

Dear Sir,

Herewith my submission on :-

The accuracy of information provided to Defence Force Retirement and Death Benefits (DFRDB) members, including: the accuracy of information provided to DFRDB members about the effects of commutation on future retirement pay entitlement, the consequences of this, and what remedial action (if any) could be taken;

- a. whether retirement payments were indexed as required by legislation and, if not, what remedial action (if any) could be taken;
- b. policy and legislative issues, including provisions for:
 - i. use of certain life expectancy tables,
 - ii. permanency of reductions to commuted pensions,
 - iii. indexation arrangements; and
- c. recommendations on any potential changes to administrative arrangements, policy or legislation;
- d. advice on costs associated with any recommendations;
- e. all relevant existing information and previous reviews in relation to DFRDB, including the findings of the Ombudsman's investigation;
- f. the level of understanding among DFRDB members about how the legislation works, and ways to improve this; and
- g. any related issues.

I have made two retirements from the RAAF, on 4 July 1974, and at a date in 1982 for which I do not have precise records. I received commutation of my retirement pay at the maximum permitted rates both times for my Wing Commanders' retired pay.

In those days the significant factor in the value of commutation of pension decision was that commutation was interest free ! Cost of finance at the time was very heavy. I was primarily a qualified pilot. At age 41 (2 July 1974) I did not seriously considered that there was any possibility of me becoming employed for a salary as a pilot. Maybe incentive to commute pension was perhaps unusually high because the cost of borrowing capital for business was so high. However, I make the clear point that I believe this was not any reason at all at the time for me to mis-understand or tend to ignore any advice available on the matter of commuting salary entitlement.

Quite to the contrary , I did seek relevant advice from other officers , and the Pay Section (RAAF Accounting Branch Officers) at both RAAF Glenbrook and RAAF Pearce (the base from which I actually retired). My memory of that time is quite clear ! I was not shown any relevant written instructions or orders on commutation at the time I retired. Information I gathered seemed to be primarily opinion of experienced men. The maximum amount of commutation available was $4 \times 26 \times$ the member's entitled retirement fortnightly rate of pay at retirement. The member was "allocated" an age of his expected "Life Expectancy" This date was used as the basis of calculating the amount per fortnight by which his retired pay would be reduced by the commutation. The reduction per fortnight was calculated by the the total Commuted sum divided by the number of fortnights between date of discharge and date of life expectancy. This arrangement would repay the commuted sum if the member lived, and was interest free . No one ever discussed with me at either retirement time anything , other than it was plainly obvious that the commutated sum would be repaid without interest , and reduced rate of pay was expected to stop being reduced , if one lived , at this allocated "retirement age" ! I will be 88 years old on 2 July 2021 ! In July,1974 my

life expectancy was then was 71 years (plus some months) for which my retired pay was proportionately reduced ! And is still so reduced !

The second retirement and commutation of retired pay for me occurred in late 1981 after I had been re-appointed in 1979 permanently to my former commission as a Wing Commander. Significantly, so far as I could attain at the time, again not through any established orders or information, but solely by verbal advice available, conditions for commutation of retired salary were not different from 1974. Borrowing conditions were even tougher in 1981. Options for employment were less. I was then 48. Incentives for commutation were even stronger!

Apparently this commutation of pension also has a special reducing effect upon calculation of the Reversionary Pension payable to surviving spouses of DFRDB pensioners who have commuted, when the latter die ! There was certainly never any circulation and no awareness of this information in 1974 or 1981!

There is wide belief now that, for those who commuted, only a portion of the reduced pension is actually used for annual CPI (or other) pension indexation. Indeed ! If so, how can there be any justification for basing indexation upon only a percentage of a reduced pension ! There was certainly no knowledge advised or known of this matter, or of any effect upon widows' Reversionary Pensions, in 1974 or 1981.

I submit that there were no widely available published orders or conditions pertaining to commutation in the period 1970 to 1985 in which the function of the life expectancy figure was made clear to define the time retirees were liable for reduced amounts accounting for the commuted cash sums. Nobody at the time knew that the retired pay reduction was permanent, unrelated to life expectancy, nor would anybody think that reductions were fair, unless related in time to this life expectancy ! The unfair aspect, and definitely contrary to general understanding of commutation in late 20th Century, is that reduction of pension after life expectancy amounted to massive interest payments for the long-ago commuted sum, now being not interest-free at all !

There are extremely strong moral grounds for, preferably re-instating retired pay to the full amount, to include backpay, retrospective to that life expectancy date, but at least some appropriately major recompense !

Further of course, IF either the Reversionary Pension payable to widows, or the annually indexable proportion of commuters' pensions is affected by them having commuted, at least pensioners' full pay should be used for both these purposes. Back pay where applicable should also be paid in these circumstances.

I have no relevant information to offer on sub paras c, d, and e, above.

I submitted to The Ombudsman some years ago on this matter in which I included critical observation that many of the questions circularised, to which The Ombudsman sought answers, were worded and structured indicating strongly that at least the Ombudsman staff who designed the questions had never intended The Ombudsman to find in favour of there being any problem! My opinion at the time was, and is now, that the designed purpose of The Ombudsman's inquiry was to dismiss the matter!

Assuming the terms of reference listed at sub para g. above may refer to current DFRDB members . I am unable to comment . For people who retired in the part of last century where I have relevant experience, I have no doubt that ALL retirees who commuted faithfully believed at the time that the reduced retirement pay rates were to continue to their particular life expectancy date. These dates were relatively a long way away and they had good use for the money at that time .

I believe that The Ombudsman's and other examinations of the main issue have so far always intended dismissal rather than solution of this very unfair situation !

On the question regarding possibly related issues (see sub para h. above), I refer AGAIN to the high interest rates pertaining in the late part of the last century when I made my decision to commute. Cash without interest was very attractive then to retirees , but in no way can this situation be construed as inducing servicemen to commute their pensions without due consideration .

To reiterate, important too , as related issues , are the questions whether COMSUPER uses proportion only of retirement pay upon which to base regular indexations , and, whether any any similarly iniquitous policy exists affecting calculation of Reversionary Pensions for widows of DFRDB members who have commuted.

Peter Larard (Wing Commander, RAAF Retired).