

Committee Secretariat

Senate Finance and Public Administration Committees

The Committee,

I am a veteran with 35 years of service in the Royal Australian Air Force and 14 years in the Australian Public Service. Upon retirement, I discovered I am among the most heavily taxed superannuants in the Organisation for Economic Co-operation and Development (OECD).

I have been a member of the Defence Force Retirement and Death Benefits (DFRDB) scheme since 1975, when membership was compulsory. Yet in practice, the scheme has consistently failed to deliver fair or reasonable retirement outcomes. Actuarial overreach, reliance on outdated mortality tables, aggressive permanent pension reductions, and inequitable taxation have long disadvantaged those who served.

These systemic flaws demonstrate that the legislative framework, administrative practices, and embedded financial mechanisms of DFRDB are not fit for purpose. Members are left vulnerable to financial harm, diminished retirement security, and enduring inequity outcomes that run counter to the very principles of a just and sustainable retirement system.

Executive Summary

The Defence Force Retirement and Death Benefits Scheme (DFRDB) was sold as a retirement benefit to offset lower Defence pay and marketed as a recruitment incentive during anti-war years. Branded as ‘modestly generous,’ it created an illusion of security. In reality, DFRDB was compulsory, offered no alternatives, and locked members into terms dictated solely by the Commonwealth. These terms were never modernised, effectively freezing systemic inequities. What was framed as generosity was, in truth, a mechanism of control delivering less than promised.

Defined benefit schemes rely on actuarial neutrality. Yet with over 80% of members commuting, neutrality is unbalanced. The scheme engineers an irresistible lump sum while masking the real cost: a permanently reduced pension, discounted by outdated assumptions. Open-ended, inflation-linked liabilities are converted into one-off payments, creating long-term financial asymmetry.

DFRDB members also face punitive taxes far exceeding those applied to political and judicial counterparts. While judges and parliamentarians enjoy concessional treatment, Defence members are taxed as if pensions were windfalls, not entitlements. Those who carried the greatest service risks and contributed the longest with those risks bear the heaviest tax load, while others with safer roles walk away with superior after-tax outcomes.

The Committee is asked to recognise:

- the DFRDB legislative framework is not fit for purpose;
- its administration has relied on obsolete actuarial data for decades; and
- urgent reform is required to restore fairness, legal integrity, and trust in ADF superannuation.

Introduction

The terms of reference invite the Committee to consider:

1. Whether the legislative framework governing ADF superannuation and pension schemes is fit for purpose.
2. Whether the schemes operate in the best interests of current and former members.

This submission details systemic failures in DFRDB governance. This case involves a member who retired in 2010 and was forced to use commutation factors derived from 1960–62 mortality data, resulting in permanent reductions in retirement pay and a quantifiable financial loss exceeding \$110,000. This is not an isolated incident.

Evidence and Analysis

Actuarial Devaluation of Retirement – Quantifiable Harm

In 2010, a 52-year-old member calculated their life expectancy using Schedule 3, based on 1960s mortality data and a hidden 4% discount rate. This is equivalent to using a 1960s map in modern Melbourne. This inflated pension reductions, delivering \$140–\$150 for every \$100 of lump sum, benefiting the Commonwealth while disadvantaging members.

The following table shows an estimate of the difference using conservative actuarial assumptions

Element	Calc using 1960s data	Calc using 2007 data	The Difference
Lump sum taken	\$349,351	\$349,351	N/A
Commutation factor	22.3	31.0	39% higher
Annual Pension Reduction	\$15,657	\$11,269	\$4388 per year

Likely resulting harm:

- **Annual loss:** \$4,388 in lost income every year.
- **Total loss:** Estimated to age 82, equivalent to approximately \$100,000.

Use of Member Contributions by the Commonwealth

Unlike private sector superannuation funds, where member contributions are invested and only provide tax or investment benefits, the Commonwealth had the immediate benefit and use of DFRDB member contributions for up to 20 years. Funds were held directly by the Government and applied to current obligations, creating a structural advantage. This practice amplified the Commonwealth's financial benefit while members bore both actuarial and tax burdens, further compounding inequity.

Consequences:

- The scheme closed to new members in 1991, but outdated practices continued for decades.
- Members made irreversible decisions without accurate information, undermining informed consent.

Retroactive Tax Treatment Entrenches Inequity

The simplified superannuation legislation intended to soften the 1988 tax changes instead locked DFRDB members into disadvantage for their entire careers. All service is treated as if taxed/untaxed from day one, penalising members for service earned before the changes existed.

Punitive Taxation of DFRDB Members

DFRDB members face some of the harshest tax burdens in the superannuation system:

- Contributions were made from after-tax income; pensions are taxed at 30% as untaxed sources.
- A 10% offset applies but is eroded by annual indexation taxation.

- Fixed pension payments, combined with other income, push members toward the top marginal rate, sometimes nearing 47%.
- By contrast, Division 296 currently applies 15% on balances above \$3 million, proposed to rise to 30%, only then matching the effective rate for many (average pensions in the order of \$35,000) DFRDB members.
- Most OECD systems tax retirement income more lightly, leaving modest-pension DFRDB members more heavily taxed than the wealthiest private superannuants.

Closing Statement and Recommendations

DFRDB is neither legislatively fit for purpose nor operationally aligned with members' interests. The legislation exists to provide fair and sustainable benefits to members, not to reduce Commonwealth liability or administrative convenience for the Commonwealth Superannuation Corporation (CSC). Yet administration has relied on outdated Schedule 3 data, systematically enriching the Commonwealth beyond what the law allows and compounding members' disadvantage through unfair taxation and commutation practices.

The Committee has an opportunity to restore fairness, transparency, and integrity by:

1. **Updating Schedule 3** with contemporary life tables and discount rates, ensuring commutation factors reflect modern actuarial principles.
2. **Reassessing permanent pension reductions** to align with statutory caps and Schedule 3 provisions.
3. **Reviewing tax treatment** to reduce punitive overheads, particularly the interaction between indexation and fixed pensions, or a greater offset percentage.
4. **Ensuring clarity of member information**, reaffirming that what legislation provides overrides historical advice, pamphlets, or forum statements.
5. **Commissioning an independent actuarial audit** to quantify historical over-recovery and inform remedial adjustments.

The Committee's action is essential to correct decades of embedded inequity, restore trust in the DFRDB, and ensure ADF superannuation serves the members as it was designed to protect.

Your considerations are appreciated....

29 August 2025
Dave Jones