FOREIGN AFFAIRS, DEFENCE AND TRADE COMMITTEE

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

SUPPLEMENTARY SUBMISSION No. 3

by

Australian Defence Force Retirees Association Inc.

28 May 2021

Dear Committee Secretary,

During the testimony[1] of Mr David Nockels (Defence), Ms Alana Scheiffers (CSC) and Ms Donna Webster (Defence) there are no fewer than 39 references to the Commonwealth Ombudsman.

The testimony from Defence and CSC relies heavily on the findings of Ombudsman's 2019 investigation, the most significant finding in which relies on financial modelling based on a conjecture that most members who commuted invested their lump sum and achieved favourable returns.

It is appropriate, therefore, that the Ombudsman's assertions should undergo close scrutiny.

We stress that DFRDB is a *Defined Benefit* Scheme in which the Commonwealth guarantees, for the life of the recipient, the per annum quantum of the benefit defined in sections 23 and 32 of the DFRDB Act.

Sections 23 and 32 of the Act are not subject to sections 24 and 32A (commutation) and place no conditions on the use of the *defined benefit*.

The members who elected not to commute do not receive an additional benefit. They receive only their *defined benefit*.

The effect of sections 24 and 32A (commutation) can easily be determined by accumulating the *defined benefit* received where the member does and does not commute.

That effect can be seen in the example of a 45-year-old male member, with a $9,500 per annum *defined benefit*, who is entitled to commute four times that amount ($38,000).

THE EFFECT OF COMMUTATION
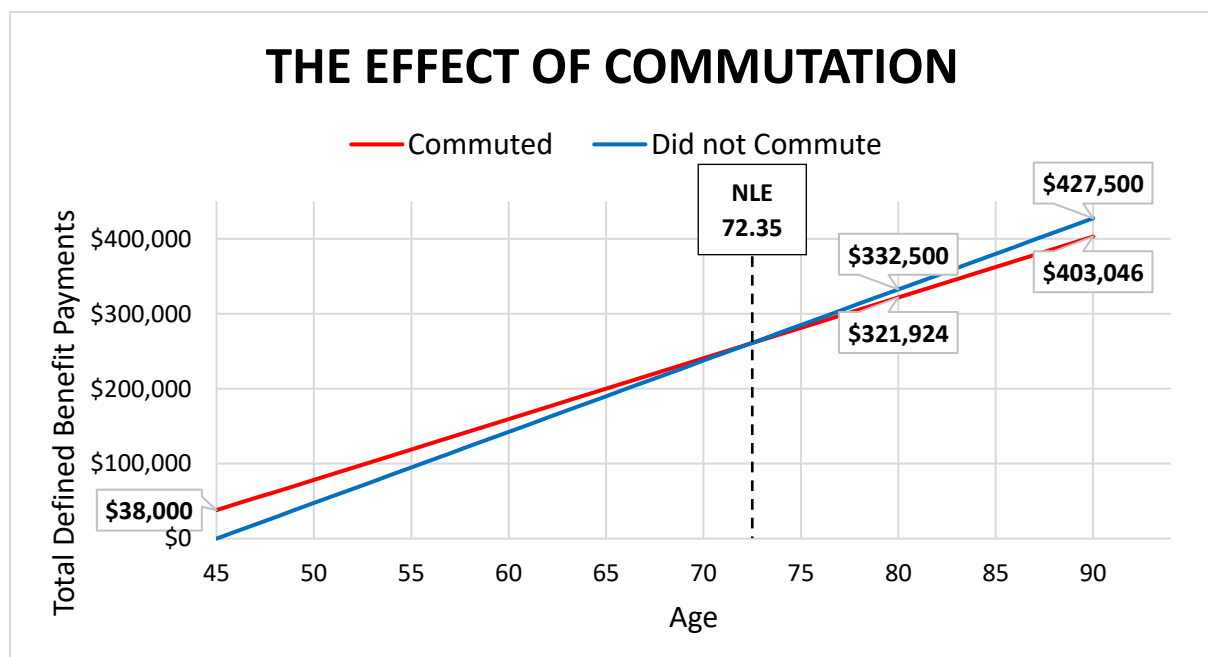
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[1] Proof Committee Hansard

In all cases, regardless of individual circumstances, the total *defined benefits* received, where the member did and did not commute, converge at the point where *Notional Life Expectancy* (NLE) is reached, and diverge from that point on.

The effect is more readily seen, in the illustration below, when only the differential in the total *defined benefits* received is shown.
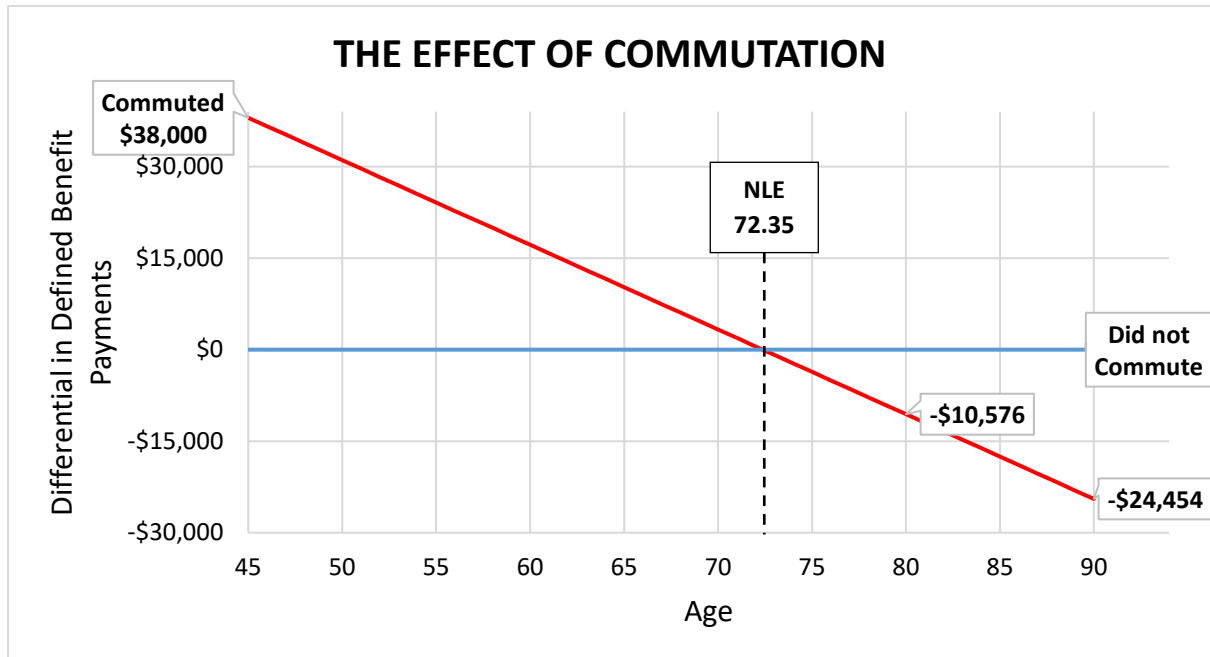
At 80 years of age, if the member commuted, he receives $10,576 less than his *defined benefit* entitlement, and at the age of 90 he receives $24,454 less.
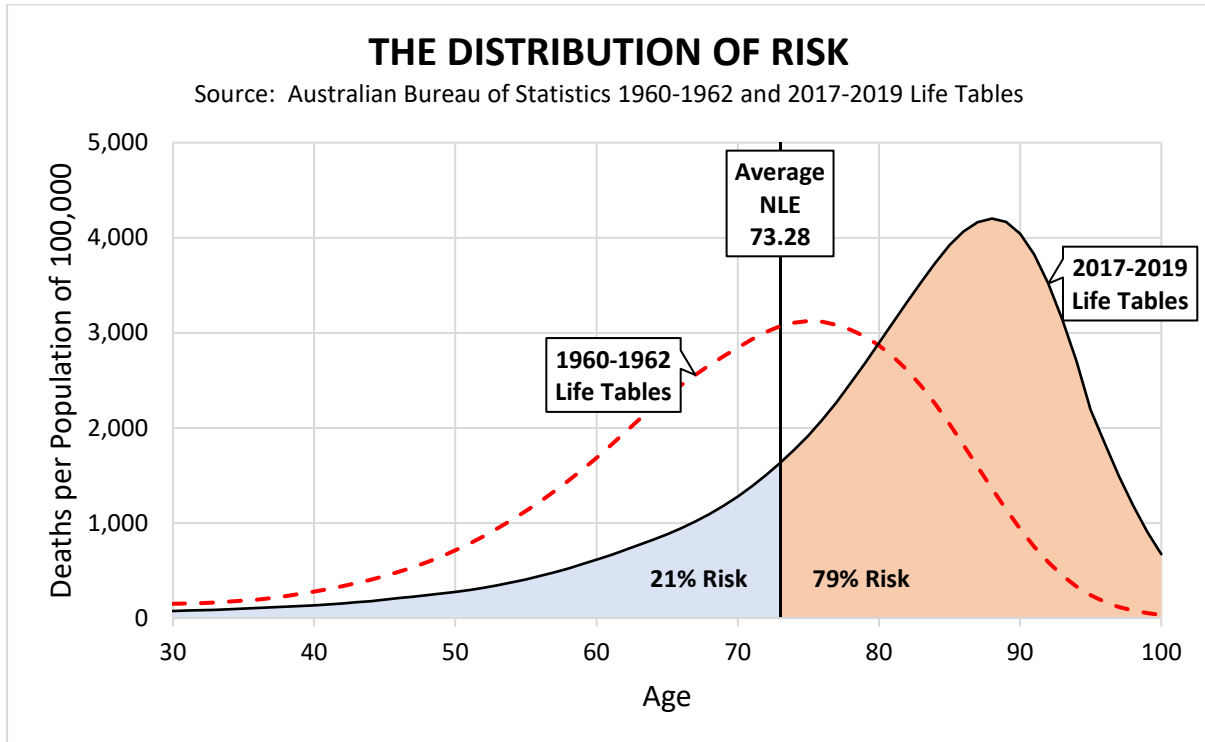
The Distribution of Risk

According to the Jess Committee recommendation, adopted by Government and the Parliament, the Commonwealth guarantees to meet all costs not covered by members' contributions. The *defined benefit* is payable until the recipient's death, that is, the Commonwealth accepts the risk, regardless of how long the recipient lives. The earlier the recipient dies, the less is the Commonwealth's risk.

Where a member who commutes dies before reaching NLE, there is a differential which benefits the member (albeit that he/she is deceased). The DFRDB Act does not seek to recover that differential from the member's widow, widower or estate because, as already stated, the Commonwealth has accepted that risk. A risk which is diminished because the liability for the reversionary *defined benefit(s)*, paid to surviving dependents, is reduced or ceases entirely where there are no eligible dependents.

However, members who commute are expected to carry the risk if they live beyond their NLE. A risk which was not explained to them.

The distribution of that risk is evident in the number of deaths per a population of 100,000. Termed the *Probability Density for Survival*, it can easily be derived from the Life Tables published by the Australian Bureau of Statistics.

The the *Probability Density for Survival* for males, derived from the 1960-1962 and 2017-2019 Life tables is illustrated below, distributed about the Average NLE determined from Schedule 3 of the DFRDB Act (that is, the 1960-1962 Life Tables).

THE DISTRIBUTION OF RISK
Source: Australian Bureau of Statistics 1960-1962 and 2017-2019 Life Tables

As is evident in this illustration, the approximate 50/50 distribution of risk around 1960-1962 life expectancy seems reasonable. But that does not represent the real (current) distribution, which now weighs heavily against the members who have survived beyond their NLE.

In effect, members who commute and survive beyond their NLE are again required to contribute to their *defined benefits*, which does not accord with the Commonwealth guarantee.

Yours sincerely,

(H. F. Ellerbock)   **28 May 2021**

Secretary
Australian Defence Force Retirees Association Inc.