

Foreign Affairs, Defence and Trade Committee

Department of the Senate

PO Box 6100

Parliament House

Canberra ACT 2600

**Defence Force Retirement and Death Benefit Scheme (DFRDB) Inquiry**

Dear Committee,

I would like to offer the following comments for the inquiry into the accuracy of the information provided to DFRDB members regarding pension commutation.

The information I submit is my personal experience as DFRDB member.

I served in the RAN for 20 Years from 06 July 1974 to the 15 July 1994 and retired as a Warrant Officer Weapons Electrical Technical sailor.

Since the commencement of the DFRDB Scheme, on retirement (after 20 years qualifying service), a lump-sum superannuation benefit was offered to ADF members by the DFRDB Authority. The scheme offered an option for members after 20 years service at retirement to take a portion of their DFRDB pension as a lump sum. The members would pay back the lump sum by accepting a reduced amount of annual pension until a nominated life expectancy age. This offer was known as 'commutation'.

The reduced pension rate was calculated with a formula including a nominate life expectancy.

I would like to add that due to the many moves required during defence service most retiring DFRDB members relied on the commutation the lump sum to provide a deposit for their own homes as they settled back into civilian life.

In my case, when I left the defence force in 1994 at age 36, my life expectancy was calculated at 35.51 years (refer to item "R" in my 1994 COMSUPER retirement payment sheet attached). My DFRDB pension was reduced by \$1999.06 a year since 1994.

When /if I reach the CoA nominated life expectancy age of 71.5 years, by accepting the lower pension rate, I will have fully paid back the \$70,986.51.

It would therefore only be fair and reasonable to expect that having paid pack the lump sum that my pension should revert to the pre-commutation annual amount.

This is where the information accuracy is important. DFRDB members were not informed that if they took the commutation option that they would keep paying for the commutation lump sum with a reduced pension for the rest of their lives. DFRDB Members who chose not to commute their pensions will still be getting the extra amount (circa \$2000 per year) for the rest of their lives.

In my view, this is not a difficult or complicated issue, DFRDB members served their county for 20 years to be eligible for this CoA retirement scheme.

DFRDB members accepted a lower pension rate to pay back the lump sum payment until a nominated life expectancy age.

When the lump sum debt is cleared at the nominate retirement age (as calculated by the CoA) the members pension payments should revert to the pre-commutation rate.

It is hard to imagine a bank still taking money from your pay when you have paid off your mortgage?

I thank you for the opportunity to provide input to the DFRDB inquiry.

Yours sincerely,



Reference  
Number:

Contact  
Officer:

Telephone:

22 July 1994

Dear

This letter details the benefits payable to you under the Defence Force Retirement and Death Benefits Scheme following your retirement from the Australian Defence Force.

The following items are attached to this letter:

**Payment and Calculation Details:**

The Payment Details section contains information concerning the amount of your lump sum and pension. The Calculation Details section describes the values used to calculate your benefits.

**Explanatory Notes:**

The explanatory notes provide more detailed information on the Payment and Calculation sections as well as other information which may assist you.

Please read the attachments carefully and contact ComSuper if there is anything you would like clarified. You should retain this advice and attachments with your personal documents for future reference.

Yours sincerely

for K.V.A. Searson  
Chairman DFRDB Authority

**PAYMENT DETAILS**

**LUMP SUM PAYMENT**

Gross lump sum	\$70986.51	A
Less liabilities	\$0.00	B
Less tax	\$4550.85	C
Net amount (A-B-C)	<b>\$66435.66</b>	D

Compulsorily preserved productivity benefit	<b>\$9612.96</b>	E
---	------------------	---

**PENSION PAYMENT (commencing on payday 4 August 1994)**

Annual pension	\$13432.79	F
Fortnightly pension (Fx14 ÷ 365)	<b>\$515.23</b>	G

Old reasonable benefit multiple	15.512	H
Undeducted purchase price	0.00	I

**CALCULATION DETAILS**

Total effective service	20y 10d	J
Salary at exit	\$44091	K
Retirement Pay %	35.00%	L
Notional retiring age reduction	0%	M
Retirement pay before commutation (KxL%)-(KxL%xM%)	\$15431.85	N
Date of effect of commutation	16 July 1994	O
Commutation factor	4.60	P
Commutated lump sum (NxP)	\$70986.51	Q
Life expectancy	35.51	R
Retirement pay after commutation (N-(Q ÷ R))	\$13432.79	S
Productivity benefit	<b>\$9612.96</b>	T

## PAYMENT DETAILS

### LUMP SUM PAYMENT

#### Gross lump sum (A)

Is equal to your commutation lump sum. The gross amount may include the productivity benefit if it is below the Insurance and Superannuation Commission threshold or you are over age 55.

#### Less liabilities (B)

Liabilities include advance gratuity payments, outstanding past service repayments, shortpaid contributions or costs to overcome detriment. You should note that any liabilities deducted will not reduce the amount of your Eligible Termination Payment.

#### Less tax (C)

Tax instalment deductions are made on any lump sum payment. If you did not supply a Tax File Number with your application then tax has been deducted at the top marginal rate.

#### Net amount (D)

The gross payable less liabilities and tax. This amount will be paid according to the instructions provided on your application form. You should expect to receive this amount within 7 working days of the date of this letter.

#### Compulsorily preserved productivity benefit (E)

This amount must be compulsorily preserved until retirement from the permanent workforce on or after age 55. This amount has been made payable to the rollover institution you have nominated and you should expect to receive a cheque within 7 working days of the date of this letter.

### PENSION PAYMENT

#### Annual pension (F)

Your retirement pay after commutation or your retirement pay before commutation if you did not elect to commute (see below).

#### Fortnightly pension (G)

Your gross pension per fortnight is equal to your annual pension multiplied by 14 and divided by 365. The first pension payment will commence on the date shown and will be paid to the account nominated on your application form. Any arrears will be paid at this time. If you did not supply a Tax File Number with your application then tax will be deducted at the top marginal rate.

As it is necessary to contact you from time to time for the annual issue of your Group Certificate you should notify ComSuper promptly of any change in your name or postal address.

You should also contact us if:

- \* you wish to change your address;
- \* you wish to change your pension direct credit account details;
- \* you have an enquiry regarding non-receipt of bank payments;
- \* you wish to claim or vary a general taxation exemption (and any other rebates) or a Medicare Levy exemption against your benefit;
- \* you marry, become divorced or your spouse dies; or
- \* you have any other enquiries in relation to your pension.

You can contact us in writing at the address shown on this letter or you may call us on the toll free Pensioner Enquiry Service number - 008 020 080. This number is connected to an automated system which will allow you to leave a message regarding a change to your address, bank or taxation details, or to request a statement of earnings. The service operates 24 hours per day, 7 days per week. During normal business hours, you can also speak directly to an operator if you have a more complex query regarding your pension.

**Old reasonable benefit multiple (H)**

The Insurance and Superannuation Commission (ISC) has advised that recipients of any superannuation payment who were contributors at 30/6/90 and whose Old Reasonable Benefit Multiple (ORBM) is greater than 11.25 will need to be advised of a figure to assist in calculating that part of their benefit that will be subject to taxation at marginal rates. In order to calculate this amount, the ISC has stated that each recipient should be provided with their ORBM. Where required this figure has been provided in the covering advice and has been calculated in accordance with an agreed formula provided by the ISC.

**Undeducted purchase price (I)**

The undeducted purchase price is the amount of your contributions since 30 June 1983 that have not been applied against your lump sum. You should refer to the Tax Pack or contact the Australian Taxation Office for information on how to claim this amount.

## CALCULATION DETAILS

**Total effective service (J)**

Your period of effective service does not include leave without pay in excess of 21 days.

**Salary at exit (K)**

The maximum salary applicable to your substantive rank and branch and includes service allowance, if applicable.

**Retirement pay % (L)**

The percentage of salary at exit that you are entitled to receive as retirement pay based upon your completed years of service.

**Notional retiring age reduction (M)**

A reduction in the retirement pay is applied to Officers who retire at their own request or on disciplinary grounds before reaching their Notional Retiring Age. The retirement pay is reduced by 3% for each year, or part of year, that the date of exit is before the Notional Retiring Age.

**Retirement pay before commutation (N)**

The retirement pay is calculated by multiplying the salary at exit by the retirement pay percentage and then applying the notional retiring age reduction.

**Date of effect of commutation (O)**

The effective date of your election to convert part of your retirement pay to a lump sum (usually the day after retirement). If you have not elected to commute then you still have twelve months after your retirement to do so.

**Commutation factor (P)**

The factor used to calculate your commuted lump sum. The maximum factor is 4.55 if you retired between 1 July 1993 and 30 Jun 1994, 4.60 if you discharged between 1 Jul 1994 and 30 Jun 1995 and continues to increase by 0.05 each year thereafter to a maximum factor of 5.00.

**Commuted lump sum (Q)**

The amount of your lump sum calculated by multiplying your retirement pay before commutation by your commutation factor.

**Life expectancy (R)**

Your life expectancy is based upon your age (in whole years) and your sex.

**Retirement pay after commutation (S)**

Your retirement pay before commutation is reduced by the commuted lump sum divided by your life expectancy.

**Productivity benefit (T)**

Your employer superannuation contribution. Generally, this amount must be rolled over until age 55 (see Compulsorily preserved productivity benefit).

**STATEMENT OF TERMINATION PAYMENT  
AND GROUP CERTIFICATE**

A Statement of Termination Payment (STP) which contains details of the components of your Eligible Termination Payment (ETP), is attached. YOU SHOULD ENSURE THAT THE ORIGINAL STP IS SUBMITTED TO THE TAXATION OFFICE WITH YOUR NEXT TAX RETURN. The duplicate should be retained for your records. A Group Certificate will be sent to you shortly.

**RE-ENTERING THE DEFENCE FORCE .**

If you re-enter the Defence Force, it is necessary that prior to re-entering, you elect to remain in the DFRDB Scheme or join the MSBS (unless you have previously made such an election). Failure to make a Scheme election, where such an election has not previously been made by you, will mean that you will compulsorily join the MSBS.

If you elect to remain in DFRDB and you re-engage for a period of 12 months or more, your DFRDB retirement pay will be cancelled from the date of your re-enlistment. The DFRDB Act requires that you notify this office immediately on such re-entry. Your pension will be restored on your subsequent exit from the Defence Force to reflect the additional service.

If you rejoin the Defence Force and join the MSB Scheme your pension will be cancelled for the period of your service and restored on exit (with appropriate CPI adjustment). You will also be entitled to a refund of your contributions and interest and employer benefit preserved in the MSB Scheme.

If you have any queries regarding re-entry, the amount of benefit that may be payable to you, or in relation to your Scheme election you should contact the Defence Force Scheme's Counselling Officer PRIOR to re-entering the Defence Force.

**REGULAR DEFENCE FORCE WELFARE ASSOCIATION**

The Regular Defence Force Welfare Association is an organisation that concerns itself with matters affecting serving and former members of the Regular Defence Force, their spouses, dependants and widows, including retirement pay recipients. If you would like to know more about the Association you should write to "The Regular Defence Force Welfare Association" at PO Box 4166, Kingston ACT 2604.