

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

1972—*Parliamentary Paper No. 74*

**JOINT SELECT COMMITTEE ON  
DEFENCE FORCES RETIREMENT  
BENEFITS LEGISLATION**

**REPORT  
MAY 1972**

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THE COMMONWEALTH OF AUSTRALIA

AN ACT TO PROVIDE FOR THE  
ESTABLISHMENT OF A  
COMMISSION OF ENQUIRY INTO  
THE ACTS AND OMISSIONS OF  
CERTAIN OFFICIALS

1975

1975

## **MEMBERSHIP OF THE COMMITTEE**

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Senator D. M. Devitt  
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Mr D. W. Nairn

### *Adviser to the Committee*

Mr P. W. C. Stokes, O.B.E., E.D.

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## GLOSSARY

**Aggregate pay**—the sum of all *pay* received by a member of the *Defence Force* in consideration of his service as a member of the *Defence Force* (on continuous full time duty for 12 months or more).

**Contributor**—a person eligible and required to contribute to the *D.F.R.B. Fund*.

**Contributing Member**—a person eligible and required to contribute to the *Proposed D.F.R.B. Scheme*.

**Dependent**—in relation to a person in respect of whom an education allowance is payable, means that the person is unmarried; and is not being wholly supported at the approved institution of learning by an employer or potential employer.

**Defence Force**—means the Naval Forces of the Commonwealth, the Military Forces of the Commonwealth and the Air Force of the Commonwealth.

**D.F.R.B. Fund**—the Fund established under Part III of the *Defence Forces Retirement Benefits Act 1948-1971*.

**D.F.R.B. Legislation**—comprises the D.F.R.B. Acts listed and summarised as to their effect in Appendix D of this Report.

**Effective Service**—in relation to the *Proposed D.F.R.B. Scheme* means all full time service by a member of the *Defence Force* on continuous full time duty for 12 months or more, completed as a *contributing member*, from the date of entry to the *Defence Force*, and includes all periods of service the member is entitled to purchase back, but excludes periods of *non-effective service*.

**Final Pay**—the *pay* of a member for the rank and seniority of the member at the date of his retirement from the *Defence Force*.

**Invalid Pay**—the benefit payable in respect of the Committee's Recommendation 18.

**Late Entrant Officer**—in relation to the *Proposed D.F.R.B. Scheme* means an officer who, because of his late entry to the *Defence Force*, cannot complete twenty years *effective service* but can complete at least fifteen years *effective service* before being retired on the ground of age.

**Pay**—in relation to the *D.F.R.B. Legislation* and the *Proposed D.F.R.B. Scheme* means the 'daily rate of pay' as defined in Section 4 of the *Defence Forces Retirement Benefits Act 1948-1971*.

**Pension**—a retirement benefit payable under Sections 38, 39, 41, 51, 52, 52A, 53, 55, 57, 58 and 58A of the *Defence Forces Retirement Benefits Act 1948-1971*.

**Pensioner**—a person receiving a *pension*.

**Period of non-effective Service**—in relation to the *D.F.R.B. Legislation* and the *Proposed D.F.R.B. Scheme* means any period of service when a member of the *Defence Force* is—

- (a) on leave of absence without pay;
- (b) absent without leave;
- (c) awaiting or undergoing trial on a charge in respect of an offence of which he was later convicted;
- (d) undergoing field punishment, detention or imprisonment.

**Proposed D.F.R.B. Scheme**—the scheme proposed by the Committee in this Report.

**Pre-1959 Entrant (Contributor)**—a person who was a *contributor* to the *D.F.R.B. Fund* before 14 December 1959 and who contributes for units of pension under the *Defence Forces Retirement Benefits Act 1948-1959* while making additional contributions according to his category number under subsequent legislation (see paragraphs 69-78 of this Report).

**Post-1959 Entrant (Contributor)**—a person who became a contributor on or after 14 December 1959, whose contributions are based on a flat percentage of salary throughout service (see paragraph 67 of this Report).

**Prescribed Court**—

- (a) a court of a State or of a Territory of the Commonwealth, being a court that has limited civil jurisdiction in personal actions and can be constituted only by a Judge;
- (b) a court that has limited civil jurisdiction in personal actions and can be constituted only by a Judge or a stipendiary magistrate, being a court of a State or

of a Territory of the Commonwealth in which there is no court of a kind referred to in the last preceding paragraph; or

- (c) any other court that has limited civil jurisdiction in personal actions, being a court of a State or of a Territory of the Commonwealth in which there is no

court of a kind referred to in either of the last two preceding paragraphs.

*Recipient Member*—a person entitled to receive benefit under the *Proposed D.F.R.B. Scheme*.

*Retired Pay*—the annual benefit payable to a *recipient member* who has completed *effective service* specified in Recommendation 11.

## RECOMMENDATIONS\*

The Committee recommends—

- (1) That the present Defence Forces Retirement Benefits legislation (referred to hereafter as the D.F.R.B. legislation) be repealed and a new scheme introduced without delay. The Committee has examined the Post-1959 Scheme closely to see whether this scheme, as it stands or with modifications, would be suitable as the sole future scheme, and is unanimous that it has many defects, of which the most critical are its lack of simplicity and comprehensibility to servicemen and, therefore, should be replaced by the scheme proposed in this Report.
- (2) That the proposed scheme be a contributory retirement benefit scheme designated the Defence Forces Retirement Benefits Scheme (hereinafter called the *Proposed D.F.R.B. Scheme*) and administered by the Department of Defence. The Minister for Defence should be the responsible Minister.
- (3) That all members of the Defence Force on continuous full time duty for twelve months or more (referred to hereafter as *contributing members*) be eligible and required to join the *Proposed D.F.R.B. Scheme*.
- (4) That all *contributing members* be required to contribute at a flat rate of 5.5 per cent of *pay*.
- (5) That the terms *Pension* and *Pensioner* be discontinued; that the entitlement of a member who becomes a recipient under the *Proposed D.F.R.B. Scheme* be referred to as *retired pay* or *invalid pay*; that a person contributing to the scheme be referred to as *contributing member* and that the recipient be referred to as a *recipient member*.
- (6) That *retired pay* and *invalid pay* be expressed as a percentage of final pay and be adjusted annually so that relativity with average weekly earnings is maintained. A possible method of achieving this would be to maintain the relativity of benefits to current *pay* for the rank held on retirement.
- (7) That the *Proposed D.F.R.B. Scheme* not be 'funded'; that members' contributions not represent a fixed proportion of the cost of the benefits provided; that the contributions of members be payable to the Commonwealth; that the Commonwealth guarantee the benefits provided and meet all costs not covered by members' contributions.
- (8) That all contributors to the *D.F.R.B. Fund* be transferred to the *Proposed D.F.R.B. Scheme*. The conditions of the scheme should then apply to them.
  - (a) *Contributors* whose total past contributions have exceeded 5.5 per cent of *aggregate pay* should receive a refund of the excess.
  - (b) A *Pre-1959 Contributor* whose total past contributions have amounted to less than 5.5 per cent of *aggregate pay* should have an option to either repay the 'shortfall' over a reasonable period or have his entitlement proportionately reduced in relation to the 'shortfall' in his contributions.
  - (c) A *Post-1959 Contributor* whose total past contributions have amounted to less than 5.5 per cent of *aggregate pay* should be transferred to the *Proposed D.F.R.B. Scheme* without being required to re-pay any 'shortfall'.
- (9) That pensions and benefits payable under the D.F.R.B. legislation at the time the *Proposed D.F.R.B. Scheme* is introduced remain in force and, thereafter, be adjusted in the same manner as benefits payable to *recipient members* of the *Proposed D.F.R.B. Scheme*.

\* Terms which appear in italics are defined in the Glossary.



(10) That the existing *D.F.R.B. Fund* be transferred to the Commonwealth. The question of whether the present investments are maintained or future contributions invested as a basis for a separate welfare account is a matter for the Government to determine.

(11) **RETIRED PAY**

- (i) That a *contributing member* be eligible to receive *retired pay* upon retirement at the completion of twenty years *effective service* from the date of joining the Defence Force. A *Late Entrant Officer* to receive *retired pay* if he can complete at least fifteen years *effective service*.
- (ii) That an officer retired from the Defence Force at his own request before he has served to the retirement age designated for his rank be entitled to receive *retired pay* at the rate provided in Recommendation 11 (iii) reduced by a proportion obtained by multiplying his uncompleted years of service to retiring age by 5 per cent. The *retired pay* entitlement of an other rank member retired at his own request before the completion of his current engagement should be reduced by a proportion obtained by multiplying the uncompleted years of his engagement by 5 per cent. (Examples given in Figure VI page 28.)
- (iii) That *retired pay* entitlement accrue at the rate set out in Figure 1 below—

**FIGURE I—RETIRED PAY**

Years of <i>Effective Service for Retired Pay</i>	<i>Retired Pay as a Percentage of Final Pay</i>	Increments as a Percentage of <i>Final Pay</i>
15	30.00	
16	31.00	1.00
17	32.00	1.00
18	33.00	1.00
19	34.00	1.00
20	35.00	1.00
21	36.50	1.50
22	38.00	1.50
23	39.50	1.50
24	41.00	1.50
25	42.50	1.50
26	44.00	1.50
27	45.75	1.75
28	47.50	1.75
29	49.25	1.75
30	51.25	2.00
31	53.25	2.00
32	55.50	2.25
33	57.75	2.25
34	60.25	2.50
35	62.75	2.50
36	65.25	2.50
37	67.75	2.50
38	70.50	2.75
39	73.50	3.00
40	76.50	3.00

Bold figures indicate entitlement of *Late Entrant Officers* only.

- (iv) (a) That a former *contributing member* be entitled to purchase back all periods of past service upon re-joining the Defence Force.

- (b) That provided that no payment of *retired pay* is made during a period of *effective service* with the Defence Force a *recipient member* re-joining the Defence Force be entitled upon his eventual retirement to *retired pay* at the rate applicable to his total *effective service* with the Defence Force.
- (c) That a serving member of the Defence Force who is not a *contributor* to the *D.F.R.B. Fund* because he elected to remain on deferred pay, should not be required to contribute to the *Proposed D.F.R.B. Scheme*, but should be given the option to purchase back sufficient of his past service to qualify for entitlement under the *Proposed D.F.R.B. Scheme*, at the rate of 5.5 per cent of *aggregate pay* received during the years for which the member is buying back service.
- (d) That former members of *R.A.S.R.\** or any similar corps still serving in the Defence Force when the *Proposed D.F.R.B. Scheme* is introduced be permitted to purchase sufficient past service to qualify for benefits in the proposed scheme.

(12) REFUND OF CONTRIBUTIONS

That a refund of contributions without interest be payable to a *contributing member* who ceases to be a member of the Defence Force before qualifying for an entitlement under the *Proposed D.F.R.B. Scheme*.

(13) GRATUITIES

That the provision in the *D.F.R.B. legislation* for gratuities should not be re-enacted in the *Proposed D.F.R.B. Scheme*. The Committee considers that any such provision should be made as a normal condition of service. This aspect has been drawn to the attention of the *Committee of Inquiry into Financial Terms and Conditions of Service for Male and Female Members of the Regular Armed Forces*.

(14) COMMUTATION

- (a) That provided that the option is exercised within twelve months from date of retirement a *recipient member* should be entitled to commute an amount not exceeding four times the amount of the annual *retired pay* entitlement payable to him in the first year of his retirement.
- (b) That *retired pay* proportionately reduced in relation to commutation remain payable after commutation.
- (c) That for the purpose of determining a widow's entitlement commutation should be disregarded.
- (d) That *invalid pay* and a widow's annuity should not be capable of commutation.
- (e) That the implementation of this proposal should not affect existing rights of pensioners under the existing *D.F.R.B. legislation*.

(15) WIDOW'S ANNUITY

- (a) That the widow of a *recipient member* receive an annuity of five-eighths of his *retired pay* entitlement at the date of his death.
- (b) That the widow of a *contributing member* receive an annuity of five-eighths of his notional *invalid pay* entitlement on the assumption that he had been classified as an invalid Class 'A' at the date of his death.
- (c) That provided no widow survives the member the widow's annuity should be payable to a woman, who throughout the period of three years immediately before the member's death, although not married to him, lived with him as his wife on a permanent and bona fide domestic basis.
- (d) That provided he was dependent for support on a female *contributing member* or *recipient member* immediately before the date of her death

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\* Regular Army Special Reserve.

the annuity referred to in Recommendation 15 (a) and (b) should be payable to a widower. The annuity should only remain payable as long as the widower's financial circumstances remain substantially the same as they were immediately before the death of the *contributing member* or *recipient member*.

- (e) That upon re-marriage of a widow or widower the annuity should terminate.
- (f) That in the case of the marriage of a *recipient member* the annuity should only be payable to the widow, de facto wife, or widower, where that marriage was contracted before the *recipient member* attained age 60.

(16) CHILDREN

- (a) That a benefit be payable in respect of each child under the age of sixteen years of a deceased *recipient member* or *contributing member*. The entitlement should be \$312 per annum (reviewable at regular intervals and adjusted with rises in the cost of living) for each child plus one sixth of the widow's or widower's annuity.
- (b) That the amount in Recommendation 16 (a), (c) and (d) be payable in respect of each child of the deceased member whether legitimate or illegitimate.
- (c) That where a child under the age of sixteen years is orphaned, a benefit in respect of each such child, of \$702 (reviewable at regular intervals and adjusted with rises in the cost of living) plus one eighth of the widow's or widower's annuity be payable.
- (d) That provided a child remains *dependent* and under the age of twenty-five years the benefit payable under (a), (b) or (c) be paid as an education allowance for the period that person is a student undergoing full time education at an approved institution of learning or instruction.

- (17) That there be payable to the estate of a *contributing member* or *recipient member* who dies without leaving dependents eligible for benefits provided by the *Proposed D.F.R.B. Scheme* an amount equal to one and a half times his contributions. But the value of any *retired pay* or other benefit received by a *recipient member* should be deducted from the amount payable to his estate.

(18) INVALID PAY

(a) *Initial classification*

That the file and other documents relating to a member discharged from the Defence Force medically unfit be sent to an Assessment Tribunal consisting of a panel with qualified medical members and members with industrial experience. This Tribunal to determine:

- (i) his degree of disability;
- (ii) his degree of incapacity in relation to civilian employment and classify him 'A', 'B' or 'C' with an entitlement as prescribed in Figure II.

FIGURE II

<i>Degree of disability and/or incapacity in relation to civilian employment</i>	<i>Classification</i>	<i>Entitlement</i>
100-60	A	<i>Invalid pay</i> at the rate of 70 per cent of <i>final pay</i>
59-30	B	<i>Invalid pay</i> at the rate of 35 per cent of <i>final pay</i>
29-0	C	A lump sum comprising one and a half times his contributions

(b) *Re-classification*

That the Assessment Tribunal re-examine each invalid retiree from time to time and adjust his classification upon improvement or deterioration in his degree of disability or degree of incapacity in relation to civilian employment. An invalid retiree's earnings in civilian employment should not be taken into account in assessing his entitlement. An invalid retiree should have the right to initiate review of his classification.

(c) *Appeal*

That a member aggrieved by the determination of an Assessment Tribunal should have the right to apply to an Appeal Tribunal, separately constituted but of similar composition to the Assessment Tribunal, and that this body should have the power to affirm, vary, or substitute for that of the Assessment Tribunal, its own assessment of the member's degree of disability or incapacity in relation to civilian employment. Subject to the requirements of the *Constitution of the Commonwealth of Australia* decisions of this body should be final in respect of those matters it is empowered to examine. Such further appellate procedure as may be regarded as necessary to meet the requirements of the *Constitution of the Commonwealth of Australia* should be included in the legislation.

(19) DISPUTES

That a person whose rights under the *Proposed D.F.R.B. Scheme* are affected by a decision of an authority appointed to administer the proposed scheme should have the right to appeal to a *Prescribed Court* against that decision. Further right of appeal in keeping with requirements of the *Constitution of the Commonwealth of Australia* from the decision of the *Prescribed Court* should be provided.

(20) SERVICE DISCIPLINE

- (a) That where a member has been absent without leave for a period of twenty-eight days or been officially recorded as a deserter he should cease to be a member of the scheme. His dependants should lose all right to benefits in respect of his death on the twenty-ninth day of his absence, or the day he has been officially recorded as a deserter, whichever occurs first. But should he die absent without leave before he has ceased to be a member of the scheme, his dependants should retain their entitlement.
- (b) That *retired pay* or other entitlement of any member should not be reduced by reason only that the member has refused to sign on to a Reserve maintained by the Service of which he was a member.
- (c) That subject to (a), a *contributing member* who has length of service sufficient to qualify him for *retired pay* should not forfeit that entitlement in the event of his discharge from the Defence Force on disciplinary grounds.

## INTRODUCTION

This Report from the Joint Select Committee on Defence Forces Retirement Benefits Legislation brings to an end an Inquiry which commenced in early September 1970. In an Interim Report presented to Parliament on 7 December 1971 the Committee explained why it had been unable to bring its deliberations to an earlier conclusion. We are now able to present findings on the present legislation and to make certain recommendations which, if adopted should meet the needs of the Defence Force for Retirement Benefits in the foreseeable future.

2. The Committee was appointed pursuant to resolutions of the House of Representatives and the Senate and came into being on 2 September 1970.

### Resolution of Appointment

3. The resolution of appointment of the Committee provides—

- (1) That a Joint Select Committee be appointed to inquire into and report upon the Defence Forces Retirement Benefits legislation in relation to—
  - (a) its aims and objectives;
  - (b) the complexities of the legislation and any means by which the legislation might be simplified and improved;
  - (c) the rates of contribution by members;
  - (d) any differences, as between members, in the benefits provided;
  - (e) any anomalies and inequities that might exist;
  - (f) the frequency of and delays in actuarial investigations on the state and sufficiency of the Defence Forces Retirement Benefits Fund; and
  - (g) administration of the Fund.
- (2) That the committee consist of three Members of the House of Representatives to be appointed by the Prime Minister, two Members of the House of Representatives to be appointed by the Leader of the Opposition in the House of Representatives, one Senator to be appointed by the Leader of the Government in the Senate, one Senator to be appointed by the Leader of the Opposition in the Senate and one Senator to be appointed by the Leader of the Democratic Labor Party in the Senate.
- (3) That every appointment of a member of the committee be forthwith notified in writing to the President of the Senate and the Speaker of the House of Representatives.
- (4) That the Chairman be nominated by the Prime Minister from one of the members to be appointed by him.
- (5) That the Chairman of the committee may from time to time appoint another member of the committee to be Deputy Chairman, and that the member so appointed act as Chairman of the committee at any time when the Chairman is not present at a meeting of the committee.
- (6) That the committee have power to appoint sub-committees consisting of three or more of its members, and to refer to any such sub-committee any matter which the committee is empowered to examine.
- (7) That the committee or any sub-committee have power to send for persons, papers and records, to move from place to place, and to sit during any recess or adjournment of the Parliament and during the sittings of either House of the Parliament.
- (8) That the committee have leave to report from time to time and that any member of the committee have power to add a protest or dissent to any report.
- (9) That three members of the committee, including the Chairman or Deputy Chairman, constitute a quorum of the committee, and two members of a sub-committee constitute a quorum of the sub-committee.
- (10) That the Chairman or the Deputy Chairman presiding at a meeting have a deliberative vote and, in the event of an equality of voting, also have a casting vote.
- (11) That the committee report to the Parliament as soon as possible.
- (12) That the foregoing provisions of this resolution so far as they are inconsistent with the standing orders, have effect notwithstanding anything contained in the standing orders.

- (13) That a message be sent to the Senate acquainting it of this resolution and requesting that it concur and take action accordingly.

#### Appointment of members to the Committee

4. Message No. 65 dated 2 September 1970, from the Senate was reported concurring in the resolution of the House. On the same day the House was informed that Senator Maunsell had been appointed by the Leader of the Government in the Senate, Senator Devitt had been appointed by the Leader of the Opposition in the Senate and Senator Byrne had been appointed by the Leader of the Democratic Labor Party in the Senate.

5. Mr Jess, Mr Hamer and Mr Bonnett were appointed by the Prime Minister, Mr Barnard (Deputy Leader of the Opposition) and Mr Crean by the Leader of the Opposition. The House was informed that Mr Jess had been appointed by the Prime Minister to be Chairman of the Committee. Pursuant to the resolution of appointment the Chairman later appointed Mr Crean as Deputy Chairman of the Committee.

#### The Inquiry

6. The resolution of appointment requires the Committee to inquire into and report upon the legislation in relation to the terms of reference set out in paragraph 3. Shortly after its appointment the Committee met and discussed how best to approach the Inquiry in the light of these terms of reference.

7. The appointment of the Joint Select Committee reflected the concern of private members and of Senators of all parties with the operation of the present legislation. In particular the very high contribution rates that were being required of certain *pre-1959 entrants* to the scheme, the delays in completion of the statutory actuarial reviews and the ever growing complexity of the legislation were causing concern.

8. The Committee, therefore, agreed that it should advertise as widely as possible seeking submissions on its terms of reference from members of the public, particularly from serving and retired members of the Defence Force. Advertisements were inserted in major metropolitan newspapers and in local newspapers circulating in the vicinity of defence establishments. The Service Departments were each asked to ensure that the Committee's

appointment, its terms of reference and its request for submissions be given wide publicity within the Defence Force.

9. Because it was anxious that serving members of the Defence Force should have the unrestricted right to communicate directly with the Committee it advised the Service authorities of this and servicemen and women were informed that they could write directly to the Committee.

10. In response to its invitation the Committee received 459 submissions concerning the scheme. Most of these were from individual members of the Defence Force and retired members. Submissions were also received from the Service Departments supported by the Service Boards, and from organisations representing serving and retired members of the Defence Force.

11. A selection of submissions was made for presentation at public hearings. The aim of the Committee was to canvass as widely as possible the various views that had been expressed. Before embarking on this part of its Inquiry the Committee requested Mr L. K. Burgess, Chairman of the D.F.R.B. Board, to make a preliminary submission briefing the Committee on the operation of the legislation.

12. The submissions received by the Committee confirmed the impression that widespread discontent with the scheme existed. Many submissions establish grounds for real grievance with the scheme as it operates; others indicate a lack of understanding of how the scheme operates, particularly the way in which the benefits are financed; others confirm the complexity of the scheme by revealing widespread misconceptions concerning its real effect.

13. The Committee approached the Inquiry conscious of a number of matters which although not immediately related had an important bearing on the Inquiry. It recognised, firstly, that the provision made for the retirement benefits in the existing legislation was only one aspect of conditions of service and the problem of industrial relations in the Defence Force. On 16 October 1970 the Minister for Defence announced the appointment of a *Committee of Inquiry into Financial Terms and Conditions of Service for Male and Female Members of the Regular Armed Forces* under the Chairmanship of the Honourable Mr Justice John R. Kerr, C.M.G., a

Judge of the Commonwealth Industrial Court, with wide ranging terms of reference covering the pay and allowances structure of the Defence Force. That Inquiry has been taking place at the same time as the Inquiry of this Committee.

14. The Committee has also had to consider the D.F.R.B. scheme in the light of the provision of retirement benefits, generally, elsewhere in this community. During the course of this Inquiry there have been developments in the general field of superannuation and retirement benefits that have affected the Committee's deliberations. In 1971, the Commonwealth Government passed legislation to introduce a measure of portability and preservation of pension rights. The ambit of that legislation does not extend beyond the public sector of employment and it is not as yet fully operational within that area. The Committee appends a paper prepared by the Commonwealth Treasury as part of its submission to the Committee which explains the operation of this legislation and its implication for the present D.F.R.B. legislation (Appendix B).

15. The Committee obtained information on the schemes, applicable to the Defence Force, operating in some comparable countries overseas. It has examined the schemes which apply in Canada, the United States of America and the United Kingdom. Some of these schemes are non-contributory which is a principle which, for reasons given in paragraphs 44-48, the Committee does not favour. Certain features of all these schemes have recommended themselves to the Committee, particularly the principle of retirement benefits based on length of service rather than age at retirement. Other features of these schemes have been difficult to place in perspective because of the different social context in which those schemes operate.

16. The conclusions this Committee has reached on the provision for retirement benefits that should be made for members of the Defence Force have assumed that, apart from improvements to pay and allowances that may

result from the recommendations of the *Committee of Inquiry into Financial Terms and Conditions of Service for Male and Female Members of the Regular Armed Forces*, the general conditions of service as they apply to members of the Defence Force will remain substantially as they now are. This means that the Committee assumes that officers will continue to retire at fixed ages between age 45 to age 60 with the majority retiring between ages 50 and 55. That other rank members will continue to engage for short periods of between six and twelve years and that the Services will continue to maintain stringent fitness standards. It has also been necessary to assume that the general social context within which these benefits are provided will remain unchanged.

17. The terms of reference direct an Inquiry into the existing legislation. Our analysis has led up to the conclusion that the existing legislation does not make adequate provision for retirement benefits given the special circumstances of service in the Defence Force. It is our conclusion that a completely new scheme should be introduced and we make recommendations as to the form that this scheme should take.

18. The Committee has been most anxious to obtain estimates of the likely cost to the Commonwealth of the proposed scheme. Its endeavours to obtain accurate estimates have led to delays in the completion of the Inquiry. In an Interim Report presented to Parliament on 7 December 1971 it was explained that the Report would be withheld until estimates could be obtained from the Commonwealth Actuary. Although certain estimates have been obtained to which reference is made later in this Report the Committee has not been able to obtain the kind of costing it originally requested.

19. Throughout this Inquiry the Committee has had the assistance, as Adviser, of Mr P. W. C. Stokes, O.B.E., E.D. In his capacity as Adviser Mr Stokes has made a valuable contribution to this Inquiry and the Committee is indebted to him for making available his knowledge and experience.

## CHAPTER I—AIMS AND OBJECTIVES

20. The Committee has had to consider the present scheme in relation to its aims and objectives. It has also been necessary for the Committee to reach its own conclusions on what the aims and objectives of the scheme should be on the basis of what has been revealed and what it has concluded concerning the present scheme. Before reaching conclusions on aims and objectives it is desirable to outline the development of the D.F.R.B. scheme and to place it in context within the public sector and in relation to the provision made generally in the community for retirement benefits.

### **The Evolution of the Defence Forces Retirement Benefits Scheme**

21. The Defence Forces Retirement Benefits legislation was introduced in 1948 in conjunction with a general review of policy in relation to the Defence Force. The possibility of a uniform scheme of retirement benefits for permanent members of the Defence Force was assisted by the introduction of a pay code for the Forces in July 1947, bringing members of the Navy, Army and Air Forces on to a uniform basis of pay and allowances. Before these changes members of the Defence Force had been entitled to retirement benefits, but the provision of these was by no means uniform. Associated with the revised pay code was the introduction of lower retiring ages for Army officers more in line with those for officers of Navy and Air and the reduction of the compulsory retiring age for other ranks of the Army and Air Force from 60 to 55 years. The D.F.R.B. scheme was introduced to meet the special needs of the Defence Force for retirement benefits under the new conditions of service.

22. The type of scheme that resulted was similar to other public sector schemes in existence, particularly the Commonwealth Public Service Superannuation Scheme. Broadly this involved the establishment of an actuarially based superannuation scheme, membership of which was compulsory, financed partly by members' contributions and partly by Government subsidy and administered by an independent statutory authority.

The range of benefits included pensions payable on retirement, pensions payable to persons invalided from the Defence Force, and pensions payable to dependants where the death occurred of a serving member or of a pensioner.

23. In establishing a scheme for the Defence Force in 1948, it was necessary to depart in certain fundamental respects from other public sector occupational retirement benefit schemes in existence at the time. It was recognised that the Defence Force had special requirements which could not be catered for within the framework of existing schemes. A committee under the Chairmanship of the Minister for Defence and Post War Reconstruction, the Honourable J. J. Dedman, M.P., had furnished a report making recommendations to the Government. These formed the basis for the 1948 legislation.

24. The scheme differed in a number of respects from the Commonwealth Public Service Superannuation Scheme upon which it was patterned, but was similar in concept. A similar range of benefits was provided as for other Commonwealth employees, but it was necessary to establish a pension structure that would provide retirement benefits for officers, who, under the new organisation of the Defence Force retired at a variety of retiring ages much lower on the whole than the retirement ages of 60 and 65 which were usual in most civilian employment. It was also necessary to provide a structure of pension for other rank members, recognising the peculiarities of the system of engagements in the Defence Force. Special provision for invalid retirees was made, and the scheme made provision for retirees to commute a portion of future pension entitlement, under certain conditions, in order to obtain a lump sum. This was an unusual feature for public sector retirement benefit schemes at the time.

25. It was accepted that the scheme would be ultimately funded on a full actuarial basis, but the novelty of some of the provisions led to an interim arrangement for financing the benefits. This remained in force until 1959. Members paid the same rate of contributions for units of pension as paid by contributors to



the Commonwealth Public Service Superannuation Fund for retirement benefits at age 60. The benefits were prescribed in schedules to the legislation and were fixed in relation to each rank.

26. The cost of providing the benefits was not apportioned between contributors and the Commonwealth in strict shares, but the accumulated contributions of the member were paid into a pension account, the Commonwealth meeting the cost of the benefit once the contributions of the member were exhausted. A review in later years showed that the proportion of the pension granted which was being financed from different members' contributions under this method varied to a marked extent but that the overall average was 15 per cent of the total pension benefit granted. In 1959, a committee chaired by Sir John Allison, was appointed to advise the Treasurer and Minister for Defence on the Defence Service pay code. Its terms of reference included the direction: 'To review the Defence Forces Retirement Benefits Scheme'. Following on the report of that committee substantial changes were made to the scheme by amendments to the legislation in 1959. In the report of the Commonwealth Actuary for the actuarial investigation 1959-64,<sup>(1)</sup> the effect of the 1959 amendments were described in the following terms:

(b) In order to establish a basis for the calculation of contributions to be paid by entrants to the Scheme after 1959 and by existing contributors for additional benefits which they might take up in future, it was necessary to determine the proportion of benefits which would be met by the Fund. . . . the Fund was meeting, on the average, 15 per cent of the cost of existing pensions which were related to units of pension. This proportion was retained for pension entitlements related to units of pension already held by contributors who entered before 1959. In order to relate the Fund's share of pension entitlements granted after 1959 to a contributor more closely to the share applying in other Commonwealth Superannuation schemes, the Fund was charged with 22½ per cent of the cost of such entitlements.

(c) Following on from the determination of the Fund's share of benefit costs as outlined above, actuarially calculated contributions were prepared for Post-1959 entrants and were included in a schedule to the Act. The

contributions were obtained by applying a percentage, actuarially determined, to the salaries for each rank payable at 14 December 1959.

The percentages for Officers were related to broad groupings of the Branches of each Service . . . which are called Officers (Group A) and Officers (Group B). The basis of these groupings is an allocation of those Branches having comparable ranges of retiring ages to a common scale of percentage contributions. The percentages for the former group commenced at the rate of 5 per cent for ages at entry before age 24 and increased for later entry ages. The percentage for the latter group and for Other Ranks was 5 per cent to age 30 at entry, with higher percentages thereafter.

These rates of contribution were estimated to be sufficient to meet the new entrant's prescribed share of 22½ per cent of the total cost of the new pensions included in the amending Act, plus the whole of the cost of any refunds of contributions. . . .

The benefits for Pre-1959 entrants were replaced by the new pension schedules. Contributors who had entered before 1959 continued to pay their unit of pension contributions into the Fund for their Pre-1959 entitlements and could pay additional contributions to build up their benefit entitlement to that provided by the new schedules. The additional contributions were calculated individually, the basis being that these contributions meet an average 22½ per cent of the cost of the additional benefits (the range is from 20 per cent for early retiring ages to 28.6 per cent for age 60), taking into account the increase in benefits desired, the member's age, the rate of widows' pension and the period over which he was expected to make payment. A similar calculation is made each time such a member has elected to pay additional contributions in order to obtain the whole of an increase in benefit entitlements arising from promotion or other causes.

During 1962 and 1963, a major revision of the pension and contribution arrangements for Post-1959 entrants was made, to deal with the problem of salary inflation in relation to a fixed schedule of pensions. The previous system of fixed amounts of pension and contribution for each rank was replaced by a system under which benefits and contributions were subject to variation without

<sup>(1)</sup> Parliamentary Paper No. 59 of 1968.

the need for amendment to the Act, according to changes in salary levels within and without a rank. The practice of stating the amount of pension for each rank and retiring age (for Other Ranks, each duration of service) in a Schedule to the Act was discontinued in favour of the inclusion of a pension formula in the legislation. . . .

. . . The method of financing the member's share of 22½ per cent of the cost by means of a percentage rate of contribution is found in numbers of private superannuation plans. The rates are based on a pooling principle under which broad grouping of members having certain similar characteristics pay a common percentage rate of contribution into a common fund from which benefits may eventually be drawn in accordance with each member's circumstances.

The whole range of benefits for Post-1959 entrants is available to those Pre-1959 entrants who pay the additional contributions required. It is presumed that the contributions paid by these members for units of pension taken out prior to 1959 will meet on average 15 per cent of the cost of the benefits attaching to those units. The additional contributions commenced after 14 December 1959 are individually calculated as required and are intended to meet on average 22½ per cent of the cost of the further amounts of retirement benefit cover taken up after that date.

Individual calculations are necessary whilst benefits are being financed on a "benefit purchase" basis under which each amount of additional retirement benefit cover is purchased by payment of an additional contribution which does not commence until entitlement to the additional cover arises. By contrast, the pooling principle adopted for Post-1959 entrants takes into account the retirement benefit cover likely to be required by all members throughout their service and spreads the cost of that cover over the whole of the service of all members in the form of percentage rates of contribution. . . .

In 1965, with retrospective effect to 1964, the Act was varied to permit Pre-1959 members to freeze their amount of fortnightly contribution to the Fund and the amount of Fund's share of pension. The Commonwealth share is payable in full.<sup>(2)</sup>

27. The Committee has found that many of the problems raised by the present D.F.R.B.

<sup>(2)</sup> Parliamentary Paper No. 59 of 1968, pp. 18-23.

scheme, arise within the areas of difficulty identified in paragraphs 22 and 23. The Committee has concluded that the original scheme although providing a short term answer to the problem of providing retirement benefits for defence personnel has not provided a lasting solution. In fact the remedies have tended to create their own problems. In particular, problems have arisen in regard to officer retirement and the provision of retirement benefit for invalidity.

28. It is also clear that the arrangements that have been made for financing the cost of the benefits have worked to the disadvantage of contributors. This is particularly the case with those members of the scheme who entered before 1959. The Committee is very concerned that anomalies have arisen in regard to these contribution rates and considers that the arrangements made for these entrants to purchase their share of the benefits have added to the complexity of the scheme. The relief afforded to members confronted with very high rates of contribution of allowing pre-1959 entrants to 'freeze' their contributions at selected levels thereby rejecting the Fund's share of further entitlement has created its own problems. The delay in completing the actuarial review of the scheme for the period 1959-1964 meant that the extent of the problem could not be gauged and it was not until the report of the Commonwealth Actuary was presented to the Parliament in 1968 that action could be taken. There has been a further delay with the preparation of the Actuary's investigation for the period 1964-1969. In the meantime, no action has been taken to transfer existing pre-1959 contributors to the post-1959 scheme as recommended by the Actuary in 1968.

#### The Principle of Funding

29. In the public sector in Australia the normal method of financial administration of superannuation schemes has been the method usually described as funding. The Commonwealth Actuary, Mr S. W. Caffin, O.B.E., has described the development of this approach in a report prepared for the Committee entitled 'The Actuarial Bases Underlying The Defence Forces Retirement Benefits Act 1948-1970' (Appendix C).

30. This is one of the methods developed by employers in the private sector for the provision of retirement benefits for their employees. It recognises the well known fact that the initial cost of providing benefits in a

superannuation scheme is low at first but rises with the passage of time as more and more employees retire on pension. In order to ensure that the benefits will be paid, a fund is established into which either the employer or the employee or both pay contributions which are then invested and the earnings accumulated to meet the cost of the benefits. The Trust Deed or rules governing the scheme normally provide for regular actuarial advice to be obtained in order to ensure that the scheme is solvent, i.e. that there will be sufficient funds to meet the liabilities as they fall due, on the principle that if the value of the future income of contributions and investment earnings recoverable does not at least equal the value of the future benefits payable it is inevitable that the scheme will become insolvent. The managers of the scheme receive regular advice from an actuary who makes an assessment of the scheme by the method described by the Commonwealth Actuary in paragraphs 47-56 of his report (Appendix C pages 62-63).

31. Funding is essential for schemes operating in the private sector as it provides the only guarantee that the benefits will be paid. It also serves as a useful accounting device for assessing the likely future cost and the cost of particular benefits.

#### Funding in the Public Sector

32. Funding has been adopted in the public sector in Australia by the Commonwealth and State Governments for the schemes operated for their employees. The Commonwealth employs this principle for the provision of benefits for members of the Defence Force and the development of this process is described in paragraphs 57-109 of the Commonwealth Actuary's report (See Appendix C, pages 63-69).

33. Funding by the Commonwealth departs from the general principles outlined above in the important respect that the Commonwealth does not 'fund its share'. This means that the Commonwealth does not contribute to the D.F.R.B. Fund but meets its liability as it falls due on a 'pay-as-you-go' basis. This does not affect the financial viability of the scheme as the benefits to be provided and other essential terms of the scheme are prescribed in legislation and therefore guaranteed by the Government. 'Pay-as-you-go' merely means that the Commonwealth pays from revenue

the proportion of every benefit that is paid which it has consented to meet.<sup>(3)</sup> As the legislation prescribes the rate at which benefits will be payable and on what terms, it is necessary for the legislation to define the share of the cost that the Commonwealth and the members of the scheme, respectively, will meet.

#### The Form of the Present Scheme

34. In the case of the existing D.F.R.B. scheme the Commonwealth is required to meet:

- (a) Eighty per cent<sup>(4)</sup> of the cost of pensions paid under the Act. This includes retirement pensions; 'A' and 'B' class invalidity pensions; and pensions and benefits payable to widows and eligible children.
- (b) One hundred per cent of the cost of certain additional pensions.<sup>(5)</sup>
- (c) One hundred per cent of the cost of gratuities including those payable to 'C' class invalids.<sup>(6)</sup>
- (d) The total cost of the administration of the scheme.<sup>(7)</sup>
- (e) The Commonwealth can also be required to make up any abnormal drain on the fund occasioned by active service.<sup>(8)</sup>
- (f) The Commonwealth also meets the entire cost of the entitlement of pre-1959 entrants arising after 'freezing'; and the cost of *ex gratia* increases of pensions.

The Fund is required to meet—

- (a) Twenty per cent of the cost of pension in (a) above;
- (b) One hundred per cent of the cost of refund of contributions.

#### Overseas Schemes

35. Unlike most equivalent schemes for the Defence Force in comparable countries, the D.F.R.B. scheme is funded. In the United

<sup>(3)</sup> See *Defence Forces Retirement Benefits Act* 1948-1971; sections 15; 15A; 15B and 15C.

<sup>(4)</sup> See *Defence Forces Retirement Benefits Act* 1948-1971; section 32 (1).

<sup>(5)</sup> See *Defence Forces Retirement Benefits Act* 1948-1971; section 32 (2) and section 45.

<sup>(6)</sup> See *Defence Forces Retirement Benefits Act* 1948-1971; section 33.

<sup>(7)</sup> See *Defence Forces Retirement Benefits Act* 1948-1971; section 13.

<sup>(8)</sup> See *Defence Forces Retirement Benefits Act* 1948-1971; section 34.

States of America and the United Kingdom the pension scheme for the Defence Force is non-contributory and in Canada the scheme is contributory but only partially funded. In each of the countries mentioned members qualify for benefit on the basis of length of service rather than age at retirement. This principle is adopted in the Australian scheme in relation to other rank members but not for officers. The basis upon which pension is paid to officers is discussed in paragraph 88 and the Committee recommends that eligibility for *Retired Pay* should in future be based on length of service. The career of members of the Defence Force is generally much shorter than in other occupations and it is expected that for servicemen who are required by the Defence Force to retire early that they will obtain other employment. Consequently the benefit paid at the termination of service is required to fulfil a variety of functions. For early retirees it must supplement possible civilian earnings and for later retirees it must do this, and as well, provide an income later during retirement. In Canada, the United States of America and the United Kingdom, it has been recognised that the needs of servicemen can best be met by providing pensions based on length of service and rank and income achieved. Another important factor is the need for Government to assure recruits that they will be compensated adequately if the needs of the service require them to retire in early middle age.

36. Financing pensions on the length of service basis creates problems in a contributory scheme and particularly in a funded scheme. In the United States of America and the United Kingdom pensions are granted to servicemen on a non-contributory basis, thus avoiding these problems. In Canada the members of the scheme pay contributions but these are only loosely related to the cost of providing the benefits.

37. Even without the adoption of the length of service principle for officers, the D.F.R.B. scheme has run into difficulties. These arise partly because it is not really possible to provide satisfactory pensions given the length of service of most contributors, if the scheme is to be financed in any meaningful respect from contributions of members. In this connection it should be noted that the Commonwealth meets more than 80 per cent of the cost of providing the benefits. At the same

time, members of the scheme pay contributions at least the equivalent of those paid by members of the Commonwealth superannuation and other similar schemes.

#### **Proposals put to the Committee concerning the Form of the Scheme**

38. Among the many proposals put to the Committee recommending a different kind of scheme, the following are the most important:

- that the Commonwealth should pay its contributions into the fund;
- that a separate scheme for retirement benefits should be instituted with a separate fund for 'non-retirement' benefits;
- that the scheme should be voluntary rather than compulsory;
- that members should have an option to select a level of benefit cover and reject certain entitlements;
- that the scheme should be a 'non-contributory scheme'.

#### **Funding by the Commonwealth**

39. The present D.F.R.B. scheme is only partly funded as explained in paragraphs 32-33. It has been submitted that the Commonwealth should pay its contributions into the Fund rather than meet its liability on a 'pay-as-you-go' basis. In 1966 the Federal Executive of the Administrative and Clerical Officer's Association commissioned Professor G. E. Caiden to prepare a report on the *Superannuation Act 1922-1965*. The Federal Executive made this Report available to the Committee. Professor Caiden adverted to the suggestion that the Commonwealth should fund its contributions and made the following comments:

If the Commonwealth Government were to pay its contribution towards the liability when incurred, the whole basis of the present scheme would change and the actuaries would have to re-calculate employee contributions and the expected increase in earning from investments.

Should the Government adopt a funding principle for its own contributions, and providing there was no compensatory alteration in employee contributions, then the annual surplus of the Fund would increase and the Fund grow even faster, both from increased Government contributions and increased investment earnings.

In these circumstances contributions could be reduced—or benefits increased. All that

would have happened is that the Government would be paying more into the superannuation scheme and therefore either reducing employee contributions or raising benefits. The Government would have to find the money through increased taxation or borrowing (partly from its own scheme!) but the burden would be shifted from contributors to the community at large. The same end could be achieved if the Commonwealth Government were asked to finance increased benefits or to assume a greater proportion of the costs, i.e. an increase from about five-sevenths to three-quarters or four-fifths.<sup>(9)</sup>

40. For the reasons the Committee gives in Chapter II it is not in favour of the Commonwealth funding its share.

#### A Separate Fund for 'Non-Retirement Benefits'

41. This proposal envisages a separate fund to cover invalidity, death and family benefits and a right of a contributor not to contribute for these benefits. Some of the implications arising from the adoption of such an arrangement would be:

- (a) the election by a married member not to contribute for these benefits could lead to inadequate provision for his family in the event of his death or for himself and his family in the event of his substantial invalidity.
- (b) In the case of a member, single on entry to the present scheme but who subsequently marries, his immediate family is automatically covered for benefit both during and after service, without additional contribution. Under the proposal, delay in entering the scheme until the need arose could make the cost of reasonable cover prohibitive.
- (c) The opportunity would exist for selection against the scheme.

42. The main problem with this kind of approach to invalidity and death cover is that younger members tend not to give much consideration to what the future may hold in respect of marriage, family, invalidity and death. An earlier decision not to contribute for cover, the need for which was not foreseen

at the time, will mean that the necessary protection is not available if the need arises. It can be argued that individuals should be allowed to make their own decisions and be required to accept the consequences. A counter argument is that, because of the serious consequences that may flow from a decision not to participate, the protection afforded by death and invalidity provisions should be compulsory for all members. The Committee considers that compulsory contribution is necessary if an effective retirement benefit scheme providing appropriate cover for contingencies such as death and invalidity is to be provided and the scheme is to remain contributory.

#### A Voluntary rather than Compulsory Scheme

43. Some contributors who have made submissions to the Committee consider that they should have the right to reject the scheme and make their own arrangements for superannuation or retirement and death cover. Alternatively, it has been submitted that members should have the right to select particular cover and reject other entitlements. For the reasons given in paragraphs 41-42 the Committee does not favour this approach. The late entrants who cannot qualify for benefits, female contributors not covered for family benefits and single men might welcome such an arrangement or a contribution rate that reflected their lower benefit entitlement. The Committee considers that the provision of a series of options such as this would add complexity to the scheme. We have stated our view that the scheme should be as simple as possible. Such an arrangement would also have financial consequences. It would mean that the amount of money available from contributions of members would be lower, unless higher contribution rates were levied on members electing late to seek cover that they had previously rejected. Because we favour a simple approach, such a proposal lacks appeal. It is also our view that it would not be in the interest of individuals who may not have the necessary information at the time of making elections to act in their own best interests. It would be against the interests of the majority of members who may want this cover by making it either more expensive to provide or reducing the level of benefits that can be provided. It is also our view that by basing the scheme on 'length of service' and lowering the contribution rate for late entrants; by extending 'family benefits' to cover to female members

<sup>(9)</sup> A 'Report on the Superannuation Act 1922-1965' by G. E. Caiden, B.Sc. (Econ.), Ph.D. (London), July 1966 prepared for the Federal Executive of the Administrative and Clerical Officers' Association, pp. 22-23.

and providing a benefit for single contributors that the Committee's scheme meets the objections that have been made.

#### **Non-contributory Scheme**

44. The Committee asked each of the Service representatives presenting the submission to the Committee from the Navy, Army and Air Force, their reaction to the suggestion that the scheme should be non-contributory. The response in each case was that the Service concerned would want to study very carefully any such proposals before making any commitment. The Committee was informed that a proposal for a non-contributory scheme had been prepared by the Treasury in 1964 and submitted to each of the Service Departments but rejected by them. There is suspicion of a non-contributory scheme because:

- (a) It is recognised that where an employer meets the entire cost of retirement benefits this will be taken into account in fixing pay rates. The effect that the existence of such fringe benefits might have on actual rates of pay is hard to predict. The cost of providing retirement benefits becomes part of the overall cost to the Commonwealth of employing the serviceman. It might be argued that actual pay rates should be reduced to provide for this concealed cost. It is recognised that members will pay for their retirement benefits in some way or another and that it is preferable for this to be done directly in the form of an ascertained contribution rather than indirectly through a reduction in pay over which the members might have no control.
- (b) Employees feel that their contributions entitle them to some say in the management of the scheme and that they would lose this influence and control if the benefit was entirely provided by the employer. Although contributors to the present scheme probably have less control than they think, it is probably true as a general proposition that contributors have more leverage as a pressure group if the benefits provided for them are financed partly from their own contributions.
- (c) Some contributors prefer to pay contributions. Tax concessions given generally to contributors to superannuation

schemes reduce the actual cost to the contributor. The refund of contribution upon withdrawal before the member has qualified for benefit may also be attractive to some members of the scheme, i.e. under a non-contributory arrangement pay may be reduced to provide the cost of the benefit but no tangible benefit is gained by the member unless he qualifies for the benefit.

45. Non-contributory schemes have the following advantages however:

- (a) they are simple in concept and all of the complexity associated with funds is avoided;
- (b) they are simple to administer as the apparatus for processing and deducting contributions is unnecessary.

46. The level of Government subsidy of the present scheme, which is more than 80 per cent of benefits provided, makes it doubtful whether members, in fact, contribute to their own benefits in any real sense. The contribution is more in the way of a subsidy to the Government. This argument is even stronger when the cost of running the scheme is taken into account and it is realised that this cost is entirely borne by the Government.

47. The Committee does not recommend a non-contributory scheme. It considers it desirable that members make a contribution towards their retirement benefits. Notwithstanding the special requirements of the Defence Force, a non-contributory arrangement would be at such variance with the provision made generally in the community for retirement benefits that it might have unpredictable repercussions in other areas of pay and condition. The majority of members appear to prefer a contributory scheme and the social and taxation structures of this country are designed to accommodate schemes that are contributory.

48. The contributions obtained from members can provide the Commonwealth with an important source of finance for the benefits, particularly if they are disbursed towards meeting the cost of the benefits on a 'pay-as-you-go' basis rather than being massed in a fund to meet future liabilities. If all members contribute 5.5 per cent of their pay towards meeting the cost, a very substantial contribution to the cost is made. If the scheme is administered on simple lines large sums can be saved on the cost of administration, making the overall cost to the Commonwealth less. If the scheme were made non-contributory difficulties would arise

with preservation and portability of pension under the recently introduced legislation. Although these now have limited application they may be extended in the future. As employment in the Defence Force is rarely for a lifetime, such an advantage as portability and preservation is of particular value to service personnel. Contributors, particularly those in the higher taxation brackets, might also resent the loss of the right to claim tax deductions for their superannuation contributions.

#### The kind of scheme that should be provided

49. The Committee concludes that a scheme different from the present D.F.R.B. scheme should be provided for the Defence Force. In Chapter IV the benefits that should be provided are discussed. The Committee generally accepts the aims of the present D.F.R.B. scheme for the provision of benefits. It is considered that the proposed scheme should provide:

- (a) Pensions on retirement (we would prefer the term *retired pay* which we use hereafter), but the length of service principle should apply to officers as well as other ranks. We believe very strongly that the benefit once provided should be adjusted annually so that relativity with average weekly earnings is maintained.
- (b) Widows and other dependants of a person dying during service, should continue to be covered by the scheme but we would extend that cover in certain respects.
- (c) In a scheme for the Defence Force it is essential that some provision should be made for retirement due to invalidity. The recommendation made by this Committee would modify the present arrangements which place undue weight on 'absorption into the work force'.
- (d) Similar provision to that made now should be made for dependants, with extension to widows of men marrying after retirement.

50. The provision of retirement benefits for members of the Defence Force cannot be equated with the provision of similar kinds of benefits in civilian schemes. The Commonwealth Actuary explains how the present system for establishing and administering occupational retirement benefit schemes has been applied to the D.F.R.B. scheme. (See paragraphs 57-89, Appendix C, pages 63-67). The method of financing adopted was devised initially for private employers who wished to establish retirement benefit schemes

for their employees, the primary aim being to ensure that the benefits will be paid irrespective of the fate of the employer or his business. The Commonwealth is an employer and is also the Government. In its capacity of employer it provides a retirement benefit scheme for its employees. In its capacity as a Government it guarantees the benefits by providing by Act of Parliament that they will be paid at this level. The decision not to fund its share is taken in its capacity as a Government for it relies on its ability to be able to pay the benefits on its position as a Government. As an employer it is, of course, not subject to the risk of bankruptcy or dissolution. But the Committee considers that the Commonwealth by opting for the 'pay-as-you-go' basis of meeting its share of the liability in regard to its own share, reflects doubt as to the suitability of funding in the public sector. Because of the shorter careers that the Defence Force can offer, many of the traditional justifications for funding as a method of financing benefits are nullified and in the Committee's view make it inherently unsuitable as a means of financing benefits for the Defence Force, given the particular circumstances that apply to them. Apart from its inappropriateness in the Committee's view it is also one of the principal causes of the complexity of the scheme and in this connection it is discussed in the next chapter.

51. In our view, confusion can only result and has resulted in the attempt to maintain a link between the D.F.R.B. scheme and the Commonwealth Public Service Superannuation Scheme. The Committee does not quarrel with the attempt made by the Commonwealth as an employer to relate the benefits it provides for its own employees (public servants) with those generally available in the community. The Commonwealth as an employer may see itself as *primus inter pares* in the community. It may see itself as duty bound to set conditions of employment for its own employees that are not too generous in comparison to those elsewhere available. As tax gatherer it may see itself as having a duty not to subsidise too heavily its own employees out of general revenue. But the Committee does not consider that in the provision it makes for the Defence Force it should allow itself to be affected by the provision it makes for public servants or the conditions which apply elsewhere in the community. There are a number of reasons for this:

- (a) In civilian employment retirement takes place at a defined age, usually 60 and

65, whilst in the Defence Force few members of the Services can serve beyond age 55. Compulsory retirement for officers can take place from age 45. Officers' retiring ages vary throughout the service, depending on rank and appointment.

- (b) Because retirement can occur for officers at much earlier ages than is customary elsewhere in the community, different considerations apply. The benefit may provide a supplement to civilian earnings. But the extent to which it will be a sufficient supplement will depend on the kind of work the retired officer can get. Very little information is available on the kind of work available or the experience of retired officers in obtaining employment. It is clear that luck must play a large part. Some retirees may succeed in obtaining well paid employment on retirement whilst others may either be forced into low paid, unattractive work, or not be able to find employment at all. Much will depend on the general economic climate at the time the man retires. As retirement age is compulsory the man can have little control in choosing an opportune time to retire.
- (c) Other rank members engage for specific short engagements usually of six or twelve years duration. To qualify for pension the member must complete successive engagements totalling at least twenty years continual service from age 20. Pension is payable only at the completion of the last of these engagements and there can be no guarantee that at the completion of any particular engagement the member will be re-engaged.
- (d) The fitness requirements of the Defence Force lead to a higher incidence of retirement due to invalidity, in comparison with civilian employees, with-

out the possibility of re-employment on recovery.

- (e) The needs of the member once retired are different from those of civilian employees in that:
  - (i) many servicemen do not have the chance during service to establish a permanent home, and if they succeed in so doing there is no guarantee that upon retirement they will be able to find suitable civilian employment where the home is established;
  - (ii) retirement can occur at ages when family responsibilities are high with children at school and university; and
  - (iii) a man retired from the Defence Force may have to seek further occupational training in order to qualify himself for civilian employment which may mean a relatively long period when he is not able to earn.
- (f) Apart from the special hazards attributable to active service which fall into a special category covered by the Repatriation legislation, normal service in the Defence Force can be a hazardous occupation.

52. It seems to the Committee that these circumstances are so different from those applicable to retirement from civilian employment that they require a totally different approach. From the serviceman's point of view a retirement benefit scheme that does not recognise and meet these special needs is of little value. From the point of view of the Commonwealth as employer it is essential to provide a scheme which recognises these special requirements if it is to maintain recruitment at a planned level and to maintain its quality. In order to meet the interests of both parties the Committee considers that a different kind of scheme to that applying at present is necessary.



## CHAPTER II—COMPLEXITY

53. Nearly all the submissions the Committee has received have been critical of the complexity of the present legislation. Our own investigation has confirmed the impression of undue complexity. It would not be possible to understand the scheme by merely reading the legislation and the booklet issued by the D.F.R.B. Board, designed to explain the scheme to contributors is, in the Committee's view, too long and detailed to achieve this aim. The Legislation in force comprises the *Defence Forces Retirement Benefits Act 1948-1971*, the Principal Act, and six other acts of specific or limited application. These are listed together with a note on their effect as Appendix D.

54. The Committee considers that the resulting complexity cannot be cured by re-drafting and consolidating the legislation. The complexity goes deeper and reflects a very complex scheme. We consider that it is necessary to look first at the basic concepts. Once these are established the problem of embodying them in reasonably understandable language and accessible statutory form can be readily overcome.

55. There are many causes for this complexity. These include:

- (a) The existence of different methods of determining the contribution rates of pre-1959 and post-1959 entrants and the means to reconcile them.
- (b) The existence of different principles for determining the entitlement of other ranks and of officers.
- (c) The basis upon which the scheme is financed.
- (d) The application of the legislation to different groups of servicemen whose entitlement to gratuity has been affected in various ways by changes to the membership of the scheme.
- (e) The administrative complexity which flows from the arrangements made for the management and financial administration of the scheme.
- (f) The difficulty of expressing with precision the present methods of determining benefits and rates of contribution.

56. Simplicity is important for a number of reasons. The Government's financial commitment to provide D.F.R.B. benefits is high.

This makes it important that the contributors understand the advantages of membership, particularly as the scheme is compulsory.

57. We consider that the present complexity is wholly undesirable and unnecessary. It arises because of an attempt to maintain a connection between the D.F.R.B. scheme and the Commonwealth Public Service Superannuation Scheme and through that scheme with other occupational retirement benefit plans in the private sector.

58. Of the factors leading to complexity enumerated in paragraph 55 the Committee considers (a) and (c) the key factors. If the scheme were to be based overall on length of service rather than age at retirement, in our view, (b) would be overcome. As far as (d) is concerned, it is considered that the system of 'gratuities', whatever other justification might be made, has no part in a scheme whose basic aim is to provide retirement benefits. This is substantiated in paragraphs 127-134. The administrative complexity is closely related to the arrangements for financing the benefits and the Committee in Chapter V outlines what it considers would be an effective administrative structure for the *proposed D.F.R.B. Scheme*. Much technicality flows from the category system which is needed to reconcile the dual basis of determining the retirement benefit entitlement of officers and other ranks respectively. The age at entry contribution basis also involves complexity which is discussed in Chapter III.

59. Although the funding principle has been adopted generally in Australia for the provision of retirement benefits in the public sector, this is by no means universal. In the United States of America and the United Kingdom, schemes for the Defence Force are non-contributory, the cost of the benefit being paid from revenue on a 'pay-as-you-go' basis. Those Governments maintain no fund to assess the growing cost of the scheme. The scheme for the Canadian Forces is contributory and 'partially funded'. A fund is maintained into which the contributions of members are paid together with Government subsidy. But the benefits are guaranteed by legislation and there is no formal relationship between the cost of the benefits and the contributions of either the Government or the member. The fund is assessed

from time to time by an actuary and deficiencies met by exchequer payments to the fund. Where it is considered that the cost of the benefit is being unduly borne by the Government adjustment is made to the rate of contributions by members. This method is a form of 'notional funding', a device employed by the managers of a non-funded scheme to determine from time to time the growth of liability. An actuary assumes the existence of a fund for the purposes of an investigation similar to the actuarial reviews conducted by the Commonwealth Actuary under Section 22 of the present *Defence Forces Retirement Benefits Act 1948-1971*. But there is no attempt to invest the contributions towards reducing the cost of the benefits. The contributions are disbursed to meet the costs as they fall due.

60. The following arguments are usually advanced for funding:

- (a) *The need to safeguard the benefits of the scheme.* The money paid into a fund is invested and can serve only the purpose of the pension scheme. Provided, therefore that the size of the fund is adequate and the choice of investment is sound, assets are created which will guarantee the pensions both of existing members and of those who have already retired; these assets cannot be used for any other purpose, so that even if the employer goes bankrupt pensions are not put in jeopardy.
- (b) *From this flows the argument based on psychological security*—i.e. that the fund is a visible indication that the money is in fact being used to pay pensions and as an indication to the contributors that they have an entitlement to pension and are not simply dependent on the charity of their employer.
- (c) *The argument from financial principles*—that if a known liability is being incurred in a particular year, the provision for it should be made in the income of that year. With funding that liability is met, so far as can be ascertained, in the year in which it is incurred.
- (d) *The 'fair burden' argument*—the argument that the burden of pension cost is more equitably divided between present and future generations under a funding system, as compared with 'pay-as-you-go' where future generations may

have to bear an increasing and unfair proportion of the cost.

- (e) *Investment*—the argument that funding provides the opportunity through skilful investment of the funds' resources to reduce the cost of the scheme, although correspondingly unsuccessful investment may make the scheme more costly than expected.

61. The Committee has considered each argument advanced to justify funding and concludes that although some form of funding is in some cases possible for private sector schemes that they do not necessarily apply to public sector superannuation and are inappropriate for D.F.R.B. benefits. As already pointed out funding is not necessary in the public sector to guarantee the benefits because they can be guaranteed in legislation. Nor is the Government subject to the vicissitudes that beset private employers.

62. As far as the argument based on financial principles is concerned it is not necessary for a fund to be instituted for the cost of the scheme to be measured. This can be achieved by 'notional funding'. 'Notional funding' also provides a means of determining the cost of particular benefits.

63. The fair burden argument is closely related to the security of benefit argument. Where future contributors may be called on to meet an increasing cost of the benefits it is reasonable to make provision to ensure that the actual cost is borne by each generation of contributors. This argument has less force with public sector schemes where the benefits are guaranteed by the Government which can be expected to meet the burden of unexpected increases in cost. With an institution such as the Defence Force where it must be difficult to predict either the size of the Force or the likely conditions of service in future years, it is hard to see how the emerging future cost can be accurately predicted. The kind of fluctuations likely to occur in manpower required for the Defence Force and the circumstances likely to bring about these fluctuations, make it appropriate for the Government to guarantee such future, unexpected increases in cost.

64. The argument that the rate at which members will be required to contribute can be reduced by judicious investment is open to doubt. The rate at which salaries and pay

have been increasing in recent years, whether this is attributable to actual growth or inflation, has been such that the increased burden likely to be cast onto a scheme is not likely to be offset in any meaningful degree by earning from investment. In the case of the Defence Force, where the period of service and therefore period of investment is short and where there is a high rate of withdrawal, particularly by other rank members, the benefits usually obtainable from investment are not really apparent. If the contributions of members are available to the Government either to disburse or invest the Government can make an appro-

priate decision as to the most useful way of dealing with these funds.

65. The Committee admits the cogency of the argument for funding but for the reason given considers that they are not overriding and are offset by the advantages that it sees as flowing from a simpler scheme. The psychological argument referred to in (b) of paragraph 60 is offset by the advantages the Committee sees in a scheme that is intelligible to the rank and file. The saving in cost and reduction in administrative complexity referred to in Chapter V is a further justification for a simpler method of financing.

## CHAPTER III—THE RATE OF CONTRIBUTION BY MEMBERS

66. The Committee has concluded that the scheme should remain contributory, but should be financed on a new basis. The rate at which members now contribute is designed to ensure that contributions together with interest on investment will meet the liabilities of the Fund. The Fund is administered to ensure that this liability will be met and the Commonwealth Actuary is required to undertake 5 yearly investigations and report to the D.F.R.B. Board on the state and sufficiency of the Fund.

### Post-1959 Entrants

67. Post-1959 entrants pay a fixed percentage of salary depending on age at entry to the scheme. The rates are based on a pooling principle under which broad groupings of members having certain similar characteristics pay a common percentage rate of contribution into a common fund from which benefits may eventually be drawn in accordance with each member's circumstances.

**FIGURE III—CURRENT RATES OF CONTRIBUTION**

**(A) ENTRY BEFORE AGE 20 NBD\***

Age NBD at Entry	Rate of Contribution
	Per cent
16 . . . . .	4.75
17 . . . . .	4.90
18 . . . . .	5.05
19 . . . . .	5.20
20 . . . . .	5.35

**(B) ENTRY BETWEEN AGES 20 AND 30 NBD**

Age NBD at Entry	Officers		Other Ranks
	General Duties	Special Duties	
	Per cent	Per cent	Per cent
21-24 . . . . .	5.5	5.5	5.5
25 . . . . .	6.0	5.5	5.5
26 . . . . .	6.5	5.5	5.5
27 . . . . .	7.0	5.5	5.5
28 . . . . .	7.5	5.5	5.5
29 . . . . .	8.0	5.5	5.5
30 . . . . .	8.5	5.5	5.5

**(C) ENTRY AFTER AGE 30 NBD**

Age NBD at Entry	Officers		Other Ranks
	General Duties	Special Duties	
	Per cent	Per cent	Per cent
31 . . . . .	9.0	6.5	6.0
32 . . . . .	9.5	7.5	6.0
33 . . . . .	10.0	8.5	6.0
34 . . . . .	10.5	9.5	6.0
35 . . . . .	11.0	10.5	6.0
36 . . . . .	11.5	11.5	6.0
37 . . . . .	12.0	12.0	6.0
38+ . . . . .	12.5	12.5	6.0

\* Age next birthday.

68. The scale of contributions is graded so that the older entrants pay more. The rates are weighted for some officer contributors. The average contribution being about 5.4 per cent of *pay* (other ranks) and 6.2 per cent (officers). The rates in force are those set out in Figure III.

### Pre-1959 Entrants

69. The rate at which pre-1959 entrants contribute is much more complex and was explained to the Committee by the Commonwealth Actuary (see paragraphs 107-109 of Appendix C).

70. Much of the present complexity can be attributed to the continuance of this dual basis of contribution. In his report to the Board for the investigation relating to the quinquennium 1959-1964 the Commonwealth Actuary recommended that the surplus in relation to pre-1959 members be used to underwrite the cost of transferring pre-1959 entrants to the post-1959 scheme. This advice was not followed.

71. The complexity which arises in relation to pre-1959 contributors is due in part to the multiple components of the contribution as explained by the Commonwealth Actuary, but is also due to the fact that the rate at which an individual contributes will be affected by:

- (a) an election to take up or not take up additional entitlement provided by the 1959, 1962 and 1963 Defence Forces Retirement Benefits Acts; and
- (b) an election not to increase his contributions in accordance with the 'freezing' provisions introduced in 1965.

72. The Committee has received evidence that some pre-1959 entrants contribute at a very high rate. But it has also been established to the Committee's satisfaction that there are numerous pre-1959 entrants contributing at a rate below the average percentage of salary contribution paid by counterparts in the post-1959 scheme.

73. The reason for the high contribution rates should be understood. The benefit purchase basis of contribution which applies to pre-1959 entrants is similar to the method of contribution evolved for contributors to the Commonwealth Public Service Superannuation Fund. The contribution payable at any one time by way of fortnightly deductions from salary are related to the notional pension available to that member at the time the entitlement arose. As pension entitlement is related to final salary it is assumed for the purposes of contribution that the member will receive that entitlement at the date specified for his retirement. His contribution rate (i.e. fortnightly deductions) is therefore adjusted to ensure that he will purchase his share of that entitlement over the period of service remaining to be completed. If entitlement rises sharply towards the end of a career when the time remaining to retirement is short the deduction required will be high.

74. Further complexity arises in relation to the contributions of pre-1959 entrants to the D.F.R.B. scheme because of the different basis of qualifying for pension of officers, on the one hand, other ranks, on the other. The contribution rate of an individual can be affected by the period over which he is expected to contribute, that is:

- (a) if an officer, to his retiring age for rank;
- (b) if another rank member who has completed more than twenty years service for pension, to the date of completion of his current engagement; or
- (c) if another rank member with fewer than twenty years service for pension, to the end of that period unless he is serving under an engagement which would require him to serve beyond 20 years, in which case, the period is calculated to the end of his engagement.

75. Because retirement age is not uniform the D.F.R.B. Board employ a system based on 'assessment points' to determine the appropriate contribution rate for an individual. His assessment point is the date upon which pension entitlement is expected to vest. For an officer this will be the retirement age designated for

his current rank and appointment, for another rank member it will be the date at which he will have completed 20 years service for pension. Where an officer is promoted his assessment point may vary or stay the same depending on whether his retirement age is changed. For sake of example a steep increase in contribution will result if he gets higher pay for a lower retiring age. Not only will he have to pay an increased contribution in respect of his new entitlement, his contributions in respect of previous entitlement will also rise. Correspondingly a later retirement age might give him a credit in respect of previous contributions to lead to a lower rate of contributions when viewed across his whole career. Pre-1959 entrants do not necessarily contribute more for their pension entitlements than post-1959 members. In theory the member should purchase his share only. A problem arises because the contribution is not spread evenly over his career but is likely to rise with his entitlement towards the end of service. By permitting a member to 'freeze' thus rejecting the Fund's share of further entitlement that may arise the Government has enabled members to avoid very high rates of contribution at a cost of some entitlement. The member loses the Fund's share (approximately 20 per cent) of all entitlement arising after freezing.

76. The option was not restricted to those confronted by very high rates of contribution but to all pre-1959 entrants. Some have frozen on moderate or low rates of contribution.

77. However this is viewed the conclusion must be that the benefit purchase basis of contribution is demonstrably unsuitable for financing the retirement benefits of members of the Defence Force. Whether members have been forced to freeze, as some undoubtedly have, or whether the member has chosen to contribute at a minimum and take what in reality amounts to a non-contributory pension in respect of most of his entitlement, the consequences are undesirable.

78. The Committee sought from the D.F.R.B. Board and Treasury an estimate of what the cost of transfer of pre-1959 entrants to the post-1959 scheme would involve. At the time of this request there was not sufficient information available to provide the Committee with an answer. The Committee has not pressed this question further because it is convinced that an overall flat rate of contribution applicable to all ranks is the most desirable method of providing finance from the members for this scheme. There will still be problems with

the transfer of these contributors to the proposed scheme and this is discussed in Chapter VI.

### **Members' contributions under the 'Proposed D.F.R.B. Scheme'**

79. The Committee proposes a fixed rate of contribution for all members of the *Proposed D.F.R.B. Scheme* who will be required to contribute a flat 5.5 per cent of *pay* in future, irrespective of their age at entry to the scheme. The financial basis proposed by the Committee envisages that income from this source should be used directly to finance benefits rather than accumulated in a fund. Where, in any year the contributions received are not sufficient to meet the cost of benefits payable in that year the difference should be met from Consolidated Revenue. The Commonwealth may wish to establish a special account to hold members' contributions. It is left to the Commonwealth to determine the most appropriate method of dealing with unexpended contributions received in a particular year. The Commonwealth may decide to pay the contributions of members directly to Consolidated Revenue and expend those funds for its own purposes or it may decide to establish a separate welfare account into which they are paid with or without some exchequer payment set aside by the Commonwealth to meet its ultimate liability. But the main feature of the scheme would be a legislative guarantee that benefits at the rate proposed will be paid.

80. The Committee does not consider that the elaborate contribution arrangements presently prescribed under the post-1959 scheme will be necessary. As long as the contributions of members are required to purchase a fixed share of the benefits provided, it is necessary, in order to maintain equity, to ensure that a new entrant does not obtain an advantage at the expense of other contributors to the mutual fund established to finance this share. There will be no mutual fund under the Committee's proposals although the Commonwealth for its own costing purposes may maintain a notional fund as discussed in paragraph 79. In these circumstances an individual member's contribution rate will not be affected by the admission to the scheme of persons imposing a greater potential liability on the scheme. If new benefits are later added the flat rate of contribution might need to be increased to meet part of the additional cost of providing these benefits. If the Commonwealth should decide to admit a person to the Defence Force any added retirement benefit risk that person

brings with him should be borne by the Commonwealth. His admission will not affect the contribution rates of existing *contributing members*. In our view the proposed flat rate of contribution will greatly improve the scheme by making it more readily understandable to the members. The rate of contribution and level of entitlement will be clear to the recruit from the date of entry to the forces. It will not be subject to fluctuation arising from actuarial reviews. On the other hand there will be no surplus payments.

### **The Cost to the Commonwealth**

81. It is proposed that the Commonwealth should finance the scheme from this source of revenue meeting additional cost from general revenue. The Committee was anxious to obtain an estimate of the likely cost to the Commonwealth, over and above its present outlay for D.F.R.B., if the scheme was in future to be financed according to these principles. The Commonwealth Actuary was approached and asked if a calculation could be made which would provide estimates of the emerging cost of the present scheme in successive years in future; and at the same time to prepare similar calculations for the proposals under consideration by the Committee. It was felt that a comparison of the two projections would provide estimates of the additional outlay required from the Commonwealth each year.

82. At the time the Commonwealth Actuary was asked to provide these estimates he did not have sufficient data relating to the existing scheme to prepare estimates on this basis. Moreover, he advised the Committee that unless the projection was made for a period in the vicinity of thirty to forty years an accurate emerging cost estimate could not be made. To reinforce this argument he furnished the Committee with the following table, Figure IV which shows that if the basis proposed by the Committee had been employed to finance the scheme since its inception the emerging cost to the Commonwealth would only have begun to appear in recent years. This projection covers a period of 20 years:

The conclusion reached in the preceding paragraph is confirmed by the following Table, which shows the picture which would have been presented to date under the present Scheme, if the Committee's method of financing had been adopted some 24 years ago, in 1948.

It will be seen from Column (5) of the Table that no outlay would have been required from the Commonwealth until

FIGURE IV

Table V—Cost to Commonwealth of Meeting the Balance of Cost of Benefits over Contributions

Year Ended 30 June	Contributions Received (1)	Benefits Paid			Difference =(4)-(1) (5)	Compare Actual Cost to Common- wealth (6)
		Pensions (2)	Lump Sums (3)	Total (4)		
	\$m	\$m	\$m	\$m	\$m	\$m
1950 . . .	1.32	0.15	0.35	0.50	-0.82	0.30
1955 . . .	2.52	0.98	1.25	2.23	-0.29	1.31
1960 . . .	5.25	1.95	1.78	3.73	-1.52	2.46
1965 . . .	10.00	5.38	3.16	8.54	-1.46	5.93
1970 . . .	16.97	12.21	9.86	22.07	5.10	14.16
1971 . . .	18.94	14.31	12.53	26.84	7.90	16.29

**Notes:**

- (a) The amounts in Columns (2) and (3) are the full benefits paid, including the Commonwealth Share of Pensions and the amounts of any Gratuities, as shown in the Accounts of the Board.
- (b) Column (6) shows the total paid by the Commonwealth to the Board in the year, as shown in the Accounts of the Board.

recent years. Whilst the cost of \$7.90m shown in Column (5) for 1970-71 was considerably less than the actual cost for that year, the future trend would be for a rapid growth in Commonwealth outlay, to levels far exceeding those applicable under the present funding arrangement.

No satisfactory measure of the cost to the Commonwealth of the present Scheme can be drawn from this Table.\*

83. In relation to an estimate projected thirty or forty years into the future the Commonwealth Actuary observed to the Committee during evidence: ' . . . The criticism of that kind of approach is that whilst we could do such a calculation (emerging cost to the Commonwealth of the Committee's scheme) . . . it would be unrealistic to think that the scheme would still be the same in forty years time'. For reasons given in Chapter I and II of this Report the Committee has concluded that a scheme financed on the basis it proposes could be financed from members' contributions without appreciable additional cost to the Commonwealth.

84. The Committee did obtain from the Commonwealth Actuary the cost of its proposed scheme based on the present sharing of cost basis, i.e. assessing the rates of contribution payable by future entrants to the existing post-1959 D.F.R.B scheme, and indicating what percentage of salary contribution would be required from a new entrant to purchase 20 per cent of the cost of the benefits provided by the post-1959 scheme, modified to incorporate the Committee's proposals. The Com-

monwealth Actuary estimated that rates of contribution well in excess of those now payable would be required if members were to purchase entitlement on this basis. The Committee found these estimates most useful in assessing the benefit proposals that have been under consideration from time to time. But, for reasons already given in this Report it did not accept this as a realistic appraisal of the likely cost to the Commonwealth. These figures indicated a growth in cost of the scheme with the contributors meeting approximately 10 per cent of the cost of providing the benefits. To put this in perspective, however, it was noted that the increase in the cost of the scheme was mainly attributable to automatic adjustment of pensions. As the graph on page 33 indicates, if the cost to the Commonwealth of providing *ex gratia* increases on the basis it has provided them in the past is compared with the increases based on automatic adjustment the overall increase in cost to the Commonwealth does not appear so marked.

85. The Committee concludes that the implementation of the scheme it proposes will not lead to a short term increase in cost to the Commonwealth. The revenue available to the Commonwealth from the existing Fund and members' contributions should at least cover the Commonwealth in the initial years of the scheme. The Commonwealth Actuary has indicated that he can prepare estimates of the long term likely emerging cost to the Commonwealth on the data now available to him. Should the Commonwealth consider that projections for thirty or forty years in the future are necessary for budgeting purposes it could obtain these and make such provision to meet the eventual cost to itself as it deems necessary.

\*The Committee's Proposals Contribution Rates and Costs, presented to the Committee 17 March by S. W. Caffin, Commonwealth Actuary, pp. 14-15.

## CHAPTER IV—THE BENEFITS

### RETIRED PAY

#### The Present Scheme

86. Service for D.F.R.B. purposes for both officers and other ranks commences at age 20. A different basis for determining retirement benefit entitlement applies for officers to that which applies to other ranks.

#### Other Ranks

87. Other ranks are required to complete successive engagements totalling a minimum of twenty years.<sup>(10)</sup> Eligibility is dependent upon the member completing both the minimum period of service and his last engagement. Entitlement rises by graduated increments from a minimum of slightly below 35 per cent to a maximum pension of approximately 70 per cent of *final pay* after 40 years service. Eligibility is based on length of service. Retirement after completion of engagements not totalling 20 years is rewarded by a gratuity and a refund of the members' contributions.

#### Officers

88. The basis upon which officers qualify is more complex and has been the subject of considerable criticism.<sup>(11)</sup> The general rule is that an officer must complete at least 20 years service from age 20 and attain the retirement age specified for his rank. Although an officer must complete a minimum period of service to qualify for retirement benefits his entitlement does not arise until he attains retirement age unless he can qualify for a pension under Section 39 of the Principal Act. The level of his pension entitlement is determined by his age at retirement being a proportion of his *final pay*. Section 39 makes the following exceptions to the general rule as stated above:

- (a) *Late Entrant Retirement*<sup>(12)</sup>—a pension is payable to an officer who not later than 2 years after attaining the retiring age for his rank has completed 15 years

<sup>(10)</sup> *Defence Forces Retirement Benefits Act 1948-1971* Section 41.

<sup>(11)</sup> *Defence Forces Retirement Benefits Act 1948-1971* Section 38.

<sup>(12)</sup> *Defence Forces Retirement Benefits Act 1948-1971* Section 39 (2) (a).

service for pension and is being retired to meet the 'needs of the Service': provided the D.F.R.B. Board approves payment of pension.

- (b) *Early retirement to meet the 'needs of the Service'*<sup>(13)</sup>—an officer who has completed 20 years service for pension but has not attained retirement age for rank and is being retired to meet the 'needs of the Service' can receive a pension provided the D.F.R.B. Board approves payment of pension.
- (c) *Early retirement to take up an employment opportunity*<sup>(14)</sup>—retirement to take up an approved employment opportunity is also possible with the approval of the Service Board provided the retirement opportunity is approved by the D.F.R.B. Board and the member is within 3 years of retirement and has completed a prescribed period of service for the rank he holds at the time of application.

#### Criticism of the existing provision for officers' retirement

89. These arrangements for officers' retirement have been criticised. It was submitted:

- (a) That different methods of determining entitlement to retirement pension for officers and other ranks adds to the complexity of the legislation and that further complexity results from the provision of Section 39.
- (b) That anomalies can arise where the level of pension available is related to age rather than length of service. A late entrant can sometimes achieve a higher pension after shorter periods of service than a man with longer service who is compulsorily retired at a younger age.
- (c) That retirement benefits for the Defence Force in comparable countries are based on a length of service principle which has been found to be more

<sup>(13)</sup> *Defence Forces Retirement Benefits Act 1948-1971* Section 39 (2) (b).

<sup>(14)</sup> *Defence Forces Retirement Benefits Act 1948-1971* Section 39 (2) (c).



appropriate than a scheme based on age at retirement.

- (d) That the exceptions to the general rule for officers' retirement contained in Section 39 are unduly restrictive in that:

- (i) Service Board approval for early retirement is in all cases necessary; and
- (ii) the D.F.R.B. Board must be satisfied that Service Board approval once granted was awarded on correct principles.

It is felt that these restrictions are designed to fetter the officer to the Service. It is also considered an undue interference in the serviceman's affairs that the D.F.R.B. Board must approve a retirement opportunity under Section 39 (2) (c).

- (e) The present nexus with the Commonwealth Public Service Superannuation Scheme should be broken. At present the nexus is based on the common pension provision for retirement at age 60. Very few servicemen have the opportunity of qualifying for the maximum pension obtainable under the notional age 60 principle.

90. The Committee has examined these submissions and concluded that the scheme should provide *retired pay* for both officers and other rank members at the completion of twenty years service. *Retired pay* should become payable at the rate of 35 per cent of *final pay* at the completion of twenty years *effective service*. Entitlement should thereafter rise according to a graduated scale of increments as recommended by the Committee in Recommendation 11 (iii).

91. By placing all members of the Services on the same basis it is considered that those anomalies resulting from the dual basis will be removed. Under the existing legislation where a person is commissioned from the ranks his retirement benefit entitlement is tied to the retirement age for his officer rank. Previous service as an other rank member is accepted as service for pension but to obtain the benefit the member must serve to retiring age. Particular difficulties arise where a member obtains

a short service commission. These anomalies would be removed together with much complexity if our proposals were implemented.

#### Incremental Rate

92. It is considered that the proposed rate of increment should greatly improve the scheme. At present the level of benefit obtainable is related to notional age sixty retirement. Officers obtain a proportion of the maximum age sixty pension depending on their age at retirement. For other ranks the maximum benefit after forty years continuous effective service is linked to the notional age sixty concept.

93. It should be noted that only officers of the rank of Vice Admiral, Major-General or Air Vice Marshal and above are normally able to serve to age 60. This means that comparatively few members retire on an equivalent pension to that payable for retirement from the public service at age 60. The Committee considers that it is more equitable for the quantum of pension payable to be related to length of service rather than age at retirement and this is reflected in the rate of increment being proposed. *Retired pay* entitlement will directly reflect the length and quality of the service rendered by the retired member. It has been submitted to the Committee that for other ranks and some officers the present scale of increment provides no inducement to continue service once pension rights have vested. It is considered that the scale of increment proposed meets these objections. The Committee's proposals would remove the ceiling of 70 per cent at notional age sixty and break the nexus with the Superannuation Scheme. A member should in future qualify for benefit on the basis of length of service and his age at retirement would be disregarded.

94. In Figure V the incremental basis of the proposed D.F.R.B. scheme is compared with that of the existing scheme. The comparison is based on the total amount that a pensioner or *retired pay* recipient who entered the scheme at age 20 would receive from the date of his retirement to the age of his life expectancy (as derived from the Commonwealth Life Tables). The advantages under the proposed D.F.R.B. scheme to the retiree with longer service and the disadvantages to the same retiree under the present scheme are shown in Figure V.

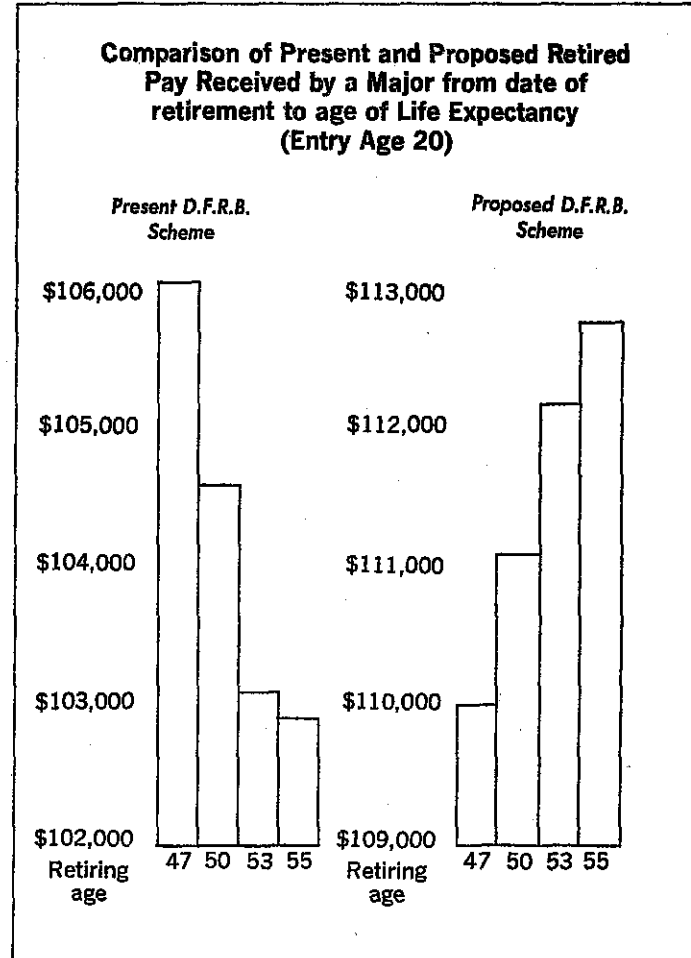
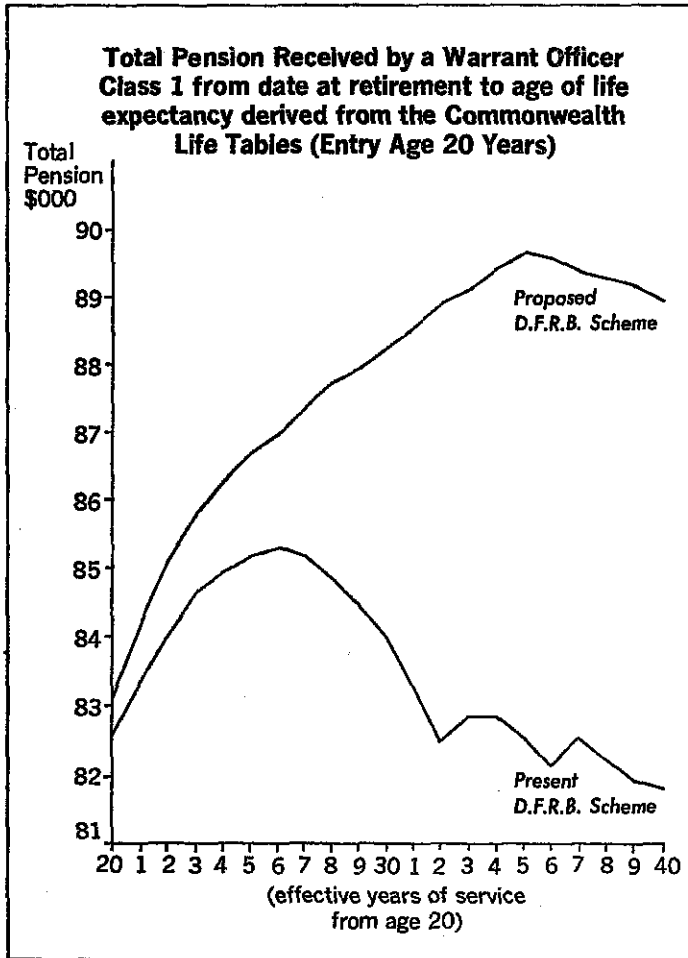


FIGURE V

FIGURE VI—EXAMPLES OF REDUCTION OF RETIRED PAY FOR EARLY RETIREMENT

Rank	Age at Entry	Retiring age for rank	Age at completion of current engagement	Pension at retiring age for rank or at completion of engagement	Age at early retirement	Maximum retired pay at ages of early retirement	Amount of reduced retired pay for early retirement
Colonel . . . . .	20	55	..	7,874	50	6,431	4,824
Major . . . . .	20	47	..	4,642	40	3,551	2,308
W.O.I . . . . .	20	..	48	3,540	43	2,944	2,208
Sergeant . . . . .	20	..	42	2,072	40	1,909	1,718

95. The present retirement provisions for officers are justified on the ground that there would be an inducement to retire after twenty years if the scheme did not prevent this by requiring completion of service to retirement age. The Committee does not consider that the scheme should be used in this way. It is of course most desirable that senior personnel be encouraged to stay in service, but it is considered that this is best effected by offering positive inducements in the form of attractive conditions of service, reasonable pay and allowances and an effective retirement benefit scheme.

96. Nevertheless it is felt that although retirement before reaching retirement age should not be prevented, it should not be actively encouraged. The dangers were adverted to in a recent American Report, *The President's Commission on an All-Volunteer Armed Force* which reported to President Nixon in February 1970 that in relation to the provision now made for retirement pay after 20 years service:

. . . . The substantial retirement income available after 20 years of service (when some enlisted men are only 37 years old) induces many individuals to retire as soon as they are eligible. The combination of retirement income and civilian earnings is very attractive. Men who retire early are often those with superior civilian earning opportunities and they are precisely the individuals the services would like to retain longer.<sup>(15)</sup>

The Committee recommends that an officer retired from the Defence Force at his own request before he has served to the retirement age designated for his rank be entitled to receive *retired pay* at the rate provided in Recommendation 11 (iii) reduced by a proportion obtained by multiplying his uncompleted years of service to retiring age by 5 per cent. The *retired pay* entitlement of an

<sup>(15)</sup> Report of *The President's Commission on an All-Volunteer Armed Force*, page 62.

other rank member retired at his own request before the completion of his current engagement should be reduced by a proportion obtained by multiplying the uncompleted years of his engagement by 5 per cent. Figure VI gives examples of the reduction of *retired pay* for early retirement.

97. The Committee does not consider that the present provisions succeed in preventing withdrawal by officers or other ranks before completion of service. The following Table, Figure VII, gives some indication of the rate of withdrawal so far experienced. It indicates that 87 per cent of other ranks and 50 per cent of officers resign before obtaining pension entitlement. Of even graver concern is that during the period only 4 per cent of other ranks exits and 34 per cent of officer exits qualified for retirement pension.

FIGURE VII—EXITS OF MALE CONTRIBUTORS: 1961-64

Mode of Exit	Officers		Other Ranks	
	Number	Per cent	Number	Per cent
Exits on Pension—				
Age, Completion of Engagement	329	34	351	4
Death . . . . .	56	6	105	1
Class A . . . . .	17	2	93	1
Class B . . . . .	24	3	206	2
Class C . . . . .	9	1	8	..
Total Pension Exits . . . . .	435	46	763	8
Other Exits—				
Age, Completion of Engagement	33	3	5,291	58
Resignation, etc. . . . .	477	50	2,687	29
Death . . . . .	..	..	117	1
Class C . . . . .	9	1	372	4
Total Other Exits . . . . .	519	54	8,467	92
Totals . . . . .	954	100	9,230	100

In our view it is inevitable that many recruits for the ranks of the Defence Force will regard their employment as a short term job rather than as a career. For such other ranks the death and invalidity benefits provided by the scheme are of more value than the retirement benefits. But it is impossible for a young recruit to predict whether he will ultimately make a career of the Services and it is therefore appropriate that all should contribute for the full range of benefits. Those who withdraw will of course receive a refund of their contributions.

#### Service for Benefit

98. Under the existing legislation service for pension commences at age 20 although service itself can begin at much earlier ages. Members contribute from the date of joining the Defence Force and the rate of contribution is reduced for the whole of the member's service if he commenced contributing prior to age 20 (see Figure III). Under the Committee's scheme entrants to the forces will commence contributing for full benefits and be entitled to full cover from the date of entry to the Defence Force. Retirement benefits will become payable when the member has completed the necessary service regardless of his age at the time of qualifying.

#### Purchase of Past Service

99. A member with previous service in the Defence Force who engages for a further period after a break in the continuity of his service has very limited rights to obtain credit in the scheme by the purchase of his past service. The existing legislation restricts the right to persons who have previous continuous service in the Defence Force not recognised as service for D.F.R.B. purposes. The right is only available to male other rank members who engage for a minimum period of six years. Section 27(3) which makes this provision reflects the complex history of the D.F.R.B. scheme in relation to membership. Originally entrance to the scheme was limited to members of 'The Permanent Defence Forces'. Other members of the Defence Force were not eligible for membership even though to all intents and purposes they were on continuous full time service. The majority of female members were not admitted as contributors until 1959 (certain officers and members of the women's service had been admitted in 1951). But it was not until 1968 that membership was extended to all members of the

Defence Force on continuous full time duty for 12 months or more. Among those becoming eligible for membership following the 1968 amendment were National Servicemen and those members of the Regular Army Special Reserve who were still in service at the time. It has been submitted that all former members should be able to obtain recognition for past service should they elect to re-enlist. Recently, the Government has amended the D.F.R.B. legislation to make limited provision for preservation and portability of superannuation rights in accordance with its general policy on this matter. These provisions to a limited extent permit a retiring member to preserve accrued entitlement.

100. This legislation and its effect on the D.F.R.B. scheme is explained in Appendix B. It would seem that in a limited number of cases servicemen resigning in order to enter public employment will be able to make use of these provisions in order to re-enter the scheme after a break in the continuity of their service. But it should be stressed that the right is very limited in its application and will be of benefit to very few members. The preservation and portability arrangements only apply to superannuation type schemes within the public sector in Australia or to Universities in Australia and overseas. The provision has not to date been fully applied even within this limited area. In order to take advantage of the provisions a former member of the Defence Force who has resigned must, within 3 months of ceasing to be a contributor obtain employment in approved public employment whereupon he may exercise an option provided in the legislation to accept either:

- (a) A *transfer value*. This consists of a payment of his own contribution plus the employer's subsidy. To qualify for the benefit the retiring member must be eligible for membership of an 'eligible Superannuation Scheme.' If he elects to accept a refund of contributions rather than the transfer value he loses the benefit of the preservation; or
- (b) A *deferred pension* entitlement in the event of his being unable to join an 'eligible scheme'. Where a person moves outside the public sector the deferred benefit will be available provided the person has completed an aggregate of 20 years employment. Employment recognised for the purpose of this deferred benefit may include a period of defence service and other public

employment provided there has not been a break of more than 3 months at any time.

101. A former member of the Defence Force who transfers to the Commonwealth Public Service Scheme could obtain credit in that scheme. Should he later transfer back to the D.F.R.B. scheme he will preserve his former defence service as well as obtain credit for the service rendered as a public servant. But the retiree who elects not to preserve his benefit and who later re-engages or obtains an appointment in the Defence Force after a break in the continuity of his service, or resigns from the Defence Force to enter service in the private sector, gets no credit for previous service and there is no provision whereby he might purchase back that past service. The Committee considers that a retiree who can obtain the benefit of the preservation legislation should continue to have the right.

102. In addition to the preservation entitlement a member who retires at his own request with no entitlement to *retired pay* should, upon re-entry to the Defence Force, be entitled to purchase back his former service by repaying to the Government, on an agreed basis, any refund of contributions. It is considered to be in the best interests of the Services and recruitment that re-entry to the Defence Force should be facilitated in this way.

103. Provided that no payment of *retired pay* is made during a period of effective service with the Defence Force a *recipient member* re-joining the Defence Force be entitled upon his eventual retirement to *retired pay* at the rate applicable to his total *effective service* with the Defence Force. In short the benefit entitlement should correspond to the total service actually performed as a member of the Defence Force. Of course adjustment would be necessary where the member had exercised the right of commutation.

104. The Committee also makes recommendations which would enable members of the Defence Force not members of the scheme to purchase rights in the scheme and for certain 1968 entrants to purchase sufficient service to qualify for benefits. This is discussed further in Chapter VI.

#### COMMUTATION

105. Commutation for which provision has been made since 1948 in the D.F.R.B. scheme is not a right available to other Commonwealth

employees and was an unusual feature to provide in a superannuation scheme in 1948. It is not now so unusual and provision is made in some State Government superannuation schemes for members to elect to take portion of their benefit as a lump sum rather than in the form of an annuity.

106. The general policy of the Commonwealth has been that benefits should take the form of retirement annuities wherever possible. This policy pervades the other schemes in the group operated by the Commonwealth. The justification for the inclusion of the commutation provision in the original D.F.R.B. legislation was that a serviceman often had a requirement for a capital sum on his retirement, to assist in his re-settlement and re-establishment in civilian life.

107. The present scheme enables 'age retirement pensioners' to elect to commute up to one third of their pension entitlement and take the portion as a lump sum. The right is not available to invalid and widow pensioners nor can it be exercised after the attainment of 57 years of age by a member or pensioner. The right to commute is available from the date of retirement until age 57 and where the application is approved the member receives in addition to his lump sum, an actuarially reduced pension. The exercise of the option is subject to the approval of the D.F.R.B. Board, which has a discretion to disallow an application or reduce the amount applied for, where a medical examination reveals a life expectancy for the individual applicant which is less than that for a first class life. In other words an individual is not permitted to commute a greater sum than he might have expected to receive by way of pension. In addition the D.F.R.B. Board must approve the purpose for which commutation is sought and may disallow an application if after investigation it considers that the purpose is not in the member's interest. This is justified by the argument that the primary aim of the scheme is to provide an assured income after retirement and that it would be contrary to this objective to permit retirees to commute contrary to their own financial interest.

108. Evidence given to the Committee indicates that the privilege of commutation is regarded as an attractive feature of the scheme and the restrictions on its free exercise are resented.

109. The provision made for commutation in the existing legislation is designed to ensure that if the option is exercised the actuarial assumptions on which the scheme is based will not be affected. A retiree may not, therefore, commute more than he could be expected to draw as pension. The assessment of his individual life expectancy is designed to ensure this. The amount payable to the retiree is reduced to allow for expected loss to the fund of anticipated interest earnings. The commutation factors applied by the Actuary contain an element which makes this adjustment. If commutation were to be a right within the existing structure of the scheme, the factors now applied by the Actuary to establish the amount payable would have to be revised to take account of the fact that the option is likely to be exercised by persons at present precluded by the medical examination. The result would be that retirees with a first class life expectancy would be entitled to less than they can now obtain. Where the D.F.R.B. Board exercises its discretion to reject an application because it does not approve the purpose of commutation the actuarial assumptions are not affected.

110. The Committee does not favour the provision of a lump sum option as has been recently provided for members of the public service in New South Wales and Victoria. The object of the proposed scheme is to provide an annuity type benefit as a supplement to civilian earnings for those retiring early and as a means of support for members in later life. The automatic adjustment of the pension ought to ensure that this will remain a viable retirement benefit. The maintenance of benefits at this level requires a large subsidy from the Government. It would appear to be unreasonable to permit members to commute in such a way that they would again become eligible for non-contributory social service benefits completely paid for out of public funds.

111. The Committee has given some consideration to whether widow and invalid pay recipients should be able to commute part of their pension and has decided that this would be inconsistent with the principles upon which their benefits are paid—invalid retirees can be re-classified and widows' benefits can be terminated on re-marriage.

112. The conclusion reached is that a *retired pay recipient* should have an option to take a portion of his *retired pay* entitlement as a

lump sum. There should be no restriction on the exercise of this right and it would rest with the member to decide whether to commute the full amount available or a lesser amount. No discretion to disallow the application or reduce the amount available would be vested in the administering authority. The recipient member would not be able to commute more than 4 times his annual *retired pay* entitlement at the date of retirement and would be required to exercise the right within 12 months of retirement. Commutation should be an unfettered right. A member's entitlement should not be affected by his state of health at the time of retirement, but it is considered that the option should be exercised within 12 months of retirement as the possibility would otherwise exist of a member commuting after many years of drawing full *retired pay* or when his state of health deteriorates. Figure VIII indicates the amounts that would be available under the Committee's proposal.

FIGURE VIII—EXAMPLES OF COMMUTATION  
(Entry Age 20 in all cases)

Rank (Army)	Retiring Age	Proposed Retired Pay*	Proposed Maximum Commu- tation*	Proposed Maxi- mum Reduced Retired Pay*
		\$	\$	\$
Major General.	57	12,799	51,196	9,907.00
Colonel . . .	55	7,874	31,496	6,232.00
Lt-Colonel . .	50	5,765	23,060	4,768.00
Major . . .	47	4,642	18,568	3,918.00
W.O. 1 . . .	50	3,820	15,280	3,160.00
W.O. 1 . . .	40	2,609	10,436	2,281.00
Sergeant . . .	50	2,795	11,180	2,312.00
Sergeant . . .	40	1,909	7,636	1,688.77

\* As at 7 February 1972.

113. Where a pensioner under the existing legislation has not exercised his right of commutation he should retain the right to exercise that option under the conditions of the present scheme.

114. It was submitted that the scheme should provide a benefit in the form of a lump sum payable on retirement and that this should be payable in addition to *retired pay*. The Committee considers that a payment of this nature may be appropriate but should be provided under general conditions of service. If such a benefit were to be provided as an element of

the scheme in addition to *retired pay*, the retired pay entitlement would have to be reduced. As many retirees might prefer an enhanced annual payment of *retired pay* it is considered more appropriate for the benefit to be provided in the form of an option to commute a portion of *retired pay*.

#### AUTOMATIC ADJUSTMENT

115. The Committee considers that it is essential that *retired pay* should be adjusted automatically with increases in average weekly earnings. Unless the payment made to retired members is kept abreast of rising community standards its real value is quickly eroded.

116. The Government has increased D.F.R.B. pensions on a number of occasions since the introduction of the scheme in 1948. Two different methods of adjustment have been adopted.

117. The first method was based on changes in the value of the pension unit. In 1950, when the value of the first 8 units was increased for existing contributors, existing D.F.R.B. pensions were adjusted by increasing the value of the first 8 units of pension being received. The same method of adjustment was adopted in 1951 when the value of units in excess of 8 was increased but the pension increases were restricted to those who retired after the age of sixty years and those with an incapacity for civilian employment of 60 per cent or more, i.e. those in receipt of the maximum pension benefit. In 1954 when all units for existing contributors were increased in value by one sixth, existing pensions were also increased but the method adopted was to increase the value of the pension by one sixth and not the value of each unit entitlement.

118. The second method adopted, the notional salary method, has been applied in granting pension increases in 1961, 1963, 1967 and 1971. In brief, increases by this method have been calculated by reference to the number of units or categories that, having regard to his rank or classification at retirement, would have been the entitlement of the pensioner had he, in fact, retired at a later date—December 1954, for the 1961 increase, July 1961 for the 1963 increase, 30 June 1967 for the 1967 increase and 30 June 1971 for the 1971 increase. A recent statement made by the Treasurer in connection with the Commonwealth Actuary's last Quinquennial investigation of the Commonwealth Public Service Superannuation Fund

indicates that this question of pension updating is under active consideration by the Government.

119. The whole cost of past pension increases has been met from the Consolidated Revenue Fund. The timing of these increases and the method by which they were effected has been a matter for Government decision.

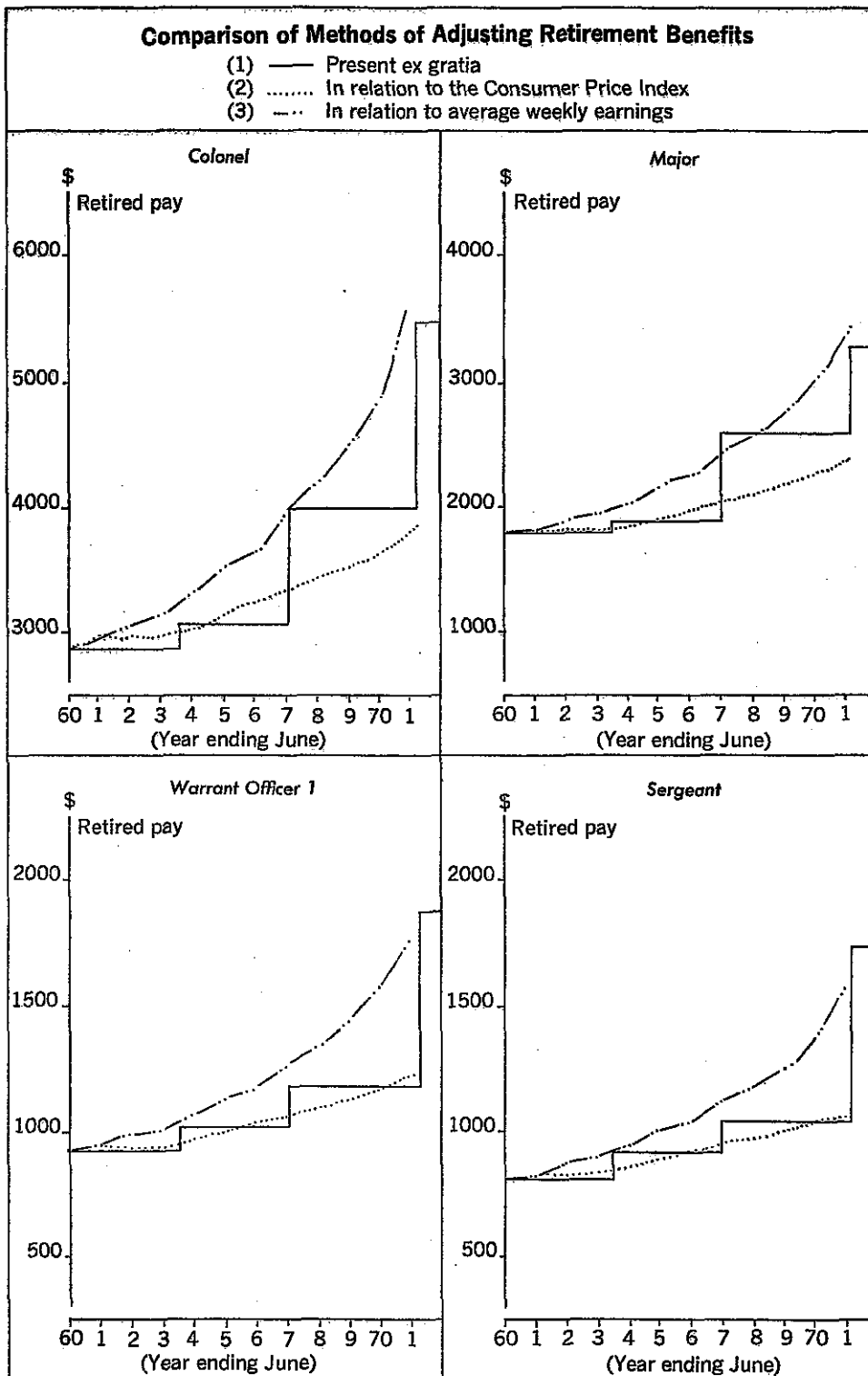
120. The Committee has concluded that the most appropriate method of maintaining the real value of *retired pay* is to ensure that it maintains relativity with average weekly earnings. Among the alternatives considered were:

- (a) that retired pay should be adjusted automatically with increases in the cost of living by tying it to the Consumer Price Index;
- (b) that retired pay be expressed as a proportion of the members final *pay* and remain a constant proportion of *pay* for that rank and seniority;
- (c) that the existing method of *ex gratia* pension increases should be retained.

121. As far as (c) is concerned the accompanying graph Figure IX shows that increases when awarded have been on a generous scale. The problem has been long intervals between each increase. Nor has there been any certainty that increases would be awarded or when. Automatic adjustment at regular and frequent intervals is to be preferred to the present *ad hoc* arrangements. In our view the need for regular adjustment should be recognised as a right under the scheme and provision made in the legislation itself and the notion that such increases are merely occasional acts of grace dispelled.

122. The notion that *retired pay* might be tied to actual service pay so that it remained a constant proportion of pay for the rank and seniority held by the member at retirement was given very serious consideration by the Committee. The advantage of this method of automatic adjustment is that upon retirement the member's records could be maintained within the Defence establishment and adjusted according to changes in his circumstances. From an administrative point of view the complicated exchange of records which now takes place would be avoided. Certain difficulties with such a basis for making adjustment were brought to the attention of the Committee. In particular

**FIGURE IX**





the following was submitted by the Commonwealth Treasury:

- (a) Not all pensions would increase at one time as adjustments in pay are not invariably simultaneous throughout the Services. Thus some pensioners would receive increases when others do not.
- (b) In the longer term particular pensioners would gain or lose ground when compared with other pensioners who retired at the same time and on the same pension. This is so because of changes in pay relativities as a result of technological change and variations in work values.
- (c) Over a period of time particular classifications disappear leaving no pay basis on which to adjust pension.
- (d) Individually re-assessing the record of each pensioner, including widows and orphans, each time there was an adjustment to service pay would be a major administrative task.<sup>(16)</sup>

123. The Committee does not accept these objections in their entirety. In relation to (a) and (b) it notes that retirees do not start life on pension on an even footing. Some retirees might receive a pay rise shortly before retirement and obtain the benefit of the increase in their pension. For others the pay rise might come just after retirement with no improved pension entitlement. If his *retired pay* were related to his service position he would receive the benefit of that increase. But it accepts that this method of adjustment has two serious weaknesses:

- (1) That there might be occasions where pay is frozen whilst general community standards are rising. Although the likelihood is that relativity would ultimately be restored there might be long delays before this happened. In the meantime some retirees would suffer, particularly where pay increases, when they came, were unevenly distributed. The result might be a situation no better than the present method of *ex gratia* increases awarded at arbitrarily chosen intervals by the Government.
- (2) The disappearance of classification and the changing nature of job specification could lead to some bizarre results with some retirees becoming entitled to large increases and other classifications disappearing altogether.

<sup>(16)</sup> Transcript of Evidence p. 2715.

124. The committee has concluded that the adjustment should be related to average weekly earnings and the relativity of *retired pay* with that index maintained. This will ensure that the man in retirement will be able to maintain his position in relation to rising community standards and that he will obtain those increases when they are needed. To some extent this is a compromise between the proportion of salary method of adjustment discussed in paragraphs 118-119 and the proposal that adjustment be related to the Consumer Price Index. The Committee rejects the latter suggestion because it considers that the index does not fairly represent changes in general community standards. The following table, Figure X, extracted from the Commonwealth Actuary's last report on the Commonwealth Public Service Superannuation Fund illustrates this point—

FIGURE X <sup>(17)</sup>

Year	Consumer Price Index	Average Weekly Earnings Index
<b>(A) The Indexes—</b>		
1969-70 . . . . .	109.4	229.5
1964-65 . . . . .	94.0	167.3
1959-60 . . . . .	85.7	134.3
1954-55 . . . . .	74.0	105.1
<b>(B) Equivalent Annual</b>		
Increases to 1969-70—		
	Per cent	Per cent
1964-65 . . . . .	3.12	6.53
1959-60 . . . . .	2.47	5.50
1954-55 . . . . .	2.64	5.34

125. It will be observed that the rate of increase of average weekly earnings is almost double that of the Consumer Price Index. Figure IX indicates that in some cases the increase available if the *ex gratia* basis was replaced by adjustment in relation to the Consumer Price Index would be less than if the present *ex gratia* basis was retained. This is offset to some extent by the fact that the increases would be more regular in their impact.

126. The Committee has also noted that at the present time the whole question of service pay levels and their future adjustment is under review by the *Committee of Inquiry into Financial Terms and Conditions of Service for Male and Female Members of the Regular Armed Forces*. Until the issues under consideration by that Committee have been resolved it would be inappropriate for this Committee to make any assumption concerning

<sup>(17)</sup> The Superannuation Fund—9th Quinquennial Investigations—p. 28.

the future of service pay adjustments. Once these issues have been resolved a method of adjustment related to rises in service pay as discussed in paragraph 122 may be possible and a decision to implement such a system might be taken by the Department of Defence and integrated into the system in such a way as to overcome the difficulties foreseen by the Commonwealth Treasury in paragraphs 119-124.

#### GRATUITIES

127. An elaborate system for the payment of gratuities is provided within the existing legislation. The benefit serves a multiplicity of purposes which include:

- (a) A benefit payable to an other rank member upon withdrawal at the successful completion of an engagement. The rate at which gratuity is payable increases with length of service and is chiefly designed to provide a recruiting and re-engagement incentive.
- (b) A retirement benefit payable to an officer 'retired to meet the needs of the Service' with more than 10 years service but less than the minimum service required to qualify him for pension entitlement.
- (c) A benefit payable to certain short service commission officers not otherwise covered for retirement benefits.
- (d) A benefit payable to National Servicemen at the completion of service.
- (e) A benefit payable to 'C' class invalidity retirees to supplement the refund of contributions payable to them.

128. An 'advance' on gratuity and refund entitlement is payable to male other rank members upon successful completion of one engagement and re-engagement for a further period. Gratuities are non-contributory and provided wholly out of consolidated revenue.

129. The provision of gratuities within the D.F.R.B. legislation is a prime cause of its complexity. Although the benefit has been a feature of the legislation since its introduction in 1948, alteration to the scheme in the meantime has considerably changed the original concept. Until 1968 there was a parallel provision under the Defence (Financial) Regulations for payment of gratuities to those members of the Defence Force not eligible to join the D.F.R.B. scheme. The extension of the scheme in 1968 to include all members of the Defence Force on continuous full time

duty brought all regular service personnel, other than certain medical and dental officers within the ambit of the legislation for gratuity purposes.

130. Some indication of the complexity of the subject will be obtained from the following:

Calculations have to be made for the following classes of gratuities:

- (a) pre-1959 entrants;
  - officers—different rates apply where—
    - (i) the officer was commissioned before 14 December 1959;
    - (ii) the officer was commissioned after 14 December 1959 but had other rank service both before and after 14 December 1959;
  - other ranks whose service extended beyond 14 December 1959.
- (b) post-1959 entrants;
  - officers—different rates apply where—
    - (i) the officer had not served as an other rank;
    - (ii) the officer had service as an other rank; and
  - other ranks.
- (c) post-1968 entrants—
  - (i) both officers (with the exception of certain medical and dental officers) and other ranks who may have had an entitlement under Service Regulations in respect of service up to 19 July 1968 and under the D.F.R.B. legislation for service subsequent to 19 July 1968;
  - (ii) officers and other ranks who became members subsequent to 19 July 1968.
- (d) invalidity retirement.

These are set out in detail in tables 7-15 of the D.F.R.B. Booklet.

The amount which is to be paid will depend upon:

- (a) the reason for discharge, e.g. disciplinary, medical, etc.;
- (b) whether he had any non-effective service such as a period during which the member was absent without leave;
- (c) whether, if there was a requirement to serve on the Reserve Force, he had been so requested and his decision;

- (d) whether any payment had been made in respect of prior entitlement under Service Financial Regulations;
- (e) whether he had received an advance payment of his gratuity during service.<sup>(18)</sup>

131. Numerous submissions were received concerning gratuities. The consensus of these may be summarised as follows:

- (a) It was objected that a substantially reduced gratuity is payable to female members of the forces—a policy which cannot be justified in equity.
- (b) Objection was made to the provision whereby 'gratuity' may be reduced if the member concerned refuses to sign on to a service reserve.
- (c) It was objected that the rate at which gratuity is payable is too low.

132. Many submissions were received concerning the subject of 'the advance' on gratuity available to male other rank members. Upon re-engagement for a further 12 or 6 year period after the successful completion of an initial engagement an advance equal to the benefit on retirement at the completion of the re-engagement period, becomes payable. It was objected:

- (a) That the 'advance' was not available to female members.
- (b) That if received in the form of an advance it was subject to taxation at the rate applicable to 'income' under the Income Tax and Social Services Contributions Acts, but was taxed at the flat rate of 5 per cent applicable to retirement benefits if received at the end of service in the usual way. The higher rate of taxation on the advance reduced its real value to the member. It was also noted that the advance becomes payable automatically under section 42A (1) unless the member specifically rejects it.
- (c) Because the advance is paid automatically unless the member elects in writing not to take it he is exposed to a loss of real entitlement (i.e. the amount lost in tax) unless he specifically rejects the offer.
- (d) Receipt of the advance can operate as a compulsion to continue service because

it is repayable unless the member completes his engagement.

133. Consideration of the subject has led the Committee to conclude that the provision for 'gratuities' within the D.F.R.B. legislation is inappropriate. The real purpose of gratuities lies outside the field of retirement benefits in the general area of pay and conditions of service and the question of their purpose and the level at which they should be paid ought to be considered by a body with a wider charter of inquiry than that given to the present Committee. Although lump sum payments of this kind might be justified on a number of grounds their provision within the legislation serves only to confuse and complicate the scheme by distracting the contributors from the fundamental purpose of the scheme to provide retirement income and protection from service death and accidents. From the submissions we have received it has become apparent that the whole question of payments upon severance from the Defence Force should be looked into. Many submissions have been received recommending that loans should be available from the D.F.R.B. Fund to finance housing and other legitimate requirements of servicemen. Such a policy could not be supported on the assumptions of the existing scheme as there would appear to be some conflict for the Trustees if on the one hand they were required to invest the assets to obtain the highest possible yield whilst on the other they were required to provide cheap finance for members. Under such an arrangement some members of the scheme would obtain an advantage at the expense of the majority. Under our proposal the contributions of members are designed to provide money for running the scheme and long term loans would not be appropriate. However, these submissions have indicated to us that servicemen do have a legitimate need for finance both during and at termination of service which is a question which might well be looked into.

134. The Committee considers that gratuities may be appropriate for the following purposes:

- (a) As a recruiting and re-engagement incentive.
- (b) As a re-settlement grant.
- (c) As compensation for premature termination of career or contract of employment.
- (d) As a reward for long service.

<sup>(18)</sup> Submission of the D.F.R.B. Board—Transcript of Evidence pp. 2363-2364.

Apart from the provision of a lump sum benefit for 'C' class invalid retirees the Committee considers that gratuities should have no place in a retirement benefit scheme such as the one being proposed. The Committee considers that the whole question of gratuities might well be investigated by *The Committee of Inquiry into Financial Terms and Conditions of Service for Male and Female Members of the Regular Armed Forces* and this point has been put to the Committee.

**INVALID PAY**

135. The originators of the D.F.R.B. scheme recognised the special problems associated with service disability and set out to reconcile these with general concepts applicable to the payment of invalidity benefits from Superannuation schemes. Under the D.F.R.B. legislation a member discharged medically unfit is classified by the D.F.R.B. Board according to his percentage of incapacity as follows:

**FIGURE XI**

<i>Percentage of Incapacity in relation to Civilian Employment</i>	<i>Class</i>
Sixty or over . . . . .	A
Thirty or over but less than sixty . . . . .	B
Less than thirty . . . . .	C

136. The classification of incapacity is made in relation to civilian employment, because a discharge, medically unfit, brings to an end the member's service career. An 'A' class invalid obtains a pension of approximately 70 per cent of his pay at the time of retirement and a 'B' class pensioner approximately 35 per cent. The benefit payable for 'C' class invalidity is a refund of contributions augmented by a gratuity.

137. The invalid retiree is classified initially according to this scale and his classification is reviewed from time to time. If his incapacity in relation to civilian employment substantially deteriorates or improves his classification can be adjusted. The pension may be suspended when the member's civilian earnings reach two-thirds of the current equivalent of his pay at retirement.

138. It was submitted:

- (a) That the scale of invalidity at present in use is too broad and that a sliding scale should be substituted.
- (b) That the initial classification and subsequent re-classification should be undertaken by an independent medical

tribunal rather than the D.F.R.B. Board and that provision should be made for a member aggrieved by his classification to appeal to an authority independent of the D.F.R.B. Board.

- (c) That provision enabling suspension of pension on the basis of improved civilian earnings alone was unfair and should be removed.
- (d) That the basis upon which benefits are paid should be changed. Some members would like to see the benefits payable in the same way as Repatriation Benefits. Others would like to see the inclusion of fringe benefits to cover the cost of medical treatment, hospitalisation, artificial limbs and other medical aids.

139. The Chairman of the D.F.R.B. Board, Mr L. K. Burgess in his evidence, described the principles upon which the benefit is now payable:<sup>(19)</sup>

Compensation for disability as such is provided for already under Repatriation or Employees' Compensation arrangements. Under the scheme a member is being insured to provide a supplement where it is applicable. If he cannot be absorbed into the work force he gets a full pension as distinct from the supplement provided, according to the degree of absorption into the civilian work force. That is the term of the contract. The disability provision should already have been provided elsewhere.

We are not providing for compensation in the sense of a career or level of income that has been foregone . . . . What we are setting out to judge is his employability—how far can he be settled into the work force as a civilian. That is the principle—not what he has foregone. We are not supplementing him for a loss against some hypothetical career. But the question is how far can he be absorbed—or, can he be absorbed and, if so, to what extent in the civilian force.<sup>(20)</sup>

I think perhaps the point you are leading me along to is—How far do you take into consideration what would have happened to him as a serviceman? The answer is that we do not take that into consideration at all, because our responsibility is to say that this man's career has finished there. There are other provisions adequate or inadequate to

<sup>(19)</sup> Transcript of Evidence p. 2950.  
<sup>(20)</sup> Transcript of Evidence p. 2953.

meet the situation regarding compensation for what he has foregone.<sup>(21)</sup>

140. It is made clear in the foregoing passages that the benefits payable under the present scheme for invalidity are not designed to provide:

- (a) compensation for disability; or
- (b) compensation for the premature termination of employment.

141. The Committee is disposed to agree generally with the proposition that compensation for lost employment, or for the actual injury sustained, should not be provided by legislation designed principally to provide retirement benefits. But the fact remains that both the D.F.R.B. Scheme and the Commonwealth Superannuation Scheme purport to cover members for the possibility of loss of employment due to ill health. The different nature of service in the Defence Force from the conditions which apply to Commonwealth Public Servants should be noted. Retirement as an invalid from the public service indicates that the member has broken down and cannot continue to be employed by the service whilst the condition leading to his retirement subsists. If he later improves in health he can be re-employed. Section 65 of Part IV Division 3 of the *Superannuation Act 1922-1971*, therefore, provides that should he have obtained other employment or be earning more than two-thirds of the current equivalent of his salary when retired, either as an employee or on his own account, the pension payable to him can be suspended. Underlying this provision is the assumption that where an invalid pensioner is capable of earning two-thirds of the current equivalent of his salary at retirement he can be presumed to have recovered sufficiently to resume his former employment with the Commonwealth, but has elected not to do so.

142. Members of the Defence Force once discharged unfit are not normally re-engaged. There can be no question then of re-employment by the Service. The member's employment is effectively terminated at the date of discharge. Discharge can occur for reasons which would not apply in other employment because of the high standards of fitness applied by the Defence Force. Many dischargees are not therefore, incapable of further employment but can be expected to obtain work. The fact remains, however, that the member's employment has been terminated and will not be

restored. It appears to the Committee that this factor is not sufficiently recognised under the existing provision for invalid retirement.

143. The system of classification under the present legislation requires the assessment of the retiree in relation to his capacity for civilian employment. This criterion is administered by the D.F.R.B. Board with some flexibility. The Chairman of the Board has explained that the general principle is absorption into the work force and when this is achieved the payment is terminated. In our view other considerations should also apply. It should be recognised that the loss of employment itself is worthy of some recognition and that the benefit should be related in some way to what the man has lost in the course of his career in the Defence Force. To the extent that this can be measured physically the man should be compensated accordingly and that this part of the assessment should be undertaken by medical experts. To the extent that he is incapacitated in relation to future civilian employment this loss should be likewise compensated and the extent of the loss again measured by qualified people.

#### Assessment of degree of incapacity

144. Evidence from the Regular Defence Forces Welfare Association recommended the substitution of a sliding scale basis of assessment rather than the present broad banding:

It is quite possible according to modern scales and pension determinations for a pensioner to be, say, 55 per cent disabled and on a 'B' class classification whilst a man on 60 per cent is on an 'A' class. So that by what you may call a specious difference of five per cent, a man is getting half because he has a five per cent capacity differentiation.<sup>(22)</sup>

145. The adoption of a sliding scale method of classification for invalidity would certainly lead to greater simplicity of concept and more certainty in application of the provisions. A sliding scale would be appropriate if the pension were to be awarded purely on the basis of the member's medical condition. But it is not appropriate where a criterion—capacity in relation to civilian employment—is not capable of precise mathematical expression.

146. The question of classification is rendered considerably more complex by the use of this criterion and it is unlikely that a sliding scale could be devised that would cope with the variables involved in the making of such a complex decision.

<sup>(21)</sup> Transcript of Evidence p. 2955.

<sup>(22)</sup> Transcript of Evidence p. 205-6.

147. The D.F.R.B. Board in their submission to the Committee commented on this suggestion:

It is understood that the current method of invalidity classification was introduced to avoid the rigidity which would be associated with the precise definitions required for a sliding scale of pension benefits. It is noted that prior to the introduction of the Defence Forces Retirement Benefits Act in 1948, provisions existed in the Superannuation Act for a sliding scale basis for granting invalidity benefits to former members of the Armed Service assessed at less than 50 per cent. This method of payment was discarded when the invalidity provisions were inserted in the Defence Forces Retirement Benefits Act.<sup>(23)</sup>

148. The Committee sees advantages in the present flexible approach to invalidity classification and does not consider that a sliding scale approach is appropriate. However, it considers that the actual assessment of invalidity should be placed in the hands of an expert tribunal.

#### Method of Assessment

149. It was submitted by the Regular Defence Forces Welfare Association that the classification of invalidity should be undertaken by an independent medical tribunal:

When the Board makes a judgment which subsequently does not prove to be reasonable and it is in relation to a medical matter then the discussion about the Board in the Services and among retirees gives the Board a bad name. Largely we suggest that this independent board of medical assessment would not take away from the Board any authority but would give it additional authority in that it has based its decision on the recommendation of the independent board.<sup>(24)</sup>

150. Surgeon Rear Admiral Lockwood who gave evidence in support of the submission by the Regular Defence Forces Welfare Association said in evidence:

The medical assessment of disabilities is a very skilled subject. It requires doctors of experience, skill and ability. I would say that the re-assessment of Defence Forces Retirement Benefits invalids' percentages in civil life should be done by highly skilled and

experienced medical officers. That is why I think that the independent board of medical assessment that has been put in this submission is extremely important.<sup>(25)</sup>

151. The D.F.R.B. Board is responsible for making all classifications, re-classifications and ordering suspensions. In performing these functions it exercises wide discretions. Thus the D.F.R.B. Board may act on the advice of the final Service Medical Board if it considers the medical evidence establishes the classification clearly, or it may obtain the opinion of a Commonwealth Medical Officer, or, in borderline cases it can refer the matter for the opinion of a specialist. In cases involving 'suspension' the D.F.R.B. Board exercises a wide discretion whether to enforce the provision or not.

152. If the member is dissatisfied with the D.F.R.B. Board's decision he can create a dispute with the Board which then re-examines the matter. However, the Committee does not feel that it is a satisfactory situation, that when a member creates a dispute with the Board, the Board should be the arbiter in the dispute between the member and itself.

153. Nor is the appearance of inequity relieved by the fact that the only authority competent to review the decisions of the Board is the High Court of Australia. Although the Board acts on the advice of medical experts the composition of the Board does not include a person with medical qualifications. Nor does the procedure of the Board provide for an open hearing at which the dissatisfied member is able to present his own case, bringing his own doctor to examine the Commonwealth Medical Officer who has advised the Board. In Recommendation 18 (c) the Committee sets out the arrangement it considers should apply.

#### Family Benefits

154. The existing D.F.R.B. legislation provides for the payment of benefits to the dependants of contributors and pensioners in the following circumstances—

- (a) Widows—A widow's pension of five-eighths of her former husband's entitlement is payable to the widow of a contributor who dies in service or the widow of a pensioner. (The proportion payable to the widows of certain pre-1959 entrants will be one half rather than five-eighths if the member concerned elected not to purchase the

<sup>(23)</sup> Transcript of Evidence p. 2919.

<sup>(24)</sup> Transcript of Evidence p. 230.

<sup>(25)</sup> Transcript of Evidence p. 210.

additional widow's entitlement when the benefit was increased from one half to five-eighths, in 1959.) For the purposes of the widow's pension entitlement, in the case of a contributor who dies in service, it is the notional entitlement he would have received had he been retired as a class 'A' invalid at the date of his death (i.e. 70 per cent of *final pay*). In all other cases it is the benefit payable to the retiree at the date of his death. When a class 'A' or 'B' invalid pensioner dies, his widow is entitled to five-eighths of the benefit being paid to him, unless his death is attributable to the condition which brought about the discharge as an invalid when the widow's entitlement is determined according to the principles applicable for death in service. The benefit is only payable to the widow of a pensioner where their marriage was contracted before his retirement. The benefit continues payable during the widowhood of the recipient but terminates on her re-marriage.

(b) **Eligible children**—A benefit of \$208 per annum is payable in respect of each eligible child of a deceased contributor or pensioner. To be eligible the child must be under the age of 16 years but the benefit continues payable to age 21 in respect of full time education at school, college or university. The benefit is payable to the widow in addition to her widow's pension and continues payable after her re-marriage. The Board has a discretion to pay the benefit as appropriate where an eligible child is not in the care and control of the widow but is properly in the charge of some other person or institution. As the provision is now interpreted the illegitimate children of a deceased member or former member do not qualify for the benefit.

(c) **Orphans**—Where an eligible child, or children is orphaned there is payable in addition of the \$208 children's benefit an additional sum of either a flat \$312 per annum per child, or alternatively an amount per child of approximately one quarter of the entitlement that was or would have been payable to the deceased member's widow. The amount payable is the greater of these two alternatives.

155. Submissions to the Committee have recommended:

- (a) That the proportion of the member's benefit payable to his widow should be increased.
- (b) That the pension payable to a widow should not terminate on her re-marriage.
- (c) That the widow of a retired member should be entitled to the benefit where their marriage occurred after his retirement.
- (d) That the benefit payable in respect of children should be increased.
- (e) That the benefits should be payable to de facto wives and illegitimate children of the member.
- (f) That a widower's benefit should be provided.
- (g) That the concept of dependant should be widened to include certain dependants of single contributors.

156. The Committee has concluded that the proportion of the benefit payable to the widow for both death in service and death after retirement should remain at five-eighths of the member's entitlement. The method of determining the entitlement should not be changed. Higher benefits will be payable to the widows of retired pay recipients than those now obtainable because of the effect of the proposal for automatic adjustment of the pension to maintain relation with average weekly earnings. Where death in service occurs the widow will receive five-eighths of the 'A' class invalidity benefit as under the existing legislation but this will also be subject to automatic adjustment. The improved children's benefits that the Committee is recommending will improve the position of a widow responsible for children.

#### Re-marriage of Widows

157. The payment of the widow's benefit under the existing legislation ceases upon the re-marriage of the widow. The benefit in respect of children continues payable. It was strongly submitted that the legislation should be amended to permit a widow to continue receiving the benefit after re-marriage. The Committee notes that the benefit payable is a support pension for the widow and like other benefits payable to dependants under the legislation it is justified on the principle that the members of the schemes including the

employer should provide support for the deceased member's dependants in the event of his premature death. The scheme assumes the responsibilities of the deceased member and provides for his dependants during their dependency. It would not be reasonable for this responsibility to be continued once dependency has ceased. Upon her re-marriage it must be assumed that the responsibility for a woman's support passes from the scheme to her new husband.

#### **Marrriage after Retirement**

158. The benefit is not available unless the marriage in respect of which it is payable took place before the member's retirement. It was submitted that the benefit should be payable in such circumstances because members of the Defence Force are frequently required to retire in comparative youth. The Committee considers that the widows of men who marry after retirement should be recognised for the purposes of the legislation and that a widow's benefit should be payable provided the marriage of the retired serviceman takes place before he attains age 60. Age 60 is selected because it is a retirement age common in other occupations and it is felt that the right should be extended to service personnel up to that age in order that they will not be disadvantaged by selecting a career in the Defence Force.

#### **De Facto wives and illegitimate children**

159. Payment of the benefit is made to widows and legitimate children only, under the present legislation. Other beneficial legislation administered by the Commonwealth provides for the payment of benefits to de facto wives and illegitimate children in appropriate circumstances. Provided the rights of a widow are safeguarded the Committee considers that the same principle should apply under the proposed *D.F.R.B. Scheme* and recommends accordingly in Recommendation 15 (c).

#### **Widower's Benefit**

160. Under the Commonwealth *Superannuation Act 1922-1971* a benefit is payable to the widower of a deceased female member provided the widower was dependent on the member for his support. The benefit terminates upon the re-marriage of the widower or upon his ceasing to be dependent. Until very recently female members of the Defence Force were required to resign upon marriage so that the need for a benefit of this kind was not really apparent. However, that situation has changed and married females may now continue in service. The Committee considers that

similar provisions for widower entitlement should be made as that made for Commonwealth public servants under the superannuation scheme and recommends accordingly in Recommendation 15 (d).

#### **Benefits payable to children**

161. The Committee has been impressed by the inadequacy of the present payment in respect of children, particularly orphans. It proposes that the benefit payable should be steeply upgraded. Some consideration was given to the substitution of a proportionate payment in respect of each child to replace the present fixed annual amount of \$208. Calculations extracted however indicated that such a basis would tend to favour the children of deceased members in the higher salary brackets and that the children of people on lower rates of pay would in some cases receive less than is now provided. It was therefore decided to retain the fixed annual amount but it was agreed that this should be adjusted initially to reflect increases in the cost of living that have occurred since it was last fixed and that adjustment should in future take place automatically. The benefit should be augmented by a proportion of the widow's entitlement. The same basis will apply to orphans but the amounts payable will be greater. The Committee recommends accordingly in Recommendations 16 (a), (b) and (c). The accompanying tables, Figures XII and XIII, give examples of children's and orphans' benefits. (See page 42.)

#### **Education Allowance**

162. A former child remains eligible to receive the children's benefit until he attains age 21 under the *D.F.R.B.* legislation provided he is undergoing full time education. It is proposed that the benefit should now be payable until the former child has attained twenty five years. It should terminate upon the marriage of that child and it should only remain payable if the child is dependent in the sense that his parents, had they lived, would most probably have supported him. Where the child is being supported by an employer or potential employer in the sense that he is being paid a full salary or wage whilst attending an institution of learning or instruction full time, the benefit should terminate. (See Recommendation 16 (d) ).

163. This should ensure that those dependants of deceased servicemen and recipient members most in need of support will receive it. Large families will receive the greatest advantage.



FIGURE XII—EXAMPLES OF ORPHANS' BENEFITS

Rank	Present D.F.R.B. Scheme			Committees Proposed Scheme (a)	Fixed Percentage Scheme (b)
	Number of Eligible Children				
	1-4	5	6		
Colonel (Death in Service)	* 1,235	* 1,029	* 892	\$ 1,393	\$ 1,575
Captain (Army) (Death in Service)	754	645	572	1,005	763
Warrant Officer (Class 1) (Death in Service)	613	532	520	1,115	522
Sergeant (Death in Service)	520	520	520	1,005	382
Private (Level 1) (Death in Service)	520	520	520	966	237

\* \$ per eligible child

(a) one-eighth of the Widow's Pension plus \$702. (b) one-fifth of the retired pay that the deceased member would have been eligible for had he reached retirement age for rank.

FIGURE XIII—EXAMPLES OF CHILDREN'S BENEFITS

Rank	Present D.F.R.B. Scheme	Committee's proposed Scheme (a)	Fixed Percentage Scheme (b)
Colonel (Death in Service)	* 208	* 1,227	* 787
Captain (Army) (Death in Service)	208	710	382
Warrant Officer Class 1 (Death in Service)	208	855	261
Sergeant (Death in Service)	208	710	191
Private (Level 1) (Death in Service)	208	528	119

\* \$ per eligible child

(a) One-sixth of the Widow's Pension plus \$312. (b) One-tenth of the retired pay that the deceased member would have been eligible for had he reached retirement age for rank.

#### Unmarried Contributors

164. Under the D.F.R.B. legislation the only benefit payable in respect of an unmarried member who dies during service without leaving dependants is a refund of his contributions. These are payable to his estate. The estate of a retired member is entitled to receive a refund of contributions less the amount of any benefit

paid. It has been submitted that single contributors, that is, contributing and recipient members with no dependants recognised for D.F.R.B. purposes, should have the right to designate beneficiaries from among their close kin as persons entitled to benefits under the scheme. Under the post-1959 scheme the rate at which members contribute is determined by age at entry to the scheme. The rate of contribution for a single man or woman is the same as the rate for a married person. Some single contributors making submissions to the Committee have contended that this situation is not equitable and that they are in effect subsidising other members of the scheme. Accordingly it was argued that either the rates of contribution payable by persons without dependants should be reduced or that the scheme permit a single member to nominate a beneficiary from among his close kin to whom the benefit might be payable. In Chapter IV paragraph 43 the Committee discusses the question of reduced contribution rates for single contributors and concludes that a uniform contribution rate is desirable.

165. Under the existing arrangements for financing the scheme and the pooling arrangement which applies to post-1959 entrants the liabilities of the scheme are averaged over the whole body of contributors. The contribution paid by an individual does not consist of elements attributable to each benefit but are based on the liability of the Fund in respect of the body of contributors as a whole. Not all married members with children will necessarily draw on the Fund in respect of those

dependants. The scheme provides invalid cover for all contributors although comparatively few will draw on the Fund as invalids. For these reasons it is not considered that there is any particular inequity in the contribution rates of single contributors. If a new benefit were to be provided by the scheme to entitle certain dependants of single contributors to qualify for a benefit, the overall cost of the scheme would rise with the additional liability attributable to the new benefit.

166. Evidence to the Committee indicates, however that there are single contributors with relatives who, in many cases, are dependent on the earnings of the member for support and whose claims on that individual are comparable with those of a dependant, wife, widower or de facto wife. Younger contributors may be responsible for the support of aged or infirm parents. Older contributors may be responsible for the support of close relatives such as young nieces or nephews or be supporting a close relative of similar age who would not come within the definition of de facto wife. At the same time similar commitments may have been incurred by other contributors who may, at the same time, have dependants recognised for the purposes of the legislation.

167. The line between dependants eligible for benefits under the D.F.R.B. scheme and other dependency situations which may exist (and may involve moral claim on particular individuals) must be drawn somewhere if the scheme is not to become overloaded with commitments which might greatly add to its overall cost. It was decided, therefore, to recommend that where a contributor without eligible dependants dies in service there should be payable to the member's estate, in addition to the refund of contributions actually paid, a further amount consisting of one half their value. The same benefit should be payable upon the death of a recipient member who is single at the time of his death. But the amount payable should be reduced by the amount of any benefit he may have received. This will provide single contributors with a benefit related to their years of membership of the scheme. An extension of a definition of dependants beyond de facto wives and illegitimate children and widowers is not considered desirable by the majority of the Committee.

#### **Interest on refund of Contributions**

168. The Committee received numerous submissions arguing that interest should be paid

on a refund of contributions to a member who withdraws voluntarily. A provision of this nature could not be justified. Information from the Commonwealth Actuary indicates that the payment of a refund of contributions without interest represents a significant liability of the existing scheme. Figure VII on page 28 indicates that the rate of withdrawal has been very high for both officers and other rank members. If interest were to be paid the Committee is convinced that:

- (a) An immediate and very substantial increase in the overall cost of the scheme would result. The cost of providing refunds is already a major drain on the resources available for paying benefits and the provision of interest would reduce them further.
- (b) The provision of interest might lead to increased withdrawal further adding to the existing drain on the scheme's resources.

169. The Committee is recommending a range of retirement benefits which it considers will meet the needs of service personnel. Payment of interest on contributions is not a retirement benefit in the sense that the Committee attaches to that term. The argument is sometimes advanced that as the member has not had the use of the money he has contributed, he should be paid interest on that money should he wish to withdraw from the scheme. This argument would be more persuasive had the member not already received ample consideration for his contribution in the form of insurance type protection for his dependants in the event of his premature death and the prospect of an annuity in the event of his invalidity. Moreover, the member obtains a taxation concession throughout service in respect of contributions paid to an approved superannuation scheme. If he withdraws before qualifying for retirement benefits he receives a full refund of what he has paid in to the scheme. In effect he obtains the protection provided by the scheme at no cost to himself. His position might well be compared with that of a person surrendering a life assurance policy where the surrender value is less than the amount he has contributed. At the same time, under the proposed scheme he can qualify for retirement pay at a generous rate after 20 years service for pension. The Committee has therefore concluded that payment of interest would not be justified.

## CHAPTER V—ADMINISTRATION

170. To understand the present arrangements for administering the D.F.R.B. scheme it is necessary to distinguish between the following:

- A—Financial and managerial responsibility,
- B—Day to day management,
- C—Ministerial responsibility.

### A. FINANCIAL AND MANAGERIAL RESPONSIBILITY

#### Defence Forces Retirement Benefits Board

171. The D.F.R.B. Board, consisting of six members, is vested with the responsibility for the administration and working of the Act. The composition of the Board gives some indication of the interests that are represented. It consists of:

- (a) *Chairman*—who is also President of the Superannuation Board. As well as his duties as Chairman he is also the Chief Executive of the 'Office of the Superannuation and Defence Forces Retirement Benefits Boards'.
- (b) *The Commonwealth Actuary*—The Actuary has important duties in relation to the scheme. He is charged under the legislation with the duty of making periodical investigations of the Fund and reporting to the D.F.R.B. Board on its state and sufficiency. In his report he is required to advise the Board on any adjustment to contribution rates that appear necessary and to advise on how the Board should deal with any surplus or deficiency that his investigation of the Fund reveals. The Actuary is an expert on superannuation through his long involvement in all the schemes operated by the Commonwealth and is also a member of the Superannuation Board which is the management body responsible for the Commonwealth Public Service Superannuation Fund.
- (c) *Treasury Representative*—The Treasury is represented by a senior officer of that Department (usually the Assistant Secretary in charge of the Retirement Benefits Branch of the Social Security Division). Ministerial responsibility for amendments to the legislation is vested in the Treasurer.

The presence of the Treasury representative on the D.F.R.B. Board is therefore of some importance as he is the chief liaison between the Board which is responsible for the management of the scheme, and the Government which proposes changes to the legislation.

- (d) *Service Representatives*—Each of the three Services is represented on the Board by a member who is usually Director of Personal Services for the Service he represents. He is invariably himself a contributor to the D.F.R.B. scheme. Each of the three Services thus has a voice in the management of the scheme through a senior officer who is familiar with aspects of service manning policy. This member can also be regarded as a voice for the rank and file of contributors.

#### Powers and responsibilities

172. The D.F.R.B. Board is an independent statutory authority being a body corporate with perpetual succession and a common seal. It has power to delegate its functions under the legislation to a member of the Board or an officer of the Commonwealth Public Service. It has a general administrative and management responsibility, the power to determine special cases and decide other matters arising under the provisions of the legislation and the responsibility to act as corporate trustee for the investment of the D.F.R.B. Fund.

173. The moneys required to meet the cost of the administration of the scheme are appropriated separately by Parliament. These accounts are kept as part of the Public Account and are separate from the D.F.R.B. Fund's accounts. The Board is required to report on the general administration and working of the Act, annually, to the Treasurer who is required to table the report in Parliament.

#### Management of Investments

174. Income derived from investment forms part of the D.F.R.B. Fund, such income not being subject to taxation by the Commonwealth or a State. Section 16 of the *Defence Forces Retirement Benefits Act 1948-1971* provides that:

The moneys of the Fund shall, so far as is practicable be invested by the Board:

- (a) in securities of the Commonwealth or of a State;
- (b) in a loan to a local governing body in Australia;
- (c) in a loan secured by a mortgage of an estate in fee simple, or of a leasehold interest, in land in Australia, being a loan—
  - (i) the amount of which does not exceed seventy per centum of the value of the security at the time the loan is made; and
  - (ii) which is repayable on demand or is for a term not exceeding thirty years;
- (d) in debentures issued in Australia by a company incorporated in Australia; or
- (e) in any manner for the time being allowed by an Act or State Act, or by an Ordinance of a Territory of the Commonwealth, for the investment of trust moneys in Australia, other than in stock or shares issued by a company,

but shall not be invested in any other manner.

(3.) Moneys of the Fund shall not be invested in debentures unless—

- (a) the investment is permitted by, and is in accordance with, the regulations\*;
- and
- (b) the amount of the moneys to be invested, together with the value of any debentures in which moneys of the Fund are already invested, is less than one-quarter of the value of the assets of the Fund.

(4.) In this section, 'debenture', in relation to a company, includes debenture stock, bonds, notes and any other securities of the company, whether constituting a charge on the assets of the company or not.

175. The management of investments is a major responsibility for the D.F.R.B. Board which acts as Corporate Trustee of the contributions of members. The success of occupational superannuation schemes is very dependent upon the skill with which the funds are invested. The justification for the funding

basis of financial administration is that the investment of the member's contributions will in the long term, by reducing the cost of providing the benefits, lower the rate at which members will be required to contribute.

176. Criticism has been levelled at the D.F.R.B. Board's management of the D.F.R.B. Fund. Criticism of the investment policy largely revolved round the assumption that the earning rate could be improved by more adventurous management. The Board has pointed out that as it acts as Corporate Trustee for member's contributions, its major responsibility is to ensure that these moneys are securely invested. Over two-thirds of the assets are Government and semi-Government securities. This is partly due to the legislative restriction on the investment powers of the D.F.R.B. Board. However, even if the D.F.R.B. Board had wider powers it is likely that a prudent Board would retain the present range of investments. The investment of contributions poses a dilemma for the trustees of a superannuation scheme. On the one hand, they must ensure that the contributions are secure and on the other hand, they must try to obtain the most profitable return if the object of investment is to be achieved. For the trustees of public sector schemes this dilemma is acute as the scope for investment is restricted by legislation. In these circumstances the Committee considers that the earning rate during the period 1959 to 1971 of 4.5 to 6 per cent has been quite satisfactory. The earning rate is higher than the rate obtained during the same period by the Commonwealth Public Service Superannuation Fund. Most of the submissions received by the Committee were received in late 1970 at the height of the boom in mining shares. The consensus of these submissions seemed to be that the D.F.R.B. Fund was missing out on prosperity associated with the boom. This type of investment was of course not available to the Board, even if desired, within the investment area available. Later developments in the general stock and security markets have confirmed the wisdom of a conservative investment policy.

177. Although the portfolio of the Fund has been well managed in the past, the yield from investing only the contributions of members is not sufficient to warrant the elaborate apparatus that is necessary. For reasons already discussed we consider the Commonwealth should not fund its share of contributions and that it would be in the best interest of the members of the Defence Force, who are contributors to

\* No regulations have been so far promulgated under this section.

the scheme, if in future their contributions were applied directly to the provision of benefits and that the existing D.F.R.B. Fund be phased out.

178. The Committee appends a paper prepared by the D.F.R.B. Board explaining its investment policy which contains a table indicating the present range and spread of investments. (See Appendix E)

#### **Actuarial Investigations**

179. The Commonwealth Actuary explains the purpose of this periodical investigation in his paper *The Actuarial Bases Underlying the Defence Forces Retirement Benefits Scheme 1948-1970*. (See Appendix C)

180. Of major concern to the Committee has been the delay in the completion of these investigations. The last report of the Commonwealth Actuary was in respect of the quinquennium 1959-64 which was not completed until 7 April 1967 and not tabled in Parliament until 6 June 1968. The quinquennial review for the period 1964-69 has not yet been completed.

181. Section 22 of the Principal Act requires the Commonwealth Actuary to undertake periodical reviews of the state and sufficiency of the D.F.R.B. Fund as at 13 June 1964 'and thereafter at intervals of not less than five years'. The section does not require the Actuary to present his report on the anniversary of the first quinquennium as some contributors seem to think. The Commonwealth Actuary is not, therefore, in breach of this legislation as a result of the delays in presenting his Report. However, it is highly desirable that where a scheme is funded the investigations be carried out and the reports presented at regular and frequent intervals. These reviews are the main source of information concerning the scheme and give an indication of what is necessary and feasible with regard to improvements.

182. The delays that have occurred in completing these investigations have undoubtedly been detrimental. They have also had a bad psychological effect upon the serviceman in that the scheme has been shrouded in mystery. The work of the Committee would have been considerably facilitated if up to date information regarding the scheme had been available earlier. The Commonwealth Actuary has advised that he has only recently received from the D.F.R.B. Board the necessary data to enable him to commence his investigation for the 1964-69 quinquennium. The Committee has been informed that the transfer of manual

records to automatic data processing has been the principal cause of this delay. The records of the Board have now been 'computerised', and the completion of the transfer of manual records to computer tapes should ensure more expeditious provision of information in the future. A further cause of delay has been the re-distribution of surplus to pre-1959 contributors arising out of the 1959-64 investigation. Section 22 (3) requires the Commonwealth Actuary to state in his report 'what additional benefits (if any) could, in his opinion, be provided out of the surplus or in what other manner the surplus should, in his opinion, be dealt with'. The Commonwealth Actuary recommended in his 1959-64 report that the surplus be employed to facilitate the transfer of pre-1959 entrants onto the post-1959 basis of contribution. This recommendation was not accepted by the Board which recommended the distribution of surplus to contributors and pensioners. This exercise involved the staff of the Office of the Board during 1968 and 1969 and must be regarded as a factor contributing to the delay in transferring the manual records to automatic data processing.

#### **B. DAY TO DAY MANAGEMENT**

183. The Board is supported by an office of permanent officials. The office of the Superannuation and the D.F.R.B. Board consists of officers of the Commonwealth Public Service on the establishment of the Commonwealth Treasury. The Chairman of the D.F.R.B. Board, also President of the Superannuation Board, is the chief executive with responsibility for the management of both schemes.

184. The Committee has received numerous complaints relating to the administration of the scheme touching such matters as delays in answering correspondence, delays in processing applications for commutation and for invalidity pensions, and errors in calculation of contribution rates. Although many of these complaints appear to be genuine it would be unfair to hold the D.F.R.B. Board or the Office entirely responsible.

#### **Processing Contribution Rates**

185. The present method of calculating the contribution rate of pre-1959 entrants is extremely complex. If all contributors were placed on a percentage of salary basis for contribution these problems should disappear.

186. The procedure for processing contribution rates described by the D.F.R.B. Board to the Committee involves the Board and all three Service Departments. Some of the charges of

delays and errors at present levelled at the Board are due to errors made by the Service pay authorities in updating pay and calculating the effect of pay increases. The Committee has reached the conclusion that greater efficiency would flow from the centralised administration of both pay and retirement benefits by the Department of Defence.

#### **Processing Applications and Payment of Pension**

187. The D.F.R.B. Board submitted that delays in this area occur during the interval between the completion of ordinary service discharge procedures and the forwarding of essential advice to the D.F.R.B. Board. The D.F.R.B. Board submitted that some delays are due to discrepancies between these records when forwarded and the Board's own records. Further delays occur between the completion of the Board's procedures and the forwarding of essential information to the paying agents. For reasons already stated the Committee considers that obvious advantages would flow from the administration by one authority of all operations of the scheme thus necessitating the keeping of only one set of records.

#### **Information concerning the Scheme**

188. The D.F.R.B. Board has produced a booklet designed to explain the scheme to contributors. This provides comprehensive information, but the booklet fails to explain the scheme satisfactorily to the average contributor, as it is too long and detailed for this purpose. The difficulty is that the present scheme defies explanation in simple terms. We cannot over-emphasise the importance we attach to having a scheme in which contributions and benefits are capable of simple explanation to the members of the scheme. We are confident that our proposed scheme meets this criteria.

#### **Advisory and Counselling Service**

189. It was recommended that an advisory and counselling service should be conducted by the D.F.R.B. Board to explain the scheme to members. This is a clear demonstration of the complexity of the present scheme. The Committee feels that it should never be necessary to have to go to such lengths merely to explain retirement benefits.

190. Where a scheme is compulsory, it is essential that the benefits of membership should be presentable in a clearly understandable manner and that information concerning a member's rights and obligations under the scheme should be readily accessible.

191. The Committee considers that an advisory and counselling service should not be necessary for the Committee's proposed scheme. There may be a requirement for such a service to cover the range of discharge problems, including the question of employment in civilian life, experienced by servicemen. As this question is outside the Committee's terms of reference no further comment is made.

#### **C. MINISTERIAL RESPONSIBILITY**

192. The D.F.R.B. Board is responsible for the working and general administration of the Act and the Treasurer is the responsible Minister. The Treasury has an overall responsibility for co-ordinating the Government's policy on retirement benefits, including the D.F.R.B. scheme. The responsibility for advising the Treasurer on retirement benefits policy generally rests with officers of the Department of Treasury.

193. Formulation of policy in relation to D.F.R.B. takes place at present within an involved framework. Ministerial responsibility for the scheme rests with the Treasurer, but the Treasury does not manage the scheme which is in the hands of the D.F.R.B. Board. Officials within the Treasury advise the Government on the scheme and the Treasury has a representative on the Board.

194. The Committee considers that the present arrangements for administering the scheme are too involved, and that there should be a single responsible authority. The justification for an independent statutory authority such as the D.F.R.B. Board is its role as corporate trustee of the D.F.R.B. Fund and as a board of management. This dual role will disappear under the Committee's proposals. The management of the scheme would then be vested in a section of the Defence Department. Under the Committee's proposed scheme invalidity classification would be handled by an independent tribunal and the determination of commutation rights would be an automatic process that could be handled at a purely administrative level.

195. The Minister for Defence should be the responsible Minister for the proposed D.F.R.B. scheme. This would be beneficial in that the D.F.R.B. scheme would be under the administrative supervision of the Department responsible for other aspects of service pay and conditions. The transfer of records and information that takes place at present would be avoided and considerable economies of scale and enhanced administrative efficiency should result.

196. Consideration has been given as to whether an Advisory Board should be created as a focal point under the *Proposed D.F.R.B. Scheme*. The administrators of the scheme would not need the powers of the present D.F.R.B. Board and its responsibilities would not be the same. The composition of the present D.F.R.B. Board ensures that representatives of the Services have a voice in the scheme and contact with the Department responsible for administration. It is considered that this

contact should be maintained. The Committee recommends that an Advisory Board to consult with the Minister for Defence from time to time on the operation of, and any suggested improvement to the *Proposed D.F.R.B. Scheme*, be established. This Board should comprise representatives of each Service through whom the views of *contributing members* could be expressed. It would be desirable, if practicable, for an elected representative of '*recipient members*' to be a member of the Board.

## CHAPTER VI—EXISTING CONTRIBUTORS AND PENSIONERS

197. It is most important to consider on what basis existing contributors and pensioners can be transferred to the new scheme without perpetuating the present pre-1959 and post-1959 schemes. Few of the advantages that we see resulting from the implementation of our proposals would occur if the present D.F.R.B. legislation, or parts of it, were retained once the new scheme is introduced.

198. Where a new scheme is introduced the usual practice is to offer existing contributors a choice of remaining as they are or joining the new scheme. This principal is known as the 'no detriment rule' and applies out of consideration of equity. Examples of the application of this rule within the D.F.R.B. scheme are:

- (a) The election given to contributors for retired pay in 1948 to join the D.F.R.B. scheme. This involved rejecting accrued entitlement to deferred pay. Many contributors elected not to join the scheme but to remain on deferred pay.
- (b) When the widow's benefit was increased in 1959 from half of the members' pension to five-eighths, existing contributors were given the option to contribute for this added entitlement or to continue to pay contributions at the existing rate. Some contributors elected not to pay the additional contribution with the result that the entitlement of their widow remains one half rather than five-eighths.
- (c) Pre-1959 entrants were also given an option in relation to additional benefits granted under the 1959, 1962 and 1963 amending legislation.

199. The application of the 'no detriment rule' can be justified on a number of grounds. Theoretically retirement benefit schemes are based on implied agreement between employers and their employees. Alterations should not occur without the consent of all parties to the scheme. Where an existing scheme is modified it is considered that existing rights should not be disturbed and that those already in the scheme should have the right to reject the new arrangements. New entrants have no option and are required to accept the conditions of the new

scheme as part of their contract of employment.

200. Because of the multiplicity of attitudes within the membership of any given scheme, the granting of any option in relation to contributions and benefits is bound to lead to diversity of choices with resulting complexity.

201. Any arrangements for transfer from the existing scheme into the scheme proposed by the Committee will need to meet the problems that have arisen in the past in relation to pre-1959 entrants.

202. The Committee has had to decide whether the 'no detriment rule' should apply in relation to the *Proposed D.F.R.B. Scheme*. One solution would have been to restrict the Committee's scheme to new entrants only, and to continue the old schemes until all present members had retired. Another solution would have been to give existing contributors an election to stay with the old scheme or join the new one on the basis of purchase of any enhanced benefit. The Committee is adamant that uniformity in relation to both contributions and benefits should apply and that any new scheme should absorb all existing arrangements. The following are the main areas where the Committee sees a requirement for transitional arrangements.

### Pre-1959 contributors

203. (a) All pre-1959 entrants should be transferred to the *Proposed D.F.R.B. Scheme* and there should be no question of retaining the pre-1959 arrangements in relation to any of them.
- (b) All pre-1959 entrants should from the inception of the Committee's scheme contribute at the proposed flat rate of 5.5 per cent of *pay*.
- (c) Members whose total contributions in the past have amounted to 5.5 per cent of *aggregate pay* should become entitled to benefits at the rate proposed by the Committee.
- (d) Members whose contributions in the past have exceeded 5.5 per cent of *aggregate pay* should receive a refund of the excess.



- (e) Members whose total contribution in the past amounted to less than 5.5 per cent of *aggregate pay* should be given an election to pay the difference in contribution or to accept actuarially reduced benefits.

#### **Post-1959 Contributors**

204. All members of the post-1959 scheme should contribute at the proposed flat rate from the inception of the Committee's scheme. No adjustment in the contribution of members should be made unless total contributions in the past have been in excess of 5.5 per cent of *aggregate pay*, when a refund of the excess should be paid. In this connection it should be noted that the benefit entitlement of these later entrants will be reduced because of the proposed percentage of salary basis for determining entitlement. We do not consider that those post-1959 contributors whose total contributions have amounted to less than 5.5 per cent of *aggregate pay* should be required to re-pay the shortfall. Apart from the complexity that would be associated with such an arrangement

(in view of their numbers), it would not be equitable, as most of the contributors concerned would have been paying into the Fund at a time when they were not covered for full benefits.

#### **Deferred Pay Contributors**

205. A deferred pay contributor is not a member of the existing scheme and provides the only exception to the Committee's Recommendation 3. Such a member should not be obliged to contribute to the scheme, but given an election to enter it on the basis of the purchase of his past service at the rate of 5.5 per cent of *aggregate pay* received during the year for which he is buying back service. Members of the Regular Army Special Reserve and *contributors* in a similar position ought to have the right to purchase sufficient of any past service which would qualify as *effective service*.

John D. Jess  
Chairman

## Appendix A

### DISSENT OF SENATOR C. B. BYRNE TO RECOMMENDATION 17 AND PARAGRAPHS 164-167

Pursuant to paragraph 8 of the Resolution appointing the Committee I wish to exercise my right to add a dissent to the Committee's Report.

While subscribing to the rest of the Report and Recommendations I find myself unable to subscribe to Recommendation 17 of the Committee, discussed in paragraphs 164-167 of the Report, that the only provision that should be made in relation to the succession to benefits through an unmarried contributor be the payment to the deceased's estate of one and one half times the deceased's contributions. Admittedly this is some improvement on the present provision which is for the payment to the estate of the actual contributions only, (in neither case is interest added).

#### *Unmarried Male and Female Contributors*

2. My specific recommendations are set out below, but the general principle I propose is that an unmarried male or female *contributing* or *recipient member* be entitled to pass on a reversionary benefit as can married *contributing* or *recipient members*.

3. An unmarried member (male or female) under the proposed scheme will pay on the same principle as a married contributing member, and will be the subject of very great discrimination if equal duty to pay is not matched by substantially equal right to receive—as indeed is the case under the present scheme.

4. It has been traditional in most superannuation schemes to accept this discrimination. The attitude has been, that a scheme is actuarially computed and that the provision of parallel rights for single contributors will disturb the actuarial balance unless there is an increase in the contributions of all contributors, (in the main this would be married contributors) to include the additional beneficiaries. Superannuation fund administrators argue that the aim is to provide a retirement benefit to the contributor and if he dies without leaving any dependants this is no concern of the fund. I make no comment on any necessity to increase the contributions over all members of the existing fund, to place single contributors, so far as benefits are concerned, substantially on the same basis as married contributors, principally because the Committee now recommends a type of scheme in which this question does not arise.

5. I believe that substantial and ultimately complete equality of rights for single and married contributors should be established. I hold firm to the view that contributors irrespective of sex or marital status should receive as far as practicable the same range of benefits; that suitable provision be made by which a reversionary benefit created by a deceased contributor, and which if he were married would pass

by right in terms of the general recommendations of this Committee to the widow or widower, should similarly pass to such person as is within an acceptable and prescribed degree of consanguinity (and in some cases the person designated by the contributor).

6. Behind the attitude that the entitlement of a single contributor should be different from that of a married contributor there could be a concept which considers that entitlement by succession under the D.F.R.B. Scheme should reflect some 'legal duty to support' principle emerging in such statutes as the Workers' Compensation and the Matrimonial Causes Acts.

7. But the majority Report does more than that and I join with the Committee in so doing. The Report acknowledges a relationship (which may or may not have any actual element of dependancy at all) viz., that of a de facto wife—a relationship which certainly does not have any element of legal duty to support. From such relationship a reversionary benefit to a de facto wife is to be allowed to arise.

8. It imports the principle of 'moral duty' to support—in a de facto situation, and I am unable to see why the extended principle should halt at the suggested point of de facto wives, and children (not of a legal union). There are other relationships which quite properly could import the moral duty to support principle, e.g. a dependant parent, brother or sister—not a duty created by the contributor but which he may and perhaps must discharge. It would be reasonable to presume that there are many contributors who would have a survivor within such areas of relationship. The *First Schedule* sets out the numbers by age of unmarried male contributors to the D.F.R.B. Scheme.

#### *Unmarried Female Contributors*

9. The attached *Third Schedule* shows the number of female contributors from 1 July 1961 to 30 June 1965 and as at 30 June 1969. It could reasonably be presumed that virtually all are unmarried. The *Second Schedule* also shows the age composition of the unmarried female contributors indicating that there is a significant number of female members making the Services their career and who probably will not marry. The *Third Schedule* also demonstrates the movement of female contributors into and out of the Services.

10. Excluding unmarried service personnel below the age of 26 years (most of whom will marry or leave the Services) and presuming that those above the age of 45 years will not marry—on the figures in the *First* and *Second Schedules* and 13.6 per cent of female personnel in that category will continue in

the Service unmarried until retirement, but only 9.4 per cent male personnel in the same category.

11. While this analysis points up that the discrimination bears even more heavily against unmarried female contributors than against unmarried male contributors it does in addition of course highlight the position that both groups are the subject of considerable discrimination.

#### Cost of Extended Benefits

12. On the question of what additional cost might be entailed in the extension of benefits as suggested in this Dissenting Report, I am advised as follows by the Commonwealth Actuary:

In order to arrive at estimates of costs for any proposals concerning dependants it is necessary to make assumptions as to the numbers of dependants who will become eligible for the proposed benefits.

For the existing Scheme, these assumptions can be based on past experience. For the proposed scheme wherein a reversionary pension is available to the widow of any contributor or to the widow of any pensioner who was married when he became a pensioner, as in the existing Scheme, and in addition to any pensioner who took a wife after retirement but prior to age 60, a further assumption is necessary.

*For the purposes of making calculations for the abovementioned Report\*, the further assumption was made that all pensioners were married at age 60 or at earlier death.†* It was also assumed that the age distribution of wives of existing members would apply, so that very young wives would be eligible for reduced benefits only. *These assumptions imply that a reversionary benefit will be available in respect of all pensioners who die before age 60 and in respect of each pensioner who dies after age 60, subject to his predeceasing a wife who was alive when the pensioner was age 60.†*

*It can be assumed therefore that the cost of the Committee's proposal already covers a condition that a reversionary pension be made available either to a widow or to a brother, sister or parent who was dependant on an unmarried pensioner at age 60 or earlier death.†* The benefits are subject to reduction where the difference in age between the pensioner and the beneficiary is substantial.

In other words the projected cost of the proposed scheme operates on the presumption that reversionary benefits will flow from single as well as married contributors. But in fact the recommended scheme makes no provision for reversionary benefits to survivors of unmarried contributors. All it does is to increase by 50 per cent the return of contributions.

13. The provision of reversionary benefits in terms of my proposals will make a fact of what is in any case notionally presumed in the calculations referred to in paragraph 12. Consequently there will be no increase in any projected cost; on the contrary the actual cost

will fall below the projected cost as not all unmarried contributors will have entitled reversioners. To provide the suggested benefits to unmarried male and female contributors will not require any increase at all in the contributions of contributing members as already projected in the proposed scheme.

#### Other Schemes

14. Examination of many superannuation schemes elsewhere in the world discloses that the principle which is presented above does not find acceptance. There is, however, one very interesting Australian example and that is the *Queensland Parliamentary Contributors Superannuation Scheme*. The legislation provides that a Member of Parliament, who is contributing to the fund and is unmarried, may assign the widower's portion of his pension to a female member of his family who is his mother, sister, or daughter, who is his housekeeper and has been totally and mainly maintained by him.

#### Bases of Entitlement

15. It remains to be indicated whether a reversionary benefit proceeding from an unmarried *Contributing or Recipient Member* should be on the basis of relationship only, or on the basis of relationship combined with dependancy, or on the basis of dependancy only.

16. In terms of an indefensible differentiation between married and unmarried male contributors and in terms of a desirable equality of rights between male and female contributors the test should be the equality of rights to pass on reversionary benefits, not the economic circumstances of the recipient. My recommendation projects this principle.

17. For the same reason I see no warrant for imposing a dependancy test in the case of a surviving widower, although pragmatically one is inclined to its imposition.

#### Recommendations

I would recommend—

- (1) That one surviving parent of an unmarried *Contributing or Recipient Member* (male or female) or if there is no such, a surviving sister or brother of such deceased member be entitled to receive the amount of annuity prescribed in Recommendation 15 (a) and (b) as if such person were the widow.
- (2) In the event that the *Contributing or Recipient Member* is survived by both parents the mother to have prior entitlement.
- (3) In relation to reversionary benefits to a brother or sister in the event that the member may be survived by other than a brother only or a sister only the member may designate to which eligible brother or sister the benefit will be payable.
- (4) The brother or sister shall be entitled to receive a reversionary benefit only if within a prescribed age differential with the contributor; and where the differential is exceeded an annuity be paid at a rate appropriately reduced.

\* Report of the Commonwealth Actuary prepared for the Committee entitled 'The Committee's Proposals—Contribution Rates and Costs'.

† Emphasis added.

- (5) On the death of any recipient reversioner all further reversionary rights shall cease.
- (6) A brother or sister being a 'child' within the ambit of Recommendation 16 of the Committee's Recommendations be entitled to receive the benefit recommended as if such brother or sister were the child of the deceased *Contributing or Recipient Member*.

#### The Conclusion

The existing discrimination in the present Scheme between the rights of married and unmarried members should not merely be ameliorated but should be eliminated.

So far as unmarried female members are concerned continued discrimination against them is in the face of a strongly developing social trend towards the acceptance of equality of sexes in terms of work-value, and the further concept of equality of men and women as individuals in the work force quite apart from work-value.

I conclude this qualification of paragraphs 164-167 of the Report of the Committee by expressing the hope that the opportunity may be seized to embody in any new Retirement Benefits Scheme for the Defence Force the social concept expressed in this dissenting view.

I would hope that the fact that I am myself unmarried might be accepted as prompting my interest rather than persuading my judgment.

C. B. BYRNE

#### First Schedule

#### UNMARRIED MALE CONTRIBUTORS TO THE DEFENCE FORCES RETIREMENT BENEFITS SCHEME\*

Age	Contributors
59	2
58	3
57	8
56	5
55	9
54	11
53	17
52	22
51	23
50	34
49	42
48	38
47	51
46	62
45	69
44	75
43	86
42	109
41	89
40	101
39	102
38	86
37	85
36	90
35	117
34	127
33	136
32	179
31	216
30	220
29	293
28	355
27	470
26	691
25	1,518
24	2,281
23	3,799
22	6,973
21	8,471
20	5,696
19	4,058
18	3,272
17	1,833
16	793
15	94
Not given	38
<b>Total</b>	<b>42,849</b>

National Servicemen included in the above figure total 13,294.

\* The above figures were compiled from statistics provided to the D.F.R.B. Board by each Service Department as at the following dates:

Army: as at December 1970.

Navy: as at November 1970.

Air: as at June 1970.

**Second Schedule**

**UNMARRIED FEMALE CONTRIBUTORS TO THE  
DEFENCE FORCES RETIREMENT BENEFITS  
FUND**

Age	Contributors
56 . . . . .	2
55 . . . . .	4
54 . . . . .	7
53 . . . . .	5
52 . . . . .	2
51 . . . . .	8
50 . . . . .	6
49 . . . . .	3
48 . . . . .	5
47 . . . . .	9
46 . . . . .	8
45 . . . . .	13
44 . . . . .	13
43 . . . . .	8
42 . . . . .	14
41 . . . . .	13
40 . . . . .	18
39 . . . . .	12
38 . . . . .	11
37 . . . . .	11
36 . . . . .	12
35 . . . . .	14
34 . . . . .	8
33 . . . . .	24
32 . . . . .	20
31 . . . . .	21
30 . . . . .	31
29 . . . . .	43
28 . . . . .	49
27 . . . . .	49
26 . . . . .	85
25 . . . . .	128
24 . . . . .	201
23 . . . . .	267
22 . . . . .	369
21 . . . . .	489
20 . . . . .	471
19 . . . . .	250
18 . . . . .	19
<b>Total</b> . . . . .	<b>2,722</b>

**Third Schedule**

**MOVEMENT OF FEMALE CONTRIBUTORS  
1 JULY 1961 TO 30 JUNE 1964**

Item	Officers	Other Ranks
Number at 1 July 1961 . . . . .	168	747
New Entrants . . . . .	69	1,144
Transfers and Adjustments . . . . .	20	- 19
	257	1,872
<b>Exits—</b>		
Age, Resettlement, Needs of Service . . . . .	1	..
Death . . . . .	2	2
Resignation, Dismissal, etc. . . . .	72	857
Completion of Engagement . . . . .	..	1
Invalid—Class A . . . . .	..	1
Invalid—Class B . . . . .	..	3
Invalid—Class C . . . . .	..	2
<b>Total Exits</b> . . . . .	<b>75</b>	<b>866</b>
Number at 30 June 1964 . . . . .	182	1,006

As at 30 June 1969 there were:

**FEMALES**

Officers	Other Ranks
237	2,406

## Appendix B

### PORTABILITY AND PRESERVATION OF SUPERANNUATION RIGHTS

The Treasurer, in a statement on 21 June 1970, summarised the Government's proposals for the preservation of superannuation in the following terms:

The changes proposed will enable an employee to move between different fields of Commonwealth employment at any stage of his service without loss of his accumulated superannuation interest or stake (including the employer share of that interest or stake), provided the period between employment is no longer than three months. In addition, Commonwealth employees who move to public employment with the States, including State universities, within three months of ceasing Commonwealth employment, will be able to preserve in one form or another their superannuation rights. Furthermore, employees who resign after completion of twenty years service with the Commonwealth, and move to private employment or self employment, or do not engage in any other employment, will be able to take advantage of the preservation arrangements.

The provisions for preservation of rights contained in the *Defence Forces Retirement Benefits Act 1971* will apply to members of the D.F.R.B. Scheme who, on termination, do not qualify for pension benefits under other provisions of the Scheme. The effect of the new legislation is that such members will have an option, subject to certain conditions, of becoming entitled to a benefit based on their own contributions plus the matching employer supplement, instead of a refund of contributions and a gratuity, if applicable. The preservation benefit may be in the form of a transfer value paid to another scheme, or a deferred pension benefit that will be paid from a later date.

A transfer value (i.e., a lump sum that includes the employee and employer components of the employee's interest or stake in the Fund) will apply where the member on leaving the D.F.R.B. Scheme moves to public employment within three months and joins an eligible superannuation scheme; that is, a scheme that the Treasurer declares in the *Gazette* to be an eligible scheme for the purposes of the preservation provisions. Such schemes will be ones that provide for persons to become entitled to retirement benefits on the payment of transfer values and that provide safeguards against the double-banking of employer supplements, against circumvention of the twenty year qualifying period and against the employee, on resignation from the Scheme, receiving benefits that include the employer element paid by the Common-

wealth where that element would not have been received had he remained in the Commonwealth scheme. Initially, eligible schemes will be those in the Commonwealth family as their rules are amended to provide for preservation and incorporate the safeguards mentioned. The number of schemes will be expanded progressively as negotiations are concluded with authorities responsible for the schemes.

For those who enter public employment within three months but do not join an eligible scheme, the preservation benefit will be a deferred pension entitlement. Employment that will qualify as public employment will be determined by the Treasurer and notified in the *Gazette*. Such employment will include a wide range of full-time employment in the public sector as distinct from the private sector—that is, Commonwealth and State employment including employment by their instrumentalities. It will also include employment by universities and by incorporated companies in which the Commonwealth or State has a controlling interest. The deferred pension will become payable on death or invalidity or from the date that a pension benefit would have been payable had the person remained a member of the scheme, or on attaining age 60, whichever first occurs.

Where a person moves outside the public sector, e.g., to private employment, self employment or does not take up any employment, a deferred pension will be available provided the person has completed an aggregate of at least 20 years employment. It is not necessary for a person to have 20 years as a contributor; prior Commonwealth service, including service in the Defence Force, will count if there is no break of more than 3 months, and in certain circumstances prior State or private employment can be counted. The deferred pension will become payable from the same dates as summarised above for those entering public employment.

Members who leave the D.F.R.B. Scheme with less than 20 years employment and enter public employment, and who subsequently leave that type of employment for non-public employment will qualify for a deferred pension only if they satisfy the aggregate of 20 years employment condition.

The preservation provisions also apply to those persons entering the D.F.R.B. Scheme who have a transfer value or values from another scheme or schemes (i.e., a lump sum that includes an employer component). The preservation arrangements provide an option for the member to pay the transfer value to the D.F.R.B. Scheme and for the member to receive

an adjustment of his entitlements based on the amount involved. This will be achieved by determining a credit for past service which will have the effect of reducing the age of entry (for the purpose of determining the rate of contributions), and increasing the period of service for pension purposes for the member.

Because the pension of an officer who has met the minimum qualifying period of service for pension purposes is determined by the age at which he retires, another effect of the preservation legislation will be that the entitlement and contributions of an officer who, on entry, declines to pay to the D.F.R.B. Scheme a transfer value from a previous scheme or who receives a pension or is entitled to a deferred benefit from a previous scheme, will be appropriately adjusted by reducing the category entitlement, and resultantly the amount of contribution, based on the value of the entitlements. As the pension entitlement of an other rank member is directly related to length of service a similar adjustment is not necessary where the other rank member on entry declines to pay to the D.F.R.B. Scheme a transfer value from previous employment.

A side effect of the preservation legislation is that certain criticisms that have been levelled at the scheme, although not directly concerned with preservation, are wholly or in part met.

For instance, deferred pension benefits will become payable from the date of death or invalidity, or from the date that a pension benefit would have been payable had the person remained a member of the scheme, or age 60. It follows that an officer who has completed 20 years service for pension and retires before reaching his retiring age will be able to receive a pension on attaining that age, while a member who retires on reaching the age of 60 years will be able to receive a pension on retirement even though his service is less than 20 years.

For those members entering the D.F.R.B. Scheme with a transfer value from another scheme the preservation arrangements provide for the recognition of past service, as previously explained.

Under the amendments to the Superannuation Act, it will be possible, in certain circumstances, for former members of the D.F.R.B. Scheme who become members of the Commonwealth Superannuation Fund within three months to enter that Fund as contributors for pension benefits without undergoing a medical examination. This concession will not apply where the former D.F.R.B. member was retired on the grounds of invalidity, or where a transfer value from the D.F.R.B. Scheme is not paid into the Superannuation Fund.

## Appendix C

# THE ACTUARIAL BASES UNDERLYING THE DEFENCE FORCES RETIREMENT BENEFITS ACT 1948-1970

### Preface

I have been requested to prepare a Report for the Joint Select Committee on Defence Forces Retirement Benefits Legislation setting out the actuarial bases underlying the present legislation.

2. The actuarial bases of the Defence Forces Retirement Benefits Legislation have been developed since 1948, according to the fundamental principle which is applicable to life insurance contracts and actuarially based superannuation schemes, that in the aggregate the present value of future receipts is equal to the present value of future payments.

3. As a result, significant elements of the bases which have been adopted correspond with those for the normal type of employee superannuation scheme. It is therefore, of value in setting out the particular problems encountered with the Defence Forces Retirement Benefits Scheme to commence with a review of the development of the general actuarial bases for the normal type of scheme.

4. Accordingly, this Report is in two Parts as follows:

Part	Subject
I	The Actuarial Bases of a Superannuation or Retirement Benefits Scheme.
II	The Development of Actuarial Bases for the D.F.R.B. Fund.

The following Appendices are attached.

Appendix	Subject
A	Australian Population Mortality Rates at Representative Ages
B	Service Table showing Expected Experience of Contributors to a Superannuation Fund
C	Service Table showing Expected Experience of Pensioners of a Superannuation Fund
D	Rates of Interest on Long-Term Commonwealth Loans issued during 1940 to 1960
E	Examples of Calculation made prior to 1959 of the Portion of Pension Payable from the Pension Account
F	Mortality, Invalidity and Withdrawal Rates for the Defence Forces, 1962-1964
G	Example of Service Table applicable to Post-1959 D.F.R.B. Scheme
H	Units of Pension and Pensions available at Retiring Age for Rank at 14 December 1959

### Part I—The Actuarial Bases of a Superannuation or Retirement Benefits Scheme

#### (A) INTRODUCTION

1. Employee superannuation or retirement benefits schemes encountered in the Private Sector fall into two main categories as regards the underlying actuarial bases:

- (a) *Life Insurance Schemes*—these schemes are based on a life insurance policy or policies issued to the trustees of the scheme by a life insurance company. The schemes are therefore subject to the actuarial requirements of the *Life Insurance Act 1945-1965*.
- (b) *Separately Administered Schemes*—these schemes involve the establishment of a fund to which contributions are paid. The Trust Deed or rules governing the scheme normally provide for regular actuarial advice to be obtained.

2. The Defence Forces Retirement Benefits legislation provides benefits for members of the Defence Forces which are financed in two ways:

- (a) By the payment by members of contributions to the Defence Forces Retirement Benefits Fund to enable the Fund to meet a specified share of the cost of any pension benefit to which a member may become entitled or the whole of the cost of any refund of contributions and
- (b) By the payment by the Commonwealth of the balance of the cost of each pension payment as it is made and the whole of the cost of any gratuity.

Special arrangements under which the Commonwealth meets a greater share of cost apply to certain particular groups of contributors but such arrangements can be regarded as supplementary to the main structure outlined above.

3. In common with most of the major Government Sector schemes in Australia, the long-term actuarial basis of the Scheme is limited by the Defence Forces Retirement Benefits legislation to the members' share of costs only. This arrangement is different from the complete actuarial basis normally encountered in the Private Sector, under which regular contributions are paid in advance to a life insurance company or separately administered fund to finance the whole of the cost of benefits.

4. Bearing in mind the above qualification, an actuarially sound superannuation or retirement benefit scheme is a scheme in respect of which the persons responsible for the scheme receive regular advice on actuarial, investment and legal matters



affecting the scheme and, as a result, make adequate arrangements of a continuing nature for meeting benefits costs through the payment of suitable rates of contribution to a trust type fund. The object of paying such contributions is three fold.

(a) *To Provide an Adequate Scale of Benefits*

5. It is a general principle that either of two courses can be adopted at the outset in determining the benefit arrangements for a superannuation scheme.

(i) *The First Course* is to settle a scale of benefits which meet the objectives and desires of the employer and his employees. The rates of contribution required to provide such benefits can then be calculated and the basis upon which they are to be shared between the employer and his employees.

(ii) *The Second Course* is to settle the rates of contribution which the employer and his employees are each prepared to pay and then to calculate the scale of benefits which can be financed by the contributions.

6. In practice, the final scheme may be a compromise between these two Courses but it is evident that, even where the employer has indicated that he is prepared to commit substantial and increasing resources as required, an adequate scale of benefits is more likely to be assured if contributions are regularly paid by both parties. In the general case, where financial considerations require the employer to place a limit on the extent of his participation in a superannuation scheme, employee contributions are essential if adequate benefits are to be available.

(b) *To Provide a Sound System of Financing*

7. The factors arising under this heading which support the regular payment of contributions are:

(i) To ensure that the superannuation fund can continue to pay the benefits guaranteed by the legislation, trust deed or other rules implementing the scheme.

(ii) To provide an orderly and soundly based system of financing.

(iii) In respect of a fully funded scheme, to provide an annual cost which does not place excessive demands on employer resources in any one year.

(c) *To Provide a Measuring Rod*

8. A reason which is relevant in both the Government Sector and the Private Sector is that the rate of contribution gives an impartial measurement of future cost which can be compared with costs for other schemes or used as the basis for an intuitive judgement, to assess the reasonableness of various benefit arrangements.

9. Employee superannuation schemes differ amongst themselves infinitely. By way of example it is only necessary to mention the following features which are matters for decision before the definition of a scheme can be completed:

(a) Contributions may be paid jointly by the employee and the employer or by one of these parties only.

(b) The form of the contribution may be a percentage of salary which can be constant or varying through employment, or may be expressed in money terms.

(c) Schemes may provide pensions or lump sum benefits, or both; the formula used to define the amounts of benefits involved may vary with a range of factors.

(d) Supplementary benefits such as widows, invalid and withdrawal benefits may be provided.

10. The final actuarial costing of a proposed scheme with the objective of determining the rates of contribution payable and the actuarial value of the accrued liability (if any) for the benefits allowed in respect of previous service, is commenced following the definition of all aspects of the scheme.

(B) *THE BASIS OF CALCULATION*

11. The calculation of the rates of contribution payable to a superannuation or retirement benefits scheme and the actuarial assessment of the financial condition of the fund at any time, commences with:

(a) the determination of the structure of the expected contributor population and, in respect of that population, the estimation of:

(i) the numbers of contributors or their dependants who are likely to make claims in each future year for benefits, and

(ii) the amounts of contributions likely to be received in each future year;

(b) the assessment of the future rate of interest which can reasonably be expected to be capable of being earned, on average, on the continuing investments of the fund.

*Rates of Exit and Survival*

12. The numbers of claims for benefits likely to be received by a fund in successive years and the amounts of contributions likely to be paid to the fund are generally calculated by the methods described in this Section.

13. Studies of statistics derived from population and other records have shown that, except where special circumstances arise, the proportion of persons of a certain age and classification who die within a year varies only within narrow limits from the proportion of persons of the same age and classification who die in a related period. Any change in proportions is generally a gradual process which can be evaluated by a study of statistics covering a lengthy period, leading to the feasibility of developing forecasts of probable future trends. An illustration of this feature, based on Australian population mortality, is in my Appendix A.

14. Similar conclusions have been found to apply to the experience of contributors and pensioners of a well-established superannuation scheme, although such conclusions require regular oversight as they may

be affected by alterations in the rules of the scheme or, as regards withdrawals in particular, be influenced by changes in economic conditions or the fortunes of the employer.

15. Whilst therefore, it is impossible to make any forecast as to when an individual member of a scheme may die, become an invalid or withdraw, it is entirely possible as a result of studying a satisfactory volume of experience data, to determine rates of decrement which can be used to provide reliable forecasts of the average numbers who may be expected to leave a group of contributors or pensioners at each successive age attained for each possible cause of exit.

To the extent that this determination is a continuing process not related to any particular year and which allows for disclosed or anticipated trends, proper conclusions as to future benefit cost requirements on the fund supporting a scheme and as to future income receivable by the fund, can be prepared. Benefit requirements may be in the form of annual payments of pension or lump sums in accordance with the rules of the particular scheme.

16. If the membership of a scheme is large, the reliability of the rates of decrement determined from a study of the experience of contributors and pensioners is greater than where the membership is small. However, whilst this conclusion is correct if the study covers a few years only, suitable rates of decrement can often be obtained from a small membership if the study is made over a longer period of time or if supporting information is available from larger, well established superannuation schemes whose members have similar characteristics to the membership of the scheme being studied.

#### *The 'Service' Table*

17. The rates of decrement obtained as described in the preceding paragraphs are used for many calculations in respect of a superannuation scheme, including the preparation of a table called a 'service' table. This is a multiple-decrement table which shows in respect of a given number of new entrants to a superannuation scheme, for each successive age attained up to the age for retirement, information of the following kind:

- (a) The expected number living at each age,
- (b) the expected number of exits at each age due to:
  - (i) death,
  - (ii) invalidity,
  - (iii) withdrawal,
  - (iv) age retirement.

As necessary, the numbers of exits are subdivided into those exits having special characteristics which may affect benefit entitlements, e.g. those who are married and those who are single. An example of a straightforward service table is in my Appendix B.

18. Where the experience of different categories of members of a scheme as to mortality, invalidity and withdrawal shows distinctive features which should be reflected in the rates of decrement adopted, separate service tables are prepared for each such category.

Examples of the subdivisions used for the purposes of calculations for contributors to the Defence Forces Retirement Benefits Fund are:

- (a) Officers, Male, With Excess Risk
- (b) Officers, Male, Without Excess Risk
- (c) Officers, Female
- (d) Other Ranks, Male
- (e) Other Ranks, Female.

Within these subdivisions, regard may also be had to the age at entry of the contributor if this factor is relevant.

19. In addition, where calculations depend upon the mortality or other experience of contributors and their dependants after entry on pension, or after having acquired a reversionary right to a future pension on the death of a present pensioner, it is necessary to prepare suitable service tables for each class of pensioner. Examples of classes of pensioner are:

- (a) Age Retirement, Males
- (b) Invalid, Class A, Males
- (c) Invalid, Class B, Males
- (d) Invalid, Class C, Males
- (e) Widows.

Similar tables to those at (a) to (d) above are also prepared for female contributors. An example of a service table applicable to age retirement pensioners is in my Appendix C.

20. The function of the service table is to project for successive years into the future, the expected numbers of survivors amongst and departures from a group of contributors who enter the Scheme at the same age, or from a group of pensioners who commence on pension at the same age. The object of this projection is to determine:

- (a) the probable numbers of contributors or pensioners who will be living at each successive age and therefore will pay a contribution or receive a pension payment, and
- (b) the probable numbers of such contributors or pensioners who will leave at each age and therefore will make a claim for a benefit or cease to receive a pension.

#### *The Rate of Interest*

21. The portions of contributions received by the trustees of a superannuation fund which are not required to pay current benefits or expenses (if applicable) are invested to earn interest. The assets representing the reserve established in the fund to pay a pension also earn interest. The actuarial calculations made assume that such earnings will be received with the result that benefits will be financed from a combination of these earnings and the contribution receipts. The method used to achieve this result is to calculate the discounted value at the present time of the future benefits and contribution receipts.

22. The major constraint which is present in the determination of the rate of interest to be used in making most actuarial calculations for a superannuation or retirement benefit scheme is that these schemes are very long-term ventures. The actuarial investigation of an existing scheme, or the calculation of the rates of contribution which members properly expect will apply for long periods without change, has careful regard to this constraint, as failure to earn the assumed rate of interest will generally result in an insufficiency of moneys to pay the benefits.

23. The rate of interest to be adopted for these purposes is therefore based on an assessment of the long-term earning prospects of the present and future assets of the fund securing the scheme, against which the immediate rate of earnings in the short-term is of lesser importance. The assessment also has to have regard to the fact that new benefit commitments are continually being entered into as new members join. These commitments may continue for upwards of 60 or more years ahead of their commencement and may involve the investment of an increasing volume of contributions, or reinvestment of maturing assets, at rates of interest which are lower than the rates currently available on new investments. Attention is also directed to the possibility of profits or losses arising as a result of changes in the value of assets, these factors being commonly allowed for in the assumed rate of interest.

24. As an example of the pattern of interest earnings in the post-war years I give in the following Table the rates of interest shown by the Annual Reports of the D.F.R.B. Board as earned on the Fund.

TABLE I—RATES OF INTEREST EARNED ON D.F.R.B. FUND

Year	Rate
30 June—	per cent
1949 . . . . .	3.313
1950 . . . . .	4.051
1951 . . . . .	3.325
1952 . . . . .	3.276
1953 . . . . .	3.571
1954 . . . . .	3.892
1955 . . . . .	4.025
1956 . . . . .	4.392
1957 . . . . .	4.354
1958 . . . . .	4.404
1959 . . . . .	4.446
1960 . . . . .	4.492
1961 . . . . .	4.704
1962 . . . . .	5.079
1963 . . . . .	5.288
1964 . . . . .	5.290
1965 . . . . .	5.325
1966 . . . . .	5.739
1967 . . . . .	5.685
1968 . . . . .	5.886
1969 . . . . .	5.935

25. The table shows that the rate earned has increased from 3.313 per cent in 1949 to 5.935 per cent in 1969. I find that the weighted gross average rates of interest earned over selected periods have been:

Period	Average Weighted Gross Rate per cent
1949-1969 . . . . .	5.27
1960-1969 . . . . .	5.52

26. The matter does not rest here. Although the foregoing average gross rates have been received, interest at these rates has not applied to the accumulation of the net contributions and pension reserves in the D.F.R.B. Fund for the following reasons:

- (a) Prior to 1959, interest earnings in excess of 3½ per cent per annum were transferred to the Commonwealth to adjust the excess share of benefits paid by the Commonwealth;
- (b) For the period 1959 to 1964, interest earnings in excess of 3½ per cent per annum upon that portion of the Fund which was attributable to pre-1959 entrants, were paid to those members as surplus.

27. The effect of these payments has been to reduce the weighted average rates of interest given above to:

Period	Average Weighted Net Rate per cent
1964-1969 . . . . .	4.86
1960-1969 . . . . .	5.11

Note: The use of a weighted average, based on the rapidly increasing amount of the Fund, places proper emphasis on the rates of interest earned since 1964. This form of average is that which should be used, rather than a simple average.

28. The net result of the calculation of the numbers surviving to each successive age attained and the discounting of those annual numbers of survivors to the present time, at the selected rate of interest is:

- (a) *For Contributors*—to calculate the present value of an annual rate of contribution, payable so long as the contributor will, on average continue as such, and
- (b) *For Pensioners*—to calculate the present value of an annual payment to the pensioner, so long as he will, on average, survive or be eligible for benefits.

29. The net result of the calculation of the numbers leaving the fund at each successive age attained and the discounting of the amounts of claims by such exits to the present time at the selected rate of interest, is to obtain the present value of the average future benefit entitlements of a contributor.

(C) RATES OF CONTRIBUTION

30. Surveys of private superannuation schemes in Australia suggest that there is quite a wide range of rates of contribution payable by employees. It appears that rates of between 5 and 6 per cent of salary are

most common, with employers paying similar or, more recently, higher percentages. Care is needed in drawing conclusions from this broad summing-up as the rates payable are very dependent upon the level of benefits provided and the presence or absence of special characteristics.

31. In addition to normal contributions, some employers pay further special contributions on behalf of their employees to meet the cost of benefits attaching to past service prior to the commencement of the scheme, for the improvement of benefits, to compensate for special features of employment, or to restore the scheme to an actuarially solvent condition.

32. The frequent practice in the Private Sector for the employer to underwrite all costs in excess of those which can be met by the employees' contributions does not normally apply in the Government Sector. Statutory arrangements at the commencement of a scheme generally provide that the share which will be paid for by the employee and the share which will be paid by the Government are exactly specified, subject to particular arrangements for special circumstances such as service prior to the commencement of a scheme. The sharing of costs following an amendment to an existing scheme appears to be generally a matter for decision at the time and is outside the scope of this Report.

33. Contribution rates take either of two main forms, being related generally to the nature of the final benefit which is provided.

#### *Benefit Purchase System*

34. Under this system a contribution is calculated to purchase a specified amount of benefit. Separate contributions purchase additional amounts of benefit. The contributions payable to many superannuation schemes provided by life insurance companies and by members of the Commonwealth Superannuation Fund are of this type. The contributions may be determined to purchase fixed amounts of benefit or the benefit may be no more than that which is attributable to the payment of an arbitrarily determined rate of contribution.

The main advantages of this system are that there is no possibility of increased demands for benefit entitlements causing a strain on the financial resources of the fund and that it appears to allocate to each contributor a cost which is closely related to his prospective claim on the fund.

35. The main disadvantage of this system depends on the basis on which the rate of contribution has been determined.

- (a) *If a separate contribution is paid for each additional amount of benefit*—Whilst the contribution payable early in life for each additional amount of benefit is generally small, salary increases late in a member's career are likely to require increasingly large extra contributions. The reason is the shorter period prior to the retiring age during which payment can be made to purchase the additional amount of benefit.

- (b) *If the additional benefit is that purchased by a fixed rate of additional contribution*—An example of this situation is where a member pays 5 per cent of his salary to an accumulation type fund. In this instance, the additional benefit obtained depends on the number of years over which the additional contribution is accumulated. The result may be a total benefit which is insufficient to provide a reasonable retirement allowance in relation to the member's final salary status.

#### *Final Average Salary System*

36. Where the principal retirement benefits are related by formula to the salary received by the member in the last few years prior to his retirement, the rate of contribution is frequently expressed as a percentage of salary. The percentage payable may be an average rate for all members, may vary according to the age at entry, with the age attained or the class of contributor. The contributions payable by post-1959 entrants to the D.F.R.B. Fund are of this type.

37. The main advantage of this system is that a pre-determined percentage of salary is payable as contributions throughout a member's career. The member is not therefore faced with the problem of special additional contribution costs if late salary increases are received.

38. The main disadvantage of the system is that if it is adopted in unsuitable circumstances or if proper financing arrangements based on regular actuarial reviews are not carefully observed, the maintenance of the solvency of the scheme may cause difficulties.

39. This observation is based on the fact that if the contributions paid into a fund and the interest earnings on the amounts invested by the management of the fund are not sufficient to meet the cost of the benefits to be paid out, the fund will become insolvent. As a result, substantial salary increases late in the working life of numbers of employees can have a significant financial effect where contributions are based on the salaries paid to members during their employment and the pension received on retirement is related to the salary received shortly before that event.

40. It is necessary for the Actuary, in preparing advice in relation to these schemes, to take into account the possibility of salary increases being received as a result of promotion, salary awards or other salary adjustments, in arriving at the average rate of contribution to be adopted.

41. A further disadvantage can apply in Private Sector schemes where the balance of cost above that met by a fixed rate of employee contribution falls on the employer. If the added cost arising from salary or other changes is substantial, the employer may find difficulty in meeting the outlay involved without affecting profitability.

*The Elements of a Contribution*

42. Apart from schemes where the benefits are limited to an accumulation at interest of the contributions paid, the contribution paid to a superannuation or retirement benefit fund is the sum of the separate contributions required to meet the cost of the separate benefit elements contained in the rules of the scheme. A loading to pay expenses may be included if such are charged to the scheme. The benefit elements in a pension scheme may include some or all of the following:

- (a) The contributor is retired as an invalid—an invalid pension plus, if married at retirement, a pension to the surviving widow.
- (b) The contributor dies in service—a pension to the widow (if married) or a lump sum benefit such as a refund of past contributions (if unmarried).
- (c) The contributor withdraws or is dismissed—a lump sum benefit as at (b) above or, in some circumstances, an early retirement pension.
- (d) The contributor reaches his retiring age—a pension plus, if married at retirement, a pension to the surviving widow.

43. The separate contribution calculated for each element insures the contributor against the risk involved. The amount of the insurance can be seen as the capital sum or sums required to provide the cost of the benefit available if the risk occurs. Each of these separate portions of the total contribution are combined in the fund with the similar portions from the contributions paid by other members. For example, the portions pooled to meet the cost of insuring contributors against the risk of becoming an invalid are calculated as being sufficient, in the aggregate, to pay invalid pensions to claimants for such a benefit. They are not available for any other purpose.

44. If a member does not claim for a benefit attaching to an 'in service' risk, he cannot expect to receive a continuing credit for the portions of his contributions which were paid by him to secure protection against these risks. These sums have already been used to help 'in service' benefits in those cases where the risk insured against has occurred. This system of pooling of risks in a common fund may be compared with fire insurance under which a premium is paid to obtain cover against a risk which may or may not happen. The insurance company cannot refund the premium if a fire does not occur, because the premiums received by it have been used to make up a common fund from which claims have been paid where fires have eventuated.

45. In the same way, a further portion of the contributions paid by all members is accumulated towards the provision of retirement benefits to those members who survive to the retiring age.

46. As a hypothetical illustration of the explanations given above, I show in the following Table, examples of the component parts of the fortnightly contribution for one unit of pension, according to the age next birthday when the unit was effected and assuming a retiring age of 65 years.

**TABLE II—THE STRUCTURE OF THE CONTRIBUTION FOR ONE UNIT OF PENSION**

Item	Age when Effected			
	20	30	40	50
	cents	cents	cents	cents
1. If the <i>only</i> benefit to be provided is a retirement pension of \$91 per annum to those contributors who serve to age 65 ( $\frac{1}{2}$ to the pensioner's surviving widow), the contribution required is . . . . .	5	10	20	45
2. The <i>additional</i> contribution to cover the provision of an invalid pension ( $\frac{1}{2}$ to the pensioner's surviving widow) is . . . . .	4	7	11	18
3. The <i>additional</i> contribution to cover the provision of a $\frac{1}{2}$ widow's pension if married death occurs before age 65 is . . . . .	2	3	5	8
4. The <i>additional</i> contribution to cover the provision of a lump sum refund on withdrawal, dismissal or single death is . . . . .	4	3	3	2
Total Fortnightly Contribution . . . . .	15	23	39	73

**(D) ACTUARIAL VALUATION OF LIABILITIES**

47. An ordinary commercial undertaking measures its financial solvency by means of a balance sheet setting out on the one side the actual liabilities and on the other side the actual assets in hand. Regard may sometime be had to contingent assets or contingent liabilities, but these are generally of small importance compared with the more usual fixed items, such as Stock in Hand, Capital, Sundry Debtors, which appear in the balance-sheet of such an undertaking.

48. By contrast, the determination of the financial position of a superannuation or retirement benefits fund at any point of time is by no means as straightforward as:

- (a) the assets of the fund are represented only partly by investments, the remainder being represented by the present value of the future contributions which have yet to be received from employees and the employer, and
- (b) there are few immediate liabilities. Long-term liabilities are almost exclusively represented by the present value of the benefit payments which the fund is obliged to make in the future in accordance with its rules. Such payments may be by way of regular payments to existing pensioners (where such are provided) or by way of grant of a pension or lump sum on the retirement or death of existing contributors, whenever these events may occur.

49. The actuarial investigation into the financial condition of a fund requires the calculation of the values of the future contributions to be received by, and the values of the future liabilities charged on, the fund. This portion of the investigation involves the application of actuarial techniques, developed to suit the circumstances of the particular fund. An essential preliminary step in the investigation is the collection of information concerning the fund under the following headings:

- (a) Details of each contributor of the fund at the date of the valuation, including particulars of accrued entitlements and rate of contribution payable.
- (b) Statements showing by year of birth, the numbers of entrants to and exits from the fund during the investigation period.
- (c) Similar statements to those at (a) and (b) above relating to the pensioners of the fund.
- (d) The annual accounts of the fund for each year of the investigation period and particulars of the investments held at the date of the valuation.
- (e) A copy of the relevant legislation, trust deed, rules or other document setting out the legal obligations of contributors and the Fund.

50. The data showing the movement of members and pensioners is used to determine the rates of decrement experienced during the investigation period. These rates are examined in relation to those previously adopted and are combined with those rates to develop the future trends likely to apply.

51. If the experienced rates of decrement and other factors are in agreement with the bases used in calculating the rates of contribution, the actuarial valuation will show that the fund which has been accumulated is exactly sufficient, with future contribution receipts and interest earnings, to pay benefits.

52. It is of course, unlikely that exact agreement will occur. The result of variations from or about the bases shown by earlier experience, together with fluctuations in the earning rate and the outcome of provisions established in previous valuations against foreseeable developments which will affect costs, will influence the result disclosed in the Valuation Balance Sheet.

53. The Valuation Balance Sheet incorporates in a single statement the results of the actuarial investigation. It is usually prepared in the following form:

#### VALUATION BALANCE SHEET

<i>Liabilities</i>	\$	<i>Assets</i>	\$
Present value of Future Benefits payable from Fund to—		Present value of Future Contributions payable to the Fund by—	
Existing Pensioners . . . . .		Existing Contributors	
Existing Contributors . . . . .		The Employer . . . . .	
Current Liabilities . . . . .		Investments and Current Assets . . . . .	
Surplus* . . . . .		Deficiency* . . . . .	

\*Whichever is appropriate.

54. The following comments are made:

- (a) The Valuation Balance Sheet includes the value of benefits payable from the fund to or in respect of existing contributors and pensioners only, together with the value of future contributions payable to the fund by existing contributors and the employer (if any).
- (b) In the case of the D.F.R.B. Fund, the Commonwealth share of the cost of pension benefits and gratuities is omitted as the fund is immediately reimbursed for the Commonwealth share of each pension payment and for each gratuity paid. In this case, therefore, the Valuation Balance Sheet relates only to the members' share of benefits, being in general:
  - (i) Pension Benefits—20 per cent of the cost,
  - (ii) Refund Benefits—100 per cent of the cost.

55. The investments and current assets of the fund are taken into account at the value certified by the management of the fund unless investigation indicates that another value should be adopted.

56. If the amount of the assets of the fund (including the present value of future contributions) exceeds the value of the liabilities (including the present value of future benefits) a surplus of assets exists. If the reverse situation applies, there is a deficiency.

## Part II—The Development of Actuarial Bases for the Defence Forces Retirement Benefits Fund

### (A) INTRODUCTION

57. Prior to 1948, the arrangements for payment of superannuation benefits to members of the Defence Forces were as follow:

*Navy*—Deferred Pay allowed on retirement or death. Typical payments on retirement as approved in Navy Regulations in 1912 and for Lieut-Commander as amended in 1938, were:

<i>Rank</i>	<i>Payment</i>
	£
Captain . . . . .	6,500
Commander . . . . .	4,500
Lieut-Commander . . . . .	4,000

*Army*—Contributions were paid to the Commonwealth Superannuation Fund to provide a pension for dependants, or on invalid or age retirement. Prior to the *Superannuation Act 1947*, the pension purchased by a member's contributions was increased by an equal amount by the Commonwealth. The maximum pension obtainable was £416 per annum at age 60. As a result of the *Superannuation Act 1947*, the pension purchased by the member was increased by one and one-half times by the Commonwealth, the maximum pension obtainable at age 60 being £845 per annum.

*Air*—Contributions were paid to the Commonwealth Superannuation Fund for the provision of pension benefits on death in service, leaving, a

widow or on invalid retirement. Deferred Pay as approved by Air Regulations in 1921 was received on retirement, for example:

Rank	Payment £
Group Captain . . . . .	5,150
Wing Commander . . . . .	3,600
Squadron Leader . . . . .	2,750

58. The proposed introduction of a scheme for members of the Defence Forces in 1948 presented, therefore, major actuarial problems:

- (a) No experience data was available, showing the numbers exposed to risk and the numbers of deaths, invalids and withdrawals which had occurred under peace time conditions amongst members of the Defence Forces, from which could be obtained suitable rates of decrement for use in calculating the rates of contribution necessary to finance benefits.
- (b) Even if such data had been available, serious doubts would have arisen as to the value of the resulting analyses as a proper basis for the future, in view of the probability of changes in Services arrangements and the effect of wartime conditions.
- (c) Although apparently simple in concept, the scheme which was being considered could not be fully actuarially based without the solution of a number of major technical problems, arising from:
  - (i) the existence of a range of retiring ages (Officers),
  - (ii) the concept of duration of service for pension (Other Ranks),
  - (iii) the adoption of invalid classifications and the flexibility of the relevant provisions of the Act in respect to movement between those classifications.

59. Whilst the essential bases for calculation did not exist for the prospective contributors, actuarial reports setting out the experienced rates of mortality and other causes of cessation of pension for each class of pensioner of the Commonwealth Superannuation Fund since the early 1920's were available.

60. Investigation of this pensioner information suggested an answer to the problem of determining an immediate basis for financing the scheme. The solution was embodied in the *Defence Forces Retirement Benefits Act 1948* and is described in Section (B) below.

61. With this solution in mind, a study was made of the rates of mortality and other causes of cessation representing the experience of Commonwealth Superannuation pensioners, to deduce similar rates which could prove to be the pattern of the future experience of D.F.R.B. Fund pensioners. It will be appreciated that this procedure involved a number of difficulties as there is only one class of invalid pensioner in the Commonwealth Superannuation Fund and age retirement pensions from that Fund do not commence before age 60. Reference was made, as

necessary, to Australian population mortality to develop a suitable range of pensioner mortality rates.

62. A particular problem to be taken into account was the absence of any information as to the proportions of potential contributors who would be married at each successive age.

63. The financing arrangements which were adopted were indicative of the pioneering nature of the venture then being undertaken. Whilst subsequent developments have rendered the arrangements obsolete, they provided a soundly based beginning and withstood the financial stresses of the next 10 years in a very satisfactory manner.

#### (B) THE 1948-1959 FINANCING ARRANGEMENTS

64. The *Defence Forces Retirement Benefits Act 1948* provided for:

- (a) *A General Account.* The contributions paid by members of the scheme were paid into this Account, together with interest received during the year on the assets of the fund. A member who left the scheme without an entitlement to a pension received a refund of his contribution from this Account.
- (b) *A Pension Account.* When an entitlement to a pension arose, the contributions paid by the member, accumulated at 3½ per cent per annum interest, were transferred from the General Account to this Account. A calculated share of each pension payment made to or in respect of the member was thereafter charged to this Account, the balance of each such pension payment being met by the Commonwealth.

The Pension Account was also credited each year, by transfer from the General Account, with the amount of interest earnings received by the latter Account which was in excess of a sum equal to interest at 3½ per cent on the accumulation of the contributions credited to the General Account. The rate of 3½ per cent was reasonable in the light of the rates then available on new investments. The rates of interest attaching to longer-term Commonwealth Loans issued between 1940 and 1960 are shown in my Appendix D.

65. The machinery arrangements which were adopted were as follow:

- (a) When a member became eligible for a pension, particulars of the member, including details of the units of pension held and the contributions paid, were supplied to the Commonwealth Actuary;
- (b) The Commonwealth Actuary calculated the accumulation of the contributions paid by the member, at 3½ per cent per annum interest;
- (c) Having determined the accumulation of contributions paid, the Commonwealth Actuary then calculated the fortnightly amount of pension which could be purchased by that sum and advised the D.F.R.B. Board accordingly;

(d) The Board made the transfer of the accumulated contributions from the General Account to the Pensions Account and instituted arrangements to recover from the Commonwealth the balance of the fortnightly pension payment which was in excess of the portion to be paid from the Pension Account.

66. Examples of the calculation made by the Commonwealth Actuary are in my Appendix E.

67. The initial estimates of pensioner rates of mortality and cessation from other causes were reviewed and revised at the Quinquennial Investigations of the Pensions Account, made as at 30 June 1954 and 30 June 1959. These Investigations revealed the following amounts of surplus in this Account:

	30 June	Surplus in Pension Account £
1954 . . . . .		135,696
1959 . . . . .		156,228

68. The surplus of £135,696 at 1954 was allocated as follows:

	£
Transfer to General Account to make good interest at 3½ per cent per annum from 2 July 1948 . . . . .	121,000
Balance, allocated to pay Commonwealth cost of gratuities . . . . .	14,696
	<u>135,696</u>

The surplus of £156,228 at 1959 was paid to the Commonwealth.

69. The payment in 1959 to the Commonwealth was made in accordance with the principle underlying the financing arrangement adopted, viz., that the Commonwealth would guarantee the payment of benefits by meeting the balance of the cost of pension benefits above the share purchased with the accumulation of the contributions paid by the member prior to exit.

This basis was fair overall, so long as member's accumulated contributions were sufficient to meet a minority share only of the cost of benefits. The record of payments from the Fund prior to 1959 clearly demonstrates that this condition was fulfilled, i.e.:

TABLE III—EXAMPLES OF THE PROPORTION OF PENSION PAYMENTS MET FROM THE PENSION ACCOUNT

Year	Pension Payments Made	Portion Paid from Pension Account	Percentage Paid by Fund
	\$	\$	
30 June—			
1949 . . . . .	24,112	3,864	16.0
1954 . . . . .	718,274	80,130	11.2
1959 . . . . .	1,775,762	229,540	12.9

70. It was inevitable that the basis would not continue indefinitely as the share of cost met by each member's contributions varied substantially as between members. In addition, powerful arguments emerged for a simpler system of contributions.

(C) THE DEVELOPMENT OF A FULL ACTUARIAL BASIS

71. The pioneering effort contained in the 1948 Act was developed to meet the projected superannuation needs of the Defence Forces as they were foreseen at that time. The result was a scheme which, in the principles applied in a number of areas, including the development of retirement pensions related to final salary and the provision of invalid and widows' benefits, was ahead of most superannuation schemes for the Private Sector in Australia at that time. A distinctive requirement from the outset was, so far as was practicable, for an actuarial basis which would show the allocation of cost between the contributor and the Commonwealth.

72. Two developments which could not be foreseen were:

- (a) the impact of inflation on Service salaries, resulting in a need for revisions of the benefit scale and in increasing disparities in the amounts of contributions paid by various members, and
- (b) the realisation that there were anomalies in the provision of equal pensions for comparable Officer ranks in each Service, irrespective of the retiring ages for such ranks.

The Development of Special Actuarial Techniques

73. A retirement benefits scheme for the Defence Forces presents a number of special problems of actuarial technique.

74. Officers. The major problems are connected with the relationship between the system of promotion within a fixed establishment for each rank, as well as with the application of a range of retiring ages to different ranks in the same Branch of a Service. This latter situation contrasts with the normal superannuation scheme which has a common retiring age, such as age 60 or 65. Examples of retiring ages applicable to the Defence Forces are:

TABLE IV—NAVY, GENERAL DUTIES RETIRING AGES

Rank	Retiring Age
Lieutenant . . . . .	45
Lieutenant-Commander . . . . .	45
Commander . . . . .	50
Captain . . . . .	55
Vice-Admiral . . . . .	57



75. *Other ranks.* The major problems revolve around the grant of pensions on the basis of duration of service, irrespective of the age at entry, as well as the close relation of continuing membership with the completion of successive engagements for periods of years. These periods can be varied from time to time as the needs of a Service change.

76. *Invalid Annuity Values.* The feature that an invalid pensioner can be reclassified from one Class of invalid pension to another Class, with a resultant change in entitlement value, involves difficult actuarial questions if proper allowance is to be made for these changes.

77. *Percentage of Salary Rate of Contribution.* An essential element of any new basis was a rate of contribution expressed as a percentage of salary. The rate of contribution was to remain constant throughout a member's career subject, of course, to the obvious requirement for review in the event of an important change in a basic feature of the Scheme.

78. The actuarial techniques required for the resolution of these and other associated problems were studied prior to 1959. This research was not completed before the 1959 Amendments to the D.F.R.B. Acts. By that time, however, the basic theories involved had been established. Following the installation of a Burroughs E103 Computer in the Office of the Commonwealth Actuary early in 1962, studies were pushed ahead in anticipation of the first full Quinquennial Investigation of the Fund to be made as at 30 June 1964.

79. The final solutions were subsequently proven for application on an IBM 1620 Computer which was leased for the Office in 1965 to replace the previous installation. These applications were used throughout the 1964 Investigation and have been reviewed at length over the past 18 months to provide a complete verification of the original solutions. The Computer System has been rewritten for the IBM 1800 Computer installation now being operated by the Office and testing is almost completed.

80. Computer processing has been essential to the resolution of the problems involved in developing actuarial formulae and techniques for the valuation of the current D.F.R.B. Fund and for the calculation and testing of rates of contribution. Whilst the development of the Computer System has been a lengthy procedure, the fact is that the Scheme is an involved one. A significant time factor has been the extensive testing which preceded the adoption of each phase of the completed Computer System.

#### *The Development of Rates of Decrement*

81. A substantial volume of statistical and financial data was supplied by the Defence Forces Retirement Benefits Board for the purposes of the Quinquennial Investigation of the Fund as at 30 June 1964.

82. Included in this data was the results of a special survey made by the Services during 1961 of the numbers of male contributors who were married or not married, according to the age of the contributor.

The proportions married over all Services were as follow:

#### PROPORTIONS MARRIED—MALE CONTRIBUTORS

Age Group	Proportion Married
15-19	0.01
20-24	0.25
25-29	0.62
30-34	0.80
35-39	0.84
40-44	0.88
45-49	0.90
50-54	0.89
55 plus	0.89

The proportion married for the age-group 20 to 24 years, as shown above, was significantly higher than the proportions for the same age-group then applicable to other important superannuation schemes. However, no substantial deviation was apparent for later age-groups.

83. Examination of the pensioner data confirmed the trends disclosed at earlier investigations. An analysis of the substantial volume of data supplied in respect of age retirement pensioners showed that mortality was light. The rates of mortality which had been experienced are compared with the rates of mortality applicable to the Australian male population during the years 1960 to 1962 in Table V.

TABLE V—AGE RETIREMENT PENSIONER  
MORTALITY 1961-64

Age	D.F.R.B. Age Retirement Pensioner Experience 1961-64	Australian Males 1960-62
42	.0025	.0036
47	.0010	.0069
52	.0063	.0099
57	.0137	.0163
62	.0203	.0264
67	.0252	.0440
72	.0475	.0612

84. The mortality experienced by Class A invalid pensioners was heavy. For Class B and C invalids, the long term mortality experienced was not so very different from the mortality applicable to the Australian population.

85. Detailed investigations were made into the mortality, invalidity and withdrawal experience of Officer and Other Rank contributors, covering the three years 1962 to 1964. Particular care was necessary with this investigation as no previous examination of the experience of members of the Defence Forces was available for comparative purposes or to serve as a basis for the examination of future trends. The results are given in detail in the Report on the Investigation. They will be reviewed as further data becomes available.

86. Examples of the rates of mortality, invalidity and withdrawal which were determined are shown in my Appendix F. The rates of mortality are compared with the rates of mortality applicable to the Australian male population during the years 1960 to 1962, in Table VI.

TABLE VI—COMPARISON OF RATES OF MORTALITY—MALE CONTRIBUTORS

Age	D.F.R.B. Experience 1962-64			Australian Males 1960-62
	Officers		All Other Ranks	
	Group A	Group B		
20 . . .	.0042	.0017	.0022	.0017
30 . . .	.0042	.0017	.0022	.0016
40 . . .	.0048	.0023	.0029	.0030
50 . . .	.0053	.0044	.0049	.0080

87. For the purposes of the investigation of contributor experience during 1962 to 1964, Officers were subdivided into:

Group A—Comprising those Branches which may be regarded as subject to extra risk, e.g. General Duties (Air).

Group B—Other Branches, e.g. Ordinance Inspection (Navy).

88. The analyses show that there is a definite degree of extra risk of mortality associated with Officers (Group A). The experience of Officers (Group B) is comparable with that of the Australian population at the younger ages but is less at older ages. The experience of Other Ranks is significantly affected at young ages by the risk of accident which is also reflected in the Australian population mortality rates about age 20.

89. It is important to bear in mind that the lower mortality rates shown for later ages, as compared with those for the general population, are due to an important degree to the continual removal from the Services of persons suffering from a complaint which results in the grant of an invalid pension.

(D) THE ACTUARIAL BASIS OF THE POST 1959 SCHEME—OFFICERS

90. The general principle has been stated that the rate of contribution paid by a member to a super-annuation or retirement benefit scheme is comprised of a number of contribution elements, each of which is sufficient in the aggregate, when pooled with similar elements from contributions paid by other members, to meet the cost of the particular benefit to which the element relates. Examples were given in Table II, paragraph 46.

91. The position is more complex with post-1959 Officer entrants to the D.F.R.B. Scheme because:

- (a) In the main, these Officers pay an average percentage rate of contribution which is applicable to a broad range of entry ages for all three Services, and not to a particular entry age, Branch and Service.
- (b) In general terms, there is no certainty than an Officer will retire at the retiring age for the rank which he holds at any time.

92. The result of these factors is that the rate of contribution payable does not relate to the individual Officer, as was the case prior to 1959, but is designed to apply to a broad grouping of Officers on the basis of a pooling of contribution payments into a common fund. It is anticipated that each member will draw a benefit from the common fund in accordance with his circumstances and the provisions of the legislation.

93. Such a pooling principle is fair and provides a basis which has a sound actuarial foundation so long as:

- (a) Members are aware of the nature of the pooling principle underlying the rate of contribution which they are paying, and
- (b) There is an impartial management which ensures that the statutory requirements and established precedents which underly the common rates of contribution are observed so that particular members do not draw amounts of benefit which have not been provided for in the rates of contribution.

94. In accordance with the bases set out above, the rates of contribution payable by post-1959 Officer entrants to the D.F.R.B. Fund are calculated as sufficient to meet the cost of the Fund's share of the following elements:

- (a) for officers whilst in their present rank—the benefits attaching to the occurrence of 'in service' risks for that present rank,
- (b) for officers who are not promoted to the next higher rank—at the retiring age for the rank, the capital sum required to pay the retirement pension applicable to that rank (including a reversionary pension to the surviving widow),
- (c) for officers who are promoted to the next higher rank—at the moment of promotion, the actuarial reserve required to support the higher benefits to which these members then become entitled, taking into account future contribution payments.

95. In addition to the calculation of the rates of contribution, valuation factors are prepared for each rank in each Branch of a Service to enable the valuation of similar benefits. These benefits comprise the Fund's share of pension benefits and the whole of the cost of refund benefits and are:

(a) In Service Benefits in Present Rank

The benefits on termination prior to the retiring age for the present rank cover:

- (i) Invalidity, being Class A, Class B (including provision for the proportion of full pension available), Class C (after 20 years of service for pension).

- (ii) Widow's entitlements on death of a married member.
- (iii) Lump sum benefits on withdrawal, Class C retirement prior to 20 years of service for pension or death unmarried.

(b) *Benefit on Retirement from Present Rank*

A pension is available at the retiring age for the present rank, if the member continues in that rank to the retiring age and has completed the requisite years of service; otherwise a lump sum benefit.

(c) *Benefit on Promotion from Present Rank*

The benefit taken into the calculations is the net value of the future benefits likely to be received, following promotion to the next higher rank prior to attaining the retiring age for the present rank.

96. The basis of the calculation for each rank is a service table showing the movement into and out of the rank, within the limits of the numbers in the rank and according to the rates of mortality, etc., applicable to the members. An example of such a service table is in Appendix G. It will be seen from this table that a major factor to be taken into account is the flow of promotions into and out of the rank.

97. As required by the basis of the post-1959 arrangements, the rate of contribution taken into the valuation is the average rate to be paid by all members throughout their careers to finance the Fund's Share of the cost of all of the benefits which emerge.

(E) THE ACTUARIAL BASIS OF THE POST-1959 SCHEME — OTHER RANKS

98. The rates of mortality and invalidity applicable to Other Ranks vary with the age attained. Examination of the experience of Other Ranks for the purposes of the 1964 Investigation showed that the rate of withdrawal is related to the duration of service and that a special feature is the departure of Other Ranks on the completion of successive engagements. Examples of the various rates of decrement are in my Appendix F.

99. The actuarial basis adopted provides for the calculation of factors for the valuation of the Fund's Share of future benefit entitlements and of future contribution receipts, for quinquennial ages at entry and according to successive years of duration of service for pension. An average rate of contribution is calculated for the normal span of entry ages by weighing the rate for each quinquennial entry age from age 20 upwards in proportion to the age distribution of new entrants.

100. Rates of contribution for entrants under age 20 have been obtained having regard to the provisions of the legislation. The value of the normal rate of contribution payable from age 20 has been spread over the longer future span of membership commencing from the actual entry age. The resulting

rates of contribution provide therefore, for the normal 'in service' cover and for payment of a retirement pension on a member withdrawing or completing an engagement at or after age 40.

101. Valuation data for Other Ranks is supplied according to successive years of entry to the Fund. Separate valuation factors are prepared to enable the valuation of the following benefits likely to be received by Other Ranks:

(a) *The Fund's Share of Pension Benefits, payable in the event of:*

- (i) Completion of Engagement, withdrawal or attainment of the retiring age, after 20 years of service for pension.
- (ii) Invalidity, being Class A, Class B (including provision for the proportion of full pension available), Class C (after 20 years of service for pension).
- (iii) Widows' entitlements on death of a married member in service, reversionary entitlements attaching to the pensions at (i) and (ii).

(b) *The Whole of the Cost of Refund Benefits payable in the event of:*

- (i) Withdrawal.
- (ii) Class C retirement or completion of engagement prior to 20 years of service for pension.
- (iii) Death in service unmarried.

(F) THE ACTUARIAL BASIS FOR PRE-1959 ENTRANTS

*Contributions for Units of Pension*

102. Prior to 14 December 1959, the contributions payable to the D.F.R.B. Fund were based on the contribution schedules of the Commonwealth Superannuation Fund which were then in force. The contributions purchased units of pension, the number of units held by a member becoming frozen as from 14 December 1959 for the remainder of service. Examples of the number of units and the related pension payable at the retiring age for the rank held are shown in my Appendix H.

103. The retirement pension value of each unit increases with the rank held (Officers) or with the duration of service in excess of 20 years (Other Ranks) and is found by dividing the pension for a rank shown in my Appendix H by the number of units in that Appendix for the same rank. The pension for a unit is not uniform for different ranks retiring at the same age although the variations are not great.

104. The Fund's share of pension attaching to units was fixed by the 1959 Act at 15 per cent of the pension entitlement but the rates of contribution being paid for units were not adopted on the basis of providing any specified Fund's share. As a result, the Fund's share actually supported by the contributions paid in individual cases is a variable depending on the payments made. These payments may include lump sums paid into the Fund at entry.

**Additional Contributions**

105. Increases in pension entitlement commencing on or after 14 December 1959 are purchased by additional contributions which pay for the Fund's share, or are obtained on a non-contributory basis. The range is as follows:

- (a) Contributions for Additional Categories— Since 1959, members have purchased additional categories having a current face value of \$91 per annum. The contribution for a category is determined from tables of factors but is reduced for certain categories. The factors in use were prepared in a form which would enable ready calculation of the additional contribution with a minimum of reference to the Commonwealth Actuary.
- (b) Contributions on Promotion or Transfer to a Later Retiring Age—On promotion or transfer to a later retiring age, a member purchases additional categories to which he becomes entitled, as at (a) above. He also makes a further fortnightly contribution to pay for an increased Fund's share in respect of the whole of the pension which relates to categories. This further contribution may involve a special calculation for each such member. The additional contribution may be positive or negative.
- (c) Non-contributory Categories—a Member may freeze his contributions at his existing level and take up further categories on a non-contributory basis, receiving the Commonwealth share only for such categories. On promotion or transfer to a later retiring age, there is a reduction in the portion of pension entitlement being purchased by contributions, unless the further contribution at (b) is paid.

106. The specified Fund's share of categories for Officers is related to the retiring age for the rank held. The shares are expressed as a percentage of the total pension entitlement in Regulation 10 of D.F.R.B. (Prescribed Contributors) Regulations, as follows:

Retiring Age	Percentage
Up to 47 . . . . .	20
48 . . . . .	21
49 . . . . .	22
50 . . . . .	23
51 . . . . .	24
52 . . . . .	25
53 . . . . .	25
54 . . . . .	26
55 . . . . .	27
56 . . . . .	27
57 . . . . .	28
58 . . . . .	28
59 . . . . .	28
60 . . . . .	28 <sup>4</sup> / <sub>7</sub>

The Fund's share applicable to Other Ranks is 20 per cent.

107. The additional contributions are payable until the retiring age for the rank held (Officers) and until 20 years service for pension has been completed or the end of the current engagement if after 20 years service (Other Ranks).

108. Since 1968, the share of pension benefits met by the Fund in respect of units of pension and categories has been fixed by legislation at 20 per cent. The Act provides that surplus shall be distributed only in excess of the amount required to restore the previous Fund's shares.

109. The additional contributions being paid by pre-1959 Entrants have been individually calculated as sufficient to purchase the Fund's Share of the additional benefits granted to the member on a contributory basis. The methods of valuation of future benefit entitlements and future contribution receipts are straightforward and present no particular problems. The valuation relates to the entitlements held by the member at the date of the valuation and does not take into account the possibility of future additional entitlements being obtained as such entitlements are supported by an additional contribution.

S. W. CAFFIN  
Commonwealth Actuary

7 May 1971

### Sub-Appendix A

#### AUSTRALIAN POPULATION RATES OF MORTALITY AT REPRESENTATIVE AGES

Age	1960-62	1953-55	1946-48	1932-34	1901-10
<b>MALES</b>					
0	.02239	.02521	.03199	.04543	.09510
10	.00041	.00045	.00072	.00119	.00179
20	.00173	.00186	.00169	.00219	.00370
30	.00157	.00170	.00186	.00271	.00519
40	.00300	.00297	.00337	.00460	.00816
50	.00804	.00819	.00919	.00966	.01395
60	.02176	.02221	.02278	.02216	.02584
70	.05177	.05315	.05256	.05082	.06162
80	.11617	.11958	.12011	.12659	.13795
<b>FEMALES</b>					
0	.01757	.01989	.02519	.03642	.07953
10	.00028	.00035	.00050	.00087	.00159
20	.00060	.00064	.00091	.00183	.00329
30	.00082	.00096	.00165	.00279	.00519
40	.00187	.00217	.00284	.00402	.00718
50	.00464	.00530	.00641	.00744	.00956
60	.01074	.01203	.01360	.01466	.01920
70	.02933	.03250	.03607	.03802	.04777
80	.08507	.09314	.10027	.10106	.11333

### Sub-Appendix B—continued

Age	Number Living	Number of Exits at an Age		
		Deaths	Invalids	Withdrawals
37	321,710	483	225	11,582
38	309,420	495	248	10,644
39	298,033	507	268	9,775
40	287,483	517	287	8,969
41	277,710	555	305	8,220
42	268,630	591	322	7,522
43	260,195	624	338	6,869
44	252,364	656	353	6,259
45	245,096	711	368	5,686
46	238,331	763	381	5,148
47	232,039	812	394	4,641
48	226,192	882	430	4,071
49	220,809	994	464	3,533
50	215,818	1,101	496	3,021
51	211,200	1,225	549	2,534
52	206,892	1,345	621	2,069
53	202,857	1,461	710	1,501
54	199,185	1,574	837	797
55	195,977	1,685	999	..
56	193,293	1,798	1,218	..
57	190,277	1,903	1,465	..
58	186,909	2,093	1,720	..
59	183,096	2,252	1,941	..
60	178,903	..	..	..

### Sub-Appendix B

#### SERVICE TABLE SHOWING THE EXPECTED EXPERIENCE OF CONTRIBUTORS TO A SUPERANNUATION FUND

Age	Number Living	Number of Exits at an Age		
		Deaths	Invalids	Withdrawals
20	1,000,000	1,100	300	111,000
21	887,600	976	266	92,310
22	794,048	873	238	76,229
23	716,708	788	287	63,070
24	652,563	718	261	52,205
25	599,379	659	240	42,556
26	555,924	612	222	35,023
27	520,067	572	260	29,124
28	490,111	539	245	25,486
29	463,841	510	232	22,728
30	440,371	484	220	20,697
31	418,970	461	251	18,854
32	399,404	439	240	17,334
33	381,391	420	229	16,018
34	364,724	438	219	14,808
35	349,259	454	244	13,621
36	334,940	469	234	12,527

(continued next column)

### Sub-Appendix C

#### SERVICE TABLE SHOWING THE EXPECTED EXPERIENCE OF PENSIONERS OF A SUPERANNUATION FUND

Age	Number Living	Number of Deaths
65	64,639	2,279
66	62,360	2,391
67	59,969	2,492
68	57,477	2,582
69	54,895	2,665
70	52,230	2,745
71	49,485	2,825
72	46,660	2,906
73	43,754	2,980
74	40,774	3,036
75	37,738	3,067
76	34,671	3,063
77	31,608	3,022
78	28,586	2,949
79	25,637	2,852
80	22,785	2,737
81	20,048	2,607
82	17,441	2,467
83	14,974	2,311
84	12,663	2,133

(continued next page)

Sub-Appendix C—continued

Age	Number Living	Number of Deaths
85	10,530	1,930
86	8,600	1,708
87	6,892	1,473
88	5,419	1,245
89	4,174	1,030
90	3,144	833
91	2,311	657
92	1,654	504
93	1,150	375
94	775	270
95	505	188
96	317	126
97	191	81
98	110	49
99	61	29
100	32	17
101	15	8
102	7	4
103	3	2
104	1	1
105	..	..

Sub-Appendix D

THE RATES OF INTEREST ON NEW LONGER-TERM COMMONWEALTH LOANS ISSUED BETWEEN 1940 AND 1960

Date of Issue	Term of Loan	Nominal Rate of Interest	Price of Issue
	years	Per cent	£
28.11.40 to 15.10.46	15-16	3½	Par
15.4.47 to 23.11.50	12-14	3½	Par
22.5.51	14½	3½	99.0
22.8.51 to 18.3.52	14	3½	Par
25.11.52 to 16.11.55	13-15	4½	Par
10.5.56	7	5	99.5
28.6.56	7	5	99.5
8.8.56 to 7.9.60	10-12	5	Par

Sub-Appendix E

DEFENCE FORCES RETIREMENT BENEFITS FUND  
CALCULATION OF PORTION OF PENSION PAYABLE FROM THE PENSION ACCOUNT

EXAMPLE (A)—Details of Member

Type of Pension: Retiring Age for Rank  
Amount of Pension: £617 per annum  
Age at Exit: 47 years  
Date of Exit: 29.11.1959

(continued next column)

(a) Unit History and Accumulation

Date	Units	Contribution	Number of Fortnights	Accumulation
		£ s. d.		£ s. d.
15.7.48	..	132 0 0*	297	201 3 4
15.7.48	9	1 6 6	297	489 5 0
4.11.48	1	3 11	289	70 0 0
14.7.49	1	4 2	271	68 14 4
13.7.50	3	13 3	245	193 18 0
23.12.54	3	18 9	129	132 15 6
1.3.56	1	6 9	98	35 10 9
5.7.56	4	1 7 0	89	128 1 3
				1,319 8 2

\* Reserve value of Superannuation Fund Contributions.

(b) Value of £1 per annum payable from age 47 . . . . . 16.453  
Value of Reversion to Widow . . . . . 1.233

17.686

(c) Pension per annum payable from Pension Account equals £1,319. 6s. 8d./17.686 . . . . . £ 74 12  
Pension per annum payable by Commonwealth . . . . . 524 8

Total . . . . . 617 0

EXAMPLE (B)—Details of Member

Type of Pension: Invalidity Class 'A'  
Amount of Pension: £1,001 per annum  
Age at Exit: 51  
Date of Exit: 30.12.1957

(a) Unit History and Accumulation

Date	Units	Contribution	Number of Fortnights	Accumulation
		£ s. d.		£ s. d.
15.7.48	..	331 0 0*	247	470 0 5
15.7.48	9	1 5 9	247	380 18 1
4.11.48	1	6 3	239	88 14 10
14.7.49	4	1 5 0	221	324 7 11
12.7.51	4	1 9 4	169	280 2 9
23.12.54	3	1 12 0	79	133 15 1
1.3.56	1	11 11	48	29 12 2
				1,707 11 3

\* Reserve value of Superannuation Fund Contributions.

(b) Value of £1 per annum payable from age 51 . . . . . 10.204  
Value of Reversion to Widow . . . . . 3.510

13.714

(c) Pension per annum payable from Pension Accounts equals £1,707.11s. 3d./13.714. . . . . £ 124 10  
Pension per annum payable by Commonwealth . . . . . 876 10

1,001 0

### Sub-Appendix F

#### MORTALITY, INVALIDITY AND WITHDRAWAL RATES FOR MEMBERS OF THE DEFENCE FORCES, 1962 TO 1964

Age	Mortality	Invalidity			Resignation etc.	Completion of Engagement
		A	B	C		

#### OFFICERS (GROUP A)

20	.0042	.0014	.0015	.0015	.0400	..
25	.0042	.0016	.0017	.0017	.0235	..
30	.0042	.0018	.0017	.0017	.0250	..
35	.0042	.0020	.0018	.0018	.0105	..
40	.0048	.0027	.0022	.0022	.0050	..
45	.0052	.0034	.0032	.0027	.0023	..
50	.0053	.0056	.0040	.0035	..	..
55	.0074	.0142	.0070	.0070	..	..

#### OFFICERS (GROUP B)

20	.0017	.0004	.0005	.0005	.0415	..
25	.0017	.0006	.0007	.0007	.0600	..
30	.0017	.0008	.0007	.0007	.0525	..
35	.0017	.0010	.0008	.0008	.0290	..
40	.0023	.0017	.0012	.0012	.0150	..
45	.0033	.0029	.0022	.0022	.0070	..
50	.0044	.0056	.0035	.0035	.0025	..
55	.0072	.0142	.0070	.0070	..	..

(continued next column)

Age	Mortality	Invalidity			Resignation etc.	Completion of Engagement
		A	B	C		

#### OTHER RANKS

(including provision for excess risk)

20	.0022	.0006	.0019	.0036	..	..
25	.0022	.0008	.0019	.0046	..	..
30	.0022	.0010	.0019	.0031	..	..
35	.0023	.0012	.0020	.0024	..	..
40	.0029	.0019	.0024	.0013	..	..
45	.0038	.0031	.0026	.0024	..	..
50	.0049	.0058	.0037	.0036	..	..

#### DURATION OF SERVICE

(years)

0	..	..	..	..	.0450	.0000
3	..	..	..	..	.0200	.0340
6	..	..	..	..	..	.1400
9	..	..	..	..	..	.0500
12	..	..	..	..	..	.1200
18	..	..	..	..	..	.0200
20	..	..	..	..	..	.1200

### Sub-Appendix G

#### DEFENCE FORCES RETIREMENT BENEFITS FUND SERVICE TABLE FOR NAVY—GENERAL DUTIES LIEUTENANT-COMMANDER, WITH EXCESS RISK

Age	Living	Promoted Into Rank	Promoted Out of Rank	Deaths	Withdrawals	Class A	Class B	Class C	Age Retirement
27	..	789	..	2	10	1	1	1	..
28	774	1,184	..	6	36	2	2	2	..
29	1,910	1,893	..	25	149	10	10	10	..
30	9,599	11,840	..	65	388	28	26	26	..
31	20,906	7,893	..	104	584	45	42	42	..
32	27,982	5,920	400	129	661	58	52	52	..
33	32,550	1,973	1,001	139	594	63	59	59	..
34	32,607	1,184	3,003	133	428	63	57	57	..
35	30,050	789	4,004	119	299	57	51	51	..
36	26,258	..	4,004	104	206	49	46	46	..
37	21,803	..	4,004	87	149	42	38	38	..
38	17,445	..	2,002	76	107	38	33	33	..
39	15,156	..	1,001	69	81	35	31	31	..
40	13,908	..	601	65	68	37	30	30	..
41	13,077	..	..	65	59	35	30	29	..
42	12,859	..	..	67	45	36	31	28	..
43	12,652	..	..	66	39	38	33	29	..
44	12,447	..	..	65	34	39	36	31	12,242
	301,983	39,465	20,020	1,386	3,938	676	608	595	12,242

**Sub-Appendix H**  
**DEFENCE FORCES RETIREMENT BENEFITS ACT**  
**EXAMPLES OF UNIT OF PENSION ENTITLEMENTS AND PENSIONS FOR RANK AS AT**  
**14 DECEMBER 1959**

(A) Officers	Units of Pension	Pension for Rank
		\$
<b>Navy—</b>		
Vice-Admiral . . . . .	36	3,276
Rear-Admiral . . . . .	36	3,276
Captain (six years or more service in rank) . . . . .	31	2,256
Captain (less than six years service in rank) . . . . .	29	2,066
Commander . . . . .	25	1,584
Lieutenant-Commander . . . . .	22	1,234
Lieutenant . . . . .	18	1,066
Sub-Lieutenant . . . . .	11	620
Acting Sub-Lieutenant . . . . .	9	508
Sub-Lieutenant (under-graduate) . . . . .	8	452
Midshipman . . . . .	5	282
<b>Navy, Special Duties List—</b>		
Commander . . . . .	25	1,834
Lieutenant-Commander (not less than six years service in rank) . . . . .	22	1,626
Lieutenant-Commander (less than six years service in rank) . . . . .	19	1,412
Lieutenant . . . . .	17	1,274
Sub-Lieutenant . . . . .	15	1,138
<b>Navy, Chaplains—</b>		
Principal Chaplain and Senior Chaplain . . . . .	24	1,584
Chaplain, 18 years or more service in rank . . . . .	24	1,512
Chaplain, 15 years or more, and less than 18 years service in rank . . . . .	23	1,440
Chaplain, 10 years or more, and less than 15 years service in rank . . . . .	20	1,128
Chaplain, less than 10 years service in rank . . . . .	17	958
<b>Army—</b>		
Lieutenant-General, Chief of the General Staff . . . . .	36	3,276
Lieutenant-General . . . . .	36	3,276
Major-General . . . . .	36	2,908
Brigadier . . . . .	31	2,256
Colonel . . . . .	29	2,066
Lieutenant-Colonel . . . . .	25	1,584
Major . . . . .	22	1,234
Captain . . . . .	18	1,066
Lieutenant . . . . .	14	790
Second Lieutenant . . . . .	11	620
<b>Army, Quartermasters—</b>		
Major . . . . .	22	1,626
Captain . . . . .	19	1,412
Lieutenant . . . . .	15	1,138
<b>Army, Chaplains—</b>		
Chaplain, First Class . . . . .	24	1,584
Chaplain, Second Class . . . . .	23	1,440
Chaplain, Third Class . . . . .	20	1,176
Chaplain, Fourth Class . . . . .	17	1,008
<b>Female Officers—</b>		
<b>Army—</b>		
Colonel . . . . .	20	1,482
Lieutenant-Colonel . . . . .	17	1,268
Major . . . . .	16	1,108
Captain . . . . .	13	974
Lieutenant . . . . .	10	762
<b>Air Force—</b>		
Matron-in-Chief or Group Officer . . . . .	20	1,482
Principal Matron or Wing Officer . . . . .	17	1,268
Matron or Squadron Officer . . . . .	16	1,108
Senior Sister or Flight Officer . . . . .	13	974
Sister or Section Officer . . . . .	10	762



## Appendix D

### Defence Forces Retirement Benefits Legislation

#### CURRENT LEGISLATION

<i>The Act</i>	<i>Applies to</i>	<i>Significance</i>
<i>Defence Forces Retirement Benefits Act 1948-1971 (The Principal Act), being the Defence Forces Retirement Benefits Act as amended by Act No. 47 1971</i>	All current members of the Defence Force serving on continuous full time duty for one year or more and to all former contributors to the D.F.R.B. Scheme except as otherwise provided by the Acts listed below	This Act lays down the basis of the the scheme of retirement, death and invalidity benefits for members of the Defence Force
<i>Defence Forces Retirement Benefits Acts 1968 (Part III)</i>	(i) Members of the Defence Force serving on full time duty for one year or more but who were not contributors to the Fund and who were discharged on invalidity grounds or died while serving between 28 June 1965 and 24 June 1968 (ii) Members who entered the Fund on 19 July 1968 and who at that time were already serving on continuous full time duty	The Act provides for retrospective invalidity, widows' and children's benefits for these former members of the Defence Force, the cost of benefits to be charged against the Consolidated Revenue Appropriation  The Act recognised certain service completed before 19 July 1968 as service for gratuity purposes and specified the rates of gratuity payable replacing gratuity provisions under the Defence Service legislation
<i>Defence Forces Retirement Benefits Act 1948-1958 (certain provisions only)</i>	(i) All persons who were contributing to the Fund on 13.12.59 (with the exception of certain junior ranks) that is Pre-1959 entrants (ii) Certain pensioners who retired before 14.12.59	Pre-1959 entrants are required to maintain their existing contributions as at 13.12.59 for the pension entitlements available to them under the <i>Defence Forces Retirement Benefits Act 1948-1958</i> Section 74 (commutation) is still current for those who became pensioners prior to 14.12.59 when a different basis applied
<i>Defence Forces Retirement Benefits Act 1959-1968 (Part III and Schedules)</i>	(i) All persons who were contributors to the fund on 13.12.59 (ii) Widows at 13.12.59 and the widows of pensioners at 13.12.59 who died subsequently	The Act lays down the basis of contributions to enable pre-1959 entrants to purchase additional unit entitlements which became available between 14.12.59 and 29.11.62 The rate of pension payable to these widows was increased from $\frac{1}{2}$ to $\frac{3}{4}$ of the former member's pension
<i>Defence Forces Retirement Benefits Act 1962-1963 (Part IV)</i>	All persons who were contributing to the Fund at 13.12.59 (with the exception of certain junior ranks at that date) and 29.11.62	The Act lays down the basis of contributions to enable pre-1959 entrants to purchase additional unit entitlements which became available between 30.11.62 and 31.10.63
<i>Defence Forces Retirement Benefits Act 1963-1968 (Part IV)</i>	All persons who were contributing to the Fund at 13.12.59, (with the exception of certain junior ranks at that date) and 1.11.63	The Act lays down the basis of contributions to enable pre-1959 entrants to purchase additional unit entitlements which became available after 1.11.63
<i>Defence Forces Retirement Benefits Act (No. 2) 1965-1966 (Section 20)</i>	The eligible children of a person who ceased to be a contributor before 14.12.59	When children's benefits were increased under the Principal Act the proportion of 'Fund Share' to 'Consolidated Revenue Share' for these benefits was brought into line with that then applicable to pensions generally
<i>Defence Forces Retirement Benefits Act (No. 3) 1968 (Part III)</i>	Members who entered the Fund before 14.12.59 and who are defined as eligible contributors or pensioners under the terms of the legislation	The Act provides for the distribution of surplus assets in the Fund as at 30.6.64 to eligible pre-1959 contributors and pensioners

(continued next page)

**OTHER 'ONE TIME' LEGISLATION**

<i>The Act</i>	<i>Applies to</i>	<i>Significance</i>
<i>Defence Forces Special Retirement Benefits Act 1960-1965</i>	Australian Regular Army Personnel discharged due to a reduction in establishment during 1961	The Act made special provision for the payment of benefits to these contributors because such special retrenchment arrangements are not provided for under the scheme generally
<i>Defence Forces Retirement Benefits (Pension Increases) Act 1961</i>	Former contributors who died or retired before 10.12.54 and who were, or their widows were, in receipt of a pension at 27.10.61	The Act increased the 'Consolidated Revenue Share' of the pensions payable using a notional adjustment method (paragraph 138 of the D.F.R.B. Booklet) on the basis of pay increases to 10.12.54
<i>Defence Forces Retirement Benefits Act 1963 (Part III)</i>	Former contributors who died or retired before 30.6.61 and who were, or their widows were, in receipt of a pension at 1.11.63	The Act increased the 'Consolidated Revenue Share' of the pensions payable using a notional adjustment method on the basis of pay increases to 30.6.61
<i>Defence Forces Retirement Benefits (Pension Increases) Act 1967</i>	Former contributors who died or retired before 30.6.67 and who were, or their widows were, in receipt of a pension at 8.11.67	The Act increases the 'Consolidated Revenue Share' of the pensions payable using a notional adjustment method on the basis of pay increases to 30.6.67
<i>Defence Forces Retirement Benefits Act (No. 3) 1968 (Sections 20 and 21)</i>	Former contributors, or their widows, who retired due to invalidity or died before 31.1.69 and who at the date of retirement or death were in receipt of less than adult rates of pay	The Act increased the rates of pension payable to those former contributors or their widows (chargeable entirely to Consolidated Revenue) in the light of a basic pension being introduced in the Principal Act, when provision was made for the extension of the contributory scheme to all juveniles

**DEFENCE FORCES RETIREMENT BENEFITS REGULATIONS**

<i>Regulations</i>	<i>Apply to</i>	<i>Significance</i>
<i>Defence Forces Retirement Benefits Regulations</i>	All contributors and pensioners generally	Prescribe certain matters in accordance with the Principal Act
<i>Defence Forces Retirement Benefits (Daily Rates of Pay) Regulations</i>	All contributors generally	Prescribe the daily rates of pay for the purposes of the Principal Act applicable to all contributors
<i>Defence Forces Retirement Benefits (Existing Contributors) Regulations</i>	All persons who were contributing to the Fund on 13.12.59	Prescribe certain matters in accordance with the <i>Defence Forces Retirement Benefits Act 1959-1968</i>
<i>Defence Forces Retirement Benefits (Prescribed Contributors) Regulations</i>	All persons who were contributing to the Fund on 13.12.59, with the exception of certain junior ranks	Prescribe certain matters in accordance with the <i>Defence Forces Retirement Benefits Act 1962-1963</i>
<i>Defence Forces Retirement Benefits (Prescribed Contributors) (No. 2) Regulations</i>	All persons who were contributing to the Fund on 13.12.59, with the exception of certain junior ranks	Prescribe certain matters in accordance with the <i>Defence Forces Retirement Benefits Act 1963-1968</i>

## Appendix E\*

### The Investment Programme

Each year in May/June the Board formulates an Investment Programme for the following three years. The objective is to analyse investment performance in relation to targets for the current financial year and set objectives for the succeeding three years based on projections of investable funds for each year. Although the format may vary from year to year, in general the pattern is as follows:

- (1) **Introductory comments—**  
 Basis of Existing Programme; Investment Powers; Administrative Problems; Estimated Earning Rate of Fund;
- (2) **Review of the Past Year's Performance against Programme—**  
 Comments include reference to market conditions, investment experience during the year and detailed reference to statistical analyses.
- (3) **Growth Projections of the Fund, including proceeds from maturing investments.**
- (4) **Proposed Three Year Programme.**
- (5) **Detailed Programme for the First Year and Recommendations.**

Material from this Programme expressed in terms of achievement is included in the Annual Reports presented to the Parliament.

At present there are various imponderables which cause difficulties in making forward estimates of cash flow, including the possible impact of the Kerr Committee Report.

On the assumption that \$20m will be available for investment during the year 1971-72 the 'budget' for that year would be as follows:

#### PROJECTION 1971-72

Class of Investment	Invested (Face Value) at 30.6.71		New Investment 1971-72		Projected Investment 30.6.72
	\$'000	Per cent	Per cent	Per cent	
Commonwealth	30,293	22.8	18.5	22.3	
Local Government	21,958	16.5	6.0	15.2	
Other Government	41,281	31.0	12.0	28.6	
	93,532	70.3	35.5	66.1	
Loans under Trustee Legislation	4,520	3.4	15.0	4.8	
Mortgages	35,027	26.3	48.5	29.1	
<b>Total</b>	<b>133,079</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

#### Comments

The class of investment described as Other Government represents loans to semi-governmental and other public Authorities. Loans under Trustee Legislation represent loans to non-government bodies secured by Commonwealth and State Government guarantees and long term deposits with Banks.

In addition to the \$133,079m invested at 30 June 1971, \$1.05m was on deposit with the official short term money market and \$282,000 was at call with the Treasurer. These moneys form part of the \$20m available for investment in 1971-72 and are included in the New Investment percentages for that year.

#### Investments as at 30 June 1971

The attached Table shows an analysis of the investments (excluding short term investments) held at 30 June 1971, according to class of investment and distribution between States. Investment in the Government/Trustee group is classified according to the main function of the borrower with percentages for each class within that group.

\* Information supplied by the Chairman of the D.F.R.B. Board further to his submission of 8 June 1971.

**DEFENCE FORCES RETIREMENT BENEFITS BOARD**  
**ANALYSIS OF INVESTMENTS AT FACE VALUE HELD AT 30 JUNE 1971**

Class of Investment	All States	N.S.W.	Vic.	Qld.	S.A.	W.A.	Tas.	A.C.T.	N.G. and N.T.	Total	Percentage of Local/Other Government and Trustee		Percentage of Total Investment		
											1971	1970	1971	1970	
Securities of the Commonwealth Loans to Local Governing Bodies and Loans Prescribed under Trustee Legislation—	30,292,640	..	..	..	..	..	..	..	..	..	..	..	..	22.76	20.20
Electricity Authorities	..	5,498,252	4,733,000	4,040,707	1,200,000	2,176,600	980,000	..	..	18,628,559	27.50	28.17	14.00	14.44	
City, Shire, and Municipal Councils	..	5,004,207	4,140,820	4,469,797	2,051,863	240,000	1,484,006	..	..	17,390,693	25.66	27.90	13.07	14.23	
Water, Sewerage and Drainage Boards	..	6,951,960	6,130,882	..	..	400,000	100,000	..	..	13,582,782	20.05	21.17	10.21	10.85	
Harbour Boards	..	..	2,020,000	596,365	..	900,000	900,000	..	..	4,461,365	6.52	6.98	3.32	3.58	
Housing Authorities	..	..	..	100,000	1,500,000	1,265,000	..	..	..	2,865,000	4.23	4.25	2.15	2.17	
Banking Institutions	2,686,700	..	..	..	200,000	..	200,000	..	..	3,086,700	4.53	2.76	2.32	1.41	
Gas and Fuel Authorities	..	..	1,417,800	..	500,000	200,000	..	..	..	2,117,800	3.13	2.68	1.59	1.38	
Primary Industry Boards	..	850,000	300,000	350,000	..	..	..	..	..	1,500,000	2.22	1.83	1.12	0.94	
Statutory Planning Authorities	..	190,108	..	..	..	820,000	..	..	..	1,010,108	1.49	1.68	0.76	0.86	
Transport Authorities	..	1,000,000	1,392,857	..	..	..	..	..	..	2,392,857	3.52	1.68	1.80	0.85	
Hospital Boards	..	..	..	268,102	..	..	..	..	..	268,102	0.39	0.46	0.20	0.33	
Education Authorities	..	..	..	..	..	100,000	..	..	..	340,000	0.50	0.17	0.26	0.09	
Miscellaneous	..	..	..	..	..	..	..	..	240,000	340,000	0.24	0.27	0.12	0.15	
Mortgages	..	12,253,000	9,615,700	2,277,400	2,826,000	6,271,000	785,000	884,000	115,000	35,027,100	..	..	26.32	28.52	
<b>Total</b>	<b>32,979,340</b>	<b>31,747,467</b>	<b>29,751,059</b>	<b>12,102,371</b>	<b>8,277,863</b>	<b>12,372,600</b>	<b>4,449,006</b>	<b>884,000</b>	<b>515,000</b>	<b>133,078,706</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	
Percentage of Local/Other Governmental and Other Trustee—															
1971	3.97	28.77	29.71	14.50	8.05	9.00	5.41	0.00	0.59	100.00					
1970	2.10	30.37	29.00	15.27	7.88	9.53	5.58	0.00	0.27	100.00					
Percentage of Total Investment—															
1971	24.78	23.86	22.36	9.09	6.22	9.30	3.34	0.66	0.39	100.00					
1970	21.69	25.80	23.17	9.61	6.01	9.03	3.60	0.80	0.24	100.00					

## Appendix F

### LIST OF WITNESSES

*ALLARDICE, I. T.	Chief Petty Officer
ANDERSON, R.	Acting Chief Executive Officer (Service Pay and Conditions), Department of Defence
*AUSTIN, M.	Brigadier, D.S.O., O.B.E. Deputy Adjutant-General, Personal Services, Department of the Army
BLADIN, F. M.	Air Vice-Marshal, C.B., C.B.E. (retd), Chairman of the Defence Sub-Committee of the Returned Services League
BOND, F.	Major (retd), Federal Secretary, Regular Defence Forces Welfare Association
BOYLE, H. N.	Colonel (retd), Chairman of the Federal Executive of the Regular Defence Forces Welfare Association
BUCKLEY, K. W.	Chief Finance Officer in charge of the D.F.R.B. section of the Retirement Benefits Branch, Commonwealth Treasury
*BULLOCK, L. K.	Lieutenant, R.A.N.
BURGESS, L. K.	Chairman of the Defence Forces Retirement Benefits Board
CAFFIN, S. W., O.B.E.	Commonwealth Actuary and Insurance Commissioner, Office of the Commonwealth Actuary and Insurance Commissioner
*CHAPMAN, D. R.	Air Commodore C.B.E. (retd)
*COOK, K. J.	Captain
*COOK, L. P.	Flight Lieutenant
*COOPER, S. G.	Commander
CURTIS, W. J., O.B.E.	Acting Deputy Secretary, Department of Defence
DODDRELL, E. G.	Manager, Investment Branch, Office of the Superannuation and Defence Forces Retirement Benefits Board
DOWNEY, A. C.	Lieutenant-Commander, Trials and Assessing Unit, RAN Edgecliff
DAVEY, R. C.	Assistant Secretary in charge of the Retirement Benefits Branch, Commonwealth Treasury
DAVIES, E. H.	Lieutenant-Colonel, Eastern Command
*DAVIS, J. B.	Warrant Officer, WRAAC
DELLAMARTA, A. W.	Executive Officer (Service Pay and Conditions), Department of Defence
FINLAY, C. H.	Major-General, C.B., C.B.E. (retd) Honorary National Treasurer and Member of the National Executive, Returned Services League
FORDHAM, B. F.	Sergeant, Garbutt RAAF Base
FRANICH, F. M. G.	Assistant Adjutant-General, Director of Personal Services, Army Headquarters, Canberra
*GOODALL, B. M.	Warrant Officer
*GRAVES, A. J.	Lieutenant-Commander (retd)
*GREVILLE, P. J.	Colonel

*HANWELL, R. S.	Major
*HAWTHORNE, G.	Flight Lieutenant
*JAMES, E. C.	Warrant Officer, RAAF
*JUDSON, R.	Squadron Leader
*KEANE, W. J.	Major
KERR, W. D.	Department of Air
KEYS, A. G. W., O.B.E., M.C.	National Secretary of the Returned Services League
KNIGHT, E. S.	Consulting Actuary, Regular Defence Forces Welfare Association
LOCKWOOD, L.	Surgeon Rear Admiral (retd), Regular Defence Forces Welfare Association
*LOCKWOOD, L. M.	
*McGREGOR, R. W.	
MARTIN, R. D.	Senior Executive Officer (Policy) Naval Personnel Branch, Department of the Navy
*MATTHEWS, O. W.	Major (retd)
*MILLS, R. G.	Wing Commander
*MOORE, D. H.	Major
O'BRIEN, W. K.	Squadron Leader, Garbutt RAAF Base
*OVENDEN, P. J.	Warrant Officer
*PATTERSON, E. J.	Major
PEARSON, A. A.	Assistant Secretary attached to the Retirement Benefits Branch, Commonwealth Treasury
PERRIMAN, R. J.	Secretary, Defence Forces Retirement Benefits Board
PICKERING, H. A. H.	Group Captain, Director-General of Personal Services, Department of Air
*POWELL, N. M. Mrs	
RAMM, G. J.	Flight Sergeant, Garbutt RAAF Base.
*REES, J. A.	
RIETHMULLER, G. P.	Chief Systems Artificer, Trials and Assessing Unit, RAN Edgecliff
RUSSELL, A. J.	Deputy National Secretary, Returned Services League
SCRIVENOR, R. J.	Captain, RAN, Director-General of Personal Services, Department of the Navy
*SHEPHERD, R. S.	Warrant Officer
*STAFFORD, C. W. T.	Major
SWANSON, N. D.	Flight Lieutenant, Garbutt RAAF Base
*TARLETON, H. F. W. J.	Wing Commander (retd)
*TREMBATH, M. L.	Sergeant, RAAF
*TYLER, A. W.	
*WALLACE, F. J.	Flight Sergeant
*WATCHORN, F. A.	Wing Commander
†WOOLLARD, R. P.	Colonel, Director of Personal Services 'A', Army Headquarters, Canberra
*WREN, I. D. K.	Major
YOUNG, P. R.	Major (retd), N.S.W. Branch of the Australian Labor Party

\* Individual witness who presented his own submission.

† Since making this submission Colonel Woollard has been promoted to the rank of Brigadier.