Office of the Hon Darren Chester MP

Minister for Veterans and Defence Personnel

MC19-001302

Mr Jim Hislop
jghislop1937@hotmail.com

Dear Mr Hislop

Thank you for your email of 27 May 2019 to the Minister for Defence Personnel, the Hon Darren Chester MP, regarding the terms of reference for the investigation into the administration of Defence Force Retirement and Death Benefits (DFRDB) commutation. The Minister has asked me to respond on his behalf.

On 25 March 2019, the Australian Government announced an independent inquiry into the administration of the DFRDB Scheme commutation arrangements and the accuracy of the information provided to members with regards to the DFRDB commutation.

On 20 May 2019, the Commonwealth Ombudsman announced that he had decided to commence an own motion investigation into this matter. A copy of the media release is available on the Ombudsman's website (www.ombudsman.gov.au/news-and-media).

As the Commonwealth Ombudsman has decided to commence an own motion investigation, the scope of the investigation is outlined on the Ombudsman's website.

Under the *Ombudsman Act 1976* the Ombudsman is empowered to investigate matters of administration. The Ombudsman does not have the power to investigate the policy or overall Scheme design.

DFRDB pensions for people under the age of 55 are adjusted twice yearly in line with upwards movements in the Consumer Price Index (CPI). For those over the age of 55, pensions are now indexed by the greater of positive movements in CPI and the Pensioner and Beneficiary Living Cost Index (PBLCI). The PBLCI is a measure of price changes used by the Australian Bureau of Statistics that better take into account those goods and services used by retirees. Regard is also paid to movements in average wages.

The change in indexation arrangements for over 55 year olds occurred in 2014 when the Government introduced fair indexation for Defence Forces Retirement Benefit (DFRB) and DFRDB superannuation pensions in its first budget. Since 1 July 2014, DFRB and DFRDB superannuants age 55 and over have had their pensions indexed in the same way as age

Parliament House
CANBERRA ACT 2600

Telephone: 02 6277 7820
Email: minister.personnel@defence.gov.au

pensions. The change is estimated to provide over $4 billion in additional pension benefits to military superannuants and their families over the life of the DFRB and DFRDB Schemes.

The other Commonwealth Government superannuation schemes, the Commonwealth Superannuation Scheme (CSS), Public Sector Superannuation (PSS) Scheme and Military Superannuation Benefits (MSB) Scheme, are indexed by CPI. Only DFRDB Scheme pension recipients over the age of 55 have their pensions indexed by the greater of the PBLCI or the CPI. There are no plans to make further changes to the indexation arrangements for the DFRDB Scheme.

The 2007 Review into Military Superannuation Arrangements (commonly known as the Podger Review) examined the operation of the life expectancy factors and concluded that if any change were to be made, it should be to require a substantially larger reduction in retirement pay in return for the commuted lump sum, not a smaller reduction.

There are currently no plans for further investigations into the overall design of the DFRDB Scheme.

I trust this information clarifies this matter for you.

Robert Curtin
Chief of Staff

5 . JUL 2019