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C A B I N E T M I N U T E

Canberra, 8 December 1976

AMENDED Decision No. 1991

Submission No. 862 - Official's Committee Report on
and Addendum Prospective Budget Outlays Defence
Force Retirement and Death Benefits:
Other modifications to Defence Force
Pension arrangements

The Cabinet agreed that:-

- (a) no action proceed to base retirement pay on any averaging of ranks/pay at termination of service;
- (b) DFRB pensions be adjusted this year and in future years by applying the percentage increase in the Consumer Price Index (CPI) during the twelve months ending 31 March, to the total pension payable;
- (c) DFRDB age retirement pensions be adjusted by applying the relevant CPI factor to the total residual pension after commutation, or to the notional residual pension, as though the pensioner had commuted in full;
- (d) the total DFRDB invalidity pensions be adjusted by the same CPI factor;
- (e) widows' and children's pensions also be appropriately adjusted;

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AMENDMENTS GIVING EFFECT TO DECISIONS
PART XA INSERTED INTO DFRDB ACT
DEEMED TO HAVE COME INTO OPERATION
1 JULY 1976 (SEE S2(3) OF 13/1977

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- (d) the total DFRDB invalidity pensions be adjusted by the same CPI factor;
- (e) widows' and children's pensions also be appropriately adjusted;
- (f) the adjustments referred to in (b), (c), (d) and (e) above operate with effect from the first pension

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Submission No.....

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FOR CABINET

OFFICIALS' COMMITTEE REPORT ON PROSPECTIVE BUDGET OUTLAYS
1976-77 (SECTION 25) - DEFENCE FORCE RETIREMENT AND DEATH
BENEFITS (DFRDB); OTHER MODIFICATIONS TO DEFENCE FORCE
PENSION ARRANGEMENTS

PURPOSE

- (a) compliance with the terms of Cabinet Minute of 8 May 1976 (Decision No. 635) concerning possible changes to the DFRDB scheme as proposed in the Officials' Committee Report.
- (b) to seek approval to make other changes to Defence Force pension arrangements.

BACKGROUND

On 8 May 1976, Cabinet considered Submission No. 305 dealing with the above Report and agreed that the Minister for Defence should:

- "(a) expedite completion of the Working Group's paper on DFRDB benefits; and
- (b) bring forward a Submission before 16 June on possible expenditure savings which might be made." (Extension beyond this date was arranged in subsequent correspondence between the Prime Minister and me.)

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2. With regard to (a) above, the Defence (Conditions of Service) Committee (DCS) has received and considered the report of a Working Party which was established to review the DPRDB commutation provisions and related issues only; and not, as the Officials' Committee Report implies, a general review of the whole or greater part of the DPRDB scheme. (The DCS Committee is the body established to advise the Minister for Defence on Defence Force pay and conditions. It is under Defence Department chairmanship and includes the Chiefs of Personnel of each arm of the Defence Force and a representative of the Treasury).

3. Three options were advanced by the Officials' Committee:

- (a) the incorporation of an appropriate discounting factor in the commutation provisions;
- (b) the introduction of penalties for early retirement similar to those applied in the new Commonwealth Public Service (CPS) Superannuation scheme; and
- (c) the calculation of retirement pensions on the basis of retiring rank or average rank over, say, the three years prior to retirement.

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Permanent methods for Pension Updating

12. The updating arrangements I am recommending for DFRB pensions (i.e. the "old" pension scheme) incorporate the general concepts and follow closely the lines of those already adopted by the Government in relation to the old CPS Superannuation scheme (i.e. pre 1 July 1976).

13. They provide for the amount of the annual increase to be determined by multiplying the total pension payable by the percentage that represents the percentage increase in the Consumer Price Index (CPI) during the twelve months period ending 31 March of each year.

14. Regarding DFRDB pensions the new principle embodied in the revised Superannuation scheme adjustment provisions is that only the portion of the pension payable from the Consolidated Revenue Fund is to be adjusted by the CPI factor referred to above. This applies to both age retirement and invalidity pensions.

15. In other words, where a retired member exercises an option to take additional pension attributable or notionally attributable to his own contributions in lieu of a lump sum, that additional pension is not updated.

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16. In the DFRDB context, there are difficulties in evolving an adjustment mechanism that produces completely comparable results because:

- (a) there is no identifiable apportionment of pension between the member's own contributions and the Consolidated Revenue Fund payment; and
- (b) the DFRDB invalidity pension provisions do not include a lump sum option of the type incorporated in the Superannuation scheme or provided by the DFRDB commutation provisions.

17. Notwithstanding that, I consider it appropriate to apply the same general principle to the DFRDB pension adjustments and I recommend:

- (a) that DFRDB age retirement pensions be adjusted by applying the relevant CPI factor to the total residual pension after commutation, or to the notional residual pension, as though the pensioner had commuted in full; and
- (b) that the total DFRDB invalidity pensions be adjusted by the same CPI factor.

18. In practical terms the percentage of age retirement pensions to be adjusted would range from about 88% where a pensioner retired at age 38 years, to 74% for

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