

Introduction

[Section 23](#) of Defence Forces Retirement and Death Benefits Act 1973 (the Act) entitles members who have completed a minimum of 20 years effective service to *Retirement Pay* at a percentage of their final salary determined by the total years of completed service, ascertained under [Schedule 1](#) of the Act.

[Section 24](#) of the Act entitles members who are entitled to *Retirement Pay* to *commute*, that is, to receive an advance lump sum payment of up to five times the *Retirement Pay* entitlement, after which the rate of *Retirement Pay* is permanently reduced by an amount determined by dividing the lump sum amount by the members' expectation of life factor, ascertained under [Schedule 3](#) of the Act. The resultant rate of retirement pay is referred to as *Residual Retirement Pay*.

[Section 98B](#) of the Act applies indexation increases to the rate of *Residual Retirement Pay* to maintain relativity with community standards. However, the application of the indexation increases to *Residual Retirement Pay* also applies the indexation increases to the *Retirement Pay* reduction, in effect, adding interest to the reduction.

Entitlements provided by the Act

These are examples of entitlements provided by the Act:

- **Andrew Jones** ⁽¹⁾, born in 1929, joined the Army in September 1946 as a Gunner in the Royal Australian Artillery Corps. He saw active service in Korea and Vietnam. He was discharged in December 1983 with the rank of Warrant Officer Class 1. Having completed 36 years of service, he was entitled to *Retirement Pay* at a rate of 65.25% of his \$28,880 final per annum salary, that is, \$18,844 per annum. He exercised his right to receive an advance payment of 4 times his *Retirement Pay* entitlement to purchase a caravan and four-wheel-drive vehicle so that he and his wife could travel around Australia. He received a lump sum of \$75,376, and due to his life expectancy of 19.94, his *Retirement Pay* was reduced by \$3,780 to \$15,064 per annum.
- **Robert Smith** ⁽²⁾, born in 1940, joined the RAAF in January 1957 and trained as an airframe fitter. He married and was commissioned in 1969. Posted 14 times throughout his career, he was discharged in March 1984 with the rank of Squadron Leader. Having completed 27 years of service, he was entitled to *Retirement Pay* at a rate of 45.75% of his \$32,125 final per annum salary, that is, \$14,697 per annum. He exercised his right to receive an advance payment of 4 times his *Retirement Pay* entitlement to help pay the private school fees for his two daughters. He received a lump sum of \$58,788, and due to his life expectancy of 29.14, his *Retirement Pay* was reduced by \$2,017 to \$12,680 per annum.
- **Janice Brown** ⁽³⁾, born in 1946, joined the Navy in October 1963 and trained as a communicator. She remained unmarried throughout her time in the Navy and had five

postings. She was discharged in January 1984 with the rank of Chief Petty Officer. Having completed 20 years of service, she was entitled to *Retirement Pay* at a rate of 35% of her \$26,430 final per annum salary, that is, \$9,250 per annum. She exercised her right to receive an advance payment of 4 times her *Retirement Pay* entitlement to enable her to put a deposit on a townhouse and furnish it. She received a lump sum of \$37,002, and due to her life expectancy of 39.81, her *Retirement Pay* was reduced by \$929 to \$8,321 per annum.

Notes ⁽¹⁾, ⁽²⁾ and ⁽³⁾. Names have been changed for privacy purposes.

The Effect of Sections [24](#) and [98B](#)

The indexation increases shown in Annex A have been applied to *Residual Retirement Pay* in the above examples, resulting in these effects:

- **Andrew Jones** turned 92 in December 2021. At that time, the total reduction of his *Retirement Pay* was \$314,945, \$239,568 (318%) more than his advanced lump sum. That rate of reduction will continue until his death. If his wife survives him, that rate of reduction will flow on to her widow's pension.
- **Robert Smith** turned 81 in December 2021. At that time, the total reduction of his *Retirement Pay* was \$168,034, \$109,245 (186%) more than his advanced lump sum. When he reaches 92 years of age, the total reduction of his *Retirement Pay* will exceed his advanced lump sum by:
 - \$170,276 (290%), if the rate of indexation is projected at 2% per annum; and
 - \$175,981 (299%), if projected at 4% per annum.

Again, that reduction rate will continue until his death and flow onto his wife's widow's pension if she survives his death.

- **Janice Brown** turned 75 in December 2021. At that time, the total reduction of her *Retirement Pay* was \$77,402, \$40,400 (109%) more than her advanced lump sum. When she reaches 92 years of age, the total reduction of her *Retirement Pay* will exceed her advanced lump sum by:
 - \$105,710 (286%), if the rate of indexation is projected at 2% per annum; and
 - \$119,428 (323%), if projected at 4% per annum.

Note that the effect of indexation differs for the members in these examples.

Indexation increases applied to DFRDB Residual Retirement Pay for members aged 55 and over.

Period of Effect		Increase	Period of Effect		Increase
From	To		From	To	
24/06/1982	22/06/1983		22/06/2006	20/12/2006	1.40%
23/06/1983	20/06/1984	11.40%	21/12/2006	20/06/2007	2.50%
21/06/1984	19/06/1985	5.90%	21/06/2007	19/12/2007	0.00%
20/06/1985	18/06/1986	4.40%	20/12/2007	18/06/2008	1.90%
19/06/1986	8/10/1986	9.20%	19/06/2008	17/12/2008	2.30%
9/10/1986	17/06/1987	-1.831502%	18/12/2008	17/06/2009	2.70%
18/06/1987	29/06/1988	9.40%	18/06/2009	13/01/2010	0.00%
30/06/1988	28/06/1989	6.90%	14/01/2010	30/06/2010	1.30%
29/06/1989	18/10/1989	6.80%	1/07/2010	12/01/2011	1.40%
19/10/1989	27/06/1990	1.865672%	13/01/2011	13/07/2011	1.30%
28/06/1990	26/06/1991	8.60%	14/07/2011	11/01/2012	2.00%
27/06/1991	24/06/1992	4.90%	12/01/2012	11/07/2012	1.50%
25/06/1992	23/06/1993	1.70%	12/07/2012	9/01/2013	0.00%
24/06/1993	22/06/1994	1.20%	10/01/2013	10/07/2013	1.90%
23/06/1994	21/06/1995	1.40%	11/07/2013	8/01/2014	0.60%
22/06/1995	19/06/1996	3.90%	9/01/2014	9/07/2014	1.60%
20/06/1996	18/06/1997	3.70%	10/07/2014	7/01/2015	1.50%
19/06/1997	17/06/1998	1.30%	8/01/2015	8/07/2015	0.90%
18/06/1998	16/06/1999	0.00%	9/07/2015	6/01/2016	0.40%
17/06/1999	28/06/2000	1.10%	7/01/2016	6/07/2016	1.10%
29/06/2000	27/06/2001	2.80%	7/07/2016	4/01/2017	0.40%
28/06/2001	26/12/2001	6.00%	5/01/2017	5/07/2017	1.10%
27/12/2001	26/06/2002	1.10%	6/07/2017	3/01/2018	1.30%
27/06/2002	25/12/2002	1.80%	4/01/2018	4/07/2018	0.80%
26/12/2002	25/06/2003	1.40%	5/07/2018	2/01/2019	1.50%
26/06/2003	24/12/2003	2.00%	3/01/2019	3/07/2019	0.80%
25/12/2003	23/06/2004	0.60%	4/07/2019	1/01/2020	1.00%
24/06/2004	22/12/2004	1.40%	2/01/2020	1/07/2020	1.10%
23/12/2004	22/06/2005	0.90%	2/07/2020	30/12/2020	1.50%
23/06/2005	21/12/2005	1.40%	31/12/2020	30/06/2021	0.00%
22/12/2005	21/06/2006	1.60%	1/07/2021	1/01/2022	1.10%