



Australian Defence Force Retirees Association Inc.

No. A0108026R

We represent the interests of Defence Force Retirees regarding their Superannuation

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FOREIGN AFFAIRS, DEFENCE AND TRADE COMMITTEE

Inquiry into Accuracy of information provided to Defence Force Retirement and Death Benefits (DFRDB) members and

SUPPLEMENTARY SUBMISSION

by

**Australian Defence Force Retirees
Association Inc.**

18 May 2021

Dear Committee Secretary,

After reading Submission No. 39, signed by the Secretary of the Department of Defence, Mr Greg Moriarty and General Angus Campbell AO DSC, the Defence Force Chief, I am compelled to comment on several statements in Enclosure 1.

Regarding the 1973 Pollard and 1974 Melville & Pollard Reviews:

Both the 1974 Melville & Pollard Review and the 1973 Pollard Review recommend automatic indexation of the Commonwealth superannuation scheme pensions using CPI as the method of indexation. This resulted in the introduction of automatic annual indexation using CPI for DFRDB pensions in 1976.

That is not correct.

The 1973 Pollard Review recommended that the Commonwealth superannuation schemes the five-sevenths (71.4%) Government's share of pensions should be adjusted by the lesser of the increase in Average Weekly Earnings and 1.4 times the CPI.

The 1974 Melville & Pollard Review retained the 1.4 times the CPI formula, thereby adjusting the Government's share of pensions by the increase in the CPI.

The 1974 interim adjustment deemed that the Members' share of the *fully unfunded* DFRDB defined benefits was two-sevenths (28.6%), the same as the Members' share of the *hybrid funded* Commonwealth superannuation scheme pensions.

That 1974 Melville & Pollard adjustment method was applied in the 1976 interim increase of DFRDB pensions but not in the automatic indexation method introduced in 1977. That adjustment method excludes from 10% to 32% of DFRDB benefits from indexation.

Regarding Commutation:

The lump sum forms part of the member's overall superannuation benefit and the pension is permanently reduced to recognise that lump sum recipients obtain long-term advantage from the immediate use of their lump sum.

That is an attempt to justify the wording of the Commutation provision in the DFRDB Act.

The quantum of retirement pay (the defined benefit) is set down in Section 23 of the Act. It is not subject to reduction because a member commutes a part of that benefit or how the commutation lump sum is utilised.

The wording of the Commutation arrangement in the Act reduces the defined benefit after the member reaches his Notional Life Expectancy.

The DFRDB Commutation provisions reflect the recommendations of the 1972 Jess Committee on DFRDB legislation and include the retention of a permanent reduction to the pension to account for the commutation.

That is not correct.

As is evident in its recommendation 14(b), the 1972 Jess Committee recommendations does not recommend the retention of a permanent reduction to the pension.

What the Committee proposed, is an interest free loan on future expected pension income, repayable over the number of years of his life expectancy.

That interpretation of the Jess Committee recommendation was confirmed by the Treasurer of the day, the Hon Billy Snedden¹.

When the DFRDB Act was legislated, the commutation provision was mirrored off the DFRB scheme.

That was a drafting error.

The DFRB commutation provision is based on actuarial assumptions which allow for loss to the **fund** of anticipated interest earnings. But the DFRDB scheme is **unfunded**, and those actuarial assumptions do not apply.

There is no record in the Whitlam First Ministry Decisions that the incorporation of the DFRB commutation provision was the intent of, or was approved by, the Whitlam Cabinet.

Regarding Indexation:

The non-indexed portion of a pension reflects the employee funded (member contributions) part of the pension. This broadly replicated the indexation arrangements of the CSS and was consistent with the 1974 Melville & Pollard Review.

That is not correct.

In the Defence Force, members' salaries are the same for males and females of the same age and the same rank and, under Section 23 of the DFRDB Act, are entitled to the same rate of defined benefit. However, under Section 98B of the Act, the

¹ [Cabinet Minute, Canberra, 24 October 1972, Decision No, 1447, p.79](#)

part of their defined benefits, deemed to be the *member's contribution*, ranges from 10% to 40% of their defined benefit, depending on gender and age, and for the members who elected to commute, the date on which that commutation took effect.

That does not, in any way, replicate the indexation arrangements of the CSS.

The CSS and the Public Service Superannuation Scheme (PSS) are hybrid **funded** schemes where member contributions are invested and generate a return to the members' share of pensions.

For example, according to Commonwealth Superannuation Corporation's Annual Report of 2016-17², the 7-year rate of return, net of fees and taxes, was:

- 8.3% for the Commonwealth Superannuation Scheme (CSS); and
- 8.2% for the Public Sector Superannuation Scheme (PSS).

That is, in just seven years, the members' share of the pensions payable under the CSS and PSS increased by 74.7% and 73.6%, respectively.

In the DFRDB Scheme, from 1 July to the present day, the members' share of the benefits payable increased by 0%, because the deemed members' contributions are not invested and do not generate a return.

Yours sincerely,



(H. F. Ellerbock)

18 May 2021

Secretary
Australian Defence Force Retirees Association Inc.

² [Commonwealth Superannuation Corporation 2016–17 Annual Report](#)