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DEFENCE FORCE (RETIREMENT AND DEATH BENEFITS AMENDMENTS) BILL 1977

Date Introduced: 17 February 1977
House: House of Representatives
Presented by: Minister for Construction and Minister
Assisting the Minister for Defence

SHORT DIGEST OF BILL

Purpose of Bill

This Bill provides for the automatic annual adjustment of pensions payable under the Defence Force Retirement Benefits Act and the Defence Force Retirement and Death Benefits Act in accordance with increases in the Consumer Price Index.

Background

As a result of the recommendations of the Joint Select Committee on Defence Forces Retirement Benefits Legislation (The Jess Committee), which reported to Parliament in May 1972, a fundamental change was made in the method of providing retirement benefits for the Defence Force.

There are now two schemes:

- (a) The Defence Force Retirement and Death Benefits (D.F.R.D.B.) Scheme which came into force on 1 October 1972. This covers new contributors, and serving members who had been contributing to the Defence Forces Retirement Benefit (D.F.R.B.) Fund. The latter were transferred to the new scheme.

- (b) The Defence Force Retirement Benefits Fund. This was closed to contributors from 1 October 1972, but continues to provide for the benefit entitlements of ex-servicemen who retired before that date, or their widows and children.

Under the D.F.R.D.B. there is a flat rate of contribution of 5.5% of pay.

The basis of contribution under the D.F.R.B. scheme had become very complicated. Contributions were also on two different bases depending upon whether the serviceman entered before or after 1959.

After closure of the D.F.R.B. scheme in 1972 all benefit payments for both Schemes are being met by special appropriations from consolidated revenue.

One of the important recommendations of the Jess Committee was that pensions be adjusted annually.

Adjustments in the Past

Prior to 1972 two methods of calculating pension increases had been used. One was based on changes in the value of the pension unit and was applied in 1951 and 1954. The other was the notional salary method in which the increase was related to the salary which the pensioner would be receiving if he had retired at a later date. Adjustments on this basis were made in 1961, 1963, 1967 and 1971.

Although increases were generous there were long gaps. There was no certainty about them because new legislation was required in every case.

Since 1972 the principle of annual adjustments has been followed. Increases have been based upon either the percentage increase in average weekly earnings or the C.P.I. increase.

Main Provisions of the Bill

Automatic annual increases of pensions under both schemes are provided for by adding Part VI D - Pension Increases to the D.F.R.B. Act and Part XA - Pension Increases to the D.F.R.D.B. Act.

The formula for adjustment is the same for each scheme. The percentage increase to apply from 1 July in any financial year is the difference, expressed as a percentage, between the C.P.I. for the March quarter in the financial year preceding adjustment and the highest C.P.I. for the March quarter since 1 July 1974. Adjustments are made only if the C.P.I. exceeds a previous highest C.P.I. for the March quarter. Increases for 1976/77 are to be paid retrospectively from 1 July 1976.

There is a difference in the application of this formula to the two schemes. Under D.F.R.B. it applies to the whole of the pension currently being paid. Under D.F.R.D.B. it applies to the amount which the pensioner would receive if he had commuted to the maximum extent allowable.

Other amendments provided for in Part VID of the D.F.R.B. Act and Part XA of the D.F.R.D.B. Act take care of various circumstances and special cases and define how the basic formula for increases is to apply. Included in these provisions are:

- (a) Application to widows' pensions. These benefit in the same way.
- (b) Effect on children's pensions.
- (c) Proportion of increase to apply to a new pension depending upon the number of months it has been in force.
- (d) The effect of commutation.
- (e) Non-availability of increases for the purpose of commutation.