

DEFENCE FORCE RETIREMENT AND DEATH BENEFITS (DFRDB) SCHEME

THE DENIAL OF BENEFITS

Until recently, our understanding of the DFRDB Commutation arrangement was not strictly correct. New evidence now shows that we are being denied our full benefits on two quite separate fronts:

1. Because indexation increases are **not** being applied to the full amount of the retirement/invalidity pay of recipients entitled to commutation and
2. For those who elected to commute, the reduction of retirement/invalidity pay, after commutation, does not cease when the total reduction equals the amount commuted.

In 1976, the Government sought to standardise the indexation of pensions for public servants and ADF members by indexing only the portion paid from Consolidated Revenue.

In a submission to Cabinet in December 1976, the Minister for Defence tried to explain the difficulty in aligning the pension frameworks under the Commonwealth superannuation schemes (for public servants) and DFRDB because no suitable record of DFRDB contributions existed. None the less, he deemed that members' Commutation entitlements were equivalent to their contributions.

But that assumption is flawed because member contributions, typically, equate to less than half of their Commutation entitlement. It is further flawed because the amount not indexed is related to members' 1960-1962 life expectancy which, due to the increase in life expectancy, produces inequitable outcomes based on gender, age on retirement and date of retirement.

Unlike the other Commonwealth schemes where contributions are paid into Funds which earn income;

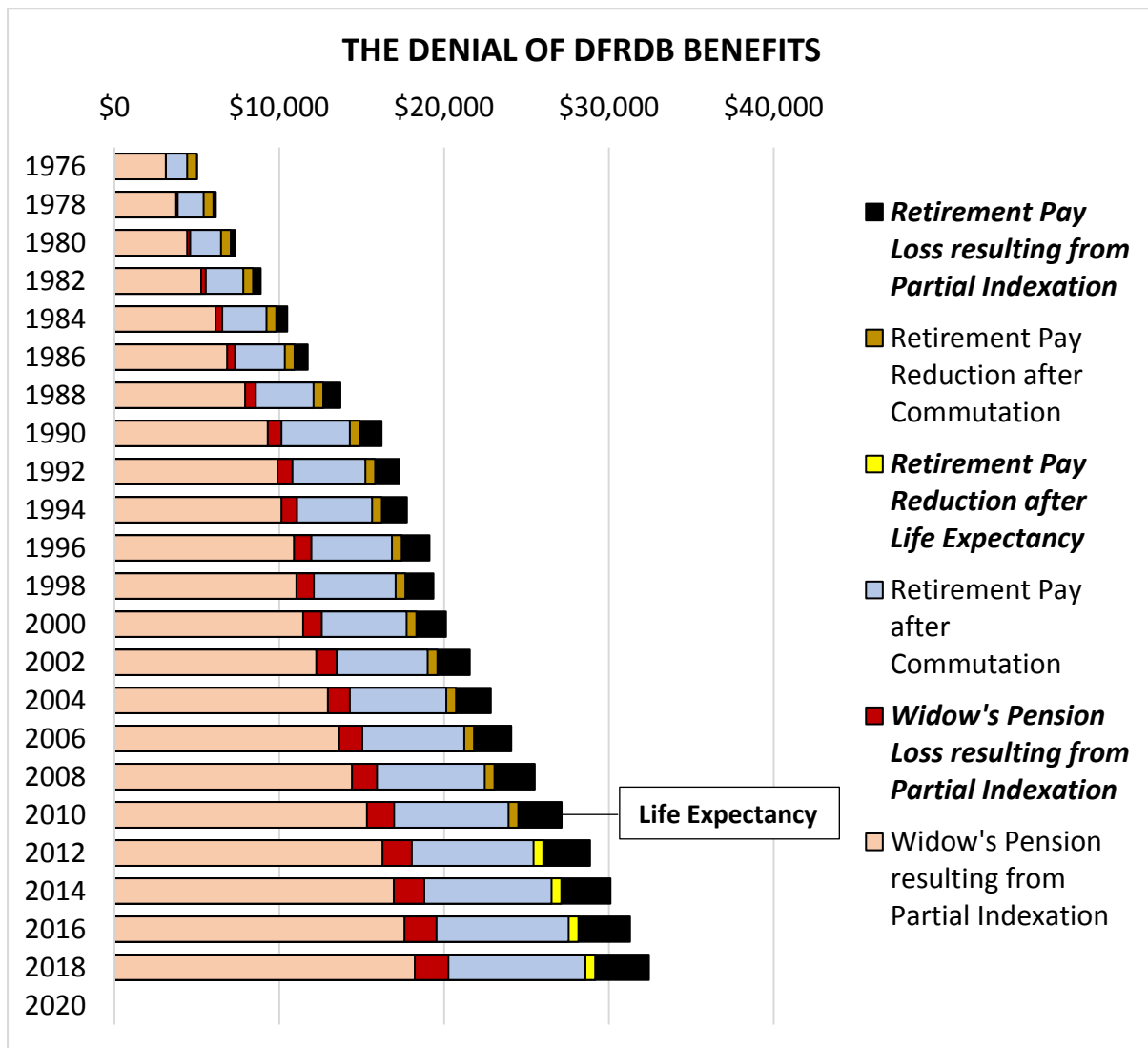
- a. DFRDB contributions are paid directly into Consolidated Revenue and earn no income and
- b. The full amount of DFRDB benefits are paid from Consolidated Revenue.

Though the latter is also true of the DFRB scheme, indexation is applied to the full amount of DFRB benefits, but just 74% to 90% of DFRDB retirement/invalidity pay, depending on the gender of the recipient and age on retirement.

It is evident in several Cabinet Minutes that this DFRDB indexation formula was brought forward and hastened into legislation due to a projected 1976/77 budget deficit.

The failure to apply indexation increases to the full amount of retirement/invalidity pay is on top of 'unfair' indexation linked to the Consumer Price Index, which effectively reduced our retirement/invalidity pay and spouses pensions by more than 25% from 1991 to 2014.

The effect of partial indexation is illustrated in the example below of a member who retired in July 1976 at the age of 38. His retirement pay entitlement was \$5,000 per annum, and his life expectancy was 33.67 years.



Indexation increases are applied to only 88.12% ($1 - 4 \div 33.67$) of his retirement pay. By July 2018 this results in a \$3,257 per annum and a total loss of **\$68,985**. By that time, his spouse's pension entitlement was proportionally reduced by \$2,036 per annum ($\$3,257 \times 5 \div 8$).

He commuted \$20,000 ($4 \times \$5,000$) and his retirement pay reduction was \$594 ($\$20,000 \div 33.67$). By July 2018 he had exceeded his life expectancy by 8.33 years, so at that time, his total retirement pay reduction, after reaching his life expectancy and re-paying the \$20,000, was **\$4,947**. For every additional year he lives, that amount increases by a further \$594.

The highlighted amounts show the relative effect of partial indexation and the permanent reduction of retirement/invalidity pay after commutation.

For more details, please refer to this [audio-visual presentation](#).

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Australian Defence Force Retirees Association

We act on behalf of Defence Force retirees and represent their Military Superannuation grievances

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