TPI Veterans are eligible for a Service Pension from the date they receive a TPI Pension (which in many cases will be before age 60).

As TPI veterans are eligible for the service pension before age 60, unlike healthy Veterans, the Service Pension can be considered compensation for disability.

In addition, the TPI Pension is not included in the Service pension means test, which is also a form of compensation.

10.7 Additional Concern 2

While we agree with the Federation that compensation is not means tested, we note the following key points:

- Offsetting of benefits is common when determining compensation (refer to Section 5.3.4).
- Means testing produces a similar outcome to offsetting, provided certain conditions hold (refer to Section 5.3.4). The analysis undertaken in Section 7.3 suggests that these condition largely hold.

Given the above observations, we disagree with the Federation's view that means testing the Service Pension means that it should be ignored for assessing compensation.

11. KPMG Comments on the DVANetwork's Proposal

11.1 Introduction

Consistent with the scope, this chapter uses our framework (as described in Section 5) and the outcomes from the application of the framework (as described in Section 6, 7 and 8) to comment on the DVANetwork's Proposal.

11.2 DVANetwork's Proposal 1

The benchmarking analysis outlined in Section 8, uses 'Male Total Average Weekly Earnings' ("MTAWE") compared to the DVANetwork's proposed 'Full Time Adult Average Weekly earnings' ("FTAAWE").

The key differences between FTAAWE and MTAWE are:

- FTAAWE allows for both male and female incomes, while MTAWE includes only male incomes.
- FTAAWE allows for only full-time employees, while MTAWE includes both part-time and full-time employees.

It is noted that FTAAWE is approximately 14% higher than MTAWE.

In our view there are advantages and disadvantages of each metric. MTAWE has been used in this report for the following key reasons:

- Approximately 98% of the TPI Pension recipients are currently male, therefore the benchmark that reflects predominately male earnings was adopted.
- The FTAAWE metric only includes full time employees, whereas the MTAWE includes both part-time and full-time employees. A benchmark that reflect a range of employment scenarios was adopted.

Had we adopted the FTAAWE metric the conclusions in this report would not have changed.

11.3 DVANetwork's Proposal 2

While the DVANetwork's proposal that the TPI veteran's access to the Service Pension should be unhindered by means testing against the partner's earnings is not inconsistent with insurance principles, the analysis in Section 7.3 illustrates that this issue is not significant for most TPI Veterans,



with many benefiting from the assessment including the spouse's income (assuming the higher Taper Rate would be adopted).

A Appendix – Data

A.1 Summary

This Appendix summarise the data relied upon.

- Productivity Commission, *A Better Way to Support Veterans, Report no. 93*.
- Daley J., Coates B., Witshire T., Emslie O., Nolan J. and Chen T. (2018). *Money in retirement: More than enough. Grattan Institute*.
- Clarke J., Riding D. and Rosalky D. 2003, *Report of the Review of Veterans' Entitlements, January*.
- Toose P.B., 1975, Independent Enquiry into the Repatriation System.
- TPI Federation Australia, *Submission to the Productivity Commission Review into the Compensation and Rehabilitation of Veterans 2018*.
- TPI Federation Australia, *Supplementary Submission to the Productivity Commission Review into the Compensation and Rehabilitation of Veterans 2018*.
- Data and statistics supplied by DVA in relation to TPI Veterans and TPI benefits.
- 6302.0 – Average Weekly Earnings, Australia.
- 6306.0 – Employee Earnings and Hours, Australia.

B Appendix – Grattan Institute Report

B.1 Introduction

The Grattan Institute report titled, “Grattan Institute 2018 money in retirement: more than enough” (“Grattan Report”) explores what Australia’s retirement incomes system should achieve and discusses what policy changes are needed to meet this objective. In particular, the Grattan Report:

- Explores the different ways to measure whether people have enough money for retirement.
- Evaluates:
 - The current retirees’ living standards.
 - Whether people entering the workforce now or already in the workforce, will have adequate living standards in retirement.
 - Implications for policy – explores trade-offs between various options to boost retirement incomes compared to their budgetary impacts.

The Grattan Report is considered relevant to the TPI Veterans because:

- The majority of the TPI Veterans are above the retirement age – almost 70 per cent are 70 years or older. The income needs of retirees are generally different to the general working population.
- The Grattan Report explores the current retiree’s living standards and explores different ways to measure whether people have enough money for retirement.

This appendix summarises some of the key findings from the Grattan Report that are relevant for understanding the income needs of TPI Veterans.

B.2 A High Level Summary of Key Findings Relevant to this Report

B.2.1 Australians tend to spend less after they retire

The Grattan Report notes (pg. 28 – 30):

- “Australians tend to spend less after they retire “spending tends to slow at around age of 70, and decreases rapidly after 80.” “This fall in overall spending is mainly a result of lower spending on transport, recreation, food and furnishing. Retirees who own a home tend to have paid off their mortgage by retirement, and no longer need to spend money on children or on work-related expenses. Pensioners also spend less due to discounts on council rates, motor vehicle registration, electricity and gas bills, public transport fares, and pharmaceuticals.”
- “Fall in out-of-pocket spending during retirement appear to reflect declining health. Retirees’ spending is highest in early retirement when they are healthiest, and seek to enjoy a range of activities including international travel. But as health declines they spend less on recreation and

travel. While retirees do spend more on healthcare as they age, this is small relative to the falls in other categories, and is likely to reflect higher prices for the type of health costs paid directly by individuals, such as private health insurance. Governments foot the bill for most of the cost of health and aged care for older Australians. More government spending on retirees means that while they might spend less of their own money overall, total consumption increases.”

- Page 12 of the Grattan Report notes that existing retirees of all income levels have a retirement income of at least 70 per cent of their pre-retirement income – the benchmark of retirement income adequacy used by the OCED, the Melbourne Mercer Global Pension index and the Grattan Report.

B.2.2 The Association of Superannuation Funds of Australia (“ASFA”) comfortable standard is too high

The ‘adequate’ amount required in retirement is subjective and depends on the lifestyle needs of the individual and has been the subject of numerous debates.

The Grattan Report on page 34 notes that the retirement standards produced by the Association of Superannuation Funds of Australia (“ASFA”) are often used to measure retirement adequacy. ASFA produces a ‘comfortable’ standard for both single and couple retired household aged 65 to 85 that own their home outright.

On page 35, the Grattan Report notes ASFA’s ‘comfortable’ standard is too high:

- “The original designers of the standard described it as a ‘comfortable but affluent’, and designed it to reflect a lifestyle typical for the top 20 per cent of retirees today. So it’s unsurprising that ASFA’s ‘comfortable’ standard is more luxurious than the living standard of most working-age households today.”
- “ASFA have defended the ‘comfortable’ standard on the basis that it prescribes an expenditure level after housing costs in retirement that is lower than the income after housing costs of median couple households aged 55-64. But this is a misleading comparison on three levels: it includes the income of adult children; it compares expenditure with income (ignoring the ‘cost’ of savings”); and it ignores expenses on children, which are much higher for households aged 55-64 than retirees.”
- “More than 70 per cent of single households and about half of couple households aged 55-64 spend less than the ASFA standard. If spending on dependent children is taken into account, the amount that adults spend on themselves is even less, and this is a more appropriate benchmark for their retirement spending. On this basis only 20 per cent of singles and 40 per cent of couples spend more when working than the ASFA comfortable standard.”

B.2.3 70 per cent replacement rate benchmark

Page 56 – 59 of the Grattan Report illustrates their target replacement ratio for retirees:

- “Replacement rates will vary depending on people’s incomes. In general, people with lower incomes will have higher replacement rates than the median income earner. High-income earners will typically have even lower replacement rates. It is generally accepted that the retirement incomes systems should not seek to fully replace the pre-retirement living standard of the wealthiest Australians.”

- “The Grattan Report’s approach aims for a 70 per cent replacement rate for retirees up to the 80th percentile of the employment earnings distribution, as reported in the GRIP. For those above the 90th percentile of the earnings distribution – earning an average of at least 1.5 times average full-time weekly earnings throughout their working lives, or \$120,000, a replacement rate of 50-60 per cent of pre-retirement earnings is deemed appropriate.”
- “In 2013, the Cooper Review noted a replacement rate of between 60 and 70 per cent of pre-retirement income was a common benchmark for an adequate retirement.”
- “The replacement rate target of 70 per cent assumes that retirees own their home, and so have materially lower housing costs in retirement. But on current trends, more retirees in future will be renting – and more of them will depend on the private rental market rather than social and public housing. And future retirees who do own their own home are less likely to have paid it off by the time they retire.”
- 70 per cent replacement rate is endorsed by the OECD. (Grattan Report, pg. 3)

C Appendix – PC Report

C.1 Introduction

Consistent with the scope this chapter considers whether the report from the PC Review fully considers/ addresses the Federation’s Recommendations.

C.2 Recommendation 1

C.2.1 Overview

As noted in Section 3, the Federation recommended that DVA’s Outcome 1 (i.e. maintaining and enhancing the financial wellbeing and the self-sufficiency of eligible persons and their dependants) should be a centre piece of the PC Review.

The PC Review appears to consider the principles in DVA’s Outcome 1 in examining the current Veteran support system and how it should operate in the future.

In aggregate our view is that the PC Review position is consistent with the Federation view, reflecting the following comments below.

C.2.2 PC Review Details

The PC Review’s report notes that the *“overarching objective of the Veteran support system should be to improve the lives or wellbeing of Veterans and their families.”* This objective should be *“achieved while ensuring value for money for the Australian community while providing supports in the most effective and efficient way.”* (PC Report, pg. 168)

Page 13 of the PC Report states that the Veteran support system, like the best workers’ compensation schemes, should take a long-term or lifetime approach to improving Veterans’ lives. In the context of military personnel, a lifetime approach involves taking into account each of the life stages – recruitment, in-service, transition and ex-service.

- In-service: preventing injury or illness is critical to minimising the harm to Veterans and their families from service.
- Transition: the way a Veteran transitions from military to civil life can be an important determinant of their long-term wellbeing. Timely and effective transition services that are available from early in a Veteran’s career, during transition and post-service are therefore important.
- Ex-service: some Veterans may develop service-related health conditions and need timely access to support so that Veterans can be assured that supports will be available if, and when, they need them.

C.3 Recommendation 2

C.3.1 Overview

The PC Review and the Federation appear to agree the TPI Pension can be divided into components:

- Financial payments to Veterans and their families to compensate for the pain and suffering associated with an impairment, and
- Financial payments to compensate Veterans for a reduced earning capacity due to an impairment.

However, in contrast to the Federation's recommendation for an increase in the TPI Pension, the PC Review's report found that despite strong Veteran's representation that the TPI Pension level should be increase, there is no strong evidence for increasing the rate of TPI Pension⁷ (PC Report, Finding 14.3, pg. 653 – 654).

A key reason for the difference in view reflects the PC Review considered the TPI Pension as a bundle (TPI Pension plus the Service Pension) in its review, while the Federation only considering the TPI Pension in isolation.

The PC Review addresses both:

- Federation's view regarding the level. The PC conclusion being, that many TPI Veterans would be receiving about \$2,350 per fortnight (the TPI Pension plus the Service Pension), which is about 90 per cent of average weekly (after tax) earnings. This level of payments does not suggest an increase in the TPI benefit level is required (PC Report, pg. 654)
- Federation's view regarding erosion. There does not appear to have been an erosion in the adequacy of the TPI Pension since the Clarke Review. (PC Report, pg. 654) which was performed in 2003.

C.3.2 PC Review Details – Components of the TPI Benefit

Page 579 of the PC Report notes the TPI benefit can be considered to consist of two components:

- A component to compensate for the pain and suffering associated with an impairment (or death). This includes the 'General Rate disability pension' and additional payments for specific disabilities
- A component for a reduced earning capacity due to an impairment (i.e. economic loss). This includes the 'above general rate disability pension' and 'superannuation invalidity pension'

C.3.3 PC Review Details – Package View

Page 89 of the PC Report outlines the broad approach for reviewing the Veteran support system. This approach consists of four key principles, with "viewing support as a package" being the third principle. The four key principles are reproduced below:

⁷ The PC Review's report refers to the TPI Pension as the Special Rate Disability Pension ("SRDP").

- A long-term view of Veterans' needs and wellbeing — what happens during service can affect Veterans' calls on the support system after they leave the military. We considered each stage of the life cycle of military personnel — in-service, transition and ex-service.
- A focus on outcomes — while constrained by existing data, we assessed the system based on what is known about outcomes (for Veterans and families but also the wider community). We have also looked at ways to develop an evidence base against which the system can be evaluated going forward.
- Viewing supports as a package — sometimes public debate about Veteran supports focuses on particular support in isolation. To provide a more complete picture, we sought to look at support packages holistically (and, where undertaking line-by-line comparisons or evaluations of particular supports, to be aware of their place in broader packages).
- Considering system sustainability — if the system hopes to garner support, it needs to ensure taxpayer funds are being used well and that it can cope or adapt to new challenges and support Veterans as their needs, circumstances and broader social settings change.

Section 13 of the PC Report outlines the Compensation Package provided to Veterans. It states that this package consists of the following components:

- Financial payments to Veterans and their families to compensate for the pain and suffering associated with an impairment (or death)
- Financial payments to compensate Veterans for a reduced earning capacity due to an impairment
- Healthcare (and other) costs resulting from an impairment
- Benefits not linked to an impairment, such as the Service Pension.

C.3.4 PC Review Details – Compensation for Economic Loss (Service Pension and TPI Benefit)

Section 14.2 of the PC Review considers adequacy of economic loss compensation. Page 653-654 notes that:

- *"The additional payments received by TPI Veterans cannot be ignored, as most special rate pensioners are receiving some form of additional welfare payment".*
- *"As of December 2017, over 70 per cent of Veterans on the SRDP were also receiving some level of the Service Pension and a further 7 per cent were receiving a Defence Force Income Support Allowance payment (indicating that they were receiving a Centrelink payment)."*
- *"As noted by Clarke et al. (2003), this is the minimum income a Veteran on the SRDP should receive — any not receiving the maximum amount of welfare would be receiving a different income source, including potentially an invalidity pension through their superannuation. Thus Veterans are not required to survive on the SRDP alone."*
- Changes to the Service Pension. *"As noted above, prior to the 1970s, Veterans on the SRDP could not access the Service Pension, and the changes to the Service Pension access increased the relative generosity of the SRDP". Page 130 notes "Initially, Veteran disability pensions were counted in the means testing for the Service Pension but, in the 1970s, parts of the pension were*

exempted from the test (25 per cent in 1973, 50 per cent in 1975, 60 per cent in January 1982 and 100 per cent in November of the same year) (Clarke, Riding and Rosalky 2003, p. 86). This allowed many Veterans to receive both the Service Pension and a disability pension”.

Given the above points the PC Review concludes that SRDP and Service Pension should be considered together.

C.3.5 PC Review Details - Level

The PC Review states on page 654 of the PC Report *“When the SRDP, energy supplement and Service Pension are considered, a single totally and permanently incapacitated Veteran would be receiving about \$2350 per fortnight (not considering benefits such as access to the Gold Card). This is relatively consistent with the figure estimated in the Clarke Review of about 90 per cent of average weekly (after tax) earnings.”*

It is noted that this analysis does not separate out the ‘pain and suffering’ component from the SRDP (TPI Pension). A more appropriate comparison would exclude this component and only consider the component for the reduced earning capacity (the ‘Above General Rate Pension’) and the Service Pension.

C.3.6 PC Review Details - Erosion

The PC Review notes on page 654, *“there does not appear to have been an erosion in the adequacy of the SRDP since the Clarke Review”*, reflecting the PC Review found that the TPI benefit plus Service Pension about 90 per cent of average weekly earnings, which is consistent with the Clarke Review finding.

C.3.7 PC Review Details - Conclusion

The PC Review concludes that on page 654 that *“There is no compelling case for an increase in the SRDP”*. Finding 14.3 on page 654 of the PC Report is *“Changes to eligibility for the Service Pension and other welfare payments means that the package of compensation received by Veterans on the special rate of disability pension is reasonable. Despite strong Veterans’ representation on this issue, there is no compelling case for increasing the rate of the pension”*.

It appears the PC Review primarily reflects:

- The view that TPI benefit and the Service Pension should be considered together, as outlined in Appendix D.3
- The analysis of TPI benefit plus Service Pension levels relative to AWE, as outlined in Appendix D.5
- The analysis of TPI benefit erosion in Appendix D.5

The observation that changes to eligibility for the Service Pension and other welfare payments have increased the relative generosity of the SRDP.

C.4 Recommendation 7

Consistent with the Federation’s views, the PC Review appears to have recognised:

- The unique nature of military service in their review of the Veteran support system, noting that it needs to be balanced with the competing needs of the community.
- There should be consistency in benefits and treatment across Veterans.

Consistent with the Federation's view, the PC Review appears to have recognised that the Veteran's compensation needs are to be considered in isolation and not linked to any other Government or Non-Government compensation scheme. However, the PC Review does consider benefits relative to Worker's Compensation and best practice features of other schemes in reaching this conclusion.

C.4.1 Uniqueness of Military Service

The PC Review explored the extent to which the unique features and impacts of military service require special or differentiated supports and services. (pg. 192 – 194). On page 193, the PC review recognises the case for a *"beneficial approach for Veteran compensation and support while also recognising that such an approach must be balanced against the competing needs of the community and should be more targeted to the needs of Veterans and their families"*. The PC Review noted the following reasons in reaching this conclusion

- Broad community expectation (PC Report, pg. 191 - 192): *"The Commission recognises that there is broad expectation by many in the community that Veterans should be well supported because of their contributions to the protection and service of the nation and that there should be a beneficial approach to compensation. However, the policy responses to such expectations must also take into account what is in the best interests of Veterans and their families, the overall community benefit and the appropriate targeting of limited resources."*
- Uniqueness of military service (PC Report, pg. 192): The PC Review report notes that *"One argument for Veterans receiving higher levels, of or easier access to, support is the often arduous and risky nature of service. However, the military already provides remuneration and allowances that are directly tied to the risk and onerous conditions and the Government recognises these aspects through recognition programs. It is therefore not clear cut that this aspect of military service itself warrants separate and/or more generous compensation and support arrangements for Veterans."*
- Historical Government action (PC Report, pg. 192): *"Governments have frequently justified extensions to supports as a means of recognising the risks and onerous nature of military service. Several participants in the inquiry also highlighted this rationale. Finding the right balance has been an important consideration and has informed the approach for a reformed system for the future."*

C.4.2 Benefits and Treatment across Veterans

The PC Review report on page 194 - 195, concludes that *"distinctions between different types of military service for the purpose of compensation are inequitable, and should be removed or reduced where practical and cost effective."*

In section 4.4, the PC Review notes that the current Veteran support legislation distinguishes between different types of military service – Veterans with identical injuries can be entitled to different levels of compensation and support. Participants had mixed views with some against the inequity in the current

Veteran support legislation, whilst others supported service distinctions especially between Veterans with warlike and non-warlike service.

On page 190 the PC Review notes:

- *"The Commission agrees that war or warlike service warrants recognition and reward above that provided for peacetime or operational service. But there are deployment allowances, awards and other direct mechanisms for this."*
- *"The Commission also agreed that, to the extent that one ADF member incurs more extreme physical and mental impairments than another, the former should receive a higher level of compensation."*
- *"In the Commission's view Veterans' compensation arrangements ideally should treat injuries or a particular type and severity equally. And to the extent that operational service is riskier than peacetime service it does not justify the same injury being treated differently based on where and when it occurred. In principle, therefore, compensation for the pain and suffering a person incurs should not depend on the type of service they were undertaking when the injury or illness occurred."*

C.4.3 Best Practice Features of other Schemes

The PC Review in section 4 takes the best practice features from other schemes such as worker's compensation schemes and contemporary disability support schemes, to underpin its recommendation of the future Veteran support system. These schemes have features consistent with a focus on the wellbeing of Veterans and the community and taking a whole-of-life approach.

However, the PC Review notes, the current Veteran support system is more generous than workers' compensation schemes such as that applying to the Commonwealth employees (the SRCA). However, this appears to be accepted by the PC Review, due to unique nature of military service as outlined above in Appendix C.4.1

C.5 Recommendation 8 and 9

C.5.1 Overview

In contrast to the Federation's Recommendation that the cost of repairing and caring for the Veteran should never be considered, the PC Review notes (as outlined above) the Veteran support system needs to balance:

- The communities expectation that Veterans should be well supported; with
- The best interests of Veterans and their families, the overall community benefit and the appropriate targeting of limited resources.

Further comments are outlined below.

C.5.2 Details

The PC Review's report notes that *"It is also the Commission's view that the overarching objective of the Veteran support system should be about improving the wellbeing of Veterans and their families. The system should have at its core minimising harm to Veterans from military service and rebuilding lives affected by service. And as with all other government programs, the support system should achieve this objective while ensuring value for money for the Australian community and providing support in the most effective and efficient way. This includes avoiding unnecessary and costly duplication of services and ensuring that funding provided to improve the lives of Veterans is focused on the areas where it can have maximum impact."* (PC Report, pg. 168)

The PC Review noted that a number of participants also pointed to the importance of ensuring both good outcomes for Veterans while ensuring value for taxpayers' money. (pg. 168) *"The Commission also agrees that when thinking about the wellbeing of Veterans and their families, and the cost to the community (or taxpayers) of supporting Veterans, it is important to take a long-term or whole-of-life approach. This is important for getting the best outcomes for Veterans and their families and for ensuring an affordable and sustainable system."* (PC Report, pg. 168)

In addition to recommending reform to the Veteran support system (including to the governance arrangements) the report also recommended the Australian Government should move towards a fully-funded compensation system going forward (compared to the current pay-as-you-go basis that meets the immediate cash requirements. (pg. 517) This would involve levying an annual premium on Defence to enable the Veteran Services Commission to fund the expected costs of the Veteran support system due to service-related injuries and illnesses incurred during the year. (Recommendation 11.2, pg. 517. *"Although capitalising all existing liabilities would be expensive, it would make the financial implications of policy change obvious and immediate to the decision-makers of the day (both Defence and the Government), instead of occurring years or decades later."* (PC Report, pg. 516)

D Appendix – PC Review Framework

D.1 Introduction

This appendix extracts various principles, comments and methodologies from the PC Report and organises them into a framework that the PC Review may have adopted, in our view, for making the comments outlined in Appendix C.

D.2 Guiding Principles

The PC Review contains a number of principles and view, including:

- The PC Review notes the Australian Government has made a social contract with serving personnel that, in return for service, they (and their families) will be looked after if they incur a service related injury, illness or death. (PC Report, pg.164)
- Further, the objectives of a future system for supporting Veterans should be about improving the lives or wellbeing of Veterans and their families – long term and ‘holistic’ whole of life approach to supporting Veterans. The system should recognise the unique nature of military service and be focused on rebuilding lives or returning military personnel back to their formed state (where possible). The support should achieve this objective while ensuring value for money for the Australian community and providing support in the most effective and efficient manner. (PC Report, pg. 167-168).
- Section 4.3 of PC Report outlines the objectives and principles that should underpin the support provided to Veterans. The board objectives identified are:
 - provide incentives for prevention or minimisation of injury and illness
 - promote timely, effective and holistic rehabilitation and transition support and health care
 - provide adequate and appropriate compensation.
 - enable opportunities for social integration.

The PC Reviews notes in this section that *“it is well established that work is good for health and it helps recovery and for that reason has been a focus of rehabilitation in workers’ compensation schemes”.... “And while Veterans and their families should also be provided with adequate compensation for injury, illness or death due to service, compensation should not discourage Veterans from engaging effectively in rehabilitation. “There is some evidence to suggest that being eligible for compensation can worsen an injured person’s health. There are two reasons for this:*

- *Being involved in the compensation process can create an incentive for the injured person to remain unwell (to ensure continued access to a stream of compensation)*

- *The compensation process itself can be stressful due to delays, cumbersome processes and the complexity of the system ((May and Casey 2014))”.*

At the end of section 4.3, recommendation 4.1 outlines the objectives and principles that should underlie the Veteran support system.

- Comparability with other benefits: As note in the Section on page 175 of the PC Report it is concluded that *“distinctions between different types of military service for the purpose of compensation are inequitable, and should be removed or reduced where practical and cost effective.”*

D.3 Veteran Benefits “Bundle”

D.3.1 Overview

The PC Review notes that the compensation is one of the key aspects of Veteran support. It covers:

- Financial payments to Veterans and their families to compensate for the pain and suffering associated with an impairment (or death).
- Financial payments to compensate Veterans for a reduced earning capacity due to an impairment.
- Healthcare (and other) costs resulting from an impairment.
- Benefits not linked to an impairment, such as the Service Pension.

The PC Review notes that *“as there are many interacting parts of compensation, it needs to be considered as a package. Changes to one aspect of compensation can have implications for other aspects.”* (PC Report, pg. 578).

The PC Review presents the Veteran compensation benefits under the VEA as below (PC Report, pg. 579):

- Impairment compensation: General Rate disability pensions, additional payments for specific disabilities.
- Income replacement: above general rate disability pensions, superannuation invalidity pensions.
- Dependent benefits: widow(er) pension, orphan’s pension, funeral allowance, bereavement payment, income support supplement, education allowance, superannuation compensation.
- Health care: Gold Card, White Card, attendant care allowance.
- Other allowances: energy supplement, Veteran’s supplement, clothing allowance, decoration allowance, recreation transport allowance, vehicle assistance scheme, Service Pension.

D.4 Separating the TPI Benefit into Components

The PC Review indicated that the TPI benefit can be considered to have two components:

- Impairment compensation component equal to the General Rate Disability Pension.

- Income Replacement component equal to the amount of the TPI benefit above General Rate Disability Pension.

D.5 Benchmarking

The PC Review examines the *“adequacy, complexity and timeliness of payments and whether the payments are targeted at the right people”*. The PC Review considers a number of benchmarks.

- AWE. The PC Review benchmarks the amount a totally and permanently incapacitated Veteran would be receiving (TPI Pension and the Service Pension) to the average weekly (after tax) earnings. (PC Report, pg. 653 - 654)
- Erosion. The PC Review considers the erosion on the totally and permanently incapacitated Veteran would be receiving (TPI Pension and the Service Pension).
- Veteran Benefits Under other Acts. The PC Review at a high level compares the benefits under the three legislations (VEA, DRCA and MRCA). Hypothetical case studies are used to compare the lifetime benefits a Veteran would receive under the three legislations. (PC Report, pg. 598 – 603).
- Overseas Veteran Benefit. The PC Review at a high level also compares the level of compensation available under the Australian legislation against international Veteran schemes (Canadian, United Kingdom and New Zealand). While noting these need to be placed into the context of the broader support available in each country. (PC Report, pg. 601 – 602).
- Workers Compensation: The PC Review at a high level also compares the level of compensation benefits available with workers’ compensation package applying to Commonwealth employees (the SRCA). (PC Report, pg. 600).

D.6 Targeting

The PC Review notes some payments and services in the Veteran compensation system are not targeted effectively. Health services are provided to a wide range of Veterans, whereas a tighter focus on high-needs Veterans may be desirable. Some payments are provided to all Veterans, where higher level of support to a more targeted group of Veterans may be more beneficial. (PC Report, pg. 605).

The PC Review assessment the range of additional compensation payments available to Veterans and their families by asking the following questions (PC Report, pg. 664):

1. What is the rationale for the payment (and is it still relevant)?
2. Does the payment achieve its objective?
3. Could the costs of the payment (including the costs of complexity) be reduced or the benefits increased (including by improving targeting)?

E Appendix – Clarke Review

E.1 Introduction

This Appendix contain high-level comments on the broad principles and methodologies from the Clarke Review relative to those adopted by the PC Review. Overall, in our view, principles and methodologies adopted by the Clarke broadly align with those adopted by the PC Review. Further details outlined below.

E.2 Core Principle of the Repatriation System

The Clarke Review took the following as its expression of the essential core principle of the repatriation system:

“The Government, in expression of the nation’s debt of gratitude, shall provide a beneficial level of compensation and support to Veterans and their dependants for incapacity or death resulting from service in the armed forces during times of war or of conflict or in warlike and non-warlike operations.”
(Clarke Review, pg. 101)

E.3 Veteran Benefits “Bundle”

The Clarke Review notes *“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.”*
(Clarke Review, pg. 608)

E.4 Economic and Non-economic Compensation

In contrast to the PC Review, the Clarke review noted that *“the committee faced substantial difficulty when assessing disability compensation adequacy because the VEA does not make a clear distinction between disability compensation elements, particularly those in the benefit provided to a Veteran who is unable to work.”* (Clarke Review, pg. 621)

F Appendix – PC Review Comparison of Legislation

F.1 Introduction

This appendix summarises the approach adopted by the PC Review to compare the benefits available to a Veteran under the different Acts.

F.2 Estimating Lifetime Compensation

Section 12.2 of the PC Report note that the case studies used to compare the benefits available to the Veteran under the different Acts, include lifetime value of compensation based on reasonable assumptions. These case studies are intended to be illustrative only and highlight the differences in compensation between the Acts – they are not based on real world examples. It is noted in the report that:

- Where payments are provided as periodic payments over time, they are converted to a lump sum based on the formula used in the MRCA.
- Where compensation is available for the Veteran or dependant's lifetime, compensation is converted to a discounted lump sum based on the actuarial tables used to covert permanent impairment payments to lump sums in the MRCA.
- If payments are only available for a specified period of time (such as incapacity payments), compensation is converted to a discounted lump sum using the formula to convert incapacity payments to lump sums in the MRCA.
- Payments that are taxed, such as incapacity payments, are converted to an after-tax value based on current taxation arrangements.
- Superannuation payments are based on the ADF Cover arrangements.
- Where estimates include the Gold Card, this is based on the value of the Gold Card being about \$18 500 per year (the value estimated by the Parliamentary Budget Office as the value of the Gold Card to a person who already had a White Card).

We did not review the methodology, assumptions, or calculations performed by the PC Review.

F.3 Support under the Different Acts

This section summaries analysis in the PC Review that compares the support a Veteran could receive under the different acts: VEA, DRCA and MRCA.

F.3.1 Young Veteran

The PC Review concludes that for younger Veterans (30 year old) with a severe impairment and dependents that the benefits paid under the VEA (over \$2.m) are likely to be lower than under the DRCA and MRCA (\$2.5m to \$4m).

From the PC Review's analysis (as shown in the box below) we can observe that the combined value of the TPI Pension (disability pension in the graph below) and the disability Service Pension under the VEA is lower than the combined permanent impairment compensation and incapacity payments under the DRCA and MRCA. The DRCA and MRCA also provides for a higher level of reimbursement costs (e.g. attendant care and household services)

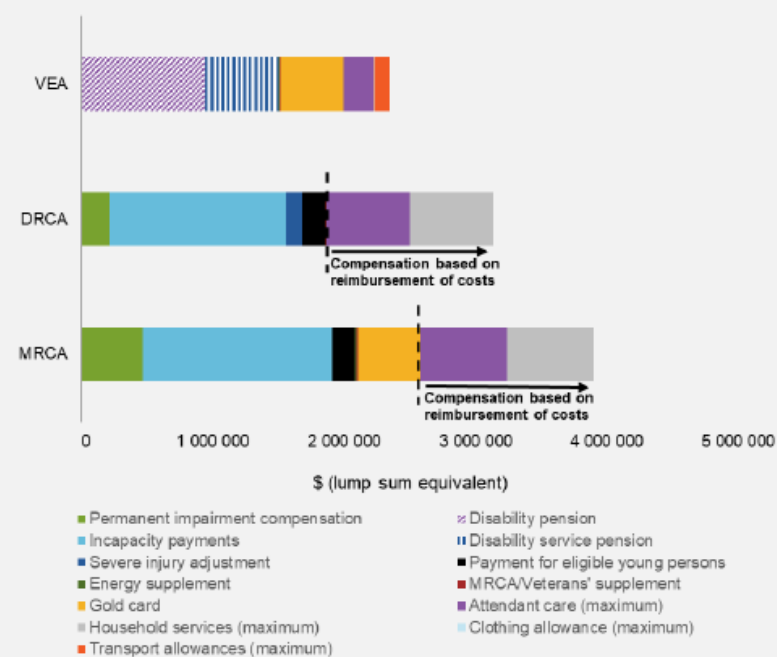
Box 13.6 Case study — totally and permanently incapacitated veteran

Bill is a 30 year old veteran who has suffered a severe impairment graded at 80 impairment points. Bill is unable to work as a result of his impairment and cannot earn his previous salary of \$100 000 per year. Bill's impairment materialised after he left the military, and he is not eligible for compensation from his military superannuation.

Under the MRCA and DRCA, Bill would receive incapacity payments until age 65 as well as a permanent impairment payment. Bill has two children, and would receive an additional lump sum for having eligible young children under the MRCA and DRCA. Under the VEA, Bill would receive the special rate of disability pension for life as well as the invalidity service pension.

Bill's impairment has left him with high needs, and as a result he also claims the maximum available rate of attendant and household care services. Bill would receive immediate access to the Gold Card under the VEA and MRCA.

The total lifetime value of the compensation provided to Bill would be \$2.5–4 million under the MRCA (depending on the level of household and attendant services claimed) and over \$2 million under the VEA.

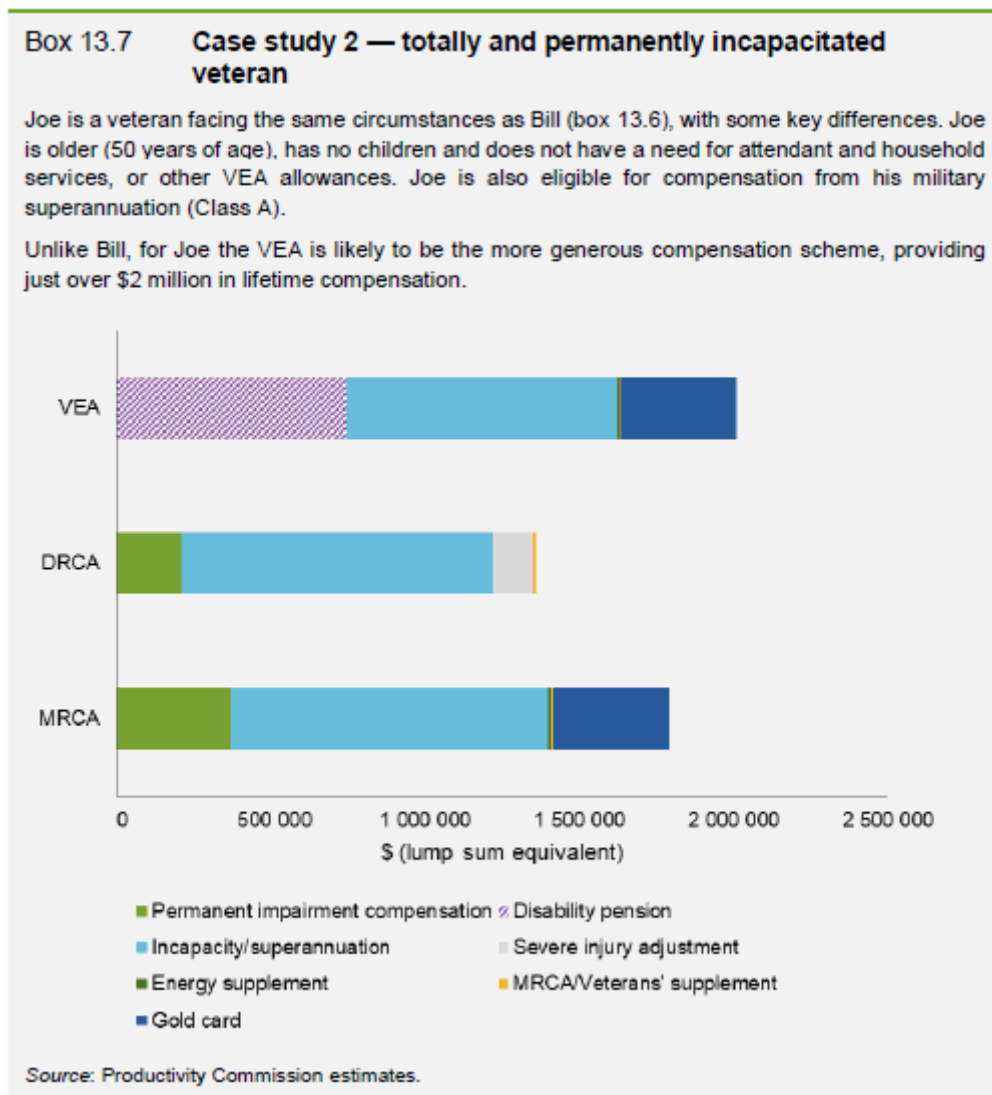


Source: Productivity Commission estimates.

F.3.2 Old Veteran

The PC Review concludes that for older Veterans (50 year old) with a severe impairment and no dependents that the benefits paid under the VEA (just over \$2.0m) are likely to be higher than under the DRCA and MRCA (under \$2.0m).

From the PC Review's analysis (as shown in the box below) we can observe the value of the TPI Pension (disability pension in the box below) under the VEA is higher than the permanent impairment compensation under the DRCA and MRCA.



G Appendix – Eligibility of Service Pension

G.1 Introduction

This appendix summarises the eligibility of Service Pension for TPI Veteran and the high level summary of the analysis performed on TPI Veterans receiving a Service Pension.

G.2 Overview

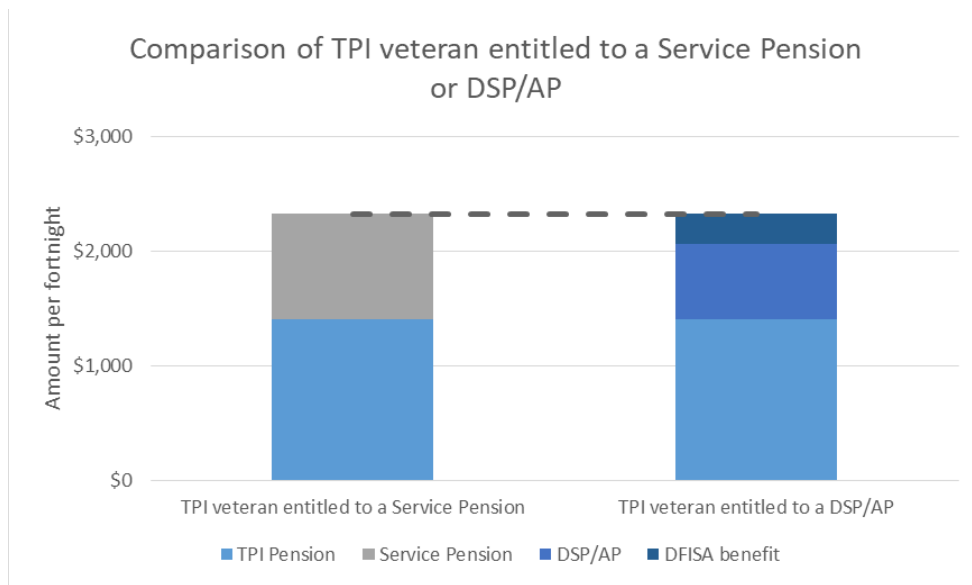
As discussed in section 2.4 above, a portion around (30 per cent) of TPI Veterans are not receiving a Service Pension, reflecting either:

- The Veteran does not meet the eligibility criteria applying to the Service Pension; or
- No pension is payable due to the application of the income or asset means tests.

TPI Veterans that are not eligible for a Service Pension may be entitled to a DSP (prior to retirement) or AP (for retirees), with around 7 per cent of TPI Veterans receiving such benefits. After adjusting for the DFISA these benefit are also asset and income means tested on the same basis as the Service Pension, and the amount payable under the DSP/AP aligns with the amount payable under the Service Pension.

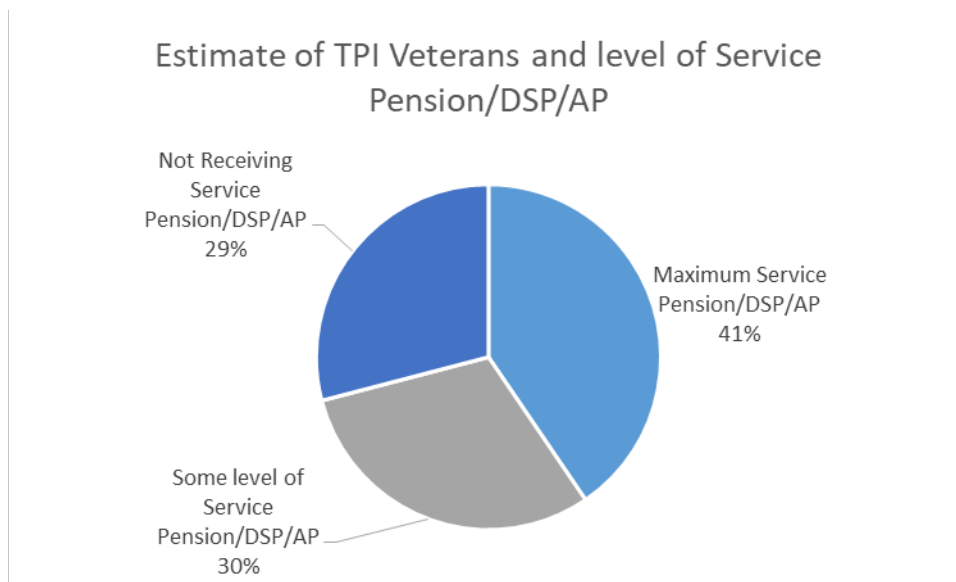
The implication of the above rules is that 100 per cent of TPI Veterans are:

- Eligible for either the Service Pension, AP or DSP.
- The Service Pension, AP and DSP are subject to the same asset and income means tests.
- The amount payable under the Service Pension, AP and DSP will be the same after allowing for the DFISA benefit, as outlined in the chart below (“Income Pension”).



Observation – Welfare received by TPI Veterans

Based on DVA data (as shown in the graph below), about 70 per cent of TPI Veterans are currently receiving some form of Income Pension, with about 41 per cent of all TPI Veterans receiving the full Income Pension.



Data provided by DVA indicates, for Service Pension payments only, the income test, rather than the asset test, is the dominant test for most Veterans. This reflects that for 91 per cent of the TPI Veterans receiving the Service Pension, their income test results in a lower Service Pension than the asset test (the test paying the lower pension is the one that applies).

Observation – Minimum welfare for TPI Veterans

Given all TPI Veterans are eligible for an Income Pension, for TPI Veterans where the income test is the dominant test, it can be implied that:

- Around 40 per cent of these TPI Veterans will be receiving an income of approximately \$2,300 per fortnight (Service Pension plus TPI benefit).
- The remaining TPI Veterans will be receiving an income of more than \$2,300 per fortnight, once other income sources (e.g. Superannuation and asset returns) are allowed for.

For TPI Veterans where the asset test is the dominant test, it can be implied that:

- Some TPI Veterans will be receiving an income of \$2,300 per fortnight (Income Pension plus TPI benefit).
- Some TPI Veterans may be receiving an income of less than \$2,300 per fortnight (including other income), however these Veterans will have other asset available to support their income.
- Some TPI Veterans may be receiving an income of more than \$2,300.

Conclusion

The implication of the above analysis is that all TPI Veterans are effectively receiving an income of at least \$2,300 (TPI and Income Pension), once other income and assets are allowed for.

Therefore, benchmarking the Above General Rate Pension + Service Pension against MTAW, provides a guide to relative income levels of around 41% TPI Veterans, with the remaining TPI Veterans being in a better financial position, once other income is allowed for.

Taking this perspective is not considered unreasonable given asset and income means testing is a common approach to ensuring benefits are provided to those most in need, and is consistent with the position taken by the PC Review “...this is the minimum income a Veteran on the SRDP should receive – any not receiving the maximum amount of welfare would be receiving a different income source, including potentially an invalidity pension through their superannuation. Thus Veterans are not required to survive on the SRDP alone.” (PC Report, pg. 528).

H Appendix – Toose Report

H.1 Introduction

This appendix extracts various principles and comments from the Independent Enquiry into the Repatriation System Report by the Honourable MR Justice P.B Toose, C.B.E. June 1975 (“Toose Report”) in relation to the rationale for the Service Pension.

H.2 Rationale for the Service Pension

The Toose Report explored the rationale for the Service Pension, as to whether it was a welfare measure or a compensation measure. The views and findings from the report are summarised below:

- The Service Pension was introduced in 1935 to provide “some degree of compensation for the so-called indefinable effects of war service” in the 1914-18 war:
“In 1935 the Minister of Repatriation, then the Right Hon. W.M. Hughes, sympathised with the claims of members for some degree of compensation for the so-called indefinable effects of war service. At that time many returned soldiers were in need, either because they were unemployed or were unemployable. The Minister’s view was that they should not be left to beg. To meet this situation the idea of service pension was conceived.” (Toose Report, page 387)
- On page 392 and 393 the Toose Report summarises, in its view, the principles governing Service Pensions. This includes the principle that the Service Pension should operate to avoid the possibility of members having to rely on charity, therefore be partly compensatory and partly a welfare measure to cover the needs of members. These two components should be treated as:
 - Welfare aspect: in the absence of any other suitable provision, the amount and means test of the old age and invalidity pension should be used as a base;
 - Compensation aspect: should be available either on proof of permanent un-employability or pulmonary tuberculosis or on reaching ages five years less than the qualifying ages for the old age pension, and it should be approached in a spirit of generosity by providing benefits for dependants and repatriation medical and hospital treatment for members receiving the pension.
- On page 396, the Toose Report notes that the level of Service Pension was closely linked to the invalid and old pensions and payable subject to similar limitations as to means. Therefore the compensatory element would seem necessarily to be satisfied by the entry to benefit provisions rather than the level of benefit.
- However this link between the entry to benefit provision and compensatory element is made ambiguous by the extension of the service pension to the extension of the Service Pension to Veterans of the 1939-45 war. The Toose Report notes that at the time of the extension, the basic

principles were not reviewed. This issue concerns the criterion of 'served in a theatre of war' for the eligibility of the Service Pension, as the two wars were entirely different in terms of the method of warfare and the deployment of forces. (Toose Report, page 396)

- The Toose Report concludes on page 397:
 - "It is difficult, if not impossible, to determine whether the Government in 1935 was actually motivated by considerations of principle or by political and economic factors, or a combination of both, when it introduced service pension."
 - "It's extremely difficult to enunciate the rationale in respect of the extension of service pension to service in the 1939-45 war and subsequent warlike operations. There has been evidence, however, that many members during these later conflicts did experience circumstances of service as arduous as some of those experienced during the 1914-18 war. It must be conceded, therefore, that if the application of service pension was valid for the 1914-18 war, then it had some application for the later war and warlike operations. There is no doubt that after each period many members suffered difficulties in readjusting to civilian life."
 - "If the traditional concept of service pension being partly compensatory and partly a welfare measure is correct, I consider that in respect of the later periods the compensatory element has tended to become less evident in many cases. The prospects of restoring the validity of the compensation component to its original status in the service pension depend upon the interpretation to be applied to 'theatre of war' as the basis for entry to benefit."
- The recommendations in the Toose Report are on the basis of the part compensation and part welfare rationale.

