

**2004-2005-2006-2007**

**THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA**

**HOUSE OF REPRESENTATIVES**

**VETERANS' ENTITLEMENTS AMENDMENT  
(DISABILITY, WAR WIDOW AND WAR WIDOWER  
PENSIONS) BILL 2007**

**EXPLANATORY MEMORANDUM**

(Circulated by authority of the Minister for Veterans' Affairs,  
The Honourable Bruce Billson MP)

## **Table of Contents**

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<b>Outline and Financial Impact .....</b>	<b>ii</b>
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### **Part 1 – Preliminary**

1	Short Title .....	iii
2	Commencement .....	iii
3	Schedule(s) .....	iii

<b>Schedule 1 – Veterans' Entitlements Act 1986 .....</b>	<b>1</b>
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## **OUTLINE AND FINANCIAL IMPACT**

### ***Outline***

This Bill will increase the rates of extreme disablement adjustment disability pension, general rate disability pension and the previously non-indexed component of war widow and widower pension. The Bill will also introduce new indexation arrangements for general rate disability pension and the previously non-indexed component of war widow and widower pension whereby these rates will be indexed twice annually with regard to both the Consumer Price Index and Male Total Average Weekly Earnings.

### ***Financial Impact***

<b>Year</b>	<b>Estimated Total Financial Impact</b>
2007-08	\$24.5m
2008-09	\$91.0m
2009-10	\$104.7m
2010-11	\$119.3m
2011-12	\$133.0m

These figures are indicative costs and final costs are yet to be agreed.

## **Veterans' Entitlements Amendment (Disability, War Widow and War Widower Pensions) Bill 2007**

### **Notes on Clauses**

**Clause 1** sets out how the Act is to be cited.

**Clause 2** provides that the Act commences on 20 March 2008.

**Clause 3** provides that the Act specified in a Schedule to this Act is amended as set out in the items of that Schedule, and any other items in a Schedule to this Act has effect according to its terms.

## **Schedule 1 – Veterans' Entitlements Act 1986**

### ***Overview***

This Bill will increase the rates of extreme disablement adjustment disability pension, general rate disability pension and the previously non-indexed component of war widow and widower pension. The Bill will also introduce new indexation arrangements for general rate disability pension and the previously non-indexed component of war widow and widower pension whereby these rates will be indexed twice annually with regard to both the Consumer Price Index (CPI) and Male Total Average Weekly Earnings (MTAWE).

### ***Background***

Pensions paid under Parts II and IV of the VEA are generally referred to as disability pensions and war widow and widowers pensions. Disability pensions are paid to veterans, Australian mariners and certain serving or former serving members for incapacity from injuries or diseases (disabilities) that are accepted as war or defence-caused. Disability pensions are non-taxable, and non-means tested and are payable for life unless there ceases to be any incapacity from the disability or if the pension is obtained by fraud or misrepresentation.

The general rate is payable in increments of 10 per cent, up to 100 per cent. The level of general rate payment relates to the level of service-related incapacity, thus the greater the incapacity, the greater the rate of disability pension.

An extreme disablement adjustment is paid to a veteran aged over 65 years who is severely disabled and is entitled to a disability pension at the 100 per cent general rate, but only where the veteran is ineligible for either the special rate or the intermediate rate.

Parts II and IV of the VEA also provide for the payment of a pension to the widow or widower of a veteran, Australian mariner or certain serving or former serving members:

- whose death was war-caused or defence-caused; or
- who had been a prisoner-of-war; or
- who had been in receipt of a special rate of pension or an extreme disablement adjustment immediately before death.

These widows and widowers are generally referred to as war widows and war widowers.

The amount of pension payable to a war widow or widower is made up of two components. The indexed component, specified in paragraphs 30(1)(a) and (c) of the VEA, is aligned with the maximum basic rate of service or age pension payable to a single person. The second component, specified in paragraph 30(1)(b), is the former domestic allowance which is currently not indexed.

***Explanation of the Changes***

These changes to the VEA will increase the above general rate component of extreme disablement adjustment by \$15 per fortnight, resulting in a total of \$510.40 with effect from 20 March 2008. This rate will then be increased by the 5% increase to the general rate, also provided for in this Bill. This subsequent rate will then be indexed in accordance with subsection 198(5E) of the VEA, which provides for the indexation of above general rate disability pensions. Above general rate disability pensions are indexed, twice annually with reference to both the CPI and MTAW.

The changes contained in this Bill will also increase the general rate of disability pension and introduce a new method of indexation for general rate disability pension. The 5 per cent increase to general rate disability pension will increase the rate to \$338.94 per fortnight with effect from 20 March 2008. General rate disability will then be indexed immediately with reference to both CPI and MTAW with effect from 20 March 2008. This will be achieved by indexing general rate disability pension by applying the ***pension MBR factor***, which is the same proportional or percentage increase as applies to service pension. This figure is obtained by dividing the newly indexed maximum basic rate of single service pension by the previous maximum basic rate of single service pension. This methodology is the same as that used to index above general rate disability pensions in accordance with subsection 198(5E) of the VEA.

Furthermore, the changes in this Bill increase the former domestic allowance component of war widow and widowers pension, specified in paragraph 30(1)(b) of the VEA, by \$10 per fortnight and introduce indexation of this component of war widow and widowers pension. The amendments increase the former domestic allowance component of war widow and widowers pension to \$35 per fortnight, with effect from 20 March 2008. This rate will then be subject to indexation with reference to both CPI and MTAW. Again, this will be achieved by indexing the former domestic allowance component of war widow and widowers pension by the ***pension MBR factor***, which is the same proportional or percentage increase as applies to service pension. This figure is obtained by dividing the newly indexed maximum basic rate of single service pension by the previous maximum basic rate of single service pension.

## Schedule 1 - Veterans' Entitlements Act 1986

### *Explanation of the Items*

**Item 1** amends subsection 22(3) by omitting the rate "\$216.90" and inserting the rate "\$338.94". This new figure reflects the 5 per cent increase to the general rate of disability pension, with effect from 20 March 2008. This rate may be further increased on 20 March 2008 as a result of the indexation that will apply to the general rate of disability pension in accordance with new subsection 198(5DA). General rate disability pension will be indexed with reference to both CPI and MTAW with effect on and from 20 March 2008.

**Item 2** amends subsection 22(4) by omitting the rate "\$433.65" and inserting the rate "\$510.40". This new figure reflects the \$15 per fortnight increase to extreme disablement adjustment with effect from 20 March 2008. This rate may be further increased with effect from 20 March 2008 in accordance with the indexation arrangements that apply to the above general rate of disability pension provided for in subsection 198(5E).

**Item 3** amends paragraph 30(1)(b) by omitting the rate "\$25" and inserting the rate "\$35". This new figure reflects the \$10 per fortnight increase to the former domestic allowance component of war widow and widower pension. The new rate in paragraph 30(1)(b) may be further increased on 20 March 2008 as a result of indexation. The rate specified in paragraph 30(1)(b) will be indexed with reference to both CPI and MTAW with effect on and from 20 March 2008.

**Item 4** inserts a definition for *adjustment day* in subsection 198(1).

**Item 5** inserts a definition for *pension MBR factor* in subsection 198(1).

**Item 6** amends the definition of *relevant rate* in subsection 198(1) by repealing paragraph (a) of the definition.

**Item 7** inserts new subsection 198(5DA) after subsection 198(5D). New subsection 198(5DA) provides that, on each *adjustment day*, being each 20 March and 20 September, there is substituted for the general rate, the rate worked out using the formula contained in the subsection. The resultant amount is then to be rounded up to the nearest \$0.10.

The formula contained in the subsection requires that the general rate on the day before the adjustment day be multiplied by the Pension MBR factor for the adjustment day. The pension MBR factor is worked out under section 59LA of the VEA.

It should be noted that new headings are inserted for subsections 198(1), (2), (4), (5A), (5E) and (6).

**Item 8** amends subsection 198(5E) by omitting the words “the first day (the *adjustment day*) of each relevant period” and substituting the words “each adjustment day”.

**Item 9** amends *Step 5* of the method statement in subsection 198(5E) by omitting the words “specified in section 59LA”.

**Item 10** inserts new subsection 198(8A) after subsection 198(8). New subsection 198(8A) provides that, on each *adjustment day*, being each 20 March and 20 September, there is substituted for the rate specified in paragraph 30(1)(b), the rate worked out using the formula contained in the subsection. The resultant amount is then to be rounded up to the nearest \$0.10.

The formula contained in the subsection requires that the rate specified in paragraph 30(1)(b), on the day before the adjustment day, be multiplied by the Pension MBR factor for the adjustment day. The pension MBR factor is worked out under section 59LA of the VEA.

It should be noted that a new heading is inserted for subsection 198(10).

**Item 11** provides for application and transitional provisions for the amendments. Transitional provisions are required for the adjustment day of 20 March 2008 to ensure that the 5 per cent increase to general rate, the \$15 increase to extreme disablement adjustment and the \$10 increase to the rate specified in paragraph 30(1)(b) are correctly included in the indexation process.

#### *Application*

Subitem 11(1) is an application provision and provides that the amendments of the *Veterans' Entitlements Act 1986* made by this Act, apply on and after the commencement of this Act. This Act commences on 20 March 2008.

#### *Transitional – adjustment day that is 20 March 2008*

Subitem 11(2) provides that, for the adjustment day of 20 March 2008 only, the reference to “general rate on the day before adjustment day” in new subsection 198(5DA) is taken to be the rate of \$338.94 per fortnight. This will ensure that the 5 per cent increase to general rate is included in the adjustment calculation that is to occur on 20 March 2008.

Subitem 11(3) provides that, for the adjustment day of 20 March 2008 only, the reference to “general rate” in subsection 198(5E) is taken to be the rate that results from the adjustment provided for in new subsection 198(5DA) of the VEA. This will ensure that the “general rate” to apply in subsection 198(5E) for the purposes of the Method Statement for calculating the new rates of extreme disablement adjustment, intermediate rate and special rate of disability pension includes the 5 per cent increase and the 20 March 2008 adjustment.

Subitem 11(3) also provides that, for the adjustment day of 20 March 2008 only, Step 4 of the Method Statement applied for calculating the new rate of extreme

disablement adjustment is to have \$15 added to the calculation. This will ensure that the \$15 increase to extreme disablement adjustment is included in the adjustment calculation that is to occur on 20 March 2008.

Subitem 11(4) provides that, for the adjustment day of 20 March 2008 only, the reference in new subsection 198(8A) to the “rate paragraph 30(1)(b) on the day before the adjustment day” is taken to be the rate of \$35 per fortnight. This will ensure that the \$10 per fortnight increase is included in the adjustment calculation that is to occur on 20 March 2008.