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Senate Finance and Public Administration References Committee

By email: fpa.sen@aph.gov.au

Inquiry submission: Operation and appropriateness of the superannuation and pension schemes for current and former members of the Australian Defence Force (ADF)

The Super Members Council (SMC) advocates for the collective interests of over 12 million Australians with more than \$1.6 trillion in retirement savings managed by profit-to-member super funds. Our purpose is to protect and advance the interests of super fund members throughout their lives, advocating on their behalf to ensure superannuation policy is stable, effective, and equitable.

We thank the Committee for its vital work and the opportunity to make a submission to this important inquiry.

Our submission focuses on the inquiry's Terms of Reference item (a) whether the legislative framework governing superannuation and pensions schemes for current and former members of the ADF is fit for purpose. We consider whether the framework is consistent with the objective of superannuation and consider broader equity issues by analysing other groups of Australian workers who are currently excluded from the system under the current settings.

ADF reservists should be entitled to superannuation

The legislative framework governing super and pension schemes for current and former members of the ADF is not currently fit for purpose because ADF reservists are not paid super to support their retirement. This is contrary to the objective of super and inconsistent with recent reforms to promote greater coverage of super entitlements and equity among Australian workers, including:

- Removing the exemption that applied to employees earning less than \$450 per calendar month from an employer
- Extending superannuation to parents on Commonwealth paid parental leave
- Amending the National Employment Standards to embed superannuation as an enforceable workplace entitlement.

Members of the ADF are excluded from the national workplace relations system because military service is not considered a civilian contract of employment, but a unique statutory relationship governed by its own code¹. Retirement benefits for permanent employees of the ADF are provided for under the defence force benefits Acts that underly the super schemes administered by the Commonwealth Superannuation Corporation, but Reservists are excluded.

The legislative basis for this exclusion is that the *Superannuation Guarantee (Administration) Act 1992* directly links the payment of taxation to the eligibility for superannuation. If income is exempt from taxation (such as Reservists' income) superannuation is not payable on that income. Superannuation is only payable for ADF Reservists who are employed to undertake continuous full-time service.²

Most Reservists undertake a minimum of 20 and up to 100 days of service per financial year depending on personal circumstances and organisational need, earning between \$209.58 and \$658.11 per day (excluding senior officers) depending on their rank, pay grade and increment³.

¹ <https://jeffreyphillipssc.com.au/adf-remuneration-and-its-connection-with-civilian-employment-law-and-industrial-relations>

² <https://pay-conditions.defence.gov.au/sites/default/files/2021-09/adf-super-reservists.pdf>

³ <https://pay-conditions.defence.gov.au/reserves>



According to the 2021 Census, about 25,000 hard working Australians serve their country as ADF Reservists. They have a reasonably young profile - most are aged between 25 - 40 - compounding the negative financial impact from missing out on all-important super investment returns in the early years. SMC research shows about three quarters of someone's super balance at retirement is from their investment earnings, compounding over a long time. Contributions make up the other quarter.

Strengthening fairness boosts retirement incomes and confidence in Australia's super system

Super Guarantee exclusions make Australians poorer in retirement, increase pressure on the Age Pension (paid by future taxpayers), and undermine confidence in the system. ADF Reservists are just one category of worker who are not covered by the system. Other exclusions include:

- 500,000 young workers under 18 years old who work fewer than 30 hours per week
- Paid domestic workers, predominantly women, who work fewer than 30 hours a week
- 1.1 million independent contractors, including gig workers, who are responsible for paying their own super
- Other self-employed people

Australia's universal super system was established to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.⁴ The exclusion of so many workers from receiving super along with their salary and wages appears to be inconsistent with this objective. It makes these workers poorer in retirement and reduces system equity as other occupations receive the benefits of super.

The government should be commended for the work done to date to extend coverage and fairness to Australia's workforce but there is more to be done. Closing these loopholes is a natural continuation to this trajectory. An in-depth review of universality should be undertaken, which includes but is not limited to the super benefits paid to ADF Reservists.

Recommendation

That the Government review the financial impact Super Guarantee exclusions are having on Australian workers and consider changes to ensure all workers receive super consistent with the objective of super and important founding principle of universal super.

⁴ Superannuation (Objective) Act 2024