Independent Review into the TPI Payment

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Acknowledgements

I would like to thank everyone involved in the Independent Review into the TPI Payment for their valuable contributions. I would particularly like to thank the Australian Federation of Totally and Permanently Incapacitated Ex Servicemen and Women Ltd (the TPI Federation) for their time, insights and assistance in understanding the position and needs of TPI veterans.

I would like to thank the TPI Federation representatives and veterans who met with me to share their views and analysis, including Ms Pat McCabe OAM, Mr John Reeves, Mr Phil Cowan and Mr Peter Thornton. From our meeting and the documents, graphs, figures and analysis provided, it is clear that they are committed to supporting the wellbeing of TPI veterans. I would also like to thank Mr Peter Thornton for his ongoing analysis and insights into the TPI payment.

I would also like to acknowledge officials from the Department of the Prime Minister and Cabinet for their assistance throughout the review process, including by facilitating my discussions with stakeholders and providing secretariat support.

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Executive Summary

Totally and Permanently Incapacitated (TPI) veterans primarily receive compensation in the form of the Special Rate of Disability Pension (the TPI payment) under the *Veterans' Entitlements Act 1986* (VEA). On 2 April 2019, the Prime Minister directed the Secretary of the Department of the Prime Minister and Cabinet to commission and oversee an evaluation of the TPI Federation position that an increase in the TPI payment is needed to remedy a downward trend in its value relative to wages since the 1950s.

Mr David Tune AO PSM was appointed as the lead independent reviewer.

The TPI payment is currently $1,401.90 per fortnight, excluding any other pensions, payments and supplements. The average age of TPI veterans is around 70, and about 90 per cent are over the age of 60. Around 77 per cent of TPI veterans receive an income support payment.

The TPI Federation has advocated for an increase in the TPI payment on the basis that it has two components, with one being an 'economic loss' component that is argued has reduced in relative value since the 1950s to be only 61.9 per cent of gross National Minimum Wage (NMW) currently. The TPI Federation is of the view that NMW is the minimum a TPI veteran would have expected to earn, had they not become unable to work as a result of their incapacity. As a result, they consider the TPI payment should increase by about $9,500 per annum ($365 per fortnight) to bring the notional 'economic loss' component, of the TPI payment, up to 100 per cent of after tax NMW.

The review found the TPI payment has two components for indexation purposes in legislation, but does not have a component that operates like other 'economic loss' compensation payments. This provides a benefit to most TPI veterans, as economic loss compensation ceases at age pension age, affects the rate of any income support payment, and is taxable – in contrast, the TPI payment is payable for life, is excluded from the income test for Service Pension (but may impact Commonwealth Rent Assistance payable) and is non-taxable.

Analysis conducted by the review, using more appropriate wage benchmarks than used by the TPI Federation, does not support the contention that the rate of the TPI payment has fallen against wages (regardless of whether it is split into two components). Against some wage measures, the TPI payment has increased in value over time. TPI veterans also have a higher net disposable income than many veterans who work full time earning Male Total Average Weekly Earnings (MTAWE).

Veterans' compensation is also provided under the *Military Rehabilitation and Compensation Act 2004* (MRCA) and the *Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988* (DRCA). Analysis highlights that many TPI veterans receive higher payments from Government over the course of their life than veterans compensated under the MRCA or the DRCA.

Given the analysis, the review recommends no increase in the rate of the TPI payment, other than through ongoing indexation increases.

However, analysis shows some TPI veterans within the broader TPI veteran cohort may have less financial resources because of their individual circumstances, and that other changes to the TPI payment would be beneficial. The review recommends targeted changes as follows:

- Defence Force Income Support Allowance (DFISA) be abolished and Disability Pension – including the TPI payment – and permanent impairment payment under the MRCA be defined as **exempt income** under the social security law. In addition, the disability income rent test should be abolished. This would **simplify payment arrangements** and **allow TPI veterans who are renting to receive Commonwealth Rent Assistance**.
- Indexation of TPI payment be changed to **index the whole payment at once, rather than in two components**. This could also apply to the Intermediate and Extreme Disablement Adjustment rates of Disability Pension. The split indexation mechanism was introduced in 2004 due to the different indexation mechanisms in place for the General Rate and Above General Rate (AGR) components, but it is now redundant as the indexation mechanisms were aligned in 2008.
- Change terminology and language in legislation, guidelines and policy documents to **no longer refer to the TPI pension as a 'pension' – but as a 'payment'**. Some stakeholders are concerned that the term 'pension' implies welfare instead of compensation.
- **Conduct a data linkage project across agencies with the aim of examining the long-term wellbeing and overall outcomes for TPI veterans and links with mainstream services**. Existing data on financial resources and Government payments provided to TPI veterans does not provide a complete picture of the needs of TPI veterans, or their overall wellbeing.

If preferred options of this review were endorsed, it would result in a total increase in administered expenditure of about $9 million in the first year and around $79 million over 10 years. There would also be a cost shift of some income support payment expenditure from the Department of Veterans' Affairs (DVA) to the Department of Social Services (DSS).

Terms of Reference

Context

As requested by the Prime Minister on 2 April 2019, the Department of the Prime Minister and Cabinet is commissioning a review into the Totally and Permanently Incapacitated/Special Rate pension, with a focus on evaluating the case made by the TPI Federation for an increase to the payment.

The review will provide comprehensive advice to the Prime Minister on the issues raised by the TPI Federation. The lead reviewer will meet with key stakeholders, particularly the TPI Federation, to ensure their views are considered in full.

Scope of the review

The review will consider the purpose, adequacy, structure and indexation arrangements of the TPI pension and make recommendations on any potential changes to the payment. It will explore the case made, and analysis provided, by the TPI Federation, including the extent to which the TPI pension value has changed over time and the support available to TPI veterans.

In doing so, the review should consider all relevant existing information or reviews in relation to the TPI pension. However, any recommendations resulting from this review should be independently formed and not unduly influenced by findings of previous reviews.

The review should also provide advice on costs associated with any recommendations.

Timing

The review will report to Government on its findings by August 2019.

Introduction

The TPI payment compensates severely disabled veterans who are unable to have a normal working life because of permanent incapacity from conditions arising from their service in the Australian Defence Force (ADF).

Stakeholder groups, such as the TPI Federation, are of the view that the TPI payment value has decreased over time, and advocate for an increase in the payment.

The Prime Minister has asked that this review provide a comprehensive evaluation of the position of the TPI Federation, and consider all relevant factors to ensure that comprehensive and definitive advice can be provided to Government on the most appropriate way forward. The review takes the approach of analysing each position and issue raised by the TPI Federation, including the assumptions underpinning the positions. It examines the relationship between issues and draws on various perspectives to make an assessment, and provide recommendations and options for Government.

It is recognised that there are a range of policy changes and service changes that could be developed to support veterans, beyond the much more targeted focus and scope of this review.

During consultations, the TPI Federation raised concerns over referring to the TPI payment as a pension, as the TPI Federation consider this term to imply welfare (rather than compensation). For the purposes of this review, the payment will be referred to as the TPI payment, except where context requires the use of the term pension.

Characteristics of the TPI Payment

The VEA provides various benefits to veterans, including payments for life for TPI veterans. The Special Rate of Disability Pension (often referred to as the TPI pension or payment) provides compensation for a veteran's inability to engage in remunerative work, where that inability is the result of VEA accepted conditions.

The TPI payment was designed for severely disabled veterans of a relatively young age, who could never go back to work.

As stated by the Acting Minister for Veterans' Affairs at the time in 1985 –

> "Since 1920, there has been a special rate of disability pension payable in circumstances where, because of total and permanent incapacity resulting from war service, a veteran has been unable to resume or to continue in civil employment. The special or TPI rate 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."

The TPI payment is currently $1,401.90 per fortnight plus Energy Supplement of $21.50 per fortnight, totalling $1,423.40 per fortnight ($37,008.40 per year). The General Rate (a lower rate of Disability Pension for veterans with different eligibility criteria) is a maximum of $498.40 per fortnight, plus Energy Supplement of $7.70 per fortnight. The difference between the two rates is known as the Above General Rate (AGR) component and is currently $903.50 per fortnight ($1,401.90 - $498.40).

The TPI payment is payable for the life of the recipient. It is not taxed or means tested. It may be offset by other compensation payments, but is not offset by superannuation. It is excluded as income from the Service (and age) Pension (but not rent assistance) means testing.

Eligibility criteria for the TPI payment under the VEA are summarised as follows.

A person is eligible if:

- the degree of incapacity from his or her war-caused or defence-caused disabilities has been determined to be at least 70 per cent; or
- he or she has suffered from or is suffering from pulmonary tuberculosis, and is receiving or entitled to receive a Disability Pension at the General Rate; and
- the person's incapacity from his or her accepted disabilities, alone, renders the person incapable of undertaking remunerative work for periods aggregating more than eight hours per week; and
- he or she is, by reason of his or her incapacity from accepted disabilities alone, prevented from continuing to undertake remunerative work and, as a consequence, suffers a loss of earnings that the person would not suffer if free of that incapacity.

If the person is aged 65 years or over when claiming, they must have been engaged in continuous remunerative work for at least 10 years that commenced prior to turning 65 and continued past the age of 65 (otherwise, the person needs to be under 65 when claiming).A person is also eligible if he or she is blind in both eyes as a result of a war-caused or defence-caused injury or disease.

The VEA provides coverage for service in wartime prior to 1 July 2004 and for certain peacetime service between 7 December 1972 and 30 June 2004. The MRCA generally provides rehabilitation and compensation coverage for ADF service on or after 1 July 2004.

The MRCA contains a payment called Special Rate Disability Pension (SRDP), which is in similar to the Special Rate of Disability Pension under the VEA. To be eligible for SRDP a person must:

- have an impairment from an injury or disease accepted as related to ADF service covered by the MRCA which is assessed at 50 or more points and is likely to continue indefinitely;
- be in receipt of Incapacity Payment;
- be unable to undertake paid work for more than 10 hours a week; and
- be unlikely to be assisted by rehabilitation to undertake paid work for more than 10 hours a week.

A person who is eligible for SRDP is offered a one-off choice between receiving SRDP and continuing to receive Incapacity Payment. The maximum payment rate is equal to the TPI payment but is fully offset by the amount of any MRCA Permanent Impairment payment paid to the veteran, and by 60 per cent of any Commonwealth funded superannuation paid to the veteran.

TPI veterans include those who are in receipt of the SRDP under the MRCA. Both are considered in this review.

Characteristics of TPI Veterans

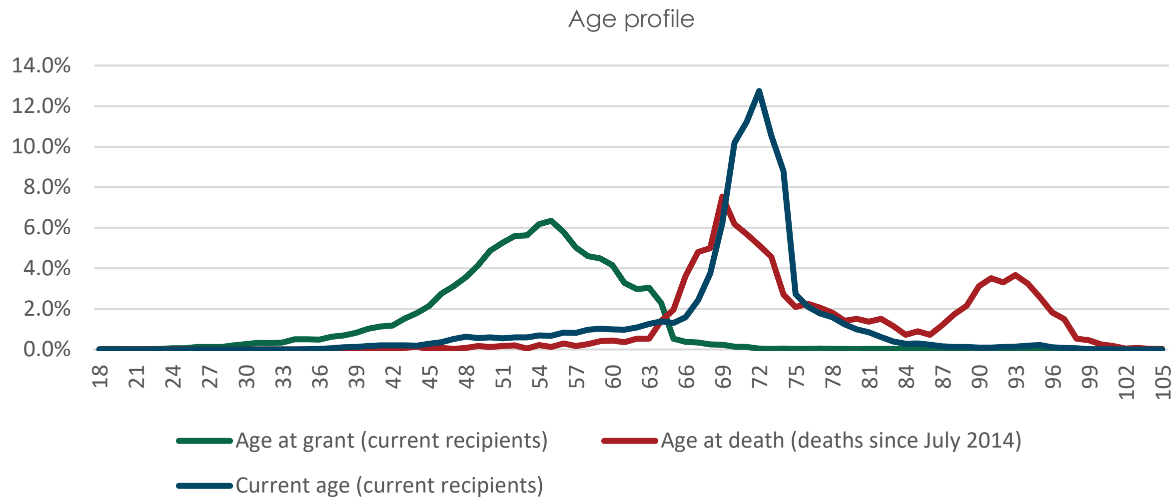
As at March 2019, there were 27,493 recipients of the TPI payment. Most TPI veterans fall under the VEA. Only about 60 veterans receive the SRDP under the MRCA.

About 70 per cent of TPI veterans served in the Vietnam War.

Figure 1 shows that most TPI veterans are aged in their mid-60s to mid-70s, with about 90 per cent over the age of 60. Approximately 98 per cent of TPI veterans are male.

Over 70 per cent of current TPI veterans were aged 50 or above at the time they started receiving the TPI payment, and more than 90 per cent of TPI veterans were granted the payment from 1994 onwards.

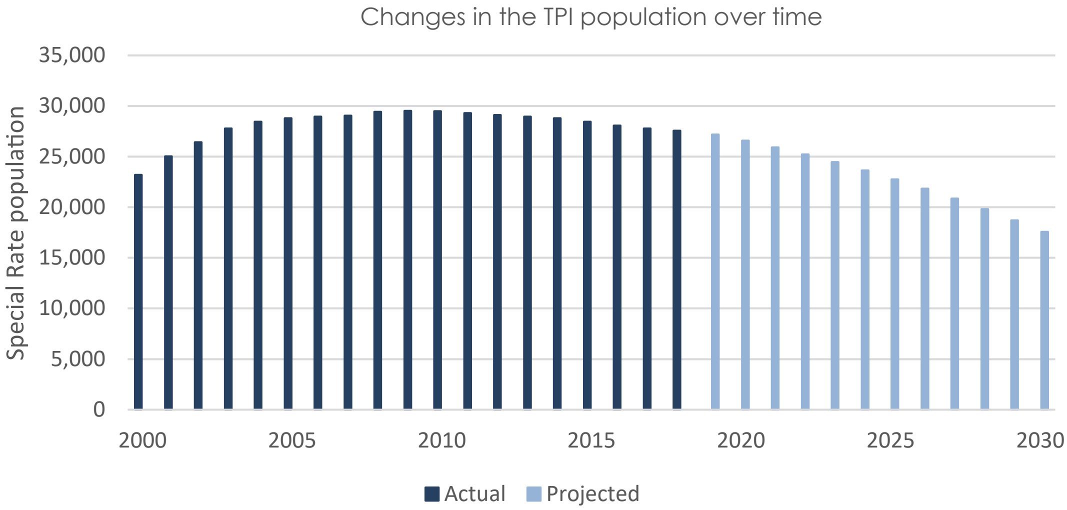
Figure 1 – Age profile of the TPI population



Source: DVA, unpublished.

Figure 2 shows that the TPI veteran population peaked in 2009 and is now slowly declining (noting their advanced age). It is forecast that by 2030, there will be around 17,500 TPI recipients.

Figure 2 – TPI population over time



Source: DVA, unpublished.

Of the TPI population, around 70 per cent also receive Service Pension and a further 7 per cent also receive a social security income support payment (eg age Pension), instead of Service Pension.

Table 1 – TPI veterans by Service Pension status

Service Pension rate	Service Pension level	Below age pension age		Above age pension age	
		Number	Average Service Pension	Number	Average Service Pension
Single	Maximum rate	218	$843.60	3,152	$843.60
	Part rate	192	$397.69	1,591	$490.08
Partnered	Maximum rate	141	$638.85	7,644	$636.82
	Part rate	439	$338.40	5,849	$406.08
No service pension	3,629	4,638			
Total Below and Above age Pension age		Below: 4,619		Above: 22,874	
Total TPI veterans (as at 29 March 2019)		27,493			

Source: DVA, unpublished.

Table 1 shows that only around 21 per cent of younger TPI veterans (those below age pension age) receive Service Pension, compared to nearly 80 per cent of their older counterparts. The reasons for this are primarily due to the veterans' or their partners' other sources of income (excluding the TPI payment but including, for example, partner's employment income or investment income) being too high for them to be entitled to Service Pension.

History of Changes to TPI Payment and Previous Reviews

There have been numerous reviews commenting on the TPI payment since it was introduced in 1920, some resulting in changes to the TPI payment or other support provided to TPI veterans.

As would be expected over this timeframe, there have also been a number of changes to payment levels, indexation arrangements and eligibility for other payments available to TPI veterans such as the Service Pension.

TPI Payment – Previous Reviews

The review focused on examining the proposal of the TPI Federation. However, in line with the Terms of Reference, the review also considered all relevant existing information and reviews. The recommendations resulting from this review are independently formed and have not been unduly influenced by findings of previous reviews.

The most recent review to comment on the TPI payment level was the Productivity Commission report – *A Better Way to Support Veterans*, released on 4 July 2019. The Productivity Commission was given broad terms of reference to "undertake an enquiry into the system of compensation and rehabilitation for veterans". It found that there was no compelling case for an increase in the TPI payment and that the overall package of compensation for TPI veterans is reasonable.

Earlier reviews, such as Clarke, Baume and Toose, proposed new payment structures for the TPI payment with different payment rates and characteristics depending on the age of the veteran, none of which were agreed to by the governmentsof the day.

A summary of previous reviews and their findings is provided at Appendix D.

Changes to the TPI Payment since 1920

The TPI payment was introduced by the *Australian Soldiers' Repatriation Act 1920*. The rate remained unchanged for around 25 years before it was first increased in 1943. From then until 1976, a series of one-off increases occurred, sometimes several years apart at first but mostly annually from 1956. No mechanism was set to regulate either the quantum or the timing of these increases.

Indexation against the Consumer Price Index (CPI) was introduced in 1976. This was the first point at which a fixed mechanism was used for setting the timing and amount of increases to the TPI payment.

From 20 March 2004, the AGR component of TPI payment started being indexed using the pension Maximum Basic Rate (MBR) factor, derived from the indexation increase in the single Service Pension MBR. The increase in the single Service Pension MBR is based on both MTAWE and CPI. The General Rate component of the TPI payment continued to be indexed to CPI movements only.

In addition, the TPI payment increased by $50 per fortnight in 2007, and a further $16 per fortnight from 20 March 2008 flowing on from a 5 per cent increase in the General Rate component of all Disability Pension rates. Also in March 2008, the indexation of the General Rate component for all Disability Pension rates commenced using the pension MBR factor. This change brought indexation methodology of the General Rate and AGR components back into alignment, although still indexed separately.

From 20 September 2009, because of changes to Service Pension indexation, the pension MBR factor incorporated increases in the Pensioner and Beneficiary Living Cost Index (PBLCI) as well as CPI and MTAWE.

Current indexation arrangements mean that the TPI payment increases in line with the single Service Pension MBR.

The TPI Federation's Proposal

The TPI Federation are seeking an increase to the TPI payment on the basis that a component of the payment has decreased over time.

Specifically, the TPI Federation is of the view that the AGR (notional 'economic loss') component of the TPI payment should be increased to be the same as after tax NMW. It should also be benchmarked or indexed in a way that maintains this value over time.

The rationale for after tax NMW is that had the veteran not become unable to work because of their ADF service, this is the minimum amount that they would have been earning.

The TPI Federation estimate an increase to after tax NMW would see the TPI veteran receive about $9,500 extra per year (or about $365 per fortnight). The TPI Federation cite an unpublished 2017 costing from the Parliamentary Budget Office as giving a cost of $240 million in the first year.

Based on payment rates, minimum wage and tax rates applying as at 1 July 2019, this review estimates that the TPI Federation proposal would result in an increase of $394.10 per fortnight, with a cost of around $280 million in the first year and $2.82 billion over 10 years.

The Disabled Veterans of Australia Network Proposal

The Disabled Veterans of Australia Network (DVAN) provided a written submission to the review. While the focus of the review is on the TPI Federation proposal, the review also considered the perspectives of the DVAN.

The DVAN proposal is similar to the TPI Federation proposal but benchmarks the whole of the TPI payment (not just the AGR component) against after tax Average Weekly Earnings (AWE) for full time adults, which is a higher benchmark than the after tax NMW proposed by the TPI Federation for a component of the TPI payment.

The increase in the TPI payment under the DVAN proposal is estimated to be around $1,153.65 per fortnight, at a cost of over $800 million in the first year and more than $8.25 billion over 10 years.

DVAN were given the option to discuss their proposal with the review team, but did not respond prior to the finalisation of the review. However, the content of their proposal was clear and concise, and was considered in the development of this review.

TPI Federation – Key Issues and Assumptions

The review focuses on the key issues presented by the TPI Federation and the analysis used to support the TPI Federation's position that the payment level should increase.

During consultation, it became apparent that there were assumptions underpinning the viewpoints of the TPI Federation that required further examination. These assumptions are:

- The TPI payment is not a 'pension' but a compensation payment.
- The TPI payment is comprised of two components – a General Rate 'pain and suffering' component and an AGR 'economic loss' component.
- The TPI payment as a whole and the 'economic loss' component have fallen since the 1950s relative to various wage measures.
- The adequacy of the TPI payment can be measured in isolation from other support available to TPI veterans.

Purpose of the TPI Payment

As stated in the DVA Intent Paper that describes the purpose of the TPI payment under the VEA (available on the DVA website), its purpose is:

> to provide compensation to a veteran, member of the Forces, member of a Peacekeeping Force or Australian mariner where, because of either:
>
> - total and permanent incapacity; or
> - temporary total incapacity;
>
> resulting from eligible service, the person is unable to resume or to continue in remunerative work for periods aggregating more than eight hours per week.

It is noted that the purpose does not contain any statement about actual or perceived adequacy of the compensation, or of its form, only that it is intended to provide compensation for a defined group of people.

The eligibility criteria set out in the VEA (and summarised under *Characteristics of the TPI payment*) are designed to ensure that the payment is available to those who are intended to receive it according to the purpose of the payment noted above. The criteria set out the exact rules defining eligible classes of person (e.g. veterans), eligible service, total and permanent incapacity, inability to resume or continue in remunerative work and the limit on the amount of hours able to be worked per week.

TPI Payment Labelled as Compensation and not a 'Pension'

The TPI Federation shared their view that the word 'pension' implies welfare as opposed to compensation.

Legislatively, the payment is called a pension, being the Special Rate of Disability Pension under the VEA. The MRCA equivalent payment is called the Special Rate Disability Pension.

The term 'pension' is broadly defined as:

1. A fixed periodical payment made in consideration of past services, injury or loss sustained, merit, poverty, etc.
2. An allowance or annuity.
3. A regular income paid out of a superannuation fund.

While some may consider the term 'pension' to imply welfare, this is not the intention through legislation. As noted above, the term 'pension' describes a payment that provides regular payments at intervals for a particular purpose, and is not used solely for payments provided as welfare.

The legislative name of the payments including the word 'pension' has no bearing on the rate or any other characteristics of the payment.

The TPI Federation also advised that in their view, the TPI payment is not 'a form of compensation, it is compensation'.

Under legislation and common law, compensation can take many forms. The two most common forms of compensation are lump sums and series of periodic payments. The DRCA for example provides for permanent impairment payments paid as a lump sum and Incapacity Payments paid as a periodic payment. Both are compensation payments. The Gold Card is another form of compensation, providing compensation for the financial costs of treatment of medical conditions by way of a direct payment to the treatment provider.

The TPI payment is considered a compensation payment that is paid at intervals (as a pension).

However, in recognition of the concern regarding the terminology, it was considered at Options for Government. It is an issue that can be resolved through using agreed and consistent terminology that does not have certain connotations.

Structure of the TPI Payment

The TPI Federation refer to the TPI payment as having components for non-economic loss (i.e. pain and suffering) and for economic loss (i.e. loss of income). The TPI Federation argue that the non-economic loss component is equal to the General Rate of Disability Pension, and the economic loss component is equal to the AGR component.

As noted above, the VEA is silent on whether the TPI payment is non-economic loss or economic loss compensation. However, treatment of the payment under the VEA and other legislation is consistent with how payments classified as noneconomic loss compensation are treated (see *Table 2 – TPI payment relative to Economic loss and Non-Economic loss Compensation*).

The TPI Federation correctly highlighted that public commentary has on a number of occasions framed the TPI payment as having an 'economic loss' component. In particular, officials and Ministers have framed the AGR component as the 'notional' economic loss component. Specific examples on the public record include Mr Ian Campbell AO PSM, acting Secretary, Department of Veterans' Affairs at Senate Estimates on 1 June 2004 and the Hon Bruce Billson MP, Minister for Veterans' Affairs, on 20 September 2007 during debate on legislation. There appears to have been no public retraction or correction by Ministers or senior officials that there is no 'economic loss' component to the TPI payment.

Previous reviews of the TPI payment, including the recent Productivity Commission report, have also predominantly framed the TPI payment as having non-economic loss and economic loss components.

Two Components to the TPI Payment

The VEA does provide for a split in the TPI payment for indexation purposes, whereby the General Rate component is indexed separately to the AGR component. The review considers that this split is a contributing factor to why many stakeholders consider the TPI payment to have a 'non-economic' and 'economic loss' component in legislation.

The review supports the position that the TPI payment is comprised of two components.

The review has found inconsistency between public commentary on the payment structure and how the payment is treated both legislatively and in practice. However, it recognises that the TPI payment is currently treated in the same way as non-economic loss compensation.

In recognition of these differences, it is appropriate to consider whether the TPI payment should have a component considered as 'economic loss' compensation, reflected in legislation in the future.

Significance of Classifying Any Part of the TPI Payment as Economic Loss Compensation

Classification as economic loss is important for considering whether the rate of the payment should change, as there are significant differences in veterans' and other legislation between how economic loss and non-economic loss compensation payments are treated.

Economic loss compensation payments are paid to compensate for loss of income. Accordingly, the compensation usually takes on the same characteristics as the income it was replacing. It usually continues only to the point at which the income would otherwise have ceased. It is usually treated in the same way as the income it replaced for tax purposes.

Economic loss compensation payments may be awarded under common law, such as through a court action for defamation or negligence. They may be awarded as a lump sum or as a regular periodic payment depending on the terms of the court judgement or settlement.

A legislative example of economic loss compensation is Incapacity Payment paid under the MRCA and the DRCA. Incapacity Payment is a wage replacement payment for injured veterans, similar to payments under the *Safety, Rehabilitation and Compensation Act 1988* (SRCA) and other workers' compensation schemes.

Incapacity Payment is taxable income, and payment generally ceases at age pension age, which was 65 years old for people born prior to 1 July 1952 and is gradually increasing to age 67 for people born from 1 January 1957. It affects the amount of any income support payment payable to a person, either under the ordinary income test or more commonly under the more severe compensation recovery provisions. It is generally reduced dollar for dollar by the amount of any other income replacement payment, including any Commonwealth funded superannuation payable to the person.

Conversely, the TPI payment, because it is treated as non-economic loss compensation, is non-taxable, is paid for life, and does not affect the rate of a person's income support payment (although it can affect the rate of any rent assistance payable with the income support payment). Commonwealth funded superannuation paid to a TPI veteran does not affect the rate of the TPI payment.

Table 2 compares the treatment of economic and non-economic loss compensation payments and the TPI payment:

Table 2: TPI payment relative to Economic loss and Non-Economic loss compensation

	TPI payment	Economic loss compensation	Non-economic loss compensation
Rate	$1,401.90 per fortnight	Generally based on previous wage but may start to reduce after as little as 13 weeks.	Varies, often according to degree of pain and suffering
Duration of payment	Paid for life	Ceases after a predetermined period of as little as two years and generally by age pension age	Paid for life
Tax status	Non-taxable	Taxable	Non-taxable
Means testing	Not means tested	May be reduced by Commonwealth/State funded superannuation or other income replacement payments	Not means tested
Income support payments	Exempt income but affects rate of any rent assistance payable	Either assessable as ordinary income or under the compensation recovery rules	Does not affect income support payments
Commonwealth funded superannuation	Nil impact	Reduces economic loss compensation on a dollar for dollar basis.	Nil impact

The implications of treating any aspect of the TPI payment as an economic loss are substantial. If the AGR component of the TPI payment was to be treated in the same way as Incapacity Payment (an economic loss payment), it should, for consistency:

- cease at age pension age, affecting around 85 per cent of TPI veterans with a reduction of up to $903.50 per fortnight;
- be taxable, affecting all TPI veterans under age pension age;
- reduce the rate of any income support payment, affecting the 20 per cent of TPI veterans under age pension age with a reduction of up to $903.50 per fortnight; and
- be affected by receipt of Commonwealth funded superannuation payments, affecting potentially all TPI veterans aged below age pension age.

It is clear that language used in some instances by senior officials and former Ministers in the public domain in referring to the AGR component as a notional 'economic loss' component of the TPI payment does not reflect how the TPI payment operates.

On this basis, this review concludes that the TPI payment should not become equivalent to other 'economic loss' compensation payments, noting the detrimental impact treatment as economic loss would have on many TPI veterans. This position is reflected in the *Options for Government*.

Adequacy of the TPI Payment Relative to Earnings and Wages

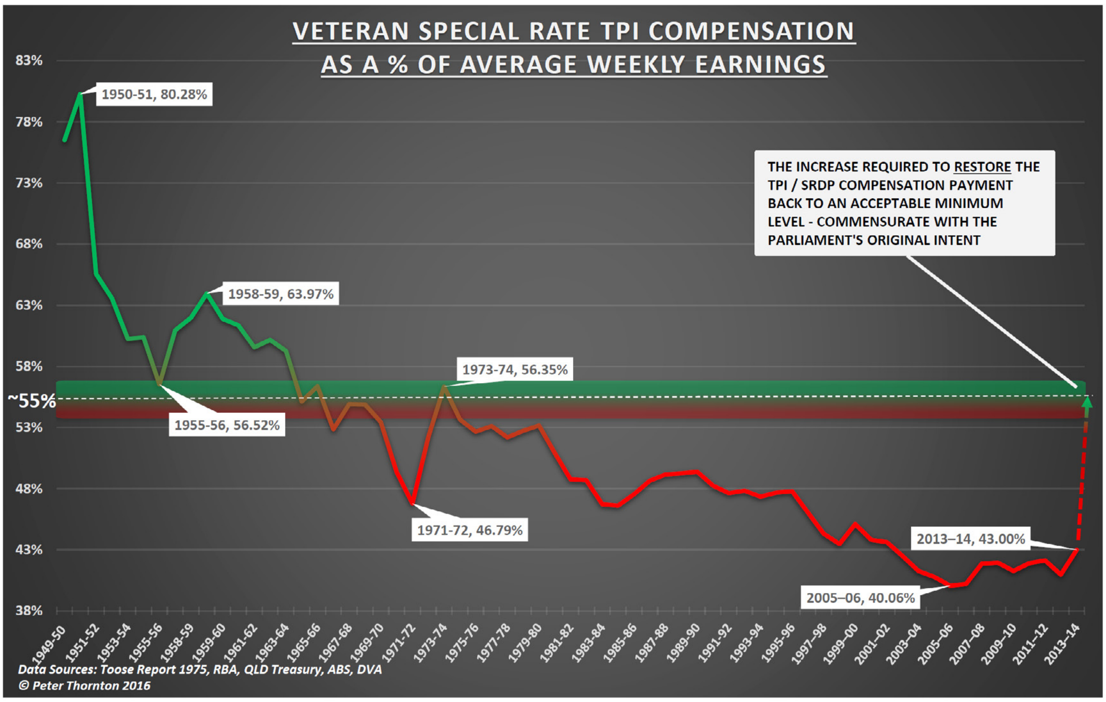
The TPI Federation has presented analysis showing a reduction in the value of the TPI payment since 1950 to support their position that the TPI payment should increase.

Verifying the analysis of the TPI Federation is central in providing clear evidence-based advice to Government on the way forward, particularly if there is to be a recommendation supporting an increase to the payment.

The key findings made by the TPI Federation are that:

- the total TPI payment has reduced from 80.28 per cent of AWE in 1950-51 to 43.00 per cent in 2013-14; and
- the AGR component of the TPI payment is currently 61.9 per cent of the gross NMW.

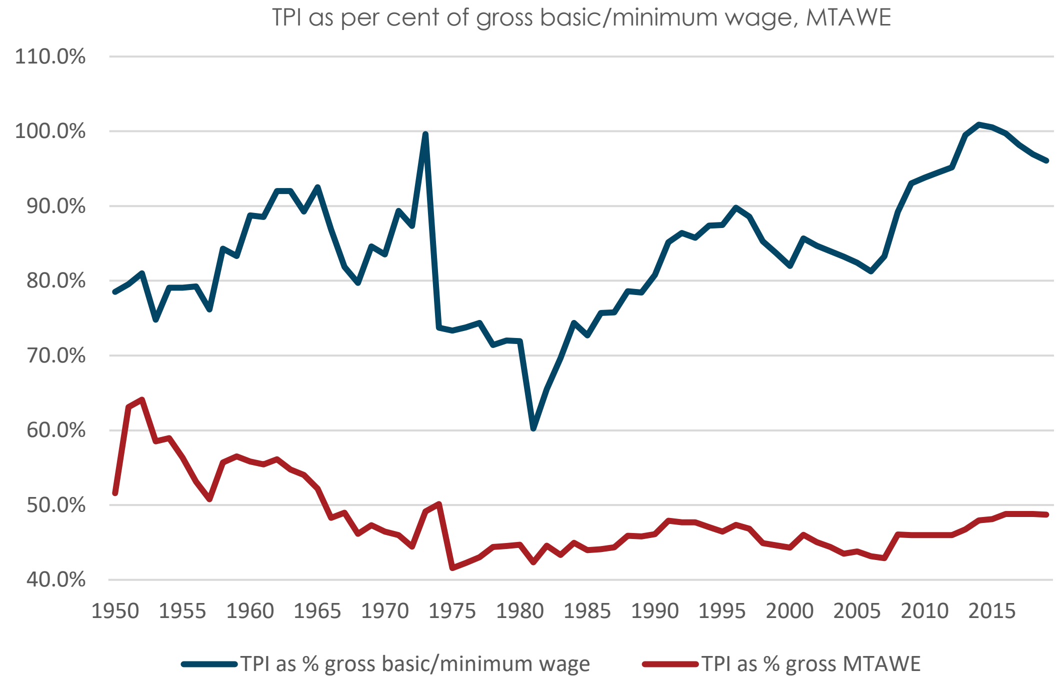
Figure 3: TPI Federation Chart – Rationale Used to Support an Increase in the Payment



The review considers that the most appropriate benchmark against which to assess the adequacy of the TPI is Male Total Average Weekly Earnings (MTAWE), rather than AWE. There are two reasons for this. First, the ABS has advised that there is no ABS published data prior to the 1980s that is entirely comparable to its contemporary collection of data on AWE. This difficulty is recognised by the TPI Federation, which sought to construct an index from 1950 from a variety of sources. However, the ABS has advised that MTAWE is considered sufficiently comparable over the course of the period analysed by the TPI Federation. Second, it is more appropriate to use MTAWE, rather than AWE, as the benchmark, given that around 98 per cent of current TPI veterans are male.

The Fair Work Commission has also advised that NMW is sufficiently comparable over this time period. This comparison against NMW is also included, noting the TPI Federation compares the AGR to NMW benchmarks. However, it is important to note that there have been multiple changes over this period to the way NMW is determined and who it applies to. For example, there was a separate minimum wage for men and women up until 1975. The male minimum wage is used in the below analysis during the relevant period.

Figure 4: TPI Payment as a Percentage of Gross Basic/Minimum Wage and Male Total Average Weekly Earnings

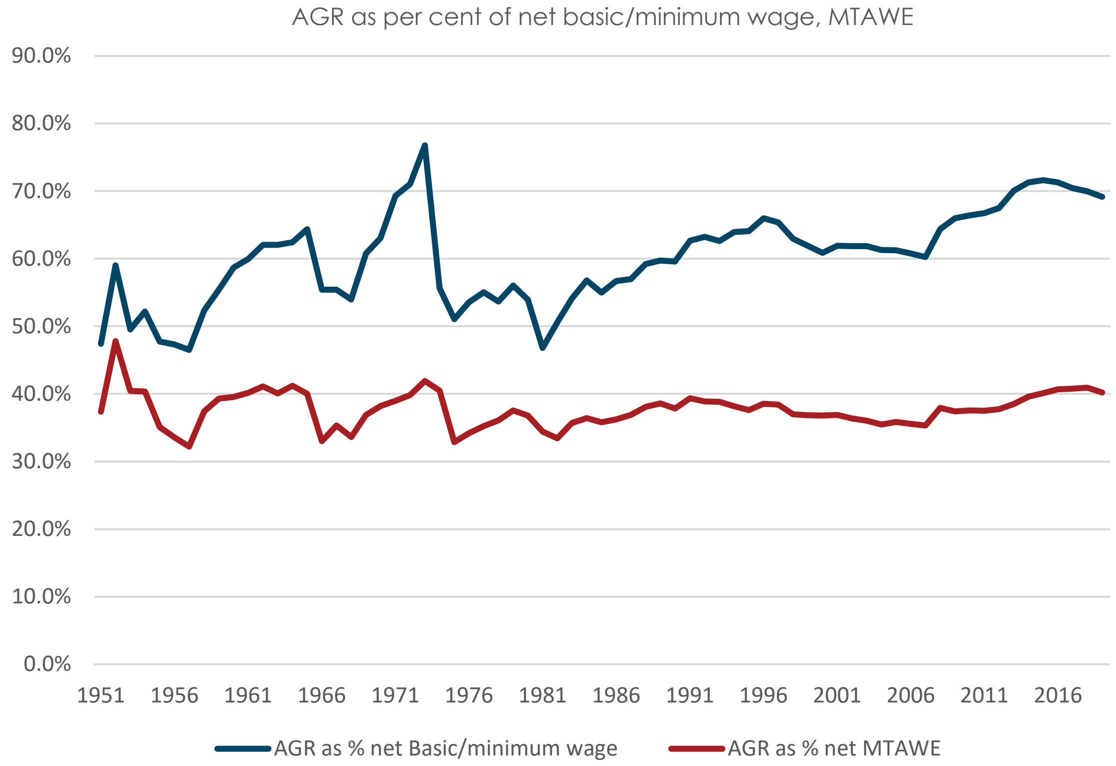


Source: MTAWE to 1966 - ABS publication 1301.0 (various years)
MTAWE from 1967 - ABS publication 6302.0 (each year) November/December quarter, original.
Basic/minimum wage to 2002 – Clarke, 2003
Minimum wage from 2003 - Fair Work Commission.
TPI rate - DVA, first payday on/after 20 March, includes Energy Supplement.

Figure 4 shows that the TPI payment has reduced from 51.6 per cent of gross MTAWE in 1950 to 48.7 per cent in 2019. Over the same period, it has risen from 78.5 per cent of the gross minimum wage to 96.1 per cent.

Further, as the TPI Federation seek to benchmark the AGR component to the after tax NMW, the review compared those amounts over time. Figure 5 shows that the AGR component increased from 47.4 per cent of the after tax NMW in 1951 to 69.2 per cent in 2019. Over the same period, it increased from 37.4 per cent of after tax MTAWE in 1951 to 40.2 per cent in 2019.

Figure 5: AGR component as a Percentage of Net Basic/Minimum Wage and Male Total Average Weekly Earnings



Source: MTAWE to 1966 - ABS publication 1301.0 (various years)
MTAWE from 1967 - ABS publication 6302.0 (each year) November/December quarter, original.
Basic/minimum wage to 2002 – Clarke, 2003
Minimum wage from 2003 - Fair Work Commission.
TPI rate - DVA, first payday on/after 20 March, includes Energy Supplement.

Outcome of Analysis of TPI Payment to MTAWE, NMW and Other Metrics

The review's analysis shows that the TPI payment has reduced in value against some wage benchmarks since 1950 but has increased against others. Over different timeframes, such as since the 1980s, it has increased.

Further, the review considers that this analysis provides an incomplete picture of the resources available to TPI veterans. An analysis that examines the TPI payment in isolation does not capture any of the substantial changes to the broader veteran system, and other policy decisions to provide further payments to TPI veterans over the same period. This includes changes to the Service Pension income test during the 1970s that have seen around 70 per cent of TPI veterans receive up to an additional $926.20 per fortnight (as at 1 July 2019). Further detail on these issues is provided below at *Consideration of Broader Support for TPI Veterans*.

Consideration of Broader Support for TPI Veterans

The TPI Federation advised the review that consideration of their proposal should only take account of the value of the AGR component (the notional 'economic loss' component) of the TPI payment compared to the after tax NMW. The TPI Federation are of the firm view that other supports available, such as income support pensions, treatment and concessions should not be factored in when assessing their views on adequacy of the payment, and whether the TPI payment 'economic loss' component should increase.

The TPI Federation believe that as some of this other support is available to the broader veteran community, it should not be considered as part of their proposal.

The review acknowledges that not all of the full range of support available to TPI payment recipients is compensation and that some additional supports provided to TPI recipients are available to others in the community. However, in line with the Terms of Reference, being aware of the full range of broader support available to TPI recipients is important for considering what needs may be unmet for TPI veterans and what else could be done to support this cohort.

Impact of the TPI Payment on Income Support Entitlements (including Service Pension)

In order to be able to give a complete picture on whether the TPI payment has decreased in value since the 1950s, it is important to be aware of changes to other payments and support provided to TPI veterans. Only by doing so, can a reasonable assessment be made of the efficacy of the TPI Federation's proposal.

In 1950, the ordinary income test for Service Pension and for social security income support payments included Disability Pension (including the TPI payment) as assessable income. The taper rate applied was 100 per cent, meaning that the rate of income support payment reduced by $1.00 for every $1.00 of income over the income free area (the point where income starts to reduce the rate of payment).

In 1970, the income taper rate was halved from 100 per cent to 50 per cent.

From 1974, Disability Pension (including the TPI payment) began to be exempted from the ordinary income test under the VEA – meaning receipt of the TPI payment no longer reduced or prevented the receipt of Service Pension. However, it remained assessable income for the income test under the social security law and the VEA disability income rent test.

The exemption was implemented in several steps with the proportion of Disability Pension exempted initially set at 25 per cent, increasing to 50 per cent, 60 per cent and then 100 per cent by 1982.

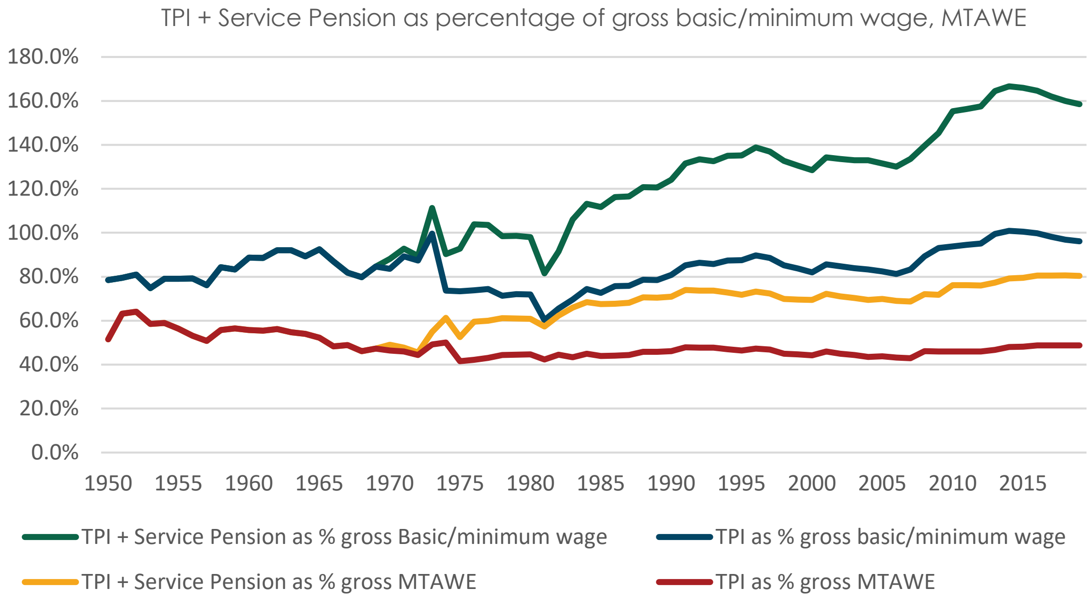
In 1950, a single TPI veteran with no other income had to rely on the TPI payment alone. Since 1982, the same veteran can receive the maximum rate of Service Pension. As of 1 July 2019, this equals $926.20 per fortnight.

TPI veterans were not the sole beneficiaries of these policy changes. However, TPI veterans are a cohort that has received a significant improvement in fortnightly payments as a result of them.

Currently, around 70 per cent of TPI veterans also receive some amount of Service Pension, with another 7 per cent instead receiving other income support payments such as age Pension. Figure 6 below shows that when the TPI payment is added to the rate of Service Pension available over time under the income test prevailing at the time, the maximum level of assistance has increased from 108 per cent to nearly 160 per cent of the NMW, and from 72.3 per cent to 80.4 per cent of MTAWE.

Figure 6 illustrates the impact of the changes from the 1970s through to 1982 to Service Pension means testing. The TPI payment progressively became exempt income for determining receipt of the Service Pension and the income taper rate was reduced from 100 per cent to 50 per cent. It also demonstrates that the total support provided to TPI veterans has increased substantially relative to these wage benchmarks.

Figure 6 – TPI Payment Plus Service Pension as Percentage of Gross Basic/Minimum Wage, MTAWE



Source: MTAWE to 1966 - ABS publication 1301.0 (various years)
MTAWE from 1967 - ABS publication 6302.0 (each year) November/December quarter, original.
Basic/minimum wage to 2002 – Clarke, 2003
Minimum wage from 2003 - Fair Work Commission.
TPI rate, Service Pension rate - DVA, first payday on/after 20 March, includes Energy Supplement.

TPI veterans who do not receive income support payments are likely to be in receipt of other income from private sources (e.g. superannuation, investments, income received by their partner) that is sufficient to preclude payment.

Having noted this, the review does not consider that these eligibility arrangements should change. This additional payment has been in place since the 1970s, and provides additional payments that support the majority of TPI veterans.

Impact of Rent Test on TPI Veterans

The disability income rent test operates to reduce the amount of rent assistance payable to Service Pension recipients who pay private rent. There is no equivalent test under the social security law. The only income amounts caught by the disability income rent test are Disability Pension, including the TPI payment, and the weekly amount of MRCA permanent impairment payment compensation.

The effect of the disability income rent test is that the greater the veteran's impairment, the less rent assistance is payable. A TPI veteran is unable to receive any rent assistance because the disability income rent test reduces the rate of rent assistance payable to nil.

The disability income rent test can also result in Service Pension recipients being paid a lower income support payment than if they were paid age Pension.

The 2003 Clarke Review recommended abolition of the disability income rent test. The Government at the time did not agree to the recommendation.

A recommendation to allow TPI veterans to receive Commonwealth Rent Assistance is at *Options for Government*.

Impact of DFISA on TPI Veterans Receiving Social Security Income Support

The 2003 Clarke Review also recommended that the Government exempt Disability Pension from the social security income test. The Government did not agree to the recommendation due to concerns that it may create a precedent for exemption of other amounts. Instead, from 20 September 2004, the Government introduced DFISA.

Under DFISA, Disability Pension continues to be included as assessable income under the social security income test. The disability income rent test continues to apply – meaning that TPI veterans who are renting continue to receive no rent assistance.

Separate to rent assistance, DFISA pays a 'top-up' payment so that the total of the social security payment and the DFISA is equal to what the social security payment would be if the social security law exempted Disability Pension from the income test (but maintained the disability income rent test).

TPI veterans were not the sole focus of DFISA. However, they are a cohort that has received considerable benefit from it. The 7 per cent of TPI veterans who receive a social security income support payment such as age Pension (i.e. not Service Pension – details at *Impact of TPI Payment on Income Support Entitlements (including Service Pension))* receive a 'top up' payment. For the age Pension, this top up can be up to $926.20 per fortnight as of 1 July 2019.

A recommendation to simplify these complex payment arrangements is at *Options for Government*.

Comparison of Available Financial Resources – TPI, NMW and MTAWE

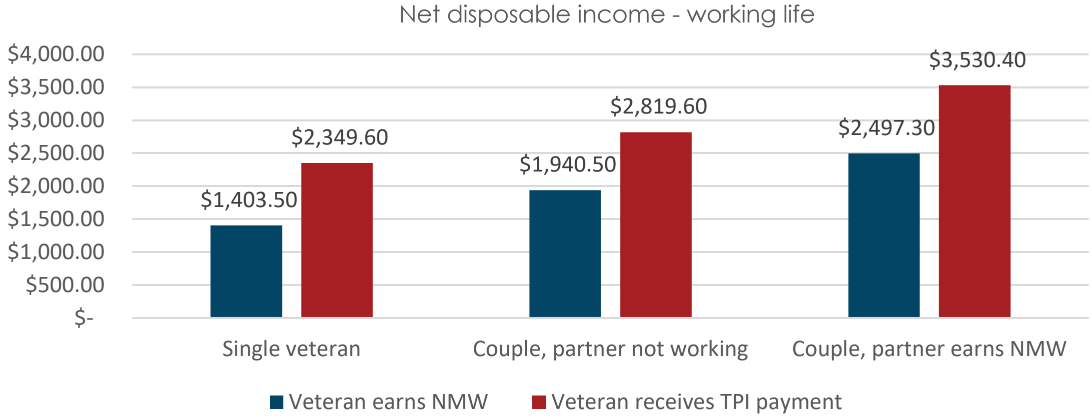
The TPI Federation shared the view that many TPI veterans find it difficult to support themselves on the TPI payment, given cost of living pressures and the size of the fortnightly payment.

The TPI Federation considers both NMW and AWE as appropriate metrics to show changes in the TPI payment rate over time. As a result, the review considered the financial resources available to both a minimum wage earner and a veteran who earns MTAWE, in comparison to the financial resources available to a TPI veteran.

Analysis of financial resources of the TPI veterans relative to NMW and MTAWE provides a more complete picture of whether TPI veterans have less financial resources available to them than wage earners do.

Figure 7 compares the financial resources available to a veteran either earning the NMW or receiving the TPI payment. Scenarios are considered for a single veteran, a partnered veteran where the partner is not working, and a partnered veteran where both earn the NMW. This analysis considers wages, tax, Medicare, the cost of private health cover equivalent to the Gold Card and the private health insurance tax rebate, and any income support entitlement.

Figure 7: Net Fortnightly Disposable Income – Working Life – Relative to Veteran Earning NMW

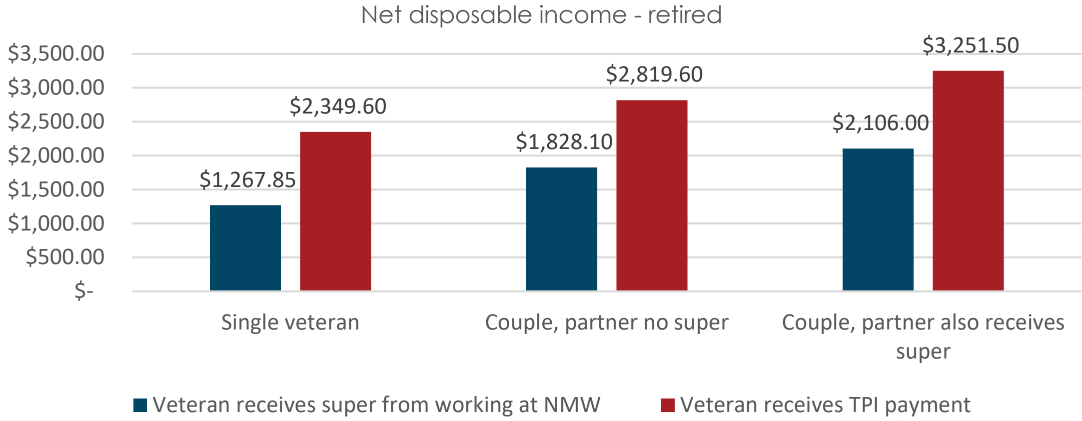


Source: Fair Work Commission decision applying from 1 July 2019, DVA website, ATO website.
Rates as at 1 July 2019.
Cost of private health insurance equivalent to the Gold Card as per www.privatehealth.gov.au. Cost for an ACT resident aged 31-64, top tier, nil excess payable, no lifetime loading, maximum private health insurance rebate applied.

Figure 7 shows that TPI veterans have access to more financial resources than a veteran earning NMW does.

Separate comparisons were done for retired households, where wages were replaced by the superannuation pension that the retired NMW earner might expect to receive.

Figure 8: Net Fortnightly Disposable Income – Retired – Relative to Veteran Receiving Superannuation from Working at NMW



Source: Fair Work Commission decision applying from 1 July 2019, DVA website, moneysmart website.
Rates as at 1 July 2019.
Assume nil tax/Medicare, private health insurance impact.

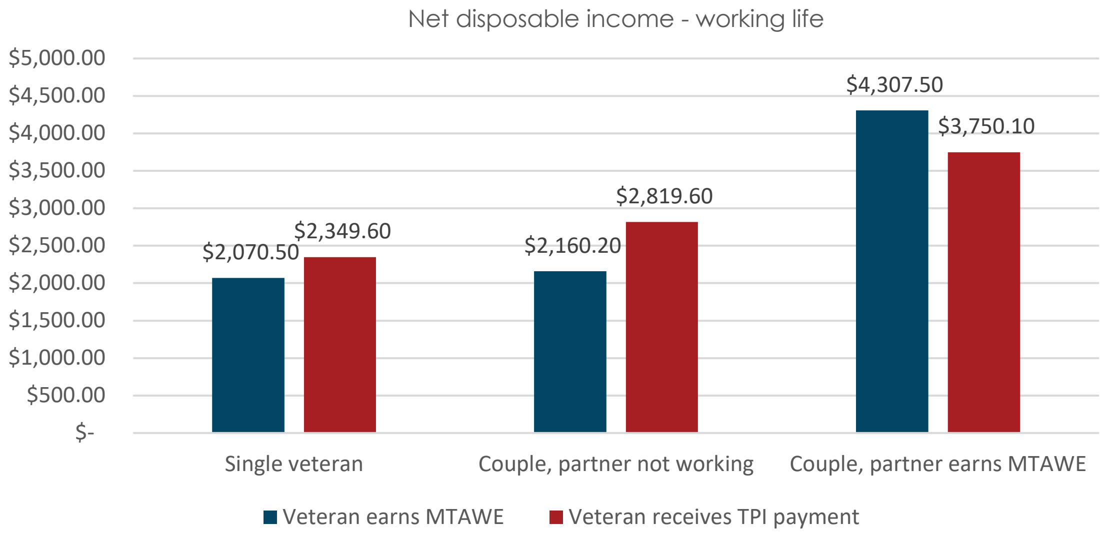
Figure 8 shows that TPI veterans have access to more financial resources in retirement than a veteran who received superannuation pension from NMW earnings.

Figures 7 and 8 show that TPI veteran households in all scenarios have higher disposable income than minimum wage earner households have.

This analysis is for illustrative purposes only. The TPI Federation are of the view that the TPI payment has an 'economic loss' component below minimum wage, which should be increased to be benchmarked to it. This framing highlights concerns that TPI veterans may have access to less financial resources than a minimum wage earner. The analysis shows that this is not the case.

Figures 9 and 10 show the same analysis on the assumption that the wages income is equal to MTAWE rather than the NMW. For the retired scenarios, the superannuation pension is the amount that a retired MTAWE earner might expect to receive.

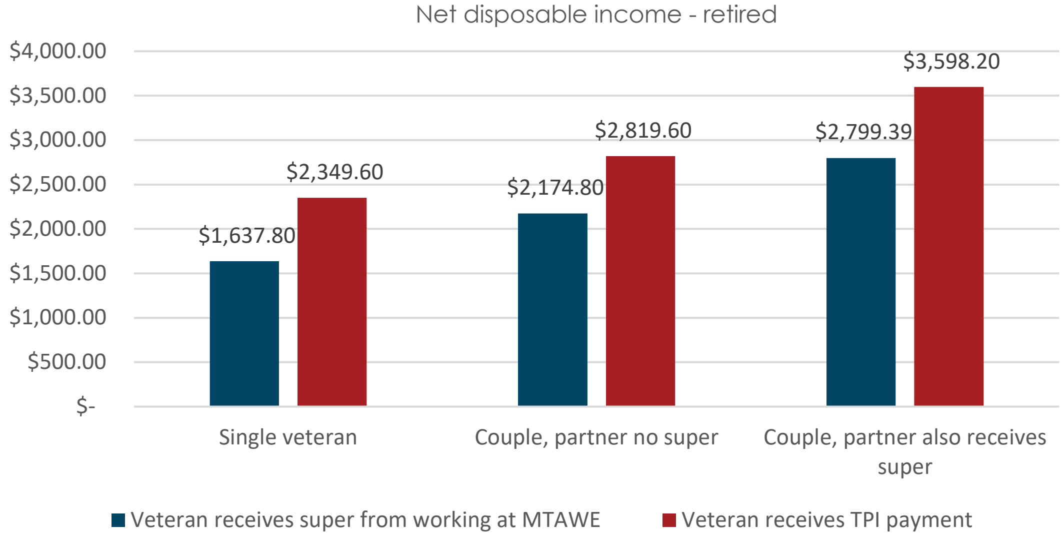
Figure 9: Net Fortnightly Disposable Income – Working Life – Relative to Veteran Earning MTAWE



Source: ABS 6302.0 21/2/2019, DVA website, ATO website.
Rates as at 1 July 2019.
Cost of private health insurance equivalent to the Gold Card as per www.privatehealth.gov.au. Cost for an ACT resident aged 31-64, top tier, nil excess payable, no lifetime loading, maximum private health insurance rebate applied.

Figure 9 shows that TPI veterans have access to more financial resources than a veteran earning MTAWE, except for couples where both members of the couple earn MTAWE.

Figure 10: Net Fortnightly Disposable Income – Retired – Relative to Veteran Earning MTAWE



Source: ABS 6302.0 21/2/2019, DVA website, moneysmart website.
Rates as at 1 July 2019.
Assume nil tax/Medicare, private health insurance impact.

Figure 10 shows that TPI veterans have access to more financial resources in retirement than a veteran who receives superannuation pension from MTAWE earnings.

Figures 9 and 10 show that the majority of TPI veterans are in households with a higher disposable income than households where one or both members of the couple had worked and received wages equivalent to MTAWE their whole life.

The review acknowledges that some TPI veterans, regardless of this analysis, could still find it difficult to meet cost of living pressures due to their individual circumstances.

Data on Long-Term Wellbeing of TPI Veterans

The review has used publicly available and verifiable data in its analysis to examine the position of the TPI Federation, and the financial resources available to TPI veterans.

However, limited data is available that allows a comprehensive analysis of the long-term wellbeing and overall outcomes for TPI veterans. More robust data would assist in policy development by allowing agencies to consider if there are particularly vulnerable cohorts within the broader TPI veteran cohort.

A recommendation supporting a data linkage project to examine the long-term wellbeing and issues for TPI veterans is at *Options for Government*.

Adequacy of the TPI Payment Compared to Equivalent MRCA and DRCA Payments

TPI payment recipients primarily receive support under the VEA. There are a number of veterans with similar characteristics to TPI veterans who receive different support through the MRCA and DRCA.

The legislative coverage for veterans' compensation depends on the period in which they served, when they were injured, and for service prior to 1 July 2004, the nature of their service.

Incapacity Payments – DRCA and MRCA

Under both the MRCA and the DRCA, veterans with an incapacity that affects their ability to earn receive compensation for lost earnings in the form of Incapacity Payment.

Incapacity Payment is calculated as being the difference between the person's normal weekly earnings and their actual (i.e. reduced due to incapacity) earnings. After 45 weeks, the proportion of the person's normal earnings taken into account may reduce to as low as 75 per cent depending on how many hours per week the person is still able to work.

Incapacity Payment is considered economic loss compensation. It is therefore taxable, generally ceases at age pension age and is offset by superannuation (see *Significance of Classifying Any Part of the TPI Payment as Economic Loss Compensation* for further detail on characteristics of economic loss payments).

Any other support that the person or their partner may be entitled to is disregarded in working out the amount of Incapacity Payment payable.

DRCA Incapacity Payment

Under the DRCA, the person's normal weekly earnings may be reduced by a further 5 per cent if they are receiving Commonwealth funded superannuation (either a pension or a lump sum). The maximum Incapacity Payment is limited to 150 per cent of Average Weekly Ordinary Time Earnings for Full Time Adults (currently $4,814.70 per fortnight). The payment rate is indexed using the Wage Price Index. The DRCA provisions are materially the same as those applying to Incapacity Payment under the SRCA for civilians.

MRCA Incapacity Payment

Under the MRCA, the maximum Incapacity Payment is limited only by the person's normal weekly earnings. As an example, an Air Marshall who becomes incapacitated for work could be paid up to around $18,500 per fortnight, plus service and other allowances. More commonly, an incapacitated corporal on the lowest pay rate would receive pre-tax Incapacity Payment of up to around $2,655 per fortnight (including service allowance). This could reduce after 45 weeks to as low as around $1,992 per fortnight. The payment rate is adjusted to match current ADF pay rates.

Permanent Impairment Payment – DRCA and MRCA

In addition to Incapacity Payment, both the MRCA and DRCA provide for noneconomic loss compensation through a permanent impairment payment. The payment rate is based on the person's degree of impairment and has no regard to any other income of either the veteran or their partner. The MRCA payment is reduced to take account of any VEA Disability Pension and DRCA permanent impairment payment.

Under the DRCA, the payment is in the form of a lump sum of up to nearly $265,000, while the MRCA offers payments of up to $353.49 per week with the option to convert to an age based lump sum of up to nearly $473,000.

Comparison of Compensation under VEA, MRCA and DRCA

As can be seen, a veteran in receipt of payments through MRCA and DRCA with similar impairment could be under markedly different arrangements relative to TPI payment recipients. The TPI payment is generally lower than incapacity payment at $1,401.90 per fortnight, plus Energy Supplement of $21.50 per fortnight, but is payable for life, non-taxable, and is not impacted by prior pay and service related allowances (although there is extra support available through the Service Pension and other payments).

Payment arrangements clearly vary substantially based on the legislative arrangements applicable to a veteran. As a result, the review examined whether TPI payment recipients are in a markedly different financial position relative to veterans with similar levels of impairment and incapacity – but who happen to receive support under MRCA or DRCA due to when the service leading to their injury occurred.

Analysis of Different Payment Arrangements

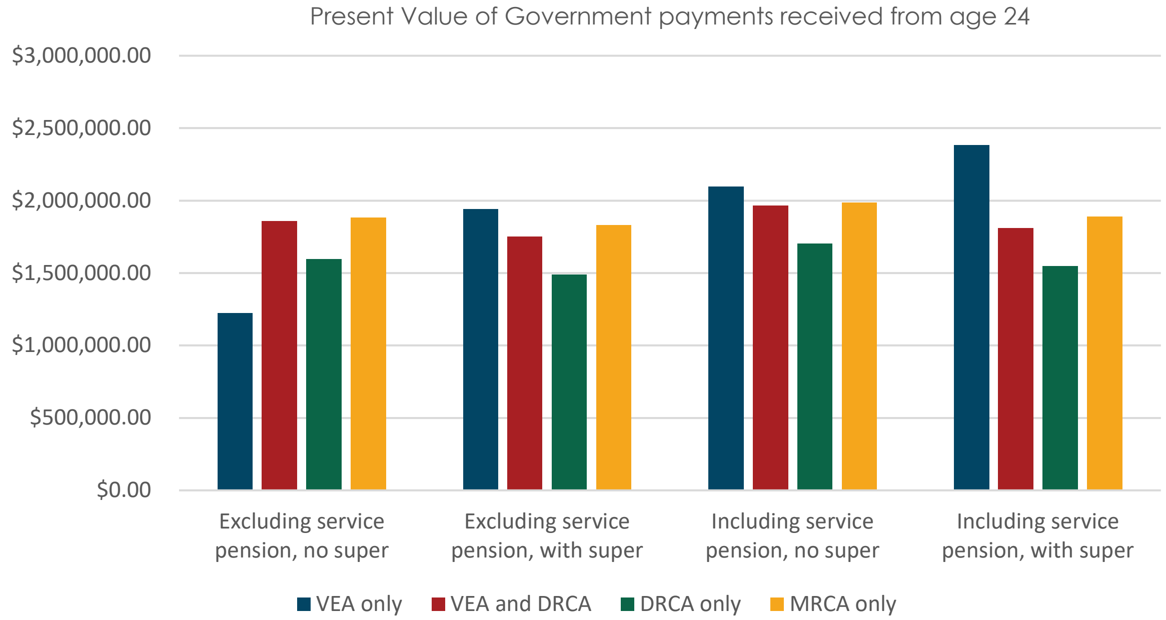
Analysis was completed to illustrate how the different payment arrangements affect veterans with similar characteristics, but who happen to receive payments through different legislative arrangements (VEA, MRCA and DRCA).

This was done by examining the lifetime payments received using a hypothetical situation for 'Trooper Barry', while controlling for variables (such as age, nature of service and superannuation).

In this hypothetical example, 'Barry' was injured while serving, aged 24, and was medically discharged at the rank of Private, Pay Group 3 in 2004. He is entitled (depending on which Act(s) his claim is assessed under) to Disability Pension such as the TPI payment, Permanent Impairment payment and Incapacity Payment. These all have varying impacts on his entitlement to Service Pension.

For completeness, the comparison considers cases both with and without entitlement to a Class B military invalidity superannuation pension of $1,000 per fortnight.

Figure 11: Present Value of Lifetime Government Payments Received from age 24



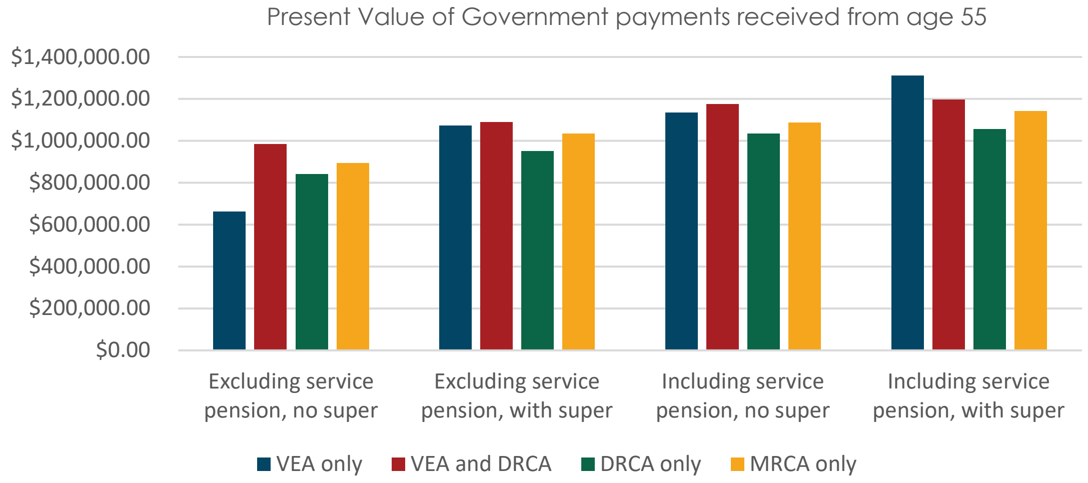
Discount rate of 5 per cent applied, matching the rate used by the Productivity Commission 2019 *A Better Way To Support Veterans* and by the Grattan Institute 2018 *Money in Retirement: more than enough*. Life expectancy of 77 years (average age of death for TPI veterans since July 2014). Superannuation indexed using CPI (2.5 per cent – RBA target midpoint), Service Pension and TPI payment indexed using CPI/PBLCI/MTAWE (3 per cent – assumed higher than CPI only), DRCA incapacity payment indexed using Wage Price Index (3.2 per cent, last 21 year average), MRCA incapacity payment indexed to ADF pay increases (3.4% - assumed higher than WPI).

In this example, it is clear that a person in this circumstance would receive generally higher lifetime Government payments as a TPI veteran when considering Service Pension and superannuation than they would under the MRCA or DRCA.

As previously noted, most (77 per cent) of TPI veterans receive Service Pension or another income support payment. The 23 per cent who do not receive an income support payment generally have access to private income that impacts their entitlement – that is, their private income (excluding the TPI payment) is high enough to preclude additional Government payments.

It is important to note that the Acting Minister for Veterans' Affairs in 1985, stated that the 'TPI rate pension was designed for severely disabled veterans **of a relatively young age** who could never go back to work' (see *Characteristics of TPI Payment Recipients*). However, more than half of TPI veterans start receiving the TPI payment in their 50s, rather than 24 years of age as per the previous example. As a result, the same analysis was used for a veteran at age 55 with the rank of Staff Sergeant, pay group 1, with all other variables remaining the same.

Figure 12: Present Value of Lifetime Government Payments Received from age 55



Discount rate of 5 per cent applied, matching the rate used by the Productivity Commission 2019 *A Better Way To Support Veterans* and by the Grattan Institute 2018 *Money in Retirement: more than enough*. Life expectancy of 77 years (average age of death for TPI veterans since July 2014). Superannuation indexed using CPI (2.5 per cent – RBA target midpoint), Service Pension and TPI payment indexed using CPI/PBLCI/MTAWE (3 per cent – assumed higher than CPI only), DRCA incapacity payment indexed using Wage Price Index (3.2 per cent, last 21 year average), MRCA incapacity payment indexed to ADF pay increases (3.4% - assumed higher than WPI).

As can be seen from Figure 12, a TPI veteran who becomes eligible for the TPI payment later in life would in most instances receive around the same amount of Government financial support by receiving the TPI payment as by receiving compensation under the MRCA or the DRCA.

The key factors influencing this are the different tax treatment (taxable Incapacity Payment, nontaxable TPI payment) and the point at which payment ceases (age pension age for Incapacity Payment and on death for the TPI payment).

The analysis shows that TPI veterans are often in a better financial position than veterans with a similar level of impairment but subject to different legislative arrangements.

Adequacy of the TPI Payment – Equity of Arrangements with Other Veterans with Disability and Similar Impairments

The eligibility criteria for the TPI payment require veterans to be under the age of 65 years, unless they have been engaged in continuous remunerative work for a period of at least 10 years starting prior to turning 65 and continuing past the age of 65.

These arrangements can raise equity issues between veterans with similar characteristics depending on the age at which they claim Disability Pension.

To illustrate, a veteran was unemployed for some years but managed to find employment and has been working for the last 7 years. The veteran is now unable to continue working due to the effect of injuries sustained while in the ADF.

If the veteran is aged under 65 when claiming, they will be granted the TPI payment of $1,401.90 per fortnight. If the veteran is aged over 65, they will be granted the Extreme Disablement Adjustment (EDA) of only $774.70 per fortnight. Both of these Disability Pensions are payable for life.

There is no policy rationale for two veterans with almost identical circumstances and needs, with the only separating feature being as little as one day in age at the date of claim, to be on such disparate payment levels.

While the focus of the review is on TPI veterans, the review is mindful that any change in payment levels for TPI veterans will exacerbate the differential in payment levels between veterans that share virtually the same characteristics, needs and levels of impairment.

Indexation of the TPI Payment

Initially, the TPI payment was not indexed. Any increase in the payment rate was a matter for the government of the day to consider taking account of other budget priorities.

From 1976, indexation using the CPI was introduced. The whole of the TPI payment was indexed as a single amount using the change in CPI every 6 months.

From 2004, indexation of the TPI payment was split into two parts. At that time, the General Rate component continued to be indexed with CPI while the AGR component was indexed using the pension MBR factor. Each component was indexed separately and then added together to provide the new TPI payment rate. The General Rate component commenced indexation using the pension MBR factor in 2008, however, the components remained separately indexed. A step-by-step example of the current indexation process for the TPI payment is shown at Appendix E.

The pension MBR factor is derived from the indexation increase each 20 March and 20 September in the single Service Pension MBR. It takes account of CPI, PBLCI (since September 2009) and MTAWE.

The review considers that the pension MBR factor is appropriate to use for indexation of the TPI payment, as it ensures that the TPI payment increases by the same proportion as the Service Pension MBR. The factor takes account of inflation (CPI and PBLCI) and wages (MTAWE) and uses the most beneficial of the three in determining the Service Pension MBR indexation increase, which then flows through to the TPI payment.

The review considers that indexation of the TPI payment could be simplified by reverting to a single indexation calculation, continuing to use the pension MBR factor rather the existing split indexation calculation.

Conclusion and Findings

As per the Terms of Reference, the review considered the purpose, adequacy, structure and indexation arrangements of the TPI payment.

Adequacy of the TPI Payment – Analysis of TPI Federation Position for an Increase

To determine if the TPI payment has reduced from historic norms, the review conducted the same type of analysis as the TPI Federation using publicly available and verifiable data. The analysis shows that the TPI payment has not decreased in recent decades relative to metrics such as NMW and MTAWE – and across some timeframes, such as the 1980s, it has increased. This is the case regardless of whether the TPI payment is considered as a whole, or when considering the AGR component in isolation.

This finding excludes analysis of other policy decisions that support TPI veterans. If considering other policy changes – such the decisions from the 1970s onwards to progressively exempt the TPI payment from the Service Pension income test – then the trend in the value of support provided to most TPI veterans is higher since 1950 against all wage measures suggested by the TPI Federation.

> On this basis, the review does not consider there is a convincing rationale for increasing the AGR of the TPI payment, other than through ongoing indexation increases each six months.

Additional Support for TPI Veterans who Rent

The review considered whether there are groups within the broader TPI cohort that may have access to less financial resources.

Disability Pension recipients, including TPI veterans, receiving Service Pension are subject to the disability income rent test. The test results in severely impaired veterans receiving a lower amount of rent assistance than those with less severe impairments. It results in TPI veterans being unable to receive rent assistance. The review considers that TPI veterans should not be precluded by virtue of their disability alone from receiving rent assistance.

In addition, the DFISA adds complexity, and results in TPI veterans receiving income support payments from multiple Government agencies. TPI veterans should receive their income support payments through one Government agency.

> To provide this additional support, the review recommends DFISA be abolished and Disability Pension (including the TPI payment) and MRCA permanent impairment payment be exempt income under social security law. The disability income rent test should also be abolished.

Improving the TPI Payment

The review considered ways to improve the administration of the TPI payment.

The review has found that there are two components of the TPI payment in legislation for the purposes of indexation. This split was introduced in 2004 due to the different indexation mechanisms in place for the General Rate and Above General Rate components at that time, but is now redundant as indexation mechanisms were aligned in 2008.

> The review recommends the TPI payment be indexed as a whole payment at once, rather than in two components.

The review has found that the terminology from legislation of referring to the TPI payment as a 'pension' is a significant cause of concern for some TPI veterans, who believe that the term pension implies welfare, and does not reflect the purpose of the TPI payment as compensation.

> The review recommends the current name of TPI 'pension' be replaced with TPI payment.

The review has found that in the public domain, former Ministers, senior public officials and other review processes have referenced the TPI payment as having an 'economic loss' component. However, in legislation the TPI payment does not have an 'economic loss' component. This provides a benefit to most TPI veterans, as economic loss compensation ceases at age pension age (or earlier) and is taxable.

> The review does not support changing the legislation to split formally the TPI payment into an economic loss component and a non-economic component, noting the adverse impact on TPI veterans (many of whom are over age pension age) if such components were treated in the same way as they are in other compensation arrangements.

The review has used publicly available and verifiable data in its analysis to examine the position of the TPI Federation, and the financial resources available to TPI veterans. Limited data is available that allows a comprehensive analysis of the long-term wellbeing and overall outcomes for TPI veterans.

> To address this, the review recommends a data linkage project across agencies with the aim of examining the long-term wellbeing and overall outcomes for TPI veterans, to better understand if there are any cohorts within the broader TPI veteran cohort who are at greater risk of disadvantage.

Options for Government

The review has considered a number of options in light of these conclusions. There are four main options that are mutually exclusive:

- Option 1: no change to TPI payment level and classification;
- Option 2: a one-off increase in the TPI payment while maintaining non-economic loss status;
- Option 3: increase the AGR component to the tax adjusted NMW and maintain non-economic loss status; and
- Option 4: increase the AGR component to the tax adjusted NMW and treat it as economic loss compensation.

The review recommends Option 1: No change to TPI payment level and classification.

There are also four supplementary options that can operate either on a stand-alone basis or in conjunction with one of the main options:

- Supplementary Option 1: simplify payment structure and allow Disability Pension recipients (including TPI veterans) to receive rent assistance;
- Supplementary Option 2: unified indexation mechanism for the TPI payment.
- Supplementary Option 3: consistent Terminology and Language for the TPI payment.
- Supplementary Option 4: improved Data Collection on Outcomes and Wellbeing of TPI veterans.

The review recommends implementation of all Supplementary Options 1, 2, 3 and 4.

Option 1 - No Change to TPI Payment Level and Classification

Under this option, payment rates and structures would remain unchanged from current arrangements.

Analysis conducted in the review shows that the TPI payment has not significantly lost value against wages and has actually increased in value against the NMW since it was introduced in 1920. If broader income support entitlement changes are taken into account, then the relative value of payments provided to TPI veterans have increased even further. It is further acknowledged that TPI payments continue past age pension and are non-taxable, unlike economic loss payments provided to other veteran cohorts.

There is limited policy rationale for increasing the TPI payment to be even more disparate to what veterans receiving other rates of Disability Pension receive (such as EDA veterans).

There would be no financial implications of the change. Legislative changes would not be needed.

Option 1 is the preferred option of this review.

Option 2 - One-off Increase While Maintaining Non-Economic Loss Status

Under this option, there would be a one-off increase, applied to the AGR component of the TPI payment. Existing indexation arrangements would remain in place. For example, a $50 per fortnight increase would cost around $40 million over one year and around $360 million over 10 years.

This option would provide an immediate increase while Government considers potential broader reforms to the entire veteran support system as part of the Productivity Commission report – *A Better Way to Support Veterans*.

This option would increase payment level differences and potential inequities between TPI payment recipients and veterans with similar needs, characteristics and levels of impairment, such as EDA veterans.

Options are available for one-off increases of any amount, with the financial impacts scaling in line with the amount of the one-off increase. Options are also available implementing an increase in several steps.

Legislative changes would also be needed to the VEA.

It is not a preferred option of this review.

Option 3 – Increase the AGR Component to Equal the Tax Adjusted NMW and Maintain Non-Economic Loss Status

Under this option, there would be a one-off increase of $394.10 per fortnight based on payment, tax and wage rates as at July 2019. The increase would be applied to the AGR component of the TPI payment. Indexation arrangements would be changed so that only the General Rate component of the TPI payment is indexed each March and September. The AGR component would not be indexed but would instead be benchmarked against the tax adjusted NMW every 1 July.

While benchmarking of the AGR to NMW would occur, the TPI payment would continue to be considered as 'non-economic loss' in legislation, noting the benefits that accrue to TPI veterans as a result of this.

This option would significantly increase payment level differences and potential inequities between TPI payment recipients and veterans with similar needs, characteristics and levels of impairment, such as EDA veterans and those veterans subject to different legislative arrangements. It would also increase the difference in income levels between TPI households and wage-earner households, particularly after age pension age for households reliant on superannuation.

This option would address the TPI Federation's stated concerns.

This option would cost around $280 million in the first year and around $2.82 billion over 10 years.

The primary reason the expenditure does not reduce over time (noting most TPI veterans' advanced age) is that the future indexation increases almost entirely counterbalance the projected TPI population reduction over the next decade.

Legislative changes would also be needed to the VEA.

It is not a preferred option of this review.

Option 4 – Increase the AGR Component to Equal the Tax Adjusted NMW and Treat it as Economic Loss Compensation

Under this option, there would be a one-off increase of $394.10 per fortnight based on payment, tax and wage rates as at July 2019. The increase would be applied to the AGR component of the TPI payment. Indexation arrangements would be changed so that only the General Rate component of the TPI payment is indexed each March and September. The AGR component would not be indexed but would instead be benchmarked against the tax adjusted NMW every 1 July.

The AGR component would be treated as economic loss compensation, meaning it would be taxable income, would cease at age pension age and would affect the rate of any income support payments available. It would also be reduced by the amount of any Commonwealth funded superannuation paid to the veteran.

Treatment as economic loss compensation is necessary to maintain equity with MRCA and DRCA compensation payments and with the resources available to the working and retired population more broadly.

This option would save around $520 million in the first year and around $5.2 billion over 10 years, not counting increased taxation revenue and savings on DFISA and social security payments. There would be a substantial lead-time to make necessary payment system changes. Additional departmental funding would be required to implement the changes.

The review focused on ways to support the TPI veteran cohort supported by evidence. The review does not consider changing the AGR component of the TPI payment to be the same as an economic loss payment to be in the best interests of TPI veterans, who are generally above age pension age.

Legislative changes would be needed to the VEA. Changes may also be required to the social security law, taxation law and other legislation.

It is not a preferred option of this review.

Supplementary Option 1 - Simplify Payment Structure and Allow Disability Pension Recipients (including TPI veterans) to Receive Rent Assistance

This option can be implemented either as a stand-alone option or in addition to one of the other options.

DFISA would cease to exist. Disability Pension and MRCA permanent impairment compensation would be exempt income for income support payments under the social security law and the disability income rent test under the VEA would be abolished.

The net effect of this is that TPI veterans would be able to receive rent assistance through DVA if receiving the Service Pension, or generally through Services Australia (formerly Department of Human Services) for other income support payments. Veterans would receive their entire income support payment through one of these Government agencies. DVA would continue to pay the TPI payment regardless of who pays the income support payment.

There is no identifiable policy rationale for maintaining the disability income rent test. The impact of the test is that the more severely impaired a veteran is, the less rent assistance they are entitled to receive. The outcome is counterintuitive to a targeted payment system providing the greatest support to those in the greatest need. People with disability and private renters are generally considered vulnerable members of society. People affected by the disability income rent test fit in both categories. Removing the disability income rent test would provide targeted additional support for this vulnerable cohort.

DFISA is a cumbersome method of partly implementing the Clarke Review recommendation around exempting Disability Pension as income under the social security income test. It causes confusion for clients as their income support payment is split across multiple agencies. It creates difficulties in answering client questions about the rate of the DFISA payment and how it interacts with other payments.

This option would address a disadvantage that TPI veterans may experience as some state and territory governments gradually move towards an outsourced model of providing low cost housing under which rent assistance is expected to be available to provide additional support. Under this model, TPI veterans lose their rental subsidy from the state or territory government but under current rules do not become entitled to rent assistance.

This option would cost around $9 million in the first year and around $84 million over 10 years. A substantial lead-time would be required. Additional departmental funding would be required to implement the changes. The financial impacts quoted are to apply these changes for all rates of Disability Pension, not just for the TPI payment.

Legislative changes would be needed to the VEA and to the social security law.

It is a preferred option of this review.

Supplementary Option 2 – Unified Indexation Mechanism for the TPI payment

This option can be implemented with any of the other options.

The current indexation mechanism for the TPI payment would be replaced with a similar mechanism that applies indexation to the entire payment at once rather than splitting the TPI payment into components and separately indexing them.

While payments outside of the TPI payment are not in scope for the review, the review notes that the indexation mechanisms for the Intermediate and EDA rates of Disability Pension are also split in the same way that the TPI payment is currently split for indexation purposes.

This option would simplify indexation arrangements for the TPI payment. It would remove a source of confusion about whether there is an economic loss component to the TPI payment and clarify that the TPI payment rate is a single amount. It would improve equity with other pension types by creating a more uniform percentage increase between Service Pension and the TPI payment at each indexation point.

This option would result in a negligible save in the first year and a save of around $5 million over 10 years. Applying the change to the Intermediate and EDA rates of Disability Pension would slightly increase the financial impact.

Legislative changes would also be needed to the VEA.

It is a preferred option of this review.

Supplementary Option 3 – Consistent Terminology and Language for the TPI payment

This option can be implemented either as a stand-alone option or in addition to one of the other options.

In addition, using the terminology from legislation of referring to the TPI payment as the TPI 'pension' is a significant cause of concern for some TPI veterans, who believe that 'pension' implies welfare, and does not reflect the purpose of the TPI payment as compensation.

This option would see the current name of TPI 'pension' be replaced with TPI payment (as referenced throughout this review). This option is a change in terminology only.

This option would result in some administrative costs to update guidelines across Government and related material. Exact costs would be determined by each Department with material on the TPI payment, and additional departmental funding may be required.

Legislative changes would also be needed to the VEA and potentially any other legislation or instrument that refers to the TPI payment. These changes could be completed as part of any upcoming broader legislative changes.

It is a preferred option of this review.

Supplementary Option 4 – Improved Veteran Data Collection to Examine Outcomes and Wellbeing of TPI Veterans

This option can be implemented either as a stand-alone option or in addition to one of the other options.

Analysis conducted in this review used publicly available data, along with agency data, to examine the financial resources available to TPI veterans. Limited data is available that allows a comprehensive analysis of the long-term wellbeing and overall outcomes for TPI veterans and links with mainstream services. Existing data on financial resources and Government payments provided to TPI veterans does not provide a complete picture of the needs of TPI veterans, or their overall wellbeing.

This option would see a data linkage project across agencies with the aim of examining the long-term wellbeing and overall outcomes for TPI veterans and links with mainstream services. The intention of this linking would be to better understand if there are any cohorts within the broader TPI veteran cohort who are at greater risk of disadvantage, and develop policy responses to address these issues.

This option would result in some additional Departmental costs to undertake the data-linking project and conduct relevant analysis. Legislative changes may be needed, depending on the final scope of the project. Exact costs would depend on the final scope of work required by relevant Departments, and additional departmental funding may be required.

It is a preferred option of this review.

Appendix A – Letter from the Prime Minister – 2 April 2019

PRIME MINISTER

2 APR 2019

Ms Pat McCabe OAM
President
The Australian Federation of Totally and Permanently Incapacitated Ex-Servicemen & Women Ltd
PO Box 450
ERINDALE ACT 2903

Dear Ms McCabe

I want to thank you and the TPI Federation for meeting with me in Melbourne recently to set out your position on the Special Rate of Disability Pension (SRDP) payable to totally and permanently incapacitated (TPI) veterans.

The TPI Federation makes a compelling case in relation to the relative value of the Above the General Rate (AGR) component of the SRDP. The fact that TPI veterans are not able to earn an income as a result of their service to our nation means that their loss of income during what would have been their working life should be appropriately recognised and replaced.

However, I also note that the Productivity Commission's draft Review into Veteran Compensation and Rehabilitation Arrangements has recommended no change to the rate of SRDP given the total level of income replacement available to TPI veterans.

Given the different views, I believe that it would be appropriate to undertake a comprehensive evaluation of the position of the Federation. I have therefore directed the Secretary of my Department, Mr Martin Parkinson AC PSM, to commission and oversee such an evaluation. I have asked him to draw on the expertise of the Departments of Veterans' Affairs, the Treasury and Social Services, and ensure consultation with relevant organisations such as yours. This review will be able to consider all relevant factors to ensure that comprehensive and definitive advice can be provided to Government on the most appropriate way forward to address the issues you have raised.

I want to assure you that I have heard your concerns and I want to find a resolution.

I have copied this letter to the Treasurer, the Hon Josh Frydenberg MP, the Minister for Veterans' Affairs, the Hon Darren Chester MP, and the Secretary of the Department of the Prime Minister and Cabinet, Mr Martin Parkinson

Yours sincerely

SCOTT MORRISON

Parliament House CANBERRA ACT 2600
Telephone (02) 6277 7700
www.pm.gov.au

Appendix B - Abbreviations

ADF	Australian Defence Force
AGR	Above General Rate – the difference between the total TPI payment and the General Rate of Disability Pension
AWE	Average Weekly Earnings
CPI	Consumer Price Index
DFISA	Defence Force Income Support Allowance
DRCA	*Safety, Rehabilitation and Compensation (Defence-related Claims) Act 1988*
DVA	Department of Veterans' Affairs
DVAN	Disabled Veterans of Australia Network
EDA	Extreme Disablement Adjustment rate of Disability Pension
MBR	Maximum Basic Rate of Service Pension
MRCA	*Military Rehabilitation and Compensation Act 2004*
MTAWE	Male Total Average Weekly Earnings
NMW	National Minimum Wage
PBLCI	Pensioner and Beneficiary Living Cost Index
SRDP	The Special Rate Disability Pension under the Military Rehabilitation and Compensation Act 2004
TPI Federation	The Australian Federation of Totally and Permanently Incapacitated Ex Servicemen and Women Ltd
TPI payment	The Special Rate of Disability Pension under section 24 of the *Veterans' Entitlements Act 1986*
TPI pension	The Special Rate of Disability Pension under section 24 of the *Veterans' Entitlements Act 1986*
VEA	*Veterans' Entitlements Act 1986*

Appendix C - History of the TPI payment

The TPI payment was introduced in 1920 by the Australian Soldiers Repatriation Act 1920, with an initial payment rate of four pounds (80 shillings) per week. There was no mechanism for automatic adjustment or indexation.

The DVA website quotes the original intent of the TPI payment as being *to compensate 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 provide for their old age*.

The TPI payment rate remained unchanged until 1943, when it began to increase through a series of one-off increases and across the move from imperial to decimal currency, reaching $166.50 per fortnight by October 1976.

Indexation was introduced to the TPI payment (as well as income support pensions such as age Pension and Service Pension) in 1976, removing the need for the government to regularly consider one-off increases so that it maintained value with the cost of living. Indexation was against movements in the Consumer Price Index (CPI).

An indirect link between the TPI payment and MTAWE was established in 2004 when the TPI payment was split into two components for indexation purposes.

The first was set as being equal to the General Rate of Disability Pension and continued to be indexed with CPI only. The second was set as equal to the difference between the General Rate and the total TPI payment, known as the AGR component. The AGR component commenced to be indexed using the Pension maximum basic rate (MBR) factor, which is derived from the indexation increase in the single Service Pension MBR. The TPI payment was not itself directly benchmarked against or indexed by MTAWE but the arrangement ensures that the TPI payment increases by the same proportion as the single Service Pension MBR, which does take account of a MTAWE benchmark.

There was a one-off increase to the TPI payment of $50 per fortnight (around 5.75 per cent) in 2007. A further one-off increase in 2008 of around $16 per fortnight resulted from a 5 per cent increase in the General Rate and a change to its indexation to start using the Pension MBR factor. The 2008 change resulted in indexation of both components of the TPI payment becoming aligned using the Pension MBR factor, however, the indexation process continues to separately index the General Rate and AGR components and then sum them rather than indexing the whole amount at once.

The Government response to the 2009 Harmer Review included the addition of the Pensioner and Beneficiary Living Cost Index (PBLCI) as an additional indexation option for income support pensions. This flows through to the pension MBR factor and indexation of the TPI payment. The Government at the time also decided to increase the single Service Pension MBR by $60 per fortnight; however, this did not flow through to the pension MBR factor as it was not an indexation increase.

The TPI payment is indexed every 20 March and 20 September using the pension MBR factor to ensure that it maintains its value against both the cost of living (through CPI and PBLCI) and standards of living (through MTAWE). However, there is no direct link between the TPI payment and any of CPI, PBLCI and MTAWE.

Appendix D - Previous Reviews with TPI Payment Commentary

A number of reviews have considered aspects of the TPI payment, either in isolation or as part of a broader review.

Toose Review, 1975, Independent Inquiry into the Repatriation System

The Toose Review, led by Justice P B Toose CBE, considered the TPI payment as part of a broader review of the repatriation system, although its terms of reference specifically precluded it making any recommendations regarding pension rates. Nevertheless, the review made a number of findings and recommendations relevant to the TPI payment.

The primary recommendations for the TPI payment were around a new structure for payments. The new structure involved an amount for non-economic loss, described as a 'disablement pension' and a second amount for economic loss, described as an 'income supplement'. It described the TPI payment as being a non-economic loss payment.

The disablement pension was to be calculated based on the veteran's impairment alone and with a maximum rate set at around 85 per cent of the General Rate of Disability Pension at that time, payable for life and non-taxable. It did not address how future maximum payment rates should be set, whether through indexation or some other mechanism.

The income supplement was to be means tested and set as being the difference between the disablement pension and an (unspecified) appropriate community wage standard. It would have been taxable and payable only until age pension age. Means testing would have considered personal exertion income, superannuation and Defence Force Retirement and Death Benefits Scheme pensions but not saving or investment income. The review is unclear as to whether the income amounts included in means testing include those of veterans' partners. The veteran would not have been able to access any income support payment while in receipt of the income supplement, however, the partner would have had access to such payments.

Benchmarking the total of the disablement pension and the income supplement against an appropriate community wage standard would have ensured that the total payment continued to maintain its value over time; however, the relative values of the disablement pension and the income supplement may have changed over time under the proposal.

The review also recommended that the term 'pension' not be used in relation to the TPI payment and that 'compensation' should be used instead.

The Government did not implement any of these recommendations.

Baume Review, 1994, A Fair Go, Report on Compensation for Veterans and War Widows

The review, led by Professor Neil Baume AO, considered eligibility for and adequacy of the compensation available to veterans and war widows.

The review noted concerns raised by the Auditor-General the previous year that the TPI payment appears to contain an income support component and that allowing TPI veterans to also receive Service Pension seems to be allowing a veteran to receive two income support payments. While acknowledging that the TPI payment rate does not distinguish between multiple components, the review considered that the multiple eligibility criteria to be met for the TPI payment meant that there are multiple components of the TPI payment.

The review made recommendations around the TPI payment rate with several similarities to those made by the Toose review. There would be a compensation component and an income support component. Rehabilitation would be compulsory prior to TPI grant being considered. The new structure would only apply to new recipients.

The compensation component would be equal to 150 per cent of the General Rate of Disability Pension (equal to the EDA rate at that time), non-taxable and payable for life.

The income support component would be set as equal to the difference between the compensation component and after tax AWE, payable until the person reaches age pension age. It would be income tested, with an income free area approximately triple the existing Service Pension income free area and a 40 per cent taper rate rather than the existing 50 per cent. The review did not specify what income would be caught by the income test.

Cessation of the income support component at age pension age was justifiable because 'There is no valid basis for permitting TPI rates for veterans over 65 to be more than three times their aged counterparts in the community. The disparity is too great'.

The veteran would have no entitlement to other income support payments but if partnered, the partner would continue to access income support payments under existing arrangements. Neither component of the TPI payment would be assessable income in calculating the partner's income support payment rate.

The review made no recommendation around setting the ongoing rate of the compensation component, so the relative values of the disablement pension and the income supplement may have changed over time under the proposal.

The review also recommended that the term 'pension' not be applied to compensation payments due to perceptions about it being a welfare related term. It recommended use of the word 'payment' in lieu of 'pension'.

The Government did not implement any of these recommendations.

Tanzer Review, 1999, The Review of the Military Compensation Scheme

The review, led by Mr Noel Tanzer AC, was tasked with developing proposals for a new peacetime military compensation scheme. It did not specifically consider adequacy of the TPI payment, however, it included some general observations of the Disability Pension.

Consistent with the Toose and Baume reviews, the review observed that economic loss compensation should cease at age pension age. It also considered that Disability Pension, including the TPI payment, is more akin to non-economic loss compensation.

The review made no recommendations on the adequacy and structure of the TPI payment.

Clarke Review, 2003, Report on the Review of Veterans' Entitlements

The Clarke review, led by the Hon John Clarke QC, was a wide ranging review of veterans' entitlements and was highly influential in the creation of the MRCA.

In relation to the TPI payment, the review proposed a new structure of payment with components for non-economic loss and for economic loss, similar in some respects to that proposed by the earlier Toose and Baume reviews. Rehabilitation and reskilling would be compulsory. The new structure would apply to all new TPI veterans, existing TPI veterans aged under 50, and would be optional for existing TPI veterans aged 50 or older.

The non-economic loss component would be the same as the General Rate of Disability Pension at that time. It would be tax free, paid for life, not means tested and would not be assessable income for the purposes of working out the rate of income support, including rent assistance. It would be offset by other non-economic loss compensation payments. Additional amounts would be paid for the partner and dependent children.

The economic loss component for veterans below age pension age would be equal to 75 per cent of gross MTAWE. It would be taxable and would be income tested. It would be paid net of tax, similar to how wages are paid. Income testing would only reduce the economic loss component by a maximum amount equal to the maximum single Service Pension rate, and would include all of the veteran's earnings in excess of 20 per cent of MTAWE. Twenty per cent was selected on the basis that the TPI eligibility criteria would retain a criterion around inability to work more than 8 hours per week, equal to 20 per cent of weekly hours based on a 40-hour week. The partner's wage related income would be fully excluded. The standard Service Pension income free area would apply in calculating the income tested rate and it is implied that the standard income taper rate applying to Service Pension would also apply. The economic loss component would be offset at 100 per cent of similar payments, including invalidity superannuation payments. Both the veteran and partner would be precluded from receiving other income support payments while the veteran is in receipt of the economic loss component and below age pension age.

On reaching age pension age, the economic loss component would reduce to 10 per cent of MTAWE. It would continue to be taxable but would be paid as a gross amount rather than net of tax. It would not be means tested but would continue to be offset at 100 per cent of similar payments including invalidity superannuation payments and disability insurance. Once the veteran reached age pension age, the preclusion on receiving other income support payments would be lifted for both the veteran and partner.

The review found that MTAWE was the most appropriate wage benchmark to use in setting its proposed TPI payment rate.

The Government did not agree to the recommendations for a new structure of TPI payment but it did agree to changes to indexation of part of the TPI rate from 2004 to incorporate (indirectly) MTAWE benchmarking. This was extended in 2008 to apply to the whole of the TPI payment rate.

The review also recommended that Disability Pension, including the TPI payment, be regarded under the social security law as exempt income and that the disability income rent test under the VEA be abolished.

The Government in effect agreed to part of this recommendation although the implementation was different to how it was proposed in the review. The introduction of DFISA on 20 September 2004 effectively exempted Disability Pension as income under the social security law by providing a 'top-up' payment under the VEA. The top-up payment represents the difference between the person's actual social security payment and what they would have received if the Disability Pension was exempt income and the disability income rent test under the VEA also applied to the social security payment.

The Government did not agree to the abolition of the disability income rent test. This remains in the VEA for the calculation of VEA income support payments and for the calculation of the DFISA amount.

The review considered whether there should be an adjustment of the TPI payment back to its 1941 value against MTAWE. It found that arguments for such an adjustment did not consider changes since 1941 in the total support now available.

Review of Military Compensation Arrangements, 2011

The review was undertaken internally by the Department of Veterans' Affairs and considered a range of matters, primarily arising from the introduction of the MRCA on 1 July 2004, as well as some recommendations of the Clarke review that were deferred or otherwise not agreed to by the Government.

The new structure of TPI payment proposed by the 2003 Clarke review was re-examined in the review. The review noted the changes made by the Government to the TPI payment since the Clarke review, including changes to indexation in 2004, one-off increases in 2007 and 2008 and further changes to indexation in 2008, as well as the introduction of DFISA in 2004. It considered that those changes had 'substantially improved the situation' compared to 2003 arrangements. As no submissions to the review sought to advance the structure recommended by the Clarke review, it was concluded that 'there is, therefore, no apparent need to further consider the revised disability structure'.

The review made no further recommendations on the matter.

KPMG Work on the TPI Federation Proposal, 2019

The Secretary of the DVA engaged KPMG to examine the TPI Federation's proposal, to attempt to reconcile the TPI Federation's position with the legislative arrangements for the TPI payment, and to identify any cohorts of TPI veterans who may be particularly vulnerable and in need of additional assistance.

As at finalising this TPI review, this KPMG work was nearing completion.

Productivity Commission, 2019, A Better Way to Support Veterans

The Productivity Commission was given broad terms of reference to 'undertake an enquiry into the system of compensation and rehabilitation for veterans'.

The report, released on 4 July 2019, noted that additional payments received 'cannot be ignored, as most special rate pensioners are receiving some form of additional welfare payment'.

It found that there was 'no compelling case' for an increase in the TPI payment and that the overall package of compensation for TPI veterans is reasonable.

The TPI payment was framed in the Productivity Commission report as having notional non-economic loss and economic loss component.

As at finalising this review, the Government was considering the recommendations of the report, which covers the entirety of the veteran compensation and rehabilitation support system.

Appendix E – Example of how Two Components of the TPI Payment are Indexed Separately - 20 March 2019

Indexation of the Special Rate of Disability Pension	20/03/2019		
CPI reference quarter figure	114.1	ABS 6401.0	Quarter ending December 2018
CPI base quarter figure	113.0	ABS 6401.0	Highest June or December quarter CPI figure prior to December 2018
PBLCI reference quarter figure	114.2	ABS 6467.0	Quarter ending December 2018
PBLCI base quarter figure	113.0	ABS 6467.0	Highest June or December quarter PBLCI figure prior to December 2018
Male Total Average Weekly Earnings (MTAWE)	$ 1,460.50	ABS 6302.0	MTAWE for the November 2018 reference period

Previous member of a couple MBR	$ 16,354.00	Annual rate is used for indexation of service pension.
Previous single MBR	$ 21,694.40	Annual rate is used for indexation of service pension.
MBR = maximum basic rate of service pension.		

Previous special rate excluding Energy Supplement	$ 1,386.50	Fortnightly rate is used for indexation of Disability Pension
Previous General Rate excluding Energy Supplement	$ 492.90	Fortnightly rate is used for indexation of Disability Pension
Previous special rate DP Energy Supplement	$ 21.50	Fortnightly rate is used for indexation of Disability Pension.

First index the single Service Pension MBR.					
1. The CPI factor is equal to the reference quarter divided by the base quarter	114.1	÷	113	=	1.009734513
2. The CPI factor is rounded off to 3 decimal places	1.010				
3. The PBLCI factor is equal to the reference quarter divided by the base quarter	114.2	÷	113	=	1.010619469
4. The PBLCI factor is rounded off to 3 decimal places	1.011				
5. The indexation factor applied is the greater of the CPI and PBLCI factors	1.011				
6. The previous member of a couple MBR is multiplied by the indexation factor	$ 16,354.00	x	1.011	=	$ 16,533.89
7. The indexed amount is rounded off to the nearest multiple of $2.60	$ 16,533.40				

8. Annualised MTAWE is equal to MTAWE multiplied by 52	$ 1,460.50	x	52	=	$ 75,946.00
9. The MTAWE benchmark is 41.76per cent of annualised MTAWE	$ 75,946.00	x	0.4176	=	$ 31,715.05
10. Halve the MTAWE benchmark	$ 31,715.05	x	50 per cent	=	$ 15,857.52
11. Half of the MTAWE benchmark is rounded up to the nearest multiple of $2.60	$ 15,860.00				
12. The new partnered service pension MBR is the greater of half of the MTAWE benchmark rate rounded up and the indexed rate	$ 16,533.40				
13. The new partnered combined MBR is double the partnered MBR	$ 16,533.40	x	2	=	$ 33,066.80
14. The single rate is 66.33per cent of the combined couples MBR	$ 33,066.80	x	0.6633	=	$ 21,933.21

Then work out the Pension MBR factor.					
15. The single MBR is rounded off to the nearest multiple of $2.60	$ 21,933.60				
16. Pension MBR factor is equal to the new single MBR divided by the old single MBR	$ 21,933.60	÷	$ 21,694.40	=	1.011025887
17. The Pension MBR factor is rounded off to 3 decimal places	1.011				

Then index the TPI payment					
18. The General Rate component is indexed using the Pension MBR factor	$ 492.90	x	1.011	=	$ 498.32
19. The indexed amount is rounded up to the next multiple of $0.10	$ 498.40				
20. Work out the AGR component	$ 1,386.50	-	$ 492.90	=	$ 893.60
21. The AGR component is indexed using the Pension MBR factor	$ 893.60	x	1.011	=	$ 903.43
22. The indexed amount is rounded up to the next multiple of $0.10	$ 903.50				
23. Add the General Rate and AGR components together	$ 498.40	+	$ 903.50	=	$ 1,401.90
24. Add Energy Supplement (frozen rate)	$ 21.50				
25. Add the special rate and the Energy Supplement together	$ 1,401.90	+	$ 21.50	=	$ 1,423.40

Appendix F - Comparison of the TPI Payment against Wages

There are various estimates of wages applicable in 1920 and no single authoritative figure is available. The Australian National University's Dr J Rob Bray (submission 32 to the Productivity Commission's 2015 inquiry into the Workplace Relations Framework) indicates figures of:

- 71 shillings per week (Tramways and Australian Timber Workers cases, p111).
- 72 shillings per week (basic wage p105, Federated Millers and Mill Employees' Association of Australia and Wool and Basil Workers' Federation of Australia cases, p111).
- 70/1 shillings per week (quoting Macarthy (1972) Average weekly wage of lowest paid grade of adult male as per Commonwealth Court of Conciliation and Arbitration, p113).
- 77-82 shillings per week (Federated Tanners and Leather Dressers Employees' Union minimum award rate, p115).
- At 80 shillings per week, the initial TPI payment rate was between 97.6 per cent and 114.1 per cent of these amounts.

Using an alternate benchmark, the 1975 Toose review (page 635, also Appendix 13, tables A and V) found the TPI payment on introduction was around 93.6 per cent of the Commonwealth Basic Wage of 85.5 shillings per week. The 1920 benchmarks quoted by Bray and Toose do not have direct modern equivalents, although the NMW may be considered loosely comparable to the average basic wage.

Between 1920 and 1967, the TPI payment generally ranged between 90 per cent and 110 per cent of the basic wage, with a high point of 125 per cent in 1933 (during the Great Depression) and a low point of 79 per cent in 1954. The TPI payment was not reduced during the Great Depression, unlike many other Government benefits including age Pension and maternity allowances. Many employees also saw their wages reduced in the Great Depression, leading to the increasing value of the TPI payment against wages over this period.

From 1967 to 1982, the TPI payment fluctuated between 78 per cent and 92 per cent of the NMW and increased to as much as 121 per cent during a sustained higher period between 1983 and 1996. From 1997, it reduced back to between 85 per cent and 91 per cent before gradually increasing from 2008 to current levels of around 100 per cent of the NMW.

As at 1 July 2019, the TPI payment rate is $1,401.90 per fortnight, plus Energy Supplement of $21.50 per fortnight for a total payment of $1,423.40 per fortnight. The NMW from 1 July 2019 is $740.80 per week, or $1,481.60 per fortnight, meaning that the TPI rate is around 96 per cent of the NMW.

The NMW is reviewed each 1 July whereas the TPI rate is indexed each 20 March and 20 September. Care must be taken to observe longer term trends rather than relying on a single point in time to determine relative values. As an example, the TPI rate as at 1 July 2017 was 95 per cent of the 1 July 2017 NMW and increased through indexation on 20 September 2017 and 20 March 2018 to 97 per cent of the NMW. The proportion fell back to 95 per cent on 1 July 2018 due to an increase in the NMW.

Appendix G - Current Support Available to TPI Veterans

In considering adequacy of the TPI payment rate, it is important to recognise what other support is available to TPI veterans. Other support available to TPI veterans come from a range of sources, including the government (whether Commonwealth, State/Territory or local) and from non-government organisations. This section examines the support that may come from the governments and from other sources.

Health Care Card (All Conditions) – Gold Card

All TPI veterans have a Gold Card. This provides them with Commonwealth funded treatment for all medical conditions, equivalent to top tier private health insurance, regardless of whether or not linked to their ADF service. Although not a direct cash payment to veterans and their families, the Gold Card does operate to reduce the cost of living for veterans and their families. The DVA Stats at a Glance publication (March 2019) reports that the average expenditure per Gold Card is $24,000 per annum; however, a more appropriate comparison for the value of the Gold Card to veterans may be the cost of equivalent private health insurance cover, estimated at around $6,000 per annum, net of the private health insurance rebate.

The review heard arguments that the Gold Card provides treatment no different to Medicare. This is not the case. Most services that are covered by Medicare, unless they are bulk billed, require the patient to pay a co-payment. Patients treated under DVA treatment card arrangements, including Gold Card holders, cannot be asked to pay a co-payment. There are also services covered by the Gold Card that are not covered by Medicare.

The Gold Card provides treatment beyond that available through the White Card. The White Card provides treatment for conditions accepted as related to the veteran's ADF service, whereas the Gold Card provides treatment for any condition, regardless of whether there is a link to the veteran's ADF service. In the absence of the Gold Card, TPI veterans would be required to self-fund the cost of treatment for any conditions not accepted as related to their ADF service.

The Gold Card is not a specific benefit to TPI veterans and there are many ways in which a person can be entitled to a Gold Card, including its availability to certain non-veterans (e.g. war widow(er)s).

It is difficult to put a value on the Gold Card to an individual due to the vast fluctuation in medical expenditure depending on individual circumstances.

Service Pension and Other Income Support Payments

Around 70 per cent of TPI veterans also receive Service Pension. A further 7 per cent of TPI veterans receive an alternative income support payment such as the social security age Pension. These payments are means tested with a maximum payment rate of up to $926.20 per fortnight for a single person and $698.10 per fortnight for each eligible member of a couple. Where veterans do not receive an income support payment, this is usually because their income is too high.

Service Pension entitlement ceases once the assessable income, excluding the TPI payment, exceeds $2,026.40 per fortnight for a single veteran or $3,100.40 per fortnight for a couple combined.

The means testing changes from 1970 to 1982 and the introduction of DFISA in 2004 provided substantial benefits to many TPI veterans.

Supplements and Allowances

In addition to the TPI payment, all TPI veterans (except those living outside Australia) are also eligible for an Energy Supplement of $21.50 per fortnight with their TPI payment. Energy Supplement is also payable to other cohorts, however, TPI veterans are paid a higher rate of Energy Supplement than other cohorts.

A wide range of allowance, supplements and other payments are available to TPI veterans. Generally, these are relatively small in value (e.g. Decoration Allowance, $2.10 per fortnight) and/or received by relatively few people (e.g. War Widow(er) Pension, $941.60 per fortnight but received by only around 20 TPI veterans). Eligibility criteria apply according to the individual payment, and none of these payments are open only to TPI veterans.

Vehicles and Transport

GST exemptions are available on motorcycle and motor vehicle purchases. The maximum value of the exemption is around $5,200 in the 2019-20 financial year. The exemptions are open to all TPI veterans and certain other veteran cohorts.

State/Territory/local Government and Private Business Concessions

State and Territory governments and local governments generally offer concessions to Gold Card holders on a range of services, including rates, utility bills, driver licences and many others. Private businesses may also offer concessions or discounts to Gold Card holders. The relevant State, Territory, local government or private business independently of the Commonwealth determines these concessions. In many cases, the concessions for TPI veterans are similar to those available to the broader community receiving an income support payment such as age Pension. The concessions vary widely depending on individual circumstances and location.