AUSTRALIAN DEFENCE FORCE RETIREES ASSOCIATION

We act on behalf of Defence Force Retirees and their Military Superannuation grievances

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REBUTTAL OF STATEMENTS REGARDING THE BENEFITIAL NATURE OF THE DFRDB SCHEME

From 1 July 2014, DFRB and DFRDB superannuants aged 55 and over have had their pensions indexed in the same way as age pensions. This change is estimated to provide over $4 billion in additional pension benefits to military superannuants and their families over the life of the DFRDB and DFRDB schemes.

- **In its report, i.e. the foundation of the DFRDB scheme, the Jess Committee rejected the proposal, that annual DFRDB adjustments be related directly to the CPI, because it considered; *"that the (Consumer Price) Index does not fairly represent changes in general community standards."***
- **But from 1 July 1976, automatic adjustments were linked directly to the CPI because, like the Jess Committee, the Finance Department knows that when benefit adjustments are linked to the CPI, the CPI will erode those benefits and lower the cost.**
- **Finally in 2014, after 38 years of linking DFRB and DFRDB adjustments to the Consumer Price Index, the Government introduced fair indexation for DFRB and DFRDB superannuants aged 55 and over, but it left in place, unfair indexation for those aged under 55.**
- **Indexation based on the CPI is responsible for a loss of relativity with the Fair Indexation baseline established in 2014, by almost 40% for members who retired in 1976 to 0% for those who retired after 1 July 2014. But the Government did nothing to restore the rate of their reduced pensions.**
- **The estimated cost of $4 billion is a typical over-estimation of projected costs to dissuade MPs and Senators from implementing changes. The $4 billion stated is for the remaining life of the scheme, which is at least to 2045 and as far as 2060. That amount was over-estimated because outdated DFRDB population statistics were used and the projection used a 4% per annum rate of inflation.**
- **In addition to the use of an Index which does not maintain the relativity of DFRDB benefits with the cost of living, increases in that Index are not applied to the full amount of members' retirement pay and Class C invalidity pay.**
- **From 1 July 1976 a formula was incorporated in the application of indexation increases which excluded a portion of retirement pay and Class C invalidity pay based on members' maximum commutation entitlement.**

The 2007 Podger Review found no case to increase the generosity of benefits payable to DFRB and DFRDB superannuants prior to age 55.

- **From 1991 to 2007, the CPI fell 16.7% against Average Weekly Earnings which, no doubt, led to the Podger recommendation that DFRDB and DFRB pensions for those over 55, should be indexed on a similar basis to that applying to age pensions, but did not extend that recommendation to recipients under the age of 55, because the Podger Review Terms of Reference required adherence to the government policy on preservation arrangements.**

- **Furthermore, the Podger Review Team findings are contradictory. Noting that "there was an in-principle case for changing the indexation arrangements of DFRDB and DFRB benefits", but finding; *"that CPI indexation does maintain purchasing power"*.**

The early payment of part of the DFRDB member's retirement pay in the form of a lump sum is neither an advance nor loan. The calculation undertaken to determine a member's lump sum and residual pension benefit includes a life expectancy factor. The life expectancy factor is only an element of the calculation, nothing more.

- **The lump sum is a pre-payment of future retirement pay entitlements and the life expectancy factor is the key element in the calculation of the residual pension.**

Should a member exceed the life expectancy factor used in the calculation of their lump sum, the pension is not adjusted accordingly, nor is any recovery of part of the lump sum undertaken from a deceased member's estate, should the recipient die before reaching the life expectancy factor used. The value of lifetime pensions in most schemes normally incorporate two elements; a life expectancy factor and a rate of interest that reflects the income earning capacity of the lump sum over the anticipated term of the pension payments. The commutation factor in the DFRDB scheme beneficially considers only life expectancy.

- **Recommendation 7 of the Jess report includes; "*that the Commonwealth <u>guarantee</u> the benefits provided and <u>meet all costs</u> not covered by members' contributions.*" Nothing in the Jess recommendations states that a member who lives beyond his/her life expectancy is required to compensate for a member who does not live to his/her life expectancy.**
- **Information disseminated to DFRDB members by the Department of Defence and the DFRDB Authority was misleading and failed to disclose:**
  - **That the life expectancy factors are based on 1960-1962 Life Tables.**
  - **That those Life Tables were, for the majority of retiring Members, 16 to 39 years out of date and are now 57 years out of date.**
  - **That there was a high degree of certainty that the retirement pay reductions would substantially exceed the amount commutated.**
  - **The ratio of life expectancy in the year of retirement to life expectancy in 1960-1962 was a clear indicator of the disproportion of retirement pay reduction to the commutation lump sum.**