



Australian Government
Department of Defence

MC21-003840

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Thank you for your correspondence of 26 September 2021 to the Minister for Defence Personnel, the Hon Andrew Gee MP, regarding the Defence Force Retirement and Death Benefits (DFRDB) scheme. Your correspondence has been passed to me for response.

You have raised a number of concerns about the operation of the DFRDB scheme, including about the information provided to you at the time you elected to take a commutation (lump sum) from your DFRDB entitlements.

The accuracy of information provided to DFRDB scheme members, including with regards to the commutation option of the scheme, was referred to the Senate Standing Committee following the Commonwealth Ombudsman's investigation into the administration of the DFRDB scheme, and subsequent report of December 2019.

The independent Commonwealth Ombudsman published a report on its investigation into the administration of the DFRDB scheme. Whilst the Ombudsman found some members were provided with misleading, and in some cases incorrect, advice about their rate of retirement pay by Defence, he found the Commonwealth Superannuation Corporation (and its predecessors) administered the scheme in accordance with the law, and where a member elected to take a commutation (lump sum) this resulted in a permanent reduction of their DFRDB pension. There is no mechanism to 'pay back' the commuted amount.

I note you have also raised concerns about the continuing impact resulting from your election to take a commutation at the time of your separation from the Australian Defence Force.

The DFRDB scheme, like all Commonwealth defined benefit schemes, was developed as a structured benefits scheme. All aspects of the scheme should be considered together in order to recognise the overall benefits provided. It is important to note that amendments in isolation to one component of the scheme may have unintended consequences to other benefits provided, and would not necessarily increase the beneficial nature of the scheme overall.

The life expectancy tables are an actuarially based element of the calculation to determine a DFRDB member's lump sum and resultant pension benefit. Commutation is the early payment of part of a member's retirement pay in the form of a lump sum.

It is correct that updating the life expectancy tables alone would improve a member's pension. However the life expectancy tables as currently defined are fundamental to the overall benefits of the DFRDB scheme. Any updating of the life expectancy tables would necessitate further updates to other aspects of the scheme, such as commutation factors, to ensure the entire scheme is appropriately contemporised. This would leave some members worse off.

The Commonwealth Ombudsman made note of the life expectancy tables in his investigation into the administration of the DFRDB scheme. While the Ombudsman noted that if the commutation divisor increased, it would have a beneficial flow on to members, the Ombudsman concluded that as the scheme drafters did not include a provision to update the tables from time to time, it would suggest that the tables were meant to be used as a static commutation factor. This somewhat replicates the static commutation factors used in the civilian Commonwealth Superannuation Scheme (CSS).

I note you have also raised concerns about the indexation of your DFRDB pension.

If a member does not elect to commute, or commutes less than four times the pension, there will be a non-indexed portion of the pension. If a member commutes four times or greater (maximum five times), the residual pension is fully indexed.

Where a member does not elect to commute, or commutes less than four times the pension, indexation is only applied to the 'notional rate of retirement pay'. The 'notional rate of retirement pay' is the rate of pension that would be payable if the member had commuted four times the pension (which was the maximum amount that could be commuted at the time indexation arrangements were introduced).

When automatic indexation was introduced in 1976 it was applied only to the 'notional rate of retirement pay' to reflect the employer funded part of the pension. The non-indexed portion of a pension reflects the employee funded (member contributions) part of the pension. This broadly replicates the indexation arrangements of the CSS and was consistent with the recommendations of the 1973 Pollard Review and the 1974 Melville & Pollard Review.

The DFRDB scheme has been formally reviewed multiple times and these reviews have recognised the beneficial nature of the scheme.

On 18 March 2021 the Senate referred the "Accuracy of information provided to Defence Force Retirement and Death Benefits (DFRDB) members" to the Foreign Affairs, Defence and Trade References committee for inquiry. The life expectancy tables, among other elements of the scheme, were considered as part of this inquiry. The final report was released on 2 July 2021.

The Department of Defence is currently reviewing the recommendations included in the report and will provide advice on the matter to the Minister for Defence and Minister for Defence Personnel.

I trust this information is of assistance to you.

Yours sincerely

A handwritten signature in black ink that reads "David Nockels." The signature is written in a cursive style with a period at the end.

David Nockels
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03 October 2021