

## **Submission to the Government Inquiry into the Superannuation and Pension Schemes for Current and Former Members of the Australian Defence Force (ADF)**

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### **Introduction**

This submission is made in response to the Government Inquiry into Australian Defence Force Superannuation. My perspective is that of a retired Warrant Officer in the Royal Australian Air Force, having served from January 1969 to June 1993. I am a member of the Defence Force Retirement and Death Benefits (DFRDB) scheme and have been directly impacted by its provisions.

The DFRDB scheme was established to attract and retain a professional volunteer combat force, particularly following the unpopularity of the Vietnam War and the end of conscription. It was based on the recommendations of the Joint Select Committee on Defence Forces Retirement Benefits Legislation (the Jess Committee), which aimed to create a simple and comprehensible scheme that would be a significant factor in both recruiting and retention.

However, the promises of this scheme were betrayed. Public servants, governments, and Parliament substantially reduced the promised benefits through changes to the governing legislation, the Defence Force Retirement and Death Benefits Act 1973. Serving members were led to believe that after a minimum of 20 years of service, they would receive a lifetime retirement benefit based on their final salary and service years. This submission outlines the specific ways in which this promise was dishonoured.

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### **Systematic Betrayal of Promised Benefits**

The core of this submission is that the DFRDB Act, while initially considered fit for purpose, was systematically altered to erode benefits for its recipients. This was achieved through fundamental changes to both the **commutation** and **indexation** provisions.

#### **1. The Inequitable Commutation Provision**

The Jess Committee recommended that a member could commute a portion of their retired pay as an interest-free advance, repayable through a proportional reduction of their ongoing pension over their life expectancy. This is what I and other service members were led to believe.

However, Treasury and the Government Actuary changed this, equating the unfunded DFRDB scheme with the public sector scheme. This fundamental alteration meant that repayments would be for life and would include interest. This change was enshrined in Section 24(3)(b) of the DFRDB Bill, which permanently reduced retirement pay. The longer a recipient lives, the greater the reduction. The outdated Expectation of Life Factors in Schedule 3 of the Act, based on 1960-1962 statistics, maximized this reduction and produced different outcomes for members of different ages.

As a result, a member who commutes can end up repaying more than the original lump sum, effectively adding interest.

## 2. Flawed Indexation Method

The Jess Committee had a clear recommendation on indexation: retired pay and invalid pay should be adjusted annually to maintain relativity with **average weekly earnings**. The committee explicitly rejected the Consumer Price Index (CPI) because it "does not fairly represent changes in general community standards". The Jess Report noted that the rate of increase of average weekly earnings was almost double that of the CPI.

Despite this, amendments in 1976 and 1977 established the CPI as the permanent method of annual adjustment. This change was not made clear to service members. The Department of Defence provided information that obscured the true effect of the DFRDB Act, ensuring that members remained unaware of its real impact until long after retirement.

The result of this flawed indexation is that DFRDB pensions did not keep pace with the cost of living, leading to a substantial erosion of purchasing power. The "Fair Indexation" amendment in 2014 provided some relief, but it did not address the cumulative loss, and its age restriction was never part of the original legislation.

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### Deception and Lack of Transparency

The passage and amendment of the DFRDB legislation were marked by a lack of transparency and a clear pattern of deception towards both Parliament and service members.

- **Deception of Parliament:** Ministers misled Parliament by stating that the bills gave full effect to the Jess Committee's recommendations when, in fact, they fundamentally changed key provisions. There were no explanatory memorandums for the bills, and Ministers were forced to rely on complex explanations they themselves may not have fully understood.
- **Deception of Members:** Service members were provided with misleading or incomplete information about their retirement benefits. Many were incorrectly informed that their commutation reduction would cease upon reaching their life expectancy factor age. This was a clear case of "defective administration" by the ADF.

The much-clichéd "generosity" of the DFRDB scheme is a myth created and perpetuated by public servants.

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### Remediation Objectives

The Australian Defence Force Retirees Association Inc. (ADFRA), representing over 40,000 retired servicemen and women, is seeking specific remediation to rectify these injustices.

- **Commutation:** Amend the DFRDB Act to cease the reduction of benefits when members who commuted reach their Schedule 3 Life Expectancy.
- **Indexation:** Restore members' current rate of benefits to where they would be if their benefits had been fully indexed in accordance with movements in Average Weekly Earnings from 1976 until 1 July 2014.

The cost of this remediation is estimated at \$15 billion over the next 35 years. This could be fully funded by the annual earnings of the Future Fund, which is specifically designed to meet unfunded Commonwealth Superannuation liabilities like the DFRDB scheme.

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## **Conclusion**

I believe that the DFRDB scheme did not fulfill the originally defined goals and promises of the Jess Committee report. As a result, the government and Department of Defence have not acted in a respectful and fair manner towards veterans. The consequences are a reluctance by young Australians to commit to a career in the ADF, and a sense of betrayal among those who have served.

I urge the Inquiry to recommend the necessary legislative changes to restore the promised benefits and rectify this long-standing injustice. This is a matter of restoring financial dignity to those who dedicated their lives to serving this nation.