



Australian Government

**FACT SHEET – COMMUTING AND REINSTATING DEFENCE FORCE
RETIREMENT AND DEATH BENEFITS SCHEME RETIREMENT PAY TO PRE-
COMMUTATION LEVELS**

- The Defence Force Retirement and Death Benefits Scheme allows members to 'commute' part of their retirement pay. This means the member may choose to receive part of their retirement pay early, in the form of a lump sum.
- When a member commutes part of the retirement pay, that retirement pay is permanently reduced to take account of the fact that part of it has been paid as a lump sum.
- Many benefit recipients argue that their retirement pay should be reinstated to the 'pre-commutation' level when they have reached their life expectancy on the basis they have repaid 'their loan'.
- The reduction in retirement pay following commutation is not a 'loan' or a 'repayment' of the lump sum. The lump sum is part of the retirement pay available to members on retirement, only paid early in a different form.
- The Defence Forces Retirement Benefits and Defence Force Retirement and Death Benefits Schemes reversionary pensions paid to surviving spouses are equal to 62.5% of the 'pre-commutation' (that is, higher) retirement pay.
- There is no intention to change the current commutation arrangements.



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**FACT SHEET – DEFENCE FORCE RETIREMENT AND DEATH BENEFITS
SCHEME – THE REQUIREMENT TO CONTRIBUTE**

- One of the major results of a review of the Defence Forces Retirement Benefits scheme in 1957 was the introduction of a new arrangement commonly referred to as the post-1959 scheme. Effectively, two schemes were operating in parallel, with identical benefits but different contribution arrangements depending on whether a member was a pre-1959 or post-1959 contributor. This created some complexity and confusion.
- The Jess Committee, which was established to examine and report on the operation of the Defence Forces Retirement Benefits legislation, recommended that a new scheme (the Defence Force Retirement and Death Benefits scheme) be established.
- The Jess Committee proposed a fixed contribution rate of 5.5 per cent of salary for the Defence Force Retirement and Death Benefits scheme to overcome the complexity and confusion in the Defence Forces Retirement Benefits scheme.
- The contributions were to be paid to the Consolidated Revenue Fund to finance the benefits in the scheme, instead of accumulating in a separate fund.
- In return, the Commonwealth would guarantee the benefits that were to be eventually paid, that is, the Commonwealth agreed to bear the risk associated with providing the benefits that were only partially funded by member contributions (the Defence Forces Retirement Benefits Fund only contributed 20% towards the final benefit – the balance was paid from the Consolidated Revenue Fund).
- If members did not contribute, then it is highly likely the benefits eventually payable would be less because the employer contribution towards the final benefit was actuarially determined on the understanding of joint contributory obligations.



Australian Government

**FACT SHEET – DEFENCE FORCES RETIREMENT BENEFITS FUND –
TRANSFERRED TO THE COMMONWEALTH**

- The Defence Forces Retirement Benefits scheme was financed partly by member contributions and partly by Government subsidy. Member contributions were paid into the Defence Forces Retirement Benefits Fund and the contributions and earnings met 20% of the benefit entitlements – the balance was paid from the Consolidated Revenue Fund.
- The Jess Committee recommended that the Defence Forces Retirement Benefits scheme be closed, that the Defence Forces Retirement Benefits Fund be transferred to the Commonwealth and that the Commonwealth guarantee benefits under the Defence Force Retirement and Death Benefits scheme.
- The Australian Government Actuary was asked by the Defence Forces Retirement Benefits Board to provide a report on the assets of the Defence Forces Retirement Benefits Fund at the date of the scheme closure. A surplus was found to exist in relation to existing pensioners at the time and the excess, with interest, was distributed to those pensioners.
- A deficit was found in respect of contributing members who were transferred to the new Defence Force Retirement and Death Benefits scheme and this deficit was funded by the Government. As a consequence, there was no amount to be distributed to contributing members who were not asked to pay extra to fund the identified deficit.
- At about the same time as the Defence Forces Retirement Benefits Fund was transferred to the Commonwealth, the superannuation fund for Federal politicians was also transferred to the Commonwealth.



Australian Government

**FACT SHEET – DISCOUNTED INCREASES IN CIVILIAN AND MILITARY
SUPERANNUATION PAYMENTS**

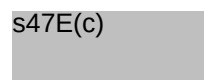
- In August 1986, the *Superannuation and Other Benefits Legislation Amendment Act 1986* provided that the annual increase for all Commonwealth superannuation payments was to be discounted by two per cent from 23 October 1986. This was to address both inflationary and budgetary difficulties at the time.
- The discounted superannuation payments were restored on 30 November 1989 to the payment levels which would have been payable in November 1989 had the October 1986 discount never been applied.
- When enacting the amending legislation, the Government of the day decided not to incorporate any provision for back paying the amounts of pension money that would have been paid between October 1986 and November 1989 had the two per cent discount not applied.

From: s47E(c)
To: 
Cc: 
Subject: Pension indexation issues [DLM=For-Official-Use-Only]
Date: Tuesday, 8 October 2013 4:01:45 PM
Attachments: s22 

s47E(c) 

Attached is a draft note about possible issues that need to be discussed/resolved together with other relevant information that someone/Government might want to be aware of for information. I think it covers the major issues but if I (or you) can think of anything else relevant, I will update it. Please feel free to use it to shape your thinking on matters. However, if you want to provide it to other people, you should contact us first as it is only a draft document.

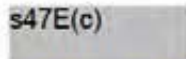
Regards

s47E(c) 

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From: s47E(c)
To: 
Cc: 
Subject: RE: Pension indexation issues [DLM=For-Official-Use-Only]
Date: Wednesday, 9 October 2013 10:42:14 AM
Attachments: s22 

For-Official-Use-Only

s47E(c) 

Thank you for the insights. We have been considering the same issues. I have provided some thoughts of my own in the attached.

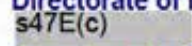
In summary;

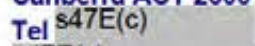
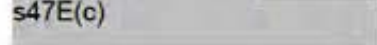
- If MTAWA indexation can be achieved it will remove the lag issue as well as a lot of complexity,
- The simple approach is to index all pensions (incl reversionary and associate) derived from DFRB/DFRDB benefits according to the recipients age on indexation day,
- If invalidity is to be included, the simplest approach would be age 55 and over (essentially MSB only as others are already captured).

Regards,

s47E(c) 

Superannuation Policy

Directorate of Military Remuneration
s47E(c) 

Department of Defence
Canberra ACT 2600 Australia
Tel s47E(c) 
s47E(c) 

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s22 

From: s47E(c)
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Pension indexation issues [DLM=For-Official-Use-Only]
Date: Wednesday, 9 October 2013 10:43:29 AM
Attachments: s22

s47E(c)

Updated draft note. Lynne reminded me of the unindexed pensions in DFRDB.

Regards

s47E(c)

s22



From: s47E(c)
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Pension indexation issues [DLM=For-Official-Use-Only]
Date: Wednesday, 9 October 2013 10:46:29 AM

For-Official-Use-Only

Thanks s47E(c) I agree that the non-indexed pensions should not change.

s47E(c)

Superannuation Policy

Directorate of Military Remuneration

s47E(c)

Department of Defence

Canberra ACT 2600 Australia

Tel s47E(c)

s47E(c)

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From: s47E(c)
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: DFRB pensioners under age 55 [DLM=For-Official-Use-Only]
Date: Wednesday, 30 October 2013 7:55:00 AM

For-Official-Use-Only

s47E(c)

I understand what you are saying, but there may be a potential cost for systems etc to have one form of indexation for all DFRB members and a different form for DFRDB under 55 and DFRDB over 55. In any event, I do not see that we have a mandate to decide to treat all DFRB members as over 55.

s47E(c)

From: s47E(c)
Sent: Tuesday, 29 October 2013 15:35
To: s47E(c)
Cc: [REDACTED]
Subject: DFRB pensioners under age 55 [DLM=For-Official-Use-Only]

s47E(c)

Just following on from our earlier telephone conversation.

s47E(c) has looked at the DFRB pensions and ascertained that there are only 8 pensioners who are currently under 55 years of age. All of these pensions are spouse pensions with the youngest pensioner currently being age 49. For DFRB only, the difference in costs for improving indexation of all pensions rather than the pensions of just those aged 55 or more is very small. For practical purposes, there is essentially no difference in costs between improving indexation of all DFRB pensions and just those of pensioners aged 55 or more.

Regards

s47E(c)

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From: s47E(c)
To: [REDACTED]
Subject: FW: Net cost of Age Pension indexation for those aged 55 or more starting from the previously announced Labor policy [DLM=For-Official-Use-Only]
Date: Friday, 17 January 2014 12:58:00 PM
Attachments: [net increase from Labor policy.xlsx](#)

For-Official-Use-Only

FYI

s47E(c)
[REDACTED]

From: s47E(c)
Sent: Friday, 17 January 2014 11:42
To: s47E(c)
Cc: [REDACTED]
Subject: Net cost of Age Pension indexation for those aged 55 or more starting from the previously announced Labor policy [DLM=For-Official-Use-Only]

s47E(c)
[REDACTED]

Attached is a spreadsheet giving the net costs if the starting point is from the previously announced Labor policy of indexation of DFRB and DFRDB pensions for those aged 65 or more at the higher of CPI and PBLCI.

Regards

s47E(c)
[REDACTED]

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**AGE PENSION INDEXATION
COSTS ALLOWING FOR PREVIOUS LABOR POLICY ANNOUNCEMENT
OF HIGHER OF CPI AND PBLCI FOR THOSE OVER AGE 65**

Unfunded liability	\$m	
Total costs Age Pension indexation (>55)	5,074	Round to \$5.1 billion
Previous Labor policy - DFRB	1,059	
Previous Labor policy - DFRDB	17	
Net increase	3,998	Round to \$4.0 billion

Notional employer contribution rate	% DFRDB salaries
Total costs Age Pension indexation (>55)	6.0
Previous Labor policy - DFRDB	1.1
Net increase	4.9

DFRDB accrual (service) costs for 10 years to 2023/24 in nominal dollars	\$m
Total costs Age Pension indexation (>55)	89
Previous Labor policy - DFRDB	16
Net increase	73

From: s47E(c)
To: [REDACTED]
Cc: [REDACTED]
Subject: Explanatory Memorandum - Indexation Bill - AGA suggestions.docx [REDACTED]
Date: Tuesday, 25 February 2014 12:46:57 PM
Attachments: [Explanatory Memorandum - Indexation Bill - AGA suggestions.docx](#)

s47E(c)
)

Attached is my first attempt on the first (preamble) section of the EM. Susan hasn't had a chance to look at it and she may well have other comments or suggestions. Some of my words are pretty clumsy but they should still give you an idea of the type of changes that might be desirable. Treat it very much as a work in progress.

Happy to discuss.

Regards

s47E(c)
[REDACTED]

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2014

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

**DEFENCE FORCES RETIREMENT BENEFITS LEGISLATION
AMENDMENT (FAIR INDEXATION) BILL 2014**

EXPLANATORY MEMORANDUM

**(Circulated by the authority of the
Minister for Veterans' Affairs Senator the Hon Michael Ronaldson)**

DEFENCE FORCES RETIREMENT BENEFITS LEGISLATION AMENDMENT (FAIR INDEXATION) BILL 2014

GENERAL OUTLINE

The Bill gives effect to the Government's 2013 election commitment to index Defence Forces Retirement Benefits (DFRB) and Defence Force Retirement and Death Benefits (DFRDB) pensions from 1 July 2014 for those pensioners aged 55 and over (on 1 January or 1 July as appropriate) in the same way as age and service pensions are indexed (but not at the same time as age and service pensions are indexed).

The measure will apply to DFRB and DFRDB primary pensions, invalidity pensions, reversionary pensions paid to the surviving spouses of deceased pensioners and pensions for those associates whose pensions result from a family law split where the pensioner is aged 55 and over. Any component of these pensions which is currently unindexed will remain unindexed.

Current indexation arrangements

Currently, all pensions paid from the DFRB and DFRDB schemes are indexed in line with positive movements in the CPI from the first pay day in July and January. The adjustment is based on the preceding two quarters of CPI reporting.

A July CPI pension increase is generally based on the following formula:

$$\frac{\text{Latest March quarter CPI figure} - \text{Previous September quarter CPI figure}}{\text{Previous September quarter CPI figure}} \times 100 = \text{CPI change}$$

If the new March CPI figure (rounded to the nearest tenth of one per cent) exceeds the previous relevant September CPI figure, the pension is increased. If the new March CPI figure does not exceed the previous September CPI figure, there is no increase (for the January pension increase, the same process is carried out, but using the latest September quarter CPI figure and the previous March quarter CPI figure).

Where there have been falls in the CPI figures, there are carry forward provisions that prevent a pension increase unless the latest March (or September) quarter CPI figure exceeds the highest historic March or September quarter's CPI figure. Where this situation occurs, the highest historic March or September quarter's CPI figure replaces the Previous September quarter CPI figure in the above formula.

Indexation of commuted DFRDB pensions

Prior to 30 June 1982, retiring DFRDB members could elect to commute part of their pension for a lump sum of up to a maximum of four times their annual pension before commutation (or retirement pay – the terms are used interchangeably in the DFRDB Act). Where a member received a commutation lump sum, a reduced pension was payable. From 1 July 1982, the maximum amount that could be taken as a

commutation lump sum was gradually increased by 5% of the annual pension (before commutation) per year until 2002, when members could commute part of their pension for a lump sum up to a maximum of five times their pension (before commutation). This has been the maximum amount of commutation lump sum that could be taken since that time.

DFRDB members retiring through invalidity Class C are treated in the same way as normal retirements for commutation purposes. Invalidity Class A or B pensioners were not able to commute part of their pension for a lump sum.

The original DFRDB benefit design strongly encouraged the practice of retiring members electing to commute part of their pension for the maximum lump sum. This was done in two ways. If a member elected not to take the maximum lump sum amount of four times the annual pension (before commutation), the component of the pension that was expected to be commuted but was not commuted would be payable as non-indexed pension. The second mechanism to encourage commutation was that the commutation factors used for conversion were favourable relative to the actuarial value of the pension being commuted.

When the maximum amount of lump sum was increased, there were no changes to the previous arrangements. That is, only if the member chose to commute part of their pension for a lump sum of less than four times the annual pension (before commutation) would there be a non-indexed component of the pension.

The indexed portion of the DFRDB pension for retirees is either the total pension (where the member commuted part of their pension for a lump sum of at least four times the annual pension (before commutation)) or what is referred to in the DFRDB legislation as the *notional rate of retirement pay*, which is the rate of pension that would be payable if the member had commuted part of their pension for a lump sum of four times the pension (before commutation), whichever is greater.

On the death of a DFRDB retirement pensioner, a reversionary pension is paid to the surviving spouse. The reversionary pension is based on the pension that would have been paid to the deceased pensioner immediately before death as if the deceased pensioner had not commuted any part of the pension. This means that reversionary pensions following the death of a retirement pensioner will have a component that is not indexed..

Child and orphan pensions following the death of a retirement pensioner are made up of a fixed component and a component calculated by reference to the pension that would have been paid to the primary pensioner. So, those pensions will also have a non-indexed component.

The indexation changes being introduced by this Bill will not apply to child and orphan pensions as these pensions can only be paid to eligible children and orphans up to age 25 (that is, these pensions will continue to be indexed in line with positive movements in the Consumer Price Index (CPI)).

Pensions payable as a result of invalidity Class A or B, were not able to be commuted and hence do not have a non-indexed component. Likewise, pensions payable to a

reversionary spouse, children and orphans due to death in service also do not have a non-indexed component.

Age/service pension indexation arrangements

The calculation of increases in both the age and service pension that occur in March and September each year is effectively a two step process. The first step is to calculate the pension that would result if it were increased in line with the better of CPI and the Pensioner and Beneficiary Living Cost Index (LCI). The differences between the June and December quarter figures inform March indexation increases and the differences between the December and June quarters inform September indexation increases.

In the second step, the resulting pension is compared to relevant percentage of Male Total Average Weekly Earnings (MTAWE) which is measured for the June and December quarters. No further adjustment is made if the calculated pension is greater than the specified floor percentage (27.7% of MTAWE for the single rate pension). If the resultant pension calculated in the first step is less than the floor percentage of MTAWE, it is increased so that it equals the floor percentage of MTAWE.

Establishing an indicative pension to measure MTAWE increases

Single rate age and service pensions are fixed amounts for all single rate pensioners and are amenable to measurement against MTAWE, which is also a fixed amount measured for each six monthly period (the MTAWE reference period is the last pay period ending on or before the third Friday of the middle month of the reference quarter; either May or November).

DFRB pensions are based on the number of units of pension purchased and the value of those units at retirement. DFRDB pensions are based on the member's years of service and the salary and service allowance for the highest increment for rank held by the member at the date of retirement. For example, a pension equal to 35% of salary and service allowance for the highest increment for rank held is paid after 20 years of service, increasing incrementally to 76.5% after 40 or more years of service.

In order to apply age/service pension indexation methodology and to obviate the need to measure every individual DFRB and DFRDB pension as a percentage of MTAWE at 1 January 2014 (to establish the base so that 1 July 2014 changes can be determined), an indicative pension is being established against which percentage increases (the better of CPI and LCI against the MTAWE floor) can be measured.

For this purpose, MTAWE at May 2013 (the middle month of the June 2013 quarter) has been used to set the starting indicative pension at 1 January 2014 so that the change as a result of the new indexation methodology for those aged 55 and over at 1 July 2014 can be measured. The July 2014 change will be based on MTAWE at November 2013.

MTAWE for May 2013 was \$1,356.70. This is converted to an annual amount by multiplying MTAWE by 52. The result, \$70,548.40, is then multiplied by 27.7% to

establish the MTAWWE result; \$19,541.91 which is the indicative pension set for 1 January 2014.

The 27.7% figure was chosen as it represents the current MTAWWE floor percentage used in calculating increases in the single rate age/service. It is not intended that this percentage would change should the MTAWWE floor percentage used in calculating increases in the single age/service pension change.

Under the new arrangements for pensioners aged 55 and over, the indicative pension will be increased by the better of CPI and LCI. If the increased indicative pension is more than 27.7% of MTAWWE, all pensions will be increased by the better of CPI and LCI. If the increased indicative pension is less than 27.7% of MTAWWE, the increased indicative pension will be adjusted to be equal to 27.7% of MTAWWE. The percentage increase required to raise the original value of the indicative pension to the level of 27.7% of MTAWWE is then used to adjust all pensions.

A hypothetical example of how the new indexation arrangements work is set out in the explanation to changes introduced by item 12 of the Bill.

Division 293 tax

The *Tax and Superannuation Laws Amendment (Increased Concessional Contributions Cap and Other Measures) Act 2013* amended the income tax and superannuation laws and the *Taxation Administration Act 1953* to reduce the tax concession that individuals with incomes and concessional tax contributions above \$300,000 receive on their concessional superannuation contributions from 30 per cent to 15 per cent.

This is achieved by the imposition of an additional 15 per cent tax (Division 293 tax) on those individuals where total income (including concessional tax contributions) exceeds the \$300,000 threshold. The tax is levied in respect of the component of concessional tax contributions (including notional contributions by employers to defined benefit schemes) that results in the \$300,000 threshold being exceeded (or the whole amount of the concessional tax contributions where non superannuation income already exceeds the \$300,000 threshold). The measure applies from 1 July 2012.

The changed DFRB/DFRDB indexation arrangements for those aged 55 and over on 1 July 2014 will have two impacts for Division 293 tax purposes. The first is a very large one-off past service impact reflecting the capitalised value of the improvement in relation to benefits that have already accrued (that is, if the schemes operated on a funded basis, a substantial additional contribution would be required to ensure that assets were sufficient to cover the higher future pensions that would be payable in respect of service already rendered).

The second impact relates to the ongoing increased employment cost of future service. Since this will be recognised on an annual basis, the impact in any one year will be relatively minor.

The one-off additional notional contribution will result in some individuals on moderate income, but with significant past service, incurring a Division 293 tax liability. The Government has decided to exclude the capitalised value of the one-off benefit improvement for past service at 1 July 2014 from the operation of Division 293 tax.

The Bill

The Bill will amend Part VID of the *Defence Forces Retirement Benefits Act 1948* and Part XA of the *Defence Force Retirement and Death Benefits Act 1973* to incorporate a different pension indexation regime to apply from 1 July 2014 for those DFRB and DFRDB pensioners who are age 55 and over on either 1 January or 1 July when pensions are indexed (a person who turns age 55 on either 1 January or 1 July will get the benefit of the new indexation arrangements)

There will be no change to the way DFRDB and DFRB pensions are indexed for those under age 55, until they reach age 55 (for example, a person who turns 55 on 2 January or 2 July will not get the benefit of new indexation arrangements until the following indexation period, either 1 July or 1 January respectively).

Any part of a DFRB or DFRDB pension that is currently unindexed will continue to be unindexed.

The new indexation methodology will not result in a DFRB or DFRDB pension that is currently less than the MTAWF floor percentage increasing to the floor percentage used for age and service pension purposes or to the value of the indicative pension (and conversely, that a pension that is currently in excess of the floor percentage or the indicative pension reducing to those respective levels).

The Bill will also amend the *Income Tax Assessment Act 1997* to ensure the one-off capitalised value of past service of DFRB and DFRDB members at 1 July 2014 is excluded from the operation of Division 293 tax.

In broad terms, the amendments:

- Retain the current indexation methodology for pensions paid to pensioners under age 55.
- Make movements in the CPI, PBLCI and the MTAWF floor a part of the indexation methodology for pensions paid to pensioners aged 55 and over on either 1 July or 1 January.
- Ensure DFRB and DFRDB members with significant past service are not required to pay Division 293 tax on the value of that past service as a result of the benefit improvement brought about by this measure.

Financial Impact Statement

The Australian Government Actuary has costed this measure, exclusive of any impact on taxation receipts or other government payments as follows:

Impact on underlying cash

2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total FE 2014-2015 to 2017-2018 \$m	Total for decade 2014-2015 to 2023-2024 \$m
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
13	30	50	70	91	114	138	162	188	214	162*	1,070**

s47C

s47E(d)

Impact on fiscal balance

2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total FE 2014-2015 to 2017-2018 \$m	Total for decade 2014-2015 to 2023-2024 \$m
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
320	337	353	369	384	400	415	429	443	457	1,378#	3,906##

s47E(d)

The unfunded liability at 1 July 2014 is estimated to increase by \$5.1billion.

Defence's notional employer contribution rate for current DFRDB contributing members will increase by 6% of salaries and service allowance (from 29.5% to 35.5%) which equates to an estimated \$89m over the decade to 2023-24. (Paul, our advice has \$89m – not certain where the \$73m has come from – is it in any other document?)

ComSuper, the administrator of the DFRB and DFRDB schemes will require \$1.1m for system and administration costs.

The Department of Defence is expected to meet from its appropriations \$177m of the difference in the underlying cash over the decade between what has been attributed to the Contingency Reserve and the total cost. Defence will also meet the additional costs associated with increased employer superannuation contribution rates and ComSuper's costs from its appropriations.

An exemption from the Division 293 tax has no budget revenue implications as no allowance was made for the interaction with the Division 293 tax in the forward estimates. The out years' revenue consequences of the increased indexation of DFRB/DFRDB pensions due to the interaction with Division 293 tax is a small but unquantifiable gain to revenue.

Some DFRB and DFRDB pensioners over the age of 55 may only benefit marginally from the change to indexation arrangements because any increase may result in an increased income tax liability and may impact their entitlement to part age/service pension or to other Government benefits where there are income eligibility requirements.

It is difficult to quantify the numbers/impacts because they depend on an individual's particular financial and other circumstances. However, the Department of Veterans' Affairs (DVA) has estimated that about 10,000 superannuants, who are service pension recipients from DVA, may have their pensions affected by an average of \$10 per fortnight and some incapacity payment recipients may have their pensions reduced by \$20 per fortnight.

Nevertheless, DVA suggests virtually all superannuants will still be better off overall and individual circumstances may change in such a way that there is no change in income support entitlements.

The Office of Best Practice Regulation has assessed the proposal as not likely to have regulatory impacts on business, individuals or community organisations.

DEFENCE FORCES RETIREMENT BENEFITS LEGISLATION AMENDMENT (FAIR INDEXATION) BILL 2014

Section 1 – Short title

This clause provides for the citation of the Act as the *Defence Forces Retirement Benefits Legislation Amendment (Fair Indexation) Act 2014*.

Section 2 – Commencement

This clause provides that the Act commences on the day after the Act receives the Royal Assent.

Section 3 – Schedule

This clause is a formal provision specifying that amendments or repeals are made to the provisions set out in the sections in the schedule.

Schedule 1 – Amendments

Defence Force Retirement and Death Benefits Act 1973

Item 1 inserts a new Division (Division 1) as an introduction that provides a simplified outline under new section 98AA of the operation of Part XA of the Act which deals with pension increases. The outline explains that pension benefits are indexed on 1 January and 1 July each year, continues current indexation arrangements for pensions paid to pensioners aged under 55 and sets out new indexation arrangements (the 55-plus percentage) for pensions paid to pensioners aged 55 and over. The introduction also incorporates definitions and some general rules about changed CPI numbers, reference bases and rounding.

Item 2 removes the word *Interpretation* from the heading of section 98A and replaces it with the word *Definitions*.

Item 3 removes the reference to subsection (1) in section 98A under what was previously the *Interpretation* heading in the line with current drafting standards.

Item 4 inserts new definitions into section 98A to cater for the new indexation arrangements to apply to DFRDB pensions paid to pensioners aged 55 and over. New terms defined for this purpose are:

- **55-plus percentage** (is the new method for indexing pensions paid to pensioners aged 55 and over and is explained in step 7 of the method statement in new subsection 98GB(2))
- **current indicative pension amount** (is the base pension amount that is adjusted as part of the 55-plus percentage increase and is explained in step 4 of the method statement in new subsection 98GB(2))
- **December quarter** (included to distinguish from March and September quarters upon which CPI and LCI indices are based – MTAW is based on the middle months of the June and December quarters)

- **indicative pension amount** (is the base pension for 1 January 2014 and subsequent prescribed half years that is explained in new subsection 98GC(1))
- **June quarter** (to distinguish from March and September quarters upon which CPI and LCI indices are based – MTAWWE is based on the middle months of the June and December quarters)
- **LCI percentage** (is worked out using the All Groups Pensioner and Beneficiary Living Cost Index published by the Statistician and explained in new section 98GD)

The following terms that are currently used in Part XA are now defined for a better understanding of the Part:

- **March quarter** (CPI and LCI indices are based on the March and September quarters)
- **pensioner** (identifies the recipient of a pension benefit)
- **prescribed percentage** (is worked out using the All Groups Consumer Price Index published by the Statistician and explained in new subsection 98B(3))
- **September quarter** (CPI and LCI indices are based on the March and September quarters)

Item 5 repeals:

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| subsection 98A(2) | which provides that if the Statistician substitutes a new CPI number for a particular quarter, the new CPI number is to be disregarded. |
| subsection 98A(3) | which provides that if the Statistician changes the reference base for the CPI, then the CPI numbers based on the new reference base are to be used for calculating future pension increases. |
| subsection 98A(4) | which provides for the rounding of a CPI percentage increase to a fraction of one-tenth of 1%. |

Item 6 inserts new sections 98AB and 98AC in lieu of subsections 98A(2), (3) and (4) which are repealed by item 5.

New subsection 98AB(1) has the same effect as repealed subsection 98A(2), that is, disregard new numbers for a particular quarter substituted by the Statistician. New subsection 98AB(1) now refers to the Statistician substituting a new CPI number referred to in repealed subsection 98B(3) or a new LCI number referred to in new subsection 98GD(1) or a new amount for MTAWWE referred to in new subsection 98GE(2).

New subsections 98AB(2) and 98AB(3) have the same effect as repealed subsection 98A(3), that is, if the Statistician changes the reference base (or period), then numbers based on the new reference base (or period) are to be used for calculating future pension increases. New paragraph 98AB(2)(a) applies this

principle if the CPI reference period is changed and new paragraph 98AB(2)(b) applies this principle if the LCI reference period is changed.

New subsection 98AB(3) applies the same principle for changes to MTAW.

New section 98AC has the same effect as repealed subsection 98A(4) except that it provides for the rounding of percentages for the prescribed percentage, the LCI percentage and the 55-plus percentage to a fraction of one-tenth of 1%.

Item 6 also establishes a new Division 2, which sets out general provisions about pension increases, incorporating new section 98AD which is a simplified outline of the Division. The outline explains that pension benefits are indexed on 1 January and 1 July each year, identifies that current indexation arrangements for pensions paid to pensioners aged under 55 are based on positive movements in the CPI, explains that movements in the CPI are only a part of the indexation arrangements for pensions paid to pensioners aged 55 and over and identifies there are rules dealing with special cases.

The new Division 2 also incorporates section 98B which provides for increases in certain pensions. Items 7, 8 and 9 make changes to aspects of the current section 98B.

Item 7 repeals:

- subsection 98B(1) which provides for an increase in pensions payable to a pensioner if the CPI number in the first quarter of a half year commencing on either 1 January or 1 July immediately preceding a prescribed half-year (defined) exceeds the highest CPI number for any earlier half-year after 1 July 1985 (the first year when the all groups CPI number was based on the weighted average of the 8 capital cities – previously it was 6 capital cities)..
- subsection 98B(2) which provides that any increase ascertained in line with subsection 98B(1) is the prescribed percentage that is to apply to the relevant rate of pension ascertained in accordance with subsection 98B(4).
- subsection 98B(3) which provides the formula for working out the prescribed percentage for the purposes of subsection 98B(2) and subsection 98B(5A) which provides for the CPI indexation of the fixed component of a child's pension (\$312 per annum) and orphan's pension (\$5,000 per annum).

Item 7 substitutes new subsections 98B(1), 98B(2) and 98B(3) and inserts new subsection 98B(3A).

New subsection 98B(1) confers an entitlement to an increase in the relevant rate of a pensioner's pension (the relevant rate is set out in subsection 98B(4)). The new

subsection 98B(1) provides that the increase is worked out by using the prescribed percentage (that is, CPI increases) for pensions paid to pensioners aged under 55 and by using the 55-plus percentage for pensions paid to pensioners aged 55 and older.

New subsection 98B(2) provides that the relevant rate of pension paid to a pensioner aged under 55 on either 1 January or 1 July is only increased by the prescribed percentage (it is relevant to note that section 37A of the *Acts Interpretation Act 1901* provides - *For the purposes of any Act, the time at which a person attains a particular age expressed in years is the commencement of the relevant anniversary of the date of the birth of that person*).

New subsection 98B(3) sets out the formula for calculating the prescribed percentage and explains the terms used in the formula. That formula is:

$$\frac{\text{First quarter CPI number} - \text{Base quarter CPI number}}{\text{Base quarter CPI number}} \times 100$$

New subsection 98B(3A) provides that when determining whether there is to be a July pension increase, the CPI number for the March quarter in the immediately preceding half-year must be more than the highest CPI number for the previous September quarter. When determining whether there is to be a January pension increase, the CPI number for the September quarter in the immediately preceding half-year must be more than the highest CPI number for the previous March quarter.

If the CPI numbers are equal to or less than the highest CPI number for the previous relevant quarter (either September or March), there is no increase in a pension being paid to a pensioner aged under 55 for the half year.

Item 7 also incorporates a new sub-heading for subsection 98B(4) to identify that the subsection deals with the increase in the relevant rate of a reversionary, child or orphan pension where the recipient member dies on 30 June or 31 December.

Item 8 removes a reference to the previous subsection 98B(2) (substituted by item 7) and now makes it clear that the relevant rate of pension for a prescribed half-year is set out in paragraphs 98B(4)(a), (ab), (ac), (b), (c), (d), (e) and (f).

Item 9 inserts a new subsection 98B(4A) to make it clear that it is the age of the pensioner, not the age of the deceased recipient member, that dictates how the method of indexation is to be applied to the *notional rate of retirement pay* for reversionary, child and orphan pensions.

Item 10 inserts a heading before subsection 98B(5A) to identify that subsections 98B(5A), (5B) and (6) refer to increases in children's pensions (which includes orphans).

Item 11 inserts a heading before subsection 98B(7) to identify that subsection 98B(7) provides rules for indexation when a pensioner dies on 30 June or 31 December.

Item 12 inserts a new Division 3 into Part XA to provide for increases of pensions paid to those aged 55 and over. New Division 3 incorporates new sections 98GA, 98GB, 98GC, 98GD, 98GE and 98GF.

New section 98GA provides a simplified outline of Division 3 setting out that for pensioners aged 55 and over, their pensions are indexed by the better of positive movements in the CPI and LCI with an adjustment, if necessary, to reflect MTAWC increases. The outline explains the establishment of a hypothetical pension against which MTAWC changes are measured and indicates that the better of CPI and LCI movements will be applied as a pension increase from either 1 January or 1 July if that increase is greater than the increase in the hypothetical pension as a result of MTAWC changes. Otherwise, the percentage increase in the hypothetical pension as a result of the MTAWC changes will be the pension increase for the half-year.

New section 98GB establishes the 55-plus percentage for indexing pensions paid to pensioners aged 55 and over.

New subsection 98GB(1) makes it clear that the pension increase provided for by subsection 98B(1) for a pension paid to a pensioner age 55 and over is to be the 55-plus percentage.

New subsection 98GB(2) is a method statement explaining the seven steps to work out the 55-plus percentage. A hypothetical example of how the 55-plus percentage is to be ascertained in line with the method statement is as follows:

A hypothetical example

Year 1 – July adjustment

Latest March quarter CPI figure	171.0
Previous September quarter CPI figure	168.6
Latest March quarter LCI figure	110.1
Previous September quarter LCI figure	108.2
Previous November MTAWC	\$1,402.10
Current indicative pension	\$19,541.91

Step 1 – calculate the prescribed percentage for the prescribed half-year (CPI adjustment)

$$\frac{\text{Latest March quarter CPI figure} - \text{Previous September quarter CPI figure}}{\text{Previous September quarter CPI figure}} \times 100 = \text{CPI change}$$

$$\frac{171.0 - 168.6}{168.6} \times 100 = 1.014 \text{ (or 1.4\% calculated to the nearest one-tenth of 1\%)}$$

Step 2 – calculate the LCI percentage for the prescribed half-year (LCI percentage)

$$\frac{\text{Latest March quarter LCI figure} - \text{Previous September quarter LCI figure}}{\text{Previous September quarter LCI figure}} \times 100 = \text{LCI change}$$

$$\frac{110.1 - 108.2}{108.2} \times 100 = 1.018 \text{ (or 1.8\% calculated to the nearest one-tenth of 1\%)}$$

Step 3 – Determine the higher of the percentages - if they are the same, use the step 1 percentage (CPI/LCI percentage)

1.018 (or 1.8%) calculated at step 2.

Step 4 – Identify the current indicative pension for the prescribed half-year immediately before the relevant prescribed half-year (current indicative pension amount)

\$19,541.91

Step 5 – Work out the amount that is the CPI/LCI percentage of the current indicative pension amount and add it to the current indicative pension amount (CPI/LCI result)

$$\$19,541.91 \times 1.018 = \$19,893.70$$

Step 6 – calculate the MTAW result

$$\begin{array}{lcl} \text{Previous November MTAW} \times 52 & = & \text{annual MTAW} \\ \text{Annual MTAW} \times 27.7\% & = & \text{MTAW result} \end{array}$$

$$\begin{array}{lcl} \$1,402.10 \times 52 & = & \$72,909.20 \\ \$72,909.20 \times 27.7\% & = & \$20,195.85 \end{array}$$

Step 7 –work out the 55 plus percentage - if the CPI/LCI result is the same as or higher than the MTAW result, the 55-plus percentage for the prescribed half-year is the higher of the percentages worked out in steps 1 and 2. (If they are the same, use the step 1 percentage). If the CPI/LCI result is lower than the MTAW result, the 55-plus percentage for the prescribed half-year is the percentage increase needed to maintain the indicative pension at 27.7% of MTAW which, in this example is:

$$\frac{\text{MTAW result} - \text{Current indicative pension amount}}{\text{Current indicative pension amount}} \times 100$$

$$\frac{\$20,195.85 - \$19,541.91}{\$19,541.91} \times 100 = 3.3\% \text{ (calculated to the nearest one-tenth of 1\%)}$$

The year 1 July adjustment is 3.3% (the result calculated at step 7, because it is higher than the result calculated at step 3, which is 1.8%).

Year 2 – January adjustment

Latest September quarter CPI figure	173.3
Previous March quarter CPI figure	171.0
Latest September quarter LCI figure	111.0
Previous March quarter LCI figure	110.1
Previous May MTAW	\$1,403.10
Current indicative pension	\$20,195.85

Step 1 – calculate the prescribed percentage for the prescribed half-year (CPI adjustment)

$$\frac{\text{Latest September quarter CPI figure} - \text{Previous March quarter CPI figure}}{\text{Previous March quarter CPI figure}} \times 100 = \text{CPI change}$$

$$\frac{173.3 - 171.0}{171.0} \times 100 = 1.013 \text{ (or 1.3\% calculated to the nearest one-tenth of 1\%)}$$

Step 2 – calculate the LCI percentage for the prescribed half-year (LCI percentage)

$$\frac{\text{Latest September quarter LCI figure} - \text{Previous March quarter LCI figure}}{\text{Previous March quarter LCI figure}} \times 100 = \text{LCI change}$$

$$\frac{111.0 - 110.1}{110.1} \times 100 = 1.008 \text{ (or 0.8\% calculated to the nearest one-tenth of 1\%)}$$

Step 3 – Determine the higher of the percentages - if they are the same, use the step 1 percentage (CPI/LCI percentage)

1.013 (or 1.3%) calculated at step 1.

Step 4 – Identify the current indicative pension for the prescribed half-year immediately before the relevant prescribed half-year (current indicative pension amount)

\$20,195.85

Step 5 – Work out the amount that is the CPI/LCI percentage of the current indicative pension amount and add it to the current indicative pension amount (CPI/LCI result)

$$\$20,195.85 \times 1.013 = \$20,458.40$$

Step 6 – calculate the MTAW result

$$\begin{aligned} \text{Previous May MTAW} \times 52 &= \text{annual MTAW} \\ \text{Annual MTAW} \times 27.7\% &= \text{MTAW result} \end{aligned}$$

$$\$1,403.10 \times 52 = \$72,961.20$$

$$\$72,961.20 \times 27.7\% = \$20,210.25$$

Step 7 –work out the 55 plus percentage - if the CPI/LCI result is the same as or higher than the MTAW result, the 55-plus percentage for the prescribed half-year is the higher of the percentages worked out in steps 1 and 2. (If they are the same, use the step 1 percentage). If the CPI/LCI result is lower than the MTAW result, the 55-plus percentage for the prescribed half-year is the percentage increase needed to maintain the indicative pension at 27.7% of MTAW which, in this example is:

$$\frac{\text{MTAW result} - \text{Current indicative pension amount}}{\text{Current indicative pension amount}} \times 100$$

$$\frac{\$20,210.25 - \$20,195.85}{\$20,195.85} \times 100 = 0.07\% \text{ (calculated to the nearest one-tenth of 1\%)}$$

The year 2 January adjustment is 1.3% (the result calculated at step 3, because it is higher than the result calculated at step 7, which is 0.07% - the current indicative pension for the Year 2 July adjustment will be $\$20,195.85 \times 1.013 = \$20,458.40$).

New subsection 98GB(3) effectively provides that if neither the CPI/LCI result nor the MTAW result calculated using the method statement in subsection 98GB(2) provides for an increase, then there is to be no pension increase for the prescribed half-year.

New section 98GC establishes the indicative pension amount which is a component of the 55-plus percentage for indexing pensions paid to pensioners aged 55 and over.

New subsection 98GC(1) establishes \$19,541,91 as the indicative pension (that is, the hypothetical amount) at 1 January 2014 (paragraph 98GC(1)(a)) against which subsequent MTAW changes are to be measured for the purposes of applying the 55-plus percentage (paragraph 98GC(1)(b)).

New subsection 98GC(2) provides for the increase in the value of the indicative pension at 1 January and 1 July each year from 1 July 2014 by the 55-plus percentage. The increased amount is the indicative pension for working out the 55-plus percentage for the next prescribed half-year.

New subsection 98GC(3) provides that the increased indicative pension referred to in subsection 98GC(2) can be the same as the indicative pension for the previous prescribed half-year because the 55-plus percentage calculated for that previous prescribed half-year did not result in a change to the indicative pension was nil (see new subsection 98GB(3)).

New section 98GD establishes the LCI percentage which is a component of the 55-plus percentage for indexing pensions paid to pensioners aged 55 and over.

New subsection 98GD(1) sets out the formula for calculating the LCI percentage and explains the terms used in the formula. That formula is:

$$\frac{\text{First quarter LCI number} - \text{Base quarter LCI number}}{\text{Base quarter LCI number}} \times 100$$

New subsection 98GD(2) provides that when determining whether there is to be a July pension increase, the LCI number for the March quarter in the immediately preceding half-year must be more than the highest LCI number for the previous September quarter. When determining whether there is to be a January pension increase, the LCI number for the September quarter in the immediately preceding half-year must be more than the highest LCI number for the previous March quarter.

If the LCI numbers are equal to or less than the highest LCI number for the previous relevant quarter (either September or March), the LCI number for the prescribed half-year is taken to be 0%.

New section 98GE establishes the MTAWWE result set out in step 6 of the method statement in subsection 98GB(2) which is a component of the 55-plus percentage for indexing pensions paid to pensioners aged 55 and over.

New subsection 98GE(1) provides the MTAWWE result is 27.7% of the annualised MTAWWE figure for the most recent reference period published by the Statistician.

New subsection 98GE(2) sets out the process for determining the annualised MTAWWE figure published by the Statistician and identifies the document from which to extract the MTAWWE figure.

New subsection 98GE(3) ensures that if the Statistician publishes the MTAWWE figure under a different heading than that identified under subsection 98GE(2) (paragraph 98GE(3)(a)) or renames a document in which the MTAWWE figure is published (paragraph 98GE(3)(b)), then the annualised MTAWWE figure is to be calculated in accordance with subsection 98GE(2), based on the figure published by the Statistician under the new heading and/or in the new document.

New subsection 98GE(4) stipulates that the recent reference period published by the Statistician is the last pay period ending on or before the third Friday of the middle month of the June or December quarters.

New section 98GF sets out that for the purposes of step 7 in the method statement in new subsection 98GB(2), the formula for calculating the 55-plus percentage if the CPI/LCI result calculated in step 5 of the method statement is less than the MTAWWE result calculated at step 6. That formula is:

$$\frac{\text{MTAWWE result} - \text{Current indicative pension amount}}{\text{Current indicative pension amount}} \times 100$$

Defence Forces Retirement Benefits Act 1948

Item 13 inserts a new Division (Division 1) as an introduction that provides a simplified outline under new section 83A of the operation of Part VID of the Act which deals with pension increases. The outline explains that pension benefits are indexed on 1 January and 1 July each year, continues current indexation arrangements

for pensions paid to pensioners aged under 55 and sets out new indexation arrangements (the 55-plus percentage) for pensions paid to pensioners aged 55 and over. The introduction also incorporates definitions and some general rules about changed CPI numbers, reference bases and rounding.

Item 14 removes the word *Interpretation* from the heading of section 83 and replaces it with the word *Definitions*.

Item 15 removes the reference to subsection (1) in section 83 under what was previously the *Interpretation* heading in the line with current drafting standards.

Item 16 inserts new definitions into section 83 to cater for the new indexation arrangements to apply to DFRDB pensions paid to pensioners aged 55 and over. New terms defined for this purpose are:

- **55-plus percentage** (is the new method for indexing pensions paid to pensioners aged 55 and over and is explained in step 7 of the method statement in new subsection 84H(2))
- **current indicative pension amount** (is the base pension amount that is adjusted as part of the 55-plus percentage increase and is explained in step 4 of the method statement in new subsection 84H(2))
- **December quarter** (included to distinguish from March and September quarters upon which CPI and LCI indices are based – MTAW is based on the middle months of the June and December quarters)
- **indicative pension amount** (is the base pension for 1 January 2014 and subsequent prescribed half years that is explained in new subsection 84J(1))
- **June quarter** (to distinguish from March and September quarters upon which CPI and LCI indices are based – MTAW is based on the middle months of the June and December quarters)
- **LCI percentage** (is worked out using the All Groups Pensioner and Beneficiary Living Cost Index published by the Statistician and explained in new section 84K)

The following terms that are currently used in Part XA are now defined for a better understanding of the Part:

- **March quarter** (CPI and LCI indices are based on the March and September quarters)
- **pensioner** (identifies the recipient of a pension benefit)
- **prescribed percentage** (is worked out using the All Groups Consumer Price Index published by the Statistician and explained in new subsection 84(3))
- **September quarter** (CPI and LCI indices are based on the March and September quarters)

Item 17 repeals:

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| subsection 83(2) | which provides that if the Statistician substitutes a new CPI number for a particular quarter, the new CPI number is to be disregarded. |
| subsection 83(3) | which provides that if the Statistician changes the reference base for the CPI, then the CPI numbers based on the new reference base are to be used for calculating future pension increases. |
| subsection 83(4) | which provides for the rounding of a CPI percentage increase to a fraction of one-tenth of 1%. |

Item 18 inserts new sections 83B and 83C in lieu of subsections 83(2), (3) and (4) which are repealed by item 17.

New subsection 83B(1) has the same effect as repealed subsection 83(2), that is, disregard new numbers for a particular quarter substituted by the Statistician. New subsection 83B(1) now refers to the Statistician substituting a new CPI number referred to in repealed subsection 84(3) or a new LCI number referred to in new subsection 84K(1) or a new amount for MTAWWE referred to in new subsection 84AL(2).

New subsections 83B(2) and 83B(3) have the same effect as repealed subsection 83(3), that is, if the Statistician changes the reference base (or period), then numbers based on the new reference base (or period) are to be used for calculating future pension increases. New paragraph 83B(2)(a) applies this principle if the CPI reference period is changed and new paragraph 83B(2)(b) applies this principle if the LCI reference period is changed.

New subsection 83B(3) applies the same principle for changes to MTAWWE.

New section 83C has the same effect as repealed subsection 83(4) except that it provides for the rounding of percentages for the prescribed percentage, the LCI percentage and the 55-plus percentage to a fraction of one-tenth of 1%.

Item 18 also establishes a new Division 2, which sets out general provisions about pension increases, incorporating new section 83D which is a simplified outline of the Division. The outline explains that pension benefits are indexed on 1 January and 1 July each year, identifies that current indexation arrangements for pensions paid to pensioners aged under 55 are based on positive movements in the CPI, explains that movements in the CPI are only a part of the indexation arrangements for pensions paid to pensioners aged 55 and over and identifies there are rules dealing with special cases.

The new Division 2 also incorporates section 84 which provides for increases in pensions (it also incorporates section 84A, 84B, 84C, 84D, 84E and 84F, none of which are being changed).

Item 19 substitutes new subsections 84(1), 84(2) and 84(3) and inserts a new subsection 84(3A).

New subsection 84(1) confers an entitlement to an increase in the rate of a pensioner's pension. The new subsection 84(1) provides that the increase is worked out by using the prescribed percentage (that is, CPI increases) for pensions paid to pensioners aged under 55 and by using the 55-plus percentage for pensions paid to pensioners aged 55 and older.

New subsection 84(2) provides that the rate of pension paid to a pensioner aged under 55 on either 1 January or 1 July is only increased by the prescribed percentage (it is relevant to note that section 37A of the *Acts Interpretation Act 1901* provides - *For the purposes of any Act, the time at which a person attains a particular age expressed in years is the commencement of the relevant anniversary of the date of the birth of that person*).

New subsection 84(3) sets out the formula for calculating the prescribed percentage and explains the terms used in the formula. That formula is:

$$\frac{\text{First quarter CPI number} - \text{Base quarter CPI number}}{\text{Base quarter CPI number}} \times 100$$

New subsection 84(3A) provides that when determining whether there is to be a July pension increase, the CPI number for the March quarter in the immediately preceding half-year must be more than the highest CPI number for the previous September quarter. When determining whether there is to be a January pension increase, the CPI number for the September quarter in the immediately preceding half-year must be more than the highest CPI number for the previous March quarter.

If the CPI numbers are equal to or less than the highest CPI number for the previous relevant quarter (either September or March), there is no increase in a pension being paid to a pensioner aged under 55 for the half year.

Item 19 also incorporates a new sub-heading for subsection 84(4) to identify that the subsection deals with the increase in the rate of a reversionary, child or orphan pension where the recipient member dies on 30 June or 31 December.

Item 20 inserts a new Division 3 into Part VID to provide for increases of pensions paid to those aged 55 and over. New Division 3 incorporates new sections 84G, 84H, 84J, 84K, 84L and 84M.

New section 84G provides a simplified outline of Division 3 setting out that for pensioners aged 55 and over, their pensions are indexed by the better of positive movements in the CPI and LCI with an adjustment, if necessary, to reflect MTAWC increases. The outline explains the establishment of a hypothetical pension against which MTAWC changes are measured and indicates that the better of CPI and LCI movements will be applied as a pension increase from either 1 January or 1 July if that increase is greater than the increase in the hypothetical pension as a result of MTAWC changes. Otherwise, the percentage increase in the hypothetical pension as a result of the MTAWC changes will be the pension increase for the half-year.

New section 84H establishes the 55-plus percentage for indexing pensions paid to pensioners aged 55 and over.

Newssubsection 84H(1) makes it clear that the pension increase provided for by subsection 84(1) for a pension paid to a pensioner age 55 and over is to be the 55-plus percentage.

New subsection 84H(2) is a method statement explaining the seven steps to work out the 55-plus percentage. A hypothetical example of how the 55-plus percentage is to be ascertained in line with the method statement is as follows:

A hypothetical example

Year 1 – July adjustment

Latest March quarter CPI figure	171.0
Previous September quarter CPI figure	168.6
Latest March quarter LCI figure	110.1
Previous September quarter LCI figure	108.2
Previous November MTAW	\$1,402.10
Current indicative pension	\$19,541.91

Step 1 – calculate the prescribed percentage for the prescribed half-year (CPI adjustment)

$$\frac{\text{Latest March quarter CPI figure} - \text{Previous September quarter CPI figure}}{\text{Previous September quarter CPI figure}} \times 100 = \text{CPI change}$$

$$\frac{171.0 - 168.6}{168.6} \times 100 = 1.014 \text{ (or 1.4\% calculated to the nearest one-tenth of 1\%)}$$

Step 2 – calculate the LCI percentage for the prescribed half-year (LCI percentage)

$$\frac{\text{Latest March quarter LCI figure} - \text{Previous September quarter LCI figure}}{\text{Previous September quarter LCI figure}} \times 100 = \text{LCI change}$$

$$\frac{110.1 - 108.2}{108.2} \times 100 = 1.018 \text{ (or 1.8\% calculated to the nearest one-tenth of 1\%)}$$

Step 3 – Determine the higher of the percentages - if they are the same, use the step 1 percentage (CPI/LCI percentage)

1.018 (or 1.8%) calculated at step 2.

Step 4 – Identify the current indicative pension for the prescribed half-year immediately before the relevant prescribed half-year (current indicative pension amount)

\$19,541.91

Step 5 – Work out the amount that is the CPI/LCI percentage of the current indicative pension amount and add it to the current indicative pension amount (CPI/LCI result)

\$19,541.91 x 1.018 = \$19,893.70

Step 6 – calculate the MTAWÉ result

Previous November MTAWÉ x 52 = annual MTAWÉ
Annual MTAWÉ x 27.7% = MTAWÉ result

\$1,402.10 x 52 = \$72,909.20

\$72,909.20 x 27.7% = \$20,195.85

Step 7 –work out the 55 plus percentage - if the CPI/LCI result is the same as or higher than the MTAWÉ result, the 55-plus percentage for the prescribed half-year is the higher of the percentages worked out in steps 1 and 2. (If they are the same, use the step 1 percentage). If the CPI/LCI result is lower than the MTAWÉ result, the 55-plus percentage for the prescribed half-year is the percentage increase needed to maintain the indicative pension at 27.7% of MTAWÉ which, in this example is:

$$\frac{\text{MTAWÉ result} - \text{Current indicative pension amount}}{\text{Current indicative pension amount}} \times 100$$

$$\frac{\$20,195.85 - \$19,541.91}{\$19,541.91} \times 100 = 3.3\% \text{ (calculated to the nearest one-tenth of 1\%)}$$

The year 1 July adjustment is 3.3% (the result calculated at step 7, because it is higher than the result calculated at step 3, which is 1.8%).

Year 2 – January adjustment

Latest September quarter CPI figure	173.3
Previous March quarter CPI figure	171.0

Latest September quarter LCI figure	111.0
Previous March quarter LCI figure	110.1

Previous May MTAWÉ	\$1,403.10
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Current indicative pension	\$20,195.85
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Step 1 – calculate the prescribed percentage for the prescribed half-year (CPI adjustment)

$$\frac{\text{Latest September quarter CPI figure} - \text{Previous March quarter CPI figure}}{\text{Previous March quarter CPI figure}} \times 100 = \text{CPI change}$$

$$\frac{173.3 - 171.0}{171.0} \times 100 = 1.013 \text{ (or 1.3\% calculated to the nearest one-tenth of 1\%)}$$

Step 2 – calculate the LCI percentage for the prescribed half-year (LCI percentage)

$$\frac{\text{Latest September quarter LCI figure} - \text{Previous March quarter LCI figure}}{\text{Previous March quarter LCI figure}} \times 100 = \text{LCI change}$$

$$\frac{111.0 - 110.1}{110.1} \times 100 = 1.008 \text{ (or 0.8\% calculated to the nearest one-tenth of 1\%)}$$

Step 3 – Determine the higher of the percentages - if they are the same, use the step 1 percentage (CPI/LCI percentage)

1.013 (or 1.3%) calculated at step 1.

Step 4 – Identify the current indicative pension for the prescribed half-year immediately before the relevant prescribed half-year (current indicative pension amount)

\$20,195.85

Step 5 – Work out the amount that is the CPI/LCI percentage of the current indicative pension amount and add it to the current indicative pension amount (CPI/LCI result)

$$\$20,195.85 \times 1.013 = \$20,458.40$$

Step 6 – calculate the MTAW result

$$\begin{array}{lcl} \text{Previous May MTAW} \times 52 & = & \text{annual MTAW} \\ \text{Annual MTAW} \times 27.7\% & = & \text{MTAW result} \end{array}$$

$$\begin{array}{lcl} \$1,403.10 \times 52 & = & \$72,961.20 \\ \$72,961.20 \times 27.7\% & = & \$20,210.25 \end{array}$$

Step 7 –work out the 55 plus percentage - if the CPI/LCI result is the same as or higher than the MTAW result, the 55-plus percentage for the prescribed half-year is the higher of the percentages worked out in steps 1 and 2. (If they are the same, use the step 1 percentage). If the CPI/LCI result is lower than the MTAW result, the 55-plus percentage for the prescribed half-year is the percentage increase needed to maintain the indicative pension at 27.7% of MTAW which, in this example is:

$$\frac{\text{MTAW result} - \text{Current indicative pension amount}}{\text{Current indicative pension amount}} \times 100$$

$$\frac{\$20,210.25 - \$20,195.85}{\$20,195.85} \times 100 = 0.07\% \text{ (calculated to the nearest one-tenth of 1\%)}$$

The year 2 January adjustment is 1.3% (the result calculated at step 3, because it is higher than the result calculated at step 7, which is 0.07% - the current indicative pension for the Year 2 July adjustment will be $\$20,195.85 \times 1.013 = \$20,458.40$).

New subsection 84H(3) effectively provides that if neither the CPI/LCI result nor the MTAWC result calculated using the method statement in subsection 84H(2) provides for an increase, then there is to be no pension increase for the prescribed half-year.

New section 84J establishes the indicative pension amount which is a component of the 55-plus percentage for indexing pensions paid to pensioners aged 55 and over.

New subsection 84J(1) establishes \$19,541.91 as the indicative pension (that is, the hypothetical amount) at 1 January 2014 (paragraph 84J(1)(a)) against which subsequent MTAWC changes are to be measured for the purposes of applying the 55-plus percentage (paragraph 84J(1)(b)).

New subsection 84J(2) provides for the increase in the value of the indicative pension at 1 January and 1 July each year from 1 July 2014 by the 55-plus percentage. The increased amount is the indicative pension for working out the 55-plus percentage for the next prescribed half-year.

New subsection 84J(3) provides that the increased indicative pension referred to in subsection 84J(2) can be the same as the indicative pension for the previous prescribed half-year because the 55-plus percentage calculated for that previous prescribed half-year did not result in a change to the indicative pension was nil (see new subsection 84H(3)).

New section 84K establishes the LCI percentage which is a component of the 55-plus percentage for indexing pensions paid to pensioners aged 55 and over.

New subsection 84K(1) sets out the formula for calculating the LCI percentage and explains the terms used in the formula. That formula is:

$$\frac{\text{First quarter LCI number} - \text{Base quarter LCI number}}{\text{Base quarter LCI number}} \times 100$$

New subsection 84K(2) provides that when determining whether there is to be a July pension increase, the LCI number for the March quarter in the immediately preceding half-year must be more than the highest LCI number for the previous September quarter. When determining whether there is to be a January pension increase, the LCI number for the September quarter in the immediately preceding half-year must be more than the highest LCI number for the previous March quarter.

If the LCI numbers are equal to or less than the highest LCI number for the previous relevant quarter (either September or March), the LCI number for the prescribed half-year is taken to be 0%.

New section 84L establishes the MTAWWE result set out in step 6 of the method statement in subsection 84H(2) which is a component of the 55-plus percentage for indexing pensions paid to pensioners aged 55 and over.

New subsection 84L(1) provides the MTAWWE result is 27.7% of the annualised MTAWWE figure for the most recent reference period published by the Statistician.

New subsection 84L(2) sets out the process for determining the annualised MTAWWE figure published by the Statistician and identifies the document from which to extract the MTAWWE figure.

New subsection 84L(3) ensures that if the Statistician publishes the MTAWWE figure under a different heading than that identified under subsection 84L(2) (paragraph 84L(3)(a)) or renames a document in which the MTAWWE figure is published (paragraph 84L(3)(b)), then the annualised MTAWWE figure is to be calculated in accordance with subsection 84L(2), based on the figure published by the Statistician under the new heading and/or in the new document.

New subsection 84L(4) stipulates that the recent reference period published by the Statistician is the last pay period ending on or before the third Friday of the middle month of the June or December quarters.

New section 84M sets out that for the purposes of step 7 in the method statement in new subsection 84H(2), the formula for calculating the 55-plus percentage if the CPI/LCI result calculated in step 5 of the method statement is less than the MTAWWE result calculated at step 6. That formula is:

$$\frac{\text{MTAWWE result} - \text{Current indicative pension amount}}{\text{Current indicative pension amount}} \times 100$$

Item 21 is an application provision that provides the amendments made by the Schedule apply to working out pension increases for half-years commencing on and after 1 July 2014 (that is, the "underlying" pension that is currently being paid to a pensioner aged 55 or over cannot be indexed by the 55-plus percentage before 1 July 2014).

Item 22 is a transitional provision that excludes the amount that represents the increased value of the accrued retirement benefit as at 1 July 2014 as a result of the amendments by the Schedule from the operation of Division 293 of the *Income Tax Assessment Act 1997*.

From: s47E(c)
To: [REDACTED]
Subject: Letter from Actuary - report on new scheme costings post budget [SEC=UNCLASSIFIED]
Date: Friday, 23 May 2014 1:31:21 PM
Attachments: s47F [REDACTED] [Report on new accumulation scheme costings - post budget.pdf](#)

UNCLASSIFIED

All,

Find attached correspondence from s47E(c) [REDACTED] to DMR and DoF regarding the validity of figures reported by him prior to the Budget announcement re changes to Age Pension indexation.

Regards,
s47E(c) [REDACTED]

s47E(c) [REDACTED]

Military Superannuation
Directorate of Military Remuneration
s47E(c) [REDACTED] O Box 7927 | CANBERRA BC 2610
Tel s47E(c) [REDACTED]

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Ref No.:

Telephone: s47E(c)
Facsimile: C
E-mail: s47E(c)

16 May, 2014

s47E(c)

Directorate of Military Remuneration
BP33-3-099
Department of Defence
Brindabella Circuit
CANBERRA ACT 2600

Ms S Ong
Assistant Secretary
Funds and Superannuation Branch
Department of Finance
John Gorton Building
King Edward Terrace
PARKES ACT 2600

Dear s47E(c) and Ms Ong

**REPORT ON NEW ACCUMULATION SCHEME COSTINGS FOR MILITARY
SUPERANNUATION - BUDGET ANNOUNCEMENTS ON AGE PENSION INDEXATION**

I am writing to confirm that the figures included in my report dated 12 May 2014 covering costings for a new accumulation scheme for military personnel remain valid following Tuesday's Budget announcement regarding proposed changes to Age Pension indexation.

The current Age Pension indexation arrangements are that the pension is increased every 6 months at the higher of CPI and PBLCI and the resultant pension is then compared with a floor which is a percentage of MTAW. The floor for the single rate pension is 27.7% of MTAW. This methodology was incorporated into the DFRB and DFRDB legislation for indexing pensions for those aged 55 or more.

In the Budget, it was announced that it was proposed to change the Age Pension indexation arrangements from 2017. After the proposed change, Age Pension indexation would be in line with CPI increases. I have confirmed that this altered Age Pension indexation would not apply to DFRB and DFRDB pensions for those aged 55 or more. Instead, the current Age Pension indexation methodology would continue to apply to DFRB and DFRDB pensions.

2

The DFRDB (including DFRB) figures in the report assume that pensions for those aged 55 or more will be indexed using the current Age Pension indexation methodology indefinitely. Hence, the DFRDB figures in the report remain valid.

Yours sincerely

s22



s47F  FIAA

Actuary



Australian Government

Commonwealth Superannuation Corporation

Defence FOI 191/26/27
Document 13

DFRDB

Defence Force
Retirement & Death
Benefits Scheme



About your scheme

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csc.gov.au

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About your scheme

A summary of the Defence Force Retirement and Death Benefits Scheme (DFRDB Scheme)



A guide to this booklet

This booklet provides a general description of Defence Force Retirement and Death Benefits Scheme (DFRDB Scheme). DFRDB is governed by the *Defence Force Retirement and Death Benefits Act 1973* (the DFRDB Act) and associated rules and regulations.

Please note that this booklet is not a substitute for the legislation, or for matters requiring specific interpretation of the legislation.

For further information about DFRDB enquiries should be directed to:

DFRDB
GPO Box 2252
Canberra ACT 2601

Members: 1300 001 677
Pensions: 1300 001 877
Facsimile: (02) 6272 9616
Email: members@dfldb.gov.au
pensions@dfldb.gov.au
Website: dfldb.gov.au

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Introduction

The purpose of this booklet

This booklet has been designed to provide you with information on the main features of DFRDB. This booklet covers how your benefits are calculated when you leave the Australian Defence Force (ADF).

You should use this booklet to help gain an understanding of your entitlements under DFRDB. You can do this by working through the examples provided. However, should you need any additional information, please call DFRDB on 1300 001 677 or visit dfrdb.gov.au

Any information in this document is general information only and does not take account of your personal financial situation or needs. You may wish to obtain financial advice tailored to your personal circumstances.

Information in this document may change from time to time. Information that is not materially adverse to you may be updated on our website dfrdb.gov.au or contact us for a free paper copy. You can find information about product dashboards, director and executive officer remuneration, and other mandated disclosure materials in the About us section of the website.

The offer to which this document relates is available only to persons eligible to become a member of DFRDB under the *Military Superannuation and Benefits Act 1991*, receiving this document (electronically or otherwise).

About DFRDB

DFRDB provides eligible members with an income when they leave the ADF, and also with security during their working life, by covering eligible members and their dependants in the event of their invalidity, retirement or death.

DFRDB is a defined benefit superannuation scheme where the benefits are financed by you and the Department of Defence. DFRDB provides benefits for members who entered the ADF between 1 October 1972 and 30 September 1991, and also for contributors to Defence Force Retirement Benefits (DFRB) Scheme who were compulsorily transferred to DFRDB from its inception in 1972. If you are receiving retirement or invalidity pay and are resuming full-time ADF service you should read the special requirements on page 37.

In 1990, following a review of DFRDB, the Australian Government decided to introduce a new Defence Force superannuation scheme. DFRDB was closed to new members from 30 September 1991, and from 1 October 1991 all new entrants to the ADF automatically became members of Military Superannuation and Benefits Scheme (MilitarySuper). For more on MilitarySuper, see militarysuper.gov.au

What are DFRDB's main features?

Briefly, DFRDB offers:

- > retirement benefits that become available when you have completed 20 years service, or 15 years service and you have reached your retiring age for rank
- > invalidity benefits if you retire from the ADF on invalidity grounds
- > benefits for your dependants when you die.

Who manages DFRDB?

DFRDB is managed by Commonwealth Superannuation Corporation (CSC). DFRDB's governing legislation is the *Defence Force Retirement and Death Benefits Act 1973* (the DFRDB Act).

CSC is responsible for making sure that the provisions of the DFRDB Act are applied fairly to all members of DFRDB. CSC has delegated most of its powers and functions under the Act so that delegates and authorised officers make the majority of primary decisions. CSC reserves the right to reconsider any of those decisions.



Contributions

How much?

As a DFRDB member, you are required to contribute 5.5% of your fortnightly salary for superannuation purposes. Your superannuation salary is the maximum incremental rate of pay for your substantive, provisional, or probationary rank, and includes any service allowance or recognised environmental allowance that is payable. Your contributions are paid into the Consolidated Revenue Fund (CRF) and do not earn any interest.

Contributions after 40 years service

After 40 years of effective service, you are no longer allowed to contribute to DFRDB. Should this apply to you, DFRDB will maintain a record of your salary for superannuation purposes, so that when you leave the ADF, your benefit is based on your final salary.

Leave Without Pay (LWOP) provisions

If you go on LWOP for 21 days or less, you must continue to pay contributions.

However, for periods of LWOP that exceed 21 days, you cannot continue to pay contributions, and such periods will be counted as non-effective service. This is important because your retirement pay is based on your years of effective service.

Providing your Tax File Number (TFN) to DFRDB

Superannuation funds cannot accept contributions from members who do not provide their TFN.



Ancillary contributions

If you are a current DFRDB contributor you may choose to make voluntary superannuation contributions to MilitarySuper, these voluntary contributions are known as Ancillary contributions. Should you choose to make voluntary Ancillary contributions to MilitarySuper, you do not become a member of MilitarySuper. You will however be a beneficiary of MilitarySuper, for the purpose of your Ancillary Benefit.

What are Ancillary contributions?

'Ancillary contributions' describes a range of voluntary contributions or transfers you can make to MilitarySuper for yourself, or on behalf of your spouse. When they become payable they are paid as an additional benefit to your DFRDB Benefit. There are seven types of Ancillary contributions offered by MilitarySuper. These seven types are described in detail below.

Who can make Ancillary contributions?

To be eligible to make Ancillary contributions you must be a contributing DFRDB member. MilitarySuper cannot accept some Ancillary Contributions if you have not provided your TFN.

More information is available online at militarysuper.gov.au

1. Additional personal contributions

Additional personal contributions are contributions you can voluntarily make in addition to your regular DFRDB contributions. Additional personal contributions are classed as non-concessional contributions (ie non-taxed). There is a cap on the amount of non-concessional contributions you can pay into your superannuation without incurring additional tax.

No tax is payable on these contributions on entry to MilitarySuper, as these contributions are paid from your after-tax salary. However, if you exceed your non-concessional limit, these contributions will be taxed at the highest marginal rate at the end of the financial year.

2. Salary sacrifice

Salary sacrifice contributions are contributions from your pre-tax salary that you can voluntarily make in addition to (not instead of) your regular contributions to DFRDB. As these are organised through Defence, you will need to contact your Pay Unit for further information.

There is also a limit on the amount of concessional contributions (ie taxed) you can pay into your superannuation without incurring additional tax. Concessional contributions include salary sacrifice amounts and employer contributions.

Concessional contributions above the caps will be taxed at the top marginal tax rate (plus the Medicare levy). Concessional contributions above the concessional contributions caps will be counted towards your non-concessional contributions cap.

15% tax is deducted from these contributions on receipt into MilitarySuper.

3. Transfer amounts

You can transfer benefits from any of the following institutions to MilitarySuper:

- > another regulated superannuation fund
- > a Retirement Savings Account (RSA)
- > an approved deposit fund
- > the Special Account, previously called the Superannuation Holding Account Reserve (SHAR).

You cannot transfer a DFRDB benefit into MilitarySuper.

15% tax is deducted from any untaxed portion of the transfer amount on receipt in to MilitarySuper.

Amounts transferred into MilitarySuper from other superannuation funds will not count towards the contribution caps. Further information about the tax consequences of contributions made to superannuation funds is available from the Australian Taxation Office (ATO) website at ato.gov.au

4. Spouse contributions

Spouse contributions are contributions you can make to MilitarySuper for your spouse. Your spouse will become a beneficiary of MilitarySuper and his or her contributions will be kept in a separate account in their name.

To be eligible to pay spouse contributions, your spouse must share a marital or couple relationship with you. A marital or couple relationship exists if you have been living together as husband, wife or partner (including a same-sex partner) on a permanent and bona fide domestic basis for a continuous period of at least three years. If the period is less than three years, MilitarySuper will need to consider evidence to determine if spouse contributions can be received. This includes, but is not limited to, evidence establishing any of the following:

- > your spouse is wholly or substantially dependent on you
- > you are legally married
- > you are in a relationship that has been registered under a law of a State or Territory
- > you have a child born of the relationship or adopted during the relationship
- > you jointly own a home which is your usual residence.

Once you have made these contributions, the benefit belongs to your spouse and will be payable to him or her. You do not have any right to this benefit. This benefit will be payable as a lump sum only, not as a pension.

Your spouse will also be able to choose any of the available investment choices and switch between these options at any time.

No tax is payable on these contributions on entry to MilitarySuper, as these contributions are paid from your after-tax salary.

You and your spouse need to be aware of the contribution limits.

5. Co-contributions

Unlike the other Ancillary contributions, co-contributions are not a product provided by MilitarySuper. Co-contributions are an additional contribution from the Australian Government for eligible individuals.

If your assessable income and fringe benefits are less than the limit imposed by the Government, you are entitled to receive a co-contribution using information from DFRDB and your tax return.

If you are an eligible recipient of a co-contribution and you are in DFRDB, the co-contribution will be paid into MilitarySuper.

Government co-contributions are not included in the contribution caps and are tax-free when you withdraw your benefit.

No tax is payable on these contributions on entry to the Fund.

6. Super Guarantee (SG)

Amounts received from the ATO

These are contributions collected from your previous employer by the ATO under the Superannuation Guarantee (SG) scheme.

Amounts received from the Department of Defence

From 1 July 2008, all employers in Australia have been required to use ordinary time earnings (OTE) as the earning base for SG purposes.

Ordinary time earnings encompasses a wider range of payments than salary and includes payments such as disability allowances and completion bonuses. Reimbursement-type allowances and amounts included under Fringe Benefits Tax laws are excluded from OTE.

SG employer contribution may not be achieved for some members who are in receipt of certain allowances and bonuses. To ensure there is no shortfall, Defence will pay additional employer contributions on the difference between salary for superannuation purposes and OTE. For the latest SG rate visit ato.gov.au

Under the SG legislation, employers are required to contribute the relevant percentage of OTE to superannuation for their employees (subject to a cap).

7. Low Income Superannuation Contributions (LISC)

The Low Income Superannuation Contribution (LISC) is a government superannuation payment. The Australian Government contributes up to \$500 extra into your super each year if you earn up to \$37,000. This amount is called LISC.

You don't need to do anything to get this payment – the ATO determines your eligibility and calculates the payment for you. If you are eligible the ATO will pay a LISC directly to your superannuation account.

You can help by ensuring DFRDB has your correct TFN, as we cannot accept LISC amounts on your behalf without it.

Investment choice for Ancillary contributions

Your Ancillary contributions plus investment returns make up your Ancillary Benefit. MilitarySuper offers a range of investment strategies in which you can choose how to invest your Ancillary Benefit (including any co-contributions).

MilitarySuper investment options

MilitarySuper offers you four investment options – Cash, Income Focused, Balanced and Aggressive for the investment of your Ancillary contributions. You can choose different options for your existing member account balance and your future Ancillary contributions. You can change your investment options online or by completing a **Member investment choice** form available on the website.

When choosing an investment option you should consider the information provided in the **MilitarySuper Product Disclosure Statement (PDS)**, available from militarysuper.gov.au or calling 1300 006 727.



Important: Before making an investment choice, you should read the **MilitarySuper PDS**. If you do not already have a copy, you can obtain one from the MilitarySuper website at militarysuper.gov.au or by calling 1300 006 727.

Family Law and your Ancillary Benefit

As your Ancillary Benefit is an entitlement within MilitarySuper, this benefit may be valued separately from your DFRDB entitlement, and be included as part of your Family Law settlement if a splitting order or superannuation agreement was to be served on us.

Should you wish to split your MilitarySuper Ancillary Benefit the court order or superannuation agreement must specifically bind MilitarySuper in this regard.

How is an Ancillary Benefit paid?

When an Ancillary Benefit is payable, it will be paid as a lump sum only.

When can you claim your Ancillary Benefit?

You can claim your Ancillary Benefit either:

- > when you have reached preservation age and permanently retired from the workforce
- > when you reach 60 and you then cease employment, or change employers
- > when you reach 65 years of age
- > if we are satisfied that you have met the requirement of total and permanent incapacity
- > if we are satisfied that you meet the requirements for severe financial hardship
- > if the Department of Human Services (DHS) approves payment on specified grounds.

Your benefit will also be payable to an eligible spouse, eligible child or children, or your estate, in the event of your death.

Rolling over your Ancillary Benefit

You can rollover your Ancillary Benefit to another regulated superannuation fund, RSA or approved deposit fund at any time. However, you will not be able to claim the benefit from that rollover institution until you satisfy the age/employment conditions (or conditions of release) as outlined above.

Further details can be obtained from the MilitarySuper website at militarysuper.gov.au or by calling 1300 006 727.

Table 1: Preservation ages

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

DFRDB benefits

General

Benefits from DFRDB are payable to you on your resignation or retirement. DFRDB's range of benefits may be summarised as follows:

- > 'discharge' benefits, which become payable on:
 - > your voluntary or compulsory age exit or your eventual claim date after electing to defer your benefit
- or
- > 'in-service' benefits, which become payable on either:
 - > your retirement due to physical or mental incapacity (ie invalidity)
 - > your death, leaving eligible dependants
 - > your death, leaving no eligible dependants
- or
- > 'post-service' benefits, which become payable following your death to your eligible spouse and children, provided you are receiving a pension at the time of your death.

Form of benefits

The primary form of DFRDB benefit is a combination of an indexed pension, and a lump sum payment referred to as commutation. See page 13 for more details.

Productivity benefit

You are also entitled to a productivity benefit under the Defence Force superannuation productivity benefit determination (issued under the *Defence Act 1903*). The amount of the benefit varies according to the circumstances under which you leave the ADF. DFRDB pays the productivity benefit at the same time as other benefits. See page 35 for more details.

Payment of benefits

Generally, a retirement/invalidity superannuation benefit is paid fortnightly by direct deposit to an account with any approved bank, building society, or credit union. The account must be with a financial institution in Australia and must be in your name. It may be a joint account, provided your name is one of the account holders.

Family Law

From 28 December 2002, changes to the *Family Law Act 1975* came into effect. The legislation allows for superannuation to be split on marriage breakdown either by:

- > a court order (that is, an order made by a court, or exercising Family Law jurisdiction such as the Family Court or the Federal Magistrates Court)
- or
- > a superannuation agreement between the parties (that is, an agreement between the parties that meets the requirements in the *Family Law Act 1975*).

On 18 May 2004, further legislative changes came into effect which allow a separate superannuation interest (ie account) to be created for a member's spouse or former spouse once a valid court order or superannuation agreement has been received.

From 1 March 2009, the *Family Law Act 1975* allows couples in a de facto relationship access to property settlements under the Act. As a result superannuation can be split in the event of a de facto relationship breakdown.

Further details of the splitting arrangements and requirements are available from the Family Law and splitting super booklet on the DFRDB website at dfrdb.gov.au

The consequence of a Family Law payment split depends on whether the member's benefit is in the 'payment phase' or 'growth phase'.

Payment phase

If a DFRDB retirement or invalidity benefit is being paid fortnightly, it is regarded as being in 'payment phase' for Family Law purposes.

If a DFRDB retirement or invalidity benefit is subject to a Family Law split, the non-member spouse will become an Associate in DFRDB and will start to receive a fortnightly pension in his or her own right. The entitlement is indexed twice yearly.

If an Associate is in receipt of an Associate's fortnightly benefit, there is no residual benefit for their dependants.

Growth phase

Each of the following entitlements are regarded as being in 'growth phase' for Family Law purposes:

- > an accruing DFRDB benefit
- > a DFRDB deferred benefit that has not been claimed (see page 36 for more information on deferred benefits)
- > an entitlement under the productivity benefit scheme.

If any of these entitlements are subject to a Family Law split, the non-member spouse will become an Associate in MilitarySuper, with an Associate B benefit.

For Family Law purposes, DFRDB and productivity benefit scheme are regarded as two separate schemes. Therefore, if the benefit is still in the growth phase, and the parties wish to bind the superannuation interests in both schemes, there will need to be a separate order or separate clauses within a single order or agreement, for each scheme.

Retirement benefits

General

If you retire on non-medical grounds and have:

- > 20 or more years of effective service

or

- > 15 or more years of effective service and have reached your retiring age for rank

you are entitled to a retirement benefit. There is also an option to commute part of your future retirement benefit to a lump sum.

Your retirement benefit becomes effective on the day after the date of your discharge from the ADF, and it will be paid to you fortnightly for the rest of your life, unless you resume continuous full-time ADF service.

Calculation of retirement benefit

Your retirement benefit is worked out as a percentage of your salary when you retire. The two factors used to work out your retirement benefit are your annual rate of pay and your completed years of effective service.

Your rate of pay, for DFRDB purposes, is the maximum rate of pay which applies to your rank and pay level, including any service allowance or recognised environmental allowance.

Effective service is the total of your full-time contributory service, plus any periods of past service you may have bought back. You can find out how much effective service you have by looking at your most recent annual member statement and then adding the effective service that you have accumulated since the date on the statement.

Table 2 on the next page shows the amount of retirement benefit you can expect to receive, depending on your annual rate of pay and your completed years of effective service. You can use the table and the following example to estimate how much retirement pay you will be entitled to when you leave the ADF.

There is a quickguide to calculating DFRDB retirement benefits on page 18.



To estimate your potential retirement benefit you can also use the i-Estimator on the DFRDB website at dfrdb.gov.au. You will need an Access Number to use this service. Please call 1300 001 677 to obtain an Access Number.

Table 2: Retirement pay as a percentage of annual salary

Complete years	%	Complete years	%	Complete years	%	Complete years	%
15	30.00	22	38.00	29	49.25	36	65.25
16	31.00	23	39.50	30	51.25	37	67.75
17	32.00	24	41.00	31	53.25	38	70.50
18	33.00	25	42.50	32	55.50	39	73.50
19	34.00	26	44.00	33	57.75	40 or more	76.50
20	35.00	27	45.75	34	60.25		
21	36.50	28	47.50	35	62.75		

Example A: Calculation of retirement pay (before commutation)

Alex, a 42-year-old Squadron Leader with 22 years of effective service, has decided to retire from the ADF. Alex has a salary for superannuation purposes of \$83,398 (the highest increment for his rank is always used).

Using Table 2, we see that as Alex has 22 years of effective service, therefore the percentage to apply to his final salary is 38.00. His annual retirement benefit is worked out as follows:

Step 1 $\$83,398 \times 38\% = \$31,691.24$ per year (before tax)

This figure, \$31,691.24, is his annual retirement benefit, before tax, and is arrived at by multiplying his final annual salary for superannuation purposes and a percentage determined by his years of effective service (22 years service = 38% – see Table 2).

Step 2 $\$31,691.24 \div 14 \div 365 = \$1,215.55$ per fortnight (before tax)

The fortnightly entitlement is worked out by multiplying annual retirement benefit by 14 and then dividing it by 365. In Alex's case, he would be paid a fortnightly benefit of \$1,215.55 before tax.

Commutation

General

Commutation is the lump sum prepayment of part of your future retirement benefit. If you have retired and are entitled to retirement benefit, you can elect to commute (that is, exchange) a portion of that future retirement benefit for a lump sum. Similarly, if you are classified Class C after being discharged medically unfit for further service (see page 24), and you would have been entitled to receive retirement benefit had you voluntarily discharged, you can elect to commute a portion of your benefit. If you have an entitlement to a deferred benefit (see page 36), you may also elect to commute a portion of that benefit.

An election to commute a portion of your retirement benefit may be made up to three months before, or up to six months after your retirement or the date on which a deferred benefit becomes payable. An election to commute can only be made by completing the **Application for DFRDB retirement pay, commutation and superannuation productivity (D20)** form available at dfrdb.gov.au

From 2002, the maximum amount that you may commute is five times your annual rate of retirement benefit on exit.

Note: Commutation of a benefit results in a permanent reduction in your retirement benefit based on your life expectancy, see factors at Table 3 on page 15. Your retirement benefit will not be set to the pre-commutation rate, even if you attain or exceed your life expectancy.

If you have accessed a commutation during a previous discharge and re-entered the ADF, you must elect a commutation in all subsequent discharges.

Date of effect

A commutation election becomes effective on the later of:

- > the date the election is received by DFRDB
- > the date following retirement
- > the date a deferred benefit becomes payable.

For taxation purposes a commutation election should be made within six months of exit.

Commutation amount and retirement pay increases

If you commute less than the maximum entitlement, and you elect to commute between four and five times your retirement pay, the total amount of the remaining retirement pay is indexed.

However, if no election is made to commute, or you elect to commute less than four times your retirement pay, indexation will only be applied to your notional retirement benefit, which is the rate of retirement pay that would be payable if you had elected to commute four times retirement pay.

These differences are demonstrated in the example on the next page.

Example B: Calculation of commutation

David is 43 years old and a Sergeant in the army. He retires after 25 years in the ADF. David elects to commute a portion of his future retirement pay to a lump sum. His final salary for superannuation purposes is \$66,709, his commutation factor is 5 and his life expectancy factor is 29.14 (see Table 3 on page 15).

Step 1 $\$66,709 \times 42.50\% = \$28,351.33$ (retirement pay before commutation)

This step is exactly the same as in Example A, and is the multiplication of David's annual salary for superannuation purposes and a percentage determined by his years of effective service. The resultant amount, \$28,351.33, is his annual retirement pay, before commutation and before tax.

Step 2 $\$28,351.33 \times 5 = \$141,756.65$

This step calculates David's commutation lump sum by multiplying his annual retirement pay and the maximum commutation factor that applies to members leaving the ADF from 1 July 2002 onwards (see Table 1 on page 8).

Step 3 $\$141,756.65 \div 29.14 = \$4,864.68$

In this step, we divide the lump sum arrived at in Step 1 by David's life expectancy factor, which for a 43-year-old male is 29.14 (see Table 3 on page 15).

Step 4 $\$28,351.33 - \$4,864.68 = \$23,486.65$

Here, we subtract the figure resulting from Step 3 from David's pre-commutation annual retirement pay (Step 1). This figure, \$23,486.65, is his annual retirement benefit after commutation and before tax.

Step 5 $\$23,486.65 \times 14 \div 365 = \900.86 (per fortnight, before-tax)

This step simply converts the annual retirement pay into a fortnightly amount, before-tax.

Notes:

If David decided to commute only four times retirement pay, his gross commutation lump sum would reduce from \$141,756.65 to \$113,405.32. His remaining indexed pension would then increase from \$23,486.65 to \$24,459.59.

If David decided not to commute any retirement pay, the commencing rate of retirement pay would be \$28,351.33, of which \$24,459.59 would be indexed. If David elected to commute less than four times retirement pay, only \$24,459.59 of the remaining retirement pay would be indexed.

Table 3: Life expectancy factors

Age	Factor		Age	Factor	
	Male	Female		Male	Female
30	41.12	46.49	48	24.80	29.69
31	40.18	45.53	49	23.96	28.80
32	39.25	44.57	50	23.13	27.92
33	38.31	43.61	51	22.31	27.05
34	37.38	42.65	52	21.51	26.18
35	36.45	41.70	53	20.72	25.32
36	35.51	40.75	54	19.94	24.47
37	34.59	39.81	55	19.18	23.63
38	33.67	38.86	56	18.43	22.79
39	32.75	37.92	57	17.70	21.96
40	31.84	36.99	58	16.99	21.13
41	30.93	36.06	59	16.29	20.32
42	30.03	35.13	60	15.60	19.51
43	29.14	34.21	61	14.94	18.72
44	28.25	33.29	62	14.29	17.94
45	27.38	32.38	63	13.67	17.17
46	26.51	31.48	64	13.06	16.42
47	25.65	30.58	65	12.47	15.68

Note: The life expectancy factors used for determining DFRDB benefits are set out in the DFRDB Act.

Notional Retiring Age (NRA)

Retiring before reaching NRA?

If you are an officer, you are entitled to retirement pay, even if you retire before you reach your NRA for rank, as long as you have completed 20 years of effective service. However, if you do so, your retirement pay will be reduced by 3% for every year that your actual retiring age is less than your NRA. Example C on the next page shows you how a NRA reduction is applied.

The NRA provisions of the DFRDB Act exist to encourage officers to serve until they reach a certain age. This age varies according to the rank that officers hold at the time they retire. The notional retiring ages for the different ranks of officers are outlined below in Table 4.

Note: The NRA provisions apply **only** to officers.

Table 4: Notional Retiring Age

Rank			NRA – years
Navy	Army	Air Force	
Admiral	General	Air Chief Marshal	55
Vice Admiral	Lieutenant General	Air Marshal	
Rear Admiral	Major General	Air Vice Marshal	52
Commodore	Brigadier	Air Commodore	50
Captain	Colonel	Group Captain	
Commander Chief Officer (WRANS) Matron (RANNS) Superintendent (Naval Police)	Lieutenant Colonel	Wing Commander Squadron Leader	45
Lower rank	Lower rank	Lower rank	42

NRA only applies to officers who retire at their own request or are retired on disciplinary grounds. However, NRA does not apply to officers who are either:

- > made redundant
- > discharged medically unfit for further service
- > on a short service commission, and completes that commission.

Example C: Calculation of retirement pay with NRA penalty

Paul, aged 40, is an army Captain retiring from the ADF after 20 years service. As the NRA for a Captain is 42 (see Table 4 on page 16), Paul's retirement pay will be reduced by 6%, which is a 3% reduction for each year that his age at retirement is less than the NRA for his rank.

Step 1 $\$85,538 \times 35\% = \$29,938.30$ (before-tax)

In this step, Paul's final salary for superannuation purposes is multiplied by the applicable percentage for his years of effective service as shown in Table 2 (20 years service = 35% of final salary).

Step 2 $\$29,938.30 \times 6\% = \$1,796.30$

Because Paul is retiring two years before the NRA for his rank, a penalty of 6% is applied to the amount worked out in Step 1.

Step 3 $\$29,938.30 - \$1,796.30 = \$28,142.00$

In this step, the NRA provisions are applied by subtracting the penalty resulting from Step 2 from the amount worked out in Step 1.

In this example, Paul's annual retirement pay is \$28,142.00, before commutation and before tax. Should he elect to commute a portion of his retirement pay to a lump sum, the steps are exactly the same as shown from Step 2 in Example B on page 14.



DFRDB retirement benefits – quickguide

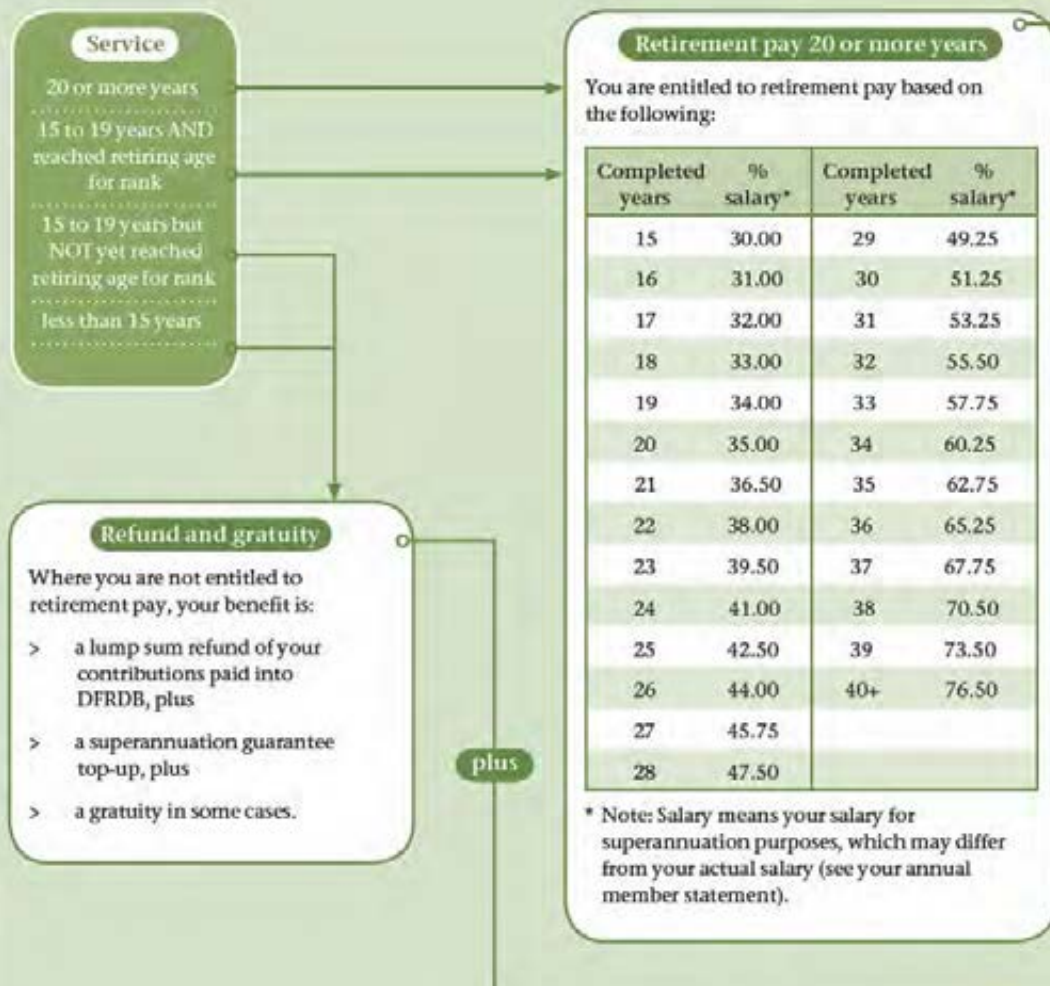
If you retire on non-medical grounds and have:

> 20 or more years of effective service

or

> 15 or more years of effective service and have reached your retiring age for rank

you are entitled to retirement benefits. Retirement benefit becomes payable on the day after the date of your discharge from the ADF, and it will be paid to you fortnightly for the rest of your life (unless you resume continuous full-time ADF service). Retirement benefits are subject to twice-yearly indexation.



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Notional Retiring Age

If you are an officer your retirement pay will be reduced by 3% for each year that your age at retirement is less than your notional retiring age.

Rank	Notional Retiring Age
Major (or equivalent) and below	42
Lieutenant Colonel (or equivalent)	45
Colonel and Brigadier (or equivalent)	50
Major General (or equivalent)	52
Lieutenant General and General (or equivalent)	55

Commutation

You can elect to receive a lump sum prepayment of part of your future retirement benefit, up to a maximum of five times, AND your future retirement benefit will be permanently reduced to offset the commutation.

plus

Productivity

If you have reached your preservation age and will not be working again, or you have reached age 60 and change employer, your productivity benefit is paid to you as a lump sum; otherwise it must be preserved in a rollover fund.

Date of birth	Preservation age
Before 1/7/60	55
Between 1/7/60 & 30/6/6	56
Between 1/7/61 & 30/6/62	57
Between 1/7/62 & 30/6/63	58
Between 1/7/63 & 30/6/64	59
After 30/6/64	60

less

Surcharge

Any surcharge debt remaining at the time benefits are payable is normally recovered from the productivity lump sum but you can request that it be recovered from your commutation lump sum (if any), or retirement pay (if you do not elect to commute on discharge) instead.

Resignation

If you leave DFRDB without an entitlement to a retirement benefit or invalidity benefit, you are entitled to a resignation benefit.

In these circumstances, you have the following options:

- > a lump sum refund of your contributions paid into DFRDB
- > plus a superannuation guarantee top-up
- > plus a gratuity (depending on individual circumstances) (see below)
- > preservation of your benefit (in limited circumstances) (refer to page 36).

Refer to the resignation benefits quickguide on page 21.

Gratuities

A gratuity is a sum of money paid to some members in the form of a one-off lump sum. Although gratuities are usually only payable to other rank members, some Officers are also entitled to receive them. These members will be informed of their eligibility upon discharge. Once you become entitled to a retirement benefit or invalidity benefit you will not be eligible to receive a gratuity.



DFRDB resignation benefits – quickguide

If you leave DFRDB without an entitlement to retirement benefit or invalidity benefit, you are entitled to a resignation benefit.

Refund and gratuity

Where you are not entitled to retirement benefit your benefit is:

- > a lump sum refund of your contributions paid into DFRDB plus
- > a superannuation guarantee top-up plus
- > a gratuity in some cases or
- > preservation of your benefit (in limited circumstances).

Productivity

If you have reached your preservation age and will not be working again, or you have reached age 60 and change employer, your productivity benefit is paid to you as a lump sum, otherwise it must be preserved in a rollover fund.

Date of birth	Preservation age
Before 1/7/60	55
Between 1/7/60 & 30/6/61	56
Between 1/7/61 & 30/6/62	57
Between 1/7/62 & 30/6/63	58
Between 1/7/63 & 30/6/64	59
After 30/6/64	60

less

Surcharge

Any surcharge debt remaining at the time benefits are payable is normally recovered from the productivity lump sum but you can request that it be recovered from your contribution refund instead.

Redundancy

If you are made redundant, and you are not eligible to receive retirement benefit from DFRDB, you will receive a lump sum refund of the contributions you have paid into DFRDB, plus a gratuity where applicable.

If you are entitled to a retirement benefit this is determined in the same manner as for retirement, except if you are an Officer and you are made redundant, you will be exempt from the NRA provisions (see the section on NRA on page 16).

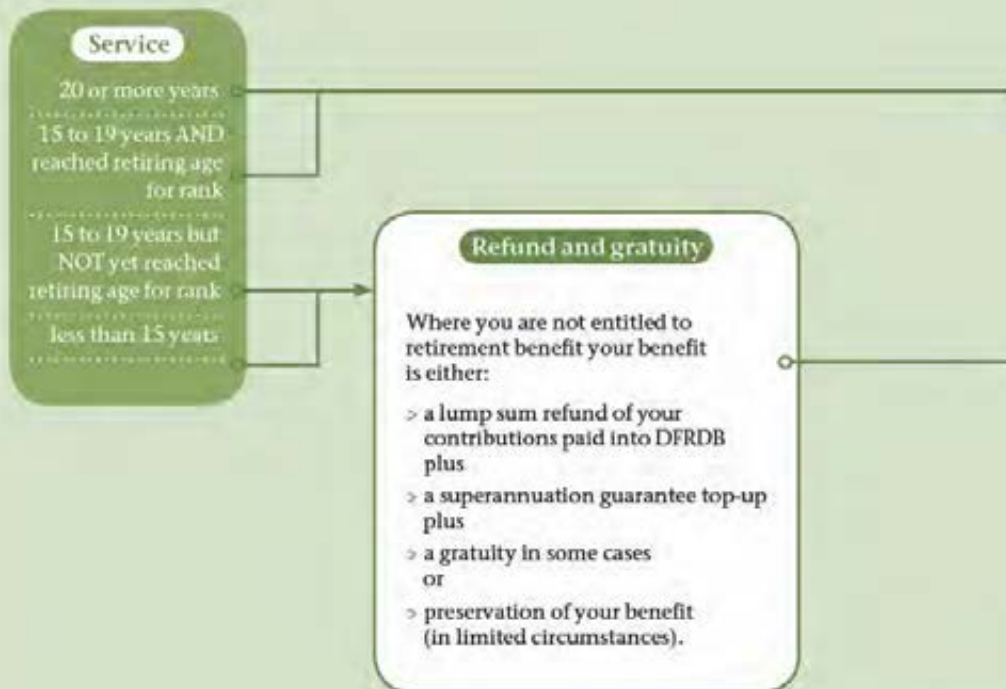
DFRDB redundancy benefits – quickguide

If you are made redundant and have:

- > 20 or more years of effective service
- or

- > 15 or more years of effective service and have reached your retiring age for rank

you are entitled to retirement benefit. Retirement benefits become payable on the day after the date of your discharge from the ADF, and it will be paid to you fortnightly for the rest of your life (unless you re-enter the ADF on CFTS). Retirement benefits may be indexed bi-annually on the first paydays in January and July.



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Retirement pay 20 or more years

You are entitled to retirement pay based on the following:

Completed years	% salary*	Completed years	% salary*
15	30.00	29	49.25
16	31.00	30	51.25
17	32.00	31	53.25
18	33.00	32	55.50
19	34.00	33	57.75
20	35.00	34	60.25
21	36.50	35	62.75
22	38.00	36	65.25
23	39.50	37	67.75
24	41.00	38	70.50
25	42.50	39	73.50
26	44.00	40+	76.50
27	45.75		
28	47.50		

*Note: Salary means your salary for superannuation purposes, which may differ from your actual salary (see your annual member statement).

Commutation

You can elect to receive a lump sum prepayment of part of your future retirement pay, up to a maximum of five times, AND your future retirement pay will be permanently reduced to offset the commutation.

plus

Productivity

If you have reached your preservation age and will not be working again, or you have reached age 60 and change employer, your productivity benefit is paid to you as a lump sum; otherwise it must be preserved in a rollover fund.

Date of birth	Preservation age
Before 1/7/60	55
Between 1/7/60 & 30/6/61	56
Between 1/7/61 & 30/6/62	57
Between 1/7/62 & 30/6/63	58
Between 1/7/63 & 30/6/64	59
After 30/6/64	60

less

Surcharge

Any surcharge debt remaining at the time benefits are payable is normally recovered from the productivity lump sum but you can request that it be recovered from your commutation lump sum (if any), or retirement pay (if you do not elect to commute on discharge) instead.

Invalidity benefits

General

Invalidity benefits are designed to address the circumstance of retirement from the ADF due to a physical or mental incapacity.

If you are discharged from the ADF as medically unfit for service, you may be eligible for an invalidity benefit from DFRDB. However, you may not be eligible for an invalidity benefit if you have a pre-existing condition. You will also not be eligible for an invalidity benefit if you deliberately bring about your invalidity, or if you are absent without leave for a period exceeding 60 consecutive days, and your invalidity occurs after this period.

Although DFRDB is responsible for paying your invalidity benefits, compensation benefits are provided by the Department of Veterans' Affairs (DVA).

Entitlement to invalidity benefits

If you are retired on invalidity grounds, we are required to determine the percentage of your incapacity in relation to your ability to perform civilian employment.

When deciding whether or not you are entitled to an invalidity benefit, we (or a delegate) have regard only to the following:

- a) your vocational, trade and professional skills, qualifications and experience
- b) the kinds of civilian employment which a person with the skills, qualifications and experience referred to in (a), but without any incapacity, might reasonably undertake
- c) the degree to which the physical or mental impairment that was the cause of the invalidity retirement has diminished your capacity to undertake the kinds of civilian employment referred to in (b).

Having determined the degree of your incapacity, we are required to classify you in accordance with a percentage of incapacity as follows:

- > Class A – 60% or more
- > Class B – 30% or more but less than 60%
- > Class C – less than 30%.

How much?

If you are classified as Class A, you will receive invalidity pay based on 76.5% of your annual salary for superannuation purposes. If you are classified as Class B, you will receive invalidity pay based on half a Class A pension (38.25%). However, if you have completed 23 or more years of effective service and are classified as Class B, your invalidity pay will be higher as it is based on the number of years you have actually served, up to a maximum of 40 years.

A member who is classified as Class A or Class B has no entitlement to elect to commute. If you are classified as Class C, and you have less than 20 years service you will receive a lump sum benefit and, in some cases, a gratuity as well. Your lump sum will consist of a refund of your contributions made to DFRDB, multiplied by 1.5.

If you are classified as Class C but you would have been entitled to retirement pay if you had retired on grounds other than invalidity (that is, you have 20 years of service or have reached retirement age for rank), you will receive a benefit equivalent to retirement pay, at a rate determined by your length of service if this is greater than your invalidity benefit. In this situation, if you are classified as Class C, the commutation option is available.

If you require further assistance, please contact DFRDB. Contact details are available on page 51.

Example D: Calculation of invalidity pay

Allison and Ben, both Seaman, are injured in a training accident. Both have 21 years of effective service. Ben is classified by CSC as Class B invalidity, while Alison is classified as Class A.

Class A

In Alison's case, as she has been classified as Class A, her benefit will be based on 76.5% of her annual salary for DFRDB purposes (\$56,543). To calculate her annual benefit, we simply multiply her annual salary by 76.5%

$$\$56,543 \times 76.5\% = \$43,255.40 \text{ per year (before-tax)}$$

Class B

As Ben has been classified as Class B invalidity, his invalidity benefit will be based on 38.25% of his annual salary for DFRDB purposes (\$56,543). Again, to calculate his invalidity benefit, we simply multiply his annual salary by 38.25%

$$\$56,543 \times 38.25\% = \$21,627.70 \text{ per year (before-tax)}$$

In both cases – as with all ongoing benefits from DFRDB – the benefits may be indexed bi-annually on the first paydays in January and July.

DFRDB invalidity benefits – quickguide

DFRDB invalidity benefits are designed to meet the possibility of your retirement from the Defence Force due to your physical or mental incapacity to carry out your duties and to cover your subsequent resettlement into the civilian workforce. Invalidity pensions may be indexed biannually on the first paydays in January and July.

Incapacity

Class C: less than 30%
Class B: 30%-less than 60%
Class A: 60% or more
The amount of invalidity benefit depends on the percentage of your incapacity to undertake civilian employment.

Class C – invalidity pay

20 or more years

15 to 19 years but NOT yet reached retiring age for rank

less than 15 years

As a Class C retiree you would be entitled to a lump sum payment unless you would otherwise have qualified for retirement pay

Class B – invalidity pay

You are entitled to invalidity pay based on the following:

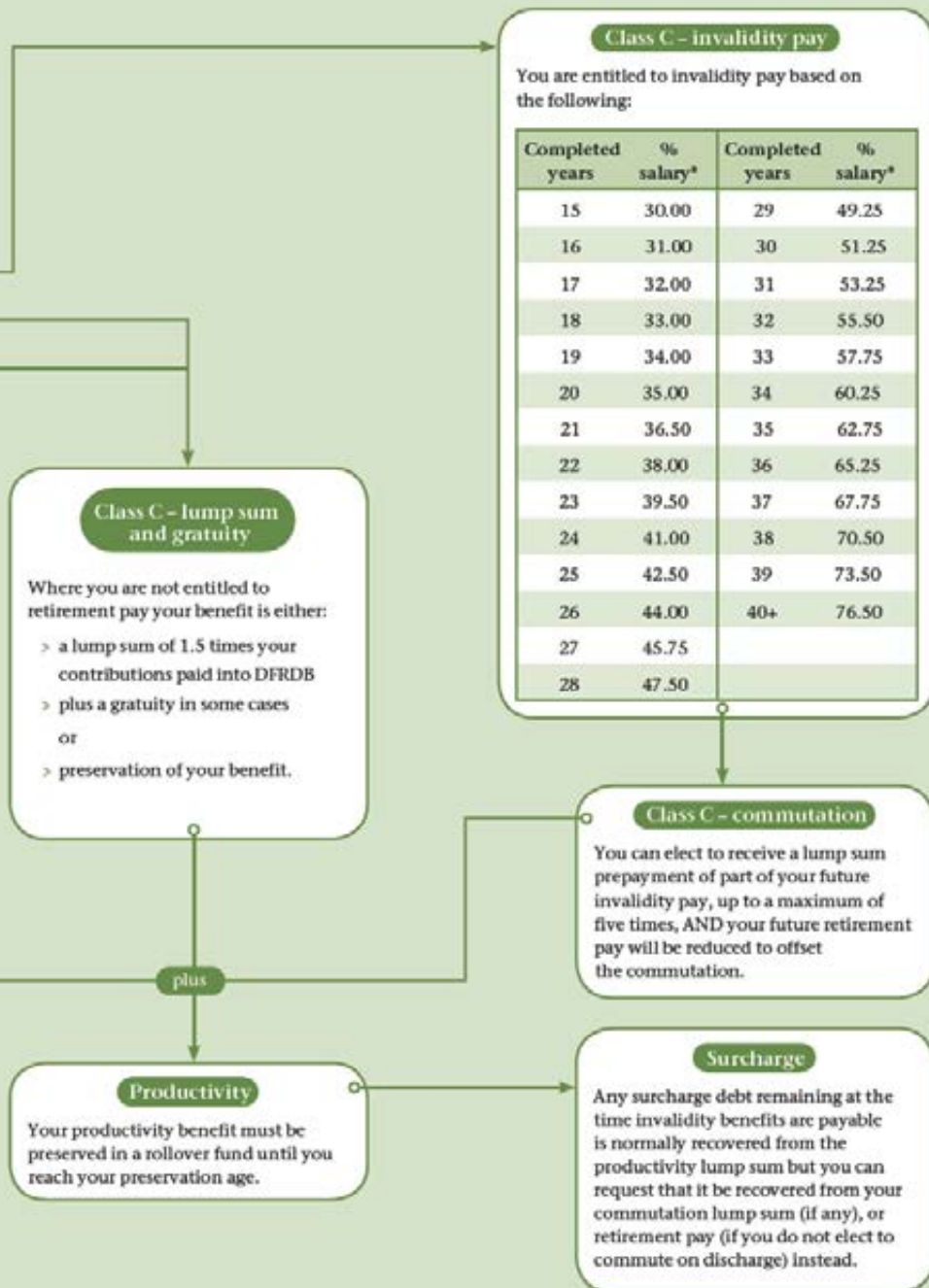
Completed years	% salary*	Completed years	% salary*
under 23	38.25	32	55.5
23	39.50	33	57.75
24	41.00	34	60.25
25	42.50	35	62.75
26	44.00	36	65.25
27	45.75	37	67.75
28	47.50	38	70.50
29	49.25	39	73.50
30	51.25	40+	76.50
31	53.25		

*Note: Salary means your salary for superannuation purposes, which may differ from your actual salary (see your annual member statement).

Class A – invalidity pay

Class A invalidity pay is 76.5% of your salary*

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Review of invalidity cases

As part of the 2009 Federal Budget, the Government announced a reduction in the number of employer initiated medical reviews of DFRDB invalidity recipients.

From 1 July 2009, there has been no employer initiated reviews of DFRDB invalidity recipients.

However, it is important to note that should you consider that your health has deteriorated, you retain the right to initiate a review to have your classification re-assessed.

If you think that the impairment that caused your retirement has become worse since you were first classified, or since you were last reviewed, you can request that your classification be reviewed. If you want a review, all you have to do is write to us and request one.

You can appeal against any decision that we make regarding your DFRDB entitlements. For information on appeal procedures, see page 46.

Death benefits

General

Your DFRDB membership not only provides you with a superannuation benefit for your retirement, but it also guarantees a benefit for your eligible dependants or your estate in the event of your death. The eligibility criteria is set out in the DFRDB Act. We will decide whether or not your dependants satisfy the conditions in the Act and qualify for the payment of a benefit.

Your dependants may also be entitled to claim benefits from DVA or under the Social Security Act in addition to those from DFRDB.

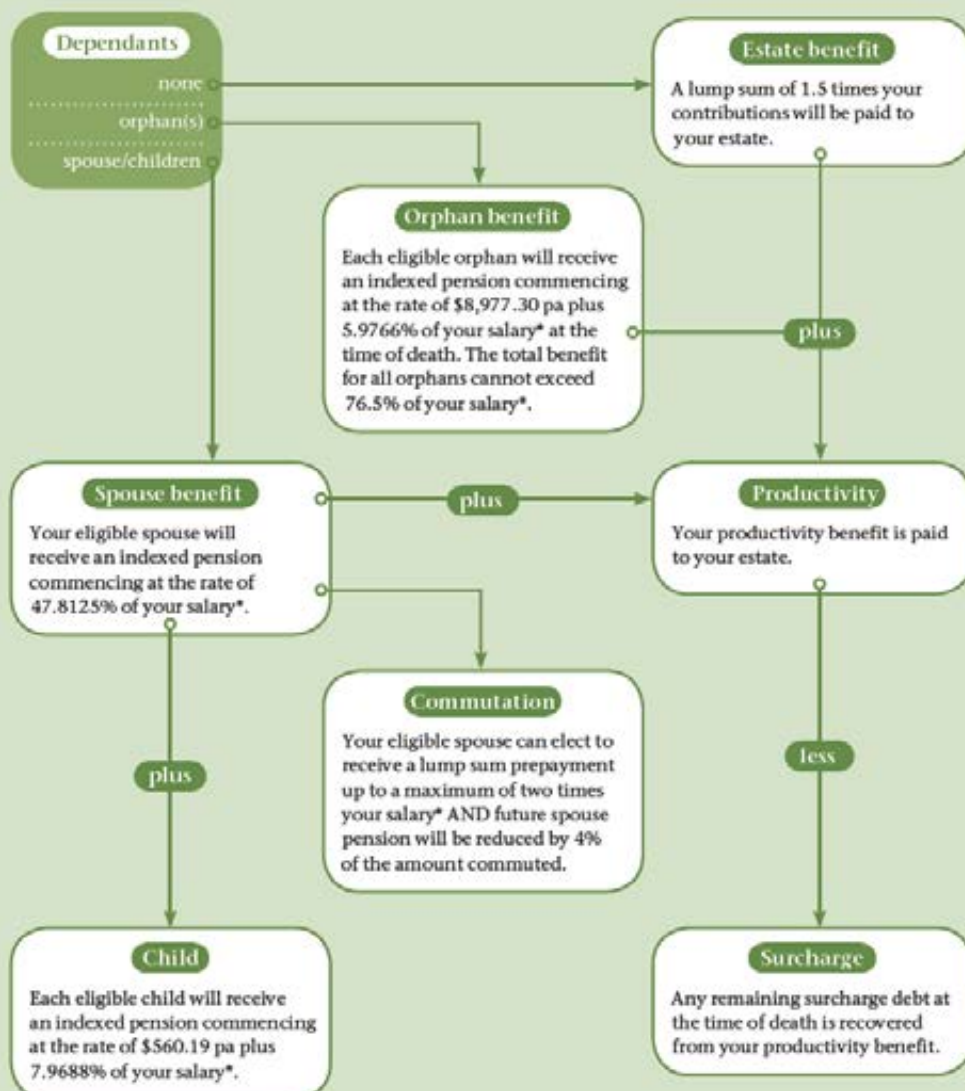
Who is eligible?

In the event of your death, benefits are payable to the spouse and child/ren (including orphans) of deceased members of DFRDB, and differ according to whether you die in service or after you retire. Examples of how these benefits are calculated and the eligibility requirements that need to be satisfied are explained on the next page.

DFRDB death benefits – quickguide 1

Death in service (ie death while a contributor)

DFRDB membership provides benefits for your eligible dependants and/or estate when you die. We decide whether your dependants are entitled to benefits.



*Note: Salary means your salary for superannuation purposes, which may differ from your actual salary (see your annual member statement).

The rate of indexation applied depends on the age of your eligible spouse and not the age you would have attained. It is the age of your spouse on or after 1 July 2014, not the age you would have been, that dictates which method of indexation is to be applied to the notional rate of retirement pay for child and orphan pensions from your date of death or 1 July 2014, whichever is later.

Death in service

If you die in service, your spouse's benefit will be five-eighths of 76.5% (or 47.8125%) of your salary for superannuation purposes at the time of your death.

In addition, your spouse is entitled to commute (that is, exchange) part of his or her future pension to a lump sum. The maximum amount that your spouse can commute is twice the amount of your annual salary for superannuation purposes that you were receiving immediately prior to your death. If your spouse chooses this option, the initial rate of pension is determined by dividing the commutation lump sum by 25 and deducting the resultant amount from the annual pension that would have been received if there had been no commutation.

The following example shows how this is worked out.

Example E: Calculation of a spouse's commutation benefit

Brian, a Petty Officer, dies in service, and is survived by an eligible spouse and one child. At the time of his death he was receiving an annual salary of \$66,709. Jenny, Brian's spouse, decides to commute the maximum portion of her future pension. Her benefit is calculated as follows:

Step 1 $\$66,709 \times 47.8125\% = \$31,895.24$ (per year before-tax)

In this step, we calculate Jenny's pre-commutation pension by multiplying Brian's annual salary at the time of his death by 47.8125%.

Step 2 $\$66,709 \times 2 = \$133,418$

Here, we simply multiply Brian's salary at the time of his death by two, in order to get the maximum lump sum amount payable to his spouse.

Step 3 $\$133,418 \div 25 = \$5,336.72$

This step calculates the reduction to apply to the initial pension by dividing the lump sum (calculated in Step 2) by 25.

Step 4 $\$31,895.24 - \$5,336.72 = \$26,558.52$ (per year before-tax)

In this step, we subtract the cost of commutation (Step 3) from the pre-commutation amount (Step 1). The resulting figure is Jenny's annual pension, before-tax.

In summary, Jenny will receive a lump sum payment of \$133,418, as well as an annual indexed pension of \$26,558.52 before-tax. The lump sum payment is tax-free and she would not lose her spouse's pension should she remarry or commence a new relationship.

As well as receiving a spouse's benefit from DFRDB, Jenny is also entitled to claim a benefit on behalf of her child. This is calculated in Example F on page 33.

Spouse benefits

Generally, DFRDB pays benefits to an eligible spouse upon the death of a DFRDB member or pensioner. The eligibility requirements are as follows:

- > you must be a DFRDB member or pensioner
- > your spouse must be in a marital or couple relationship with you at the time of your death
- > the marital or couple relationship must have existed for a continuous period of at least three years immediately before your death.

For the purposes of DFRDB, a marital or couple relationship will exist if another person has been living with you as your husband, wife or partner (including a same-sex partner) in a permanent and bona fide domestic basis at the time of your death.

If the marital or couple relationship existed for a continuous period of less than three years at the time of your death, your spouse may still be eligible for a spouse's benefit, at our discretion.

From 1 January 2008, if after becoming a pensioner you commence a marital or couple relationship after your sixtieth birthday, that relationship must exist for at least three years for your spouse to be eligible for a full spouse's benefit. Relationships of less than three years will result in a pro-rata reduction in the pension payable.

The final category of eligibility for spouses concerns a situation where you are legally married or in a registered relationship, but you are not living in a marital or couple relationship at the time of your death. To receive a spouse's benefit in these circumstances, your husband, wife or partner will have to prove to us that he or she was wholly or substantially financially dependent on you at the time of your death.

Where two surviving spouses meet the criteria for eligibility for benefits – for example, a dependent legal spouse and a dependent de facto spouse – the benefit will be apportioned at the rate of a minimum of 37.5% of the total benefit to each spouse, with the remaining portion allocated at our discretion, which will have regard to the financial needs of each of the spouses. In these circumstances, the total of the two pensions cannot exceed the total of the pension that would have been payable if there had only been one eligible spouse.



Note: It is a common misconception that spouses lose their eligibility and have their benefits stopped if their circumstances change. However, you can be assured that once we decide that your spouse is eligible to receive a benefit, then he or she will get that benefit for life and it will not be stopped under any normal circumstances (for example, in the event your spouse commences a new relationship).

Since 1 January 2008 widows whose pensions previously ceased upon remarriage may request that the pension be reinstated prospectively at the rate it would now be payable had it not ceased.

Children's benefits

A child is defined as either:

- > your natural child, stepchild, adopted child, foster child, ward, or child within the meaning of the *Family Law Act 1975* who is under 16 years of age or is a full-time student aged between 16 and 25 and not ordinarily in employment or engaged in work on his or her own account
- > an ex-nuptial child of your spouse, who satisfies the age criteria above, and who was wholly or substantially dependent upon you at the time of your death.

A child's benefit (regardless of the number of children), is payable as a base rate per annum, plus an amount equal to one-sixth of your spouse's entitlement. It is based on your spouse's original uncommuted pension, regardless of whether or not your spouse chooses to commute. The base amount increases on the first pension payday in January and July each year.

Orphans' benefits

An orphan is an eligible child where there is not an eligible spouse benefit payable under DFRDB.

An orphan's benefit is calculated as a base amount per annum, plus an amount equal to one-eighth of your spouse's entitlement prior to any commutation. The base amount increases on the first pension payday in January and July each year.

If the number of eligible orphans who are entitled to receive a pension exceeds the benefit on which it is based, then each orphan's pension is calculated by dividing the number of orphans into that rate.



Example F: Calculation of a child's benefit

Following on from Example E, as Jenny's child is aged under 16, DFRDB provides the following benefit:

Step 1 $\$31,895.24 \times 1/6 = \$5,315.87$ (per year before-tax)

An eligible child is entitled to receive one-sixth of the annual pension that your spouse can receive, prior to any commutation. Therefore, in this step, we multiply Jenny's precommutation pension (see Step 1 of Example C) by one-sixth.

Step 2 $\$560.19 + \$5,315.87 = \$5,876.06$ per year

Under the Act, there is also a fixed pension component due to eligible children. In this step, we simply add the fixed amount applying for the period July to December 2009 – \$560.19 – to the figure that we arrived at in Step 1.

The pre-tax figure, \$5,876.06, will increase each January and July with upward movements in indexation. The child will be eligible to receive a benefit until the age of 16, or the age of 25 if involved in full-time study.

Similar steps are followed when working out an orphan's benefit. The main exceptions are that an orphan's benefit is calculated using one-eighth of your spouse's benefit and a different fixed amount component applies (eg \$8,977.30 for the period July to December 2009).

Based on the above example, in the period July to December 2009 the pension payable in respect of one orphan is \$14,293.17.

Whilst there is no upper limit placed on pension payable in respect of eligible children, the pension payable in respect of orphans cannot exceed 76.5% of the former member's DFRDB salary at date of death.

Death after retirement

If you die after retirement, your spouse's benefit will be paid at the rate of 62.5% (five-eighths) of the benefit you were receiving at the time of your death, **disregarding any previous commutation reduction**. However, for the first seven paydays following your death, your spouse will be paid at the same rate you were receiving at the time of your death, before changing to the spouse's rate.

It is the age of your eligible spouse on or after 1 July 2014, not the age you would have been, that dictates which method of indexation is to be applied to the notional rate of retirement pay for eligible spouse's pensions from your date of death or 1 July 2014, whichever is later.

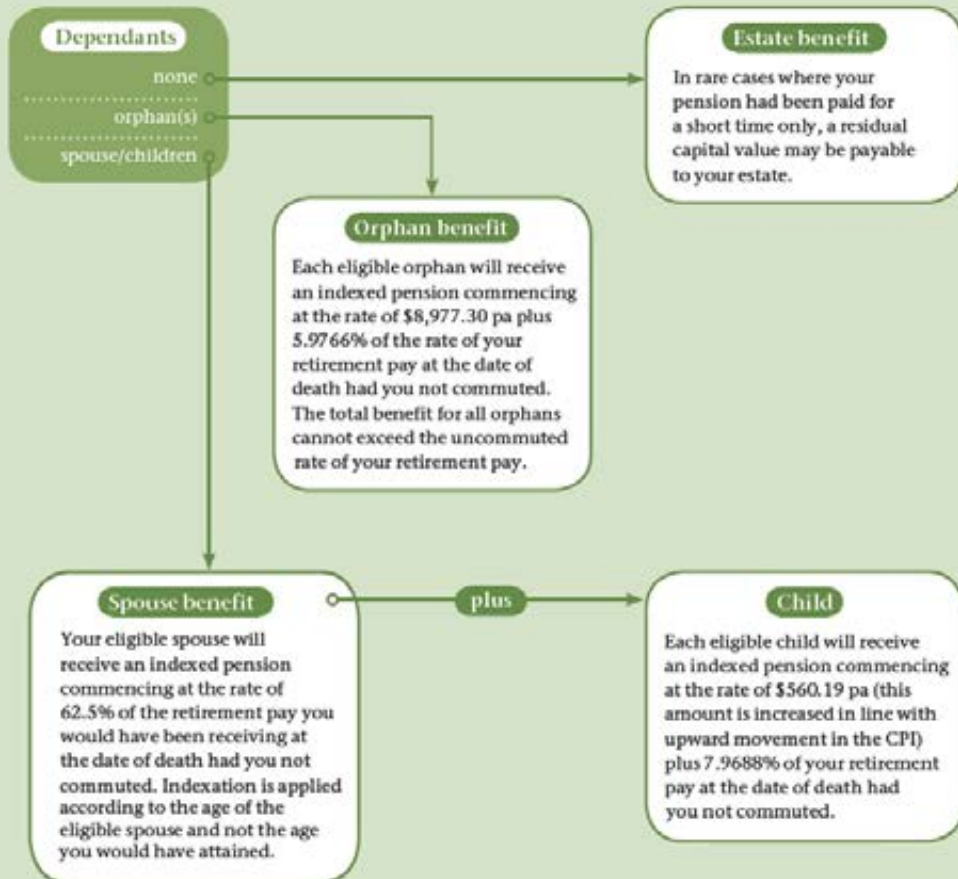
Advising your dependants

It is important that your dependants are aware that a benefit may be payable from DFRDB in the event of your death.

DFRDB death benefits – quickguide 2

Death after retirement

Benefits available to your dependants should you die after retirement are generally based on the benefit you would have been receiving at the date of your death had you not commuted any part of your retirement pay.



Productivity benefit

General

A productivity benefit has been accruing on behalf of all ADF members since 1 January 1988. This benefit is paid for completely by the Department of Defence and is separate from DFRDB benefits outlined in this booklet.

When is the benefit payable?

Under certain circumstances, the productivity benefit is payable immediately after you leave the ADF. However, in most cases it must be paid into a rollover fund of your choice until you retire from the workforce on or after reaching your preservation age (see Table 1 on page 8 for preservation ages).

Immediate payment

If you leave DFRDB and you satisfy any of the following criteria, the productivity benefit is payable to you or your family immediately:

- > if you retire from the workforce on or after preservation age
- > if you reach age 60 and change employer
- > in the event of your death.

Later payment from another rollover fund

If you do not meet the above criteria, you must nominate a rollover fund (for example, an approved deposit fund) into which your benefit will be deposited, until one of the above conditions is met. The rollover fund may allow early release of some part of the productivity benefit should you find yourself in a position of financial hardship. Early release is subject to you meeting prescribed conditions.

Preserved benefits

If you leave DFRDB without an entitlement to retirement or invalidity benefit, you may be entitled to elect for what is called 'preservation of rights'. On such election, continuity of your accumulated superannuation rights is maintained when you move from one employment to another.

The preservation provisions are designed to enable you to either:

- > transfer your superannuation entitlements from DFRDB to another eligible superannuation scheme by means of a **transfer value**
- > retain your entitlements in DFRDB, and on meeting certain conditions, receive a **deferred benefit** at a future date.

What is a transfer value?

A transfer value is a lump sum amount, comprising your total contributions plus an amount contributed by the Commonwealth, which is payable to another eligible superannuation scheme to receive additional benefits from that scheme.

A transfer value is only available if you become a member of an eligible superannuation scheme within 90 days of your discharge from the ADF, and if that scheme is prepared to accept the transfer value. DFRDB can advise you of the schemes that are eligible superannuation schemes.

What is a deferred benefit?

If a transfer value does not apply, you may be eligible for a deferred benefit. A deferred benefit is similar to retirement benefits and is calculated at the rate of 1.75% of your salary for superannuation purposes at the date of your discharge for each completed year of effective service in the ADF.

To be eligible for a deferred benefit, you must engage in public employment within 90 days of your discharge from the ADF. Also, you must remain in public employment without a continuous break of more than 89 days until your combined ADF and public employment totals 20 years, or 15 years where you reach your retiring age for your rank at discharge.

Public employment includes employment with the Commonwealth, State or Territory Governments and certain bodies established for a public purpose. In some circumstances where you have a period of previous eligible employment, or you are in receipt of a pension in respect of previous employment, you may not be required to engage in public employment. Please contact DFRDB for further information.

If you do not stay in public employment until your deferred benefit becomes payable, or if you have a break of more than 89 days, you will cease to be entitled to a deferred benefit and you will receive a refund of your contributions and, if applicable, a gratuity.

Re-entered recipient members

Who is a re-entered recipient?

If you are receiving a DFRDB retirement pension, or invalidity pension, and you resume continuous full-time ADF service, you are a re-entered recipient.

If you are considering resuming full-time ADF service you must make a DFRDB or MilitarySuper election, and this must be received by your chosen scheme **before your first day of service**. You must also make another election if you complete your period of ADF service, have a break, then start another period of ADF service.

What does 'resuming full-time ADF service' mean?

'Resuming full-time ADF service' means a person's first day of service in the ADF. It includes the following situations:

- > returning to the ADF in the permanent forces or reserves on continuous full-time service (CFTS)
- > changing over from the inactive reserves to the permanent forces on full-time service
- > completing a period of ADF service, having a break, then starting another period of ADF service
- > completing CFTS of less than 12 months in the reserves and, without a break, changing to the permanent forces or starting another period of CFTS of 12 months or more in the reserves.

Extensions or continuations of CFTS without a break

General rule: Except for one situation, you don't have to make another election if you extend or continue your period of ADF service without a break.

Exception: You must make another election if you complete CFTS of less than 12 months in the Reserves, don't have a break in CFTS, and then change to:

- > the permanent forces
- > CFTS of 12 months or more in the reserves.

Make your election on Part D of the D100 form before the start of the changed period of service. If we do not receive your election before you go back into the ADF (ie before your first day of service), you will **automatically and irreversibly** become a member of MilitarySuper by operation of the scheme legislation.

How do I make my election?

You must make your election on the Election form for former DFRDB members resuming ADF full-time service (D100) form. The D100 form is for people who have been in DFRDB and are returning to the ADF and is available at dfrdb.gov.au

It is your responsibility to ensure your completed D100 form is received by DFRDB before your first day of service in the ADF. You must also send a copy of the D100 form to your Pay Unit before re-entry.

Doing both of these things will help to ensure your election is valid, avoid possible overpayments and safeguard your entitlement to future benefits.

What happens if I join MilitarySuper?

If you join MilitarySuper:

- > you contribute to MilitarySuper during your engagement, and you will accrue a MilitarySuper benefit (see the MilitarySuper website for more information at militarysuper.gov.au)
- > you can never return to DFRDB as a contributor for your next, or any future, ADF engagement
- > your DFRDB retirement pay is suspended – payment will resume after your service ends, at a rate that takes into account CPI increases during your period of service. Arrears of retirement pay will not be payable. CPI increases are applied regardless of your age over this period.

What happens if I don't join MilitarySuper?

The result of not joining MilitarySuper depends on the nature of your engagement. There are two possible situations:

Situation 1 – Reserves on CFTS of less than 12 months

If you go back into the ADF in the Reserves on CFTS less than 12 months and don't join MilitarySuper:

- > you will continue to receive DFRDB retirement pay or invalidity pay during the period of your re-engagement
- > you will not contribute to DFRDB during your engagement
- > if you have a break in CFTS, you will have to make another scheme election before the start of the next period of CFTS
- > If you don't have a break in CFTS but you change to:
 - > the permanent forces
 - or
 - > CFTS of 12 months or more in the reserves
- > you will have to make another scheme election before the first day of the changed period of service
- > you will also accrue a productivity benefit during the period of your engagement.

Situation 2 – Reserves on CFTS of 12 months or more, or permanent forces

If you go back into the ADF in:

- a) the reserves on CFTS of 12 months or more
- b) the permanent forces and don't choose MilitarySuper:
 - > you will contribute to DFRDB for your period of service (including any extension or continuation of that service without a break)
 - > your election will also apply to future periods of service of the same nature (ie in the reserves for 12 months or more, or in the permanent forces), even after you have had a break in service.

Note: This situation has only limited application.

If you have a break in service and then return to the reserves on CFTS of 12 months or more or return to the permanent forces, make sure that you make another scheme election on **Part D** of the D100 form before the start of your period of service.

- > your DFRDB **retirement benefit** will be **cancelled** during the period of your engagement
- > at the end of your service, your retirement benefit will be re-calculated based on total years of service (including your re-entry period)
- > your retirement benefit will recommence
- > you may also be entitled to an additional DFRDB commutation lump sum on your exit
- > if you are receiving DFRDB **invalidity benefit**, it will also be **cancelled** – and it will not recommence after your service ends; however, if you had previously qualified for retirement benefit by completing 20 years service, you will receive retirement benefit instead.



Surcharge

Superannuation surcharge

Superannuation surcharge was calculated by the ATO and imposed on a member's surchargeable contributions where the member's adjusted taxable income (taxable income plus notional employer contributions) exceeded certain levels before 1 July 2005. Surcharge amounts notified by the ATO are recorded in a surcharge debt account. Although surcharge does not apply from 1 July 2005 onwards, amounts recorded in surcharge debt accounts must still be paid.

Payment of the surcharge debt

The amount in a surcharge debt account can be paid in part or full progressively during the period of membership, or left to accrue with interest at the 10-year Treasury bond rate. Any amount in a surcharge debt account remaining when a benefit becomes payable, whether in cash, or by transfer or rollover to another fund, will be deducted from DFRDB benefit payable.

There are some important matters to consider before deciding to pay the amount in a surcharge debt account before your DFRDB benefit becomes payable, especially if you have less than 20 years' effective service.

If you wish to make a payment, in part or in full before you leave the ADF, it should be sent directly to DFRDB with a Surcharge remittance advice (SUR-DM1) form, available at dfrdb.gov.au. Alternatively, you can attach a note with your payment that clearly states your full name, address, service number, scheme membership (DFRDB), and instruct the payment to be credited to your surcharge account.

Interest on the surcharge debt

Interest, calculated at the 10-year Treasury bond rate is required to be imposed on any amount in a surcharge debt account remaining at 30 June in any year. If you wish to avoid the imposition of interest on the amount in the surcharge debt account, you would need to ensure that payment of the amount is received by DFRDB before the close of business on 30 June.

Payment from productivity benefit

Any surcharge debt remaining at the time a benefit becomes payable will normally be recovered from the productivity lump sum benefit. However, you can request that it be recovered from DFRDB benefit instead.

If the productivity benefit is insufficient to discharge the surcharge liability, the excess amount will be recovered by reducing retirement pay/pension.

Payment of surcharge debt from pension

Payment of the amount in the surcharge debt account from a DFRDB pension is achieved by converting the surcharge debt to an annual pension reduction amount and reducing the pension by that amount. This is a **permanent** pension reduction (that is, the pension is not increased if it continues beyond the period of the surcharge reduction factor).

The annual pension reduction amount is determined by dividing the amount in the surcharge debt account by a DFRDB pension surcharge reduction factor as shown in Table 5 on the next page.

Table 5: Pension surcharge reduction factors

Age in completed years at start date of pension	Pension reduction factor	Age in completed years at start date of pension	Pension reduction factor	Age in completed years at start date of pension	Pension reduction factor
65	14.7	55	18.1	45	20.6
64	15.1	54	18.4	44	20.8
63	15.5	53	18.7	43	21.0
62	15.9	52	19.0	42	21.2
61	16.2	51	19.2	41	21.4
60	16.6	50	19.5	40	21.6
59	16.9	49	19.7	39	21.7
58	17.2	48	19.9	38	21.9
57	17.5	47	20.2	37	22.0
56	17.8	46	20.4	36	22.2

Example G: Payment of surcharge debt from DFRDB indexed pension

Surcharge debt amount	\$10,000
Age in completed years at date of commencement of pension	58
Pension per year before reduction	\$40,000
Calculation of pension reduction amount	
$\frac{\$10,000}{17.2} = \581.40	-\$581.40
Indexed pension payable after reduction	\$39,418.60

Future pension adjustment

The reduced pension is subject to adjustment in the normal manner on the first pension payday in January and July each year.

Commutation

Where you elect to commute retirement pay/pension, the commutation factor is applied to the normal rate of retirement pay/pension (that is, before a reduction on account of a surcharge debt). If an election is made to commute and there is a debit balance in the surcharge debt account, the following provisions apply:

- > you make an election to have the surcharge deduction amount applied to DFRDB benefit rather than the productivity benefit, the lump sum payable following commutation is reduced by the surcharge debt
- > if no such election is made, the surcharge debt is recovered from the productivity lump sum benefit. However, if the productivity benefit is insufficient to pay the debt in full, the excess amount is recovered from the post-commutation rate of retirement pay/pension.

Payment from a pre-tax amount

As the benefit is reduced by the amount in the surcharge debt account before it becomes payable, the amount applied to pay the debt does not form part of taxable income and is not subject to the tax that would otherwise apply to the pension or lump sum. In other words, the payment is made from a pre-tax amount.

Benefit preserved in DFRDB

As there are no contributions being made to a benefit that is preserved in DFRDB (and because surcharge no longer applies from 1 July 2005), it is unlikely there will be any further surchargeable assessments on surchargeable contributions up to 30 June 2005 (unless the ATO issues late assessments or amended assessments). However, any amount in your surcharge debt account remaining at 30 June each year the benefit is preserved will be charged interest at the 10-year Treasury bond rate.

Surcharge debt assessment received after payment of benefit

Any surcharge assessment received after your ceasing membership and payment of the benefit is either sent on to the new provider by the ATO for payment where the full benefit is rolled over/transferred to another fund; or, the ATO will send the assessment to you where all superannuation entitlements are paid out because you are liable to pay the assessment.

Disagreement with assessment

A member who disagrees with the assessment, in so far as it is based on adjusted taxable income, may lodge a formal objection with the ATO.

If the disagreement relates to the calculation of the amount of surchargeable contributions reported for you, a request for reconsideration can be made to us.

Application to your own circumstances

You need to consider your own financial situation when deciding whether to pay any surcharge debt progressively as it arises, or leave the debt until the benefit becomes payable, and then, whether it may be preferable to have the debt deducted from your DFRDB benefit due, or paid from other sources.

As with most financial considerations, every case is different and it is necessary to analyse the alternatives in the light of your own particular circumstances and, if appropriate, seek financial advice.

We may vary surcharge debt amount

If you have an amount in your surcharge debt account at the time benefits become payable, we must determine the surcharge deduction amount from your benefit that is fair and reasonable.

This means that we may vary the amount required to be funded by you when benefits become payable. The legislation specifies that we must take certain matters into account in making such a determination. In particular, the legislation specifies that the surcharge debt amount cannot be more than 15% of the employer-financed component of the benefit accrued since 20 August 1996 up to 30 June 2005.

We have issued guidelines to the effect that the surcharge deduction amount will ordinarily be the same as the amount in the surcharge debt account unless:

- > in special circumstances relating to the retiree, deduction of that amount would cause the retiree to suffer an unfair or unreasonable financial detriment
- > the amount of the surcharge debt was based on an incorrect calculation of surchargeable contributions.

The amount you are required to fund can only be varied if you have a surcharge debt at the time benefits become payable. If you have paid any surcharge liability before benefits become payable, we cannot determine an alternative amount to pay (because there would be no liability at the time the benefit became payable).

Enquiries

The Australian Taxation Office (ATO) is the primary point of contact for enquiries on the superannuation surcharge and related matters. The ATO superannuation helpline is 13 10 20 for the cost of a local call.

If you have an enquiry about the administration of the surcharge, you can call DFRDB on 1300 001 677. Alternatively, you can email your enquiries to DFRDB at members@dfldb.gov.au

Taxation

General

Fortnightly pensions from DFRDB are subject to normal Pay As You Go (PAYG) tax deductions, in much the same way as your salary is subject to tax assessment. Lump sums are also taxed.

We deduct tax on the following lump sums:

- > gratuities
- > commutations (lump sums)
- > lump sum invalidity payments.

The Commissioner for Taxation has directed, using discretionary powers contained in the *Tax Act 2007*, that no tax be deducted from refunds of contributions which have not earned interest. This applies to all such refunds from DFRDB.

The taxation legislation also provides that no tax is deducted where the total lump sum is rolled over to an approved deposit fund or to another superannuation scheme, or is used to purchase a deferred annuity. However, 15% contributions tax will be deducted from the taxable component, untaxed element of the rollover amount by the institution receiving the rollover.

This booklet does not cover taxation in any detail as it is an area of such rapid and constant change. However, further information, including a series of factsheets, is available online at dfrdb.gov.au

Lower taxation of benefit

When you leave the ADF remember to complete a **Tax File Number Declaration** form and send it to DFRDB. Otherwise, your retirement or invalidity benefit will be taxed at the top marginal rate.

If you need any information on the way your future benefits will be taxed, you should contact DFRDB on 1300 001 677.

Twice yearly adjustment of pensions

If you are under 55

DFRDB pensions will be automatically adjusted twice yearly if there are upwards movements in the Consumer Price Index (CPI) for the six months ending 30 September and 31 March each year. Your pension will not decrease if there is a downwards movement in the CPI.

If you are aged 55 or older

Your pension will be adjusted in January and July each year by the greater of positive movements in the Consumer Price Index (CPI) and the Pensioner and Beneficiary Living Cost Index (LCI). The LCI is a measure of price changes used by the Australian Bureau of Statistics that better takes into account those goods and services used by retirees. Regard is also paid to movements in average wages.

For more information on how a pension increase is calculated please visit dfrdb.gov.au

Commutation and pension adjustments

If you elect to commute from four times retirement benefit up to five times retirement benefit, the total amount of the remaining retirement benefit is indexed. However, if you do not elect to commute, or you elect to commute less than four times retirement benefit, indexation will only be applied to your notional retirement pay, which is the rate of retirement pay that would be payable if you had elected to commute four times retirement pay. This is illustrated in the notes following Example B on page 14.

Keeping you informed

As a pensioner, you will receive a letter after each January and July increase showing any adjustment to your rate of pension. Your income tax payment summary and other relevant information will be included with the July statement.

Your initial pension adjustment will be proportional, according to the number of months that you have been receiving the pension up to 30 June or 31 December. Subsequent twice yearly adjustments will receive the full amount.

Appeal provisions

We, or our delegates, often have to make decisions affecting members' benefits, the DFRDB Act contains an appeals mechanism.

There are three main stages at which you can appeal against any of our, or our delegates', decisions or level of service. The first is to us, requesting reconsideration of your decision. However, if you are still dissatisfied following reconsideration of your case, you can then appeal directly to the Administrative Appeals Tribunal (AAT).

Appeal procedures

If you want to make a complaint about the level of service you have received, you can call the complaints line on 1300 033 732 or send an email to complaints@dfdrdb.gov.au. If you want to appeal against a decision, you must first write to us requesting that the decision be reconsidered. This initial letter should outline the grounds for making your request and provide any information which would support your request, and should normally be made within 30 days of receiving notification of the original decision. Special circumstances are needed to accept a request after that time period.

On receiving your request, we will either confirm or vary its original decision and then notify you of the result and advise you of further appeal provisions.

However, if you are still dissatisfied following reconsideration of your case, then you have a second avenue of appeal – you can appeal directly to the Administrative Appeals Tribunal (AAT).

Administrative Appeals Tribunal (AAT)

Your second avenue of appeal is through the AAT, though you may also be able to use the Commonwealth Ombudsman and the normal legal system.

The AAT is an independent tribunal which is presided over by a Federal Court Judge.

The AAT only has jurisdiction over our decisions after you have had us reconsider a decision.

If you want to appeal to the AAT, you can either put your case in writing or lodge an application form. If you write to the AAT, you should state the reasons for your appeal and also include the information that you believe supports your case.

If you are successful before the AAT your legal costs are not paid or reimbursed by us. If you are unsuccessful, you will not have to pay our legal costs.

More information about the appeals procedure is available from the AAT or by going to their website at aat.gov.au

Federal Court or Federal Magistrates Court

You may also appeal to the Federal Court of Australia or Federal Magistrates Court, on any question of law from any decision arising from your AAT hearing.

Freedom of Information

The *Freedom of Information Act 1982* (the FOI Act) provides you with a general right of access to information held by DFRDB. However, the FOI Act provides some exemptions which are necessary to protect matters of essential public interest and the private affairs of individuals.

You may obtain documents held by DFRDB and which relate to your entitlement to DFRDB benefits by telephoning the FOI Officer on 1300 033 732, by email at foi@admin.csc.gov.au, or sending your request to DFRDB, GPO Box 2252, Canberra ACT 2601.



Applying for a benefit

General

When applying for a benefit it is important that you complete all the necessary benefit application forms correctly. Failure to do so will result in DFRDB returning the form to you, which will cause a corresponding delay in the time it takes to process your application.

In order to avoid this delay, you should read the explanatory notes on the forms before completing them. If you are not sure about something you can contact DFRDB for information.

To protect your benefit against fraud, money laundering and terrorism financing, under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* you must prove your identity when applying for a benefit. To do this you will need to provide a number of identification documents which total at least 100 points.

On the benefit application form, you can elect to have these documents verified electronically or you can provide certified hard copy documents. More information is available on each application form.

Applying for retirement pay and commutation

When you decide to retire from the ADF, you will need to fill in a benefit application form which is available from the DFRDB website at dfrdb.gov.au. To allow adequate processing time for your application, you should send the completed form to DFRDB in advance of your discharge date (but not more than three months before). DFRDB will check that your application has been completed correctly and return it to you if more information is required. However, we cannot commence calculating your benefit application until the day after your discharge. DFRDB is required to check that your discharge date was not changed or extended and that your final salary did not change.

The form that you need to fill in is called **Application for DFRDB retirement pay, commutation and superannuation productivity (D20) form**. This form asks you for your personal details, including details of the financial institution you want your retirement benefit to be paid to.

You can also use this form if you decide to commute a portion of your retirement pay. For taxation reasons you should send in the form no more than six months after your discharge date.

Applying for a refund of contributions

If you do not qualify for a retirement benefit or an invalidity benefit, you will receive a lump sum refund of all the contributions you have paid into DFRDB.

Applying for invalidity benefits

If you are anticipating invalidity retirement, you must complete an **Application for invalidity benefit and superannuation productivity (D40) form**. This form requests personal information needed for the processing and payment of the benefit. On the form, you are requested to provide information about your skills, qualifications and employment experience to assist in the consideration of employment types relevant to the invalidity provisions of DFRDB. The form provides explanatory notes and also contains useful information about invalidity benefits. You should send the completed D40 application form directly to DFRDB no earlier than three months before your expected date of invalidity discharge.

Action to process an invalidity benefit cannot be taken until the relevant medical documents are received by DFRDB.

Applying for lower taxation of benefits

If you wish to avoid having tax deducted from your benefit at the top marginal rate, you must also provide DFRDB with a completed **Tax File Number Declaration** form. This form is available from the ATO website at ato.gov.au

Applying for dependants' benefits

In the event of your death, your eligible dependants will need to complete an **Application for spouse, child/student or student pension (D80)** form. This package includes application forms for your children as well as for your spouse.

There are also some documents which will have to be sent to DFRDB so that the eligibility of your dependants can be confirmed. These documents are listed in the D80 form, and they should be sent in with the completed form.

Generally, your spouse's eligibility can be confirmed if your marriage/registered relationship certificate is provided, and your children's eligibility can be confirmed if their birth certificates are provided. If additional documentation is required to determine your dependants' eligibility, DFRDB will request it.



Need more information?

If you need more information on your DFRDB entitlements, you should contact DFRDB or visit the website at dfrdb.gov.au. The factsheets available will provide specific information on topics such as taxation, retirement benefits, invalidity benefits, dependants' benefits and appeal provisions.

i-Estimator

As well as working through the examples in this booklet, you can use the DFRDB i-Estimator to quickly gain an estimate of your likely DFRDB benefit.

This facility, which operates under Member Services Online at dfrdb.gov.au, allows you to work out prospective benefits on various types of exit. Because the calculations are based on several assumptions, they cannot be regarded as official estimates. If you are retiring from the ADF within 12 months, you should get an official benefit estimate from DFRDB.

To use the i-Estimator, you will need an Access Number from DFRDB. Please call 1300 001 677 to obtain an Access Number.

Note: You cannot use the i-Estimator when you have had a Family Law payment split, or if you are a recipient member who has resumed full-time ADF service.



Pre-retirement information

DFRDB can provide you with an estimate of your potential benefits.

Requests for benefit estimates can be made by phone or in writing up to five years in advance of your anticipated date of discharge from the ADF. However, for discharge dates more than twelve months in advance, initial estimates should be obtained using the i-Estimator, that can be accessed via your **Member Services Online**.

Remember to quote your service number when making enquiries to DFRDB.

Enquiries should be directed to:

DFRDB
GPO Box 2252
Canberra ACT 2601

Members:	1300 001 677
Pensions:	1300 001 877
Facsimile:	(02) 6272 9616
Email:	members@dfldb.gov.au pensions@dfldb.gov.au



@ EMAIL
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Australian Government

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DFRDB COMMUTATION ANALYSIS

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DFRDB COMMUTATION ANALYSIS

1 INTRODUCTION

- 1.1 The Commonwealth Ombudsman (Ombudsman) is investigating past practices by the predecessors of the Commonwealth Superannuation Corporation (CSC) in respect of the commutation option for retirees from the Defence Force Retirement and Death Benefits Scheme (DFRDB) by the Australian Government. In order to inform the Ombudsman's view, the Ombudsman has requested the Australian Government Actuary (AGA) provide an analysis of financial outcomes relating to 12 individuals who elected to commute part of their retirement pay (pension) for a lump sum.
- 1.2 This report presents the outcomes of the analysis using the assumptions requested by the Ombudsman.
- 1.3 It should be noted that this report has been specifically prepared for the Ombudsman and third parties are not entitled to rely upon it for decision making purposes. We understand that the Ombudsman may append a copy of this report to the Ombudsman's report for information purposes. We have no objection to this provided that this report is appended in its entirety. If the Ombudsman does not append a copy of this report or otherwise makes this report publicly available, then if this report is quoted in the Ombudsman's report, any quotation that is attributed to the AGA should be cleared with the AGA prior to publication.

2 DFRDB COMMUTATION OPTION

- 2.1 Where serving ADF personnel in the DFRDB retire after 20 or more years of service, they are entitled to retirement pay (pension). Part of the retirement pay can be converted for a lump sum. Appendix C provides details of the commutation factors (termed expectation of life factors in Schedule 3 of the *Defence Force Retirement and Death Benefits Act 1973*) per \$1 per annum of pension commuted.
- 2.2 When DFRDB initially commenced in 1973, the maximum lump sum available as a result of commutation was four times the pension before any commutation. The initial design of the DFRDB was such that there was a strong financial incentive for retirees to take the maximum lump sum. The component of the pension (before commutation) that was being commuted for the lump sum was unindexed pension. The balance of the pension was indexed pension. As would be expected, virtually all retirees elected to commute the unindexed pension for the maximum lump sum.
- 2.3 From 1982 to 2002, the amount of the maximum lump sum that could be taken was gradually increased from four times the pension before any commutation to five times the pension before any commutation. It is important to note that while the commutation factors did not change, the component of any lump sum that is in excess of four times the pension before any commutation is an exchange for (commutation

DFRDB COMMUTATION ANALYSIS

of) indexed pension. Following these changes, the vast majority of retirees continued to commute their pension for the maximum lump available.

- 2.4 The pension increases for indexed DFRDB pensions were initially based on the Consumer Price Index (CPI). In 2014, there was an improvement to the indexation arrangements for those aged 55 or more. These increases are based on a methodology that essentially replicates the increases to the Commonwealth Age Pension allowing for the different pension indexation dates for DFRDB compared to the Age Pension.
- 2.5 The reversionary pension payable to a surviving spouse following the death of the pensioner is unaffected by whether or not members retiring elect to commute their pensions.

3 DATA

- 3.1 The modelling used actual data from the DFRDB membership database extracted by the Commonwealth Superannuation Corporation (CSC) at the request of the Ombudsman and subsequently provided to the AGA by the Ombudsman.
- 3.2 The CSC data contained information that would enable the comparison between the commuted lump sum and the pension forgone for the commutation, including:
- date of exit,
 - age at exit,
 - commutation factor,
 - gender,
 - rank,
 - final salary,
 - effective years of service,
 - pension as a percentage of salary,
 - notional retirement age and associated reduction, if applicable,
 - commutation multiple,
 - commutation lump sum; and
 - annual pensions at the date of discharge and at 1 July 2019.
- 3.3 We have performed checks on the data provided based on our understanding of the legislation governing the DFRDB.

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- 3.4 CSC also provided the pension indexation factors that applied to DFRDB pensioners from the July 1976 increase to the January 2019 increases. The pension indexation percentages for the July 2019 pension increases are available on the CSC website. The indexation rates used are set out in Appendix B.
- 3.5 We performed a check by comparing the initial pension payable on retirement increased in line with the pension indexation factors provided by CSC with the actual current day pension provided by CSC. This check found that the projected pensions were within 0.5% of the current pension provided by CSC.
- 3.6 Based on our checks, we are comfortable that the data supplied is reasonable for the purposes of this analysis. Relevant details for the 12 individuals are set out in Appendix A.

4 METHODOLOGY

- 4.1 The Ombudsman requested that the analysis be based on the DFRDB legislation as it stands. The Ombudsman has further requested that the outcomes analysed should be based, as far as is practicable, on actual economic outcomes after retirement rather than those that might have been expected at the time of retirement.
- 4.2 The methodology used in this analysis has been developed by AGA. In doing this, AGA consulted with the Ombudsman regarding the general principles underlying the AGA methodology.
- 4.3 The approach that the AGA has taken to this exercise is to firstly consider the options available to a member retiring at the time of discharge in accordance with our understanding of the legislation governing the DFRDB, that is to either:
- take a lifetime pension consisting of indexed and non-indexed components, or
 - commute or exchange all of the unindexed component plus part of the indexed component (post 1982) for an upfront lump sum payment, with the residual indexed pension continuing to be paid for the life of the member. This option does not involve the reinstatement of the commuted pension at any time.
- 4.4 Under either option, the member will always receive an indexed pension relating to the component of retirement pay that is not able to be commuted. Thus, in performing the comparison analysis, this component can be ignored. For analysis purposes, it is only necessary to compare the lump sum from commutation with the unindexed and indexed pension forgone as a result of commutation.
- 4.5 In performing our analysis, we have adopted the concept of determining a “break-even age” for the 12 individuals being analysed. The break-even age for each individual is the age where the value derived from the commutation lump sum equals the value derived from the forgone pension payments. If the individual lives beyond

DFRDB COMMUTATION ANALYSIS

the break-even age, then with the benefit of hindsight, the individual would have been financially better off by not commuting part of their pension. Conversely, if the individual does not live to the break-even age, then the individual would have been financially better off commuting part of their pension.

- 4.6 Based on the concept of a break-even age, we have then compared the value of the commuted benefit that a member elected with the value of ongoing pension payments that were forgone in the commutation. It should be noted that as none of the 12 individuals being considered have yet reached their break-even ages, it was necessary to make assumptions about future interest rates to calculate break-even ages for these individuals.
- 4.7 While the Ombudsman has requested the analysis be done based on actual economic outcomes, it should be noted that an individual would have had to make a value judgement regarding his/her break-even age at the time of retirement based on economic conditions at that time and their expectations of longevity.
- 4.8 As our analysis has been performed using interest rate related assumptions, this approach could be argued to be conservative from the perspective of comparing the value of the commutation lump sum with the pension forgone. This is because most individuals at the time of retirement would not have foreseen the substantial falls in interest rates that have applied in recent years and would have based their decisions assuming higher interest rates. Higher interest rates increase the attractiveness of the commutation lump sum relative to the pension forgone.

Valuation Approaches

- 4.9 Discussions with the Ombudsman indicated that its investigations found that it was likely that the majority of those who elected to commute for the maximum lump sum used the lump sum either as a deposit for a house or used it to reduce the amount of money that needed to be borrowed for a house. Given this, the Ombudsman requested that the AGA should incorporate some sort of analysis which considered this scenario given it was a common theme.
- 4.10 We also considered what would be a worse case sensible use of the commutation lump sum. Our view was that investing the lump sum with the bank met this criterion. However, given that the lump sum would have been considered to be a significant amount of money at the time, we consider that a relatively astute, but still conservative investment would have been a term deposit, rather than an at call investment.
- 4.11 We have thus adopted two alternative approaches as follows:
- benefits received are invested in a risk free environment represented by prevailing one year term deposit rates, or

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- the commuted amount is used to purchase a property, thus reducing the amount the member would have had to borrow in relation to a 25 year home loan.

Term Deposit Approach

- 4.12 When considering how to value the term deposit approach it is important to recognise that different people will have different perspectives on how to evaluate the two sets of alternative benefit payments. As a result, we have used two different methods to compare the benefits, noting that both methods will result in the same break-even age.

Term Deposit – Accumulation Method

- 4.13 The first approach is termed “the accumulation method” as both the commutation lump sum and the pension forgone are accumulated annually with term deposit interest rates. The two accumulation profiles are then compared to find out whether there is a crossover point. If there is a crossover, the age of the member in the crossover year would be the break-even age. For most of the retirements in the early years of DFRDB, there is no crossover year and the commutation lump sum provides better value than the pension forgone indefinitely.

- 4.14 When describing this approach, it is useful to consider a simplified example of a member who exchanged annual unindexed pension payments of \$15,000 for a lump sum of \$300,000 at age 54, with a notional commutation factor of 20. There are two scenarios to be modelled. They are the commutation lump sum and the forgone unindexed pension payments. They are modelled as follows:

- Commutation lump sum

The \$300,000 is assumed to be invested in one year term deposits and is not accessed at any time. Each year, interest is added to the opening balance at the start of the year to give an accumulated value at the end of the year.

- Unindexed pension payments

The forgone unindexed pension payments are also assumed to be invested in one year term deposits when the member receives the payments and again, not accessed at any time. Over time this investment account grows as follows:

1. At the start of the first year, the initial balance is zero.
2. At the end of the first year, the balance is the amount of the pension received (\$15,000) in that year plus a small amount of interest earned on the pension payments received in the year. On average, pension

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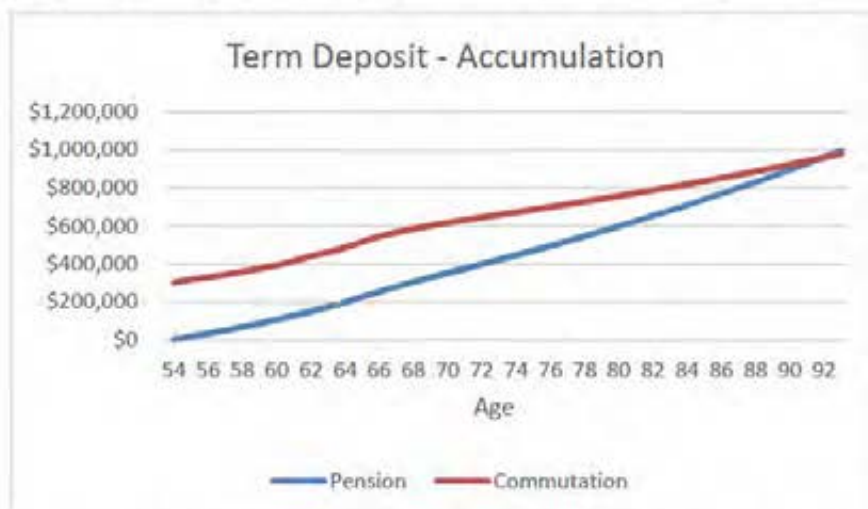
payments are received halfway through the year. Thus, the amount of interest earned is around half a year's worth of interest on \$15,000 in the simplified example.

3. In the second and subsequent years, interest is earned on the opening balance and added to the account. Another year's worth of pension (\$15,000) will be added along with around half a year's worth of interest earned on that year's pension payments to give the account balance at the end of the year.

4.15 The accumulated value of the two series of invested benefits based on the data for our simplified example individual and assumptions is then compared. The point, or age of the member, at which the two values intercept is identified. Where an individual lives past the break-even age, based on the assumptions used, the individual would have been better off not commuting. This process is illustrated by Figure 1 below where the crossover (break-even) age is 92.

4.16 For the purpose of this calculation, it was necessary to make an assumption about future term deposit rates. As set out in Section 5, we have assumed that recent historically low interest rates of 2% per annum remain at those levels in the future.

Figure 1: Example of Term Deposit Accumulation comparison



In this example, the member ceased service in the year 2000 at age 54 and the value of the two benefits would be expected to cross in 2038 when the member is age 92. This is the break-even age.

Term Deposit – Drawdown Method

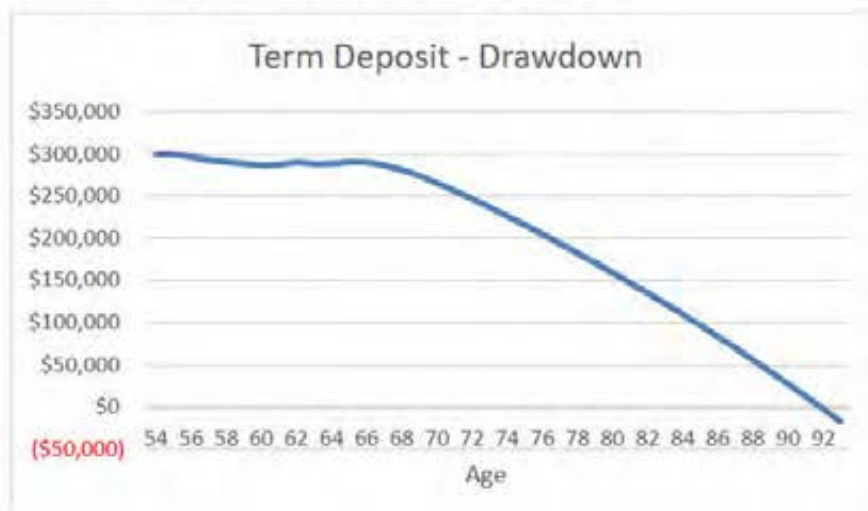
4.17 An alternative way of comparing the two benefit options in the above example is to think of the \$300,000 lump sum as an investment from which the annual \$15,000 pension payments are withdrawn each year. Effectively, the member decides that he or she still needs access to the forgone pension payments, firstly out of the interest earned on the investment, and if that is insufficient to provide the pension forgone,

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then secondly out of the capital. The point at which the investment is exhausted is the actual break-even age.

- 4.18 Figure 2 below illustrates this approach and shows that the lump sum investment would be expected to be exhausted at age 92 – the same age as derived in the accumulation approach above.

Figure 2: Example of Term Deposit Drawdown



In this example, the member ceased service in the year 2000 at age 54 and the value of the investment supporting the pension drawdown is expected to be exhausted in 2038 when the member is age 92. This is the break-even age.

Home Loan Approach

- 4.19 The home loan approach recognises that many individuals who chose to take a commutation lump sum actually used that money to reduce the amount that they would have otherwise borrowed for a mortgage. The value proposition here is a little more complex and is described below using the same member as an example:

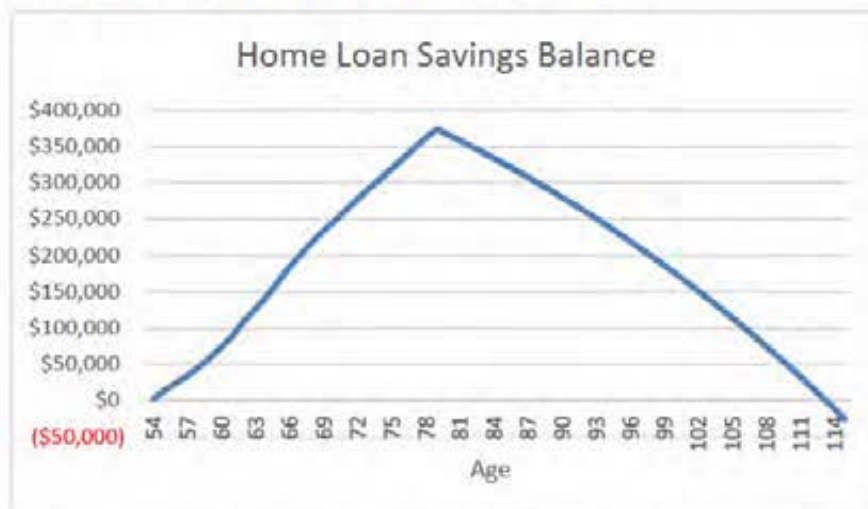
1. If the member had been required to borrow the extra \$300,000 for their home loan, then based on a loan term of 25 years and the prevailing mortgage rates in 2000, they would have been required to make extra mortgage repayments in the first year of about \$27,000.
2. By taking the commutation lump sum, the member can save \$27,000 in mortgage payments. However, as they have forgone \$15,000 of annual pension payments, they can pay themselves the forgone annual pension from the \$27,000 savings in mortgage payments. The surplus savings of \$12,000 would then be put into an investment account earning the one year term deposit rates.
3. This calculation is performed each year based on the prevailing mortgage rates and outstanding loan balance, with the surplus savings added to the investment.

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4. Once the home loan is paid off after 25 years, the investment receives no further top-ups, but ongoing annual forgone pension payments of \$15,000 would start to be paid out of the accumulated investment until the balance is exhausted. This represents the actual break-even age.
5. For the purpose of this calculation, it is assumed that mortgage rates in the future will be at the rate of 4% per annum based on the current economic environment.

4.20 The home loan approach for the same member can be illustrated in Figure 3 below.

Figure 3: Example of Home Loan Savings Balance



In this example, the member ceased service in the year 2000 at age 54 and used the entire commutation lump sum to purchase a property, which would otherwise be financed by a 25-year home loan.

4.21 The above break-even age of 114 is significantly higher than the term deposit break-even age of 92, largely due to the fact that mortgage rates are significantly higher than term deposit rates. Effectively, the home loan approach assumes that the member has been able to access mortgage investment returns on their commuted lump sum in the first 25 years.

5 ASSUMPTIONS

- 5.1 The Ombudsman has set the assumptions for the purpose of this report. This has either been directly or by means of setting an approach for deriving the assumptions. The Ombudsman requested that the analysis should be done on a gross of tax basis. Therefore, the analysis has not taken into account tax implications.
- 5.2 Data on historical term deposit interest rates and mortgage borrowing rates was obtained from information published by the Reserve Bank of Australia (RBA) where it was available. For a small number of years in the 1970s and for 1980, information on term deposit rates from the RBA was not available and these rates were obtained from other sources. For the purpose of applying historical rates for our calculations,

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the average of one year term deposits and variable mortgage rates over each financial year was used in respect of that financial year. Detail regarding the historical term deposit and mortgage rates that we have used are set out in Appendix B of this report.

5.3 As the individuals being analysed have yet to reach break-even ages, it has been necessary to make assumptions about the future. These assumptions are:

- Interest rates on term deposits are assumed to be 2% per annum from 1 July 2019;
- Mortgage interest rates are assumed to be 4% per annum from 1 July 2019; and
- Pension indexation for DFRDB members under age 55 is assumed to be 2% per annum from 1 July 2019. Pension indexation for DFRDB members aged 55 and over are is assumed to be 3% per annum from 1 July 2019.

6 RESULTS

6.1 Calculations have been performed under the three different approaches described above for each of the 12 individual cases provided, noting that there are only two different break-even ages produced.

6.2 A summary of the various break-even ages has been set out in Table 1 below, noting that "Never" means that the commutation option will always exceed the alternative based on actual and assumed term deposit and mortgage rates. A summary of the break-even year is also set out in Table 2 below.

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Table 1: Summary of break-even ages

Case	Year of Exit	Age at exit	Break-Even Age (Term Deposit)	Break-Even Age (Home Loan)
1	1976	44	Never	Never
2	1976	38	Never	Never
3	1986	37	Never	Never
4	1990	48	174	231
5	1991	36	165	216
6	1993	40	155	197
7	1996	49	99	121
8	2000	52	89	104
9	2003	39	114	139
10	2007	41	93	112
11	2013	60	84	93
12	2015	56	78	85

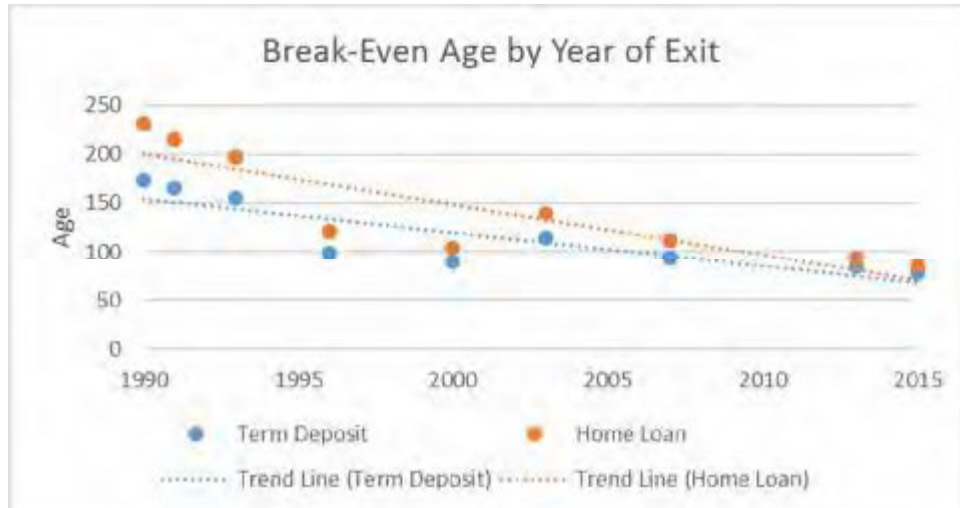
Table 2: Summary of break-even years

Case	Year of Exit	Age at exit	Break-Even Year (Term Deposit)	Break-Even Year (Home Loan)
1	1976	44	Never	Never
2	1976	38	Never	Never
3	1986	37	Never	Never
4	1990	48	2116	2173
5	1991	36	2120	2171
6	1993	40	2108	2150
7	1996	49	2046	2068
8	2000	52	2037	2052
9	2003	39	2078	2103
10	2007	41	2059	2078
11	2013	60	2037	2046
12	2015	56	2037	2044

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- 6.3 Figure 4 below provides an alternative way of looking at the results, noting that the three “Never” cases cannot be included in the chart:

Figure 4: Break-even ages



For the chart above, the cases were arranged in chronological order based on each member's exit date.

- 6.4 Note that care needs to be taken in interpreting this chart as year of exit is not the only factor determining the break-even age. See section 7 for more discussion on this aspect.
- 6.5 More details about each of the 12 individuals are set out in the charts in Appendix D. Generally, the charts are limited to age 100 for presentation purposes and, to aid comparison, all charts for an individual have the same maximum age. There are a number of instances where the break-even age for the term deposit approaches is less than age 100 but the break-even age for the home loan approach is greater than age 100 and the break-even age for the home loan approach is not shown on the home loan approach chart. In these circumstances the break-even ages can be referenced in Table 1 above.
- 6.6 To further illustrate the derivation of the break-even ages, we have provided the full workings of our calculations under each approach in respect of Case 8 in Appendix E.

7 COMMENTS

- 7.1 A number of observations can be made from the results set out above.
- 7.2 The earlier the discharge date, the higher the break-even age. This is not surprising when consideration is made of the high levels of term deposit and mortgage rates that have applied during these earlier periods relative to current rates. Effectively, individuals have been able to take advantage of these high rates on their notionally invested commutation lump sum.

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- 7.3 For more recent discharge dates, lower interest rates have applied, meaning that break-even ages are much lower and more in line with what might be considered to be an individual's life expectancy based on current Australian population life expectancies.
- 7.4 While the date of discharge is an important indicator of the break-even age, the age at discharge is also important. The relative values of the commutation factors at each age mean that the older the age at discharge, the lower the break-even age. We have performed calculations for a range of different potential members who were assumed to discharge at either age 50 or age 60 to verify this observation.
- 7.5 In relation to Figure 4 above, while the average age at discharge of the 12 individuals was 45, the ages at discharge of cases 7 and 8 (corresponding to the lower break-even ages) were 49 and 52 respectively.
- 7.6 Using the commutation lump sum to reduce the amount of a home loan results in a higher break-even age than investing in one year term deposits. This reflects the higher level of mortgage rates relative to term deposit rates. For this exercise, we have used a 25 year home loan. In general, the longer the home loan term, the greater the advantage gained.
- 7.7 This observation leads to the consideration of what is an appropriate investment to use for this exercise. The term deposit approach is intended to reflect a relatively unsophisticated, risk-free investment, while the home loan represents what we understand to have been a common use of the commuted lump sum in practice. Of course, it is arguable that individuals may have had other intentions for the investment of the lump sum, including superannuation, managed investments, home renovations or simply to meet major commitments like school fees or travel.
- 7.8 Each individual will have made their own decision about what to do with the commuted lump sum, with varying degrees of success. Investment decisions are generally made on the basis of a trade-off between risk and return, such that higher risk is rewarded with higher returns on average over the long term. While we cannot illustrate all potential investment strategies, we feel that using a risk-free approach as a base in order to set a theoretical minimum break-even age is appropriate, along with illustrating the home loan approach which is likely to have been one of the more common investments.

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Actuary

26 September 2019

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Appendix A – Data used in the calculations

	Case #1	Case #2	Case #3	Case #4
Year of discharge	1976	1976	1986	1990
Salary used in calculations (Final salary)	\$12,536	\$12,536	\$26,558	\$49,364
Length of Effective Service	21	23	20	20
Percentage of Retirement Pay applicable to years of service	36.50%	39.5%	35%	35%
Actual Retirement Pay at retirement (Uncommuted)	\$4,575.64	\$4,951.72	\$9,295.30	\$17,277.40
Commutation multiplier	4	4	4.2	4.35
Commutation amount	\$18,302.56	\$19,806.88	\$39,040.26	\$75,156.69
Age at retirement	44	38	37	48
Expectation of life factor	28.25	33.67	34.59	29.69
Retirement Pay after commutation at retirement	\$3,927.76	\$4,363.46	\$8,166.64	\$14,746.02
Total pension received from commencement to 1 July 2019 (Actual dollars)	\$700,260.58	\$761,903.10	\$501,594.40	\$658,703.97
How much the member contributed (Actual dollars)	\$4,850.40	\$4,318.29	\$12,264.02	\$27,669.81

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	Case #5	Case #6	Case #7	Case #8
Year of discharge	1991	1993	1996	2000
Salary used in calculations (Final salary)	\$37,818	\$56,066	\$84,518	\$96,972
Length of Effective Service	21	22	33	36
Percentage of Retirement Pay applicable to years of service	36.5%	38%	57.75%	65.25%
Actual Retirement Pay at retirement (Uncommuted)	\$13,803.57	\$18,109.32	\$47,344.87	\$63,274.23
Commutation multiplier	4.45	4.55	4.65	4.85
Commutation amount	\$61,425.89	\$82,397.40	\$220,153.65	\$306,880.02
Age at retirement	36	40	49	52
Expectation of life factor	35.51	36.99	23.96	21.51
Retirement Pay after commutation at retirement	\$12,073.75	\$15,881.76	\$38,156.49	\$49,007.38
Total pension received from commencement to 1 July 2019 (Actual dollars)	\$478,604.59	\$574,056.84	\$1,199,722.01	\$1,256,616.01
How much the member contributed (Actual dollars)	\$21,017.69	\$30,940.57	\$52,913.87	\$73,475.55

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	Case #9	Case #10	Case #11	Case #12
Year of discharge	2003	2007	2013	2015
Salary used in calculations (Final salary)	\$61,339	\$73,394	\$93,023	\$149,339
Length of Effective Service	22	24	37	40
Percentage of Retirement Pay applicable to years of service	38%	41%	67.75%	76.50%
Actual Retirement Pay at retirement (Uncommuted)	\$23,308.82	\$30,091.54	\$63,023.08	\$114,244.33
Commutation multiplier	5	5	5	5
Commutation amount	\$116,544.10	\$150,457.70	\$315,608.45	\$571,221.65
Age at retirement	39	41	60	56
Expectation of life factor	37.92	30.93	19.51	18.43
Retirement Pay after commutation at retirement	\$20,235.40	\$25,227.08	\$46,871.60	\$83,250.21
Total pension received from commencement to 1 July 2019 (Actual dollars)	\$390,648.89	\$363,315.67	\$281,301.56	\$380,700.24
How much the member contributed (Actual dollars)	\$39,800.93	\$51,128.79	\$92,626.68	\$120,580.08

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Appendix B – Historical data used

The table below shows the economic parameters for the period between 1 July 1975 and 30 June 2019 that have been used in the calculations.

Period Start	Period end	CPI Indexation	"Age Pension" Indexation	One Year Term Deposit rate	Mortgage rate
1/07/1975	30/06/1976	13.40%	n/a	8.23%	10.13%
1/07/1976	30/06/1977	13.60%	n/a	7.98%	9.88%
1/07/1977	30/06/1978	8.20%	n/a	7.75%	9.65%
1/07/1978	30/06/1979	8.20%	n/a	7.33%	9.23%
1/07/1979	30/06/1980	10.50%	n/a	7.45%	9.35%
1/07/1980	30/06/1981	9.40%	n/a	9.04%	10.94%
1/07/1981	30/06/1982	10.50%	n/a	11.90%	12.63%
1/07/1982	30/06/1983	11.40%	n/a	12.52%	13.08%
1/07/1983	30/06/1984	5.90%	n/a	11.30%	11.83%
1/07/1984	30/06/1985	4.40%	n/a	11.74%	11.64%
1/07/1985	30/06/1986	7.20%	n/a	13.88%	13.78%
1/07/1986	30/06/1987	9.40%	n/a	13.95%	15.50%
1/07/1987	30/06/1988	6.90%	n/a	11.70%	14.14%
1/07/1988	30/06/1989	8.80%	n/a	13.63%	15.27%
1/07/1989	30/06/1990	8.60%	n/a	15.02%	16.88%
1/07/1990	30/06/1991	4.90%	n/a	11.29%	15.05%
1/07/1991	30/06/1992	1.70%	n/a	7.89%	11.84%
1/07/1992	30/06/1993	1.20%	n/a	5.62%	9.87%
1/07/1993	30/06/1994	1.40%	n/a	4.93%	8.89%
1/07/1994	30/06/1995	3.90%	n/a	7.59%	9.90%
1/07/1995	30/06/1996	3.70%	n/a	7.00%	10.44%

DFRDB COMMUTATION ANALYSIS

Period Start	Period end	CPI Indexation	"Age Pension" Indexation	One Year Term Deposit rate	Mortgage rate
1/07/1996	30/06/1997	1.30%	n/a	5.82%	8.38%
1/07/1997	30/06/1998	0.00%	n/a	4.48%	6.76%
1/07/1998	30/06/1999	1.10%	n/a	4.08%	6.61%
1/07/1999	30/06/2000	2.80%	n/a	5.16%	7.03%
1/07/2000	30/06/2001	6.00%	n/a	5.13%	7.63%
1/07/2001	30/06/2002	2.92%	n/a	3.90%	6.34%
1/07/2002	30/06/2003	3.43%	n/a	3.96%	6.57%
1/07/2003	30/06/2004	2.01%	n/a	4.41%	6.88%
1/07/2004	30/06/2005	2.31%	n/a	4.65%	7.15%
1/07/2005	30/06/2006	3.02%	n/a	4.68%	7.36%
1/07/2006	30/06/2007	2.50%	n/a	5.53%	7.97%
1/07/2007	30/06/2008	4.24%	n/a	6.55%	8.80%
1/07/2008	30/06/2009	2.70%	n/a	4.57%	7.28%
1/07/2009	30/06/2010	2.72%	n/a	5.45%	6.53%
1/07/2010	30/06/2011	3.33%	n/a	6.04%	7.66%
1/07/2011	30/06/2012	1.60%	n/a	5.18%	7.45%
1/07/2012	30/06/2013	2.51%	n/a	4.17%	6.52%
1/07/2013	30/06/2014	2.92%	3.12%	3.39%	5.95%
1/07/2014	30/06/2015	1.30%	1.30%	2.95%	5.78%
1/07/2015	30/06/2016	1.30%	1.50%	2.41%	5.53%
1/07/2016	30/06/2017	2.11%	2.41%	2.35%	5.28%
1/07/2017	30/06/2018	1.91%	2.31%	2.22%	5.22%
1/07/2018	30/06/2019	1.30%	1.81%	2.14%	5.31%

DFRDB COMMUTATION ANALYSIS

Appendix C – Commutation factors (expectation of life factors in Schedule 3 of the Defence Force Retirement and Death Benefits Act 1973)

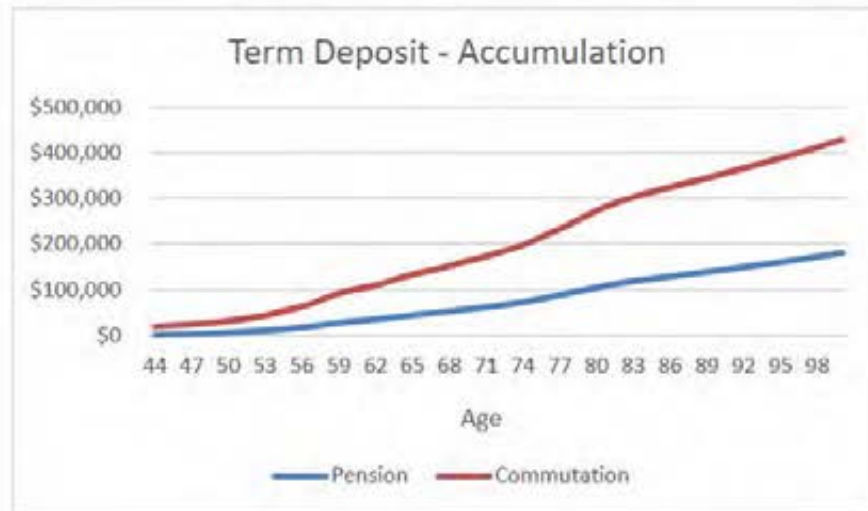
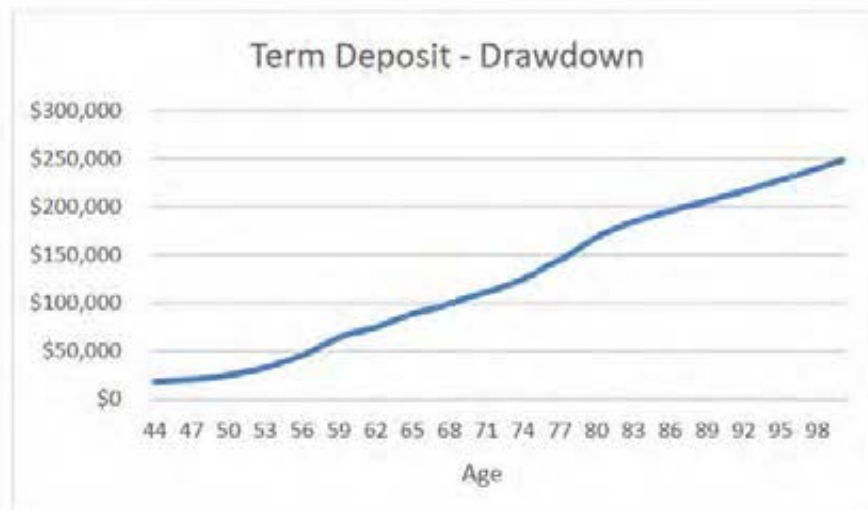
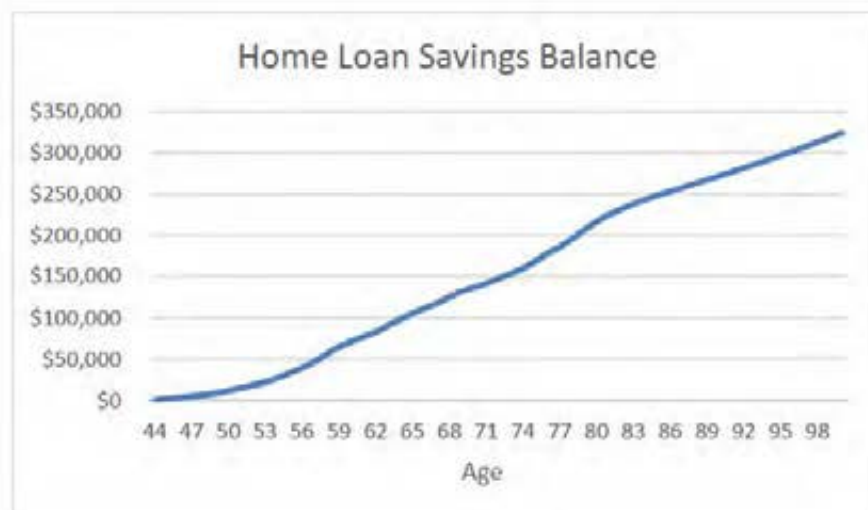
Age	Male	Female
30	41.12	46.49
31	40.18	45.53
32	39.25	44.57
33	38.31	43.61
34	37.38	42.65
35	36.45	41.70
36	35.51	40.75
37	34.59	39.81
38	33.67	38.86
39	32.75	37.92
40	31.84	36.99
41	30.93	36.06
42	30.03	35.13
43	29.14	34.21
44	28.25	33.29
45	27.38	32.38
46	26.51	31.48
47	25.65	30.58
48	24.80	29.69
49	23.96	28.80

Age	Male	Female
50	23.13	27.92
51	22.31	27.05
52	21.51	26.18
53	20.72	25.32
54	19.94	24.47
55	19.18	23.63
56	18.43	22.79
57	17.70	21.96
58	16.99	21.13
59	16.29	20.32
60	15.60	19.51
61	14.94	18.72
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63	13.67	17.17
64	13.06	16.42
65	12.47	15.68

DFRDB COMMUTATION ANALYSIS

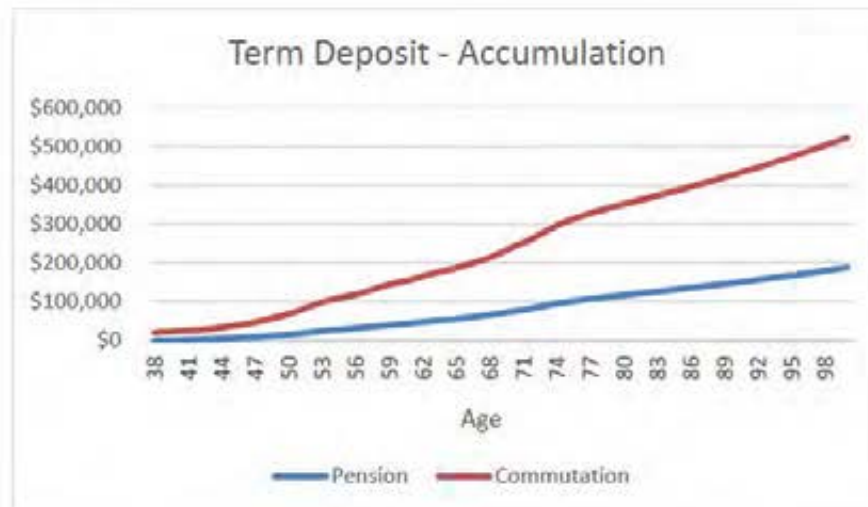
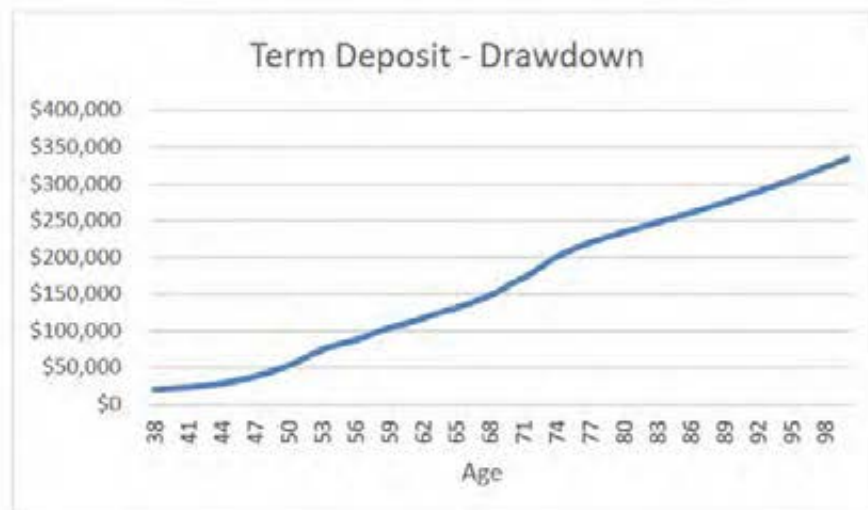
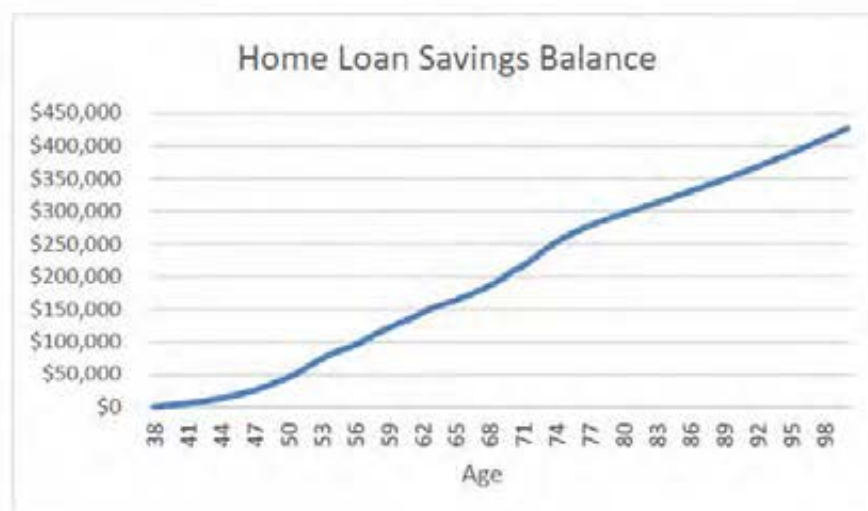
Appendix D – Individual case results

Case 1



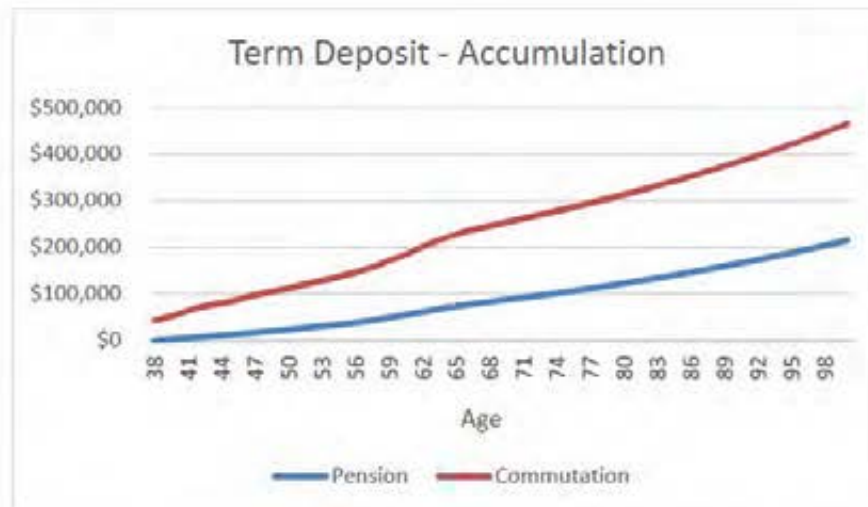
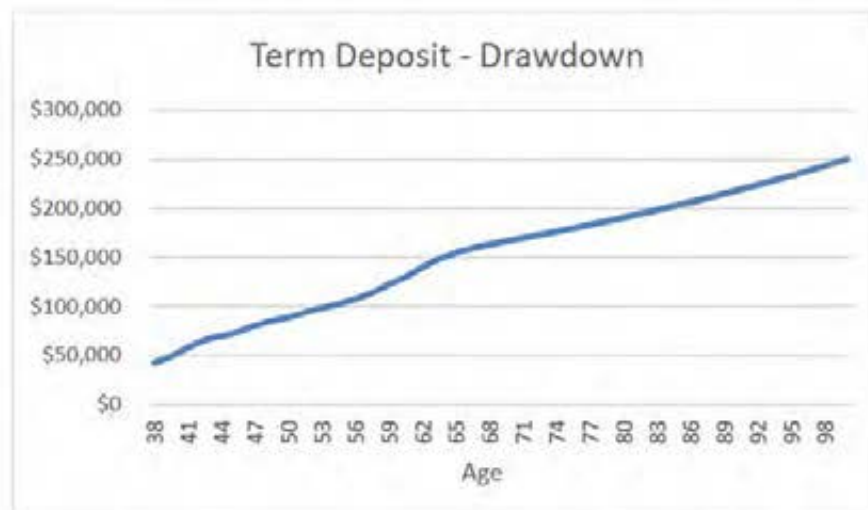
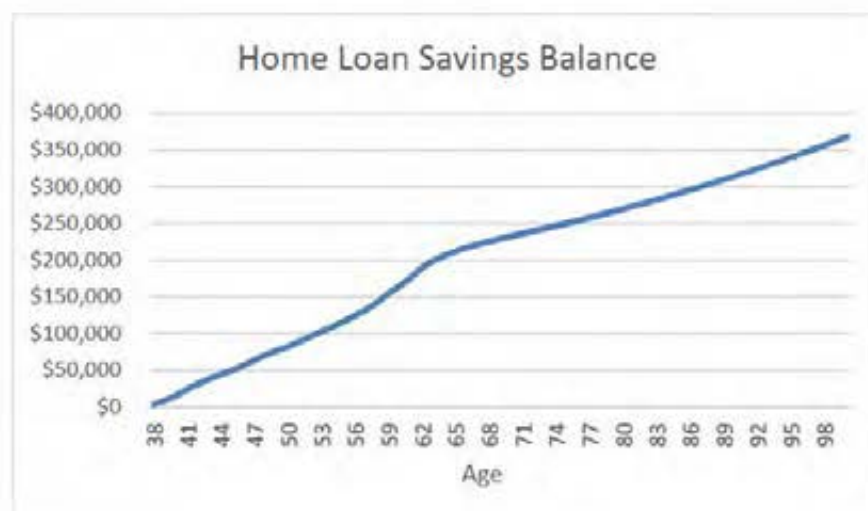
DFRDB COMMUTATION ANALYSIS

Case 2



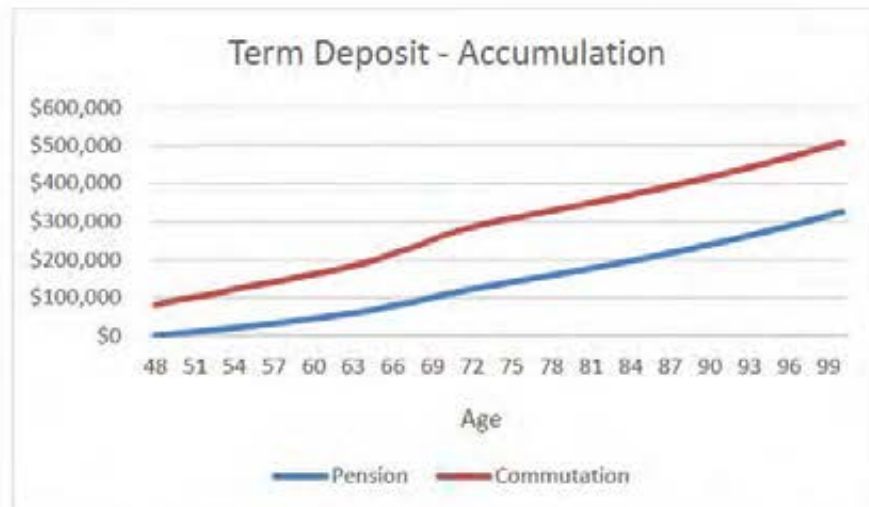
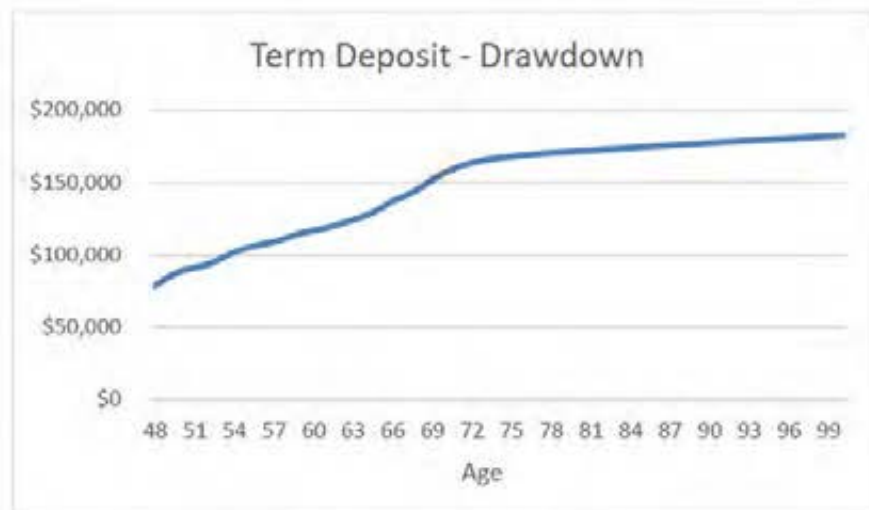
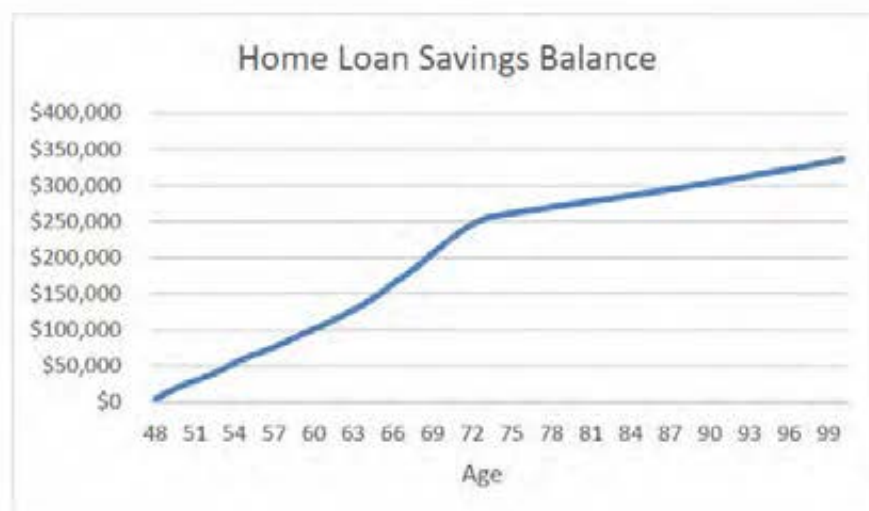
DFRDB COMMUTATION ANALYSIS

Case 3



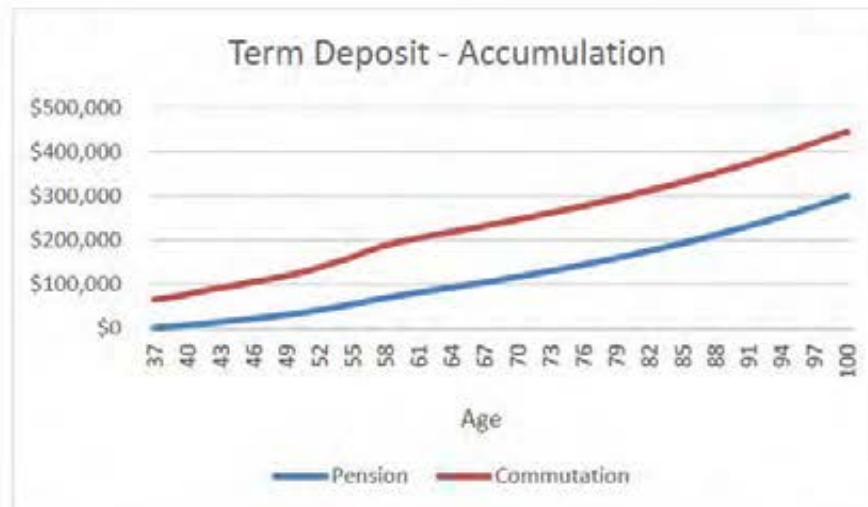
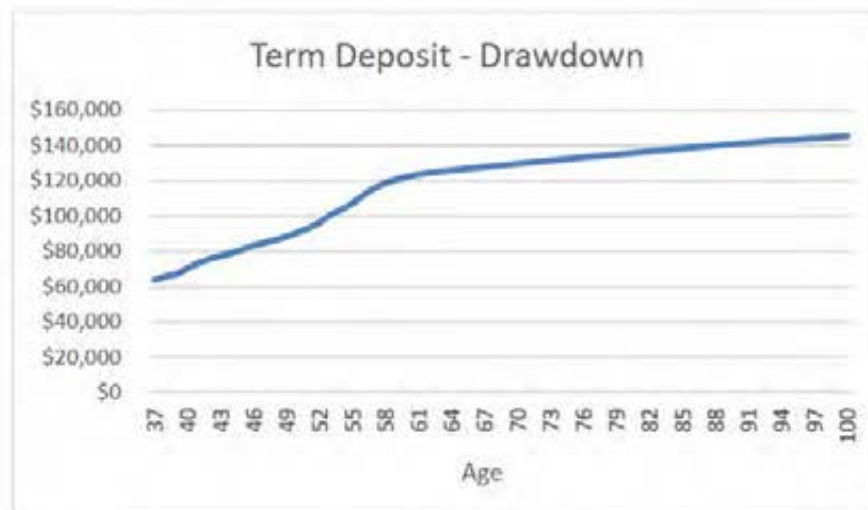
DFRDB COMMUTATION ANALYSIS

Case 4



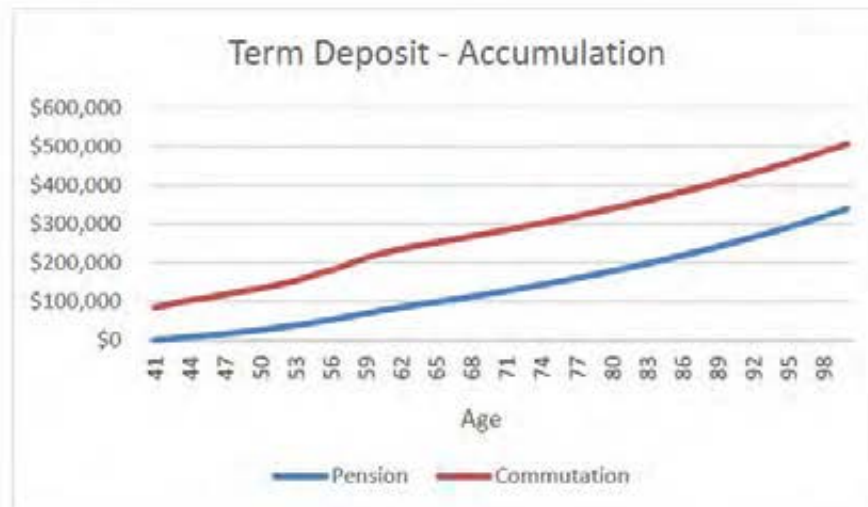
DFRDB COMMUTATION ANALYSIS

Case 5



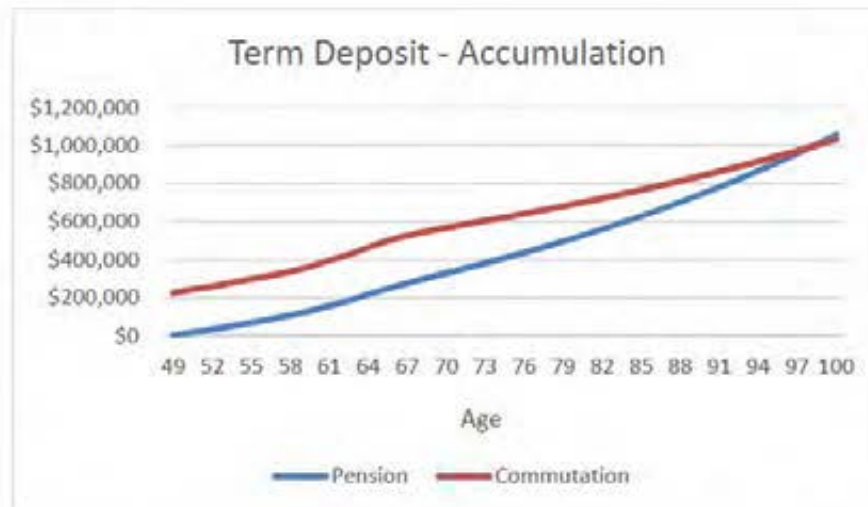
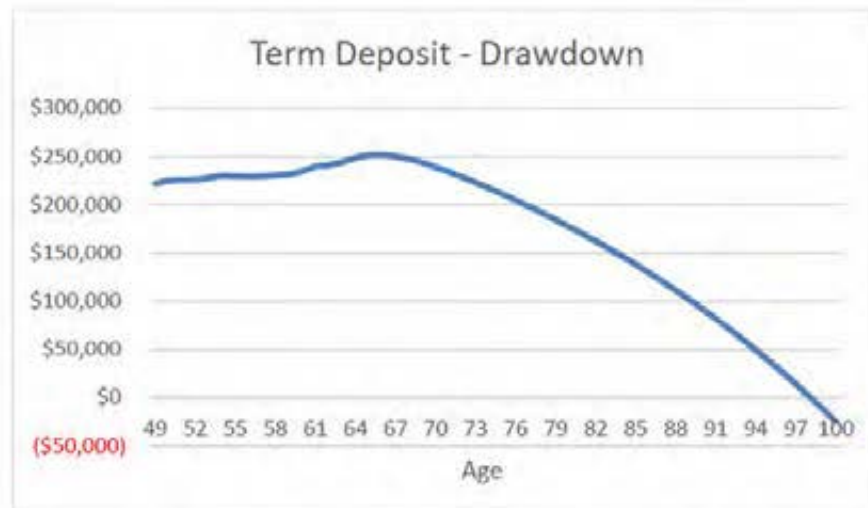
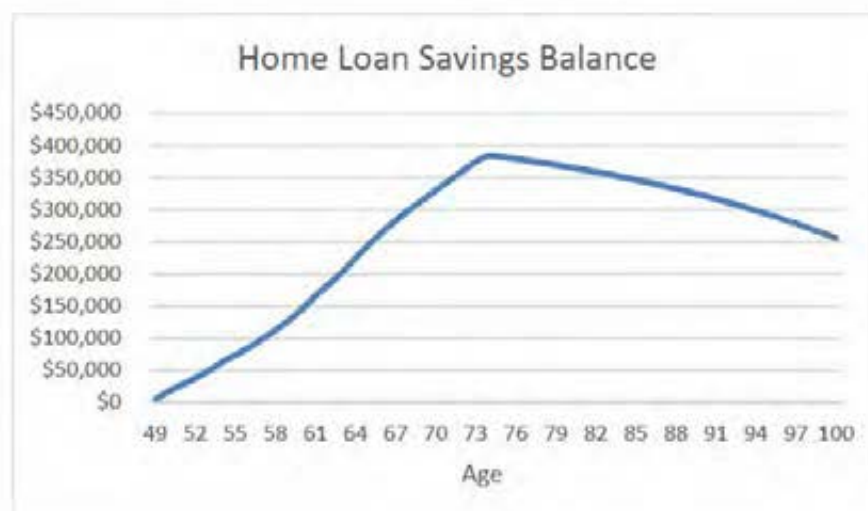
DFRDB COMMUTATION ANALYSIS

Case 6



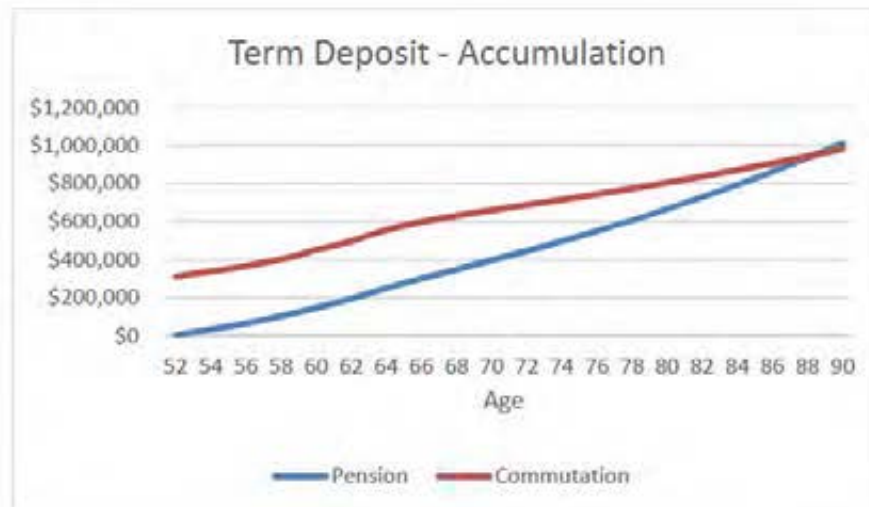
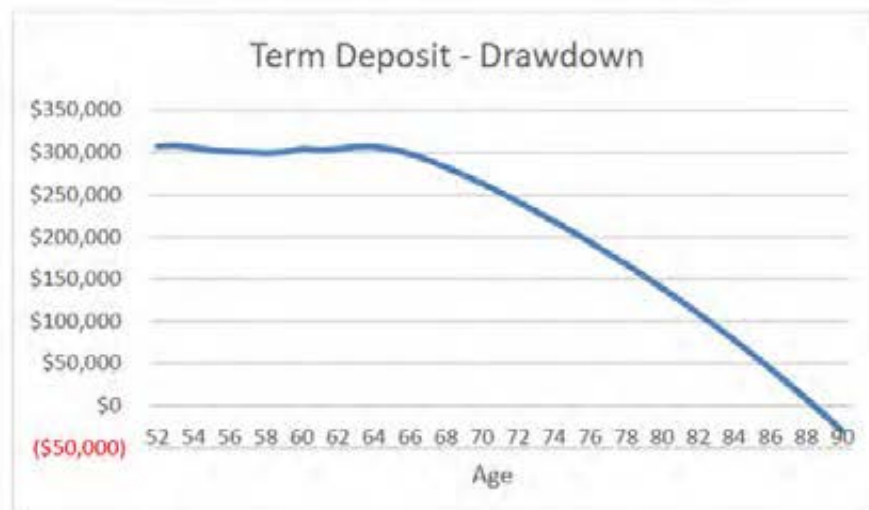
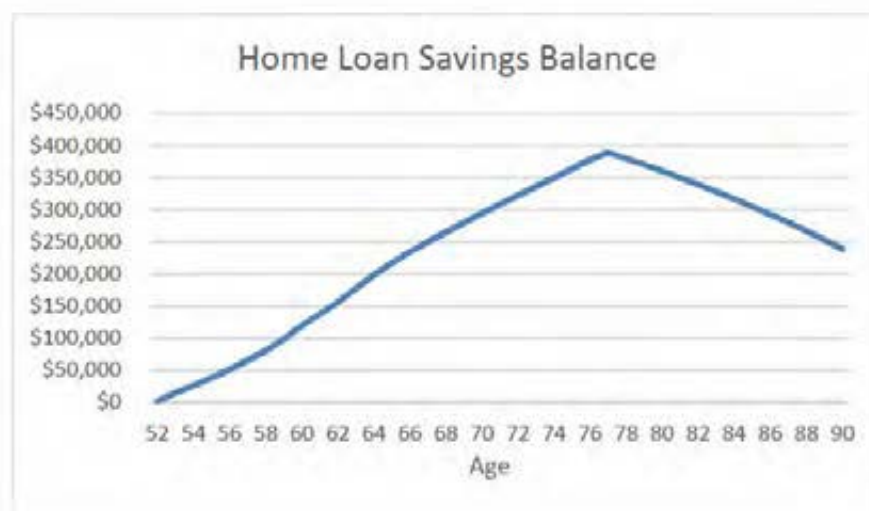
DFRDB COMMUTATION ANALYSIS

Case 7



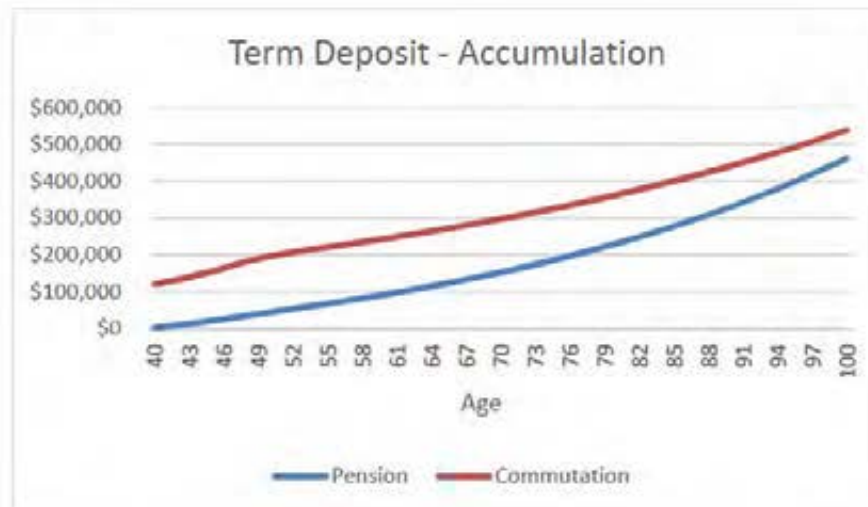
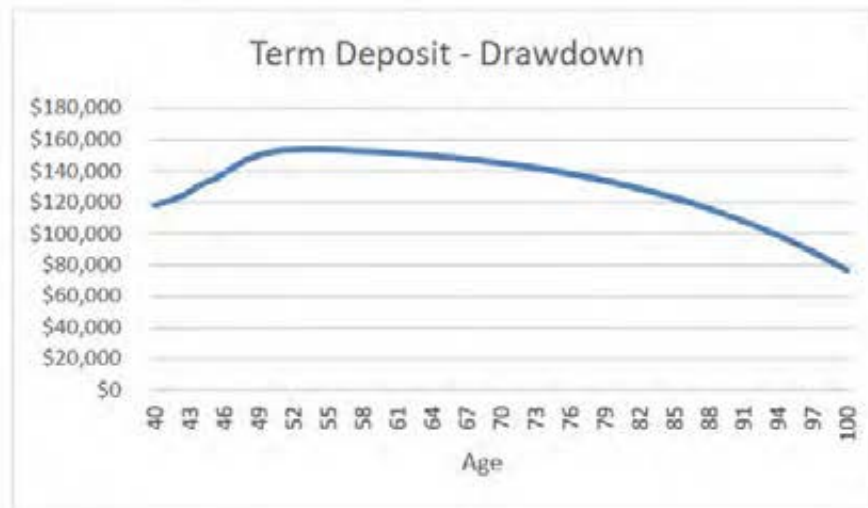
DFRDB COMMUTATION ANALYSIS

Case 8



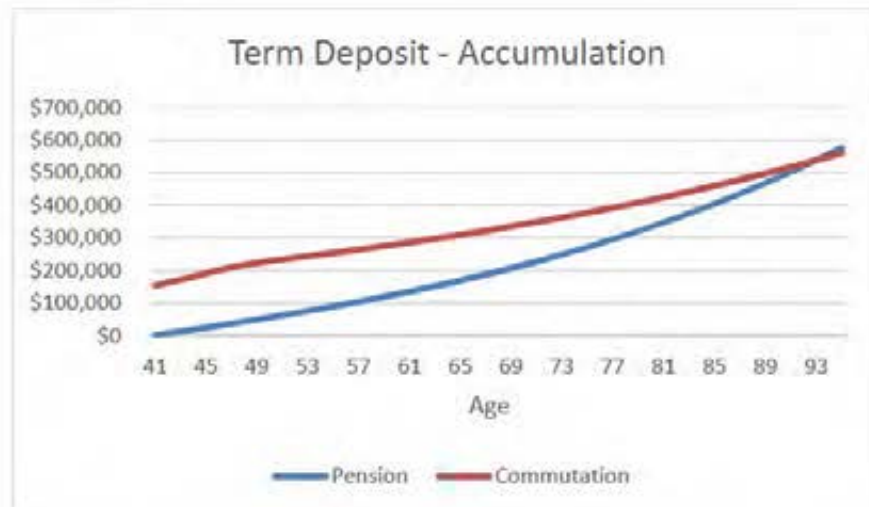
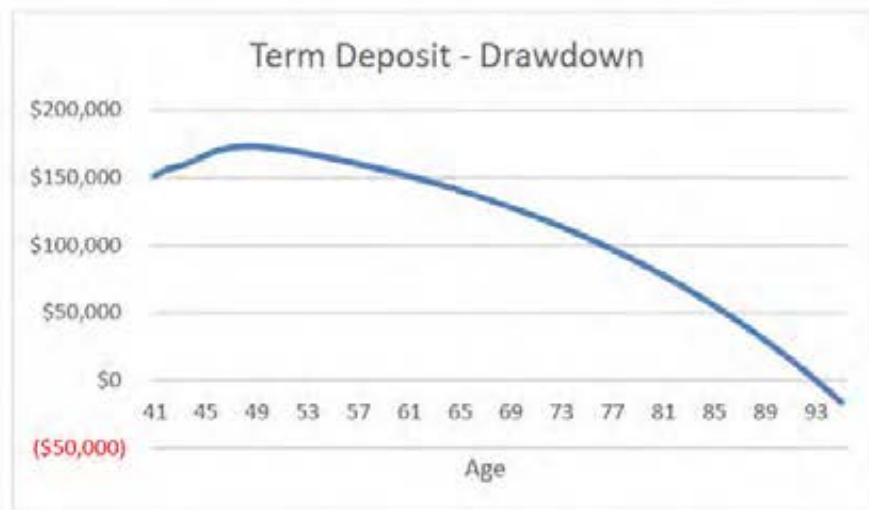
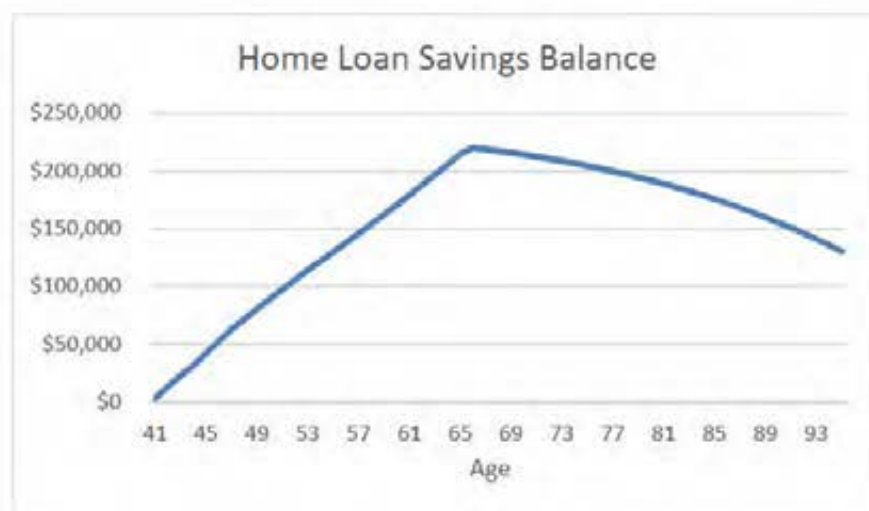
DFRDB COMMUTATION ANALYSIS

Case 9



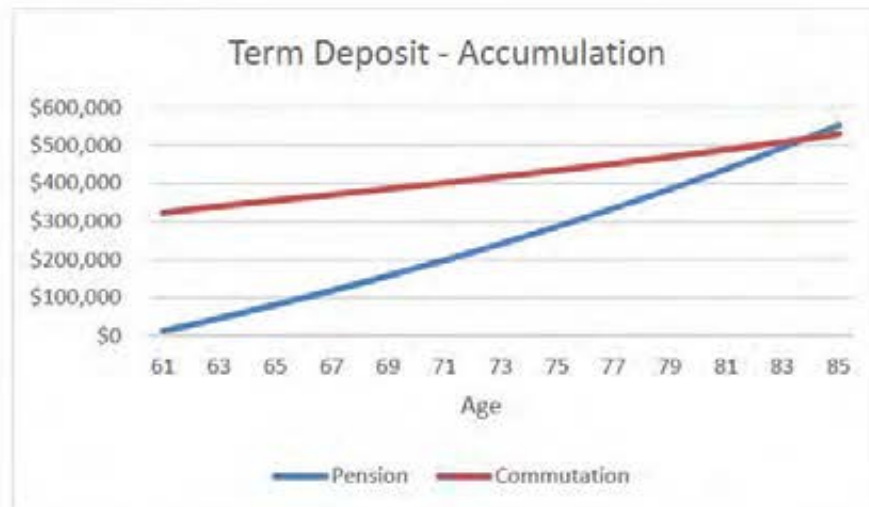
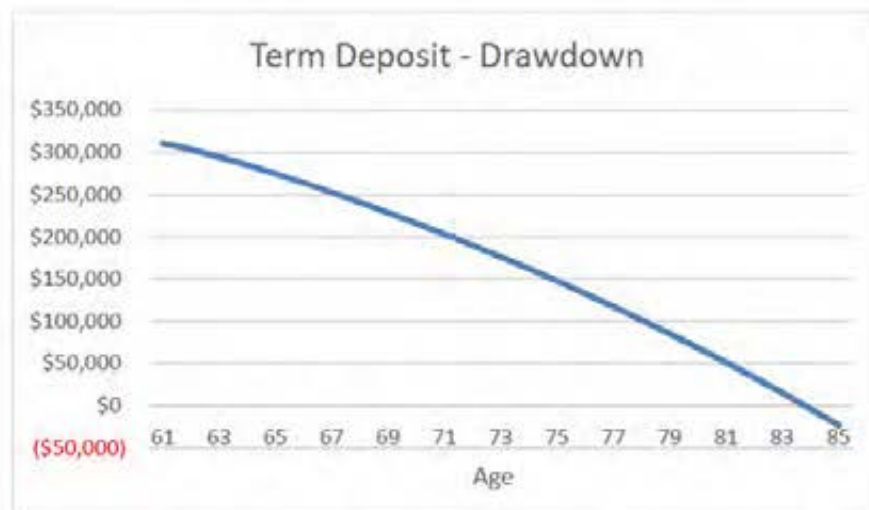
DFRDB COMMUTATION ANALYSIS

Case 10



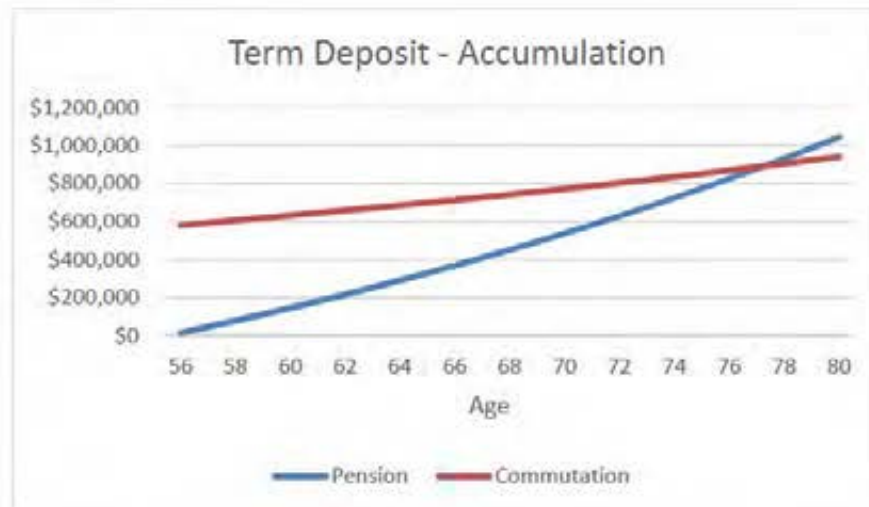
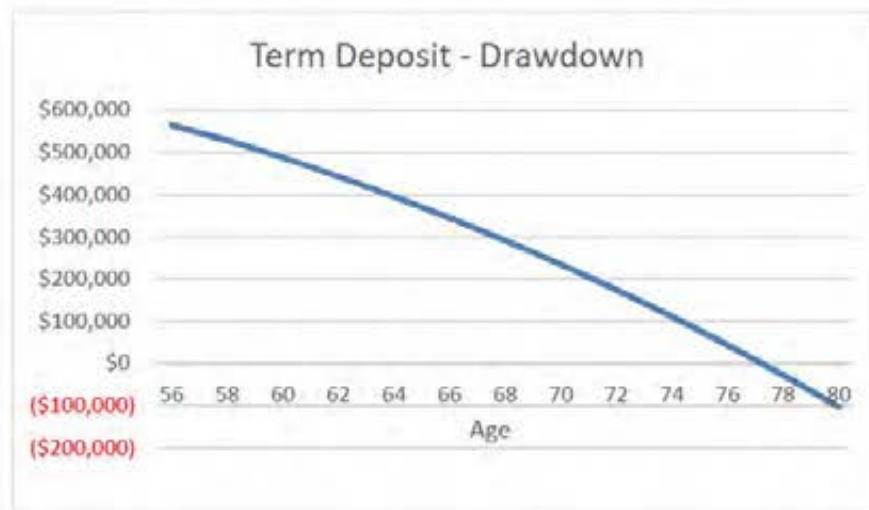
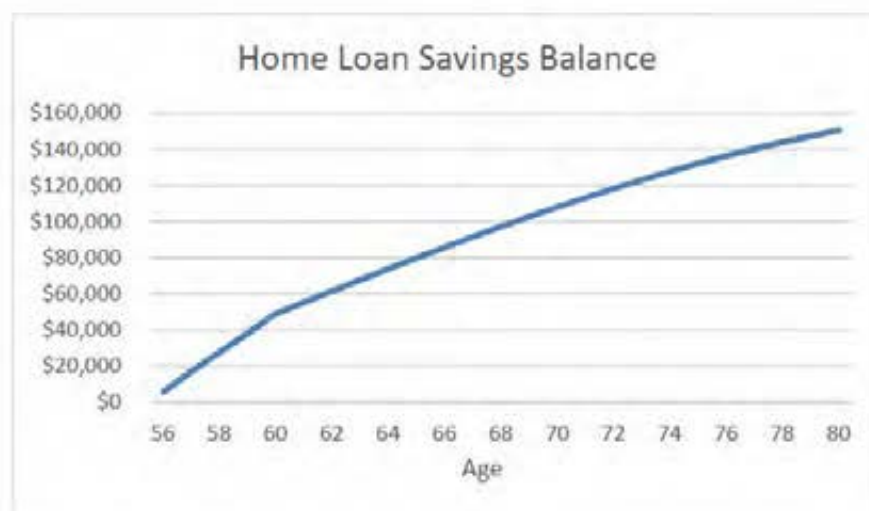
DFRDB COMMUTATION ANALYSIS

Case 11



DFRDB COMMUTATION ANALYSIS

Case 12



DFRDB COMMUTATION ANALYSIS

Appendix E – Case 8 detailed results

Term Deposit – Accumulation

Financial Year	Age	Interest Rate	Pension Payments			Commutation Lump Sum Balance at Year End
			Pension	Total Interest	Balance at Year End	
1999-2000	52	5.16%	2,072	8	2,079	309,179
2000-2001	53	5.13%	14,277	473	16,830	325,050
2001-2002	54	3.90%	14,457	939	32,226	337,740
2002-2003	55	3.96%	14,544	1,563	48,333	351,109
2003-2004	56	4.41%	14,616	2,453	65,402	366,587
2004-2005	57	4.65%	14,682	3,386	83,470	383,649
2005-2006	58	4.68%	14,770	4,247	102,487	401,584
2006-2007	59	5.53%	14,888	6,083	123,459	423,805
2007-2008	60	6.55%	14,948	8,571	146,977	451,547
2008-2009	61	4.57%	15,109	7,063	169,149	472,186
2009-2010	62	5.45%	15,152	9,624	193,926	497,901
2010-2011	63	6.04%	15,244	12,168	221,339	527,962
2011-2012	64	5.18%	15,367	11,871	248,577	555,328
2012-2013	65	4.17%	15,439	10,690	274,706	578,489
2013-2014	66	3.39%	15,520	9,580	299,806	598,110
2014-2015	67	2.95%	15,611	9,087	324,504	615,779
2015-2016	68	2.41%	15,669	8,004	348,177	630,609
2016-2017	69	2.35%	15,727	8,352	372,257	645,402
2017-2018	70	2.22%	15,811	8,427	396,495	659,709
2018-2019	71	2.14%	15,905	8,662	421,061	673,837
2019-2020	72	2.00%	16,009	8,581	445,651	687,314
2020-2021	73	2.00%	16,136	9,074	470,861	701,060
2021-2022	74	2.00%	16,267	9,580	496,708	715,082
2022-2023	75	2.00%	16,402	10,098	523,208	729,383
2023-2024	76	2.00%	16,541	10,630	550,379	743,971
2024-2025	77	2.00%	16,684	11,174	578,237	758,850
2025-2026	78	2.00%	16,832	11,733	606,802	774,027
2026-2027	79	2.00%	16,984	12,306	636,092	789,508
2027-2028	80	2.00%	17,140	12,893	666,126	805,298
2028-2029	81	2.00%	17,302	13,496	696,923	821,404
2029-2030	82	2.00%	17,468	14,113	728,503	837,832
2030-2031	83	2.00%	17,639	14,746	760,888	854,589
2031-2032	84	2.00%	17,815	15,396	794,099	871,680
2032-2033	85	2.00%	17,996	16,062	828,157	889,114
2033-2034	86	2.00%	18,183	16,745	863,085	906,896
2034-2035	87	2.00%	18,376	17,445	898,906	925,034
2035-2036	88	2.00%	18,574	18,164	935,644	943,535
2036-2037	89	2.00%	18,778	18,901	973,323	962,406
2037-2038	90	2.00%	18,988	19,656	1,011,968	981,654

DFRDB COMMUTATION ANALYSIS

Term Deposit – Drawdown

Financial Year	Age	Balance at Start Year	Pension Paid	Interest Rate	Total Interest	Balance at Year End
1999-2000	52	306,880	2,072	5.16%	2,291	307,107
2000-2001	53	307,107	14,277	5.13%	15,398	308,228
2001-2002	54	308,228	14,457	3.90%	11,752	305,523
2002-2003	55	305,523	14,544	3.96%	11,806	302,785
2003-2004	56	302,785	14,616	4.41%	13,026	301,194
2004-2005	57	301,194	14,682	4.65%	13,676	300,189
2005-2006	58	300,189	14,770	4.68%	13,689	299,107
2006-2007	59	299,107	14,888	5.53%	16,139	300,357
2007-2008	60	300,357	14,948	6.55%	19,172	304,581
2008-2009	61	304,581	15,109	4.57%	13,577	303,049
2009-2010	62	303,049	15,152	5.45%	16,091	303,988
2010-2011	63	303,988	15,244	6.04%	17,893	306,636
2011-2012	64	306,636	15,367	5.18%	15,496	306,765
2012-2013	65	306,765	15,439	4.17%	12,473	303,798
2013-2014	66	303,798	15,520	3.39%	10,041	298,319
2014-2015	67	298,319	15,611	2.95%	8,582	291,290
2015-2016	68	291,290	15,669	2.41%	6,827	282,448
2016-2017	69	282,448	15,727	2.35%	6,441	273,162
2017-2018	70	273,162	15,811	2.22%	5,880	263,231
2018-2019	71	263,231	15,905	2.14%	5,467	252,793
2019-2020	72	252,793	16,009	2.00%	4,896	241,680
2020-2021	73	241,680	16,136	2.00%	4,672	230,217
2021-2022	74	230,217	16,267	2.00%	4,442	218,391
2022-2023	75	218,391	16,402	2.00%	4,204	206,193
2023-2024	76	206,193	16,541	2.00%	3,958	193,611
2024-2025	77	193,611	16,684	2.00%	3,705	180,632
2025-2026	78	180,632	16,832	2.00%	3,444	167,244
2026-2027	79	167,244	16,984	2.00%	3,175	153,436
2027-2028	80	153,436	17,140	2.00%	2,897	139,193
2028-2029	81	139,193	17,302	2.00%	2,611	124,502
2029-2030	82	124,502	17,468	2.00%	2,315	109,350
2030-2031	83	109,350	17,639	2.00%	2,011	93,722
2031-2032	84	93,722	17,815	2.00%	1,696	77,603
2032-2033	85	77,603	17,996	2.00%	1,372	60,979
2033-2034	86	60,979	18,183	2.00%	1,038	43,834
2034-2035	87	43,834	18,376	2.00%	693	26,151
2035-2036	88	26,151	18,574	2.00%	337	7,915
2036-2037	89	7,915	18,778	2.00%	-29	-10,893
2037-2038	90	-10,893	18,988	2.00%	-408	-30,289

DFRDB COMMUTATION ANALYSIS

Home Loan

Financial Year	Age	Loan Balance	Home Loan Rate	Loan Repayment	Pension Paid	Savings on Loan	Interest Rate	Total Interest	Balance at Year End
1999-2000	52	306,880	7.03%	3,788	2,072	1,716	5.16%	6	\$1,723
2000-2001	53	306,221	7.63%	27,519	14,277	13,242	5.13%	428	\$15,393
2001-2002	54	301,916	6.34%	24,578	14,457	10,121	3.90%	799	\$26,312
2002-2003	55	296,316	6.57%	25,073	14,544	10,530	3.96%	1,250	\$38,092
2003-2004	56	290,533	6.88%	25,739	14,616	11,122	4.41%	1,924	\$51,139
2004-2005	57	284,603	7.15%	26,302	14,682	11,620	4.65%	2,650	\$65,409
2005-2006	58	278,461	7.36%	26,723	14,770	11,953	4.68%	3,337	\$80,699
2006-2007	59	272,023	7.97%	27,917	14,888	13,028	5.53%	4,826	\$98,553
2007-2008	60	265,542	8.80%	29,540	14,948	14,592	6.55%	6,929	\$120,074
2008-2009	61	259,113	7.28%	26,722	15,109	11,613	4.57%	5,754	\$137,441
2009-2010	62	250,977	6.53%	25,454	15,152	10,302	5.45%	7,765	\$155,508
2010-2011	63	241,638	7.66%	27,279	15,244	12,034	6.04%	9,752	\$177,295
2011-2012	64	232,542	7.45%	26,951	15,367	11,584	5.18%	9,490	\$198,369
2012-2013	65	222,569	6.52%	25,622	15,439	10,183	4.17%	8,486	\$217,038
2013-2014	66	211,130	5.95%	24,862	15,520	9,342	3.39%	7,520	\$233,900
2014-2015	67	198,484	5.78%	24,664	15,611	9,054	2.95%	7,044	\$249,997
2015-2016	68	184,944	5.53%	24,385	15,669	8,716	2.41%	6,126	\$264,838
2016-2017	69	170,421	5.28%	24,132	15,727	8,404	2.35%	6,311	\$279,554
2017-2018	70	154,909	5.22%	24,086	15,811	8,275	2.22%	6,288	\$294,117
2018-2019	71	138,527	5.31%	24,156	15,905	8,252	2.14%	6,387	\$308,756
2019-2020	72	121,316	4.00%	23,276	16,009	7,267	2.00%	6,248	\$322,272
2020-2021	73	102,551	4.00%	23,276	16,136	7,140	2.00%	6,517	\$335,929
2021-2022	74	83,022	4.00%	23,276	16,267	7,009	2.00%	6,789	\$349,727
2022-2023	75	62,696	4.00%	23,276	16,402	6,874	2.00%	7,063	\$363,664
2023-2024	76	41,543	4.00%	23,276	16,541	6,735	2.00%	7,341	\$377,740
2024-2025	77	19,528	4.00%	19,862	16,684	3,178	2.00%	7,587	\$388,504
2025-2026	78	0	4.00%	0	16,832	-16,832	2.00%	7,602	\$379,274
2026-2027	79	0	4.00%	0	16,984	-16,984	2.00%	7,416	\$369,706
2027-2028	80	0	4.00%	0	17,140	-17,140	2.00%	7,223	\$359,788
2028-2029	81	0	4.00%	0	17,302	-17,302	2.00%	7,023	\$349,509
2029-2030	82	0	4.00%	0	17,468	-17,468	2.00%	6,816	\$338,857
2030-2031	83	0	4.00%	0	17,639	-17,639	2.00%	6,601	\$327,819
2031-2032	84	0	4.00%	0	17,815	-17,815	2.00%	6,378	\$316,383
2032-2033	85	0	4.00%	0	17,996	-17,996	2.00%	6,148	\$304,534
2033-2034	86	0	4.00%	0	18,183	-18,183	2.00%	5,909	\$292,260
2034-2035	87	0	4.00%	0	18,376	-18,376	2.00%	5,661	\$279,546
2035-2036	88	0	4.00%	0	18,574	-18,574	2.00%	5,405	\$266,377
2036-2037	89	0	4.00%	0	18,778	-18,778	2.00%	5,140	\$252,739
2037-2038	90	0	4.00%	0	18,988	-18,988	2.00%	4,865	\$238,615
2038-2039	91	0	4.00%	0	19,205	-19,205	2.00%	4,580	\$223,990
2039-2040	92	0	4.00%	0	19,428	-19,428	2.00%	4,286	\$208,848
2040-2041	93	0	4.00%	0	19,658	-19,658	2.00%	3,980	\$193,170
2041-2042	94	0	4.00%	0	19,895	-19,895	2.00%	3,664	\$176,940
2042-2043	95	0	4.00%	0	20,139	-20,139	2.00%	3,337	\$160,138

DFRDB COMMUTATION ANALYSIS

Financial Year	Age	Loan Balance	Home Loan Rate	Loan Repayment	Pension Paid	Savings on Loan	Interest Rate	Total Interest	Balance at Year End
2043-2044	96	0	4.00%	0	20,390	-20,390	2.00%	2,999	\$142,747
2044-2045	97	0	4.00%	0	20,649	-20,649	2.00%	2,648	\$124,747
2045-2046	98	0	4.00%	0	20,915	-20,915	2.00%	2,286	\$106,118
2046-2047	99	0	4.00%	0	21,190	-21,190	2.00%	1,910	\$86,839
2047-2048	100	0	4.00%	0	21,472	-21,472	2.00%	1,522	\$66,889
2048-2049	101	0	4.00%	0	21,763	-21,763	2.00%	1,120	\$46,246
2049-2050	102	0	4.00%	0	22,063	-22,063	2.00%	704	\$24,887
2050-2051	103	0	4.00%	0	22,372	-22,372	2.00%	274	\$2,788
2051-2052	104	0	4.00%	0	22,690	-22,690	2.00%	0	-\$19,902

Calculation notes

1. The interest rates shown above have been rounded to two decimal points for presentation purposes. Unrounded interest rates have been used in the calculations.
2. The individual retired part way through the first year shown (1999-2000) and this has been factored in to the results for 1999-2000.

Term deposit – Accumulation approach

3. Under the Term deposit – Accumulation approach, the lump sum balance at the end of the year is simply the lump sum balance at the end of the previous year plus one year's interest. For example, the closing balance at the end of 2004-2005 was \$383,649. The interest rate for 2005-2006 was 4.675%. The interest addition is $4.675\% \times 383,649 = 17,936$. The closing balance should thus be $383,649 + 17,936 = \$401,585$. The amount shown in the table is one dollar less and this is due to rounding.
4. Under the Term deposit – Accumulation approach, the pensions balance at the end of the year is firstly the pensions balance at the end of the previous year plus one year's interest. For example, the closing balance at the end of 2004-2005 was \$83,470. The interest rate for 2005-2006 was 4.675%. The interest addition is $4.675\% \times 83,470 = 3,902$. The balance at the end of 2005-2006 before allowing for pension payments received during the year should be $83,470 + 3,902 = \$87,372$.
5. To this amount needs to be added pension payments received during the year (2005-2006) of \$14,770 and a small amount of interest earned on the pension payments. Assuming pension payments are received halfway through the year on average, approximately half a year's interest is earned on average. The approximate amount of interest earned is $4.675\%/2 \times 14,770 = 345$. The expected end year balance is $87,372 + 14,770 + 345 = \$102,487$ which is consistent with the figure given above.

DFRDB COMMUTATION ANALYSIS

Term deposit – Drawdown approach

6. Under the Term deposit – Drawdown approach, the balance at the end of the year is firstly the balance at the end of the previous year less the pension paid. For example, the closing balance at the end of 2004-2005 was \$300,189. The pension paid during the year was \$14,770. The balance at the end of 2005-2006 allowing for pension payments received during the year should be $300,189 - 14,770 = \$285,419$.
7. To this amount needs to be added interest received for the year (2005-2006). The interest rate for 2005-2006 was 4.675%. The interest on the opening balance is $4.675\% \times 300,189 = 14,034$. However, this amount needs to be reduced because there were pension drawdowns from the opening balance during the year. Assuming pension payments are received halfway through the year on average, approximately half a year's interest on the pension payments is lost on average. The approximate amount of interest lost is $4.675\%/2 \times 14,770 = 345$. The interest addition for the year is $14,034 - 345 = \$13,689$. The expected end year balance is $285,419 + 13,689 = \$299,108$ which is consistent with the figure given above.

Home loan approach

8. Under the Home loan approach, the balance at the end of the year is firstly the balance at the end of the previous year plus the savings in mortgage repayments less the pension paid. For example, the closing balance at the end of 2004-2005 was \$65,409. The saving in mortgage repayments for 2005-2006 was \$26,723 out of which pension paid during the year was \$14,770. This frees up $26,723 - 14,770 = \$11,953$ which can now be invested increasing the balance to $65,409 + 11,953 = \$77,362$ before allowing for interest for the year.
9. To this amount needs to be added interest received for the year (2005-2006). The interest rate for 2005-2006 was 4.675%. The interest on the opening balance is $4.675\% \times 65,409 = 3,058$. Interest earned on the funds invested during the year (\$11,953) also needs to be added. Assuming that funds were invested, on average, halfway through the year, approximately half a year's interest would be earned on the funds invested. The approximate amount of interest is $4.675\%/2 \times 11,953 = 279$. The interest addition for the year is $3,058 + 279 = \$3,337$. The expected end year balance is $77,362 + 3,337 = \$80,699$ which is consistent with the figure given above.
10. The figures for 2024-2025 allow for the fact that the mortgage would be fully repaid part way through the year.

Pension payments

11. The majority of the pension forgone as a result of commutation is unindexed pension but part of it is indexed pension. The amount of annual pension forgone as a result of commutation is $63,274.23 - 49,007.38 = \$14,266.85$.

DFRDB COMMUTATION ANALYSIS

12. The individual took a lump sum commutation of 4.85 times the pension before commutation. The component of four times the pension before commutation is commutation of unindexed pension. The remainder is commutation of indexed pension.
13. The annual amount of unindexed pension commuted is $4/4.85 \times 14,266.85 = \$11,766.47$.
14. The annual amount of indexed pension commuted is $0.85/4.85 \times 14,266.85 = \$2,500.38$.
15. Up to July 2001, pensions were indexed annually in July. Subsequently, pensions were indexed twice yearly in January and July. From July 2014, differential indexation rates applied depending upon the age of the pensioner. For those pensioners under age 55, pension indexation continued to be based on CPI increases. For those pensioners aged 55 or more, pension indexation was based on the methodology used to index the Age Pension. This has been allowed for in our analysis.

From: s47E(c)
To: [REDACTED]
Cc: [REDACTED]
Subject: DFRDB Historical Legislation/Pension Increases [SEC=OFFICIAL]
Date: Tuesday, 10 November 2020 12:45:25 PM
Attachments: [DFRDB \(Pension Increases\) Act 1974.pdf](#)
[DFRDB \(Pension Increases\) Act 1976.pdf](#)
[DFRDB Act 1973 \(Current\).pdf](#)
[DFRDB Act 1973 \(Original\).pdf](#)
[DFRDB Act 1973 EM \(Original\).pdf](#)
[DFRDB Amendments Act 1977 \(Auto Indexation + Notional Rate\).pdf](#)

OFFICIAL

Hi s47E(c)

Hope all is well.

As per your conversation with s47F please find attached the historical pieces of legislation that relate to the DFRDB and pension increases in the 1970s.

For your reference, the Principal DFRDB Act and Amendments can be accessed via the following link: <https://www.legislation.gov.au/Series/C2004A00006/Amendments>. The 1977 (annual indexation and notional rate of pay) and 1979 (Class C Commutation) Amendments are on page 6 under this link.

For the 1974 and 1976 pension increases, they are their own Acts and can be accessed via the following links: <https://www.legislation.gov.au/Details/C2004A00163> (1974) and <https://www.legislation.gov.au/Details/C2016C00054> (1976).

When ready, we'd be happy to discuss your position on the Class C invalidity indexation issue.

Kind regards,

s47E(c)

Military Superannuation Policy
Directorate of Military Remuneration
People Policy & Employment Conditions
Department of Defence

Please note I am working remotely and my best contact is: s22

s47E(c) Brindabella Park | PO Box 7909 | Canberra BC | ACT 2610

P: s47E(c)

IM [REDACTED] of the Department of Defence. Unauthorised communication and dealing with the information in the email may be a serious criminal offence. If you have received this email in error, you are requested to contact the sender and delete the email immediately.

From: s47E(c)
To: [REDACTED]
Subject: AGS advice-constitutional and age discrimination issues-DFRB/DFRDB Legislation Amendment (Fair Indexation) Bill 2013 [REDACTED]
Date: Tuesday, 18 February 2014 10:52:45 AM
Attachments: [Changes to Indexation of Defence Retirement Benefits - Constitutional and Age Discrimination Issues - Signed AGS Advice - DL0188-2013 - 13 Feb 14.pdf](#)

Sensitive:Legal

s47E(c)
[REDACTED]

s22
[REDACTED]

I have just received the hard copy and
I have scanned the attached AGS advice.

This is FYI.

Kind regards

s47E(c)
[REDACTED]

**Assistant Director Legislation
Defence General Counsel**

s47E(c)
[REDACTED]

From: s47E(c)
Sent: [REDACTED]
To: s47E(c)
Subject: RE: Defence Force Retirement Benefits Legislation Amendment (Fair Indexation) Bill 2013

Hi s47E(c)
[REDACTED]

Thanks for this. I forgot to ask you about the timing of a revised advice – I don't think it will take long to make the changes but s47E(c) [REDACTED] will need to settle the changes before we send you a final version, so would this Thursday be OK for you?

s47C
[REDACTED]

Regards

s47E(c)
[REDACTED]

s47E(c)
[REDACTED]

Senior Lawyer
Australian Government Solicitor
s47E(c)
[REDACTED]

Find out more about AGS at <http://www.ags.gov.au>

AGS Canberra has moved to 4 National Circuit, Barton (known as '4NC').

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