Defence Force Retirement and Death Benefits (DFRDB) Scheme

A SYNOPSIS OF CONCERNS

Introduction

For many years now, recipients under the DFRDB superannuation scheme have been raising concerns about the ongoing reduction of their benefits. The major concerns being:

- The reduction of all their benefits, i.e. retirement pay, invalidity pay and reversionary pensions for widows, widowers and dependent children, which has resulted from the manner in which those benefits were indexed before 1 July 2014 and continue to be indexed for those aged under 55.

- The commutation arrangement which provided those who served for a minimum of 20 years with a pre-payment of a part of their future retirement pay entitlement, in order to help them re-establish into civilian life. In exchange, their ongoing retirement pay is disproportionately reduced on the basis of grossly outdated life expectancy factors.

- The failure to apply the full amount of indexation increases to the uncommuted (notional) rate of retirement pay used as the basis for all spouses’ and dependent children’s reversionary pension entitlements.

The Ministers responsible have refused to address these concerns, delegating the provision of a response to their Department. Those responses have been a consistent set of cut and pasted replies which have failed to justify the existence of these provisions.

A raft of other concerns with the DFRDB scheme include:

- The reduction of the final commutation payment for retirees who commuted and then re-enlisted, because the recovery of their initial commutation amount does not take account of the corresponding retirement pay reduction.

- The failure to fully refund, to those who did not complete a minimum of 20 years’ service, their contributions to the scheme, let alone any interest on those contributions.

- The almost 2% reduction of indexation increases by the Hawke/Keating Government during the period from October 1986 to October 1989.

- The valuation of the DFRDB income stream for the determination of the ATO’s Transfer Balance Cap.

- The taxation of DFRDB benefits.

- The offset of DFRDB indexation increases with a decreases in DVA Service Pension, resulting in a reduced net rate of indexation of the combined DFRDB/Service Pension benefit for those who are in receipt of a Service Pension.

The Effect of Unfair Indexation

The CPI was specifically rejected by the Joint Parliamentary Jess Committee which laid down the provisions for the DFRDB scheme as a basis for the automatic adjustment of benefits, because it was well known that the CPI did not fairly represent changes in general community standards.
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Yet, although it continued to fall markedly below Male Total Average Weekly Earnings (MTAWE), right up to the effective date of the 1977 DFRDB Act amendment which incorporated automatic adjustments, the CPI was chosen as the basis for those adjustments. The intent could not be more obvious.

From 1991 to 2013, the CPI fell more than 25% below MTAWE, resulting in a large scale reduction of DFRDB benefits. While the method of indexation was changed on 1 July 2014 for those aged 55 and over, it did not address the effect of the preceding method of indexation, which was inequitable across the recipient population.

The retirement pay for a member who retired after July 2014 is in the order of 50% higher than that for a member who retired before 1992 with the same rank and years of service. For those who retired between 1992 and 2014, that differential decreases to 0%.

The degree of disadvantage resulting from this unfair method of indexation has been the greatest on the oldest recipients who are the least capable of defending themselves.

The Inequitable Commutation Arrangement

Through the use of outdated life expectancy factors and permanent reduction of retirement pay after members elected to receive a pre-payment of part of their retirement pay entitlement, commutation was transformed into highly inequitable and disproportionate exchange, where the total reduction of retirement pay is typically 4 to 5 times the pre-payment amount.

A consistent response touted by the Minister’s Department has been:

"It is a common misunderstanding that those members who choose to commute will have their retirement pay restored to the full amount once they exceed their life expectancy factor."

It may well have been a misunderstanding but that was the understanding which was given to members by the Department of Defence and the DFRDB Authority. That the election to commute was almost unanimous is testament to that fact. Otherwise, why would virtually every member elect to commute, knowing that to do so would place them at a serious financial disadvantage?

Another consistent response has been:

"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."

This might have some merit if;

a. members were actually required to repay their commutation lump sums rather than having their ongoing retirement pay reduced,

b. that normal life expectancy used was current at the time of retirement and

c. normal life expectancy was evenly distributed about the mean.

But that is not the case.
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A SYNOPTIS OF CONCERNS

Failure to Fully Index Spouses’ and Dependent Children’s Reversionary Pensions

When members began to question why the reversionary pension entitlements of their spouses and dependent offspring were not being fully indexed, a common response from the Minister’s Department was:

“If a member did not commute, or commuted less than the maximum allowed at the time, there was a component of the DFRDB pension that was not indexed. This aimed to ensure that members who commuted part of their pension were not disadvantaged when compared to those who did not.”

This makes no sense. How does this ensure that members who commuted would not be disadvantaged?

In his submission to Cabinet which sought Cabinet’s approval for the draft Bill, which incorporated this indexation provision, then Minister for Defence, Mr Killen, stated:

“the new principle embodied in the revised Superannuation scheme adjustment provisions is that only the portion of the pension payable from the Consolidated Revenue Fund is to be adjusted by the CPI factor”

Presumably, that new principle embodied in the revised adjustment provisions related to funded superannuation schemes, in which those Funds delivered a rate of return to their members, invariably in excess of the CPI.

While the pre October 1972 contributions by the members who were compulsorily transferred to the DFRDB scheme were paid into the DFRB Fund, post October 1972, the assets of that Fund and all subsequent contributions to both the DFRB and DFRDB Schemes were transferred to the Consolidated Revenue Fund (CRF) from where they have ever since been appropriated for the purpose of meeting the liabilities imposed by the agenda of the Government of the day.

At no point, since the commencement of the DFRDB scheme, have the contributions to the DFRB or DFRDB schemes delivered any rate of return for their members’ benefit.

Why then, when 100% of DFRB and DFRDB benefits are paid from the CRF, is a portion of the retirement/invalidity pay, on which spouses’ and dependent children’s reversionary pension entitlements are based, not being indexed only in the DFRDB scheme?

Other Concerns with the DFRDB Scheme

A more detailed discussion of the other concerns with the DFRDB scheme is beyond the scope of this paper

Conclusion

The clandestine benefit reduction provisions, incorporated in the DFRDB Act, are designed to manifest themselves long after a member’s date of retirement and demonstrate a clear intent to renege on the October 1972 commitment by the Whitlam Government to implement the superannuation scheme set down by the Joint Parliamentary Jess Committee.
Defence Force Retirement and Death Benefits (DFRDB) Scheme

A SYNOPSIS OF CONCERNS

The Department of Defence and DFRDB Authority literature, which outlined and promoted the scheme on the basis of that commitment and as a reward for completing a minimum of 20 years’ service, either omitted any reference to those provisions or worded them in a manner which obscured their effect.

This is a statement we hear on a regular basis from politicians:

“Those who put their lives on hold to serve their country deserve to know, in no uncertain terms, that we acknowledge the sacrifice they and their families have made in service to our nation, and that we are committed to being there for them now and into the future.”

But it has a hollow ring.

Herb Ellerbock

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