



Australian Government

Defence

Finance and Public Administration References Committee
Inquiry into the operation and appropriateness of the
superannuation and pension schemes for current and
former members of the Australian Defence Force (ADF)

Department of Defence
Submission

March 2025

Defence Response

Defence welcomes the opportunity to make a submission to the inquiry into the operation and appropriateness of the superannuation and pension schemes for current and former members of the Australian Defence Force (ADF).

Defence is committed to supporting ADF members, veterans and their families in their financial wellbeing throughout their career and into retirement. This includes the ability to access the right support and information through various stages of their lives. Defence's response to each of the inquiry terms of reference are detailed below:

a. *whether the legislative framework governing superannuation and pension schemes for current and former members of the ADF is fit for purpose;*

The superannuation and pension schemes for current and former ADF members are governed by legislative instruments. The date a member joined the Permanent Forces, or continuous full time service, determines their superannuation scheme, each of which have governing legislative instruments and Acts. These are:

- *Defence Forces Retirement Benefits (DFRB) Act 1948* – commenced in 1948 and closed to new members on 30 September 1972.
 - As at 1 January 2025 there are approximately 362 serving ADF members currently contributing to the DFRDB scheme. Based on a member joining at age 18, on the final day of DFRDB entry, and a retirement age of 60, it is anticipated that the number of DFRDB contributors will cease around 2033.
- *Military Superannuation and Benefits Act 1991* - members who joined the ADF between 1 October 1991 and 30 June 2016.
 - *Military Superannuation and Benefits Trust Deed* – Military Superannuation and Benefits Scheme (MSBS) is established by the deed. The deed is a legislative instrument that sets out the functions and powers of the Commonwealth Superannuation Corporation (CSC) in relation to MSBS.
 - As at 1 January 2025 there are approximately 24,925 serving ADF members currently contributing to the MSBS. Based on a member joining at the age of 18, on the final day of MSBS entry, and a retirement age of 60, it is anticipated that the number of MSBS contributors will cease in approximately 2058.
- Choice fund - members who joined the ADF after 1 July 2016 must be offered a choice of superannuation fund, consistent with broader superannuation policy. Irrespective of the superannuation fund chosen, all members within this period are covered for death and invalidity benefits under the *Australian Defence Force Cover Act 2015*.
- *Australian Defence Force Superannuation Act 2015* – is an available choice fund for members who join the ADF after 1 July 2016. Where a member does not elect a superannuation fund, or have an existing fund, this is the default superannuation fund.
 - *Australian Defence Force Superannuation Trust Deed 2015* – ADF Superannuation Scheme is established by the Trust Deed. The deed is a legislative instrument that sets out the functions and powers of the CSC in relation to ADF Super.

The Trust Deeds for the military superannuation schemes are administered by Defence. The deeds are reviewed from time to time, in collaboration with the CSC, to ensure that the rules set out in the deed are sufficient for the schemes to operate as intended.

Defined Benefit and Hybrid Superannuation Schemes

Defence Force Retirement and Death Benefit (DFRDB) is a defined benefit superannuation scheme, meaning that final benefits are calculated based on a legislative formula at the time a member leaves the ADF.

DFRDB members are eligible for a retirement pension after completing 20 years of effective service, or after 15 years of effective service if they have reached the retirement age for their rank. Pensions paid from DFRDB are paid for the lifetime of the member.

A retirement pension benefit for a DFRDB member is based on a percentage of their final salary, determined by their years of effective service. Once eligible, a DFRDB member can receive their pension at any age, when they leave the permanent ADF. There is no restriction on gaining civilian employment whilst receiving the pension.

The Military Superannuation and Benefits Scheme (MSBS) is a hybrid superannuation scheme, with both accumulation funds and a defined benefit portion. The employer contributions for MSBS are calculated based on a formula set in legislation, determined at the time the member leaves the ADF. Pensions paid from MSBS are generally paid for the life of the member.

Unlike common retirement income products, defined benefit pensions do not cease on consumption of invested equity. Once in the payment phase i.e. pension phase, the defined benefit income is assured for the pensioner's lifetime. The value of the pension may be further extended where the member is survived by eligible dependants, through a reversionary pension.

When benefits are calculated for an MSBS member, the employer benefit is calculated based on a percentage of a member's super salary and eligible period of accrued service. The calculation is based on a prescribed percentage based on years of effective service that is; 18 per cent for the first seven years; 23 per cent for between seven and 20 years; and 28 per cent for service over 20 years. MSBS employer contributions are made up of a productivity benefit of three per cent, and a defined benefit employer contribution. The productivity is a funded contribution and is directly made to the member's superannuation fund fortnightly, the remaining defined employer benefit is unfunded, and as such a contribution is not made directly to the members account fortnightly. To assure the unfunded portion of MSBS benefits, Defence makes a liability payment to consolidated revenue on behalf of MSBS members, with the value based on an actuarial assessment of the long term cost of the scheme. These employer contributions create the benefit from which a life time pension is available from age of 55.

Both DFRDB and MSBS have death and invalidity benefits built into the scheme, providing cover for contributing members. Invalidity benefits are intended to provide a pension to a member, if their capacity to work in relevant civilian employment is moderately or largely impacted, at the time they medically separate from the ADF. Invalidity classification levels that result in a pension benefit are identified as Class A or Class B classifications.

If a member of DFRDB or MSBS dies in service, eligible dependants will be entitled to a death benefit.

In relation to the design of the schemes and the nature of the contributions payable, the Australian Government Actuary (AGA) regularly provides certification relating to DFRDB and MSBS to ensure that Defence's contribution to the schemes provide above the minimum Superannuation Guarantee requirements.

Accumulation Choice Super Funds

Since 1 July 2016, new permanent members of the ADF have the ability to choose their superannuation scheme. These members will generally be in an accumulation style super fund. If members do not make an election or have an existing super fund, they will be placed into the employer nominated default fund, which is ADF Super. ADF Super is an accumulation fund like other choice funds. These members have the option to move between super funds.

Under the current Defence conditions of service, members of a choice fund receive 16.4 per cent of their Ordinary Time Earnings (OTE) paid by Defence into their nominated fund.

By comparison, other Australians are generally paid the Super Guarantee (SG) rate, unless they are covered by a different agreement. The Super Guarantee is set by the Australian Government and is currently at 11.5 per cent of Ordinary Time Earnings (OTE), set to increase to 12 per cent on 1 July 2025. In contrast, Australian Public Service (APS) employees currently receive an employer contribution rate of 15.4%.

Permanent members of the ADF in a choice superannuation fund, are covered for death and invalidity benefits through a scheme called ADF Cover, as long as they are under the age of 60. If an ADF member is medically separated and classified by CSC as either Class A or Class B, they will be entitled to a superannuation pension. This classification is based on their capacity for relevant civilian employment after their separation.

If a member of a choice superannuation scheme dies in service, any eligible dependants will be entitled to a death benefit.

- b. *whether the MSBS enables veterans to preserve savings to deliver income for a dignified retirement in an equitable and sustainable way;*

Defence notes that the Association of Superannuation Funds of Australia (ASFA) is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA develops retirement standards, based on retirement lifestyles, and estimates the superannuation balance required to achieve a dignified retirement.

- c. *the structure and governance of the CSC, including an examination of its services to current and former members of the ADF and the identification of strategies to address complaints and improve service delivery;*

Defence signed a revised Memorandum of Understanding (MoU) with CSC which took effect from 1 July 2024. The revised MoU aims to better support veterans and their families in receiving information and services about their superannuation. The MoU encourages greater transparency of the services delivered, particularly with regard to sensitive matters such as a member's transition (medical or otherwise) and cases where the death of a member has occurred.

Defence and CSC have committed to work collaboratively and have agreed on the importance of providing quality, empathetic and consistent support to ADF members, veterans and their families. The MoU further promotes an increased accountability for both Defence and CSC to consider the needs of the ADF member, veteran and their families when providing information and services.

A Service Standard Agreement has been developed in conjunction with the MoU to map out the processes and services that impact ADF members, veterans and their families.

The objective of the Service Standard Agreement is to ensure that the support and services provided to ADF members, veterans and their families are agreed and are of a specified standard in order to meet mutual and individual agency member outcome expectations.

In conjunction with the MoU, a new reporting framework has been developed in consultation with CSC with an aim to increase data sharing, transparency and improve service delivery. CSC provides quarterly reporting to Defence on the performance of their functions in both qualitative and quantitative measures

- d. *whether CSC account holders have the same rights and protections as other Australians in relation to their superannuation, including the ability to withdraw funds, receive appropriate returns, change superannuation providers and receive transparent information about return on investments;*

Ability to withdraw funds

Accumulation, defined benefit and hybrid (mix of accumulation and defined benefit) superannuation schemes have differing provisions due to the nature in which they operate.

Defined benefits generally do not provide the same portability or flexibility as an accumulation benefit fund. Elements of a defined benefit must remain preserved within a defined benefit fund, until the member meets the relevant legislated release criteria. This is consistent across most Australian defined benefit funds.

The *Superannuation Industry (Supervision) Act 1993* defines a defined benefit fund and defined benefit member. Simply, a defined benefit member means the member is entitled on retirement, or termination of their employment, to an amount that is determined based on a formula. The formula utilises factors such as the member's age, salary and other factors as prescribed, to determine the relevant entitlement.

A defined benefit fund is a regulated superannuation fund, for defined benefit members, in which contributions are not paid into the fund, or accumulated in the fund, in respect of an individual member, but are paid into and accumulated in a fund in the form of an aggregate amount. This means that the majority of the funding obligations are met only at the time a benefit becomes payable, and thus their portability is restricted due to the benefit design.

In contrast, accumulation benefit superannuation schemes are generally portable between funds at any age. The value of an accumulation fund generally depends on the amount of contributions that a member and employer have made, the investment return generated by the fund, and any fees and/or costs deducted. Superannuation funds that are wholly accumulation benefits are fully funded and invested.

MSBS is a hybrid scheme, providing both an accumulation and defined benefit. An MSBS benefit can include three components; member benefit, ancillary benefit and employer benefit. Both the member benefit and ancillary benefit components are accumulation benefits and are fully portable. The employer benefit component is a defined benefit, and has restricted portability. For example, a member of MSBS who separates from the ADF prior to age 55, must preserve their employer benefit in the scheme. They may however choose to rollover their accumulation benefit.

While preserved MSBS members are unable to transfer their employer benefit to another superannuation fund, they are able to convert their employer benefit into a life time indexed pension, or elect to transfer this amount as a lump sum value to another complying superannuation fund, after reaching 55 years of age.

Eligibility to change superannuation providers

Members who joined the ADF after 1 July 2016 have a choice of where their superannuation is paid.

A 16.4 per cent employer contribution can be paid to any Australian complying choice superannuation fund. Choice superannuation fund members may elect to change superannuation funds at any time.

Members of MSBS who are currently still serving in the ADF may elect to leave the scheme as a contributing member, and join a choice superannuation fund. This election is irreversible and as such it is important that members understand how this may impact any future benefits they can access.

Where a MSBS member elects to change superannuation funds, financial disclaimers highlighting the consequences of the decision are provided. MSBS Members are directed to contact CSC to discuss their individual circumstances prior to the election being accepted and processed, and are strongly encouraged to seek independent financial advice.

- e. *mechanisms for veterans to have their discharge reclassified from administrative to medical, particularly in cases involving psychological injuries, and whether current appeal processes and discretion practices by the Department of Defence and the CSC adequately protect veterans' entitlements and recognition of service-related mental health issues;*

Former members of the permanent ADF (or those on a period of continuous full time service immediately prior to separating) who separated on non-medical grounds, may seek to have their separation treated as if they were medically separated, in relation to superannuation benefits. This mechanism is called retrospective invalidity.

For DFRDB (and DFRB) members, Defence must first approve that a medical separation could have been considered, at the time the member separated from the ADF, for the purpose of superannuation. Differing rules apply for MSBS and ADF Cover, where a CSC delegate is the decision maker for retrospective invalidity.

Under all schemes, if approved for retrospective invalidity, CSC will classify a member according to the schemes legislative framework. There are different levels of classification according to a member's individual circumstances, their medical conditions, and their capacity for civilian employment at the time of their separation from the ADF. Class A and Class B invalidity results in a pension for the member, whereas Class C generally does not¹.

Where a person is approved for retrospective invalidity, and receives a classification resulting in a pension, a back payment may be payable calculated to the date of their separation from the ADF. As this amount covers a retrospective period of time, it can result in a reassessment of a member's eligibility for payments from the Department of Veterans' Affairs (DVA), Services Australia or the Australian Taxation Office. Where possible, CSC will work with DVA to coordinate payments prior to finalising a claim, however on occasion some debts may occur.

In most circumstances, the rules that govern the superannuation schemes do not rely on linking a member's medical condition, being physical or psychological, to that of a service related event. Rather, an assessment of medical conditions that were present at the time of the person's separation from the ADF and the impact that was caused to their capacity for relevant civilian employment.

¹ Class C classification in DFRDB can result in the member still receiving a retirement pension if they have already qualified for that under the scheme rules. DFRDB members qualify to receive a retirement pension after 20 years of service, or 15 years and have reached their retirement age for rank.

Compensation for service related conditions are generally assessed and provided for through the DVA.

Defence, through the MoU and reporting framework with CSC, have sought to have more visibility and understanding of the current status of the cases relating to retrospective medical separation with an aim to support positive change and experience for the member.

- f. *the operation and effectiveness of the MSBS, Defence Force Retirement and Death Benefits Scheme, Defence Forces Retirement and Benefits Scheme, Australian Defence Force Superannuation Scheme and Australian Defence Force Cover Scheme and whether these schemes are operating in the best interests of current and former members of the ADF;*

ADF superannuation schemes have evolved over time, in recognition of the unique nature of military service and evolving social and economic conditions.

Defence Force Retirement Benefits scheme

The DFRB scheme commenced in 1948 following recommendations from a committee chaired by the Minister for Defence and Post War Reconstruction, the Hon JJ Dedman MP. The scheme acknowledged the unique nature of military service by providing superannuation benefits to veterans at a time where the majority of Australians did not receive superannuation.

DFRB was introduced to compensate members transitioning to civil life at ages that proved difficult to secure civil employment. At the time, it was acknowledged that the exigencies of the Defence system imposed the retirement conditions and therefore it was appropriate that Government provide a special scheme of retiring benefits to support members transitioning to civil occupations.

The DFRB provided a pension to Officers on retirement, after attaining retiring age and completing a minimum of 20 years' service. A reduced pension was paid to Officers with 15 or more years of service or who had retired on or after reaching retiring age. Other Ranks were entitled to a pension on discharge after completing 20 years of service. A refund of contributions, and in some cases an additional gratuity, were paid if the conditions for payment of a pension were not met by the member.

DFRB closed to new members on 30 September 1972 and all contributing members at that date were compulsorily transferred to the DFRDB scheme.

Defence Force Retirement and Death Benefits scheme

The DFRDB scheme commenced on 1 October 1972 following recommendations of Joint Select Committee, known as the Jess Committee. The Committee made 20 recommendations, the majority of which were adopted. The main recommendation was that the DFRB legislation be repealed and a new scheme be introduced without delay.

The DFRDB scheme evolved the benefits provided under the DFRB, providing a pension benefit after 20 years of service. The benefit ranges from 35 per cent of a member's final salary for 20 years of service, to 76.5 per cent of the final salary for 40 or more years of service. The pension is payable irrespective of whether the member has reached preservation age. A separate productivity benefit is also payable (this is either paid in cash or required to be preserved).

DFRDB members with less than 20 years of service were only eligible to receive a refund of their contributions when they leave the ADF. They received no interest on their contributions and no employer benefit, except the three per cent productivity benefit.

The scheme closed to new members on 30 September 1991. All contributing members had the opportunity to elect to join the MSBS (if no election was made, the member retained DFRDB membership).

Military Superannuation and Benefits Scheme

MSBS was established in 1991 as a result of a review that was conducted of the DFRDB scheme. The Government announced the review of DFRDB in May 1989, following advice from the Chiefs of Staff Committee that the DFRDB scheme no longer met Service objectives or provided the right incentive to those who chose to make the profession of arms their lifetime career. This Review, known as the Cole Review, identified some significant deficiencies with the DFRDB scheme that could not be overcome by legislative amendment. The Review recommended that it be closed and a new MSBS be put in its place for all members of the ADF enlisting on and after 1 October 1992.

The introduction of MSBS aimed to provide equitable treatment for members of the ADF who serve for less than 20 years, in line with community standards. Under the MSBS, members are eligible to receive a return of their contributions and earnings and accrue an entitlement to an employer benefit in the form of a defined benefit pension.

The design of the scheme ensured that members of the ADF who served for less than 20 years could retain their superannuation entitlements for retirement and still access a pension benefit at the age of 55. For those members who continue to serve for longer-term careers, higher contributions are payable, which encourages significant growth within the super fund, capped by maximum benefit limits. These higher contribution rates and growth to the fund act as an incentive for MSBS members to be retained in ADF service for longer.

ADF Super, ADF Cover and Superannuation Choice

From 1 July 2016, all new members of the ADF have a choice of superannuation fund, the default employer fund is ADF Super. The ADF Cover scheme was concurrently introduced, to provide death and invalidity cover for all accumulation fund members under the age of 60.

The decision to introduce an accumulation fund commenced with a 2006 review of MSBS. The Government announced a Review into Military Superannuation Arrangements on 27 February 2007, setting out the Terms of Reference. In July 2007, the review reported that while MSBS compared reasonably well to other schemes for 'uniformed bodies', it fell short of best practice contemporary superannuation and did not contribute significantly towards recruitment and retention.

The current superannuation arrangements, including ADF Super, were introduced to address the recommendations of the review, to provide ADF members with modern, flexible, fully funded accumulation superannuation scheme arrangements that align with broader industry superannuation arrangements. To reflect the unique nature of military service an employer contribution of 16.4 per cent is paid on the fortnightly earnings of ADF accumulation fund members. This contribution exceeds the mandated Superannuation Guarantee, currently 11.5 per cent, scheduled to increase to 12 per cent on 1 July 2025. In addition to the employer contribution, members may elect to make personal contributions or make lump sum payments into their accumulation superannuation fund.

ADF Super is consistent with industry wide changes introduced to provide flexible service arrangements for all superannuation schemes. Importantly, as part of these changes, current serving MSBS members were provided the option to join ADF Super or a fund of choice, however they were not compelled to do so.

ADF Super aimed to address concerns of the veteran and ex-service community, namely the lack of flexibility in the MSBS including the portability of a member's superannuation benefit when they leave the ADF.

While the MSBS provided a greater retention effect due to the longitudinal nature of benefit growth, the current superannuation arrangements support recruiting by providing ADF members with agency to choose their superannuation fund, set their member contribution amount, and select their investment strategy, consistent with modern community standards. This flexibility is afforded while maintaining employer contribution that exceeds the national Superannuation Guarantee, and fit for purpose death and invalidity benefits that are consistent with the MSBS scheme.

- g. targeted initiatives and education for current and former members of the ADF to preserve superannuation savings, improve understanding of superannuation and increase participation in these schemes;*

The MoU between Defence and CSC contains a strong focus on education and financial wellbeing throughout all phases of an ADF member's career to ensure they understand their superannuation benefits and options as they approach different life and career stages.

Defence is currently working on improved education material relating to superannuation for ADF members. This initiative aims to provide information that is easy to read for all members, improve financial literacy and understanding of superannuation in general and encourage a deeper understanding of defined benefits.

Through Defence Force Recruiting, new ADF Recruits are provided with general information about the Defence superannuation arrangements including advice on Defence's 16.4 per cent employer contribution, and how to choose a superannuation fund. Recruits are directed to the publicly accessible ADF Pay and Conditions website for further information. The ADF Financial Services Consumer Centre, within Defence, also provides financial and consumer education for ADF members.

In addition, Defence runs transition seminars to educate ADF members, veterans and their families on 'what they need to know' when considering a transition from the permanent force. The ADF Financial Services Consumer Centre and CSC participate in providing information relating to superannuation at these Seminars by way of group presentations and presence at the Seminar stalls.

Defence values transparency and welcomes the review of the military superannuation pension schemes to ensure fair and equitable outcomes for all. Defence will continue to support positive retirement outcomes for ADF members, veterans and their families.