



DEFENCE FORCE WELFARE ASSOCIATION

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26 April 2021

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SUBMISSION TO THE SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCE COMMITTEE'S INQUIRY INTO THE DFRDB

INTRODUCTION

The Defence Force Welfare Association (DFWA) welcomes the opportunity to make a submission to the Senate Foreign Affairs, Defence and Trade Committee inquiring into not only the accuracy of information provided to Defence Force Retirement and Death Benefits (DFRDB) members about the effects of commutation on future retirement pay entitlement but also broadly into whether:

- a. Retirement payments were appropriately indexed according to legislation;
- b. Commutation should have resulted in a permanent reduction of pension for life; and
- c. Out-of-date life tables dated 1962 should continue to be used into the future.

The Inquiry is of specific and fundamental interest to DFWA because it has long sought redress to the unfairness elements of the DFRDB Military Superannuation Scheme. That interest is the genesis to the formation of DFWA itself in 1959 when it was widely recognised that the Scheme's post-war predecessor, the DFRB Scheme, contained serious deficiencies in the way it operated at the time.

With the formal approval of the Government of the day, DFWA's agreed charter was to*'foster the best interests and welfare of all members of the Australian Defence Force and their families in any matter likely to affect them during and after their period of service'*.

Australian Governments of all persuasions since 1959 have supported and appreciated the important role DFWA plays in working to protect the 'Conditions of Service' of all members of the ADF and looking after their welfare, including their families, and the welfare of those who once served.

BACKGROUND

The Inquiry's Terms of Reference specifies that *'all relevant existing information and previous reviews in relation to DFRDB, including the findings of the Ombudsman's investigation'* be taken into consideration. Given the quality and known detail contained in many of the submissions that the Ombudsman received during its Inquiry into DFRDB, DFWA strongly suggests that there would be high value in examining them against the backdrop of the Ombudsman's findings of "defective administration" of the DFRDB Scheme.

The FADT Committee is also encouraged to examine the reason why the ESO community as a whole, particularly DFWA, has been unable to convince Legislators to redress the widely acknowledged unfairness deficiencies in the DFRDB Superannuation Scheme.

The Defence Force Retirements Benefits Fair Indexation Act of 2014 recognised at least one significant deficiency in that the pensions of DFRB/DFRDB superannuants over 55 would be indexed in the same way as age and service pensions. Meaning that the pensions would be indexed to the better of the Consumer Price Index (CPI), the Male Total Average Weekly Earnings (MTAWE), and the Pensioner and Beneficiaries Living Cost Index (PBLCI). After all, while the CPI had been once an accepted index to maintain a pension's value relative to national wages, it had lost its relevance in wage fixing. CPI had become an economic tool to measure inflation rather than living costs. It was not an index to ensure the purchasing power of superannuants was maintained, being the intent of the original enabling legislation to the Scheme.

Until the passing of the Defence Force Retirements Benefits Fair Indexation Act, DFRB/DFRDB pensions stood out as being more harshly treated than almost every other long-term Commonwealth payment subject to regular indexing to maintain its value. Unfortunately, the Act by any fairness measure didn't go far enough. It somehow deliberately excluded the under 55 DFRDB retirees and those in receipt of DFRDB invalidity superannuation pensions.

It also excluded Military Superannuation and Benefits Scheme (MSBS) superannuants – their 'preserved benefits' (employer contributions) are still only indexed to the unfair CPI. While consideration of MSBS issues are admittedly not matters to be examined by the Senate Inquiry, the FADT Committee is invited to note that, not only does the application of the CPI to their preserved benefits remain unfair, so does a member's inability to access his/her employer benefits enabling them to roll over them into a complying superannuation fund of their choice.

Despite the persistent lobbying by the ESO community over many years, singularly missing from any effort to redress the wrongs of the DFRDB Scheme is the failure of Legislators to correct the administration defects surrounding Commutation. That failure seems contrary not only to the spirit and intent of the 1973 Jess Committee Report leading to DFRDB but also to the Parliamentary debate that passed the DFRDB Act, and to the information that was subsequently distributed to ADF members.

The upshot to the failure has been that:

- a. For almost six decades the Life Expectancy Tables in the 1973 DFRDB Act have unfairly remained the sole basis of calculating DFRDB pension outcomes to veterans of today; and
- b. DFRDB superannuants electing to exercise the commutation provisions of the DFRDB Act have not receive their full retired entitlements in accordance with Section 23 of the Act after forfeiting, in full, the portion of retired pay received as a lump sum advance.

This submission will seek to address these matters in conjunction with the FADT Committee's proscribed Terms of Reference which give guidance that the Inquiry will focus on the following;

- a. Appropriateness of Life Expectancy Tables.
- b. Appropriate Indexation of Retirement Payments.
- c. Accuracy of Information - Commutation – Reduction of Pension for Life.

In addressing these matters, suggested recommendations will be made as to possible actions that could be considered to remedy identified grievances. Where possible, estimates as to likely costs involved will also be provide,

LIFE EXPECTANCY TABLES

For almost half a century there has been a widespread conviction among 50,000 living veterans in receipt of pensions under the **Defence Force Retirement & Death Benefits Act 1973** (DFRDB) that the Commonwealth has been heavily and almost undeniably over-recompensed at their and their family's expense. The situation remains a longstanding unchanged wrong today.

Root Cause to the Unfairness

The continued use of Life Expectancy Tables contained in the 1973 DFRDB Act are almost six decades out of date. Arguably even more since they are unaltered tables from 1962. How this can be viewed other than unfair is perplexing. At the time, the life expectancy of a 45-year-old veteran just retired was 72.4 years. Now the same veteran's life expectancy is 82.3 years. Simple common sense must intuitively suggest high degree of unfairness if those very tables still form the basis of calculating pension outcomes to veterans of today. The reality is that all DFRDB veterans who chose to commute are heavily penalised. Their DFRDB superannuation pension reductions are far greater than the total sum that recompensed the Commonwealth for the amount it advanced to veterans via commutation in the first place.

All DFRDB veterans who chose to commute must have their DFRDB pensions calculated in accordance with the life expectancy table applying to them *at the time they submit a commutation claim after separation from the ADF*. That was and remains fair to both the veteran and the taxpayer.

It reflects what most believe was the Jess Review's intention prior to the introduction of the 1973 Act. It was certainly the belief expressed by the DFRDB Authority Circular (No: 1973/7 dated 2 August 1973) to the three Services explaining the newly introduced Act.

DFWA's Proposition

DFWA believes that the principle of a reduced DFRDB superannuation pension is an appropriate one following a veteran electing to commute part of it. However, in the opinion of many there is more than a degree of unfairness about a legislated outcome that requires those veterans who live longer to effectively subsidise those who die earlier. The result is that the reduction in pension due to commutation is greater than it would have been if the pension reduction were based on "*the member's life expectancy at the date of commutation*", as claimed.

Arguments for retaining a reduction in pension for life, including when a member has lived way beyond that expected by the life tables, was rationalised in official information from the DFRDB Authority in its Circular as the means by which the Commonwealth could get the totality of the commuted monies back by not seeking "*to recover the amount of the lump sum outstanding from dependants or estates*" of members who did not live to the actuarial life expectancy age.

There is little question that, due to the longer period of reduced pensions received by veterans, the Commonwealth 'pockets' far more than the commuted monies that were originally advanced. DFWA does not believe that this could have been the intent of the architects of the DFRDB Act 1973. It belies belief that the Legislators of the time designed a system to deliberately deny veterans a beneficial outcome by seeking to recover more than any amounts commuted. Evidence of this is illustrated by the use of 1960-62 Life Tables and not 1970-72 Life Tables available for the 1973 Act.

Counter-intuitively, the Life Tables that were used show life expectancy for a male in his 40s was slightly longer in 1960-62 than it was in 1970-72. Parliament nonetheless chose life expectancy tables that better benefitted those who would commute under the 1973 Act. That is in keeping with Jess and his committee's public pronouncements, echoed by leaders on both sides of the House, that military conditions of service, including superannuation, should be the best possible for those who made the ADF a career but would mostly retire from the ADF in their 40s.

From all evidence available, it is reasonable to conclude that Parliamentarians were well aware of the benefits and penalties of different life expectancy tables but had no way of knowing how dramatically life expectancies for all Australians would increase from the mid-70s onwards to 2021.

Proposed Remedial Action

There is a long-held Parliamentary precedent for correcting Acts found in hindsight to have unintended outcomes or be deficient in their application. Not the least of which included the Defence Force Retirement Benefits Legislation Amendment (Fair Indexation) Bill 2014.

That Act was passed unanimously by both houses of Parliament with the support of all sides of politics. Remedial action should reflect the understood intention that any pension reduction should be based on “*the members life expectancy at the date of commutation*”.

Recommendation and Cost

There is a clear ‘wrong’ in using such out-of-date Life Tables that few can even recall that they exist beyond a reminder from the Commonwealth Superannuation Corporation to those ADF members the subject of the **Defence Force Retirement & Death Benefits Act 1973** that year-by-passing year they continue to be silently disadvantaged by having their superannuation pensions unfairly reduced.

DFWA recommends that the Act should be amended at the earliest possible opportunity before the next Federal election.

There is an invariable cost to righting the wrong. As a volunteer-based ESO, DFWA is hardly able with available expertise or resources to accurately calculate that costs - it requires actuarial study. Nonetheless, an effort is made in the DFWA Paper titled ‘**Defence Force Retirement and Death Benefits Scheme - Commutation – A Simple Solution**’.

A copy of the Paper is appended as Enclosure 1 herein as part of this submission. The Paper had been previously made available to Government in August 2020 for their consideration.

INDEXATION OF DFRDB PENSIONS

Inappropriateness of the Consumer Price Index

The inappropriateness of the CPI as the indexation measure for DFRDB pension adjustment has been recognised by the passing of the Defence Force Retirement Benefits Legislation Amendment (Fair Indexation) Act 2014. This Act was passed unanimously by both houses of Parliament.

As stated previously in the Background section of this submission, the Act indexed the pensions of over 55 DFRDB superannuants to the more favourable of positive movements in either the Consumer Price Index, the Male Total Average Weekly Earnings, and the Pensioner and Beneficiaries Living Cost Index. After all, while the CPI had once been an accepted index to maintain a pension’s value relative to national wages, it had lost its relevance in wage fixing.

The aim was to ensure that affected pension benefits are increased by at least the percentage required to maintain a hypothetical pension at 27.7% of male total average weekly earnings.

The new indexation applied to all 55 or older DFRDB retirees, those in receipt of invalidity and reversionary pensions paid to the surviving spouses of deceased members. It also applied to those over 55 retirees in receipt of pensions resulting from a family law split. All pensions for those under 55 remained indexed to the CPI.

The FADT Committee will undoubtedly be aware that the DFRDB closed for new members in October 1991, that being close to 30 years ago. A person who enlisted at 18 would now be about 48.

The youngest possible DFRDB retirement pensioner would now be about 46, if enlisted as an apprentice at age 15 or 16 years. That means the number of DFRDB pensioners under 55 years is now comparatively very small.

Proposed Remedial Action

Given the indexation was considered inappropriate for those over 55 years of age, DFWA considers that the time to redress the indexation wrong for the small and decreasing number of DFRDB recipients who are under 55 years of age is long overdue. Action should be initiated forthwith.

Recommendation and Cost

DFWA recommends the earliest possible amendment to the Fair Indexation Act so that all DFRDB pension recipients under 55 years and who were compulsorily discharged from the ADF on medical grounds could benefit from their pensions being indexed to the better movements in either the Consumer Price Index, the Male Total Average Weekly Earnings, and the Pensioner and Beneficiaries Living Cost Index.

These pensioners should receive priority because invariably they are in receipt of Class A, B or C Invalidity Benefits; these members are not on superannuation retirement pensions where the youngest preservation age is 55 years. They are in a group that invariably includes those who are suffering from medical and/or mental health conditions. Those on Class A or B Invalidity Benefits are not entitled to commute. Unlike those who retire voluntarily on retirement pensions, they cannot access a commuted lump sum payment to assist in transition and settling into civilian life.

The FADT Committee is invited to take note that, in the forgoing context, all ADF members who medically discharged suffer greater challenges in transitioning to civilian life than those who make the choice to leave the ADF voluntarily. The medical discharge is compulsory.

In effect, the member is forced out from the ADF because he/she is not 'good enough'. They lose the so-to-speak ADF family/team support that existed while serving. These rejections and losses place greater stress on members, especially those suffering from mental health conditions. It puts them at greater risk of further mental health issues, including suicide, than those who discharge voluntarily.

There is justification that all those on medical discharges should have their pensions appropriately indexed. This includes recipients of Invalidity Benefit payments from the Military Superannuation and Benefits Scheme (MSBS) and from ADF Cover, not just DFRDB. All should be treated equally.

DFWA recommends that recipients of Class A and Class B Invalidity Benefit payments from DFRDB, MSBS and ADF Cover should, as a matter of priority, be indexed the same as the over 55-year recipients of DFRDB retirement pensions.

As to cost, without any insight into the number of members involved in this under 55 cohort, a cost estimate could not be more than a subjective one. Intuitively, given the low numbers, the cost can only be a minimal one against a benefit that must be sizable.

ACCURACY OF INFORMATION GIVEN TO DFRDB MEMBERS

The Ombudsman Report made clear that some ADF members did received unclear or incorrect information concerning DFRDB commutation, while others were satisfied with what they received.

Correct Information Provided

The official DFRDB Authority Circular of the time was distributed to all three Services. In the Army, it was further sent, along with related resettlement brochures, to the Education Branch in each State

Military District Headquarters. These Headquarters further distributed it to all Units throughout the State. Within individual Units, an Officer or Warrant Officer was given an extra regimental task of Resettlement Officer responsible for providing advice to all the Unit's members that included the brochures and copies of the DFRDB Authority's Circular.

The DFRDB Authority Circular inter alia stated:

"64. As commutation is the expression in the form of a lump sum of part of future benefit payments, a reduction in retirement pay will apply following commutation. The annual reduction is found by dividing the lump sum by the members life expectancy at the date of commutation,

65. Although a life expectancy factor is used, full retirement pay is not restored if a member lives beyond normal life expectancy. By the same token, should the member die before attaining the expected life expectancy age no attempt is made to recover the amount of the lump sum outstanding from dependants or the estate."

The following statement was made by a former Army Resettlement Officer:

"At DFRDB Authority (DFRDBA) briefings and those I conducted both in groups and in individual briefings (1973-1980), inevitably, there was discussion about the fairness and logic of this:

- d. The member's estate, i.e., Widows and families of those who died before the average life expectancy age, would not be presented with demands to pay the amounts that would have been paid if they had lived to the average life expectancy age.*
- e. Members fortunate to live longer than the average life expectancy age, effectively covered the costs of those who died before their average life expectancy age.*
- f. The amount of reduction was based on the life expectancy on date on commutation. Members deciding to commute had to apply within 12 months after discharge.*
- g. Females had a greater average life expectancy than males, therefore the reduction to their pension was less than for males. Females, with exactly the same ADF service and pay as males, after commuting, received a higher pension than males.*
- h. The life expectancy of members discharging later in life was lower and their reductions in pensions was larger.*

The DFRDB Scheme encouraged members to commute, in part, because of the following:

- i. The benefit of a lump sum amount when transitioning out of the ADF was the answer to many regarding home purchase, setting up a business, travel and education.*
- j. If you did not commute, your pension was not reduced. But, unlike the rest of the pension, that part of it amounting to that would have been reduced was not indexed.*
- k. The earlier you commuted, the higher the life expectancy, so less of a reduction.*

The scheme encouraged members to commute:

- l. At 20 years' service, a member could retire on an immediate pension for life with the ability to get a lump sum equal to at least 4 years pension. A member who joined at 15 as an apprentice could retire on a pension at age 35.*
- m. If retiring before 20 years' service, with few special exceptions, a member only received a refund of contributions with no interest.*
- n. For officers there were also penalties for retiring earlier than their notional retiring age for rank even if they had served 20 years."*

Inaccurate and Vague Information Provided

Defective Information Provision. The Ombudsman Report¹ on DFRDB commutation found that many ADF members were misinformed that, if they commuted, their reduced pension would be restored on reaching their life expectancy age. Each of the three Services appeared to be equally complicit.

In Army, the suspicion was that this was an unintended consequence of the disbandment of Military District Headquarters and the Education Branches. They had previously provided clear lines of communication on such issues. The DFRDB Authority (later CSC) contributed to the uncertainties by vague wording in brochures. This deficiency was only identified in later years when pensions were not restored to expected levels. Complaints then began to appear among DFRDB retirees.

The Ombudsman's modelling indicated that, although the information provided was wrong, there was no financial detriment for those who did commute. As the modelling could not cover all scenarios, the Ombudsman recommended that if a member did suffer financial loss, action could be taken under the Scheme for Compensation for Detriment caused by Defective Administration (CDDA) to recoup that loss if proven.

Correct Information Provision. It is also clear that many ADF members were correctly informed of the effects of commutation and specifically that the reduction to the pension was for life.

Whether the ADF Members acted on correct or incorrect advice, most Members elected to commute. A small percentage decided not to commute.

Remedial Action

Financially compensating members such as ceasing to reduce their uncommuted pension rate on reaching the average life expectancy on the basis that their so-to-speak 'loan' has been repaid, would logically mean two things:

- a. The small number who did not commute would then have a valid argument that they should now be entitled to commute because the original conditions under which they made their decision had changed. They could claim financial detriment compared to others who did commute and are now to have their pensions increased.
- b. There would be a valid argument that the estates of ADF members who commuted, but died before reaching average life expectancy age, should pay off the outstanding amount. This would not be acceptable under any circumstance. Many of these estates would be held by the ADF members' widows/widowers who are now in receipt of DFERD reversionary pensions based on 5/8 of what the members uncommuted pension would have been. This would not be acceptable under any circumstance.

There are four classes of DFRDB retirement pensioners:

- a. **Those Who Commuted Based on Incorrect Advice.** If any financial payment or pension adjustment is made to provide a general compensation or "correction" for this group, this will have the following impacts.
- b. **Those Who Commuted Based on Correct Advice.** These members would also be entitled to the same financial benefit. This would include those who sought clarification of lack of detail in the DFRDB information provided.

¹Commonwealth Ombudsman Report 06/2019 -Investigation into the administration of the Defence Force Retirement and Death Benefits (DFRDB) scheme, dated December 2019.

- c. **Those Who Did Not Commute Based on Correct Advice.** These members would now be financially disadvantaged compared to those who commuted and could justifiably now claim the right to commute.
- d. **Those Who Did Not Commute Based on Incorrect Advice** (considered very small) These members would now be financially disadvantaged compared to those who commuted and could justifiably now claim the right to commute.

DFWA has not attempted to cost any legislation change required to provide general compensation to those who decided to commute based on incorrect official advice at the time of discharge and to the other members who would then have a case for compensation to put them on a par with those who acted on incorrect advice.

Financial Detriment. Where financial detriment could be shown to exist in individual cases, action was possible under the CCDA scheme. This was recommended by the Ombudsman following his finding that the administration of the DFRDB Scheme had been defective. He even provided guidance to ADF members wishing to pursue that course of action.²

Proposed Remedial Action

The Ombudsman recommended the CCDA approach to remedy any injustices. Support could be provided to affected DFRDB pensioners to both prepare a claim and to appeal any adverse decision.

DFWA recommends that, where a member pursues compensation through the CCDA scheme and thereafter is forced to appeal any decision, the following options should be considered:

- a. Compensation should include any professional costs expended in preparation of the claim.
- b. Compensation should include legal and other professional costs if a claimant successfully appeals an adverse finding.
- c. Where the claimant's appeal is unsuccessful, the Commonwealth should not apply for costs to be awarded against the veteran.

SUMMARY

DFWA is an Australia-wide organisation established in 1959 to specifically foster the best interests and welfare of all members of the ADF and their families in any matter likely to not only affect them during their period of service but afterwards as well.

Against this background and mindful of its principal roles, DFWA welcomed the opportunity to make a submission to the Inquiry by the Senate Foreign Affairs, Defence and Trade Committee into the DFRDB Superannuation Scheme with a particular focus on the accuracy of information provided to members who elected to commute part of their pension entitlements and on any impact that this may have had on their future retirement outcomes.

While the Ombudsman's inquiry into DFRDB is the most recent attempt at investigating the various imperfections of the Scheme and finding solutions to redress the major ones, the inquiry itself was a far cry from what the Government intended. when it announced on 25 March 2019 that it would commission an independent inquiry. That announcement not only heralded that the inquiry would be 'open and transparent' covering veterans' concerns but that the ex-service community would be widely consulted about its Terms of Reference. No such consultative process was ever undertaken.

² Annex F to the Ombudsman Report.

The upshot was that the Ombudsman self-generated his own Terms of Reference which, in the opinion of most veterans, were very narrow. Thus, viewed by the veterans' community, the outcome was equally narrow. Many thought that yet another opportunity for a wider objective view was lost. And the perfunctory apologies by the Chief of the Defence Force, the Department of Defence Secretary and the Commonwealth Superannuation Corporation (CSC) did nothing to remedy the firm conclusion within the Ombudsman's report that there had been "defective administration" both of the implementation process of the DFRDB Scheme and the way it was subsequently operated.

The Ombudsman's report glossed over a key concern, namely that life tables more than half a century old continued to be used, even though many veterans and ex-service organisations made submissions on the matter. The 1960s life tables force veterans to accept a lower lifetime military superannuation pension than would "life expectancy on discharge" as is still advertised by the CSC.

At the discretion of the Senate FADT Committee, I offer to appear personally at any time to answer questions about this Submission, or other questions that may be deemed appropriate to the Inquiry.

Yours sincerely,



Kel Ryan
National President
Defence Force Welfare Association

Enclosure 1: DFWA Paper - Defence Force Retirement & Death Benefits: Commutation Solution



DEFENCE FORCE WELFARE ASSOCIATION

Defence Force Retirement and Death Benefits Scheme

Commutation – A Simple Solution

Objective:

To amend the DFRDB Act 1973 in order to reflect the correct life expectancy of DFRDB members upon their separation from ADF full-time service, with adjustments to DFRDB superannuation pensions.

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Glossary:

ADF	Australian Defence Force
CPI	Consumer Price Index
CSC	Commonwealth Superannuation Corporation
DFRB	Defence Force Retirement Benefits Scheme
DFRDB	Defence Force Retirement and Death Benefits Scheme
DFRDBA	Defence Force Retirement and Death Benefits Scheme Authority
DFWA	Defence Force Welfare Association
GST	Goods and Services Tax
MSBS	Military Superannuation and Benefits Scheme
MTAWE	Male Total Average Weekly Earnings
PBLCI	Pensioner and Beneficiary Living Cost Index
PCSS	Parliamentary Contributory Superannuation Scheme

1. Background

1.01 Members of the Defence Force Retirement and Death Benefits Scheme (DFRDB) had the option of commuting part of their DFRDB superannuation pension³ into a lump sum payment upon separation from the Australian Defence Force (ADF) after 20 or more years' service. Most contributors with less than 20 years' service were ineligible for any DFRDB benefit, including commutation. These members received back their own compulsory contributions with no interest, no adjustment for inflation, and no "employer" benefit.

1.02 Commutation is not a loan. It results in a reduced DFRDB pension for life.

1.03 The purpose of commutation was to assist the former serviceman or woman to buy a home or a business, or otherwise assist in their transition to a productive civilian life after the disruptions inherent in an ADF career and the then compulsory retirement age of 47 (with a few exceptions). Today's retirement age is 60, with some serving to age 70.

1.04 The Ombudsman recently⁴ conducted a limited inquiry into one issue affecting veteran military superannuation. The issue, whether or not commutation choices were properly conveyed to DFRDB members, was dismissed on legal grounds despite the Ombudsman acknowledging defective administration within the Department of Defence. A subsequent apology by the Chief of the Defence Force and others proposed no remedy.

1.05 Lost in the noise was a second longstanding issue affecting most DFRDB members.

1.06 The second issue concerns the grossly outdated life expectancy tables used to calculate the reduced DFRDB superannuation pension. An overwhelming number of DFRDB retirees commuted, so the life tables issue affects almost all DFRDB pensioners.

1.07 The longer the actuarial life expectancy the smaller is the reduction in the DFRDB superannuation pension. The Commonwealth still gets all its money back but over a longer period.

1.08 But the effect of the DFRDB Act's outdated life tables is a long-term windfall for the Commonwealth Government at the expense of veterans and their families, including their widows and widowers. The situation is demonstrably and egregiously unfair.

1.09 Because so many veterans made life table submissions to the Ombudsman's inquiry, even though the issue was outside his narrow Terms of Reference, he referred to it in his report. But he did not examine the life table issue in any detail, merely glossing over it while making unfounded assumptions⁵ about the intentions of the DFRDB scheme's architects. The Ombudsman's assumptions were not researched and are, in DFWA's opinion, naive.

1.10 Military superannuation matters are complex and attention spans are short. Governments can stonewall the entire issue, particularly when media attention is minimal.

1.11 The Defence Force Welfare Association proposes a simple solution that in part rights a longstanding wrong, is reasonable and, in the Association's opinion, is affordable.

³ The 1972 Jess Committee report preferred the term "retired pay" but the 1973 DFRDB Act uses "pension" and "retired pay" interchangeably. DFWA prefers "DFRDB superannuation pension" or "military superannuation pension" because the meaning of "superannuation pension" is widely understood in the Australian community. "Retired pay" is not.

⁴ The Ombudsman's report was released in December 2019.

⁵ Ombudsman's Report paragraphs 5.10 to 5.12, notably "*This suggests that the scheme drafters never envisaged use of current tables, but rather, preferred a static commutation factor.*" It suggests nothing of the sort. Life expectancies were almost static for 40 years before the Jess Review and Jess could not have envisaged the extraordinary life expectancy increase in the following 40 years.

2. The 1973 Act

2.01 The DFRDB Act (1973) at Schedule 3 incorporates 1960-62 life tables that were never updated despite later significant increases in Australian life expectancy. It beggars belief that the Act's architects, the bipartisan Jess Committee of 1970-72, or other parliamentarians, intended that DFRDB members would suffer so seriously as a result.

2.02 Life expectancy increased by just *six months* in the 40-year period 1932 to 1972⁶ but by *ten years* in the subsequent 40-year period 1972 to 2012.

2.03 Because life expectancies increased only slightly over the 40 years before the Jess deliberations, it is reasonable to assume that no one could envisage the later significant life expectancy increases. Nor could anyone envisage the concomitant disadvantage to each and every DFRDB veteran who chose to commute after the mid-1970s.

2.04 The 1973 Act includes the 1960s life tables but Jess and his committee, and all other parliamentarians, could not have known they would be out of date within five years.

2.05 Even so, it seems clear that the Parliament intended that commutation matters be predicated upon life expectancies and not, as some uninformed commentators recently opined, on a fixed "commutation factor". The Act includes life tables, not arbitrary "commutation factors", for good reason. Common sense says that DFRDB pension reductions would be based on life expectancy, not an arbitrary "commutation factor"⁷.

2.06 It is noteworthy that the Act uses 1960-62 life tables and not the 1970-72 tables that would have been available prior to the 1973 Act. This has attracted unfair criticism, based on the assumption that life expectancies would be greater in 1970-72 than in 1960-62 with a concomitant lifetime penalty on those who commuted.

2.07 But, counter-intuitively, life expectancy for a male in his 40s was slightly longer in 1960-62 than it was ten years later. The Parliament chose life expectancy tables that better benefitted those who would commute under the 1973 Act. That is in keeping with Jess and his committee's public pronouncements, echoed by leaders on both sides of the House, that military conditions of service including superannuation should be the best possible for those who made the ADF a career but were mostly required to leave the ADF in their 40s.

2.08 It is reasonable to conclude that parliamentarians were well aware of the benefits and penalties of different life expectancy tables but had no way of knowing how dramatically life expectancies for all Australians would increase from the mid-70s onwards.

2.09 Over the years, apologists for the untenable life tables have claimed that the Act cannot be amended or updated, so the grossly outdated life tables must remain. These claims are plainly fatuous. Acts can and are amended as circumstances change, and there is no reason other than apathy and/or intransigence preventing a DFRDB Act update.

2.10 DFVA did not realise until the late 1990s the extent of accrued disadvantage DFRDB members had suffered because of the life tables. The difference to an individual's income in the short term is slight but in the long term it is significant.

⁶ Life expectancy for a 40-year-old male was 31.11 years in 1932-34, 31.84 years in 1960-62, and just 31.61 years in 1970-72, an increase of only six months in 40 years. Significant life expectancy increases commenced in the mid-1970s (32.81 years for a 40 year old male in 1975-77 and 41.51 years in 2010-12). Life expectancy increased by ten years in the 40 year period 1970-72 to 2010-12, as opposed to just six months in the previous 40 year period. Source: Australian Government Actuary at aga.gov.au/publications/lifetable.

⁷ DFRDBA Circular 1973/7 dated 2 August 1973 was DFRDBA's explanation of the newly introduced Act. Para 64 states: "As commutation is the expression in the form of a lump sum of part of future benefit payments, a reduction in retirement pay will apply following commutation. The annual reduction is found by dividing the lump sum by the members life expectancy at the date of commutation."

2.11 Superannuation is a long-term matter for all Australians, including ADF members, meaning that getting the life table issue resolved for DFRDB members is significant. And justice demands it.

3. Effect on Commuted DFRDB Pension

3.01 The Act requires that DFRDB pensions are reduced by a sum that recompenses the Government over the Act's legislated life expectancy for the member who commutes, regardless of how long the individual actually lives after leaving the ADF.⁸

3.02 But the Act's life expectancy tables do not reflect reality and have not done so since shortly after the Act's 1973 inception. The Act's life tables have never been updated.

3.03 A shorter legislated life expectancy means a greater pension reduction forced on each DFRDB pensioner. That is because the commuted sum must be "repaid" in a shorter time.

3.04 This means that the Commonwealth unjustly benefits because "repayments" of its commutation advance by DFRDB pensioners are exceeded significantly. The Commonwealth receives back far more than it ever outlaid to those who chose to commute. The attached illustration (Annex A) may help explain a complex matter.

3.05 If a member exceeds the Act's life expectancy, his or her pension reduction continues for life. Conversely, if he or she dies before the Act's legislated life expectancy then his/her estate is not required to repay any monies to the Commonwealth. In effect, veterans who live longer subsidise veterans who die earlier, meaning that the latter's family is not penalised.

3.06 Unlike some veterans, DFWA does not oppose this principle. It is in keeping with the notion that veterans support each other and each other's families. But DFWA strongly opposes the current situation where veterans continue to over-recompense the Commonwealth because of the Act's grossly outdated life expectancy tables.

3.07 Life expectancy for adult Australians increased by ten years over the four decades 1972 to 2012. The previous four decades (1932 to 1972) saw an increase of just six months. The outcome is that DFRDB superannuation pension reductions are significantly greater than they should be, particularly for servicemen and women who left the ADF after the mid-1970s. The beneficiary is the Government, whose unjust and indefensible restitution regime is at the expense of DFRDB veterans who chose to commute.

3.08 The fault is with the outdated life tables in the Act, not with the intentions of the Act's architects. The Act does not reflect reality and has not done so for over 40 years.

⁸ DFRDBA Circular 1973/7 dated 2 August 1973 Para 65 states: *Although a life expectancy factor is used, full retirement pay is not restored should the member live beyond normal life expectancy. By the same token, should the member die before attaining the expected age no attempt is made to recover the amount of the lump sum outstanding from dependents or the estate."*

The clear implication of "to recover the amount of lump sum (i.e. the commuted amount) outstanding from the dependents or the estate", is that there has been a reduction in the amount of the commutation amount outstanding as at death of the veteran before reaching the life expectancy age. The reduction in the DFRDB pension has effectively been repaying the commuted amount and DFRDBA would not seek repayment of that outstanding amount that would otherwise have been recovered by the continued reduction of pension if the veteran had lived to "the expected age". This paper uses the expression of repayment in this context, even though commutation is not a loan. The logic of the DFRDBA statement and explanation at para 65 is that, those who "live beyond the normal life expectancy", continue to have a reduced pension to "recover the amount of the lump sum outstanding" of those who died before reaching "the expected age". One balances the other. Roughly, those who reach and pass "the normal life expectancy" have paid off their lump sum and the continued reduction of their pensions repays the lump sums of all those who did not make it. DFWA supports this principle.

4. What is Fair?

4.01 Permanent pension reductions should be calculated on the life table applying to the individual *when he/she submitted a commutation claim upon separation from the ADF*. That's fair to each DFRDB member and, importantly, to the taxpayer. And is actuarially accurate.

4.02 The Commonwealth would recoup all its commutation outlays if the correct life tables were used and the individual DFRDB superannuation pensioner would not be forced to over-recompense the Commonwealth far more than he/she had commuted, as is now the case.

4.03 The principle of a reduced DFRDB superannuation pension for life would remain. Veterans who live longer than their actuarial life expectancy on separation from the ADF would still effectively subsidise veterans who die earlier.

4.04 Each DFRDB member is a unique case because of age, length of service, pay and other considerations. Each member's case requires an individual calculation, but this is not as complex as it may at first appear.

5. A Simple Solution

5.01 Even given that there are 51,949 living DFRDB superannuation pensioners^(30 June 2019) who separated at different ages and dates, establishing the fair DFRDB superannuation pension reduction for each is not difficult. Most but not all DFRDB members chose to commute.

5.02 A simple computer program would input each member's data for:

- date of birth (age),
- date of commutation claim (upon separation from the ADF),
- applicable Australian Government Actuary life expectancy table for that date,
- his/her "salary for superannuation purposes",
- his/her uncommuted DFRDB pension, and
- the individual's commutation amount.

5.03 All these data already exist. They are already used to calculate the DFRDB superannuation pension reduction for those who choose to commute.

5.04 The only change is to substitute the correct life expectancy table for the outdated life table in the Act. And the legislative change to the Act to allow this is also simple.

6. Righting the Wrong

6.01 A key issue is to decide how to remedy the wrongful reductions affecting many tens of thousands of DFRDB veterans over the half-century since the 1973 Act.

6.02 Once the Act is amended and the correct DFRDB superannuation pension reduction for each member is calculated, it remains to decide the date from which the correct payments should commence.

6.03 The fairest (and most honest) solution is for the correct DFRDB superannuation pension payment to apply from the date of each member's separation from the ADF. That would mean a one-off lump sum refund of the difference between the Act's pension reduction and the correct pension reduction since the member separated. The Commonwealth would be recompensed fully but not excessively for its commutation outlays.

6.04 In a perfect world, refunds would be made to all DFRDB superannuation pensioners since 1973 to balance the books. But many are deceased, and it is beyond the intention of the Act that descendants receive DFRDB defined benefits other than certain child benefits for a limited time. Unlike modern superannuation funds (accumulation), lump sums do not pass from DFRDB to the estate of deceased members, so it is reasonable in DFWA's view that refunds also do not pass to these estates.

6.05 Any refunds should only be paid to living DFRDB superannuation pensioners including reversionary pensioners, meaning that the Commonwealth would still remain significantly over-recompensed for its commutation outlays since 1973.

6.06 But DFWA also recognises reality, particularly given the Commonwealth's budgetary position resulting from its COVID-19 outlays. Even without COVID-19 pressures, history demonstrates that the Government and its advisors would resist any lump sum commutation refunds or even DFRDB pension adjustments on the grounds that the Commonwealth cannot afford it. We simply respond by saying that underpaid DFRDB veterans could not afford to over-recompense the Commonwealth either, which all have done and all still do.

6.07 Underpaid means undervalued, making a mockery of the fine words said in recent years about veterans and their families.

6.08 But DFWA believes that pursuing refunds, no matter how well justified, for living DFRDB pensioners would generate unacceptable bureaucratic delays and obfuscation, using COVID-19 as an excuse. DFRDB superannuation pensioners are dying off, so in DFWA's view it is better for them to receive some small recognition now as opposed to a fair refund much later for those still alive.

6.09 While refunds are more than justified, DFWA's position is that DFRDB superannuation pension payments for living DFRDB pensioners including reversionary pensioners should be adjusted to reflect the correct life expectancy table applying to individuals who chose to commute.

7. Cost of Righting the Wrong

7.01 The cost of righting the wrong requires actuarial examination because each of the extant 50,000 cases is unique. DFWA is not privy to the six key data elements in 5.02 above so cannot accurately establish the cost of refunds or increases to DFRDB superannuation pensions. However, these five broad assumptions are reasonable for establishing an estimate:

1. 50,000 DFRDB pensioners affected, including reversionary pensioners.
2. Average time since separation of 20 years.
3. Average overpayment of \$400 per annum since separation (see Annex A – Illustration).
4. Average DFRDB pension of \$30,000 (rounded up from the actual \$29,261).
5. "Clawback" of 30% (previous Department of Finance benchmark) to the Commonwealth through higher income tax & GST, and lower age/service pension outlays. (Many DFRDB superannuants also receive a full or part age/service pension which, because of means testing, will reduce after any increase to the DFRDB superannuation pension).

7.02 Using these assumptions, the estimated one-off refund of DFRDB overpayments is:

1 x 2 x 3 = \$400M gross one-off (\$280M net one-off after “clawback”)

(As stated in 6.08 above, DFWA does not seek these entirely justifiable lump sum refunds. The lump sum refund figure illustrates both the “unexpected windfall” received by the government to date at the expense of today’s living DFRDB superannuants, let alone those who have already passed on, as well as the urgent need to right the ongoing wrong to the remaining – and ageing – DFRDB superannuants.)

7.03 The average annual increase to DFRDB pensions is approximately **1.3%**:

1 x 3 = \$20M gross annually (\$14M net annually after “clawback”)

7.04 DFWA is well aware that others may make different untested assumptions, as is their right, provided they are reasonable and not skewed to justify a preconceived position. But only an examination of the (circa) 50,000 individual cases can measure the true one-off and annual refund costs. And that is not difficult given that all data elements already exist.

7.05 DFWA is also well aware that veteran issues are far from the front of the Government’s mind in these difficult times but that is no reason not to consider and act upon this longstanding matter. As history demonstrates over the decades, the times are never right for any government.

8. Conclusion

8.01 The actuarially inaccurate life expectancy tables in the 1973 Defence Force Retirement and Death Benefits Act mean that individual DFRDB superannuation pensioners who chose to commute are heavily and unjustly penalised. Their superannuation pension reduction is much greater than the requirement to recompense the Commonwealth for their commutation.

8.02 For half a century the Commonwealth has been over-recompensed at the expense of DFRDB veterans and their families.

8.03 Refunds to living DFRDB superannuation pensioners including reversionary pensioners but not their descendants are fair and reasonable but, because of COVID-19 pressures, DFWA would accept corrected adjustments to DFRDB superannuation pensions. The Government would remain significantly over-recompensed.

8.04 All living DFRDB superannuation pensioners who chose to commute must have their DFRDB pension calculated in accordance with the life expectancy table applying to them *at the time they submit a commutation claim upon separation from the Australian Defence Force*. That’s fair to the DFRDB superannuation pensioner and to the taxpayer.

8.05 The principle of a reduced DFRDB superannuation pension for life should remain.

Annexes:

A. Illustration

B. A DFRDB Primer

ANNEX A ILLUSTRATION

A Simple Illustration

Take the cases of two **men**⁽⁹⁾ separating from the ADF in **1996** after a **minimum 20 years full-time service**, which is the minimum to be eligible for a DFRDB superannuation pension.

One man is aged 40 at separation, the other 50.

Age on Separation from ADF	Male Life Expectancy at Given Year ⁽⁶⁾				
	<u>1960-62</u>	1975-77	<u>1995-97</u>	2010-12	Difference <u>1960-62 to 1995-97</u>
40	31.84	32.81	37.88	41.51	6.04 years
50	23.13	24.05	28.64	32.20	5.51 years

Assume that **each member commuted \$50,000** upon separation from the ADF in 1996:

1. 40-year-old man.

- 1.1 Using the Act's outdated 1960-62 life expectancy figure, the 40-year-old man's DFRDB superannuation pension reduces by \$1,570 per annum because he must 'repay' his \$50,000 commutation over a 31.84-year period.
- 1.2 Using the correct 1995-97 life expectancy figure, the 40-year-old man's DFRDB superannuation pension would reduce by \$1,320 per annum because he would now have 37.88 years to 'repay'.
- 1.3 The difference for this 40-year-old man is **\$250 per annum**.
- 1.4 This man is overpaying the Government by \$250 each year (since 1996).

2. 50-year-old man.

- 2.1 Using the Act's outdated 1960-62 life expectancy figure, the 50-year-old man's DFRDB superannuation pension reduces by \$2,162 per annum because he must 'repay' his \$50,000 commutation over a 23.13-year period.
- 2.2 Using the correct 1995-97 life expectancy figure, the 50-year-old man's DFRDB superannuation pension would reduce by \$1,746 per annum because he would now have 28.64 years to 'repay'.
- 2.3 The difference for this 50-year-old man is **\$416 per annum**.
- 2.4 This man is overpaying the Government by \$416 each year (since 1996).

⁹. Life expectancies for women are different from men but the principle remains the same.

⁶. Australian Government Actuary at aga.gov.au/publications/life_table

Notes:

1. Each of the 51,949 DFRDB superannuation pension recipients is a unique case. The cases above are merely illustrative.
 2. Most but not all DFRDB superannuation pensioners chose to commute. The illustration only applies to those who chose to commute.
 3. Around 30% of a life table increase would be 'clawed back' by the Government through reduced welfare pensions and increased income tax and GST.
 4. Unlike pension payments from today's superannuation schemes (accumulation schemes), DFRDB superannuation pensions are taxable.
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The Defence Force Retirement and Death Benefits Scheme

A Primer

The Defence Force Welfare Association recognises that the DFRDB scheme is complex, arguably the most complex superannuation scheme in Australia's history. Scheme members and administrators, let alone casual observers, have difficulty understanding it. This primer may help explain DFRDB's key elements.

Contents

- Military Superannuation Schemes – Background
 - DFRDB Features
 - DFRDB Funding
 - DFRDB Benefits
 - Commutation
 - Indexation of Benefits
 - Taxation
 - Officer Penalties
 - Pension Effects
 - Reversionary DFRDB Pensions
 - Current DFRDB Data
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Military Superannuation Schemes – Background

- The DFRDB scheme replaced the 1948 Defence Force Retirement Benefits scheme (DFRB). DFRB members were compulsorily transferred to DFRDB on 1 October 1972.
- The DFRDB Act passed in 1973 but the scheme was deemed to start from 1 October 1972.
- DFRDB is a defined benefits scheme. So was the DFRB scheme.
- DFRDB closed to new entrants on 1 October 1991 when the Military Superannuation and Benefits Scheme (known as MilitarySuper or MSBS) commenced.
- DFRDB contributors were not compulsorily transferred to MSBS but had a window of opportunity to do so. DFRDB beneficiaries (military superannuation pensioners) could not transfer to MSBS.
- MSBS is a hybrid scheme, part defined benefits and part accumulation. MSBS closed to new entrants when ADF Super came into being on 1 July 2016.
- ADF Super is an accumulation scheme.
- DFRDB and all other military and public service superannuation schemes are now administered by the Commonwealth Superannuation Corporation, established in 2011. Parliamentary and judicial superannuation schemes are administered by the Department of Finance.

DFRDB Features

- Is a defined benefits scheme.
- Resulted from the work of a bipartisan parliamentary inquiry, the Jess Review, in 1970-72.
- Recognised that the then compulsory separation (“retirement”) age was 47 years (with some exceptions).
- Aimed to encourage ADF members to serve for at least 20 years and to assist transition to civilian life.
- Required compulsory contributions from pre-tax pay by all DFRDB serving members.
- Limited DFRDB membership to full-time ADF members. Part-time reservists were ineligible.
- Required at least 20 years full time ADF service (with a few exceptions) before being eligible for any DFRDB superannuation pension or for any other employer benefit.
- Spouses of eligible members may receive a reversionary DFRDB pension but deceased estates receive no lump sum benefits.
- Benefitted few DFRDB contributors after their separation from the ADF.

DFRDB Funding

- DFRDB contributors pay 5.5% of their gross pre-tax “salary for superannuation purposes” to their employer, the Government. This equates to some 7% or more of a contributor’s net salary after his/her income tax deductions. Contributions are compulsory.
- No separate “DFRDB Fund” exists. DFRDB’s predecessor scheme, DFRB, had its own fund. DFRDB contributor payments go to the Consolidated Revenue Fund.
- The employer, the Commonwealth, does not contribute up front to DFRDB funding but funds all benefits.

DFRDB Benefits

- Contributors (with a few exceptions) must serve for at least 20 years before receiving any benefit from their employer, the Commonwealth.
- Contributors (with the same few exceptions) separating from the ADF with less than 20 years service only receive back their own contributions. The Commonwealth does not pay any interest to these contributors, nor does it recompense them for the loss of value of their dollars due to inflation during their time in the ADF. There is no “employer” benefit.
- Compulsory contributions by DFRDB members who separate with less than 20 years service amount to an interest-free loan by the member to his/her employer, the Commonwealth.
- Data currently available to DFWA suggests that at least 65% of DFRDB contributors separated from the ADF with no “employer” benefit. ([sciencedirect.com/science/article/pii/S0165176514004248](https://www.sciencedirect.com/science/article/pii/S0165176514004248)) . DFWA cannot now find an exact figure on Government websites.
- DFWA research in the early 2000s found that some 76% of DFRDB members separated with less than 20 years service and were thus ineligible for any employer benefit.
- A reasonable estimate is that around 70% of DFRDB members since the scheme’s commencement in 1972 did not receive any employer benefit from their superannuation scheme.

Commutation

- Commutation is available to DFRDB members with 20 or more years of full time ADF service. Up to four years initially (later five years) DFRDB superannuation pension may be taken as a lump sum.
- Commutation is not a loan. It results in a reduced DFRDB superannuation pension for life.
- The purpose of commutation was to help the former serviceman/woman buy a home or a business, or otherwise assist in their transition to a productive civilian life after the disruptions and (then) low pay inherent in an ADF career. Unlike today, most ADF members were required to retire by age 47 and had very little in the bank, making commutation an important transition benefit.
- The estate of a beneficiary who dies before reaching their life expectancy is not required to repay the Commonwealth. In effect, those who live longer are subsidising those who die earlier.
- The DFRDB superannuation pension reduction is calculated with reference to the Life Tables in the 1973 DFRDB Act. These tables do not reflect the significant life expectancy increases since the mid-1970s, so the recompense by DFRDB beneficiaries far exceeds the commuted sum initially provided by the Commonwealth. The transaction should be cost-neutral for both the DFRDB pensioner and the Commonwealth but is heavily skewed in the Commonwealth's favour.
- Most eligible DFRDB members commuted. A recent estimate of 85% is in DFWA's opinion on the low side but definitive data is not available to DFWA.

Indexation of Benefits

- Indexation from DFRDB's inception until 1 July 2014 was to the Consumer Price Index (CPI) only, despite the Jess Committee's strongly held view that DFRDB pensions should be indexed to wage/salary increases as is the case for parliamentarians who are members of the now-closed Parliamentary Contributory Superannuation Scheme (PCSS).
- Changes to the definition of CPI in the late 1980s meant that CPI indexation did not maintain the purchasing power of DFRDB superannuation pensions. Indexation to CPI alone remains unfair in 2020.
- But DFRDB superannuation pensions since 1 July 2014 for beneficiaries aged 55 or older are now indexed to the better of increases in the CPI or the Pensioner and Beneficiary Living Cost Index (PBLCI) with reference to Male Total Average Weekly Earnings (MTAWE). This fair method was applied to Age and Service welfare pensions in August 2009, five years before benefitting any DFRDB members..
- DFRDB superannuation pensions for beneficiaries aged under 55 are still only indexed to CPI, which does not maintain purchasing power.
- MSBS preserved "employer" benefits for all ages are also only indexed to CPI.
- Unfair CPI indexation means that the purchasing power of these DFRDB and MSBS superannuation pensions decreases with time.
- The few DFRDB members who chose not to commute are penalised further because the portion of their DFRDB superannuation pension that could have been commuted, but was not, is not indexed at all (not even to the unfair CPI). This means that the purchasing power of these uncommuted DFRDB superannuation pensions decreases even more rapidly than for under-55s who commuted.

Taxation

- DFRDB is classed as an “untaxed” scheme because the employer, the Government, did not pay any contributions tax, currently 15%. All other employers including state governments are required to pay contributions tax to the Government, meaning that their defined benefits and other superannuation schemes are in most cases classed as “taxed” schemes.
- By convention and for obvious common sense reasons, the Commonwealth Government does not pay tax to itself. But, because it does not do so, DFRDB superannuation pensions are taxed in the hands of the recipient less an arbitrary 10% income tax offset.
- Most Australians are members of “taxed” schemes. These Australians do not pay income tax on their superannuation pension benefit. If the Government had paid contributions tax to itself then DFRDB superannuation pensions would also be tax free because DFRDB would be a “taxed” scheme. As it is, DFRDB is cost/revenue neutral for the Government under employer superannuation contribution principles but individual DFRDB recipients are then penalised because of an employer decision. This taxation situation is worthy of “Yes, Minister!”

Officer Penalties

- Navy, Army and Air Force commissioned officers (not other ranks) who separate from the ADF after 20 years service but before reaching the notional retiring age for their rank are penalised. The penalty is 3% of their DFRDB superannuation pension for each year before their notional retiring age would have been reached.
- For example, a colonel or equivalent separating at age 46 is penalised 12% of his/her DFRDB superannuation pension because a colonel’s notional retiring age is 50. The reduced DFRDB superannuation pension for these officers means that their commutation benefit is also reduced.

Pension Effects

- Most DFRDB pensions help support a couple. The mean DFRDB superannuation pension of \$29,261 per annum (CSC Annual Report 2018-19) is less than the couples rate of the age pension (\$36,582) and not vastly more than the single rate (\$24,268). DFRDB recipients are not ‘fat cats’.
- DFRDB pensions are superannuation pensions, not welfare pensions. But most DFRDB recipients would be eligible for part or full age/service pensions because DFRDB superannuation pensions are so demonstrably inadequate, even when the life table issue is resolved.

Reversionary DFRDB Pensions

- When a DFRDB beneficiary dies, his widow (or her widower) is normally entitled to portion of the deceased beneficiary’s DFRDB superannuation pension. The entitlement is 62.5%¹ of the beneficiary’s uncommuted DFRDB pension, whether or not the deceased member had commuted. It is known as a *reversionary pension*.
- Reversionary DFRDB pensions are taxable, and are not fully indexed.

1. By way of comparison, widow/ers under the Parliamentary Contributory Superannuation Scheme receive 67% of the deceased beneficiary’s PCSS pension. DFWA is unaware of the reason for this disparity. PCSS closed to new members in 2004, thirteen years after DFRDB.

Current DFRDB Data

(Derived from Commonwealth Superannuation Corporation 2018-19 annual report)

• Contributors (i.e. still serving) ² :	1,214
• DFRDB Member Contributions (\$000):	8,460
• Average (mean) Contribution (\$):	6,969
• Pensioners:	51,949 (includes reversionary pensioners)
• Pensions Paid (\$000):	1,520,080
• Average (mean) DFRDB Pension (\$):	29,261 ³

2. Most serving contributors are in senior appointments. Because the DFRDB scheme closed to new members in 1991, serving contributors in 2019 (when these data were recorded by CSC) would be ADF members with at least 28 years service.

3. Mean DFRDB superannuation pensions rose by 91.8% from 1996 to 2019 (\$15,254 to \$29,261). Age/Service partnered pensions including supplement rose by 139.8% over the same 23 year period (\$15,023 to \$36,030).

Principal References:

- Australian Government Actuary life expectancy tables
 - Commonwealth Superannuation Corporation Annual Reports
 - Joint Select Committee on Defence Forces Retirement Benefits Legislation (“Jess Committee”) Report – May 1972
 - Defence Census 1991
 - Parliamentary Library Background Paper 6 1997-98 (David Anderson, Foreign Affairs, Defence and Trade Group, 10 November 1997)
 - Defence Census 2015
 - Commonwealth Ombudsman – Investigation into the Administration of the DFRDB Scheme – 12 Dec 2019
 - Social Security Guide – 1 May 2020 (guides.dss.gov.au)
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